



# Q2 **SPECIALTY REPORT**

The Facts and Figures Behind  
Your Auction Returns



Quarter 2 | 2018

# WELCOME TO THE **QUARTERLY REPORT**

The specialty classification at Insurance Auto Auctions, Inc. (IAA) consists of five segments: truck, trailer, equipment, boat and motorhome. This report will provide a performance overview of each of the specialty segments, followed by an examination of the metals market and the U.S. Dollar.







## 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:



**WHOLE CRUSHED  
AUTO-BODY  
PRICES**



**STAINLESS STEEL**



**TOTAL MILES  
DRIVEN**

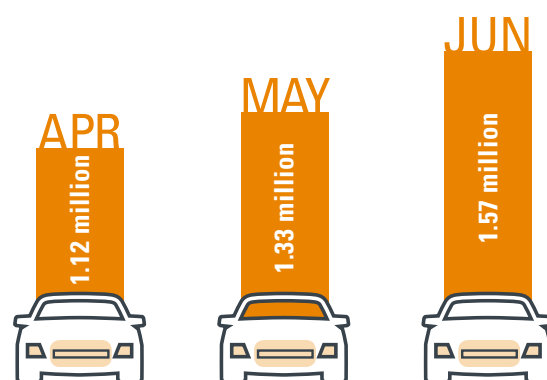


**PALLADIUM**



**PLATINUM**

### NEW-VEHICLE SALES



# ACCORDING TO TRUCK PRICES, **THE BIGGER AND NEWER, THE BETTER**

Q2 has come to a close and the Truck segment saw prices rise for the fourth straight quarter. The 5.5% quarter-to-quarter and 22.1% year-over-year increases came despite a month-to-month price decrease in June. The quarter's price uptick was due to two key factors. The first was a shift in the composition of vehicles sold. Heavier, more expensive units, such as Class 6's, 7's and 8's, represented a larger share of total truck sales, and was reflected in the average price lift.<sup>5</sup> Second was tight supply in the new-vehicle market, keeping newer used-truck demand strong.<sup>6</sup>

## TRUCK

Quarter-to-Quarter:

**↑5.5%**

Year-Over-Year:

**↑22.1%**





# A DOWN QUARTER, BUT TRAILER CATEGORY KEEPS ROLLING

With a record sale price index in Q1, a bit of a lull would be hard to avoid in Q2, and that was exactly the case. A 14% quarter-to-quarter dip in dry-van orders also more than likely played a factor, nonetheless, year-over-year prices were up 13.8%, marking the 12th straight month of year-over-year growth.<sup>7</sup> So what's been the impetus behind the consistently impressive performance of the category (which includes a 30% year-over-year order increase in the month of May)? According to Frank Maly, the Director of CV Transportation Analysis at ACT, it's due to "solid freight rates and tight capacity, with the added aid of beneficial tax changes."<sup>8,9</sup>

## TRAILER

Quarter-to-Quarter:

↓ **9.2%**

Year-Over-Year:

↑ **13.8%**

# EQUIPMENT ON THE RISE

A late-quarter boom for heavy and farm equipment prices lead to a stellar quarter for the category. Q2's index closed with a 21% increase quarter-to-quarter, up a whopping 41% year-over-year. The momentum was even a salient factor in macroeconomic trends – equipment contributed significantly to the 8.5% quarterly gain in private fixed nonresidential investments.<sup>10</sup> Transportation equipment and machinery shipments growth likely put the upward pressure on prices, leading to the investment uptick.<sup>11</sup>

For consumers, a chain reaction of factors led to price increases at multiple touch points. It all began with steel and aluminum tariffs pushing raw materials prices up, which in turn bumped new equipment sticker prices higher. As a result, substitutes in the used market became more attractive and auction prices increased.<sup>12</sup>

## EQUIPMENT

Quarter-to-Quarter:

↑ **21.0%**

Year-Over-Year:

↑ **41.7%**





# EBBS AND FLOWS IN THE BOAT CATEGORY

It was an up and down quarter for boats, which began with significant price increases in April. Bolstered by a 112.2% year-over-year surge for vessels over 41 feet, a strong month for overall sales likely led to the positive early quarter.<sup>13</sup> May brought the sector back to earth as prices dropped 22.7% month-to-month. A perfect storm of poor weather conditions, slower sales growth and longer backlogs contributed to the decline.<sup>14</sup> The scales tipped yet again in June as aluminum and new pontoon boat sales brought June's total sales above average prices in May, but only marginally.<sup>15</sup>

Overall, quarterly and yearly prices were up 2.0% and 11.2%, respectively.

## BOAT

Quarter-to-Quarter:

↑ **2.0%**

Year-Over-Year:

↑ **11.2%**



# FOR MOTORHOMES: SHAKY SHIPMENTS. STEADY PRICES.

Shipment quantities were up and down, with towable RV and motorhome shipments among those on the rise. Overall prices remained quite steady for motorhomes in April, and all types of RVs and motorhomes came in with year-over-year shipment growth.<sup>16</sup>

On the other hand, shipments in May and June for both conventional (Type A) and mini (Type C) sang a different tune. Both were down double digits year-over-year in each month.<sup>17,18</sup>

According to Thor Industries, the largest RV manufacturer in the U.S., some additional upward price pressure was likely due to the anticipation of steel and aluminum tariffs. Its effect was an increase on raw materials and commodity prices which were passed on to the consumer.<sup>19</sup>

At quarter's end the category reported increases of 2.3% quarter-to-quarter and 5.4% year-over-year.

## MOTORHOMES

Quarter-to-Quarter:

↑**2.3%**

Year-Over-Year:

↑**5.4%**







# STEEL STAYS **STRONG**

The beat keeps drumming for steel which saw its fourth straight quarter of continued growth. In fact, June saw the highest index since September of 2014. Tariffs again likely played a factor as the U.S. imposed a 25% tax on the metal in early June.<sup>20</sup> When the dust settled a 4.4% quarter-to-quarter and a 23.1% year-over-year increase marked another strong quarter.

## STAINLESS STEEL

Quarter-to-Quarter:

**↑4.4%**

Year-Over-Year:

**↑23.1%**



## WHOLE CRUSHED AUTO-BODY PRICES

Quarter-to-Quarter:

↑**5.3%**

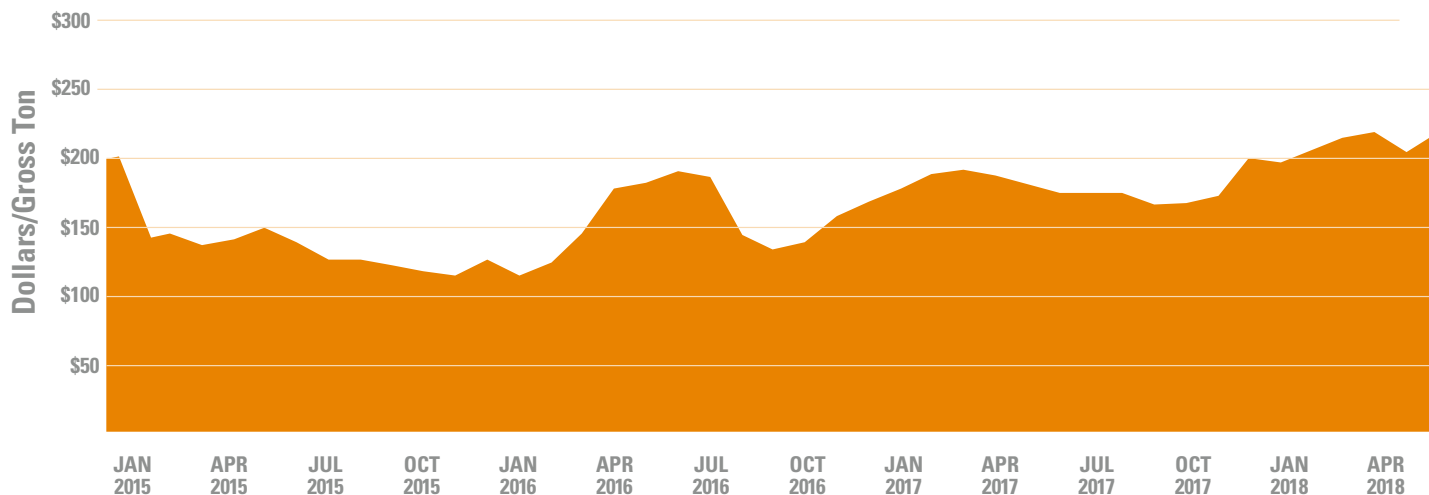
Year-Over-Year:

↑**15.0%**

## TARIFFS MAINTAIN WHOLE-CRUSHED **PRICE MOMENTUM**

According to most industry professionals, an increase in raw metal costs was due to lingering effects of steel and aluminum tariffs, along with retaliatory tariffs on metals, which led to rising whole crushed auto-body prices.<sup>21</sup>

The 5.3% quarterly and 15.0% yearly price increase was actually a deceleration from Q1's 20.6% quarterly gain. The segment finished at its highest average prices since the summer of 2014.



Source: American Recycler



# SPRINGTIME SWOON FOR PLATINUM AND PALLADIUM

It was a tough three months for Platinum and Palladium. The metals saw quarter-to-quarter price decreases of 7.3% and 5.3%, respectively.

Platinum's struggle remains the same: its use in vehicles with diesel engines continues to be popular, but demand for diesel-powered vehicles is low. As a result, inventories are piling up. So much so, in fact, that Metals Focus, a leading precious metal consultancy, reported in its most recently available data that platinum supplies have exceeded a year's worth of global demand for each of the last two years.<sup>22</sup> As producers aimed to shed these inventories, the metal finished down 3.8% year-over-year.

Palladium, on the other hand, fell in April but rebounded slightly in May and June. As its industrial application trend continued, the premium over platinum exceeded \$100 per troy oz. in June and year-over-year prices were up 19.7%.

## PLATINUM

Quarter-to-Quarter:

↓ **7.3%**

Year-Over-Year:

↓ **3.8%**

## PALLADIUM

Quarter-to-Quarter:

↓ **5.3%**

Year-Over-Year:

↑ **19.7%**

# 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>23</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>24</sup>

## U.S. DOLLAR

Quarter-to-Quarter:

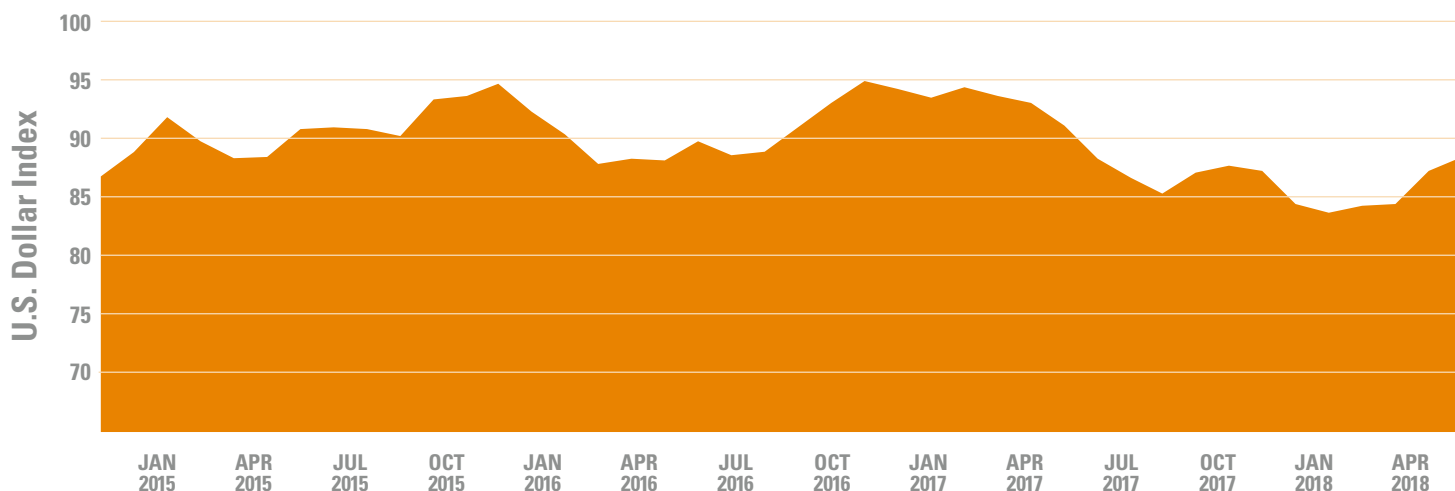
**2.5%**

Appreciated

Year-Over-Year:

**5.1%**

Depreciated



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](#).



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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.