

Q1

INSURANCE REPORT

The Facts and Figures Behind
Your Auction Returns

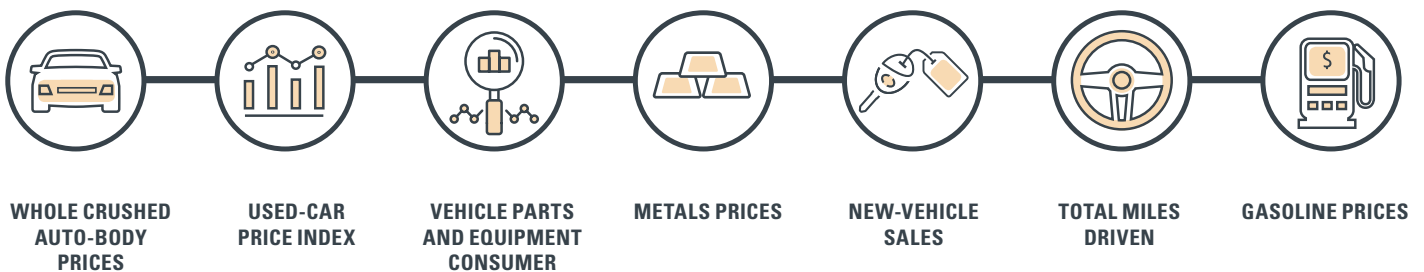


Quarter 1 | 2019

WELCOME TO THE **QUARTERLY REPORT**

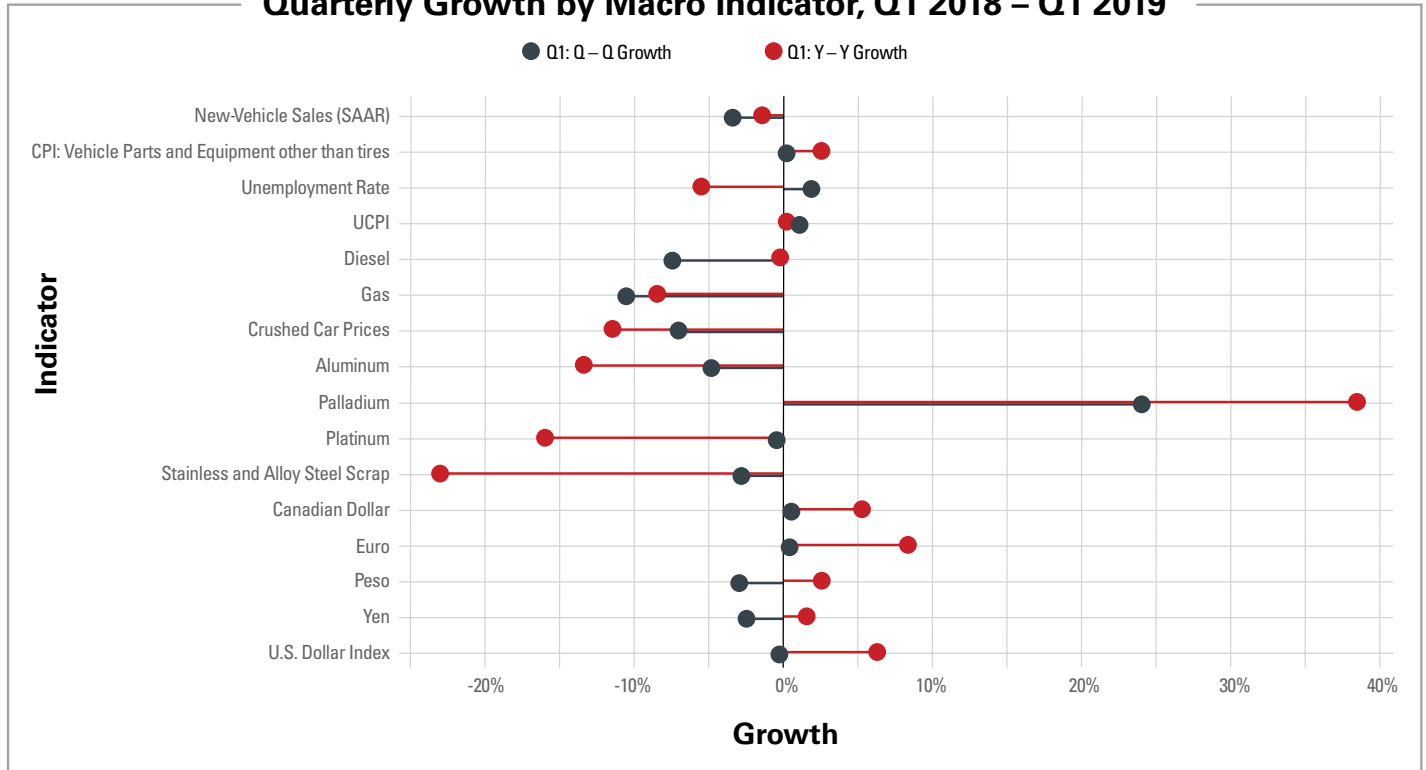
IAA, Inc. helps insurance carriers dispose of total loss vehicles via a multi-channel marketplace. Insurance vehicles sold through IAA's auctions display a range of loss types, including collision, storm or flood damage, theft recovery and more. These vehicles are purchased by public and professional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

The Insurance Quarterly Report provides an analysis of auction results for vehicles in this category, as well as an overview of economic and industry factors that influence auction returns. These include:

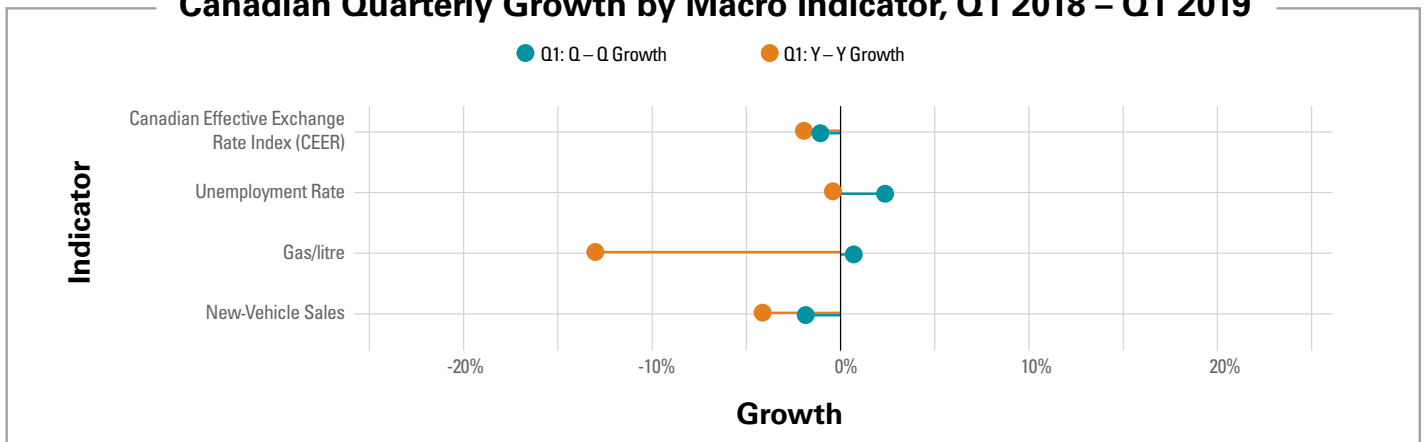


AUTO TRENDS **AT A GLANCE**

Quarterly Growth by Macro Indicator, Q1 2018 – Q1 2019



Canadian Quarterly Growth by Macro Indicator, Q1 2018 – Q1 2019



AUTOMOBILE INDUSTRY

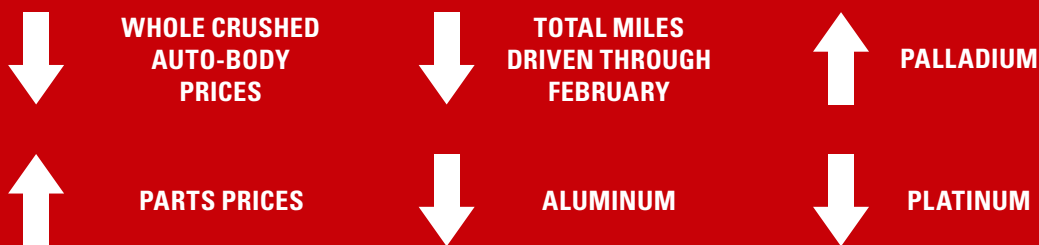
SPRING FORWARD

2019 started slow for new vehicle sales due to the government shutdown and poor weather conditions, adding uncertainty to a category already contending with increased competition from the used-vehicle market.¹ However, as the weather began to improve, so did new-vehicles sales, with March sales reaching 17.48 million units sold on a seasonally adjusted, annual rate basis. The March surge led to Q1 2019 new vehicle sales only dropping 0.9% compared to the same time last year.² The trend of buyers preferring light trucks continued, averaging a year-over-year sales volume increase of 0.6%, while passenger car sales took a large dip, averaging an 8.7% drop in sales volume, year-over-year.³

NADA's average dealership profile indicates that average new- and used-vehicles prices are ticking up, showing year-over-year Q1 increases of 2.6% and 3.3%, respectively.⁴ Due to these prices gains, rising interest rates and growing off-lease vehicle availability, some buyers are veering towards the used car market.⁵

Fuel prices trended up, with gas prices averaging \$2.27/month and diesel prices averaging \$3.02/month Q1 was a strong quarter for the economy, with unemployment at or below 4.0%⁶ and GDP growth at 3.2%.⁷

Quarter-to-Quarter:



NEW-VEHICLE SALES



GASOLINE

Quarter-to-Quarter:

↓ **10.5%**

Year-Over-Year:

↓ **8.5%**

DIESEL

Quarter-to-Quarter:

↓ **7.5%**

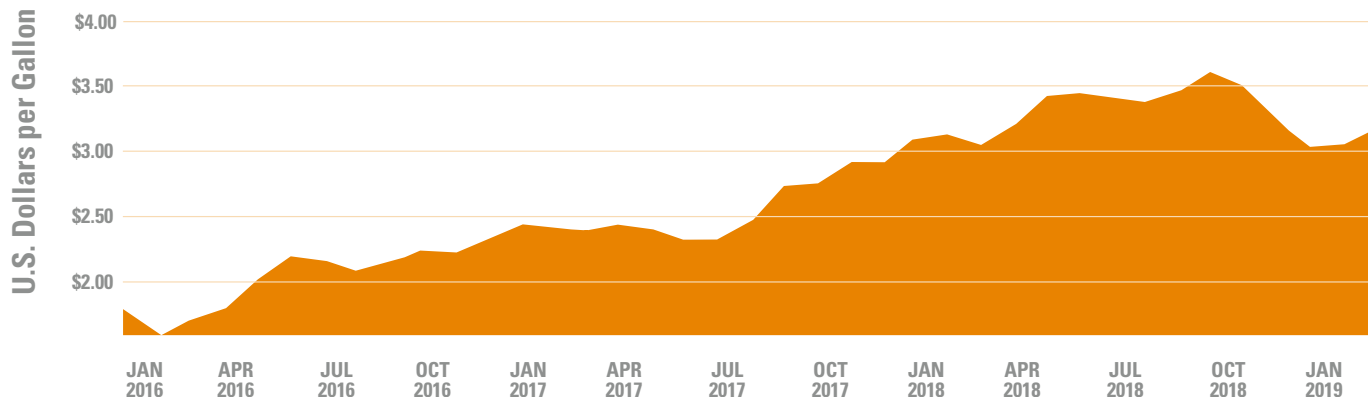
Year-Over-Year:

0.0%



OPEC MAKES ITS MARK

Gas prices took a sharp downward turn, falling 10.5% since Q4 2018, and are down 8.5% relative to Q1 2018. Diesel wasn't quite as affected, finishing 7.5% below the previous quarter's average but remaining at a similar price to Q1 2018. Although there's been an overall drop in fuel prices since Q4 2018, OPEC's production cuts have contributed to rising oil prices, causing fuel prices to trend upwards throughout the quarter.⁸



Source: Energy Information Administration

WHOLE CRUSHED AUTO-BODY PRICES

Whole crushed auto-body prices have seen better days. Prices averaged their lowest mark since Q4 of 2017 and had a quarter-to-quarter decrease for the third consecutive quarter. Quarter-to-quarter prices decreased by 7.0%, with an 11.4% year-over-year decline. The strength of the dollar against the euro appears to have increased demand leading to higher prices for scrapped cars in Europe at the expense of American scrapped cars. Yet, despite these gains, international markets have slowed recently, depressing whole crushed auto-body prices further.⁹ Recent trade tensions with China have put further downward pressure on prices. The import ban that went into effect at the beginning of 2019 included scraps of stainless steel and other metals, leading to a reduction in demand and lower prices.¹⁰

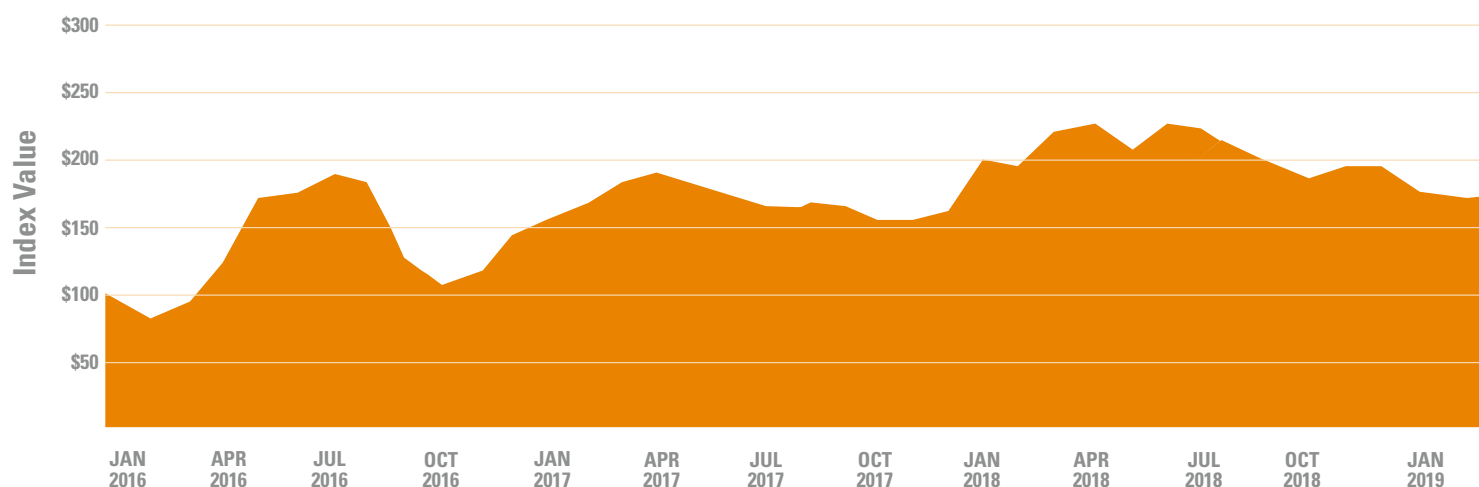
STRONG DOLLAR. LOWER PRICES.

Quarter-to-Quarter:

↓ **7.0%**

Year-Over-Year:

↓ **11.4%**



Source: American Recycler

THREE METALS. THREE OUTCOMES.

Platinum, palladium and aluminum travelled on very different paths in Q1. Let's begin with platinum, which reached its lowest price in over a decade with a 0.2% quarter-to-quarter drop. The result was influenced by labor disputes with unions in South Africa – the largest exporter of the metal in the world – which threatened short-term mining productivity and price stability.¹¹

Palladium went in the opposite direction, as its price hit a record-high thanks to a blockbuster quarter-to-quarter increase of 24.0%. This mark is likely to be topped again, with analysts predicting that the market will continue its upward trend while the possibility of shortages persists.¹²

Finally, it's steady as she goes in the aluminum market, which stabilized this quarter after a stretch of consistent price decline dating back to June of 2018. Despite the decreasing production of the metal in every other country, increased production in China led to a more abundant supply worldwide – a development that played a part in the 4.9% quarter-to-quarter downward price movement.¹³

PLATINUM

Quarter-to-Quarter:

↓0.2%

Year-Over-Year:

↓15.9%

PALLADIUM

Quarter-to-Quarter:

↑24.0%

Year-Over-Year:

↑38.6%

ALUMINUM

Quarter-to-Quarter:

↓4.9%

Year-Over-Year:

↓13.3%

USD KEEPS PACE

Despite a minor Q1 depreciation of 0.1%, the strong American economy – which has been magnified by the slowing economies of Europe, Great Britain and China – continued to influence the value of the USD. The currency has appreciated 6.2% since Q1 of 2018, with consecutive increases in each recorded month this year. A strong currency value is typically seen with higher interest rates, but for the U.S., the opposite has been the case as relatively low U.S. interest rates are still higher than many other developed countries.¹⁴ Meanwhile, the economy may also get a boost from the Federal Reserve, who raised its benchmark interest rate another 25 basis points to 2.25-2.50.¹⁵

U.S. DOLLAR

Quarter-to-Quarter:

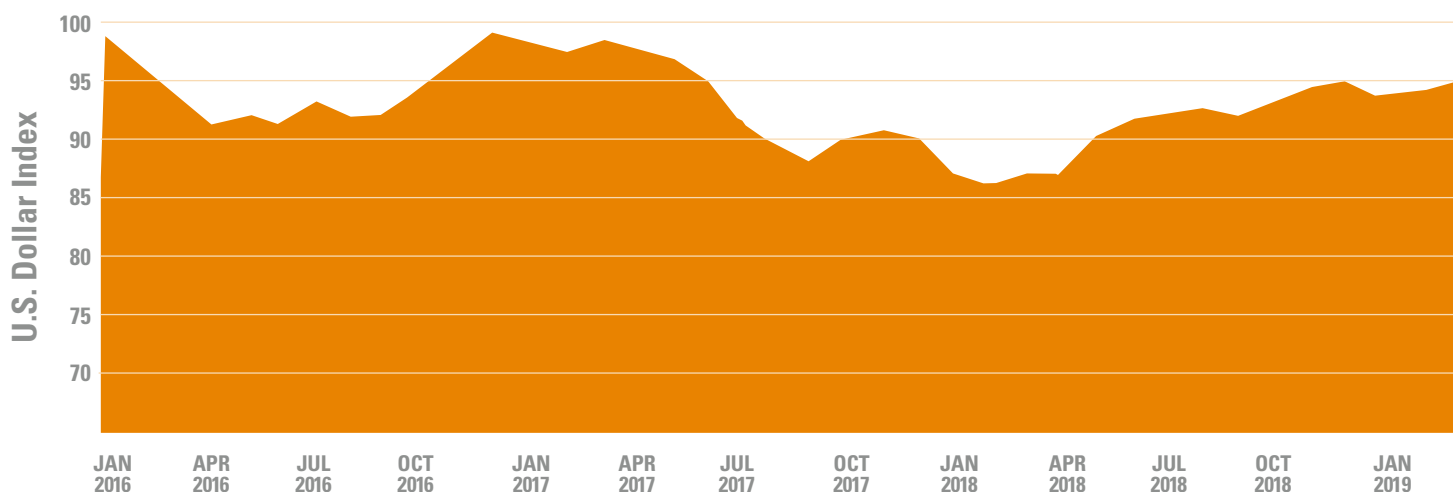
0.1%

Depreciated

Year-Over-Year:

6.2%

Appreciated



Source: Federal Reserve Bank of St. Louis

USED CAR PRICE INDEX SEES A STRONG SPRING

After month-to-month ebbs and flows, average wholesale used vehicle prices ultimately increased on a quarter-to-quarter basis by 1.1%, as expected during spring tax season. Year-over-year was a steadier story with just a moderate increase of 0.3%. Tom Kontos, Chief Economist at KAR Auction Services Inc. noted that prices for car segments are beginning to hold up better while crossover and SUV truck segments may be starting to have a tougher go. Prices were up significantly on a year-over-year basis for midsize cars, but down substantially for midsize SUVs and crossovers.¹⁵

Overall, it was a strong spring for the market with CPO sales coming in at a record high in March and all seller types registering monthly and yearly average price increases.

USED-CAR PRICE INDEX

JANUARY

Month-to-Month:

↑**1.3%**

Year-Over-Year:

↓**2.0%**

FEBRUARY

Month-to-Month:

↑**0.1%**

Year-Over-Year:

↑**0.6%**

MARCH

Month-to-Month:

↑**3.0%**

Year-Over-Year:

↑**2.5%**

“

Prices for car segments are beginning to hold up better while crossover and SUV truck segments may be starting to have a tougher go.

”

A YEAR LATER, INSURANCE CARRIER VEHICLES **GET YOUNGER**

The average actual cash value (ACV) for insurance carrier vehicles saw a modest quarter-to-quarter decline, but was up a noteworthy 5.4% year-over-year. The measure, which represents a vehicle's estimated value in an undamaged state, is a good indication of the general quality of insurance vehicles that go to auction. So what contributed to Q1's results? A younger and lower-mileage vehicle mix. Average vehicle age fell by 0.1 years, or 0.5%, from Q1 2018. Similarly, average mileage – which was slightly up for the quarter – registered a 0.7% year-over-year increase.



AVERAGE ACV

Quarter-to-Quarter:

↓ **0.1%**

Year-Over-Year:

↑ **5.4%**



AVERAGE AGE

Q1 2018:

9.6

Years

Q1 2019:

9.6

Years



AVERAGE MILEAGE

Quarter-to-Quarter:

↑ **0.7%**

Year-Over-Year:

↓ **0.5%**



CANADA
QUARTER 1 | 2019

USED VEHICLE PRICE INDEX

January:

↓ **0.4%**

February:

↑ **0.2%**

March:

↑ **0.3%**

STRONG Q1 FINISH IN CANADA

Despite monthly fluctuations, an early-year downward pattern reversed in February and March, resulting in both quarter-to-quarter and year-over-year used-car prices remaining fairly stable. The index followed suit with a stable quarter of its own.

There was quite a bit of movement in the market mix, which featured a 13% downturn in sales for passenger cars along with a drop off in pick-up truck sales. Carrying the slack were SUVs and crossovers, both of which saw increased demand in Q1.¹⁶

CANADIAN EFFECTIVE EXCHANGE RATE INDEX (CEER)

Quarter-to-Quarter:

1.4%
Increase

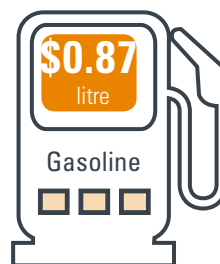
Year-Over-Year:

1.5%
Increase

ECONOMIC DRIVERS



GASOLINE PRICES



Quarter-to-Quarter:

↑ **0.8%**

Year-over-Year:

↓ **13.0%**

A YEAR LATER, ACV SHOWS SIZABLE GROWTH

Average vehicle mileage declined by 1.3% quarter-to-quarter and 3.2% year-over-year, while average vehicle age flat-lined year-over-year. These factors were reflected in the average ACV's 8.4% year-over-year growth, but were not enough to buoy the measure to a positive quarter-to-quarter mark.



AVERAGE ACV

Quarter-to-Quarter:

↓ 0.6%

Year-Over-Year:

↑ 8.4%



AVERAGE AGE

Q1 2018:

10.3

Years

Q1 2019:

10.3

Years



AVERAGE MILEAGE

Quarter-to-Quarter:

↓ 1.3%

Year-Over-Year:

↓ 3.2%

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ABOUT IAA

Founded in 1982, IAA, the leading live and live-online salvage car auction company, is headquartered in Westchester, IL and employs over 3,300 employees in more than 180 auction facilities throughout the U.S. and Canada. IAA provides global buyers opportunities to bid on and purchase total loss, donated, higher mileage, damaged, and clean-title cars utilizing cutting-edge technology. IAA's multi-platform 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](https://www.iaa-auctions.com) to learn more, and follow IAA on [Facebook](#), [Twitter](#), [LinkedIn](#) and [Instagram](#).



ABOUT THE AUTHOR

Sebastian Gancarczyk is the Vice President of Finance at IAA, Inc. 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.

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