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# BLUE BOOK Market Report

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Analysis from Kelley Blue Book's Analytic Insights Team

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## MARKET ANALYSIS:

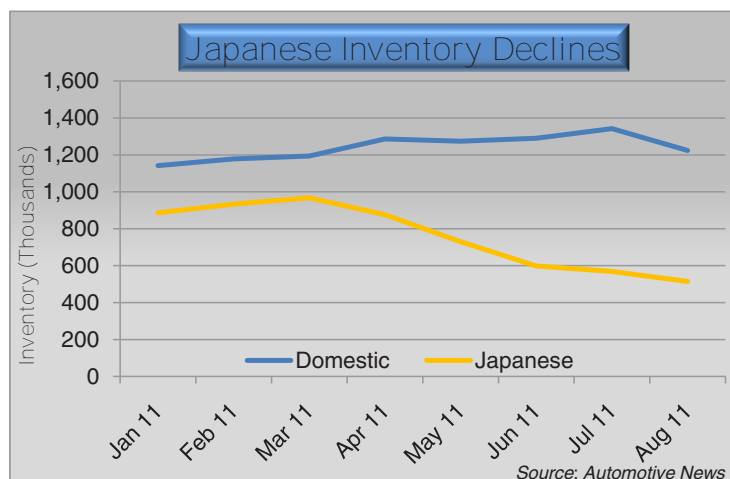
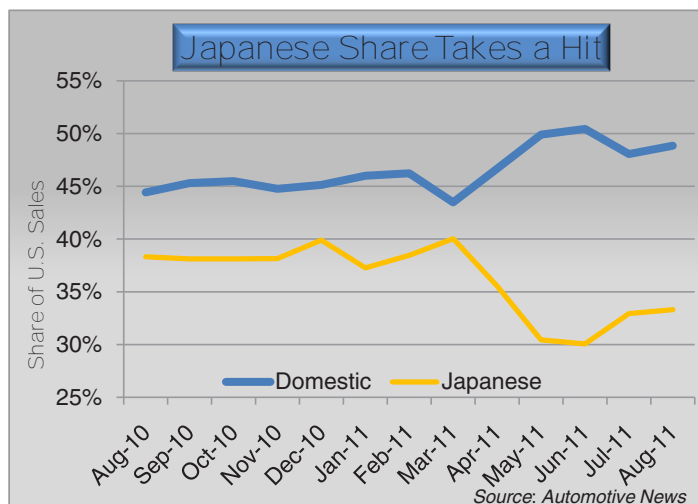
### Japanese, Domestic Incentive Battle Imminent; Fourth Quarter Spiffs on Rise

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

**K**elley Blue Book anticipates strong incentives late in the year in the form of cash and attractive lease offerings. As the Japanese replenish inventory and begin to throw cash on the hood, expect to see the domestics follow suit, setting off an incentive war. While Hyundai and Kia would love to ramp up incentives to maintain competitive pricing, they don't have the inventory necessary to significantly increase sales. They simply do not have the production capacity to satisfy current demand for their products as evidenced by their ultra-lean 19-day supply of vehicles currently available to consumers. Consumers in the market for a new vehicle will likely find plenty of attractive deals in the latter part of the fourth quarter.

While the earthquake in Japan halted sales recovery earlier this year, the anticipated push by the Japanese to recapture market share will likely help sales later this year. Since May, Japanese brands have given up considerable market share to both domestic and Korean manufacturers. Prior to the earthquake, Japanese brands were consistently capturing close to 40 percent of all United States sales, but since April they have seen their monthly share of sales dwindle to nearly 30 percent. As Japanese production facilities return to full capacity in the near future, expect to see strong incentive support from these manufacturers as they aggressively try to recapture lost market share.

In addition to increased incentive spending during the fourth quarter, many highly anticipated redesigns will be hitting U.S. shores for the first time. The 2012 Toyota Camry, Honda CR-V and Honda Civic are but a few of the major redesigns either just hitting dealerships or expected to hit dealerships later this year. Typically, Japanese redesigns are strong sellers; however, they are entering today's competitive market. In the compact segment, the Civic will face strong competition from the all-new 2012 Ford Focus, new for 2011 Hyundai Elantra and the hot-selling Chevrolet Cruze. In fact, the Cruze has been the best performing seller in the segment for the past several months and on a year-to-date basis the Cruze only trails the Corolla by slightly more than 1,000 units for outright segment leadership. While increased supplies, lucrative incentives and new product should certainly help the Japanese improve their sales figures, they are facing an aggressive market.



## Fuel-Sipping Models Expected to Drop Additional 6 to 8 Percent by Year-End

Fuel-efficient vehicle values dropped 3 to 5 percent in August, marking the third consecutive month of declines for the segment. Since June, values for subcompact and compact cars have fallen approximately 8 percent (\$1000), while values for hybrid cars have plummeted 12.5 percent (\$2200). The 2010 Toyota Prius has been especially hard hit, dropping \$5,700 from June through September, due to rising gas prices and increased interest from franchised dealers looking to supplement their lack of new Prius inventory. Kelley Blue Book should note that even with the significant drop since June, values for the fuel-efficient segments are still up \$1,400 since January 1. While there have been considerable drops throughout summer, overall values for compacts and hybrids remain 12 percent and 5.6 percent higher, respectively, than the beginning of the year. However, don't expect values in this segment to remain elevated. During the past several months, we have been stressing that values for fuel-sippers are likely to continue to fall and at this point we believe values will decline an additional 6 to 8 percent by year-end.

Moving forward, there are three factors that will contribute to the drop in fuel-efficient vehicles.

### Rental Volume Returns to Auction

Beginning in September, rental car companies typically increase auction sales as they begin to unload last year's models in anticipation of new inventory coming in. Since volume picked up during the past few weeks, expect values of fleet heavy models such as the Chevrolet Aveo and Kia Rio to be particularly affected.

### Fuel Prices on the Decline

Fuel prices have declined nearly \$0.40 per gallon since their May peak and Kelley Blue Book expects more relief at the pump in the coming months. In July, the Energy Information Administration (EIA) projected that fuel prices would decline to \$3.46 per gallon by year-end and at the time oil was trading at approximately \$95 per barrel with an expectation for \$99 oil by December. Today, oil is trading at nearly \$90 per barrel and if oil remains below EIA's estimate, we could see gas prices drop below \$3.50 per gallon by year-end.

### Return of Japanese Inventory

While rising fuel prices caused the unsustainable rise in values for gas-sipping vehicles, the earthquake in Japan and ensuing inventory crunch only added fuel to the fire. Franchise dealers supplementing their new-vehicle inventory shortfalls this year with used-vehicle sales, will be less compelled to head to the auction as Japanese vehicle production and availability continues to improve.

### Compacts Dropping Since June, Remain up Year-to-Date

| Segment        | Jan 1 - Jun 1 |       | Jun 1 - Sep 1 |        | YTD     |       | August  |       |
|----------------|---------------|-------|---------------|--------|---------|-------|---------|-------|
|                | \$            | %     | \$            | %      | \$      | %     | \$      | %     |
| Market Average | \$1,038       | 5.9%  | (\$915)       | -4.9%  | \$123   | 0.7%  | (\$315) | -1.8% |
| Subcompact Car | \$2,235       | 22.9% | (\$1,062)     | -8.8%  | \$1,173 | 12.0% | (\$379) | -3.3% |
| Compact Car    | \$2,265       | 21.7% | (\$914)       | -7.2%  | \$1,351 | 12.9% | (\$410) | -3.4% |
| Hybrid Car     | \$3,111       | 20.8% | (\$2,265)     | -12.5% | \$846   | 5.7%  | (\$811) | -4.9% |

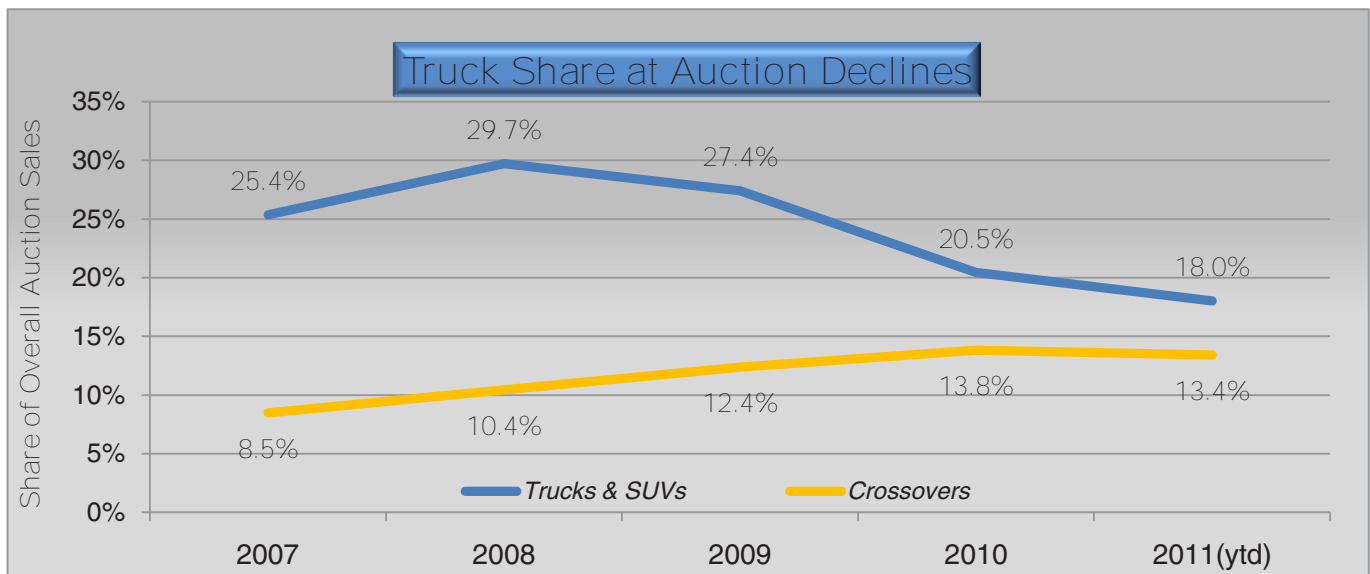
Figures reflect average change to KBB Auction Value for MY08-10 used vehicles

## Dealers Cannot Afford to Ignore Compacts

Since Kelley Blue Book is projecting fuel-efficient vehicle values to continue to decline for the next several months, dealers should refrain from overbidding on these vehicles at auction. While this may sound simple, the market can be quite deceptive. Demand for fuel-efficient vehicles is likely to remain steady with gas prices currently above \$3.60 per gallon, especially in markets such as Chicago and Los Angeles, where gas prices are close to \$4.00 on average. While consumers are interested in these models, they are less willing to pay the high prices in today's used-car market. With freshly revised compacts such as the 2012 Ford Focus, Honda Civic and Hyundai Elantra available, with attractive lease offers below \$200 per month, consumers have less incentive to pay top dollar for a used vehicle. However, due to low supplies of these vehicles, many consumers will need to wait to take delivery and for those unable to wait, used cars will remain an attractive alternative. Kelley Blue Book advises dealers to maintain a lean day's supply of fuel-efficient vehicles while refraining from building up an excess inventory that cannot be sold in less than 30 to 45 days.

## Gas-Guzzler Drops Will Not Exceed 2008 Levels

While values of fuel-efficient vehicles have declined after a strong surge early in the year, full-size trucks and SUVs have depreciated steadily throughout 2011. Since the beginning of the year, full-size trucks and utility vehicles have dropped 5 to 6 percent; a modest figure, but still more significant than any other segment. With fuel prices in excess of \$3.60 per gallon, demand for gas-guzzlers has remained relatively soft. With that said, the depreciation Kelley Blue Book has witnessed to-date pales in comparison to the dramatic drops that occurred in 2008, when these vehicles contributed to a significantly larger portion of the overall market. Since 2008, trucks and SUVs sales have fallen and as a result they are a smaller percentage of the overall vehicle pool. Due to reduced availability of these vehicles in the market today, values may continue to depreciate, but they will not exceed 4 to 5 percent by year-end.



## August and 2011 Sales Remain Strong; SAAR to Remain under 13M for Foreseeable Future

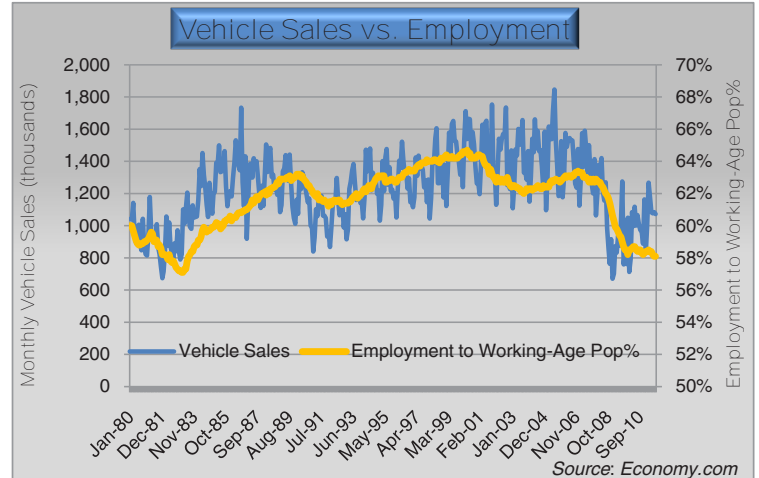
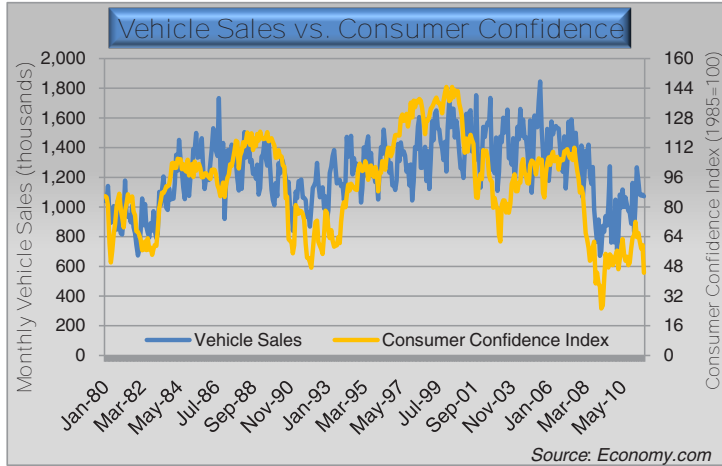
The recent volatility in the financial market, coupled with the downgrade of the U.S. debt rating, were enough to drive down the Conference Board's Consumer Confidence Index to 44.5 (1985=100) in August, a 14.7 point drop from July. This is the lowest recorded measure since 2009, when consumer confidence was threading toward recovery on the tail end of the previous recession. After the drop in August was announced many feared that new-vehicle sales would be significantly impacted. In addition, Hurricane Irene swept across the East Coast limiting potential sales further. The hurricane kept many consumers in that region away from new-car dealerships potentially reducing sales by 10 percent, according to some estimates.

After the dust settled and sales reports came in on August 1, Kelley Blue Book found that new vehicles sold at a 12.1 million sales pace for the month. While this is not record breaking, it is an improvement from the woeful sales figures reported throughout 2009 and much of 2010. Sales were up 8 percent year-over-year overall with especially strong performances from domestic brands; Chrysler/Fiat Group (+31 percent), General Motors (+18 percent) and Ford (+11 percent). Among the import brands, Hyundai continues to do well, improving 16 percent, while Nissan jumped a healthy 19 percent. The 16 percent improvement from Hyundai is especially impressive considering they had a 19-day supply of inventory to start the month of August. Honda and Toyota continue to face inventory issues as their sales declined 24 percent and 13 percent, respectively.

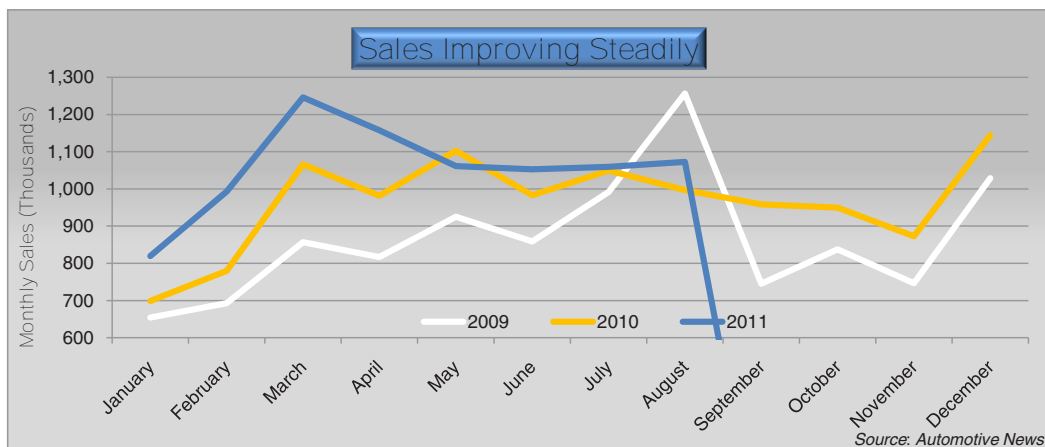
Although sales in August came in above a 12-million SAAR, we do not expect a long-term sales recovery just yet. The industry still faces tremendous challenges, so it may be some time before we see sales in excess of 13-million units per year. High unemployment, a weak housing sector, low consumer confidence and low inventory levels are a few of the hurdles preventing the industry from returning to the 16- to 17-million unit sales figures from the glory days. One thing is clear, although many of these economic indicators remain negative, they have remained relatively stable indicating that sales should at least continue to trend in the 12- to 13-million unit range for the foreseeable future.

## Unemployment, Consumer Confidence Strong Indicators of Future Vehicle Sales

Upon review of current market data, Kelley Blue Book analysts have found that consumer confidence and unemployment data are highly correlated to new-vehicle sales.

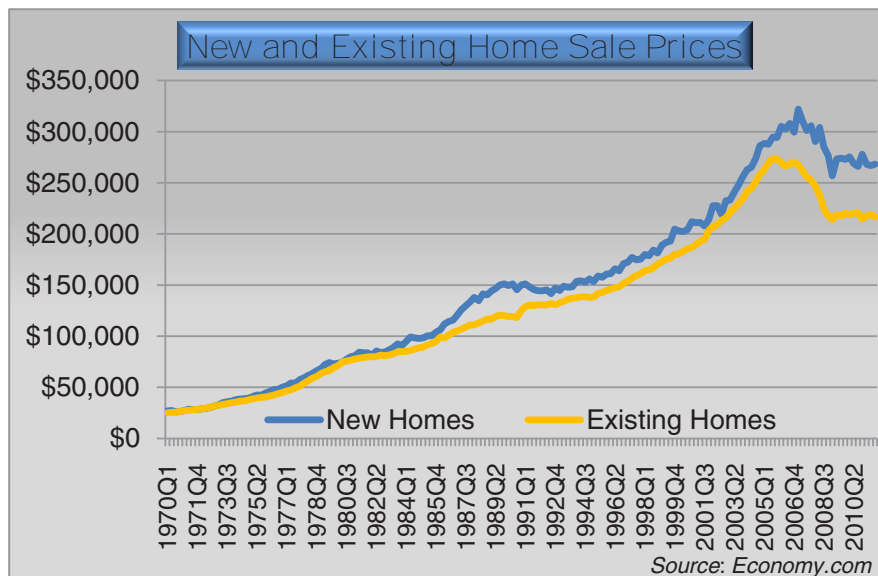
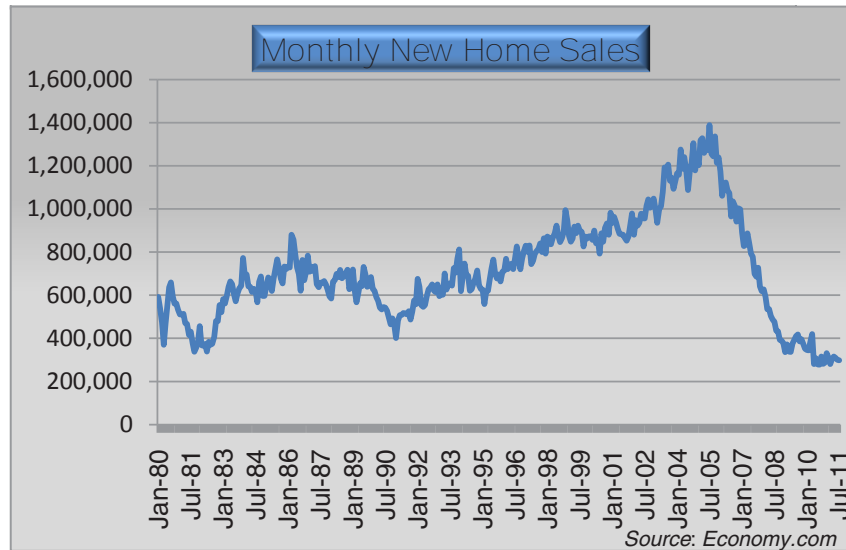


Although consumer confidence took a significant hit last month, it may turn out to be a short-term reaction to the high volatility in the equity markets during August. Consumer confidence may recover slightly in the months ahead, but we don't expect a significant improvement given the continued weak housing market and an unemployment rate above 9 percent. That being said, Kelley Blue Book expects that new-vehicle sales will continue to follow suit, with only a slight uptick. Even with instability in the consumer confidence rating through the last 12 months, we expect to maintain a sales pace above 12-million units per year in the short term. We have seen an improvement from 2009 and 2010, yet don't expect sales in excess of 13-million units per year until housing and unemployment rates improve considerably.



## Housing Weighs Heavy on Consumer Confidence

The housing market has weighed heavy on consumer confidence and remains a significant hurdle for recovery in the automotive sector. Sales of new homes remain at historic lows and the average sale price of a new home has been relatively flat after a steep drop off in 2007. When the housing bubble collapsed, many households took a significant hit to their overall net worth for the next few years, after the housing market had been touted as a safe investment. With many consumers still upside down on their current home and no recovery in sight, the soft housing market will continue to keep consumers weary of committing to purchases of big-ticket items such as new cars.

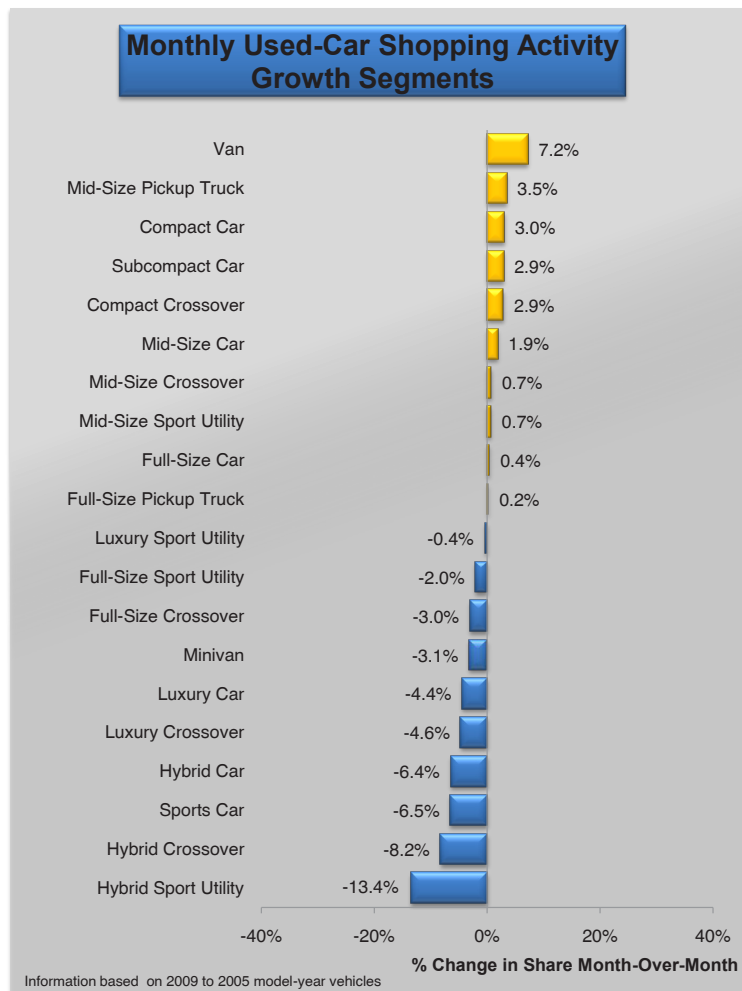
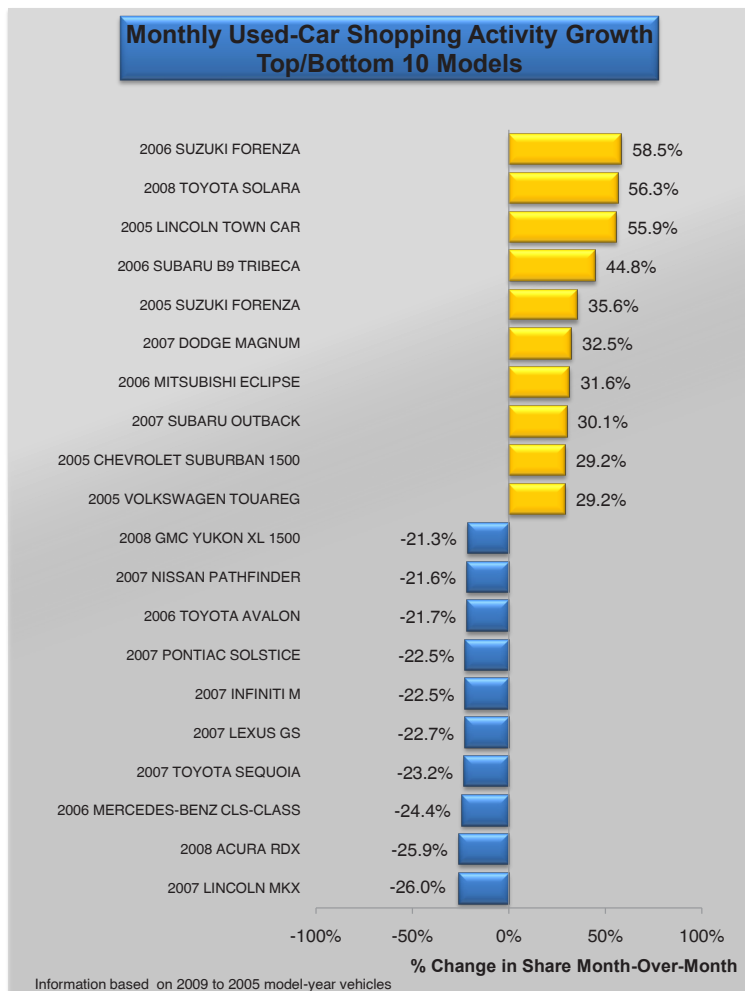


*This commentary focuses on model years 2008-2010. The statements set forth in this publication are the opinions of the authors and are subject to change without notice. This publication has been prepared for informational purposes only. Kelley Blue Book assumes no responsibility for errors or omissions.*

## Back-to-School Season Drives Interest in Van Segment on Kbb.com

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.

As summer comes to an end and students return to the classroom, kbb.com has experienced shifts in traffic to specific vehicle segments. For August, the van segment witnessed the greatest uptick in interest, increasing 7.2 percent month-over-month. There isn't one particular model driving interest in this segment, but a combination of all of the van models. There are a few key models in other segments that have seen increased interest as well, for instance, the Suzuki Forenza. Both 2006 and 2005 models have spiked 58.5 percent and 35.6 percent, respectively. With this information in mind, dealerships should consider keeping a steady supply of vans and back-to-school vehicles in their inventory as increased in interest could drive additional sales.



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

Founded in 1926, Kelley Blue Book, The Trusted Resource®, is the only vehicle valuation and information source trusted and relied upon by both consumers and the industry. Each week the company provides the most market-reflective values in the industry on its top-rated website [www.kbb.com](http://www.kbb.com), including its famous Blue Book® Trade-In and Retail Values and Fair Purchase Price, which reports what others are paying for new cars this week. The company also provides vehicle pricing and values through various products and services available to car dealers, auto manufacturers, finance and insurance companies as well as governmental agencies. Kbb.com provides consumer pricing and information on minivans, pickup-trucks, cars, hybrids and SUVs. Kelley Blue Book Co. Inc. is a wholly owned subsidiary of AutoTrader.com.