

Q3

# INSURANCE REPORT

The Facts and Figures Behind  
Your Auction Returns



Quarter 3 | 2019

# WELCOME TO THE **QUARTERLY REPORT**

IAA, Inc. helps insurance carriers dispose of total loss vehicles via a multi-channel marketplace. Insurance vehicles sold through IAA's auctions display a range of loss types, from collision, storm or flood damage to 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



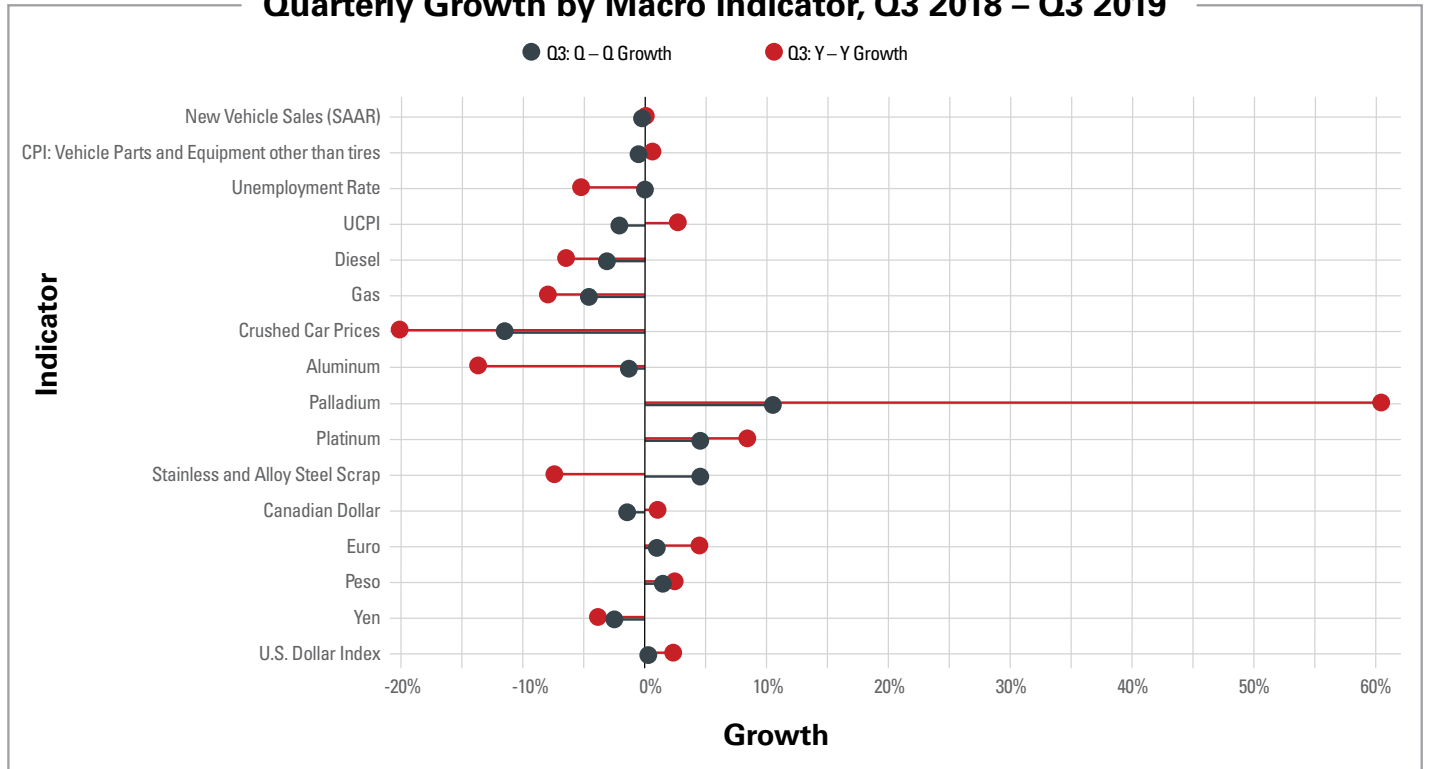
TOTAL MILES  
DRIVEN



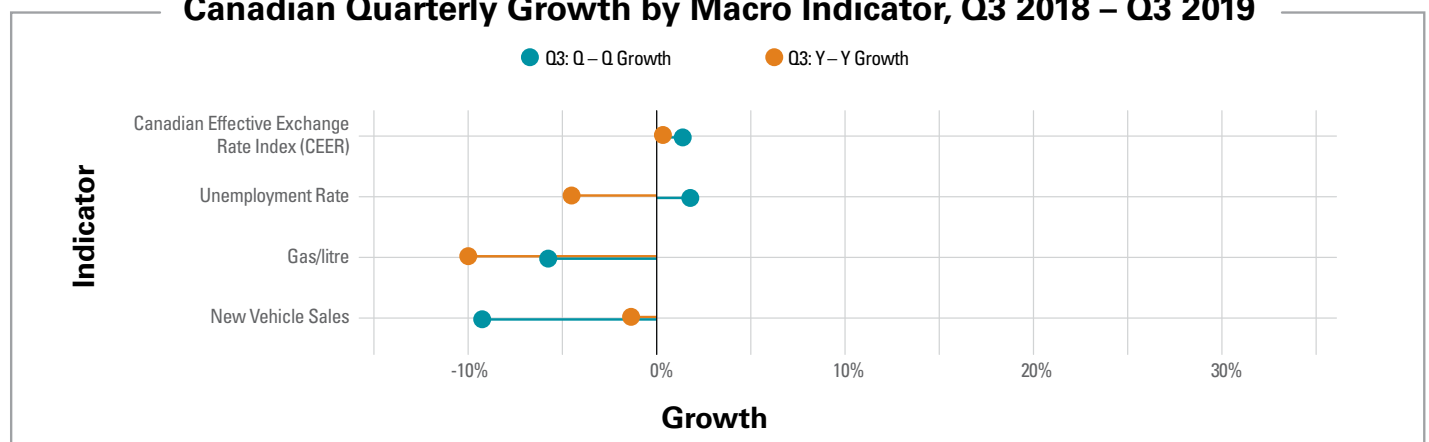
FUEL  
PRICES

# AUTO TRENDS **AT A GLANCE**

## Quarterly Growth by Macro Indicator, Q3 2018 – Q3 2019



## Canadian Quarterly Growth by Macro Indicator, Q3 2018 – Q3 2019





# OVERVIEW OF THE AUTOMOBILE INDUSTRY:

U.S. auto sales decreased 1.2% thus far in 2019, with total new vehicle sales sitting at 12.7 million. This decrease in sales is being driven by a 9.3% drop in passenger car sales. From January to September light truck sales increased 2.7% compared to this time last year. For September, the seasonally adjusted annual rate (SAAR) sits at 17.23 million units, just off the September 2018 SAAR of 17.33 million units.<sup>1</sup>

Year-to-date dealership sales of new vehicles have decreased 1.0% while used vehicle sales have increased 3.7% to over \$15 million in average total sales per dealership. As used vehicle sales increase, new car sales are taking a hit with consumers choosing to purchase used cars over newer cars.<sup>2</sup>

Gasoline prices for Q3 remained relatively stable as they sat between \$2.45 and \$2.68 per gallon, finishing out the quarter at \$2.54. Diesel prices were also stable this quarter as prices began the quarter at \$3.04 per gallon and ended at \$3.06. Unemployment fell in Q3 to 3.5% in September, the lowest it has been since April of 1969 while GDP in Q3 increased by 1.9%.<sup>3</sup>

## Quarter-Over-Quarter:



**WHOLE CRUSHED  
AUTO-BODY PRICES**



**TOTAL MILES  
DRIVEN THROUGH  
SEPTEMBER**



**PALLADIUM**



**PARTS PRICES**

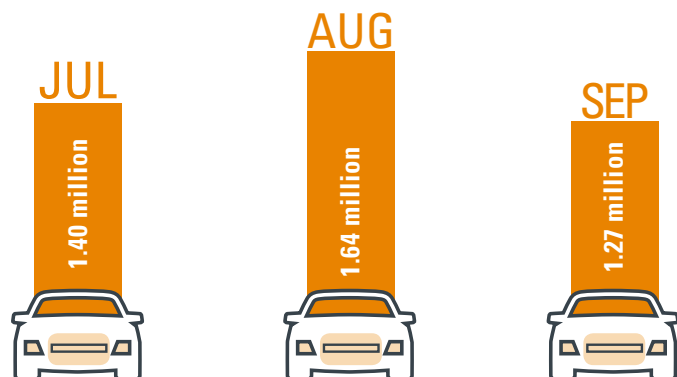


**ALUMINUM**



**PLATINUM**

## NEW VEHICLE SALES



## GASOLINE

Quarter-Over-Quarter:

↓ **4.7%**

Year-Over-Year:

↓ **7.9%**

## DIESEL

Quarter-Over-Quarter:

↓ **3.3%**

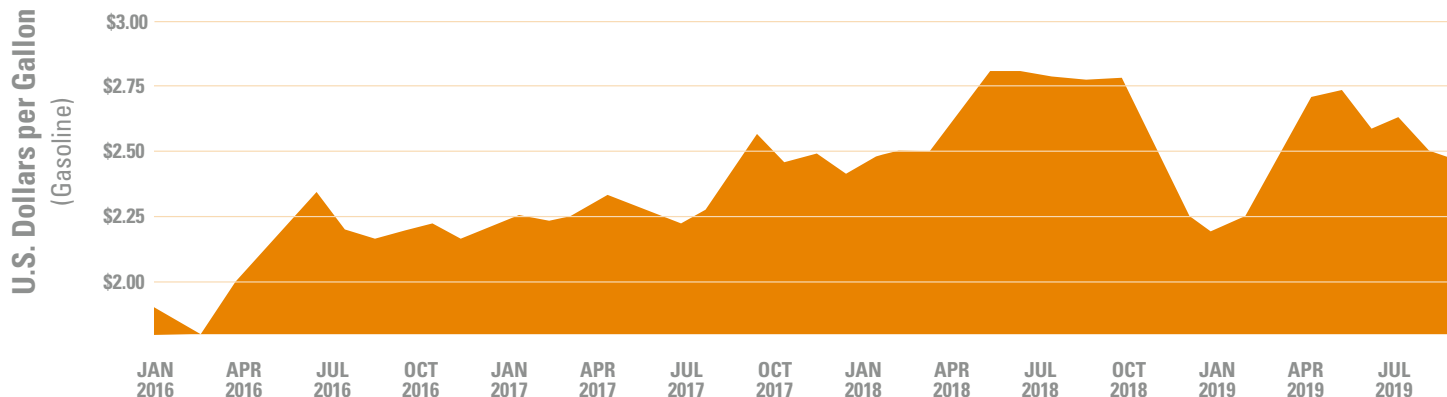
Year-Over-Year:

↓ **6.7%**



## FUEL PRICES:

Gas prices fell 4.7% from Q2 of 2019 and decreased 7.9% year-over-year. Diesel prices trended similarly with a 3.3% decrease as of Q2 and a decline of 6.7% from the same period in 2018. These falling prices can partially be attributed to the U.S.-China Trade War, with uncertainty causing volatility in the market. Even the threat of tariffs causes fluctuations in the energy sector. In August, President Trump threatened a \$300 billion tariff on Chinese imports causing the largest decline in crude oil prices in over four years. Other than the effects of the ongoing trade war, fuel prices generally start to decline around September due to seasonality.<sup>4,5,6</sup>



Source: Energy Information Administration



# WHOLE CRUSHED AUTO-BODY PRICES:

Whole crushed auto-body prices continued their downward trend this quarter with a decrease of 3.4% and a year-over-year decline of 20.7%. This is the fifth consecutive quarter that crushed car prices have declined. Steel prices and output have also continued to decrease due to downward shifts in demand. The steel tariffs combined with the general uncertainty of the trade war likely caused slowing scrap auto-body prices.<sup>7,8</sup>

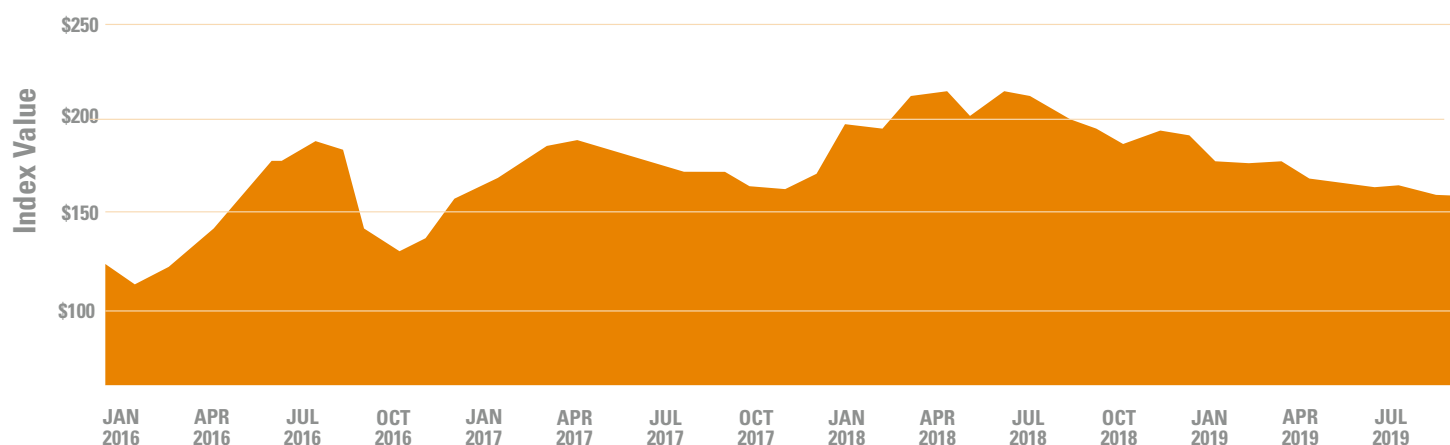
## WHOLE CRUSHED AUTO-BODY PRICES

Quarter-Over-Quarter:

↓ **3.4%**

Year-Over-Year:

↓ **20.7%**



Source: American Recycler



# METAL PRICES:

Platinum prices grew in Q3, both quarter-over-quarter and year-over-year at 4.6% and 8.4% respectively. Platinum prices are starting to fall more in line with prices in 2017 and early 2018 before experiencing a dip at the end of 2018. Palladium prices are historically high, with a 10.4% increase quarter-over-quarter and an 8.4% increase on a yearly basis. Palladium prices have increased 445% over the last 10 years. Aluminum prices continue to fall in spite of trade tariffs. Aluminum quarter-over-quarter prices fell 1.7% while year-over-year prices fell 14.1%. Palladium's prices have been driven up by a shortage of the rare metal as well as a drop in the price of platinum, which is frequently mined alongside palladium. This has the effect of not only discouraging production of platinum, but also palladium as well. On the demand side, greener standards for automakers created higher demand for catalytic converters of which palladium is a major component.<sup>9</sup>

Prices for aluminum continue to fall in spite of decreased global production and US tariffs. In Q3, Chinese aluminum production fell in both August and September. An explanation for the decrease in prices could be found on the demand side as the top auto market in the world, China, stalled. According to IMF's World Economic Outlook, "The price of aluminum fell... because of overcapacity in China and weakening demand from the vehicle market there."<sup>10</sup>

## PLATINUM

Quarter-Over-Quarter:

↑4.6%

Year-Over-Year:

↑8.4%

## PALLADIUM

Quarter-Over-Quarter:

↑10.4%

Year-Over-Year:

↑60.6%

## ALUMINUM

Quarter-Over-Quarter:

↓1.7%

Year-Over-Year:

↓14.1%

# USED CAR PRICES:

Average wholesale used vehicle prices fell in Q3, but remained strong on a year-over-year basis. Specifically, prices were down 2.2% from the previous quarter, but increased 2.9% year-over-year because of growing sales in the truck segment. According to Tom Kontos, Chief Economist at KAR Auction Services, Inc., prices were relatively flat on a year-over-year basis for midsize cars, midsize SUVs, and crossovers. The market for CPO sales were strong through July and August, but fell by a substantial 21.4% in September. Certified pre-owned sales may be 4.1% lower than this time last year, but have increased 2.4% year-to-date. Wholesale prices are “cooling off” after a strong summer showing.

## USED CAR PRICE INDEX

### JULY

Month-to-Month:

↓ **0.2%**

Year-Over-Year:

↑ **5.1%**

### AUGUST

Month-to-Month:

↓ **1.8%**

Year-Over-Year:

↑ **1.8%**

### SEPTEMBER

Month-to-Month:

↓ **0.8%**

Year-Over-Year:

↑ **1.6%**



# INSURANCE CARRIER VEHICLES:

Average vehicle age fell slightly on a quarterly basis but remained on par with the 2018 Q3 average. Average mileage grew 0.3% and 1.1% relative to the past quarter and 2018 Q3, respectively. A modestly younger and higher mileage vehicle typically have offsetting effects on ACV, but average actual cash value (ACV) increased 0.8% on a quarterly basis and increased 3.4% from last year's Q3 mark. Average ACV, a representation of a vehicle's estimated value in an undamaged state, serves as a benchmark for the general quality of insurance vehicles that make their way to auction.



## AVERAGE ACV

Quarter-Over-Quarter:

↑ **0.8%**

Year-Over-Year:

↑ **3.4%**



## AVERAGE AGE

Q3 2018:

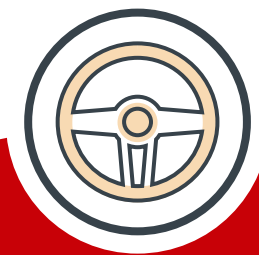
**8.9**

Years

Q3 2019:

**8.9**

Years



## AVERAGE MILEAGE

Quarter-Over-Quarter:

↑ **0.3%**

Year-Over-Year:

↑ **1.1%**



# U.S. DOLLAR:

The U.S. Dollar has continued its trend of appreciation in Q3, with quarter-over-quarter gains of 0.1%. This put the dollar up 2.3% from the same time last year. The Federal Reserve has been slowly decreasing interest rates throughout Q3. The U.S.-China trade war, along with weak global growth, has put the Federal Reserve on the defensive. However, many developed countries around the world are attempting to strengthen their slow growth through monetary policy easing strategies such as lowering interest rates. While the Federal Reserve is cutting interest rates, they are still higher than other developed countries around the world. This makes the U.S. dollar an attractive investment. However, appreciation of the dollar has slowed from the previous quarter. At the end of Q2 the quarter-over-quarter appreciation was 0.4%, putting the dollar up 4.4% from that time last year. The U.S. dollar has benefited from strong growth relative to other developed countries around the world. However, this growth is slowing.<sup>11,12</sup>

## U.S. DOLLAR

Quarter-Over-Quarter:

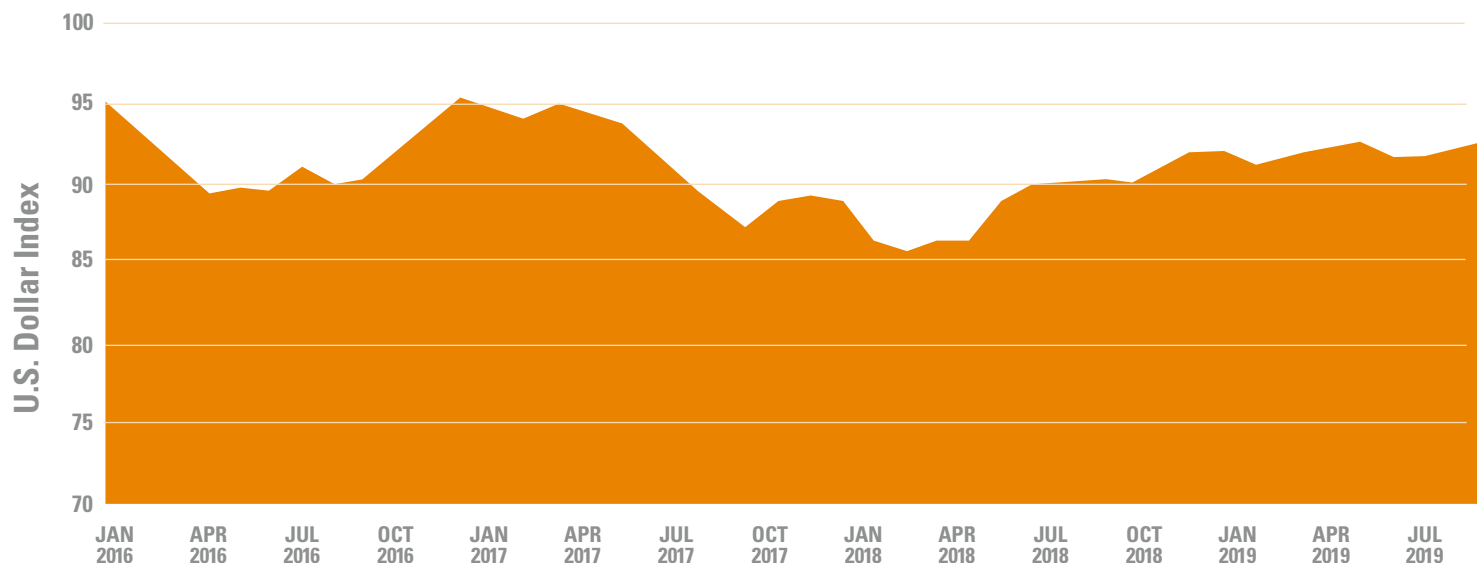
**0.1%**

Appreciated

Year-Over-Year:

**2.3%**

Appreciated



Source: Federal Reserve Bank of St. Louis

**IMPACT™**  
 AUTO AUCTIONS

**CANADA**

QUARTER 3 | 2019

**USED VEHICLE  
PRICE INDEX**

JULY:

**↑0.4%**

AUGUST:

**↑0.4%**

SEPTEMBER:

**↓0.5%**

# IN CANADA INDICATORS WERE MIXED

Canada's economic indicators for the third quarter were mixed. GDP grew 1.3% on an annualized basis, while unemployment rose by 0.1 percentage point, with the jobless rate ending the quarter at 5.5%. These mixed economic indicators have led to a 1.3% depreciation of the Canadian dollar during the quarter. However, the Canadian Dollar Effective Exchange Rate (CEER) is slightly up 0.3% compared to this time last year. Gas prices have fallen 5.8% in the quarter, and are down 10.1% from this time last year. Similar to last quarter, increased trade tensions between U.S. and China, along with lower global demand for oil, have resulted in falling oil and gas prices.<sup>13</sup>

New vehicle sales have continued their downward trend with Quarter-Over-Quarter sales declining 9.2% and year-over-year sales declining 1.4%.

**CANADIAN EFFECTIVE EXCHANGE RATE INDEX (CEER)**

Quarter-Over-Quarter:

**↑1.1%**

Year-Over-Year:

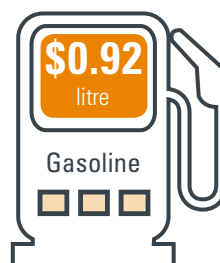
**↑0.3%**
**UNEMPLOYMENT RATE**


Quarter-Over-Quarter:

**↑0.1** percentage points

Year-Over-Year:

**↓0.3** percentage points

**GASOLINE PRICES**


Quarter-Over-Quarter:

**↓5.8%**

Year-Over-Year:

**↓10.1%**



Average vehicle mileage decreased 0.2% Quarter-Over-Quarter and 3.4% year-over-year, while average vehicle age dropped slightly on a yearly basis. These factors were reflected in the quarter's average ACV comparisons, which were down relative to the previous quarter but up 3.4% year-over-year.



### AVERAGE ACV

Quarter-Over-Quarter:

↓0.7%

Year-Over-Year:

↑3.4%



### AVERAGE AGE

Q3 2018:

9.8

Years

Q3 2019:

9.7

Years



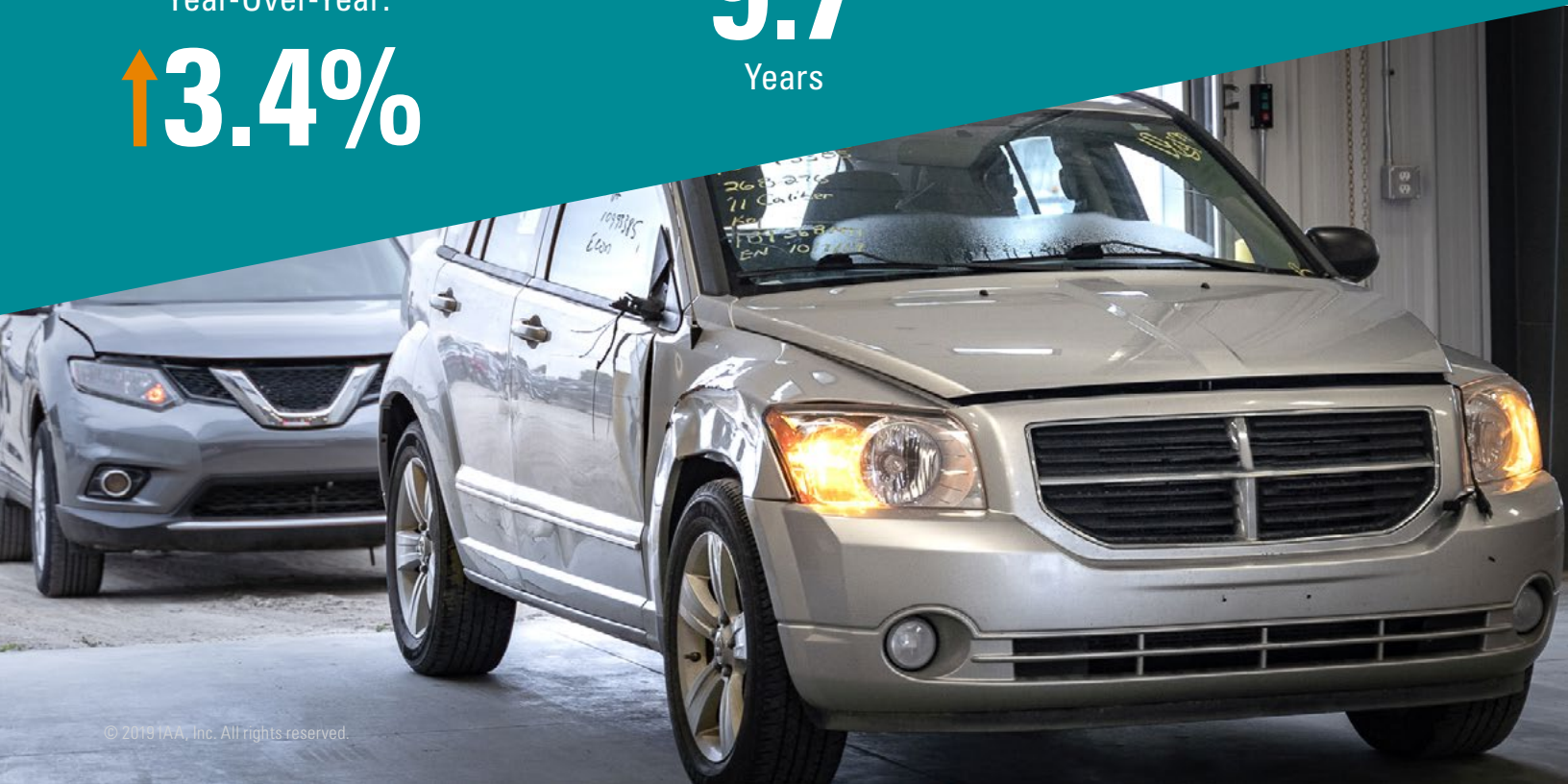
### AVERAGE MILEAGE

Quarter-Over-Quarter:

↓0.2%

Year-Over-Year:

↓3.4%



# REFERENCES

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# ABOUT IAA

IAA, Inc. (NYSE: IAA) is a leading global marketplace connecting vehicle buyers and sellers. Leveraging leading-edge technology and focusing on innovation, IAA's unique multi-channel platform processes more than 2.5 million vehicles annually. Headquartered near Chicago, IL, IAA has over 3,600 talented employees and over 190 facilities throughout the US, Canada and the United Kingdom. IAA provides a broad range of services to insurers, fleet and rental companies, rebuilders, charity organizations and financing companies that reduce the cycle time of selling a vehicle with a focus on delivering the highest economic returns. Buyers have access to the industry's most-innovative vehicle evaluation and bidding tools, enhancing the overall purchasing experience. Go to [IAAI.com](https://IAAI.com) to learn more, and follow IAA on [Facebook](#), [Twitter](#), [LinkedIn](#) and [Instagram](#).



## ABOUT THE AUTHOR

Sebastian Gancarczyk is the Vice President of Finance at IAA, Inc. 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 based on management's current expectations, are not guarantees of future performance and 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. These risk and uncertainties include those identified in our filings with the Securities and Exchange Commission (the "SEC"), including under "Risk Factors" in our information statement filed as Exhibit 99.1 to our Registration Statement on Form 10 filed with the SEC on June 13, 2019. Additional information regarding risks and uncertainties will also be contained in subsequent quarterly and annual reports we file with the SEC. The forward-looking statements included in this report are made as of the date of this report, and we undertake no obligation to publicly update or revise any forward-looking statement to reflect new information or events, except as required by law.