

# New-Car Sales Expected To Surpass 15 Million Units In 2013, According To Kelley Blue Book Analysts

**Credit Conditions, Replacement Demand and Redesigns to Promote Slow, Steady Growth, Highest SAAR in Five Years**

IRVINE, Calif., Oct. 25, 2012 /PRNewswire/ --New-car sales in 2013 are expected to surpass 15 million units overall, driven by replacement demand, low interest rates, and compelling product redesigns and introductions, according to Kelley Blue Book, [www.kbb.com](http://www.kbb.com), the leading provider of new car and used car information.

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"These factors have kept vehicle sales moving forward despite powerful economic headwinds, and Kelley Blue Book analysts believe demand will remain strong enough to drive sales even further along next year," said Alec Gutierrez, senior market analyst of automotive insights for Kelley Blue Book. "Although the economy is expected to continue to grow slowly in 2013, there is plenty of evidence to support another strong year of auto sales."

	2007	2008	2009	2010	2011	2012(est.)	2013(est.)
Total New-Car Sales Volume (millions)	<b>16.1</b>	<b>13.3</b>	<b>10.4</b>	<b>11.6</b>	<b>12.8</b>	<b>14.4</b>	<b>14.8-15.4</b>

Kelley Blue Book analysts have highlighted some of the key factors believed to play a large role in industry sales growth in 2013:

## **Economic Conditions Continue Modest Improvement**

The Conference Board's Consumer Confidence Index remains low from a historical perspective at 70.3, despite the 9 percentage point bump in September. Unemployment dropped to 7.8 percent in September and remains only 3 million jobs shy of the peak employment level of 146 million from 2006. These critical indicators are highly correlated to vehicle sales, and previous analysis has demonstrated consumer confidence needs to be above 100 with an unemployment rate well below 7 percent to support sales of 16 million units or more. Although economic conditions remain less than favorable, they are trending in the right direction and Kelley Blue Book believes consumer demand will remain sufficient to maintain the industry's forward momentum, despite a still-slow economic recovery.

## **Replacement Demand Remains Strong**

"With vehicles on the road today being 11-years-old on average, there will be plenty of consumers needing to trade-up to something new to replace a vehicle on its last legs," said Gutierrez. "A slew of buyers are expected to reach the end of their lease contract in 2013, and this should increase demand even further."

Kelley Blue Book expects anywhere from 300,000 to 500,000 additional buyers to enter the market in 2013, thanks to the rebound in leasing that began in 2010. Approximately 600,000 more vehicles were leased in 2010 compared to 2009 (when leasing nearly disappeared). Since the bulk of leases are written for two- or three-year terms, there should

be a significant jump in consumers exiting their lease who likely will be in the market for a new vehicle.

### **Credit Conditions to Favor Consumers in 2013**

Low interest rates also play a significant role in the current sales recovery, and according to the Federal Reserve's most recent Federal Open Market Committee statement earlier this month, the industry should expect interest rates to remain near zero through at least the middle of 2015. Not only are interest rates low, but banks also have been loosening lending standards. According to Experian's Q2 State of the Automotive Finance Market webinar, the average FICO score for a new-vehicle loan has declined from 774 to 753 since 2009 when financing all but dried up at the height of the recession.<sup>1</sup> Even subprime borrowers have re-entered the market. According to the same Experian data, subprime borrowers as a percentage of total car buyers have increased by 14 percent year-over-year, giving a strong indication that credit will remain widely available to those who need it.

### **It's All About the Product**

"The industry has gone through a near complete rebirth during the past several years, with almost every product category shaken up from top to bottom," said Gutierrez. "Last year there was a complete rehash of the compact sedan and crossover segments, while this year the mid-size category has gone through its own renaissance."

Next year Kelley Blue Book expects major redesigns in the full-size truck and sport utility categories. The redesigns that have come to market during the past several years have pushed the envelope in terms of style, amenities offered, and most importantly, fuel economy. Almost every subcompact and compact sedan is available with nearly 40 mpg on the highway, while mid-size sedans and small crossovers aren't far behind. The stellar product available today will continue to drive buyers to dealerships in 2013.

### **Demographic Trends Healthy, but Point to Continued Slow Growth**

From a macro perspective, there is little evidence to support a sharp increase in sales in 2013. The number of vehicles currently registered in the United States to licensed drivers is a healthy 1.13, indicating that there is more than one vehicle registered for every person that currently holds a driver's license. The ratio of vehicles to total households also is impressive at 2.02 vehicles per household. While certainly below their respective peaks of 1.18 and 2.1 at the height of the real estate bubble, there is little indication of a shortage of vehicles per driver or household. While the demographics don't necessarily point to a sharp jump in 2013, there is nothing to indicate that sales won't at least hit 15 million units next year.

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<sup>1</sup> *Experian, State of the Automotive Finance Market, Second Quarter 2012*

### **About Kelley Blue Book ([www.kbb.com](http://www.kbb.com))**

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For further information: Joanna Pinkham, 949-268-3079, [jpinkham@kbb.com](mailto:jpinkham@kbb.com), Brenna Robinson, 949-267-4781, [berobinson@kbb.com](mailto:berobinson@kbb.com), Natalie Kumaratne, 949-267-4770, [nkumaratne@kbb.com](mailto:nkumaratne@kbb.com)

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