BLUE BOOK MARKET REPORT

August 2009

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In this issue :

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MARKET ANALYSIS

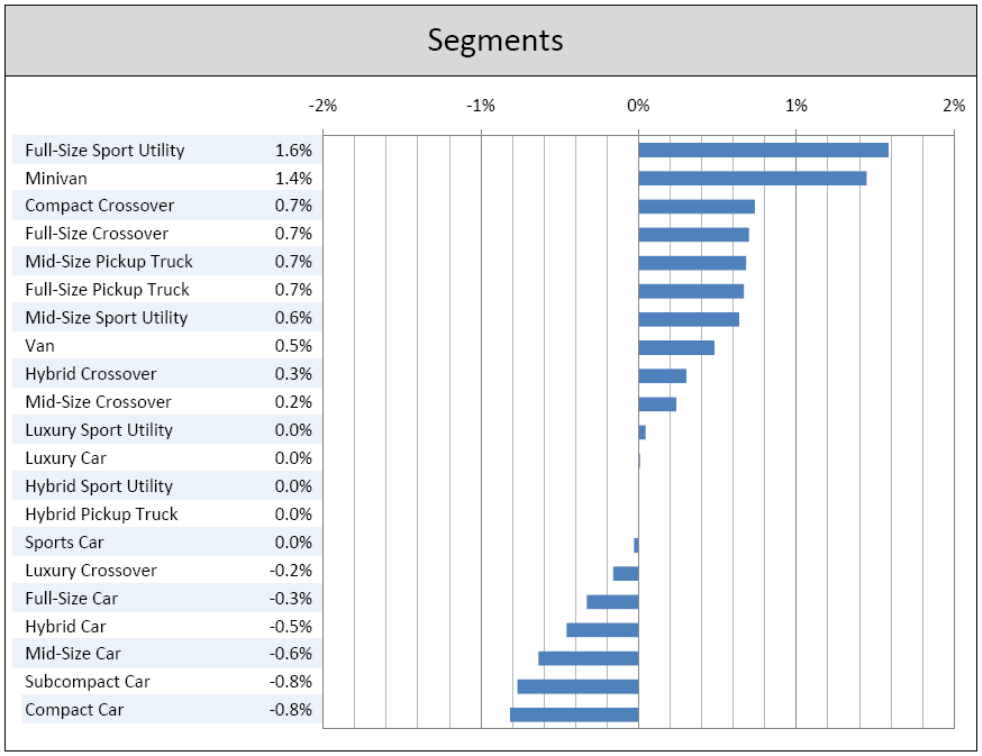
Segments Perform Outside Seasonal Trends, Cash for Clunkers' Long-Term Effects
- Juan Flores, director of vehicle valuation, Kelley Blue Book

Summary

Overall, used-vehicle values were flat for the month with only a handful of segments deviating significantly. The segments showing the greatest change were full-size SUVs and minivans, which outperformed the market and subcompact and compact cars, which underperformed the market.

The strength in full-size SUVs is a continuation of the appreciation occurring since the beginning of the year. This strength can be attributed to a tight supply of vehicles resulting from reduced fleet sales and fewer trade-ins coming in to dealers. Of course, lower fuel prices also haven't hurt.

Conversely, subcompact and compact cars continued to depreciate rapidly as demand has remained soft for fuel-efficient vehicles of this size. It should be considered that although these segments have been consistently underperforming the rest of the market in terms of percentage decline, subcompacts and compacts typically outperform the market from a 2-3 year retention perspective.



The above chart displays month-over-month used-vehicle depreciation percentages by segment. The depreciation percentages shown are not indicative of the retention percentages or relative positions of the included segments.

The following sections examine cars and trucks further, seeking to explain the most significant changes at a segment, brand, and/or model level. **Continued on Page 2.**

MARKET ANALYSIS CONTINUED

Car Segment Analysis

Car values dropped 0.4 percent overall for the month, with subcompact and compact vehicles falling more aggressively than other car segments. Since the beginning of the year, compact cars (-6.5 percent), subcompact cars (-10.5 percent), and hybrid cars (-10.9 percent) have depreciated more than any other segment. July showed no mercy as subcompact and compact cars dropped another 0.8 percent, which translates into less than $100 for most vehicles in these segments. While this may seem negligible, the underlying market forces suggest that the immediate future does not bode well for these vehicles.

In May of this year, President Obama announced his plan to increase Corporate Average Fuel Economy (CAFE) standards from the current level of 27.5 miles per gallon up to 35.5 miles per gallon by 2016 (39 mile per gallon for cars and 30 miles per gallon for trucks). This has forced manufacturers to adjust their consumer fleets to provide more compact and fuel-efficient vehicles, as well as improve the fuel economy of every model in the lineup. Since CAFE standards are calculated as a sales weighted average of all vehicles sold, the more fuel-efficient vehicles that a manufacturer sells, the higher the CAFE rating for that manufacturer. This has not only increased the number of vehicles participating in the subcompact and compact segments, but it has also produced more full-efficient mid-size and full-size cars. As a result, the choice of fuel-efficient vehicles has expanded considerably.

Additionally, as competition in the automotive marketplace has intensified, manufacturers have responded by providing high-quality amenities on their least expensive vehicles – giving consumers more bang for their buck. This has been a necessary step to keep these vehicles competitive as the fuel economy of larger vehicles becomes more comparable to that of compacts and subcompacts. By looking at the significant leap in content and quality of new vehicles in these segments, we can clearly see that manufacturers have been working hard to keep their new offerings desirable to consumers. Take the redesigned Ford Focus, Honda Fit, or all-new Kia Soul for example. All of these vehicles are superior alternatives to used compacts and subcompacts currently available. The new subcompact and compact vehicles currently available for sale offer improved fuel economy, top-notch quality, and more amenities than a comparable used vehicle.

What has this meant for subcompact, compact, and hybrid values? All of these factors have led to an increased supply of alternatives to vehicles in these segments. Whether the competition comes from a new and improved subcompact or compact or a mid/full-size car offering 30+ miles per gallon, the increased competition has caused downward pressure on used values that could continue for some time.
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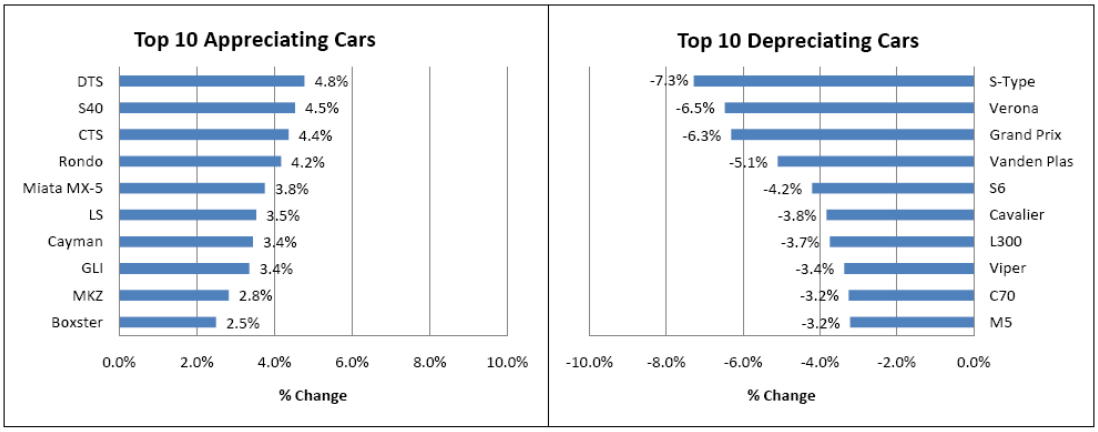

The above charts display month-over-month used-vehicle depreciation percentages by model. The depreciation percentages shown are not indicative of the retention percentages or relative positions of the included models.

MARKET ANALYSIS CONTINUED

Truck Segment Analysis

Truck values strengthened through the month of July, increasing between 0.4 percent and 1.1 percent. The segments exhibiting the most strength were full-size SUVs and minivans, appreciating 1.6 percent and 1.4 percent, respectively. This is a continuation of the trend occurring all year, where a reduced supply of available vehicles at auction and a lack of viable alternatives have caused these values to rise.

The strength in the truck segment is staggering when examining the change in values since the beginning of the year. Full-size SUVs, full-size pickup trucks, and mid-size SUVs have all increased in excess of 20 percent since January, indicating strong demand as consumers return to the segment. The strength in values during this time of year is surprising given that truck values are typically soft during the summer months. It will be interesting to see if this trend continues through the rest of summer and into fall, where values for AWD and 4wd trucks typically begin to improve in anticipation of the winter months.

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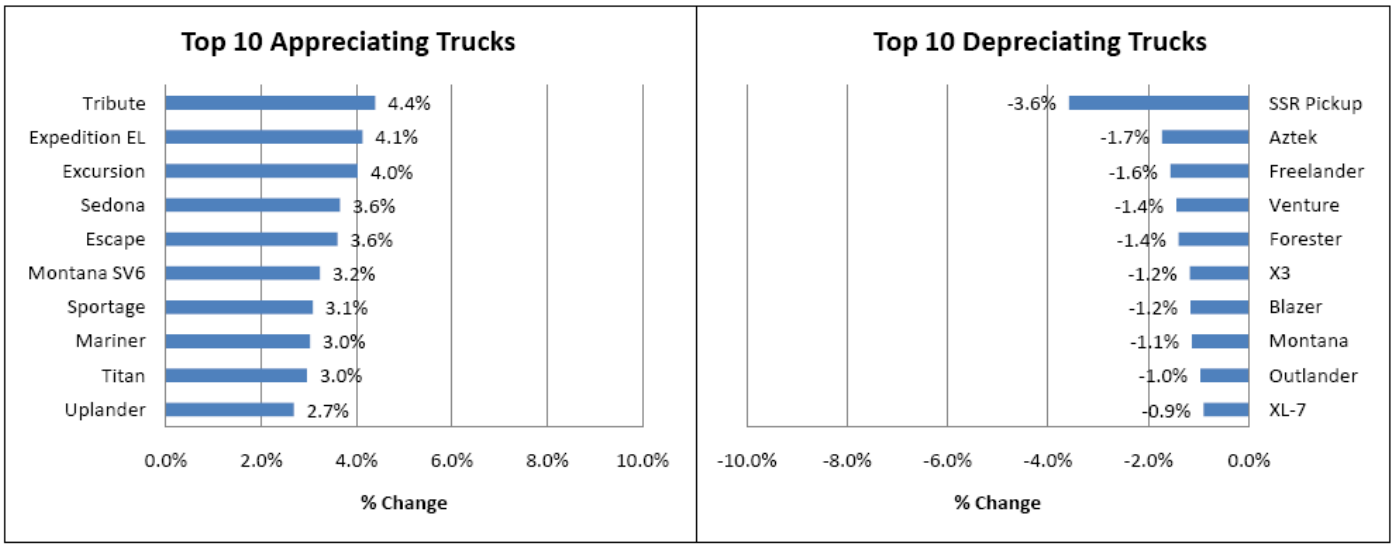
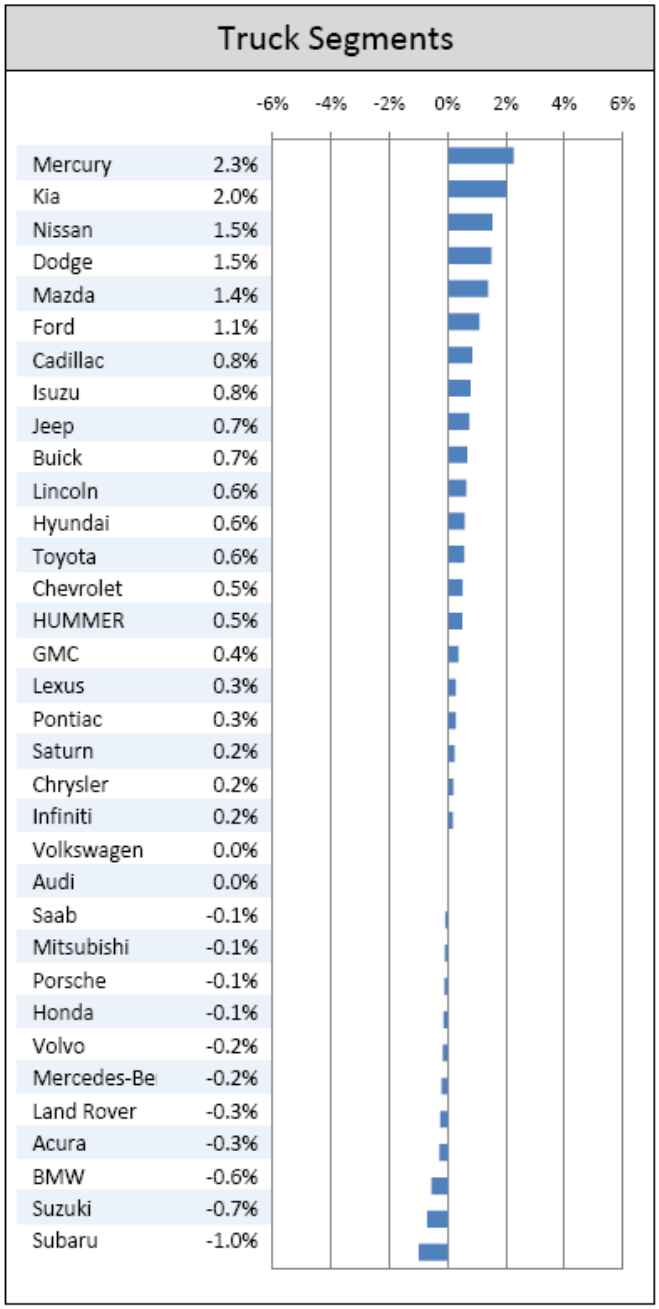
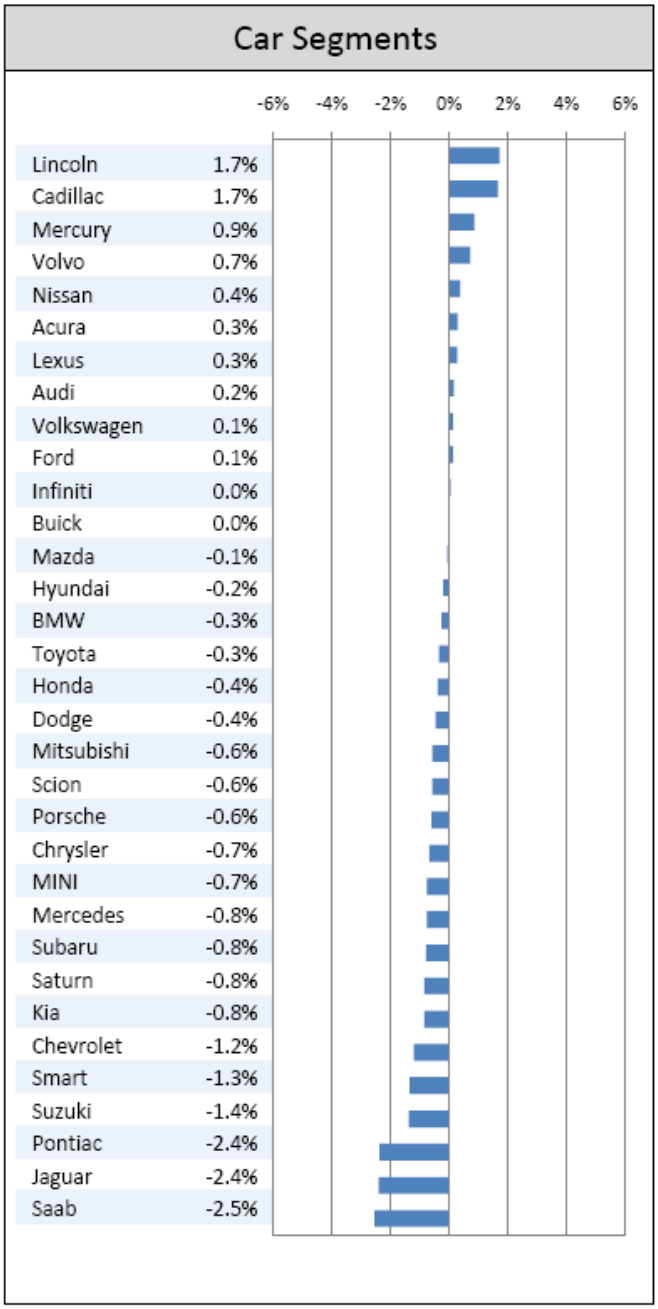


The above charts display month-over-month used-vehicle depreciation percentages by model. The depreciation percentages shown are not indicative of the retention percentages or relative positions of the included models.

MARKET ANALYSIS CONTINUED

Truck & Car Segment Charts





The above charts display month-over-month used-vehicle depreciation percentages by brand. The depreciation percentages shown are not indicative of the retention percentages or relative positions of the included brands.

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MARKET ANALYSIS CONTINUED

Cash for Clunkers

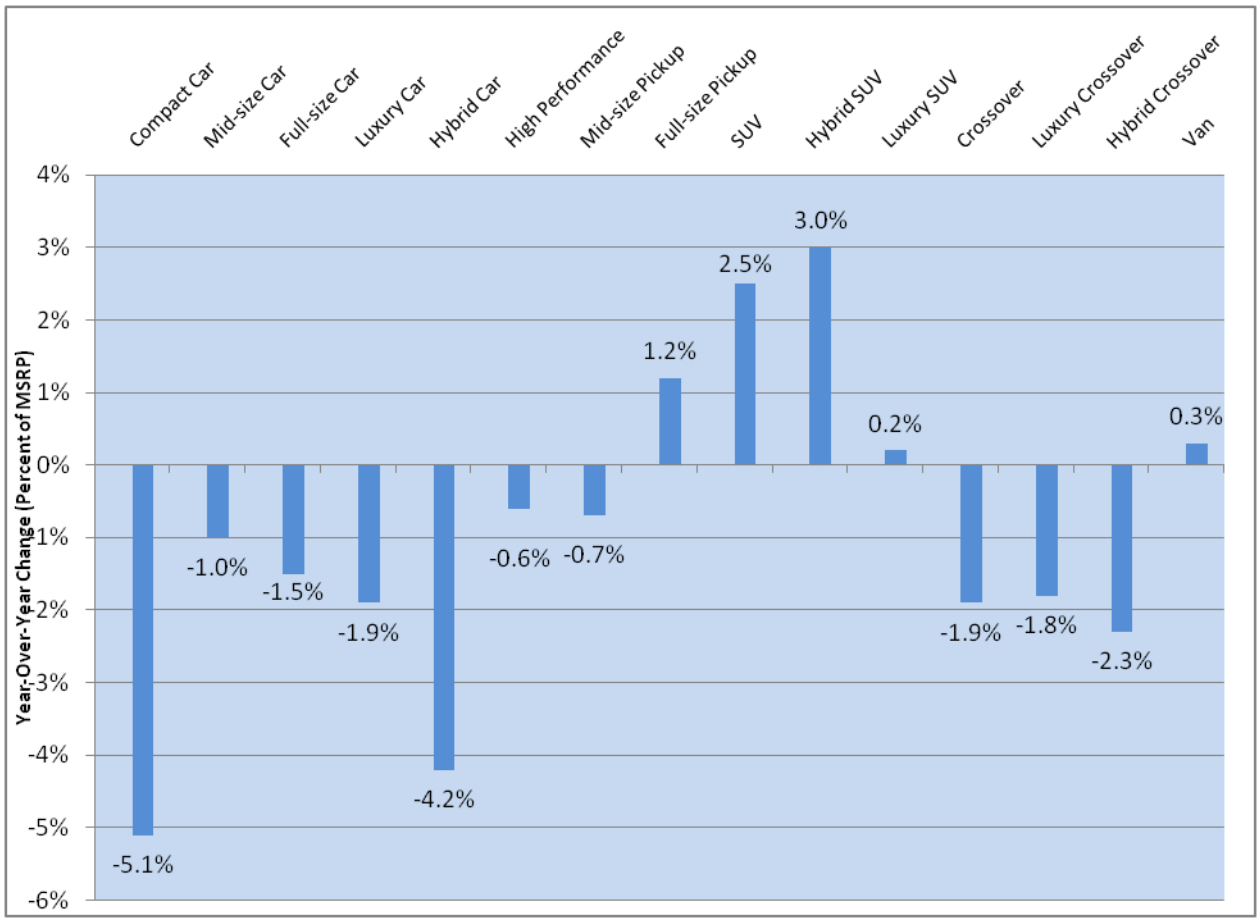
With a $1 billion spent and over 250,000 new vehicles sold, the success of the Cash for Clunkers program cannot be argued. What remains to be seen is the long-term effect the program will have on used-car values. With over 250,000 vehicles leaving the used-vehicle supply, this equates to a 0.8 percent reduction in the overall supply of used vehicles (based upon sales of 16 million used vehicles in 2008). When the Senate signs off on an additional $2 billion funding for the Cash for Clunkers program, it could equate to an additional 500,000 used cars being removed from the overall used vehicles supply, which is a 2 percent overall reduction in supply in a single year. The effect of a supply reduction of this magnitude could have a monumental impact on the values for used vehicles, exacerbating the already short supply of these vehicles at auction. As dealers and consumers continue to take advantage of this program, Kelley Blue Book analysts anticipate the possibility of a bubble in used-car values, which could implode as the Cash for Clunkers program comes to a close. The vehicle valuation department is keeping a close eye on values as the program continues and an influx of additional funds is added to the program by the federal government.

AUGUST 2009 RESIDUAL ANALYSIS

- Eric Ibara, director of residual valuation consulting, Kelley Blue Book

The September-October edition of the Kelley Blue Book® Residual Value Guide inaugurates the new model year with the introduction of a significant number of 2010 models. Notable for this period is a 1.4 percentage point decline in forecasted 60-month residual values for 2010 models compared to 2009 models this time last year. This represents the smallest year-over-year change in the residual value forecast this year. This drop continues the trend of diminishing declines in values as the year plays out.

During the previous period (July-August), only two segments experienced declines less than two percentage points. In this period, 12 segments dropped less than two points and only three segments suffered declines of more than two points. Two of these segments, the compact car and the hybrid car segments, extended their declines from the last period.



All percentages are for the 60-month term and are expressed with the vehicles' MSRP as the base.

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AUGUST 2009 RESIDUAL ANALYSIS CONTINUED

SUV AND TRUCK SEGMENTS SEE HEALTHY GAINS

As seen in the graph above, the car segments continue to experience the largest year-over-year decline, while the SUV and pickup segments enjoy gains or, at worst, modest drops. Specifically, the hybrid SUV and SUV segments showed the strongest increase, led by the Chevrolet Tahoe Hybrid, Ford Explorer Sport Trac, Jeep Grand Cherokee, and Mercury Mountaineer. The full-size pickup segment also gained compared to last year, led by increases in Ford, Chevy, and Nissan trucks which more than offset weakness found in vehicles like the Hummer H2 SUT and Honda Ridgeline. Last year, the high price of fuel contributed to lower values in these segments. While low-level auction values were never expected to last, residual values in the large truck and SUV segments were hedged downward (but not as low as the auction values). As a result, this year's recovery in auction prices supports an upward adjustment in residual values that are more in line with historical depreciation curves.

As mentioned above, compact car and hybrid car segments continue to struggle with falling residual values. With more stringent EPA fuel economy standards, government pressure on the domestics to build more fuel-efficient vehicles and the expectation that oil prices will stabilize near $80 a barrel, there will be more vehicles competing in these segments. It is unlikely that demand will increase commensurate with the addition of new nameplates. In fact, over the next two or three years, the increased supply of vehicles unaccompanied by a sufficient increase in demand will further contribute to lower new car prices, higher incentives, and potentially higher fleet volumes. These will likely lead to lower used-car values in the hybrid and compact vehicle segments.

BRAND PERFORMANCE

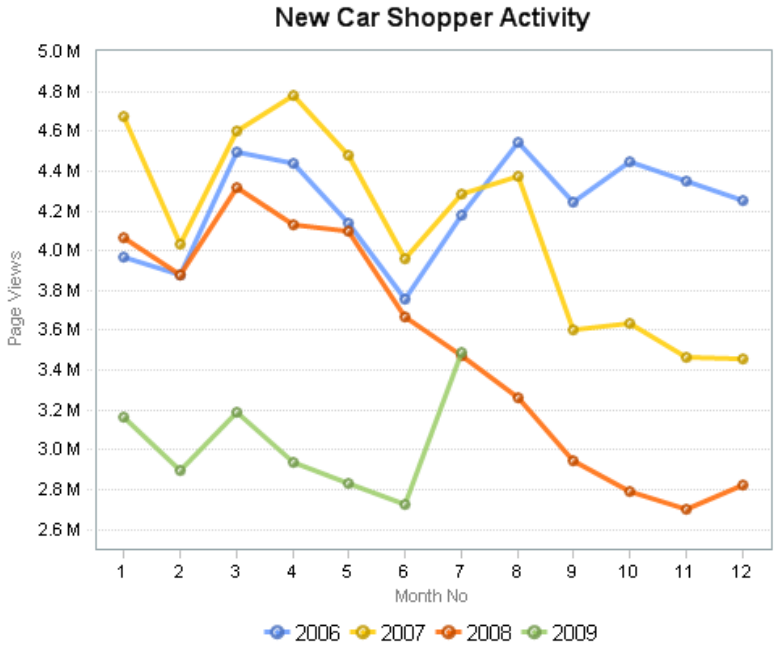
A review of brand performance supports the findings in the segment analysis. Both Scion and MINI brands, which have consistently maintained high residual values and play exclusively in the smaller sedan segments, dropped 10 percentage points from this time last year. Similarly, Volkswagen is down 8.3 percentage points, as well as Pontiac and Saturn (-7.1 percent and -6.9 percent, respectively). Honda residuals have also dropped, mostly due to large drops in Civic Hybrid and Fit. On the domestic front, the New GM (Chevy, GMC, Buick, and Cadillac) is up 1.1 percentage points on the strength of the redesigned Cadillac SRX, the Chevrolet Tahoe Hybrid, and the GMC Yukon Denali. Chrysler rose slightly by 0.1 percentage points, mainly on the strength of the Jeep Grand Cherokee and Wrangler, which offsets weakness in the Dodge Charger and Avenger. Ford is flat with the redesigned Taurus and the Mustang up, but dragged down by the Lincoln MKX.

The 2010 model year brings many changes, as evidenced by the shifts in residual values for redesigned vehicles. This year, however, the wholesale changes in specific segments have major implications for a large number of vehicles, and in some cases, for an entire brand. At Kelley Blue Book, we see the landscape changing and becoming more competitive.

Market Watch®

Below are the results from Kelley Blue Book Market Watch®, measuring new-car shopper activity on kbb.com.

For July 2009, new-car shopper activity surged 28 percent month-over-month, defying the downward trend that began this time last year. The spike was undoubtedly attributed to Cash for Clunkers (CARS), as increases were seen across nearly all segments and brands. Many brands even exceeded prior year traffic levels. Subaru, Scion, Kia and Hyundai were the largest beneficiaries, up more than 50 percent compared to last month. HUMMER saw the only decline (down 5 percent month-over-month) as its vehicles likely don't meet fuel efficiency requirements of the Cash for Clunkers program.



Jul-09	M/M	Y/Y
Import Brands	30%	-5%
Domestic Brands	24%	17%
GM Brands	22%	14%
Ford Brands	29%	47%
Chrysler Brands	25%	9%
Luxury Brands	17%	-4%
Non-Luxury Brands	31%	3%
Total Industry	**28%**	**0%**

NOTES

New Car Shopper Activity is defined by New Car Pricing Report page views on kbb.com

M/M = percent change from prior month; Y/Y = percent change from prior year

Luxury = Acura, Audi, BMW, Cadillac, HUMMER, Infiniti, Jaguar, Land Rover, Lexus, Lincoln, MB, MINI, Porsche, Saab, Volvo

Sedan, SUV, Pickup, Hybrid defined by vehicle categories on kbb.com; Hybrid spans across all categories

Note: GM brands include Buick, Cadillac, Chevrolet, GMC and Pontiac

Market Watch® Continued

New Car Shopper Activity Continued

Make	M/M	Y/Y	Rank	Share	vs. PM	vs. PY
Toyota	33%	-1%	1	16.9%	0.60	-0.21
Honda	27%	-22%	2	11.9%	-0.07	-3.51
Ford	31%	54%	3	9.1%	0.18	3.15
Chevrolet	26%	23%	4	8.3%	-0.13	1.54
Nissan	38%	-6%	5	6.6%	0.47	-0.48
Hyundai	50%	23%	6	4.5%	0.67	0.84
Volkswagen	21%	5%	7	3.2%	-0.20	0.14
Lexus	12%	12%	8	3.1%	-0.45	0.31
BMW	19%	-19%	9	2.9%	-0.21	-0.70
Dodge	26%	8%	10	2.8%	-0.04	0.19
Mazda	29%	-4%	11	2.8%	0.01	-0.14
Mercedes-Benz	21%	1%	12	2.7%	-0.15	0.01
Kia	51%	84%	13	2.6%	0.40	1.18
Subaru	56%	32%	14	2.1%	0.37	0.51
Audi	11%	14%	15	1.9%	-0.30	0.23
Jeep	29%	40%	16	1.9%	0.01	0.53
GMC	26%	24%	17	1.8%	-0.02	0.33
Acura	18%	-18%	18	1.5%	-0.14	-0.36
Volvo	37%	35%	19	1.3%	0.08	0.32
Infiniti	23%	-10%	20	1.2%	-0.05	-0.15
Pontiac	3%	-29%	21	1.2%	-0.29	-0.49
Cadillac	27%	2%	22	1.2%	-0.01	0.01
Chrysler	13%	-21%	23	1.0%	-0.13	-0.28
Mitsubishi	39%	-24%	24	0.9%	0.07	-0.28
Buick	7%	24%	25	0.8%	-0.16	0.15
Lincoln	8%	16%	26	0.7%	-0.14	0.09
Mercury	34%	11%	27	0.7%	0.03	0.07
Scion	52%	-31%	28	0.7%	0.11	-0.32
Saturn	4%	-59%	29	0.6%	-0.15	-0.95
Suzuki	38%	38%	30	0.6%	0.05	0.16
Porsche	7%	2%	31	0.6%	-0.12	0.01
MINI	15%	-44%	32	0.6%	-0.07	-0.48
Land Rover	21%	10%	33	0.4%	-0.02	0.03
Jaguar	5%	-2%	34	0.3%	-0.08	-0.01
Smart	24%	-50%	35	0.3%	-0.01	-0.31
HUMMER	-6%	-20%	36	0.2%	-0.07	-0.05
Saab	17%	-31%	37	0.2%	-0.02	-0.09

Key

10%	Signficantly higher than prior mo/yr by 10% or more
1%	Change is not significantly higher than prior mo/yr (between 1 and 10%)
0%	Flat/no change (less than ±1%)
-1%	Change is not significantly lower than prior mo/yr (between -1 and -10%)
-10%	Signficantly lower than prior mo/yr by 10% or more

Top 5

Bottom 5

NOTES

Percent change M/M, Y/Y subject to rounding

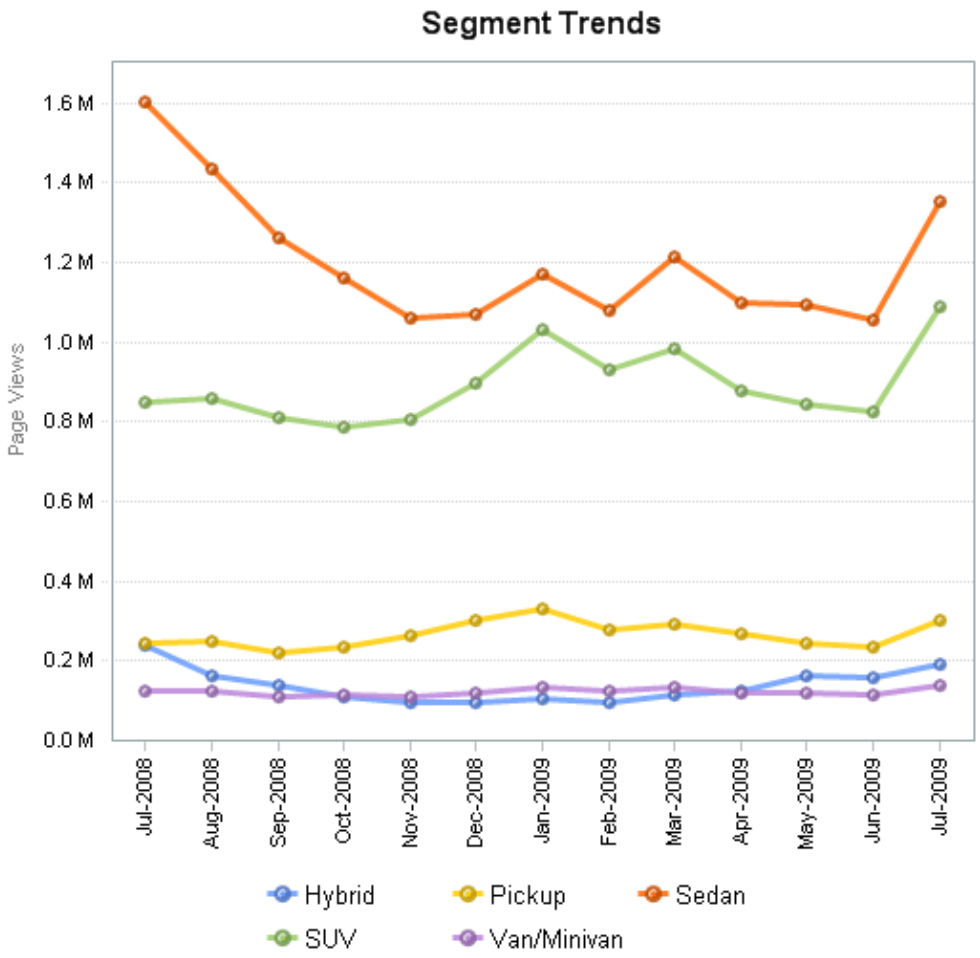
Rank based on share of total

vs. PM = change in share versus prior month

vs. PY = change in share versus prior year

Market Watch® Continued

Segment Trends



Key		
↑	10%	Signficantly higher than prior mo/yr by 10% or more
↗	1%	Change is not significantly higher than prior mo/yr (between 1 and 10%)
→	0%	Flat/no change (less than ±1%)
↘	-1%	Change is not significantly lower than prior mo/yr (between -1 and -10%)
↓	-10%	Signficantly lower than prior mo/yr by 10% or more

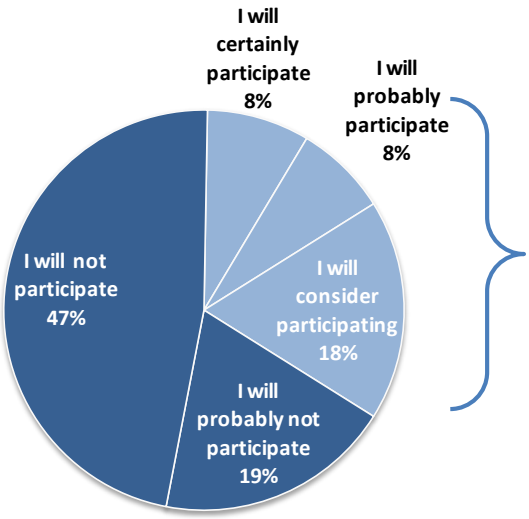
	M/M		Y/Y	
Hybrid	↑	22%	↓	-19%
Pickup	↑	28%	↑	23%
Sedan	↑	28%	↓	-16%
SUV	↑	32%	↑	28%
Van/Minivan	↑	21%	↑	11%

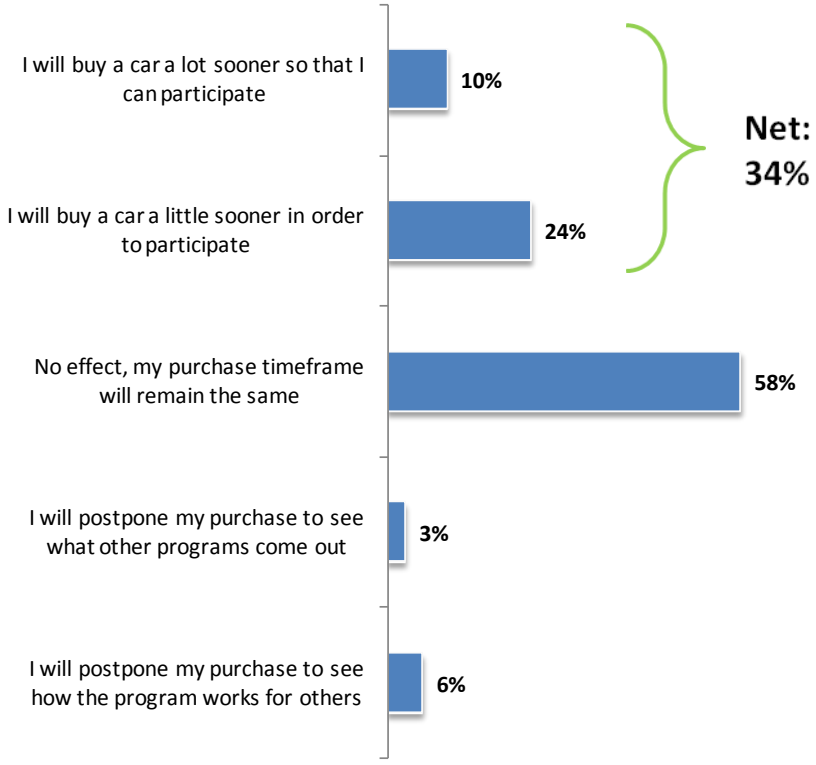
Note: Segments defined by vehicle categories on kbb.com. Hybrid spans across all categories.

Market Intelligence - July 2009

Below are the results of a Kelley Blue Book Market Intelligence survey, which looks to obtain a comprehensive understanding of consumer attitudes, and opinions of current market trends and current automotive news.

CASH FOR CLUNKERS SURVEY: 1 IN 10 SHOPPERS LIKELY TO PURCHASE SOONER



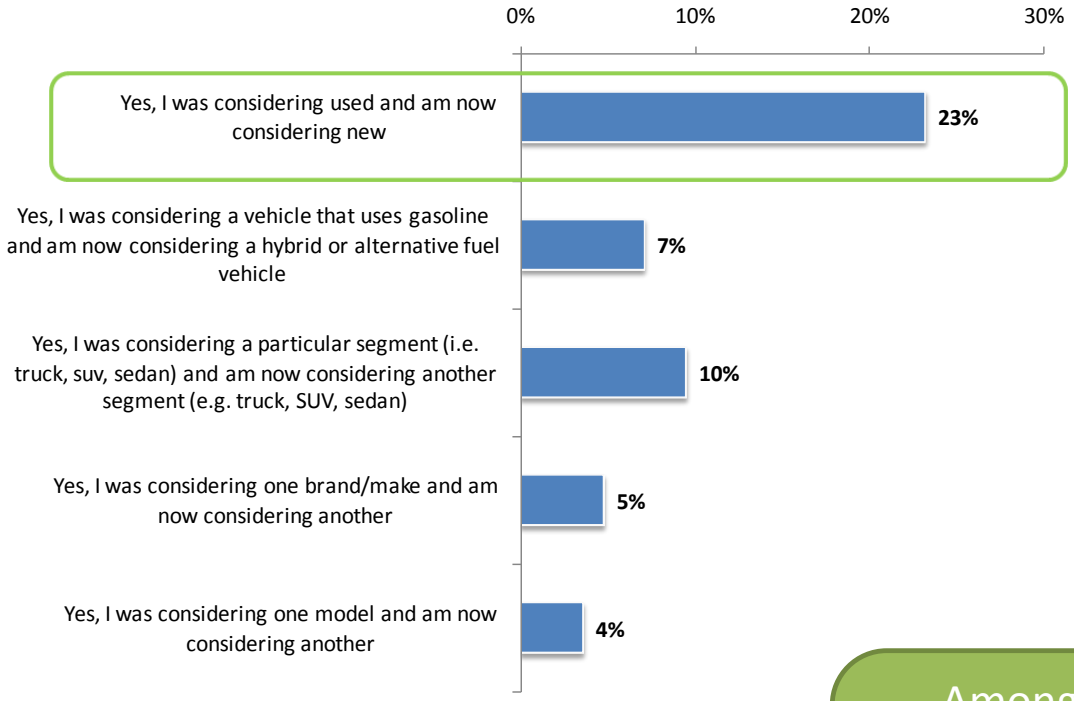


Source: *KBB Internal CARS Survey – July 2009*

Q: Given the specifics of the Cash for Clunkers program, how would this program impact your purchase timeframe? (n=174; base includes those that have a qualifying vehicle and are likely to participate in program)

Market Intelligence - August 2009 Continued

CASH FOR CLUNKERS SURVEY: PROGRAM LIKELY TO IMPACT VEHICLES CONSIDERED

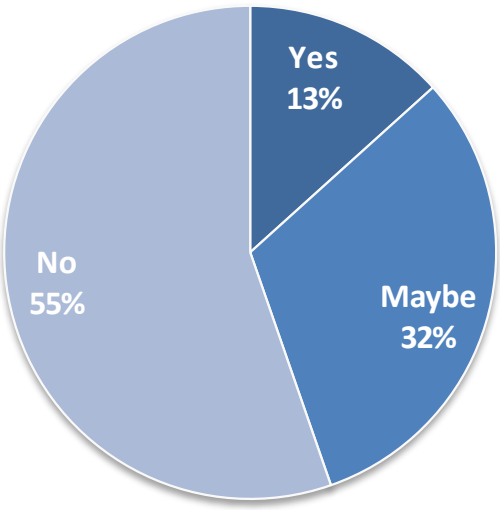


Among in-market shoppers considering new and/or used, 23% would shift from considering used to new.

Source: *KBB Internal CARS Survey – July 2009*
Q: Has the Cash for Clunkers program changed your mind about the vehicle(s) you were considering for purchase? (n=168; base includes those that have a qualifying vehicle and are likely to participate in program)

CASH FOR CLUNKERS SURVEY: OPPORTUNITIES EXIST TO CONVERT USED CAR SHOPPERS TO NEW

- Among exclusive used car considerers, **13%** would consider purchasing new because of the Cash for Clunkers program.
- **32%** are on the fence about switching to a new car purchase.



Source: *KBB Internal CARS Survey – July 2009*
Q: Would you consider purchasing a new car with the Cash for Clunkers program? (n=226, base includes those that are considering used cars exclusively)

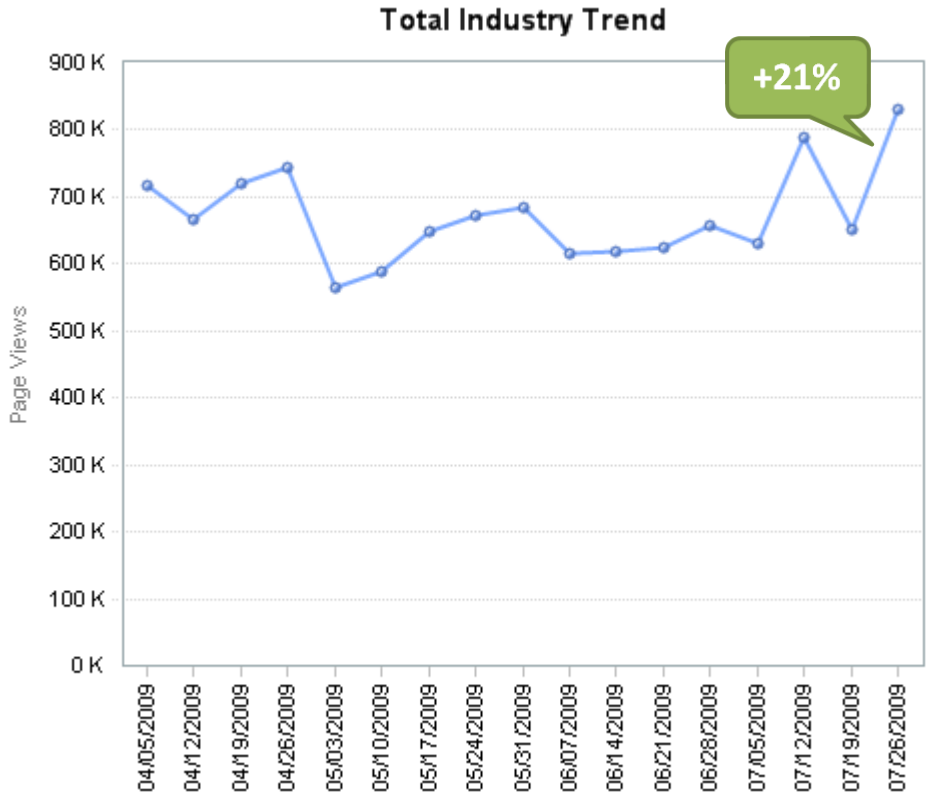
CASH FOR CLUNKERS TRADE-IN METRICS

Top 10 Makes	Top 10 Models	Top 10 Segments	Top 10 MY
Ford	Ford Taurus	Sedan	1999
Chevrolet	Ford Explorer	SUV	2000
Dodge	Ford F150	Pickup	1998
Toyota	Honda Accord	Van	2001
Honda	Toyota Camry	Coupe	1997
Nissan	Ford Ranger	Luxury	2002
Pontiac	Jeep Grand Cherokee	CUV	1995
Jeep	Dodge Caravan	Wagon	1996
Buick	Chevrolet 1500 Pickup	Convertible	1994
Chrysler	Dodge Grand Caravan	Hybrid	1989

Source: *KBB.com Traffic*
Reporting Period: July 23-27, 2009

Market Intelligence - August 2009 Continued

CASH FOR CLUNKERS SURVEY: INDUSTRY TRAFFIC SPIKED DURING PROGRAM LAUNCH



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Since 1926, Kelley Blue Book, The Trusted Resource®, has provided vehicle buyers and sellers with the new and used vehicle information they need to accomplish their goals with confidence. The company's top-rated Web site, www.kbb.com, provides the most up-to-date pricing and values, including the New Car Blue Book® Value, which reveals what people actually are paying for new cars. The company also reports vehicle pricing and values via products and services, including software products and the famous Blue Book® Official Guide. According to the C.A. Walker Research Solutions, Inc. – 2008 Spring Automotive Web Site Usefulness Study, kbb.com is the most useful automotive information Web site among new and used vehicle shoppers, and half of online vehicle shoppers visit kbb.com. Kbb.com is a leading provider of new car prices, car reviews and news, used car blue book values, auto classifieds and car dealer locations. No other medium reaches more in-market vehicle shoppers than kbb.com.