

BLUE BOOK

Market Report

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Automotive Insights from Kelley Blue Book

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NEW-CAR MARKET ANALYSIS:

As Another Economic Deadline Passes, New-Car Sales Remain Strong

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

February new-car sales continued to outpace the national economic recovery, pushing the seasonally adjusted annual rate (SAAR) to nearly 15.4 million. More than 1.19 million units sold in February represent a 3.7 percent increase from last year, despite one less selling day for the month. These gains come only two months after a rise in payroll taxes, and in the midst of concerns over \$85 billion in federal spending cuts that went into effect March 1, highlighting the strength of the auto industry's recovery. Two months into the year, sales are more than 8 percent higher than last year. While slower than the growth rate during the past few years, this would make annual sales of 16 million within reach in the not-so-distant future.

Moving forward, there are several signs that indicate sales at least will maintain the current pace. Consumers seem to be acclimating to the 2 percent rise in payroll tax, as February saw a rebound in Consumer Confidence, which jumped more than 10 points from January's 14-month low. The Commerce Department also revealed that new-home sales increased to the highest level in four and a half years, which certainly is good news for full-size pickup trucks. Building on the strength of the housing market, sales of full-size pickups in February were up 18 percent from a year ago. The Case-Shiller home price index also rose more than 6 percent year-over-year in December 2012, which is encouraging for consumer spending. Cuts in government spending remain a concern, but at this point it seems unlikely that momentum will slow in the auto industry.

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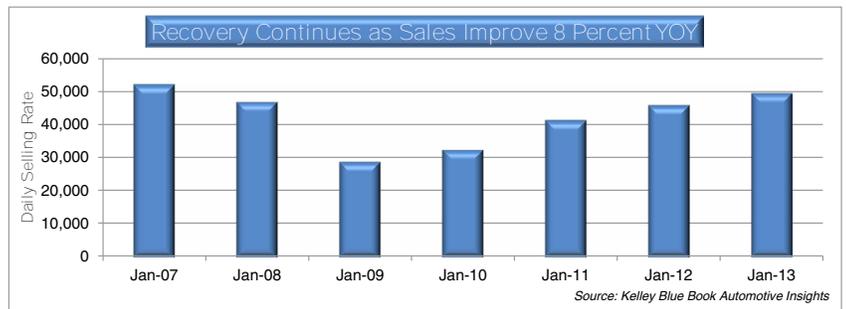
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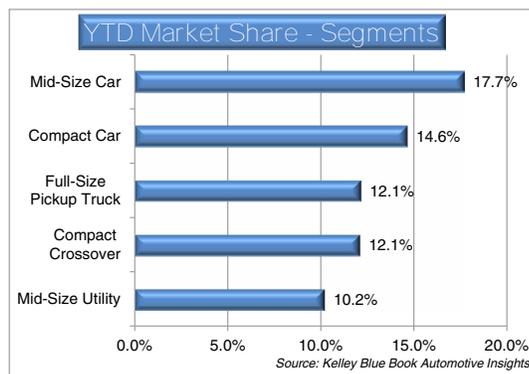
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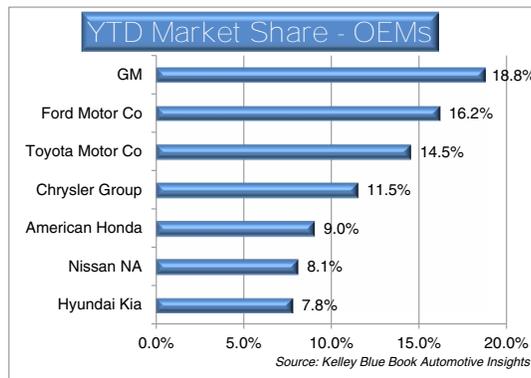


Mid-Size Sedans Remain Atop Market Share Heap; General Motors Leads Automakers

Through the first two months of the year, approximately 17.7 percent of consumers who purchased a new vehicle opted for a mid-size sedan. This should come as no surprise to those with the opportunity to check out the latest redesigns in the market during the past several months. Among the most recently redesigned mid-size sedans, the Ford Fusion and Honda Accord were the two biggest winners in February with sales improving 28 percent and 35 percent year-over-year, respectively. While the Accord and Fusion flourished in February, sales of mid-size sedans overall were down slightly on a year-over-year basis.

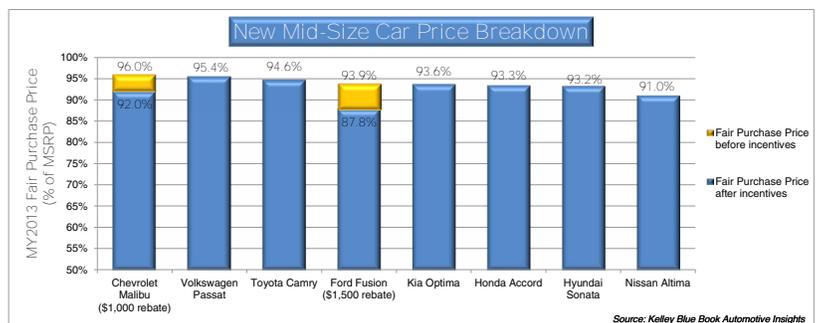


While mid-size sedans continue to lead segment sales, GM has shown that it has a product portfolio capable of increasing its already industry-leading position in terms of market share. Strong demand for pickup trucks helped GM increase sales by 7.2 percent in February, handily outperforming the industry average gain of 3.7 percent. However, more segments than pickup trucks have helped GM capture market share this year. Buick and Cadillac have played a pivotal role in GM's success, posting year-over-year improvements of 15.2 percent and 20.3 percent, respectively, on strong demand for the new Buick Verano and Cadillac ATS. Through February, GM has accounted for 18.8 percent of all new-vehicle sales, approximately 0.5 percent higher than its market share through the first two months of 2012.



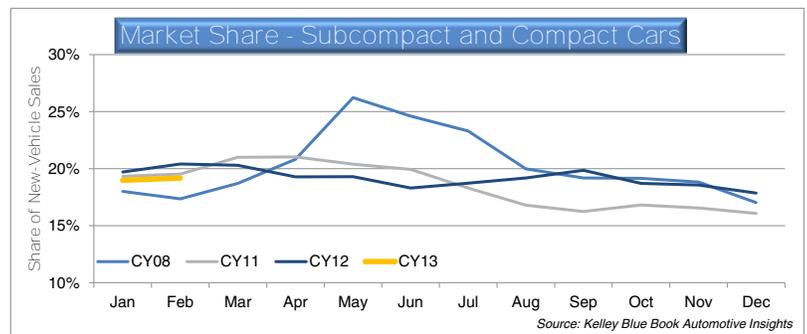
Incentives Help Drive Mid-Size Car Sales

Consumers looking to purchase one of the latest and greatest mid-size sedans can expect to pay between 91 percent and 96 percent of manufacturer's suggested retail price (MSRP) on average. The Chevrolet Malibu currently leads the segment, with the bulk of new-vehicle transaction prices coming in only 4 percent below MSRP on average. The Nissan Altima is transacting with a 9 percent discount from MSRP on average, making it the most affordable vehicle within the mid-size segment. After including an available \$1,000 cash incentive, the Malibu's retained value diminishes from 96 percent to 92 percent. Coincidentally, we see the same downward shift in the Ford Fusion after adjusting for an available \$1,500 cash rebate. After adjusting for incentives, the top performers are the Volkswagen Passat, Toyota Camry and Kia Optima, with an average Fair Purchase Price of 95.4 percent, 94.6 percent and 93.6 percent, respectively. Regardless of incentives, shoppers looking for a great deal on a mid-size sedan will have plenty of options to choose from in 2013.



Small Cars Remain Stable as Rising Fuel Prices Fail to Drive Segment Sales

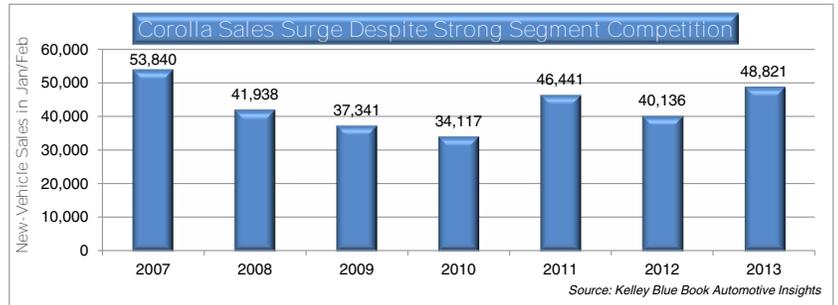
With gas prices still high, sales of new small cars have yet to increase beyond levels achieved last year. However, that's not to say that compact and subcompact cars have fallen out of favor with consumers. In fact, the month of February brought favorable sales figures to the compact, subcompact and hybrid car segments, with month-over-month sales increases of 16.3 percent, 13.1 percent and 15 percent, respectively. Sales for the Nissan Versa were particularly strong in February, increasing 27.6 percent month-over-month and a staggering 28.6 percent year-over-year. While these figures certainly are strong, both compact and subcompact sales are still down from last year, 1.5 percent and 5.8 percent, respectively, with hybrid vehicles a scant 1.6 percent above last year's totals.



Although gas prices remain uncomfortably high, Kelley Blue Book does not anticipate a significant spike in sales of small cars in the foreseeable future. With so many fuel-efficient options available in the mid-size car, small crossover and other segments, consumers no longer have to significantly alter their consideration set to accommodate short-term spikes in gasoline prices. The added availability of fuel-efficient drivetrains in nearly all vehicle categories has helped stabilize what used to be a volatile market, characterized by drastic swings in segment market share when fuel prices spiked unexpectedly. In 2008, the first time the industry saw fuel prices surpass \$4.00 per gallon nationally, market share for subcompact and compact cars increased nearly 10 percentage points in a few short weeks. When fuel prices once again approached \$4.00 per gallon in 2011 and 2012, market share for fuel-sipping vehicles barely budged. Although gas prices remain a constant threat, Kelley Blue Book believes that small-car sales will remain relatively steady in 2013.

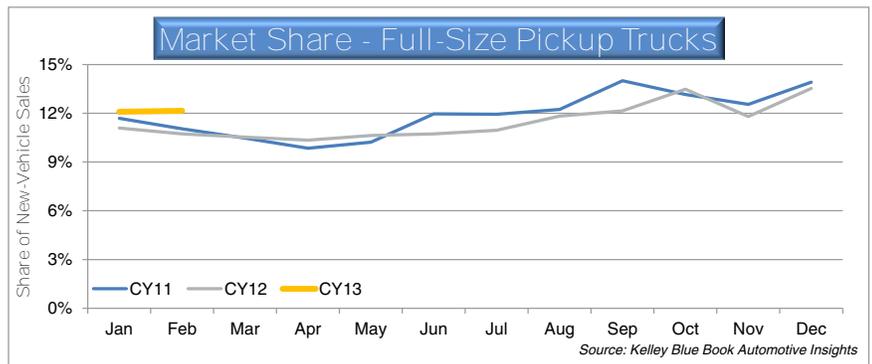
Toyota Corolla Proves Resilient Among Stiff Competition

Toyota Corolla new-car sales are on the upswing and approaching nearly 49,000 units year-to-date, up an impressive 21.6 percent since the beginning of the year, and coming in roughly 5,000 units shy of January/February 2007 sales figures. In February, the Corolla commanded a 14.2 percent market share among compact cars, the highest in the segment. What's most surprising is that amidst a segment flooded with new models and redesigns, the Corolla has not seen a major overhaul since 2009, yet continues to command the segment's highest new-car sales volume. Sales are being supported by modest incentives, which include \$500 in consumer cash, zero-percent financing for 60 months, or \$1,999 down on a \$159 per month lease. It will be interesting to see if the Corolla will be able to sustain its current momentum until the next generation 2014 model-year Toyota Corolla arrives in late 2013.



Truck Sales Gathering Steam

In February, Kelley Blue Book called attention to soaring pickup-truck sales, a trend that has continued to gather momentum. By the end of the month, sales of new pickup trucks were up 14.9 percent from January, and 17.5 percent year-over-year. These strong gains have been supported by an improving construction sector, with the number of new privately owned housing units under construction up 25.7 percent compared to January of last year. Enticing cash incentives and financing rates also continued to bolster the sales rate of new pickup trucks, as manufacturers continue to sell down their inventories in preparation for the launch of the next generation of trucks, or to protect their market share from competitors.

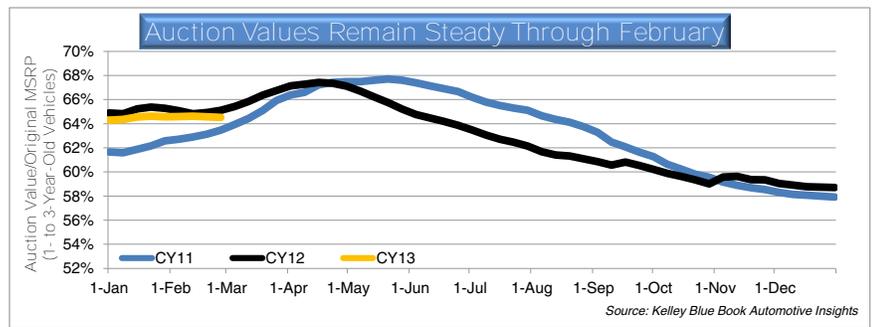


The next product launch will be the redesigned Chevrolet Silverado and GMC Sierra scheduled for this summer, and both trucks experienced strong sales gains in February. The Silverado increased its sales 17.5 percent compared to January, while the Sierra increased 10 percent, and both remain up more than 25 percent compared to this same time last year. The perennial volume leader of the truck segment, the Ford F-Series, was up 16.3 percent month-over-month and 15.3 percent year-over-year. Despite the rising sales rates, the availability of full-size pickup trucks has not yet been significantly reduced. By the end of last month, the Silverado, Sierra and F-Series all had more than a 100-day supply, so buyers currently in the market for a new truck have plenty opportunities to find a good deal.

Similar to the day supply, truck values were relatively unaffected by the ballooning sales numbers in February. The Kelley Blue Book Fair Purchase Price for new trucks declined by less than half of a percentage point from the beginning of the month. Interestingly, increased new-truck sales have not forced the prices for used trucks down by a significant margin. Despite readily available incentives and the growing number of new-truck sales, the average auction value for 1, 2 or 3-year-old used trucks decreased by a negligible 0.1 percent in February, and actually are up 3.3 percent on a year-over-year basis. Even so, used trucks remain an attractive option for budget conscious buyers, especially as the release of new-generation trucks draws near.

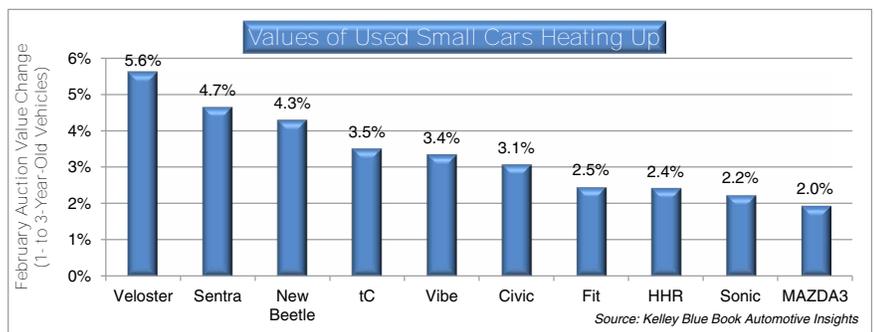
Used-Car Values Remain Steady in February Despite Rising Fuel Prices

Used-car values were relatively flat in February, declining a scant 0.4 percent overall. Although most segments generally were flat or down slightly overall, subcompact and compact cars improved a modest 1.1 percent, due in large part to a more than \$0.20 per gallon increase in gas prices. Although fuel prices may have influenced a slight uptick in values of fuel-efficient vehicles, the rest of the industry has been held flat by improving supply at auction. After several years of dwindling used-vehicle supply at auction, Kelley Blue Book believes that dealers should expect some relief in 2013. This relief should come in the form of increased trade-ins resulting from a growing new-vehicle sales market, as well as a potential year-over-year increase of 300,000 units or more in off-lease units. With supply expected to continue to improve, Kelley Blue Book anticipates values will remain relatively steady through spring.



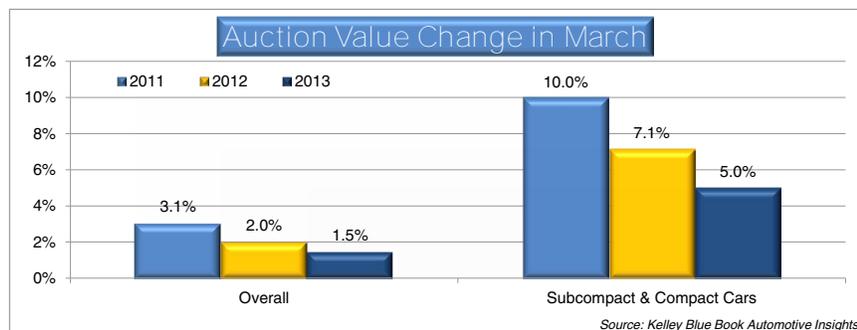
Small-Car Auction Values Climb in February

Small fuel-efficient vehicles spiked in auction values year-over-year with compact, subcompact and hybrid vehicles up 7.4 percent, 11.8 percent and 2.9 percent, respectively. New generations and much-anticipated redesigns are among some of the leading factors in these large increases, as 2012 saw a number of redesigns and all-new vehicles including the Honda Civic, Kia Rio, Hyundai Accent, Ford Focus and Chevrolet Sonic, just to name a few. Thus far, 2013 auction values remain strong, while several vehicles are reaching a three-month high, including the Honda Fit, Honda Civic, Nissan Sentra, and the all-new for 2012 Hyundai Veloster, which are up 2.5 percent, 3.1 percent, 4.7 percent and 5.6 percent from January 2013, respectively. Kelley Blue Book expects this modest seasonal uptick to continue, as more shoppers typically enter the market as spring approaches and dealers are pushed to restock depleting inventories.



March Gains Will Fall Shy of Previous Year Highs

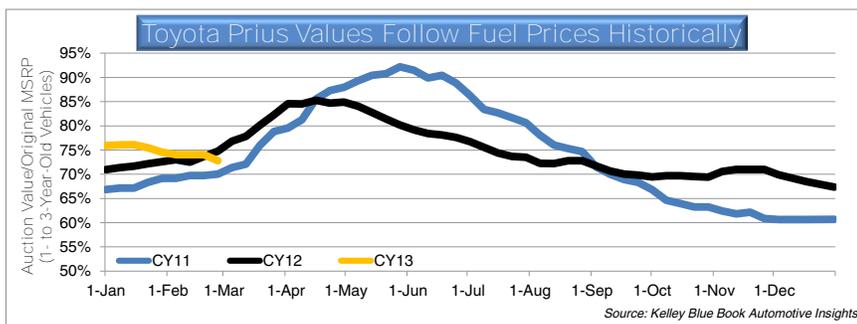
Auction values have remained relatively flat this year, generally in line with typical seasonal patterns. In March, auction values typically climb as dealers stock up on inventory in preparation for the spring selling season. Values of fuel-efficient subcompact and compact cars are especially hot during this time of year, especially when gas prices are on the upswing. Kelley Blue Book advises dealers looking to load up on inventory to proceed with caution as they plan for the spring market, especially those expecting a repeat of the strong wholesale gains in both 2011 and 2012 model-year vehicles. During the past two years, auction values increased 3.1 and 2.0 percent (respectively) in the month of March, due in large part to the strength in the small-car segment during those years. Values of fuel-sippers were up a more robust 10 percent and 7 percent (respectively) in 2011 and 2012. In each of the previous two years, the strength in the wholesale market largely was predicated on rising gas prices.



With supply already showing signs of improvement and affordable new-vehicle pricing still widely available, auction values likely only will increase 1 percent to 1.5 percent at best in March 2013. Fuel-efficient vehicles such as the Honda Civic and Toyota Prius likely will surpass the average industry gain, but Kelley Blue Book doesn't anticipate an increase greater than 3 percent to 5 percent overall. Although auction value increases likely will remain relatively mild compared to gains seen in the past two years, dealers should expect strong pricing to continue for small cars, especially popular models such as the Honda Civic, Hyundai Veloster and Nissan Sentra.

Fuel Prices, Unlike Used Hybrid Values, Continue to Rise

Fuel prices continued to climb in February, rising 25 cents on a national average from \$3.53 to \$3.78 per gallon. Despite fuel prices, auction values for the hybrid car segment declined 1.8 percent in February. Consumers have tailored driving habits and fuel consumption to coincide with higher fuel prices, and therefore are no longer running out to buy hybrids at the first signs of increasing fuel prices. Auction values for the Toyota Prius in both 2011 and 2012 approached their original MSRP, due to spikes in fuel prices. However, despite this year's already significant increase in fuel prices, auction values for the Toyota Prius are down considerably. Historical data on the Prius shows that auction values rose significantly in the months of April to June, and while this still is a possibility for 2013, Kelley Blue Book does not anticipate any upward movement similar to the magnitude seen in previous years.



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.

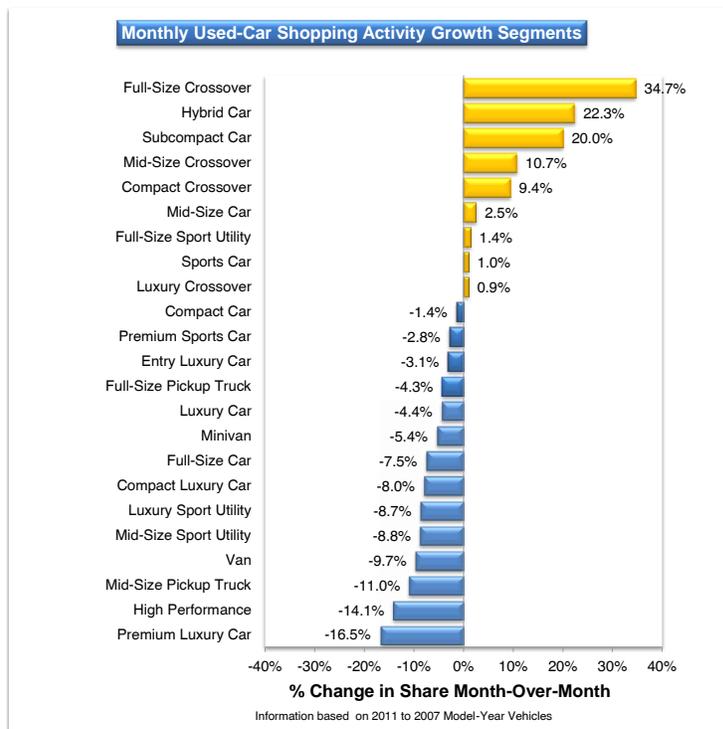
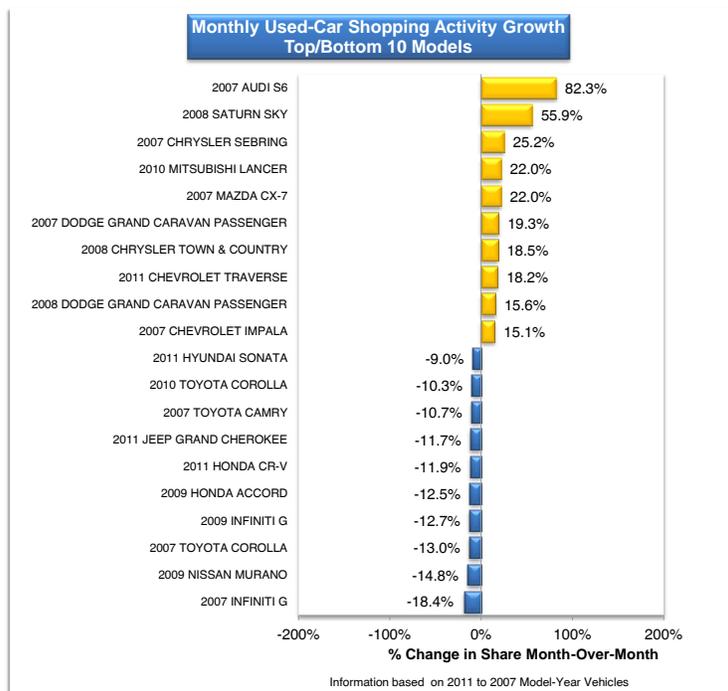
Seasonal Trends and Gas Prices

- 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 February, shoppers continue to demonstrate an overwhelming affinity for full-size crossovers and hybrid cars. These two segments received a massive bump in share to the tune of 34.7 percent and 22.3 percent, respectively. The recent surge in gas prices has attributed to these vast gains in share. Hybrid cars traditionally gain attention along with skyrocketing prices at the pump, largely due to their fuel-sipping image. In addition, shoppers are willing to overlook the premium cost associated with a hybrid to avoid excessive trips to the gas station. Full-size crossovers are less likely to receive this same benefit from pump prices. However, shoppers have been paying more attention to the full-size segment, as crossovers have gained a positive image as fuel efficient.

Usually shoppers begin to shift their interest toward sporty cars as the spring and summer months approach. There haven't been any large shifts to affect the market at the segment level, but there has been movement at the model level. The two models that appear to be the pioneers of this shift are the 2007 Audi S6 and 2008 Saturn Sky. Even with the inflation of gas prices, these two sports cars have experienced great gains in share of shopping activity. This largely is due to shoppers having more available income for their next vehicle purchase. Next month, Kelley Blue Book anticipates a large shift toward sporty vehicles, as gas prices are expected to come down and shopper discretionary incomes increase.



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