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# BLUE BOOK Market Report

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2011

Analysis from Kelley Blue Book's Analytic Insights Team

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## MARKET ANALYSIS:

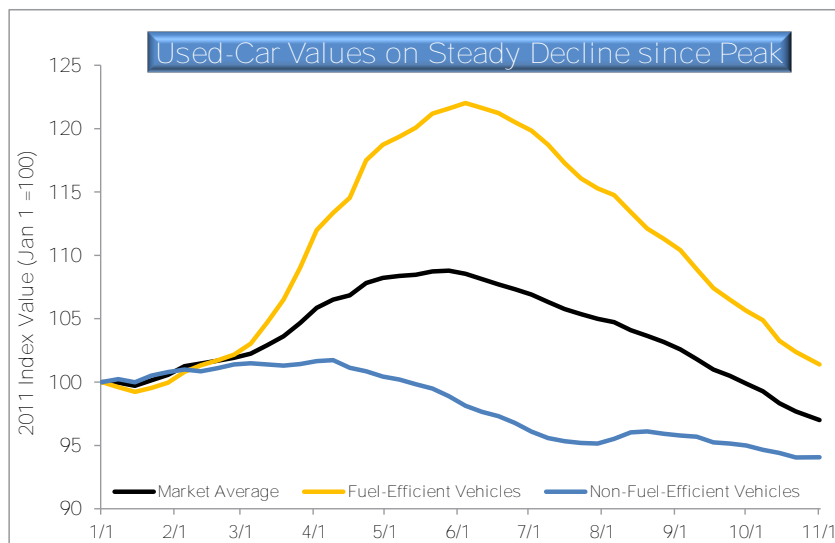
### Values Continue to Drop since June Peak

- Alec Gutierrez, manager of vehicle valuation, Kelley Blue Book

Used-vehicle values have dropped 2.6 percent overall in October, marking the fifth consecutive month of wholesale declines. Since peaking in June, used-vehicle values overall have dropped 10 percent with the most pronounced declines coming from fuel-efficient vehicles, falling more than 20 percent. The earthquake in Japan and ensuing new-vehicle inventory crunch only added more fuel to the fire, increasing values in nearly all segments this past summer. Now that new-vehicle inventory levels have started to return to normal and fuel prices have dropped, the market has experienced a substantial cooling.

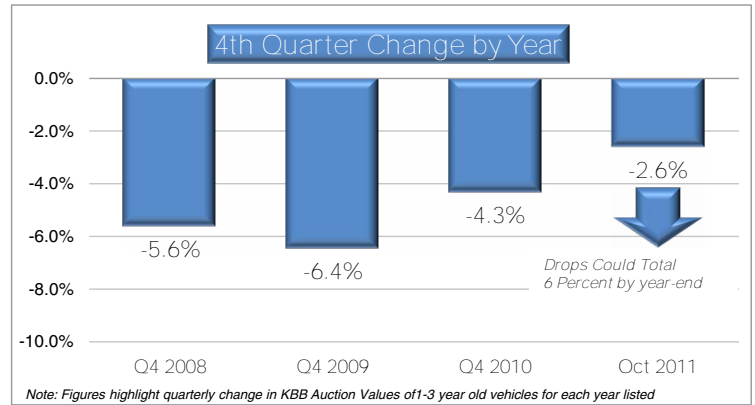
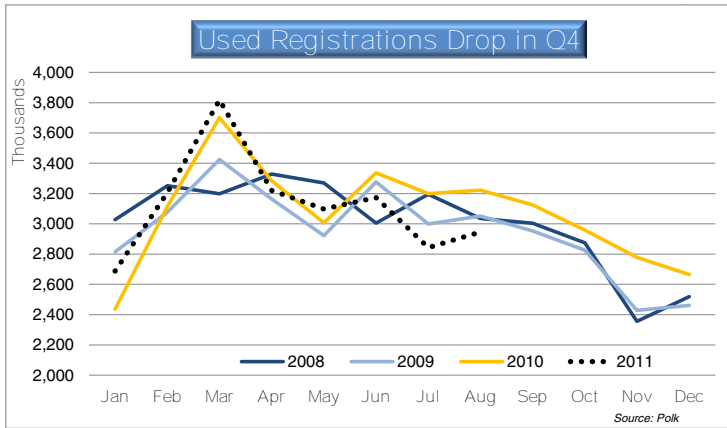
“ SINCE PEAKING IN JUNE, VALUES HAVE DROPPED 10 PERCENT WITH THE MOST PRONOUNCED DECLINES COMING FROM FUEL-EFFICIENT VEHICLES, WHICH FELL MORE THAN 20 PERCENT. ”

ALEC GUTIERREZ



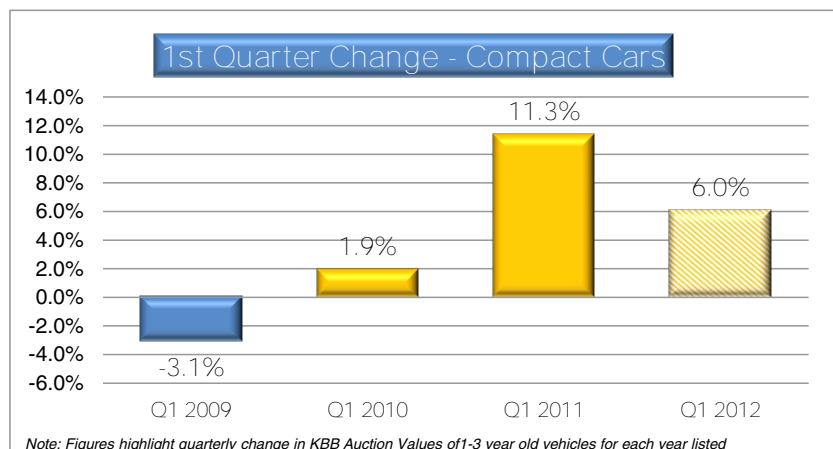
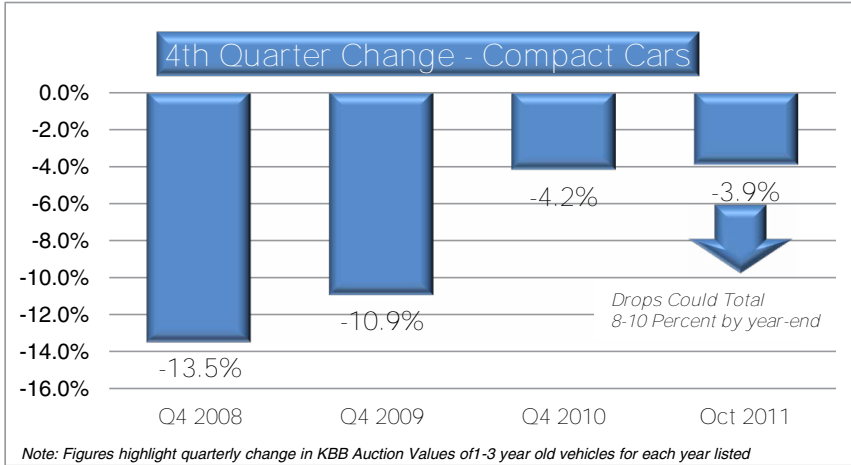
Based on model years 2008-2010.

Considering the already significant declines in used-car values since June, Kelley Blue Book predicts that values will decline an additional 3 to 4 percent through the rest of the year. Used-car values typically decline through the fourth quarter due to a seasonally driven drop in demand that lasts through the holiday season. In fact, since 2008 used-vehicle registrations fell between 12 to 16 percent during this seasonal slump. This decline in sales volume causes dealers to seek bargains at auction, rather than fully replenishing their used inventory. We believe sales volume will decline through the remaining fourth quarter, similar to years past, and as a result values at auction will likely remain soft through year-end.



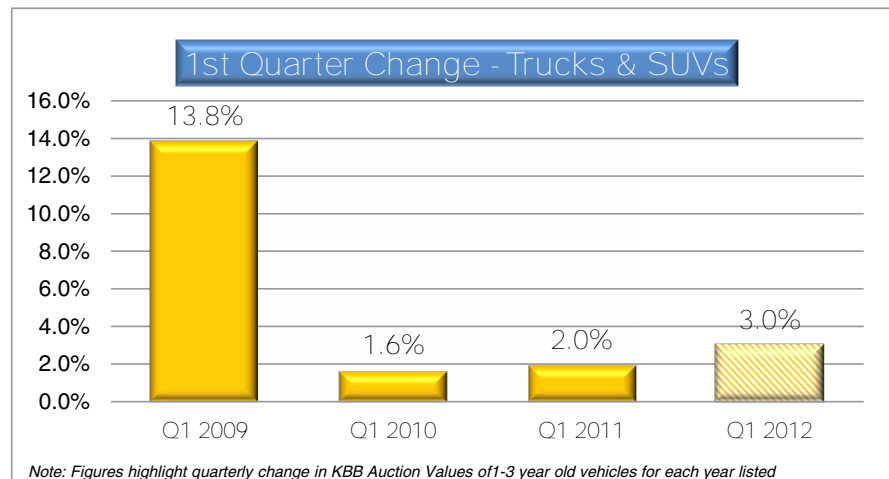
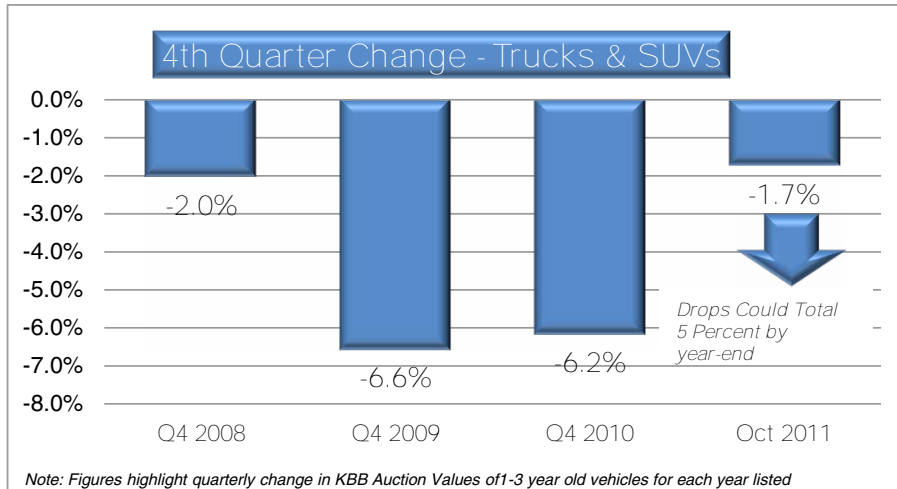
## Fuel-Efficient Bubble Bursts

Since June, fuel-efficient subcompact, compact and hybrid-car values have taken the biggest hits, dropping nearly 20 percent. Rising fuel prices through the summer created a bubble in values of fuel-efficient subcompact, compact and hybrid cars that has now burst. Although these vehicles have been on the decline since June, they are still up 4 percent on a year-to-date basis. Declining fuel prices have been the primary driver in the depreciation of these vehicles; although, we should point out that most of the excess appreciation was shed in the third quarter when values declined 10 to 15 percent for the segment. Even with significant declines since June, we are likely to see additional drops in November and December, putting total fourth quarter depreciation as high as 7 to 9 percent. As we head into 2012, expect a rebound of 6 percent or more as used-car sales increase while supply remains limited.



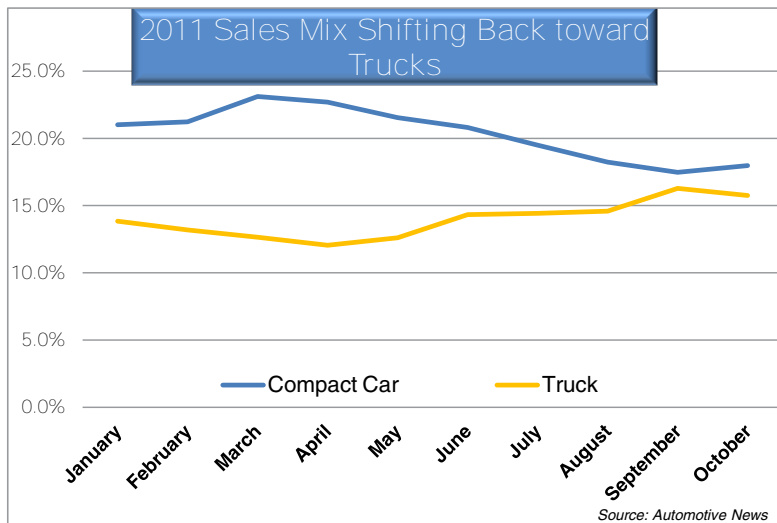
## Trucks Keep Pace with Overall Market

Values of trucks and SUVs have declined slightly through most of 2011, even as fuel prices increased to \$4.00 per gallon. Supply constraints have helped to minimize year-to-date depreciation to only 7 to 8 percent so far this year, significantly less than the 30 percent declines that occurred in 2008. As manufacturers have focused on matching production to demand since 2008, supply at auction has been much lower, helping to keep values strong even as gas prices increased. We expect depreciation of an additional 2 to 3 percent through the rest of the year, until a seasonal rebound occurs in the first quarter of next year as used-vehicle sales pick up.



## Share of Fuel-Efficient Vehicle Sales on Decline, Trucks Rebounding

As fuel prices approached \$4.00 per gallon earlier this year, demand shifted away from trucks and SUVs and toward smaller more fuel-efficient compact and hybrid cars. We have already covered the pronounced swings in values that have resulted from this trend, but what has received far less attention has been the fluctuations in new-vehicle sales mix that have been impacted by gas price volatility this year. Sales of compact cars surged early in the year as consumers looked to more fuel-efficient options to try and hedge against the threat of rising gas prices. As new-car transaction prices soared due to increased demand and shrinking supply, share of compact-car sales peaked at around 23 percent, while trucks hit a low of 12.5 percent. Now that fuel prices have receded and truck incentives have increased, compact cars and truck sales account for approximately 15 to 17 percent each. In the long run, we expect compact cars to maintain a more significant share of sales relative to trucks; however, fuel prices always stand to increase that lead in volatile years like 2011.



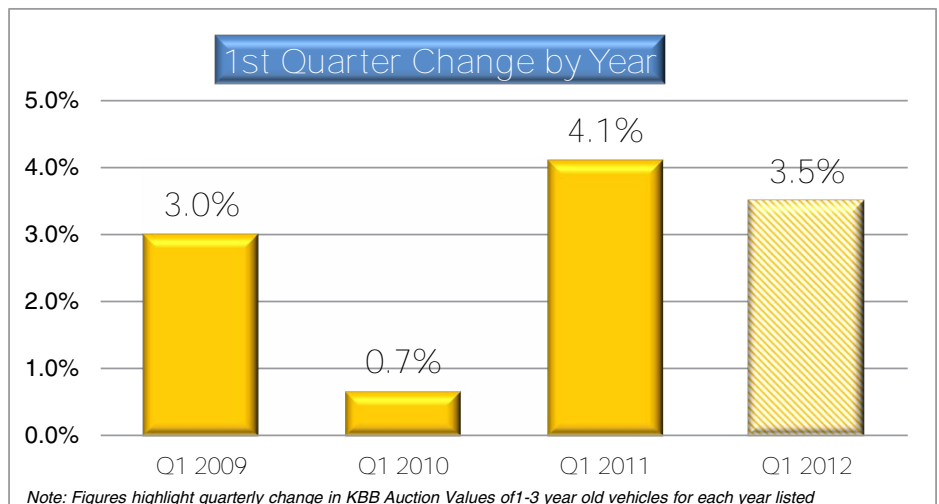
“NOW THAT FUEL PRICES HAVE RECEDED AND TRUCK INCENTIVES HAVE INCREASED, COMPACT CARS AND TRUCK SALES ACCOUNT FOR APPROXIMATELY 15 TO 17 PERCENT EACH.”  
ALEC GUTIERREZ

## Values to Rebound in First Quarter 2012

**A**lthough values are expected to decline in the fourth quarter, Kelley Blue Book analysts predict sales will pick up early in 2012. Projections for 2012 see values bouncing back in the first quarter as dealers return to the auction lanes to take advantage of seasonally low values.

Since 2009, used-vehicle registrations have increased by 15 to 20 percent on average, and since we expect a similar increase in demand in 2012, a lack of supply will likely put upward pressure on values early in the year. Since we expect fewer leases and trade-ins replenishing supply at auction during the next 12 to 18 months, values will likely increase across the board as supply struggles to keep pace with demand. Since 2009, values have increased between 1 to 4 percent overall in the first quarter, due to this spike in sales. Due to the potential supply shortfall facing the market next year, we believe values may increase 4 to 6 percent next year, likely in excess of the already robust gains that occurred earlier in 2011.

“VALUES COULD INCREASE AS MUCH AS 3.5 PERCENT EARLY IN 2012, SO DEALERS SHOULD STOCK UP PRIOR TO THE SEASONAL INCREASE IN VALUES AT AUCTION.”  
ALEC GUTIERREZ

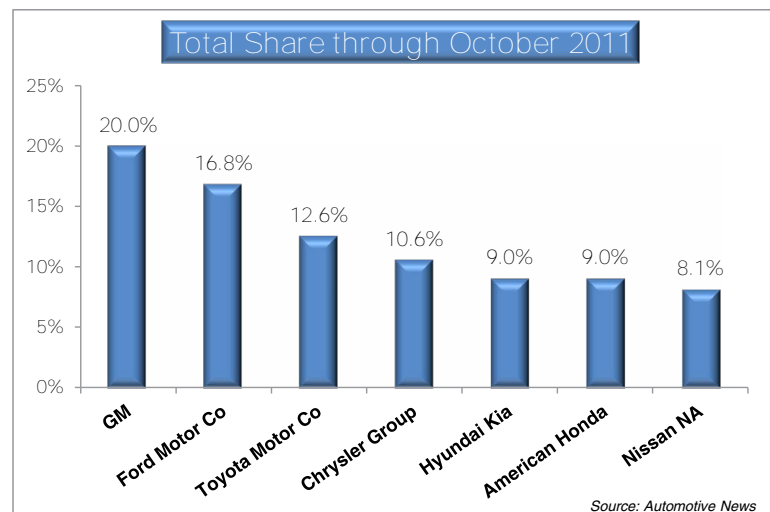
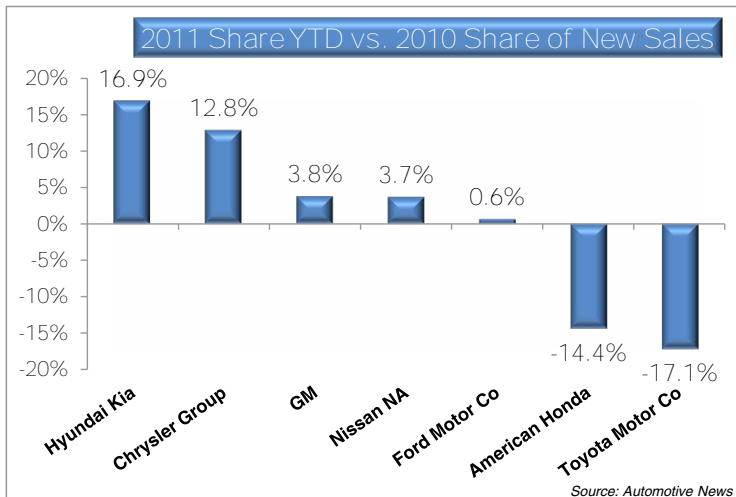


## Japanese Market Share Still Hampered by Mother Nature, Improving

As inventory has improved during the past several months, Japanese brands have slowly increased their monthly share of overall sales. Sales hit their lowest point of the year in May when Japanese brands only accounted for 30 percent of all sales in the U.S., a rather significant decline from the 40 percent market share the Japanese consistently maintained through the last five years.

Since May, both inventory and sales have improved, and in October, Japanese brands accounted for 35.3 percent of all vehicles sold in the U.S. Although sales share is improving for the Japanese, they still have a long way to go. Through October, Toyota and Honda were both down 17.5 and 15 percent, respectively year-over-year. While Toyota and Honda lost ground, Hyundai-Kia and Chrysler are the two manufacturers that have shown the most improvement with 17 and 12 percent year-over-year gains in market share, respectively, so far this year.

Unfortunately, Japan's production woes are not quite over yet. Although vehicle and parts production in Japan is once again fully operational, the recent floods in Thailand have provided another major hurdle for the Japanese to overcome. Nearly all Japanese manufacturers produce parts in Thailand and as a result, they have had to cut back production both domestically and abroad. Both Honda and Toyota have already made announcements that they will be reducing production at North American production facilities, due to a lack of parts coming out of Thailand. While it took more than six months for production to resume in Japan after the earthquake on March 11, it does not appear as though the flood will have as significant of an impact to Japanese production. The full effect of the floods are not yet known, but it is clear that Toyota and Honda will continue to find it difficult to regain the market share that has been lost in 2011.



## 2011 May End Strong, Weak Economic Conditions Still Expected to Limit New-Vehicle Sales in 2012

**W**ith the economy expected to remain relatively soft in 2012, Kelley Blue Book does not expect a dramatic increase in the number of new vehicles sold next year. Even with the strong new-car sales in September and October, Kelley Blue Book analysts still expect to finish 2011 with more than 12.5 million vehicles sold, a million unit increase over 2010. Sales may have ended the year near 13 million units had it not been for the earthquake in Japan severely limiting the supply of new vehicles in the United States. Through the fourth quarter of 2010 and most of 2011, new vehicles sold at an annual rate of 12.5 to 13 million units per month and we would expect a similar sales pace through 2012. Pent-up demand that has built due to the lack of Japanese inventory during the past several months may help to start 2012 with a bang, although we do not expect sales to significantly exceed 13 million units overall through 2012. Even if demand is strong, supply may still be an issue as we head into 2012, as the full effects of the floods in Thailand remain to be seen. If supply is available, 13 to 13.5 million sales in 2012 should be achievable; however, if the economy were to slip further based on the downside risks listed above, we may see vehicle sales dip once again.

Regardless of strong September and October new-car sales, the overall U.S. economy has yet to show signs of significant improvement and most of the data seems to suggest that 2012 will bring more of the same. The economy has been dragged down by several factors including a 9 percent unemployment rate, a depressed housing market, high fuel prices and low consumer confidence, among other things. The only bright spot in the economy has been a sustained improvement in consumer spending, bolstered by steadily improving auto sales through the last two months. Even with the expectation of stagnant economic growth in 2012, Kelley Blue Book projects that new-vehicle sales will continue to improve due to pent-up demand stemming from the lack of inventory in the U.S. as a result of the earthquake in Japan and an increase in the age of vehicles on the road to nearly 11 years old on average.

Looking ahead to fuel prices, Kelley Blue Book analysts expect fuel prices to remain elevated through 2012 based on the latest U.S. Energy Information Administration (EIA) reports pegging fuel prices to remain at an average of \$3.43 per gallon through 2012, a slight decrease from the expected \$3.52 average of 2011. While fuel prices have certainly played a role in shaping the mix of new vehicles sold this year, the U.S. economy must still improve further before new-vehicle sales return to the 16 million SAAR that was the norm earlier this decade. In the most recent Federal Open Market Committee (FOMC) statement released by the Federal Reserve on November 2, the FOMC expects continued weakness in the U.S. economy through at least 2012 and likely through 2014. According to the Fed, unemployment, GDP and inflation will marginally improve in 2012 while housing will likely remain depressed.

Although the economy is expected to improve slightly in 2012, there are significant risks that could further disrupt the stagnant 2012 economy. The U.S. and European economies are still burdened with high debt loads that will remain an issue for many years. In fact, the troubles of Greece and Italy have led to uncertainty surrounding the stability of European financial markets. While the European debt crisis continues to rattle financial markets, unemployment should remain a top concern to anyone following the economy or automotive market. Not only is the unemployment rate expected to remain close to 9 percent through 2012, the average duration of unemployment remains at an all time high of 40 weeks. Until the unemployment rate comes down from its current high, neither the U.S. economy or new-vehicle sales will improve significantly.

*This commentary focuses on model years 2008-2010. The statements set forth in this publication are the opinions of the authors and are subject to change without notice. This publication has been prepared for informational purposes only. Kelley Blue Book assumes no responsibility for errors or omissions.*



# Kelley Blue Book Introduces Used-Car Values at the State Level



## Updated Regional Values More Reflective of Local Economic Factors and Market Conditions

When it comes to buying and selling cars, Kelley Blue Book is constantly looking to innovate and find ways to help consumers and businesses make better financial decisions. That's why we're now calculating our used-car values based on 51 geographic regions, representing each of the 50 U.S. states and the District of Columbia. The introduction of state-based values better reflects local pricing variations and unique economic conditions and provides the most market-relevant used-car values in each state.

**To learn more about our values, call Kelley Kare at (800) 258-2005  
Monday-Friday from 7:30am to 5:00pm (PST)**

## HOT USED-CAR REPORT:

### Hybrid Vehicles Show Greatest Decline in Share on Kbb.com; Dealers Should Be Cautious Adding Alternative-Fuel Models to Inventory

- Arthur Henry, manager of market intelligence and market analyst, Analytic Insights division, Kelley Blue Book

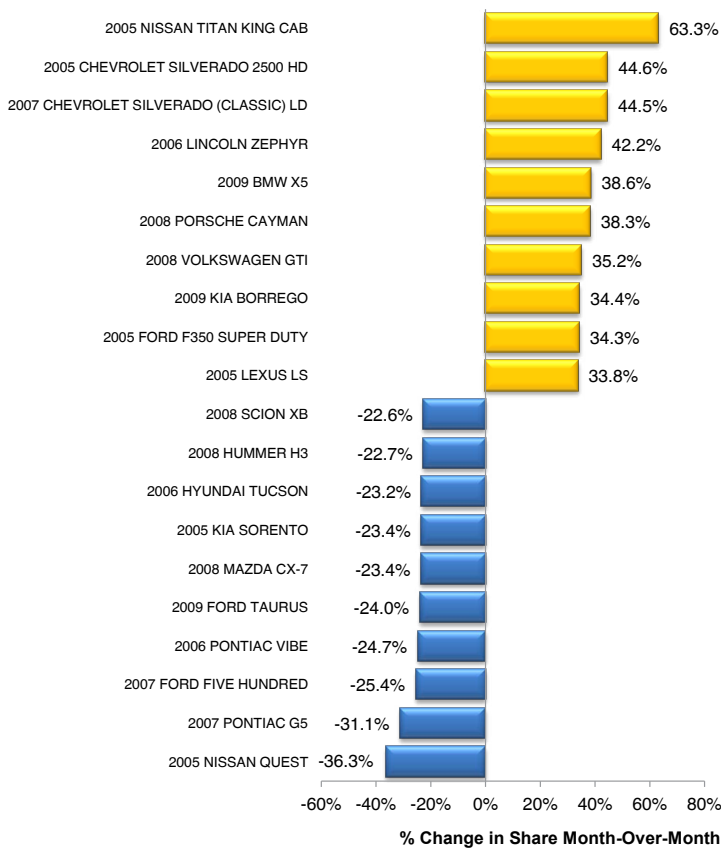
Kelley Blue Book's Hot Used-Car Report captures monthly used-car shopper activity on kbb.com, including a list of the top and bottom movers in the same time period. Results are provided by the Kelley Blue Book Market Intelligence Team, in an effort to help dealers better understand which used vehicles consumers are looking at most each month.

**T**he hybrid market is in a free fall this month with all three hybrid segments on kbb.com posting double-digit declines in traffic share. Highlighting this downward trend is the hybrid-cars category, dropping 57.8 percent in share month-over-month, which is the greatest decline in the short history of this report. The greatest decline in this segment previously was 13.2 percent. Not only is this event significant due to the magnitude of the decline, but it also is a stark contrast to trends previously observed. Typically, when vehicles in a segment decrease in value, there is an increase in shopping activity and the inverse holds true as well. According to Kelley Blue Book's valuation analysts, hybrids overall have dropped 20 percent in value since June, equating to declines in excess of \$3,000.

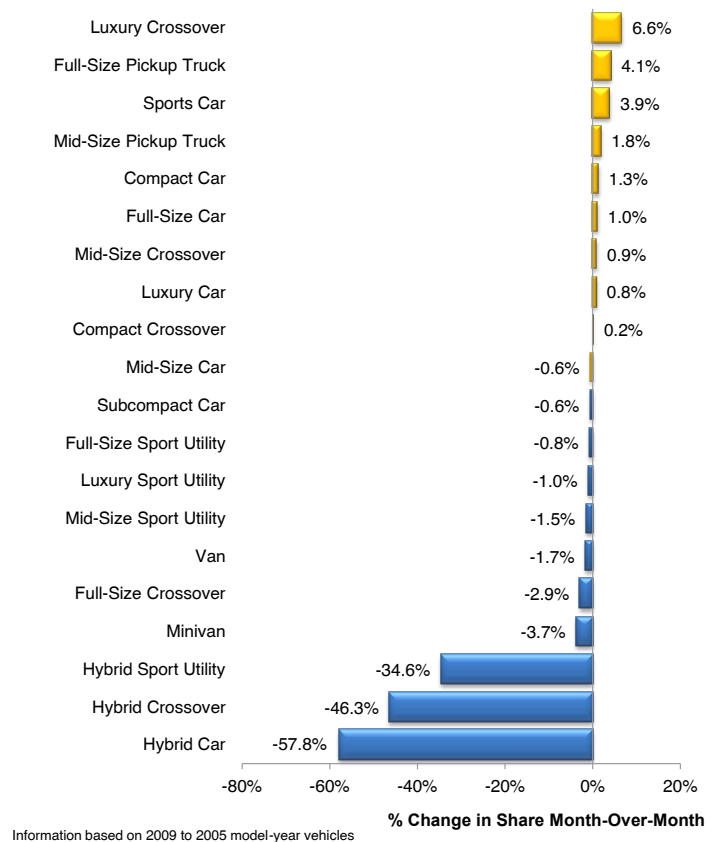
Upon further analysis, there are a few market conditions which have dulled the glamour that hybrids once had; the first being the premium that consumers must pay to obtain a hybrid remains steep. Kelley Blue Book Market Intelligence asked consumers on kbb.com if they would ever consider purchasing or leasing a hybrid and 45 percent of respondents answered no. Another influence in this drop is that more compact and subcompact vehicles are achieving 40 MPG hwy, without the assistance of hybrid-engine technology, therefore reducing the fuel-savings justification. In addition, Kelley Blue Book Market Intelligence also asked consumers which new high-mileage/green-tech vehicle they are most excited about, and the majority of respondents stated that they are most excited about 40-plus MPG vehicles. With gas prices stabilizing the influx of fuel-saving options and consumers shying away from hybrids, dealers should be cautious in regards to increasing their hybrid inventories going forward.

## October 2011

Monthly Used-Car Shopping Activity Growth  
Top/Bottom 10 Models



Monthly Used-Car Shopping Activity  
Growth Segments



### About Kelley Blue Book ([www.kbb.com](http://www.kbb.com))

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