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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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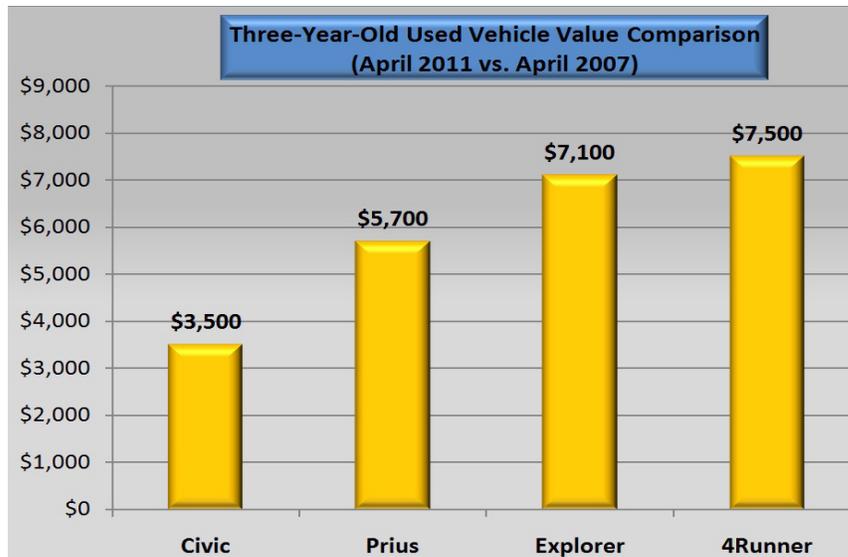
Redesigned 2012 Kia Rio Sparks Used-Car Interest

## MARKET ANALYSIS:

### Fuel Efficient or Not, Used Vehicles Are More Expensive Than Ever

- Alec Gutierrez, manager of vehicle valuation, Kelley Blue Book

Through most of this year, values have been increasing across nearly all segments. Fuel-efficient segments have performed better than others due to the substantial rise in gas prices since the beginning of the year; however, it is safe to say that all used-vehicle values have been very strong through April. While it is obvious to see how high values have climbed since the beginning of the year, it is more difficult to visualize how prices compare today to the past several years. To better quantify this increase, Kelley Blue Book compiled a small list of vehicles to demonstrate the growth in prices.



The graph to the left highlights the average change in value for a three-year-old vehicle in April 2007 versus today. It clearly can be seen that values have risen substantially since 2007. This strength can be attributed to a sustained lack of supply of used vehicles over the past several years, primarily stemming from reduced new-car sales through the same period. As sales have remained down due to the economic downturn, used-vehicle supplies have been hard-hit, driving prices up over the past several years.

### Upcoming Supply Shortages Due to Natural Disasters

While the people of Japan struggle to rebuild their nation, we continue to struggle to quantify the impact of the earthquake and tsunami on the production capacity of Japanese manufacturers. According to the most recent accounts, Japan's production capacity will be limited for at least the next 30 to 90 days. Honda's production in Japan declined 63 percent year-over-year in March, and the company is expecting to remain at 50 percent capacity through June.

In addition to the earthquake in Japan, recent tornados in the Southeastern United States have devastated local communities and left many without power. As a result, many automotive plants located in the South have had to temporarily shut down production. Toyota was forced to shut down an engine plant for at least a week, while Mercedes-Benz closed a plant responsible for producing the M-Class, R-Class and GL-Class temporarily, due to power outages and supply chain disruptions.

With the expectation of production cut backs through at least June, if not longer, Kelley Blue Book expects to see supplies of new vehicles start to dwindle in the coming months. From March to April there already were significant declines in day-supply of vehicles available on dealer's lots.

As inventories begin to shrink, we expect a few things to happen. First, new-vehicle transaction prices will rise. This is unwelcomed news considering the already elevated prices of many new fuel-efficient vehicles due to high gas prices. With reduced supplies of vehicles coming out of Japan, Kelley Blue Book expects sales of domestic and Korean vehicles to pick up the slack.

Second, incentives will be scaled back. Manufacturers have very little motivation to continue to provide cash rebates and aggressive lease specials if there aren't enough vehicles to sell on their dealers' lots. Many manufacturers already have cut back incentive spending this week and we expect the decline to continue in the coming months.

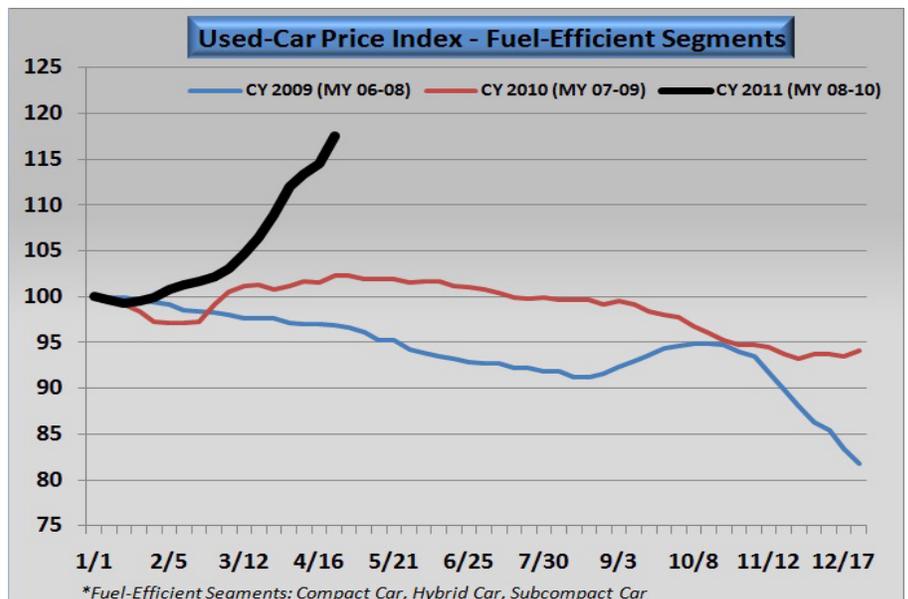
Finally, as the supply of new vehicles begins to get scaled back, we would expect to see demand spill over to used vehicles, putting further upward pressure on used-car values. This already has started to occur for some fuel-efficient vehicles in the marketplace, such as the Toyota Prius.

Brand	DS 3/1	DS 4/1	Monthly Change
Toyota	65	50	-23%
Honda	63	48	-24%
Nissan	48	39	-19%
Ford	63	52	-17%
GM	75	60	-20%
Hyundai-K	40	31	-23%

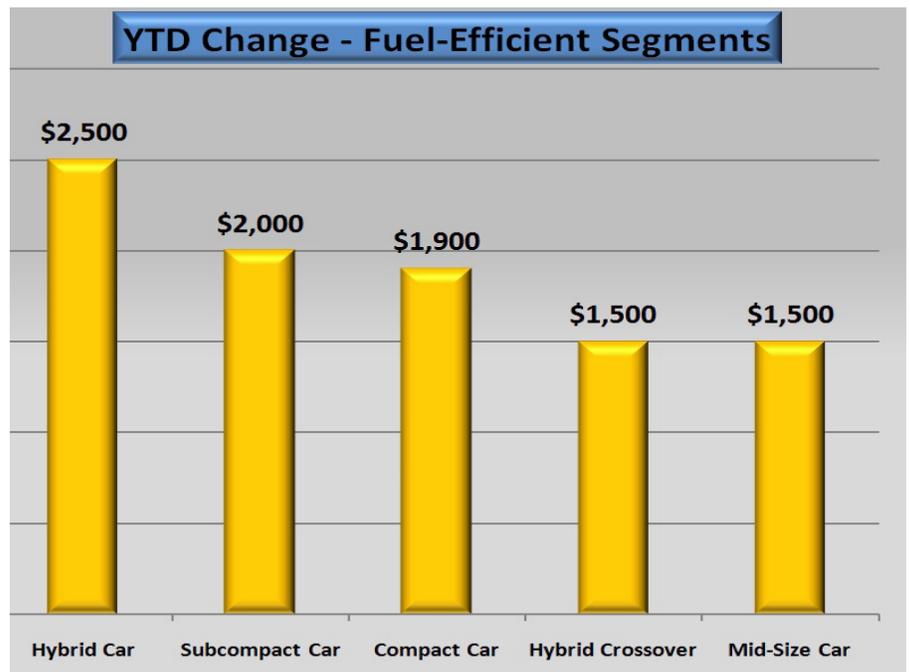
## Don't Focus Solely on Fuel-Efficient Models at Auction

With the price of oil currently hovering around \$110 a barrel and gas prices approaching \$4 per gallon nationally, consumers have flocked to subcompact, compact and hybrid cars in an attempt to reduce the impact of gas prices on the family budget. With families looking to save, purchasing a vehicle with great fuel economy seems like a no-brainer. In response, dealers have been fighting tooth and nail at auction to replenish their inventory with the fuel-efficient vehicles consumers want today.

So far this year, fuel-efficient segments have increased far more aggressively than they did during the past two years. Today, values are up nearly 20 percent since January, a far cry from the steady depreciation of 2009 and 2010. At the segment level, values are up around \$1,500-\$2,500, with some models surpassing their respective segment average.



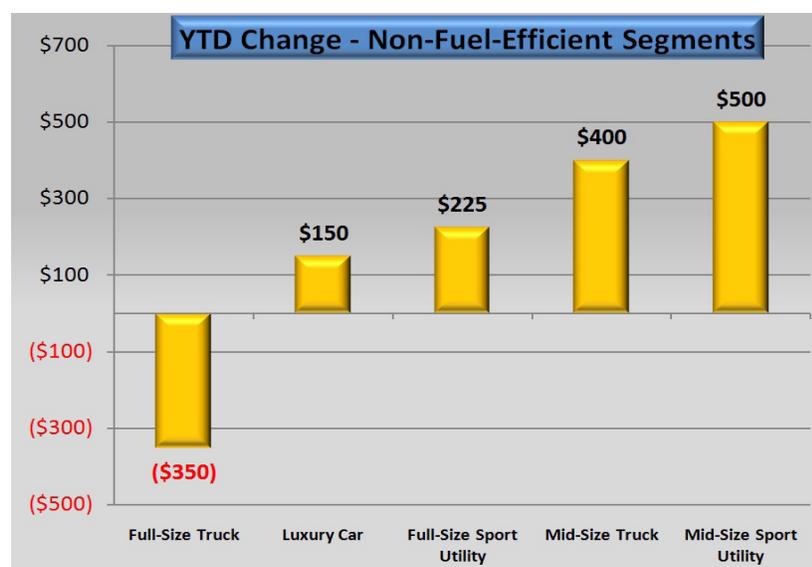
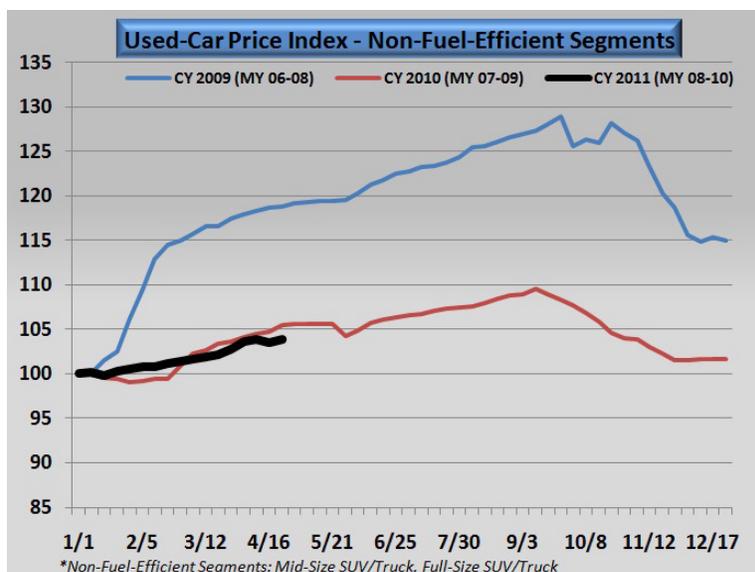
Examples of this increase include the Toyota Prius, which has increased in value nearly \$3,800 since January 1, and the mid-size Ford Fusion, which is up a substantial \$1,800. As fuel prices continue to rise, Kelley Blue Book expects values for many of these vehicles to continue to increase. However, dealers should be wary of ever-increasing auction values. Mid-to-late summer, gas prices are expected to decrease and when they do, values for many of these fuel-efficient models are expected to drop drastically. While it is tempting for dealers to load up their inventory with models such as the Honda Civic and Nissan Versa, getting caught with a fully stocked inventory of fuel-efficient vehicles (purchased at a premium) could be devastating when gas prices and subsequently fuel-efficient vehicle values fall back down.



Make	Model	Trim	Model Year	KBB Trade-in Value		
				1-Jan	1-May	Change
Toyota	Prius	Hatchback 4D	2008	\$13,275	\$17,050	\$3,775
Ford	Escape	Hybrid Sport Utility 4D	2008	\$16,125	\$18,075	\$1,950
Ford	Fusion	S Sedan 4D	2008	\$9,575	\$11,375	\$1,800
Nissan	Versa	S Sedan 4D	2008	\$7,000	\$8,575	\$1,575
Honda	Civic	LX Sedan 4D	2008	\$10,475	\$11,725	\$1,250

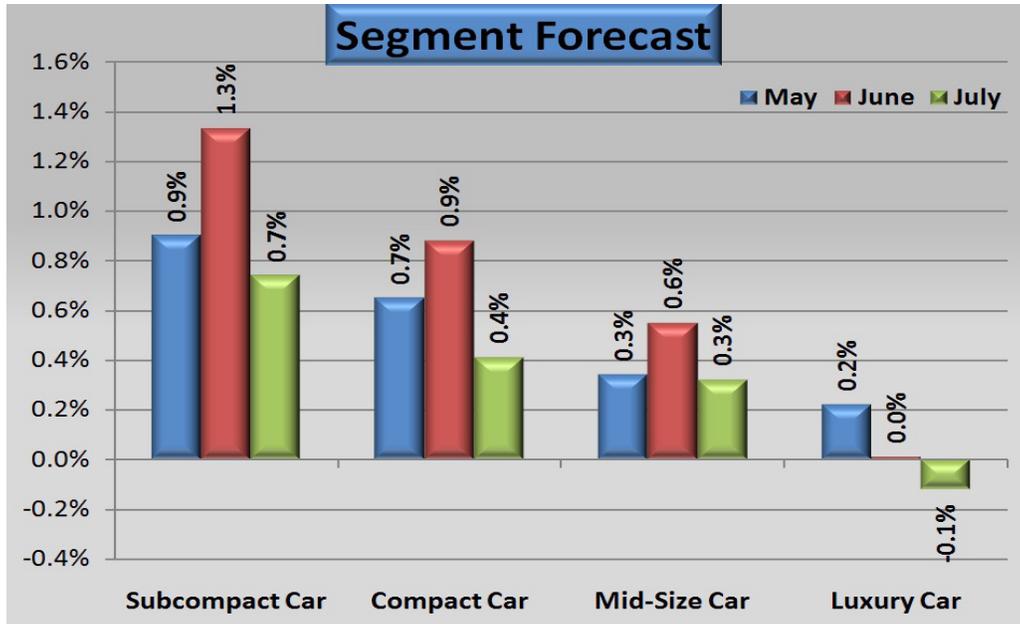
## Trucks and SUVs Remain Steady Despite Rising Gas Prices

While values for trucks and SUVs have not experienced the pronounced gains of gas-sipping models, values for these vehicles have remained strong for much of the year, with only slight declines in the last month for the most fuel-thirsty segments. Full-size trucks were down 2.4 percent for April, while full-size SUVs dropped 1.1 percent. These values have held steady by a lack of supply in the marketplace due to reduced sales and leasing since the last gas run-up in 2008.



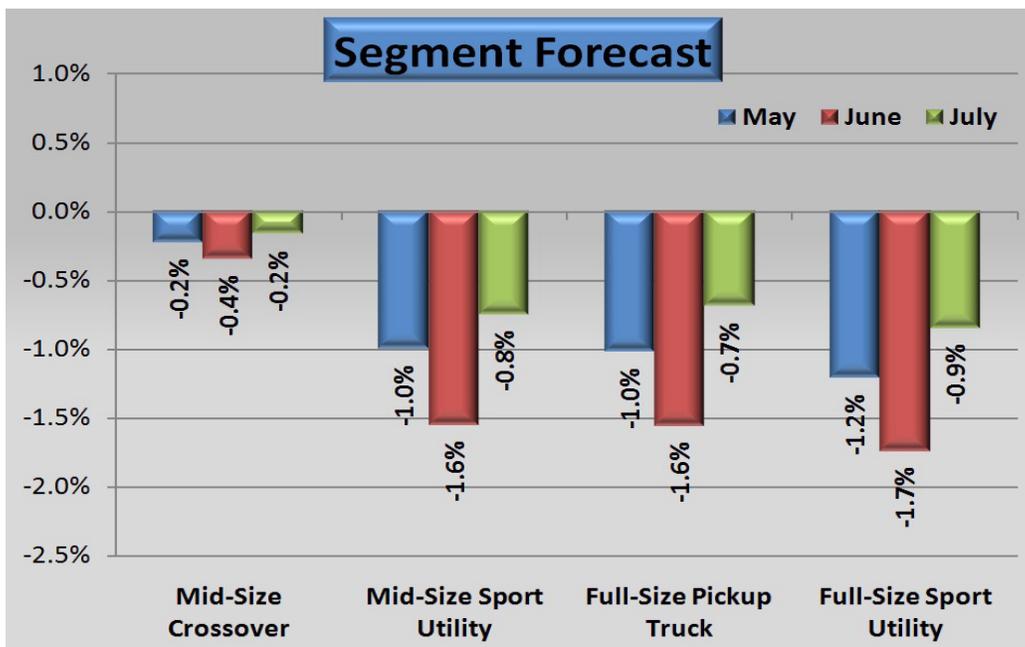
## Kelley Blue Book Forecast Fuel-Efficient Segments

With gas prices on the rise and expected supply shortages due to natural disasters on the horizon, Kelley Blue Book expects values for fuel-efficient segments will continue to strengthen over the next several months. We believe these segments will remain strong as long as gas prices remain elevated; however, as gas prices start to decline later in the year, expect much of this strength to be undone.



## Kelley Blue Book Forecast Trucks & SUVs

Now that gas prices are near \$4 per gallon nationally, we expect to see values for trucks and SUVs to decline. We already witnessed values for full-size trucks and SUVs drop between 1-2 percent in April, and we expect values to continue to drop through the summer months. We don't expect to be anywhere near the 30 percent declines that occurred in 2008, but until fuel prices stabilize and drop off, expect values for trucks and SUVs to be soft.



## Kelley Blue Book Sets Residual Values for the Chevrolet Volt

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

This week, Kelley Blue Book announced residual values for one of the most widely anticipated new vehicles. The car that achieved this landmark event is the Chevrolet Volt, which is not a typical electric vehicle (EV) as it is equipped with a gas-powered generator that engages when the charge in its battery is depleted. New-model debuts typically present the greatest challenge for residual forecasters, but the Volt required considerations of new factors that are not a part of the discussion for internal combustion engines.



Following a thorough review of auction values and the factors described above, a residual value of 42 percent is forecast for the Volt at 36 months. While the usual caveats regarding any forecast certainly apply here, it also is worth mentioning that vehicles like the Volt are extremely susceptible to fluctuations in fuel prices. The Kelley Blue Book forecast assumes gas will settle in at about \$4 per gallon three years from now.

Currently, all EVs sold in the United States qualify for a tax credit. EVs are differentiated from conventional hybrids by the size of their onboard battery, defined by the IRS as being a minimum of five kWh to qualify for the federal tax credit. Both the Volt and the Nissan LEAF qualify for the maximum tax credit of \$7,500. This reduces the price at which these vehicles transact and allows for monthly lease payments much lower than their list prices would suggest. These tax credits will phase out after 200,000 EVs are sold by the manufacturer, so a forecast of residual values requires an estimate of its future sales volumes. Based on Kelley Blue Book's estimates, the 200,000 ceiling will not be achieved within the next three years. Therefore, the Volt's residual values assumed new-vehicle transaction prices to be lower by the full amount of the tax credit.

Another factor considered is the cost of recharging the Volt compared to a comparable internal combustion engine or hybrid vehicle. Since EVs require no gasoline, expressing fuel efficiency in miles-per-gallon is irrelevant. Instead, it is more useful to calculate a vehicle's fuel consumption in cost-per-mile. At \$4 per gallon, the Prius costs a little more than eight cents to travel a mile (this rises to more than 10 cents a mile at \$5 a gallon). The cost to operate the Volt will depend on the cost of electricity in the owners' neighborhood and on the rate plan selected. Some plans call for progressively higher rates based on usage, while others charge rates based on peak and off-peak hours. To achieve costs comparable to the Prius at \$4 per gallon, a Volt owner needs to have an electricity rate less than \$0.18 per kWh. This is quite achievable in off-peak hours or within the established baseline for most people, but is not likely at peak rates. The conclusion is that lower fuel cost with an EV is possible, but not guaranteed. Additionally, fuel cost savings at \$4 per gallon are minor, but could be significant at \$5 per gallon.

Finally, the analysts at Kelley Blue Book have determined from historical auction transactions that a vehicle can establish demand strong enough to create a premium over other vehicles in its segment. Analysts expect that some but not all EVs may enjoy such a premium. Due to its novelty and the timing of its launch, the Volt is expected to be one of the halo vehicles to enjoy such a premium.

Kelley Blue Book also determined preliminary residual values for the LEAF, but they are still under review. A major difference between the LEAF and the Volt is that the LEAF carries a lower list price than the Volt (\$33,630 for the LEAF versus \$41,000 for the Volt). This is partly because the Volt is a larger vehicle, and also because the Volt carries a gas-powered generator while the LEAF is a pure electric vehicle. However, the LEAF's battery is larger and its range is rated at 73 miles, while the Volt's range on battery power alone is 35 miles. Still, the biggest difference for many consumers will be the presence of range anxiety in the LEAF that does not exist in the Volt. This factor played a role in Kelley Blue Book's analysis, and may help the Volt edge out the LEAF in the battle over residual values in the EV segment.

The Volt and the LEAF are just the beginning of a new era in personal transportation. New technological breakthroughs likely will continue to amaze us as we transition into fossil-free fuels. Kelley Blue Book definitely felt the excitement as we reviewed these new vehicles, and we salute the Volt and the LEAF and wish both much success.

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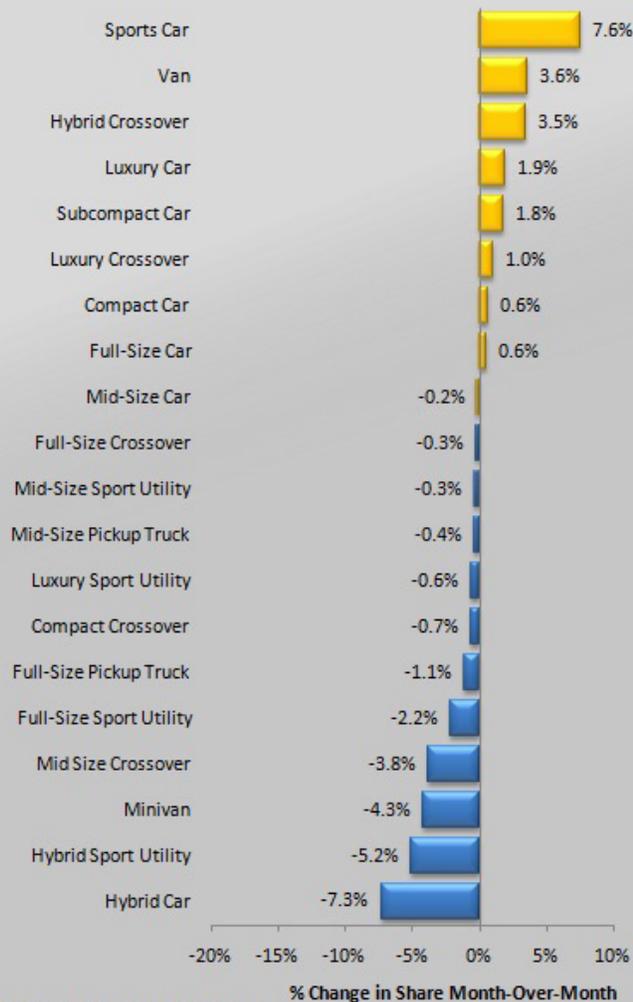
## Redesigned 2012 Kia Rio Sparks Used-Car Interest

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.

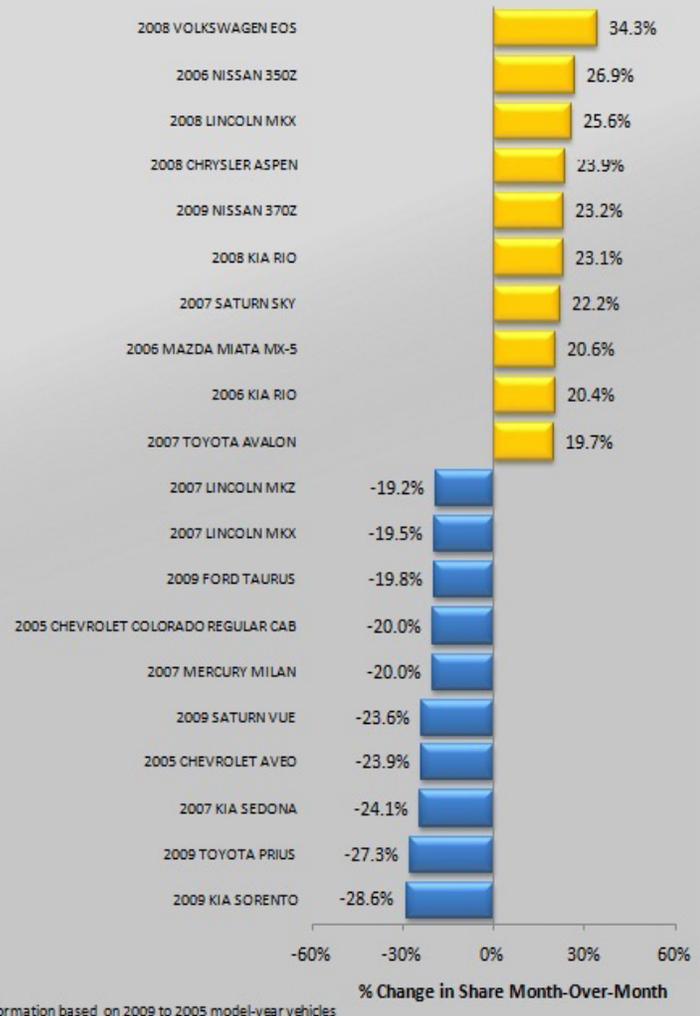
This month's list of top movers in used-car shopping activity is a story of warm-weather driving, with a mix of fun, sporty coupes and convertibles like the Volkswagen Eos, Nissan 350/370Z, Mazda MX-5 Miata and Saturn Sky, all rapidly rising in interest as we approach the summer months.

On a more fuel-efficient note, one of the major announcements at this year's New York International Auto Show was the complete redesign of the Kia Rio for 2012. Interest in the new Rio had a halo effect on previous iterations, as two different model years of the car (2006 and 2008) showed high month-over-month increases in shopper interest on kbb.com.

### Monthly Used-Car Shopping Activity Growth Segments



### Monthly Used-Car Shopping Activity Growth Top/Bottom 10 Models



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