Top-quality, inspected and backed by a manufacturer’s warranty, certified pre-owned (CPO) vehicles make great options for consumers in search of a used car with new-car benefits. After a lull in late 2009 through earlier this year, consumers seem to be regaining interest in CPO vehicles as sales are reportedly on the rise. While overall CPO sales are still below the highs of 2008, 2010 CPO sales for January through September are currently outpacing sales in the same time period in 2009. As a percentage of new retail sales, certified pre-owned numbers have stabilized in 2010 with total CPO sales settling at 15 percent of new-vehicle sales.

Since September of 2009, the improvement in CPO sales has been similar to that of new vehicles, with continued strength in the luxury segments. Luxury vehicles comprise a more significant portion of CPO sales. CPO sales run at 25 percent luxury mix, while new-car sales run at 11 percent luxury mix. Luxury vehicles are desirable as certified used vehicles since they already shed the hefty depreciation that usually occurs within the first few years of owning a luxury vehicle.

In regard to share of CPO page views on kbb.com, the top five makes are Toyota, followed by Honda, Chevrolet, Ford and BMW (respectively). Toyota leads all makes, while BMW leads all luxury brands in terms of share. Since May of this year, Chevrolet has risen in share to overtake Ford in rank.

Alec Gutierrez, lead analyst of vehicle valuation for Kelley Blue Book, will be a panelist at Auto Remarketing’s CPO Forum in San Diego on Tuesday, November 9. Visit the ‘Certified Pre-Owned Pricing Trends and Forecasting’ panel at 3:45 p.m. PT for more information on the state of the CPO market.
**Luxury Vehicles Make Up 25% of CPO Sales**

- **2008**: 24.8% Luxury, 75.2% Non-Luxury
- **2009**: 27.8% Luxury, 72.2% Non-Luxury
- **2010**: 26.0% Luxury, 74.0% Non-Luxury

**Non-Luxury Vehicles Make Up Majority of New Sales**

- **2008**: 88.9% Non-Luxury, 11.1% Luxury
- **2009**: 89.1% Non-Luxury, 10.9% Luxury
- **2010**: 88.5% Non-Luxury, 11.5% Luxury
CAFE STANDARDS FORCING MANUFACTURERS TO PRODUCE FUEL-EFFICIENT CARS DESPITE LACK OF SHOPPER DEMAND

With higher Corporate Average Fuel Economy (CAFE) standards mandated by the EPA, manufacturers have been forced to evaluate future vehicle lineups. The new requirements will result in a larger number of fuel-efficient vehicles from manufacturers; vehicles that aren’t in demand by today’s car shopper.

In October, subcompact cars dropped 3.8 percent for the month, while the overall market dropped 2.6 percent. On a year-to-date basis this segment is down 5.4 percent, while the market has been essentially flat, only down 0.3 percent. Hybrids are down 7.4 percent year-to-date. As long as gas prices remain under $3 per gallon, it appears softness in smaller fuel-efficient vehicles and hybrids will persist.

Car shopper demand has drifted toward larger vehicles, such as crossovers and SUVs during 2010. According to Kelley Blue Book’s Market watch report, a monthly snapshot of new-car shopper activity on kbb.com, for October 2010, new-car traffic to Minivans on kbb.com jumped 32 percent, SUV traffic is up 17 percent and truck views increased 3 percent year-over-year. In contrast, traffic to sedans dropped 2 percent, while hybrid visits fell 11 percent from this time last year. For the latest Market Watch, visit http://mediaroom.kbb.com/market-watch-highlights.

FIRST QUARTER MARKET EXPECTATIONS

As we near the end of 2010, Kelley Blue Book anticipates continued softness in used-car values. During the fourth quarter, dealers typically avoid stocking up on inventory, leading to reduced auction activity and relatively soft auction values.

After the New Year, dealers will return to auction, which Kelley Blue Book expects will result in stable, if not appreciating prices. Through the first quarter of 2010, Kelley Blue Book® Auction Values were up 1 percent for 2006 to 2008 model-year vehicles. In this same timeframe in 2009, Kelley Blue Book Auction Values were up 1.3 percent for 2005 to 2007 model-year used vehicles. Kelley Blue Book anticipates values to stabilize in the first quarter of next year, with the expectation of the majority of strength occurring in January, followed by stabilization in February and potential softness in March. This will result in an average of 1 percent improvement for the quarter.

LUXURY SEGMENT STABLE, BUT NOT FOR LONG

With U.S. unemployment rates close to 10 percent, luxury vehicle consideration has dropped among car shoppers. However, in October luxury-car values only fell 1.5 percent (5.9 percent year-to-date). Values have been depreciating in this segment all year, but it appears that they may have bottomed out.

Since automakers aggressively cut back leasing in August 2008, the expectation has been that a shortage of lease returns will strengthen values. However, this hypothesis has yet to manifest itself; but it is at least keeping values relatively steady. It should be noted that the expected impact to values due to less leasing could be muted given new redesigns coming to market in the coming months. Specifically, the redesigned BMW 7-Series, 5-Series, Mercedes S-Class and E-Class could soften older generation models.

Luxury SUVs fell 3.9 percent (down 5.5 percent year-to-date) as they are an expensive purchase in the current economic climate.

SATURATED CROSSOVER SEGMENT COULD LOWER VALUES

Compact yet roomy with excellent fuel economy, crossovers continue to attract car shoppers. This segment continues to do well in the current economy; however, this strength may be short-lived as the segment becomes saturated with more models. The relatively high demand for these vehicles has kept values stable for most of the year. Compact crossovers are down 1.5 percent for October and 1.1 percent year-to-date. Eventually, the influx of competition could hurt values for these vehicles.

Juan Flores, director of vehicle valuation for Kelley Blue Book, will be a panelist at AutoRemarketing’s National Remarketing Conference in San Diego on Wednesday, November 10, and Friday, November 12. Visit the ‘Strong Used-Car Prices’ panel on November 10 at 3 p.m. PT, or November 12 at 10 a.m. PT, for more information on the state of the used-car market.
WHEN IS IT SMART TO BUY A SMART CAR?
- James Bell, executive market analyst, Kelley Blue Book’s kbb.com

When the smart fortwo was introduced to U.S. automotive media in 2007, there was plenty of skepticism. After all, when the vehicle first entered the world in 1998, it struggled to find a solid audience in Europe, a market traditionally supportive of such small, expressive cars. As a division of the typically profitable Daimler-Benz, it also has failed to deliver positive earnings since 1998. At the time of smart’s U.S. launch, with turbulent fuel prices and the announcement of Roger Penske as distributor in the United States, there was a sense that any and all potential U.S. sales could provide the volume Daimler needed to finally turn a profit. However, first the vehicle would need to uncover an untapped audience of city-dwellers and those looking for very individualized transportation.

After a strong first year of sales, fueled by more than 20,000 early “reservations” and a $99 deposit, sales dropped sharply. The waiting time in January 2009 was approximately 12 months for delivery of a new smart car. Less than six months later, the waiting list vanished and dealership lots were full of inventory. For 2010, Kelley Blue Book valuation analysts report that the smart fortwo continues to perform poorly. Values for 2007 to 2009 model-year smart fortwo models are down 8.5 percent for the month of October and have depreciated 12.3 percent year-to-date.

Besides the smart fortwo’s lack of space and utility, in an automotive market that expects increased size and power year-after-year, the lack of competitive fuel efficiency did little to influence shoppers. In a congested city with gasoline at $4 or more per gallon, the smart makes some commuter sense, but even then it only appeals to a small and well-defined audience on a national scale. With gas currently at $2.80 nationally, there is little incentive to purchase a smart car. This vehicle requires drivers to compromise the terms of drivability and space, while its fuel economy is not much better than a comparable subcompact or hybrid.

According to www.fueleconomy.gov, the 2011 smart fortwo coupe is rated at 33 MPG city and 41 MPG highway, for a combined 36 MPG. The five-passenger 2011 Ford Fiesta, which offers more crowd-pleasing aesthetics and much more utility, is rated at 29 MPG city and 38 MPG highway, for a combined 33 MPG. Lastly, the Honda Fit, which has helped to define the subcompact segment with class-leading driving dynamics and flexibility, is rated at 28 MPG city and 35 MPG highway, for a combined 31 MPG.

Demand for this vehicle is highly correlated with fuel prices. With pump prices forecasted to remain stable for the winter months, Kelley Blue Book expects further depreciation for the smart fortwo. If fuel prices begin to rise, it will be interesting to see if demand strengthens for this vehicle. Smart’s past record does not offer any optimism. If car shoppers are interested in this vehicle, now may be a ‘smart’ time to buy since the market for this vehicle is so depressed.

This commentary focuses on Model Years 2007-2009. 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.
LUXURY SUVS MAKE TRACTION AMONG USED-CAR SHOPPERS
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 luxury SUV segment’s share of used-car retail shopping activity increased 7.5 percent month-over-month. This lift in share is attributed to the increases experienced by the 2008 Porsche Cayenne and 2007 Lincoln MKX, which increased 40.4 percent and 28.7 percent, respectively, in monthly share. The overall SUV segment has been attracting more attention from shoppers on kbb.com. Six out of the top 10 gaining models in this month’s report are SUVs. Dealers should consider increasing their SUV inventory, particularly with luxury models.

Please note that the hybrid pickup trucks segment has been isolated this month due to its small sample size.

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 website, www.kbb.com, provides the most up-to-date pricing and values, including the Fair Purchase Price, which reports what buyers 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. - 2009 Spring Automotive Website Usefulness Study, kbb.com is the most useful automotive information website among new- and used-vehicle shoppers, and half of online vehicle shoppers visit kbb.com. Kelley Blue Book's kbb.com also is a W3 Silver Award winner, sanctioned by the International Academy of Visual Arts. Kbb.com is a leading provider of new car prices, used car values, car reviews, new cars for sale, used cars for sale, and car dealer locations.