

Q4

# INSURANCE REPORT

The Facts and Figures Behind  
Your Auction Returns



Quarter 4 | 2018

# WELCOME TO THE **QUARTERLY REPORT**

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**



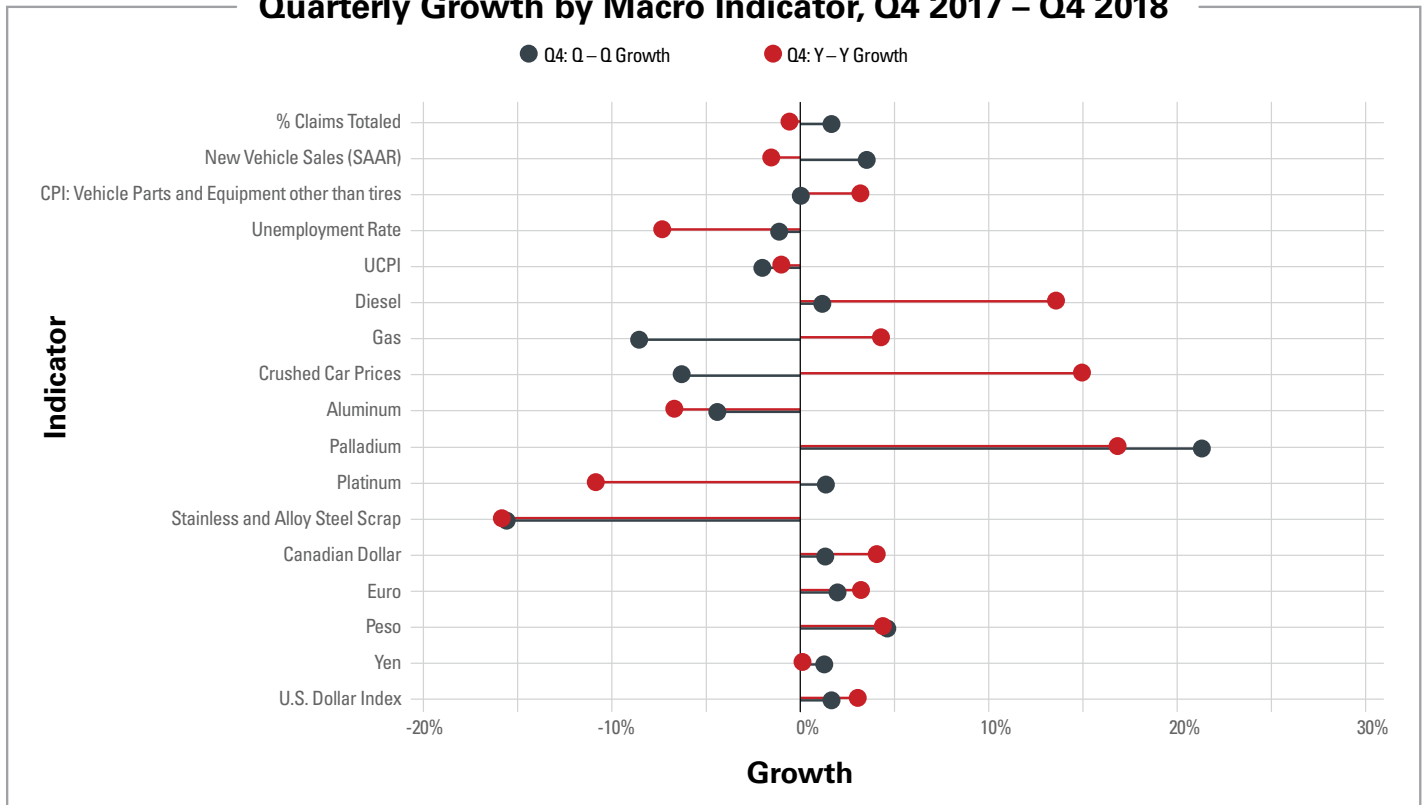
**TOTAL MILES  
DRIVEN**



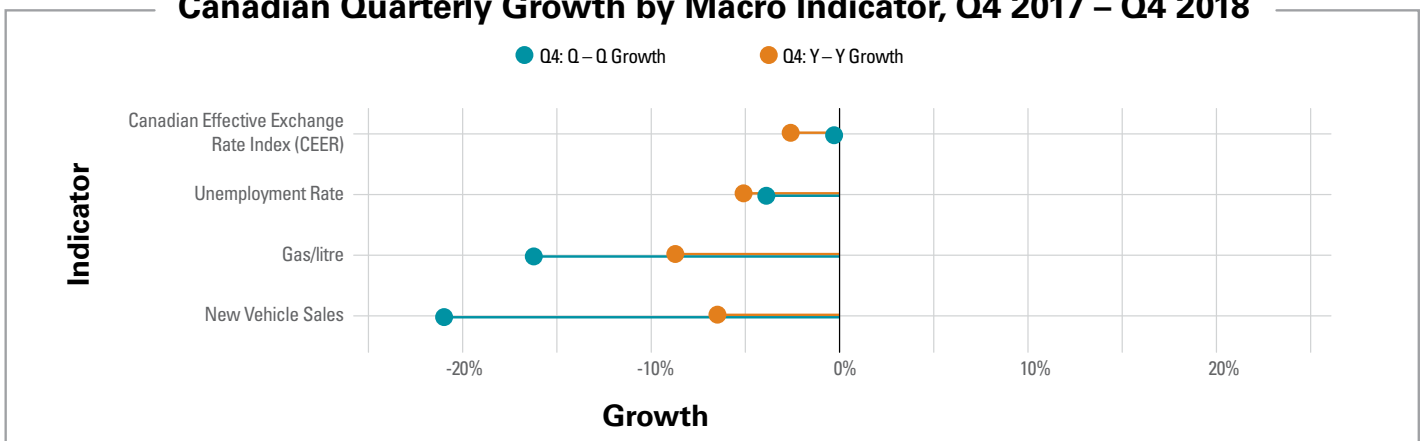
**GASOLINE PRICES**

# AUTO TRENDS **AT A GLANCE**

## Quarterly Growth by Macro Indicator, Q4 2017 – Q4 2018



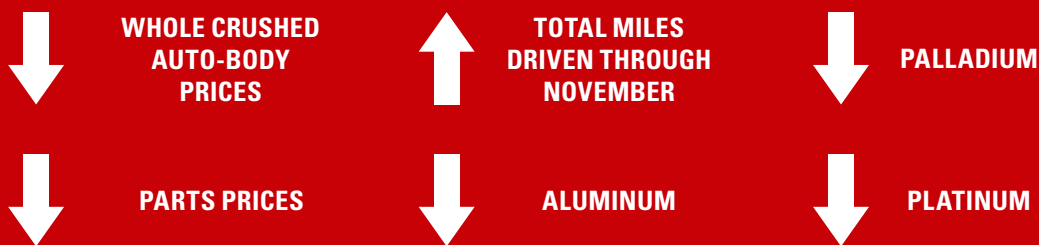
## Canadian Quarterly Growth by Macro Indicator, Q4 2017 – Q4 2018



# AUTOMOBILE INDUSTRY GAINS SPEED

Seasonally adjusted new vehicle sales made a strong finish for the year, remaining flat throughout the quarter, but hitting the highest three monthly marks of the year. Sales grew 3.6% relative to Q3, but were down year-over-year for Q4, with 2018's deliveries ending slightly higher than 2017's total. Light truck demand continued to grow, representing about 70% of all new vehicles sold in Q4. Monthly passenger vehicle sales averaged around 11% under last year's Q4 car volumes.<sup>1</sup> New vehicle sale prices have continued to push higher along with auto loan rates and longer term lengths, while incentives have roughly stayed flat.<sup>2,3</sup> The same cannot be said for gas costs, which dipped to the tune of 8.4% for the quarter, and finished December with an average of \$2.26/gallon. Diesel on the other hand, stayed flat, ending December at \$3.12/gallon. The auto market continued to see tailwinds from broader economic factors as the first estimate of 4<sup>th</sup> quarter GDP growth came in at 2.6%. Meanwhile, unemployment remained historically low at 3.8%, and real wage growth continued to rise.

## Quarter-to-Quarter:



## NEW-VEHICLE SALES





## GASOLINE

Quarter-to-Quarter:

↓ **8.4%**

Year-Over-Year:

↑ **4.4%**

## DIESEL

Quarter-to-Quarter:

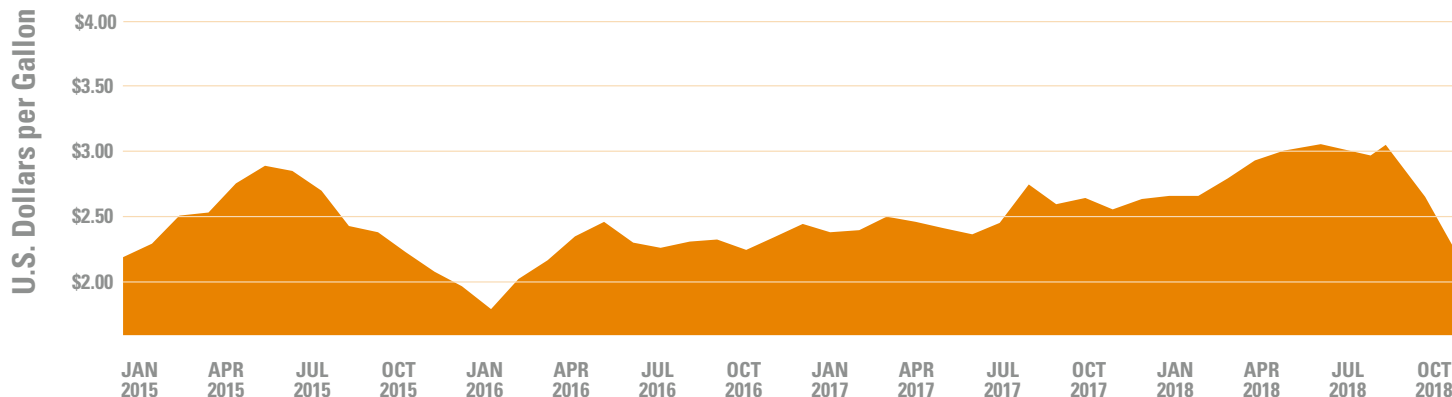
↑ **0.8%**

Year-Over-Year:

↑ **13.7%**

## FUEL PRICE UPS AND DOWNS

Gas prices were flat through October, then fell hard in November and December, ending 2018 at a lower average monthly \$/gallon price than its start-of-year mark. Regular conventional struggled in the latter half of the quarter because of two main factors: flattening demand due to higher prices earlier in the year, and higher than normal inventories due to increased refinery output to keep up with strong diesel demand. The U.S. Energy Information Administration has pointed toward robust economic growth leading to increased freight activity for the heightened diesel demand, which finished the quarter up 13.7% year-over-year.<sup>4</sup> Lower oil prices also contributed to the end-of-year decline in gas prices, which finished 4.4% above last year's Q4 levels.<sup>5</sup>



Source: Energy Information Administration

# WHOLE CRUSHED AUTO-BODY TRENDS CONTINUE

Whole crushed auto-bodies saw competing movements in prices in the first two months of the quarter. The segment finished flat in December, averaging \$191 per gross ton for the quarter. Crushed car prices ended the year around 15.0% above its Q4 2017 comparison, a growth mark good enough for second among the indicators IAA tracks. Prices are still coming down from the June peak, when a 50% spike in steel prices came after tariffs were officially put into effect.<sup>6</sup> Part of the 6.0% quarter-to-quarter drop is a continuation of that price trend – the supply chain has adapted, but a downward shift in demand from China and Turkey has also played a role. Moreover, lower oil prices have reduced domestic steel pipe demand, leaving higher than normal steel inventories, putting downward pressure on crushed car values.<sup>7</sup>

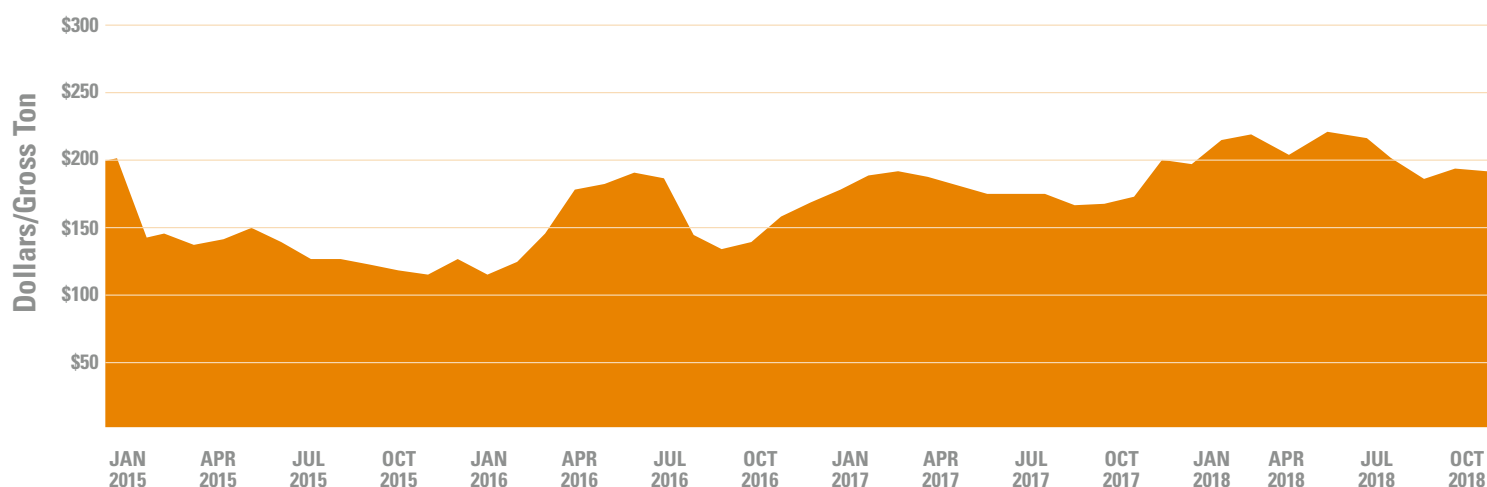
## WHOLE CRUSHED AUTO-BODY PRICES

Quarter-to-Quarter:

↓ **6.0%**

Year-Over-Year:

↑ **15.0%**



Source: American Recycler

# PLATINUM, PALLADIUM PEAKS **ALUMINUM VALLEYS**

Aluminum prices decreased for the second quarter in a row, whereas platinum and palladium rebounded from their typical Q3 downturn. Aluminum struggles were likely due to uncertainty surrounding another round of Chinese aluminum sanctions, which put upward pressure on prices earlier in the year.<sup>8</sup> The two platinum group metals continued to tango, with palladium's premium over the former exceeding \$450/troy ounce in December – the largest it has ever seen. The surge is mainly due to demand-side forces. Over 80% of the metal's demand comes from its use in catalytic converters for gas-powered vehicles, and continues to benefit from tightening emission regulations. While platinum prices did grow modestly, a continued supply surplus likely led to it finishing over 10% below the average mark for the same quarter last year.<sup>9</sup> Aluminum and palladium values fell 6.7%, and grew 16.4% year-over-year, respectively.

## PLATINUM

Quarter-to-Quarter:

↑**1.2%**

Year-Over-Year:

↓**10.6%**

## PALLADIUM

Quarter-to-Quarter:

↑**21.2%**

Year-Over-Year:

↑**16.4%**

## ALUMINUM

Quarter-to-Quarter:

↓**4.4%**

Year-Over-Year:

↓**6.7%**

# U.S. DOLLAR TURNING THE CORNER



The U.S. Dollar appreciated for the second straight quarter, this time to the tune of 1.5%, leaving it 3.0% above 2017's Q4 average mark. Dollar denominated assets became relatively more expensive than the prior quarter on the back of higher yields; the greenback extended its already well-positioned advantage over other currencies' domestic interest rates. In December, the Fed raised its rates for the fourth time of the year. Because investors were less than certain the central bank would raise rates, the U.S. Dollar saw some appreciation.<sup>10</sup>

## U.S. DOLLAR

Quarter-to-Quarter:

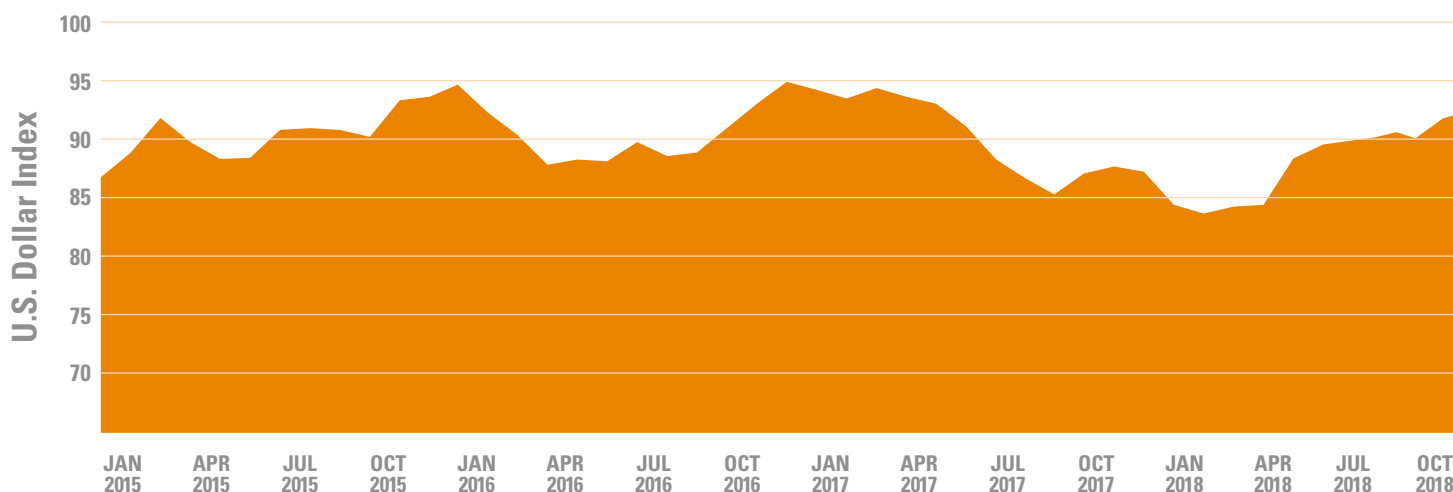
# 1.5%

Appreciated

Year-Over-Year:

# 3.0%

Appreciated



Source: Federal Reserve Bank of St. Louis



# USED CAR PRICE INDEX TAKES A DIP

Average wholesale used vehicle prices ticked up on a monthly basis in October, dipped 4.2% in November and remained about flat in December. November and December prices fell relative to their 2017 comparisons on the back of inflated prices from hurricane-damaged inventory. Heightened upstream sales of off-lease vehicles left a shorter supply of these units at auctions, leading to the continuation of the higher prices we saw for these vehicles in the past couple of quarters. Sustained growth in truck supply has put downward pressure on wholesale truck prices, even more so than on cars – which also saw a year-over-year vehicle value decline. According to Tom Kontos, Chief Economist at KAR Auction Services, Inc., after controlling for sale type, model year age and mileage, midsize SUV/CUVs outpaced the rise in midsize car prices on a year-over-year basis for both November and December. Vehicles consigned by manufacturer and dealer seller types saw their sale prices fall relative to 2017's final two months of the year, while fleet/lease prices rose at a 4.6% and 6.2% clip for November and December, respectively. All in, the index fell on a quarterly and yearly basis at a 2.0% and 0.9% mark each.

## USED-CAR PRICE INDEX

### OCTOBER

Month-to-Month:

↑0.7%

Year-Over-Year:

↑0.8%

### NOVEMBER

Month-to-Month:

↓4.2%

Year-Over-Year:

↓1.8%

### DECEMBER

Month-to-Month:

↑0.2%

Year-Over-Year:

↓1.7%



Sustained growth in truck supply has put downward pressure on wholesale truck prices, even more so than on cars.



# INSURANCE CARRIER VEHICLES

## YOUTH MOVEMENT CONTINUES

Average vehicle age increased on a yearly basis by 1.1%, or 0.1 years. Average mileage grew 1.6% and fell 1.6% relative to the past quarter and 2017 Q4, respectively. The younger and lower mileage vehicle mix was reflected in average actual cash value (ACV), which was flat quarter-to-quarter, and the Q4 mark increased 3.9% 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-to-Quarter:

**0.0%**

Year-Over-Year:

**↑3.9%**



### AVERAGE AGE

Q4 2017:

**9.85**

Years

Q4 2018:

**9.74**

Years



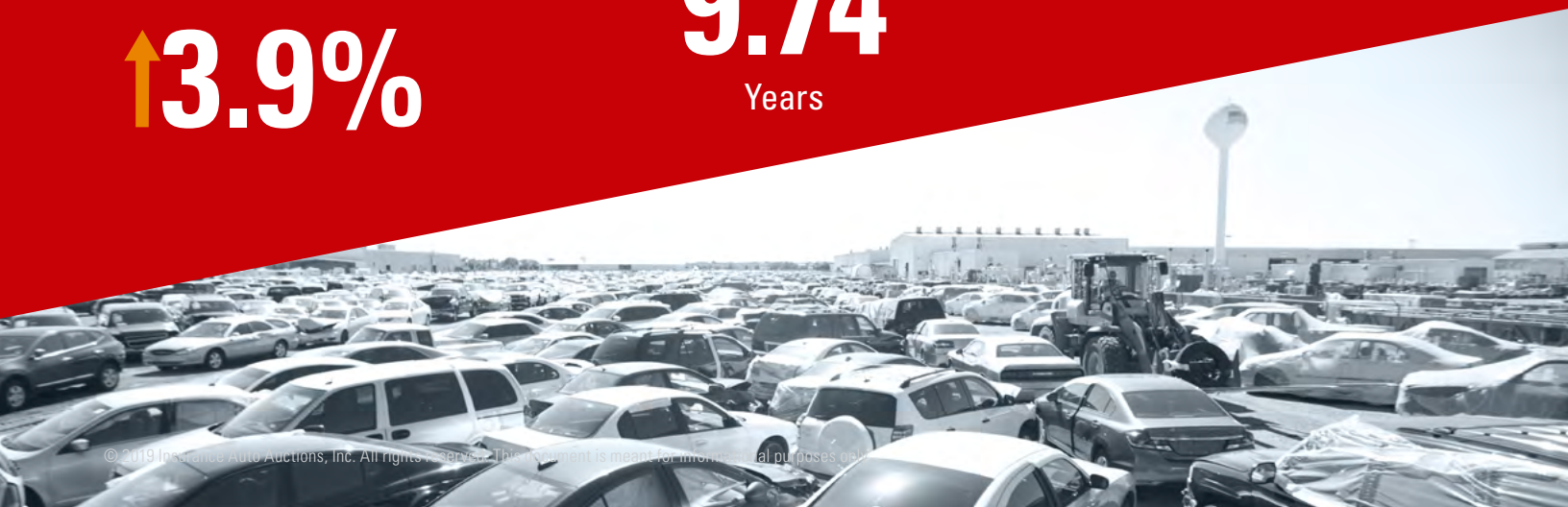
### AVERAGE MILEAGE

Quarter-to-Quarter:

**↑1.6%**

Year-Over-Year:

**↓1.6%**





**CANADA**  
QUARTER 4 | 2018

## USED VEHICLE PRICE INDEX

October:

↓ **0.4%**

November:

↑ **0.1%**

December:

↓ **0.4%**

## DOWNWARD TRENDS NORTH OF THE BORDER

Vehicle sales slipped in Q4, with each month falling behind its yearly comparison for the ninth straight month through December. Quarterly vehicle volumes finished the year 6.3% behind Q4 of 2017, with annual sales finishing 2.8% below 2017's record year. David Adams of Global Automakers of Canada attributed the sales decline to higher interest rates, as well as "political and economic turmoil." Gas prices fell a dramatic 15.9% on a quarterly basis, recording the second straight quarter-to-quarter USD/litre price decline. The unemployment rate fell 0.2 points from Q3, and the Canadian Dollar Effective Exchange Rate (CEER) appreciated 0.4%. These positive economic pressures were not enough to lift vehicle sales over their quarterly comparisons.<sup>11, 12, 13</sup>

## CANADIAN EFFECTIVE EXCHANGE RATE INDEX (CEER)

Quarter-to-Quarter:

**0.4%**

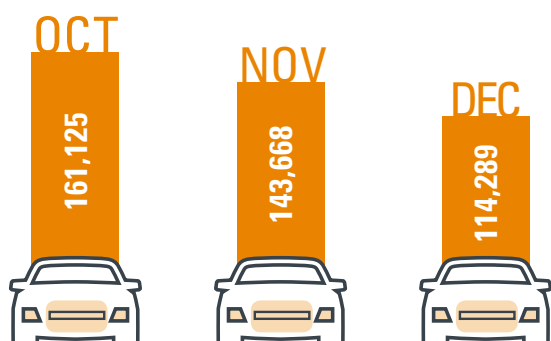
Appreciated

Year-Over-Year:

**2.7%**

Depreciated

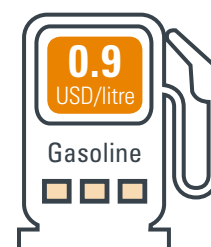
## NEW-VEHICLE SALES



## ECONOMIC DRIVERS



Q4 Growth



# CANADIAN INSURANCE CARRIER VEHICLES

## QUIET CONSISTENCY REMAINS

Vehicle age stayed even with the 9.5-year average we saw in Q4 2017, while average vehicle mileage fell 1.1% on a quarterly basis, and stayed roughly flat with its yearly comparison at 0.2%. Average actual cash value (ACV) grew 2.1% quarter-to-quarter and was up 6.1% over last year's second quarter figures.



### AVERAGE ACV

Quarter-to-Quarter:

↑ **2.1%**

Year-Over-Year:

↑ **6.1%**



### AVERAGE AGE

Q4 2017:

**9.5**

Years

Q4 2018:

**9.5**

Years



### AVERAGE MILEAGE

Quarter-to-Quarter:

↓ **1.1%**

Year-Over-Year:

↑ **0.2%**



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# ABOUT IAA

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 180 auction facilities throughout the U.S. and Canada. IAA is a business unit of KAR Auction Services (NYSE: KAR), a FORTUNE 700 company with approximately 18,000 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](https://www.iaa-auctions.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 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.