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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:

Cars from Rental Fleets Appreciate in Value

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

Among compact and subcompact cars, vehicles that are typically found in rental fleets have appreciated most since the start of the year. The Kia Rio, Chevrolet Aveo and Chrysler PT Cruiser all increased more than 10 percent since January, while low-fleet vehicles like the Honda Civic and Toyota Corolla are flat on a year-to-date basis due to their relatively high values. Vehicles in rental fleets are up only because of the value proposition that they present to dealers and consumers in this economy and also in this environment where all compacts had strengthened or maintained the least amount of depreciation through the year. When the market heated up, dealers were looking for budget vehicles that met consumer financial and fuel-efficiency needs. Dealers are just looking for cheap vehicles to offer their customers. These rental-fleet vehicles provide great value when market prices are high.

Overall, dealers can expect to save more than \$2,000 when purchasing a three-year-old highly fleeted compact, while savings on a fleet-heavy crossover will only yield a modest \$500.

With the unemployment rate at 8.6 percent and many homeowners still upside down on their mortgage, many families will likely consider a vehicle that was a prior rental, so dealers should consider bidding when a low mileage unit becomes available at auction.

“DEALERS ARE JUST LOOKING FOR CHEAP VEHICLES TO OFFER THEIR CUSTOMERS. THESE RENTAL-FLEET VEHICLES PROVIDE GREAT VALUE WHEN MARKET PRICES ARE HIGH.”

ALEC GUTIERREZ

High-Fleet Compacts \$2,200 Cheaper than Segment Average

Make	Model	Trim	Auction Value	Vs. \$10,000 Segment Avg.
Chrysler	PT Cruiser	Sport Wagon 4D	\$6,700	(\$3,300)
Dodge	Caliber	SXT Sport Wagon 4D	\$8,525	(\$1,475)
Chevrolet	HHR	LT Sport Wagon 4D	\$9,350	(\$650)
Chevrolet	Cobalt	LT Sedan 4D	\$7,900	(\$2,100)
Suzuki	Forenza	Sedan 4D	\$6,475	(\$3,525)

Note: All values reflect a MY2008 vehicle w/60,000 miles

Average: (\$2,210)

High-Fleet Crossovers \$500 Cheaper than Segment Average

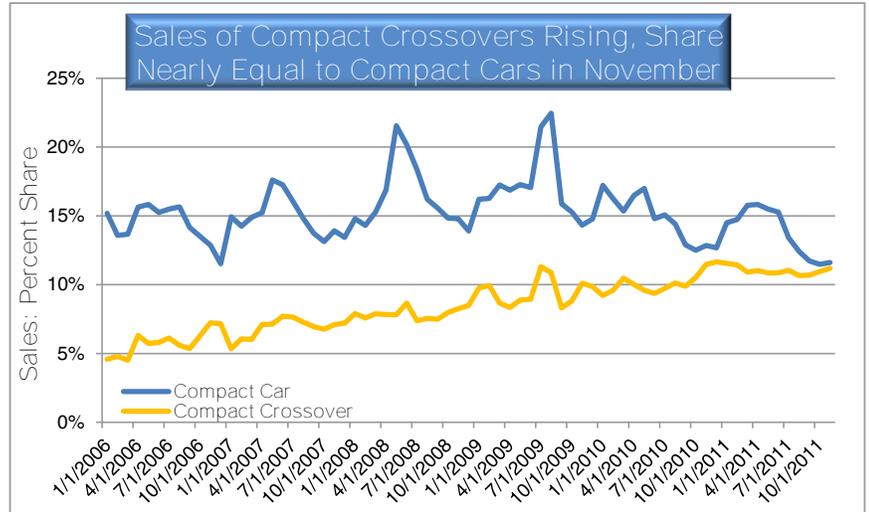
Make	Model	Trim	Auction Value	Vs. \$14,000 Segment Avg.
Ford	Escape	XLT Sport Utility 4D	\$14,675	\$675
Jeep	Compass	Sport SUV 4D	\$12,325	(\$1,675)
Chevrolet	Equinox	LT Sport Utility 4D	\$13,725	(\$275)
Suzuki	Grand Vitara	Sport Utility 4D	\$12,050	(\$1,950)
Kia	Sorento	EX Sport Utility 4D	\$14,725	\$725

Note: All values reflect a MY2008 vehicle w/60,000 miles

Average: (\$500)

Compact Cars and Crossovers Expected to Top Dealer Holiday Shopping Lists as Share Increases and Quality Improves

Compact cars and crossovers will remain a safe bet for dealers in the coming months with values expected to be relatively stable through year-end. With the economy still on shaky ground overall, fuel economy and affordability will remain top priorities for consumers in 2012, so demand for vehicles in these segments will remain strong. Compact cars currently account for nearly 15 percent of all used and new vehicles sold, while compact crossovers make up approximately 7 percent of all used registrations and 10 percent of all new-vehicle registrations. During the past several years these segments have become increasingly competitive as quality improved across the board and a slew of new introductions hit the market. Compact crossover share of new-vehicle sales has been growing, increasing from only 5 percent of all new vehicles sold in early 2006 to more than 10 percent of the current market share. As these segments continue to grow, dealers need to keep a healthy selection of these vehicles on their lots.



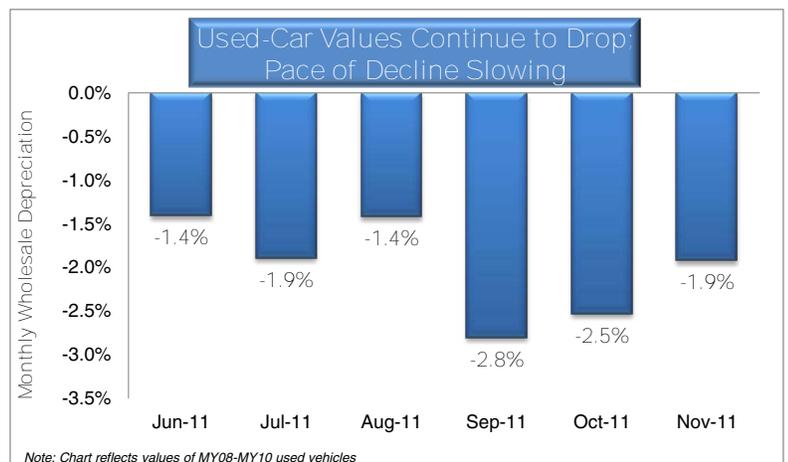
Dealers Should Buy Now to Remain Competitive

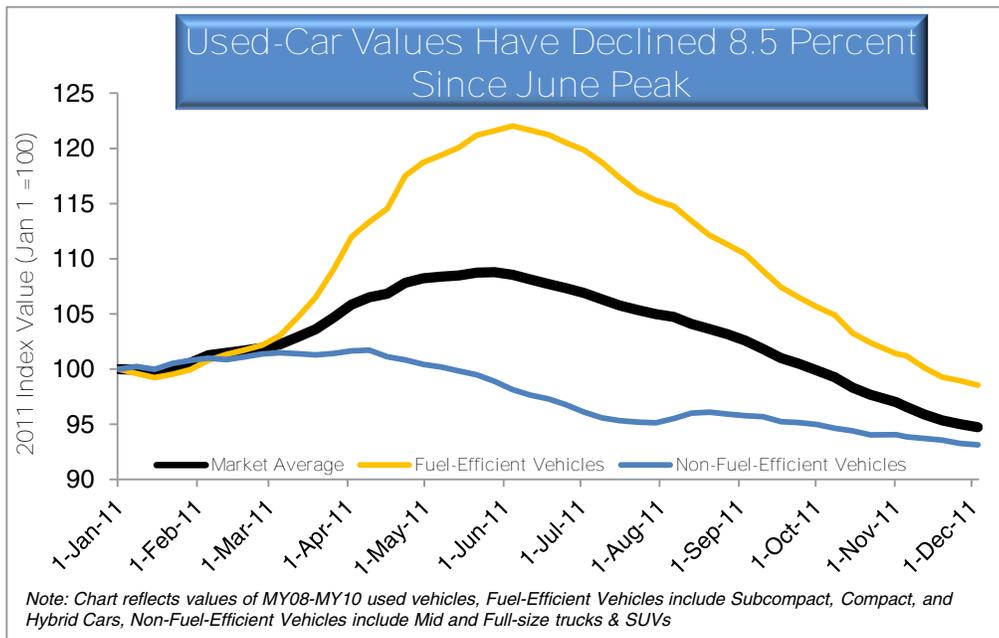
Used-car values dropped 1.9 percent in November bringing total depreciation since the market's June peak to 11.5 percent. Although values have fallen since June, the pace of depreciation is subsiding and Kelley Blue Book expects only moderate drops in December before values stabilize in January. With market data revealing what analysts expected, we still believe values will increase 3 to 4 percent through the first quarter of 2012 as stated in last month's report.

Dealers looking to stay ahead of the competition may want to take advantage of the buying opportunities during today's seasonal low in auction values. Dealers that hold off on replenishing inventory until February likely will face increased competition at auction as the market heats up.

While now may be a great time to buy, dealers are encouraged to focus their resources on finding the right vehicles at auction since supply is projected to remain tight through 2012. Dealers should look to creative means to source their inventory in the coming year and those that are comfortable buying online will likely maintain a

competitive advantage over those dealers that focus solely on sourcing inventory from physical auctions. In addition to online auctions, dealers should check out Kelley Blue Book's newly implemented 50 state regional values. By leveraging Kelley Blue Book's regional values along with online auctions to identify out of market buying opportunities, dealers can better control their profits in what is sure to be another challenging year.





Despite Recent Free-Fall, Compacts Remain Top Performers Year-to-Date

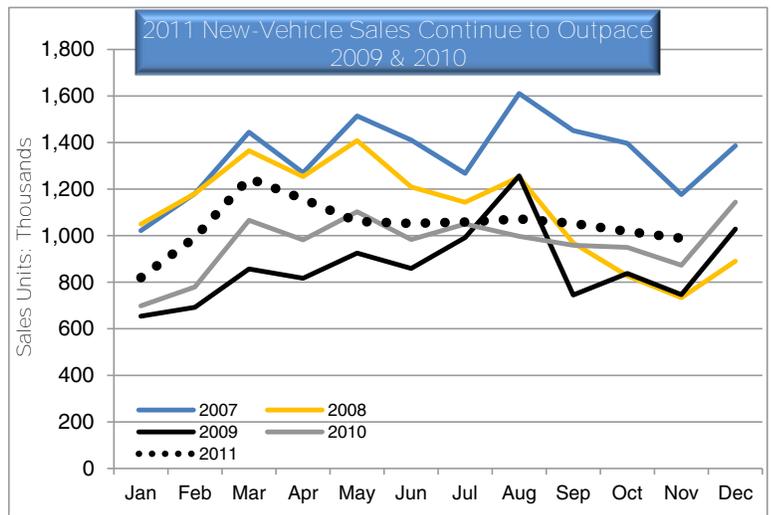
Values have dropped 6 percent on average since January, while subcompact and compact cars remain up 1 to 2 percent. Values of compact and subcompact cars increased more than 20 percent during 2011, finally peaking in June after fuel prices moved away from \$4.00 per gallon highs. Since their June peak, values have declined nearly 17 percent (\$2,000), negating most of the appreciation that occurred during the first half of 2011. In November alone values declined an additional 2.5 percent, which exhibits a tapering in decline. Expectations are for more mild declines in December. Although Kelley Blue Book has spent the last several months covering the decline in values of fuel-efficient vehicles from their June peak, they have significantly outperformed the overall average depreciation experienced in the market since the start of the year.



Hot December Sales Could Push Kelley Blue Book SAAR Prediction to 12.7M Units

November proved to be another strong month for new-vehicle sales and December will likely keep the momentum going. We are on pace to sell in excess of 12.5 million vehicles this year. If December sales outpace November as they have since 2007, sales for the year may hit as high as 12.7 million units overall. The only wild card that could disrupt the industry's momentum continues to be inventory shortages that still challenge Japanese manufacturers, most notably Toyota and Honda. The floods in Thailand have once again tested the resolve of the two Japanese heavy weights, but all communications coming from executives at Toyota and Honda indicate that production will be at 100 percent capacity as of December 1. Although production should be up and running soon, the lack of vehicles in the U.S. is what matters most in terms of December sales. In fact, the

inventory shortages plaguing the market today may limit the seasonal bump in December sales that has become commonplace since 2007. Sales have increased substantially from November to December in each of the preceding four years, yet inventory was not an issue during those periods, so Kelley Blue Book does not expect as pronounced an increase in overall sales this year.

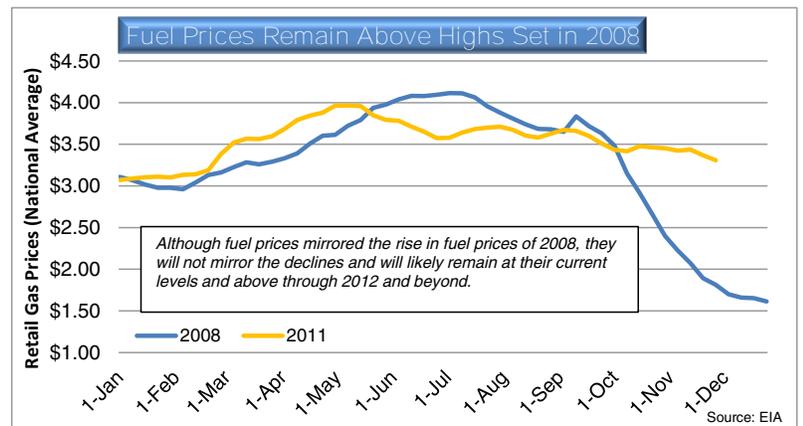
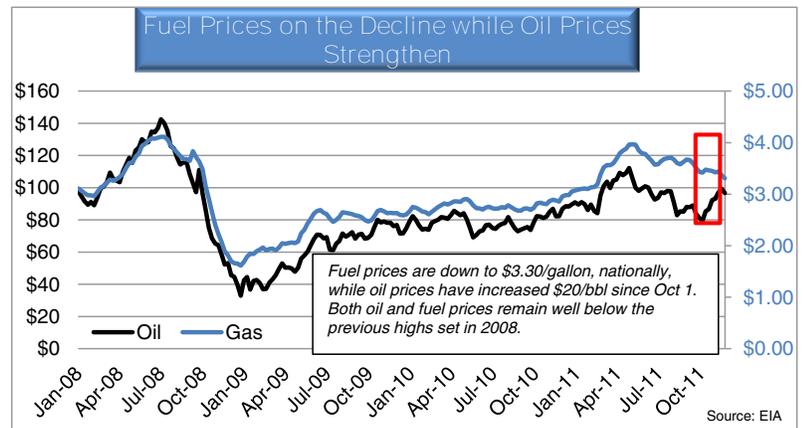


Don't Expect Gas Price Declines to Continue

Gas prices have continued to drop since May and currently reside at \$3.30 per gallon nationwide, and while they are certainly cheaper than earlier this year, fuel prices are still up \$0.45 per gallon year-over-year. Although gas prices may be dropping, don't expect the same dramatic decline that occurred in 2008, when fuel prices dropped to \$1.60 per gallon by year-end. By early December 2008, fuel prices were below \$2.00 per gallon; a mark we have not begun to approach. Gas prices are expected to remain elevated moving forward and according to the Energy Information Administration (EIA), will likely surpass \$3.50 per gallon during the 2012 summer driving season. Current forecasts do not indicate that fuel prices will approach \$4.00 per gallon in the near future even though per-barrel oil prices have remained stubbornly high.

With pump prices tied more to economic factors than oil prices, we have seen crude prices strengthen on news of improved unemployment figures and the announcement by six central banks, led by the Federal Reserve, to make cheaper dollars available to European banks. Although both seemingly positive events, they may only provide short-term relief to financial markets. Additionally, the unemployment rate declined to 8.6 percent and 120,000 jobs were added to the economy last month, yet more than 315,000 people were no longer considered unemployed as they stopped looking for work. The European debt crisis also could continue to pose problems for investors in the United States, despite the Federal Reserve's recent pledge of support, as unemployment and the European debt crisis are far from over, meaning U.S. financial markets may be headed for a correction. If financial

markets cool off, oil prices could dip below \$100 per barrel, although likely not by a significant margin.



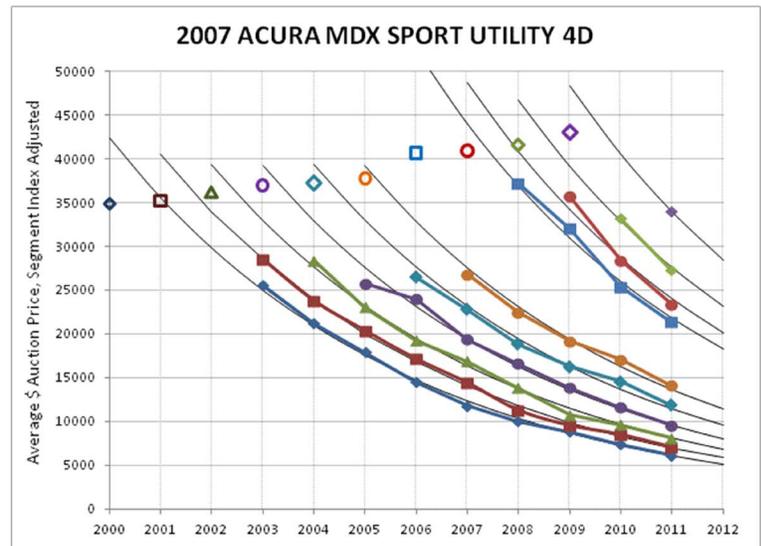
This commentary focuses on model years 2008-2010. The statements set forth in this publication are the opinions of the authors and are subject to change without notice. This publication has been prepared for informational purposes only. Kelley Blue Book assumes no responsibility for errors or omissions.

Vehicle Redesigns and their Impact on Residual Values

One of the most dramatic ways in which a vehicle can increase its residual value is when it receives a well designed and well marketed redesign. Recent examples of redesigns that have accomplished just that include the 2010 Buick LaCrosse and 2011 Hyundai Elantra, each increasing their residual value by more than 10 percentage points. The challenge is that redesigns can be especially difficult to forecast. Unlike new model debuts, historical data exists for redesigned vehicles. However, the amount of residual value improvement each redesign achieves has been historically determined through an overly subjective process. In the pursuit of added analytic rigor, Kelley Blue Book embarked on a study of how a redesign can impact a vehicle's residual value.

To perform this analysis, 25 redesigns were selected and data from the past 10 model years were utilized. The amount of improvement observed from each redesign varied over a significant range. However, the depreciation rates were not consistent as the economy and market impacted used-car values differently at various points in time. To a large extent, these two effects can be statistically removed to allow for a more accurate comparison from one model year to another. This step is critical when analyzing the impact of events that happen at different points in time and across different segments. After the financial crisis in 2008, a resurgence occurred in the used-car market that can best be described as a 'rising tide that lifts all ships.' Without this adjustment, a casual observer could conclude that a redesign was successful when in fact it may not have been.

When statistical normalizing is applied to the data, the results can be seen graphically as shown below for the Acura MDX. The characteristic decay in value over time can be seen for each model year. From this perspective, the effect of the redesign is evident by the sizable gap between the 2006 and 2007 model years, which was a +33.5 percent increase when expressed in dollars. This is quite significant when compared to the previous five years, which saw an average year-over-year change of -1.5 percent in its value.



One other point to note is the price change associated with the redesign. With the generation of MDX that ended in 2006, there was minimal price appreciation, averaging only 1.6 percent per year. With the 2007 redesign, the price was raised nearly 8 percent from its prior MSRP. For this vehicle, this represents a fairly large increase and is usually a bad omen for residual values.

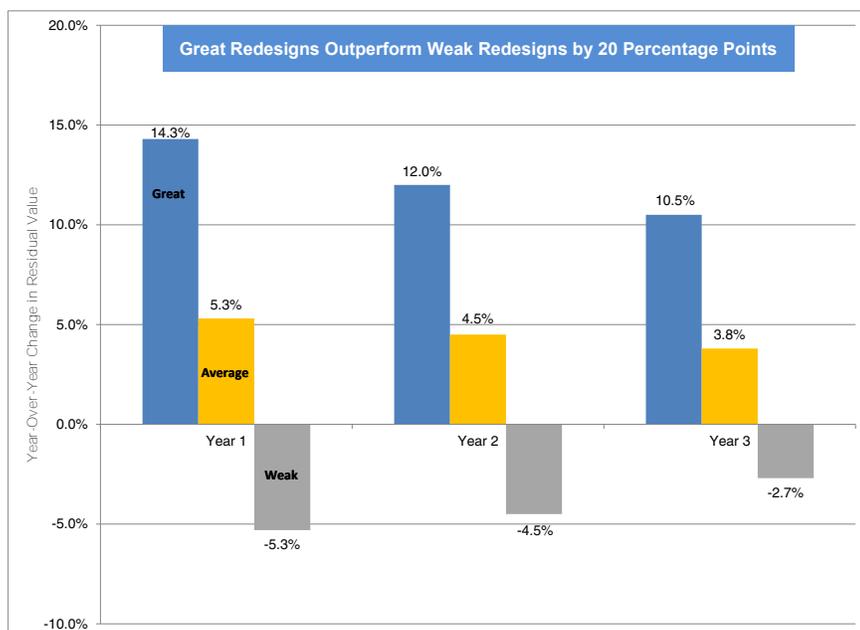
However, the 2007 MDX is a textbook case of a great redesign. Residual values expressed as a percent of MSRP increased by 17.5 percent in the first year, then by 14.7 percent in the second year, followed by 12.3 percent in the third year. For the MDX, the value associated with the 2007 redesign vastly outweighed the increase in price.

This analysis was repeated for all 25 vehicles in the study. Tabulation of the results showed that eight vehicles, including the MDX, fell into the category that was labeled 'Great' as they achieved the greatest year-over-year improvement following the redesign. Ten fell into the 'Average' category, where significant improvements were observed, but only slightly more than one-third of what was achieved in the 'Great' category. Finally, there were seven vehicles that returned disappointing results; in fact, dropping in value compared to the model year preceding the redesign. This category was branded as 'Weak.' Note that without the adjustment for the segment and the economy, even redesigns labeled 'Weak' saw actual positive changes in residual value, an effect of the overall rising trend in used-car prices.

One other finding to note is that ‘Great’ redesigns have a lasting impact. While the year-over-year improvement in value was more than 14 percent in the first year, it was still 12 percent in year two and more than 10 percent in year three. The year one difference between a ‘Great’ redesign and a ‘Weak’ redesign is obvious – it is nearly 20 percent of MSRP. However, the difference in the third year also is substantial at more than 13 percent.

These results beg the question of why some redesigns perform so well while others flop. To understand the causal factors, the MDX example was re-examined. The increase in price was noted, which turned out to be slightly more than \$2,900 on a list price of nearly \$38,000. The second item noted was the new engine offered in the redesign, which put out an additional 47 horsepower. Finally, in an area that can be more subjective, the judgement of styling on the redesign was determined to be ‘Good,’ as the new version received a heftier stance and a more contemporary look.

A review of price change, horsepower increases and styling was performed on all models in the study. The results of this analysis are shown in the summary below. While ‘Great’ redesigns often were accompanied by no price increase, ‘Weak’ redesigns averaged increases of nearly 10 percent. This is even more remarkable when other attributes are reviewed. Both ‘Great’ and ‘Average’ redesigns included an average increase of at least 20 horsepower, but ‘Weak’ redesigns offered significantly less. Finally, there was a slight difference between ‘Great’ and ‘Average’ redesigns in the area of styling, but again, ‘Weak’ redesigns tended to be less remarkable.



The findings from this study reiterate the importance of getting the redesign right. The difference between the average ‘Great’ redesign and the average ‘Weak’ redesign is nearly 20 percentage points. More specifically, the following three actions were noted to be associated with ‘Great’ redesigns:

- Price Increases: On average, ‘Great’ redesigns tend to have no price increase.
- Horsepower: On average, ‘Great’ redesigns came with engines that delivered at least 20 additional horsepower.
- Styling Changes: While obvious, ‘Great’ redesigns resulted in an attractive vehicle with a styling change that was deemed ‘Good’ or better.

Kelley Blue Book will continue its study of redesigns as it is such a critical element of residual values. The cursory analysis presented here was not intended to represent a comprehensive analysis of the subject. Rather, its purpose is to inform the reader on the magnitude of the impact certain elements can have on residual values. Other factors can play major roles in influencing residual values and Kelley Blue Book will continue to explore these relationships.

2012 RESIDUAL VALUE ANALYSIS



Toyota Reclaims Top Spot for Best Retained Value; Compact SUVs Rise as Hybrids Fall in Residual Rankings

Kelley Blue Book www.kbb.com, the leading provider of vehicle values and forecasts, recently announced the availability of its 2012 Residual Analysis Report. Kelley Blue Book's Best Resale Value Awards are based on projections from the *Kelley Blue Book's Official Residual Value Guide*, determined by a skilled staff of automotive analysts.

The brand in which the entire lineup of 2012 model-year vehicles is expected to retain the greatest amount of its original value after five years is Toyota. The luxury brand with the same claim is Toyota's more refined sibling, Lexus. Both brands regain the titles they claimed from Kelley Blue Book back in 2010. Across its fleet, Toyota improved its 60-month average residual value by 2 percentage points compared to its 2011 average, allowing the company to best last year's winner Subaru and a few others, claiming this year's Best Resale Value: Brand award.

"Despite Toyota's success in the 2012 residual rankings, the company lost market share in the U.S. due to its supply shortage following the earthquake and tsunami in March 2011. The challenge for Toyota next year will be to regain this share without depressing its residual values," said Eric Ibara, director of residual consulting, Kelley Blue Book. "A number of actions that could quickly increase sales and market share also could jeopardize its residual value crown, including over incentivizing and increasing daily rental volume. Clearly, Toyota's actions through the next year will be pivotal in shaping its future direction."

Based on vehicle sales and overall economic factors, Kelley Blue Book's 60-month residual values for 2012 model-year vehicles are forecasted to average 35.5 percent of their original MSRP after five years of ownership, up just 1.5 percentage points from last year. The year-over-year increase is not limited to overall values, but holds true to the majority of vehicle segments as well. The 60-month residual value increased by 0.9 percentage points for the light-car segment and 3.0 percentage points for the truck segment. With the exception of vans and hybrid utilities, the average segment residual value for all truck segments, including SUVs and full-size trucks are projected to be higher than the average

residual value in every car segment, except for high-performance cars. The truck segment is projected to maintain 38.0 percent of its value after 60 months, while the car segment is expected to maintain just 34.0 percent. Only two segments, the near-luxury segment and the sports-car segment, declined on a year-over-year basis.

Gas prices and catastrophic natural disasters played a significant role in new-vehicle sales and strong swings in vehicle segment preference throughout the year. Other key factors affecting the future values of 2012 model-year vehicles include unemployment, a stagnant housing forecast and some of the lowest consumer confidence numbers seen in decades. The unemployment rate remains at 9 percent heading into 2012 with forecasts of 8.7 percent for at least the next year. Those that are out of work are finding it more difficult to find jobs, with an average 41 weeks unemployed. Kelley Blue Book expects unemployment will be a factor in any sort of long-term new-vehicle sales recovery as consumers that are out of work typically have more limited means for a new-vehicle purchase.

Kelley Blue Book projects that 2011 will close with 12.5 million vehicles sold, a one million-unit increase from 2010. A similar increase is projected for 2012. As the Japanese get back into full production in the new year, Kelley Blue Book expects a pickup in sales activity as consumers waiting on the sidelines get back into the game. With an expectation for some increased consumer spending, Kelley Blue Book is forecasting 13.5 million in vehicle sales for 2012.

Kelley Blue Book's Full 2012 Residual Analysis Report Includes:

- The 2011 Models with the Best Resale Value
- Best Residual Value Brands 2012 vs. 2011
- Best Residual Value Vehicles
- Forecast for residuals in the compact, subcompact and fuel-efficient vehicle segments
- Residual forecasts for hybrid and electric vehicles
- Analysis of domestic brand residual values
- Analysis of Korean brand residual values

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.

About Kelley Blue Book® Residual Values

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.

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>.

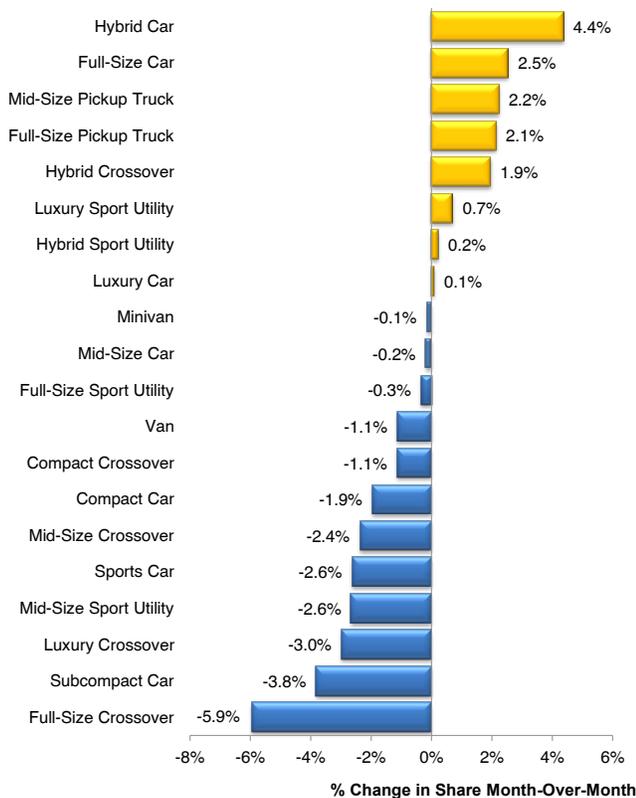
Kbb.com Shoppers Gravitate Toward Full-Size and Hybrid Cars, Pickup Trucks

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

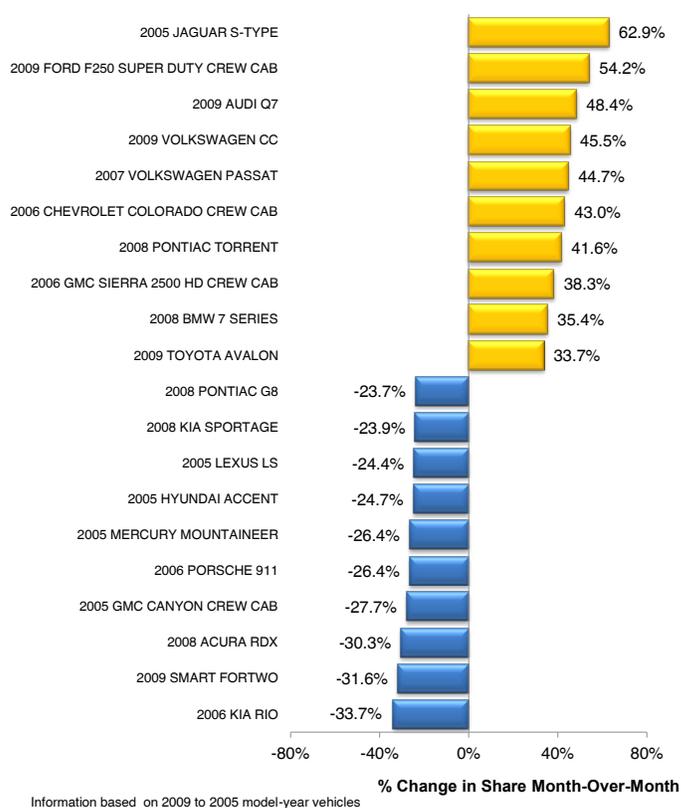
Kelley Blue Book's Hot Used-Car Report captures monthly used-car shopper activity on kbb.com, including a list of the top and bottom movers in the same time period. Results are provided by the Kelley Blue Book Market Intelligence Team, in an effort to help dealers better understand which used vehicles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

With the holiday season in full effect, kbb.com shoppers are gravitating toward full-size cars and pickup trucks. Highlighting this shift into pickup trucks is the 2009 Ford F-250 Super Duty, which increased 54.2 percent month-over-month. Full-size cars also jumped 2.2 percent from the previous month. However, the segment with the greatest change in share is hybrid cars with a 4.4 percent increase month-over-month. This segment had nowhere else to go but up, as it made a dramatic fall last month in traffic and now appears to be climbing back onto consumers' radar. Since these increases are minimal, dealers shouldn't search out additional inventory from these segments. However, existing inventory on dealership lots could gain increased interest from used-car shoppers.

Monthly Used-Car Shopping Activity Growth Segments



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



About Kelley Blue Book (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, 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](#), [sedan](#), [hybrids](#), [electric cars](#), and [SUVs](#). Kelley Blue Book Co. Inc. is a wholly owned subsidiary of AutoTrader.com.