



Q2

# INSURANCE REPORT

The Facts and Figures Behind  
Your Auction Returns



Quarter 2 | 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, from collision, storm or flood damage to 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



TOTAL MILES  
DRIVEN



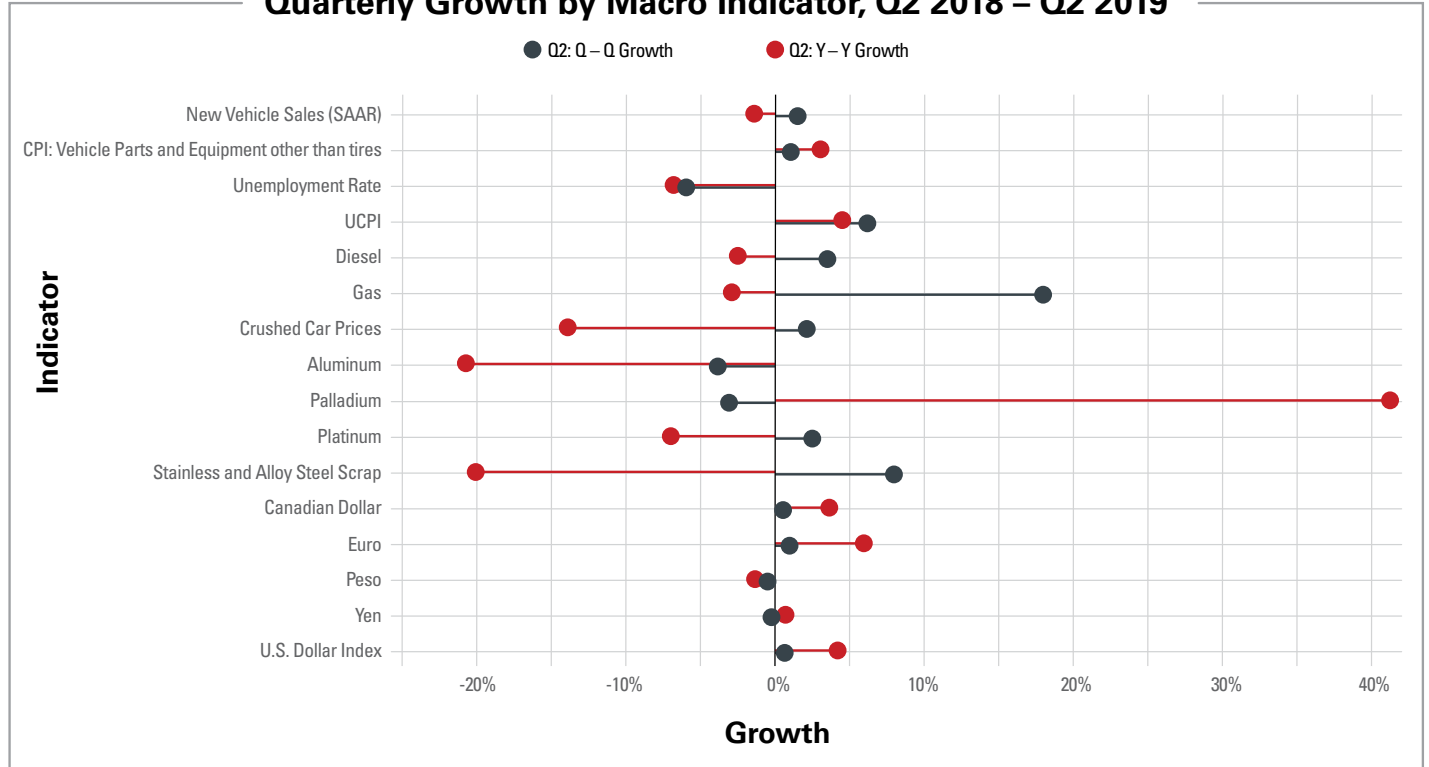
FUEL PRICES



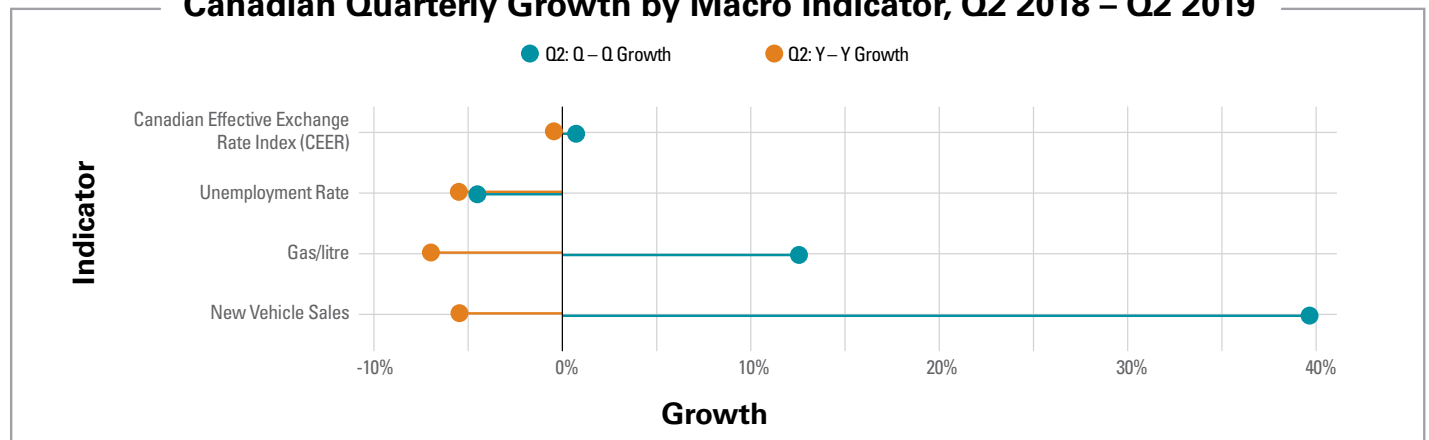
U.S. DOLLAR

# AUTO TRENDS **AT A GLANCE**

## Quarterly Growth by Macro Indicator, Q2 2018 – Q2 2019



## Canadian Quarterly Growth by Macro Indicator, Q2 2018 – Q2 2019



# UPS AND DOWNS AT 2019'S HALFWAY POINT

U.S. auto sales declined steadily at 2.4% for the first half of 2019.<sup>1</sup> According to the NADA, vehicle sales continued to slow as a result of competition from nearly-new off-lease vehicles, rising new vehicle costs, and higher interest rates in the early part of the year. As for light-vehicle sales, there was a slight decline of 1.2% compared to Q2 of last year, ending with a seasonally adjusted annual rate (SAAR) of 16.94 million units.

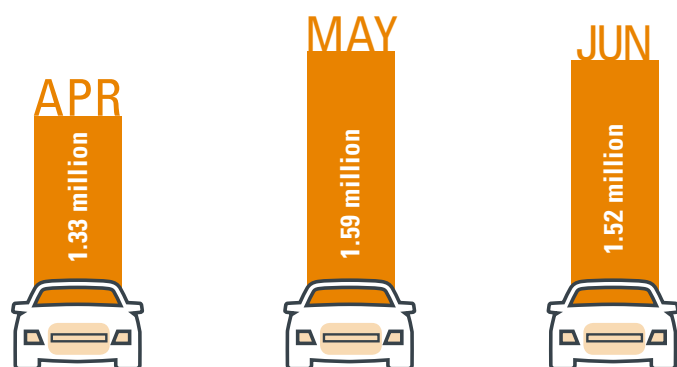
In the first half of 2019, light trucks represented over 70% of all new light-vehicle sales. The crossover and pickup segments posted market share gains of 1.5 and 1.0 percentage points, respectively.<sup>2,3</sup> Compared to June of 2018, passenger-car sales continued to decline, with a drop of almost 10%.<sup>4</sup> Average new and used vehicle pricing continued to grow, as reported by the NADA's average dealership profile, with YTD increases of 3.3% and 2.2% respectively.<sup>5</sup>

Fuel prices trended upward in the second quarter of 2019, with gas prices averaging \$2.68 and diesel prices averaging \$3.12. The state of the U.S. economy remained relatively strong with unemployment around 3.7% and GDP growth at 2.1%.<sup>6</sup>

## Quarter-to-Quarter:



## NEW VEHICLE SALES



## GASOLINE

Quarter-to-Quarter:

↑ **17.8%**

Year-Over-Year:

↓ **2.8%**

## DIESEL

Quarter-to-Quarter:

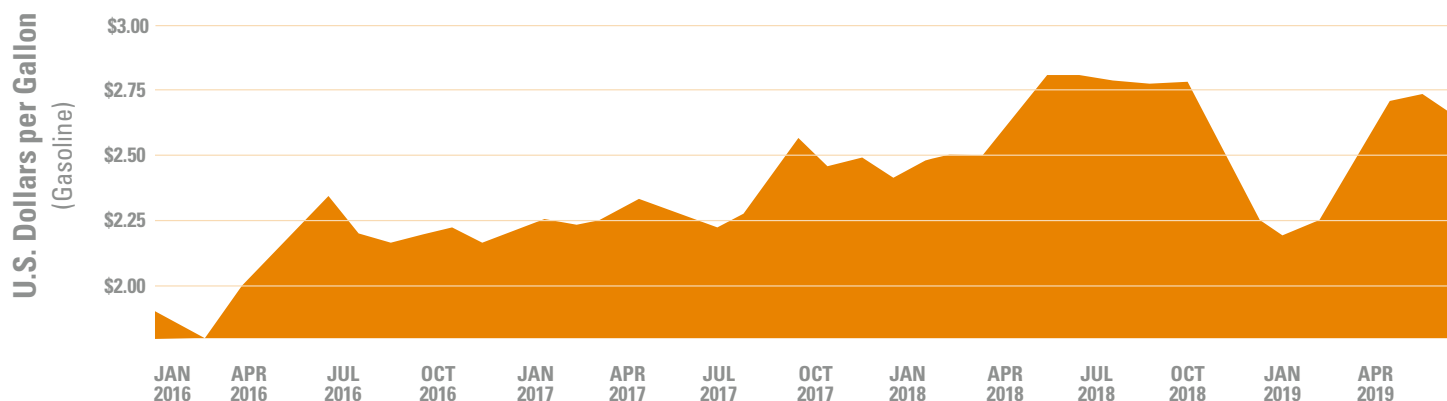
↑ **3.5%**

Year-Over-Year:

↓ **2.3%**

## FOR FUEL, EVERYTHING IS ON THE RISE

Gas prices increased by 17.8% since Q1 of 2019, however they are down 2.8% relative to this time in 2018. Diesel prices followed a similar upward trend, but with more modest gains of 3.5% since Q1. The global economy slowing down paired with trade tensions between China and the U.S. have weakened the long running demand for energy, but the supply-side shocks have been driving prices up. Oil prices have risen compared to the lows seen in 2018, due to strategic production cuts from OPEC. To fill this void, the U.S. expanded their oil production efforts, which has increased their global market share.<sup>7,8</sup>



Source: Energy Information Administration





# WHOLE CRUSHED AUTO-BODY PRICE DECLINE CONTINUES

Whole crushed auto-body prices continued their downward trend in Q2 with a decrease of 6.1% and a year-over-year decline of 21.0%. This is the fourth quarter in a row that prices have declined. Sluggish new car sales during the first half of 2019 have resulted in lower demand for steel, putting downward pressure on scrap auto-body prices. This was further compounded by the chilling effect that the continuing trade tensions between the U.S. and China are having on demand for steel.<sup>9</sup>

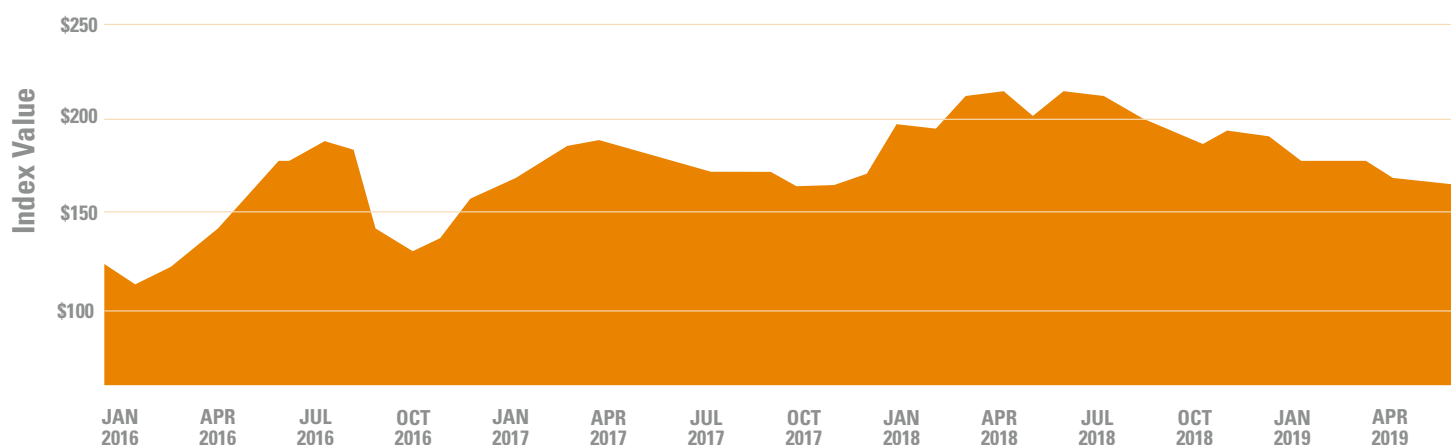
## WHOLE CRUSHED AUTO-BODY PRICES

Quarter-to-Quarter:

↓ **6.1%**

Year-Over-Year:

↓ **21.0%**



Source: American Recycler

# FOR THREE METALS TRADE TENSIONS LOOM

Platinum prices grew by 2.7% quarter-to-quarter, but declined 6.9% from 2018. Q2's prices represent a significant decrease from two to three years prior when they were roughly 25% higher. The small uptick this quarter can be attributed largely to speculative activity. The market is, however, still facing a weak demand and an excess supply, keeping those long-term prices low.

Palladium and aluminum had very similar quarter-to-quarter declines of 3.2% and 3.9%, but differed year-over-year to the tune of 42.6% and -20.8%, respectively. Although the price of palladium decreased modestly this quarter, it remains at record high prices. Palladium has had historic price gains over the past few years, driven by a shortage of the rare metal used in catalytic converters.<sup>10</sup>

The market for aluminum is a bit puzzling. At first glance, one would expect the trade war with China to increase prices. However, aluminum prices continue to fall, potentially due to China's stronghold of semi-finished exports on world markets. This, coupled with slowing global demand, could potentially explain the unexpected decrease in the price. China has recently started to slow their production, which could provide relief to this market moving forward.<sup>11</sup>



## PLATINUM

Quarter-to-Quarter:

↑2.7%

Year-Over-Year:

↓6.9%

## PALLADIUM

Quarter-to-Quarter:

↓3.2%

Year-Over-Year:

↑42.6%

## ALUMINUM

Quarter-to-Quarter:

↓3.9%

Year-Over-Year:

↓20.8%

# EVEN AMIDST RATE DROP U.S. DOLLAR STILL SHINES

The U.S. dollar continued its longer-term trend of appreciation in Q2, posting quarter-to-quarter gains of 0.8%. The figure is now up 4.4% from the same time in 2018. Until the end of the quarter, the Federal Reserve was pursuing slow and steady interest rate increases and monetary policy tightening. At the same time, many of the developed countries across the world have been focused on monetary policy easing strategies (such as lower interest rates, along with other unconventional monetary policy tools) to strengthen their slowly growing economies. The rising rates in the U.S. coupled with the falling rates abroad have made the dollar more attractive over the past year. This trend continued despite talks of the Federal Reserve conducting their first rate cut since the financial crisis, which ultimately happened shortly after the end of Q2. Essentially, the U.S. dollar has benefited from the stronger growth of its own economy relative to the slower growth of other larger, developed countries.<sup>12</sup>

## U.S. DOLLAR

Quarter-to-Quarter:

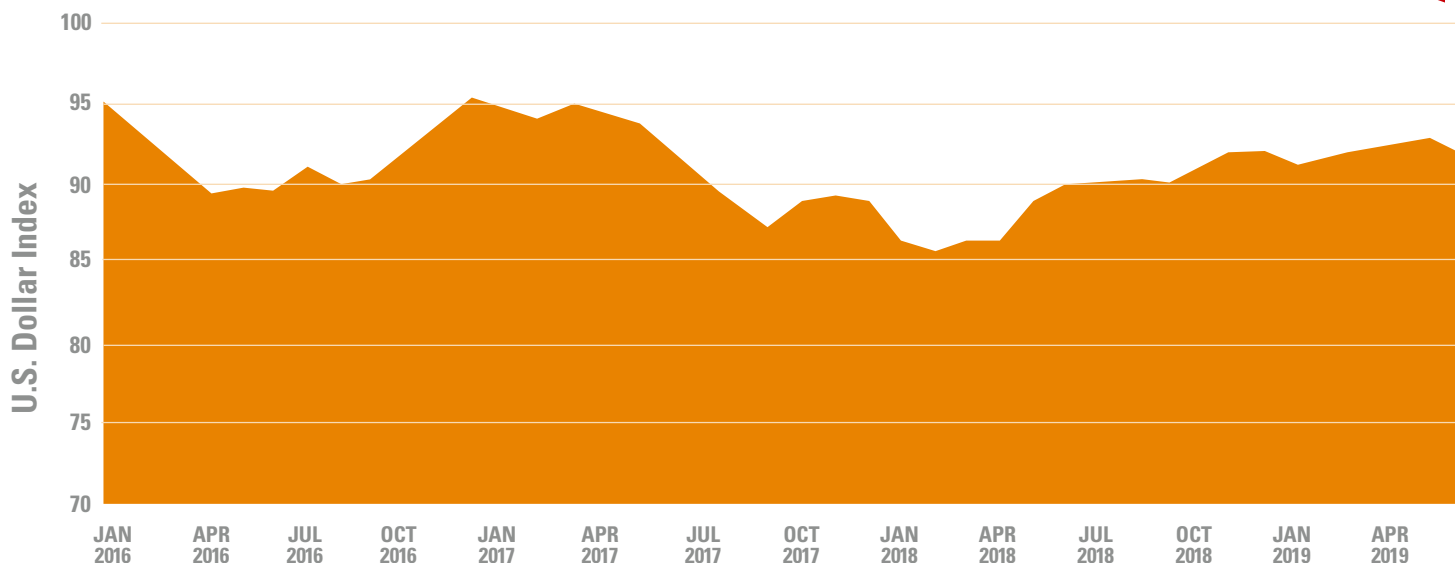
**0.8%**

Appreciated

Year-Over-Year:

**4.4%**

Appreciated





# USED CAR PRICES MEET EXPECTATIONS

Average wholesale used vehicle prices increased in Q2, which was expected according to historical seasonal trends. Prices were up by 6.2% from the previous quarter, with a 4.5% year-over-year increase. According to Tom Kontos, Chief Economist at KAR Auction Services, Inc., car and SUV crossover prices had the weakest performance, while van and pickup types fared better. Once again, prices were up significantly on a year-over-year basis for midsize cars, while midsize SUVs and crossovers saw more modest gains. The market has improved for CPO sales this year, and have only had a slight decline of 0.2% compared to Q2 of 2018. Wholesale prices are continuing to rise, although Kontos points out there is usually a “seasonal softening” this time of year.<sup>13</sup>

## USED CAR PRICE INDEX

### APRIL

Month-to-Month:

↑**3.6%**

Year-Over-Year:

↑**3.4%**

### MAY

Month-to-Month:

↑**1.5%**

Year-Over-Year:

↑**4.9%**

### JUNE

Month-to-Month:

↓**1.6%**

Year-Over-Year:

↑**5.4%**

“The market has improved for CPO sales this year, and have only had a slight decline of 0.2% compared to Q2 of 2018.”

# DESPITE OLDER VEHICLE MIX

## ACV ON THE RISE

Average vehicle age grew by 0.1% on a yearly basis, while average mileage remained flat relative to Q1 and grew 1.8% year-over-year. Despite a modestly older and higher-mileage vehicle mix, average actual cash value (ACV), which is a representation of a vehicle's estimated value in an undamaged state, increased by 1.7% on a quarterly basis and 4.0% from 2018's Q2 mark. This figure serves as a benchmark for the general quality of insurance vehicles that make their way to auction.



### AVERAGE ACV

Quarter-to-Quarter:

↑1.7%

Year-Over-Year:

↑4.0%



### AVERAGE AGE

Q2 2018:

9.2

Years

Q2 2019:

9.2

Years



### AVERAGE MILEAGE

Quarter-to-Quarter:

0.0%

Year-Over-Year:

↑1.8%

**IMPACT™**  
 AUTO AUCTIONS

**CANADA**  
 QUARTER 2 | 2019

## USED VEHICLE PRICE INDEX

April:

 ↓ **0.2%**

May:

 ↓ **0.3%**

June:

 ↑ **0.1%**

# IN CANADA MOMENTUM CONTINUES

Canada's economic indicators were encouraging in Q2 of 2019. GDP expanded by 0.3% in April and 0.2% in May, while unemployment fell 0.3 percentage points, finishing the quarter at 5.5%. These healthy numbers have helped foster a 0.5% appreciation of the Canadian dollar during the quarter. However, the Canadian Dollar Effective Exchange Rate (CEER) is still down 0.5% compared to Q2 2018. Meanwhile, gas prices increased 12.6% during the quarter. This was not surprising as the summer driving season begins, but overall, prices are nearly 7% lower than they were this time last year. Increasing trade tensions between the U.S. and China, along with lower global demand for oil, have resulted in these falling oil and gas prices.<sup>14</sup>

Despite some healthy economic indicators, new vehicle sales continued their downward trend with year-over-year sales declining by 5.3%. Additionally, the rising cost of new vehicles and higher interest rates compared to previous years continue to push buyers away from new vehicles.<sup>15,16,17</sup>

The ADESA Canadian Used Vehicle Price Index remained relatively flat, down 0.09% from the previous quarter, but on a year-over-year measure, it was up overall by 0.3%.

## CANADIAN EFFECTIVE EXCHANGE RATE INDEX (CEER)

Quarter-to-Quarter:

**0.6%**

Increase

Year-Over-Year:

**0.5%**

Decrease

## ECONOMIC DRIVERS

Q2 Growth

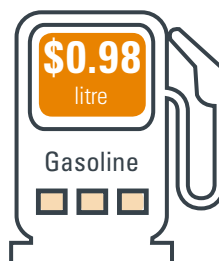


## GASOLINE PRICES

Quarter-to-Quarter:

 ↑ **12.6%**

Year-Over-Year:

 ↓ **7.0%**


# ACV GOING UP NORTH OF THE BORDER

Average vehicle mileage decreased 0.8% quarter-to-quarter and 3.0% year-over-year, while average vehicle age held steady on a yearly basis. These factors were reflected in average ACV's 8.4% year-over-year, and 5.2% quarter-to-quarter increases.



## AVERAGE ACV

Quarter-to-Quarter:

↑ **2.5%**

Year-Over-Year:

↑ **5.2%**



## AVERAGE AGE

Q2 2018:

**10.0**

Years

Q2 2019:

**10.0**

Years



## AVERAGE MILEAGE

Quarter-to-Quarter:

↓ **0.8%**

Year-Over-Year:

↓ **3.0%**

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# ABOUT IAA

IAA, Inc. (NYSE: IAA) is a leading global marketplace connecting vehicle buyers and sellers. Leveraging leading-edge technology and focusing on innovation, IAA's unique multi-channel platform processes more than 2.5 million vehicles annually. Headquartered near Chicago, IL, IAA has over 3,600 talented employees and over 190 facilities throughout the US, Canada and the United Kingdom. IAA provides a broad range of services to insurers, fleet and rental companies, rebuilders, charity organizations and financing companies that reduce the cycle time of selling a vehicle with a focus on delivering the highest economic returns. Buyers have access to the industry's most-innovative vehicle evaluation and bidding tools, enhancing the overall purchasing experience. 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.

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 based on management's current expectations, are not guarantees of future performance and 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. These risk and uncertainties include those identified in our filings with the Securities and Exchange Commission (the "SEC"), including under "Risk Factors" in our information statement filed as Exhibit 99.1 to our Registration Statement on Form 10 filed with the SEC on June 13, 2019. Additional information regarding risks and uncertainties will also be contained in subsequent quarterly and annual reports we file with the SEC. The forward-looking statements included in this report are made as of the date of this report, and we undertake no obligation to publicly update or revise any forward-looking statement to reflect new information or events, except as required by law.