



Kelley Blue Book
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Kelley Blue Book Quarterly Trend Watch

THIRD QUARTER
2015

Automotive Insights from Kelley Blue Book

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Automotive Industry Insights

Importance of Fuel Efficiency Dwindles, Impacting Segment Consideration

-Akshay Anand, senior insights analyst for Kelley Blue Book

By now, we all know subcompact CUVs are growing. The entire segment is selling like hotcakes, from the rugged Jeep Renegade to the all-new Mazda CX-3. In general, we know the reasons for increased sales - better consumer access to credit, more flexible loan terms, increasing consumer sentiment, etc. We also know consumers are gravitating towards SUVs because of safety perceptions, more utility, better fuel efficiency and more. Year-to-date, utility vehicles have had an incremental increase of nearly 350,000 units, while passenger cars have had an incremental decrease of more than 110,000 units on the new car side. We wanted to take a deeper dive into the segment and some of the numbers to see if this is a trend that makes sense and is likely to continue.

One of the studies Kelley Blue Book runs on an ongoing basis is called Brand Watch™. It tracks brand metrics, such as consideration, importance factors, perceptions and more. We took a look at how new car shoppers have ranked fuel efficiency in terms of importance to them during the last three years, and the results are telling. In the first quarter of 2012, 60 percent of these shoppers rated fuel efficiency as "very important." Non-luxury shoppers tend to find fuel efficiency even more important than their luxury counterparts, so it's likely many of the future subcompact SUV shoppers found fuel efficiency extremely important and impactful on their purchase decisions. Fast forward to the third quarter of 2015, and the percent of shoppers who rate fuel efficiency as "very important" has dwindled to 40 percent.

It's clear that shoppers are simply finding fuel efficiency less important now than they did three to four years ago. Compounding that is simply the fuel efficiency of these subcompact CUVs, period. The Honda HR-V clocks in at 28/35 mpg. The Honda Accord gets 27/37 mpg. In essence, these utility vehicles are getting very similar mpg numbers to mid-size sedans, which takes out part of the value proposition for these sedans and swings the pendulum in favor of the small SUVs. The fuel efficiency of the segment also has been part of the reason consumers have swung away from some hybrids and electric vehicles. As fuel efficiency becomes less important to consumers and gas prices drop, the value proposition for hybrid vehicles isn't as strong. Compounding that, the selection for alternative fuel SUVs isn't as robust as the selection for alternative fuel sedans, meaning that if a consumer wants an alternative fuel SUV, the options can be limited.

The rise of the SUV also will impact values now and in the future. Some OEMs have been incentivizing their small and mid-size cars more than we've seen over the last few years, thanks in part to the shift away from cars and towards SUVs and trucks. As a result, this softens residual values for these cars - the average 36-month residual value across all car segments is a whopping 10 percentage points lower than the average for trucks and utility vehicles. As lease penetration has increased during the last few years, these cars will also be coming off-lease soon, creating shifts in the used-car market.

So where do we go from here? Barring something catastrophic, we expect the uptick in SUVs, particularly the subcompact space, to keep rising. Though the segment is flush with new product, more is expected to come, and consumers and experts alike seem to really love the value proposition these cars bring to the table. Many are priced in the high teens or low \$20,000s, allowing accessibility to much of the car-buying population. It's a great time to be an automaker with a strong SUV lineup, but if you're a product manager for a small or mid-size car, good luck taking on the new beast of the industry.

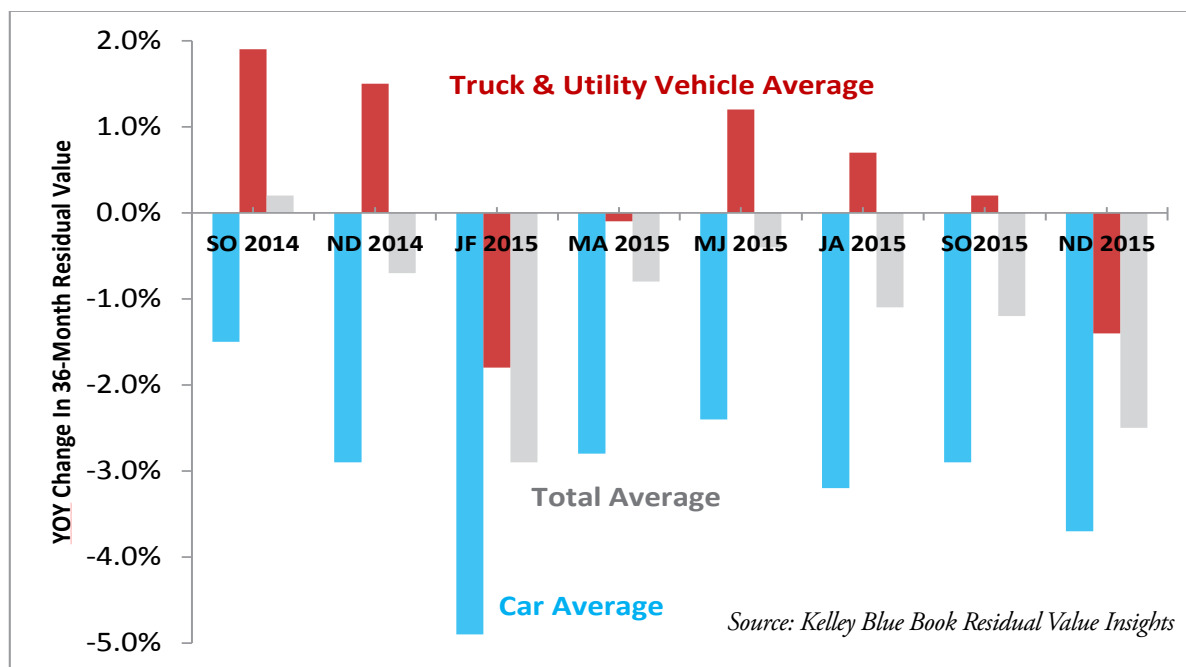
Residual Value Insights

Residual Values: Declining Car Segment Now 10 Percentage Points Below Average of All Truck and Utility Vehicles

-Eric Ibara, director of residual values for Kelley Blue Book

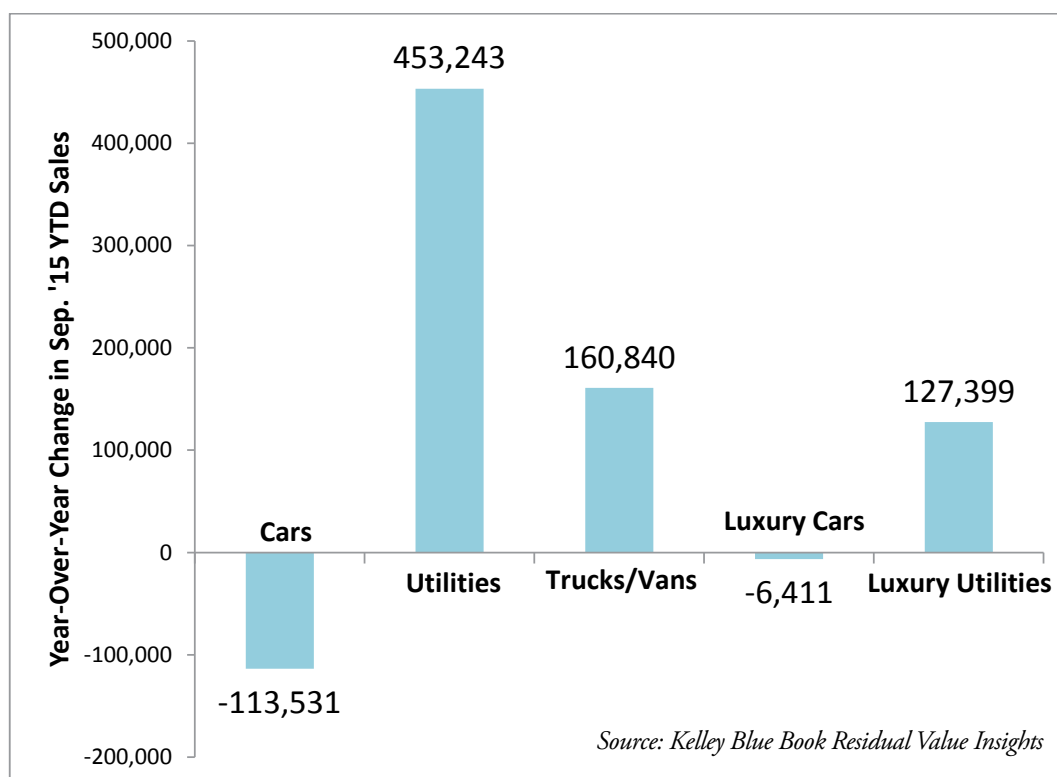
Kelley Blue Book Residual Values have been declining year-over-year. This may not be surprising to some as used-car values over the past two years have been historically high due to a shortage of used-car supply caused by the financial crisis. Another factor working in this perfect storm has been the strong

new-car market that will exceed 17 million total sales this year. This allowed manufacturers to raise retail transaction prices and to pare back on incentives. However, as most in the auto industry will attest, this is a cyclical business and it looks like this party is coming to an end, at least as far as used-car values are concerned.



For one thing, leasing has continued to be a popular, logical option when interest rates are low and residual values are high. The result has been an increasing used-car supply since 2014 that is projected to continue for at least the next three years. There also is increasing pressure on the Federal Reserve to begin raising interest rates. The increases will be small at first but the intention is to return interest rates to their “normal” level which leaves a lot of room for interpretation.

Another trend we are following is the shift in consumer preferences away from cars and toward SUVs and crossovers. In fact, through the first three quarters of the year, SUVs and crossovers accounted for all the sales gain across the industry as the following chart illustrates. The corollary is that luxury and non-luxury cars have lost nearly 120,000 sales so far this year. This shortfall has been more than made up for by trucks and vans. Therefore, almost all the year-over-year increase in total volume through September has come from utility and luxury utility vehicles. Utility vehicles of all sizes gained 13 percent when compared to the first nine months last year and luxury utility vehicles are up nearly 19 percent.

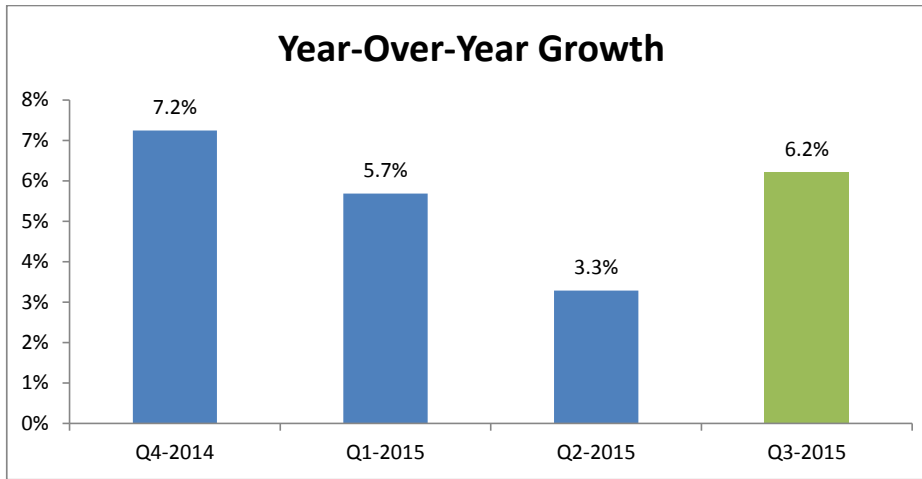


This trend also has been impacting residual values as the average 36-month residual value across all car segments is now 10 percentage points lower than the average across all trucks and utility vehicles. Increasing used-car volume aside, Kelley Blue Book believes the stronger demand in trucks and utility vehicles will mitigate some of the softening of values caused by the higher supply. In contrast, the softening demand for cars will exacerbate the higher used-car volume in the sedan segments.

Sales Overview

Q3 Sales Overview: Highest Third Quarter New-Car Sales Since 2005

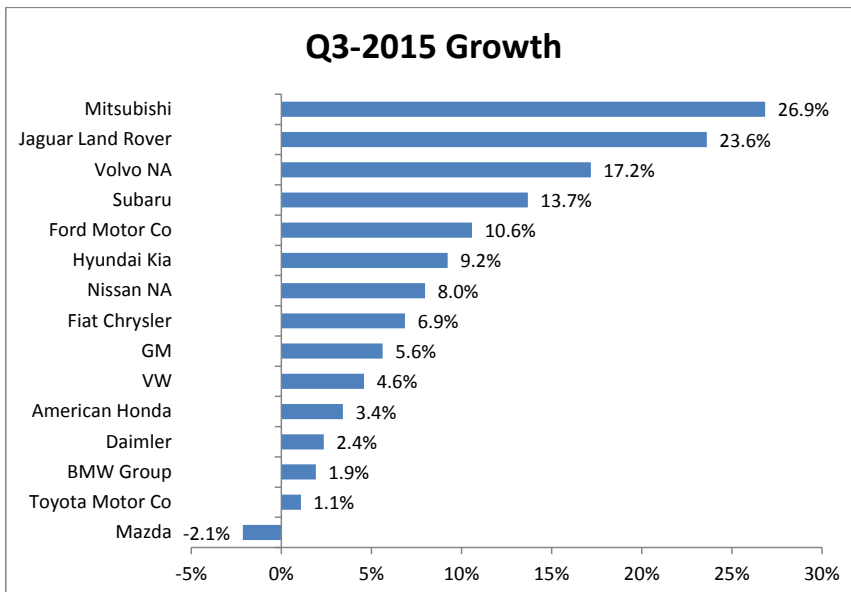
-Tim Fleming, lead product analyst for Kelley Blue Book



Source: historical data from OEM sales announcements

- Third quarter sales in 2015 totaled 4.52 million units, which was a year-over-year increase of 6.2 percent. This total is the highest volume we've seen in a third quarter since 2005.
- Every month surpassed the 17 million SAAR mark, with September reaching 18.1 million, as the third quarter of 2015 averaged a 17.7 million SAAR, up from 16.7 million in the third quarter of last year.
- Industry sales accelerated in the third quarter and exceeded our expectations each month. With such strong momentum heading into the final three months of the year, we are raising our full-year 2015 forecast to 17.4 million units.

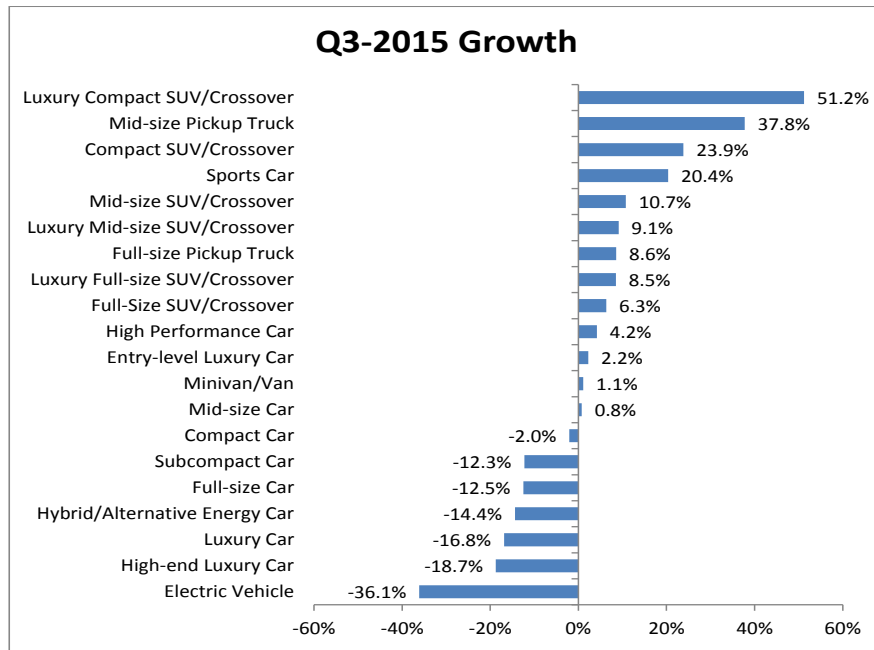
Ford Motor Company Reports Largest Volume Increase



Source: historical data from OEM sales announcements

- Ford Motor Co. had the largest sales volume increase of any manufacturer, growing by 64,805 units, or 10.6 percent. Ford was buoyed by its new Transit van, which pushed its van volume up 40 percent.
- Subaru had yet another strong quarter, selling more than 50,000 units each month and achieving 13.7 percent growth. Subaru's market share grew from 3.2 percent to 3.5 percent as the brand set monthly sales records in each consecutive month of the quarter.
- Volkswagen Group had a positive quarter with 4.6 percent growth, but this was primarily due to increases from its Audi and Porsche brands, which grew by 15.3 and 13.8 percent, respectively. The Volkswagen brand fell 2.1 percent, which could worsen in the wake of its recent diesel emissions controversy.

Mid-Size Pickup Trucks Continue Revival



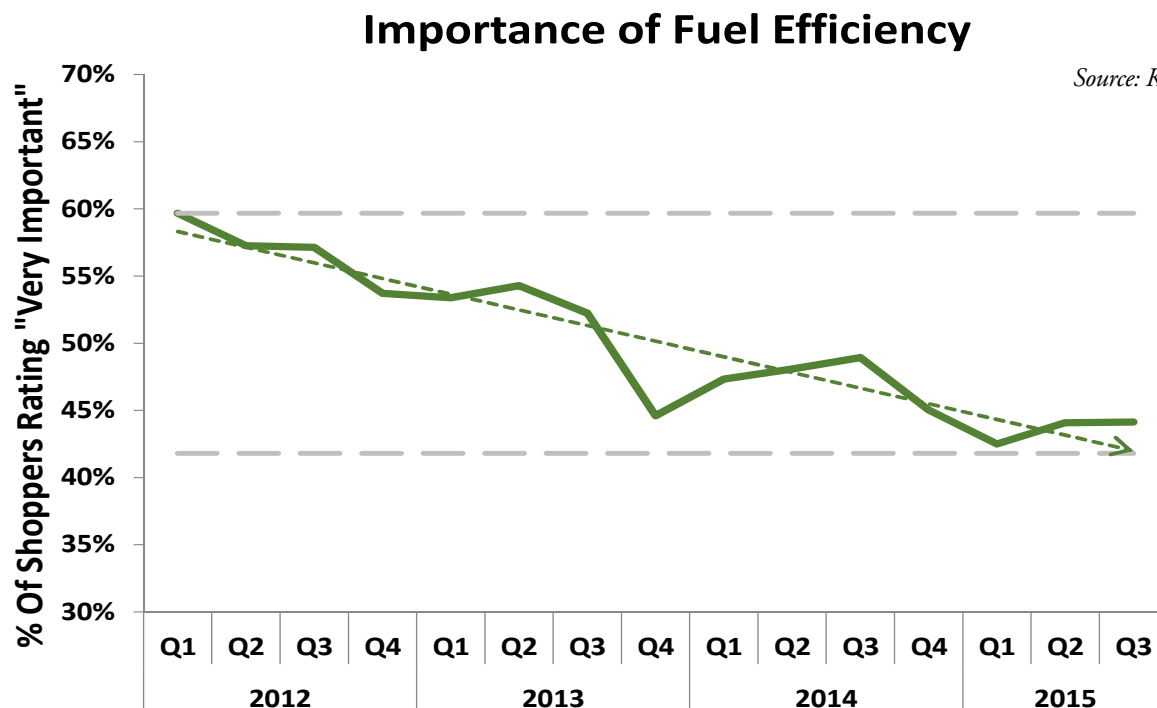
Source: historical data from OEM sales announcements

- Compact SUV/crossovers were the top segment in the industry in the third quarter of 2015, growing by 23.9 percent. New models on the market, such as the Jeep Renegade, Chevrolet Trax and the Honda HR-V, helped boost the segment, but only accounted for about half of the segment growth.
- The full-size car segment continues to fall, with only the Chrysler 300 showing positive sales growth. In fact, most car segments declined in volume in the third quarter of 2015, with overall car sales down 3 percent in the quarter.
- With gas prices across the country down nearly a dollar versus last year, hybrid and electric cars continue to face challenges in the market, as third quarter sales were down 18.7 percent.

KBB.com Shopper Sentiment

- George Seretis, senior manager of OEM Strategic Insights data for Kelley Blue Book

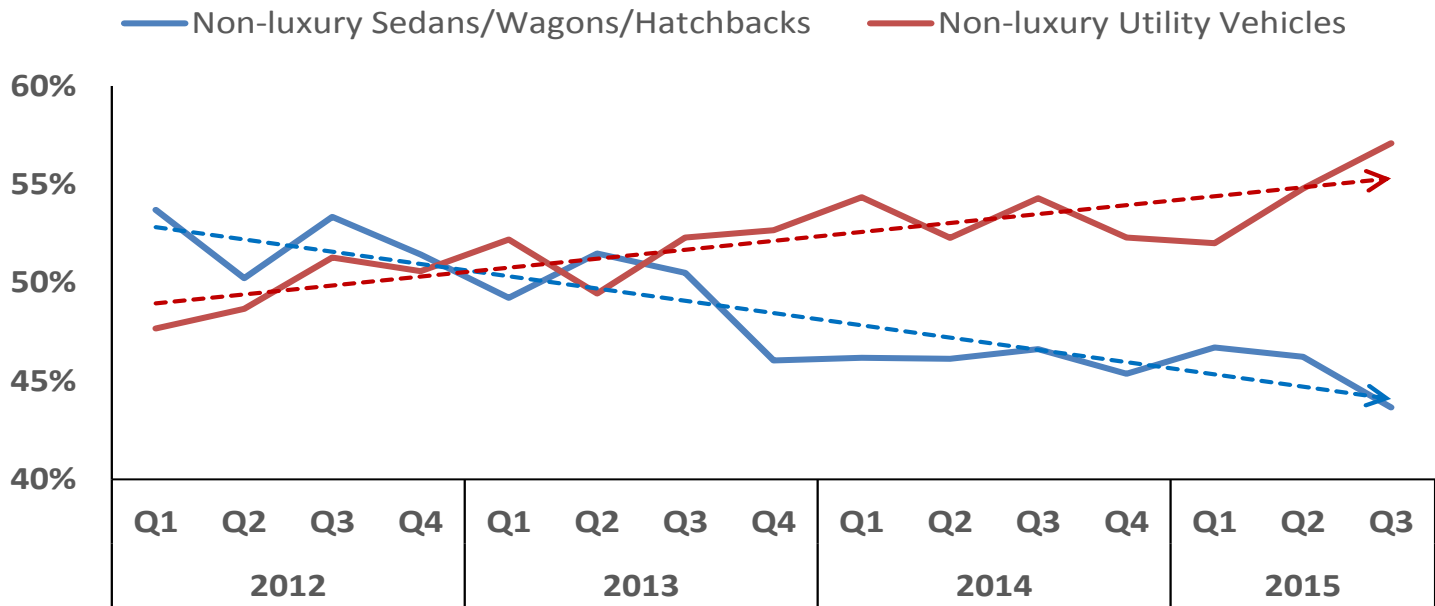
Fuel Efficiency Has Dropped in Importance for More and More Shoppers



Source: Kelley Blue Book Brand Watch™

For Non-Luxury Brands, Consideration of Utility Vehicles Has Eclipsed Consideration of Sedans, and That Gap is Widening

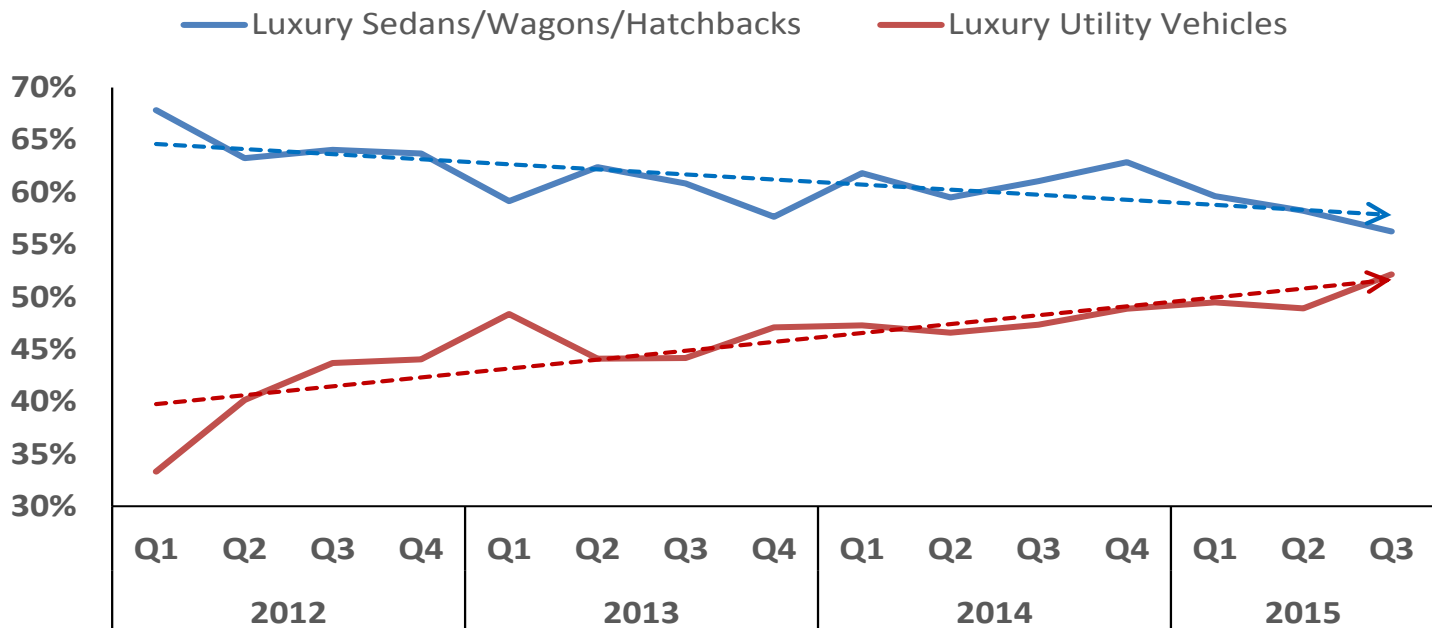
Non-Luxury Consideration



Source: Kelley Blue Book Brand Watch™

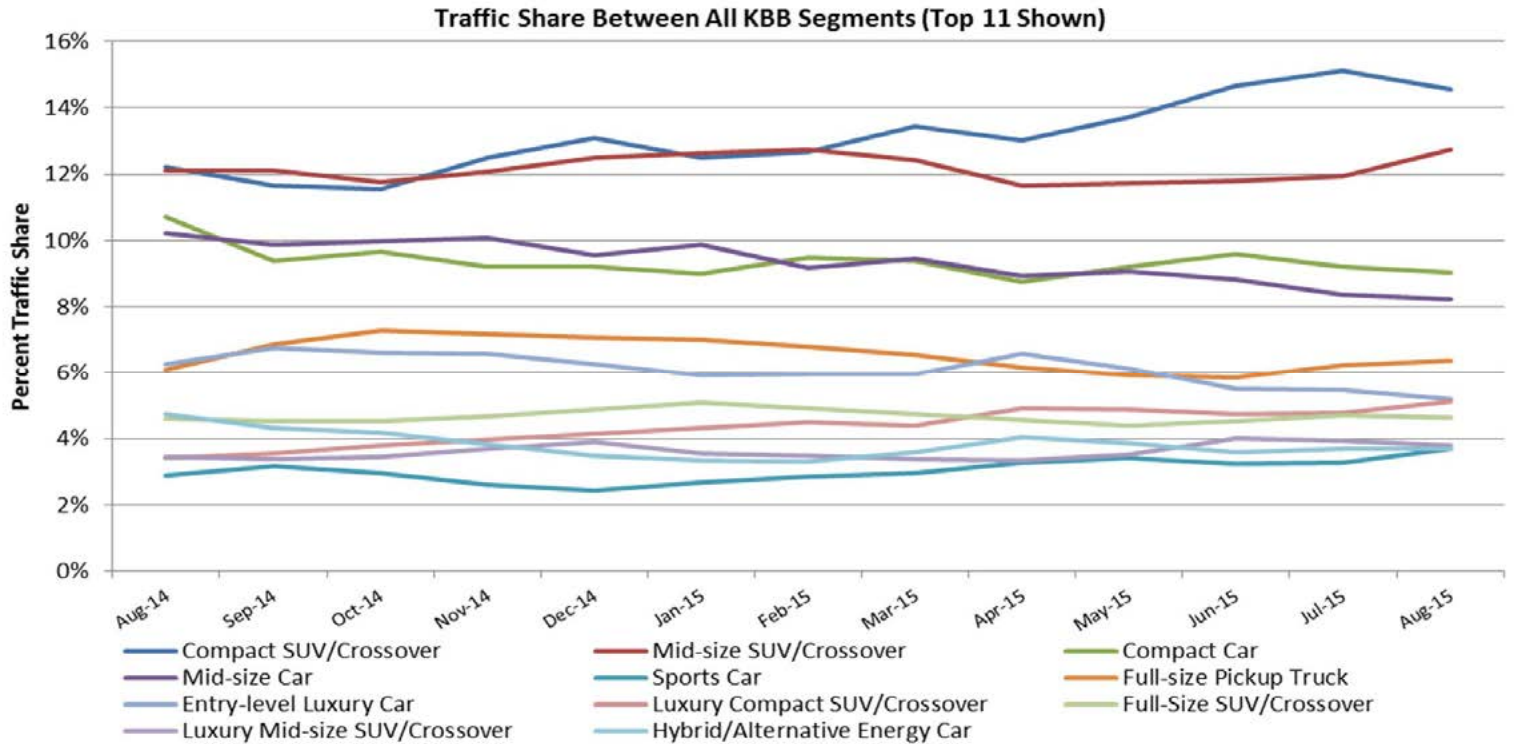
For Luxury Brands, Consideration of Utility Vehicles Has Gained Dramatically on Consideration of Sedans, and That Gap Has Been Narrowing, With UVs on Course to Surpass Sedans in the Near Future

Luxury Consideration



Source: Kelley Blue Book Brand Watch™

Consumer Shopping Activity



Source: Kelley Blue Book Strategic Insights

New-Vehicle Reviews

New Subcompact SUV Vehicle Reviews

Videos Posted to KBB.com

[2015 Chevrolet Trax Crossover](#)

[2016 Honda HR-V Crossover](#)

[2015 Jeep Renegade Crossover](#)

[2016 Mazda CX-3](#)

[2015 Mercedes-Benz GLA-Class Crossover](#)

[2015 Audi Q3 SUV](#)

Written Reviews Posted to KBB.com:

[2015 Chevrolet Trax](#)

[2016 Honda HR-V](#)

[2015 Jeep Renegade](#)

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