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BLUE BOOK Market Report

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MARKET ANALYSIS:

2011 Gas Spike Outpacing 2008 Increases

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

Values for fuel-efficient vehicles increased across the board as gas prices increased $0.60 per gallon during the first quarter of 2011. Values for hybrid cars increased 10 percent, while values for subcompact and compact cars increased a healthy 12-13 percent. One might expect values of trucks and SUVs to have dropped, however thus far they have managed to remain relatively flat, with full-size SUVs up 2 percent and full-size trucks up a scant 0.5 percent on the year.

As gas prices continue on their march toward a national $4.00 per-gallon average, we must look back at what occurred in 2008 to fully appreciate the potential impact to used-vehicle values as gas prices continue to increase.

Gas prices are currently $0.30 per gallon more expensive than at the end of the first quarter in 2008. While both 2008 and 2011 started the year with gas prices hovering right around the $3.00 per gallon mark, the increases so far this year have been far more pronounced than the increases in 2008. So far this year, gas prices have increased 18 percent versus 7.5 percent in the first quarter of 2008.

First Quarter

	2011	2008
Subcompact Cars	13.7%	8.4
Compact Cars	12.2%	6.8
Toyota Prius	19.5%	12
Sport Utility Vehicles	2.0%	-9.9
Trucks	0.5	-10.2

First Quarter

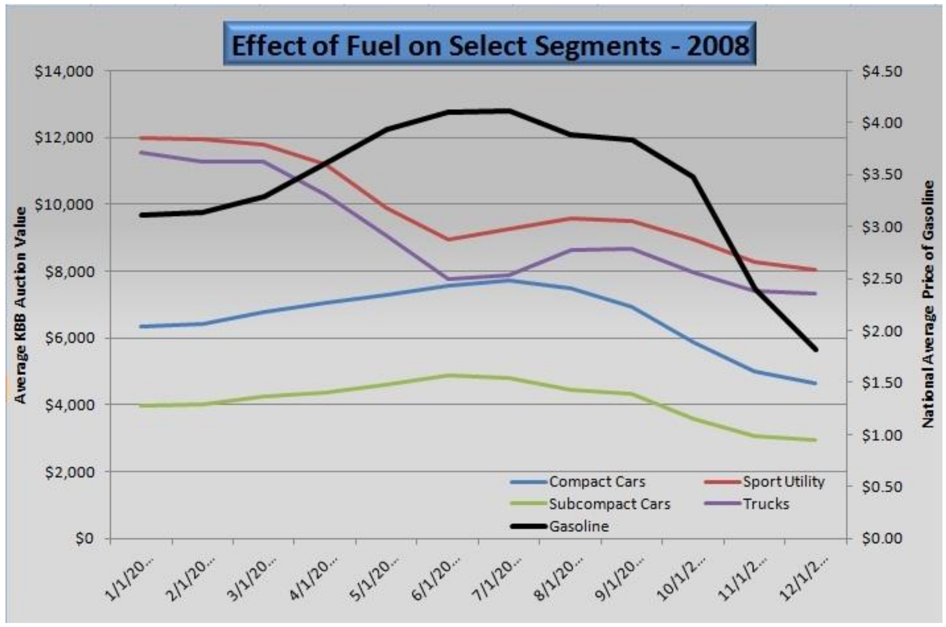
Gas Prices	2011	2008
Quarter Start	$3.03	$3.05
Quarter End	$3.60	$3.29
Price Increase	$0.57	$0.24
Quarterly Increase	18.8%	7.9%

By looking at recent and historical data, Kelley Blue Book has the ability to measure the impact of rising gas prices on the most fuel sensitive segments in both 2008 and 2011. From the data, analysts clearly ascertained that values for fuel efficient vehicles have increased far more aggressively this year when compared to the average appreciation during the same time frame in 2008. As an example, the Toyota Prius, the perennial poster child of fuel efficiency, has increased nearly 20 percent this year in response to rising gas prices, notable compared to the 12 percent increase during the gas spike of 2008.

Conversely, values for SUVs and Trucks have remained far more resilient this time around compared to the steep drop-offs that occurred during the first quarter of 2008. Given the significantly slowing sales of new trucks and SUVs over the last few years the stable values of these vehicles is not surprising as they are even harder to find today versus 3 years ago. If gas prices continue to rise at the current pace, we could look at data from 2008 as an indicator of what is to come.

2008 as an Indicator of What is to Come

As gas prices continued to rise through the second quarter of 2008, values for fuel efficient vehicles increased, while values for trucks and SUVs dropped aggressively. As the year progressed, fuel efficient values increased while truck and SUV values plummeted. This continued until gas prices peaked in July with a national average price of $4.11 per gallon. By year end, gas had dropped down to an average low of $1.60 per gallon and in response, the market performed a complete 180.



With gas prices no longer a concern by the fourth quarter of 2008, fuel-efficient vehicles had lost their luster, while trucks and SUVs had at least stopped the bleeding. After all of the turmoil values among fuel sensitive vehicle segments ended the year down nearly 30 percent which offset any of the gains occurring earlier in the year. Values didn't correct back to their pre-gas spike levels until well into 2009.

Segment Valuation Change by Quarter - Calendar Year 2008

Segment	Q1	Q2	Q3	Q4	2008 Total
Subcompact Car	8.4%	8.8%	-23.5%	-21.6%	-29.8%
Compact Car	6.8%	4.7%	-22.8%	-19.5%	-30.6%
Sport Utility	-9.9%	-18.3%	-4.8%	2.7%	-28.3%
Truck	-10.2%	-24.6%	3.9%	6.7%	-25.5%

Change in National Average Gas Prices by Quarter - Calendar Year 2008

	Q1	Q2	Q3	Q4	2008 Total
Start	$3.05	$3.29	$4.10	$3.63	$3.05
End	$3.29	$4.10	$3.63	$1.61	$1.61
Quarterly % Increase	7.8%	24.5%	-11.3%	-55.6%	-47.2%

Fast forward to 2011 and we find ourselves in a similar situation. With gas prices continuing their meteoric rise due to the instability in the Middle East, many are wondering how high gas prices can go this year. We have already established that fuel-efficient vehicles have increased while trucks and SUVs have remained flat, at least so far. So, what does it all mean?

Dealers should be very cautious in their purchases over the next several months. When buying a high-demand, fuel-efficient vehicle, dealers should focus on maintaining a lean day supply, if at all possible. While these vehicles may be hot today, the market has shown its ability to turn around very quickly, especially if gas prices drop 50 percent in a single quarter, as they did in late 2008. If history repeats itself once again, dealers should be prepared to a take a significant loss on that inventory if caught with a 60 day supply of subcompacts and hybrids that nobody wants to buy.

Dealers looking to make a safe purchase should consider compact crossover since Kelley Blue Book believes these vehicles present a low risk of fluctuating dramatically based on the price of fuel. Offering the handling and fuel economy of a car with the space and utility of an SUV, vehicles such as the Toyota RAV4, Honda CR-V, Ford Escape, and Hyundai Tucson should always be available on a dealer's lot. These vehicles have appreciated 5.3 percent so far this year only slightly outpacing the market average increase of 4.25 percent.

Overall, we believe that truck and SUV values will not fluctuate as wildly as they did in 2008 for a number of reasons. In 2008, the level of uncertainty in the market far surpassed the level of uncertainty in the market today. Many significant problems were emerging such as the collapse of the housing industry, a crumbling financial sector, and rising unemployment. Given the uncertainty at the time, many consumers overreacted to rising gas prices and sold their SUVs at a significant loss. Now that the full extent of these developments is better understood, the market is in a better position to adjust to the fluctuations in the price of gasoline. Finally and most importantly, due to a reduced supply of these vehicles in the market today, we expect the downside risk of trucks and SUVs to be relatively low.

Earthquake in Japan Shakes Up Used-Car Values

We are now close to being a month removed from the earthquake and ensuing tsunami that devastated Japan on March 11. As time passes, some questions are answered while others still remain unclear. What is clear is the growing concern over parts and vehicle shortages in the coming months. Many Japanese parts and vehicle production facilities have been shut down, at least intermittently since the quake hit. While vehicle supplies have remained generally healthy thus far, within 30 - 60 days we expect to begin experiencing shortages of high in-demand models either produced in Japan or that rely on parts from Japan.

Japan's Earthquake: Effects on Production

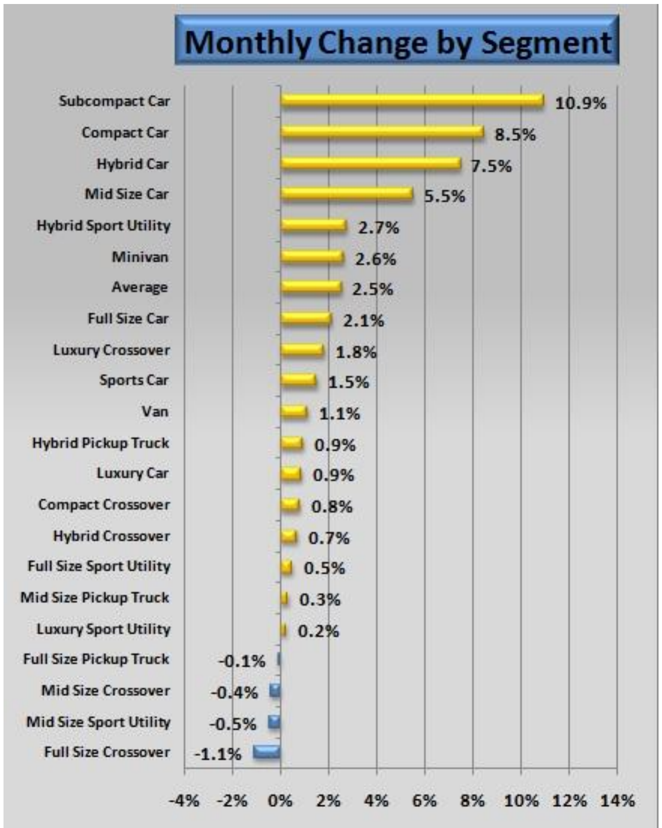
OEM	Pre-Quake Day-Supply	Effect
Toyota	65	Shortage of 233 parts for at least 30 days fro U.S. dealers, 15 plants offline until April 14
Honda	63	Cut US production down by 50 percent through April 15, Sayama plant in Japan halted until April 11
Nissan	48	Rogue, Cube, Leaf, Murano, Infiniti G & M plants suspended until mid April
Chrysler	68	Paint limitations
Ford	63	Kentucky Truck plant down this week due to parts shortages
Subaru	41	Forester, Impreza, and Legacy assembly plant working at half production
Mazda	94	Suspended dealer orders of Mazda2, Mazda3, Miata, RX-8, CX-7, CX-9
GM	60	Shreveport, LA plant production resuming after temporary shutdown

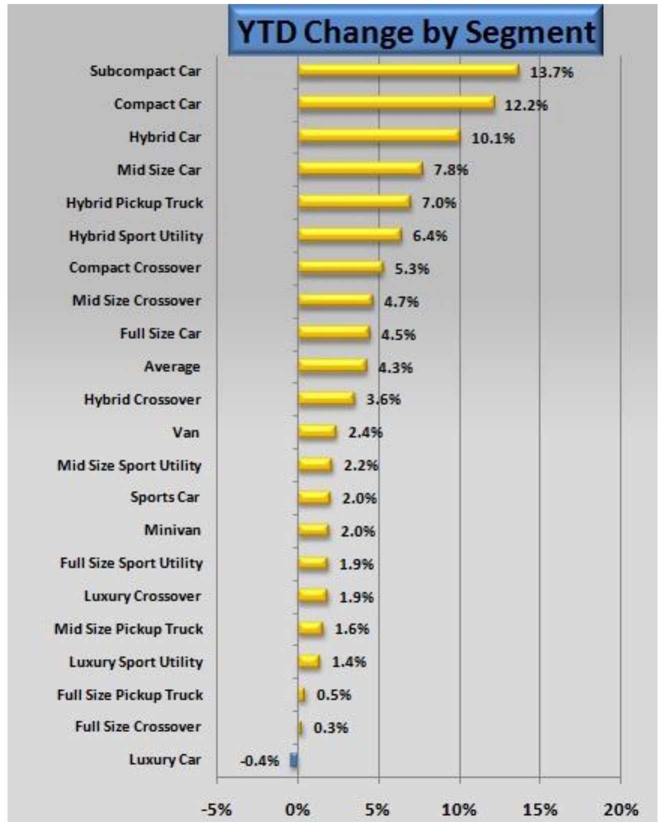
By referencing the table above, it can be seen that nearly all major manufacturers have been impacted in one way or another by the devastation in Japan. While inventory levels appear to be sufficient to pull most manufacturers through April, May could bring challenges as the pipeline of vehicles and parts from Japan begin to dry up. In fact, American Honda Motor Co. Executive Vice President, John Mendel, has gone so far as to say parts shortages could affect North American plants for the next 60-90 days. This couldn't come at a more critical time given the elevated demand for fuel-efficient vehicles predominantly produced in Japan. As supplies shrink, we expect that the demand for fuel-sipping cars to spill over to used vehicles, as consumers look to hedge against rising gasoline prices.

We expect to see values of late-model, fuel-efficient, good-condition, CPO-eligible vehicles increase over the next several months. As gas prices continue to rise and new vehicle supplies become stressed, there will be more demand than ever cars in these segments. The Prius, Yaris, Versa, and Fit are just a few examples of vehicles we expect to be very strong in the short term. We would advise dealers to buy these vehicles whenever available for a good price. Keep in mind though; prices will be inflated so dealers should be cautious not to overpay as they bid on these vehicles at auction.

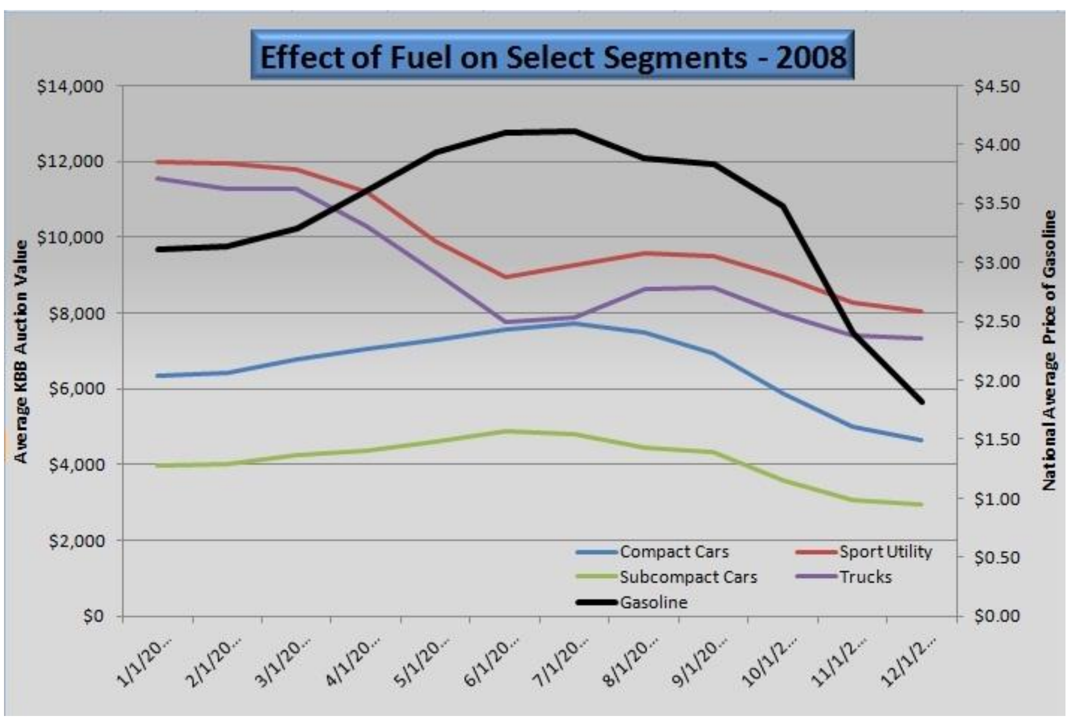
Market Overview

The market capped off the first quarter of 2011 with a bang. Values appreciated 2.5 percent overall in March, a close to $500 increase over auction values in February. Nearly all segments improved with the exception of slight declines for values of larger crossovers and full-size SUVs. Although down slightly in March, these segments remain up YTD due to a general lack of good-condition, low-mileage vehicles at auction.





The most significant gains came from fuel-efficient subcompact, compact, and hybrid cars. While values have been strong all year, values for these vehicles accelerated drastically in March as fuel prices have continued to increase at an overly accelerated pace. Values should remain strong for these vehicles while gas prices remain elevated, but as mentioned previously, if gas prices drop off significantly, values for these vehicles could drop suddenly.

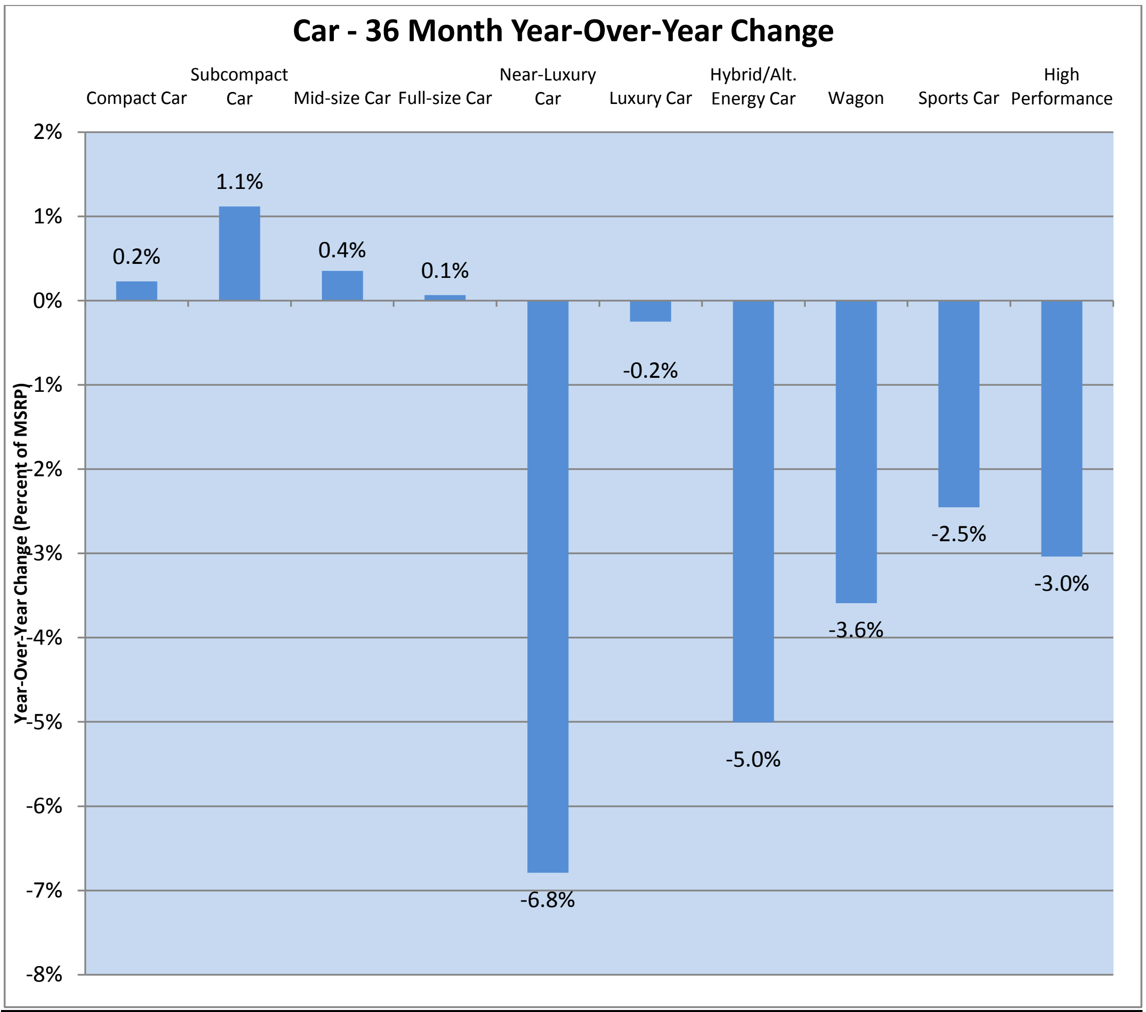


This commentary focuses on model years 2008-2010. The statements set forth in this publication are the opinions of the authors and are subject to change without notice. This publication has been prepared for informational purposes only. Kelley Blue Book assumes no responsibility for errors or omissions.

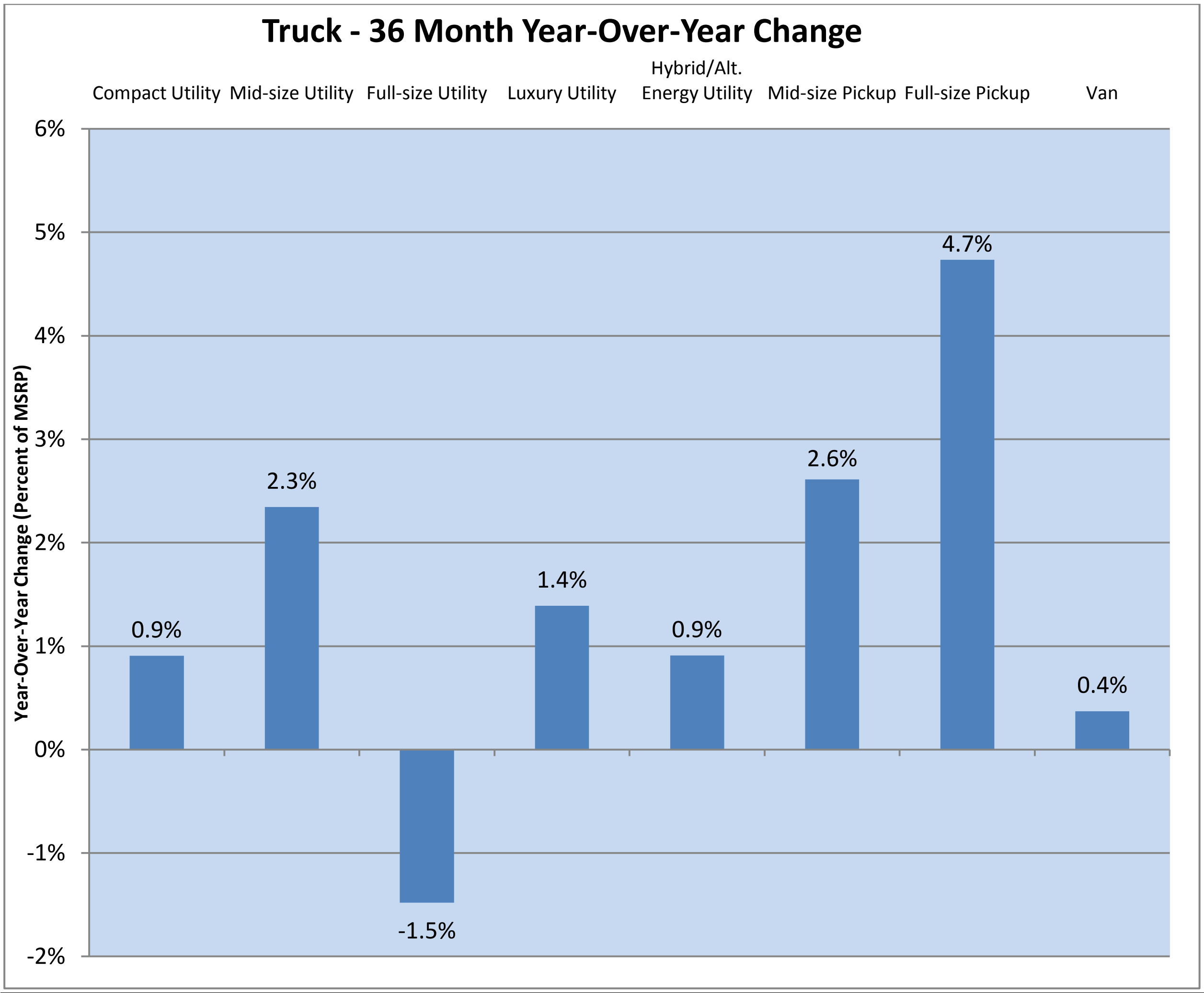
Peak Fuel Prices Are Not Sustainable

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

Overall, the average 36-month residual value for all vehicles across the industry remained fairly constant with values from last year, moving downward by only 0.5 percentage points. However, this result occurred because many of the car segments declined while most of the truck segments rose. The average change across all cars was a drop of 1.2 percentage points while the average gain for trucks was 2.1 percentage points. (Note: Residual value averages by segment are not sales weighted).



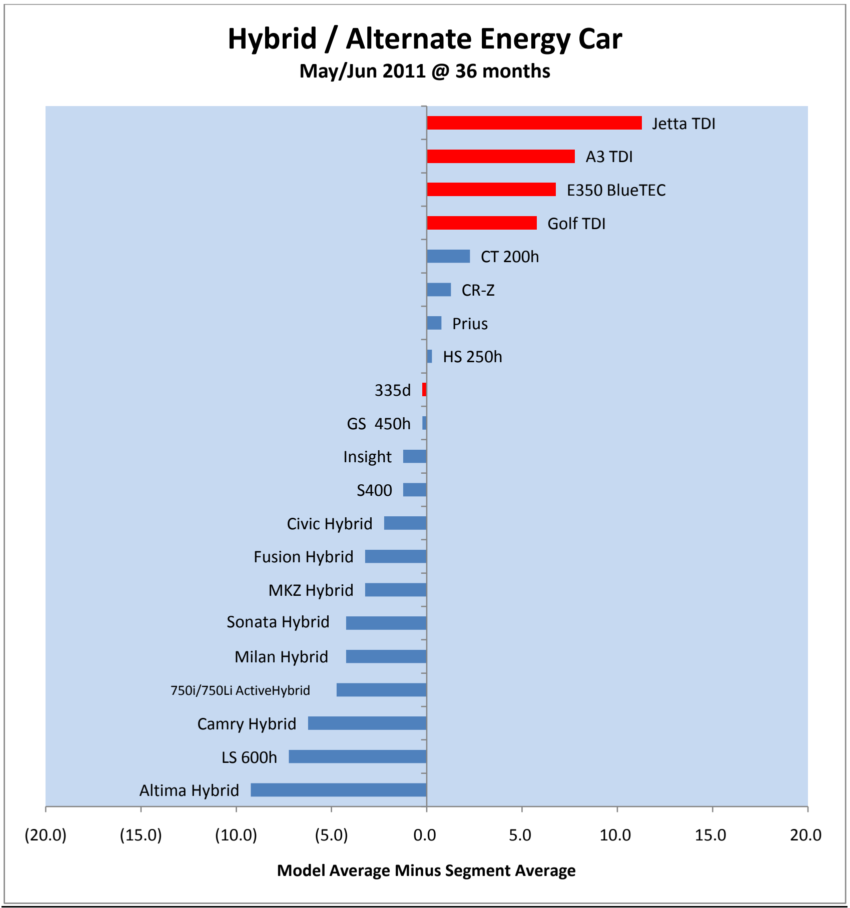
Further analysis into the car segments shows significant year-over-year declines in the near luxury car segment, the hybrid/alternative energy car segment and in the wagon segment. The drop in the near luxury segment was due to major declines in the BMW 1-Series and 3-Series cars as well as a big decline in the Volvo C70. The hybrid/alternative energy car segment experienced large drops with the BMW 335d, the Toyota Prius, and with the Honda Insight. The Audi A3, BMW 3-Series, and the Cadillac CTS Wagon pulled the segment's performance down, mitigated somewhat by the Audi A4 which experienced a year-over-year increase.



Among the truck segment, the full-size pickups achieved an average year-over-year gain more than twice the average across all trucks. This was led by major improvements in heavy duty trucks from Ram, Ford (Super Duty), and Chevrolet/GMC due to redesigns in 2011. The only truck segment that did not gain ground was the full-size utility segment, dragged down by weakness in the Chevrolet Tahoe and the Honda Pilot.

Hybrid and Diesel Cars

With the rise in fuel prices, much attention has been directed towards hybrid cars once again. The consumer reaction to bad news at the pump is becoming as predictable as the spring thaw. However, at Kelley Blue Book, we've categorized the few diesel cars on the market today along with hybrid cars into a segment called hybrid/alternative energy cars. This grouping has revealed an interesting pattern. The 36-month residual value for all cars in this segment compared with the segment average shows diesels maintaining their value best in comparison to the other vehicles in the hybrid/alternative energy car segment.



The story that emerges is that diesel cars are projected to retain their value better than the conventional hybrids on the market. Of the 21 cars in this segment, only 8 have average 36-month residual values that exceed the segment average. The top four spots are occupied by diesel-powered cars, while the only diesel to not exceed the segment average, the BMW 335d, just barely missed the mark. Another interesting note is that the four hybrids that retain above-average residual values are all dedicated hybrids. The only remaining dedicated hybrid that isn't above average is only about a percentage point below the segment average.

We realize this comparison is not without flaws. While all vehicles shown on the graph are powered by either hybrid technology or a diesel engine, they in fact span a large range of vehicle prices from about $24,000 to over $100,000. Also, the premium for the alternative energy power plant ranges from $0 (on the MKZ) to over $36,000 on the LS 600h.

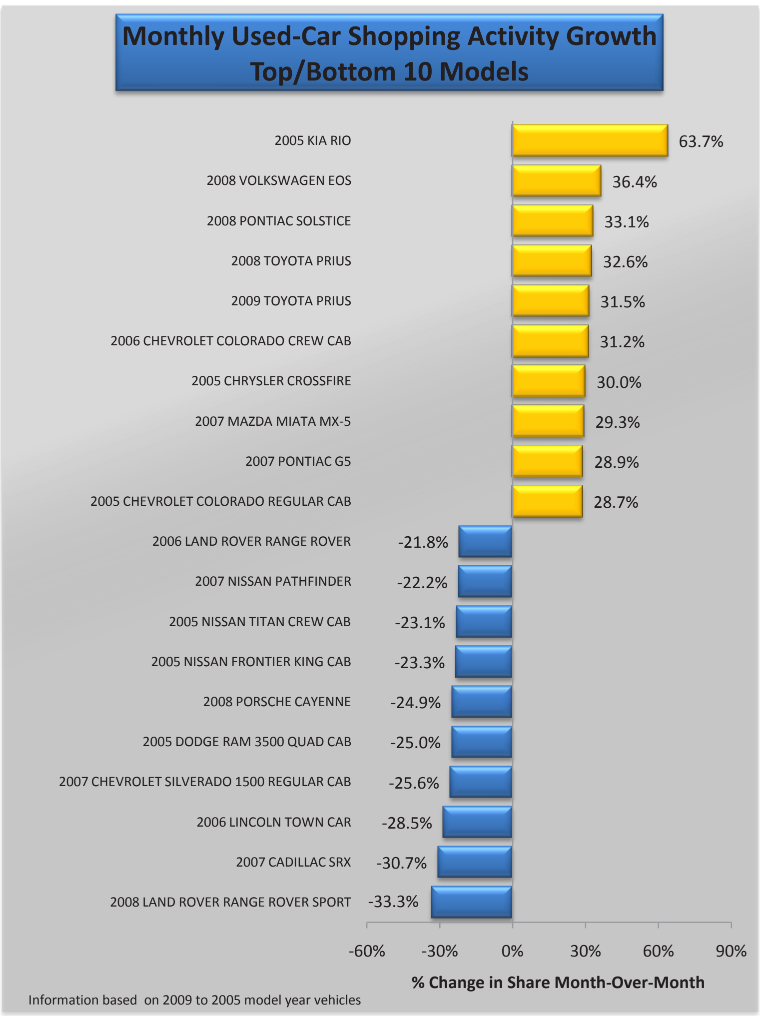
Still, we conclude that the offering of diesel cars has not yet saturated the market, causing the relatively few diesel cars to enjoy strong demand as used cars. Unfortunately, the same is not true for hybrid cars. While higher gas prices, such as $5 a gallon, would undoubtedly turbo charge hybrid sales, it will also have a very negative impact to the economic situation. Historically, all spikes in gas prices were followed by significant declines brought about by a recession. In other words, high gas prices could afflict the country for a few months but the ensuing drop in economic activity would significantly reduce demand for fuel, leading to softer fuel prices. As residual values are being forecast two to three years down the road, a spike in gas price today is only relevant if it will be sustained long-term. We feel this is not possible given the current state of the economy. In the absence of high gas prices in three years, combined with the onslaught of new hybrid and electric vehicles entering the market, we conclude that future hybrid values will be soft.

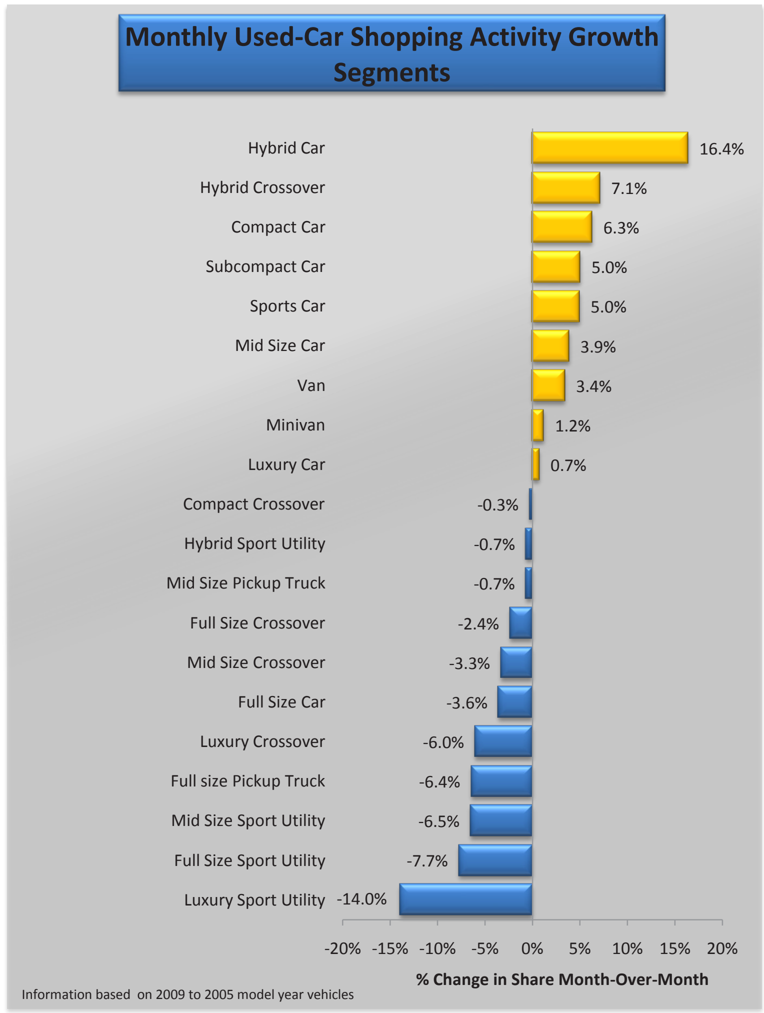
Gas Prices Fuel Used-Hybrid Frenzy

Rio Skyrockets; The Kia that is, Not The Movie

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.

Used hybrid vehicles were a hot-bed of activity during March, with a 16.4 percent month-over month climb in kbb.com shopper interest. This is not a surprise considering the 50 cent gas-price spike at that has occurred in the past two months causing used-car shoppers to pay closer attention to fuel-sippers. Also adding to the frenzy is the jaunt of activity surrounding older Prius models and the fact that its batteries are lasting much longer than previously expected. This positive buzz for Toyota in a gas crunch has caused interest in the 2008 and 2009 Prius to increase 32.6 percent and 31.5 percent in share of used car shopping activity respectively. With limited new-car inventories among Japanese manufacturers following the tsunami, dealers should pick up what they can at auction, but beware of inflated prices as it is likely these vehicles will be in demand at least in the short term.





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