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# BLUE BOOK Market Report

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LATEST HOT USED-CAR REPORT

Analysis from Kelley Blue Book's Analytic Insights Team

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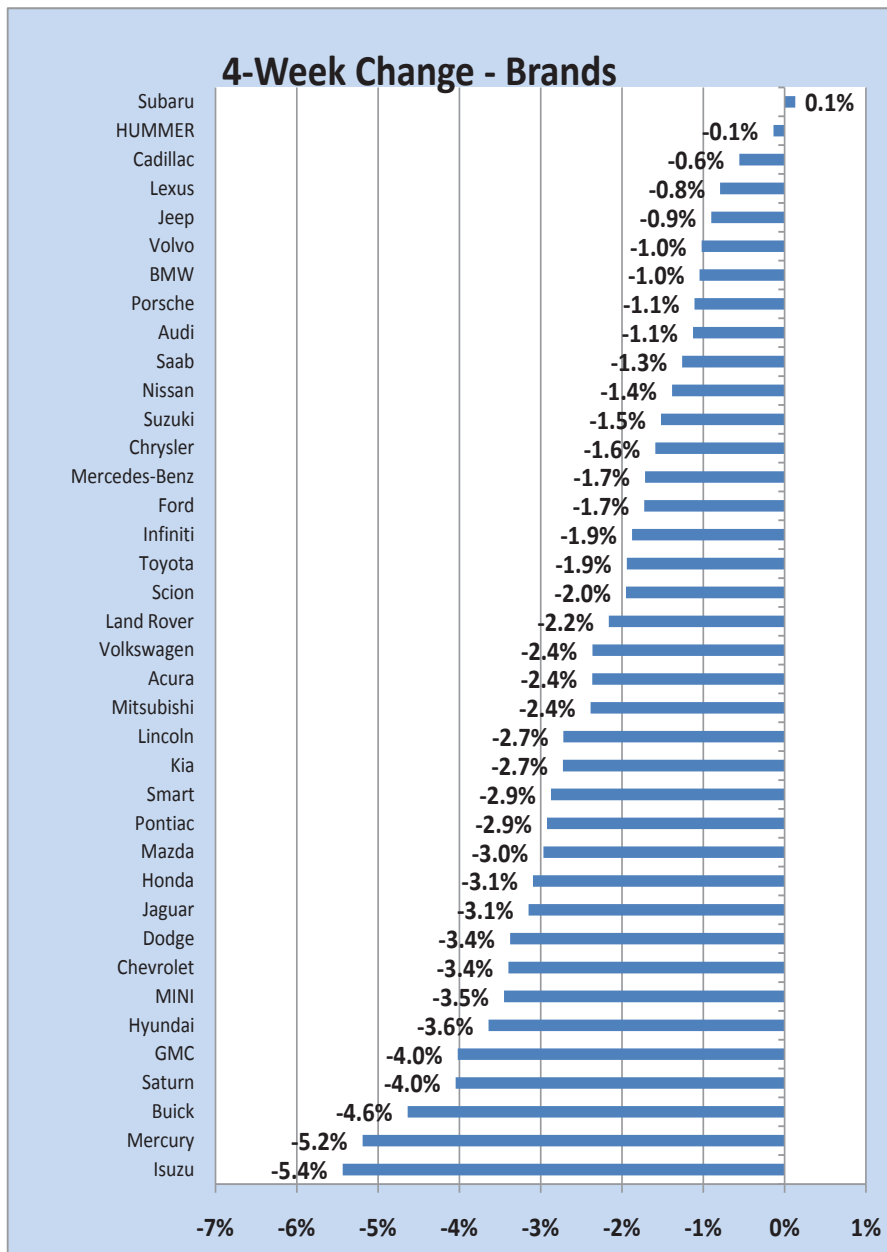
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## MARKET ANALYSIS:

### 2011 BEST RESALE VALUE AWARD BRAND WINNERS ALSO SHOW STRENGTH IN USED MARKET

- Juan Flores, director of vehicle valuation, Kelley Blue Book
- Alec Gutierrez, lead analyst of vehicle valuation, Kelley Blue Book



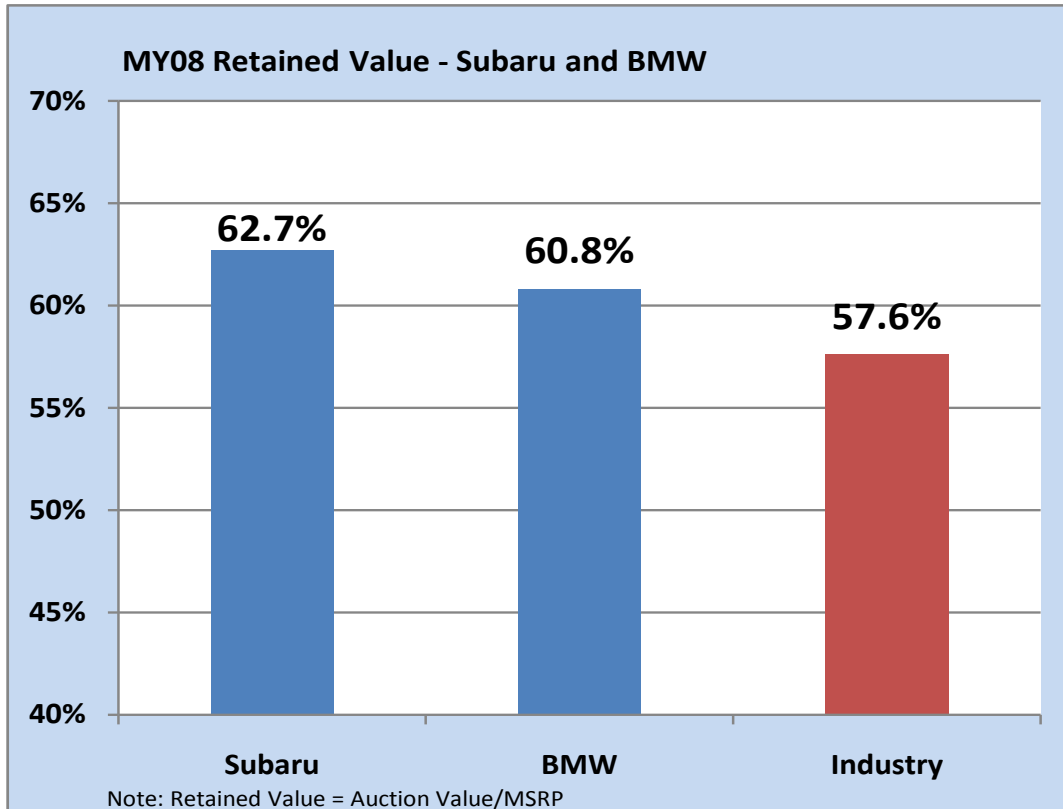
The best-performing brands in November were a bit of a mixed bag with perennial powerhouses such as Lexus and BMW being joined by formerly niche brand Subaru. Somewhat surprisingly, Hummer was also among the best performing brands for the month, remaining relatively flat in November. Hummer's performance is quite a noteworthy feat considering the relative softness in the market, especially for a brand no longer in production. While the strength of Hummer is certainly worth mentioning, Subaru and BMW are the true winners for the month of November not only because of their performance in the market, but because each brought home a 2011 Kelley Blue Book Best Resale Value Award.

Subaru won the 2011 Best Resale Value: Brand award, while BMW was honored with the 2011 Best Resale Value: Luxury Brand award. These brands have proven themselves to be the best-performing brands in projected five-year retained value. As 2011 Best Resale Value Award brand winners, both brands offer solid introductions and vehicle redesigns that have kept the manufacturers fresh in an increasingly competitive market.

## SUBARU AND BMW ALSO TOPS IN CURRENT THREE-YEAR RETAINED VALUE

In addition to its new models, used 2008 model-year Subaru vehicles are among the best-performing vehicles in the marketplace. These vehicles provide consumers great value, especially with their all-wheel drive offering. Subaru vehicles are sporty and fun to drive, delivering all of the amenities most consumers expect. In November, Subaru values increased slightly (up 0.1 percent), while the rest of the market dropped. Year-to-date, the brand's values have increased 3.4 percent.

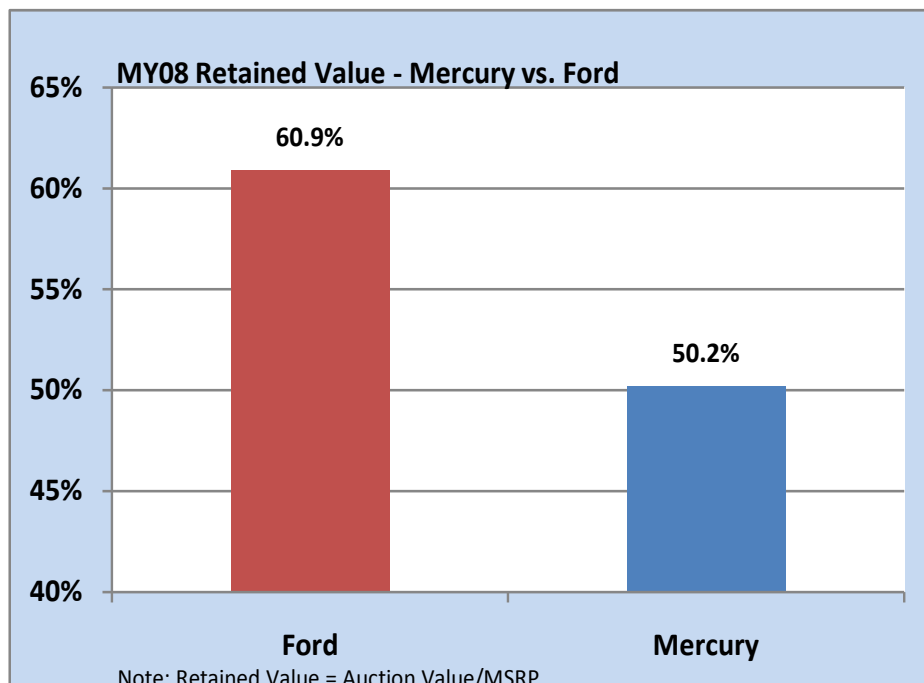
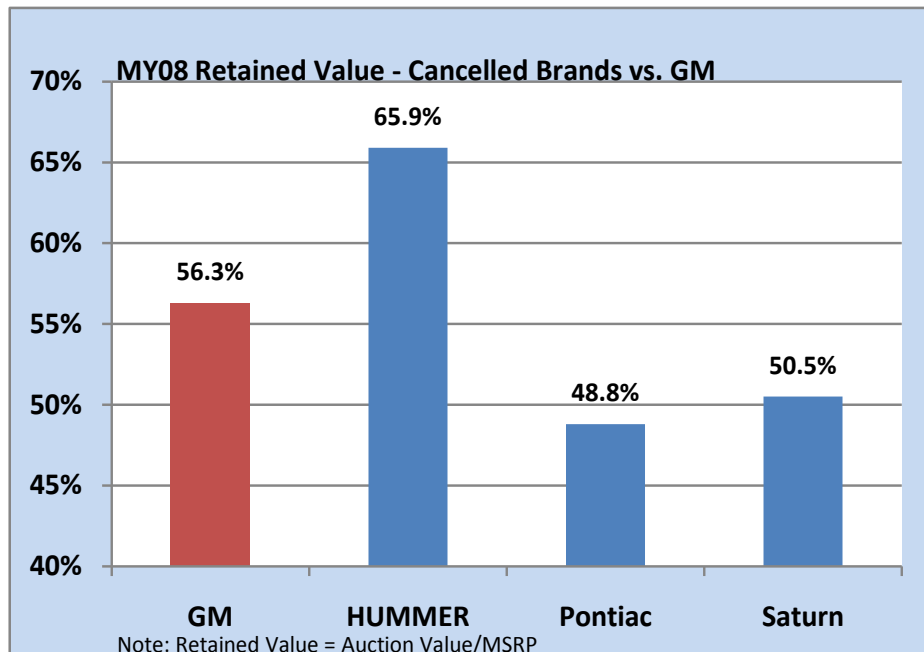
BMW has remained a premium luxury manufacturer offering its "Ultimate Driving Machine" experience in all vehicles through the use of high-performance engines coupled with the best handling among luxury vehicles. For the month of November, 2008 model-year BMWs have dropped in line with the rest of the market, only down 1 percent.



## DEAD BRANDS REMAIN STABLE, LAG FORMER PARENT'S RETAINED VALUE

Values for Pontiac and Hummer were stable in November and also performed well year-to-date, while Saturn has dropped more aggressively. The primary explanation for Pontiac's stability is that values already are so low for 2008 model-year vehicles (at 48 percent retained value), that there isn't much room to continue to drop. On the other hand, Hummer has done well recently due to low production volumes and high demand for these off-road vehicles among a niche group. Furthermore, Saturn may have some additional room to drop, as their retained value remains strong in comparison to Pontiac at 50.5 percent. All except Hummer trail current General Motors' brands combined retained value of 56.3 percent.

Mercury values (MY08) have dropped aggressively, at 5 percent for November and 7.9 percent year-to-date. A lack of differentiation hurts Mercury in terms of retained value, especially given their price premium relative to each model's respective Ford counterpart. The Mercury brand has not kept pace with Ford this year, dropping 7.9 percent relative to Ford's 0.9 percent appreciation. Ford's strength has benefitted from the F-Series pickup and the overall strength in full-size trucks through much of 2010.

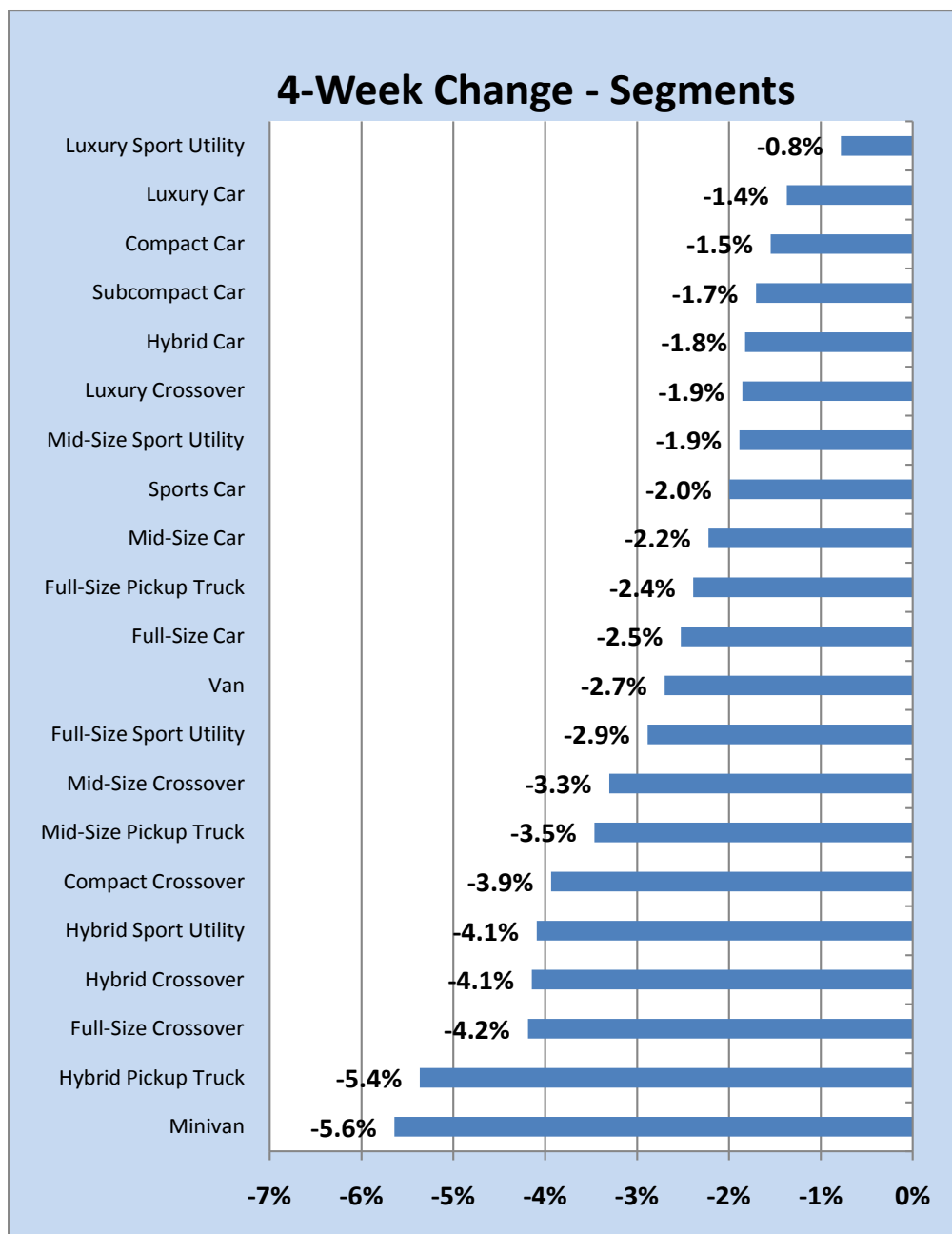


## LUXURY SUVs OUTPERFORM MARKET; NEW ALTERNATIVE-FUEL VEHICLES COULD DEPRESS SEGMENT

**W**ith a lack of consumer demand and the approaching holidays, dealers are holding off on restocking inventory, causing the used-car market to remain soft (-2.4 percent). Since late-August/early-September, overall values have dropped approximately 7 percent. Year-to-date, values are down a modest 2.6 percent, and Kelley Blue Book expects that values should remain stable in December leading into a traditional rebound in January.

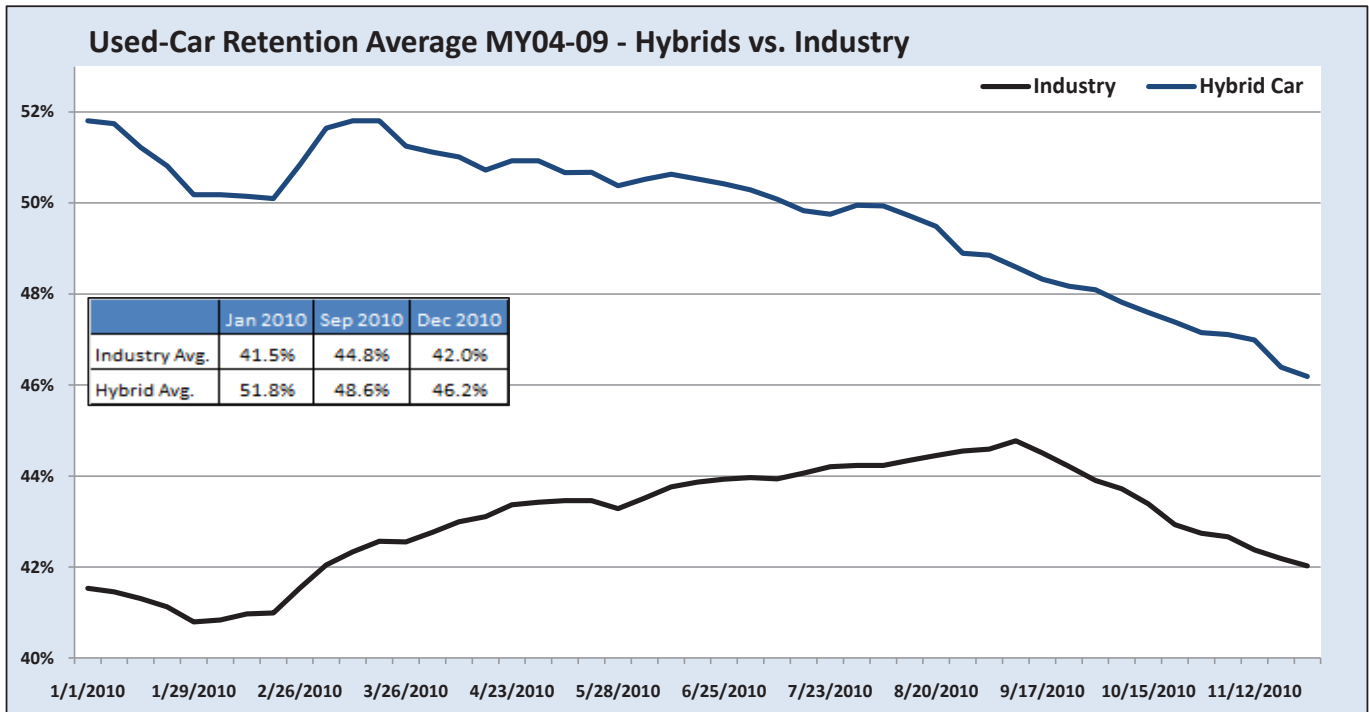
Luxury SUVs are bucking the market trend, remaining flat for the month (down less than 1 percent). Although these vehicles have dropped 6 percent since January, we expect that prices for this segment may have bottomed given current demand conditions. Fuel prices have not negatively impacted demand for this segment as they have remained relatively stable (under \$3 per gallon).

Competition in this segment is expected to be mild in the coming years, as most new luxury utility vehicles are crossovers. This may benefit luxury SUVs with a lack of new products keeping values stable in the future as they become less available.



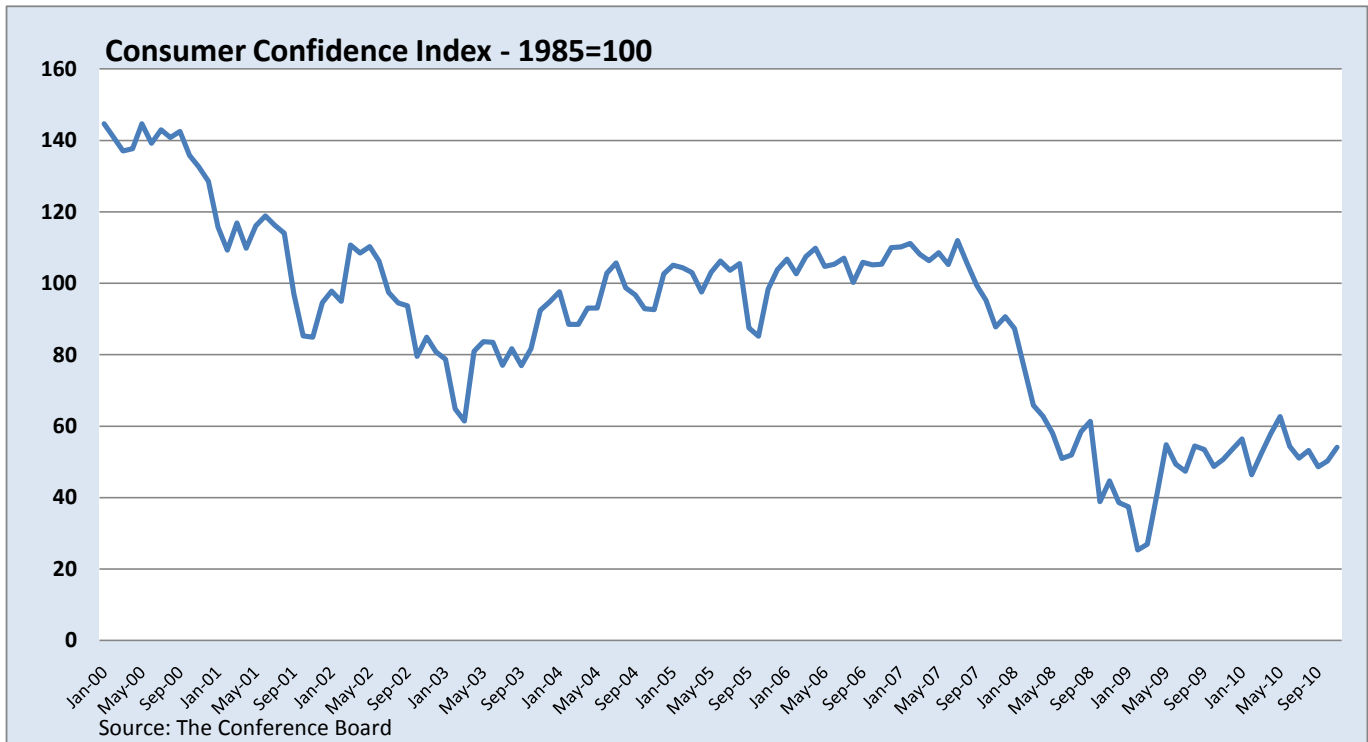
## HYBRID CARS DECLINE CONSISTENTLY ALL YEAR

Hybrid car values dropped 1.8 percent month-over-month and 9 percent year-to-date. With relatively low national gas prices, the introduction of new alternative-fuel vehicles (i.e. Prius Plug-in, Nissan LEAF and Chevrolet Volt) only stand to increase competition in a segment that recently has struggled to find a strong following. Increasing Corporate Average Fuel Economy (CAFE) standards also will increase competition in the hybrid segment, as all vehicle types continue to improve their fuel economy and become more viable alternatives to hybrid and alternative energy vehicles. As more hybrid, electric and alternative-fuel vehicles enter the marketplace, hybrid values will continue to decline until they hit a point where the price premium is justified given the current price of fuel.



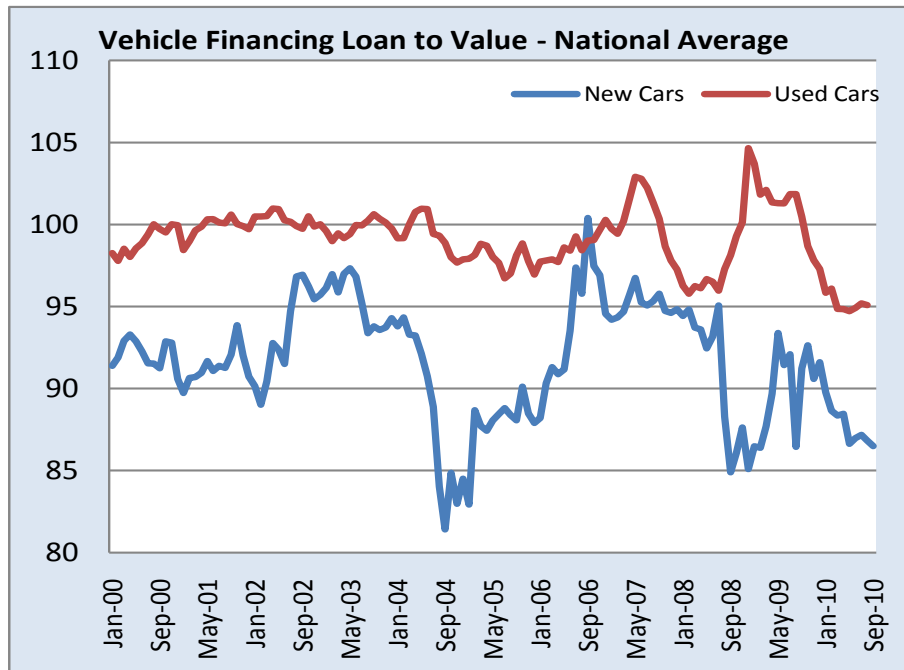
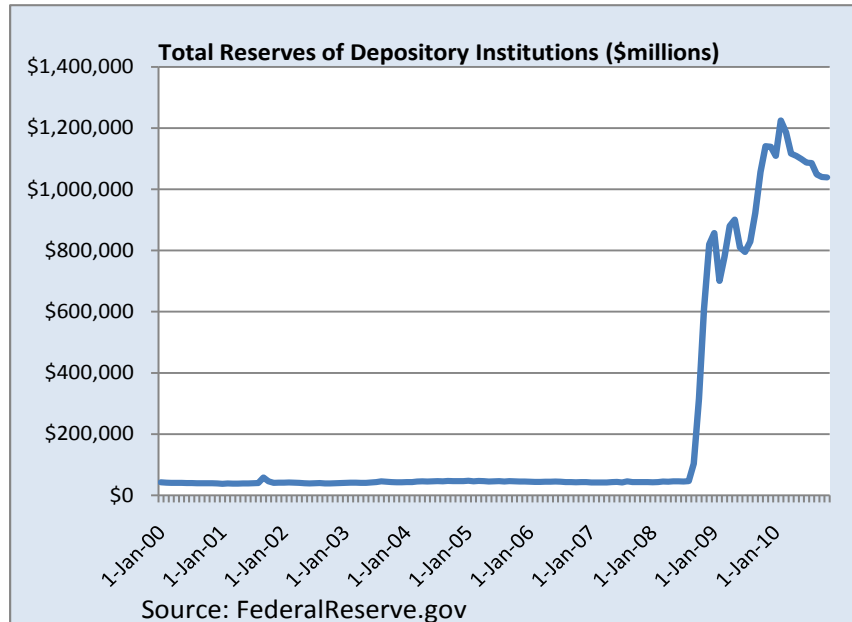
## ECONOMY, CONSUMER CONFIDENCE WEIGH HEAVY ON CONSUMER DEMAND

Unemployment is up to 9.8 percent in November and with 15.1 million people still out of work, demand for new and used vehicles will remain soft. The extension of long term unemployment benefits should provide at least temporary relief to the economy; however, this may only stand to delay the inevitable. If people continue to struggle to find work, it may be some time before we see a sustainable long-term recovery in economic conditions. Perhaps most telling is the continued weakness in consumer confidence. Although many government economists have announced an end to the recession based on several quarters of positive GDP growth, the average American still feels doubtful about the prospects of future economic prosperity. According to the Conference Board, the Consumer Confidence Index increased to 54.1 in November, the highest level of 2010. While this certainly is an improvement over most of the year, we must consider that the overall sentiment is still fairly soft when compared to the historical index value over the past 10 years.



## BANK LENDING PRACTICES REMAIN CONSERVATIVE

**M**aking the purchase of a vehicle more difficult, banks are requiring larger down payments for both new and used vehicles as loan-to-values rates remain at 10-year lows. Attractive interest rates are available; however, only to those with stellar credit. Interestingly, perhaps largely driven by TARP, overall bank reserves remain at historic highs, indicating that most major financial institutions have more than enough credit to distribute if they so choose. The fact remains that banks remain conservative based on their own internal estimates of the general prospects of the immediate future. If both banks and consumers remain uncertain about the prospects of an economic recovery, it may be some time before we see sales of new vehicles recover, let alone conditions in the overall economy.



*This commentary focuses on Model Years 2007-2009. 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 RELEASES 2011 RESIDUAL VALUE ANALYSIS

### Low Gas Prices Drive Small-Car, Alternative-Fuel Segments Down

#### 2011 Residual Forecasts

In 2011, Kelley Blue Book analysts do not expect a robust recovery for either the economy or the auto industry. The company forecasts that gas prices likely will rise moderately over the next two years, with per-gallon prices ranging between \$3 and \$4. This projected stability in fuel prices and slow economic recovery likely will reduce the possibility of market variability and allow auto manufacturers to better manage their fleets.

Overall residual values for the industry have remained relatively stable. In 2009, the average vehicle was projected to maintain 34.1 percent of its original list price after five years of ownership. In 2010, the average projected retained value dropped slightly to 32.6 percent. There have been small gains in retained value in the last year, with the average 2011 model-year vehicle now expected to hold 34.0 percent of its original list price after five years, which can be attributed to wide swings in retained value in specific segments.

When reviewing the disparity between brands at the top of the 2011 Residual Analysis and the remainder of the list, Kelley Blue Book analysts found the gap between the top and bottom brands to be shrinking. Last year's list saw a gap of more than 22 percentage points between the brands at the top and bottom of the list. In 2011, the difference is now less than 17 percentage points. One cause for the narrowing gap between the top and bottom brands is the number of significant redesigns, facelifts and new nameplates entering the market in 2011.

The gas spike of 2008 caused many manufacturers to slow their production of large gas-guzzling vehicles. A change in government-mandated Corporate Average Fuel Economy (CAFE) standards then encouraged carmakers to build smaller, more fuel-efficient vehicles, cluttering both the compact and subcompact car segments and starting the trend of producing less trucks and SUVs. Once gas prices returned to normal levels, consumers returned to the market looking for the roominess and utility of a big truck or SUV. With lack of supply and increased demand in the truck and SUV markets, the residual values have improved year-over-year.

SUVs, from compact to full-size, saw the largest gains among the vehicle segments, with 2011 compact-utility vehicles maintaining their value by 3.4 percentage points more in resale value than their 2010 counterparts, for a total 35.9 percent average in 2011. Full-size SUVs gained 2.7 percentage points in retained value from the previous year, to reach a segment average of 33.5 percent. However, the segment projected to best maintain its value in 2011 is the mid-size pickup segment, holding strong with an average residual value of nearly 37 percent.

Small car segments, such as the compact-sedan segment, are expected to become more competitive in the coming years. Almost every manufacturer is redesigning its version of a compact sedan or launching a new model to compete in this highly crowded segment. The subcompact segment is expected to hold a 2011 average of only 29.6 percent of its original value, which is up slightly from 28.9 percent in 2010. With the expectation of only moderate increases in fuel prices, Kelley Blue Book anticipates that demand will not increase sufficiently to absorb the larger supply. Due to bloated supply and lack of demand in the market, residuals in this segment have dropped significantly since this time last year.



## Best Resale Value Brands

This year's 2011 Best Resale Value: Brand is Subaru. Last year, Subaru placed sixth overall in the Kelley Blue Book Residual Analysis. Subaru was able to increase its expected year-over-year residual average by 2.4 percentage points to reach 39 percent in 2011, while several other brands holding tight to the top of the list for several years saw declines of up to one percent or more. The overall increase in Subaru's expected average residual value improved with the Impreza (up 3.9 percent) and the face-lifted Forester (up 2 percent).

According to Kelley Blue Book's residual analysts, Subaru's rise to the top spot as 2011 Best Resale Value: Brand is a result of its ability to keep production very tightly aligned with market demand, sustaining lower lease levels than in the past and bringing superior quality, well-designed vehicles to the market. Declines in residual brand averages for Toyota, and relatively flat movement by Honda, also contributed to Subaru's move to the top.

"In the last year Subaru has brought highly appealing designs and quality product that consumers want to the market by way of the Impreza, Outback and Legacy," said Eric Ibara, director of residual consulting for Kelley Blue Book. "Subaru has done an incredible job balancing production with demand, which is a key driver of building strong resale values."

This year's Best Resale Value: Luxury Brand is BMW. With quality products in the very strong SUV segment, including 2011 Best Resale Value Award winners X5, X5 XDrive35d and X6, BMW was able to gain the top spot in the luxury segment. While BMW declined in its year-over-year residual brand average by 0.1 percentage point to 37.1 percent, it still took the lead over last year's winner Lexus, which had a sharper decline of 2.9 percentage points.

## Hybrids, Alternative-Fuel Vehicle Residual Values Also Fall on Lower Fuel Prices

Just as in the compact segment, slowing demand for premium-priced alternative-fuel vehicles has weakened the outlook for fuel-sipping environmentally friendly engines, even with new vehicles and new technologies entering the segment.

In 2010, the hybrid/alternative fuel car segment carried a residual average of 36.3 percent. For the 2011 model year, that number has dropped 2.3 percentage points to 34 percent.

In 2009, there was only one dedicated hybrid: the Toyota Prius. The Prius was redesigned for 2010, offering improved fuel economy and a reduced sticker price, but it also had new competition in the segment with the addition of the Honda Insight and the Lexus HS. Both the Insight and the HS have struggled to find mass-market favor and thus are experiencing declines in their 2011 residual values, dropping by 3 and 8 percentage points, respectively. Additionally, the Prius has declined by 5 percentage points from 2010 to 2011.

In 2011, the plug-in Chevrolet Volt and full-electric Nissan LEAF will enter into the mix, and while both will likely sell in relatively low volumes, they stand as potential image-changers for both manufacturers and garner much in the way of perceived technological leadership.

"Predicting values for unproven powertrain technologies such those in the Volt and LEAF is very speculative at this moment," said Ibara. "The public's acceptance of these engine technologies is unknown, particularly with regard to affordability, overall cost of ownership, range and durability."

The availability of government subsidies will be a major consideration for consumers shopping both the LEAF and the Volt in 2011. However, should one or several of these technologies become widely accepted, it could cause conventional hybrid values to plummet.

For more information about Kelley Blue Book's Best Resale Value Awards, please visit <http://www.kbb.com/car-news/all-the-latest/2011-best-resale-value-awards>. The full residual analysis report is available upon request by sending an e-mail with your name, title, company name and phone number and to [pr@kbb.com](mailto:pr@kbb.com).

## **About Kelley Blue Book® Residual Values**

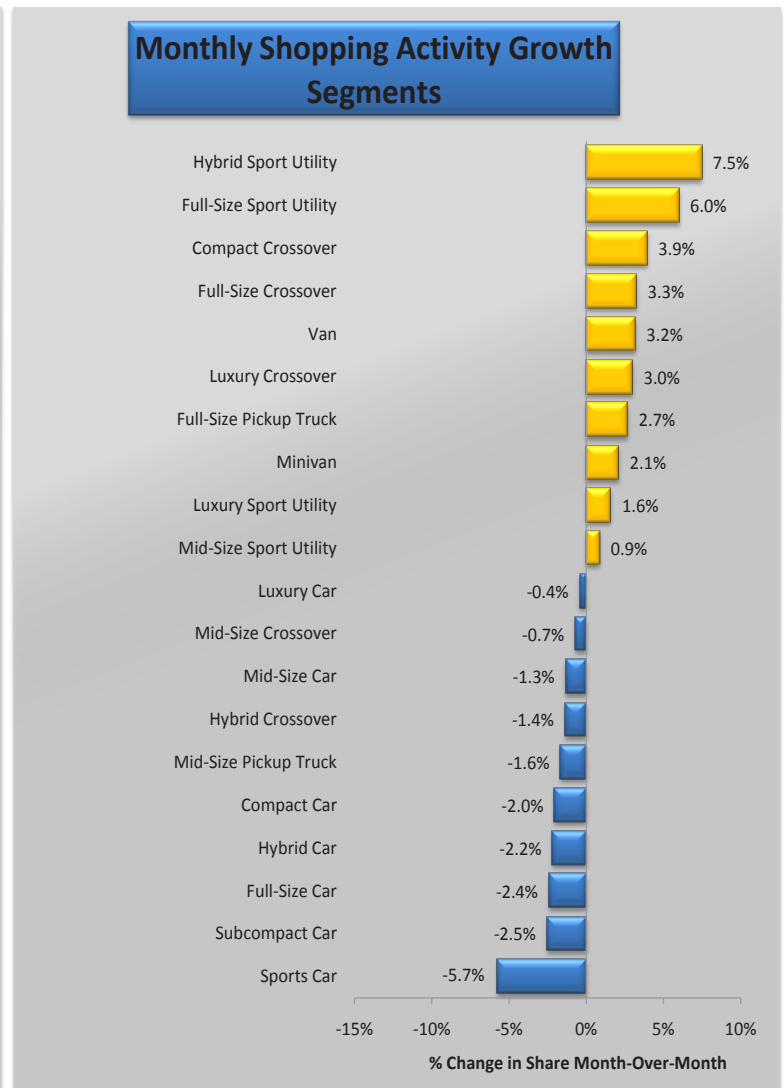
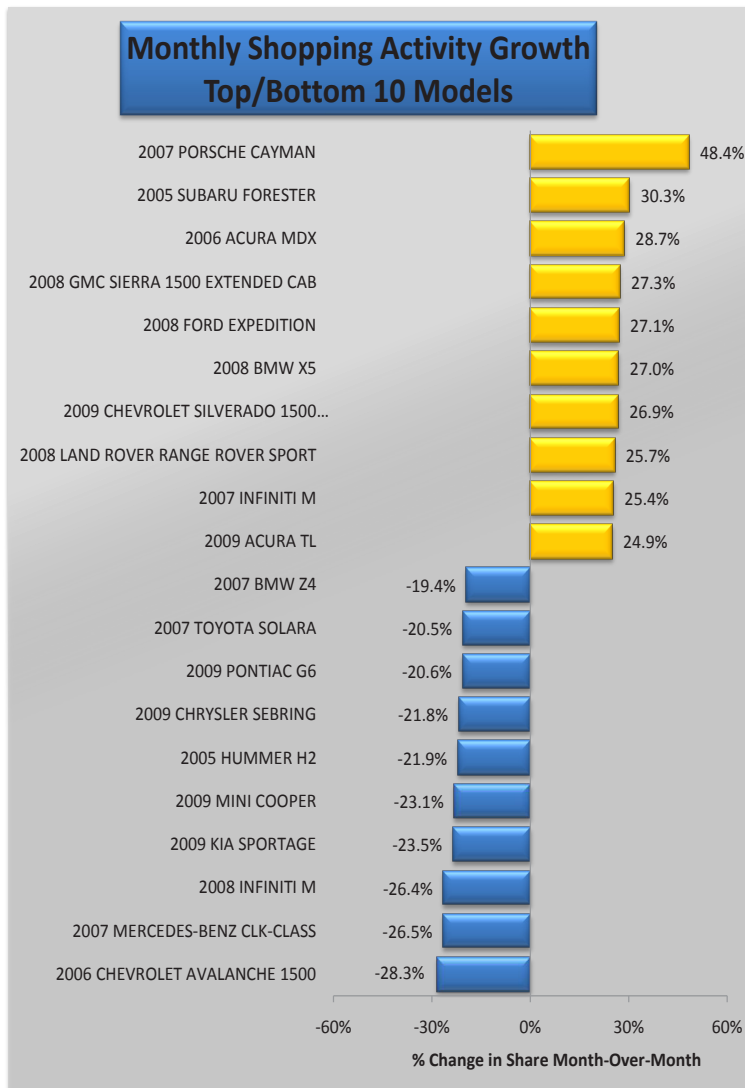
Based on projections by Kelley Blue Book's expert staff of market analysts encapsulated in the Kelley Blue Book Official Residual Value Guide, the prestigious Kelley Blue Book Best Resale Value Awards honor vehicles expected to maintain the greatest proportion of their retail prices after five years of ownership. Low-volume vehicles and vehicles with a Manufacturer's Suggested Retail Price of more than \$60,000 are excluded from awards consideration, except in the High Performance and Luxury categories.

While the company's Official Residual Value Guide has been published since 1981, Kelley Blue Book established its annual Best Resale Value Awards in 2003. Kelley Blue Book reports projections based on current vehicle data, sales data, market conditions for each vehicle, competition within vehicle segments, expectations of the future economy and the combined experience of Kelley Blue Book's team of market and pricing analysts. Kelley Blue Book's residual values are used by banks, financial institutions, governmental agencies and the automotive leasing industry.

## SUVS, CROSSOVERS TOP OF MIND FOR CONSUMERS; SPORTS CARS LACK SHOPPER INTEREST

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.

Experiencing the largest gain in used-retail shopping activity for November 2010 is the 2007 Porsche Cayman, increasing 48.4 percent month-over-month, followed by the 2005 Subaru Forester at 30.3 percent. The release of the 2011 Porsche Cayman may have sparked shopper interest in the used vehicle because of the introduction of this new model. While the Cayman saw an increase in share of kbb.com shopper traffic, the overall sports car category dropped 5.7 percent month-over-month. On the other hand, SUVs and crossovers experienced substantial increases in traffic with hybrid SUVs leading the way, up 7.5 percent in share. Based on the results, it can be said that as Winter approaches shoppers are looking for more capable vehicles.



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

Since 1926, Kelley Blue Book, The Trusted Resource®, has provided vehicle buyers and sellers with the new- and used-vehicle information they need to accomplish their goals with confidence. The company's top-rated website, [www.kbb.com](http://www.kbb.com), provides the most up-to-date pricing and values, including the Fair Purchase Price, which reports what buyers are paying for new cars. The company also reports vehicle pricing and values via products and services, including software products and the famous Blue Book® Official Guide. According to the C.A. Walker Research Solutions, Inc. - 2009 Spring Automotive Website Usefulness Study, kbb.com is the most useful automotive information website among new- and used-vehicle shoppers, and half of online vehicle shoppers visit kbb.com. Kelley Blue Book's kbb.com also is a W3 Silver Award winner, sanctioned by the International Academy of Visual Arts. Kbb.com is a leading provider of new car prices, used car values, car reviews, new cars for sale, used cars for sale, and car dealer locations.