



Specialty Quarterly Report

QUARTER 2 2017

The specialty classification at Insurance Auto Auctions, Inc. (IAA) consists of five segments: truck, trailer, equipment, boat and motorhome. This report will provide a performance overview of each of the specialty segments, followed by an examination of the metals market.

Scrap-metal prices have proven to be reliable indicators of the base-price direction for these large pieces of salvage, leading to the following factors being discussed:

- Whole Crushed Auto-Body Prices
- Aluminum
- Platinum
- Stainless Steel



Whole Crushed Auto-Body Prices 

U.S. Dollar Index 

Aluminum 

Platinum 

Stainless Steel 

Specialty Segments

All price changes represented below are relative to seasonally adjusted average sale prices.

Truck

Two consecutive monthly drops in April and May pushed the Truck Sale Price Index to a 4.0% and 2.6% drop on a quarterly and yearly basis, respectively. Truck prices received slight upward pressure from May's truck tonnage, which grew by 6.5%.¹ Although May truck tonnage reversed the previous three monthly losses, it was not enough to tip the scales from the downward price pressure put on by an aging and higher mileage fleet for heavy duty trucks and a 6.5% decrease in overall truck orders quarter-to-quarter.^{2,3}

Year-Over-Year
2.6%

Quarter-to-Quarter
4.0%

Source: IAA

Trailer

It was the third consecutive quarter of negative growth for the trailer segment in Q2 of 2017. While typical to see declines during this part of the year, the index dipped to its lowest mark since the second quarter of 2013. In April, trailer activity was down 4%, but FTR Vice President of Commercial Vehicles Don Ake called the decrease in orders "seasonal trends in a healthy, normal market."⁴ There were some positives to take away from the second quarter. Dry van, flatbed, dump and tank orders all showed year-over-year growth and outpaced their usual declines from April to May.⁵

Year-Over-Year
5.8%

Quarter-to-Quarter
4.0%

Source: IAA



Equipment

The incredibly volatile equipment sale price index ended slightly up on the quarter and maintained a large year-over-year advantage of 63.4%. May was a tough month, however, as retail farm equipment sales were below expectations.⁶ And though the Equipment Leasing and Finance Industry Confidence Index receded from its best quarter ever in Q1 of 2017, it remained quite respectable historically and was a key contributor to solid Q2 prices.⁷

Year-Over-Year

63.4% 

Quarter-to-Quarter

1.8% 

Source: IAA

Boat

Month-to-month results were mixed for boats in Q2 of 2017, but the index saw another quarterly and yearly gain of 2.3% and 12.6% respectively. Strong numbers from the housing and labor markets led to an increase in disposable income, which the National Marine Manufacturers Association said contributed to continued growth in the boating industry.⁸ The personal watercraft category was particularly strong as it showed the largest year-over-year increases for total units sold among all vessels for both April and May.^{9,10} May was a good month overall as nearly every boat category saw positive sales growth on a yearly basis.¹¹

Year-Over-Year

12.6% 

Quarter-to-Quarter

2.3% 

Source: IAA

Motorhome

Motorhome sales surged for the second straight quarter in Q2 of 2017 and achieved the largest year-over-year percentage gain since the fall of 2013. The index realized price increases in each month of the quarter and ended on the highest mark it has seen since December of 2015. Sales were up 1.3% for April with conventional (Class A) types the only segment with reduced purchases year-over-year.¹² In May, Class A, van campers (Class B) and mini motorhomes (Class C) all showed greater than 20% yearly increases in sales for an average gain of 27.5% for all categories combined.¹³

Year-Over-Year

20.1% 

Quarter-to-Quarter

13.1% 

Source: IAA

Metals

Aluminum

Aluminum prices were strong in the second quarter of 2017, hitting their highest quarterly average mark since 2013 and extending aluminum's positive performance in Q1. In April, the metal benefited from low inventory levels at multiple exchanges and anticipated aluminum reform in China.¹⁴ However, aluminum exports out of China increased in May and June, and prices for aluminum's most important raw material, alumina, pushed the metal's prices down slightly for the last two months of the quarter.¹⁵ Another factor in a short-term drop in aluminum prices was an increase in supply in May made possible by lower prices for oil and coal and the subsequent greater margins they influenced for aluminum.¹⁶ However, the downward price movements weren't enough to outpace aluminum's overall solid quarterly and yearly trends.

Year-Over-Year

21.3% 

Quarter-to-Quarter

3.0% 

Source: World Bank

Platinum

Platinum struggled to maintain its first-quarter gains as prices diminished 3.9% in the second quarter of 2017 and returned to fourth-quarter levels of 2016. Year-over-year, platinum was down 6.2%. The downward pressure on prices is attributed to several factors, including continued aversion in Europe to diesel vehicles, which primarily use platinum in their catalytic converters.¹⁷ Additionally, the World Platinum Investment Council pointed to a reduction in jewelry and investment demands as an influence on lower platinum prices.¹⁸

Year-Over-Year

6.2% 

Quarter-to-Quarter

3.9% 

Source: Johnson Matthey

Stainless Steel

Stainless steel prices dropped 2.5% in Q2 2017 from a strong first-quarter performance, but remained 18.3% above last year's prices due to continued Chinese policy efforts to stymie steel production.¹⁹ Steel prices did fall slightly after an announcement in China to reduce credit lending, which led some investors to sell on speculation of reduced demand. This, along with waning iron ore prices, a key component in steel production, likely contributed to the quarter-to-quarter slump.²⁰

Year-Over-Year

18.3% 

Quarter-to-Quarter

2.5% 

Source: Bureau of Labor Statistics

Scrap Metal: Whole Crushed Auto-Body Prices

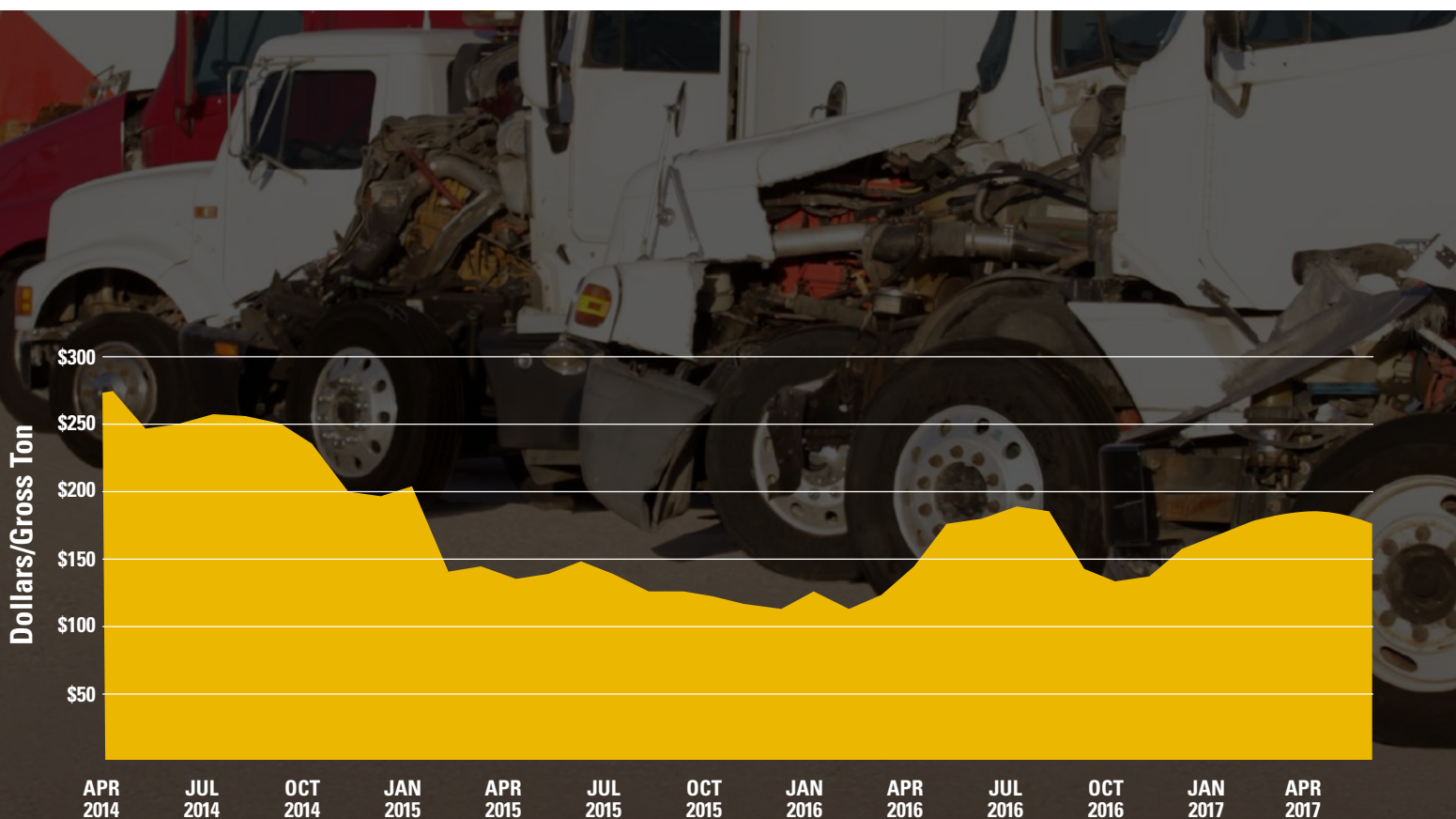
Whole crushed auto-body prices saw quarterly and yearly increases of 4.9% and 10.8% respectively in the second quarter of 2017. However, the gain in prices did not match the sharp boost observed in Q1. Moreover, steel output in China reached an all-time high in April, causing prices to drop in May. BMI research stated this price drop is largely due to steel supply outpacing the end-user demand.²¹ Additionally, steel exports out of China have decreased. The new trade policies between China and the European Union and the proposed "Section 232" bill in the U.S. can help explain the reduction, but it could also be a warning sign of reduced demand for the metal. Lower demand would aid the slight drop in whole crushed auto-body prices seen in May and June.²²

Year-Over-Year

10.8%

Quarter-to-Quarter

4.9%



Source: American Recycler

U.S. Dollar

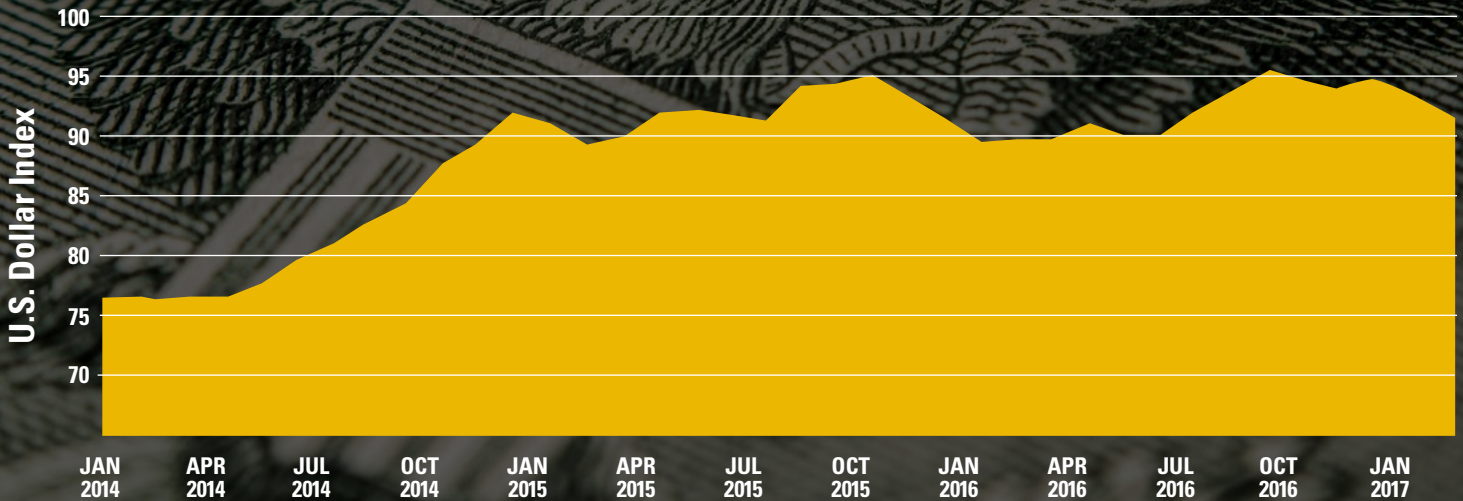
The value of the U.S. dollar remained elevated on a year-over-year basis in Q2 2017, rising 4.2% from Q2 2016, yet stuttered compared to Q1 2017, slipping 1.3%. The dollar began the quarter on a downturn as investors reacted to Washington stating in early April that the dollar was “getting too strong.”²³ This, combined with uncertainty over upcoming French elections and a missile test by North Korea, gave investors reason to head to safer ground, applying downward pressure on the dollar.²⁴ Despite positive statements from the Federal Reserve in early May, relatively disappointing Q1 GDP and May job numbers – combined with turmoil in Washington – raised concerns over economic growth and tempered expectations of impending rate hikes.^{25, 26, 27} Still, the dollar remained well above Q2 2016 values, as the slight downturn on a consecutive basis did little to dent its already elevated values.

Year-Over-Year

4.2% 

Quarter-to-Quarter

1.3% 



Source: Federal Reserve Bank of St. Louis

€ Euro

The euro saw strong month-to-month movement in Q2, resulting in appreciation compared with Q1 2017 values. It was up 2.7% against the dollar, but was unable to surpass Q2 2016 values, falling 3.1%. European Central Bank President Mario Draghi stated that there would need to be sufficient evidence of steady inflation to consider moving away from a loose monetary policy.²⁸ There were mixed results for the euro during the rest of the quarter as inflation rose, followed by cuts to the ECB's inflation forecast through 2019.²⁹ However, investors responded positively to Emmanuel Macron's victory in the French presidential election as well as the ECB's optimistic outlook throughout the quarter. These factors ultimately helped push the currency higher compared to the value in Q1 of 2017.³⁰

Year-Over-Year
2.7%

Quarter-to-Quarter
3.1%

Source: OANDA Corp.

\$ Canadian Dollar

The Canadian dollar continued the depreciation trend that began at the end of Q1 as its value fell 1.5% on a quarter-to-quarter basis and was 4.2% lower compared to Q2 2016. Despite Canada's positive economic growth, the Canadian dollar depreciated due to lower oil prices that applied downward pressure on the currency.³¹ Foreign affairs hurt the loonie as well. The results of the French presidential election gave investors reason to seek riskier assets, which applied further downward pressure on the Canadian dollar's value.³² Despite all of this, the end of Q2 in June brought stronger economic numbers, a positive outlook from the Bank of Canada and improved oil prices. This bolstered the trend of the Canadian currency and gave it a better outlook as the quarter ended.³³

Year-Over-Year
4.2%

Quarter-to-Quarter
1.5%

Source: OANDA Corp.

\$ Mexican Peso

Suggestions from Washington that the dollar was becoming too strong positively impacted the peso's value in Q2 2017,³⁴ as did the U.S. decision to retain NAFTA. Political influences only lasted so long, however, and commodity prices returned to the forefront of factors impacting the peso's value.³⁵ This became evident as industry metal and crude oil values applied downward pressure on the Mexican currency. In response, the Central Bank of Mexico boosted the peso's value by raising interest rates multiple times with the intention of making the currency more attractive to investors.³⁶

Year-Over-Year
2.4%

Quarter-to-Quarter
8.8%

Source: OANDA Corp.

¥ Japanese Yen

Despite month-to-month fluctuations, the yen ended up appreciating 2.2% during the second quarter. The currency remains weak compared with the same period last year. Political uncertainty in North Korea, Syria and France (prior to election results) played to the yen's favor early in the quarter as investors moved money to safe-haven currencies like the yen.³⁷ Eventually, the yen felt pressure again as these safe-haven investments became less appealing.³⁸ The situation only worsened for the yen as the quarter ended. In May and June, the gap between the United States and Japan's policy interest rates widened, and as a result, the yen depreciated.³⁹

Year-Over-Year
3.0%

Quarter-to-Quarter
2.2%

Source: OANDA Corp.

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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 17,400 employees and 310 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 to learn more, and follow IAA on [Facebook](#) and [Twitter](#).

About the Author



Mike Cole is executive director of Specialty Division Services at Insurance Auto Auctions, Inc. (IAA). A 15-year IAA veteran, Mr. Cole has played a pivotal role in growing the organization's Specialty Division into an industry-leading resource for the sale of heavy equipment, trucks, boats, RVs, and a host of other large or unique salvage items. Under his guidance, the Specialty Division has become a thriving marketplace with weekly online-only auctions hosted from a dedicated facility in Schaumburg, IL. Mr. Cole is a certified ASE Master Technician, SIU investigator and I-CAR Gold professional with more than 15 years of insurance claims experience, making him uniquely qualified to lead IAA's efforts in the specialty salvage segment.

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.

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