



# Specialty Quarterly Report

## QUARTER 1 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

Strong month-to-month increases in January and February helped the Truck Sale Price Index to finish the first quarter at its highest mark since March of 2015, up 10.2% from last year. The National Automobile Dealers Association identified truck prices in the retail market to have increased due to a newer mix of vehicles and fewer low-cost vehicles sold.<sup>1</sup> These factors may have spilled over into the salvage market, leading in part to the quarter's observed price increases. What's more, the Bureau of Transportation Statistics' Truck Tonnage Index climbed to a seasonally-adjusted mark of 138.4 in February, the highest mark since the index's peak in July 2016. Truck tonnage is a useful proxy for truck demand, so the boost in the tonnage index likely supported the impressive Truck Sale Price Index's first quarter results.<sup>2</sup>

Year-Over-Year

10.2% 

Quarter-to-Quarter

4.5% 

Source: IAA

## Trailer

While the other specialty vehicle indices saw impressive first-quarter gains, the Trailer Sale Price Index underwhelmed both on a quarter-to-quarter and yearly basis. The quarterly result is a bit misleading as November's index hit an unseasonably high number from which the index is now stabilizing. There are still positives to be gleaned, however, as February net trailer orders beat its mark from last year, and refrigerated and dry van orders stayed on pace for the same month as well.<sup>3</sup> Class 8 trailers made a 42% gain over last year's March number, which made for the largest percentage gain in the first quarter among all trailer class types.<sup>4</sup>

Year-Over-Year

2.9% 

Quarter-to-Quarter

4.4% 

Source: IAA



## Equipment

Equipment sale prices made a notable start to 2017, increasing 18.3% on a quarter-to-quarter basis and a yearly percentage gain of 58.6%. The index regained footing in January from a sharp sequential drop of 20.7% in December, with a full recovery completed in February. March stayed on pace with February, but was up 37.6% from the same time last year. Expectations of stronger growth in foreign markets and a variety of fiscal spending projects in China helped propel the index to the impressive quarterly estimates.<sup>5</sup> Rising commodity prices have also put upward pressure on prices.<sup>6</sup> Additionally, the Equipment Leasing and Finance Industry Confidence Index hit an all-time high in January, suggesting favorable conditions for equipment sales.<sup>7</sup>

Year-Over-Year

**58.6%**

Quarter-to-Quarter

**18.3%**

Source: IAA

## Boat

Boat prices saw another quarter of year-over-year growth, up 26.6% on a yearly basis. A report from Statistical Surveys showed an industry sales increase of 9.5% for the month of January,<sup>8</sup> which was followed up by strong February and March index numbers with 8.3% and 5.7% sequential gains, respectively. The March index mark was good enough for the second-highest on record. Further contributing to the evidence of robust boat demand, a survey conducted at Baird showed 80% of retailers reported new-boat sales growth in February and 66% in March.<sup>9</sup> These indicators are supportive of a healthy demand-side push for the industry and are likely the main reason for the observed increases in the index.

Year-Over-Year

**26.6%**

Quarter-to-Quarter

**10.8%**

Source: IAA

## Motorhome

Sequential monthly price increases led the motorhome price index to a 6.6% increase on a quarterly basis. Coming off a down fourth quarter 2016, the quarterly price index made a full recovery back to third quarter 2016 levels, which was backed by strong shipment numbers from both towable RVs and motorhomes.<sup>10</sup> February motorhome shipments received a huge boost from Class C and Class B segments, up 35.0% and 63.5%, respectively. In March, RV wholesale shipments totaled their highest monthly mark on record to help the index finish off the quarter up 9.5% on a yearly basis.<sup>11</sup>

Year-Over-Year

**9.5%**

Quarter-to-Quarter

**6.6%**

Source: IAA



# Scrap Metal: Whole Crushed Auto-Body Prices

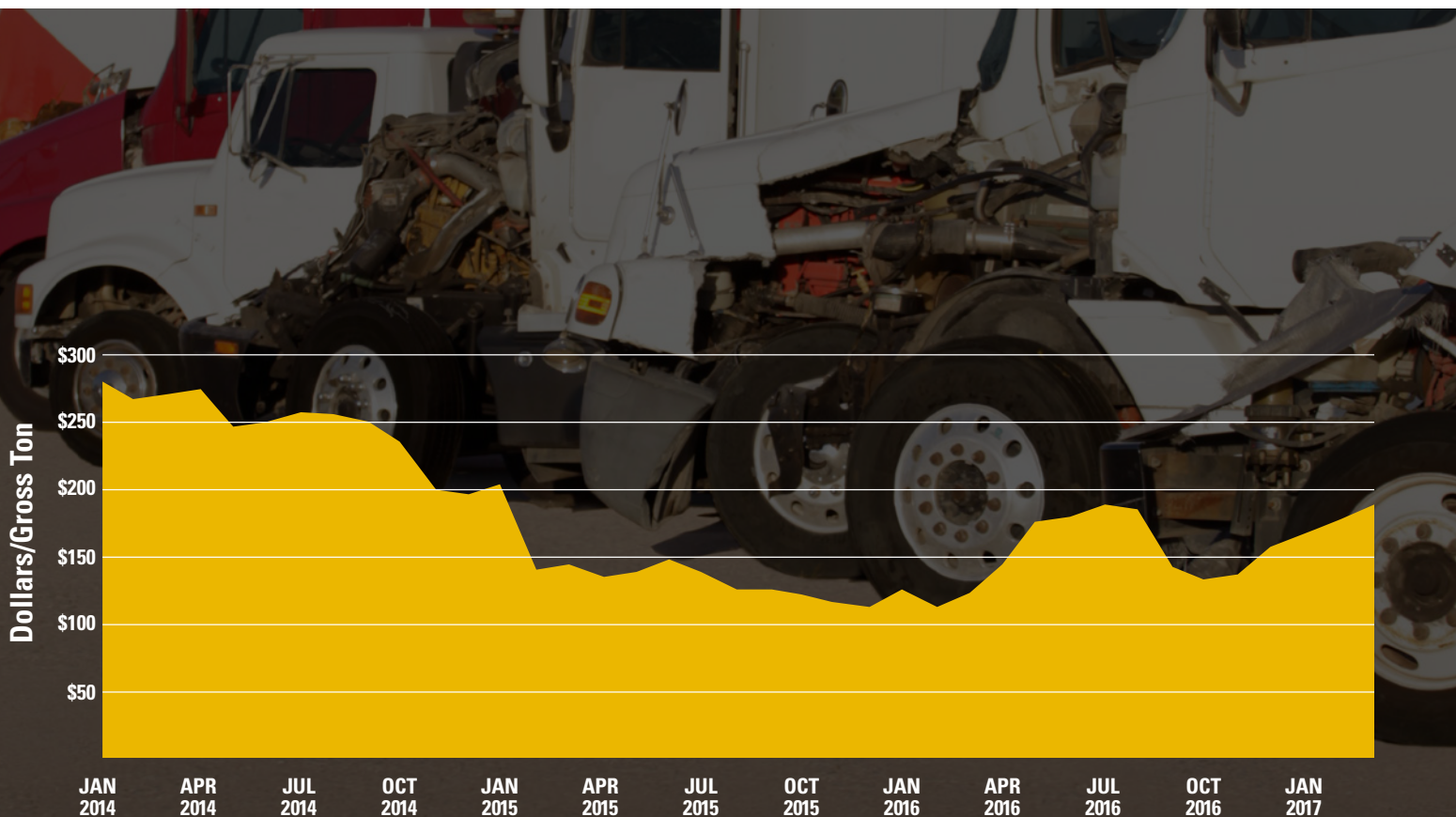
Overall, whole crushed auto-body prices extended their recent gains in the first quarter of 2017, hitting the highest quarterly mark since the fourth quarter of 2014. Prices were up 24.4% compared to Q4 2016 and 47.0% year-over-year, though these heady numbers are less impressive when taken in the context of the historic price lows of recent years. Gains in steel prices helped push up the value of crushed cars, particularly in the first two months of the year.<sup>12</sup> Chinese supply continues to dominate the steel price discussion as an anticipated reduction in production has positively affected the metal's value.<sup>13</sup>

Year-Over-Year

47.0% 

Quarter-to-Quarter

24.4% 



Source: American Recycler

# Metals

## Aluminum

Aluminum prices realized a fifth-consecutive quarter of sequential growth after climbing 8.2% in the first quarter of 2017. The current rise can at least somewhat be attributed to growing demand for the material due to positive signals of U.S. infrastructure investment as well as more strict Chinese industry emission regulations.<sup>14</sup> Likewise, Chinese infrastructure development also contributed to the strong quarter for aluminum. Altogether, Alcoa, one of the world's largest producers of aluminum, expects the surplus to ease this year due to a predicted 4% growth in global demand, with a 6% demand growth expected in China alone.<sup>15</sup>

Year-Over-Year

22.2% 

Quarter-to-Quarter

8.2% 

Source: World Bank

## Platinum

Platinum prices remain low by historical standards, but the metal rallied slightly in the first quarter of 2017, rising to better than \$1,000/ounce for the first time since October 2016.<sup>16</sup> Though supported by steady vehicle sales in the U.S. and China, continued reduction in the market share of diesel engine vehicle sales in Europe has put downward pressure on platinum prices as a whole so far in 2017.<sup>17</sup>

Year-Over-Year

7.3% 

Quarter-to-Quarter

3.7% 

Source: Johnson Matthey

## Stainless Steel

Stainless steel made its biggest year-over-year gain since the second quarter of 2010. The metal rose 35.3% from the historically low prices of early 2016, and rose 10.7% from an already strong performance last quarter. Stricter pollution standards and the inability of companies to receive approval for new projects by the Chinese government has led to a reduction in stainless steel supply, which has put upward pressure on prices.<sup>18</sup> Additionally, stainless steel gains can be attributed to rising prices in chrome ore, a component used in the production of the metal.<sup>19</sup>

Year-Over-Year

35.3% 

Quarter-to-Quarter

10.7% 

Source: Johnson Matthey

# U.S. Dollar

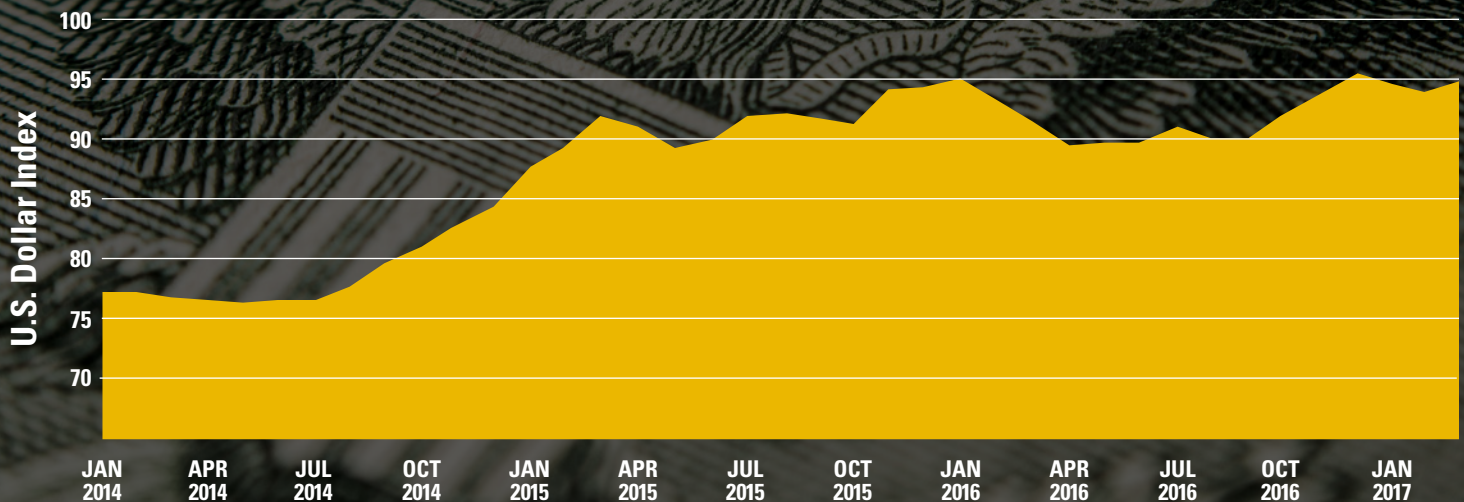
The value of the U.S. dollar continued its strong performance in the first quarter of 2017, rising 0.9% from Q4 2016 and 1.4% year-over-year. The U.S. dollar picked up steam in March – up 3.6% from the same month last year – after being down in both January and February. Higher interest rates are typically associated with an appreciation of the U.S. dollar, and as expected, the Federal Reserve raised the federal funds rate another 25 basis points to a range of 0.75% to 1% in mid-March amid strengthened employment numbers and modest inflation.<sup>20</sup> However, domestic policy likely held the dollar back slightly. Following the inability to repeal the Affordable Care Act in late March, investors showed skepticism about the administration's ability to enact other plans for fiscal spending, and pushed some to seek investments in other currencies.<sup>21</sup>

Year-Over-Year

1.4%

Quarter-to-Quarter

0.9%



Source: Federal Reserve Bank of St. Louis

## Euro

The euro made its biggest year-over-year depreciation since the fourth quarter of 2015, falling 3.5% in Q1 2017. Continued uncertainty about U.S. policies and their implications drove the euro up in January and February, but it was still down from the same months last year.<sup>22</sup> However, while consumer confidence could be described as uneasy with upcoming elections in European Union states, and the fact that many investors are still uncertain about the impacts of Brexit,<sup>23</sup> the euro was slightly balanced out with encouraging construction numbers. The currency depreciated at 1.1% for the quarter.<sup>24</sup>

Year-Over-Year

3.5%

Quarter-to-Quarter

1.1%

Source: OANDA Corp.

## Canadian Dollar

The Canadian dollar appreciated against the U.S. dollar in January and February, and was up 0.9% from Q4 2016. Canada saw job growth of more than 15,000 in February, which likely contributed to the loonie's rise. However, it took a step back in March, which prevented a larger quarter-to-quarter change.<sup>25</sup> Canada's central bank decided to keep its primary interest rate unchanged at 0.5% in mid-January, which resulted in a 1% drop in the value of the loonie for the first few hours after the announcement before guiding the currency to a relatively stable first quarter. The Bank of Canada has indicated a willingness to cut rates further this year in light of concerns over U.S. trade policy – which accounts for 75% of Canada's exports – and expectations of higher fiscal spending in the U.S.<sup>26</sup>

Year-Over-Year

3.7%

Quarter-to-Quarter

0.9%

Source: OANDA Corp.

## Mexican Peso

The Mexican peso turned things around against the U.S. dollar since mid-January, reversing a long-term trend of depreciation and earning the top spot against the dollar compared to changes in 52 other major currencies.<sup>27</sup> Banxico, the Mexican central bank, lifted its interest rate by 50 basis points in early February, making the peso more attractive to investors. As a result, the peso had a 0.8% appreciation against the dollar on the day of the announcement.<sup>28</sup> Statements from the White House that NAFTA renegotiations would benefit Mexico, and the fact that Mexico's credit rating is less likely to be cut also played a role in the Q1 2017 rebound.<sup>29</sup>

Year-Over-Year

12.6%

Quarter-to-Quarter

1.9%

Source: OANDA Corp.

## Japanese Yen

Appearing to have bounced back from its depreciation shortly after the U.S. election, the yen strengthened throughout Q1 2017 from the near-yearly low set in December 2016 as Japan continues its run of a negative nominal interest rate, currently set at -0.1%.<sup>30</sup> In March, investors retreated to what they believed were safer currencies after Congress failed to vote on the American Health Care Act. That resulted in the yen seeing a high of 110.42 JPY/USD.<sup>31</sup> However, the differentials between U.S. and Japanese interest rates continued to put downward pressure on the yen.

Year-Over-Year

1.4%

Quarter-to-Quarter

3.7%

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](http://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.

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.

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