



Remarketing Quarterly Report

QUARTER 3 2017

This report from Insurance Auto Auctions, Inc. (IAA) focuses on remarketing vehicles that have high mileage or light damage, have been repossessed, are in arbitration or are otherwise not sold in whole-car auctions. Vehicle sellers include fleet companies, rental-car companies, financial institutions and retail and wholesale dealers. Vehicles considered to be remarketing vehicles tend to be in drivable or near-drivable condition, and many fall among the High Grade segment (top 20% of sale price) of IAA's auctions. The providers of remarketing vehicles fall into three distinct categories:

- **Dealer Market** – Retail and wholesale automobile dealers disposing of inventory not sold through normal retail channels.
- **Commercial Market** – Financial companies disposing of their fleets or off-lease and repossessed financed vehicles.
- **Rental Market** – Rental-car companies disposing of aging inventory.

An explanation of the methodology used to develop this report can be found on [Page 11](#).



U.S.
Dollar
Index



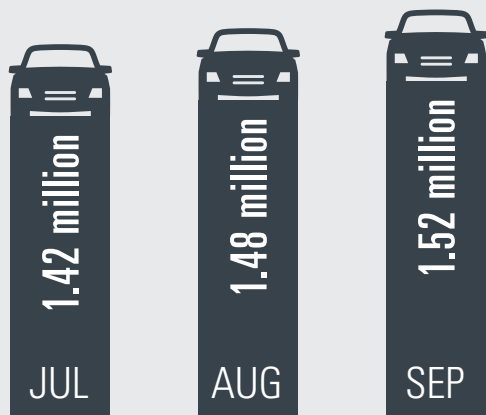
Auto-Loan
Default
Rate



Overview Of The Automobile Industry

Total new-vehicle sales continued its downward trend in the beginning of the quarter, but a 15.3% gain in September helped the index finish above last quarter's result. Yearly, seasonally adjusted new-vehicle sales were down 2.3%, averaging just above 17 million for the quarter. Record buyer incentives, which averaged \$4,048 in September, and a sharp demand increase to replace damaged vehicles from Hurricane Harvey and Irma helped stabilize sales after a poor performance in the first half of the year.¹ Average gas prices rose 5 cents over the quarter, boosted in large part from hurricane aftereffects. Key economic drivers, like unemployment, down to 4.2%, and high consumer sentiment, likely offset any downward pressure put on prices from rising fuel costs.

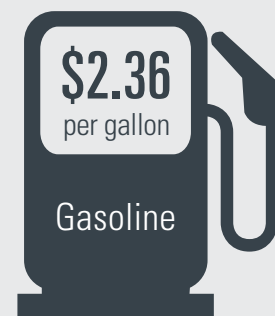
New-Vehicle Sales



Total Miles Driven



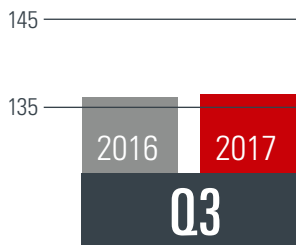
Economic Drivers



Remarketing Market

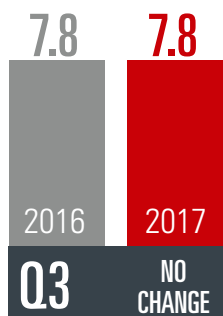
The average selling price of remarketing vehicles dropped 1.6% relative to the second quarter of 2017, but went up slightly year-over-year. The average age of remarketing units gained a modest 1.1% along with average mileage, which increased 0.5%. A slight shift in inventory from dealer vehicles to rental units helped the remarketing segment's quarter-to-quarter ACV result. However, an older vehicle mix applied downward price pressure compared to the same quarter in 2016.

Selling Price Index



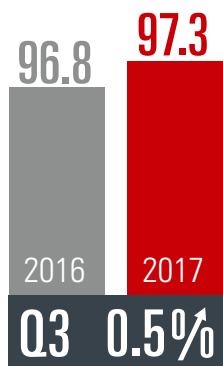
Source: IAA

Average Age (years)



Source: IAA

Average Mileage Index



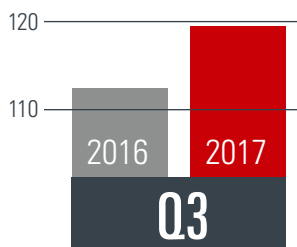
Source: IAA



Dealer Market

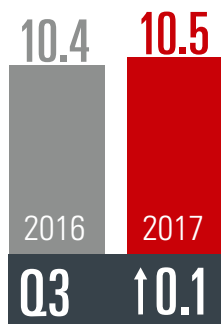
Dealer vehicles recorded another quarter of impressive year-over-year gains due in part to a relatively low 2016 Q3 comparison. As noted last quarter, dealer values rose partially because of delayed consumer tax refunds.² Prices would have likely retreated back to subdued levels, but Hurricane Harvey kept demand afloat as buyers looked to rebuild their inventories. Vehicle values shot up in August as a result, but not enough to offset the overall quarter-to-quarter drop.³

Selling Price Index



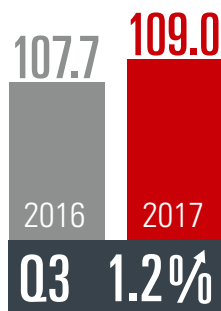
Source: IAA

Average Age (years)



Source: IAA

Average Mileage Index



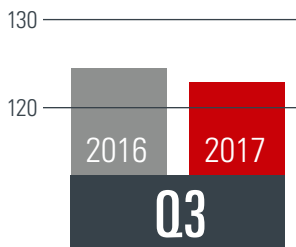
Source: IAA



Commercial Market

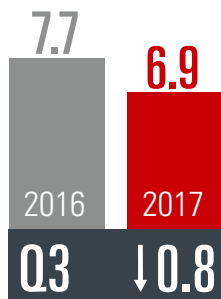
A younger and lower-mileage vehicle mix pushed the commercial market to higher values quarter-to-quarter, but prices still fell short of 2016's results. Average value rose sequentially for each month of the quarter, potentially due to the large month-to-month rise in auto-default rates in August. If increases in the default rate were due to loans on higher-valued vehicles, then the repossessed vehicle inventory likely contributed to the quarter-to-quarter bump.⁴

Selling Price Index



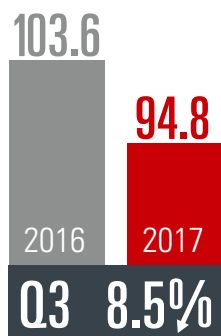
Source: IAA

Average Age (years)



Source: IAA

Average Mileage Index



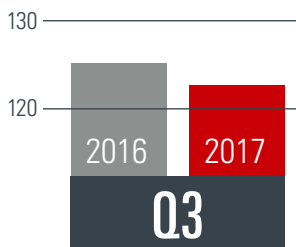
Source: IAA



Rental Market

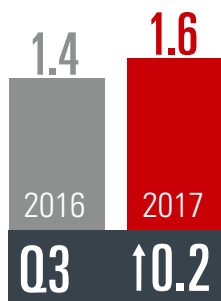
Rental prices fell 2.7% and 1.9% on a quarterly and yearly basis, respectively. Vehicle age and mileage were both about 10.0% higher than in the third quarter of 2016, which contributed to the decline in average prices. Late model auction volume, an indicator of rental unit supply, fluctuated throughout the quarter, but finished 5.0% above last year's year-to-date levels through September. The sustained supply put downward pressure on the value of this vehicle market.⁵

Selling Price Index



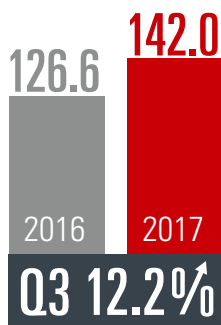
Source: IAA

Average Age (years)



Source: IAA

Average Mileage Index



Source: IAA



Used-Car Price Index

Average used-car prices remained higher on an annual basis for the third quarter, dropping sequentially in July and making modest gains through August and September.⁶ The overall year-over-year quarterly outcome was largely a result of Hurricanes Harvey and Irma, which contributed to a short-term supply dip and strengthened demand in effected areas.^{7,8} Consistent with last quarter, truck prices have also pushed wholesale prices up. Additionally, stop-sale of manufacturer units involved in recalls stunted supply-side growth in September, putting upward pressure on used-car prices. Despite these gains, Tom Kontos, chief economist at KAR Auction Services, Inc., suggested that price softening, typically seen after controlling for certain vehicle characteristics, will likely resume once the catastrophe areas fully recover.



Source: ADESA Analytical Services

Auto Loan Default Rate

The auto-loan default rate grew each month to end the quarter slightly above 1.0%, resulting in a 0.10 percentage point increase from the previous quarter. On a yearly basis, the default rate continued its downward trend from the previous quarter and finished with a 0.04 percentage point drop. The quarterly increase was due in large part to the 9 and 10 basis point gain in August and September, respectively. According to the S&P/Experian Consumer Credit Default Indices, the August jump was the largest sequential hike since December of 2011. Hurricane damages from Harvey and Irma also pushed consumers into further financial stress, driving default rates higher.⁹

Year-Over-Year

 **0.04**

percentage points

Quarter-to-Quarter

 **0.10**

percentage points

Sources: S&P Dow Jones Indices & Experian



U.S. Dollar

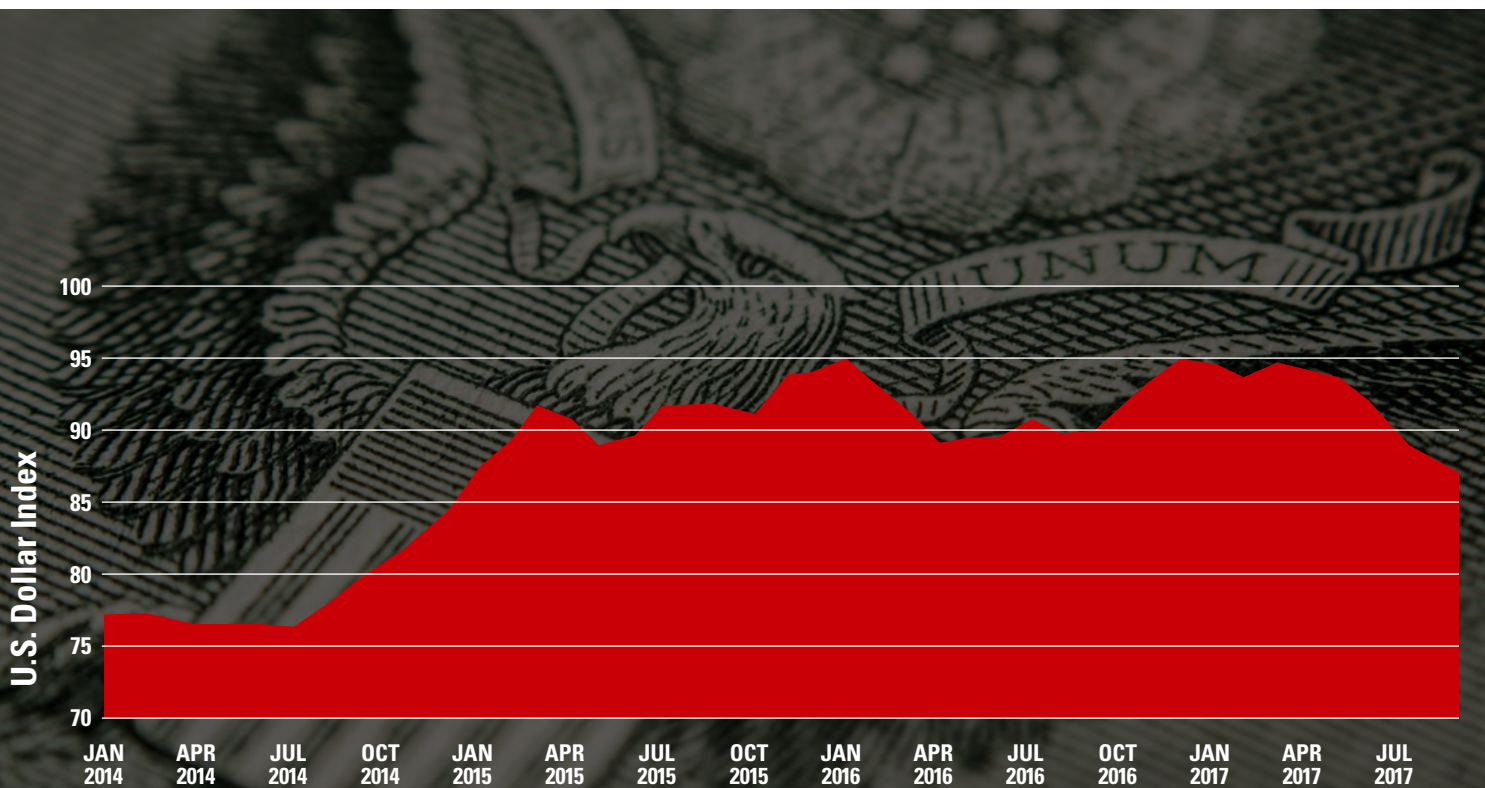
The U.S. dollar depreciated sequentially each month of the quarter to finish down 5.3% on a quarterly basis. September's result marked the ninth consecutive month of depreciation, and pushed the dollar to a negative year-over-year comparison for the first time in 2017. The dollar's largest monthly depreciation took place in July, likely partially due to the European Central Bank stating that it wasn't concerned with the euro's recent increase in value. This convinced traders that the ECB's plans to roll back its current expansionary policies were still on track, a move that would make the U.S. dollar a relatively lower-yielding currency.¹⁰ Additionally, sluggish inflation in combination with a "weaker-than-expected" August jobs report lowered expectations that the Federal Reserve will raise interest rates for the third time later this year – driving investors away from the U.S. dollar.¹¹ While the dollar fell quarterly and yearly, the currency's value remains historically strong.

Year-Over-Year

2.2%

Quarter-to-Quarter

5.3%



Source: Federal Reserve Bank of St. Louis



Euro

Coming off a strong second quarter performance, the euro continued to see strong month-to-month movement. Analysts have attributed the euro's increase in value to strong economic growth. Joe Pickard of BMO Global Asset Management noted, "The reality is that the growth outlook in Europe has changed dramatically – the economy is growing strongly – so some currency strength is only to be expected." Additionally, the ECB's relatively unconcerned remarks on the currency's appreciation has maintained expectations of reducing the central bank's stimulus package in 2018, which would lead to higher interest rates.¹² Maintaining these expectations helped further boost the euro's value. The euro's strength against the U.S. dollar may also be a result of political uncertainty in the United States, pushing investors toward "safer" currencies.¹³

Year-Over-Year



Quarter-to-Quarter



Source: OANDA Corp.



Canadian Dollar

The Canadian dollar rebounded from its depreciative results in 2017 and saw sequential monthly appreciations throughout the third quarter, mirroring performances seen in the euro and Mexican peso. The Bank of Canada also raised their interest rates for the first time since 2010, going from 50 to 75 basis points in July,¹⁴ and again in September to 1 percent. These decisions helped narrow the interest rate gap between the U.S. and Canada, boosting the loonie's September value to its highest mark since June 2015.¹⁵ High oil prices were also a factor in the Canadian dollar's increase in value.¹⁶

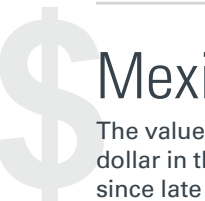
Year-Over-Year



Quarter-to-Quarter



Source: OANDA Corp.



Mexican Peso

The value of the Mexican peso continued to increase against the U.S. dollar in the third quarter, reaching its best quarter-to-quarter mark since late 2015. However, signs of an end to currency's rally began to show as slower month-to-month growth in August led to a slight 0.16% depreciation in September. Banxico, Mexico's central bank, did not raise policy interest rates at all for the first quarter since the fall of 2015 and kept rates at 7.0%. Since this was in line with expectations, it did little to affect the peso. However, a statement in September saying the Federal Reserve would commit to increasing the federal funds rate moving forward put downward pressure on the peso. Additionally, a severe earthquake that hit Mexico City in early September added to investors' expectations of struggling economic growth for the country.¹⁷

Year-Over-Year



Quarter-to-Quarter



Source: OANDA Corp.



Japanese Yen

Despite an impressive performance against the dollar, the Japanese currency received some downward pressure from heightened concerns with North Korea.¹⁸ Political uncertainty and tax reforms in the United States applied modest upward pressure on the yen,¹⁹ but it remains historically weak against the U.S. dollar. Most analysts attribute this to the Bank of Japan's continued commitment to loose monetary policy.²⁰

Year-Over-Year



Quarter-to-Quarter



Source: OANDA Corp.

Methodology

This report tracks performance over time for each of the Remarketing Market's seller categories using three monthly indicators. The base month for each of these indexes is January 2009 (index value of 100):

- Index of average sale price of vehicles sold through IAA.
- Index of average age of vehicles sold through IAA.
- Index of average mileage of vehicles sold through IAA.

The report also examines Remarketing Market categories in relation to these key economic indicators:

- **Used-Car Price Index** is a measure of the average price of a used car on the market. Because vehicles sold through the Remarketing Market tend to be in drivable condition, this index should be a good determinant of sale prices for each market. The index values are wholesale prices provided by ADESA Analytical Services.
- **Auto-loan default rate** measures the default rates across auto loans based on data from Experian's consumer credit database. This can provide insight to the number and sale price of units in the commercial market, which is a proxy for the level of vehicles repossessed by financial companies. This rate is jointly developed by S&P Dow Jones Indices LLC and Experian.

Note: Vehicles from recently signed providers are not included in this analysis, an intentional omission used to demonstrate how different economic factors affect the performance of vehicles regardless of the addition of new provider accounts.

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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](https://www.facebook.com/IAA-Auctions) and [Twitter](https://twitter.com/IAA-Auctions).



About the Author

Robert Guerrero is vice president of remarketing sales at Insurance Auto Auctions, Inc. Since joining IAA in 2005, Mr. Guerrero has led the growth of the organization's Remarketing Market, creating the auction solution of choice for dealers, fleet lease companies, rental companies, financial institutions and more. Today, Remarketing Market vehicles are available to bidders at IAA facilities throughout North America and online to customers in more than 110 countries. Previously, Mr. Guerrero worked for Manheim, where he held several positions within the auto auction industry, including roles in marketing, dealer sales and fleet lease sales.

The auto remarketing industry as discussed in this document refers to the industry as experienced by IAA. IAA does not possess data on the performance of other remarketing 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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