New-car Market Analysis: Replacement Demand Boosts Sales to 2007 Highs

New vehicle sales surpassed 1.14 million units in November, which is a nearly 16 percent year-over-year increase. This improvement pushed the industry's closely watched seasonally adjusted annual rate (SAAR) beyond 15.5 million for the month, resulting in a five-year high. As widely expected following Superstorm Sandy, demand from buyers in the Northeast region seeking replacement vehicles pushed sales above what can be attributed to typical seasonal patterns. In a typical market, sales decline August through November before spiking in December. In fact, during the past five years, November auto sales declined 7.5 percent on average compared to October. In 2012, industry sales jumped nearly 5 percent from October to November, debunking the seasonal expectation.

New York and New Jersey Drive the Bulk of Sales Volume in November

Among the storm-impacted states, New York and New Jersey clearly experienced the most volatility in terms of new-vehicle sales. The charts below reveal that sales in both New York and New Jersey dropped precipitously in the weeks immediately following the Superstorm Sandy. After hitting bottom in the first week of November, sales ramped up quickly and currently remain well above their pre-storm pace. With expectations already high for December due to strong demand from annual year-end clearance events, replacement buyers likely will push sales to heights not seen since 2007.
December to Cap Another Solid Year of Industry Sales Growth

December is among the strongest selling months of the year, and with the remaining high demand for replacement vehicles from residents of New York, New Jersey and other impacted areas of the Northeast, sales of new vehicles could surpass volume not seen since 2007. Approximately 1.4 million vehicles were sold in December 2007, a strong finish to what is widely considered the last year of ‘normal’ industry sales. From 1999 to 2007, vehicle sales averaged 16.8 million units per year, while this year sales will barely surpass 14.5 million sales. While shy of the 16 million-plus vehicle sales typical of the bubble-based boom economies of the late 1990s and early 2000s, 14.5 million vehicle sales is a significant improvement from the woeful 10.5 million units sold in 2009, when the auto industry and global economy were in the midst of the worst downturn since the Great Depression.

The Fiscal Cliff Looms Over 2013 New-Vehicle Sales Expectations

While December sales may meet or surpass the final tally of December 2007, this does not give any indication that 2013 will bring a return to 16 million-plus sales. Once excess demand in the Northeast is fully satisfied, expect the industry to return to a more conservative high 14 million to low 15 million unit selling pace. While the economy continues to improve moderately, the industry needs substantial gains in employment, wages and consumer confidence before sales will surpass 16 million units. The Fiscal Cliff also could spell trouble for industry sales if a resolution is not met before the end of the year. A tax increase for the average household could push many borderline buyers out of the market, potentially stalling the ongoing sales recovery. Kelley Blue Book analysts will keep a keen eye on Fiscal Cliff talks as we finalize our 2013 sales forecast.

Plenty of Options Available for Consumers Looking for a Great Deal in December

While replacement demand in the Northeast should help drive sales in December, the bulk of sales will come from buyers who are waiting to take advantage of year-end clearance events. Consumers typically can find the best deals of the year in December, and Kelley Blue Book expects this year to be no different. As has been typical all year, consumers should expect to find zero-percent financing and aggressive lease offers available on most popular models. While affordable financing is widely available, sizable cash rebates are offered only for a handful of segments and models. Consumers in the market for a full-size truck or SUV will find the most generous cash rebates, while compact or mid-size shoppers will want to check out any remaining opportunities for savings since there are a slew of models available all year, so buyers in-market for a truck will want to act quickly.

Buyers looking for a truck or SUV will find the best opportunities for savings since there are a slew of models available with more than 100 days supply nationwide. Popular models such as the Chevrolet Silverado, Chevrolet Tahoe, Ram 1500 and Ford F-Series are available with thousands of dollars in rebates, thanks to high supply. These may be some of the best deals available all year, so buyers in-market for a truck will want to act quickly.

Consumers looking for a deal who are not interested in a truck should focus their attention on the remaining model-year 2012 inventory available for sale. Approximately 70 percent of all new vehicles available for sale today are 2013 models, and Kelley Blue Book expects the remaining 2012 vehicles to go quickly. An average buyer seeking a new car can expect to pay 93 percent of manufacturer’s suggested retail price (MSRP) for a 2012 model year and only slightly more than that for a 2013. To aid consumers seeking a great deal on a 2012 vehicle, Kelley Blue Book identified those vehicles with at least 1,000 units in remaining inventory nationwide that were available with the most sizable discounts, according to Kelley Blue Book’s Fair Purchase Price (represented as “FPP” in the chart below), which represents what consumers are actually paying in the marketplace this week.
Sales of compact cars were up 40 percent year-over-year in November, led by a record sales month for the Honda Civic. More than 30,000 Civics were sold last month, a staggering 75 percent increase from this time last year. Dealers worked to unload as many 2012 Civics as possible in preparation for the arrival of the significantly improved 2013 refresh. The Honda Civic has dominated the compact segment all year, despite the less-than-stellar reception of the 2012 model-year redesign by the automotive press. Although the 2012 redesign received more than its fair share of criticism, consumers largely ignored the auto press and made the Civic the bestselling compact of the year. With the resounding sales success of the 2012 model-year, the updated 2013 that features a revised front and rear fascia, updated interior materials, suspension tweaks and a host of other goodies that will excite consumers, Honda should have no trouble staying atop the compact sales chart in the new year.

While the Civic has had a tremendous year, the Toyota Corolla has quietly maintained the No. 2 spot in segment sales this year, slipping behind the Civic for the first time in more than five years. The Corolla and Civic have led the compact segment for years, an impressive feat considering the tremendous competition these two vehicles now face. These models now have genuine competition from the Hyundai Elantra, Ford Focus, Chevrolet Cruze, Volkswagen Jetta, Kia Forte, Mazda3, Subaru Impreza and Dodge Dart, all of which were significantly updated during the past two years. While the Civic and Corolla continue to dominate the compact segment, the increased competition in the segment has slowly chipped away at their leadership position. Civic and Corolla now account for 27.6 percent of all compact sales, down from nearly 30 percent in 2007. Next year's sales race will be especially interesting now that the buying public has had a few years to see the Elantra, Focus, Cruze and others on the road. While solid redesigns and improvements in fuel efficiency certainly help drive segment sales, brand loyalty is what may matter most in the years ahead.

Japanese Manufacturers Continue to Dominate Top Vehicle Categories

Similar to the compact category, Japanese manufacturers have consistently dominated the sales charts in the mid-size car and compact crossover segments during the past five years. Ford, General Motors, Chrysler, Hyundai and Volkswagen have aggressively pursued the Japanese by providing consumers with more competitive offerings. By any sort of quantitative benchmark, automakers outside of Japan have succeeded in their attempt to compete with the best the Japanese have to offer. When looking at compacts, the new Ford Focus, Chevrolet Cruze, Hyundai Elantra, Volkswagen Jetta and Dodge Dart compare favorably to the Honda Civic, Toyota Corolla and Nissan Sentra in expected long-term reliability, fuel efficiency, and amenities offered. The same can be said about the mid-size Ford Fusion, Chevrolet Malibu, Hyundai Sonata, Volkswagen Passat and Chrysler 200 relative to the Toyota Camry, Honda Accord and Nissan Altima.

While General Motors, Ford and the others have made impressive strides in revamping their product portfolios to better compete with their Japanese counterparts, they have not made much headway in terms of market share in these segments. Japanese manufacturers account for 45.7 percent of all compacts sold so far in 2012, including 47.8 percent of all small crossovers and 51.6 percent of all mid-size cars. These numbers are down slightly compared to 2007, with the bulk of lost market share going to Hyundai and Kia, rather than the domestic manufacturers. Domestic brands have lost some market share in the compact category due to reduced fleet sales, but have generally remained flat in the small crossover and mid-size car segments. The impressive strides made by General Motors and Ford have merely allowed them to keep pace with the competition in an evolving product landscape.

Moving forward, Kelley Blue Book expects Hyundai, Mazda, Volkswagen, Subaru and other smaller manufacturers to continue to chip away at the market share of their larger counterparts. The industry may not see domestic or Japanese manufacturers significantly surpass existing market share; in fact, Kelley Blue Book expects most manufacturers to fight to protect existing share rather than try to acquire more. With so many competitive products available from all manufacturers, market share is expected to be more evenly spread out.
Despite increased demand at auction from dealers in the Northeast, used-car values have declined steadily after a slight increase immediately following Superstorm Sandy. During the weeks following the storm, Kelley Blue Book saw a modest bump in used-car values at auction as dealers, still uncertain as to the total extent of the damage, sought vehicles to accommodate an expected uptick in demand. After the initial uptick, values have moderated, and today, values are generally following a normal seasonal depreciation pattern.

In November 2012, values declined 0.8 percent, a modest decline compared to the 1.7 percent decrease in November 2011. Although dealer demand from the Northeast has helped to keep depreciation to a minimum, anticipate modest declines to continue through year-end. Please note that values are now up on a year-over-year basis due to the less-than-typical depreciation since Sandy. Through most of this year, used-car values have generally remained below levels seen one year ago, and while they are now up due to the storm, Kelley Blue Book expects values to drop on a year-over-year basis early next year.

**Used Value Declines Vary by Segment, Remain Better than 2011**

While values declined by a scant 0.8 percent last month, movement at the segment level was mixed. Luxury and subcompact cars led market declines, while full-size trucks and SUVs outperformed the market. Soft values for luxury vehicles are typical at this time of year, as luxury automakers focus on the new model-year changeover by offering generous incentives on their previous model-year inventory. This drives down values of used luxury cars, due to the strong demand from luxury buyers for the latest and greatest product.

Subcompacts also were especially soft, declining 1.7 percent in November. Subcompact, compact and hybrid cars all have been relatively soft during the past several months for a number of reasons. The decline in fuel prices has played a primary role in driving down values of small fuel-efficient vehicles. Fuel prices are down more than $0.50 per gallon since early September, and even more in other parts of the country. With gas prices down, expect values of small cars to remain steady. In 2011, subcompacts dropped 2.2 percent, while compacts fell nearly 3 percent.

Full-size trucks and SUVs outperformed the market in November, showing no change as the rest of the market declined. Demand for four-wheel-drive vehicles tends to pick up late in the fourth quarter, as demand from buyers in colder parts of the country increases. During November 2011, values of full-size pickup trucks declined nearly 1 percent, which is well in excess of the flat change this year.

Increased demand from dealers in the Northeast has kept depreciation to a minimum, allowing values to creep up year-over-year. Values are now up 4 percent year-over-year, after having remained below the record highs of 2011 through most of 2012. Values likely will remain comparatively strong year-over-year in December before returning to a more typical seasonal depreciation pattern in the early part of 2013.

**Values Hold Steady in November**

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.
Toyota Retains Top Brand Position for Second Consecutive Year; Most Segments Report Year-Over-Year Gains

The 2013 Residual Analysis Report is now available from Kelley Blue Book, www.kbb.com, the leading provider of new and used car information, including details about this year's Best Resale Value Award winners. Kelley Blue Book's Best Resale Value Awards are based on projections from the Kelley Blue Book® Official Residual Value Guide, determined by a skilled staff of automotive analysts.

Toyota's entire lineup of 2013 model-year vehicles is expected to retain the greatest amount of its original value after the initial five years of ownership. The luxury brand with the same claim is Toyota's more refined sibling, Lexus. Both Toyota and Lexus earned the Best Resale Value Awards' highest honors – Best Resale Value: Brand and Best Resale Value: Luxury Brand, respectively – for the second consecutive year. Both brands also won their respective categories for the 2010 model year, making them winners in three of the last four years. Toyota improved its 60-month average residual value by more than 3 percentage points from this time last year, driven primarily by the brand's two perennial truck winners, the FJ Cruiser and Tacoma. The newly redesigned Avalon also improved its 60-month residual value nearly 8 percentage points year-over-year, making a significant contribution to Toyota's already strong lineup.

“After the past two tumultuous years, Toyota bounced back in 2012 to prove it hadn't lost its competitive spirit,” said Eric Ibara, director of residual consulting for Kelley Blue Book. “Enduring some of its darkest days in the U.S. market after unintended acceleration issues caused a massive worldwide recall of Toyota models, the brand managed to retain residual value levels consistent with its historical averages. If the recall wasn't enough, the 2011 tsunami in Japan resulted in severe disruptions in supply. However, Toyota prevailed and regained the market share it lost to other automakers during this timeframe. It is quite an accomplishment when you think about the challenges Toyota has overcome to remain Best Resale Value: Brand for the past two years in a row.”

Overall, 60-month residual values for all 2013 model-year vehicles averaged 38.2 percent, which is stated as a percent of each vehicle's MSRP. This represents an increase of 2.5 percentage points compared to the 2012 model-year average from the same period last year.

For 2013, Kelley Blue Book's residual value forecast calls for the truck segment to continue to hold its value better than cars, with the average 60-month residual value across all trucks at 39.8 percent, compared to the average across all car models at 37.2 percent. Excluding compact SUV/crossovers, full-size SUV/crossovers and high-performance cars, all segment average 60-month residual values increased on a year-over-year basis. The average residual values for all cars increased 3.1 percentage points, while all trucks increased 1.8 percentage points.

The automotive market continued to gain momentum this year after clocking in at 12.7 million sales in 2011. With a little more than one month remaining in 2012, it appears auto sales will climb to around 14.4 million this year. However, head winds are starting to pick up, and there are now more reasons to expect the automotive recovery to stall.

“Unemployment remains aggravatingly high, despite the amount of time that has elapsed since the economy bottomed in 2009,” said Ibara. “Individuals without jobs are not likely to purchase new vehicles, so a return to a 16 million seasonally adjusted annual rate (SAAR) will not be likely until the employment picture brightens.”

Kelley Blue Book's Full 2013 Residual Analysis Report Includes:

- The 2013 Best Resale Value Award winners
- Best Residual Value Brands 2013 vs. 2012
- Residual forecasts for truck and utility, compact, subcompact, and mid-size car segments
- 2013 market outlook
- Analysis of domestic brand residual values
- Analysis of foreign brand residual values, including Japanese, European and Korean automakers

The full Residual Analysis Report is available upon request by sending an email with your name, title and company name to pr@kbb.com.

About Kelley Blue Book® Residual Values

While the company's Residual Value Guide has been published since 1982, Kelley Blue Book established its annual Best Resale Value Awards in 2003. Kelley Blue Book reports projections based on current vehicle data, relevant auction transactions, sales data, market conditions for each vehicle, competition within vehicle segments, expectations of the future economy and the combined experience of Kelley Blue Book's residual analysts. Residual values reflect projected future auction values for vehicles in average condition with 75,000 miles at the end of a five-year lease or ownership period. Kelley Blue Book's residual values are used by manufacturers, banks, financial institutions, and the automotive leasing industry.

For more information about Kelley Blue Book's Best Resale Value Awards, click here.
‘Tis the Season to Shop Luxury
- 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 holidays are here and shoppers are spending their merry time researching luxury vehicles. At this time of year, shoppers are willing to open up their wallets and splurge. Dealers also are offering outrageous deals to help clear out their inventories in December. The top two segments that have benefited and received the largest gains are luxury sport utility vehicles and premium luxury cars, which have increased 6.4 and 5.0 percent in share of research activity (respectively). Moreover, the Land Rover LR2 and Mercedes-Benz SL-Class have driven this increase in traffic for these segments.

The base 2010 Land Rover LR2 currently is valued near $26,000, roughly $10,000 cheaper than the manufacturer’s suggested retail price (MSRP) of a new 2012. Experts on KBB.com praise the LR2 for its off-road performance, while consumers gravitate toward its styling and driving comforts. Also high on the shopping list is the 2006 Mercedes-Benz SL-Class. The base trim of the luxury sports car has an estimated retail value of $26,000. Current owners are enamored with the roadster, rating it an 8.9 out of 10.

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 industry. Each week the company provides the most market-reflective values in the industry on its top-rated website www.kbb.com, including its famous Blue Book® Trade-In and Suggested 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 provides consumer pricing and information on cars for sale, minivans, pickup trucks, sedan, hybrids, electric cars, and SUVs. Kelley Blue Book’s KBB.com ranked highest in its category for brand equity and was named Online Auto Shopping Brand of the Year by the 2012 Harris Poll EquiTrend study. Kelley Blue Book Co. Inc. is a wholly owned subsidiary of AutoTrader Group.