



# Q2 **REMARKETING REPORT**

Looking Back at an Eventful Quarter

Quarter 2 | 2018

# INTRODUCTION

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 classified as “Remarketing” 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 Category** — Retail and wholesale automobile dealers disposing of inventory not sold through normal retail channels.

**Commercial Category** — Financial companies disposing of their fleets or off-lease and repossessed financed vehicles.

**Rental Category** — Rental-car companies disposing of aging inventory.

Year-Over-Year:

**U.S. DOLLAR INDEX**



**AUTO-LOAN  
DEFAULT RATE**







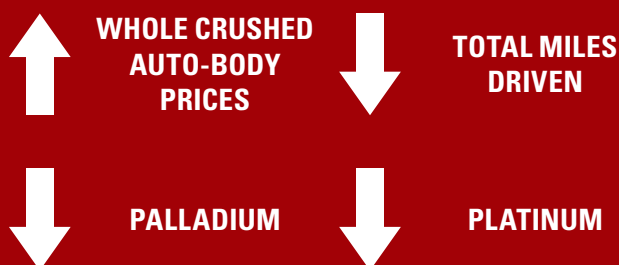
# INDUSTRY OVERVIEW: A BUSY SPRING

It was an eventful quarter, highlighted by important political activity and interesting movements in the marketplace. Although seasonally adjusted purchases were down 0.1% on a quarterly basis, year-over-year sales grew by 2.2%. Demand for light trucks remained high – June pickup and SUV sales increased 14.7% over the same month last year, and 10.5% year-to-date (YTD). Sales for passenger cars, on the other hand, decreased both in June and YTD.<sup>1</sup>

Average loan-term lengths have increased and typically this would bring monthly payments down.<sup>2</sup> However, this was not the case in Q2, as rising car-loan rates (5.05 for 48-month and 4.99 for 60-month in May)<sup>3</sup> helped push average loan payments to a new high.

Fuel prices continued their upward trend, with 2.1% and 5.1% quarter-to-quarter growth for gasoline and diesel prices, respectively. While typically a large influence, these increases were not enough to outweigh the U.S.' continued stretch of strong economic growth. Unemployment averaged below 4.0%, the labor market continued to add around 200,000 jobs per month and GDP growth hit 4.1%, thanks to strong consumer spending and modest wage increases. The result: vehicle sales maintained a near-record pace.<sup>4</sup>

## Quarter-to-Quarter:



## NEW-VEHICLE SALES



# REMARKETING PRICES AND VEHICLE AGE ON THE RISE

Any way you look at it, vehicle prices were up in the Remarketing segment, which saw both year-over-year and quarter-to-quarter increases. This growth is all the more impressive when taking vehicle age and mileage into consideration. Both average age (7.4%) and average mileage of sold vehicles (4.5%) were up on a yearly basis. A marginal shift from Dealer to Financial vehicles likely contributed to the upward shift in average prices. Meanwhile, rising sale-prices were consistent with industry trends, as all categories reported increases.

## SELLING PRICE INDEX



Q2  
2017:

**138.3**

Q2  
2018:

**143.2**

## AVERAGE AGE (YEARS)



Q2  
2017:

**8.1**

Q2  
2018:

**8.7**

**↑ 7.4%**

## AVERAGE MILEAGE INDEX



Q2  
2017:

**94.4**

Q2  
2018:

**98.6**

**↑ 4.5%**



# A GOOD YEAR CONTINUES IN THE DEALER CATEGORY

Quarter-to-quarter dealer-consigned vehicle prices were slightly down, but year-over-year gains continued. In fact, over the last year, the index has posted its top four quarterly values since IAA began tracking the metric. So, what's behind the consistent rise of prices? Strong CPO and up-stream sales of off-lease vehicles likely play a large part in the trend. These factors led to a reduction in physical auction supply, which applied upward pricing pressure.<sup>5</sup> Also of note was the counteractive pressure provided by slight movements in average age, down 1.7%, and mileage, up 1.1%.



## SELLING PRICE INDEX

Q2  
2017: **125.7**

Q2  
2018: **137.5**



## AVERAGE AGE (YEARS)

Q2  
2017: **10.5**

Q2  
2018: **10.4**

↓ **1.7%**



## AVERAGE MILEAGE INDEX

Q2  
2017: **103.8**

Q2  
2018: **105.0**

↑ **1.1%**





## SELLING PRICE INDEX



Q2  
2017:

**120.8**

Q2  
2018:

**148.9**

## AVERAGE AGE (YEARS)



Q2  
2017:

**7.1**

Q2  
2018:

**7.2**

**↑ 1.5%**

## AVERAGE MILEAGE INDEX



Q2  
2017:

**96.0**

Q2  
2018:

**94.7**

**↓ 1.3%**



# COMMERCIAL CATEGORY SEES RECORD HIGHS

It was a historic quarter for the Commercial category, which posted a new Selling Price Index high, with significant quarter-to-quarter and year-over-year growth. A slight reduction of 1.3% in average mileage along with a 1.5% year-over-year average age increase likely caused the price to rise. According to Tom Kontos of KAR Auction Services, Inc., "...prices remain strong for off-lease vehicles, as supply growth in that sector is being neutralized by upstream sales."<sup>6</sup>



### SELLING PRICE INDEX

Q2  
2017: **126.0**  
Q2  
2018: **136.1**



### AVERAGE AGE (YEARS)

Q2  
2017: **1.8**  
Q2  
2018: **1.9**

↑ **5.5%**



### AVERAGE MILEAGE INDEX

Q2  
2017: **136.7**  
Q2  
2018: **150.5**

↑ **10.1%**

## RENTAL CATEGORY MAKES IT A THREE-PEAT

The Rental category remained steady, with vehicle values up year-over-year for the third straight quarter. Following typical Spring trends, quarter-to-quarter values also increased. Overall, downward pricing pressure market-wide was kept at bay by relatively positive economic conditions. According to the National Automobile Dealers Association, year-to-date auction volume of late-model vehicles finished the quarter 2.3% above 2017's numbers and has continued to grow every month.<sup>7</sup> Amidst that growth, average age was up 5.5% and average mileage rose 10.1%, both on a year-over-year basis.

# UPS AND DOWNS IN USED-CAR MARKET

Q2 brought with it ebbs and flows in the used-car market. Average wholesale used vehicle prices increased in April, but fell in May and June. For the quarter, prices were up 1.9% from Q1 and down 0.7% from last year. The yearly drop is partly due to an influx of younger, off-lease vehicles which temporarily inflated prices when they hit the used-car market in 2017. Meanwhile, light truck price gains slowed as the category surpassed cars in supply growth. According to Tom Kontos, Chief Economist at KAR Auction Services, Inc., average off-lease and fleet prices increased sizably after controlling model-year age and mileage for both midsize cars and midsize SUV/CUVs. Most likely, this was the result of attractive up-stream equity positions leading to a plateau of physical auction off-lease volumes. In the dealer-consigned and manufacturer-remarketed vehicle segment, monthly prices declined in June, but were mixed year-over-year. June also marked a yearly CPO sales increase of 8.75% remaining up 3.3% year-to-date.<sup>8</sup>



## USED-CAR PRICE INDEX

APRIL  
Month-to-Month:  
**↑2.7%**  
Year-Over-Year:  
**↓0.2%**

MAY  
Month-to-Month:  
**0.0%**  
Year-Over-Year:  
**↓0.2%**

JUNE  
Month-to-Month:  
**↓2.0%**  
Year-Over-Year:  
**↓1.4%**



# AUTO-LOAN DEFAULT RATE RUMBLINGS

No major surprises here, a 0.12% quarter-to-quarter drop, consistent with the cyclical pattern that began in 2015 of bottoming out in June, brought the auto-loan default rate back below one percent. However, on a year-over-year basis, the measure remained up 0.09 percentage points, lifted in part by June's 0.12 percentage point growth over the same month last year.

Quarter-to-Quarter:

↓ **0.12%**  
Points

Year-Over-Year:

↑ **0.09%**  
Points





## U.S. DOLLAR

Quarter-to-Quarter:

**2.5%**

Appreciated

Year-Over-Year:

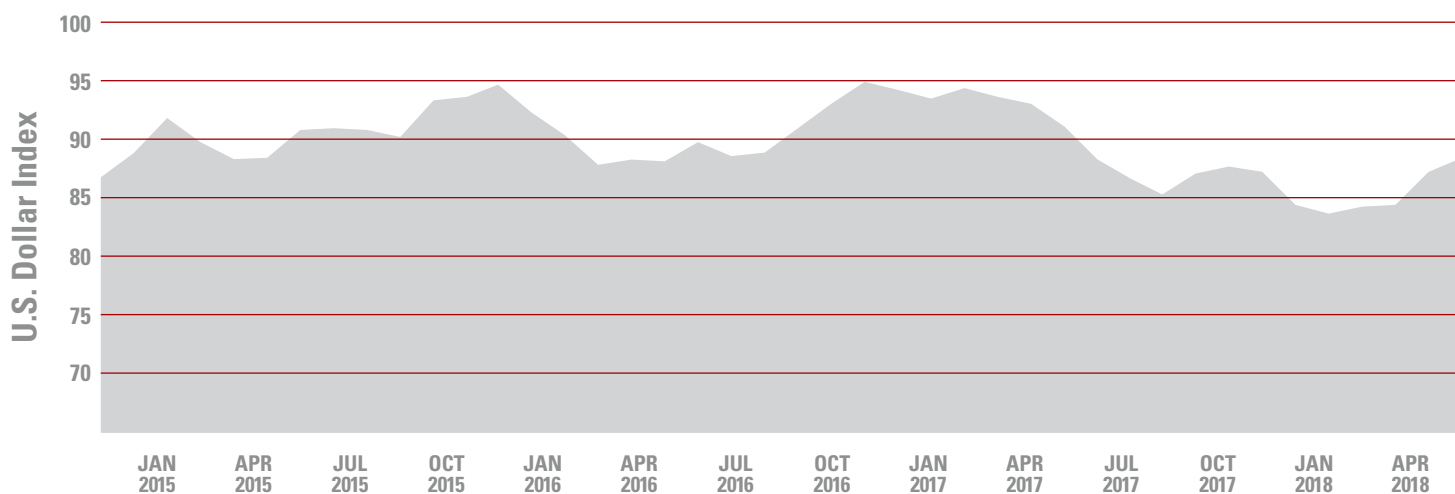
**5.1%**

Depreciated

# U.S. DOLLAR TURNING THE CORNER

The momentum of the American economy has begun to influence the value of the USD. Although it has depreciated 5.1% on a yearly basis, the dollar saw its first quarter of appreciation since December 2016, up 2.5%. May and June's were the largest of three straight months with price increases. Shifting investor expectations after seeing months of positive U.S. economic growth indicators and a more optimistic Federal Reserve were the main factors reversing the trend of quarterly depreciation.<sup>9</sup>

In June, the Federal Reserve continued its recent pattern and raised its benchmark interest rate another 25 basis points to 1.75 – 2.00. Shortly after this was announced, the European Central Bank backtracked from another rate hike, which is now expected to come closer to summer of 2019. The interest rate differential widened more than expected as a result, and the dollar appreciated thereafter.<sup>10</sup>

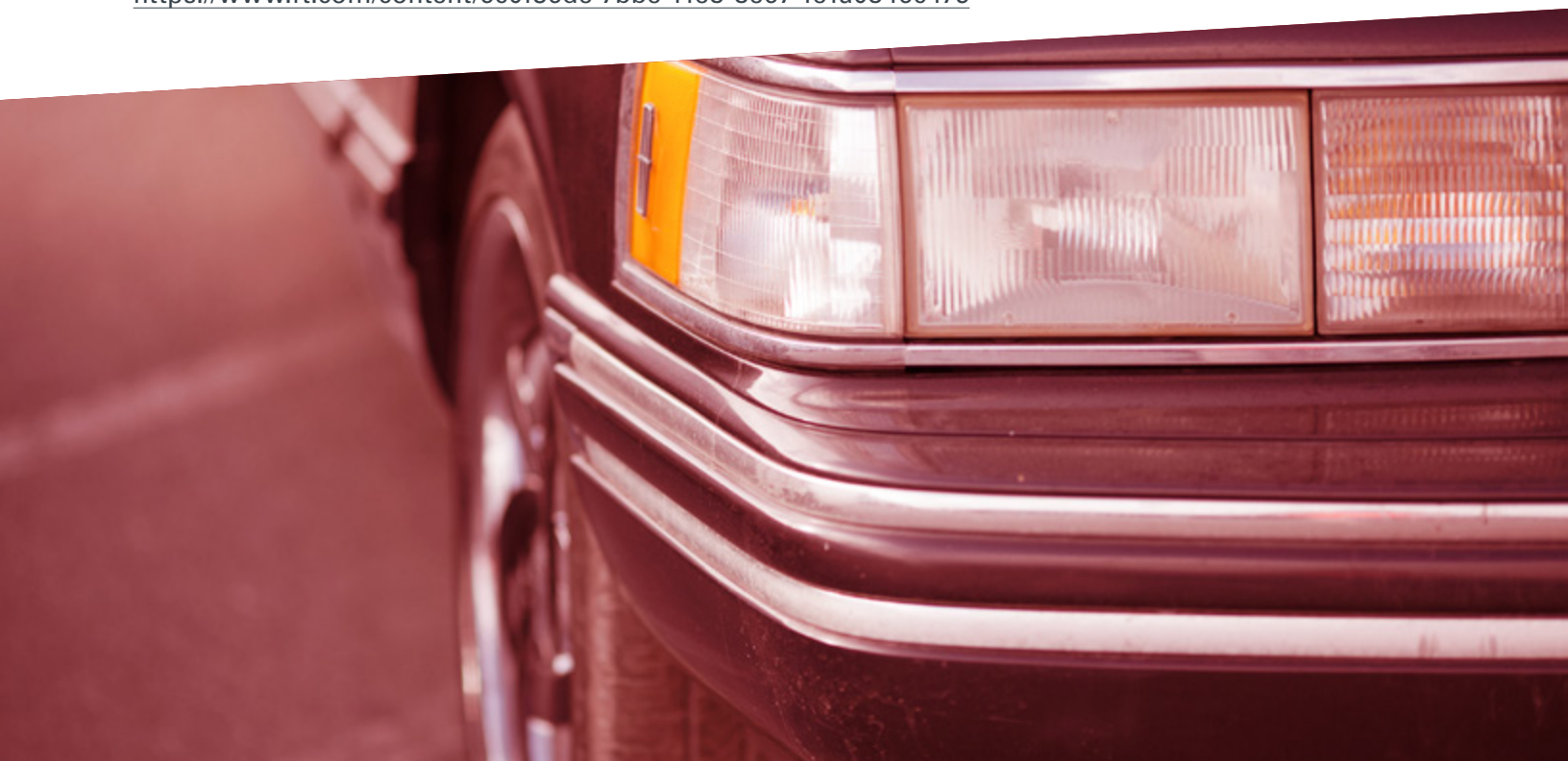


Source: Federal Reserve Bank of St. Louis



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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 people 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 17,500 employees and more than 300 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](#), [Twitter](#) and [LinkedIn](#).

## ABOUT THE AUTHOR



Sebastian Gancarczyk is the Vice President of Finance at Insurance Auto Auctions, Inc. (IAA). 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 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.