

BLUE BOOK

Market Report

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Automotive Insights from Kelley Blue Book

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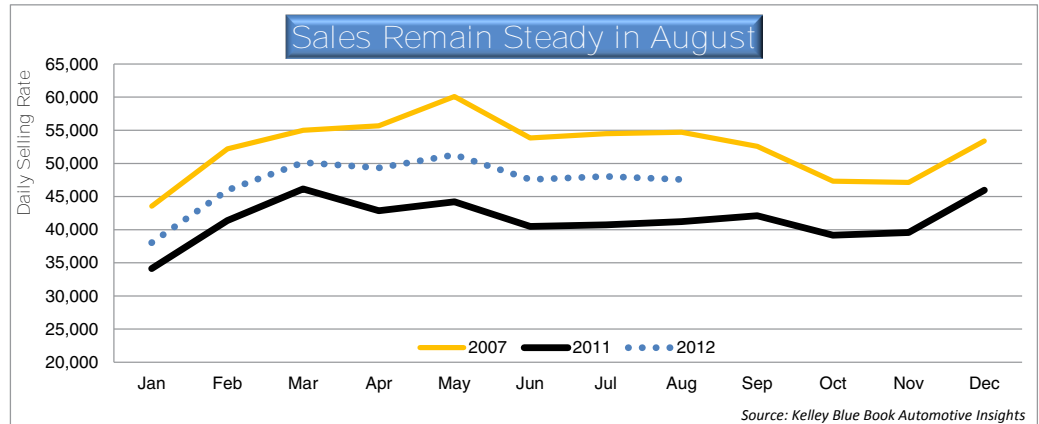
NEW-CAR MARKET ANALYSIS:

August 2012 New-Car Sales Outshine 2011 Volume

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

In August, new-car sales handily outperformed figures from last year, increasing by more than 20 percent. The seasonally adjusted annual rate (SAAR) jumped to a 14.5 million unit selling pace for the second time this year; the highest rate since early 2008. With numbers like this, it appears as though industry sales are on sure footing and well on their way to returning to 16 million units in no time. Sales remain on pace to surpass 14.2 million units overall this year, an 11 percent year-over-year gain and the third consecutive year of double digit sales growth. But after digging a little deeper into the data, Kelley Blue Book analysts believe it may be a bit premature to uncork the champagne in anticipation of the glory days ahead.

After adjusting for the extra selling day this year, sales only increased 15.4 percent year-over-year in August. While SAAR increased from 14.1 to 14.5 compared to the previous month, the daily selling rate was essentially flat, declining by 1 percent. The jump in SAAR is largely attributable to the seasonal adjustment factors published by the Bureau of Economic Analysis (BEA) rather than true volume growth. Since vehicle sales are seasonally soft in summer, even a flat sales environment can give the impression of robust gains thanks to the seasonal adjustment.



If conditions in the economy continue to improve sluggishly, we expect sales volume in the high 14 million to low 15 million unit range in 2013, which is a potential gain of anywhere between 3 to 5 percent. Consumer demand appears stable enough to maintain moderate sales growth moving forward, even if the economy continues to lag industry sales.

With the average age of vehicles at 11 years, replacement demand will remain favorable for the foreseeable future. The industry has been able to take full advantage of this replacement demand by competitively pricing their vehicles and maintaining enough production to provide ample selection for consumers. High used-car values also helped keep sales strong; a phenomenon that may begin to fade in 2013.

Although sales gains may begin to moderate as time goes on, the industry is headed in the right direction. Sales this year should surpass 2009's low by more than 35 percent. With many new and competitive products hitting the market every year, consumers have plenty to look forward to in the years to come.

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Leasing Makes More Sense than Ever for Some Shoppers

Leasing makes sense for those consumers looking for the best bang for the buck on monthly payment. Consumers will find a majority of compact and subcompact cars available for lease at less than \$200 per month, while a mid-size sedan or compact crossover can easily be found for less than \$300 per month on lease. Although certainly a great choice for those consumers willing to walk away from a vehicle without equity after two or three years, a lease is not an ideal solution for buyers who like to drive a vehicle until the wheels fall off. Consumers interested in a lease, may want to act since the deals available today may not last.

The lease deals today are only available because of near-zero percent interest rates and high used-car values. Interest rates are expected to remain low through 2014; however, high used-car values are not guaranteed to last forever. In fact, values already are down 5.2 percent year-over-year, and as inventory improves at auction in 2013, Kelley Blue Book expects declines to continue. For consumers looking for a rock-bottom lease, Kelley Blue Book provided a list of five great lease deals available for less than \$200 per month.

Five Cheap Lease Deals that Shouldn't be Ignored

MY	Make	Model	Trim	MSRP	FPP	Lease Terms		
						Payment	Term	Down
2012	Ford	Focus	SE Sedan	\$18,295	\$17,260	\$159	24	\$2,378
2012	Hyundai	Accent	GLS Sedan	\$13,320	\$12,654	\$169	36	\$1,699
2012	Subaru	Impreza	2.0i Sedan	\$18,245	\$17,422	\$169	42	\$1,969
2012	Hyundai	Elantra	GLS Sedan	\$18,370	\$17,391	\$179	36	\$1,999
2012	Nissan	Versa	S Hatchback	\$15,450	\$14,594	\$189	39	\$1,999

*Kelley Blue Book's Fair Purchase Price (FPP) uses actual transactions and represents what a consumer can expect to pay prior to incentives.

All incentives listed are subject to change and may or may not be combined, check with your local dealer or manufacturer's website to verify local offers.

Source: Kelley Blue Book Automotive Insights & OEM websites

“CONSUMERS WILL FIND A MAJORITY OF COMPACT AND SUBCOMPACT CARS AVAILABLE FOR LEASE AT LESS THAN \$200 PER MONTH, WHILE A MID-SIZE SEDAN OR COMPACT CROSSOVER CAN EASILY BE FOUND FOR LESS THAN \$300 PER MONTH ON LEASE.”

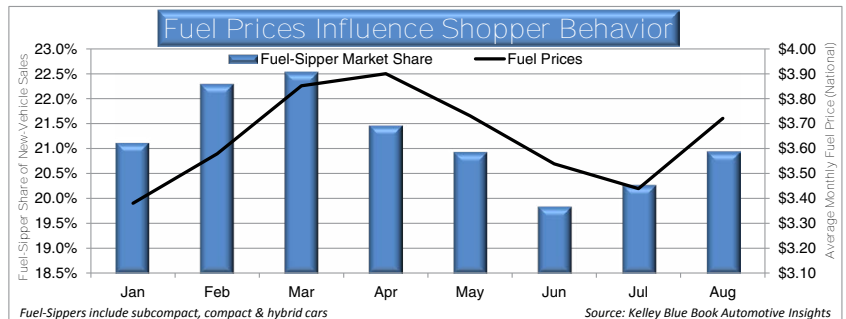
- ALEC GUTIERREZ

Gas Prices Shift New-Car Purchase Behavior

As fuel prices have surged for the second time this year, Kelley Blue Book has seen new-car buyers more heavily consider fuel-sipping subcompact, compact and hybrid cars. Fuel-efficient vehicles accounted for 20.9 percent of all vehicles sold in August, a full percentage point increase from the 19.8 percent market share maintained in June, prior to the current run-up in fuel prices. The daily selling rate was up more than 30 percent year-over-year in the category, well in excess of the 15 percent industry average increase.

Fuel prices have been climbing since early July and new-car shoppers are purchasing smaller cars to combat rising fuel expenses.

The Chevrolet Cruze, Honda Civic, Toyota Corolla and Toyota Prius were especially strong in August, surpassing 20,000 sales a piece. While 40 mpg highway is what first makes these vehicles appealing to consumers seeking ways to save on fuel, competitive lease offers truly help to seal the deal. In fact, the Ford Focus, Hyundai Elantra, Toyota Corolla and Chevrolet Cruze each had a lease promotion with payments starting at less than \$200 a month in August. These vehicles will remain popular among consumers, but market share may retreat slightly as fuel prices decline in the months ahead.



High Supply of Trucks Brings Big Incentives

With incentives strong and inventory high, buying a new truck may be a better bet than buying used. A 1-year-old truck maintains 82 percent of its original manufacturer's suggested retail price (MSRP) versus 94 percent for a new truck, meaning consumers only save \$30 per month on average by opting for the used pickup rather than new. After accounting for incentives, this gap could disappear entirely.

If you are thinking about pulling the trigger on a new pickup truck, now may be the time to buy. New trucks currently are in abundant supply, especially if a GMC Sierra or Chevrolet Silverado is on your shopping list. Below is a list of trucks and SUVs with excess inventory and sizeable incentives currently at dealerships.

The Silverado and Sierra especially are in high supply due to an expected 21-week plant shutdown needed to prepare for the launch of the redesigned 2014 model-year vehicles. Although General Motors' trucks have the largest days supply, consumers can find considerable discounts and incentives on many types of trucks. While truck buyers will find excellent buying opportunities today, the deals may be even better come year-end. With GM preparing for the release of the redesigned 2014 Sierra and Silverado, which are expected to arrive early next year, they could ramp-up incentives in December to make room for the new inventory. The amount of incentive spend will depend heavily on General Motors' inventory at that time, so consumers who don't want to risk missing out on today's deals shouldn't hesitate to head down to their local dealer.

Trucks in High Supply Available with Great Discounts

MY	Make	Model	Trim	Days			Incentives	
				Supply	MSRP	FPP**	Cash	APR
2012	Chevrolet	Silverado 1500 Extended Cab	LT Pickup 4D 6 1/2 ft	137	\$31,400	\$29,758	\$3,500	0.0%
2012	Ford	F150 SuperCrew Cab	XLT Pickup 4D 5 1/2 ft	75	\$34,030	\$31,328	\$5,500	0.0%
2012	GMC	Sierra 1500 Crew Cab	SLE Pickup 4D 5 3/4 ft	145	\$34,135	\$32,336	\$3,000	0.0%
2012	Nissan	Titan Crew Cab	SV Pickup 4D 5 1/2 ft	78*	\$33,715	\$30,735	\$5,450	0.9%
2012	Ram	1500 Quad Cab	SLT Pickup 4D 6 1/3 ft	87	\$31,510	\$29,289	\$3,500	0.0%
2012	Toyota	Tundra Double Cab	Pickup 4D 6 1/2 ft	40*	\$29,740	\$27,391	\$3,000	0.0%

*Days supply not available, estimate provided using brand inventory for trucks.

**Kelley Blue Book's Fair Purchase Price (FPP) uses actual transactions and represents what a consumer can expect to pay prior to incentives.

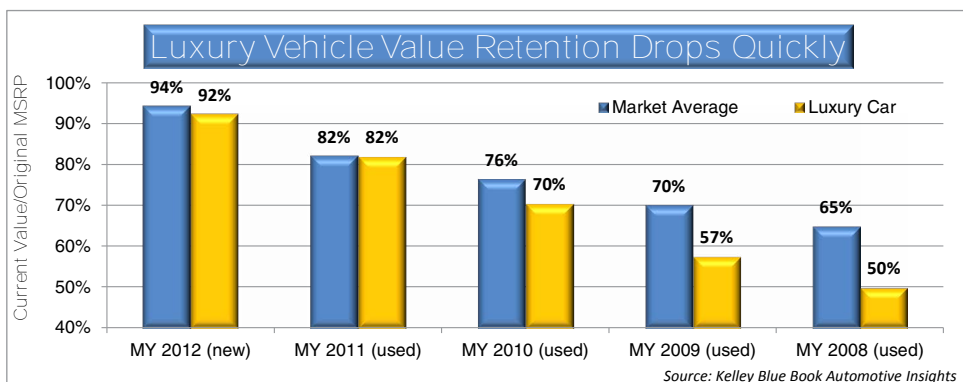
All incentives listed are subject to change and may or may not be combined, check with your local dealer or manufacturer's website to verify local offers.

Source: Kelley Blue Book Automotive Insights, OEM websites & Automotive News

USED-CAR MARKET ANALYSIS:

Luxury Vehicles 7 to 10 Percent More Affordable Today than Last Year

During the past several months, new- and used-car values have steadily declined. With a continued struggle in economic recovery, luxury vehicles have been hit especially hard, consistently underperforming their non-luxury counterparts. In August, values of used-luxury vehicles declined by 1.7 to 2.5 percent, slightly more than the industry average (1.5 percent). Compared to this time last year, the average luxury vehicle is approximately 7 to 10 percent more affordable today; well below the industry average affordability level of 5.2 percent.



Shoppers in the luxury segment typically prefer the latest and greatest models; however, those willing to forgo the bells and whistles can find substantial savings on a used vehicle. Consumers considering a used luxury car (MY 2009) can find vehicles selling at 57 percent of original MSRP, which is far below the industry average retention of 70 percent for 3-year-old vehicles.

For those not willing to buy used, there are plenty of great deals available on new luxury cars.

The Kelley Blue Book Fair Purchase Price on new luxury vehicles has been relatively stable in recent months, but is down more than \$600 year-over-year, surpassing the market average decline of \$450. With values declining, Kelley Blue Book has seen a bump in interest from KBB.com site visitors. There has been a steady increase in luxury vehicle share of Web traffic since May for both new- and used-car shoppers, indicating that although pricing has been relatively soft, interest is increasing. Buyers have been enticed by some of the solid lease deals currently offered by luxury manufacturers. If you are in the market for a new luxury vehicle, now may be the time to take advantage of the competitive lease offers available today.

Top Lease Offers on New Luxury Vehicles

MY	Make	Model	Trim	MSRP	FPP*	Lease Terms		
						Payment	Term	Down
2012	Audi	A4	2.0T Quattro Premium Sedan 4D	\$35,475	\$33,673	\$389	39	\$3,690
2012	BMW	3 Series	328i Coupe 2D	\$39,595	\$36,883	\$359	36	\$3,834
2012	Lexus	IS	IS 250 Sedan 4D	\$35,840	\$33,281	\$329	27	\$2,599
2012	Mercedes-Benz	C-Class	C250 Sport Sedan 4D	\$35,675	\$33,285	\$369	24	\$4,029

*Kelley Blue Book's Fair Purchase Price (FPP) uses actual transactions and represents what a consumer can expect to pay prior to incentives.

All incentives listed are subject to change and may or may not be combined, check with your local dealer or manufacturer's website to verify local offers.

Source: Kelley Blue Book Automotive Insights & OEM websites

Used-Car Values Continue to Decline Despite Rising Fuel Prices

Even as fuel prices approached record highs this year, values of fuel-efficient vehicles have continued to lead market declines during the past several months, while values of trucks and SUVs have remained steady, even outperforming the overall market average. As fuel prices spike, Kelley Blue Book typically sees values of fuel-sipping subcompact, compact and hybrid cars increase, while values of fuel-thirsty trucks and SUVs drop. This was the case in 2008, 2011, and to a lesser extent, April of this year when fuel prices peaked at \$3.92 per gallon. Fuel prices today average \$3.80 per gallon nationally and are well above \$4.00 per gallon in many parts of the country.

In 2008, analysts saw wild swings in compact car values of nearly 30 percent, while in subsequent years, value changes have been more moderate. Interestingly, the current rise in fuel prices has not prompted the same market reaction typically witnessed during previous fuel price spikes. In fact, the market has nearly disregarded the fact that 2012 will likely end with the highest average annual fuel prices on record.

In the last four weeks alone, compact cars declined more than 5 percent, with subcompact and hybrid cars declining nearly 3 percent. This is in stark contrast to the 0.5 percent increase for full-size SUVs and the less than 1 percent decline of full- and mid-size pickup trucks.

Although values have not been phased by rising fuel prices, there is no guarantee that they won't change course if fuel prices rise much further. With a typical one- to two-month lag before rising fuel prices impact values, Kelley Blue Book believes the market could still react by the end of the month, but it is unlikely. At the moment, fuel prices have stabilized and may come back down now that Hurricane Isaac has passed and Gulf oil production is expected to resume.

The market's resilience against rising fuel prices can mostly be traced back to a long-term change in consumer preferences and shopping habits. When fuel prices shot up rapidly to \$4.00 per gallon for the first time in 2008, consumers started the lengthy process of shifting away from fuel-thirsty, truck-based SUVs into small crossovers. It didn't happen overnight but since 2007, sales of compact crossovers have increased by more than 50 percent, while sales of mid-size SUVs have declined by 70 percent through the same period. In terms of changing market share since 2007, compact crossovers have gained 4.5 points of share relative to a 5 point decline for mid-size SUVs. Today, small crossovers outsell mid-size SUVs nearly 5-to-1.

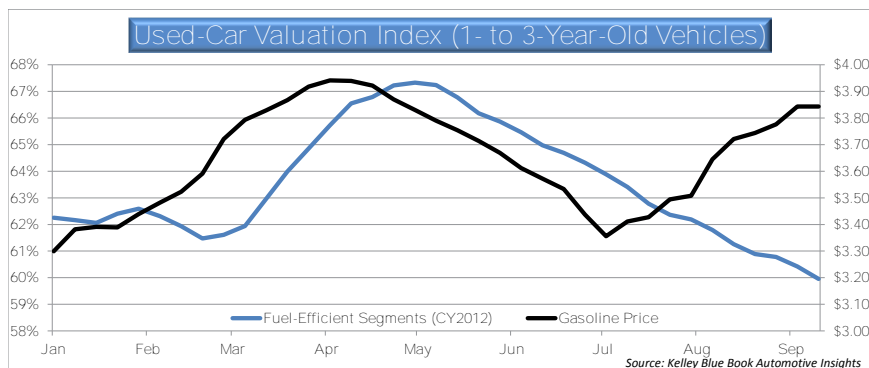
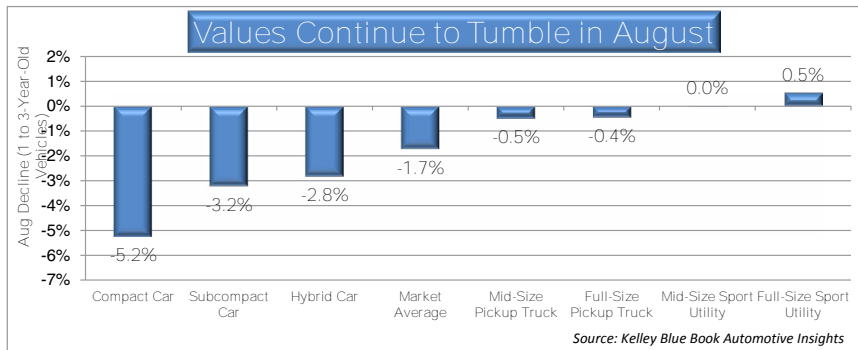
Now that most consumers have had ample opportunity to switch their household vehicles to better suit their personal threshold for fuel price pains, values will continue to better withstand volatility in gas prices. As it stands today, Kelley Blue Book believes that values of fuel-sippers will continue to depreciate moderately through the rest of the year, while values of trucks and SUVs should remain relatively flat.

Used-Car Pricing Close to Parity with New-Car Deals

With the average age of vehicles still at 11 years old and climbing, more consumers find themselves in need of a replacement vehicle. As consumers search for their next car, one of the first decisions is whether to purchase new or used. Buying a new car has many well-known advantages such as a lengthy warranty, improved fuel economy relative to previous model years, as well as the latest tech and safety features. These advantages are available to those willing to pay a premium.

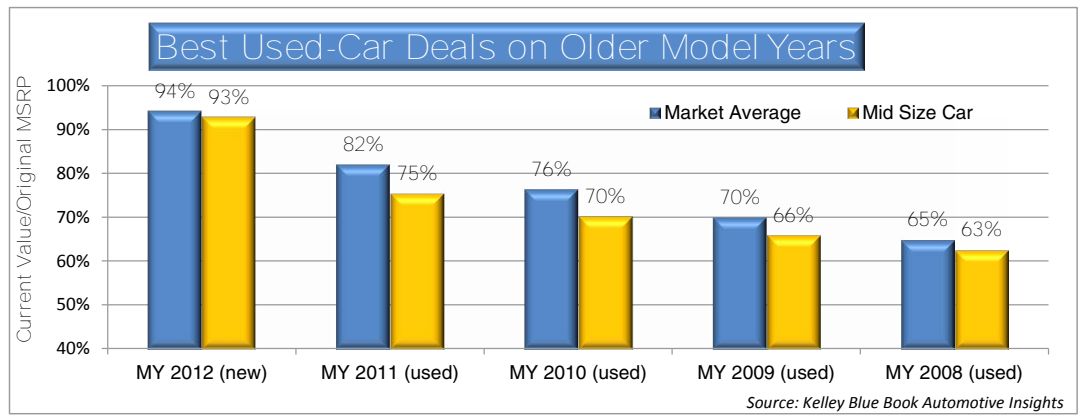
For consumers who are primarily concerned with affordability, a used vehicle may be the way to go. Once the decision has been made to consider used, consumers must answer another simple question. How much money can be saved by considering a 1-year-old used vehicle, a 2-year-old vehicle, etc.?

The answer depends on the segment under consideration, but on average Kelley Blue Book determined that a consumer only saves a little more than \$75 per month by opting for a 1-year-old used vehicle rather than buying a new car. Shoppers would need a 5-year-old vehicle to obtain a more substantial savings of \$200 per month.



Compact cars are especially strong in the secondary market. On average Kelley Blue Book found that consumers only save \$50 per month by opting for a used compact rather than new. Savings shrink to \$40 per month for a used subcompact.

Since used vehicles only offer modest savings, many consumers are opting to purchase new vehicles. In fact, a recent survey conducted by Kelley Blue Book Market Intelligence found that 53 percent of all in-market consumers indicated that high used-car values have influenced their decision to consider a new car. In another survey, Kelley Blue Book found that 73 percent of all respondents indicated that they would be willing to spend \$20 more per month to buy a new vehicle.

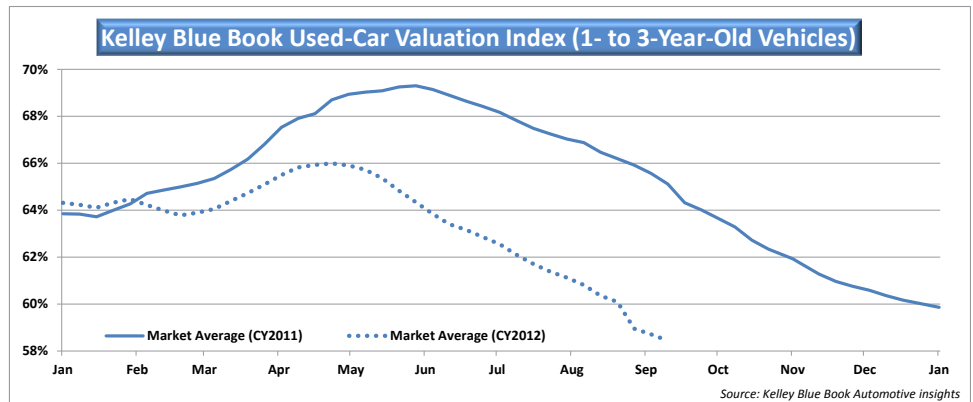


New cars become even more attractive after taking into account the considerable incentives available today. Consumers can find sizable cash rebates, ultra-low finance offers and rock-bottom lease offers on many of the most popular models available in each segment. In fact, additional survey data from Kelley Blue Book Market Intelligence showed that 68 percent of respondents indicated they were considering a new vehicle they would not have considered otherwise because of deep discounts or special financing offered on that model. This gives a strong indication that consumers continue to heavily consider price while going through the vehicle research process.

Both New, Used Pricing Continues to Fall

Shoppers in the market for a new or used vehicle will be happy to know that prices have continued to tumble through summer. In fact, consumers are currently paying a little more than \$450 less for new vehicles than they were at this time one year ago, and used vehicles are selling for nearly \$1,000 less than they were at this time last year.

For both new and used vehicles, inventory shortages that have plagued the industry for several years now are fading. Used inventory at auction remains somewhat depressed, but dealers have been less reliant on vehicles purchased at auction due to higher trade-in volume. New-vehicle inventory also remains in a good spot as manufacturers have done a tremendous job of matching production to satisfy demand. With both new- and used-vehicle inventory concerns fading fast, consumers have benefitted from moderate price declines as dealers price to compete.



In the last month alone, used-vehicle values declined by 1.5 percent, while new cars tumbled a modest 0.5 percent. Kelley Blue Book expects declines to continue through year-end, so consumers can either take advantage of a great deal today, or wait until December to find the best deals of the year. Those who wait will face a more limited selection relative to today's availability. Shoppers with a specific model in mind may want to jump on a good opportunity if it presents itself.

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.

In the News, on the Web

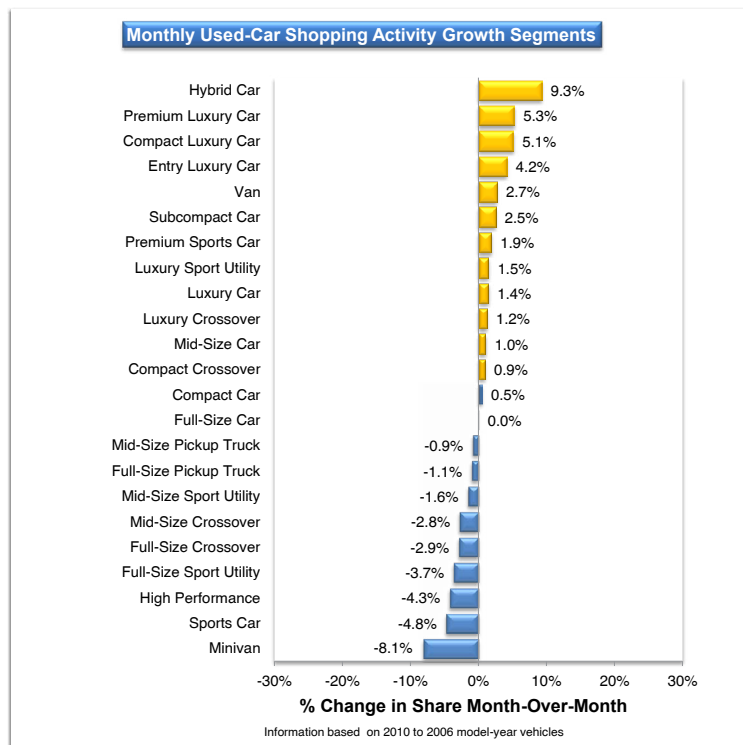
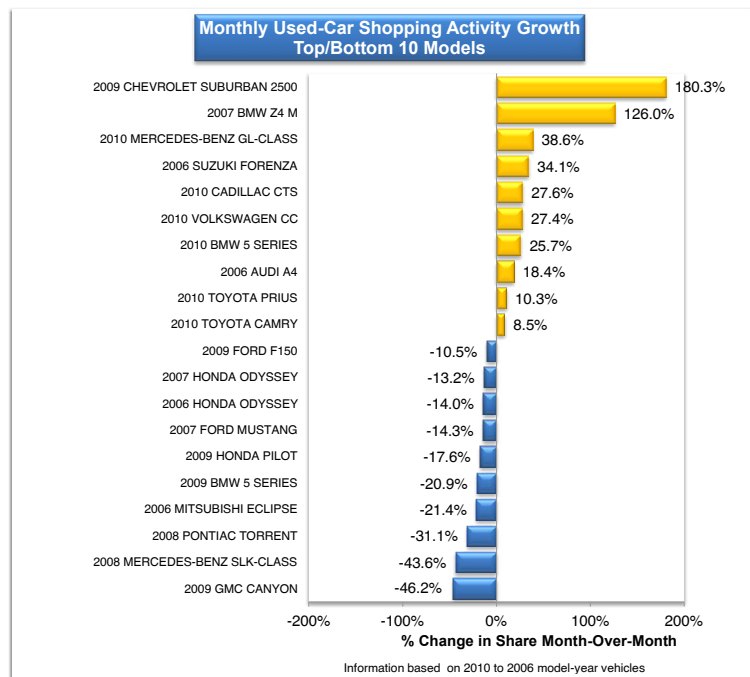
- Arthur Henry, manager of market intelligence and market analyst, Kelley Blue Book

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.

There are a couple national media topics impacting used-retail traffic on KBB.com. One topic is hurricane Isaac, which caused turmoil in the southern states due to heavy rain. The storm then halted southern oil production leading to higher fuel prices at the pump. As a result research was directed more toward hybrid and alternative-fuel vehicles on KBB.com. The primary beneficiary of this heightened interest was the 2010 Toyota Prius, which increased its share of used-retail traffic 10.3 percent from the past month.

Also causing traffic shifts on KBB.com is the General Motors recall. In early August, General Motors recalled vehicles between the model years 2007 and 2009 over a washer fluid problem that when heated, posed a potential fire risk. There were several sport utility vehicles on the list in the recall, but only the 2009 Chevrolet Suburban made the top 10 list of top movers, increasing 180.3 percent month-over-month.

Both news stories are short lived and will not have a long lasting effect on the used-car market.



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 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.