



# BLUE BOOK Market Report

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Automotive Insights from Kelley Blue Book

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## NEW-CAR MARKET ANALYSIS:

### Hurricane Sandy Lowers October Sales Results

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

The devastation left in the wake of Hurricane Sandy will have far-reaching implications for the auto industry that will likely last into the first quarter of 2013. Even in the days leading up to the storm, there was speculation that thousands of potential car shoppers in the Northeast would stay away from dealerships as they prepared for the worst. Once the storm hit, it became clear that October sales were going to miss original expectations. Final new-vehicle sales for October came in at a 7 percent year-over-year gain, well below Kelley Blue Book's initial forecast for a 10.7 percent year-over-year gain. Our estimates put the total loss of new-vehicle sales well in excess of 20,000 units in October. Since the impacted region typically accounts for more than 20 percent of all vehicles sold in the United States, Kelley Blue Book expects sales to remain suppressed in the short term, until the region is able to fully recover.

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-ALEC GUTIERREZ

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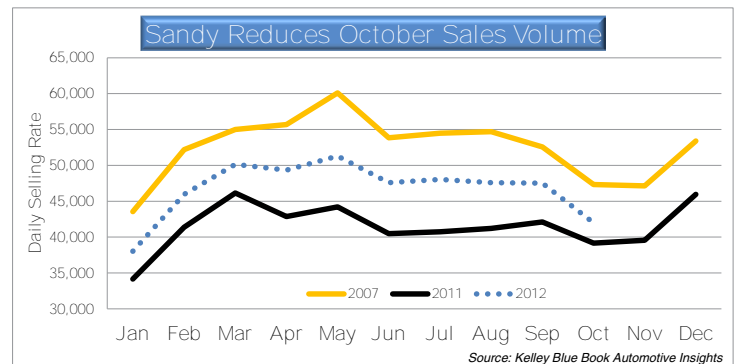
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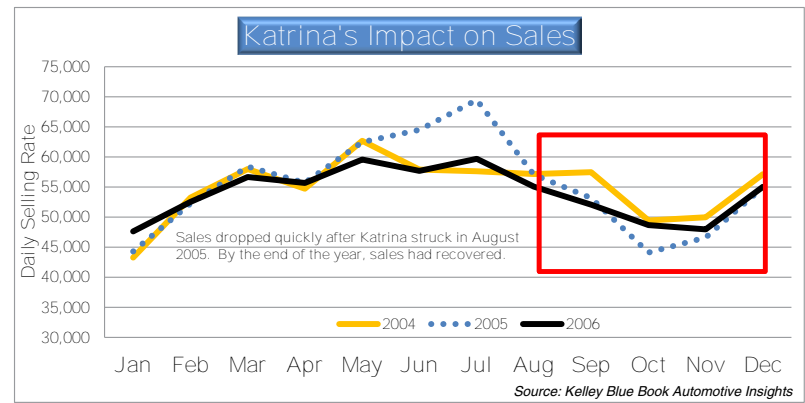
### Sandy to Limit Short-Term Sales, Drive Long-Term Growth

With hundreds of thousands of residents and many dealers still without power and struggling to recover from the devastating effects of the storm, Kelley Blue Book believes new-vehicle sales will also be impacted in November. To determine the potential impact to future auto sales, it is important to assess the storm's effect on both supply and demand.

In terms of supply, early estimates put the total loss of new-vehicle inventory near 15,000 units overall so far. While this certainly is not an insignificant sum, Kelley Blue Book believes the affected automakers will be able to overcome the inventory loss in the long run. To put things into context, according to new-vehicle listings on Autotrader.com as of October 30, 2012, Toyota had more than 40,000 new vehicles available for sale in inventory across New York, New Jersey, Pennsylvania and Massachusetts, while Nissan had more than 30,000 units, and Honda had more than 35,000 units. Although the inventory loss will impact some dealers more than others, it should only take 6 to 8 weeks for the hardest hit dealers to receive additional allocation from the manufacturer. While new-vehicle supply has taken a hit in the short term, franchised dealers should be able to recover quickly.

Although supply will remain suppressed in the short term, demand should jump up aggressively in the months to come. Early reports suggest that the total number of vehicles destroyed by the storm could range from tens of thousands of units to several hundred thousand units overall. This could be a boon to local dealers expecting to see an influx of demand as the recovery moves forward. It will be difficult to determine when consumers will be ready to return to market; however, it is likely that most will need to find replacement vehicles sooner rather than later. It may take time for these consumers to return to market as some will need to wait for their insurance check, others remain more focused on repairing damage to their home and many seek a new place to live.

By the time it is all said and done, Kelley Blue Book believes the industry will see a net gain in the number of vehicles sold during the next several months. Sales will be supported by buyers who delayed their purchase due to the storm, as well as consumers seeking replacement vehicles. In fact, when Kelley Blue Book examined data from 2005 when Hurricane Katrina hit the Gulf Coast, it is clear that although sales dipped immediately following the hurricane's arrival in August 2005, they were back on track before the end of the



year. In fact, 2005 ended with nearly 17 million vehicles sold, surpassing the already robust sales total of 2004. Even if the number of vehicles destroyed by Hurricane Sandy approaches the same hundreds of thousands of vehicles destroyed by Hurricane Katrina, it only will be a matter of time before sales are back on track. In fact, Kelley Blue Book believes the number of additional sales generated by consumers seeking replacement vehicles will more than offset the sales lost due to the storm.

## Dealers and Consumers Should Watch Out for Flood-Damaged Vehicles

Consumers and dealers alike should keep a keen eye out for vehicles that have sustained significant flood damage in the coming weeks and months. Vehicles that sustained flood damage will be brandished with a salvaged title if it was deemed totaled by an insurance agency. Car shoppers are advised to pull a vehicle history report to ensure flood damage doesn't appear on the title. This will help consumers avoid being stuck with a vehicle that may have electrical or other major issues down the road.

Due to the complexity of most modern vehicles and their heavy reliance on computer processors and other electronic devices, consumers should avoid vehicles with flood damage like the plague. While a vehicle history report will catch the majority of vehicles that have been identified as having significant flood damage, shoppers should be aware of how to identify signs of water damage on their own. While the bulk of these vehicles will be sold in the Northeast region, some will be shipped to other parts of the country to try and unload the vehicle to an unsuspecting consumer. Those in the market for a used car in the near future should check the following to ensure a vehicle has not sustained significant flood damage.

### Check all electronic components

Do the dash lights shine brightly? Are the warning indicator lights working properly? Do all electronic accessories work flawlessly? If you answered no to any of these questions, you may have a vehicle with flood damage on your hands.

### Give the vehicle a sniff test

Does the car in question smell of mildew? This could be a sign of previous flood damage. If you can't tell right away, sit in the car and close the doors and windows to ensure the smell of mildew doesn't exist.

### Check hard-to-clean areas for silt or other residue that doesn't belong

If the door jams, trunk or other hard-to-clean areas are covered in silt, or if any other out-of-place debris is found in the vehicle, it may have been damaged in a flood. Look for signs of a water line along the interior of the car or in the trunk as further evidence of previous flood damage.

### Give the vehicle a thorough interior and exterior inspection

You would be surprised how easy it can be to spot flood damage just by crawling around a vehicle and really looking at the details. Touch the carpets and fabrics to see if there is any moisture. Check the fabrics for dark water spots. Check the exterior for signs of rust or other corrosion. Any of these can be a potential red flag that points to a water-damaged car.

## The Fiscal Cliff Looms Ahead

Now that the Presidential election is over, the United States can focus on the looming Fiscal Cliff that is drawing closer. Both the Bush-era tax cuts and a 2 percentage point payroll tax deduction are on the chopping block, and if allowed to expire, the population could see an already sluggishly growing economy slump into reverse. This is bad news for those banking on vehicle sales continuing their recovery into 2013. While each of these tax cuts could negatively impact the auto industry if allowed to expire at the end of this year, the payroll tax holiday is perhaps of most importance to the average car buyer.

A 2 percent bump in taxes on a household earning \$100,000 per year would equate to \$2,000 per year in additional taxes, or roughly \$166 per month. This sum is equivalent to a lease payment on a brand-new subcompact and covers about half of a typical car payment on a mid-size sedan. If this tax break is allowed to expire, given the fact that many household budgets already are stretched as far they can go, this could put some buyers on the fence about staying out of the market.

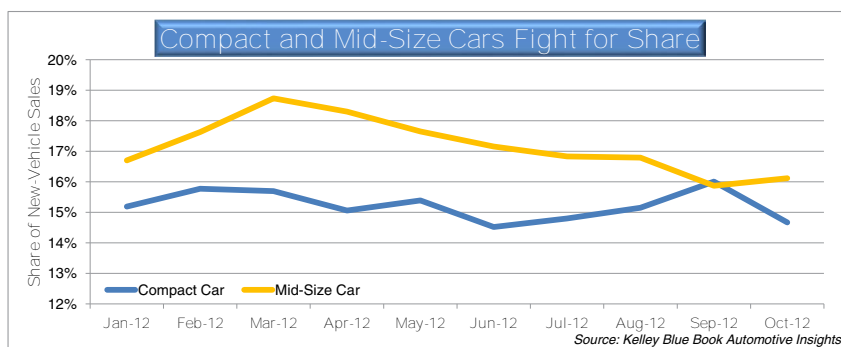
Unless the economy slips back into recession, the industry is still bullish on new-vehicle sales for 2013. Kelley Blue Book expects an annual increase of 300,000 to 500,000 consumers reaching the end of their lease term in 2013, which should help drive sales even if economic growth slows down. Kelley Blue Book also anticipates consumers impacted by Hurricane Sandy will continue to seek replacement vehicles into 2013, which will help keep demand strong. Now that the election is behind us, the nation will be waiting on pins and needles as the President and Congress work together to address the looming Fiscal Cliff.

## Mid-Size and Compact Sedans Continue Fight for Market Supremacy

With the economy growing at a snail's pace, consumers are more budget conscious than ever before.

Consumers in the market for a new or used car today are most concerned with purchasing vehicles with high fuel economy that won't cost an arm and a leg to purchase or maintain. In fact, according to the 3rd Quarter Consumer Sentiment Survey conducted by Kelley Blue Book's Market Intelligence Group, approximately 18 percent of new-car shoppers indicated that they were in-market to buy a vehicle that had better fuel economy than their current car. This could explain why the best-selling cars in the marketplace continue to be mid-size cars, compact cars and small crossovers.

The mid-size and compact segments have been especially strong this year, thanks to the impressive redesigns and introductions that have entered the market during the past 24 months. In just the past two years, nearly every compact and mid-size sedan produced by every major manufacturer has undergone a full redesign. Manufacturers have focused on ensuring their newest product offerings provide a fresh look, upscale interior and all of the bells and whistles consumers could ask for at a reasonable price.

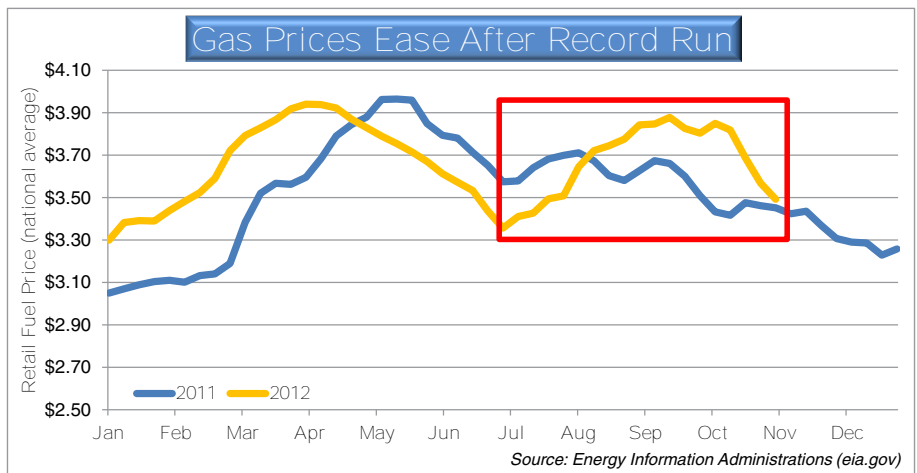


Perhaps more important than the traditional measures of a successful redesign has been the significant improvement in fuel economy for nearly every vehicle in these categories. Forty mpg has clearly become the target for the industry, and consumers now have more options to buy a vehicle that meets their needs and still delivers excellent fuel economy. The mid-size segment has made especially notable strides. The Nissan Altima, Honda Accord, Ford Fusion, Toyota Camry and Chevrolet Malibu were redesigned this year and each provides more than 35 mpg on the highway. With Corporate Average Fuel Economy (CAFE) standards expected to hit 54.5 mpg by 2025, Kelley Blue Book expects fuel economy gains to continue at a quick pace in the years to come.

## Gas Prices Finally Headed Back Down Nationally; East Coast Residents Face Shortages

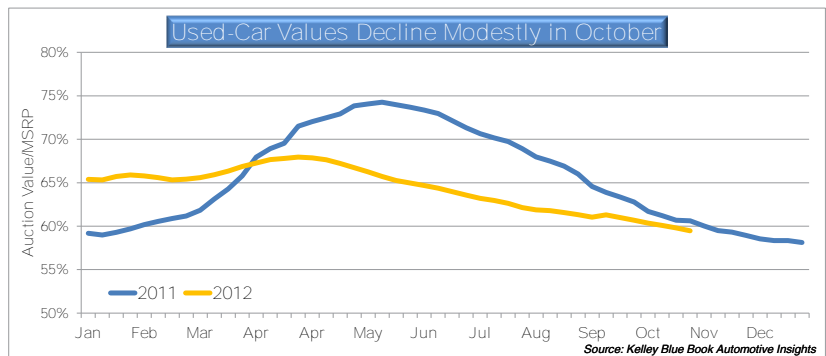
After months of record high fuel prices, most consumers are finally feeling some relief at the pump. Fuel prices have declined \$0.35 per gallon across the United States since the start of October and by nearly \$0.70 per gallon in California, where a refinery fire sent fuel prices skyrocketing in early September. With fuel prices finally subsiding, Kelley Blue Book expects demand for small cars to level off. This already was evident last month when sales of new compact cars dropped from 16 percent market share in September to 14.7 percent market share in October. Values of used compacts also were relatively soft in October, declining 1.8 percent, while subcompacts dropped 2.1 percent. The drop in fuel prices is a welcomed change after a year of record high gas prices.

Although fuel prices are declining quickly across the country, the East Coast continues to face fuel shortages, long lines and high gas prices due to the devastation brought on by Hurricane Sandy. It could take several weeks, if not longer, for supply to return to the East Coast. In fact, according to the Energy Information Agency's emergency survey of gasoline availability released on November 7, 2012, 38 percent of gas stations in the New York metropolitan area reported that they do not have gasoline available for sale. According to gasbuddy.com, fuel prices have jumped \$0.20 per gallon on average in New York since the storm hit, and potentially much more than that in areas where gas is especially hard to come by.



## Used-Car Values Could Have Temporary Boost Due to Hurricane Sandy

Used-car values were relatively flat in October with a scant 1.5 percent drop overall, putting them down only 1 percent year-over-year. Prior to the arrival of Hurricane Sandy, auction activity had settled into a typical fourth quarter seasonal slowdown. Although Kelley Blue Book hasn't seen a significant surge in wholesale values just yet, it anticipates values to creep up as inventory shifts to the East Coast to assist with the ongoing recovery efforts. While information coming out of the storm's affected regions remains murky, Kelley Blue Book anticipates vehicles will need to be made available to satisfy consumer demand, as well as fleets and businesses that need to replace damaged and destroyed cars.



VALUES OF OLDER USED VEHICLES MAY SEE AN ESPECIALLY STRONG JUMP, AS SHOPPERS WITH BAD CREDIT THAT NEED A REPLACEMENT VEHICLE SEEK THE MOST AFFORDABLE MODELS AVAILABLE FOR SALE.

- ALEC GUTIERREZ

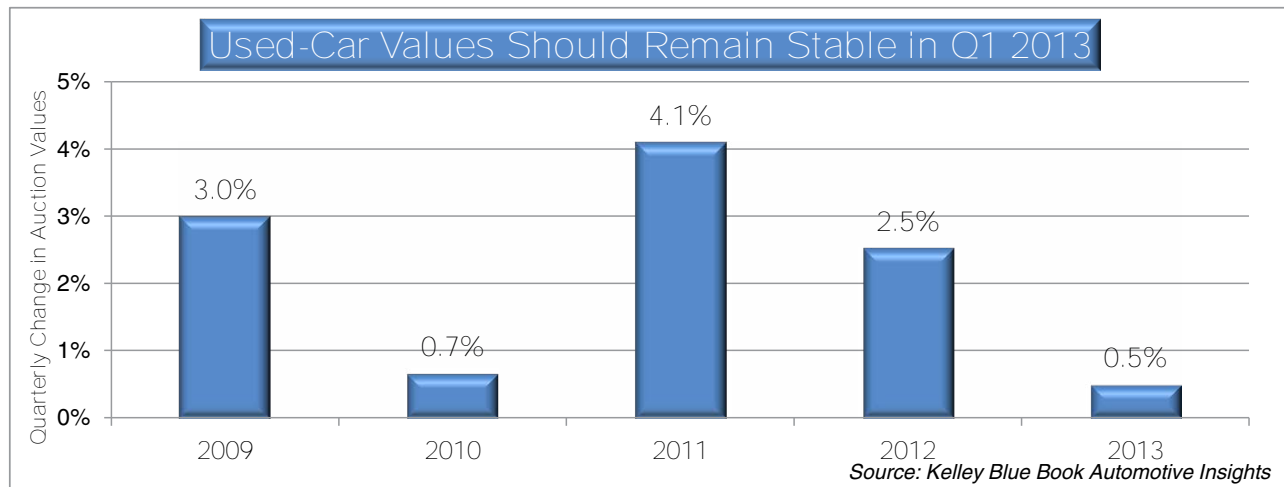
Since the storm hit so late in the year, Kelley Blue Book believes increased demand on the East Coast will only mute the market's typical decline through this time period. Rather than the expected 1 to 2 percent decline per month during the fourth quarter, Kelley Blue Book expects values to remain relatively flat nationally. However, on the East Coast, strong demand from dealers looking

to replace damaged inventory will drive values higher in the short term. Values of older used vehicles may see an especially strong jump, as shoppers with bad credit that need a replacement vehicle seek the most affordable models available for sale. Demand from impacted franchised dealers likely will be particularly strong since they will need to replace both new and used inventory as quickly as possible. Since it may take 6 to 8 weeks for franchised dealers to receive additional new-vehicle allocation, they will supplement this lost new-car inventory with additional used vehicles, raising values in the short term.

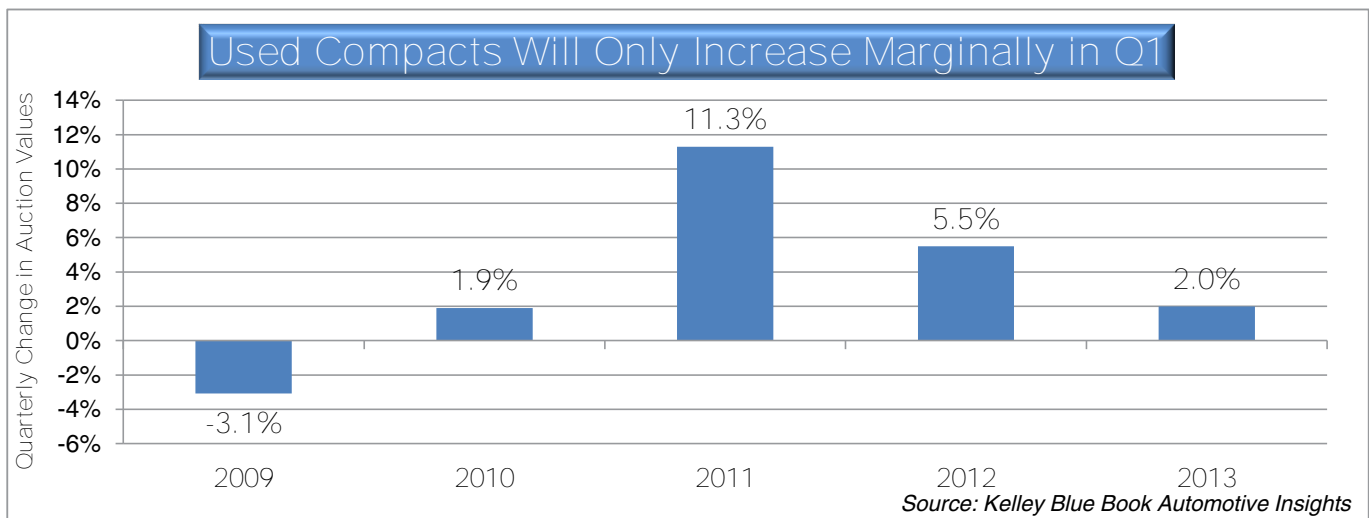
If we look back to Hurricane Katrina's impact on used-car values in 2005, analysts get a reasonable estimate of the level of price appreciation to be seen at auction this year. When Hurricane Katrina hit, Kelley Blue Book® Values increased more than 2 to 3 percent in the affected area from the time the storm hit in August until year-end. This year, Kelley Blue Book believes that while we may see some price appreciation on the East Coast, from a national perspective, values will remain relatively flat. One factor that distinguishes Sandy from Hurricane Katrina and its expected impact on the wholesale market is the location of the storm. Since Sandy devastated so many high-traffic ports along the East Coast, the industry could see a temporary halt to those buyers that export vehicles for sale across the Atlantic. Many dealers believe that exporters drive auction values higher since their customers in Europe, Russia and China are willing to pay significant premiums for certain vehicles. With exporters likely staying out of the market for a short period of time, this could help to mitigate the potential price appreciation related to Hurricane Sandy.

## First Quarter 2013 Used-Vehicle Forecast

The first quarter typically brings with it a surge in transaction prices at auction as dealers stock inventory in preparation for the spring selling season. In 2013, Kelley Blue Book forecasts an increase in wholesale values will be muted by an increase in supply that is expected to arrive at auction early next year. Our forecast places used-car gains in the neighborhood of zero to 1 percent, which is well below the 2.5 percent gain that occurred during the first quarter of this year. Similar to the first quarter of 2011, values were driven up this year by a spike in fuel prices approaching \$4.00 per gallon. Assuming fuel prices remain near \$3.50 per gallon in Q1 and supply increases as expected, Kelley Blue Book anticipates the market to remain relatively flat through the first quarter. The increase in supply will be driven by a surge in lease returns that Kelley Blue Book believes could increase by as much 100,000 units year-over-year in Q1.



Values of small cars and hybrids will potentially outperform overall expectations for the industry. Assuming fuel prices don't spike beyond \$3.75 per gallon in Q1, Kelley Blue Book expects values of small cars to increase 2 percent, which is beyond the overall industry average and below what occurred in 2011 and 2012, when fuel prices hit record highs in the early part of the year. These vehicles may be especially popular among those impacted by the storm and seek fuel-efficient vehicles at an affordable price.



Although our forecast calls for relatively stable market in the early part of 2013, the industry could see the lingering effects of Sandy drive values up further in the Northeast. As dealers continue to seek replacements for damaged inventory, Kelley Blue Book anticipates the Northeast region to outperform the rest of the nation. It remains unclear at this point just how long this Northeast premium will last, but Kelley Blue Book analysts will continue to monitor the data and report any significant changes as they arise.

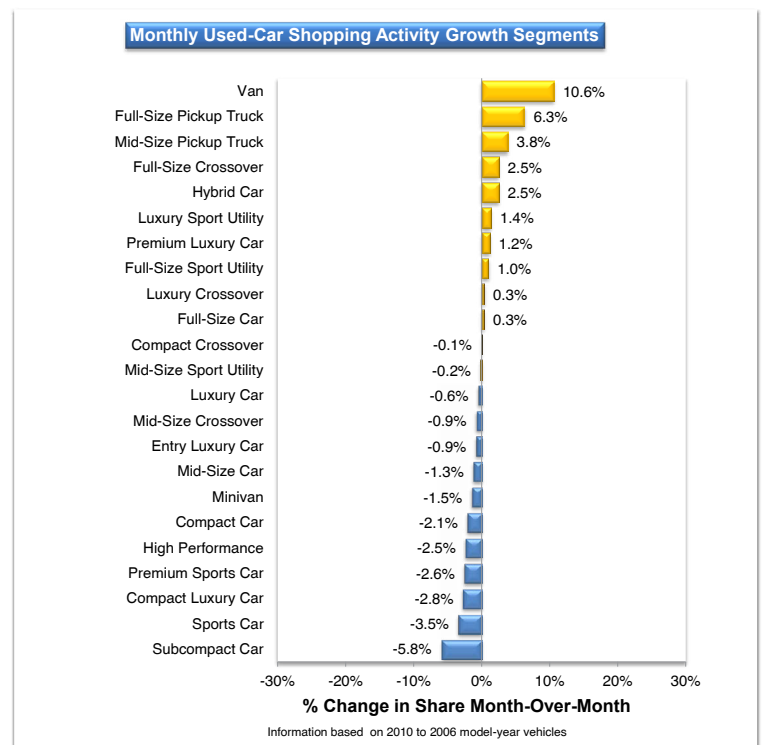
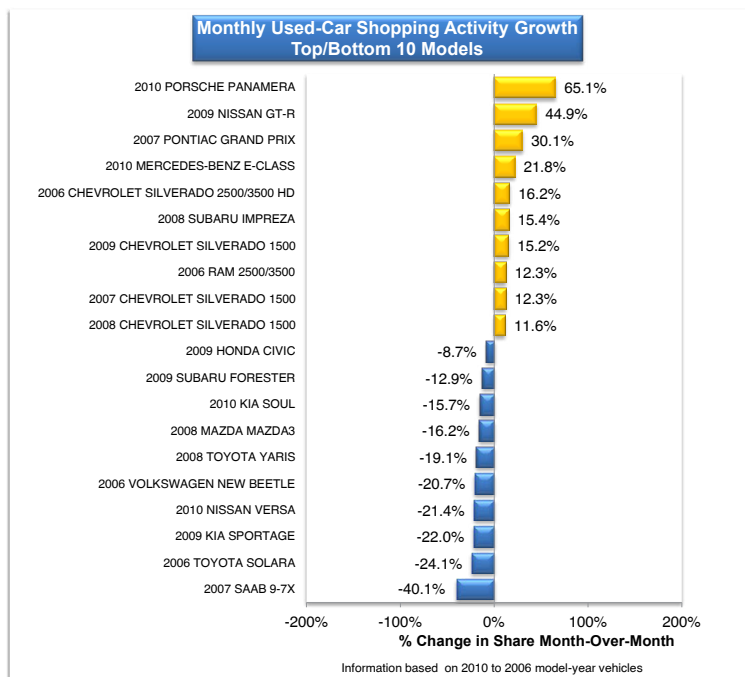
*This commentary focuses on model years 2009-2011. The statements set forth in this publication are the opinions of the authors and are subject to change without notice. This publication has been prepared for informational purposes only. Kelley Blue Book assumes no responsibility for errors or omissions.*

## 2010 Panamera: Not Your Average Porsche

- 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.*

The used vehicle with biggest growth in interest this month is the 2010 Porsche Panamera, which was introduced to the world during the 2009 Shanghai Auto Show. From its inception, the Panamera has polarized the automotive community. One side of the industry despised everything about the car with harsh criticism reserved for its styling and the continuing break from Porsche's traditions, which started with the Cayenne. The other side praised the vehicle for the very same characteristics. However, both sides can agree on its performance. Today, owners who have provided their feedback on KBB.com love the vehicle and give it a 9.6 out of 10 rating. Consumers give high praise for its handling and driving comfort. The 2010 model has three different trim levels available, with the most researched being the 4.8-liter V8-equipped Panamera S. KBB.com values the vehicle around \$68,000, retaining more than half of its original value. It's no wonder that the 2010 Panamera is the hottest vehicle on the used-car market.



### 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 Suggested 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 cars for sale, minivans, pickup trucks, sedan, hybrids, electric cars, and SUVs. Kelley Blue Book's kbb.com ranked highest in its category for brand equity and was named Online Auto Shopping Brand of the Year by the 2012 Harris Poll EquiTrend® study. Kelley Blue Book Co. Inc. is a wholly owned subsidiary of AutoTrader Group.