



Insurance Quarterly Report

QUARTER 1 2017

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:

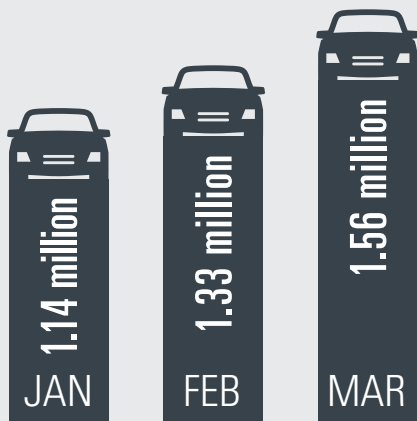
- Whole Crushed Auto-Body Prices
- Used-Car Price Index
- Vehicle Parts and Equipment Consumer Price Index
- Metals Prices
- New-Vehicle Sales and Total Miles Driven
- Gasoline Prices



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. And while the price of gas remained historically low, it was up 24.6% from last year's floor.

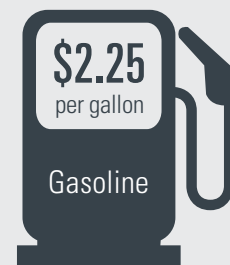
New-Vehicle Sales



Total Miles Driven

Year-over-Year
1.4%

Economic Drivers



Top Movers



8.5%



6.4%



4.4%

Insurance Carrier Vehicles

The average age of vehicles insurance carriers placed into auction decreased by 1.2% on a yearly basis, and mileage fell 2.7% year-over-year, hitting a low mark in March. However, average actual cash value (ACV) – which serves as a benchmark for the general quality of insurance vehicles that make their way to auction – dropped 3.0% quarter-to-quarter and stayed on par with the numbers from last year.

Average
ACV

Year-Over-Year

0.0%

NO CHANGE

Quarter-to-Quarter

3.0%

Average
Age

Q1 2016

9.8
YEARS

Q1 2017

9.7
YEARS

Average
Mileage

Year-Over-Year

2.7%

Quarter-to-Quarter

0.1%

Source: IAA

Scrap Metal: Whole Crushed Auto-Body Prices

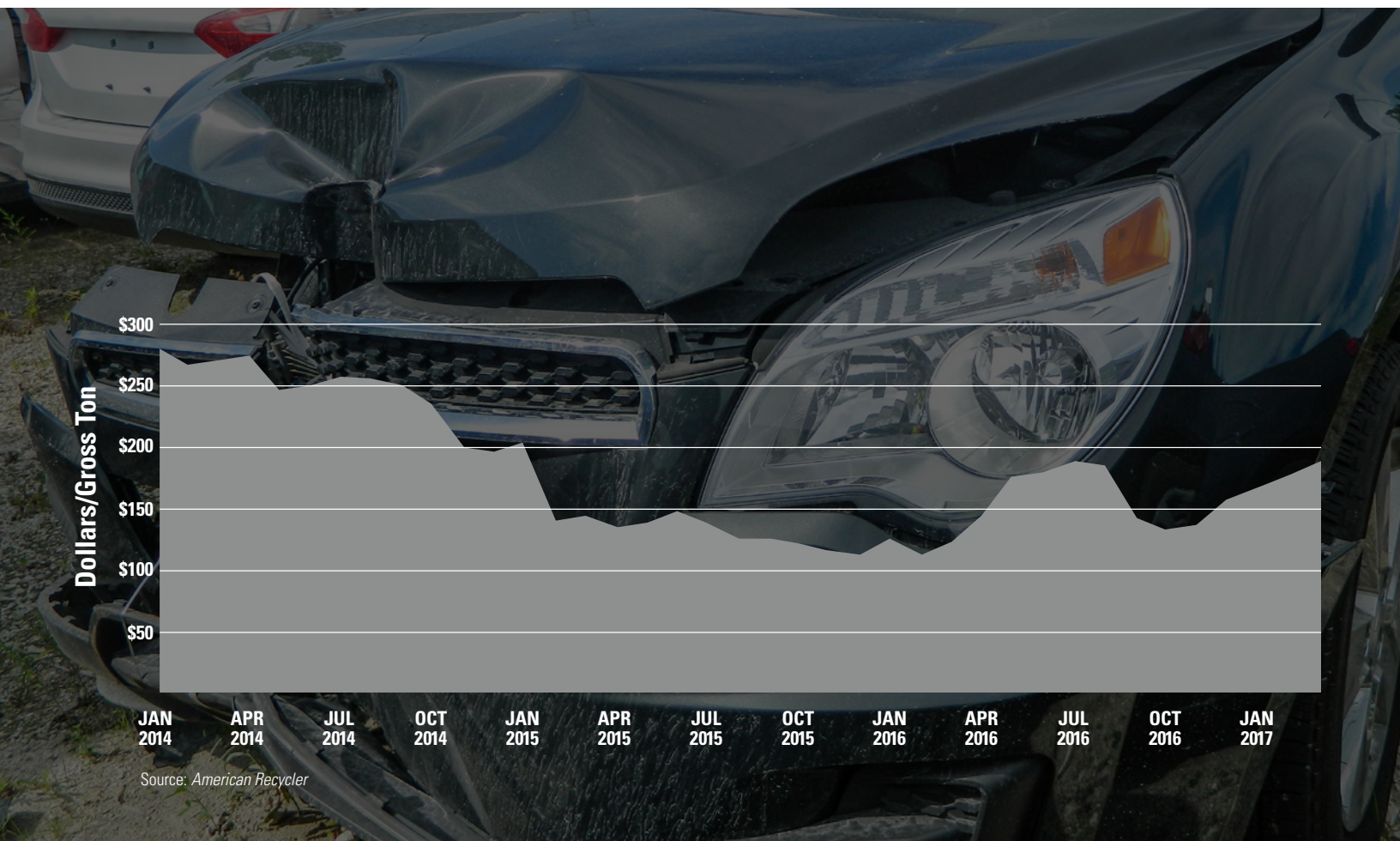
Overall, whole crushed auto-body prices extended their recent gains in the first quarter of 2017, hitting the highest quarterly mark since the fourth quarter of 2014. Prices were up 24.4% compared to Q4 2016 and 47.0% year-over-year, though these heady numbers are less impressive when taken in the context of the historic price lows of recent years. Gains in steel prices helped push up the value of crushed cars, particularly in the first two months of the year.² Chinese supply continues to dominate the steel price discussion as an anticipated reduction in production has positively affected the metal's value.³

Year-Over-Year

47.0% 

Quarter-to-Quarter

24.4% 



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.⁴ February, on the other hand, saw monthly declines in nearly all model classes as prices bucked typical seasonal trends.⁵ 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.⁶

January

Year-Over-Year

6.7% 

Month-to-Month

2.8% 

February

Year-Over-Year

4.8% 

Month-to-Month

2.3% 

March

Year-Over-Year

1.0% 

Month-to-Month

2.0% 

Source: ADESA Analytical Services

Vehicle Parts And Equipment Consumer Price Index

The vehicle parts and equipment CPI continued its streak of stability as it hasn't made more than a one percentage point monthly change since October 2015. Uncertainty was the theme for the quarter amid concerns of an import, or border-adjustment, tax on Mexican goods.⁷ The discussed tax likely put upward pressure on prices as parts suppliers prepare for tighter market conditions moving forward.⁸ Moreover, total miles driven were up 2.2% and 1.9% in January and February from the same time last year, respectively. The added mileage likely also helped drive the index up to its modest gain of 0.3% year-over-year.



Source: Bureau of Labor Statistics

Gasoline

Gasoline prices steadied in the first quarter of 2017, though were up nearly 25% from the sub-\$2/gallon lows of 2016. The upward trend in gas prices continued for January and topped last year's prices by 24.0%. The increase was likely due to a combination of OPEC's December export cuts and expectations of higher demand for gas during the summer months. February saw a 2.6% price reduction on a month-to-month basis, though prices were up 32.4% from the same time last year. Additionally, the U.S. Energy Information Administration identified increases in gasoline futures in February as a seasonal result of changes from a winter-grade blend to a more expensive summer-grade fuel.⁹ Domestic crude oil supply hit record highs in March with more than 528 million barrels.¹⁰ The stockpile helped control upward price pressure for gasoline.

Year-Over-Year

24.6%

Quarter-to-Quarter

4.3%

U.S. Dollars per Gallon

\$4.00
\$3.50
\$3.00
\$2.50
\$2.00

JAN 2014 APR 2014 JUL 2014 OCT 2014 JAN 2015 APR 2015 JUL 2015 OCT 2015 JAN 2016 APR 2016 JUL 2016 OCT 2016 JAN 2017

Source: Energy Information Administration

Metals

Aluminum

Aluminum prices realized a fifth-consecutive quarter of sequential growth after climbing 8.2% in the first quarter of 2017. The current rise can at least somewhat be attributed to growing demand for the material due to positive signals of U.S. infrastructure investment as well as more strict Chinese industry emission regulations.¹⁴ Likewise, Chinese infrastructure development also contributed to the strong quarter for aluminum. Altogether, Alcoa, one of the world's largest producers of aluminum, expects the surplus to ease this year due to a predicted 4% growth in global demand, with a 6% demand growth expected in China alone.¹⁵

Year-Over-Year

22.2% 

Quarter-to-Quarter

8.2% 

Source: World Bank

Platinum

Platinum prices remain low by historical standards, but the metal rallied slightly in the first quarter of 2017, rising to better than \$1,000/ounce for the first time since October 2016.¹³ Though supported by steady vehicle sales in the U.S. and China, continued reduction in the market share of diesel engine vehicle sales in Europe has put downward pressure on platinum prices as a whole so far in 2017.¹⁴

Year-Over-Year

7.3% 

Quarter-to-Quarter

3.7% 

Source: Johnson Matthey

Palladium

Palladium was up 46.2% year-over-year, and three month-to-month price increases made it the top precious metals performer of the quarter. Concerns with diesel engines from recent scandals at Volkswagen and Fiat Chrysler have shifted investment toward petrol vehicles, where palladium is often used in their catalytic converters.¹⁵ The uptick in demand is the most likely driver of the price increase, though expected economic recoveries in the U.S. and China¹⁶ as well as investment demand have also played a role.¹⁷ Palladium prices rose as high as \$809/ounce and achieved an average of \$779 in March, its highest since May of 2015.¹⁸

Year-Over-Year

46.2% 

Quarter-to-Quarter

11.9% 

Source: Johnson Matthey

U.S. Dollar

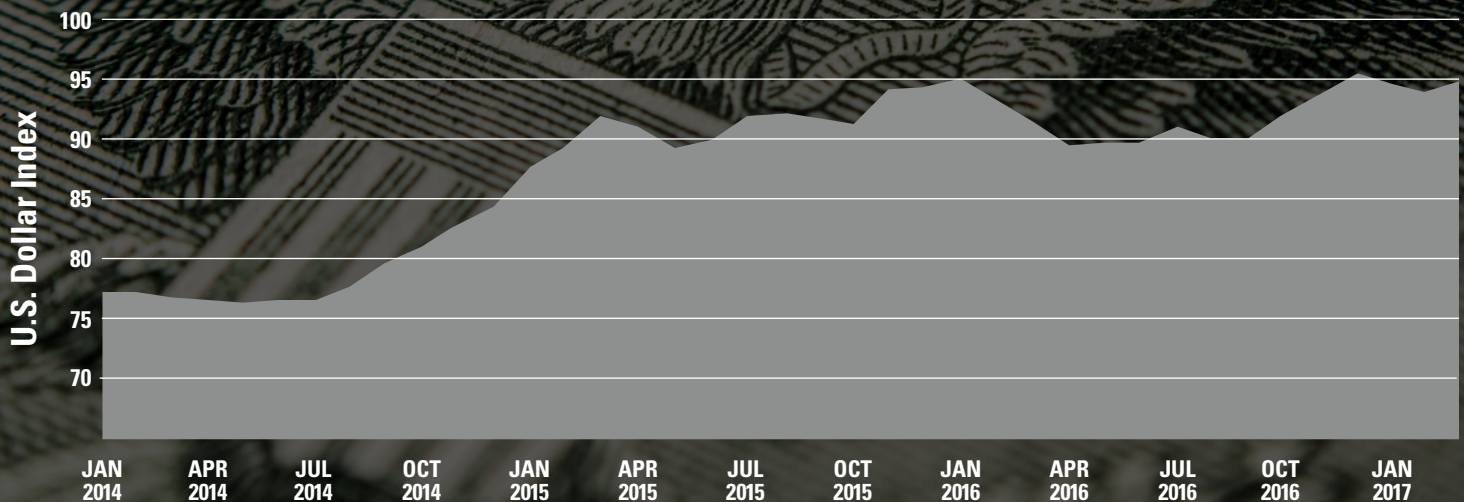
The value of the U.S. dollar continued its strong performance in the first quarter of 2017, rising 0.9% from Q4 2016 and 1.4% year-over-year. The U.S. dollar picked up steam in March – up 3.6% from the same month last year – after being down in both January and February. Higher interest rates are typically 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.¹⁹ 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.²⁰

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.²¹ 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,²² the euro was slightly balanced out with encouraging construction numbers. The currency depreciated at 1.1% for the quarter.²³

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.²⁴ 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.²⁵

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.²⁶ 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.²⁷ 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.²⁸

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%.²⁹ 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.³⁰ 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.

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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

Meggan 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.

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