



Remarketing Quarterly Report

QUARTER 1 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 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.

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



U.S.
Dollar
Index



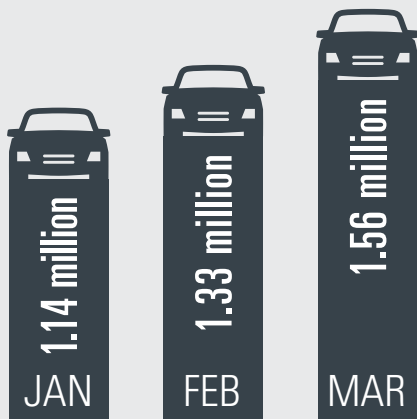
Auto-Loan
Default
Rate

NO
CHANGE

Overview Of The Automobile Industry

Total new-vehicle sales in the first quarter of 2017 were down 1.5% from last year's first-quarter mark, but seasonally adjusted new-vehicle sales averaged 17.17 million, which is respectable from a historical standpoint. Strong buyer incentives continued to be a primary tool for automakers to spur sales. According to J.D. Power, these incentives hit a record \$3,830 per vehicle sold. Automakers sold 1.33 million vehicles in total during the month of February, which was only slightly off pace with last year's mark, but January and March lagged behind.¹ Stronger employment numbers and low gas prices likely aided in the respectable Q1 results for new-vehicle sales. Unemployment averaged 4.7% for the quarter, and dipped to 4.5% in March. However, with the U.S. Federal Reserve raising interest rates at its last two meetings, it is unlikely we'll see jobless rates fall any lower. And while the price of gas remains historically low, it continues to climb, and was up 24.6% from last year's floor.

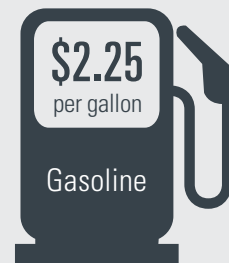
New-Vehicle Sales



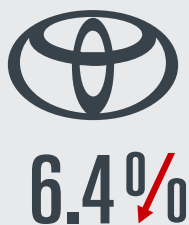
Total Miles Driven

Year-over-Year
1.4%

Economic Drivers



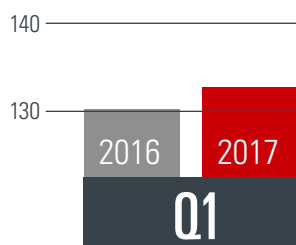
Top Movers



Remarketing Vehicles

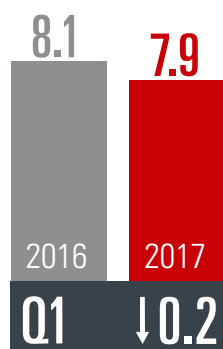
The average selling price of remarketing vehicles rose slightly year-over-year, aided by strong January dealer vehicle values and an inventory mix that favored rental vehicles, which are the highest valued amongst remarketing segments. These factors helped offset weakness in commercial and rental vehicle values over the past year that would have otherwise halted the opportunity for year-over-year growth in Q1 2017. The average age and mileage of remarketing vehicles fell by 3.0% and 7.2% year-over-year respectively, likely a result of rental's increased inventory share.

Selling Price Index



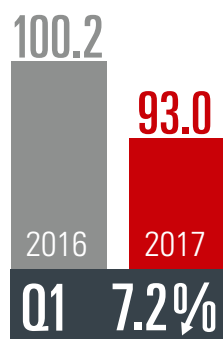
Source: IAA

Average Age (years)



Source: IAA

Average Mileage Index



Source: IAA

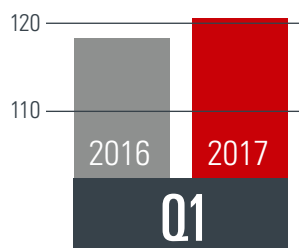
[VIEW THE FULL CHARTS](#)



Dealer Category

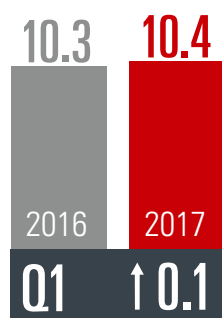
Dealer prices managed a slight increase year-over-year in Q1 2017 due to strong prices in January. The quarter was a volatile one for dealer vehicle values, however, as they caught some unusual downward pressure in February, a month that typically sees rising used-vehicle demand as consumers begin to receive their tax refunds. This year, a new law requiring the IRS to delay some refunds until late February led to a significant reduction in the number of consumers with disposable income for a used-vehicle purchase.² Consequently, dealer vehicle values uncharacteristically fell more than 10% in February from January. The average age of dealer vehicles rose modestly year-over-year, though the average age of vehicles fell 1.3%.

Selling Price Index



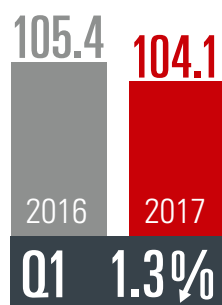
Source: IAA

Average Age (years)



Source: IAA

Average Mileage Index



Source: IAA

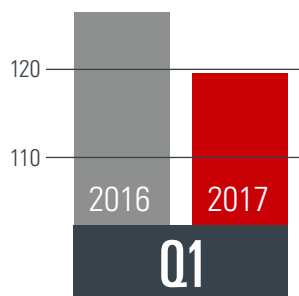
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Commercial Category

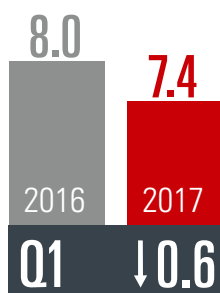
Commercial vehicle prices remained down year-over-year in the first quarter of 2017, though ticked up slightly from the previous quarter. Although this price movement bucked what one would expect based on the 8.0% decrease in average age and 12.0% decrease in average mileage, a reduction in the share of trucks and SUVs in this segment likely aided the price decline. On the front end of the commercial vehicle cycle, auto lending remained very strong. According to Experian, total open automotive loan balances reached record highs by the end of 2016, and delinquency rates rose year-over-year in Q4 2016.³

Selling Price Index



Source: IAA

Average Age (years)



Source: IAA

Average Mileage Index



Source: IAA

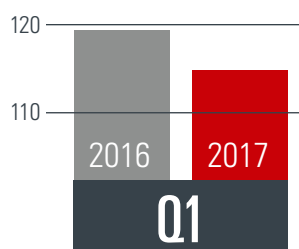
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Rental Category

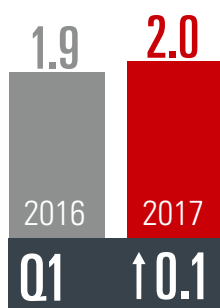
The average age of rental vehicles extended even higher in the first quarter of 2017, rising 3.9% year-over-year. This increase likely hurt the value of rental vehicles, which saw a decrease year-over-year. As was the case in late 2016, burgeoning supply put downward pressure on rental values in early 2017. According to the National Automobile Dealers Association, the auction volume of late-model vehicles rose 8.0% year-over-year through March.⁴

Selling Price Index



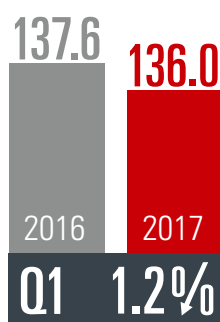
Source: IAA

Average Age (years)



Source: IAA

Average Mileage Index



Source: IAA

[VIEW THE FULL CHARTS](#)



Used-Car Price Index

Average used-car prices remained higher on an annual basis in the first quarter, rising sequentially in January, falling uncharacteristically in February and ending the quarter on a modest gain. According to Tom Kontos, chief economist at KAR Auction Services, Inc., used-vehicle values held up surprisingly well in January, despite soft retail demand and high new-vehicle incentives.⁵ February, on the other hand, saw monthly declines in nearly all model classes as prices bucked typical seasonal trends.⁶ It is possible this atypical decline in prices was due to delays in tax returns that usually arrive in February and arm consumers with disposable income for used-vehicle purchases. Prices recovered in March, as is characteristic of the spring and tax return season, though the increase masked the difference between the car and truck markets. Wholesale prices for cars remained down year-over-year, while prices for trucks and SUVs were up, a likely consequence of low gasoline prices.⁷



Source: ADESA Analytical Services

Auto Loan Default Rate

The auto loan default rate remained unchanged on both a quarterly and annual basis in Q1 2017. Although January's mark of 1.06% was the second-highest since February 2015, the rate fell consecutively in February and March. Nonetheless, auto loan delinquency rates closed out 2016 at their highest since 2009, according to TransUnion, a potential precursor to rising repossession rates in the auto finance industry.⁸ On top of that, the average amount financed for new- and used-vehicle purchases reached record highs.⁹

Year-Over-Year

0.0

NO CHANGE

percentage points

Quarter-to-Quarter

0.0

NO CHANGE

percentage points

Sources: S&P Dow Jones Indices & Experian



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.¹⁰ 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.¹¹

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.¹² 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,¹³ the euro was slightly balanced out with encouraging construction numbers. The currency depreciated at 1.1% for the quarter.¹⁴

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.¹⁵ 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.¹⁶

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.¹⁷ 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.¹⁸ 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.¹⁹

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%.²⁰ 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.²¹ 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.

Methodology

This report tracks performance over time for each of the Remarketing Division'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 Division 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 Division tend to be in drivable condition, this index should be a good determinant of sale prices for each category. 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 category, 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](#) and [Twitter](#).



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 Division, creating the auction solution of choice for dealers, fleet lease companies, rental companies, financial institutions and more. Today, Remarketing Division 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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