

BLUE BOOK

New-Car Market Report

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Automotive Insights from Kelley Blue Book

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NEW-CAR MARKET ANALYSIS:

New-Car Sales Best Since August 2007

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

Industry sales hit a 15.2 million seasonally adjusted annual rate (SAAR) in March, which is the fifth consecutive month that sales surpassed a 15 million unit annual sales pace. Through Q1 2013, new-vehicle sales achieved 3.69 million units overall, a 3.6 percent improvement year-over-year, and the highest Q1 tally since 2007. Consumers have been lured to showrooms by compelling product redesigns such as the Honda Accord, Ford Fusion and Nissan Altima, each of which were significantly upgraded for the 2013 model year. In addition to exciting new product, consumers continued to take advantage of low-interest finance offers and affordable lease deals, as both have been key drivers during the past several years.

Since new-vehicle sales bottomed out in 2009, sales have recovered far quicker than the pace of recovery in the broader economy. Unemployment remains near 8 percent, while consumer confidence also sits uncomfortably low. In fact, the Consumer Confidence Index took an 8 point drop in March, as consumers expressed their fears about sequester and the lingering effects of the rise in payroll tax finally set in. Although unemployment and consumer confidence remain a potential roadblock to future sales growth, a rebound in the housing market should help offset any negativity related to those two factors. As Kelley Blue Book looks ahead to the rest of 2013, it appears the industry will continue to outpace the growth in the economy. After a strong first quarter, Kelley Blue Book anticipates that sales will remain on track to hit or even surpass our annual estimate of 15.3 million units.

Luxury Vehicle Sales Up Nearly 15 Percent in Q1

As overall U.S. auto sales posted respectable gains of more than 6 percent in the first quarter, high-end buyers opted for upscale vehicles, boosting Q1 luxury vehicle sales 14.6 percent from last year. The Q1 2013 total of nearly 400,000 luxury units marks the largest first quarter since 2007. The gains are most evident when looking at the luxury crossover segment, which improved 26.4 percent in the first quarter, thanks to new models such as the Infiniti JX and BMW X1. In addition, strong numbers from the recently redesigned Acura RDX helped, since it more than tripled its sales from last year in March. Meanwhile, the Lexus RX continues to set the bar for the segment, more than doubling the sales of its closest competitor, the Cadillac SRX, in March.

Another good sign for luxury manufacturers is that the average transaction price increased from \$46,629 in March 2012 to \$47,791 this year, or 2.5 percent. New and improved introductions combined with healthy demand have allowed manufacturers to increase both sales and prices. Luxury-vehicle sales have been bolstered by growth in household wealth related to gains in both the stock and real estate markets. As the U.S. economy continues its slow improvement, the auto industry and luxury brands in particular will continue to shine.

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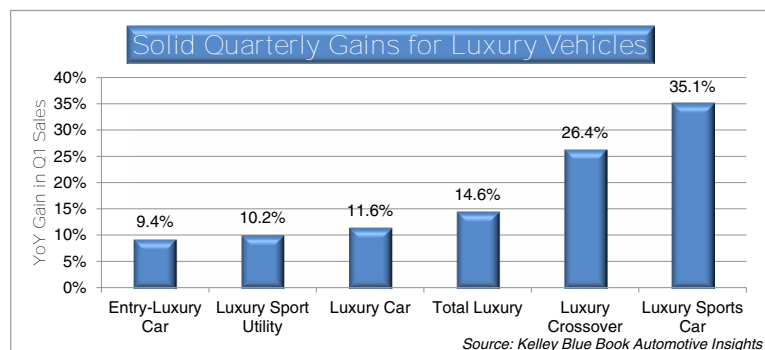
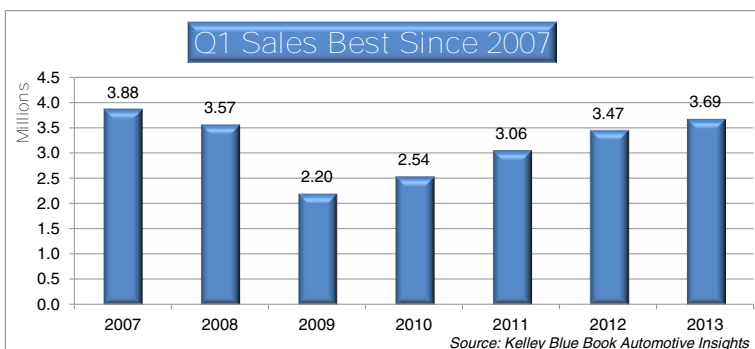
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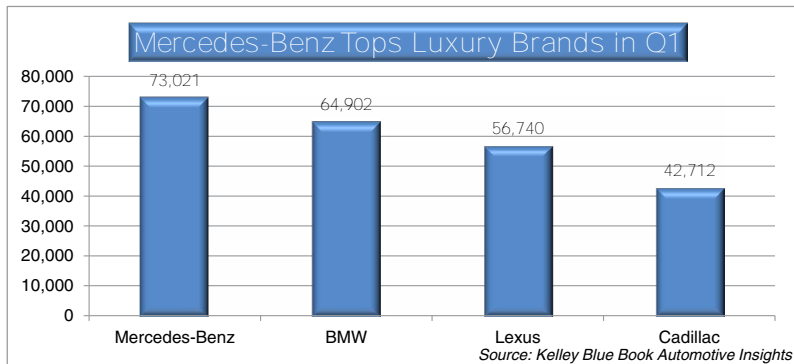


Cadillac Leads Quarterly Gains, While Mercedes Tops Overall Luxury Brand Sales

In the first quarter, Cadillac was the big winner among luxury brands, improving sales by 38 percent from last year, following the launches of the small and sporty ATS, and the large and luxurious XTS. Cadillac will look to gain even more market share later this year with the release of the completely redesigned 2014 CTS, replacing an aging model that has seen a 35 percent decline from last year. In addition to solid sales growth, Cadillac enjoyed a 5 percent increase in average transaction prices in March, with the average Cadillac retailing for approximately \$49,800.

Although Cadillac led year-over-year gains among luxury automakers for the quarter, Mercedes-Benz maintained the top spot in terms of market share in the luxury segment at 17.2 percent, reporting its highest Q1 sales volume ever. Mercedes-Benz is in a prime position to stay on top with the upcoming entry-level CLA-Class and a redesigned E-Class. BMW, only slightly trailing Mercedes-Benz in market share at 16 percent through the first quarter, will challenge Mercedes-Benz with introductions of its 320i sedan and the 4 Series coupe.

Rounding out the top three in overall luxury sales was Lexus, whose 15.5 percent growth in the first quarter was driven largely by the redesigned 2013 ES. Built off the all-new Toyota Avalon platform, the 2013 ES nearly doubled its quarterly sales from last year and trails only the 3 Series and C-Class in the entry-luxury segment. Lexus will continue to rely on the strength of the ES until the all-new 2014 IS comes out this summer, when the IS will experience its first major overhaul in eight years.



Hybrid Sales Outpace the Market in March

Sales of hybrid and electric vehicles in March proved to be the strongest for the segment year-to-date with total sales coming in at 31,622 units, a 24 percent increase from February's figures. Nearly 80,000 new hybrid and electric vehicles were purchased through the first quarter, resulting in the best quarterly sales on record. Nissan LEAF sales played a key role in March's robust sales figures for the electric segment, bumping sales up to 2,236 units for a staggering 286 percent increase year-over-year. Sales in March were helped greatly by an influx of 2013 inventory coming from the newly built Nissan plant in Smyrna, Tennessee, as well as the new entry-level S model LEAF, which starts a little more than \$3,000 below the current entry-level SV trim. With renewed capacity from the Tennessee plant and a new lower-priced model in the lineup, the average transaction price for the LEAF decreased by 3 percent year-over-year to \$36,200.

Through Q1, sales of hybrid and electric vehicles improved 4.8 percent, slightly below the industry average gain of 6.4 percent. Although sales are up, market share for the segment remains relatively flat year-over-year at a little more than 2 percent. Hybrid and alternative-fuel vehicles have lost some appeal as gas prices have declined and the fuel-efficiency of more affordable alternatives has improved. With gas prices well below the highs seen last year, Kelley Blue Book has seen transaction prices for many vehicles in the segment decline. The Chevrolet Volt and Nissan LEAF are selling approximately 2 to 3 percent below prices seen in March of last year, at \$41,700 and \$36,200 respectively, while the segment-leading Toyota Prius remained relatively flat year-over-year, with average transaction prices hovering around \$26,000 in March.

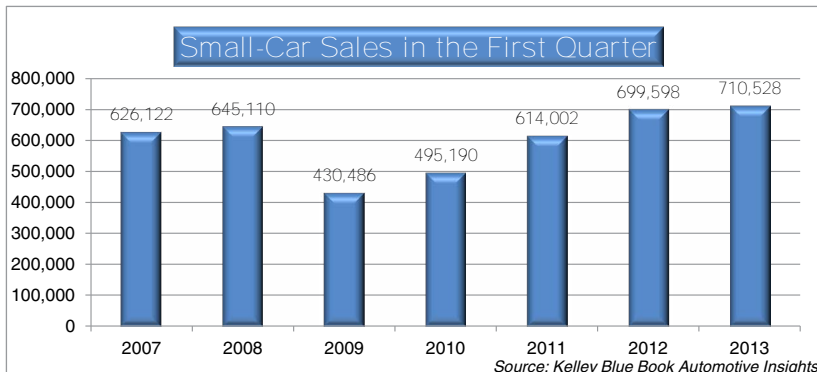


NEARLY 80,000 NEW HYBRID AND ELECTRIC VEHICLES WERE PURCHASED THROUGH THE FIRST QUARTER, RESULTING IN THE BEST QUARTERLY SALES ON RECORD.

- ALEC GUTIERREZ

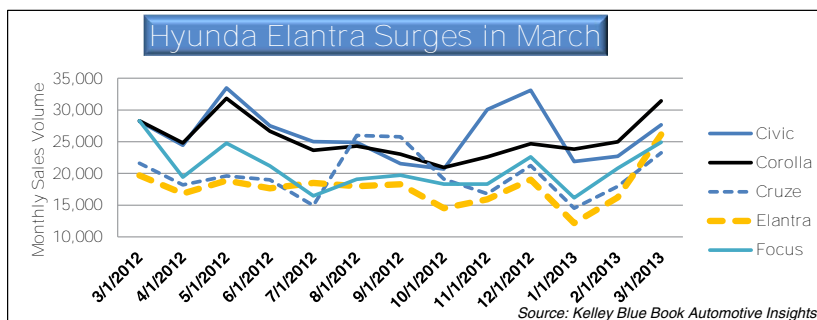
Subcompact and Compact Sales Stall in Q1

Small-car sales totaled 284,103 units in March, which is roughly flat on a year-over-year basis. While small-car sales were only marginally down year-over-year, there are a number of pressing factors that are pulling market share away from the segment. For starters, fuel prices are down more than \$0.30 per gallon from last year, giving consumers more breathing room when shopping for a new car. Demand for small cars is highly dependent on fuel prices, and with the price at the pump already well below last year and falling, small-car demand is likely to remain flat. Further suppressing demand for small cars has been the significant number of redesigns in the mid-size car segment, which are offering consumers fuel efficiency comparable to a subcompact or compact car. For example, the 2013 Nissan Altima offers 38 mpg on the highway, besting many subcompact and compact offerings. However, this is not to say hard times are ahead for the small car segment. In fact, Q1 2013 proved to be the strongest quarter since 2007, with sales topping 700,000 units overall. But with fuel prices headed down and fuel efficiency improving across all segments, small-car sales likely will struggle to gain additional market share.



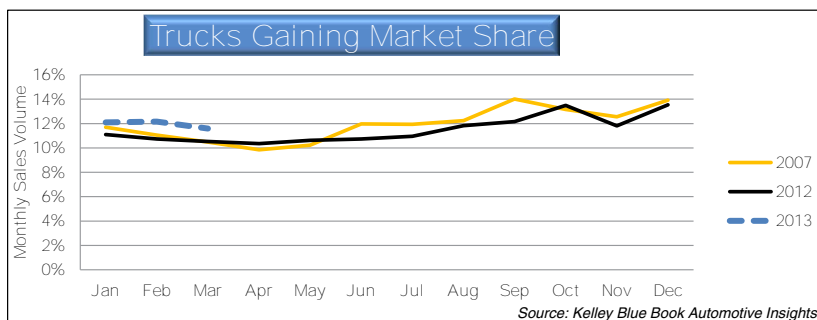
Additional Production Capacity Helps Push Elantra Forward

As one of the most competitive segments in the marketplace, compact cars are constantly rubbing elbows to gain market share, so when an older model in the segment overtakes its newer counterparts, then it is worthwhile to take note. With a total of 26,153 units sold in the month of March, the Hyundai Elantra surpassed February's sales figures with a 61.2 percent month-over-month increase and a 32.9 percent increase from a year-over-year perspective. Since the launch of the 2011 redesign, the Elantra has always seen demand far outweigh supply. With the addition of a third shift at their Alabama plant, Hyundai has finally been able to increase production on the high-demand Elantra. With such impressive sales numbers, the Elantra overtook both the face-lifted Chevrolet Cruze and Ford Focus in market share, gaining an impressive 11.9 percent to put the Elantra in third place for overall market share within the segment. In addition to increasing share, Hyundai saw a 1.6 percent increase in average transaction prices in March, as the average Elantra sold for approximately \$20,300. It also is striking that the Elantra body style remains unchanged since 2011; however, Hyundai has added a two-door coupe and five-door hatchback GT to the 2013 Elantra lineup.



Trucks Remain in High Demand

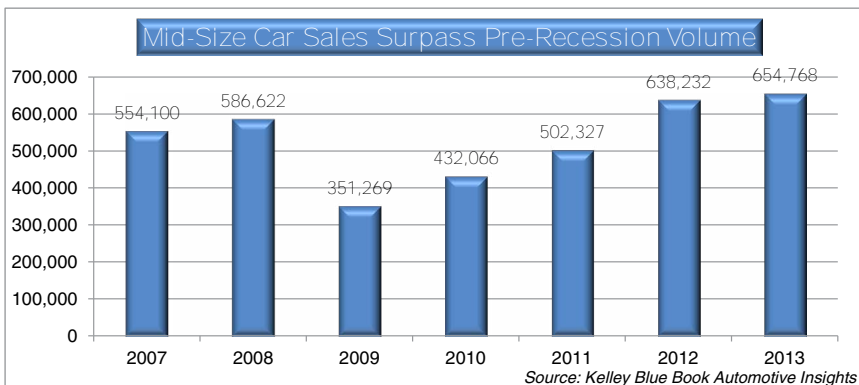
Sales of new pickup trucks ended the first quarter on a positive note, continuing the streak of gains each month since the start of the year. After three months of repeated increases, sales during the first quarter ended 17.9 percent higher than the same time period in 2012. Even more impressively, every model in the full-size pickup truck segment saw double-digit increases by the end of the quarter compared to last year, led by the Chevrolet Silverado with 21.9 percent year-over-year sales growth. This rising sales volume was buoyed by eye-catching incentive offerings, with zero-interest financing or bundled cash allowances adding up to several thousand dollars readily available depending on model and location. Although incentives remained plentiful, overall transaction prices were up slightly year-over-year, averaging \$39,700 for the month. Rising sales rates and attractive incentives likely did very little to diminish the existing large supply of new trucks, since days supply was greater than 90 days for most manufacturers at the beginning of March. There also was an upswing in available inventory units for the majority of manufacturers at the start of March. Inventory units for the sales volume-leading Ford F-Series rose 3 percent compared to the beginning of February. Despite the strong sales rate in March, supply and incentives should remain plentiful in the near future for consumers still planning to purchase a new full-size truck.



In addition to high inventory levels and attractive incentives, strong first quarter truck sales can be attributed in part to recent progress made in the construction sector. The U.S. Department of Commerce estimated that construction spending reached a seasonally adjusted annual rate of \$885 billion at the end of February, which is 1.5 percent higher than January 2013 and 7.9 percent above February 2012. The number of privately owned housing unit construction starts also continued to improve throughout the first two months of the quarter, ending 0.8 percent up from January 2013 numbers and more than 27 percent higher than February 2012. As long as these recent trends in inventory levels, incentives and construction spending continue, it is reasonable to expect the industry slowdown typically seen in April will not have a severe impact on pickup truck sales.

Mid-Size Cars Post Strongest Q1 Sales Since Prior to the Recession

Mid-size sedans experienced the segment's best first quarter in more than seven years, with more than 650,000 units sold, a 2.6 percent year-over-year increase. Although Q1 sales were the best since before the recession, monthly sales were down 10,000 units year-over-year. In 2012, many manufacturers offered steep discounts to make room for the latest newly redesigned models. For example, Honda offered a stair-step incentive program to its dealers in order to sell out the 2012 Accord, in anticipation of the new 2013 Accord. On the other hand, Mazda and Nissan boosted their fleet sales on the Mazda6 and Altima, a practice that often arises in anticipation of the Japanese fiscal year end in March. Another factor that could have resulted in a slightly lower March 2013 for mid-size car sales is delayed income-tax refunds, which might have caused some consumers to delay purchasing a new vehicle.

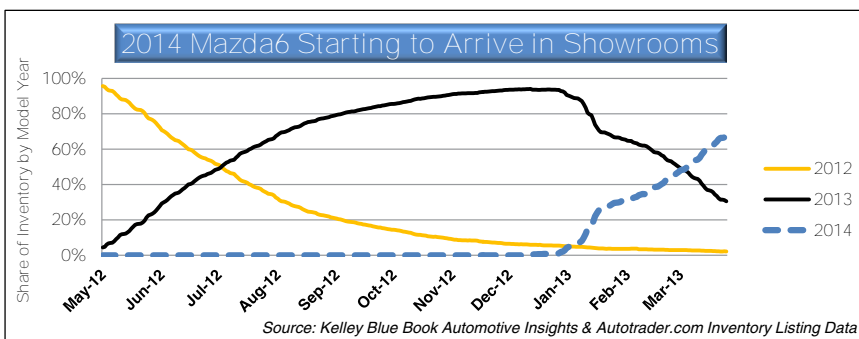


Although sales volume was down slightly in March, transaction prices for mid-size cars remained quite strong at \$25,900 overall. This marks a 1.6 percent year-over-year improvement for the segment, driven largely by higher transaction prices for many of the in-demand redesigned mid-size car models. For example, the redesigned Honda Accord, Ford Fusion and Nissan Altima saw transaction prices rise by 8.7, 6.9, and 3.4 percent respectively versus prices paid in March 2012. At the moment, these three models are all vying for the No. 2 spot in mid-size sedan market share, chasing the class-leading Toyota Camry. Although the Camry maintained a healthy lead through the first quarter, the Altima, Camry and Accord all were fighting for the top position in March. As the year progresses, any one of these three could take the No. 1 spot in segment sales. The Ford Fusion isn't too far behind, but faces capacity constraints that will limit sales in the short term.

Mazda6 Redesign Driving Solid Increases

Mazda reported a healthy increase in sales for the 2014 MAZDA6 in March. It sold 2,702 units, which was an increase of 107.8 percent in comparison to the previous month. Although sales for the 2014 MAZDA6 are improving, total sales on the MAZDA6 were actually down year-over-year in March by 22.3 percent. There are two factors that could have led to the decrease in year-over-year sales.

Last year, Mazda doubled its MAZDA6 fleet sales from 2,103 in 2011 to 4,326 in 2012. Another factor to consider is that the 2014 MAZDA6 is still ramping up its inventory to regular levels. The following graph depicts the current inventory levels, where it is clear that the 2014 MAZDA6 inventory is still climbing. As additional inventory arrives at dealerships, Kelley Blue Book expects sales of the MAZDA6 to continue to rise.



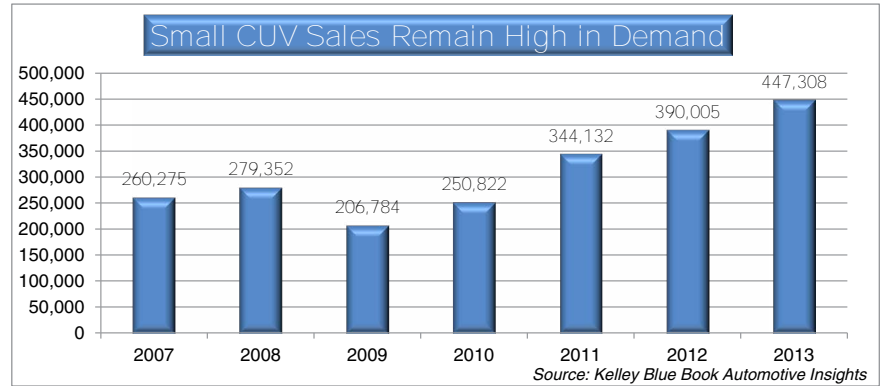
Small CUV Segment Experiences 14 Percent Year-Over-Year Increase in Q1

While industry sales increased by more than 6 percent in Q1, sales of small CUVs improved by a more robust 14 percent. This segment has grown considerably since 2007, as more and more manufacturers enter the fray with highly competitive offerings. Through the first quarter, the Ford Escape led the segment with more than 72,000 units sold, a 25 percent increase year-over-year. The Escape currently holds a modest 7,000 unit lead from last year's top-selling Honda CR-V, indicating the fight for segment supremacy remains far from over.

Not only were sales up, but transaction prices increased by a healthy \$500, bringing the average price paid for a small CUV

up to \$27,000 for the month. Among the top sellers in the segment, the Ford Escape commanded the highest average transaction price in March, with an average selling price of \$28,600; a 5 percent annual increase. The CR-V had an average transaction price of \$26,700 for the month, which is roughly flat with prices paid one year ago. Overall, small CUVs saw a 2 percent increase in transaction prices year-over-year. With prices only modestly above levels paid last year and a plethora of newly redesigned fuel-efficient models available, Kelley Blue Book expects small CUVs to continue to gain market share.

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