



www.kbb.com

# BLUE BOOK Market Report

AUGUST  
2011

Analysis from Kelley Blue Book's Analytic Insights Team

Annual Subscription Value: \$500

## Kelley Blue Book Public Relations Contacts:

Robyn Eagles | Director, Public Relations  
949.268.3049 | reagues@kbb.com

Joanna Pinkham | Senior Public Relations Manager  
949.268.3079 | jpinkham@kbb.com

Brenna Robinson | Public Relations Manager  
949.267.4781 | berobinson@kbb.com

## In This Issue:

### MARKET ANALYSIS

Fuel Price Gains Not Enough to Stop Fuel-Efficient Value Declines; New-Car Sales Slump Will Impact Used-Car Values for Years to Come; More

### RESIDUAL ANALYSIS

Van, Full-Size Pickup Segments Show Greatest Residual Value Gains; Car Segments Fall; More

### LATEST HOT USED-CAR REPORT

Unstable Fuel Prices, Falling Used-Vehicle Values Contribute to Increased Hybrid Interest on Kbb.com

## MARKET ANALYSIS:

### Fuel Price Gains Not Enough to Stop Fuel-Efficient Value Declines

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

**W**ith fuel prices on the rise during the past 30 days, it would seem logical to conclude that fuel-efficient vehicles may be set to rebound. Unfortunately, the market for these vehicles is not as simple.

According to Kelley Blue Book, values of fuel-efficient vehicles dropped approximately 3 percent in July, a cumulative drop of 5 percent since values peaked in June. These declines fall in line with July's Blue Book Market Report, where we stated that values of fuel-efficient vehicles were due for a correction of approximately 15 percent by year-end.

#### Fuel-Efficient Vehicle Values Continue to Drop

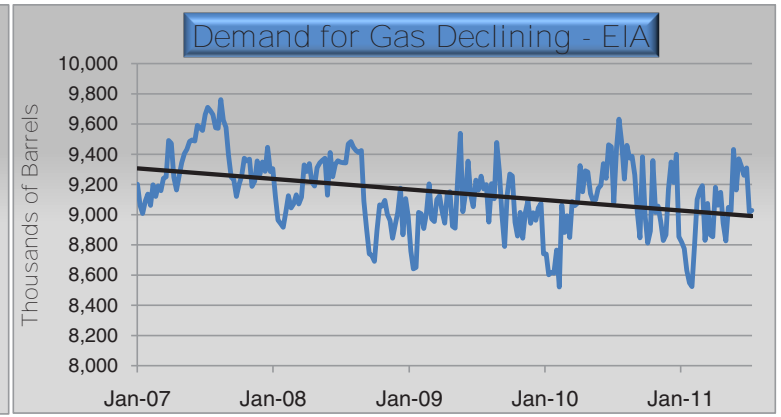
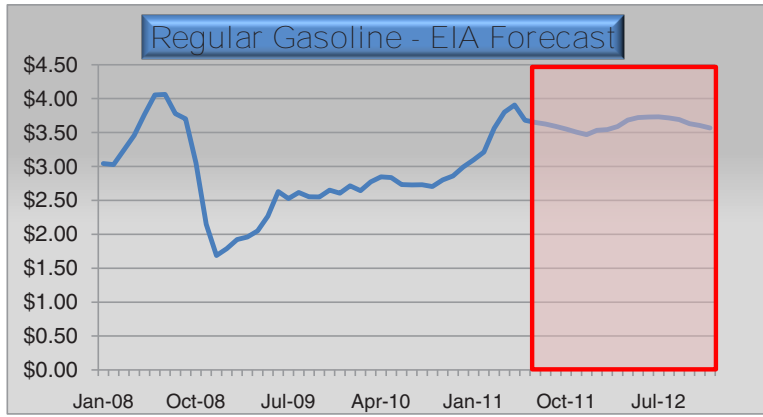
Segment	Jan 1 - Aug 1		Jun 1 - Aug 1	
	\$	%	\$	%
Market Average	\$650	3.0%	(\$800)	-3.4%
Fuel-Efficient	\$1,750	14.7%	(\$725)	-5.1%
Non Fuel-Efficient	(\$1,100)	-5.3%	(\$750)	-3.7%

*Fuel-Efficient includes Subcompact, Compact, and Hybrid Cars*

*Non Fuel-Efficient includes Mid-Size and Full-Size Trucks and SUVs*

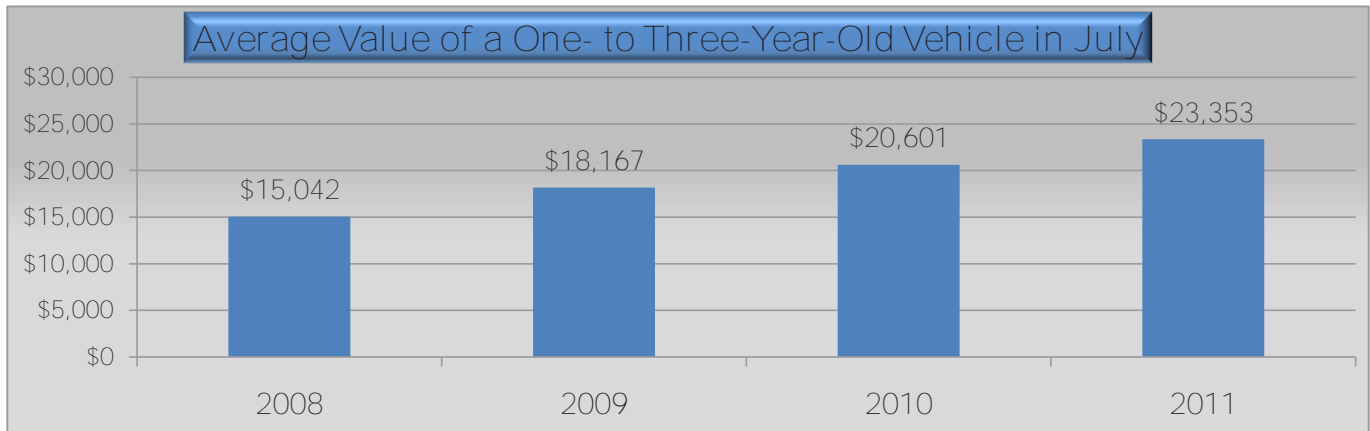
Even with fuel prices rising \$0.10 in the last 30 days, Kelley Blue Book Field Analysts continue to report that dealers are unwilling to purchase these vehicles at their current elevated levels, and while auction floors for fuel-efficient vehicles remain high, many of these vehicles are not selling at auction. Currently, all data indicate that values for these vehicles show no sign of strengthening in the near-term.

The anticipated 10 percent decline from now until year-end will be driven mainly by the \$0.20 decline in fuel prices projected by the Energy Information Administration (EIA). Fuel prices are likely to decline as the summer driving season wraps up, and according to recent reports, demand may already be showing signs of softening while supplies are ramping up. In the past week, United States crude oil and gasoline supplies increased approximately 0.5 percent as the first of the 60-million barrels to be released by 28 member nations of the International Energy Agency (IEA) started to hit the market. Additionally, the EIA reported that wholesale demand for gasoline has dropped 3.3 percent in the last four weeks, a drop that is unusual during the month of July. With that in mind, fuel prices are likely to decline in August, while continuing to drop through the rest of the year before finally coming to rest at \$3.46 per gallon.



## New-Car Sales Slump Will Impact Used-Car Values for Years to Come

**K**elley Blue Book predicts that supply reductions, caused by the slump in new-car sales and leasing during 2008, will play a far more prominent role in the wholesale market for many years to come. In response to supply reductions, the average value of a one- to three-year-old used vehicle has increased from \$15,000 in 2008 to more than \$23,000 in 2011, an average increase of 15.8 percent per year. It will take several years of strong sales to replenish the shortage of used vehicles driving up values today. While the pace of appreciation is likely to subside as sales, and ultimately supply, improves, we expect values to remain strong for the next two to three years.

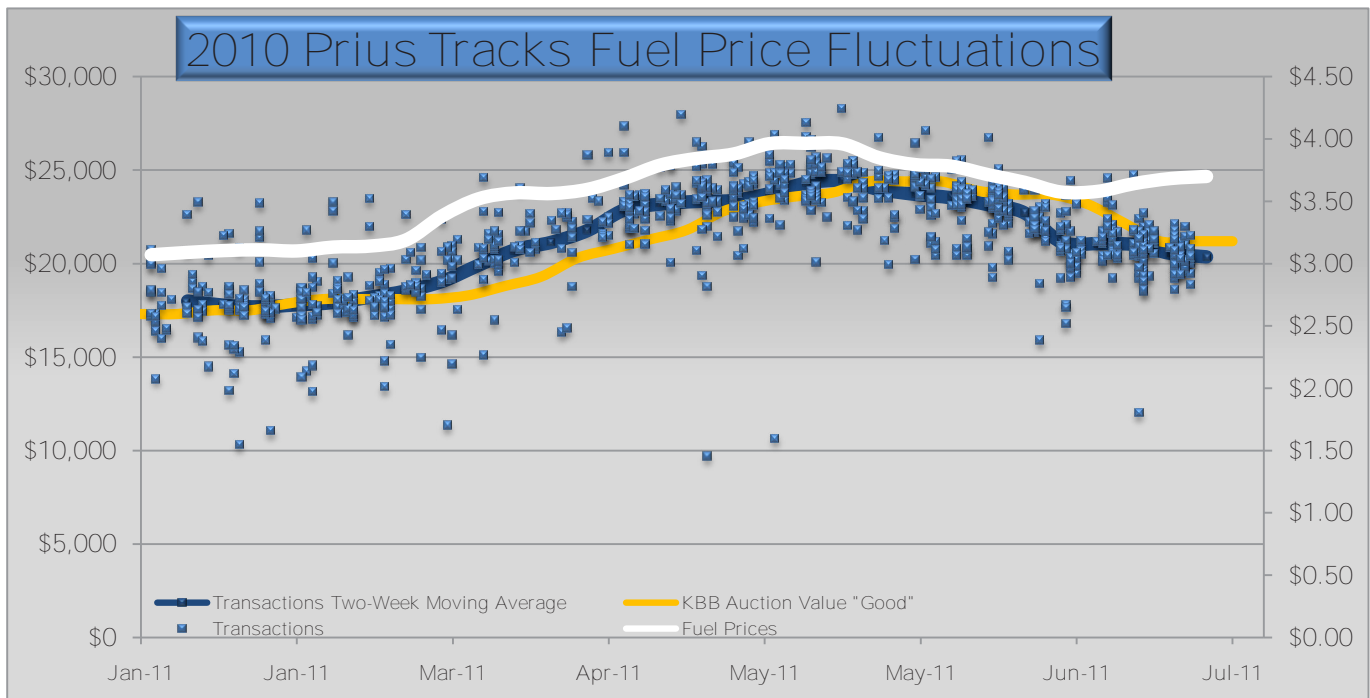


## Prius is Leading Indicator for Pricing in Fuel-Efficient Segment

**N**ow that gas prices have fallen from their \$4.00 per gallon May peak, values for the Prius have declined 13 percent, a drop of \$3,000 overall. Although values appear to have stabilized in the last few weeks, Kelley Blue Book does not expect values to remain at current levels. Like most fuel-efficient vehicles today, the Prius remains inflated and is expected to decline further by year-end. This correction must occur for two reasons:

1. Used-car values are not sustainable near their original MSRP, and the 2010 Prius actually sold above MSRP for several months during 2011.
2. Gas prices are expected to decline to \$3.46 (- \$0.20) by year-end, according to a July EIA forecast.

As fuel prices fluctuate, the Toyota Prius can be viewed as a leading indicator of things to come for the fuel-efficient segment. The Prius is generally the first to increase as gas prices are on the rise, and conversely, the first to fall when gas prices start to decline. The 2010 Toyota Prius has reacted strongly to fluctuating fuel prices, probably more so than any other fuel-efficient vehicle this year. From January through June 2011, the 2010 Toyota Prius increased 41 percent, up \$7,000 overall. The jump in Prius pricing largely can be attributed to gas price fluctuations; however, the 2010 model-year was hit especially hard by the lack of new Prius inventory resulting from the earthquake in Japan. The scatter chart below highlights auction transactions for the 2010 Prius during the past 30 days, in comparison with fuel prices.



The Toyota Prius seems to be the Holy Grail when fuel prices are rising, causing dealers to behave irrationally and pay exorbitant sums of money chasing after short-term gains. Hopefully the next time gas prices spike, dealers will remember to proceed with caution when chasing after the Prius in a bullish auction market.

## Dealers Can Garner Top-Dollar for Fuel-Efficient Vehicles in August as Values Expected to Decline

**M**ost dealers are likely fall into one of two camps when it comes to fuel-efficient vehicles: There is a large segment of dealers who already have overstocked their inventory with fuel-efficient subcompact, compact and hybrid cars, and therefore are looking to unload their inventory. Alternatively, there are dealers who need to purchase these vehicles to satisfy the demand of their local consumers, but they are hesitant with the uncertainty of fuel price fluctuations and the current elevated floor pricing of those looking to unload these vehicles.

For dealers looking to unload excess inventory, we believe there is no time like the present to try and sell these vehicles. Since we believe values of fuel-efficient vehicles will drop mildly in August, this may be the best opportunity to try and get top dollar for a fuel-efficient vehicle in today's market. As we approach Labor Day, values will begin to slip because rental car companies could potentially begin to unload their previous model-year inventory. With this in mind, dealers are advised to act fast.

Alternatively, dealers who are looking to purchase more fuel-efficient vehicles are likely to find more attractive pricing in the fourth quarter. Dealers should remain cautious on stocking up on inventory anytime soon, but that should not preclude them from ensuring they have at least a few fuel-efficient vehicles on their lot at all times. Now is the time to be picky and to only bid on good-condition vehicles with low miles that can be turned in 30 days or less.

*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.*

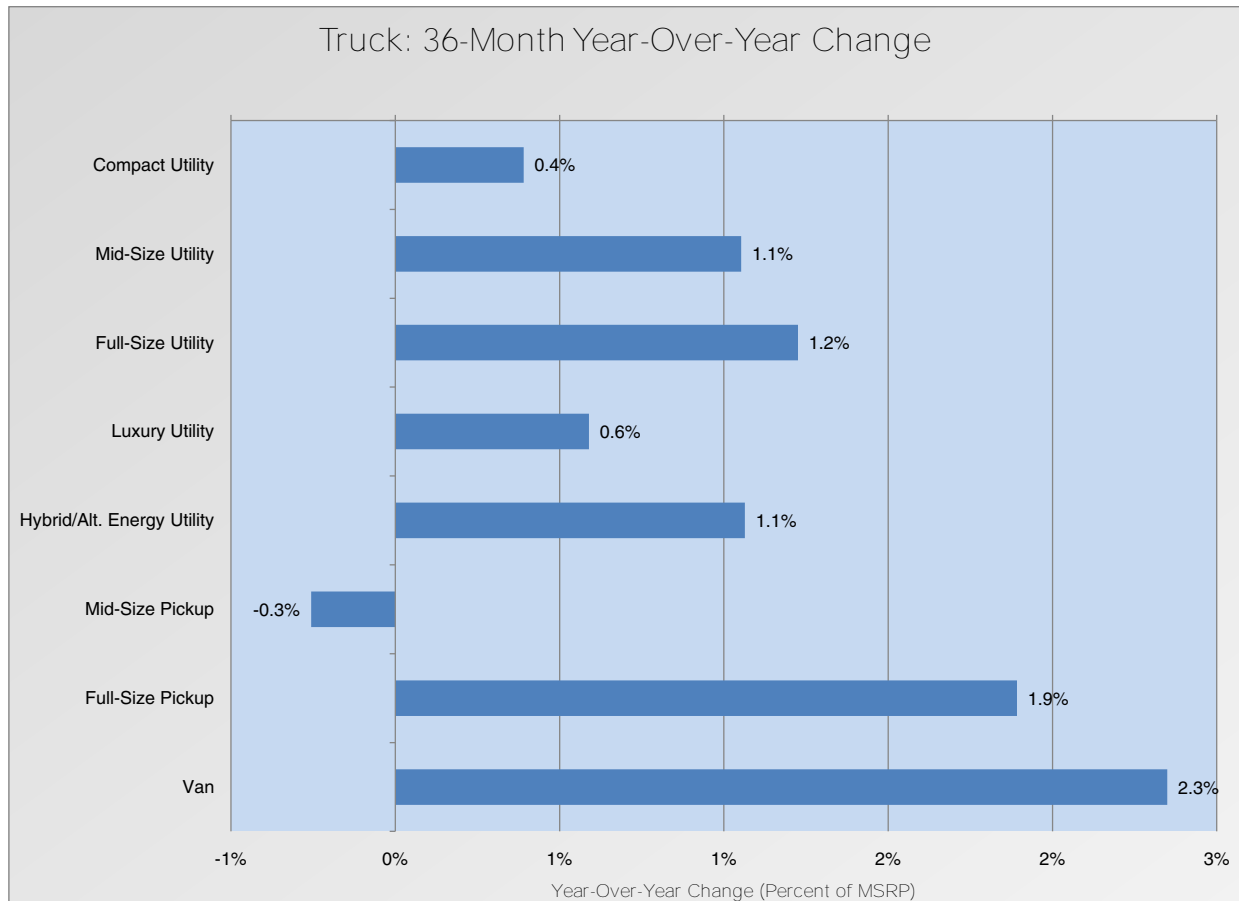
### All-New Video - 'Blue Book Minute'

**C**heck out an all-new video featuring Juan Flores, director of vehicle valuation for Kelley Blue Book, detailing the latest insights into the marketplace for August. To view the video, click here: <http://mediaroom.kbb.com/blue-book-minute>

## Van, Full-Size Pickup Segments Show Greatest Residual Value Gains; Car Segments Fall

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

**W**hile the average overall 36-month residual value projection has changed little from the same period a year ago (Kelley Blue Book is forecasting an average change of just 0.2 percentage points higher than last year, based on MSRP), the story is much different at the segment level. Overall, the car segment is down an average of 0.9 percentage points, while trucks are up 1.1 percentage points. (Note: residual value averages by segment are not sales weighted).

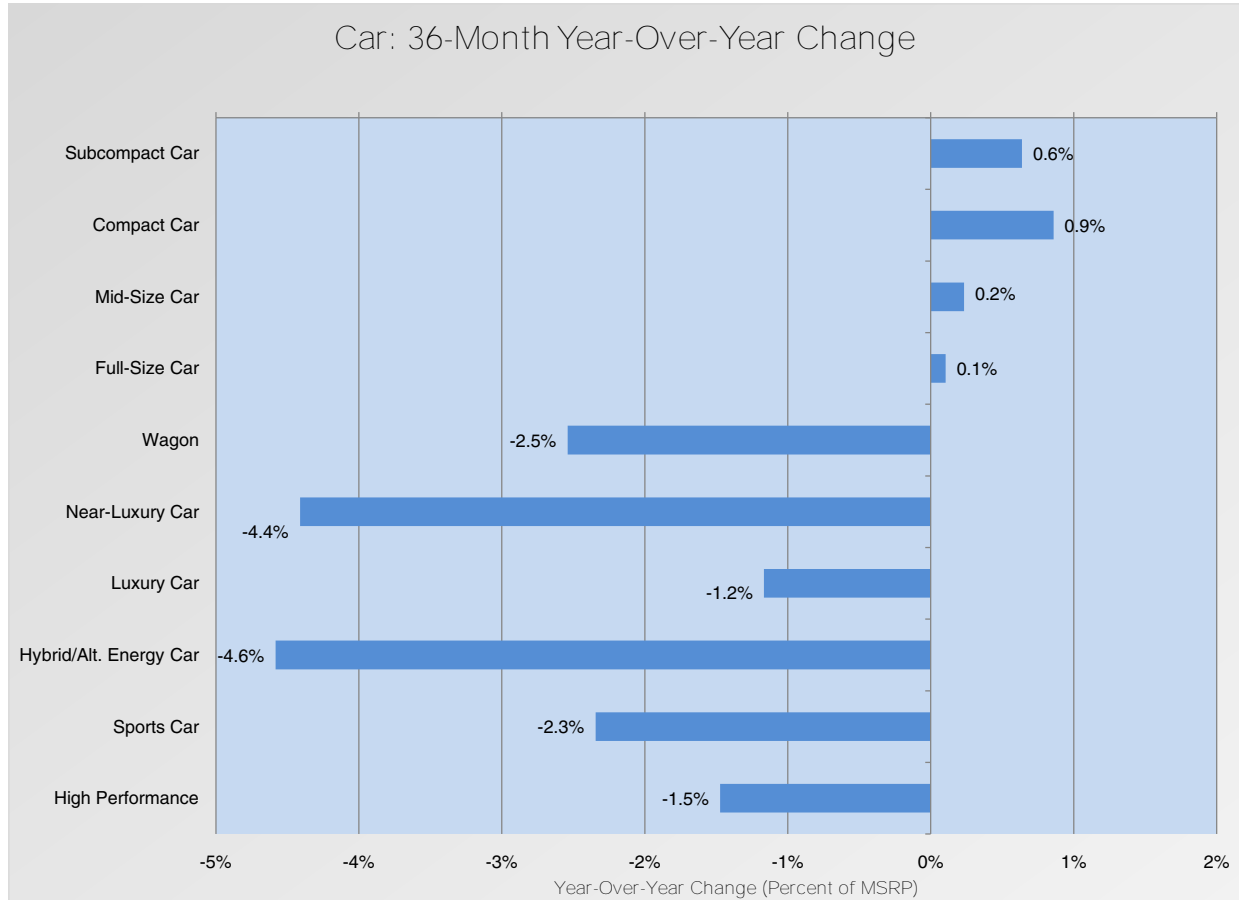


All truck segments are either flat, meaning the year-over-year change is less than half a percentage point, or higher than the previous year. The largest gains are in the van and in the full-size pickup segments.

In the full-size pickup segment, the gain is achieved through the improvement seen in heavy-duty trucks. These three-quarter and one-ton trucks from Ram, Ford, Chevrolet and GMC all recently received facelifts and gained new diesel engines in 2011. Interestingly, the half-ton trucks from these brands all show year-over-year changes of less than a point. For Ram trucks, the heavy-duty year-over-year increase was the result of gains across the Regular, Mega and Crew Cab trims. Ford's improvement was the result of gains mostly in Crew Cab models, especially in the F-350 and F-450 versions. For Chevrolet, like Ram, the increases were across the board. An exception to the strength in the full-size pickup segment is the Chevrolet Avalanche, which was last redesigned in 2007.

The van segment recently has been revitalized through redesigns and facelifts of the Honda Odyssey, Toyota Sienna, Dodge Grand Caravan and Chrysler Town & Country. As a result, we see year-over-year gains not only in these three minivans, but also with the Kia Sedona, Chevrolet Savana and GMC Express vans. While not recently redesigned, Sedona auction values have consistently out-performed residual value projections from last year. Note that the Grand Caravan's 36-month residual value is higher than it was last year, while the Town & Country declined. This can be traced to the higher prices and equipment level on the Town & Country, and to newer trims being added to the Grand Caravan.

Bucking the trend of higher residual values for trucks, the mid-size pickup segment is down slightly compared to 2010. With one exception (the Ram Dakota), the domestic models in this segment are lower on a year-over-year basis due to lower auction values recorded during the last year. This compares to the Toyota Tacoma, which is up only slightly from last year's values.



As noted in the graph above, non-luxury cars are either flat or up slightly compared to a year ago. In comparison, all other car segments are down, including luxury, sports cars and hybrids.

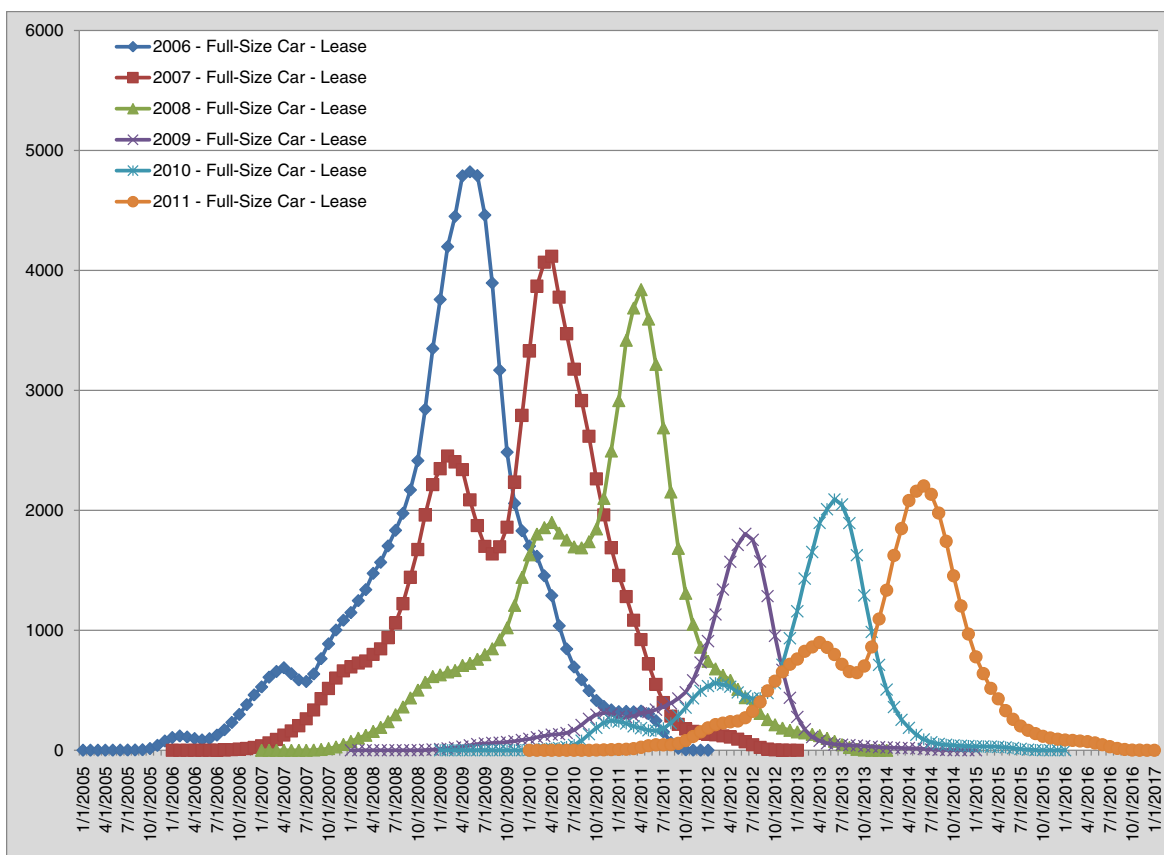
Leading the drop in the hybrid/alternative energy car segment are the Honda Insight and Toyota Prius, which are both down significantly from last year. Although both models have enjoyed renewed strength early in the year, now given the moderate fuel price increase forecast for the future combined with the increased competition in this and other segments, Kelley Blue Book's outlook for this segment calls for softening values.

For the near-luxury car segment, models are either up only slightly or down, sometimes significantly, from the prior year. Most prominently, BMW's 1-Series and 3-Series are down 7 percentage points due to lower auction values observed over the past year.

## The Coming Used-Car Supply Shortage

Used-car prices are established at what could be the greatest venue for the intersection of supply and demand: An auction. The auction company and the sellers generally do everything they can to attract as many buyers as possible. This is one way in which the demand side of the equation is influenced. The supply side is generally a function of market conditions.

The abrupt slowdown in new-car sales and the curtailing of leasing in 2008 created a shortage of used vehicles returning to market today. The Kelley Blue Book forecast shows a significant decline in future used-car supply for selected segments. The graph shown below depicts the full-size car segment as an example. Starting later this year, this segment is projected to experience volume drops of about 50 percent, which will undoubtedly affect used-car prices for these models.



The key point in this discussion is that all segments are not affected by this volume drop-off in the same way. Some segments are barely impacted while others see a significant decline. The duration of the shortage also varies. Knowing what to expect in the future can help companies plan for the appropriate actions required to take advantage of this upcoming situation.

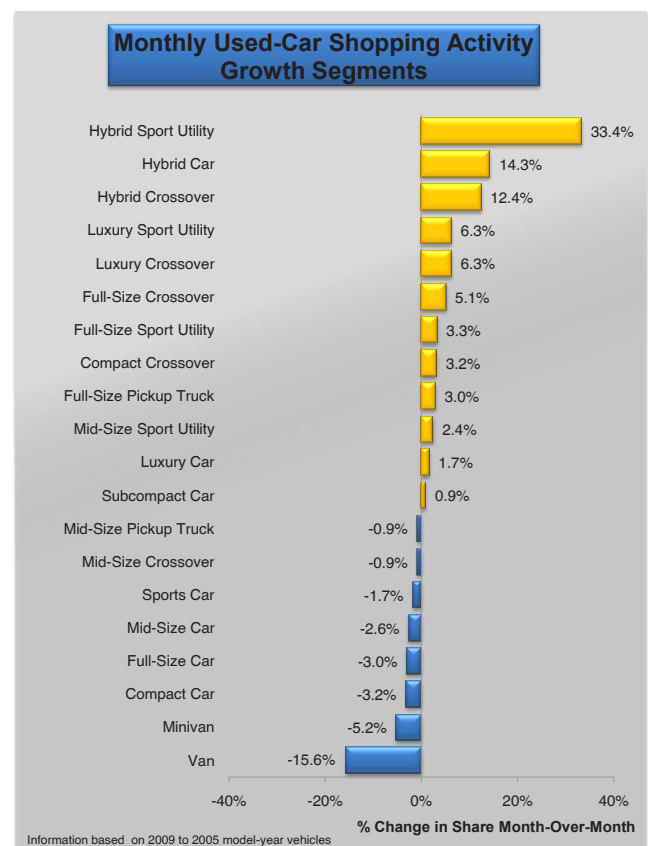
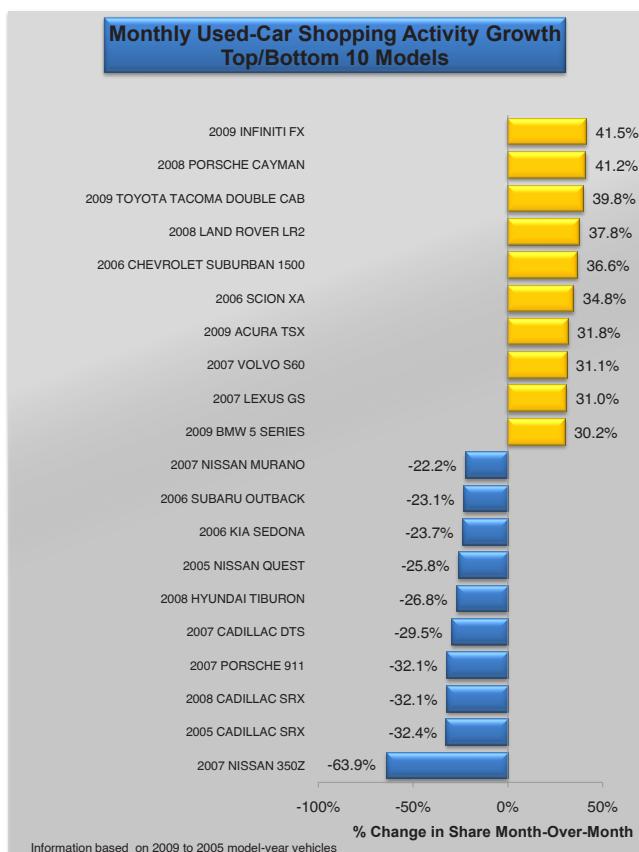
## Unstable Fuel Prices, Falling Used-Vehicle Values Contribute to Increased Hybrid Interest on Kbb.com

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.

The pendulum known as consumer interest continues to swing toward hybrid vehicles. On kbb.com, the traffic share for hybrid sport utility vehicles rose 33.4 percent, while hybrid cars rose 14.3 percent and hybrid crossovers rose 12.4 percent month-over-month, making these the top three segments to increase in share for July 2011.

There are several components driving these increases. Gas prices have not yet been stable in 2011, driving interest in this fuel-efficient segment. Hybrids also are just now entering the used-car market at a volume in which consumers have easier access to them. In addition, time has been a contributor in sparking consumer interest. As time has passed, hybrids have proven to be reliable, easing consumer anxiety about costly maintenance and repair costs, and thus making them a viable option to serve their automotive needs.

As reported in the market analysis portion of this report, decline in used fuel-efficient vehicle values also could be driving consumer interest, with an additional 10 percent drop expected by year-end. It would be in a dealer's best interest to keep a supply of reasonably priced hybrids and other fuel-efficient vehicles in their inventory as demand continues to climb.



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

Founded in 1926, Kelley Blue Book, The Trusted Resource®, is the only vehicle valuation and information source trusted and relied upon by both consumers and the industry. Each week the company provides the most market-reflective values in the industry on its top-rated website [www.kbb.com](http://www.kbb.com), including its famous Blue Book® Trade-In and Retail Values, and Fair Purchase Price, which reports what others are paying for new cars this week. The company also provides vehicle pricing and values through various products and services available to car dealers, auto manufacturers, finance and insurance companies, as well as governmental agencies. Kbb.com is a leading provider of new car prices, used car values, car reviews, new cars for sale, used cars for sale and car dealer locations. Kelley Blue Book Co., Inc., is a wholly owned subsidiary of AutoTrader.com.