



# Specialty Quarterly Report

## QUARTER 4 2016

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.

Scrap-metal prices have proven to be reliable indicators of the base-price direction for these large pieces of salvage, leading to the following factors being discussed:

- Whole Crushed Auto-Body Prices
- Aluminum
- Platinum
- Stainless Steel



Whole Crushed  
Auto-Body Prices



U.S. Dollar  
Index



Aluminum



Platinum



Stainless  
Steel



# Specialty Segments

All price changes represented below are relative to seasonally adjusted average sale prices.

## Truck

Truck prices dipped 3.9% quarterly and began the last three months of 2016 with weak market conditions. Retail pricing was down, which then spilled over to the auction.<sup>1</sup> Class 8 truck order activity in November reached respectable levels – up 41% from October – as the market returned to tracking normal cycles.<sup>2</sup> After a 0.3% dip in October, the American Truck Association's advanced seasonally adjusted For-Hire Truck Tonnage Index spiked 8.2% in November and helped to keep end-of-year values positive compared to 2015.<sup>3</sup>

Year-Over-Year

0.1% 

Quarter-to-Quarter

3.9% 

Source: IAA

## Trailer

The trailer industry had a strong November, with three factors that particularly contributed to strong sales figures: dry van orders doubled October's figures, cancellations appear to have dropped to its lowest rate since May and recent energy price hikes boosted liquid and bulk tank order volumes.<sup>4</sup> This contributed to a trailer price hike of 2.6% compared to the third quarter of 2016 and 14.5% compared to the same period in 2015. Don Ake, vice president of commercial vehicles at transportation intelligence leader FTR, cautioned that while large fleets are ordering replacement trailers for 2017, it's "not at the same level of previous years."<sup>5</sup>

Year-Over-Year

14.5% 

Quarter-to-Quarter

2.6% 

Source: IAA



## Equipment

After dipping to historic lows, equipment prices began to slowly recover in the last quarter of the year, rebounding 9.2% compared to the third quarter and 13.2% compared to the same period last year. However, these positive values belie underlying softness in the market – especially when compared to a very weak 2015 – and figures remain ultimately low. Machinery and equipment-heavy industries are remaining cautious and continue to forecast lackluster demand for 2017, citing weakness from the construction, mining and oil sectors and a glut of used machines as the main factors.<sup>6</sup>

Year-Over-Year

13.2% 

Quarter-to-Quarter

9.2% 

Source: IAA

## Boat

Boat prices continued to soar, jumping 13.2% compared to the last quarter and 17.8% compared to the same period the year prior. In the fourth quarter of 2016, demand for boats was buoyed by Florida and Texas, the nation's top states for sales, especially during the winter.<sup>7</sup> Thom Dammrich, president of the National Marine Manufacturers Association, remarked that "economic indicators are working in the industry's favor," including rising consumer confidence, income and spending.<sup>8</sup>

Year-Over-Year

17.8% 

Quarter-to-Quarter

13.2% 

Source: IAA

## Motorhome

Motorhome prices did drop 7.8% compared to last quarter, but seasonality was the likely culprit for the decline. Compared to the same period the year prior, motorhome prices are still significantly higher by 16.9%. Frank Hugelmeyer, president of the Recreation Vehicle Industry Association, explained that low inflation and interest rates, a vibrant economy, reduced unemployment and increased household wealth "are all working in the RV market's favor."<sup>9</sup>

Year-Over-Year

16.9% 

Quarter-to-Quarter

7.8% 

Source: IAA



# Scrap Metal: Whole Crushed Auto-Body Prices

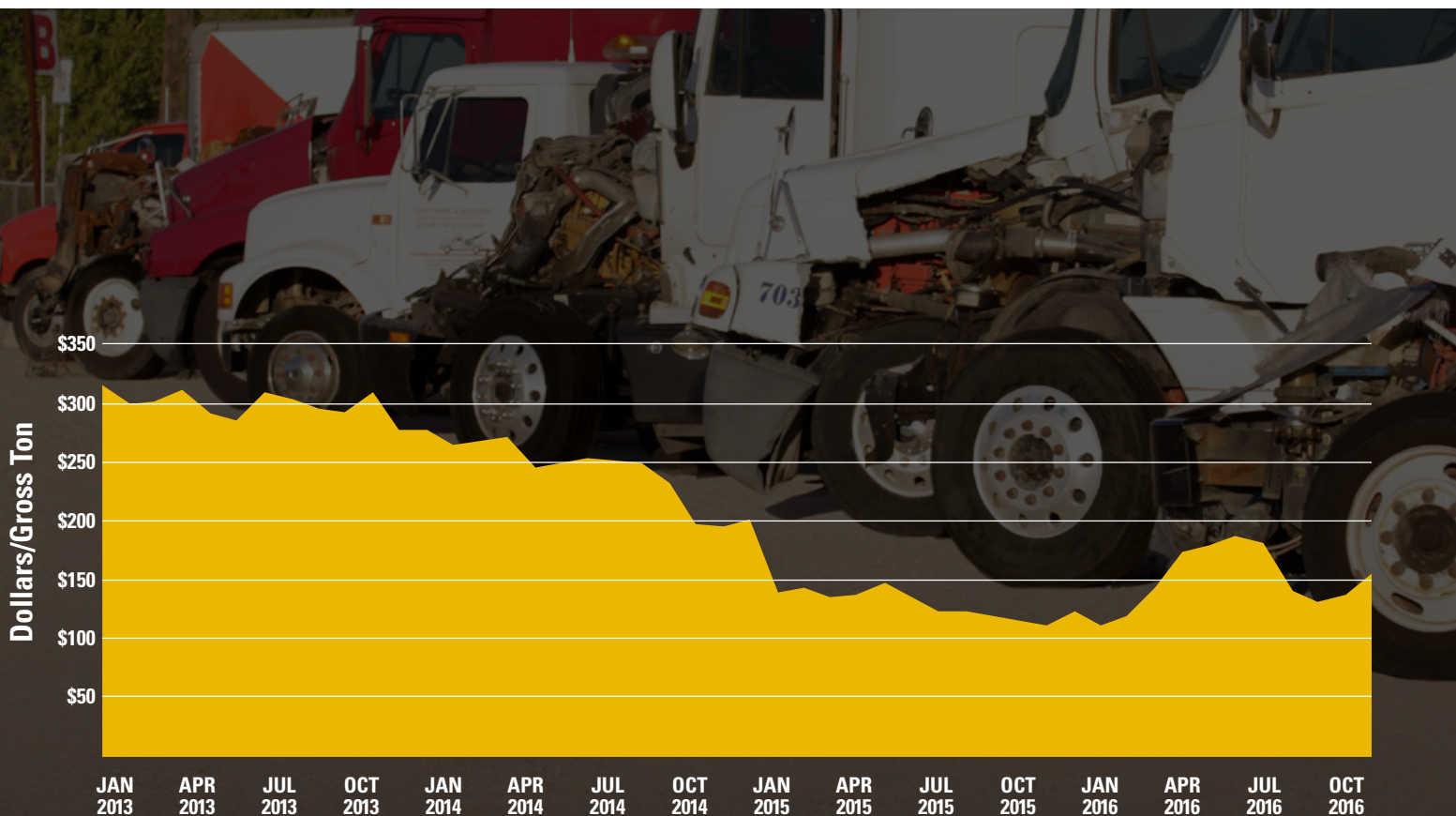
In the fourth quarter of 2016, whole crushed auto-body prices remained extremely low compared to historical levels. Because of Chinese investors' hopes that demand for scrap metal would increase after the U.S. election, whole crushed auto-body prices did see a brief rally at the end of the quarter – first with an increase of 4.0% in November, then 14.4% in December – but overall, prices still finished down 17.6% from the last quarter.

Year-Over-Year

21.9% 

Quarter-to-Quarter

17.6% 



Source: American Recycler

# Metals

## Aluminum

New weight limitations on Chinese trucks led to delayed aluminum deliveries this quarter, and the resultant supply shortage pushed up prices for the metal.<sup>10</sup> The metal also saw the domino effect in its price increase, where further regulations in China that restrict coal mining and additional coal supply disruptions in Australia contributed to a rise in seaborne coal prices, which then increased unit production costs for alumina – a starting material for the smelting of aluminum metal – which then gave a natural boost to aluminum prices.<sup>11</sup> Also brewing is the revelation that 91% of Mexico's aluminum extrusion exports this year were delivered to Vietnam – including an enormous Chinese-produced aluminum stockpile weighing approximately 1.7 million tons. It's speculated that this trade route – rarely used until recently – is being used by Chinese companies in an attempt to avoid high tariffs. These shipments are worrisome to experts who are concerned about what it means for global markets and aluminum prices.<sup>12</sup>

Year-Over-Year

14.5% 

Quarter-to-Quarter

5.6% 

Source: World Bank

## Platinum

Platinum's upward momentum fizzled out as it headed into the end of the year, depreciating 13.0% from the last quarter. After Federal Reserve officials announced that they expected three interest rate rises in 2017, investors turned from precious metals like platinum toward alternative yield-bearing assets.<sup>13</sup> In December, South African miner Sibanye Gold Ltd. announced it will buy U.S. palladium and platinum miner Saltwater Mining Co. for \$2.2 billion in an effort to diversify beyond gold mining. It's a move that displays Sibanye Gold's confidence in the palladium and platinum markets and could affect future precious metal prices.<sup>14</sup>

Year-Over-Year

4.0% 

Quarter-to-Quarter

13.0% 

Source: Johnson Matthey

## Stainless Steel

Stainless steel prices had a strong performance in the fourth quarter of 2016, rising 1.6% compared to the last quarter and 16.7% compared to the year prior. Prices were lifted by Chinese investors' hopes that demand for the metal would pick up in China and the U.S. after the presidential election.<sup>15</sup> It's also possible that strong demand for other steel-related commodities like zinc and metal contributed to the rise in stainless steel prices.<sup>16</sup> However, underlying this positivity is the fact that prices still remain low, and year-over-year strength can be attributed to the near-historic lows of the fourth quarter of 2015.

Year-Over-Year

16.7% 

Quarter-to-Quarter


1.6% 

Source: Johnson Matthey

# U.S. Dollar

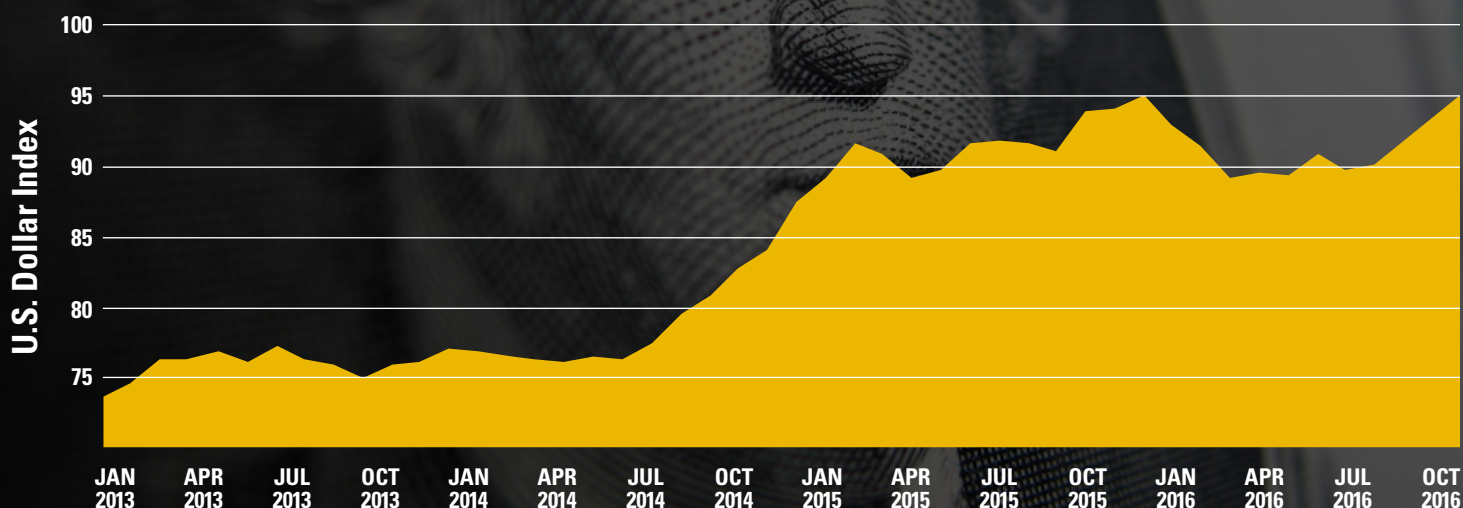
The value of the U.S. dollar has been making its move since the election, and it ended 2016 on a high note. High expectations for future economic growth spurred the Federal Reserve to raise interest rates in December, sending the U.S. dollar soaring to its highest levels against other global currencies in 14 years.<sup>17</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>18</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>19</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>20</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>21</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>22</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>23</sup>

Year-Over-Year  
**9.6%**

Quarter-to-Quarter  
**7.1%**

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](http://IAA-Auctions.com) to learn more, and follow IAA on [Facebook](#) and [Twitter](#).



## About the Author

Mike Cole is executive director of Specialty Division Services at Insurance Auto Auctions, Inc. (IAA). A 15-year IAA veteran, Mr. Cole has played a pivotal role in growing the organization's Specialty Division into an industry-leading resource for the sale of heavy equipment, trucks, boats, RVs, and a host of other large or unique salvage items. Under his guidance, the Specialty Division has become a thriving marketplace with weekly online-only auctions hosted from a dedicated facility in Schaumburg, IL. Mr. Cole is a certified ASE Master Technician, SIU investigator and I-CAR Gold professional with more than 15 years of insurance claims experience, making him uniquely qualified to lead IAA's efforts in the specialty salvage segment.

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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