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Kelley Blue Book Quarterly Trend Watch

SECOND QUARTER 2015

Automotive Insights from Kelley Blue Book

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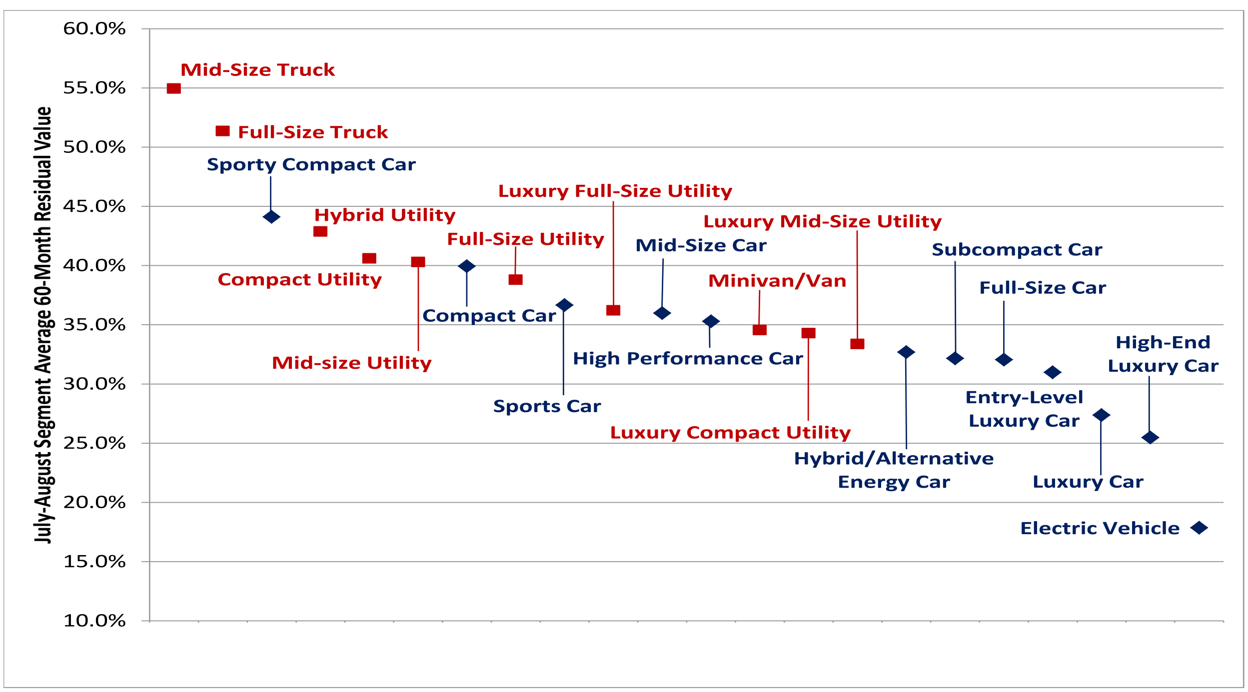
Residual Value Insights

Compact SUVs and Crossovers Close-In on Mid-Size Sedans

-Eric Ibara, director of residual values for Kelley Blue Book

It's been an exciting start to the year, at least for trucks and utility vehicles. All of Kelley Blue Book's truck, SUV and crossover segments had six-month sales volumes that exceeded the previous year's results. More than half of the car segments were down, some by double digits. All of this occurred in an overall market that rose by more than 4 percent.

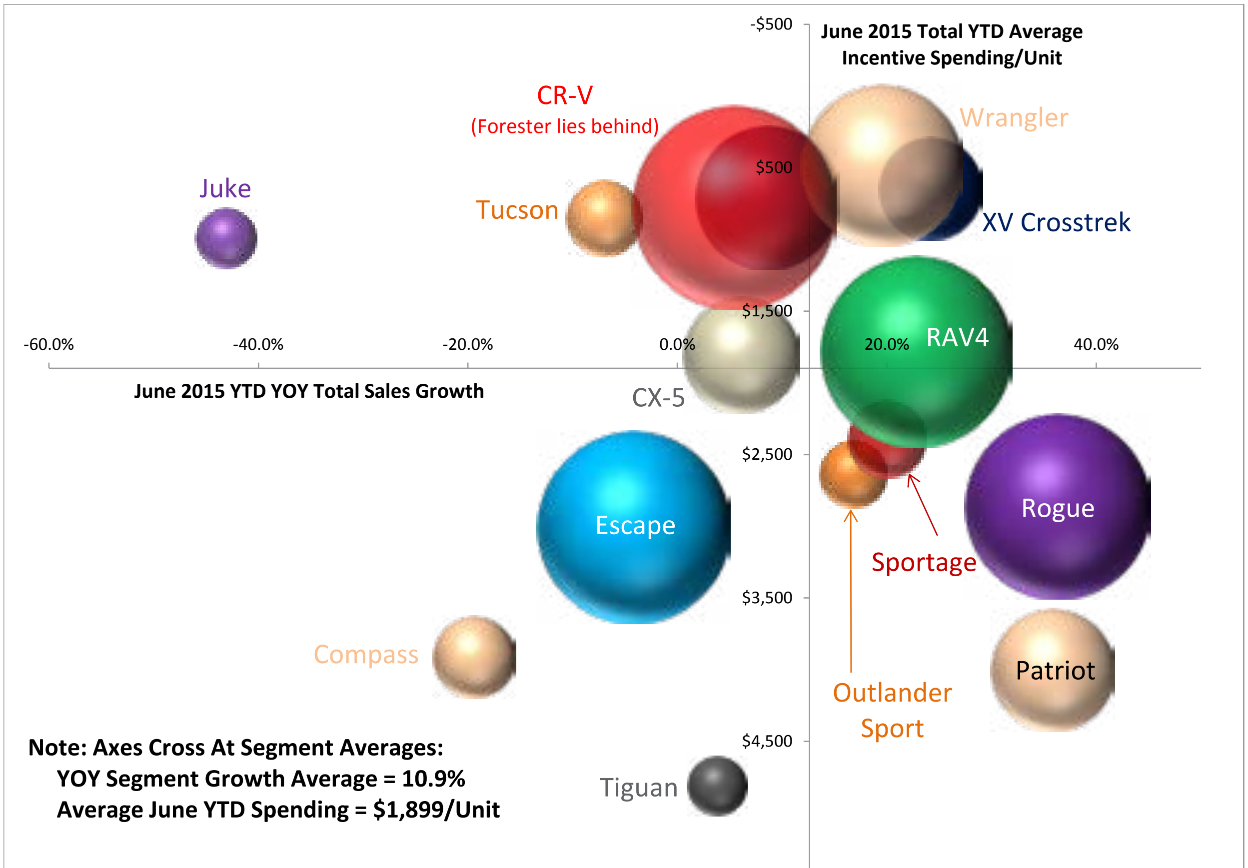
Some say this is the result of a cheap gas environment. Yes, Kelley Blue Book's forecast for fuel costs call for only moderate increases for the foreseeable future. However, this trend was forming long before the drop in oil prices last fall. Not surprisingly, this translates into residual values as displayed by the chart below (truck and utility segments are shown in red). The two truck segments have average 60-month residual values that most vehicles aspire to have at 36 months. More than half of the car segments have averages lower than the lowest utility segment. Mid-size trucks, the focus of this quarter's newsletter, are atop the industry with an average more than 10 percentage points higher than any other segment average except for full-size trucks.



Source: Kelley Blue Book Residual Value Insights

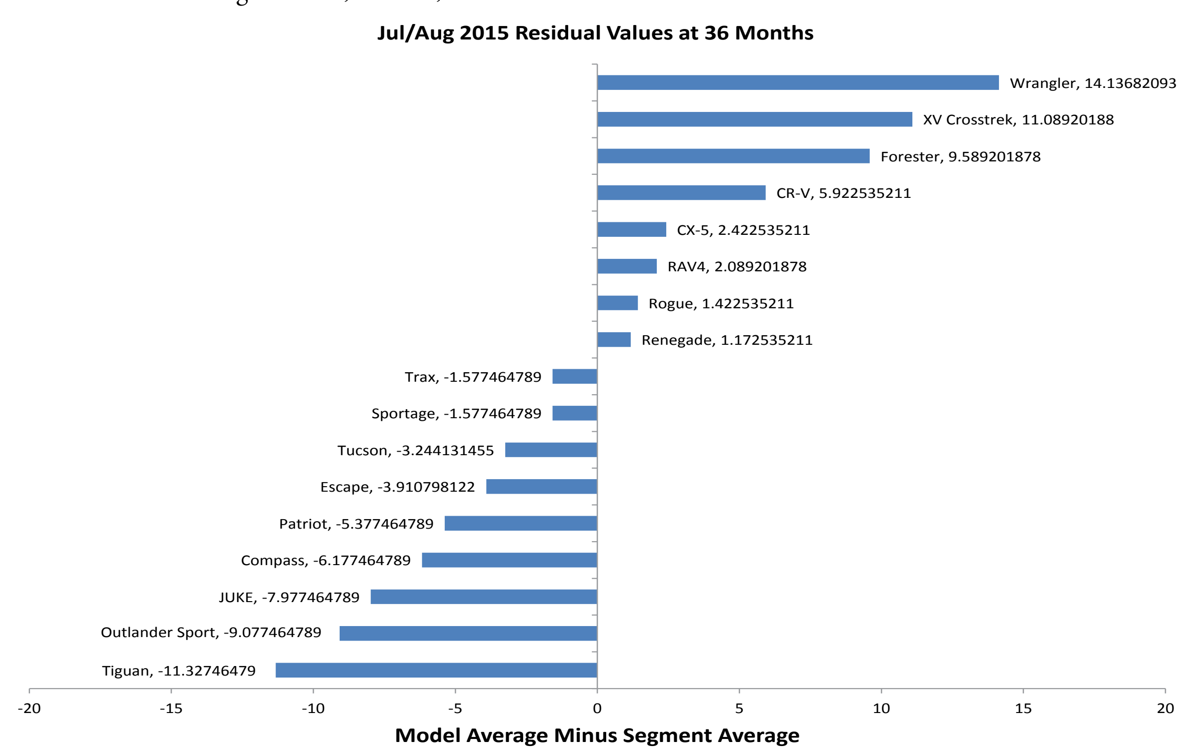
Although mid-size trucks grew at the fastest pace of all vehicle segments, at 181,000 units sold in the first half of the year, this segment comprises only 2 percent of the market. The top five segments make up 65 percent of the total, and there are two utility segments in the top five. Mid-size utilities, the subject of the last Quarterly Trend Watch newsletter, is the only one of the top five segments not to break the million sales units mark, in spite of its 12.3 percent year-over-year growth. The compact utility segment, in third place, grew slightly faster at 12.6 percent. At this pace, the compact utility segment will eclipse the mid-size sedan segment sometime next year and become the second-largest segment, trailing only compact cars.

In the spirit of full disclosure, Kelley Blue Book currently counts the new subcompact utilities (Chevrolet Trax, Jeep Renegade, Honda HR_V and Fiat 500X) in this compact utility segment. Even without the new vehicles, the compact utility segment grew by nearly 11 percent. As the chart below depicts, not all of this growth is market-driven. While most models achieved year-over-year gains, only half were able to exceed the segment's 11 percent growth. Fewer still managed to do so while spending less than the segment average per-unit incentive of $1,900. These are the winners in the segment at the midpoint of the year.



Source: Kelley Blue Book Residual Value Insights

Unsurprisingly, the placement of the models in the chart above influences its residual value. As shown above, Jeep Wrangler and Subaru XV Crosstrek, two vehicles in the upper right quadrant, are at the top of the residual value list. The Rogue is the only vehicle with a residual value that beats the segment average, and has incentive spending that exceeded the segment average through the first six months. Obviously, incentives aren't the only factor impacting residual values. Its strong influence, however, is unmistakable.



Source: Kelley Blue Book Residual Value Insights

Automotive Industry Insights

What Exactly is the 'Chicken Tax'?

-Akshay Anand, senior insights analyst for Kelley Blue Book

In 1963, President Lyndon B. Johnson imposed a 25 percent tariff on the following goods: potato starch, dextrin, brandy... and light trucks. Why was this seemingly random tax placed on these goods? It was in response to France and West Germany imposing a tariff on chickens from the United States; hence the odd term. The light trucks came into play because Volkswagen was a prominent automaker around those times, and imported commercial vans and pickups which were classified as light trucks. The tariff on everything except light trucks was eventually repealed. However, this had some interesting consequences on the truck industry as we see it today, and is part of the reason the domestic automakers continue to dominate the truck market, of course in addition to their strong products.

Since Asian and European countries had a much tougher time bringing their trucks to the United States, it allowed automakers such as Ford and Chevrolet to take advantage of a market that would continue to boom; this was the biggest consequence of the so-called 'chicken tax.' Unsurprisingly, when the tariff was discussed in politics, many Detroit lobbyists fought to keep the tariff for obvious reasons.

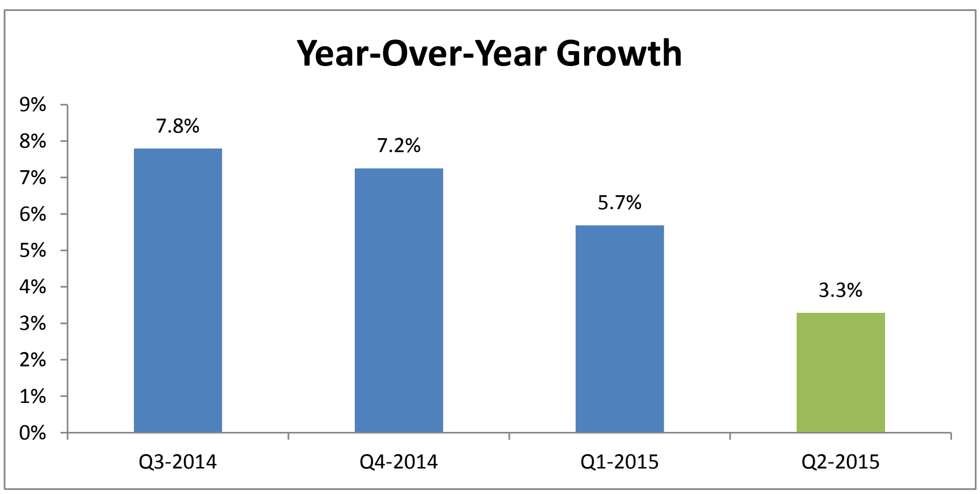
Inevitably, the industry found loopholes. For instance, foreign automakers could import light truck shells without attaching the bed, and then subsequently attach the bed or whatever other 'truck' parts were needed once the shells were stateside. Ford was able to classify its Transit Connect as a passenger vehicle simply by adding a few key features such as rear windows, rear seats and seatbelts. Other automakers simply shipped parts to factories in the United States, and then assembled key pieces there.

Now in the present day the chicken tax is once again under fire. Trans-Pacific and Trans-Atlantic partnerships are closer than ever, and if these partnerships are to come to fruition, there is a good chance the chicken tax might go the way of the dodo. Critics not only argue that the tax has shielded the Detroit Three from foreign trucks, but has stifled innovation and forced foreign automakers to build factories stateside. While the U.S. factories for foreign automakers aren't necessarily a bad thing, critics argue that this may cheapen the product that comes out of those factories. More focus might go into simply getting product out versus quality in some instances. These factories also might force OEMs to use suppliers and vendors they are unfamiliar with, creating potential issues for scalability. If the tariff is repealed, it would have to be done slowly, which means the U.S. market wouldn't instantly see a flood of small pickup trucks. However, the rest of the world has plenty of small pickups that we don't see stateside, and more competition is always better for both the industry and ultimately the consumer. This little-known tax has huge ramifications on the truck market in the coming months.

Sales Overview

Second Quarter Reports Highest Volume Since 2005

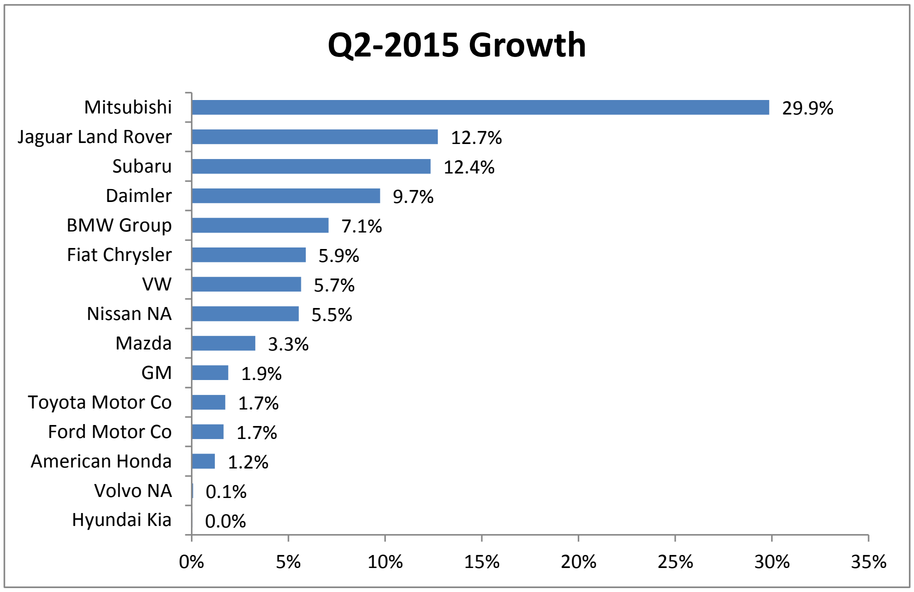
-Tim Fleming, lead product analyst for Kelley Blue Book



Source: historical data from OEM sales announcements

- Second quarter new-car sales totaled 4.56 million units, a year-over-year increase of 3.3 percent. This total is the highest volume we've seen in a second quarter since 2005.
- With two months above 17 million SAAR, the second quarter averaged a 17.1 million SAAR, up from 16.5 million in the second quarter of last year.
- While the growth in overall sales volume is slowing, as expected, industry sales remain generally very strong, and Kelley Blue Book recently increased its full-year 2015 projection from 16.9 to 17.1 million units.

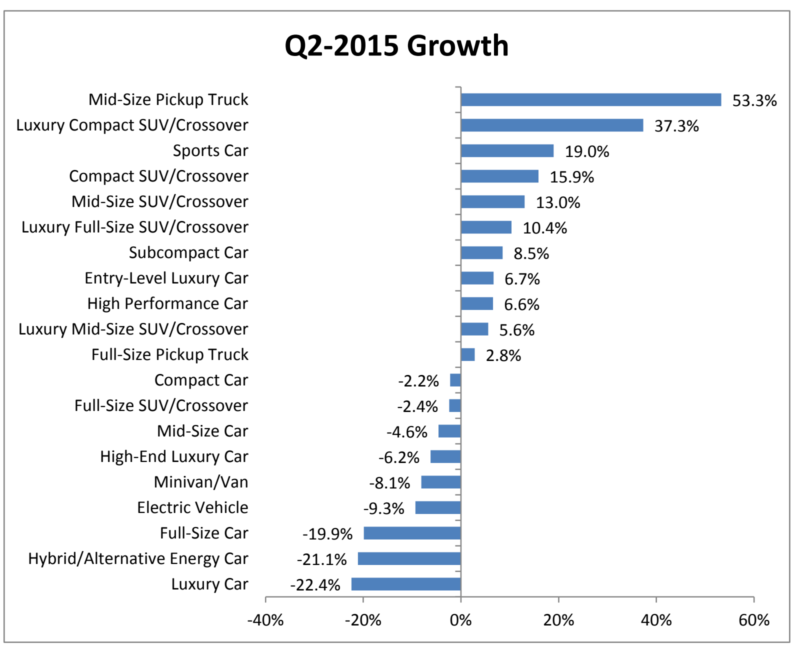
Fiat Chrysler Automobiles Report Largest Second-Quarter Increases



Source: historical data from OEM sales announcements

- Volume-wise, Fiat Chrysler Automobiles had the largest increase of any manufacturer, growing by 32,130 units, or 5.9 percent. The Jeep brand grew the most, increasing by 35,977 units, or 19.2 percent, with the majority of its growth coming from the popular Cherokee and the recently introduced Renegade model.
- Mercedes-Benz had the biggest sales volume increase of any luxury brand, helping Daimler to a 9.7 percent second quarter growth. However, their actual sales were a little more of a mixed bag; there was a 39.9 percent increase in C-Class sales, but a 41.2 percent decrease in E-Class sales. Most of the actual growth came from a new introduction to their lineup, the GLA-Class.
- As sales of utility vehicles flourish and car sales are on the decline, Hyundai-Kia and its car-dominated lineup only managed an even quarter. Since 2014, Hyundai and Kia's sales have been 76 percent cars, second only to Volkswagen Group at 78 percent.

Mid-Size Pickup Trucks Continue Revival

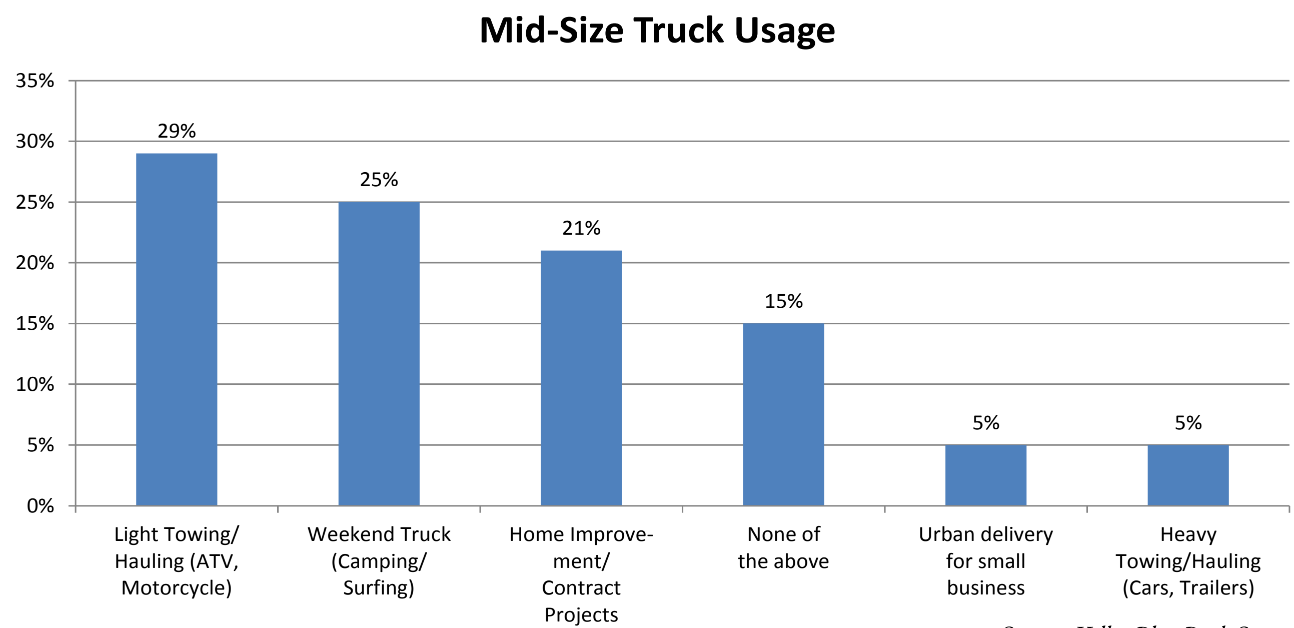


Source: historical data from OEM sales announcements

- Mid-size pickup trucks continued their revival in the second quarter, with another quarter of growth above 50 percent. Market share rose to 2.1 percent, the highest for the segment since 2011, which also was the last year of the Ford Ranger.
- Compact SUV/crossovers grew the most out of any segment, increasing by 84,114 units, or 15.9 percent. While newly introduced models such as the Honda HR-V and Chevrolet Trax certainly helped contribute to these increases, there was solid growth across nearly the entire category.
- The increased popularity of compact SUVs is coming at the expense of mid-size cars, which had a drop in sales of 4.6 percent in the second quarter. Eight of the top nine cars in the segment saw their sales drop, with the exception being the Chrysler 200. At 13.8 percent, this was the lowest market share for mid-size cars since 2007.

Quick Poll Results: Consumers View Mid-Size Trucks as Lifestyle Vehicles

- Joe Lu, strategic market insights manager for Kelley Blue Book



Source: Kelley Blue Book Strategic Market Insights Data

The mid-size truck segment certainly is on the upswing in 2015. Manufacturers that have been absent from the segment have recently returned, with Chevrolet bringing the Colorado back from hiatus, and GMC doing the same with its Canyon. We expect that when the Toyota Tacoma is redesigned later this year, followed by the upcoming Nissan Frontier and Honda Ridgeline redesigns, interest in the segment will surge. There also is potential for new entrants in the mid-size truck marketplace, as Hyundai considers turning its Santa Cruz truck from concept into reality.

In terms of where mid-size trucks fit into consumer's lives, we found that mid-size trucks are viewed mostly as lifestyle vehicles. Data from a KBB.com Quick Poll indicates respondents mostly use mid-size trucks for light towing (29 percent). Weekend activities such as camping and surfing also are big on consumer's minds, with 25 percent indicating this type of usage, while 21 percent use their mid-size trucks for home improvement types of projects. The mid-size truck segment has been rather stagnant for many years, but now it is shaping up to be one of the most exciting and innovative automotive categories, and definitely one to keep an eye on.

About Kelley Blue Book (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 automotive industry. Each week the company provides the most market-reflective values in the industry on its top-rated website KBB.com, including its famous Blue Book® Trade-In Values and Fair Purchase Price, which reports what others are paying for new and used 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, and governmental agencies. Kelley Blue Book's KBB.com ranked highest in its category for brand equity by the 2014 Harris Poll EquiTrend® study and has been named Online Auto Shopping Brand of the Year for four consecutive years. Kelley Blue Book Co., Inc. is a Cox Automotive company. For more information and news from Kelley Blue Book's KBB.com, visit www.kbb.com/media/.