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BLUE BOOK Market Report

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In This Issue:

MARKET ANALYSIS

Kelley Blue Book Raises Sales Forecast to 14.2 Million Units on Improved Economic Conditions, Strong Q1 Sales

Inventory Levels Improving, Yet Challenges Remain for Toyota and Honda

Rising Used-Car Values Aid New-Vehicle Sales

More...

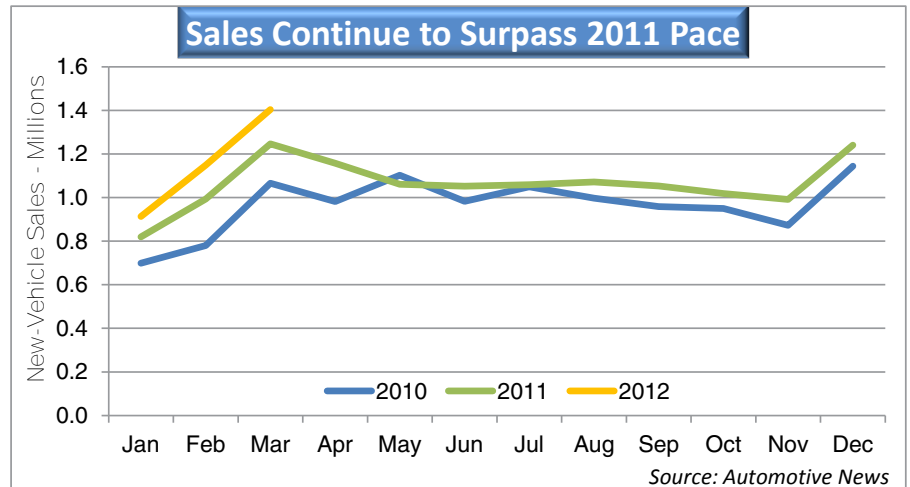
LATEST HOT USED-CAR REPORT
Fun Cars and Fuel Sippers

MARKET ANALYSIS:

Kelley Blue Book Raises Sales Forecast to 14.2 Million Units on Improved Economic Conditions, Strong Q1 Sales

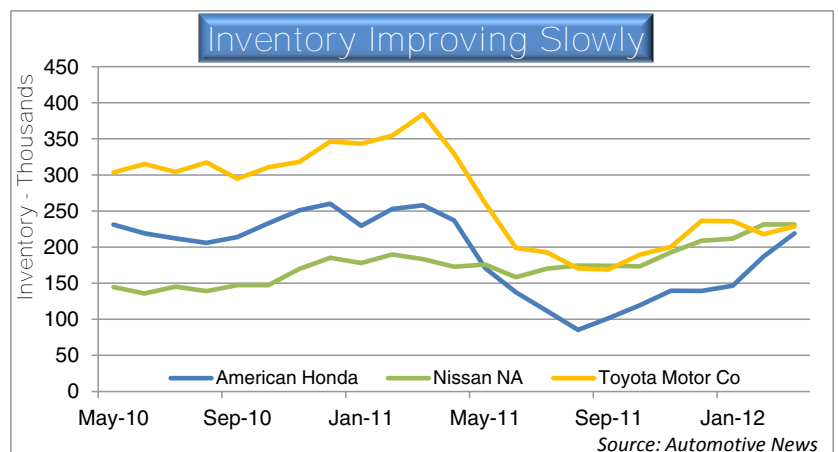
- Alec Gutierrez, senior market analyst, automotive insights, Kelley Blue Book

Kelley Blue Book raised its annual sales forecast for 2012 from 13.5 million units to a range between 14 and 14.2 million units after a strong Q1 and an improving economic outlook. March sales reached 14.4 million seasonally adjusted annual rate (SAAR), a step back from the 15 million SAAR in February, yet well above the 14.1 million SAAR recorded in January. More than 1.4 million vehicles were sold last month as consumers who delayed their purchases late last year found an improved selection of vehicles and attractive finance and lease opportunities. The robust sales growth during Q1 can be attributed to a host of factors, including improved inventory levels, an optimistic economic outlook, rising fuel prices, record-high used-car values, significantly improved redesigns in a majority of high-volume segments, and low auto loan and lease interest rates. March tends to be one of the strongest selling months of the year due to warm weather conditions around the country, increased demand due to tax returns and significantly more selling days than in February or April. Kelley Blue Book believes that sales will likely cool in the months ahead, but we should maintain a sales pace in the high 13- to low 14-million unit range through the rest of 2012 if economic conditions continue to improve at their current pace.



Inventory Levels Improving, Yet Challenges Remain for Toyota and Honda

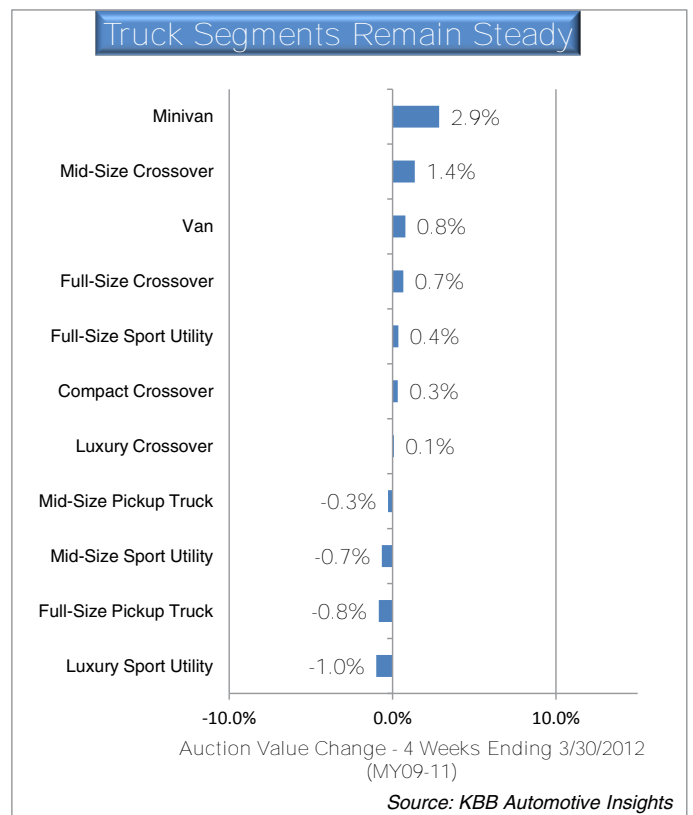
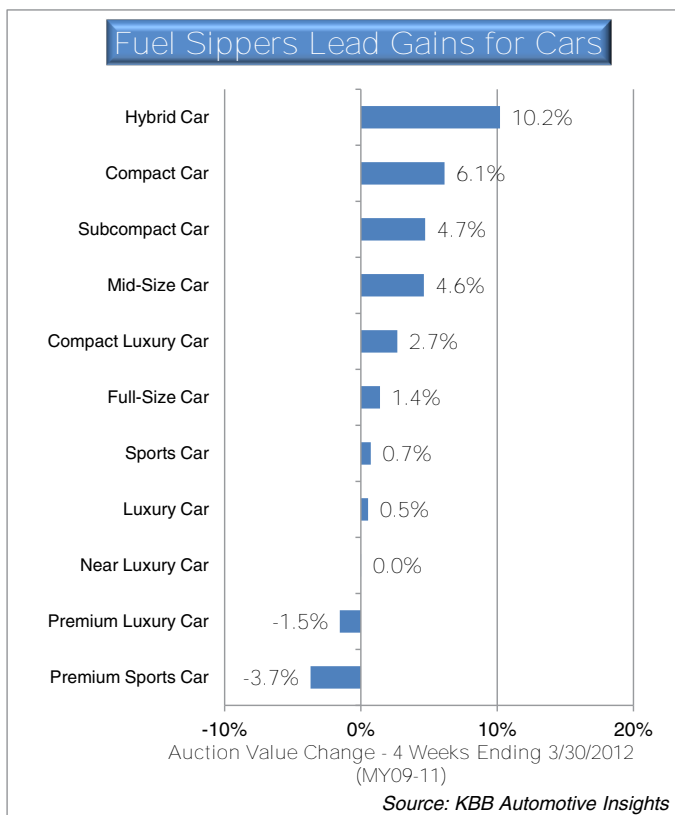
Through most of 2011, consumers faced a limited selection of vehicles at dealerships as a result of the earthquake in Japan. According to Kelley Blue Book's Q4 Consumer Sentiment study, 29 percent of respondents complained about a small selection of vehicles, while 28 percent of respondents reported that they were unable to find the specific vehicle they wanted. Those consumers who were unable to find a vehicle in 2011 have had better luck in 2012 due to improved inventory levels. Pent-up demand may continue to bolster sales growth in the months ahead since both Toyota and Honda have continued to maintain inventory well below their pre-earthquake levels. As of March 1 of this year, Japanese manufacturers had a 46 days supply of vehicles available for sale, considerably less than the 61 days supply available on March 1, 2011, just prior to the earthquake. Even considering their supply challenges, Toyota's Q1 sales totals are 10.9 percent higher than Q1 2011, while Honda improved 3.8 percent through the same period.



Rising Used-Car Values Aid New-Vehicle Sales

After a sluggish start to the year, gains in used-car values have accelerated in recent weeks. Values at auctions across the country increased nearly 2 percent in March, primarily led by strong gains in values of fuel-efficient vehicles, which have been in high demand from rising gas prices. Seasonal influences also played a role in the market's strength. As previously mentioned, March traditionally is one of the strongest months of the year for both new- and used-car sales and this year was no exception. Strong sales coupled with a limited supply of used vehicles at auction only put further upward pressure on values. Rising used-car values likely have played a role in supporting the increase in new-vehicle sales in recent months, especially sales of fuel-efficient vehicles.

Many one- and two-year-old used fuel-efficient vehicles are so expensive today that a comparable new vehicle may only be marginally more expensive. Consumers have more options than ever before when it comes to fuel-efficient offerings, and many of these vehicles can be leased for less than \$200 per month and a small down payment. Dealers must keep this in mind as they continue to pay more and more for used compacts at auction. As values rise, dealers will find it difficult to pass along the premium paid at auction to consumers. Dealers should be especially wary of overpaying on fuel-efficient vehicles in the months ahead. With so many new and redesigned subcompact and compact offerings available today, consumers will have little reason to pay close to sticker for a one- or two-year-old used vehicle.

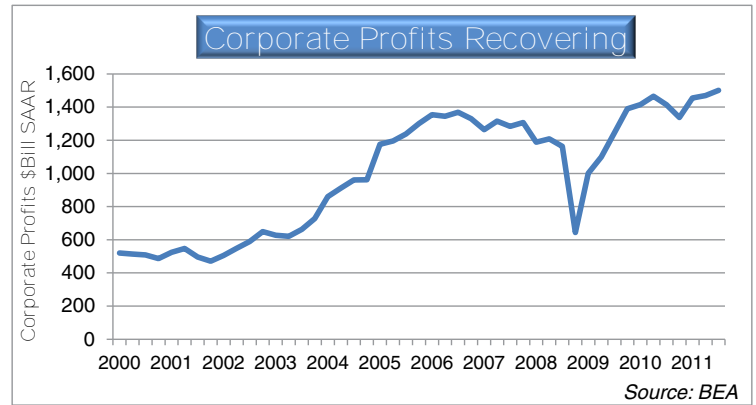
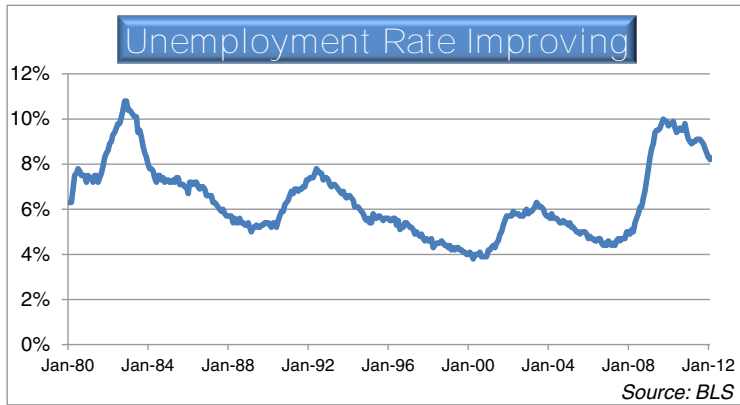


Economic Conditions Improving

After several years of stagnant economic growth, there finally is reason for a bit of optimism in future prospects. Although there still is a long way to go, many major economic indicators appear to be trending in the right direction. Of particular interest are improvements in unemployment, which declined from 9 percent in September to 8.2 percent in March. Applications for weekly unemployment benefits fell to a seasonally adjusted 357,000 for the week-ending March 31, 2012, which is the lowest level in four years. Further unemployment declines will be supported by strong corporate profits. Corporate profits have been strong during the past several quarters and most companies have been hoarding cash rather than seeking additional revenue streams through investment. At some point, corporations will once again seek new investment opportunities, while hopefully creating jobs along the way. The expectation is that this will pull the economy into a virtuous cycle, whereby newly created jobs stimulate economic growth which will create even more jobs. As it stands today, there are still five million fewer people employed than there were in 2008.

Unemployment reductions have been crucial to the country's economic recovery, but perhaps more promising has been the rebound in consumer confidence during the past several months. Consumer confidence has maintained a reading of 70 or above for the past three months, the strongest consistent reading since prior to the recession and well above the low of 45 hit in August 2011 after the U.S. debt rating was downgraded. Most economists seem to agree that a reading of 100 or more is required before the economy experiences sustainable long-term growth, but at least the index is going in the right direction.

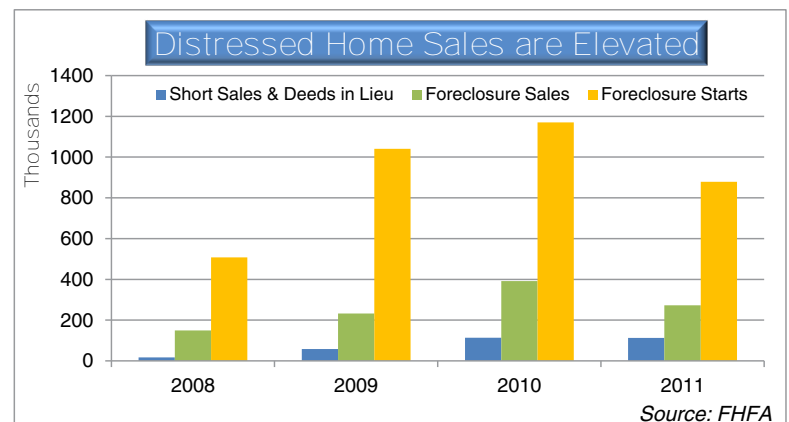
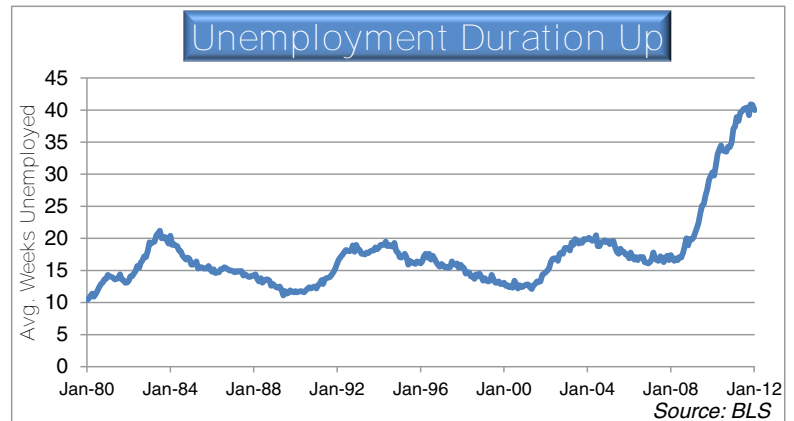
Significant gains in financial markets also are contributing to the rebound in confidence. Although Kelley Blue Book does not believe the Dow Jones Industrial Average is a strong indicator of economic strength, it does believe that the Dow at least plays a psychological role in the mindset of most consumers. As consumers see the value of their investment and retirement portfolios rise, they are more likely to commit to purchasing big-ticket items such as cars. Along with unemployment, Kelley Blue Book has found consumer confidence to be one of the most highly correlated variables influencing new-vehicle sales, and if the index is able to maintain its momentum, Kelley Blue Book expects to see new-vehicle sales recover.



Downside Risks Remain

Although there is plenty to be optimistic about, there remain significant risks that pose a threat to our fledgling recovery. Fuel prices should be a major concern to anyone following the economy today. At \$3.90 per gallon nationally, the country is only \$0.20 per gallon shy of the high point established in 2008. Fuel prices are the highest they have ever been at this time of year and if they maintain their current levels, there could be additional increases to transportation and production costs for nearly all goods in the economy. Although it hasn't happened yet, if fuel prices continue to rise at their current pace, consumers may curtail spending. This could halt economic recovery and significantly slow the pace of auto sales recovery. Kelley Blue Book believes that fuel prices will likely peak sometime in early Summer before dropping to nearly \$3.50 per gallon by year-end. Of course, this is assuming that there isn't a major supply disruption of crude oil from the Middle East due to conflict with Iran.

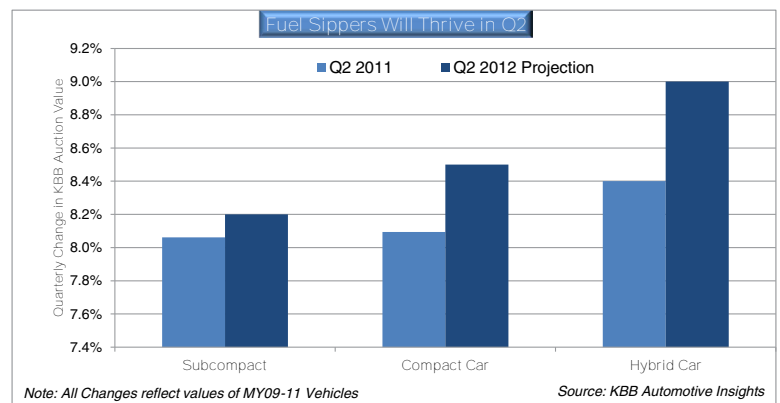
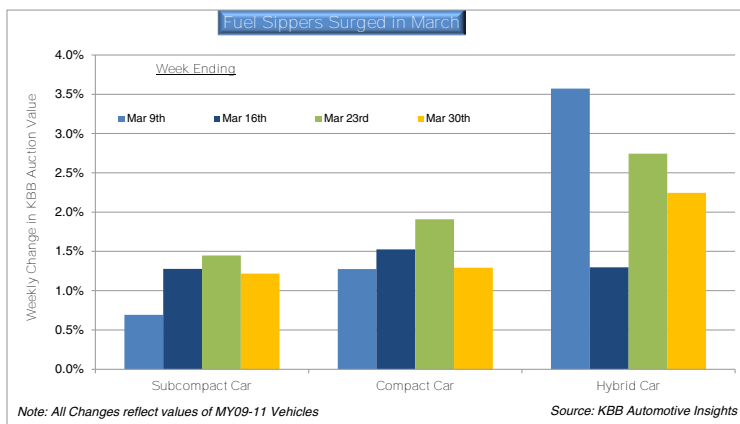
Housing remains a drag on confidence overall since there are still millions of homeowners who are underwater and facing foreclosure. Although values have been relatively stable, we likely will see things degrade further before a long-term sustainable recovery can begin. There likely will be a few more waves of foreclosures before housing prices finally hit bottom sometime in 2014 or 2015, and there likely will be further, albeit mild, price declines until then. While there are potential risks that could stall economic growth, it does appear as though things are heading in the right direction. Investors are finally getting back into the market now that home values are low enough in many areas to justify an investor purchase, since rents are strong enough to cover the majority, if not all, expenses related to owning and maintaining a property. This is a positive signal that things in the housing market are finally starting to recover.



Used Fuel Sippers Surge; Dealers Need to Remain Cautious

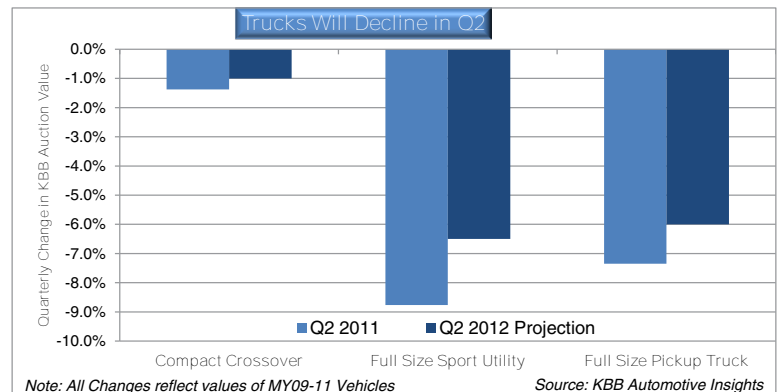
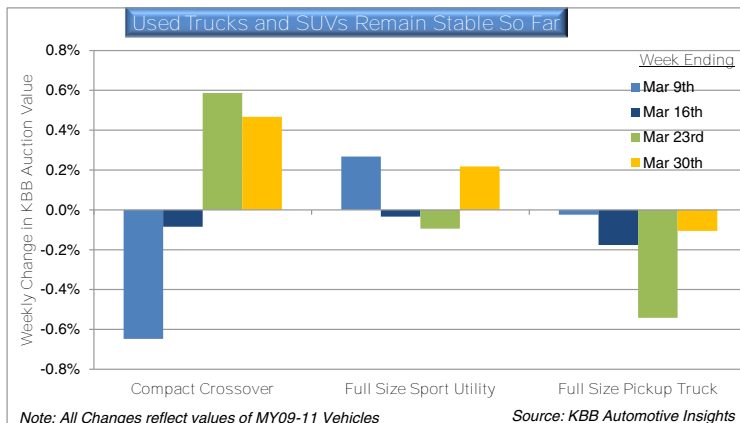
Values of subcompact, compact and hybrid cars increased 6 to 10 percent last month due to increased demand from consumers for fuel-efficient vehicles. The 2010 Toyota Prius was especially strong, increasing more than 14 percent in just a few short weeks. Dealers have been aggressively bidding on any and all fuel-efficient vehicles at auction to try and keep pace with increasing demand. Rising fuel prices will continue to keep values of fuel-efficient vehicles firm for at least the next 30 to 60 days, so dealers should expect values to continue to rise. Kelley Blue Book currently projects values of fuel-efficient vehicles to increase an additional 8 to 10 percent in Q2, similar to last year when rising fuel prices also were a concern.

Although Kelley Blue Book expects values to continue to surge in the short term, dealers need to employ a conservative acquisition strategy since the current strength in fuel-efficient vehicle values is unsustainable in the long run. Throughout the year, used-car values tend to fluctuate seasonally with fuel prices. Values typically rise early in February before peaking in Summer, and then settling in for a soft landing by the end of the year. When fuel prices spike beyond their seasonal normal, similar to 2008, 2011 and this year, then used-car values swing much more violently. This allows dealers who successfully time the market to earn significant returns on their investment and conversely, it forces dealers who purchase at or near the peak to suffer inordinate losses. In a normal year, purchasing during the peak season may amount to a 3 to 5 percent loss on any inventory that does not sell within 30 to 60 days. In a volatile year like this has proven to be so far, dealers may face losses of 15 percent or more for any inventory purchased at the height of the market.



Trucks Decline Slightly, Will Only Drop Moderately in the Months Ahead

It is only logical to expect that as fuel prices rise, demand and subsequently values for fuel-thirsty trucks and SUVs will decline. While this is true to some extent, the declines in values of the least-fuel-efficient vehicles on the road have been relatively minor thus far. In March, full-size trucks and SUVs declined nearly 0.5 percent, a miniscule drop considering the current price of fuel. Although demand may be soft for these vehicles overall, consumer shifts in preference since 2008 have reduced the population of excess trucks and SUVs considerably, leading to far more stable values. Kelley Blue Book expects values to remain stable for these vehicles moving forward, so dealers may find an opportunity to get a great deal on a truck or SUV. Kelley Blue Book expects only mild declines in values in Q2, so depending on local market conditions, a truck or SUV purchase at auction should remain a relatively low-risk proposition.



New Redesigns and Leases Drive Mid-Size Sales in March

Sales of mid-size cars were up more than 25 percent year-over-year, driven primarily by the all-new Toyota Camry and the soon-to-be-released redesigned Nissan Altima. The Camry sold more than 40,000 units overall, which is the most since the Cash for Clunkers program in August 2008. The Camry has been very well-received since its introduction earlier this year due to Toyota's solid reputation for quality and durability, along with a class-leading 35 mpg 4-cylinder engine. While a solid redesign has helped to accelerate Camry sales, the Altima has surged due to aggressive lease incentives and cash rebates. The Altima has performed well due to lease specials starting under \$200 per month as well as nearly \$2,000 in cash rebates for those not interested in a lease. Nissan is working hard to move as many existing Altima models as possible since the all-new redesign, which just was introduced at the New York International Auto Show, is expected to hit dealerships soon. Kelley Blue Book expects sales to continue to grow in this segment as the recently redesigned Camry, Passat and Sonata are joined later this year by the updated Altima, Fusion and Accord.

Camry Leads Mid-Size Segment

	Sales in March		
	2011	2012	YoY
Toyota Camry	31,464	42,567	35.3%
Nissan Altima	32,289	41,050	27.1%
Ford Fusion	27,566	28,562	3.6%
Honda Accord	33,616	26,771	-20.4%
Chevrolet Malibu	15,551	23,887	53.6%
Hyundai Sonata	22,894	23,281	1.7%
Kia Optima	6,891	15,008	117.8%
Chrysler 200	6,750	14,914	120.9%
Subaru Outback	10,498	10,886	3.7%
Volkswagen Passat	38	10,032	26300.0%
Dodge Avenger	5,954	9,362	57.2%
Mazda6	4,135	7,855	90.0%
Subaru Legacy	4,450	5,384	21.0%
Mitsubishi Galant	1,715	2,753	60.5%
Regal	3,643	2,609	-28.4%
Suzuki Kizashi	703	558	-20.6%
Total	209,755	265,479	26.6%

Note: Totals may include vehicles not shown

Source: Automotive News

Subcompacts Surge as Compacts Tread Water Year-Over-Year

In a month where mid-size and subcompact cars increased sales by more than 20 percent, compact cars were held to a more conservative 3 percent gain year-over-year. Sales in the segment typically surge as fuel prices approach \$4.00 per gallon, but this year sales have been relatively flat. Compacts have been squeezed by more affordable and efficient subcompacts on the low end, and by larger, more spacious and comparably efficient mid-size sedans on the high end. Subcompacts always have been far more affordable than compact sedans, but they have had the reputation of being cheap vehicles with a lack of amenities. The Honda Fit, Toyota Yaris and Nissan Versa already have gone a long way in changing the perception of the segment by offering close to 40 mpg on the highway and all of the creature comforts a consumer could ask for; and, all for less than \$20,000. The new Sonic, Fiesta and Accent are equally compelling and have helped to increase market share for the segment considerably. Subcompacts accounted for more than 5 percent of all vehicles sold last month, a significant improvement from the 2 to 3 percent share maintained by the segment in 2007 and 2008. From a volume perspective, subcompact car sales were up 22 percent year-over-year.

Compacts Increase Modestly in March

	Sales in March		
	2011	2012	YoY
Ford Focus	17,178	28,293	64.7%
Toyota Corolla	30,234	28,289	-6.4%
Honda Civic	31,213	28,199	-9.7%
Chevrolet Cruze	18,018	21,607	19.9%
Hyundai Elantra	19,255	19,681	2.2%
Volkswagen Jetta	16,969	14,966	-11.8%
Nissan Sentra	17,851	14,092	-21.1%
Kia Soul	10,028	13,607	35.7%
Mazda3	12,467	13,235	6.2%
Subaru Impreza	4,091	9,742	138.1%
Kia Forte	7,533	8,381	11.3%
Scion tC	2,481	2,275	-8.3%
Dodge Caliber	3,750	2,242	-40.2%
Scion xB	1,970	2,054	4.3%
Volkswagen Beetle	500	1,969	293.8%
Mitsubishi Lancer	1,946	1,698	-12.7%
Suzuki SX4	1,070	1,368	27.9%
Total	206,537	211,698	2.5%

Note: Totals may include vehicles not shown

Source: Automotive News

Subcompacts Jump Due to Rising Fuel Prices

	Sales in March		
	2011	2012	YoY
Nissan Versa	11,075	15,587	40.7%
Hyundai Accent	5,739	8,337	45.3%
Chevrolet Sonic	-	8,251	-
Ford Fiesta	9,787	6,502	-33.6%
Honda Fit	6,955	4,559	-34.5%
Kia Rio	2,070	4,509	117.8%
Mini Cooper	4,358	4,287	-1.6%
Fiat 500	500	3,712	642.4%
Volkswagen Rabbit	3,106	3,633	17.0%
Toyota Yaris	2,825	3,547	25.6%
Mazda2	2,500	1,533	-38.7%
Scion iQ	-	1,285	-
Scion xD	1,089	1,080	-0.8%
Smart ForTwo	425	999	135.1%
Nissan Cube	3,035	929	-69.4%
Total	56,815	68,750	21.0%

Note: Totals may include vehicles not shown

Source: Automotive News

This commentary focuses on model years 2009-2011. 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.

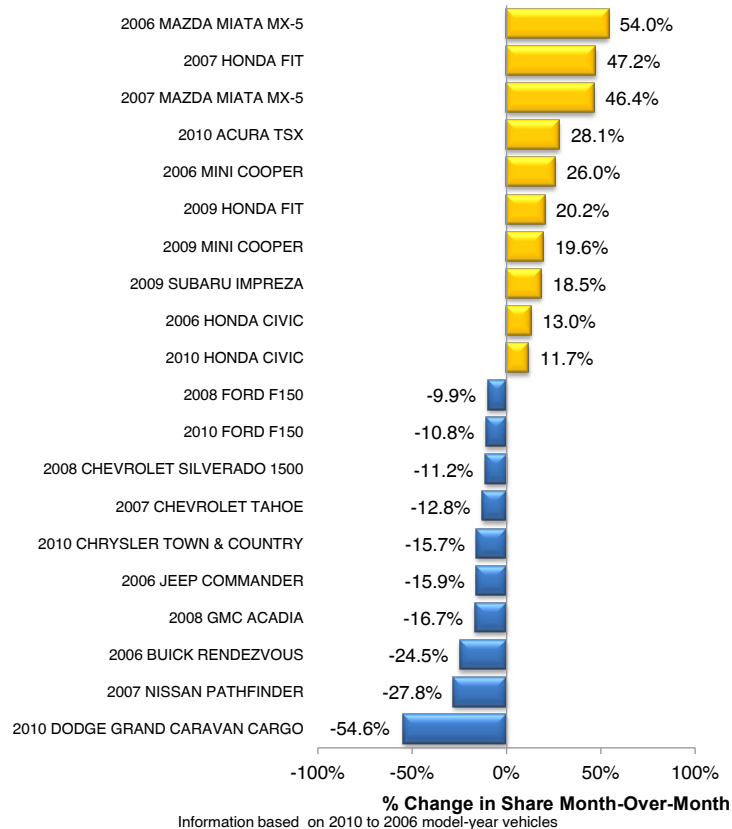
Fun Cars and Fuel Sippers

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

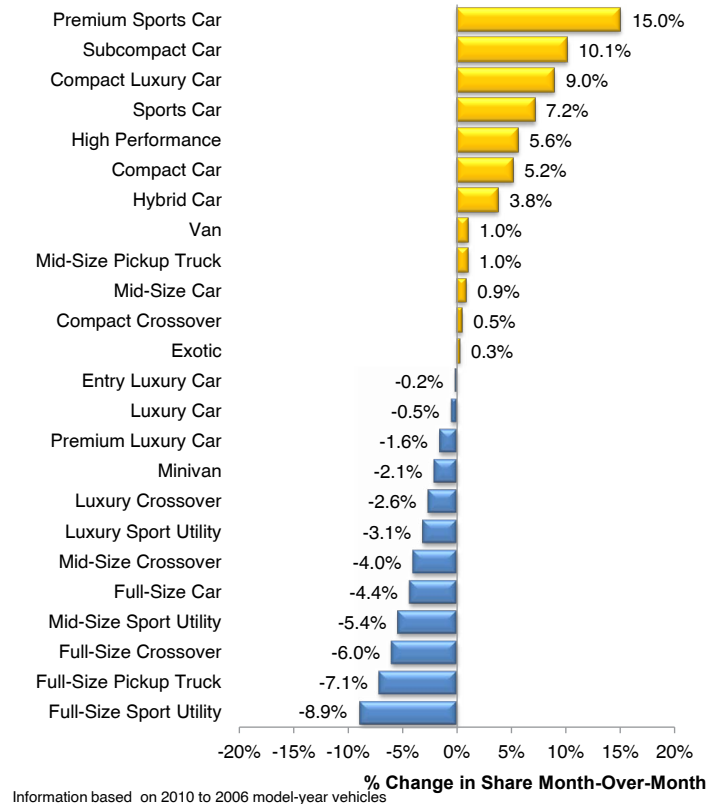
Kelley Blue Book's Hot Used-Car Report captures monthly used-car shopper activity on kbb.com, including a list of the top and bottom movers in the same time period. Results are provided by the Kelley Blue Book Market Intelligence Team, in an effort to help dealers better understand which used vehicles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

Due to this year's warm winter and a spike in gas prices, used-car shopper activity for sports cars and fuel-efficient vehicles is rapidly rising as we enter Spring. The segment with the largest lift month-over-month is premium sports car, which consists of Porsche 911, BMW M3 and other high-end models. All models in this segment experienced a modest lift, as none are among the top 10 risers for used retail models. The subcompact car segment also drew more interest in March, fueled by Honda Fit, particularly research on the 2007 and 2009 model years. However, the model with the greatest increase is the 2006 Mazda Miata MX-5. The Miata is a perfect blend of attributes for the current wants and needs of today's buyer. It provides a fun and sporty ride while not penalizing the consumer at the pump.

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



Monthly Used-Car Shopping Activity Growth Segments



About Kelley Blue Book (www.kbb.com)

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