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Market Report

JANUARY
2013

Automotive Insights from Kelley Blue Book

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NEW-CAR MARKET ANALYSIS:

Industry Sales Maintain Momentum Despite Economic Headwinds

- Alec Gutierrez, senior market analyst, automotive insights, Kelley Blue Book

New-vehicle sales for 2012 ended on a high note, as the closely watched seasonally adjusted annual rate (SAAR) surpassed a 15 million unit selling pace in both November and December. Industry sales improved by 10.5 percent year-over-year in the fourth quarter, due partially to strong sales of hybrid and electric vehicles, luxury cars, and compact cars, each up more than 30 percent. Each of these segments benefitted from new introductions and redesigns that helped push sales well above the totals achieved just one year ago. Further aiding the strong quarter was the need for replacement vehicles in New York, New Jersey and other storm-ravaged parts of the northeast.

Looking ahead to 2013, Kelley Blue Book expects sales volume to continue to grow; however, analysts believe that the pace will slow. After finishing 2012 with nearly 14.5 million new vehicles sold, a 13 percent annual improvement and the third consecutive year of double-digit growth, Kelley Blue Book anticipates new-vehicle sales will surpass 15 million units in 2013. At 15 million units, this would mark a 3.6 percent improvement year-over-year; the slowest annual sales growth since the recovery began in 2010. In the first quarter of 2013, Kelley Blue Book believes industry sales will improve between 3.5 to 4 percent, which is solid growth overall, but still below the 13 percent increase from Q1 2012.

Although the sluggish economy will continue to impede future sales growth, there are many positive signs that point toward moderate sales growth. For starters, already registered vehicles aren't getting any younger, with the average age of vehicles on the road today still above 11 years old. Buyers with an older vehicle should be enticed to trade-up due to record low interest rates, enticing lease deals and the return of subprime lending. Finally, with a potential annual increase of 300,000 consumers reaching the end of their lease term, and with the most fuel efficient and feature-rich new vehicles available to consumers, the industry may see industry sales continue to surpass expectations.

In This Issue:

NEW-CAR MARKET ANALYSIS

Industry Sales Maintain Momentum Despite Economic Headwinds

Today is a Great Day to Buy a Car

New and Used Compact Pricing Gap Remains Close; More

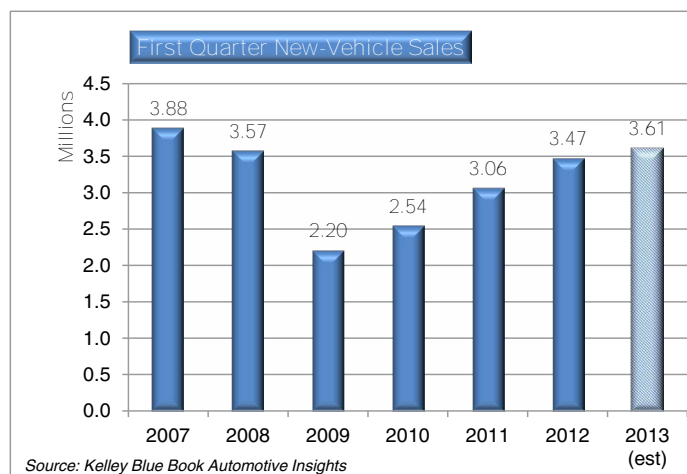
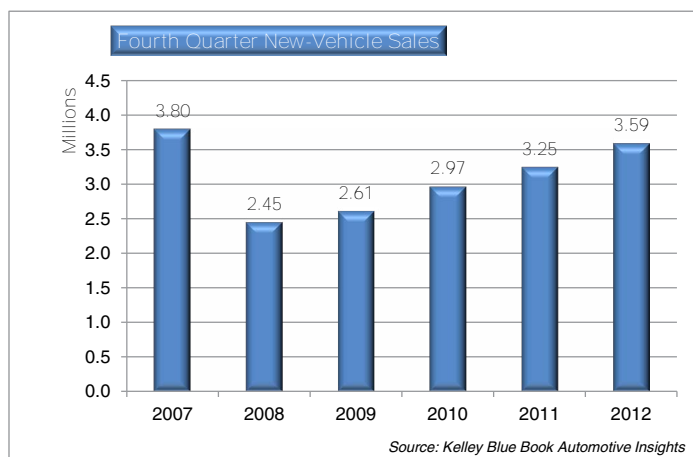
USED-CAR MARKET ANALYSIS

Auction Values Return to Seasonal Norm as Sandy's Effects Wane

Used-Vehicle Inventory Set to Return; More

LATEST HOT USED-CAR REPORT

A Luxury State of Mind

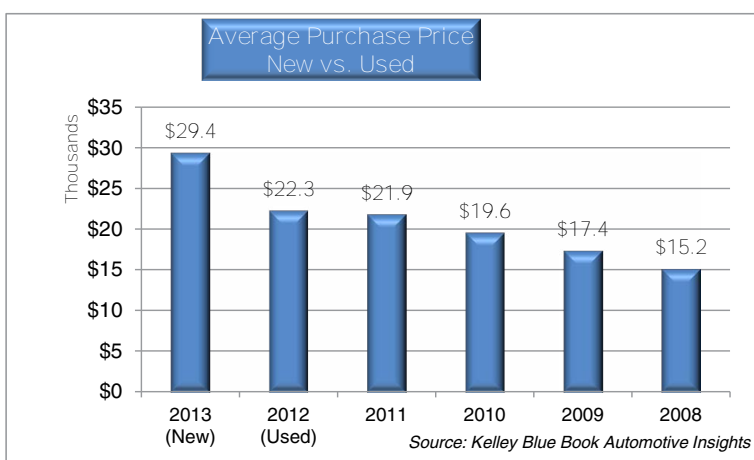
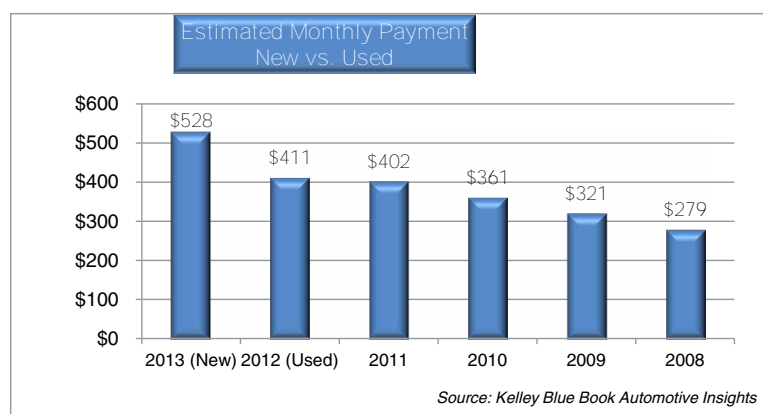


Today is a Great Day to Buy a Car

Those looking to buy a new vehicle often plan their purchase around the time of year that offers the lowest possible price. New-vehicle transaction prices tend to be at their lowest during tax return season, Memorial Day, Labor Day and year-end clearance events. Although pricing is at a low during these timeframes, there are still fantastic deals available in the month of January. Consumers who delay their purchase until the next major selling event likely will save \$1,000 or more on their next new car, due to increased incentives and higher inventory. While \$1,000 in savings is certainly nothing to scoff at, it only amounts to about \$20 per month in savings. For consumers considering purchasing a new or used vehicle this year, now may be as good a time as any to pull the trigger.

Attractive pricing and financing available on new and used vehicles

Shoppers in the market for a new car can expect to pay approximately 94 percent of sticker price before incentives, or just shy of \$30,000 on average. Consumers can purchase a one-year-old used vehicle for 84 percent of original manufacturer's suggested retail price (MSRP), or a little more than \$22,000. Assuming a 3 percent interest rate on a new-car loan and 4 percent on a used-car loan, a new car will cost about \$120 more per month than a comparable one-year-old used car on average. It should be noted that while Kelley Blue Book used a 3 percent interest rate to generate an estimated monthly payment, many consumers will find interest rates as low as zero percent for 60 months from the manufacturer for many popular models. The gap between new- and used-vehicle pricing remains wide enough to make used vehicles a relative bargain overall; however, there are certain segments and models where a new vehicle is only modestly more expensive to buy new.

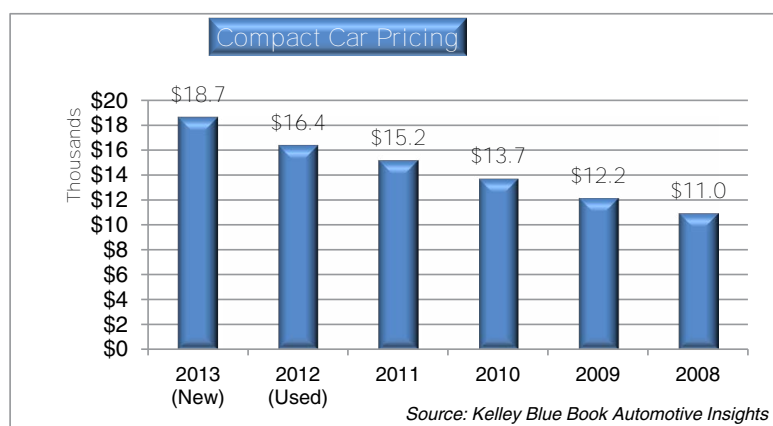


Inventory favors the consumer

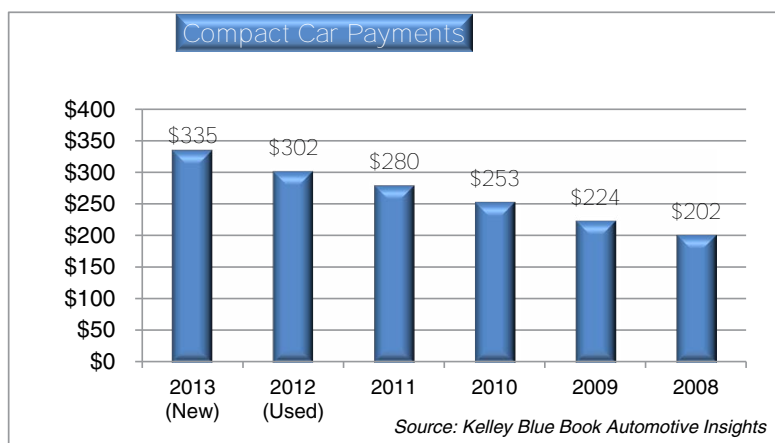
As of January 1, 2013, there were approximately 3 million new vehicles awaiting consumers at dealerships across the United States. This compares to roughly 2.4 million vehicles available for sale at this time last year. The 3 million units in available inventory equates to a 60-day supply of vehicles, a figure generally considered to be ideal by most manufacturers. While there may be plenty of vehicles available for sale, inventory levels vary widely depending on the segment, brand and model. Consumers looking for a full-size pickup will find ample inventory available for all entrants, while those considering a Hyundai Elantra or Hyundai Sonata will find a more limited selection of vehicles.

New and Used Compact Pricing Gap Remains Close

Consumers looking for a compact car may want to consider purchasing new rather than used. According to Kelley Blue Book's transaction data, shoppers can purchase a new compact car for as little as \$335 per month with a five-year loan, which is only \$30 more expensive than a comparable one-year-old used variant. Used compacts have been in high demand with fuel prices nearly \$3.30 per gallon nationally, and values have held strong as a result. A consumer looking to save at least \$100 or more per month on a used car would need to consider a model-year 2009 or older, which likely would have 50,000 miles or more on the odometer. While the difference between new and used pricing is relatively low for the segment, there are several



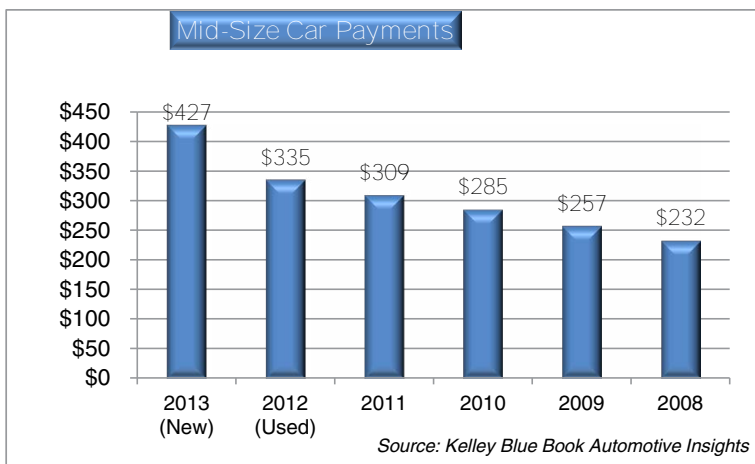
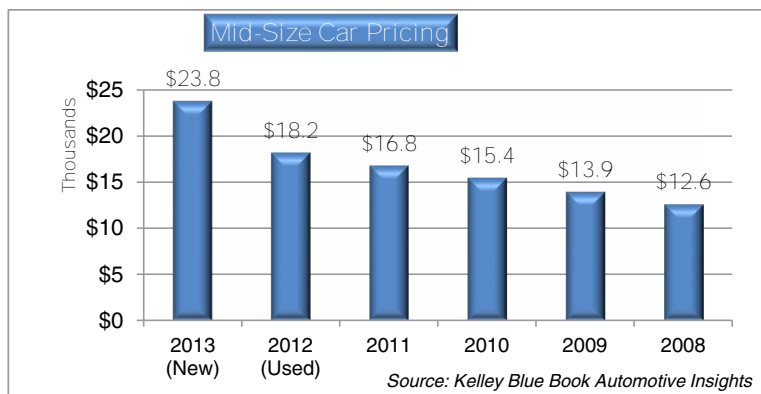
models that offer nearly identical pricing whether new or slightly used. For example, buying a one-year-old used Toyota Corolla or Honda Civic will only save consumers about \$20 per month. On the flip side, bargain-driven buyers looking to save a few bucks while still purchasing a great car can look toward purchasing a gently used Hyundai Elantra or Ford Focus. Consumers can save closer to \$50 per month on either of those vehicles by opting for a used 2012 model-year vehicle, rather than a brand-new model. The compact segment was the most researched on KBB.com in 2012, accounting for 16.4 percent share of all new-vehicle research traffic.



Used Mid-Size Sedans Offer Substantial Savings

Shoppers interested in a mid-size sedan will find considerable savings by opting for a one- or two-year-old used model rather than purchasing new. On average, consumers can expect to save nearly \$100 per month by opting for a used model-year 2012 instead of a brand-new 2012 or 2013 vehicle.

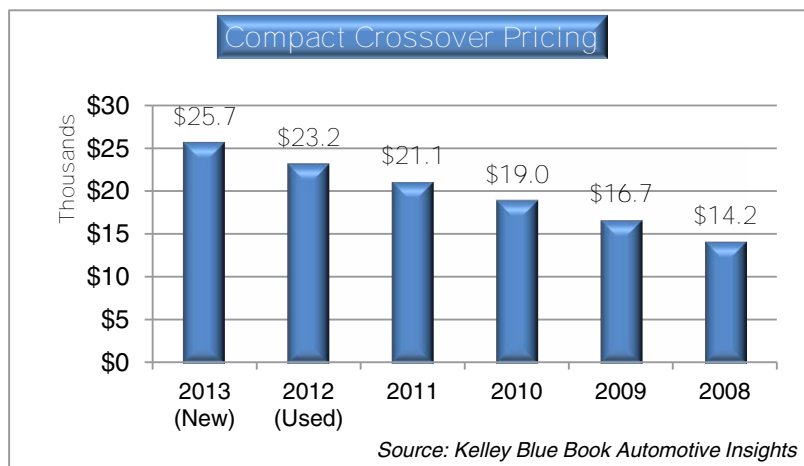
The gap between new and used pricing likely is driven by the extensive redesigns introduced for most of the best-selling models for 2013. The Honda Accord, Nissan Altima, Chevrolet Malibu and Ford Fusion all were redesigned for model-year 2013, and thus are generating a premium relative to their used previous-generation counterparts. An all-new 2013 Nissan Altima or Honda Accord will cost nearly \$100 more per month than a used 2012, while a Toyota Camry, which was redesigned for the 2012 model year, only maintains a \$50 price premium. In 2012, the mid-size segment once again was the top-selling segment in the United States, and it was the second most researched on KBB.com for the year, accounting for 16 percent of all new-vehicle research traffic.



Crossover Shoppers Should Consider Purchasing New

Similar to compact cars, brand-new compact crossovers are available for only a modest premium over a comparable used model.

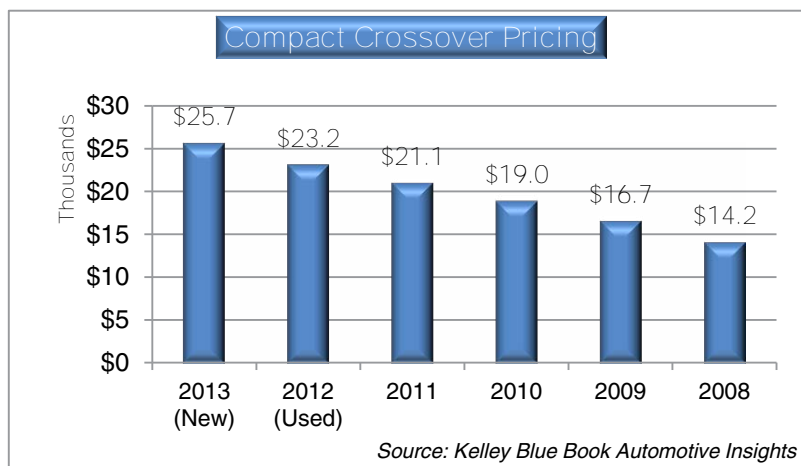
Shoppers interested in an all-new small crossover can expect to pay only \$35 more per month than a comparable used model-year 2012. Buyers interested in the Toyota RAV4 or Chevrolet Equinox will find just a \$20 gap between new- and used-vehicle payments, while a brand-new Ford Escape commands a more sizable \$60 per month premium from the slightly used variant. This is one of the fastest-growing segments in the industry and high on the priority list for most consumers.



Compact crossovers were the third most researched segment on KBB.com in 2012, accounting for 13.7 percent of all new-vehicle research traffic.

“SHOPPERS INTERESTED IN AN ALL-NEW SMALL CROSSOVER CAN EXPECT TO PAY ONLY \$35 MORE PER MONTH THAN A COMPARABLE USED MODEL-YEAR 2012.”

- ALEC GUTIERREZ



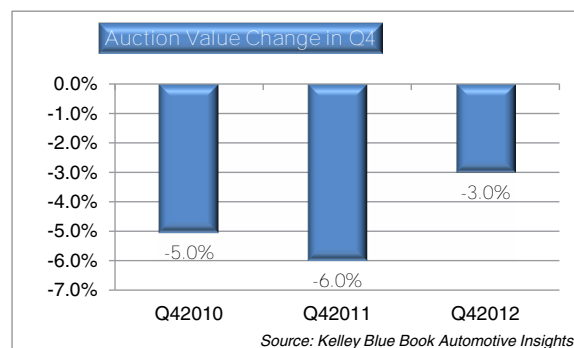
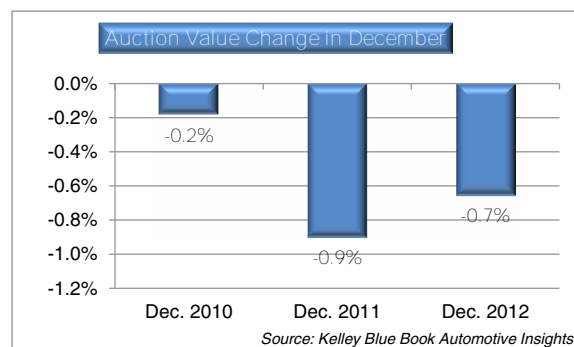
Auction Values Return to Seasonal Norm as Sandy's Effects Wane

Hurricane Sandy is estimated to have caused billions of dollars in damage, while destroying upwards of 200,000 vehicles. Immediately following the storm there were expectations for increased auction values, as dealers scrambled to stock enough used inventory to satisfy a potential surge in demand. While the industry observed an obvious bump in both sales volume and auction values in the northeast and surrounding areas, values remained mostly unchanged from a national perspective. Through the fourth quarter of 2012, values declined 3 percent nationally, which is slightly better than the 5 and 6 percent respective declines of 2010 and 2011, and well within what can be expected according to seasonal patterns.

In December 2012, values declined by 0.7 percent, which is within the range of historical seasonal depreciation. During the month of December, values typically decline anywhere between 0.5 and 2 percent. In 2011, auction values declined 0.9 percent, while they dropped a modest 0.2 percent in 2010. Buying and selling activity at auction tends to die down late in the year as dealers focus more on selling existing inventory rather than sourcing new product at auction. With replacement demand from the northeast seemingly satisfied, it appears as though values should remain relatively stable in the months ahead.

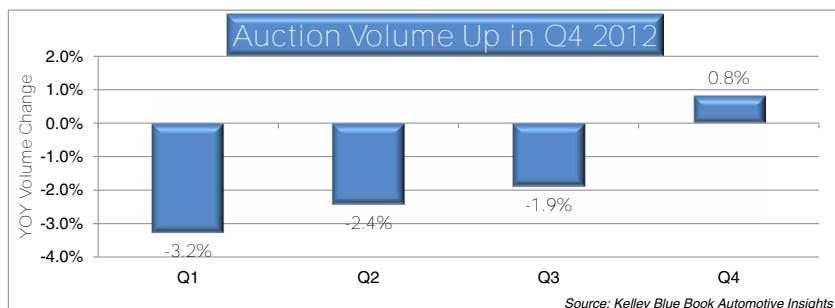
“WHILE THE INDUSTRY OBSERVED AN OBVIOUS BUMP IN BOTH SALES VOLUME AND AUCTION VALUES IN THE NORTHEAST AND SURROUNDING AREAS, VALUES REMAINED MOSTLY UNCHANGED FROM A NATIONAL PERSPECTIVE.”

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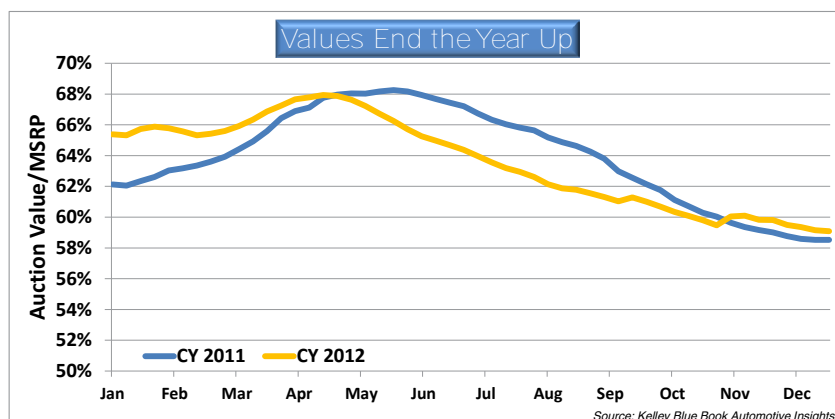
Used-Vehicle Inventory Set to Return

During Q4 2012, Kelley Blue Book observed a 1 percent annual increase in auction sales volume across the country, perhaps signaling that the used-vehicle shortage that has plagued dealers since 2010 may finally be coming to end. Although a 1 percent increase is certainly a positive sign, auction volume in Q4 2012 was still 26 percent lower than in Q4 2007. While analysts don't expect auction volume to return to levels seen in 2007 and prior anytime in the near future, moving forward they do expect auction volume to remain above levels seen last year. In fact, Kelley Blue Book believes wholesale auctions likely will see an increase of at least 200,000 off-lease units in 2013, and even more in 2014. With that in mind, auction values likely will continue to decline from current levels.



Used-Vehicle Values Up Nearly 5 Percent Year-Over-Year

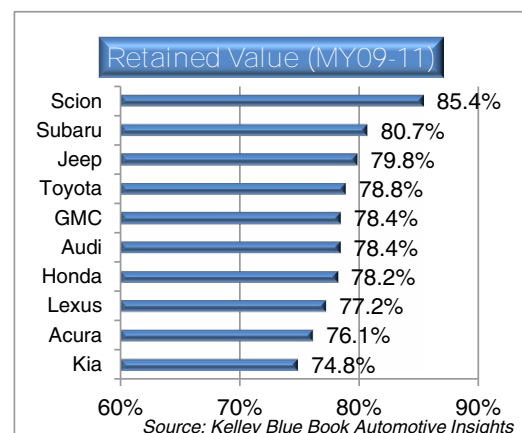
Although values dropped modestly in Q4 2012, used-car values are nearly 5 percent higher today than they were just one year ago, even after normalizing for mileage and condition. The average 1- to 3-year-old used car currently has an auction value of \$16,200 on average; up from \$15,500 in January 2012. The annual increase in used-vehicle values largely can be attributed to the strength of 2011 model-year redesigns such as the Chevrolet Cruze, Hyundai Elantra and Chrysler 200. These vehicles remain highly desirable and have significantly outperformed the generation they replaced. Although values began 2013 on a high note, Kelley Blue Book anticipates that values will likely struggle to keep pace with the robust increases from last year. In the short term, Kelley Blue Book expects values to remain relatively flat in January before increasing slightly in February and March, in anticipation of the spring selling season. Through the first quarter of 2013, analysts expect only a moderate increase of 0.5 percent in auction values, well short of the 2.5 percent increase during the first quarter of 2012.



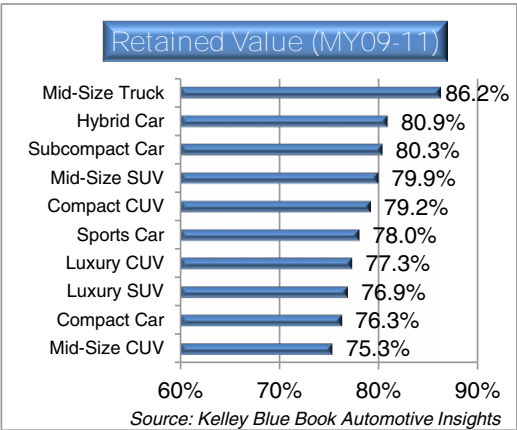
Top Brands and Segments Holding Their Value

To aid consumers looking for a vehicle that will hold its value better than its peers, Kelley Blue Book recently identified the top 10 brands and segments in terms of retained value, defined as Kelley Blue Book's retail asking value as a percent of original MSRP. Kelley Blue Book focused on the three most recent model years (2009 to 2011) to ensure that the latest and greatest redesigns were captured in the calculations, since they typically hold their value significantly better than the models they replaced.

The analysis revealed that Scion, Subaru and Jeep round out the top three brands, with retained values of 80 percent or better. The Scion tC led the pack with an average retained value of 87.1 percent, which is an impressive feat considering the stiff competition in the compact segment. Subaru was led by its Forester and Impreza, each retaining nearly 85 percent of original MSRP on average. The 2012 Impreza likely will outperform the already-strong numbers exhibited by the generation it replaced, thanks to improved fuel economy ratings. Rounding out the top three is Jeep, which was led by the Wrangler, a perennial top performer in terms of retained value. The Wrangler remains a favorite among enthusiasts and consistently is among the best-performing models in the industry.



At the segment level, analysts found that mid-size pickups, hybrid cars and subcompact cars were the three best-performing segments in terms of retained value. The mid-size pickup segment is led by the Toyota Tacoma, which maintains an astounding 92.4 percent of original MSRP on average. This segment likely will remain strong for the foreseeable future, since most mid-size pickup trucks have ceased production in recent years. The hybrid segment is led by the always reliable Toyota Prius, which maintains 81 percent of original MSRP on average. The Prius was the first hybrid launched in the United States and remains the top seller by a wide margin. Last, but certainly not least among the top three, is the subcompact segment, which recently has re-emerged as a viable player in the United States. The segment is led by the Nissan Cube and Toyota Yaris, each maintaining 86 percent of original MSRP on average.



This commentary focuses on model years 2009-2011. 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.

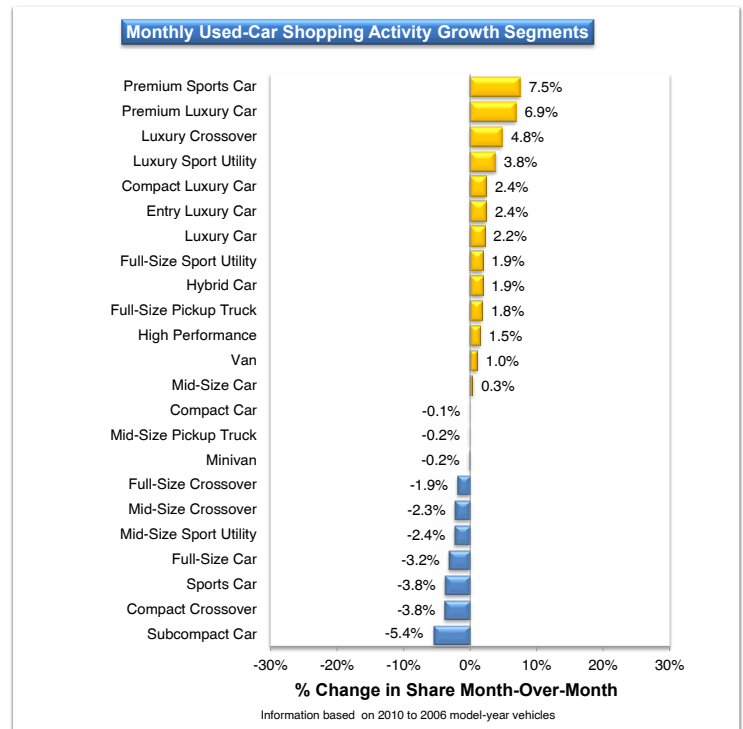
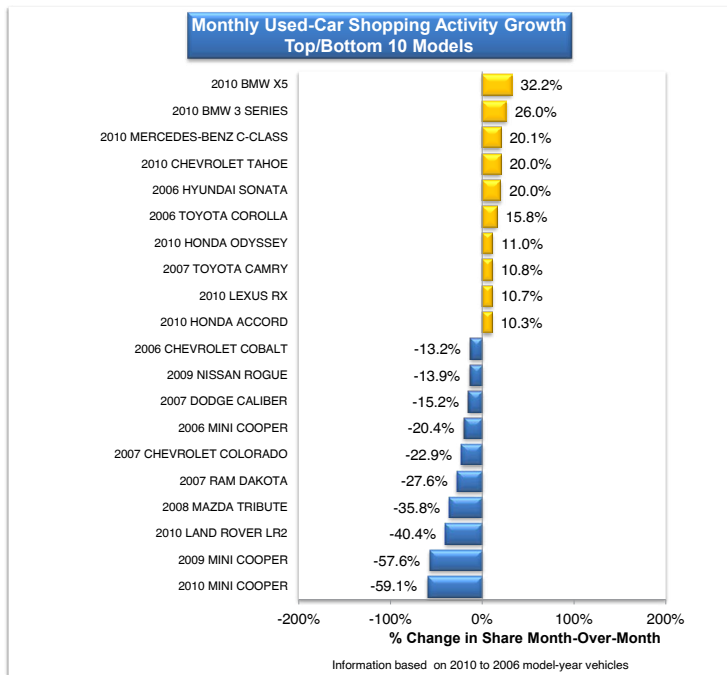
A Luxury State of Mind

- Arthur Henry, manager of market intelligence and market analyst, Kelley Blue Book

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 obvious factor motivating used-luxury shoppers is the desire to purchase a new vehicle. However, there are a few dynamics that drive a person to purchase a used-luxury vehicle. Used shoppers are typically price-focused individuals, resulting from an inability to afford a new vehicle. A luxury shopper is normally searching for a vehicle that will appeal to their sense of social status and a desire for all the latest gadgets. The combining aspects of "used" and "luxury" creates an interesting condition, because technology has a trickle-down effect from luxury to non-luxury during a short period of time. Therefore, used-luxury shoppers are individuals willing to sacrifice the opportunity to potentially purchase a non-luxury new car with the latest technology for the gratification of the status associated with driving a luxury brand.

In December 2012, every used-luxury segment on KBB.com experienced a growth in traffic share. This most likely is due to a stable market stemming from Election Day. The premium luxury segment had the greatest increase in December, with the segment primarily consisting of flagship vehicles such as the BMW 5 Series and Mercedes-Benz E-Class. The vehicle with the largest growth in share during this time period was the 2010 BMW X5.



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