



Remarketing Quarterly Report

QUARTER 2 2017

This report from Insurance Auto Auctions, Inc. (IAA) focuses on remarketing vehicles that have high mileage or light damage, have been repossessed, are in arbitration or are otherwise not sold in whole-car auctions. Vehicle sellers include fleet companies, rental-car companies, financial institutions and retail and wholesale dealers. Vehicles considered to be remarketing vehicles tend to be in drivable or near-drivable condition, and many fall among the High Grade segment (top 20% of sale price) of IAA's auctions. The providers of remarketing vehicles fall into three distinct categories:

- **Dealer Category** – Retail and wholesale automobile dealers disposing of inventory not sold through normal retail channels.
- **Commercial Category** – Financial companies disposing of their fleets or off-lease and repossessed financed vehicles.
- **Rental Category** – Rental-car companies disposing of aging inventory.

An explanation of the methodology used to develop this report can be found on [Page 11](#).



U.S.
Dollar
Index



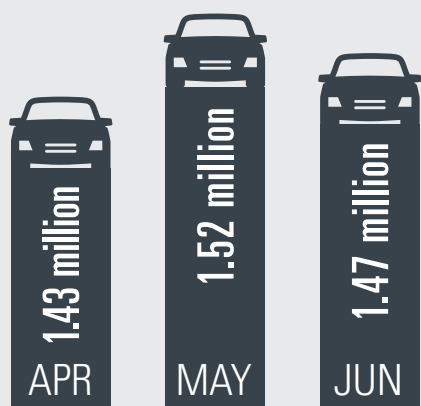
Auto-Loan
Default
Rate



Overview Of The Automobile Industry

Total new-vehicle sales in the second quarter of 2017 were down 2.8% from last year's second-quarter mark, and seasonally adjusted new-vehicle sales averaged 16.60 million, the lowest since Q2 2014. Sales were trending downward the entire quarter, as June marked the fourth straight month of falling new-vehicle sales. Looser loan terms and heavy consumer discounts did little to halt the fall.¹ Rising gas prices likely worked to apply downward pressure over the quarter, while steady decreases to the unemployment rate, ending the quarter at 4.4%, fought the drop off. Gas prices averaged \$2.30 for the quarter, the highest quarterly average since Q3 2015.

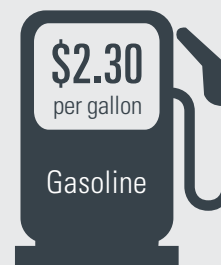
New-Vehicle Sales



Total Miles Driven

Year-over-Year
1.7%
 (excludes June data)

Economic Drivers



Top Movers



5.0%



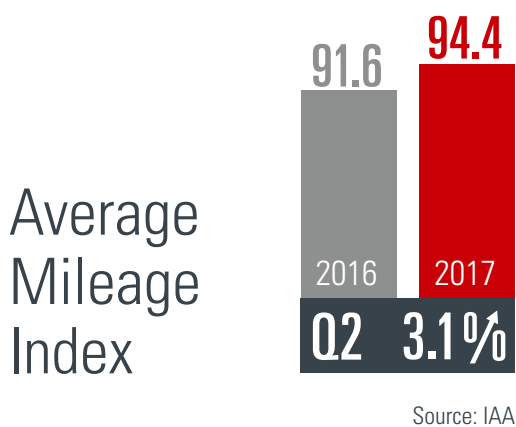
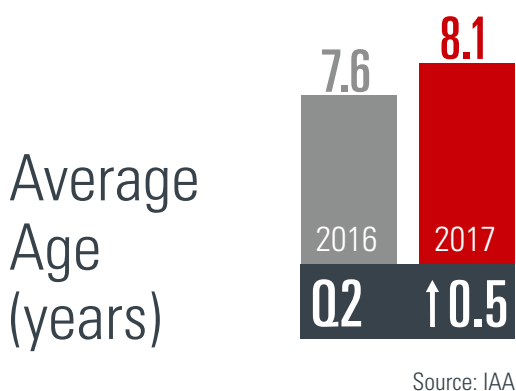
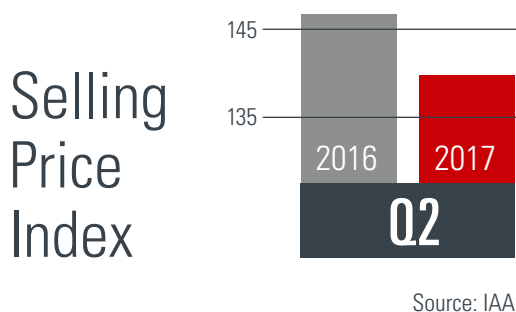
4.1%



3.2%

Remarketing Vehicles

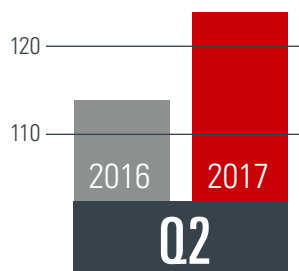
The average selling price of remarketing vehicles rose compared to the previous quarter but remained down year-over-year. The average age of remarketing vehicles this quarter was up 6.6%, along with the average mileage, which was up 3.1%. This was a reflection of an inventory shift toward dealer vehicles and away from rental units, which shows in the price declines.


[VIEW THE FULL CHARTS](#)


Dealer Category

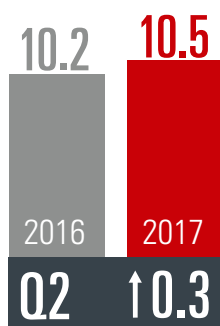
Dealer prices posted solid year-over-year gains likely due to a combination of factors. The second quarter of 2016 saw remarkably low dealer vehicle values, which set the bar relatively low for year-over-year gains. Additionally, Q1 2017 prices were uncharacteristically low due to delays in consumer tax refunds.² Consequently, there was possibly an influx of pent-up demand from Q1 that spilled into Q2 2017, especially since a reported 5.0% of Americans use their tax refunds on large purchases like cars.³ Ultimately the quarter ended with the average age up slightly year-over-year with mileage down 1.2%.

Selling Price Index



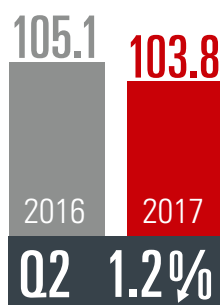
Source: IAA

Average Age (years)



Source: IAA

Average Mileage Index



Source: IAA

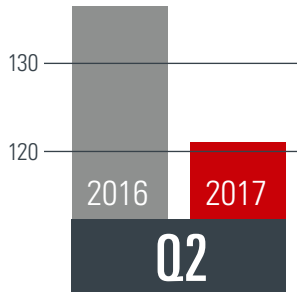
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Commercial Category

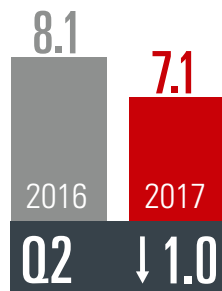
The downward trend continued in Q2 2017 as commercial selling prices fell year-over-year. This was a result of the mix of vehicles shifting away from SUVs/pickups and toward lower-value domestic sedans. This effect outweighed the positive price pressure of a shift toward younger vehicles with the average age falling an entire year and mileage dropping 8.9%. Softening used-car prices also likely affected values of repossessions, as the inventory mix in subprime pools tends to skew towards low-value vehicles.⁴ Keeping an eye toward the future, leasing rates remained high in Q2, which will likely impact future off-lease volume and values.⁵

Selling Price Index



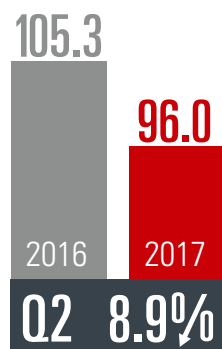
Source: IAA

Average Age (years)



Source: IAA

Average Mileage Index



Source: IAA

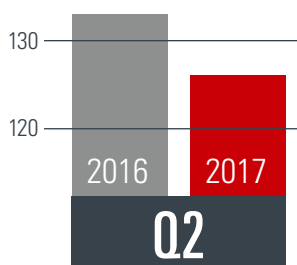
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Rental Category

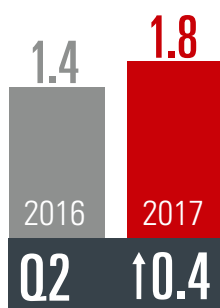
Rental vehicle values were up in Q2 2017 compared to the first quarter following typical spring trends, but they remained down year-over-year. There was an increase year-over-year in the average age and mileage for these vehicles, which likely contributed to their falling prices. However, another factor was rising supply. According to the National Automobile Dealers Association, the auction volume of late-model vehicles was up 0.7% year-over-year through May.⁶

Selling Price Index



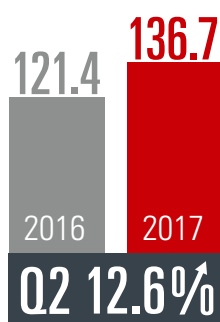
Source: IAA

Average Age (years)



Source: IAA

Average Mileage Index



Source: IAA

[VIEW THE FULL CHARTS](#)



Used-Car Price Index

Average used-car prices remained higher on an annual basis in the second quarter, rising sequentially in April, leveling in May and falling in June. Although the overall results continued to show year-over-year price gains, it must be cautioned that this is primarily a result of strength in truck prices and an inventory mix that favors younger off-lease units.⁷ According to Tom Kontos, chief economist at KAR Auction Services, Inc., “an analysis of sales prices by sale type, model-year age, mileage and model class segment” reveals that prices have softened once these factors are accounted for.⁸ This examination is “reflective of downward pressure of supply growth on used vehicle values.”⁹

April

Year-Over-Year

2.5%

Month-to-Month

2.2%

May

Year-Over-Year

3.9%

Month-to-Month

0.0%

NO CHANGE

June

Year-Over-Year

4.7%

Month-to-Month

0.7%

Source: ADESA Analytical Services

Auto Loan Default Rate

The auto loan default rate fell 0.18 percentage points on a quarterly basis due to seasonal changes in the second quarter of 2017. It also fell 0.08 percentage points on a yearly basis, the first annual decline since Q4 2015, and may help to allay some recent concerns about auto lending risks. For its part, Experian Automotive believes the concerns are overblown and has dismissed the notion of a subprime auto loan bubble.¹⁰ But not everyone is convinced. Lael Brainard, a member of the Federal Reserve's Federal Open Market Committee, voiced concern, saying, "Underwriting appears to have become quite lax last year and, consequently, delinquency rates indicate more borrowers struggling to keep up with their payments."¹¹

Year-Over-Year

↓ 0.08

percentage points

Quarter-to-Quarter

↓ 0.18

percentage points

Sources: S&P Dow Jones Indices & Experian



U.S. Dollar

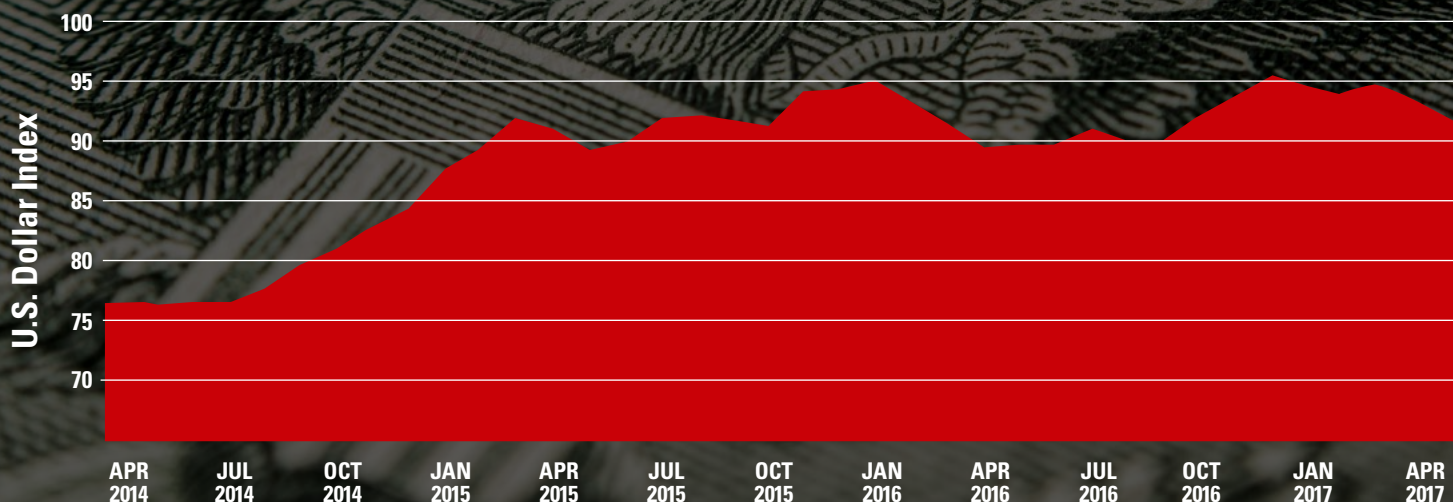
The value of the U.S. dollar remained elevated on a year-over-year basis in Q2 2017, rising 4.2% from Q2 2016, yet stuttered compared to Q1 2017, slipping 1.3%. The dollar began the quarter on a downturn as investors reacted to Washington stating in early April that the dollar was “getting too strong.”¹² This, combined with uncertainty over upcoming French elections and a missile test by North Korea, gave investors reason to head to safer ground, applying downward pressure on the dollar.¹³ Despite positive statements from the Federal Reserve in early May, relatively disappointing Q1 GDP and May job numbers – combined with turmoil in Washington – raised concerns over economic growth and tempered expectations of impending rate hikes.¹⁴⁻¹⁶ Still, the dollar remained well above Q2 2016 values, as the slight downturn on a consecutive basis did little to dent its already elevated values.

Year-Over-Year

4.2%

Quarter-to-Quarter

1.3%



Source: Federal Reserve Bank of St. Louis

Euro

The euro saw strong month-to-month movement in Q2, resulting in appreciation compared with Q1 2017 values. It was up 2.7% against the dollar, but was unable to surpass Q2 2016 values, falling 3.1%. European Central Bank President Mario Draghi stated that there would need to be sufficient evidence of steady inflation to consider moving away from a loose monetary policy.¹⁷ There were mixed results for the euro during the rest of the quarter as inflation rose, followed by cuts to the ECB's inflation forecast through 2019.¹⁸ However, investors responded positively to Emmanuel Macron's victory in the French presidential election as well as the ECB's optimistic outlook throughout the quarter. These factors ultimately helped push the currency higher compared to the value in Q1 of 2017.¹⁹

Year-Over-Year
2.7%

Quarter-to-Quarter
3.1%

Source: OANDA Corp.

Canadian Dollar

The Canadian dollar continued the depreciation trend that began at the end of Q1 as its value fell 1.5% on a quarter-to-quarter basis and was 4.2% lower compared to Q2 2016. Despite Canada's positive economic growth, the Canadian dollar depreciated due to lower oil prices that applied downward pressure on the currency.²⁰ Foreign affairs hurt the loonie as well. The results of the French presidential election gave investors reason to seek riskier assets, which applied further downward pressure on the Canadian dollar's value.²¹ Despite all of this, the end of Q2 in June brought stronger economic numbers, a positive outlook from the Bank of Canada and improved oil prices. This bolstered the trend of the Canadian currency and gave it a better outlook as the quarter ended.²²

Year-Over-Year
4.2%

Quarter-to-Quarter
1.5%

Source: OANDA Corp.

Mexican Peso

Suggestions from Washington that the dollar was becoming too strong positively impacted the peso's value in Q2 2017,²³ as did the U.S. decision to retain NAFTA. Political influences only lasted so long, however, and commodity prices returned to the forefront of factors impacting the peso's value.²⁴ This became evident as industry metal and crude oil values applied downward pressure on the Mexican currency. In response, the Central Bank of Mexico boosted the peso's value by raising interest rates multiple times with the intention of making the currency more attractive to investors.²⁵

Year-Over-Year
2.4%

Quarter-to-Quarter
8.8%

Source: OANDA Corp.

Japanese Yen

Despite month-to-month fluctuations, the yen ended up appreciating 2.2% during the second quarter. The currency remains weak compared with the same period last year. Political uncertainty in North Korea, Syria and France (prior to election results) played to the yen's favor early in the quarter as investors moved money to safe-haven currencies like the yen.²⁶ Eventually, the yen felt pressure again as these safe-haven investments became less appealing.²⁷ The situation only worsened for the yen as the quarter ended. In May and June, the gap between the United States and Japan's policy interest rates widened, and as a result, the yen depreciated.²⁸

Year-Over-Year
3.0%

Quarter-to-Quarter
2.2%

Source: OANDA Corp.

Methodology

This report tracks performance over time for each of the Remarketing Division's seller categories using three monthly indicators. The base month for each of these indexes is January 2009 (index value of 100):

- Index of average sale price of vehicles sold through IAA.
- Index of average age of vehicles sold through IAA.
- Index of average mileage of vehicles sold through IAA.

The report also examines Remarketing Division categories in relation to these key economic indicators:

- **Used-Car Price Index** is a measure of the average price of a used car on the market. Because vehicles sold through the Remarketing Division tend to be in drivable condition, this index should be a good determinant of sale prices for each category. The index values are wholesale prices provided by ADESA Analytical Services.
- **Auto-loan default rate** measures the default rates across auto loans based on data from Experian's consumer credit database. This can provide insight to the number and sale price of units in the commercial category, which is a proxy for the level of vehicles repossessed by financial companies. This rate is jointly developed by S&P Dow Jones Indices LLC and Experian.

Note: Vehicles from recently signed providers are not included in this analysis, an intentional omission used to demonstrate how different economic factors affect the performance of vehicles regardless of the addition of new provider accounts.

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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

Robert Guerrero is vice president of remarketing sales at Insurance Auto Auctions, Inc. Since joining IAA in 2005, Mr. Guerrero has led the growth of the organization's Remarketing Division, creating the auction solution of choice for dealers, fleet lease companies, rental companies, financial institutions and more. Today, Remarketing Division vehicles are available to bidders at IAA facilities throughout North America and online to customers in more than 110 countries. Previously, Mr. Guerrero worked for Manheim, where he held several positions within the auto auction industry, including roles in marketing, dealer sales and fleet lease sales.

The auto remarketing industry as discussed in this document refers to the industry as experienced by IAA. IAA does not possess data on the performance of other remarketing 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.

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