

Annual Car Sales Strength Expected To Slow Following Three-Year Trend Of Double-Digit Growth, According To Kelley Blue Book Analysts

Industry Sales Will Continue to Outpace Economic Growth; Affordable Pricing and Credit Environment Keeps Consumers Coming Back

IRVINE, Calif., Feb. 13, 2013 /PRNewswire/ -- New-vehicle sales are expected to grow nearly 6 percent in 2013 to 15.3 million units overall, breaking the three-year trend of double-digit sales growth that has persisted since 2010, according to Kelley Blue Book www.kbb.com, the leading provider of [new and used car information](#).

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"Although the sales pace is expected to slow this year, automakers have demonstrated that they can generate solid profits with sales at current levels, which is a strong indication that they will remain disciplined by continuing to match production to meet demand," said Alec Gutierrez, senior market analyst of automotive insights for Kelley Blue Book. "Sales growth won't come easily, especially considering the challenges facing the industry in today's economy. While economic growth is expected to arrive slowly in 2013, there are several indications that point toward solid auto industry sales growth in the years ahead."

Among the various factors contributing to the ongoing recovery, Kelley Blue Book believes that pent-up demand, high used-vehicle values, improving credit availability and low interest rates all have played a direct role in the auto industry's ability to outperform the economy. Each of these factors has been critical to-date and will continue to drive sales this year and beyond.

Kelley Blue Book: New-Car Sales to Hit 15.3 Million Units in 2013

	2007	2008	2009	2010	2011	2012	2013
Annual Sales Volume (Millions)	16.1	13.2	10.4	11.6	12.8	14.5	15.3

Auto Industry Sales Will Continue to Outpace Economic Growth

The economy has come a long way since nearly collapsing in late 2008, yet a long road to recovery remains. At the depths of the recession in 2009, the unemployment rate hit a 30-year high of 10 percent, new-vehicle sales hit a 30-year low of 10.4 million units, and the Conference Board's Consumer Confidence Index hit an all-time low of 25 (for perspective, in 1985 the index was at 100). Some feared the onset of a second Great Depression in 2009, and while a repeat of the 1930s doesn't appear to be in the cards, the nation still has a long way to go before the economy is completely back on its feet.

Today unemployment remains at an uncomfortably high 7.8 percent, while consumer confidence is below 60, which is notably better than in 2009 but well below the 4.5 percent unemployment rate and 100+ consumer confidence readings from 2007. This is important to note since 2007 was the final year of a 10-year span in which the auto industry consistently posted sales of 16 million units or more. Although the economy has recovered slowly and still has a long way to go before unemployment and consumer confidence are back to levels last seen in

2007, Kelley Blue Book doesn't see a reason why auto sales cannot continue to outperform the pace of the economic recovery.

"Looking at the historical relationship between unemployment and auto sales from the 1980s through 2007, unemployment would need to be below 6 percent to generate auto sales of 16 million units or more," said Gutierrez. "According to estimates from the Federal Reserve, unemployment only will drop down to 7.4 percent in 2013 at best; a point that would historically justify sales of only 13 million to 14 million units. However, since 2010, new-car sales have outperformed their traditional relationship with unemployment, which means that sales in excess of 15 million units clearly are attainable."

Auto sales also have outperformed their historical relationship to consumer confidence by a significant margin. Despite expectations for consumer confidence to remain well below levels historically required to justify sales of 15 million units or more, Kelley Blue Book believes auto sales will continue to grow as predicted provided that consumer confidence remains stable.

Pent-Up Demand Drives Growth Since 2010, Will Persist in 2013

While economic growth has remained relatively weak and only explains part of the auto sales recovery, Kelley Blue Book sees pent-up demand playing a more critical role in the rebirth of the industry. According to Polk, registered vehicles in the United States are 11 years old on average; the oldest ever recorded. The increase in vehicle age can be attributed to two key trends. First, vehicles have grown much older as consumers have opted to hold onto them longer, due to the weakened economy. Consumers have focused on deleveraging after the collapse of the real estate bubble, and unless they require a replacement or the model no longer meets the needs of its owners, many are choosing to hold on to their vehicle rather than acquire additional debt to purchase an all-new vehicle. This leads directly to the second major influence of increased vehicle age, which is improved vehicle quality.

Aging Vehicles to Continue to Generate Demand in 2013

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Avg. Registered Vehicle Age	8.9	8.9	9	9.1	9.4	9.5	9.7	9.8	10	10.3	10.6	10.8

Source: Polk

"Vehicles produced during the past few model years are significantly higher in quality than those produced in previous decades," said Gutierrez. "In the 1990s, consumers came to expect a vehicle produced by a Japanese manufacturer to last 100,000 miles and beyond. Now we can say the same about vehicles produced by all manufacturers. Whether shopping for a Toyota, Honda, Chevrolet, Ford or Hyundai, consumers can be reasonably assured that their vehicle will hit 100,000 miles with ease, and 200,000 miles or more with proper maintenance and care."

With consumers delaying the purchase of a new vehicle due to economic hardship and improved vehicle quality, Kelley Blue Book expects the average age of vehicles on the road to continue to increase. As vehicles continue to get older and economic conditions slowly improve, buyers are expected to continue to return to market.

Leasing to Aid Sales Growth in 2013

When auto sales hit their low point in 2009, leasing all but dried up. The lack of lease returns during the past several years has played a pivotal role in the used-vehicle supply shortfall that has driven used-vehicle values to record highs. The reduced lease returns also have limited the number of consumers that traditionally would be seeking a new vehicle at the end of their lease term. While this reduced the number of in-market shoppers in recent years, Kelley Blue Book anticipates this trend to begin to reverse in 2013. Leasing bounced back in 2010, increasing nearly 700,000 units year-over-year. Kelley Blue Book believes that the

return in leasing will generate as many as 300,000 additional in-market shoppers this year, a number that will increase in 2014 and beyond. With lease returns expected to approach more normal levels during the next few years, Kelley Blue Book anticipates new-vehicle sales to grow and used-vehicle values to soften.

Kelley Blue Book: Increase in Lease Returns to Drive Boost in Demand for 2013

	2006	2007	2008	2009	2010	2011	2012
Total Vehicles Leased	2,446,569	2,453,189	1,935,910	1,083,619	1,709,149	1,960,128	2,284,800

Source: Kelley Blue Book Automotive Insights

Affordable Pricing and Credit Environment Keeps Consumers Coming Back

Consumers looking to purchase a new vehicle in 2013 will find affordable pricing on some of the best vehicles being produced today. On average, consumers can expect to find new vehicles priced at approximately 94 percent of MSRP, not including incentives. Not only are transaction prices quite favorable for consumers, but interest rates also remain at historically low levels.

"Consumers with a solid credit history should have no trouble obtaining a loan for 3 percent or less for up to 72 months," said Gutierrez. "Many automakers continue to offer loans of zero percent for up to 60 months, as well as rock-bottom lease payments around \$160 per month for a compact and only a few dollars north of \$200 per month for a mid-size."

Leases accounted for approximately 18 percent of all vehicles sold in 2012, returning to levels regularly seen prior to the collapse in industry sales in 2009. Federal Reserve Chairman Ben Bernanke indicated that interest rates will remain near zero through at least 2015, so consumers looking for a new vehicle can expect to find affordable pricing on new models for several years to come.

The affordability of new vehicles has been made even more attractive by the high values maintained by used cars. Although approximately 8 percent below the all-time highs seen in 2011, late-model used-car values remain uncomfortably close to new-car transaction prices, influencing many consumers to purchase new rather than used. This phenomenon is most pronounced for high-demand vehicles such as subcompact, compact and mid-size cars. These vehicles all have been significantly upgraded in recent years and generate excellent fuel economy for an affordable price. As a result, they have maintained extraordinarily strong values in the used-car market. In fact, the difference between a five-year payment on a new car and a 1- to 2-year-old used model is as little as \$30 per month apart in some cases. Kelley Blue Book expects used-car values to continue to ease from current highs, so this phenomenon likely will play less of a role in the years ahead.

Kelley Blue Book: New-Car Pricing Remains Near Used-Car Pricing

	MY2013 (New)	MY 2012 (Used)	MY2011	MY2010	MY2009	MY2008
Average Monthly Payment for a Compact	\$335	\$302	\$280	\$253	\$224	\$202

Source: Kelley Blue Book Automotive Insights

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