Kbb.com: Fuel-Efficient Vehicle Values Likely To Fall 15 Percent By Year-End

Subcompact, Compact and Hybrid Cars Could Surpass Drops of 2009 and 2010

IRVINE, Calif., July 11, 2011 /PRNewswire/ -- Kelley Blue Bookwww.kbb.com, the leading provider of new car and used car information, today reports that fuel-efficient vehicle values are likely to fall 15 percent by year-end in response to stabilizing gas prices and a return to normal production levels for Japanese manufacturers, as covered in the company's Blue Book Market Report for July 2011.

After 20 weeks of consecutive gains, values for gas-sipping vehicles peaked in May in response to a decline in fuel prices. During the last 4 to 6 weeks, values of compacts and subcompacts declined approximately 1 to 2 percent, along with the overall market; however, Kelley Blue Book's valuation team expects the overall used-vehicle market to decline no more than an additional 3 to 5 percent between now and the end of the year. With fuel-efficient used vehicles reaching their peak in demand and price, larger drops are expected in this segment.

During 2011, Kelley Blue Book has reported remarkable strength among values of fuel-efficient subcompact, compact and hybrid cars. From January through May of this year, fuel-efficient vehicle values increased a noteworthy 20 to 25 percent, far surpassing the overall used-car market average increase of 5 percent during the same time period. This steep increase can be attributed to the following:

1. Gas prices increasing from $3.00 on January 1 to $3.97 per gallon on May 15
2. Supply constraints of new fuel-efficient vehicles resulting from the earthquake in Japan
3. Continued supply constraints of good-condition vehicles due to reduced leasing and trade-ins

In addition to some much-needed relief at the pump, it appears as though Japanese manufacturers are expected to have their production facilities back to 100 percent capacity by September, which is earlier than originally anticipated. With gas prices continuing to decline and Japanese vehicle and part production recovering, demand for fuel-efficient vehicles is waning, and as a result, dealers are becoming more reluctant to pay premium prices for these vehicles at auction.

"While depreciation has been relatively mild so far, based on changes in gas prices and issues with supply, Kelley Blue Book believes a significant 15 percent correction is likely by the end of the year," said Alec Gutierrez, manager of vehicle valuation for Kelley Blue Book. "If we take a look back at the auction market in 2008 when gas prices hit $4.00 per gallon, we can foresee drops during the next few months."

Performance during the first half of the year in both 2008 and 2011 are trending very similarly, increasing 21 percent in response to rising gas prices. In addition, values of three-year-old fuel-efficient vehicles are significantly more expensive today than they were in 2008. Reduced leasing and trade-ins since 2008 also have shrunk supply of these vehicles, while a weaker than expected economic recovery has kept demand strong for these budget-friendly vehicles. Finally and most importantly, there was a severe 40 percent decline that occurred from July through December 2008. As gas prices dropped from $4.10 per gallon nationally in July 2008 to $1.60 by year-end, demand for gas-sipping vehicles evaporated.

While there are many similarities between today's market and that of 2008, there also are key differences that have allowed us to determine that there will be little

need to panic during the latter half of 2011:

1. The level of economic uncertainty in 2008 was significantly higher than it is today. The unemployment rate was climbing fast into the end of the year, and the financial sector was in a free-fall with seemingly no end in sight.
2. Fuel prices declined significantly in the latter half of 2008, ending the year at $1.60 per gallon, while oil fell from a high of $140 per barrel down to $30 by year-end. Today, oil has only dropped from a high of $115 down to around $95, while fuel prices remain at $3.50 per gallon today.
3. Used vehicles were in abundant supply in 2008, while today we face a shortage of good-condition used vehicles due to the severe downturn in new-vehicle sales, leases and ultimately trade-ins. This should act to limit the downside potential for fuel-efficient vehicle values.

Based on the information above, Kelley Blue Book believes that while a correction may be looming, we do not expect to see a repeat of the 40 percent decline in values that took place during the second half of 2008. Rather, Kelley Blue Book predicts that the correction will be more like 15 to 20 percent. In 2009 and 2010, values declined between 6 to 11 percent. With values inflated 20 percent since the beginning of the year, we are likely to surpass the drops of both 2009 and 2010, although we will not repeat the heavy drops of 2008. The key factor determining the July to December drop in fuel-efficient vehicle values will be fuel prices and where they finally stabilize.

July - December Depreciation (One- to Three-Year-Old Vehicles)				
	Calendar Year			
Segment	**2008**	**2009**	**2010**	**2011 Forecast**
Subcompact Cars	-38.7%	-11.0%	-8.8%	*-13.0%*
Compact Cars	-39.8%	-11.4%	-6.1%	*-15.0%*
Hybrid Cars	-41.4%	-9.6%	-7.5%	*-16.0%*

The monthly *Blue Book Market Report* explores the state of the automotive industry by analyzing Kelley Blue Book® Wholesale Lending Values. The report also discusses developments in residual values and trends in monthly used-car shopper activity on kbb.com. If you would like to subscribe to the monthly *Blue Book Market Report*, please e-mail pr@kbb.com.

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