



www.kbb.com

BLUE BOOK Market Report

MARCH 2012

Analysis from Kelley Blue Book's Analytic Insights Team

Annual Subscription Value: \$500

Kelley Blue Book Public Relations Contacts:

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

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

Natalie Kumaratne | Public Relations Coordinator
949.267.4770 | nkumaratne@kbb.com

In This Issue:

MARKET ANALYSIS

February Sales Surpass 15 Million SAAR, Momentum to Slow in March

Consumers Seek More Fuel-Efficient Vehicles in February

More...

LATEST HOT USED-CAR REPORT

"When the Price at the Pumps is at Play, Customers Will Stray"

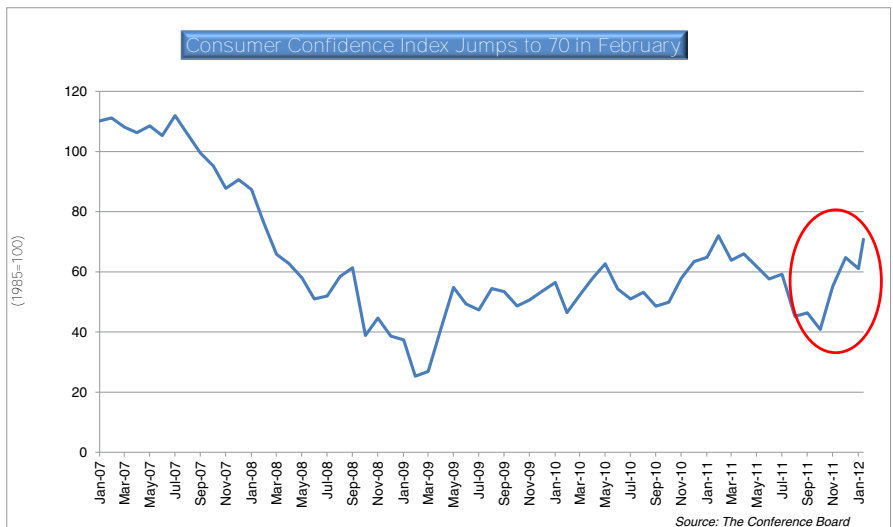
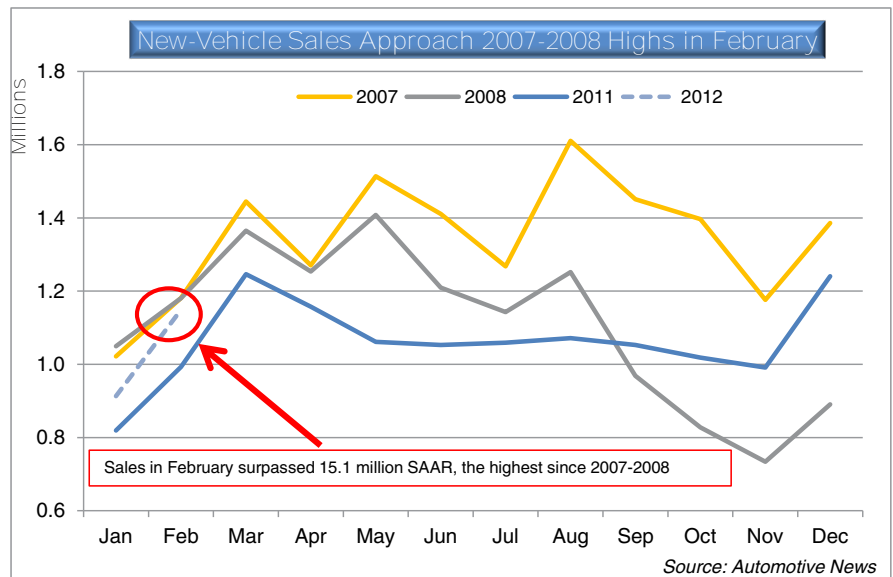
MARKET ANALYSIS:

February Sales Surpass 15 Million SAAR, Momentum to Slow in March

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

Sales in February surged to heights not seen since 2007 and 2008, and surpassed even the most optimistic industry forecasts. Sales topped 15 million SAAR in February, well in excess of the 14.2 million SAAR in January 2012 and 13.3 million SAAR of February 2011. In the months ahead, Kelley Blue Book believes sales will continue to beat levels from a year ago; however, it is unlikely that sales will approach 15 million SAAR. Preliminary estimates for March currently place sales between 13.5 and 14.2 million SAAR; however, Kelley Blue Book will not finalize its forecast until later this month as more data becomes available. In order to generate 15 million SAAR in March, the industry will need to post sales approaching 1.5 million units, a monthly figure not seen since prior to the recession. This would equate to an 18 percent increase year-over-year, an improvement that is possible, but not likely.

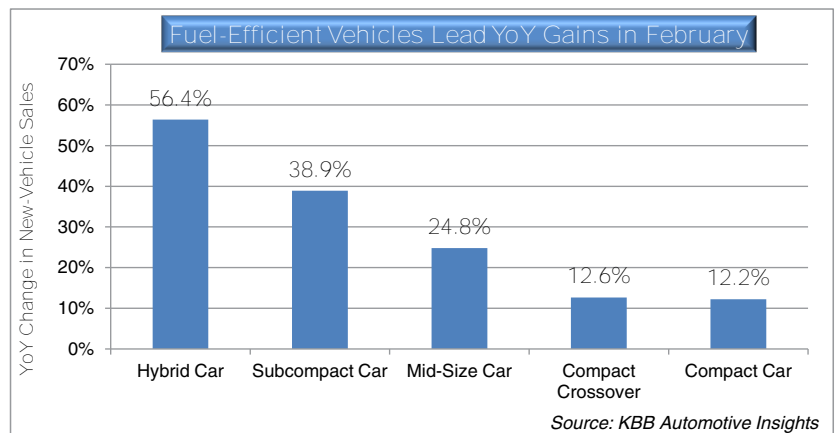
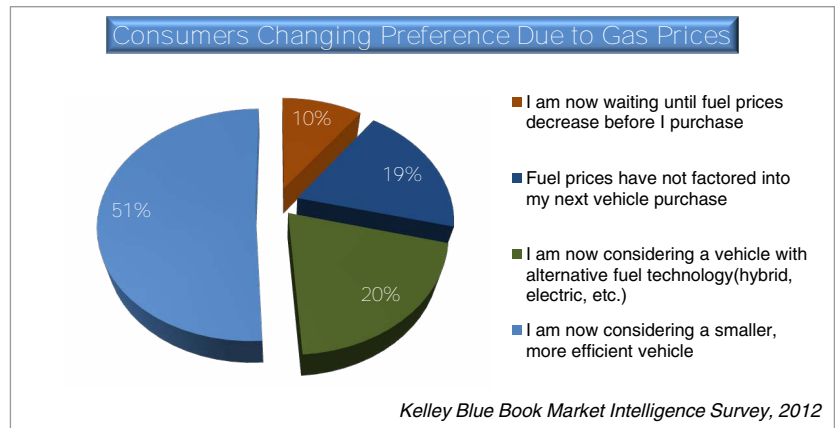
There are a few factors that helped aid the strong pace that carried through the month of February. For starters, the leap year provided one additional selling day that made a significant difference versus sales last year. Weather also played an important role in February, as this winter has been uncharacteristically mild in most of the country. Mild weather likely had a strong effect on sales in states such as New York, Illinois and Pennsylvania, which all are among the top 10 selling states in the nation. Inventory levels were significantly improved in February, up nearly 4 percent year-over-year and more than 20 percent for domestic manufacturers, providing consumers with greater selection than in prior months. Rising fuel prices also may have driven consumers to buy sooner, in order to get a fuel-efficient vehicle ahead of the rush expected in the coming months. Finally, demand has been bolstered by strong consumer confidence that can be tied to the strength in financial markets. The Dow Jones Industrial Average reached more than 13,000 for the first time since 2008, helping drive consumer confidence beyond a 70 reading for the first time since February 2008. Of all the factors driving sales in the month of February, rising fuel prices will be the most important to watch in the months ahead due to its potential to derail the current economic recovery and thereby, auto sales in the process.



Consumers Seek More Fuel-Efficient Vehicles in February

During the past several weeks, fuel prices reached more than \$3.70 per gallon nationally and as high as \$4.30 per gallon in California. As the likelihood of \$4.00 per gallon gas before summer increases every day, consumers are making it clear that fuel efficiency will be a high priority in their purchase decisions in the months ahead. According to a recent survey on kbb.com, Kelley Blue Book Market Intelligence found that 51 percent of in-market consumers are now considering smaller, more fuel-efficient vehicles. In addition, 20 percent indicated that they are now considering an alternative-fuel-technology vehicle such as a hybrid, electric or diesel-powered vehicle.

This shift in consumer preference already has had a significant impact on sales. Last month, year-over-year sales gains of fuel-efficient vehicles led the industry overall as consumers sought gas-sipping vehicles to counteract rising fuel prices. Sales of fuel-sipping hybrids and subcompacts surged 56 and 39 percent, respectively, on strong consumer demand. Inventory remains more than adequate to meet demand so consumers should still be able to negotiate a fair price with a dealer for most models. As fuel prices continue to rise, we may see pricing become less favorable as demand increases, so risk-averse consumers should buy now while dealer inventories remain plentiful.

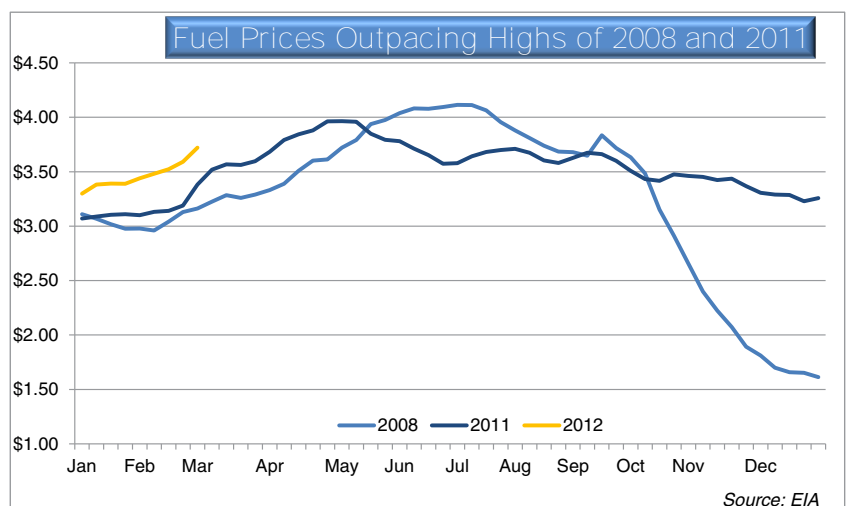


Oil Price Volatility Poses Significant Risk to Auto Industry

As oil prices continue to climb it seems more and more likely that we will surpass the \$4.11 per gallon record that we saw in the summer of 2008. A spike in fuel prices of this magnitude could have significant repercussions for both the auto industry and consumers, driving up prices at a time when the average household is least able to afford it. If oil prices crest \$4.00 per gallon for a sustained period of time we run the risk of the economy slipping back into recession, an outcome that would be devastating to the current auto sales recovery. This is all dependent on the outcome of the current tension with Iran and the likelihood of a potential war impacting the supply of oil flowing out of the Middle East. We believe that oil prices are not sustainable at their current levels based solely on supply and demand fundamentals, so if the oil coming out of the Middle East continues to flow without interruption beyond summer, expect a correction to occur.

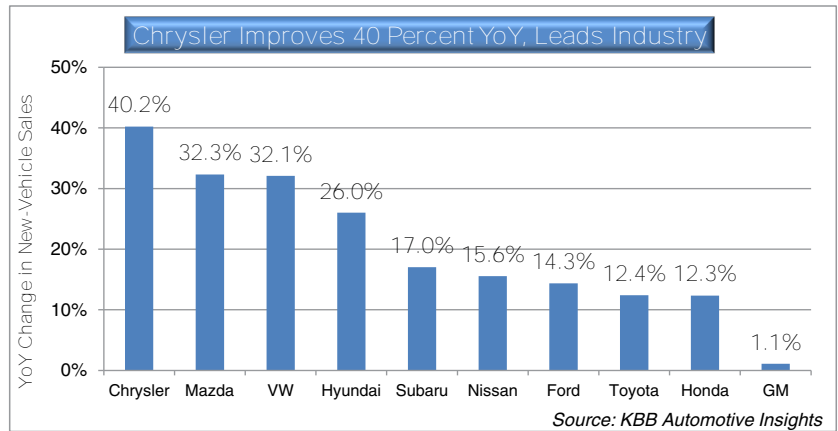
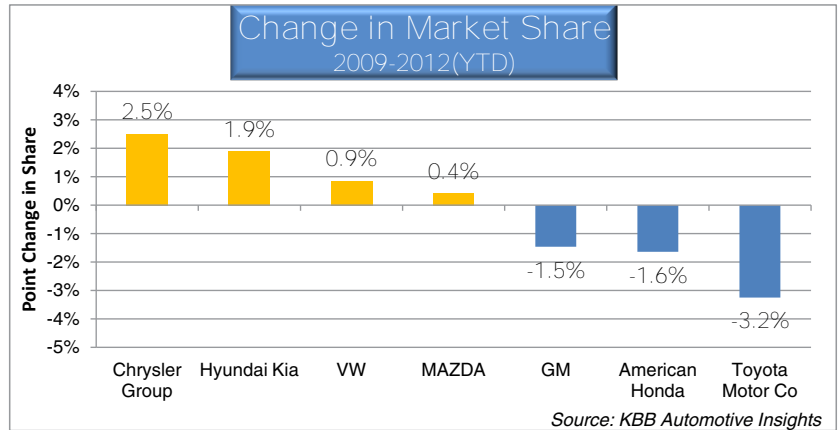
Even if \$4.00 per gallon gas becomes the new norm, consumers are much better prepared to deal with elevated prices than ever before. Since we have seen prices approach \$4.00 per gallon in three out of the last five years, many consumers either already have purchased a more fuel-efficient vehicle or have altered their driving habits where possible. In addition, nearly every new vehicle sold today is significantly

more fuel-efficient than the vehicles produced just a few years ago, so consumers looking to purchase a vehicle to save on gas have significantly more options to choose from. With fuel prices continuing to climb, consumers should be prepared to face higher prices for new and used vehicles in the months ahead. Prices will remain strong during the next few months, so shoppers should weigh the benefits of purchasing a more fuel-efficient vehicle at a premium versus stomaching higher fuel prices and adjusting their budget in other ways in the short term.



Chrysler, Mazda, Volkswagen and Hyundai Lead Sales Gains; Continue to Fight for Share

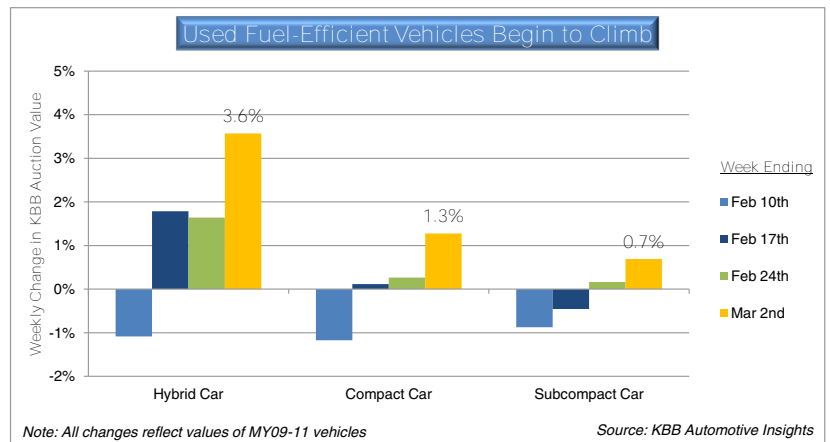
Chrysler, Mazda, Volkswagen and Hyundai posted solid sales gains versus last year, each far surpassing the industry average increase of 16 percent. Each of these brands relied on solid redesigns, new introductions and fuel-efficient vehicles to post one of the strongest monthly performances since 2008. All four of these brands have increased their share steadily since sales bottomed out in 2009, while traditional heavyweights General Motors, Toyota and Honda have given up market share. We can attribute the growth of Hyundai, Volkswagen and Mazda to the shift in consumer preference away from trucks and SUVs toward more fuel-efficient compacts and crossovers. These brands have historically refrained from producing fuel-thirsty trucks and SUVs, and now they are positioned to gain share as consumers continue to shift their preferences. Chrysler's resurgence is better explained by the significant improvements in its redesigns introduced during the past 12 months relative to the stale product portfolio they had available for sale in 2009. We expect these brands to continue to post solid sales gains in 2012, while slowly continuing to steadily increase their market share.



Used Compacts on the Rise, Could Repeat 20 Percent Gains of 2011

Values of used fuel-efficient compacts increased a modest 0.4 percent in February; however, values picked up significant momentum during the last weeks of the month. In just the last week of the month, used compacts increased 1.3 percent, while hybrid cars increased a more substantial 3.6 percent. The 2010 Toyota Prius led the gains, as it increased in value \$1,370 through the month of February. Dealers have been aggressively bidding on fuel-efficient vehicles at auction as consumer demand increases in response to rising gas prices. If the past is any indication of things to come, Kelley Blue Book could see values of used fuel-efficient vehicles increase more than 20 percent during the course of the next few months. In 2011, we saw values of fuel-efficient vehicles reach record levels in response to gas prices approaching \$4.00 per gallon, and if fuel prices continue on their current trajectory, Kelley Blue Book expects to see a similar trend this year.

We should point out that values of fuel-efficient vehicles will only remain elevated as long as fuel prices remain high, so if fuel prices were to ease, we would expect values to return to more normal levels. We advise dealers to stock up on inventory sooner rather than later since values will likely increase sharply during the next 30 to 60 days.

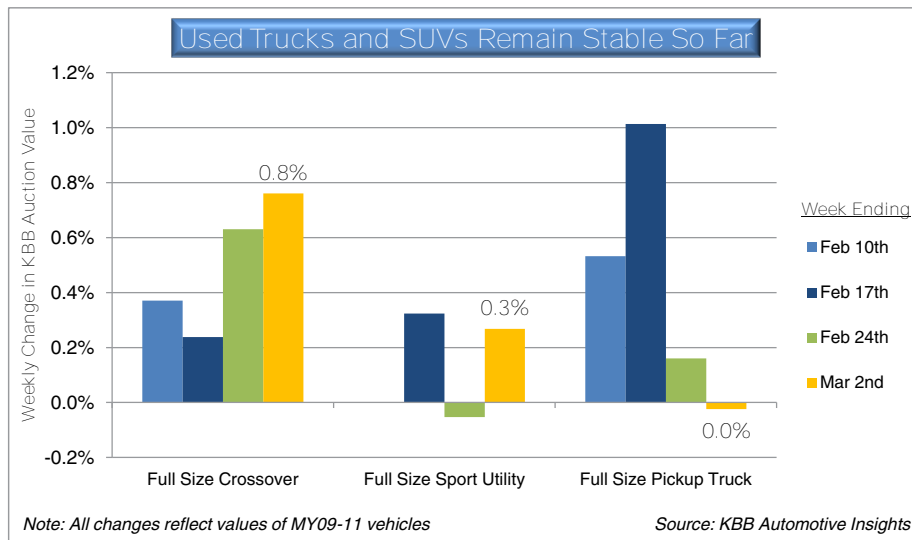


Used Truck and SUV Values Remain Steady Even as Fuel Prices Soar

In the midst of steadily rising gas prices, it is reasonable to assume that values for large trucks and SUVs will suffer. Surprisingly, full-size sport utility vehicles were flat through February and remain up \$450 from the beginning of the year. Full-size pickup trucks performed even better, jumping \$487 in the last month alone, and up \$630 on a year-to-date basis. It was only a few years ago that these same vehicles severely underperformed the rest of the used-vehicle market, when record-high fuel prices suddenly strangled consumer demand for large, fuel-thirsty trucks. The most gas-price-sensitive consumers fled to more fuel-efficient vehicles, and buyers still considering full-size trucks were more likely to need them for work or towing. Manufacturers, confronted with a shrinking pool of customers, switched some of their focus and production away from full-size trucks and sport utility vehicles. The result has been a drop in the supply of used full-size utility vehicles, lower but consistent demand from consumers more likely to need the functionality of a full-size truck, and comparatively stable values.

This stable albeit lower equilibrium was tested as recently as last year, when gas prices in March 2011 were rapidly approaching 2008 levels. Unlike 2008, values for full-size trucks and SUVs remained mostly flat. Through April 2011, when gas prices neared their peak for the year, values for used full-size trucks decreased by approximately \$470 and used full-size SUVs by \$375. While values for most other segments were increasing during the same period, these drops certainly were nowhere near as dramatic as those seen in 2008. Likewise, despite uncomfortable increases in fuel costs last month, full-size trucks and sport utility vehicles are likely to conform to 2011's pattern of modest declines, rather than the industry-shaking drop-off of 2008.

Consumers have had several years and opportunities to adapt to the risk of higher gasoline prices, and supply levels have adjusted accordingly, as well. Additionally, there are several encouraging economic factors suggesting that demand will not be hugely impacted. Consumer confidence remains high despite higher prices at the pump, due in part to continuing declines in unemployment. According to a report by the Department of Housing and Urban Development that tracks construction of new private homes, new housing starts in February were up more than 9 percent from January. These promising trends largely negate the threat of massive drops in used full-size truck and SUV values.



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.

“When the Price at the Pumps is at Play, Customers Will Stray”

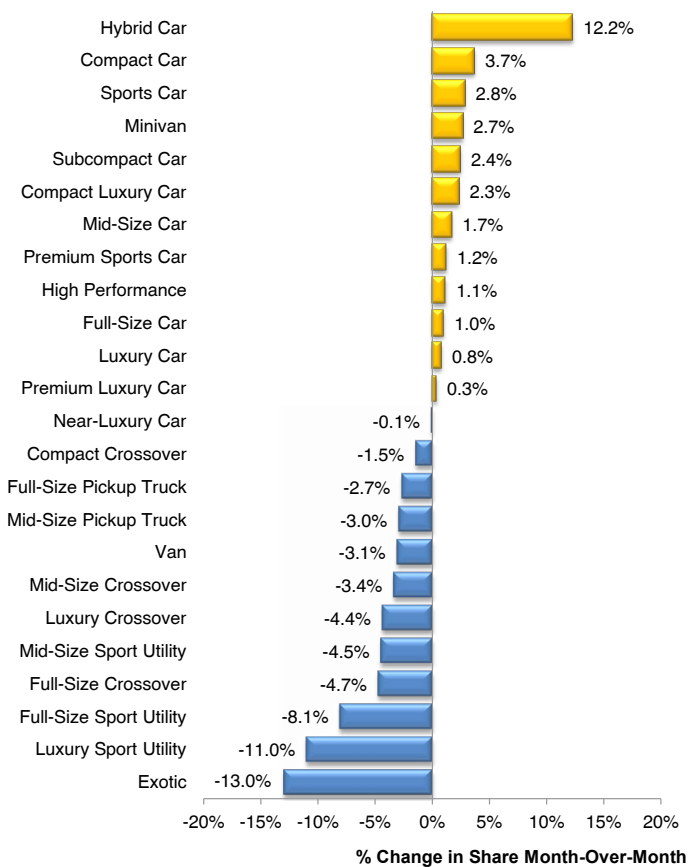
- Arthur Henry, manager of market intelligence and market analyst, Analytic Insights division, Kelley Blue Book

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.

As prices soared in February, causing kbb.com shopper research on fuel-efficient vehicles to climb as well. The top two rising segments this month are the hybrid car and compact car segments. The rate of growth for the hybrid car segment is roughly three times greater than that of the compact car segment, fueled primarily by interest in the 2010 Lexus HS. Kbb.com also has seen increased research for the 2008 and 2009 model-year Toyota Prius.

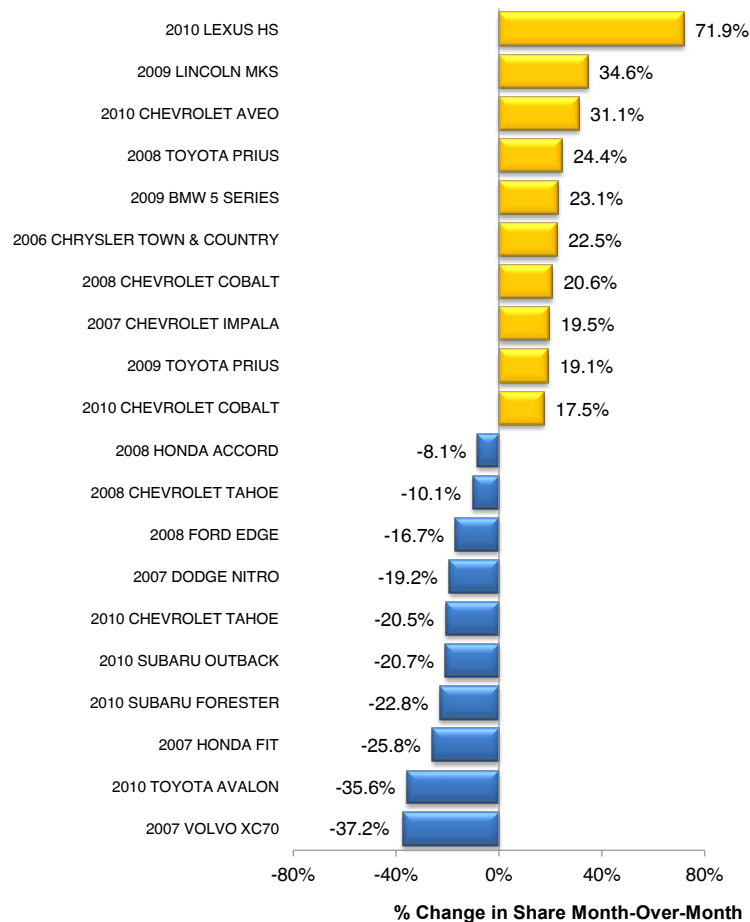
Fuel efficiency has been the name of the automotive game for the past couple of years, so keeping a steady supply of fuel sippers would be beneficial to any dealership. However, hybrids have shown more volatility in the market than their non-hybrid counterparts, and historically, interest sharply declines after gas prices stabilize. This creates an interesting situation for dealer inventories as they look to capitalize on this current vehicle demand shift.

Monthly Used-Car Shopping Activity Growth Segments



Information based on 2010 to 2006 model-year vehicles

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



Information based on 2010 to 2006 model-year vehicles

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.