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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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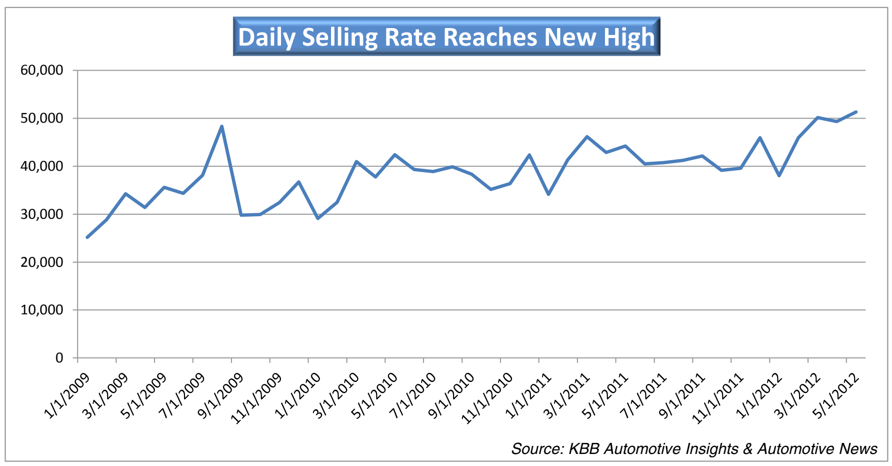
NEW-CAR MARKET ANALYSIS:

SAAR Levels in May as Industry Sales Increase 26 Percent Year-Over-Year

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

Although the overall sales pace slowed last month, Kelley Blue Book believes demand will remain strong enough to carry sales beyond 14 million units in 2012. Most manufacturers appear to share this sentiment and have indicated the steps necessary to increase production and meet anticipated demand through the year.

Industry sales hit 13.8 million seasonally adjusted annual rate (SAAR) in May, slightly below the blistering 14.4 million unit sales pace of March and April, but a healthy 26 percent above the tsunami-reduced 11.7 million SAAR from last year. The daily selling rate was more than 51,300 vehicles per day, a 16 percent year-over-year increase and the strongest selling pace since May 2008.



Source: KBB Automotive Insights & Automotive News

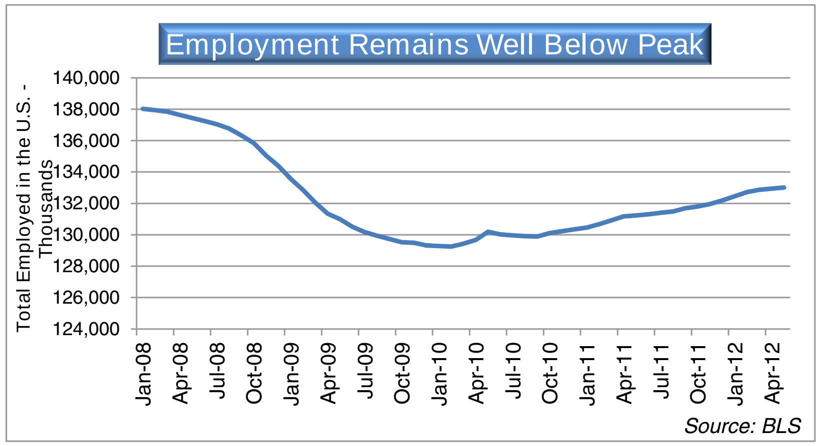
Ford announced plans to increase North American production by 5 percent in the third quarter to a total of 690,000 vehicles. Without laying out any specifics, Chrysler also indicated they are looking to add production capacity wherever possible to meet demand. Pent-up demand continues to play a pivotal role in the industry as evidenced by the strong results through Memorial Day weekend, despite less than favorable economic news.

Economy Shows Signs of Weakness as Auto Sales Continue to Surge

As economic recovery slowed, consumer confidence (a vital barometer of economic health highly correlated to vehicle sales) has taken a hit. The pace of the economic recovery has been far from ideal and actually showed signs of slowing in May. Weaker-than-expected reports in the labor market and housing sector, along with increasing fears of destabilization in the European Union, drove down stock prices nearly 10 percent in May. Through the first week in June, markets responded positively to a statement by Federal Reserve Chairman Ben Bernanke, where he indicated that the Federal Reserve stands at the ready to intervene if market conditions further deteriorate.

Source: BLS

Another key indicator is the Consumer Confidence Index, which declined for the fourth consecutive month in May, at 64.9 (1985=100), down nearly 4 points from April. The Present Situation Index also remains uncomfortably low, at a reading just shy of 50, and the Expectation Index is below 80, indicating consumers generally are unhappy with their current situation but remain hopeful. All of these indices show a possible decline in demand for big-ticket items like new vehicles.



Perhaps the most troubling news in May was the jobs report released on June 1. After several months of declines, the unemployment rate edged slightly up to 8.2 percent. Only 69,000 jobs were created in May, well below the more than 250,000 jobs created in January and February. More than 800,000 jobs were created through the first five months of the year, a seemingly substantial gain. However, this is only a drop in the bucket when we consider that the economy is still 5 million jobs shy of pre-recession levels. We should note that job growth slowed similarly last year on fears of the European Debt Crisis negatively impacting United States financial markets. After stalling from May through August in 2011, job growth picked up in September as the situation in Europe improved.

The economy likely will avoid a double-dip recession if job growth remains positive, but if growth remains on its current course, it may be several years before the economy fully recovers. Until that time, auto sales will fail to return to the 16 million unit per year norm of the 1990s and 2000s. Although sales have improved steadily since 2009, we may be nearing a plateau until the economy is on more stable footing.

Pent-Up Demand, Loose Credit Drive Sales Growth

The economic recovery, reported to be underway, has lost momentum in recent months and sales have been carried primarily by pent-up demand. In addition to consumer demand, attractive finance offers and loosening credit standards have been crucial to sales momentum despite the gloomy economic headlines. Consumers are returning to the market in droves after being forced to the sidelines in 2011 when inventory shortages stemmed from the earthquake and tsunami in Japan. In addition, a large segment of buyers either were not impacted by the downturn or have grown tired of waiting for a full-fledged economic recovery or a resurgence in home values, and have opted to ditch their 11-year-old (on average, according to Polk) vehicle to purchase something new. Significantly improved redesigns have enticed many hesitant buyers to finally cash in on near-record-high trade-in values to upgrade to a new model.

Those shoppers pulling the trigger on a new-vehicle purchase were greeted with increased credit availability and record low interest rates. According to Experian, the average credit score on new-vehicle loans hit 760; the lowest average score in five years. Subprime borrowers made up 44.4 percent of all new-vehicle loans in the first quarter, still below 46.2 percent from 2008, but the highest recorded share since that time. As banks continue to make credit more accessible, we expect the industry will see new-vehicle sales maintain a steady course. Affordable credit alone will not be sufficient to drive sales growth indefinitely, especially as pent-up demand levels off in the months ahead. Before the industry can rise to 16 million sales per year, we will need more significant and sustainable growth in the economy.

Oil Prices Slide on European Recession, Weak Economy; Gas Price Drops Impact Fuel-Efficient Vehicle Sales

Oil prices dipped below $85 per barrel for the first time since October of last year, as the unemployment rate in the Eurozone hit 11 percent and fears of a prolonged European recession resurfaced. While cheaper gas certainly is good news for consumers, the ongoing troubles in Europe should be cause for concern. Mario Draghi, president of the European Central Bank, recently chastised European leaders for not acting swiftly or forcefully in response to the ongoing sovereign debt crisis, going so far as to say the Eurozone had become “unsustainable” in its current form. Of particular concern are the fates of Greece and Spain, and the possibility they could default on their loans or withdraw from the Eurozone altogether. The debate continues as to whether this would spell disaster for Europe or merely register as a blip on the radar. Regardless of the outcome, it is clear that the European recession has a long way to go before it is resolved, and the fallout could be far-reaching. In the short term, the current downturn in Europe has lessened demand for crude oil, which has played a role in the most recent price declines for oil.

				YoY		Since April	
	Jun 06, 2011	Apr 02, 2012	Jun 07, 2012	$	%	$	%
Fuel Prices	$3.78	$3.94	$3.58	-$0.20	-5.3%	-$0.36	-9.2%
Oil Prices	$100.92	$105.12	$83.67	-$17.25	-17.1%	-$21.45	-20.4%

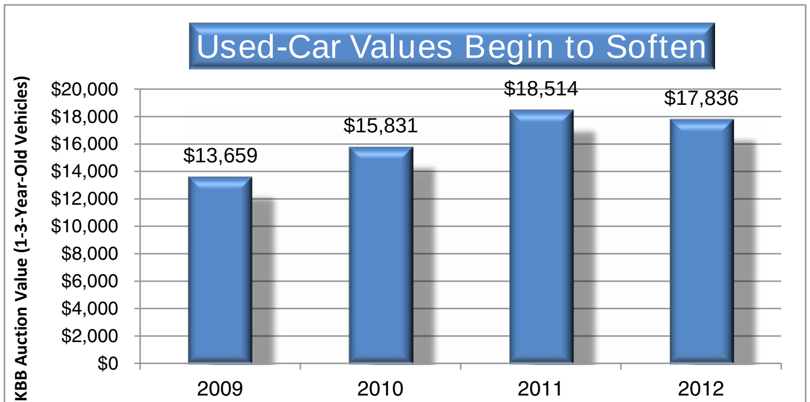
Source: Energy Information Administration (EIA)

In addition to a decline in European demand, oil prices also have been impacted by weak growth of the United States economy and rising stock piles of crude oil. A recent release from the Department of Energy reported that United States crude stockpiles are at a 22-year high on weak demand from consumers. With oil prices sliding, we may see fuel prices approach $3.00 per gallon by year-end. Fuel prices currently stand at $3.60 per gallon nationally, more than $0.30 per gallon cheaper than the peak in early April. Cheaper fuel prices already had an impact on fuel-efficient vehicle sales in May. Both subcompact and hybrid cars lost a half point of market share in May, while compact cars and crossovers increased by the same amount. Consumers remain mindful of fuel prices and clearly still prefer fuel-efficient vehicles, but with gas prices falling fast, they are less likely to sacrifice utility by opting for a subcompact or pay a premium for a hybrid or electric vehicle.

USED-CAR MARKET ANALYSIS:

Kelley Blue Book Analysts Expect Further Declines in Used-Car Values as New-Car Market Heats Up

Used-car values dipped 3 percent in May due to falling oil prices and strong demand for new vehicles. During the next three months, Kelley Blue Book analysts expect used-vehicle values will continue to decline by as much as 6 to 7 percent as the market continues to cool with softening demand and slowly improving supply conditions.



Source: KBB Automotive Insights

The market has finally reached a point where we are seeing the first year-over-year declines since 2009. Although values remain more than 20 percent higher than they were in 2009, values are 3.7 percent lower than this time last year. As new-vehicle sales have increased, demand for used cars has dropped off. A used car has been traditionally viewed as a substitute good, appealing to those who don't have the means or desire to pay a premium to own a new car. Values are especially weak this year versus last year due to the inventory shortages resulting from the earthquake in Japan. With inventory no longer a major hurdle, Kelley Blue Book is seeing a reversal of this trend.

A decline in used-vehicle sales is no surprise considering the current affordability of new vehicles. According to the latest registration data available from Polk, used-vehicle registrations were 10 percent less year-over-year in March, while new-vehicle sales have continued to climb. This may turn out to be a one-month anomaly, but it also could signal the start of a growing trend. New cars have become more affordable after accounting for incentives, low finance rates and improved credit availability, and this likely will continue to suppress used-car values.

Consumers have realized a new car is only slightly more expensive than buying a 1- or 2-year-old used car, and this has helped to not only bolster new-car sales, but lessen demand at auction and drive down used-car values.

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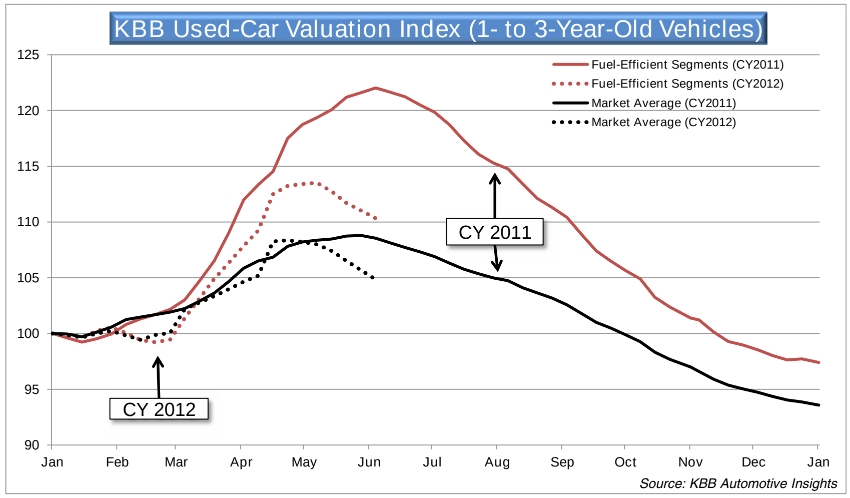
>
> - ALEC GUTIERREZ

Fuel Sippers Lead Declines, Poised for Further Drops

Kelley Blue Book Market Intelligence data has shown for years that as pump prices rise, consumer demand and sales of fuel-efficient vehicles increase. However, as soon as gas prices start falling 20 cents per gallon or more, car buyers flock back to SUVs and trucks in droves. To that end, values of fuel-efficient cars declined 2 to 3 percent in May as consumer demand eased with falling gas prices. The most significant declines came from formerly hot hybrid-car segment, which dropped a more pronounced 4 percent. The 2010 Toyota Prius was hit especially hard, dropping more than $1,200 in May. Even after this decline, the Prius still remains up $2,000 since the start of the year, and likely faces further depreciation in the months ahead. Although values of fuel-sipping vehicles have dropped in recent weeks, Kelley Blue Book does not expect as significant of a correction for those vehicles as with the Prius.



Values of subcompact and compact cars should ease slightly through the summer, declining by no more than 2 to 3 percent per month before leveling off in the fall. As of June 1, compact and subcompact cars remain up 1.3 and 4.4 percent respectively since January. Although earlier in the year Kelley Blue Book anticipated more pronounced gains in response to rapidly rising fuel prices, the early peak in April quickly altered the company's initial forecast. Hybrid cars such as the Toyota Prius are still due for a correction since they remain up 15.9 percent since the start of the year, so expect more significant declines for hybrids.

Chrysler Axes Town & Country, Still Dominates Segment

Crossover sales have been hot during the past several years as consumers have turned their attention to the fuel-efficient people haulers as replacements for their beloved yet inefficient SUVs. For consumers seeking value, the minivan remains a viable alternative to the popular crossover class and should not be overlooked for those needing utility on a budget. Minivans face fierce competition from the wide array of crossovers now available, which outsell minivans nearly 6-to-1. Still, crossovers are hard pressed to match the space, comfort and convenience of a minivan, which are on pace to sell more than half a million units this year.

Chrysler Minivan Sales Double Closest Competitors

	Sales Volume				Fair Purchase Price	
Model	May-12	YOY %	YTD	YTD YOY%	$ Change	% Change
Dodge Caravan	12,418	32%	58,063	26%	$129	0.50%
Honda Odyssey	12,348	31%	50,481	10.4%	($106)	-0.29%
Chrysler Town & Country	10,323	56%	48,830	24%	$145	0.41%
Toyota Sienna	14,606	69.5%	48,257	5.6%	$26	0.06%
Kia Sedona	1,916	-22%	8,783	-1.5%	$78	0.36%
Nissan Quest	1,802	106%	8,746	108%	($504)	-1.48%
Mazda Mazda5	1,049	-36%	5,932	-41%	$262	1.28%
Volkswagen Routan	850	-40%	3,965	-22%	($902)	-2.61%

Fair Purchase Price reflects change since May 1 *Source: KBB Automotive insights*

Chrysler has dominated this segment for several years with the Chrysler Town & Country and Dodge Grand Caravan, but recently they announced the Town & Country will be discontinued in 2014. Despite the announcement, sales and prices for both of Chrysler Group's minivans were strong in May. Instead, Chrysler will focus solely on Dodge's Grand Caravan, which was last year's sales leader. So far this year, Chrysler's minivans occupy two of the top three spots among minivans with the Grand Caravan up 26 percent year-over-year and the Town & Country up 24 percent. Consumers also are getting a smaller discount on these strong sellers. In May, the Kelley Blue Book Fair Purchase Price (what shoppers typically pay for a vehicle) went up $129 on the Grand Caravan and $146 on the Town & Country.

While the Grand Caravan leads all minivans in sales this year, there is fierce competition for the number two spot. Honda has aggressively pushed the Odyssey into second place after solid May sales, but its Fair Purchase Price also dropped by $106. Meanwhile, Toyota increased sales of its Sienna by nearly 70 percent in May to be the top seller of the month, but it remains up only 6 percent for the year. At the other end of the spectrum, the Volkswagen Routan, a rebadged version of Chrysler's minivans, sold only 850 units in May, while its Fair Purchase Price dropped $902 on average.

Used-Luxury Crossovers Continue to Underperform the Market

Demand at auction has dried up in recent months due to weakness in the European and North African economies, which are key export markets for SUVs. With the threat of a global recession hanging over the heads of consumers, and a pessimistic attitude toward the immediate future, it is not surprising that demand for high-priced luxury SUVs and crossovers is waning in the used-car market. While lower values may make these vehicles more attainable at auction, dealers should be wary of purchasing these vehicles while consumer attitudes and expectations remain bearish.

While values for most vehicles weakened in May, used luxury crossovers and SUVs dropped more than most. From the beginning of the month, values for luxury crossovers fell by more than $2,000; $1,300 more than the next hardest hit segment. This translates to a 6.5 percent decrease from the beginning of the month, 2.5 points more than the next highest percentage decrease for any segment. Depreciation in this segment was led by the Acura ZDX, Lincoln MKT and Audi Q5, all of which fell by more than $1,000 for the month. May's declines leave the luxury crossover segment down $3,150, or 9.4 percent, from the beginning of the year.

Although luxury SUVs dropped by a comparatively mild $600 in May, they are now down by nearly $2,200 and 4.9 percent since January. The Cadillac Escalade stands out as the hardest hit luxury SUV for the month, falling by more than $1,400 in May. A decline in export demand has played a key role in softening Escalade values. We expect further declines in the months ahead so we advise dealers to refrain from purchasing a luxury crossover or SUV unless a buyer is lined up.

With Carroll Shelby's Passing, Vehicles Bearing His Name Expected to See Modest Value Increases

- Phil Skinner, collector car senior market editor, Kelley Blue Book

On May 10, 2012, one of America's most legendary motorsports figures, Carroll Shelby, took his last checkered flag as he completed his race with life. In Shelby's trove of main accomplishments are a number of cars that bear his name, all of them considered prized collectibles by enthusiasts of style and performance.

Probably his most famous legacy was the original Cobra, born 50 years ago by marrying a small-block United States-built Ford V8 to a British-built roadster produced by AC Cars Limited. Bent on performance, he eventually would grow the little Cobra into the most fearsome machine on the road; the mighty Cobra 427-S/C, which ate the competition as long as the driver could tame the beast.

In the mid-1960s, when Ford introduced the popular Mustang sport-compact, they wanted a special performance breed and gave the task to Shelby. This started a relationship that had a lot of ups and downs over the years, but produced some of the most memorable sports racers.

With Shelby's recent death, many have pondered what will happen to the value of the vehicles bearing his name, in particular the Cobras and Mustang-based cars from the 1960s.

During the past 50 years, Carroll Shelby produced a number of legendary cars, and the early ones are historically significant vehicles due to their racing and performance histories. With or without Shelby around, these models should not only maintain their value, but also see increases above market trends.

Original Cobras with the small-block Ford engines reached a high-point around 2006 when the entire performance and muscle-car markets were alive and a bit overinflated. Their values nearly reached the half-million dollar mark with a few examples exceeding that level, but later pulled back about 25 to 30 percent when the economic crash of 2008 and 2009 hit. In recent months, it appears values were on the upswing prior to Shelby's passing.

The legendary 427-S/C, which once skirted the $1-million level, fell back to the $600,000 range but has seen steady growth in recent months, particularly since the beginning of 2012. Of course the grandest of all Cobras, the Daytona coupe of which only a handful were produced, saw its last known public transaction taking place in 2009, when one of these cars sold in excess of $7.6 million at auction. Kelley Blue Book expects this model to sell for more at future sales.

The Shelby Mustangs also cooled off during the 2008 to 2009 period, and have remained at a plateau for the past couple of years. Those that command the most money are prototype test-beds or factory race-prepped machines, which have remained strong at or above the $300,000 level, while the more pedestrian examples have seen value shifts from near $280,000 to below the $150,000 range. However, savvy buyers can find popular models of this sports car in the $100,000 segment with a little searching, which makes this a perfect buying opportunity.

Hundreds of Shelby owners today have this American legend's autograph on the glove box door or under the hood. While this might not increase the value in Kelley Blue Book's Early Model Guide, it will serve as a personal memento of a truly great man, and that is priceless.

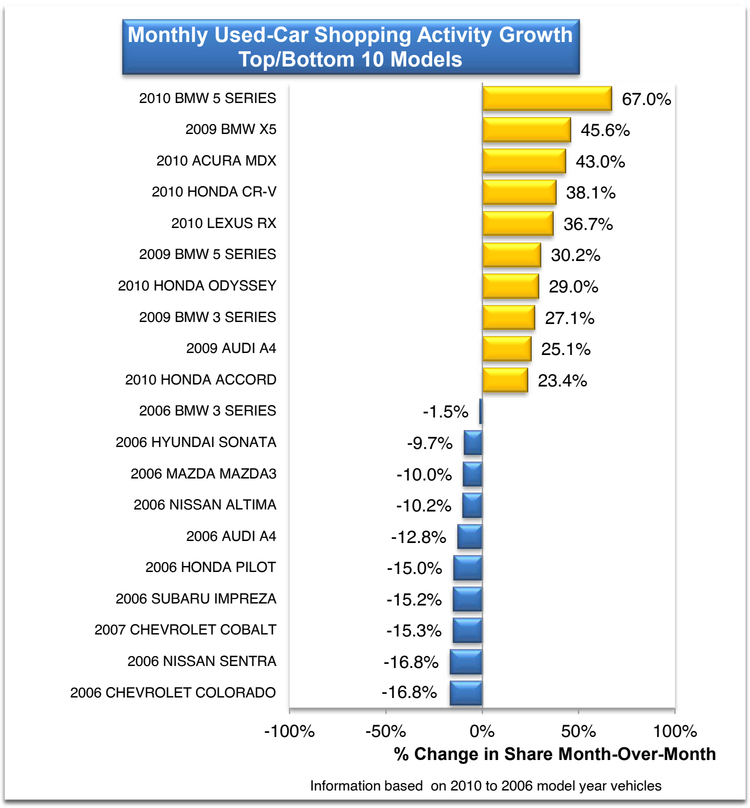
This commentary focuses on model years 2009-2011. The statements set forth in this publication are the opinions of the authors and are subject to change without notice. This publication has been prepared for informational purposes only. Kelley Blue Book assumes no responsibility for errors or omissions.

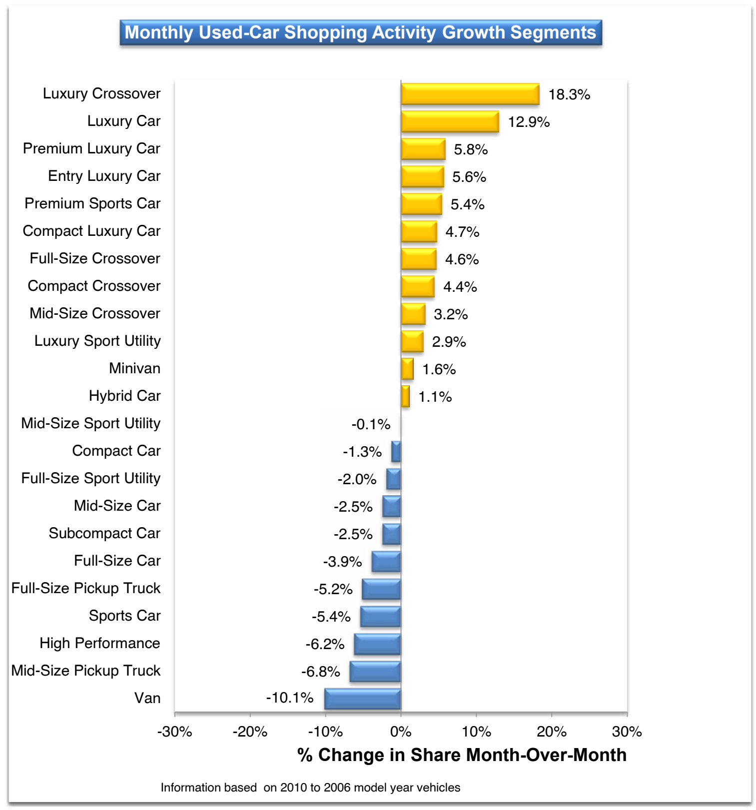
In Down Economy, Used-Luxury Vehicles Up

- 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 May, kbb.com used-car shoppers flocked in droves to luxury vehicles and for the second consecutive month, all categories in the luxury cosmos have increased in share. Leading the charge this month is the luxury crossover segment, which grew 18.3 percent month-over-month in share. The increases in this segment were driven by three models, all of which are among the top 10 performers: 2009 BMW X5, 2010 Acura MDX and 2010 Lexus RX. Another segment experiencing a lift in traffic is the luxury car segment, which jumped 12.9 percent month-over-month. The 2009 and 2010 model-year BMW 5 Series primarily drove interest in this segment. Additional trends gleaned from this month's data include shifted interest away from 2006 model-year vehicles, as the majority of the top models losing share are from the 2006 model year. The value proposition for a six-year-old vehicle against newer used models is no longer enough to capture consumer attention.





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