

# Q1 **INSURANCE REPORT**

The Facts and Figures Behind  
Your Auction Returns



Quarter 1 | 2018



# ABOUT **IAA**

Insurance Auto Auctions, Inc. (IAA) helps insurance carriers dispose of total loss vehicles with a multi-channel auction platform. Insurance vehicles sold through IAA auctions display a range of loss types: collision, storm or flood damage, theft recovery and more. These vehicles are purchased by public and professional buyers for a variety of purposes, including dismantling/recycling, resale, exporting and personal use.

The Insurance Quarterly Report provides an overview of economic and industry factors that influence auction returns.



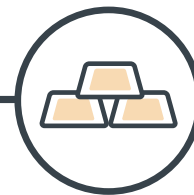
**WHOLE CRUSHED  
AUTO-BODY PRICES**



**USED-CAR PRICE  
INDEX**



**GASOLINE PRICES**

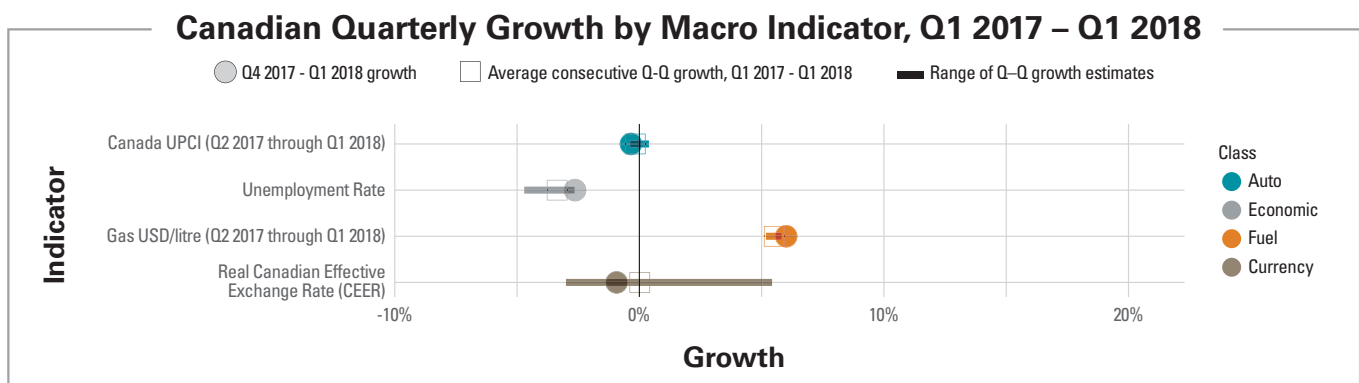
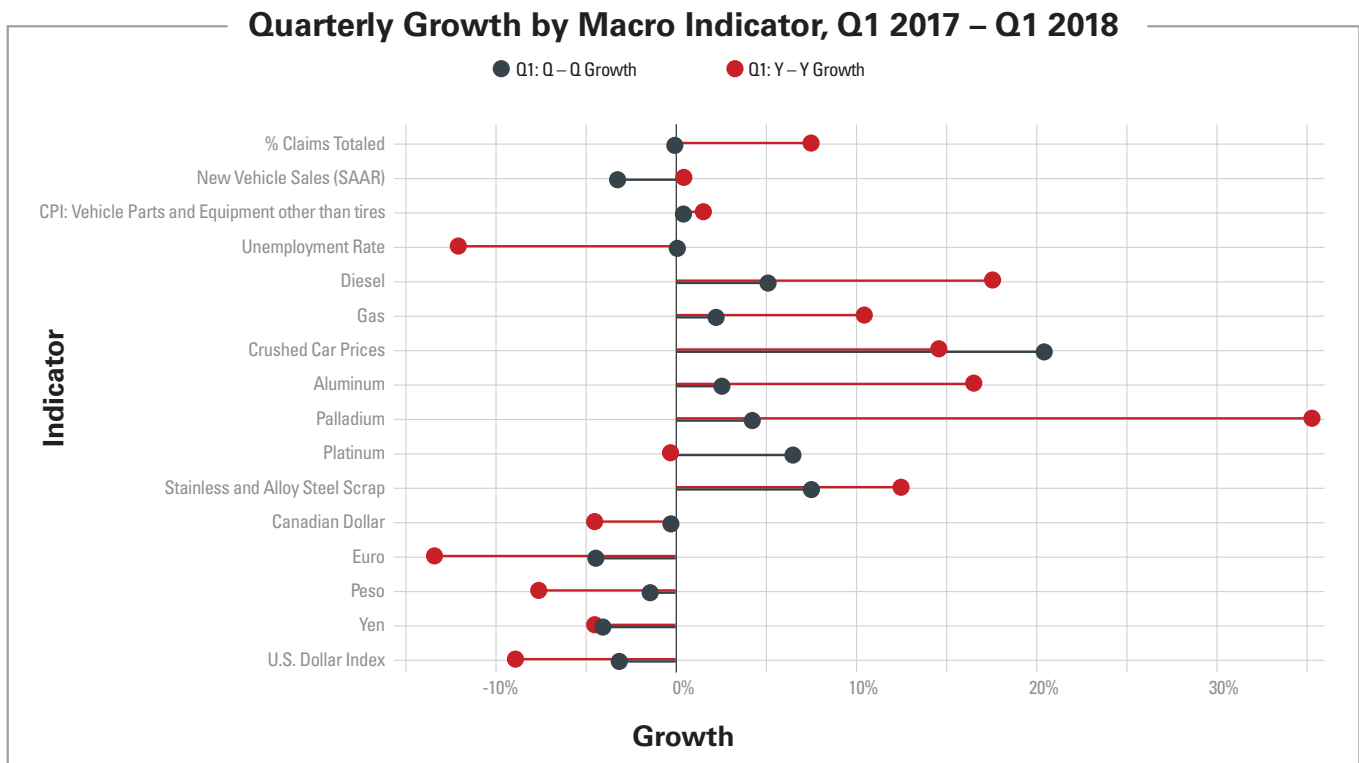
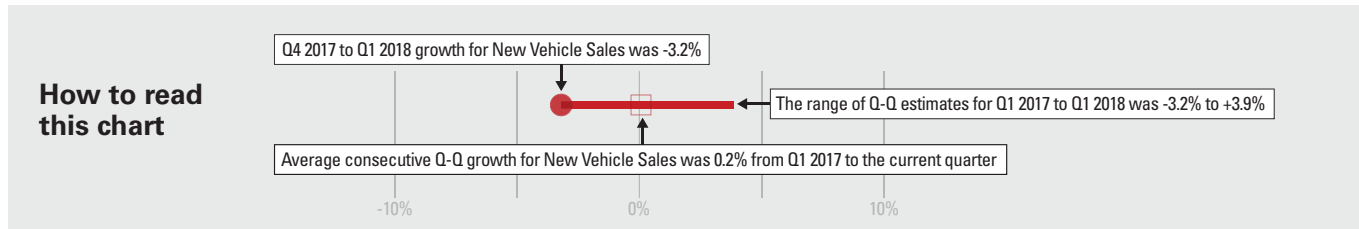


**METALS PRICES**



**U.S. DOLLAR  
INDEX**

# AUTO TRENDS **AT A GLANCE**



# TRUCKS AND SUVS STILL ON TOP

Total new-vehicle sales were down a quarterly basis, but saw year-over-year growth for each month of the quarter. The growth in vehicle sales versus last year were in large part due to the continued rise in truck and SUV demand.<sup>1</sup> In March, truck and SUV sales were up 16.3% from the same month last year, while passenger vehicle sales shrunk at 9.2% clip.

Seasonally adjusted, consumer purchases for the quarter were down 3.2% and up 0.2% on a quarterly and yearly basis. Buyer incentives continue to remain historically high, with discounts averaging around the 10% mark in March. Despite headwinds from higher gasoline prices and more expensive loan interest rates,<sup>2</sup> the combination of incentives, robust economic growth, and an extra selling day in March likely helped keep the quarter's sales respectable. Moreover, these factors have helped push sticker prices up, with average prices reaching \$32,200 in February, or \$500 more than the same month last year.<sup>3</sup>



WHOLE CRUSHED  
AUTO-BODY  
PRICES



TOTAL MILES  
DRIVEN



PALLADIUM



PARTS PRICES

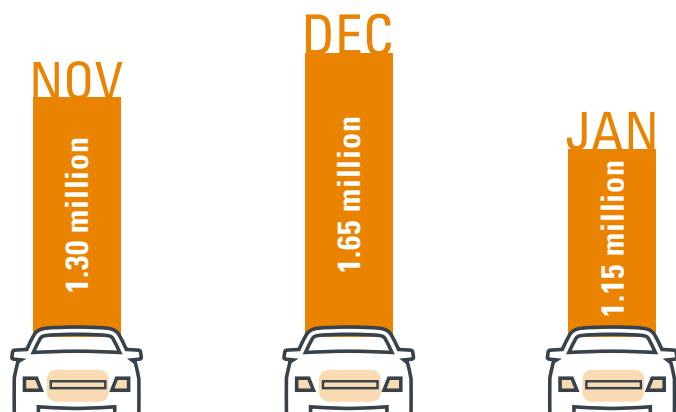


ALUMINUM



PLATINUM

## NEW-VEHICLE SALES





# FALLING VALUE DESPITE YOUNGER VEHICLES

Both the average vehicle age and mileage of insurance carrier vehicles fell quarter-to-quarter and year-over-year, but was not enough to stop the 0.6% quarterly decrease in average actual cash value (ACV). However, insurance vehicles did squeak out a 1.9% appreciation from Q1 2017's figures. Average ACV, a representation of a vehicle's estimated value in an undamaged state, serves as a benchmark for the general quality of insurance vehicles that make their way to auction.



## AVERAGE ACV

Quarter-to-Quarter:

↓0.6%

Year-Over-Year:

↑1.9%



## AVERAGE AGE

Q1 2017:

9.8

Years

Q1 2018:

9.6

Years



## AVERAGE MILEAGE

Quarter-to-Quarter:

↓0.4%

Year-Over-Year:

↓2.8%



# PROPOSED TARIFFS SHAKE METALS FUTURE



## WHOLE CRUSHED AUTO-BODY PRICES

Quarter-to-Quarter:

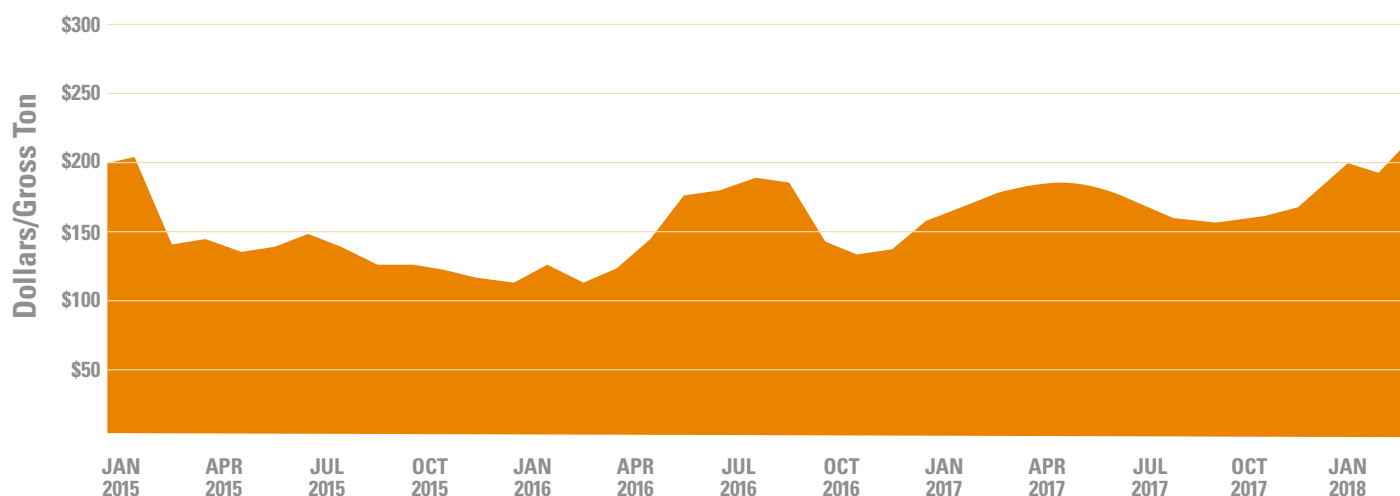
↑ **20.6%**

Year-Over-Year:

↑ **14.5%**

Whole crushed auto-body prices turned the tides of two consecutive quarter-to-quarter decreases in Q1, with quarterly and yearly growth estimates coming in at 20.6% and 14.5%, respectively.

For the first time since January of 2015, crushed-car prices passed the \$200 per gross ton benchmark, likely due to strong demand. In March, prices surged again after the White House announced its intention to set steel and aluminum tariffs at 25.0% and 10.0%, respectively.<sup>4</sup> After this announcement, consumers began to shift their medium- and long-term purchases to the near-term in expectation of higher futures prices. This collective turn toward near-term demand likely pushed steel and aluminum prices higher, with crushed car prices quickly following.<sup>5</sup>



Source: American Recycler

# TAX RETURNS DRIVE AUCTION RETURNS

Average wholesale used vehicles saw stairstep month-to-month price increases throughout the quarter, with prices ending up 1.9% relative to the same quarter last year. Upward price movements were likely helped by consumer preferences remaining strong for light trucks vs. passenger cars, but also saw help from strong spring, tax-season demand. According to Tom Kontos, Chief Economist at KAR Auction Services, Inc., both midsize cars and SUVs/CUVs saw price growth after controlling for sale type, model-year age, and mileage. In March, wholesale values were up for all seller types on a monthly basis, with only dealer consignors observing a decline in average prices relative to the same month last year.



## USED-CAR PRICE INDEX

JANUARY	FEBRUARY	MARCH
Month-to-Month:	Month-to-Month:	Month-to-Month:
↑1.7%	↓2.5%	↑1.2%
Year-Over-Year:	Year-Over-Year:	Year-Over-Year:
↑0.3%	↑0.2%	↓0.6%

“ Upward price movements were likely helped by consumer preferences remaining strong for light trucks vs. passenger cars. ”

## GASOLINE

Quarter-to-Quarter:

↑ **2.1%**

Year-Over-Year:

↑ **10.2%**

## DIESEL

Quarter-to-Quarter:

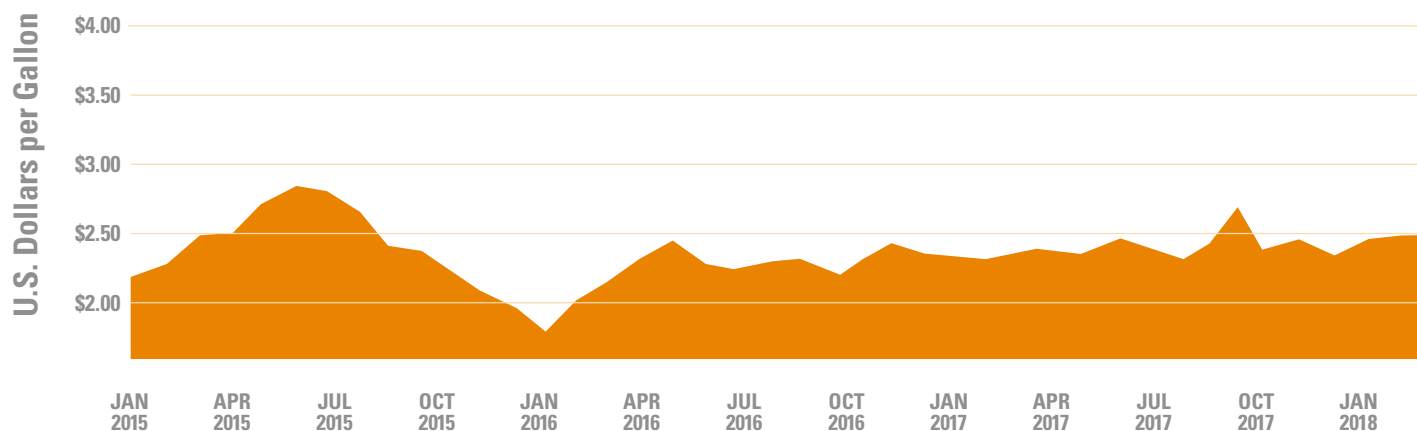
↑ **5.1%**

Year-Over-Year:

↑ **17.5%**

# OPEC STAYS COMMITTED

Gasoline prices crept higher for the sixth straight quarter, increasing 2.1% quarter-to-quarter and 10.2% compared to last year. There were a few likely contributors to the surge in prices. Namely, OPEC countries continued their commitment to production cuts, fuel retailers transitioned to a more expensive summer-grade fuel blend, strong consumer demand,<sup>6</sup> and net long positions on futures contracts reached a record high in February.<sup>7</sup>



Source: Energy Information Administration



# PALLADIUM PULLS AHEAD

Palladium prices finished above parity with platinum for the second quarter in a row, and both metals saw positive Q1 growth. The combination of cutbacks in South African-produced platinum and the South African rand's 15-point currency appreciation against the U.S. dollar worked together to push platinum prices higher despite sustained oversupply. Palladium saw similar increases, helped by tight supply and consumers' continued demand for gasoline-powered vehicles, which rely more heavily on palladium's pollution-reducing properties in its catalytic converters.<sup>8</sup> There are about 3-7 grams of platinum group metals in a standard catalytic converter.<sup>9</sup> The amount and proportions increase with the size of the engine – the large engines of sport utility vehicles and trucks can contain up to 30 grams of platinum group metals.<sup>10</sup> However, by the end of the quarter, palladium price momentum slowed amidst trade tensions and investors' shrinking confidence in its long-term prospects.<sup>11</sup>

## PLATINUM

Quarter-to-Quarter:

↑6.2%

Year-Over-Year:

↓0.2%

## PALLADIUM

Quarter-to-Quarter:

↑4.1%

Year-Over-Year:

↑35.2%

“

The combination of cutbacks in South African-produced platinum and the South African rand's 15-point currency appreciation against the U.S. dollar worked together to push platinum prices higher despite sustained oversupply.

”



# CONTINUED DEPRECIATION FOR THE U.S. DOLLAR

Since its high point during the 2016 U.S. presidential election, the U.S. dollar has steadily depreciated. Q1 followed that trend, with many—sometimes competing—theories about why this depreciation continued. Largely, analysts point to a correction from the U.S. dollar's continued overvaluation in recent years and capital investments are now turning toward other currencies. Additionally, interest rate increases from the central banks of Europe and Japan prompted higher returns relative to the U.S. dollar. The recent change in U.S. tax reform is also likely to widen the budget deficit, which typically puts downward pressure on the U.S. dollar.<sup>12</sup>

## U.S. DOLLAR

Quarter-to-quarter:

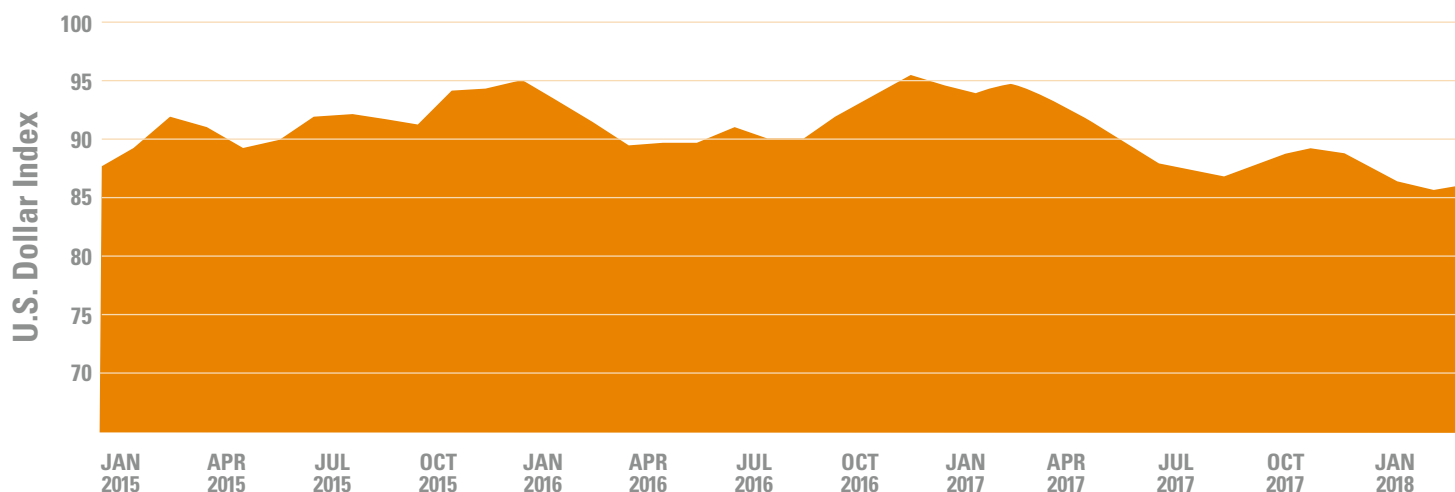
**3.3%**

Depreciated

Year-Over-Year:

**8.8%**

Depreciated



Source: Federal Reserve Bank of St. Louis



CANADA  
QUARTER 1 | 2018

## USED VEHICLE PRICE INDEX

January:

↓ 0.4%

February:

↓ 0.3%

March:

↑ 0.1%

# LIGHT TRUCKS DOMINATE CANADIAN AUTO MARKET

Canada's new vehicle sales started off strong, recording a 5.7% year-over-year growth in January. This was powered by Canadian consumers' strong preference for light trucks, similar to the U.S.<sup>13</sup> The larger-vehicle trend continued through the quarter, eventually making up more than 72.0% of all Canadian vehicles sold in Q1. Despite lower consumer sentiment, higher gas prices and concern over NAFTA talks, Q1 new-vehicle sales still jumped 3.7% compared to Q1 2017.<sup>14,15</sup> As for the ADESA Canada Used Vehicle Price Index, values slumped in the beginning of the quarter, but recovered by March to finish with an increase of 1.8% year-over-year amidst a 4.2% quarter-to-quarter drop.<sup>16</sup>

## CANADIAN EFFECTIVE EXCHANGE RATE INDEX (CEER)

Quarter-to-Quarter:

0.9%

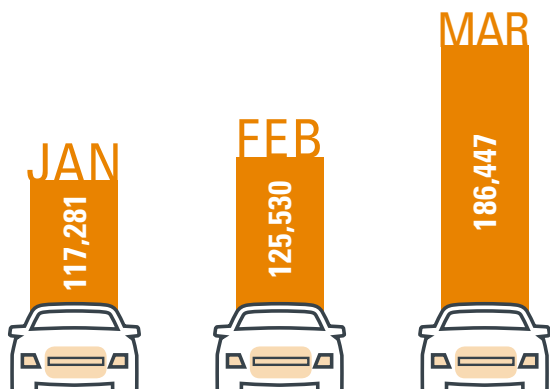
Appreciated

Year-Over-Year:

0.1%

Appreciated

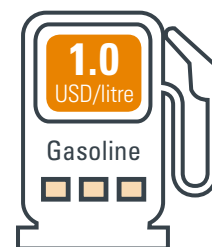
## NEW-VEHICLE SALES



## ECONOMIC DRIVERS



Q4 Growth





# OLDER VEHICLES FETCHING HIGHER PRICES AT THE CANADIAN AUTO AUCTION

Canadian insurance carrier vehicles skewed slightly older with slightly higher average mileage in Q1 2018. This inventory mix trended the opposite way from the United States. Despite lower-quality vehicles, Canadian insurance vehicle value managed to squeak out a 1.4% year-over-year appreciation even in the face of a 2.7% quarter-to-quarter drop. By the end of the quarter, Canadian average ACV values leveled out similar to U.S. figures.



## AVERAGE ACV

Quarter-to-Quarter:

↓ 2.7%

Year-Over-Year:

↑ 1.4%



## AVERAGE AGE

Q1 2017:

10.2  
years

Q1 2018:

10.3  
years



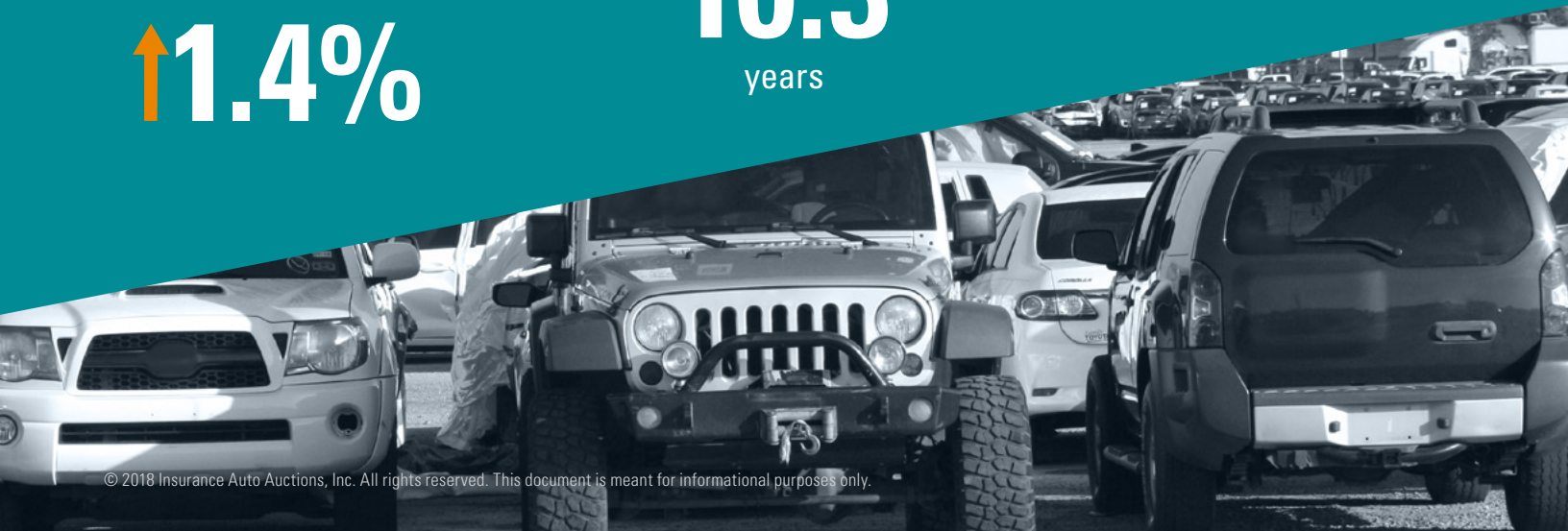
## AVERAGE MILEAGE

Quarter-to-Quarter:

↑ 2.1%

Year-Over-Year:

↑ 1.2%





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# ABOUT INSURANCE AUTO AUCTIONS, INC.

Founded in 1982, Insurance Auto Auctions (IAA), the leading live and live-online salvage vehicle auction company, is headquartered in Westchester, IL and employs over 2,800 employees in more than 170 auction facilities throughout the U.S. and Canada. IAA is a business unit of KAR Auction Services (NYSE: KAR), a FORTUNE 1000 company with approximately 17,500 employees and more than 300 operating locations. IAA is part of an end-to-end remarketing solution providing global buyers opportunities to bid on and purchase total loss, donated, higher mileage, damaged and clean-title vehicles utilizing cutting-edge technology. IAA's multiplatform model enables insurance companies, fleet and rental companies, banks, finance companies, car dealerships and the general public to simultaneously participate in multiple auctions online and in person. Additional services include registration, financing, towing and title services. Go to [IAA-Auctions.com](http://IAA-Auctions.com) to learn more, and follow IAA on [Facebook](#) and [Twitter](#).



## ABOUT THE AUTHOR

Sebastian Gancarczyk is the Vice President of Finance at Insurance Auto Auctions, Inc. (IAA). Mr. Gancarczyk manages the organization's financial planning and budget management functions. Additionally, he leads efforts in monitoring and reporting on customer performance with emphasis on analyzing industry trends. He's been with IAA since 2004, and held several positions at the company before assuming his current role. Prior to joining IAA, Mr. Gancarczyk served as a Financial Analyst for GE Capital and Heller Financial. He is a Certified Public Accountant (CPA) and holds a bachelor's degree in accounting from National Louis University.

The auto salvage industry as discussed in this document refers to the industry as experienced by IAA. IAA does not possess data on the performance of other salvage companies; therefore, the analyses are based on how different economic factors affect the performance of vehicles sold through IAA's auctions.

The statements contained in this report and statements the company may make orally in connection with this report that are not historical facts are forward-looking statements. Forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from the results projected, expressed or implied by the forward-looking statements. Factors that could cause or contribute to such differences include those matters disclosed in KAR Auction Services, Inc.'s Securities and Exchange Commission filings. KAR and IAA do not undertake any obligation to update any forward-looking statements.