



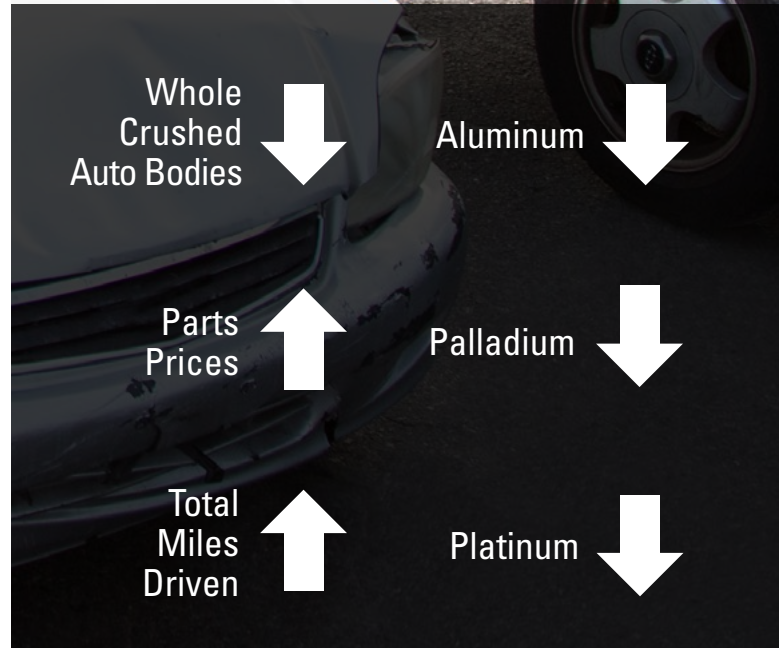
# Insurance Quarterly Report

## QUARTER 1 2016

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



# Insurance Carrier Vehicles

The average actual cash value (ACV) of insurance vehicles increased 2.1% year-over-year, despite a slight quarterly decline. ACV represents the estimated value of a vehicle in its undamaged state, and serves as a benchmark for the general quality of vehicles making their way to auction. The year-over-year increase is no surprise when you consider both average age and mileage decreased annually.

Average  
ACV

Year-Over-Year

2.1% 

Quarter-to-Quarter

1.4% 

Average  
Age

Q1 2015

9.9  
YEARS

Q1 2016

9.8  
YEARS

Average  
Mileage

Year-Over-Year

3.0% 

Quarter-to-Quarter

0.1% 

Source: IAA

# Scrap Metal: Whole Crushed Auto-Body Prices

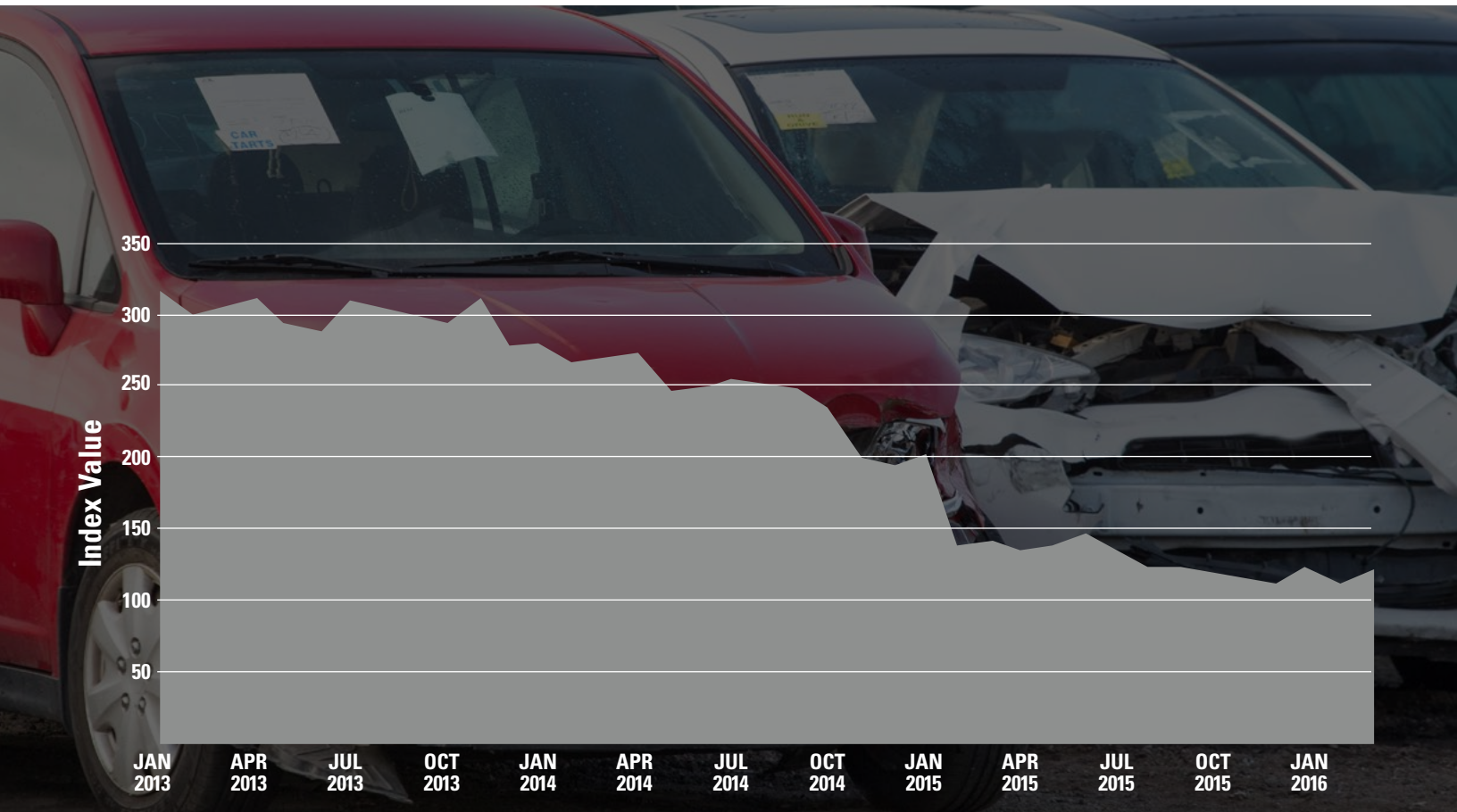
The first quarter brought welcome news as whole crushed auto-body prices increased 3.1% relative to the prior quarter. It's not time to break out the champagne and party hats just yet, however, as a 26.0% year-over-year decline during the same period illustrates the depths to which this category has sank in recent years. But there does appear to be some cause for cautious optimism. In January, the metric posted its first monthly gain since June of 2015, and while prices did soften in February, they recovered in March as buyers increased orders in anticipation of a potential April rally.<sup>1</sup>

Year-Over-Year

**26.0%**

Quarter-to-Quarter

**3.1%**



Source: American Recycler

# Used-Car Price Index

Used-car prices increased during the first quarter, rising 0.6% year-over-year. Weak performance in February which could have derailed the gain was overcome by strong results in January and March. The diverse economic forces that influence vehicle values were on display, as a tale of two categories emerged during the period. The truck market benefited from low gas prices and falling supply, but prices fell for every car and crossover segment as the much-maligned oversupply issue continued to take its toll.<sup>2</sup> Thanks to early tax refunds, consumers had money to spend in March, which led to a 1.7% and 6.0% gain year-over-year and month-to-month, respectively.

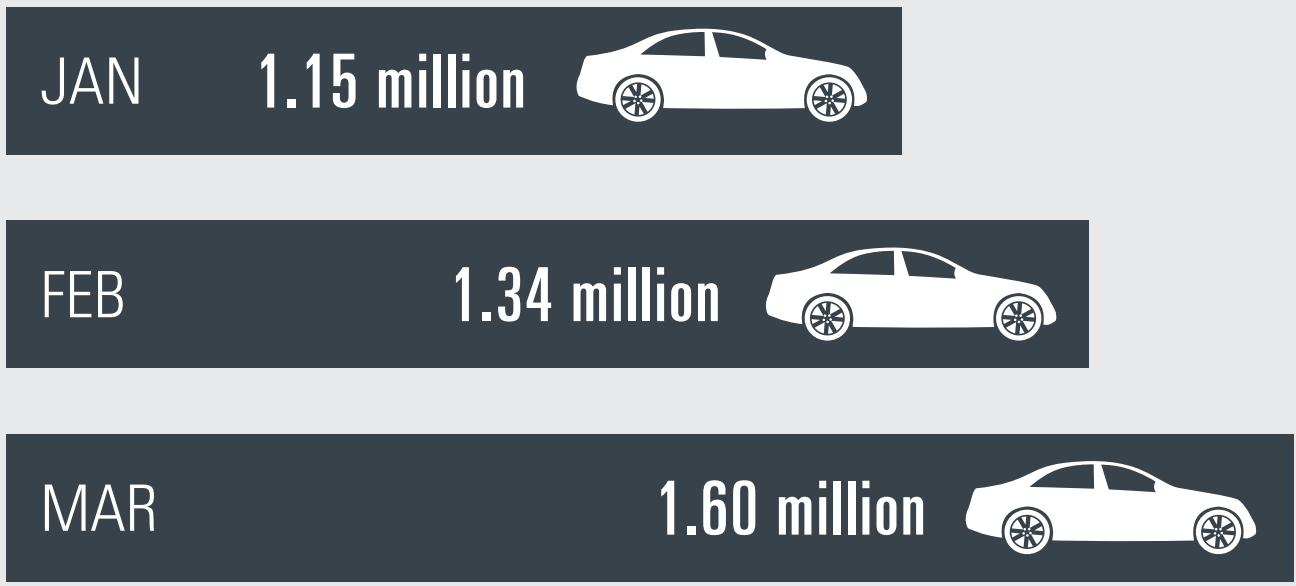


Source: ADESA Analytical Services

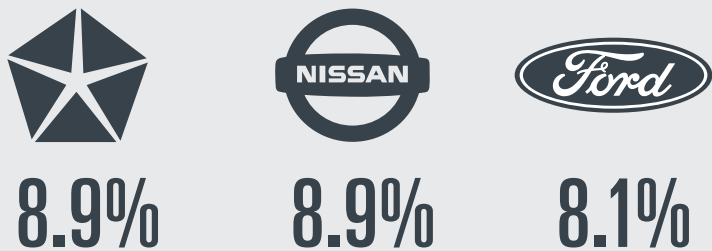
# New-Vehicle Sales And Total Miles Driven

New-vehicle sales were up 3.4% year-over-year during the first quarter of the year, outpacing what turned out to be a record-breaking 2015. The industry welcomed this news, but some analysts warned dealer incentives and fleet sales, potentially unsustainable avenues of future growth, were responsible for an increasing portion of sales.<sup>3</sup> Total-miles-driven (lagged one quarter) increased 4.6% year-over-year in the fourth quarter of 2015, and capped off a record-high year for the metric. Total-miles-driven is a highly seasonal metric, typically peaking during the summer months, and was likely influenced by an improved labor market and low gas prices.

## New-Vehicle Sales



## Top Movers



## Total Miles Driven



# Vehicle Parts And Equipment Consumer Price Index

As Americans spend more time behind the wheel, the consumer price index for vehicle parts and equipment is trending up. An improved labor market and low gasoline prices contributed to a higher number of total-miles-driven during the first quarter, which increased the potential for wear and tear.<sup>4</sup>



Source: Bureau of Labor Statistics

# Gasoline

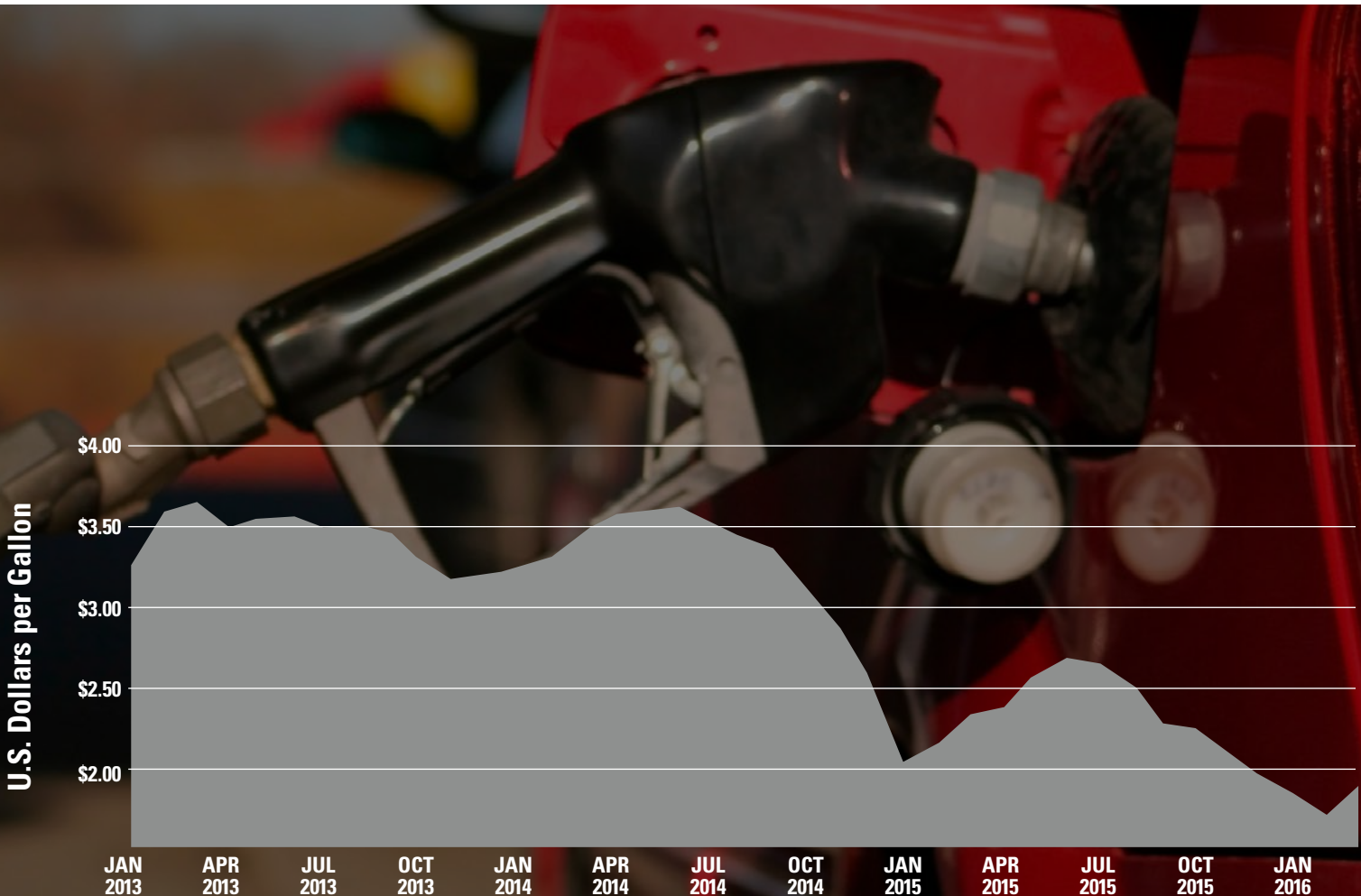
The party at the pumps continued throughout the first quarter, as average gas prices fell year-over-year in each month of the period and sequentially in January and February. Hopes that Russia and OPEC would agree to reduced production led to a temporary rally in late January, but no accord was reached.<sup>5</sup> Ironically, low prices would eventually prove to be the catalyst for a reversal, as U.S. demand for gasoline reached more than 9.4 million barrels a day in March, a level typically reserved for peak summer driving months.<sup>6</sup> This unseasonal demand contributed to the first monthly price increase of 2016.

Year-Over-Year

**17.3%**

Quarter-to-Quarter

**13.5%**



Source: Energy Information Administration

# Metals

## Aluminum

Average aluminum prices fell 16.0% year-over-year in the first quarter of 2016, with oversupply still weighing heavily on the metal. The depreciation of the dollar worked to offset continued weakness, with prices ticking up 1.4% compared with the last quarter. China is not the only one producing copious amounts of the metal – aluminum output in Asian countries outside of China ramped up 18.3% so far this year.<sup>7</sup> Needless to say, a shortage of aluminum is not on the horizon.

Year-Over-Year  
**16.0%**

Quarter-to-Quarter  
**1.4%**

Source: World Bank

## Platinum

With Federal Reserve Chairwoman Janet Yellen's announcement that an increase in interest rates will come later than expected, the value of the dollar began to slide through February and March, putting upward pressure on the metals market. Consequently, the average price of platinum saw its first quarterly gain since the second quarter of 2014, up 0.5% compared with the end of 2015. Despite this increase, average prices continue to decline on an annual basis.

Year-Over-Year  
**23.4%**

Quarter-to-Quarter  
**0.5%**

Source: Johnson Matthey

## Palladium

The new year did not bring welcome news for palladium, which saw its value drop for a sixth consecutive quarter. The average price of the metal fell 13.7% compared with the previous quarter, and 33.5% year-over-year. The strength of the U.S. dollar had much to do with the decline, but it was by no means the only factor. Growth in Chinese new-vehicle sales has slowed from 16.0% in 2013 to to 7.3% in 2015, leading to additional pricing pressure.<sup>8</sup> Still, analysts expect a weaker U.S. dollar, new-vehicle sales in North America and a potential shortage of the material to buoy prices later in the year.<sup>9</sup>

Year-Over-Year  
**33.5%**

Quarter-to-Quarter  
**13.7%**

Source: Johnson Matthey



# U.S. Dollar

Even when it loses, the U.S. dollar still wins. Case in point, the first quarter of 2016, which saw the greenback post quarterly and annual gains to the tune of 0.3% and 4.3%, respectively, despite losing value in February and March. A 1.2% monthly increase in January was quickly erased by a 2.2% drop in February – which brought the largest two-day drop in value since March of 2015 – and further exasperated by another 1.6% decline in March. Volatile global markets, economic slowdowns and signs the Fed is unlikely to raise interest rates again in the near future presented obstacles to what has been the undisputed champion of international currencies over the past few years. It was an even spilt for the four foreign currencies tracked by IAA, with two appreciating against the greenback and two moving in the opposite direction.


Year-Over-Year

**4.3%**



Quarter-to-Quarter

**0.3%**




Source: Federal Reserve Bank of St. Louis

# € Euro

Once again, speculation on what the European Central Bank (ECB) may do to stimulate Europe's lackadaisical economy drove investor behavior throughout the period. A March announcement that the ECB saw no need to cut interest rates further provided positive momentum for the euro.<sup>10</sup>



Source: OANDA Corp.

# \$ Canadian Dollar

The loonie once again depreciated against the U.S. dollar on a sequential and year-over-year basis, but there are signs the currency may have finally turned a corner. Rebounding oil prices and the nation's fastest economic growth in three years drove a late-quarter surge.



Source: OANDA Corp.

# \$ Mexican Peso

The Mexican peso took a beating during the first quarter of 2016, though some of this can be attributed to external factors. The peso is often traded as an emerging market asset, and as investors grew weary of global growth prospects and riskier investments, they largely shied away.<sup>11</sup>



Source: OANDA Corp.

# ¥ Japanese Yen

Unlike the Mexican peso, the yen is viewed as a safe-haven asset by investors. As a result, the global market volatility that persisted throughout much of the first quarter worked to the yen's benefit.



Source: OANDA Corp.

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# Overview of IAA

Insurance Auto Auctions, Inc. (IAA) is the leading live and live-online salvage vehicle auction company and a business unit of KAR Auction Services (NYSE: KAR). With 170+ auction facilities — the largest footprint in North America — IAA provides registered buyers from more than 110 countries the opportunity to bid on and purchase vehicles from a comprehensive group of sellers, including insurance companies, fleet and rental companies, financing companies, charitable organizations and the general public. Through its weekly auctions, IAA has sold millions of vehicles, offering towing, financing and titling services. IAA leverages its business model to assist charitable organizations in the U.S. through its One Car One Difference® program. To date, IAA has provided millions of dollars in additional funding to charities by assisting in the processing of donated vehicles. Learn more about the program by visiting [1Car1Difference.com](http://1Car1Difference.com). With a talented team of more than 2,700 employees, IAA is committed to technological innovation and providing its customers the highest level of service in the salvage auto industry. To learn more, visit [IAA-Auctions.com](http://IAA-Auctions.com), and follow IAA on [Facebook](#), [Twitter](#) and [LinkedIn](#).



## About the Author

Megan 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.

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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