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BLUE BOOK Market Report

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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

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MARKET ANALYSIS:

January New-Car Sales Beat Expectations

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

January results came in stronger than expected, as the industry posted sales of 913,284 units overall; approximately 1.4 percent above Kelley Blue Book's forecast of 900,000 units. Industry sales have improved steadily since bottoming out in 2009, following the bursting of the housing bubble and the near-economic collapse that followed. Sales in 2011 were more than 20 percent greater than the lows established in 2009, and we expect sales to continue to improve steadily in 2012. We currently are projecting sales to surpass 13.3 million units this year, driven primarily by stronger demand from consumers, improved access to credit and better supply conditions. We expect sales to be particularly strong in the mid-size and compact segments due to strong redesigns and new introductions that have just arrived or are expected to arrive later in the year. Many of these redesigns offer fuel economy in excess of 30 mpg, a benchmark that is critical to budget-conscious consumers who are acutely aware of rising fuel prices. Although sales in January gave a strong indication of continued sales gains in 2012, there are still considerable downside risks that must be considered as we look ahead to the rest of the year.

We remain concerned about the current pace of the economic recovery in 2012, despite a relatively positive year in 2011. Unemployment conditions improved steadily throughout 2011, moving from 9.1 percent in January 2011 down to 8.3 percent in January 2012. This is certainly good progress, but at 8.3 percent (15.1 percent for the more inclusive U6 benchmark provided by the BLS), we still have a long way to go

before returning to an environment that will support sales approaching 15 million units per year. According to a recent projection by the Congressional Budget Office, unemployment is expected to rise to 8.9 percent by the fourth quarter of this year, so the current unemployment improvements may be temporary. Housing remained flat through 2011 as well; however, many homeowners are upside down on their mortgage or worse yet, have a home that is in the process of foreclosure or short sale. Home prices are not likely to return to the historic highs reached in 2006 for years to come, so there remain a considerable number of consumers that will be unwilling to make a major purchase until their housing situation is sorted out. In fact, housing prices remain 24 percent below the highs reached in 2006, and although stable during the past 12 months, there are few signs of improvement. There are many risks that could stand to impact the pace of the auto sales recovery. So far, it appears as though these risks will not have any immediate impact in the short term.

“WE CURRENTLY ARE PROJECTING SALES TO SURPASS 13.3 MILLION UNITS THIS YEAR, DRIVEN PRIMARILY BY STRONGER DEMAND FROM CONSUMERS, IMPROVED ACCESS TO CREDIT AND BETTER SUPPLY CONDITIONS.”

- ALEC GUTIERREZ

January Sales Beat Projections

Manufacturer	January 2012 Sales Volume			January 2012 Market Share		
	Projected	Actual	Difference	Projected	Actual	Point Diff.
GM	169,200	167,962	-0.7%	18.8%	18.4%	-0.4%
Ford Motor Company	144,900	136,294	-5.9%	16.1%	14.9%	-1.2%
Toyota Motor Co	121,500	124,540	2.5%	13.5%	13.6%	0.1%
Chrysler Group	93,600	101,149	8.1%	10.4%	11.1%	0.7%
American Honda	81,000	83,009	2.5%	9.0%	9.1%	0.1%
Hyundai Kia	80,100	78,211	-2.4%	8.9%	8.6%	-0.3%
Nissan NA	79,200	79,313	0.1%	8.8%	8.7%	-0.1%
VW-Audi	34,200	36,681	7.3%	3.8%	4.0%	0.2%
Total	900,000*	913,284*	1.4%	-	-	-

*Includes brands not shown

Source: Automotive News

Mid-Size Cars Grab Market Share in January, Will Continue in 2012

Consumers in the market for a spacious sedan offering excellent fuel economy will have plenty of options from which to choose in 2012. The redesigned 2012 Toyota Camry and Volkswagen Passat are available for sale, while later this year we can look forward to a redesigned Honda Accord, Nissan Altima, Chevrolet Malibu and Ford Fusion. The Hyundai Sonata and Kia Optima, which were redesigned for the 2011 model year, also compare favorably to the competition. In January, mid-size cars accounted for 17.7 percent of all sales, a significant increase relative to the 15.1 percent market share achieved a year prior in January 2011. The redesigned Camry dominated the segment in January, capturing 17.5 percent of all sales in the segment. Nissan's Altima was a distant second with 13.8 percent of all sales for the month, while the Chevrolet Malibu finished in third with 9.1 percent share. We should note that sales of the Altima and Malibu were likely boosted by a heavier fleet mix relative to the Sonata and Accord, which finished with 9 percent and 8.4 percent share, respectively. This year will be an excellent year for consumers looking to purchase a brand-new mid-size car, and we expect sales to be very strong for the segment. We are currently projecting mid-size cars to surpass 17 percent market share in 2012, slightly above the 16.8 percent share achieved in 2011.

Strong Redesigns to Drive Mid-Size Segment in 2012

Last Redesign	Model	January Sales Volume			Segment Share	
		2011	2012	Change	2011	2012
2012	Toyota Camry	18,145	28,295	55.9%	14.6%	17.5%
2013	Nissan Altima	16,454	22,357	35.9%	13.3%	13.8%
2013	Chevrolet Malibu	14,102	14,676	4.1%	11.4%	9.1%
2011	Hyundai Sonata	13,261	14,489	9.3%	10.7%	9.0%
2013	Honda Accord	15,012	13,659	-9.0%	12.1%	8.4%
2013	Ford Fusion	14,346	13,614	-5.1%	11.6%	8.4%
2011	Kia Optima	3,819	8,814	130.8%	3.1%	5.4%
2010	Subaru Outback	6,980	7,412	6.2%	5.6%	4.6%
2011	Chrysler 200	788	7,007	789.2%	0.6%	4.3%
2012	Volkswagen Passat	108	6,318	5750.0%	0.1%	3.9%
-	Overall	123,961*	161,773*	30.5%	-	-

*Includes models not shown

Source: Automotive News & KBB Automotive Insights

Compact Segment Provides More Options than Ever

Now may be the perfect time to consider a compact car, especially with unemployment above 8 percent and fuel prices in excess of \$3.40 per gallon. With demand for compacts expected to be strong in 2012, consumers will have more choices than ever before because of strong redesigns that have hit the marketplace in the last year. The Toyota Corolla and Honda Civic have dominated this segment for years, but for the first time ever, there are a number of alternatives that are comparable, if not preferable, to the traditional segment leaders. The Chevrolet Cruze, Ford Focus, Volkswagen Jetta and Hyundai Elantra all have undergone considerable redesigns in the last year, and consumers have taken notice. In fact, the Cruze and Focus trailed the Corolla by less than 3 percentage points in terms of market share in January, offering a strong indication that consumers are looking beyond the standard Civic and Corolla when shopping for a compact car. The Civic led the segment in January as consumers sought out the new 2012 model-year redesign. It is worth noting that the Civic's redesign has received mixed reviews at best and as a result, Honda has committed to updating the Civic as a model-year 2013 refresh to address some of the critic's concerns.

There should be something for everybody in the compact segment this year, and we expect the segment to continue to perform well throughout 2012. Through year-end, we are projecting compact cars to account for nearly 14 percent of all sales, generally in line with the 13.9 percent share maintained in 2011.

New and improved subcompacts such as the Ford Fiesta, Chevrolet Sonic and redesigned Hyundai Accent will continue to limit the pace of sales growth in the compact segment as some budget-conscious consumers opt for the added fuel efficiency and reduced utility of the smallest vehicles available for sale today. Subcompacts have grown in popularity in recent years, increasing its market share from 2.5 percent in 2007 all the way up to 4.7 percent in 2011.

IN FACT, THE CRUZE AND FOCUS TRAILED THE COROLLA BY LESS THAN 3 PERCENTAGE POINTS IN TERMS OF MARKET SHARE IN JANUARY, OFFERING A STRONG INDICATION THAT CONSUMERS ARE LOOKING BEYOND THE STANDARD CIVIC AND COROLLA WHEN SHOPPING FOR A COMPACT CAR.

- ALEC GUTIERREZ

Competition is Stronger than Ever in the Compact Segment

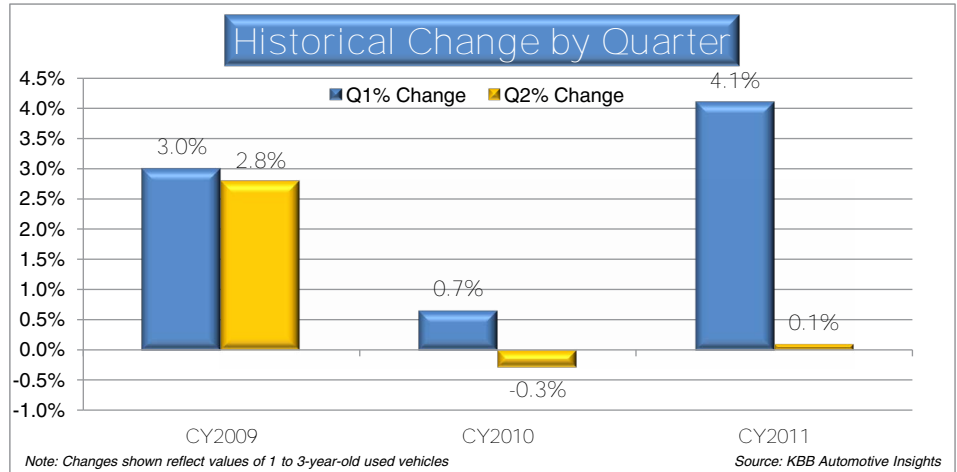
Last Redesign	Model	January Sales Volume			Segment Share	
		2011	2012	Change	2011	2012
2012	Honda Civic	14,634	21,883	49.5%	12.1%	17.4%
2009	Toyota Corolla	20,581	17,988	-12.6%	17.0%	14.3%
2011	Chevrolet Cruze	13,631	15,049	10.4%	11.3%	11.9%
2012	Ford Focus	9,014	14,400	59.8%	7.5%	11.4%
2012	Volkswagen Jetta	11,460	10,962	-4.3%	9.5%	8.7%
2011	Hyundai Elantra	9,659	10,900	12.8%	8.0%	8.6%
2010	Mazda3	5,015	9,200	83.4%	4.2%	7.3%
2007	Nissan Sentra	9,538	7,066	-25.9%	7.9%	5.6%
2012	Subaru Impreza	3,346	6,931	107.1%	2.8%	5.5%
2011	Kia Forte	5,330	4,417	-17.1%	4.4%	3.5%
-	Overall	120,804*	126,072*	4.4%	-	-

*Includes models not shown

Source: Automotive News & KBB Automotive Insights

Q1 and Q2 Outlook for Used Vehicles

Kelley Blue Book expects supply to remain a significant challenge for dealers in 2012, and as a result, we are projecting values to increase by as much as 3 to 5 percent through the first quarter. According to seasonal patterns, values typically are flat in January before starting to rise more aggressively in February and March, as dealers stock up on inventory in anticipation of the spring selling season. We expect this year to be no different. Beyond the first quarter, we expect used-car values to stabilize beginning in April, and they likely will remain elevated into late summer. Values of compact and subcompact cars should outperform the overall market average, but not by more than 2 to 3 percent, unless speculative investors drive up oil prices because of current tensions with Iran.

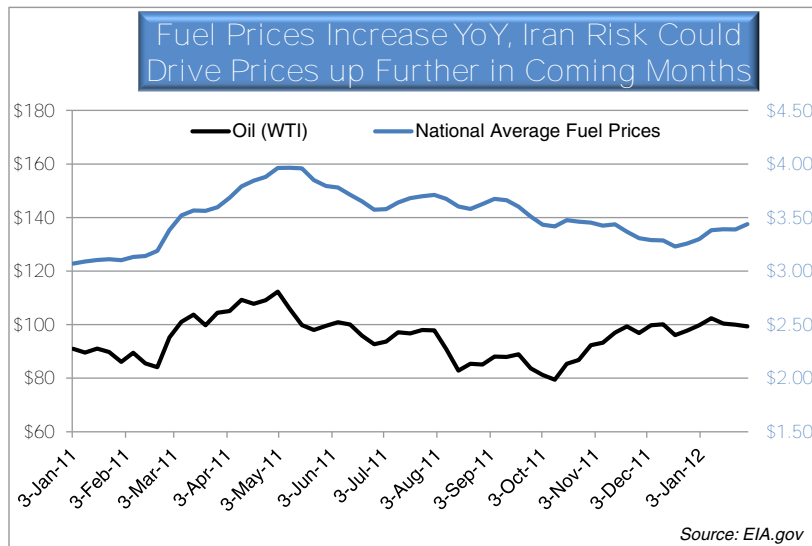


Although values should remain elevated, we are not projecting the same sort of volatility that occurred last year. From January through June 2011, values increased by 10 percent on average, led by increases in compact and hybrid cars. These fuel-efficient vehicles appreciated more than 20 percent as gas prices approached \$4.00 per gallon, nationally. We are expecting fuel prices to remain below the highs hit last year, but there is risk surrounding mounting tensions with Iran that could drive oil and fuel prices well beyond current projections. If this scenario were to play out, expect significant volatility in values of fuel-efficient vehicles at auction, similar to what occurred in 2008 and 2011. As of now, oil prices have been kept in check on fears of a drop in oil demand from Europe due to its sovereign debt crisis, but things could change at a moment's notice. We recommend dealers and in-market consumers pay close attention to fuel prices as the situation in Iran continues to unfold.

How High Will Fuel Prices Rise in 2012?

Fuel prices are on the rise once again, and some may be worried that \$4.00 per gallon gas is on the horizon. In the long term, this is a definite possibility, but unless you live in California or a handful of other metropolitan areas, don't expect \$4.00 per gallon gas to become the new norm. The average price for a gallon of gasoline is currently more than \$3.40 nationally; this is \$0.35 higher than this time last year. Fuel has continued to rise in recent weeks, despite recent declines in consumption and increases in U.S. petroleum inventories. The EIA currently projects fuel prices to average \$3.48 per gallon in 2012, approximately \$0.05 per gallon cheaper than in 2011. West Texas Intermediate (WTI) oil prices have been relatively stable at around \$100 per barrel, even in the face of heightened tensions with Iran.

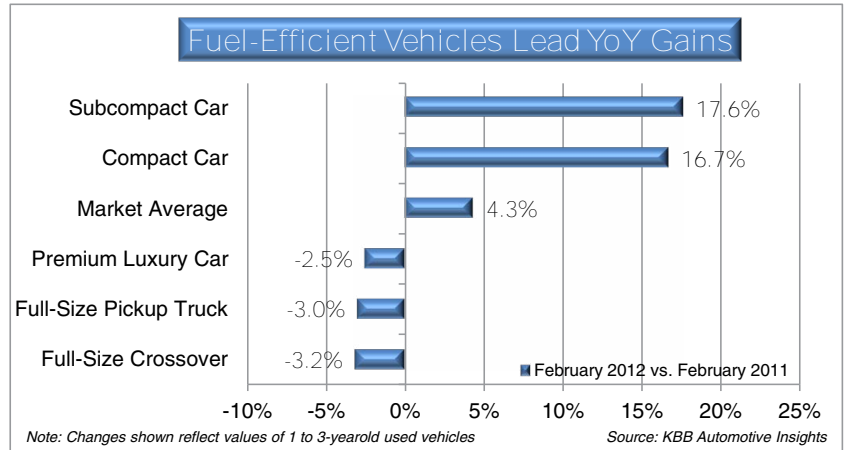
Oil prices have remained stable thus far; however, the risk of further price increase remains high. Iran has threatened to shut the Strait of Hormuz in response to U.S. and European Union sanctions, and the U.S. appears to be prepared to intervene if Iran was to deliver on that threat. If the flow of oil out of the Persian Gulf were to be disrupted, we could face oil prices in excess of the \$140 per barrel high established in 2008. If oil prices spike, expect values of compact and hybrid cars to increase aggressively. In both 2008 and 2011, we saw values of used compacts increase by more than 20 percent, only to correct after fuel prices retreated. In the worst case scenario, a fuel spike could push the economy back into recession, which would slow the pace of auto sales, an outcome that would be disastrous for the industry. We are hopeful that the situation with Iran will be resolved through diplomatic channels; however, we will be monitoring the news out of Iran closely in the coming months to determine what impact, if any, it will have on the industry.



Used-Car Values to Remain Strong in 2012 on Reduced Lease Return Volume

In January, dealers seeking inventory at auction were met with upward price pressure and a limited selection. Values rose a modest 0.1 percent overall in January; not a significant jump, but noteworthy as the first monthly increase since used-car values peaked in June 2011. Although values only climbed slightly last month, they are up 4 percent year-over-year. Used-car values have been on an upward trajectory since 2009 due to a lack of inventory at auction, and Kelley Blue Book expects supply conditions to be especially lean in 2012.

Lease volume declined nearly 50 percent from 2008 to 2009, and this sharp decrease is expected to drastically reduce the number of lease returns running through auction lanes in 2012. Further depleting this supply will be the increased incentive for consumers to keep their vehicle beyond the end of their lease term. With values at near-record levels, many consumers will find that the value of their vehicle exceeds their residual contract, giving them the option to either hold onto their vehicle or sell it privately for a better return. With this in mind, we are advising dealers to purchase inventory whenever and wherever available.



Compacts Remain in High Demand on Strong Redesigns

Compact car and hybrid values were volatile last year, increasing more than 20 percent from January through June 2011. These values are expected to be stable in 2012; however, they are currently well above the levels seen in February 2011. Significantly improved redesigns for the 2011 model year have pushed values of subcompact and compact cars up more than 15 percent year-over-year. The strength of the Chevrolet Cruze and Hyundai Elantra redesigns pushed these models' values past their competitors, also outperforming the generation they are replacing and driving up values for the overall segment considerably. This trend likely will continue going forward, especially when we consider the 2012 model-year redesigns that will show up at auction late in the year. As the redesigned Ford Focus, Honda Civic and Volkswagen Jetta arrive at auction late in 2012, expect to see values continue to climb for these models year-over-year.

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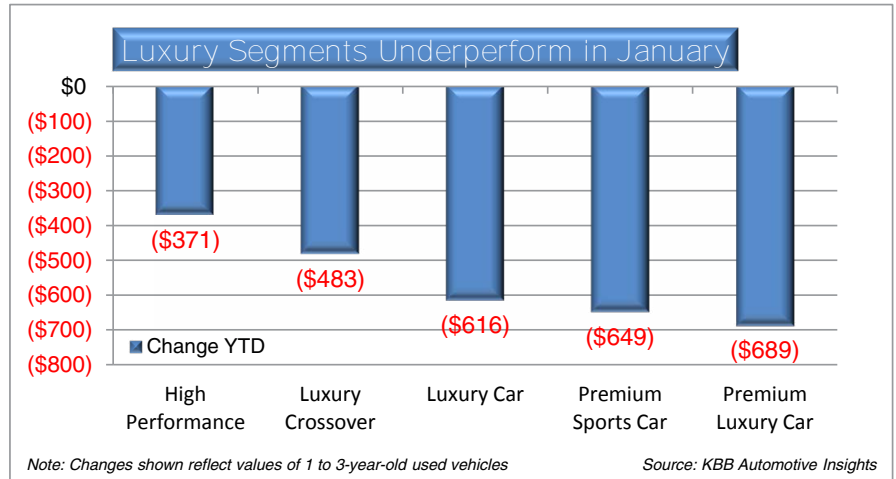
“THE STRENGTH OF THE CHEVROLET CRUZE AND HYUNDAI ELANTRA REDESIGNS PUSHED THESE MODELS' VALUES PAST THEIR COMPETITORS, ALSO OUTPERFORMING THE GENERATION THEY ARE REPLACING AND DRIVING UP VALUES FOR THE OVERALL SEGMENT CONSIDERABLY.”

- ALEC GUTIERREZ

Slow Economic Recovery, High-Quality Non-Luxury Vehicles Push Luxury Values Down in January

Although used-car values were up overall in January, values for used luxury and high-performance vehicles fell in contrast to most of the market. The premium luxury segment saw the greatest decline, dropping nearly \$700 in January alone, while premium sport and luxury cars both are down by more than \$600 so far in 2012. Also underperforming the rest of the market are luxury crossovers, down by approximately \$480, and high-performance vehicles, which decreased by \$371 from the beginning of the year.

The relatively poor performance of these segments can be attributed to the continuing economic uncertainty faced by buyers. While the fourth quarter offered hope of a potential recovery, headwinds in the form of an unstable housing recovery, ongoing high unemployment, decreased consumer confidence and the Eurozone debt crisis make it likely that the rate of economic growth will remain slow. At this point, consumers are keeping a tighter rein on their finances, and the demand for used luxury vehicles decreased accordingly. Consumers' willingness to pay a premium for a used luxury vehicle may also be decreasing in response to improvements in the quality of non-luxury vehicles. Increasingly tough competition between manufacturers has led to an overall rise in quality, perhaps most noticeably for interiors, thanks to a more prevalent use of upscale and soft-touch materials. A budget-minded shopper in the currently anemic economy may not be as keen to pay this premium, given the rapidly expanding availability of lower-priced vehicles with steadily improving material quality.



“ AT THIS POINT, CONSUMERS ARE KEEPING A TIGHTER REIN ON THEIR FINANCES, AND THE DEMAND FOR USED LUXURY VEHICLES DECREASED ACCORDINGLY. CONSUMERS' WILLINGNESS TO PAY A PREMIUM FOR A USED LUXURY VEHICLE MAY ALSO BE DECREASING IN RESPONSE TO IMPROVEMENTS IN THE QUALITY OF NON-LUXURY VEHICLES.”

- ALEC GUTIERREZ

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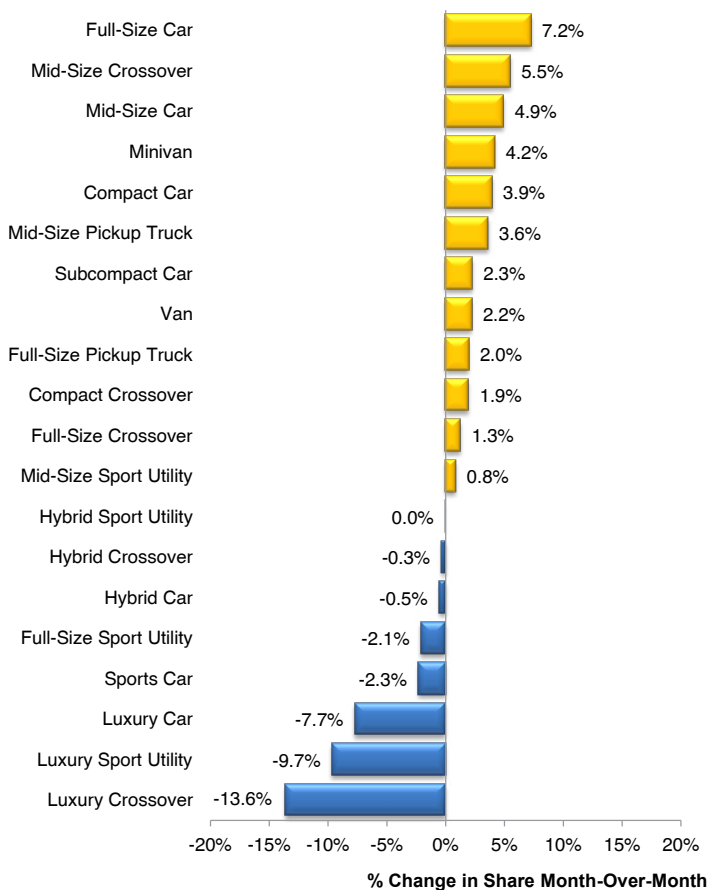
Retired Domestic Models Driving Consumer Interest in 2012

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

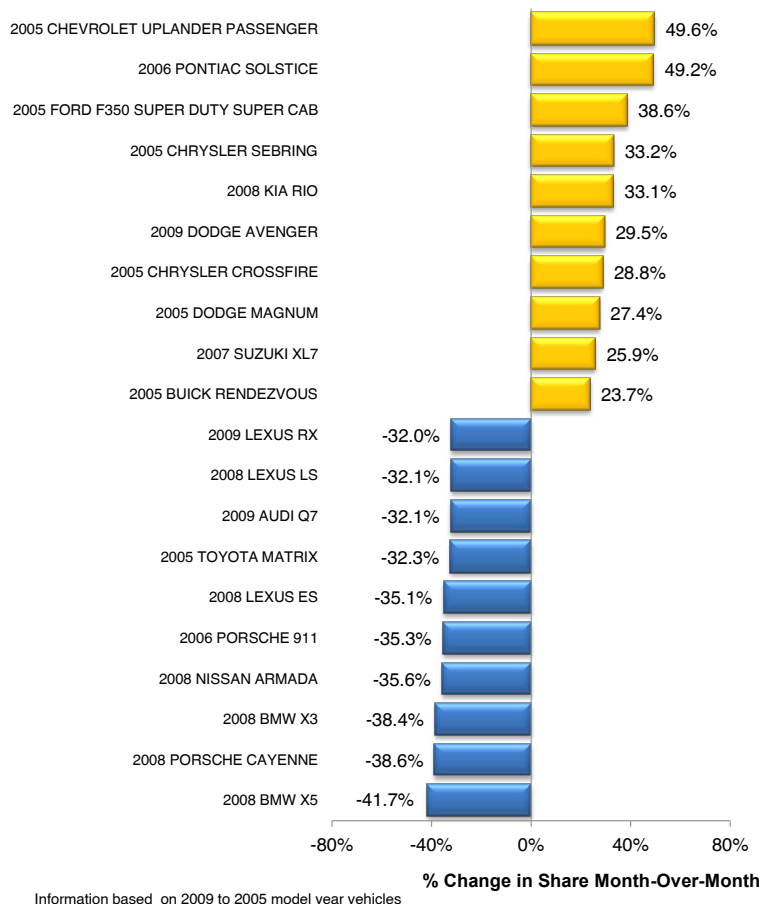
Kelley Blue Book's Hot Used-Car Report captures monthly used-car shopper activity on kbb.com, including a list of the top and bottom movers in the same time period. Results are provided by the Kelley Blue Book Market Intelligence Team, in an effort to help dealers better understand which used vehicles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

Used-car shoppers are searching for the best possible deal on a vehicle that best fits their needs. Starting in the new year, consumers have moved toward used domestic vehicles. Eight of the top 10 risers hail from Motor City. Chrysler Group has the most vehicles represented in the list with four featured models, including vehicles like the 2005 Chrysler Sebring and 2009 Dodge Avenger. However, the 2005 Chevrolet Uplander gains top honors as the vehicle with the greatest percentage of month-over-month change. Another trend is an increased interest in discontinued models, and in this scenario eight of the 10 vehicles are no longer available in the new-car market, such as the 2006 Pontiac Solstice. This shift to retired domestic vehicles is the result of abundant inventory, which caused a lower price point for these vehicles. The majority of the vehicles on display was over produced in the tail-end of their product cycle and highly penetrated with fleet sales. Dealers should be experiencing an increase in domestic inventories, but should be able to move them as demand continues.

Monthly Used-Car Shopping Activity Growth Segments



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



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