



Insurance Quarterly Report

QUARTER 2 2017

Insurance Auto Auctions, Inc. (IAA) helps insurance carriers dispose of total loss vehicles via a dual live and live-online auction format. 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:

- Whole Crushed Auto-Body Prices
- Used-Car Price Index
- Vehicle Parts and Equipment Consumer Price Index
- Metals Prices
- New-Vehicle Sales and Total Miles Driven
- Gasoline Prices



Whole Crushed
Auto-Body Prices



Aluminum



Parts Prices



Palladium



Total Miles
Driven



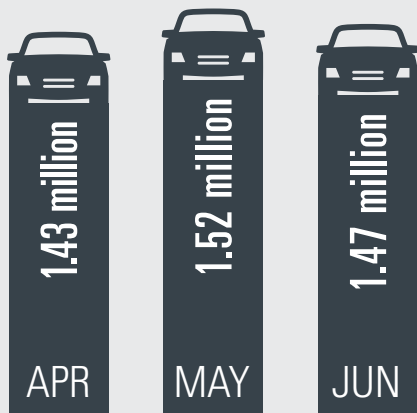
Platinum



Overview Of The Automobile Industry

Total new-vehicle sales in the second quarter of 2017 were down 2.8% from last year's second-quarter mark, and seasonally adjusted new-vehicle sales averaged 16.60 million, the lowest since Q2 2014. Sales were trending downward the entire quarter, as June marked the fourth straight month of falling new-vehicle sales. Looser loan terms and heavy consumer discounts did little to halt the fall.¹ Rising gas prices likely worked to apply downward pressure over the quarter, while steady decreases to the unemployment rate, ending the quarter at 4.4%, fought the drop off. Gas prices averaged \$2.30 for the quarter, the highest quarterly average since Q3 2015.

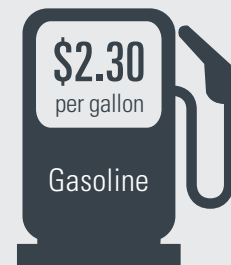
New-Vehicle Sales



Total Miles Driven

Year-over-Year
1.7%
 (excludes June data)

Economic Drivers



Top Movers



5.0%



4.1%



3.2%

Insurance Carrier Vehicles

Average vehicle age decreased on a yearly basis by 0.9%, or 0.1 years. Likewise, average mileage fell 1.7% and 2.3% relative to the past quarter and year, respectively. Mileage was up somewhat in June, however, after three straight months of negative growth. Average actual cash value (ACV) saw a 0.6% gain quarter-to-quarter, and was slightly down from the numbers hit last year. 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

Year-Over-Year

0.4% 

Quarter-to-Quarter

0.6% 

Average
Age

Q2 2016

9.4
YEARS

Q2 2017

9.3
YEARS

Average
Mileage

Year-Over-Year

2.3% 

Quarter-to-Quarter

1.7% 

Source: IAA


Scrap Metal: Whole Crushed Auto-Body Prices

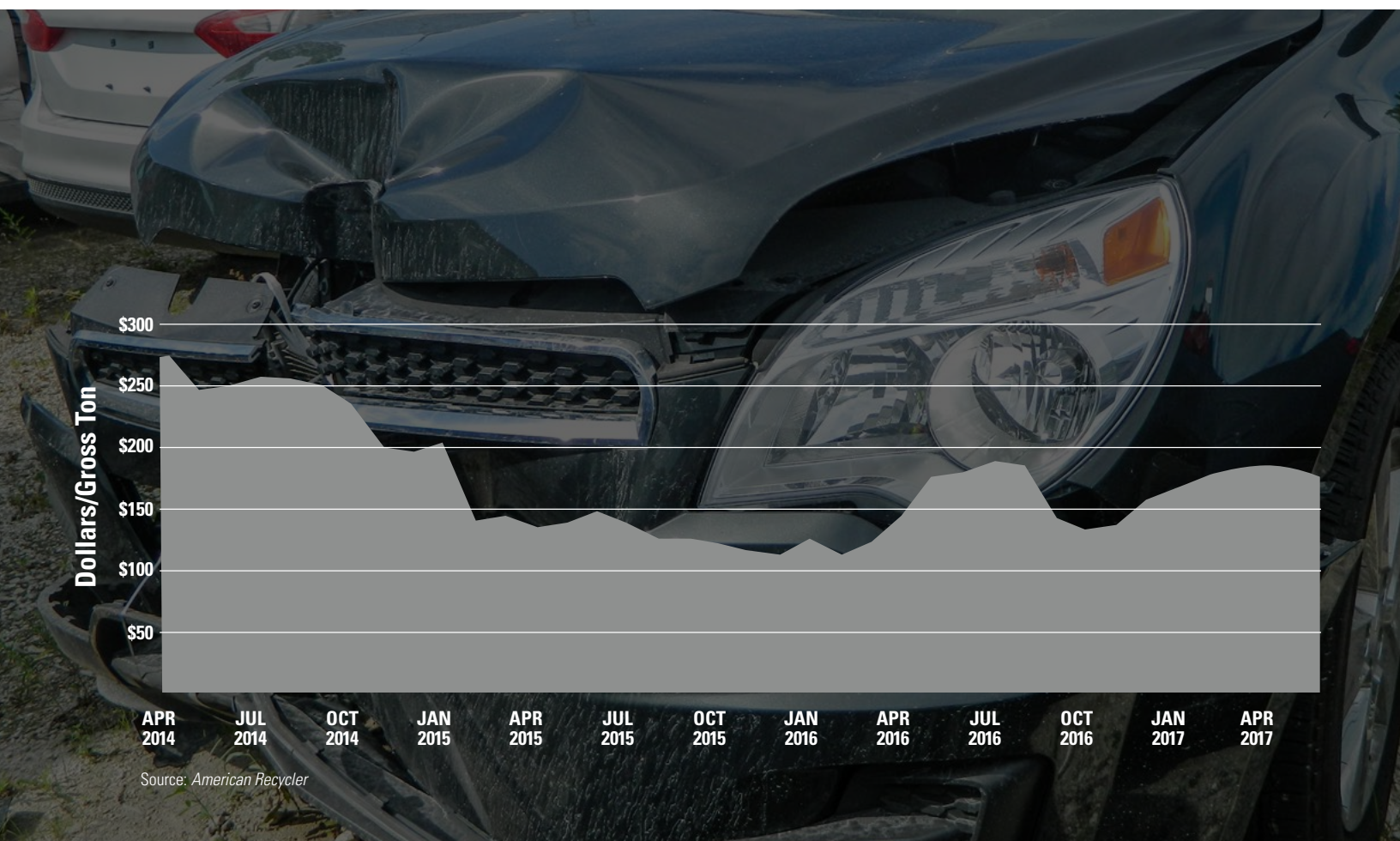
Whole crushed auto-body prices saw quarterly and yearly increases of 4.9% and 10.8% respectively in the second quarter of 2017. However, the gain in prices did not match the sharp boost observed in Q1. Moreover, steel output in China reached an all-time high in April, causing prices to drop in May. BMI research stated this price drop is largely due to steel supply outpacing the end-user demand.² 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.³

Year-Over-Year

10.8% 

Quarter-to-Quarter

4.9% 



Used-Car Price Index

Average used-car prices remained higher on an annual basis in the second quarter, rising sequentially in April, leveling in May and falling in June. Although the overall results continued to show year-over-year price gains, it must be cautioned that this is primarily a result of strength in truck prices and an inventory mix that favors younger off-lease units.⁴ According to Tom Kontos, chief economist at KAR Auction Services, Inc., “an analysis of sales prices by sale type, model-year age, mileage and model class segment” reveals that prices have softened once these factors are accounted for.⁵ This examination is “reflective of downward pressure of supply growth on used vehicle values.”⁶

April

Year-Over-Year

2.5% 

Month-to-Month

2.2% 

May

Year-Over-Year

3.9% 

Month-to-Month

0.0% 

NO CHANGE

June

Year-Over-Year

4.7% 

Month-to-Month

0.7% 

Source: ADESA Analytical Services

Vehicle Parts And Equipment Consumer Price Index

The vehicle parts and equipment CPI has remained consistent since the fall of 2015, and the second quarter of this year was no different. The index made small-but-positive gains for each month of the quarter as manufacturers passed increased labor costs to consumers,⁷ and finished with an increase of 0.4% year-over-year.

April

Year-Over-Year

0.1% 

Month-to-Month

0.1% 

May

Year-Over-Year

0.7% 

Month-to-Month

0.5% 

June

Year-Over-Year

0.5% 

Month-to-Month

0.2% 

Source: Bureau of Labor Statistics

Gasoline

Despite the recent supply gains, April's 4.3% jump in gas prices overcame reductions in May and June to leave the quarter up 2.1% from the last, and up 5.7% on a yearly basis. Compared to past years, gas prices have remained relatively low. Q2 prices were at least partially influenced by an uptick in the production of crude oil, which has increased in the U.S. due to the rapidly growing number of drilling rigs and more efficient shale drilling processes.⁸ Gasoline prices should have increased after OPEC giants Saudi Arabia and Russia made production cuts. However, an increase in fracking in the United States helped balance out the production cuts and kept the rising prices at bay.⁹ Additionally, the U.S. Energy Information Administration reported that U.S. crude oil, import crude oil and gasoline inventories at the end of May shrank well beyond the expectations of investors. As a result, gas prices jumped slightly, but have remained relatively stable due to stagnant demand and overall high oil supplies.¹⁰

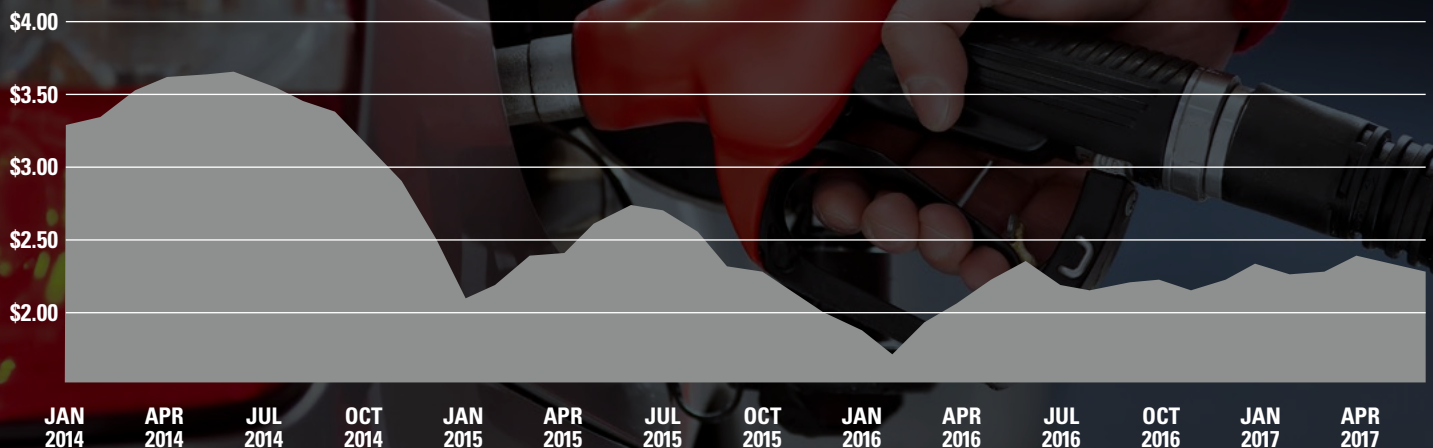
Year-Over-Year

5.7%

Quarter-to-Quarter

2.1%

U.S. Dollars per Gallon



Source: Energy Information Administration

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.¹¹ 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.¹² 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.¹³ 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.¹⁴ Additionally, the World Platinum Investment Council pointed to a reduction in jewelry and investment demands as an influence on lower platinum prices.¹⁵

Year-Over-Year

6.2% 

Quarter-to-Quarter

3.9% 

Source: Johnson Matthey

Palladium

Palladium continued its upward trend in the second quarter of 2017 to hit the highest quarterly mark since the fall of 2014. The metal edged closer to parity with platinum and finished up 44.1% and 7.0% on a quarterly and yearly basis respectively. Additionally, prices were at a 16-year high at the end of this quarter in June. The high prices can be attributed to a short supply of the metal, but also an increased demand for cars and SUVs in China.¹⁶ This performance is largely due to demand exceeding supply after long-term production deficits have used lasting stockpiles of the metal.¹⁷

Year-Over-Year

7.0% 

Quarter-to-Quarter

44.1% 

Source: Johnson Matthey

U.S. Dollar

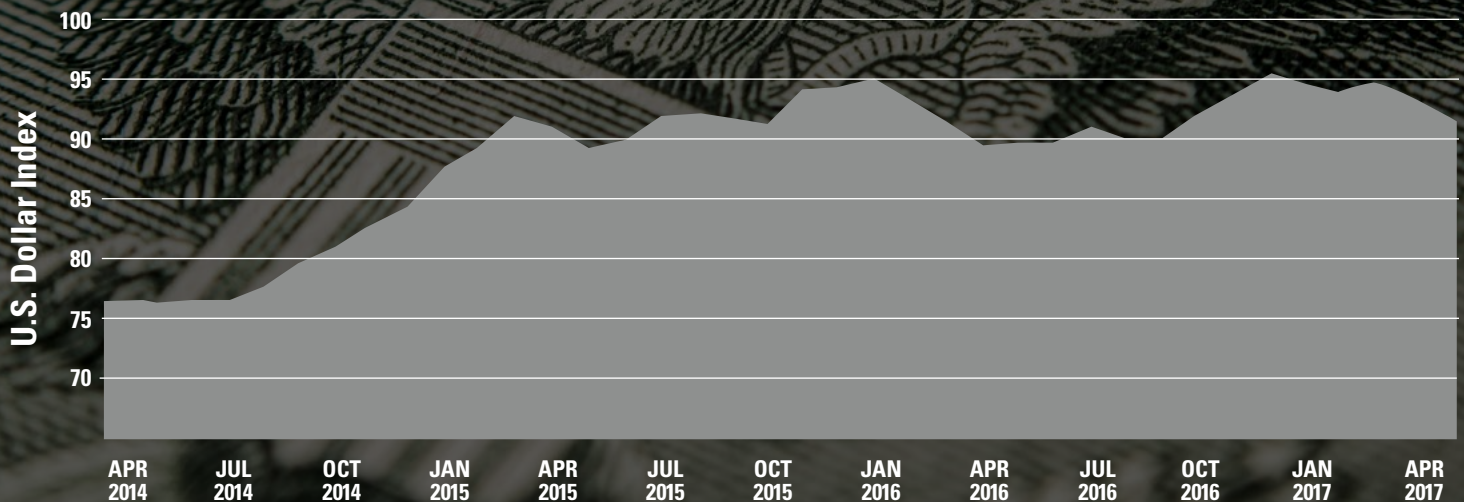
The value of the U.S. dollar remained elevated on a year-over-year basis in Q2 2017, rising 4.2% from Q2 2016, yet stuttered compared to Q1 2017, slipping 1.3%. The dollar began the quarter on a downturn as investors reacted to Washington stating in early April that the dollar was “getting too strong.”¹⁸ 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.¹⁹ 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.²⁰⁻²² 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.²³ 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 2019.²⁴ 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 2017.²⁵

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.²⁶ 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.²⁷ 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.²⁸

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 2017,²⁹ 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.³⁰ 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.³¹

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.³² Eventually, the yen felt pressure again as these safe-haven investments became less appealing.³³ 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.³⁴

Year-Over-Year

3.0% 

Quarter-to-Quarter

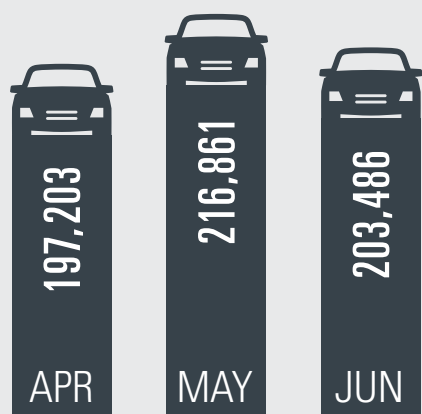
2.2% 

Source: OANDA Corp.

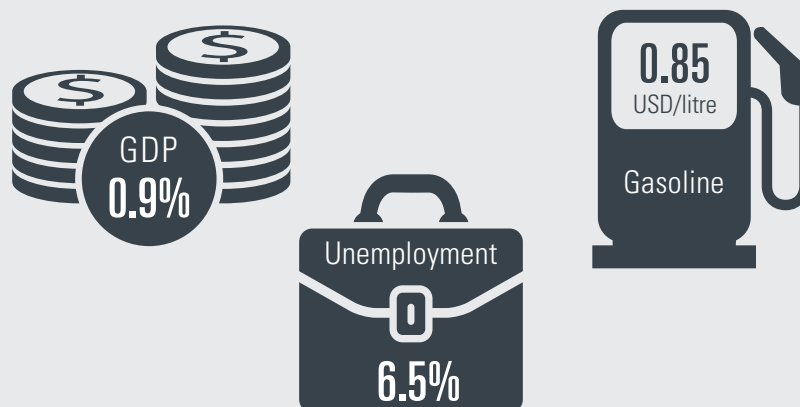
Overview Of The Canadian Automobile Industry

Canadian new-vehicle sales in Q2 extended their record performance from the first quarter. On a yearly basis, new-vehicle sales were up 5.3%. These numbers surpassed a record-setting 2016, with May and June setting new monthly records. While passenger car sales were down 2.0% on the year, this quarter's sale totals were helped largely by the continued surge in light truck demand, which were up 8.8%.³⁵ Moreover, the ADESA Canada Used Vehicle Price Index was up month-to-month for the first two months of the quarter, but down 0.2% in June.³⁶ Gas prices remain below the historical average at 0.85 USD/litre, but were slightly up relative to last quarter.³⁷ The low prices coupled with a reduction in the average unemployment rate from 6.7% to 6.5% on a quarterly basis likely assisted in the second quarter's impressive figures.³⁸

New-Vehicle Sales



Economic Drivers



Used-Car Price Index

April

Month-to-Month

0.1%

May

Month-to-Month

0.5%

June

Month-to-Month

0.2%

Source: ADESA Analytical Services

Insurance Carrier Vehicles

The average vehicle age of insurance vehicles increased on a yearly basis by 1.0%, or 0.1 years in Canada in Q2 2017. Average mileage was up 0.9% relative to the Q1, but it dropped 1.1% from a yearly perspective. Average actual cash value (ACV) saw a small gain quarter-to-quarter and was up a respectable 5.8% over last year's second quarter numbers. 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

Year-Over-Year

5.8% 

Quarter-to-Quarter

0.2% 

Average
Age

Q2 2016

10.0
YEARS

Q2 2017

10.1
YEARS

Average
Mileage

Year-Over-Year

1.1% 

Quarter-to-Quarter

0.9% 

Source: IAA

Canadian Dollar Effective Exchange Rate Index

The Canadian Dollar Effective Exchange Rate Index (CERI), which is tracked by the Bank of Canada, depreciated on a quarterly and yearly basis at 2.4% and 3.2%, respectively. Low oil prices, which represent a nontrivial portion of the country's GDP,³⁹ were partly to blame for the sequential depreciations on the index. Uncertainty around the North American Free Trade Agreement and a further widening of the benchmark interest rates between the U.S. and Canada also did not bode well for the loonie.⁴⁰ Speculation on the future of the trade agreement could have meant decreased demand for Canadian products, and higher interest rates in the U.S. increased the yield for U.S. dollar denominated assets, all else equal. These two outcomes ended up putting downward pressure on the Canadian dollar. However, after the end of the quarter, Bank of Canada indicated its intention to raise interest rates in July for the first time in seven years, a move that could bolster the value of the Canadian dollar in future.⁴¹

Year-Over-Year

3.2%

Quarter-to-Quarter

2.4%



Source: Bank of Canada

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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

Meggan O'Malley is manager of sales analysis at Insurance Auto Auctions, Inc. (IAA). Mrs. O'Malley leads the organization's efforts in monitoring and reporting on customer performance and analyzing industry trends. Mrs. O'Malley joined IAA in 2007 and held several positions before assuming her current responsibilities. Prior to joining IAA she served as a financial analyst at Grant Thornton, one of the world's leading organizations of independent audit, tax and advisory firms. Mrs. O'Malley holds bachelor's degrees in finance and marketing from Marquette University, and an MBA with a concentration in management from Argosy 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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