Cash for Clunkers to Cause Used-Car-Value Bubble

August Kelley Blue Book Market Report Offers Forecast of Used-Car Industry After Cash for Clunkers

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IRVINE, Calif., Aug. 6 /PRNewswire/ -- Kelley Blue Book, www.kbb.com, the leading provider of new car and used car information, today reveals possible effects of the Cash for Clunkers program on the used-car industry as reported in the company's August 2009 Blue Book Market Report. As dealers and consumers continue to take advantage of this program, Kelley Blue Book analysts forecast a likely bubble in used-car values, which could deflate as the Cash for Clunkers program comes to a close.

With $1 billion spent and more than 250,000 new vehicles sold, the success of the Cash for Clunkers program cannot be argued. With more than 250,000 vehicles leaving the used-vehicle supply, this equates to a 0.8 percent reduction in the overall supply of used vehicles (based upon sales of 16 million used vehicles in 2008). When the Senate signs off on an additional $2 billion funding for the Cash for Clunkers program later today, it could equate to an additional 500,000 used cars being removed from the overall used-vehicle supply, which is a 2 percent overall reduction in supply this year alone. With a total of 750,000 vehicles being removed from the marketplace, dealers are stocking up on used inventory in anticipation of low supply and high demand. This scenario is driving used-car prices up significantly in the short term, causing a bubble in values that will seriously impact used-vehicle values when the Cash for Clunkers program ends.

"Dealerships have reported increased foot traffic, creating a false sense of automotive market recovery," said Alec Gutierrez, senior analyst of vehicle valuation for Kelley Blue Book. "As a result, dealers are going to auction to restock inventory, driving up used-car values. However, the effect of a supply reduction of this magnitude could have an immense impact on these values in the short-term, exacerbating the already-limited supply at auction. If this bubble comes to pass, dealerships will end up with excess inventory of both new and used vehicles and be forced to offer deep discounts to remove surplus inventory, driving values down. Ultimately, there will be the possibility of a severe contraction in auto sales as soon as the Cash for Clunkers program runs out of funding."

According to a Kelley Blue Book Market Intelligence study on the Cash for Clunkers program, 1-in-10 new-vehicle shoppers said they are likely to purchase sooner as a result of the government-sponsored program. In addition, 45 percent of consumers likely to participate in the program own a sedan, followed by SUV and crossover owners at 25 percent. Among that group, 37 percent plan to trade in their clunker for a sedan and 28 percent plan to buy an SUV or crossover. The top brands being considered among study participants are Toyota, Ford, Honda and Chevrolet.

This Kelley Blue Book Market Intelligence study was fielded to 517 in-market new-car shoppers on Kelley Blue Book's kbb.com from July 10-17, 2009.

Kelley Blue Book's vehicle valuation department is keeping a close eye on values as the program continues and an influx of additional funds is

added to the program by the federal government. For additional information, please visit www.kbb.com/media for the latest Blue Book Market Report. If you would like to subscribe to the monthly Blue Book Market Report, please email pr@kbb.com.

About Kelley Blue Book (www.kbb.com)

Since 1926, Kelley Blue Book, The Trusted Resource®, has provided vehicle buyers and sellers with the new and used vehicle information they need to accomplish their goals with confidence. The company's top-rated Web site, www.kbb.com, provides the most up-to-date pricing and values, including the New Car Blue Book® Value, which reveals what people actually are paying for new cars. The company also reports vehicle pricing and values via products and services, including software products and the famous Blue Book® Official Guide. According to the C.A. Walker Research Solutions, Inc. - 2008 Spring Automotive Web Site Usefulness Study, kbb.com is the most useful automotive information Web site among new and used vehicle shoppers, and half of online vehicle shoppers visit kbb.com. Kbb.com is a leading provider of new car prices, car reviews and news, used car blue book values, auto classifieds and car dealer locations. No other medium reaches more in-market vehicle shoppers than kbb.com.

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