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In This Issue:

Kelley Blue Book Public Relations Contacts:

Robyn Eagles | Director, Public Relations
949.268.3049 | reckard@kbb.com

Joanna Pinkham | Senior Public Relations Mgr
949.268.3079 | jpinkham@kbb.com

Brenna Robinson | Public Relations Mgr
949.267.4781 | berobinson@kbb.com

Rebekah King | Consumer Communications Mgr
949.267.4982 | rking@kbb.com

MARKET ANALYSIS:

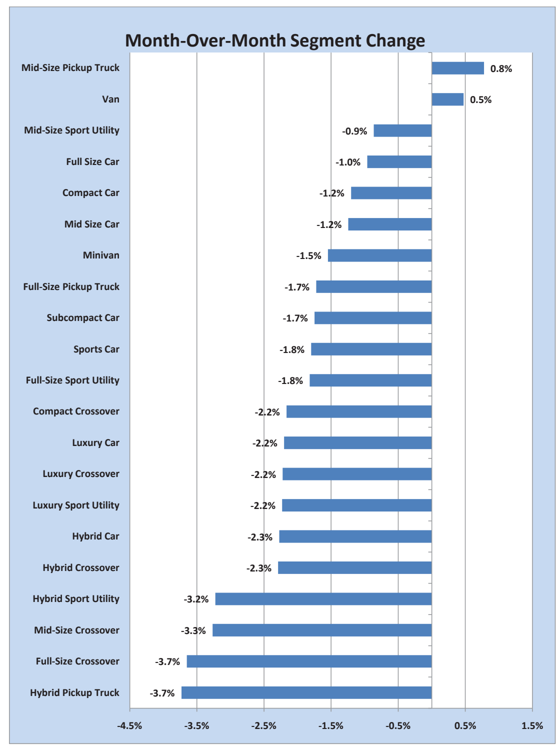
MARKET SOFTENS; AUCTION VOLUMES CAUSE AGGRESSIVE DROPS

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

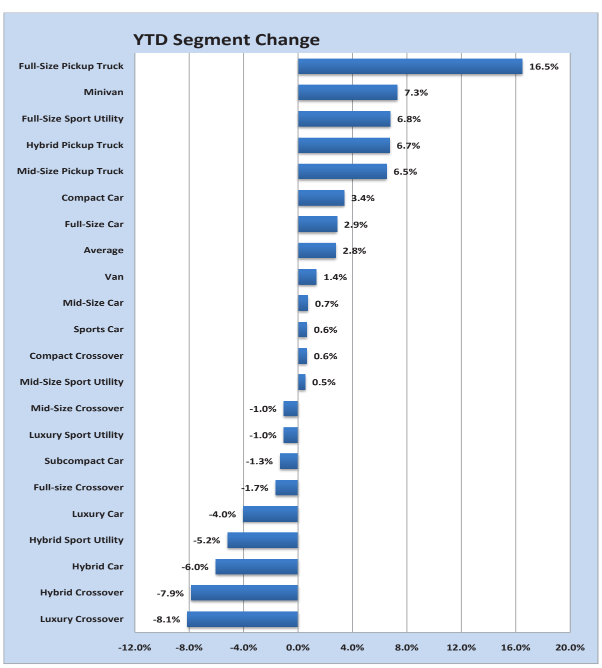
It is business as usual with gas prices, unemployment rates and credit availability, all of which have been fairly consistent during the past several months. However, as Fall creeps in slowly and we enter the fourth quarter, there is a 1.5 percent drop in the overall market reported for September 2010. The month also showed that nearly every segment has softened, even given current stable market conditions. These drops are mostly seasonal with increased auction volumes influencing some of the more significant drops. Current demand has been unable to offset the increased auction volumes that have resulted as vehicles leased in 2006 and 2007 return to the market. This primarily affects luxury vehicles since these vehicles are predominantly sold through leasing programs.

Leading in segment drops for the month are mid-size and full-size crossovers, falling 3.3 and 3.7 percent, respectively. As manufacturers continue to add more vehicles to the crossover segment, the potential for future weakness increases. The most hard-hitting drops come from vehicles that are a bit 'long in tooth:' Lincoln MKX (set for a refresh for model-year 2011) is down 8.5 percent, followed by Mazda's CX-7 (slightly updated for model-year 2010) which fell 7.8 percent, and Buick's Rendezvous (old; no longer in production) with a 5.4 percent drop.

Hybrid cars also dropped 2.3 percent, along with luxury SUVs and cars at 2.2 percent.



HYBRID, LUXURY SEGMENTS CONSIDERABLY UNDERPERFORM MARKET YEAR-TO-DATE



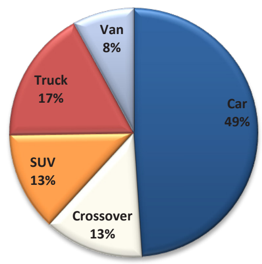
Luxury and hybrid vehicles have not fared well this year. On a year-to-date basis, hybrid and luxury segments have underperformed the market by a considerable margin. While values for these segments are up 2.75 percent from this time last year, we are seeing significant year-to-date declines. Specifically, luxury crossovers have plunged 8.1 percent, followed by hybrid crossovers (-7.9 percent), hybrid cars (-6.0 percent), and luxury cars (-4.0 percent). In a soft economy, the premium for these vehicles is difficult to justify as consumers seek ways to cut back financially. Additionally, gas prices do not support a consumer's need for a hybrid at current levels. An unusually swelled supply of luxury vehicles due to aggressive leasing back in 2006 and 2007 also has contributed to their depreciation.

While luxury crossover and hybrid segments continue to falter, trucks, minivans and full-size SUVs have been the top performers year-to-date. Full-size trucks are up 16.5 percent, followed by minivans at 7.3 percent, full-size SUVs up 6.8 percent and mid-size trucks at 6.5 percent. These segments are still recovering from an extremely soft 2009 market. Low inventories also are keeping values strong due to a lack of new sales and leases. Minimal leasing of trucks and SUVs also could indicate that low inventories of these vehicles will remain a concern for years to come, making these vehicles best bets for dealers.

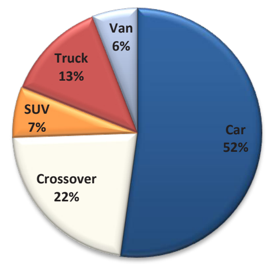
COMPETITION IN THE CROSSOVER SEGMENT EXPECTED TO GROW

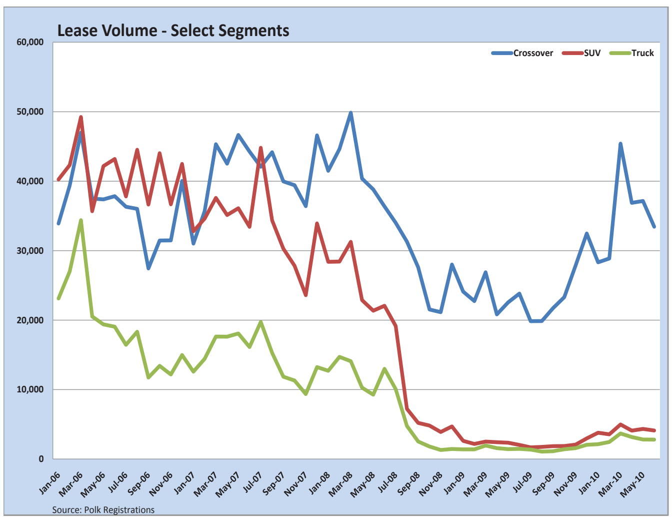
There has been strong support for crossover leasing by OEMs, which is a reflection of the shift in consumer demand toward these vehicles. Crossovers are increasingly prevalent in the marketplace. As a result, availability of used crossovers during the next several years will be high. Since 2006, crossovers have gained more market share than any other segment. Cars and crossovers combined now account for 75 percent of overall market share, compared to 62 percent in 2006, which was prior to peak gas prices and the current recession.

2006 Share of New Sales



2010 Share of New Sales

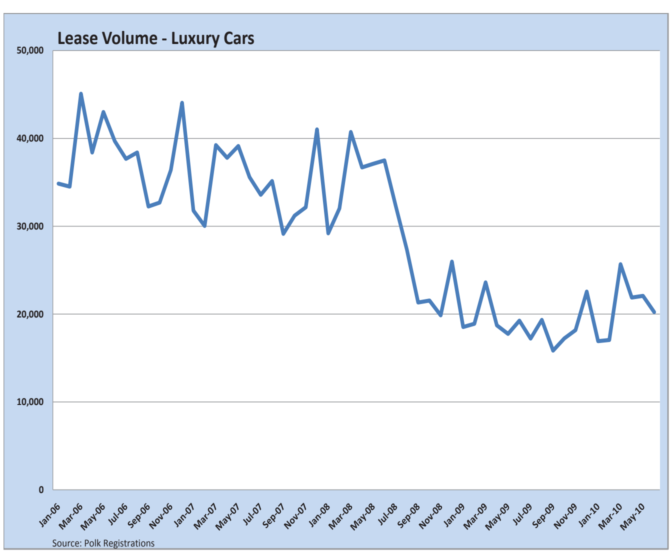




Competition will be high in the crossover segment as more manufacturers convert existing truck=based SUVs to unibody crossovers. For example, the Ford Explorer will move from a SUV to a crossover for model-year 2012, and Dodge's Durango will do the same. The truck-based SUV will continue to decline in popularity as fuel economy and handling remain top priorities for consumers. Dealers would be wise to keep inventories of used crossovers up.

Leasing patterns since 2008 are a prime example of the industry's move away from truck-based SUVs and trucks toward unibody crossovers. While leasing activity for trucks and SUVs dropped aggressively and has remained low following the onset of the recession in 2008, leasing activity for crossovers has been on the rebound after leveling off in early 2009. Moving forward, Kelley Blue Book expects continued lease support for crossovers while lease deals for trucks and SUVs will remain few and far between.

MERCEDES-BENZ, ACURA, LAND ROVER AND LEXUS UNDERPERFORM MARKET



As a result of car shoppers making budget conscious decision in the current economy, Mercedes-Benz, Acura, Land Rover and Lexus have underperformed the market on a year-to-date basis. Luxury brands are not performing well in the used-car marketplace. The demand for these vehicles today is not sufficient enough to absorb the significant lease volumes coming back into the marketplace.

As an example, Mercedes-Benz' R-Class is down 21 percent year-to-date, followed by the Acura MDX and Lexus GS (both fell 13 percent year-to-date) and Range Rover dropping 11 percent year-to-date. Luxury vehicles could remain soft through the rest of the yearand into 2011, until leases returning to auction more closely match with current demand. Most leases are returning for two- to three-year-old vehicles, so we currently are seeing leases from 2006 to 2008 model-years hitting the marketplace. If current demand remains consistent, it could be well into 2011 before lease returns match up with current market demand.

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.

SPORTS CARS, LUXURY VEHICLES DRIVING SHOPPER INTEREST; HYBRID SHARE DECLINES

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.

The 2009 BMW 5 Series increased its share of used-car retail shopper activity by 46.9 percent in a month's span, the most of any used vehicle on kbb.com. Increased interest in the 5 Series is primarily driven by the state of California, which accounts for 17.4 percent of traffic share to this vehicle. In terms of segment shopper activity, it appears that luxury vehicles are up; however, interest in hybrids have cooled. All hybrid segments are down with the hybrid pickup segment experiencing the greatest decline in share, down 28 percent month-over-month. This isn't abnormal given that the used hybrid market is still small and subject to volatility due to limited inventories. Kelley Blue Book recommends that dealerships focus on sports cars and luxury vehicles as interest rises.