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# BLUE BOOK Market Report

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Analysis from Kelley Blue Book's Analytic Insights Team

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## In This Issue:

### MARKET ANALYSIS

December Closes at 13.4 Million SAAR, 12.8 Million Total Sales for 2011

Kelley Blue Book Projects 13.3 Million Sales in 2012

Despite Recent Improvements, Unemployment to Remain High through 2012

More...

### LATEST HOT USED-CAR REPORT

Winter Demand for Full-Size Models in Full Effect

## MARKET ANALYSIS:

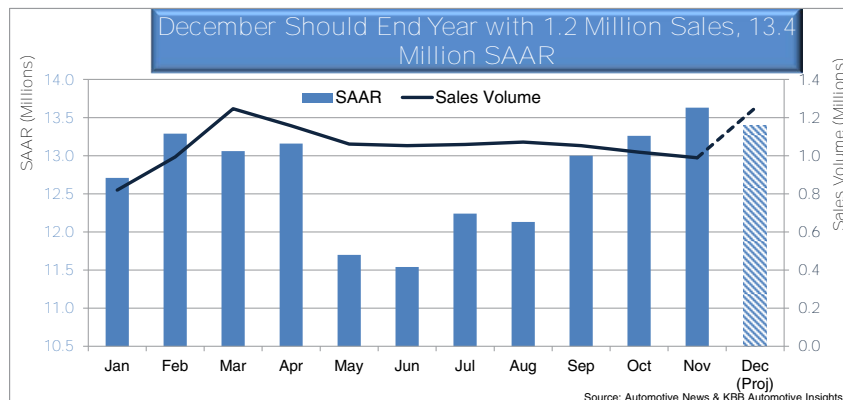
### December Closes at 13.4 Million SAAR, 12.8 Million Total Sales for 2011

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

At the time of this report, more than 1.2 million vehicles are expected to be sold in December as shoppers that waited until year-end to find the best deals were greeted by zero percent finance offers, affordable lease opportunities, improved selection and modest cash rebates. This marks the strongest December since 2007 and is 6 percent higher than December 2010. The 1.2 million vehicles sold in December equates to an annualized rate of approximately 13.4 million units overall, which gives a strong indication that 2012 will continue to build upon the momentum that has been driving sales since the market bottomed in 2009. After the December push, we will close 2011 with nearly 12.8 million vehicle sales overall, a 10 percent improvement from 2010.

Sales in 2011 were especially strong when we consider the challenges that impacted manufacturers and consumers throughout the year. Natural disasters, inventory shortages, \$4.00/gallon gas, a shaky economic recovery and volatile financial markets were among the many factors that could have derailed sales momentum. Despite these obstacles, sales remained steady, perhaps indicating that only a handful of variables truly impact auto sales. Among the various economic indicators that could potentially impact sales, we found that unemployment, housing and consumer confidence are among the most influential. These factors remained relatively stable through 2011, keeping sales steady through most of the year.

Although a flat housing market and slightly improved unemployment figures didn't impact sales meaningfully in 2011, many believed the drop in consumer confidence in August from the U.S. debt rating downgrade would be enough to curtail sales growth. Sales forged ahead, proving that consumers have grown thicker skin after experiencing the many ups and downs since 2008. Even the earthquake in Japan had little impact on sales momentum through 2011. As inventory levels for Toyota and Honda dropped, most consumers sought alternatives from domestic and Korean manufacturers rather than delaying their purchase. Now that inventory levels have returned, shoppers are once again strongly considering Toyota and Honda, so expect a rebound in sales and share for both brands early in 2012. With so many competitive products available today, the industry is better suited to tolerate isolated production and inventory shortages. This year proved that new-vehicle demand is growing steadily and Kelley Blue Book believes sales in 2012 will certainly reflect this.



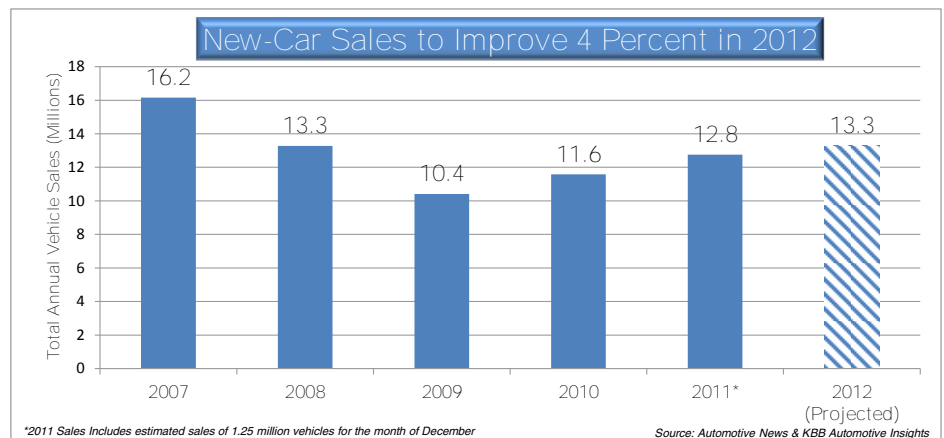
## Kelley Blue Book Projects 13.3 Million Sales in 2012

Industry sales will likely hit 13.3 million units in 2012, a 5 percent improvement from the 12.7 million units sold expected in 2011. Sales improved considerably since 2009 when only 10.5 million vehicles were sold in the U.S.; however, we remain far below the 16 to 17 million unit sales of the early 2000s. Strong sales figures through the early part of the last decade were largely driven by the easy credit and low interest rates that fueled the real estate bubble that gave consumers a false sense of financial security. Consumer confidence soared as homeowners saw their home values double in just a few short years, providing a sense of financial freedom that turned out to be mostly illusory. Many consumers purchased vehicles they didn't need and once the real estate bubble burst in 2008, new-vehicle sales dropped precipitously.

“SALES GROWTH IS PRIMARILY DRIVEN BY NEED AND AS THE AVERAGE AGE OF VEHICLES ON THE ROAD TODAY APPROACHES 11 YEARS, CONSUMERS WILL HIT SHOWROOMS FOR REPLACEMENT VEHICLES...”

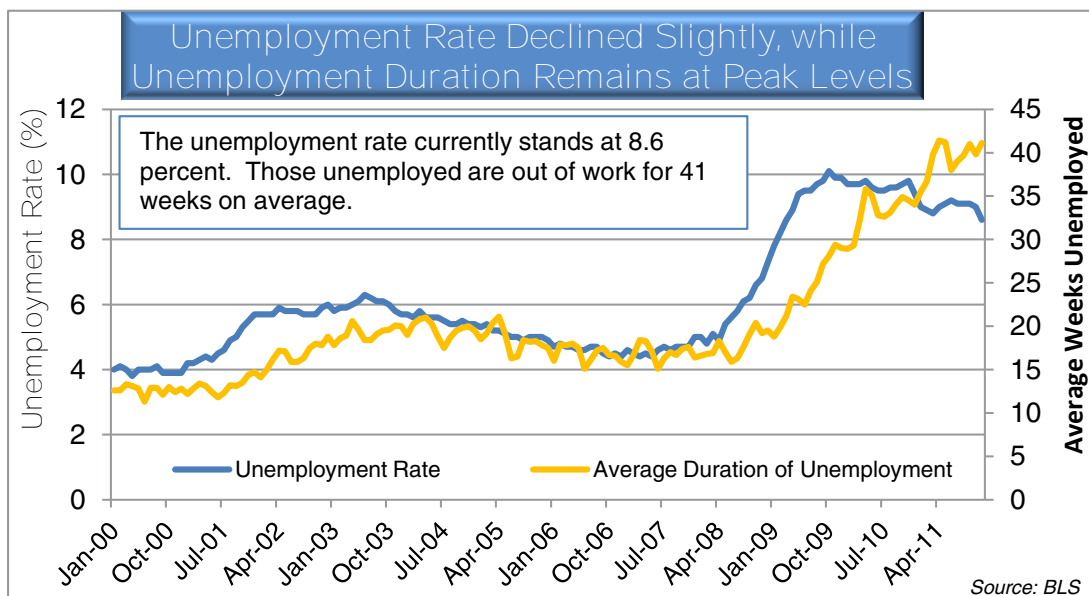
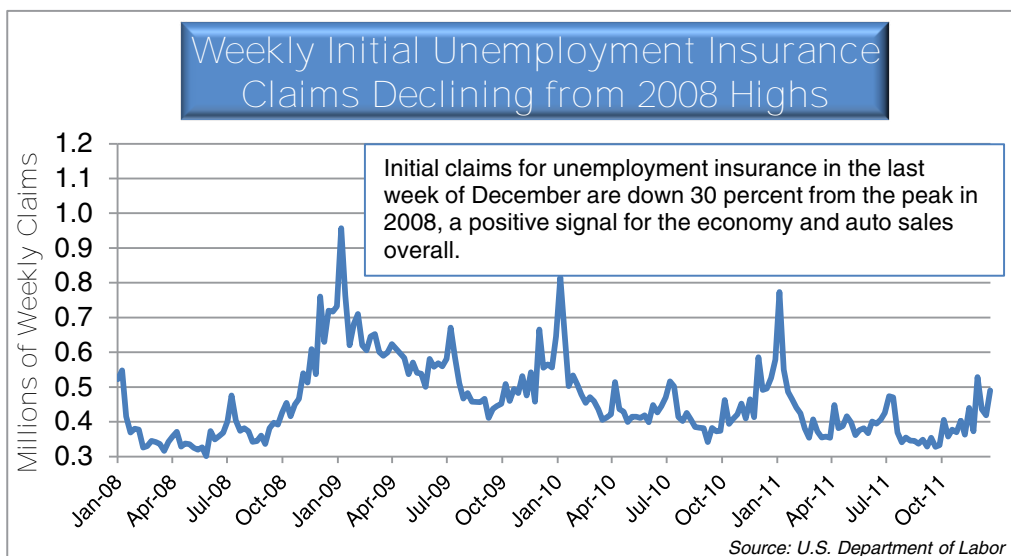
ALEC GUTIERREZ

Today, economic reality has hit most consumers and even zero percent interest rates and increased credit availability have done little to improve the housing market, reduce unemployment, or return auto sales to their 16 million unit or more highs. Sales grew nearly 10 percent in both 2010 and 2011, and we believe that while sales will continue to grow in 2012, the rate of growth will subside over the next few years. Sales growth is primarily driven by need and as the average age of vehicles on the road today approaches 11 years, consumers will hit showrooms for replacement vehicles. Although increasing vehicle age certainly contributes to sales growth, we have found that housing, unemployment and consumer confidence are the most highly correlated variables to consider when forecasting vehicle sales. As the 2012 forecast was developed, Kelley Blue Book concluded that modest improvements in unemployment will likely help to improve sales in 2012 while housing and consumer confidence, both of which are projected to remain flat, will not help or hurt sales. Industry sales should improve moderately in 2012, but there are downside risks to consider that could negatively impact sales growth in the new year.



## Despite Recent Improvements, Unemployment to Remain High through 2012

Unemployment has improved and although there are positive signs, we do not anticipate a significant reduction in the unemployment rate through 2012. On an encouraging note, initial claims for unemployment have dropped in each of the last three weeks, more than 100,000 jobs were created in each of the last three months (possibly seasonal hires) and the unemployment rate dropped from 9 percent to 8.6 percent in the last month. However, we have to consider that approximately 250,000 jobs per month are needed to make a meaningful dent in the unemployment rate. It also is wise to view any significant changes in the official unemployment rate (U3) with a healthy bit of skepticism. If we look to U6 (currently 15.3 percent), which includes discouraged workers and those that have settled on a part-time position in lieu of a full-time job, a more complete unemployment picture emerges; most troubling is the length of time it takes on average to find a new position. The average duration of unemployment has grown consistently since 2008 and currently stands at a high 41 weeks. Unemployment will likely continue to improve moderately (a few tenths of a percent at best) which should aid in a modest increase in vehicle sales next year.

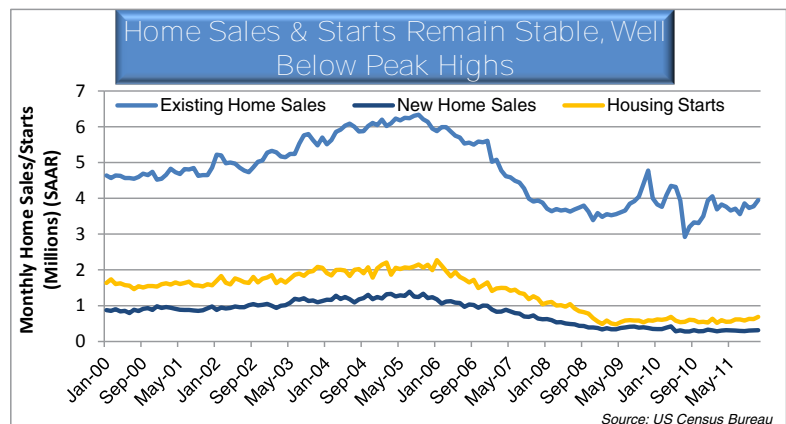
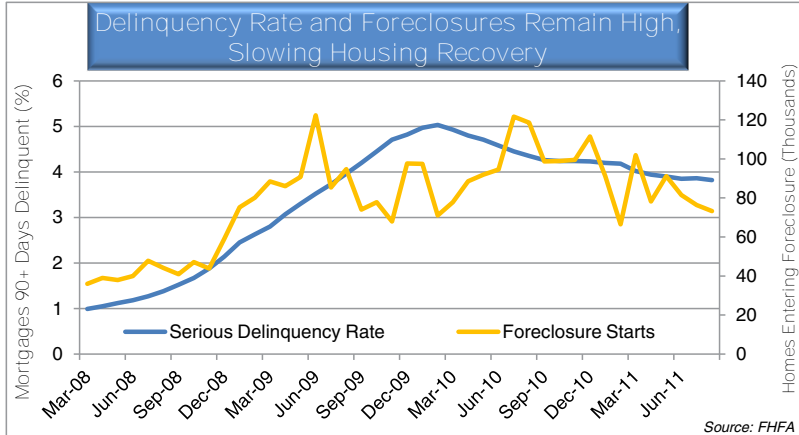


## Euro Debt Crisis, Middle East Conflicts Could Pose Threats to U.S. Economy and Auto Sales in 2012

The global economy remains a major concern in 2012 and could pose a major setback in sales growth. A lack of a sustainable long-term debt reduction plan in either Europe or the United States poses significant downside risk to the global financial sector. If the financial sector were to suffer a significant shock, the U.S. could slip back into recession or at a minimum consumer confidence could take a hit. A prolonged drop in consumer confidence would negatively impact sales, although short-term swings can generally be tolerated. Finally, fuel prices should remain a concern especially given the continued conflicts in the Middle East and the potential for additional conflict with Iran. In the worst case scenario, rising oil prices resulting from Middle East conflicts could slow down the economy and drive the U.S. back into a recession. Oil prices today are expected to remain relatively stable in 2012, at close to \$100 per barrel overall, provided that things remain stable overseas.

## Housing Not Likely to Improve in 2012, Continues to Limit Sales Growth

The housing market will remain stable in 2012; however, we don't anticipate a significant rebound given the large number of homes that are in the process of foreclosure or seriously delinquent. According to the U.S. Federal Housing Finance Agency (FHFA), currently 4 percent of all homes are seriously delinquent, a four-fold increase compared to early 2008. In addition, 80,000 homes per month enter the foreclosure process; twice the number that was reported as of early 2008. Given the significant number of homes that are underwater, delinquent or in some stage of the foreclosure process, it will be several years before home sales or prices begin to recover. While the declines have subsided, home sales, prices and starts have remained relatively flat. Those consumers that own a home that is underwater or in the process of a foreclosure will likely stay out of the car market unless it is absolutely necessary. The housing market will continue to drag down new-vehicle sales for at least the next several years.

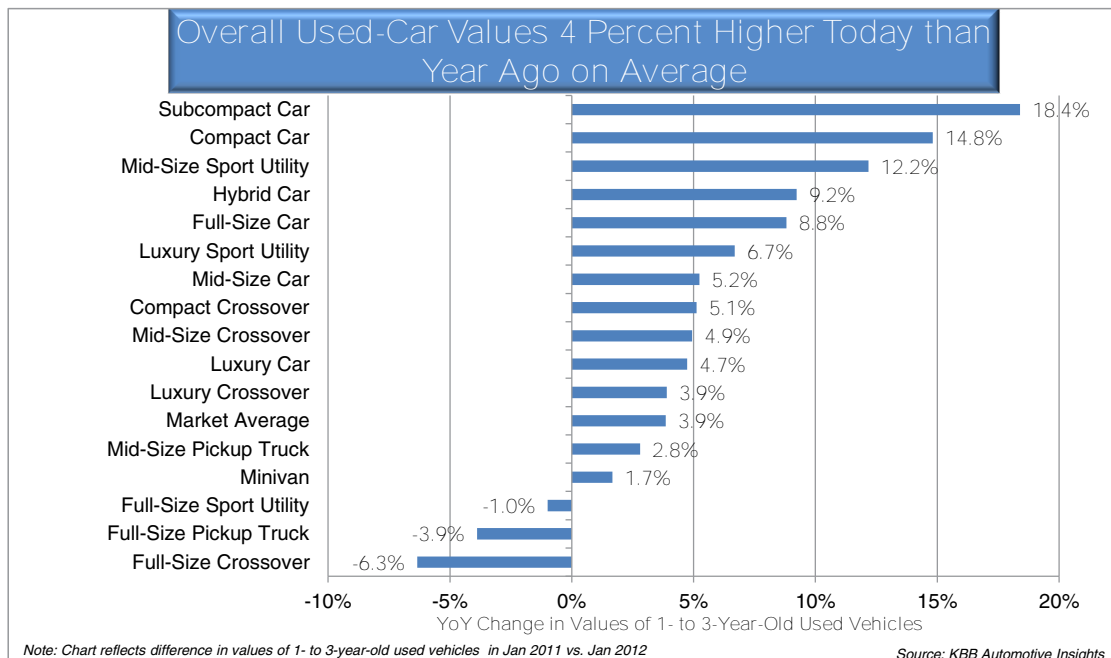


## Used-Car Values Will Remain Strong in 2012

Used-car values ended the year with a soft landing, closing out December with a modest 1.2 percent drop overall in values of 1- to 3-year-old vehicles. Despite recent declines, values ended the year up nearly 4 percent year-over-year, continuing the annual increases in used-car values trend that began in 2009. We believe that used-car values will remain strong in 2012, especially since lease returns are expected to be at an all-time low until March 2013. With an expected lack of lease returns at auction, we are projecting used-car values to increase 3 to 5 percent through the first quarter of 2012 alone. The most significant gains will likely continue to come from compact cars and crossovers, which have been in high demand due to a weak economy and relatively high gas prices. Values for 1- to 3-year-old compact cars are 15 percent higher today than in January 2011, while compact crossovers increased more than 5 percent through the same period. These vehicles will continue to be in high demand in 2012 as consumers seek value and fuel-efficiency in their used-car purchases.

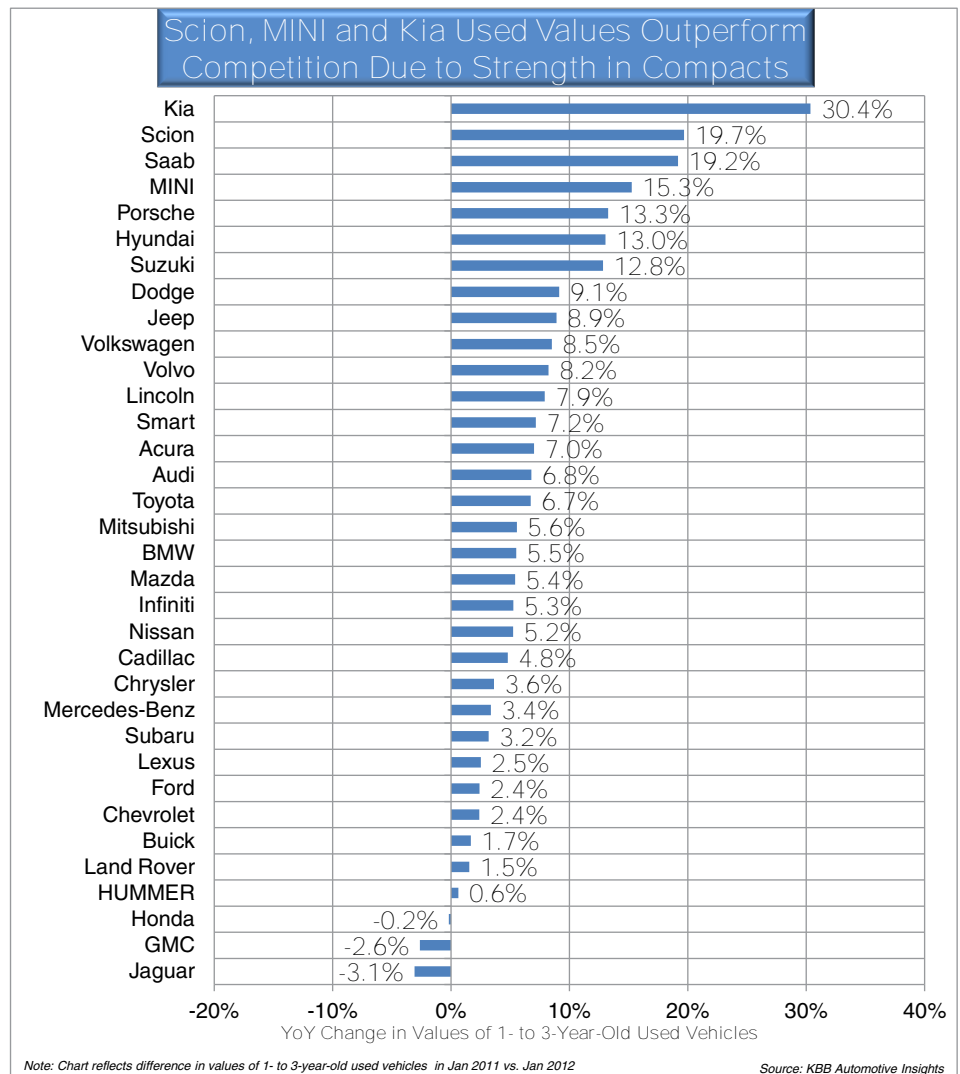
“WITH AN EXPECTED LACK OF LEASE RETURNS AT AUCTION, WE ARE PROJECTING USED-CAR VALUES TO INCREASE 3 TO 5 PERCENT THROUGH THE FIRST QUARTER OF 2012 ALONE. THE MOST SIGNIFICANT GAINS WILL LIKELY CONTINUE TO COME FROM COMPACT CARS AND CROSSOVERS...”

ALEC GUTIERREZ



## Scion, MINI and Kia among Best Performing Brands of the Year

Used-car values are up 4 percent year-over-year with several brands emerging as leaders in the industry. Kia is up more than 20 percent since last year, while the Scion and MINI brands have improved by 19.7 percent and 15.3 percent, respectively. The relative strength of Scion and MINI can be attributed to their focused product portfolios, which consist entirely of compact and subcompact cars. These segments continue to outperform the overall market despite significant depreciation since peaking in June, with subcompact cars increasing more than 18 percent and a compact cars jump to nearly 15 percent since last year. Although Kia offers a wider range of vehicles than either Scion or MINI, demand was strong enough to offset the more heavily depreciating vehicles in Kia's product lineup. Well-received redesigns like the all-new Optima ensured consumers' continued interest in the Kia brand. As mentioned in last month's report, vehicles with higher rental-fleet volume such as the Kia Rio provided strong values at auction, thanks to the great value they represent in the current market.



*This commentary focuses on model years 2008-2010. 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.*

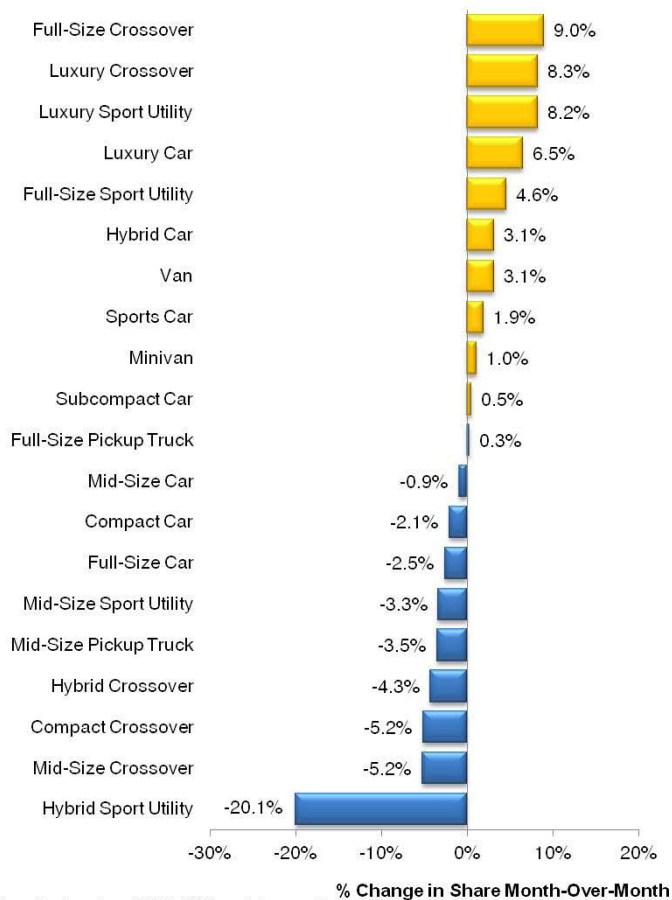
## Winter Demand for Full-Size Models in Full Effect

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

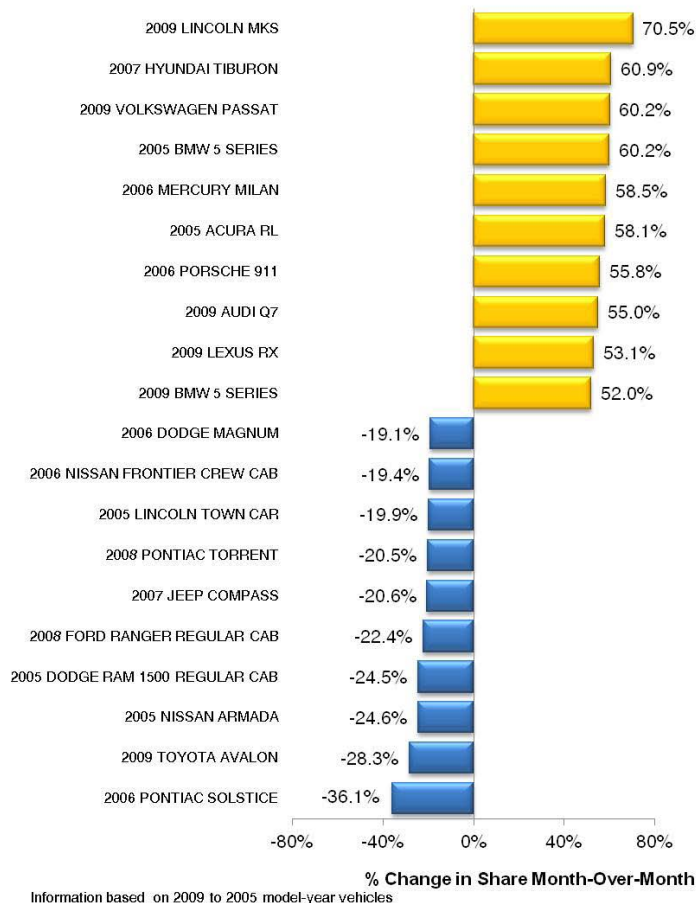
Kelley Blue Book's Hot Used-Car Report captures monthly used-car shopper activity on kbb.com, including a list of the top and bottom movers in the same time period. Results are provided by the Kelley Blue Book Market Intelligence Team, in an effort to help dealers better understand which used vehicles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

As we approached year-end, kbb.com shoppers clearly took advantage of clearance deals being offered by manufacturers. These new-car deals helped drive interest in the used-car counterparts. The used segments benefitting from the boost in consumer research are full-size SUVs, crossovers and luxury vehicles. Full-size crossovers jumped 9 percent in traffic share on kbb.com. This increase happened across all vehicles in the segment, with the range of growth occurring between the 2009 Chevrolet Traverse (up 42 percent) and 2008 Saturn Outlook (up 4 percent). Another segment with a significant increase in share of traffic is the luxury crossover segment. However, its increase in share is driven specifically by the 2009 Audi Q7, which increased 55 percent month-over-month. In addition to the deals, with winter in full effect, these trends are likely to continue as consumers demand vehicles that can handle the harsh road conditions.

### Monthly Used-Car Shopping Activity Growth Segments



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



### About Kelley Blue Book ([www.kbb.com](http://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](http://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.