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# BLUE BOOK Market Report

MAY  
2012

Analysis from Kelley Blue Book's Analytic Insights Team

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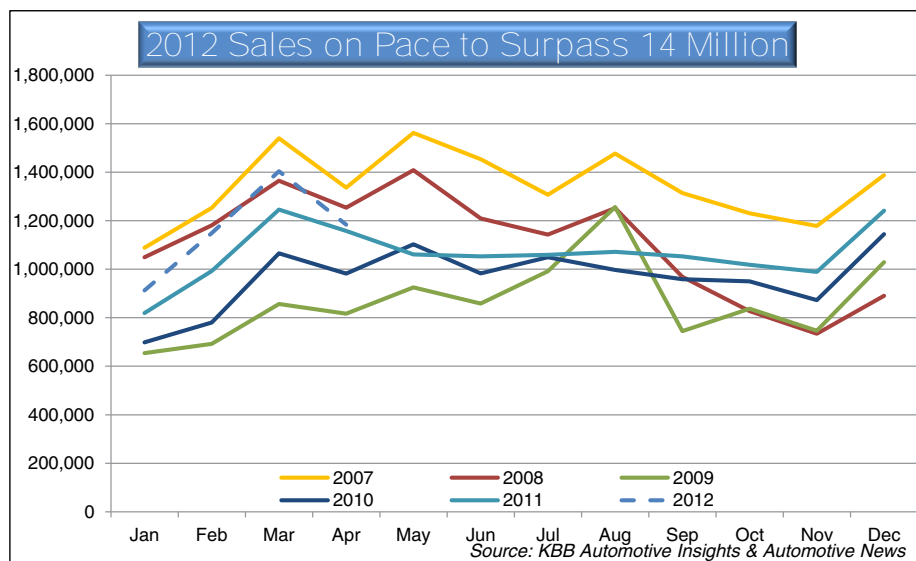
Passing on Regular for Premium

## NEW-CAR MARKET ANALYSIS:

# New-Car Sales Maintain Momentum, Post Solid 14.4 Million SAAR Pace

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

**P**ent-up demand stemming from the earthquake in Japan last year helped to kick off the year strong. At 14.4 million seasonally adjusted annual rate (SAAR) in April, it appears as though the industry is well on its way to surpass 14 million sales this year, due to a slow but steady improvement in the economy, better inventory conditions and a slew of new and redesigned introductions that continue to push the envelope in terms of quality and efficiency. Sales continued to climb in April, increasing more than 2 percent year-over-year. The daily selling rate was up a robust 15 percent due to three fewer selling days this year versus last. Last month, Kelley Blue Book increased its 2012 forecast to 14.2 million units based on strong Q1 sales and it appears as though the industry is still on track to meet that projection. Although Kelley Blue Book expects that demand will wane in the months ahead, the rest of 2012 is expected to be strong.



## Weak Job Growth Slows Current Pace of Auto Sales Recovery

**A**lthough Kelley Blue Book expects steady improvement in auto sales, there are risks that could slow the pace of current recovery. April's weak job report casts doubt on the sustainability of a slow-paced economic upturn. While the unemployment rate dropped to 8.1 percent with only 115,000 jobs created, this is well shy of initial projections. Perhaps more troubling was a decline in the labor force participation rate due to job seekers giving up the job search. The participation rate currently stands at its lowest point in 30 years at 63.6 percent. Unemployment is expected to continue to decline steadily through the rest of the year aided by strong corporate balance sheets and profits, but stronger job growth is necessary to see new-car sales maintain its momentum. If job growth continues to fall short of expectations, expect to see sales slow.

“UNEMPLOYMENT IS EXPECTED TO CONTINUE TO DECLINE STEADILY THROUGH THE REST OF THE YEAR AIDED BY STRONG CORPORATE BALANCE SHEETS AND PROFITS, BUT STRONGER JOB GROWTH IS NECESSARY TO SEE NEW-CAR SALES MAINTAIN ITS MOMENTUM.”

- ALEC GUTIERREZ

## Another Parts Shortage Looming

**W**hile weaker than expected job growth could certainly curtail demand later in the year, a potential parts shortage stemming from a chemical plant explosion in Germany on March 31 could have more immediate and impactful effects on auto sales. When news of the plant shutdown first broke, automakers and suppliers reacted quickly by locating alternatives to PA-12 and CDT, two resins produced at the plant that account for as much as 25 and 70 percent of world supply respectively. At first, the impact seemed widespread. Now, a little more than 30 days later, manufacturers and suppliers are more upbeat.

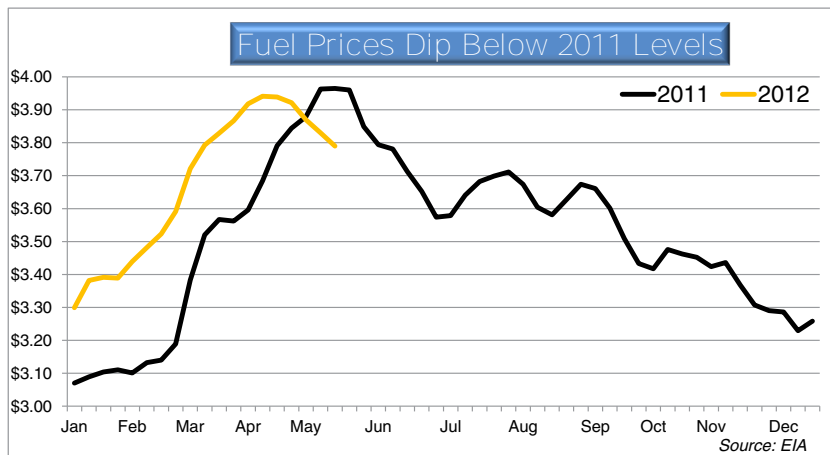
Ford is the most optimistic of the domestics, going so far as to claim that they have found suitable alternatives and expect little to no impact on production. General Motors (GM) claims to have enough supply to get through May. Although only a short window of time, GM currently has more than an 80 day supply of vehicles in the United States, so they should have ample inventory to weather the storm even in the worst case scenario. Chrysler appears to be cautiously optimistic about the situation. They have indicated that there is a more than 50 percent chance that the company will find alternatives. Similar to Ford, Chrysler currently has a nearly 60-day supply of vehicles, so like GM, both will likely come out relatively unscathed.

Even if alternative solutions fall through, domestic manufacturers should have enough supply to last beyond July, when the resin plant is expected to reopen. For those manufacturers with less than 60 day supply of vehicles, the scramble to find alternatives will be much more urgent. Due to just-in-time manufacturing, many automakers only keep enough parts to maintain 30 to 60 days of production. We may begin to see at least minimal production cuts beginning sometime this month, and for manufacturers like Hyundai, which is already struggling to meet demand, with less than a 30 days supply of vehicles, even an incremental and temporary cut to production could have serious implications for their growing United States market share.

Most manufacturers appear positive at the moment, but is this merely the calm before the storm? We should know in the next 30 to 60 days.

## Where Will Fuel Prices Bottom?

**G**as prices dropped \$0.17 per gallon nationally since April 3, and in California, it fell nearly \$0.20. In addition, May 8 oil prices came in below \$97 per barrel for the first time since February due to a weaker than expected jobs report adding to a string of bad economic news in recent weeks. Fears of gas prices hitting \$5.00 per gallon or more are quickly fading, as all indications point to \$3.50 per gallon gas by year end. Fuel prices are already down to \$3.74 per gallon nationally, \$0.23 cheaper than one year ago. In 2011, fuel prices peaked in May at \$3.97 per gallon before falling down to \$3.20 per gallon by year end. Gas prices could repeat or surpass these lows once again this year, especially with Europe in recession, the United States economy continuing to improve only moderately, United States gas consumption declining and increasing supplies. This will come as welcome news to consumers that have been feeling pain at the pump during these last few months.

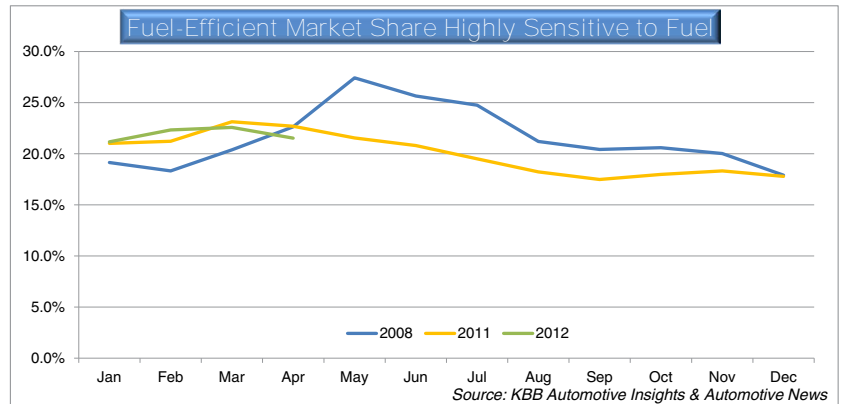


“IN 2011, FUEL PRICES PEAKED IN MAY AT \$3.97 PER GALLON BEFORE FALLING DOWN TO \$3.20 PER GALLON BY YEAR END. GAS PRICES COULD REPEAT OR SURPASS THESE LOWS ONCE AGAIN THIS YEAR, ESPECIALLY WITH EUROPE IN RECESSION...”

- ALEC GUTIERREZ

## Sales Dip for Fuel Sippers on Gas Price Drop

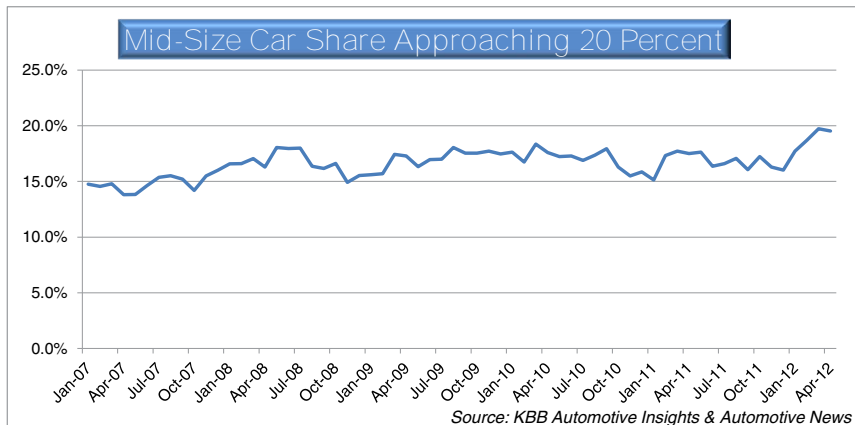
Fuel-efficient subcompact, compact and hybrid cars accounted for 21.5 percent of all new vehicles sold in April; the lowest monthly share held by the segment since the start of the year. Interest waned for fuel-efficient vehicles last month, spurred by falling gas prices, a trend expected to continue in the months ahead. We saw a similar pattern in 2008 and 2011; the last time fuel prices approached \$4.00 per gallon. If fuel prices continue to fall as they did in those years, Kelley Blue Book would expect to see market share for the segment continue to decline, likely bottoming out at around 18 percent by year end. Even if fuel prices continue to drop, they are expected to remain above \$3.00 a gallon so these vehicles will continue to remain a top choice for most shoppers. Consumers looking for a compact or subcompact car have more competitive options available than ever before offering close to 40 mpg. From the small and sporty Chevrolet Sonic to the well-equipped Hyundai Elantra, there is something for everyone in this segment.



## Mid-Size Sedans Increase Lead

Mid-size sedans continued to dominate industry sales in April, accounting for 19.5 percent of all vehicles sold in the month. With attractive incentives, ample inventory and the availability of fresh new product, sales in this segment remain strong. The Honda Accord leapfrogged the Nissan Altima while selling just 1,500 units shy of the Toyota Camry's segment leading 36,820 unit sales. The Altima dropped down to the sixth position, after a strong performance through the first quarter aided by hefty incentive support from Nissan.

America's top selling segment has increased share since the start of the year and Kelley Blue Book expects share to remain high for the rest of the year. Consumers can expect more options in this segment later this year, once the redesigned Ford Fusion, Honda Accord, non-eco Chevrolet Malibu and Nissan Altima start to arrive at dealerships.



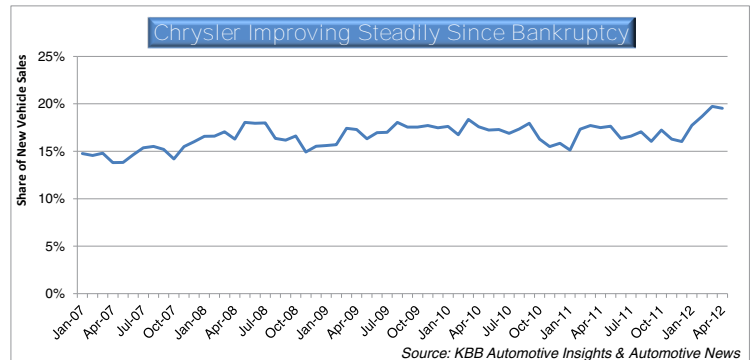
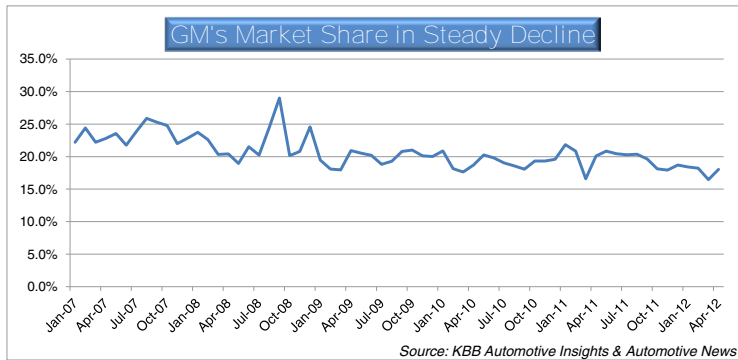
“MID-SIZE SEDANS CONTINUED TO DOMINATE INDUSTRY SALES IN APRIL, ACCOUNTING FOR 19.5 PERCENT OF ALL VEHICLES SOLD IN THE MONTH. WITH ATTRACTIVE INCENTIVES, AMPLIFIED INVENTORY AND THE AVAILABILITY OF FRESH NEW PRODUCT, SALES IN THIS SEGMENT REMAIN STRONG.”

- ALEC GUTIERREZ

## Detroit: The Come-Back City

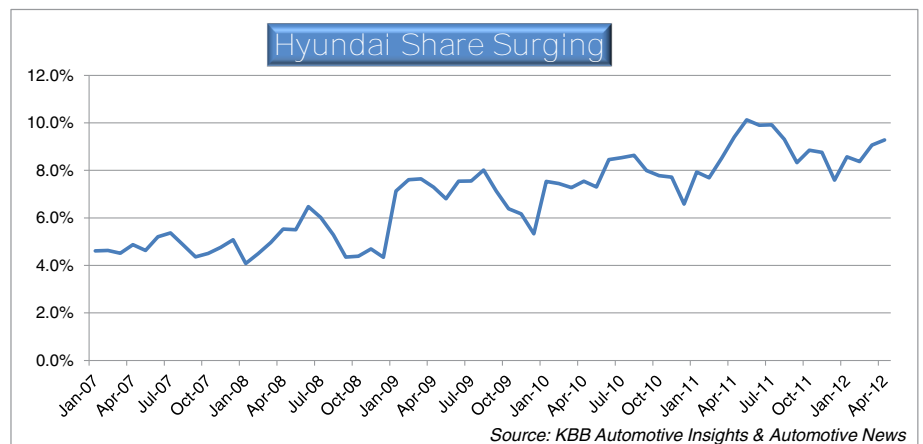
General Motor's market share bounced back to 18 percent in April, after dropping to 16.5 percent in March. Although GM regained share, they have maintained the lowest market share in more than five years during the first four months of 2012. Through April, GM held 17.7 percent market share, the lowest total since 2010 when they only accounted for 18.7 percent of all vehicles sold. Although market share has declined, GM's North American operations posted a \$1.7 billion profit in Q1, due in part to their reluctance to roll out heavy incentives to chase market share. With so many competitive offerings from nearly every manufacturer in the industry, expect to see market share spread more evenly across the top manufacturers. However, now that produces a competitive entrant in nearly every segment in which they compete, they are well positioned to maintain or increase market share in the months ahead with little need for incentives especially once the 2013 Malibu and 2014 Impala redesigns begin to hit show rooms.

Chrysler has completed the first several months of the year on the upswing. The company has managed to drastically increase market share among its fierce competition with an impressive new product line up. The 200 is one of the most affordable entrants in the segment and has sold quite well due to its attractive price point. Sales have climbed in recent months due to generous incentives including more than \$3,000 in cash rebates currently available on the 200. Even if Chrysler buys market share in the short term, it will likely be worth it in the long run. At this point, Chrysler's incentive strategy has not yet impacted the bottom line, as evidenced by the \$473 million earnings reported for Q1, a fourfold increase from the \$116 million profit reported one year ago. As Chrysler is able to bring new consumers into the fold, they are building a portfolio of future customers that will return to the brand three to five years down the road when Chrysler has a fresh batch of competitive redesigns to meet demand. They have already proven that they can build top notch vehicles with the upcoming Dart, Grand Cherokee and 300. With such compelling products, the future looks bright for Chrysler.



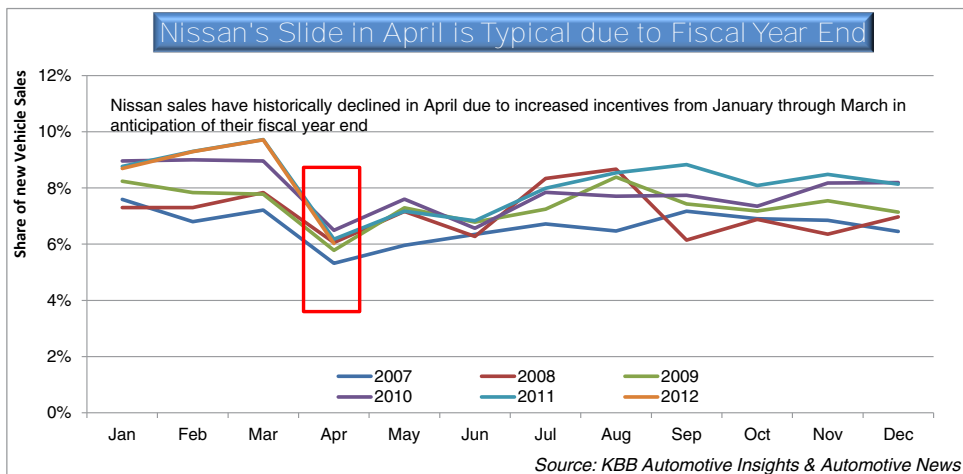
## Hyundai Continues Up Market Share Path

Hyundai has performed one of the most remarkable turnarounds in recent memory, finally emerging as a true player in the industry after years of less than 5 percent share. Hyundai has doubled their market share in the last five years, due in large part to the success of the Elantra and Sonata redesigns. The redesigned Azera should help keep things moving in the right direction; however, Hyundai's biggest problem has been their inability to increase production to meet demand. To address this issue, Hyundai announced that they will add a third shift to their plant in Alabama. This will allow Hyundai to churn out an additional 20,000 Sonatas and Elantras per year. Ultimately, Hyundai may need to open an additional production facility here in the United States if they are going to keep up with surging demand. Hyundai has been the surprise success story of the industry during the past 18 months, and if they can continue to deliver compelling, fuel-efficient vehicles to market, they should have no problem continuing to increase market share.



## Nissan Loses Share in April

Nissan's market share dropped nearly 4 points in April after an extraordinarily strong March in which Nissan was able to capture 9.7 percent all sales, equal to their best performance in five years. Nissan typically surges in March through the use of heavy incentives to cap off their fiscal year with a strong finish. We expect Nissan's share to bounce back in May before surging again later this year when the redesigned 2013 Altima and Sentra arrive at dealerships. In the meantime, expect additional incentives on the current generation Altima and Sentra as Nissan makes way for their highly anticipated new arrivals.



“NISSAN TYPICALLY SURGES IN MARCH THROUGH THE USE OF HEAVY INCENTIVES TO CAP OFF THEIR FISCAL YEAR WITH A STRONG FINISH. WE EXPECT NISSAN'S SHARE TO BOUNCE BACK IN MAY BEFORE SURGING AGAIN LATER THIS YEAR WHEN THE REDESIGNED 2013 ALTIMA AND SENTRA ARRIVE AT DEALERSHIPS.”

- ALEC GUTIERREZ

## Want Bang for Your Buck? Buy a Saab!

Since declaring bankruptcy late last year, values of late model used Saab's have been in free fall. The 2010 Saab 9-3 has declined by \$4,500 since December, while the 2009 9-5 has dropped a comparable \$3,800. Values have finally stabilized in recent weeks and are now at a point that might attract the right consumer. A 2010 Saab 9-3 can be had for about \$14,250 according to the current Kelley Blue Book® Auction Value; a relative bargain compared to other vehicles available at the same price point. At this price, a 2010 Saab 9-3 is as affordable as a 2010 Nissan Altima, a 2009 Kia Amanti or a 2009 Toyota Camry. When comparing these vehicles side by side, the Saab is worlds apart in terms of refinement and performance making this vehicle a must have for someone looking for a sporty luxury sedan at a bargain basement price. The only downside would be the lack of a warranty, which is certainly a valid concern for most consumers. For those that can't look past the warranty, a 2009 9-3 might make a suitable alternative since all Saab vehicles sold while GM still owned the company will be covered under their original factory warranty. The 2009 can be had for about \$2,000 less than the 2010 variant and it is mechanically identical, making it all the more attractive.

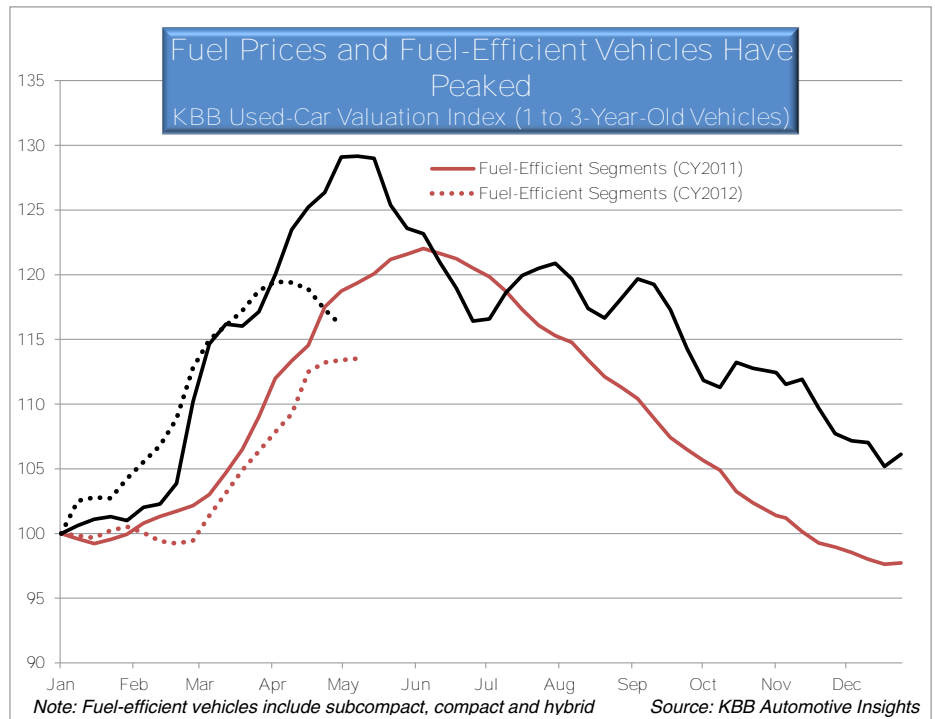
Looking for affordable luxury? Check out a used Saab

Model	Trim	MY	KBB Auction Value	Change since...	
				Apr 1	Jan 1
9-3	2.0T Sport Sedan 4D	2010	\$14,250	(\$100)	(\$4,500)
9-3	2.0T Sport Sedan 4D	2009	\$11,775	\$175	(\$2,850)
9-5	Turbo4 Sedan 4D	2011	\$23,500	(\$800)	-
9-5	2.3T Sedan 4D	2009	\$13,550	(\$375)	(\$3,825)
9-7X	4.2i Sport Utility 4D	2009	\$15,275	(\$400)	(\$2,900)

Source: KBB Automotive Insights

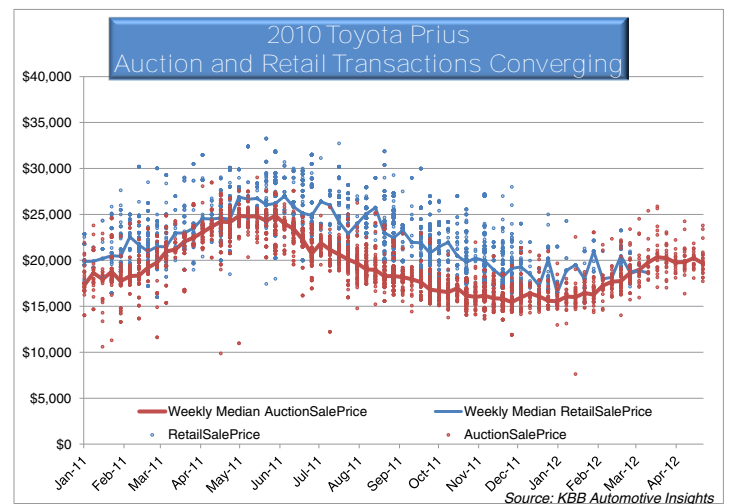
## Fuel Prices Peak, Values of Gas-Sipping Used Vehicles Next

**W**ith gas prices on the way down, Kelley Blue Book expects values of used subcompact, compact and hybrid cars to retreat from their current high. In most cases the declines will be mild and generally in line with seasonal depreciation. An average used-compact should decline no more than 1 to 2 percent per month through summer before leveling off sometime in Q4. The value of high demand fuel-sippers that have aggressively outpaced average market increases, such as the Toyota Prius, Kia Soul and Chevrolet Cruze, will likely exceed these declines. Values continued to rise in April (1.5 percent on average), but Kelley Blue Book has seen mild softening during the last week of the month as demand for these vehicles tapers off. Values will continue to tread water through the next 30 days, but as fuel prices continue to fall through year end, expect values to follow suit.



## Five Vehicles at Risk for a Correction

**A**lthough declines in fuel-sipping compacts are likely to occur slowly during the next few months, Kelley Blue Book expects steeper declines for the vehicles that appreciated most since the start of the year. Of particular risk for correction are those vehicles that are currently selling at auction near manufacturer's suggested retail price (MSRP). The Toyota Prius is a prime example of a vehicle that is likely set for a correction. The 2010 Prius increased more than \$3,000 since January 1 and has a current auction value equal to 90 percent of its original MSRP. Dealers will be hard pressed to convince consumers to pay \$23,500 for a used 2010 Prius at current Kelley Blue Book® Retail Value, especially since a brand new 2012 Prius can be had for \$24,000, according to the current Kelley Blue Book® Fair Purchase Price. Dealers will not continue to pay premium prices at auction, especially as they continue to see their margins squeezed. Dealers that have purchased any of the vehicles on the list below in the past 30 to 60 days should consider selling these vehicles sooner rather than later, since values may decline by 10 percent or more in the next 60 days.



High Retention + Steep Appreciation = Potential Correction Coming

Make	Model	Trim	MY	Change Since Jan 1		Current Auction Value	MSRP	Retention
				\$	%			
Toyota	Prius	I Hatchback 4D	2010	\$3,350	20.5%	\$19,700	\$22,150	88.9%
Toyota	Yaris	Sedan 4D	2011	\$1,800	18.2%	\$11,675	\$14,375	81.2%
Chevrolet	Cruze	LT Sedan 4D	2011	\$1,600	11.3%	\$15,700	\$18,895	83.1%
Toyota	Corolla	LE Sedan 4D	2011	\$1,675	12.6%	\$14,950	\$18,060	82.8%
Kia	Soul	I Wagon 4D	2011	\$1,250	8.7%	\$15,600	\$19,190	81.3%

Source: KBB Automotive Insights

## Full-Size Trucks Take a Hit

Last month's Blue Book Market Report anticipated slight declines for full-size trucks and sport utility vehicles during Q2, and so far truck values are performing as expected. Full-size pickup trucks fell by a scant 0.5 percent in April, while full-size SUVs dropped by a slightly more pronounced 1.7 percent. On a year-to-date basis, full-size pickups and SUVs remain up by 1.6 percent and 0.2 percent respectively. Values should remain stable and continue to suffer only modest declines as we move further into spring. This is largely due to the tightened supply of large, fuel-inefficient vehicles caused by market panic in 2008. Surprisingly robust trends in the construction industry also are providing stability for full-size trucks, mitigating the potentially damaging effects of stubbornly high gas prices and the disappointing pace of economic recovery. According to the U.S. Department of Commerce, total construction spending in March 2012 was 0.1 percent above an already strong February and 6.0 percent higher than March 2011. During the first three months in 2012, construction spending was 6.7 percent higher than the same quarter last year. This increased construction spending in March, coupled with a 30.1 percent year-over-year increase in private housing units authorized by building permits, suggests that demand for work-capable trucks will be sufficiently high to prevent any significant decreases in full-size truck values during Q2.

## Mid-Size Trucks and SUVs Remain Steady

While full-size trucks and SUVs were down slightly in April, mid-size pickups and SUVs saw comparatively little change. However, compared to this same time last year, values for mid-size pickups are 7.7 percent higher and mid-size SUVs are 8.8 percent higher than at the end of April 2011. Concerns about future supply volume may have spurred recent interest in mid-size trucks since the 2012 model year marked an end of production for several vehicles in these segments, including the Ford Ranger, Ram Dakota and Dodge Nitro. With the national price of gas still hovering above \$3.80 through April, shoppers wary of fuel-thirsty full-size trucks may be more interested in mid-size trucks and SUVs, which offer slightly better mileage and plenty of utility for most consumers. Although the increasing popularity of low displacement, high output engines like Ford's V6 EcoBoost make full-size trucks and SUVs more competitive when considering new vehicles. Among used vehicles, mid-size trucks offer better fuel economy at a lower price point without sacrificing too much utility.

“WITH THE NATIONAL PRICE OF GAS STILL HOVERING ABOVE \$3.80 THROUGH APRIL, SHOPPERS WARY OF FUEL-THIRSTY FULL-SIZE TRUCKS MAY BE MORE INTERESTED IN MID-SIZE TRUCKS AND SUVs, WHICH OFFER SLIGHTLY BETTER MILEAGE AND PLENTY OF UTILITY FOR MOST CONSUMERS.”

ALEC GUTIERREZ

*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.*

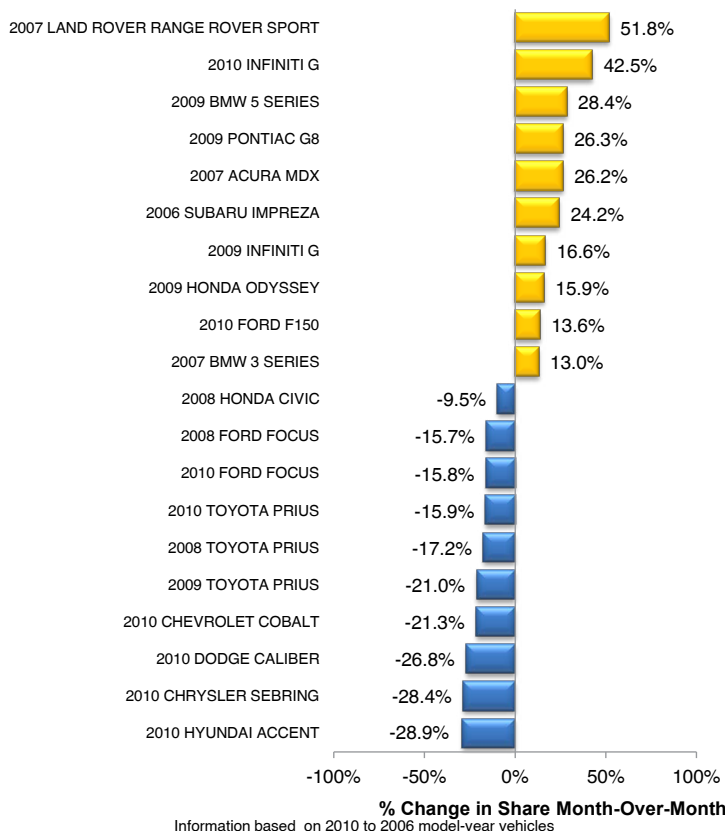
## Passing on Regular for Premium

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

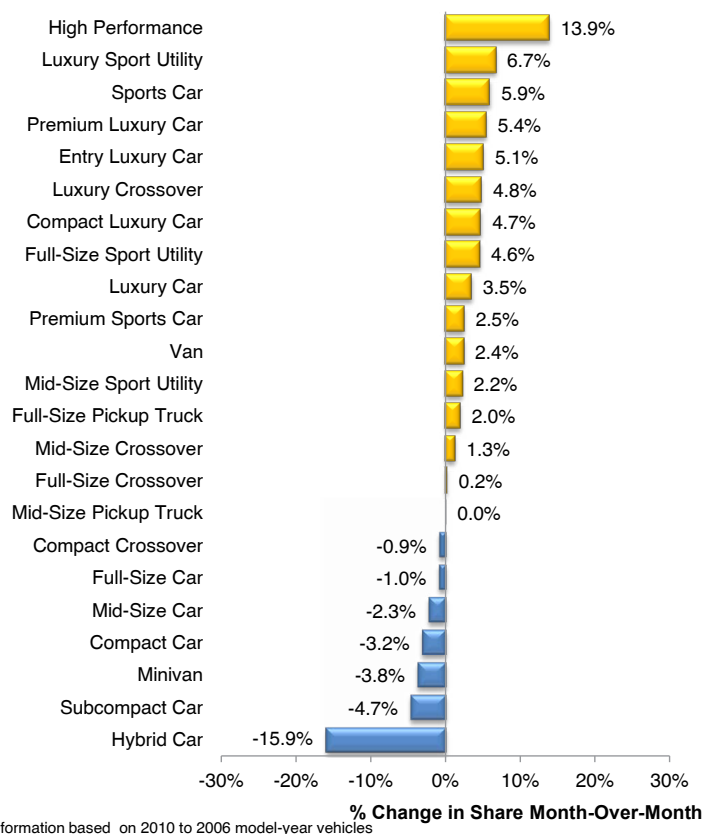
Kelley Blue Book's Hot Used-Car Report captures monthly used-car shopper activity on kbb.com, including a list of the top and bottom movers in the same time period. Results are provided by the Kelley Blue Book Market Intelligence Team, in an effort to help dealers better understand which used vehicles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

In April, kbb.com shoppers shifted their interests from compacts and fuel savers to luxury vehicles and sports cars. Typically during the spring months shoppers gravitate toward sports cars and high-end vehicles, but with gas prices on a downward trend this activity has enhanced. The segment with the largest lift month-over-month is the high performance segment, increasing 13.9 percent. Driving interest to this segment is the Chevrolet Corvette, which accounts for 67 percent of segment traffic. There isn't a particular Corvette model year that is catching the interest of the used retail shoppers, with traffic to each model year increasing at least 6 percent during the month. The popularity of this vehicle is being driven by cold weather states which are beginning to thaw such as Michigan, Illinois and Washington. However, the model with the greatest lift in traffic from the previous month is the 2007 Land Rover Range Rover Sport, and it is the key driver for the lift to the luxury sport utility segment. For the past couple of years gas prices have been volatile and an enigma to predict, yet it is easy to predict shopper behavior because of them. The market should expect more demand for luxury vehicles and sports cars during this short reprieve, but if gas prices shoot up any time soon expect the consumer to be return to researching hybrids.

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



### Monthly Used-Car Shopping Activity Growth Segments



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