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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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MARKET ANALYSIS:

MARKET STRENGTH SUBSIDES; ONLY HYBRIDS SOFTEN

- Juan Flores, director of vehicle valuation, Kelley Blue Book

The strength that prevailed in the used-car market for the first part of the year subsided in May, with values increasing a modest 0.9 percent from the previous month. Values are continuing to stabilize, as evidenced by the modest uptick this month relative to the 1.7 percent increase reported last month. It's important to note that strength between January and May each year is generally inconsistent with seasonal factors; however, this year a limited supply of good condition vehicles and increased demand from budget conscious consumers is keeping the market lukewarm. While this type of strength is not typical for this time of year, nothing in the automotive industry has gone as usual for some time. The unstable economy played a major role in valuations

and continues to do so as we move into recovery.

Leading up to Memorial Day weekend, values were relatively steady for the month. Increased incentives have helped most major automakers earn double-digit sales gains with the exception of Toyota. Bargain hunters are still showing interest, but not as many from previous months. For these shoppers, the state of the economy plays a major role in their purchase decisions, driving more cost-effective buys. Less expensive vehicles offering the best value proposition are driving market interest. Consumer demand for used vehicles remains strong compared to last year, as seen in a 3.5 percent year-over-year increase in values.

CARS: NEW SUBCOMPACT, COMPACT ENTRANTS COULD SATISFY DEMAND, STABILIZE PRICES

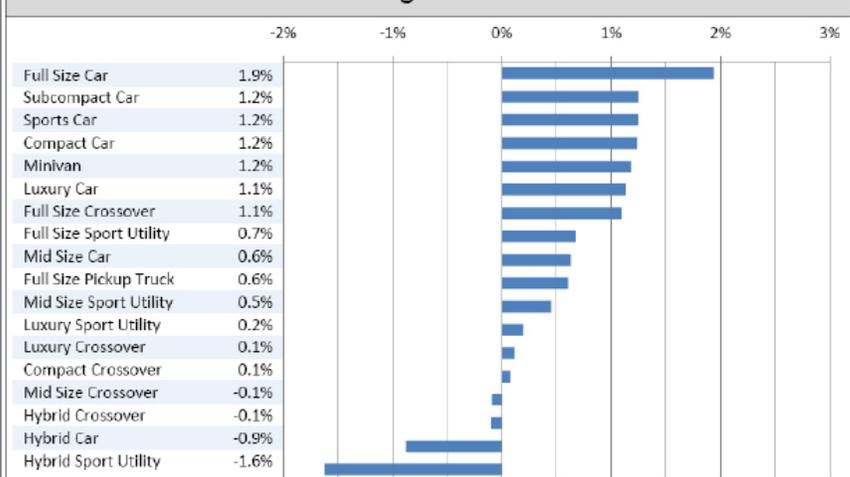
Car values jumped 1.1 percent for the month, with most segments performing in line with the overall average. Adversely, hybrids are softer than all other car segments, down 0.9 percent month-over-month, as fuel prices are not yet high enough to justify the upfront premium hybrid vehicles command. While this segment is underperforming the market, relatively inexpensive compact and subcompact cars are each up 1.2 percent. High unemployment and overall uneasiness in the current economy have kept these values from underperforming the market. If the economy strengthens and consumer confidence improves, we would expect demand for these vehicles to taper off and possibly drop, especially if gas prices remain affordable. If gas prices rise (which they typically do in summer), demand will increase for these vehicles first, not hybrids, due to their low cost of entry and excellent fuel economy. New entrants into these segments, such as the Ford Fiesta, Mazda2, Nissan Cube and Kia Soul, could help keep the supply of these vehicles high enough to satisfy demand and keep prices steady in the future, even if gas prices increase. In today's marketplace, since car shoppers are looking to more practical, cost-effective options, we would expect to see demand for inexpensive vehicles remain strong.

TRUCKS: AFFORDABLE GAS PRICES KEEP TRUCK, SUV DEMAND HIGH

Full-size SUVs and pickup trucks were among the best performers year-over-year. While gas prices are slightly down over the past month, they have still increased about \$0.40 per gallon on average compared to this time last year. Since the price of gas remains affordable, it is not pulling demand from the truck and SUV segments.

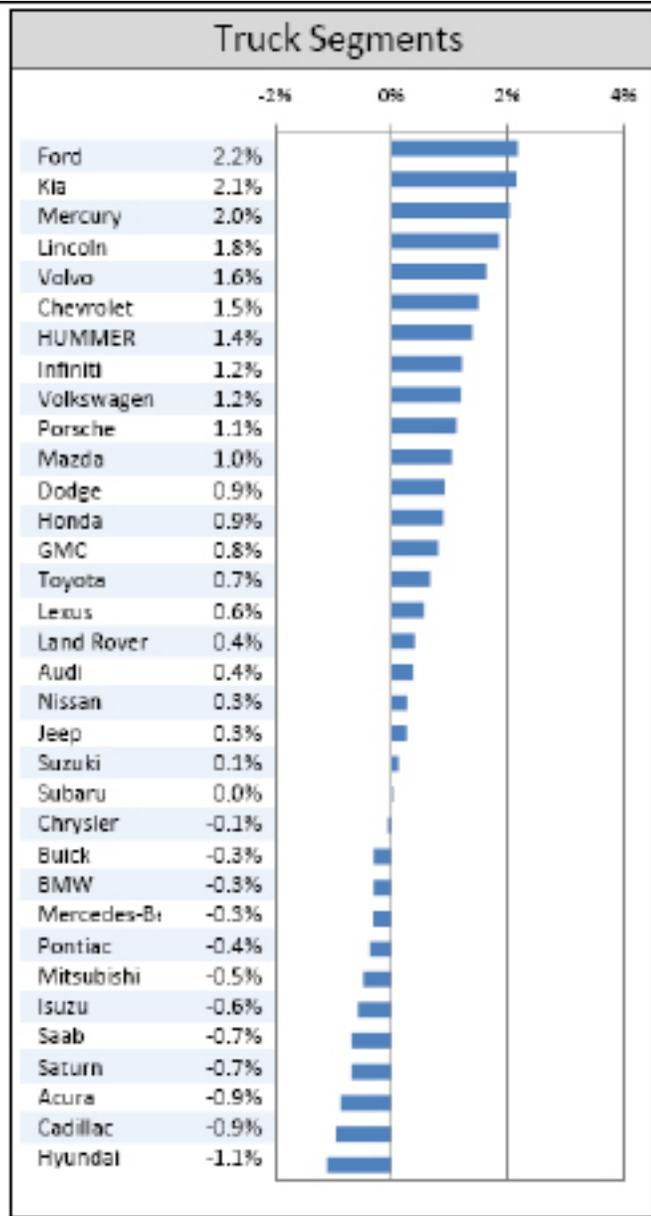
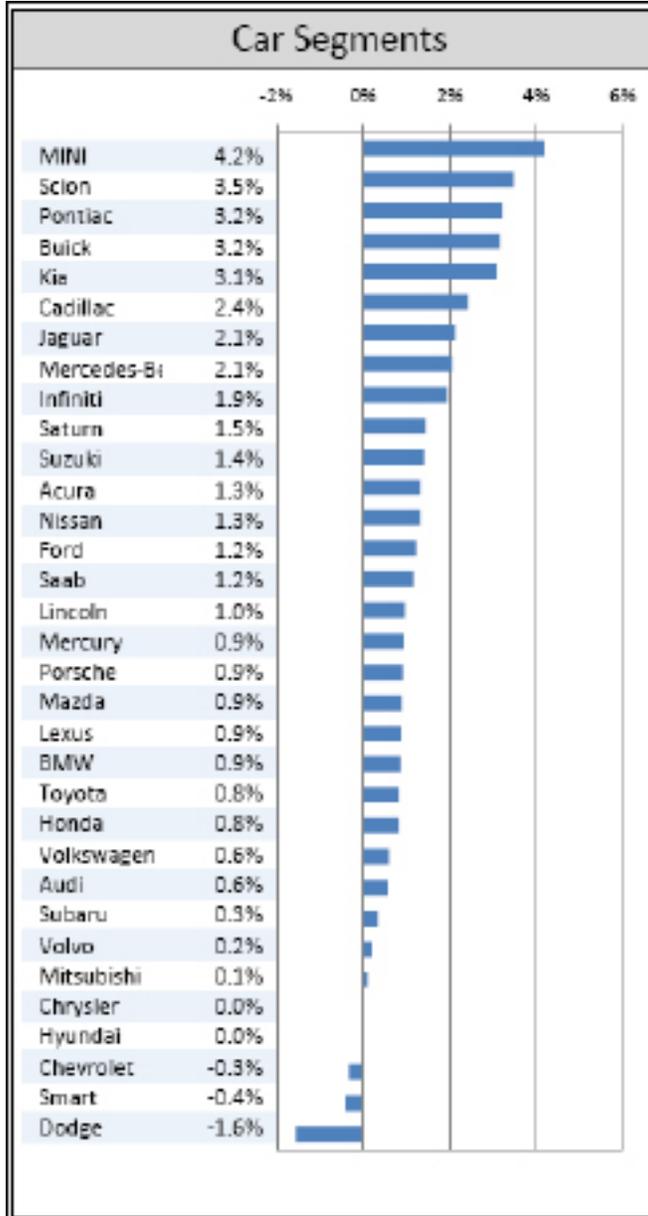
This commentary focuses on Model Years 2006-2008. The statements set forth in this publication are the opinions of the authors and are subject to change without notice. This publication has been prepared for informational purposes only. Kelley Blue Book assumes no responsibility for errors or omissions.

Segments



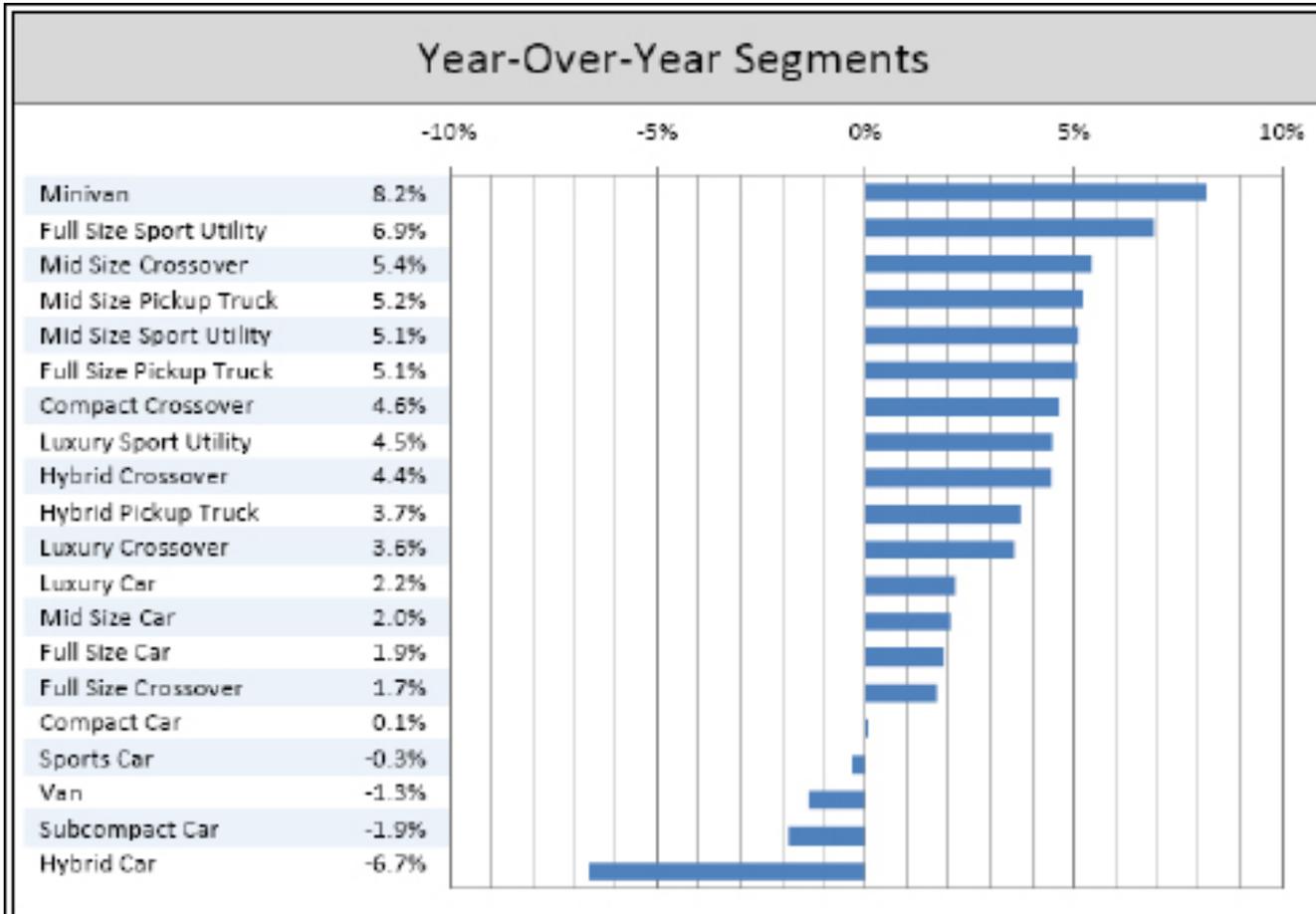
The above chart displays month-over-month used-vehicle depreciation percentages by segment. The depreciation percentages shown are not indicative of the retention percentages or relative positions of the included segments.

Car & Truck Segment Overview



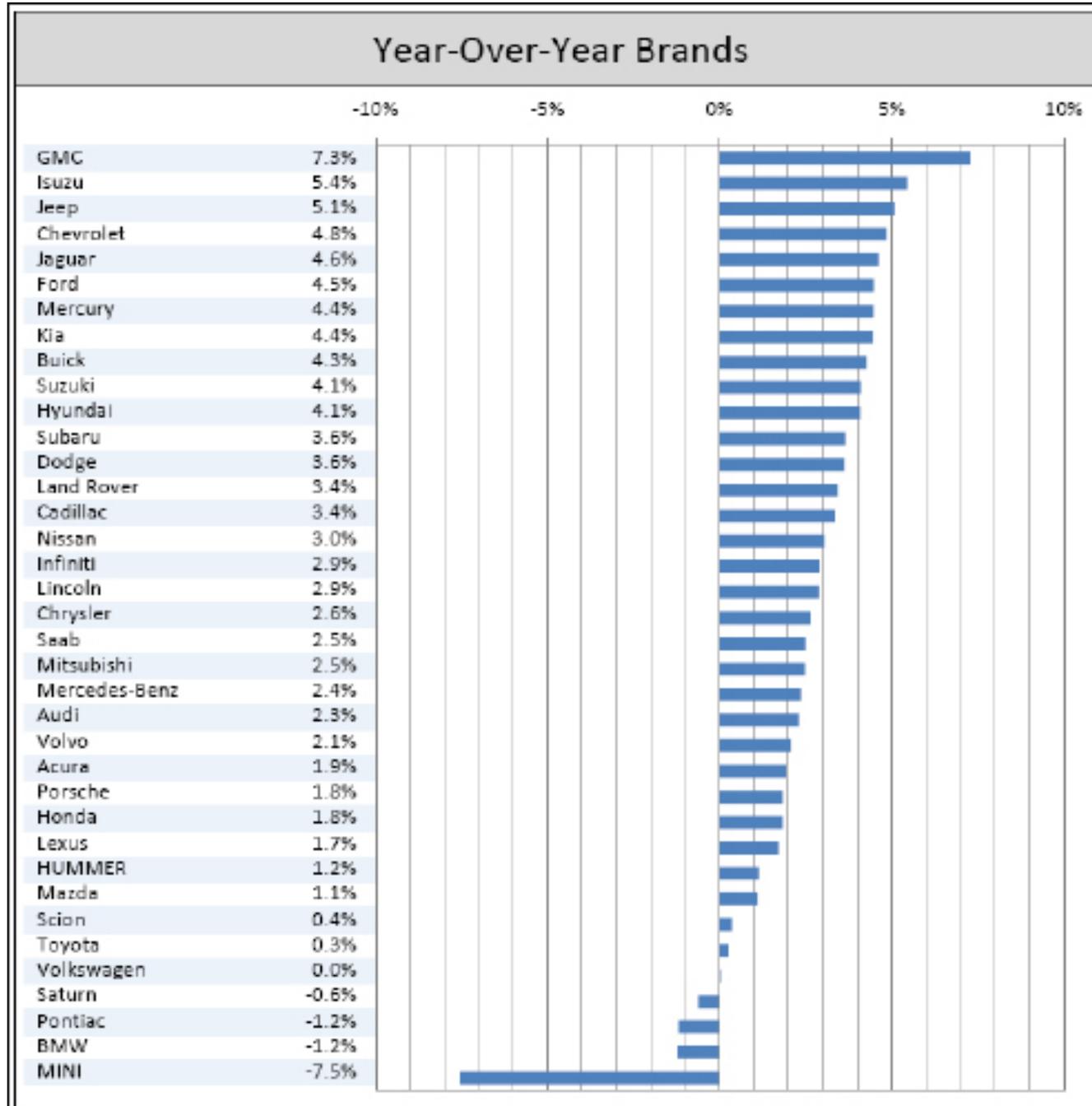
The above charts display month-over-month used-vehicle depreciation percentages by brand. The depreciation percentages shown are not indicative of the retention percentages or relative positions of the included brands.

Year-Over-Year Segment Overview



The above chart displays year-over-year change with respect to retained value (auction value/MSRP). This change reflects the average retained value of MY 2006-2008 vehicles in the current period compared with average retained value of MY 2005-2007 vehicles for the same period in the prior calendar year.

Year-Over-Year Brand Overview



The above chart displays year-over-year change with respect to retained value (auction value/MSRP). This change reflects the average retained value of MY 2006-2008 vehicles in the current period compared with average retained value of MY 2005-2007 vehicles for the same period in the prior calendar year.

MERCURY'S LONG-TERM VALUES TO RESEMBLE HISTORICAL PATTERNS

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

In times like this, it is not unfamiliar to see families migrating from steak to burgers. So it comes as no surprise to see the end of the Mercury brand, especially in light of the continuing decline in sales. Mercury is like the middle child that got squeezed out by big brother above and little sister below. But from the perspective of limited resources, this allows Ford to re-direct marketing dollars to ensure the success of its surviving brands.

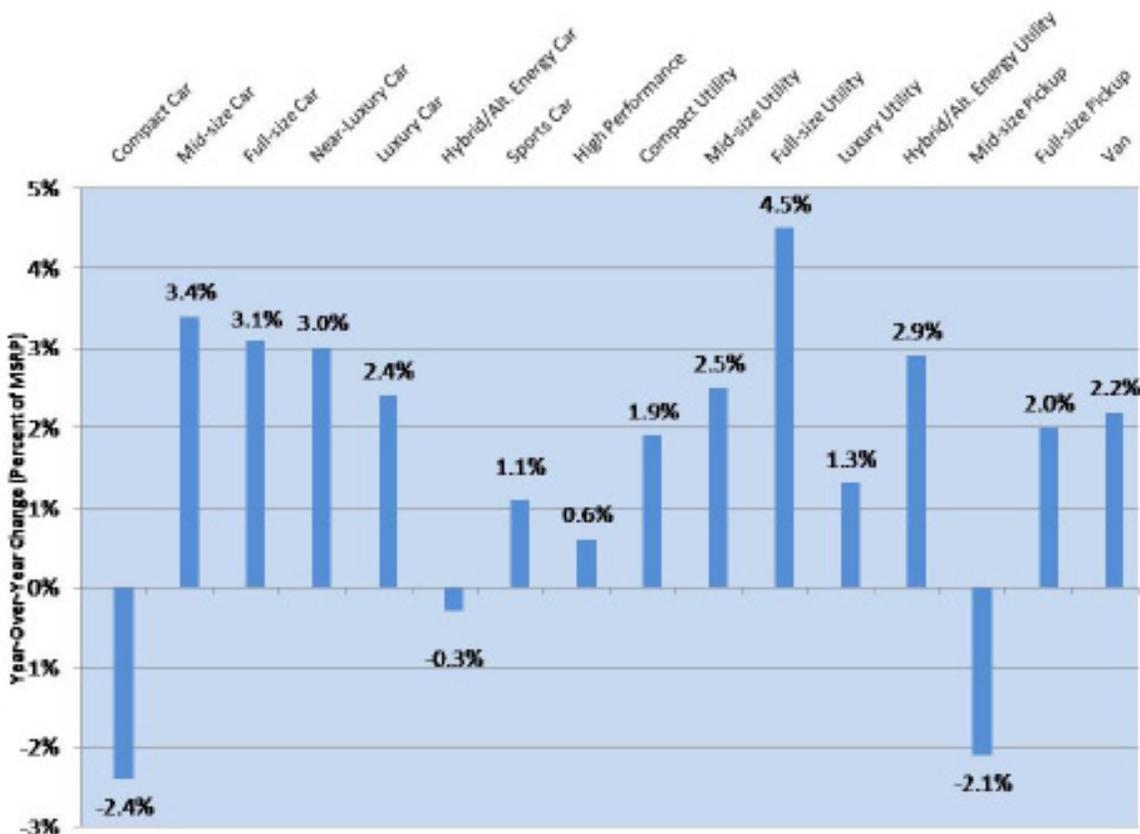
As witnessed from the demise of the Pontiac and Saturn brands, the impact on residual values will likely prove to be less than conventional wisdom may expect. Due to the structure of the Lincoln-Mercury franchise, Mercury customers should see little difference for their service and warranty needs. Ford's strategy for liquidating its dealer inventory may affect used-car values in the near future, but long-term future values should resemble its historical patterns to a large degree.

REDESIGNED MODELS IMPROVE DRAMATICALLY; DOMESTIC BRANDS SEE GREATEST CHANGE

Average industry year-over-year change in 60-month residual values is up 1.3 percentage points (with MSRP as the base). Segments with the greatest year-over-year change include full-size utility (up 4.5 points), mid-size cars (up 3.4 points) and full-size cars (up 3.1 points). Gains in the full-size utility segment primarily are driven by the Chevrolet Tahoe, Mazda CX-9 and Ford Expedition. Contributing to increases in mid-size cars are the Subaru Outback, Subaru Legacy, Ford Fusion and Mercury Milan. Compact cars are down 2.4 percentage points, largely due to drops in MINI Cooper, Toyota Yaris and Smart Fortwo. This segment is expected to get quite saturated with new entries over the next few years. Combined with relatively stable fuel prices, this will translate into softer values for compact cars and hybrids. Mid-size pickups declined 2.1 points as a result of the Toyota Tacoma, which was adjusted downward to bring it more in line with the rest of the segment. Tacoma still leads the mid-size pickup segment.

Some redesigned models are showing dramatic improvements from this time last year. The Buick LaCrosse jumped 12 percentage points, followed by Ford Taurus up 10.2 points, Cadillac SRX increased 10 points and Ford Fusion improved 6.7 points. These models have been well-received and enjoy strong retail sales. Brands with the largest year-over-year declines have a product lineup heavily invested in compact vehicle segments. MINI dropped 10.8 percent, Smart declined 10.3 percentage points and Scion depreciated 7.8 points.

Brands with the greatest improvements are primarily from domestic manufacturers, mainly due to the great redesigned vehicles they have launched this past year. Additionally, domestic brands have trucks and SUVs performing well at auction. Mercury rose 4.7 percentage points, driven by the Milan. Dodge rose 4.6 percent with its Challenger and Ram truck. Lincoln increased 4.4 percent with the support of its Navigator. Chrysler climbed 4.2 points with its 300 and Town and Country models. The Ford Taurus, Expedition and Fusion helped Ford's residual increase 4 percent. Cadillac's SRX and Infiniti's QX56 pushed each brand up 3.8 points. Buick also saw a 3.6 percentage point boost with its LaCrosse model.



USE PREDICTIVE DATA, GAIN UNRIVALED MARKET INSIGHTS: KELLEY BLUE BOOK IMPLEMENTING GAME-CHANGING SOFTWARE ARCHITECTURE

- Vince Nelson, executive vice president of Analytic Insights, Kelley Blue Book

Imagine having the ability to predict what a vehicle will be worth a week, month or even further into the future. Could you benefit from this information? A rhetorical question for sure, because savvy dealers and industry professionals understand that the ability to predict the market would give them a tremendous competitive advantage and drive untold profit opportunities. Knowing this, Kelley Blue Book has spent the last five years building its predictive capability by investing millions of dollars into systems, data and people.

On May 27th, the final piece fell into place with the implementation of the company's new vehicle information management system (VIMS), which integrates detailed vehicle information and advanced statistical models. This game-changing software architecture creates a valuation gold standard that extends nationwide, giving dealers the tools they need to maximize profits.

Of course, technology alone was insufficient to create such a capability; a significant investment in both staff and data was needed as well. In the last few years, Kelley Blue Book has hired market analysts, statisticians, mathematicians, data management and technology experts with extensive industry experience, growing its analytic team almost threefold. During the same period, the company has taken data acquisition to a new level, obtaining vehicle-related information from more than 250 sources. The company collects thousands of data points for every vehicle and is the only valuation company that manages lifetime vehicle information in a single database, including new, used and residual values. Its transaction database houses more than 256 million observations, which includes more than 1.5 million vehicles that have been physically inspected at auctions nationwide by the company's dedicated field force.

You may be wondering why it took so long and cost so much money to develop predictive vehicle valuation. To develop effective forecasts, there are a number of complex questions that must be answered beyond the basic attributes of a vehicle, such as: what is the demand at auction and on dealer lots for particular vehicles? How do industry factors such as the volume of lease returns impact future prices? What about seasonal trends? If that weren't enough, interest rates, gas prices and unemployment levels influence future vehicle values as well. With VIMS, Kelley Blue Book can account for all these factors simultaneously. Advanced predictive modeling, which is capable of taking into account the vehicle, industry, and macroeconomic forces that affect vehicle values, can make remarkably accurate predictions of future values. Our valuation team has tracked the forecasts against actual transactions a month later and the results are simply incredible, often within 3 to 5 percent of actual prices!

The introduction of predictive data will revolutionize the way vehicles are bought and sold, enabling dealers to develop strategies based on what will happen, rather than looking back to what already happened last week.

About Kelley Blue Book (www.kbb.com)

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 website, 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. - 2009 Spring Automotive Website Usefulness Study, kbb.com is the most useful automotive information website among new- and used-vehicle shoppers, and half of online vehicle shoppers visit kbb.com. Kelley Blue Book's kbb.com also is a W3 Gold Award winner, sanctioned by the International Academy of Visual Arts. kbb.com is a leading provider of new car prices, used car Blue Book Values, car reviews, new cars for sale, used cars for sale, and car dealer locations.