



# Remarketing Quarterly Report

## QUARTER 4 2016

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



# Overview Of The Automobile Industry

New-vehicle sales continued a blistering pace into the fourth quarter of 2016, increasing 0.6% compared to the fourth quarter of 2015, which was already a record-setting year in its own right. Looking at December specifically, automakers sold 1.69 million vehicles – an increase of 3.1% from December 2015. Seasonally adjusted, the selling pace of 18.43 million was the highest since July 2005, a time when some automakers boosted demand by offering employee pricing to all consumers. But there is a catch: automakers continue to use incentives to keep the pace, especially after eight years of consecutive growth. J.D. Power, an independent research firm, said that December's strong performance was fueled by average discounts of \$4,038 per vehicle.<sup>1</sup>

Additionally, vehicles in the U.S. just keep getting older, and recently hit an average age of 11.6 years – good news for the service providers and parts makers working to keep drivers on the road, particularly since there are an estimated 264 million light vehicles in operation, up slightly from 2015 and representing another record figure.<sup>2</sup> Total miles driven also increased, up 2.1% from the same quarter of 2015. Automakers are optimistic about future demand despite expectations of rising gas prices, and said that new-model sport utilities and light trucks are lighter and achieve better fuel economy compared to the gas-guzzlers that let the industry down a decade ago during the recession.<sup>3</sup>

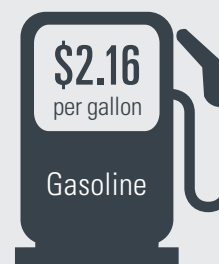
## New-Vehicle Sales



## Total Miles Driven

Year-over-Year  
**2.1%**

## Economic Drivers



## Top Movers



**6.1%**



**11.3%**

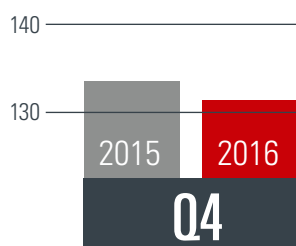


**5.2%**

# Remarketing Vehicles

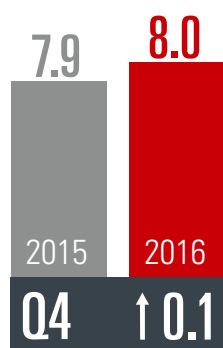
The average sale price of remarketing vehicles dipped slightly year-over-year, with average vehicle age rising 2.0% and likely helping depress vehicle values. Nonetheless, average mileage was down slightly year-over-year. Nudging aside high-value rental vehicles, dealer vehicles made up a larger percentage of remarketing vehicles this quarter, likely due to high flood vehicle volume in the last two months of the year.

## Selling Price Index



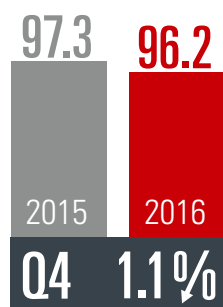
Source: IAA

## Average Age (years)



Source: IAA

## Average Mileage Index



Source: IAA

[VIEW THE FULL CHARTS](#)

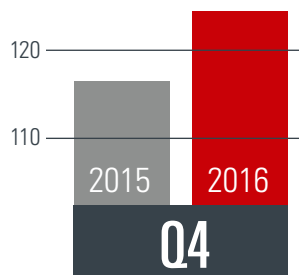




# Dealer Category

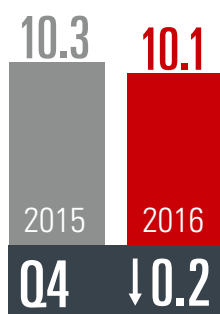
Sale prices for dealer vehicles saw a slight uptick year-over-year in the fourth quarter of 2016, and this was likely driven by a large volume of flood vehicles making their way through the auction lanes in November and December. This was also likely the explanation for a dip in average age and mileage. However, there's no avoiding supply fundamentals, and the volume of used vehicles can't be ignored. Tom Kontos, chief economist at KAR Auction Services Inc., explained, "Trucks continue to drive overall average wholesale prices upward, while car price softening more directly reflects supply growth for the used-vehicle market in general."<sup>4</sup>

## Selling Price Index



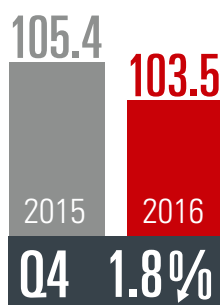
Source: IAA

## Average Age (years)



Source: IAA

## Average Mileage Index



Source: IAA

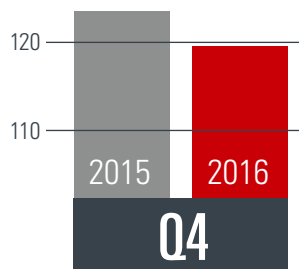
[VIEW THE FULL CHARTS](#)



# Commercial Category

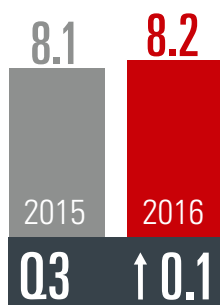
Commercial vehicle selling prices were down once again in the fourth quarter of 2016, primarily attributed to trucks having comprised a lower share of vehicle mix compared to the same period of 2015. As of November, year-to-date industry volume for model-year 2013 vehicles was up 31.7%, comprised mostly of off-lease vehicles returning to the marketplace, another potential factor in falling sale prices.<sup>5</sup> It's possible that high-volume trend may continue in the coming years – strong new-vehicle sales in 2015 and 2016 have naturally resulted in an increase in vehicle financing, boosting the number of repossessions and delinquencies.<sup>6</sup>

## Selling Price Index



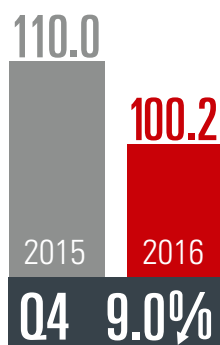
Source: IAA

## Average Age (years)



Source: IAA

## Average Mileage Index



Source: IAA

[VIEW THE FULL CHARTS](#)

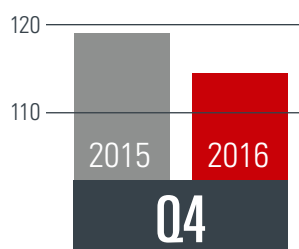




# Rental Category

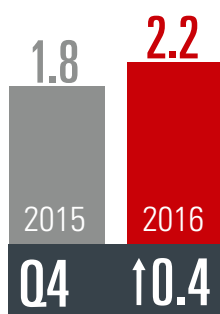
Year-over-year, rental vehicle sale prices fell once again in the fourth quarter of 2016. Both the average age and mileage of rental vehicles increased sharply this quarter and presented just a couple factors for the decline in sale prices. Rising off-rental supply was also a hindrance, with the year-to-date number of late-model vehicles at auction increasing 11.1% year-over-year as of November, representing 2.5 million more vehicles.<sup>7</sup>

## Selling Price Index



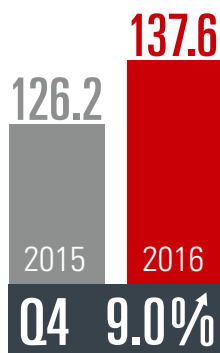
Source: IAA

## 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 fourth quarter, falling sequentially in October, rising in November and ending the quarter on a slight downturn. According to Tom Kontos, chief economist at KAR Auction Services, Inc., strong truck prices continued to be the driving factor behind the 3.1% year-over-year increase.<sup>8</sup> However, truck prices broke the trend in December and fell on a month-to-month basis, potentially a result of rising gasoline prices. Higher fleet sales and incentives helped 2016 reach a fresh record in new-vehicle sales, placing downward pressure on wholesale values. However, certified pre-owned used-vehicle sales also reached a new high, consuming some of the used-vehicle supply growth that has negatively affected wholesale prices.<sup>9</sup>



Source: ADESA Analytical Services



# Auto-Loan Default Rate

In October, the auto-loan default rate saw its highest levels since January 2014, at 1.08%. Overall, the rate increased an average of 1 basis point year-over-year and 4 basis points compared to the third quarter of 2016. In December, TransUnion predicted the auto-delinquency rate will reach 1.40% by the end of 2017, the highest level since 2009.<sup>10</sup> However, Experian reported that lenders have been tightening their underwriting standards to reduce the percentage of loans made to consumers with poor credit, potentially easing industry concerns about rising default and delinquency rates.<sup>11</sup>

Year-Over-Year

↑ 0.01

percentage points

Quarter-to-Quarter

↑ 0.04

percentage points

Sources: S&P Dow Jones Indices & Experian





# U.S. Dollar

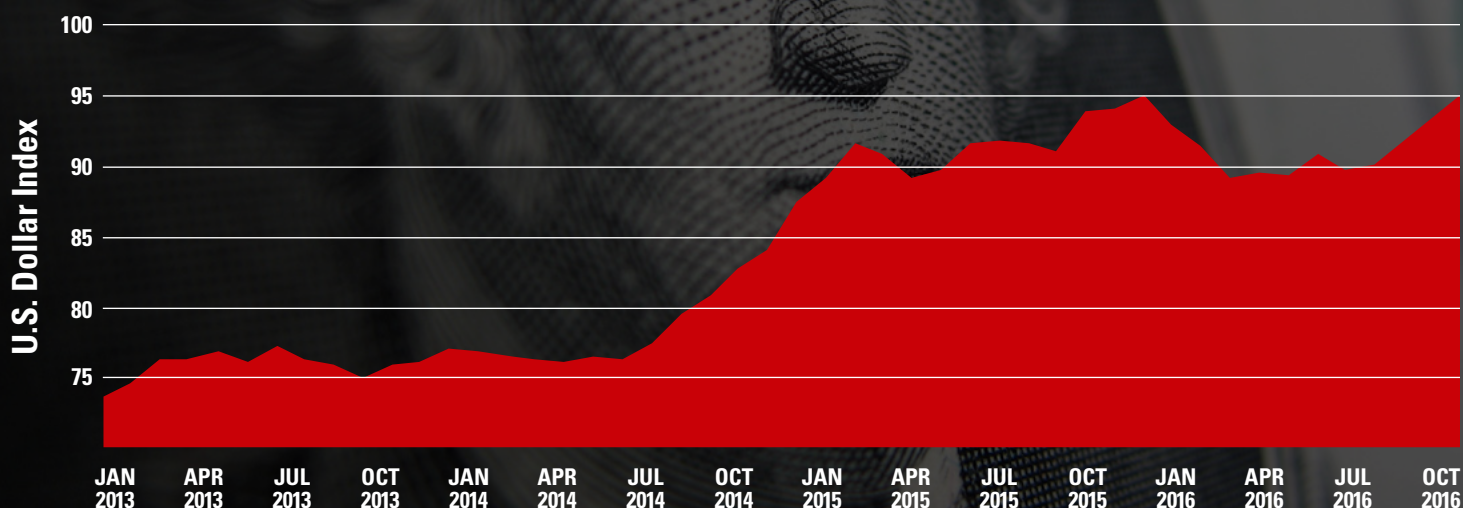
The value of the U.S. dollar has been making its move since the election, and it ended 2016 on a high note. High expectations for future economic growth spurred the Federal Reserve to raise interest rates in December, sending the U.S. dollar soaring to its highest levels against other global currencies in 14 years.<sup>12</sup> Will U.S. economic growth in 2017 be strong enough to merit the Fed's promised interest rate increases? It remains to be seen, but many analysts expect the value of the U.S. dollar will continue to strengthen – which would then put further pressure on other global currencies and the value of U.S. dollar-denominated commodities, like oil and metals.<sup>13</sup>

Year-Over-Year

0.5%

Quarter-to-Quarter

3.7%



Source: Federal Reserve Bank of St. Louis

# Euro

The euro continues to fall, fueled by higher-than-expected U.S. economic growth and interest rates, particularly after the U.S. presidential election.<sup>14</sup> In December, the European Central Bank announced plans of extending its quantitative easing program. Combined with high expectations that the Federal Reserve will raise interest rates in 2017, these developments sent the euro tumbling even further against the dollar in the fourth quarter of 2016.

Year-Over-Year  
1.8%

Quarter-to-Quarter  
3.6%

Source: OANDA Corp.

# Canadian Dollar

The Canadian dollar depreciated against the U.S. dollar between October and November amidst plummeting oil prices and high expectations for U.S. economic growth, but bounced back at the very end of November as oil prices rocketed up 9.0% after the Organization of Petroleum Exporting Countries made the decision to reduce output.<sup>15</sup> The Canadian dollar is highly correlated with oil prices. In December, however, the Canadian dollar lost ground once again because of an unexpected decline in factory shipments, which was a huge setback for an economy heavily dependent on manufactured goods and represented the worst month-over-month performance in half a year.<sup>16</sup>

Year-Over-Year  
0.2%

Quarter-to-Quarter  
2.4%

Source: OANDA Corp.

# Mexican Peso

The Mexican peso experienced its most volatile period since the 2008 recession, fueled by the U.S. presidential election and the recent conversations regarding a renegotiation of the North American Free Trade Agreement. The peso was the world's hardest-hit currency in the hours after the election, plunging 12% to an all-time low.<sup>17</sup>

Year-Over-Year  
18.7%

Quarter-to-Quarter  
6.4%

Source: OANDA Corp.

# Japanese Yen

The Japanese yen saw a significant drop in value as it fell to a 10-month low against the U.S. dollar after the U.S. presidential election. Since then, the Federal Reserve's moves to tighten monetary policy by increasing short-term interest rates puts further downward pressure on the yen since the Bank of Japan is still pursuing huge bond-buying programs. However, analysts have begun to be cautiously optimistic as Japan has started to move out of an economic lull.<sup>18</sup>

Year-Over-Year  
9.6%

Quarter-to-Quarter  
7.1%

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](http://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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