



Insurance Quarterly Report

QUARTER 4 2016

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 and Total Miles Driven
- Gasoline Prices



Whole Crushed
Auto-Body Prices



Aluminum



Parts Prices



Palladium



Total Miles
Driven



Platinum

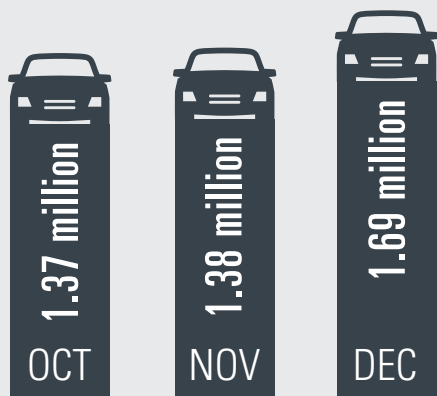


Overview Of The Automobile Industry

New-vehicle sales continued a blistering pace into the fourth quarter of 2016, increasing 0.6% compared to the fourth quarter of 2015, which was already a record-setting year in its own right. Looking at December specifically, automakers sold 1.69 million vehicles – an increase of 3.1% from December 2015. Seasonally adjusted, the selling pace of 18.43 million was the highest since July 2005, a time when some automakers boosted demand by offering employee pricing to all consumers. But there is a catch: automakers continue to use incentives to keep the pace, especially after eight years of consecutive growth. J.D. Power, an independent research firm, said that December's strong performance was fueled by average discounts of \$4,038 per vehicle.¹

Additionally, vehicles in the U.S. just keep getting older, and recently hit an average age of 11.6 years – good news for the service providers and parts makers working to keep drivers on the road, particularly since there are an estimated 264 million light vehicles in operation, up slightly from 2015 and representing another record figure.² Total miles driven also increased, up 2.1% from the same quarter of 2015. Automakers are optimistic about future demand despite expectations of rising gas prices, and said that new-model sport utilities and light trucks are lighter and achieve better fuel economy compared to the gas-guzzlers that let the industry down a decade ago during the recession.³

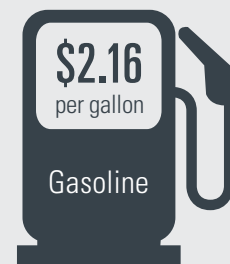
New-Vehicle Sales



Total Miles Driven

Year-over-Year
2.1%

Economic Drivers



Top Movers



6.1%



11.3%



5.2%

Insurance Carrier Vehicles

Insurance carrier vehicles saw a slight bump in average actual cash value (ACV) in the fourth quarter of 2016, rising 0.9% quarterly and 1.7% year-over-year. 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 the auction. Both average age and average mileage for insurance carrier vehicles decreased in the fourth quarter on a yearly basis, which may explain the overall year-over-year increase in value.

Average
ACV

Year-Over-Year

1.7% 

Quarter-to-Quarter

0.9% 

Average
Age

Q4 2015

10.0
YEARS

Q4 2016

9.8
YEARS

Average
Mileage

Year-Over-Year

2.9% 

Quarter-to-Quarter

0.9% 

Source: IAA

Scrap Metal: Whole Crushed Auto-Body Prices

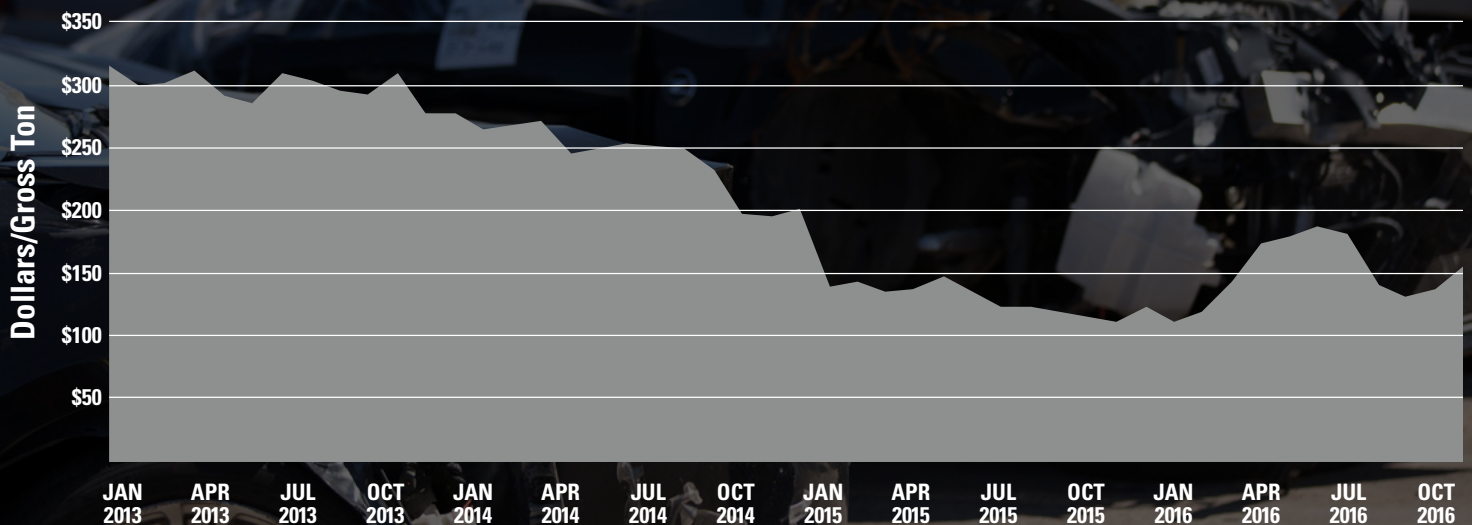
In the fourth quarter of 2016, whole crushed auto-body prices remained extremely low compared to historical levels. Because of Chinese investors' hopes that demand for scrap metal would increase after the U.S. election, whole crushed auto-body prices did see a brief rally at the end of the quarter – 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

Used-Car Price Index

Average used-car prices remained higher on an annual basis in the fourth quarter, falling sequentially in October, rising in November and ending the quarter on a slight downturn. According to Tom Kontos, chief economist at KAR Auction Services, Inc., strong truck prices continued to be the driving factor behind the 3.1% year-over-year increase.⁴ However, truck prices broke the trend in December and fell on a month-to-month basis, potentially a result of rising gasoline prices. Higher fleet sales and incentives helped 2016 reach a fresh record in new-vehicle sales, placing downward pressure on wholesale values. However, certified pre-owned used-vehicle sales also reached a new high, consuming some of the used-vehicle supply growth that has negatively affected wholesale prices.⁵



Source: ADESA Analytical Services

Vehicle Parts And Equipment Consumer Price Index

The index experienced two positive months in October and December and a dip in November. The total number of miles driven is up 2.0% from last year, and average age of vehicles in the U.S. has risen to 11.6 years. Furthermore, the number of older vehicles on the road is growing at its fastest rate – vehicles aged 16 and older are expected to grow 30% between today and 2021, from 62 million units to 81 million units.⁶ The total number of miles driven, number of vehicles on the road and the age of those vehicles were the likely influencers of parts demand in the fourth quarter of 2016, as a large and aging fleet necessitates repair work and service.

October

Year-Over-Year

0.7% 

Month-to-Month

0.1% 

November

Year-Over-Year

0.4% 

Month-to-Month

0.2% 

December

Year-Over-Year

0.1% 

Month-to-Month

0.6% 

Source: Bureau of Labor Statistics

Gasoline

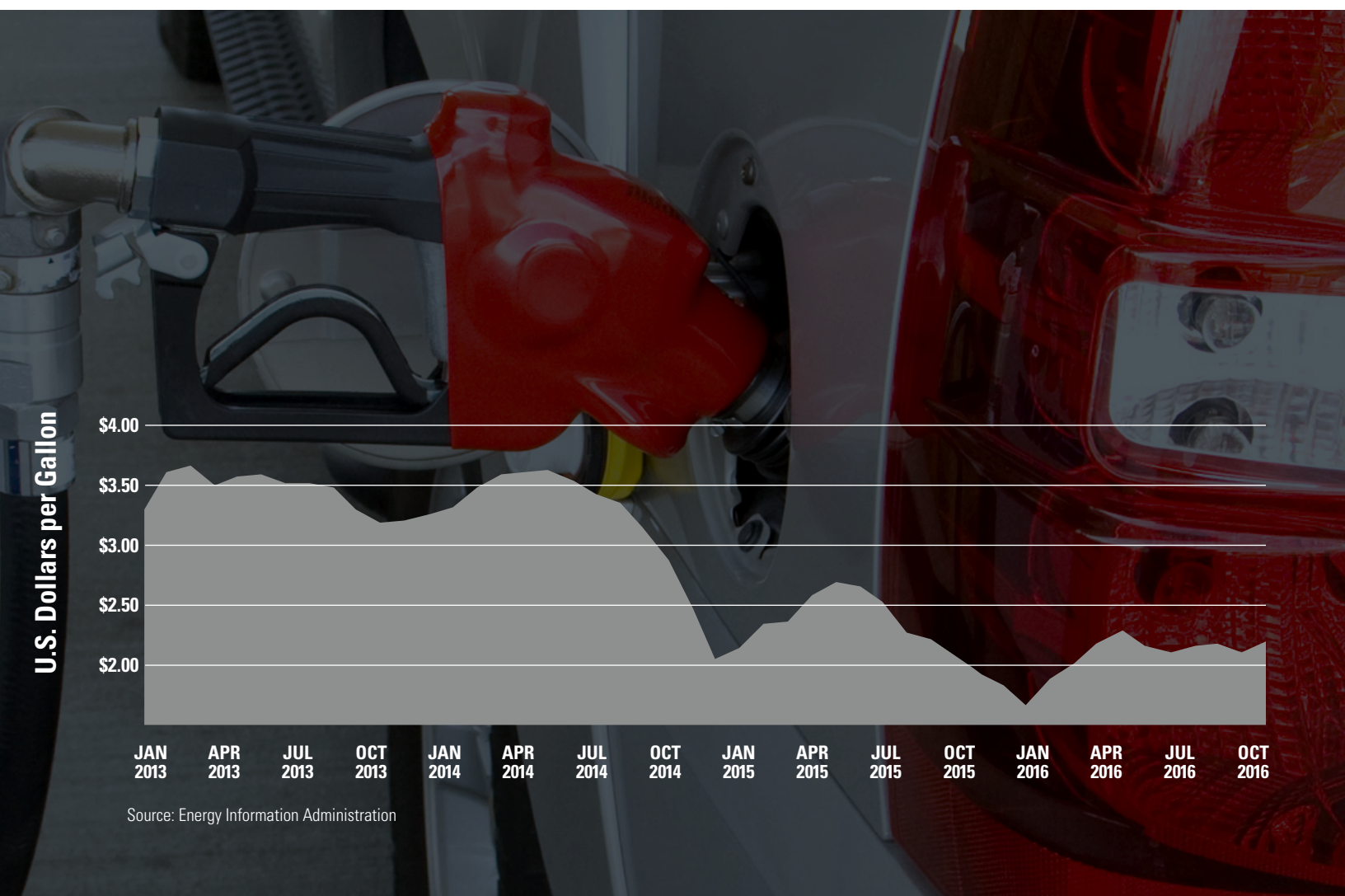
Oil prices reached a three-month low in November amidst concerns about oversupply and pulled gasoline prices down with it, despite a slight boost after the U.S. presidential election. The slide in value occurred in part due to the lack of an agreement by the Organization of the Petroleum Exporting Countries (OPEC) to cut output.⁷ Additionally, demand for gasoline slows in the winter as individuals are less inclined to travel and a cheaper winter fuel blend is available. However, by December, OPEC and other major oil-producing nations finally agreed to reduce oil production to balance – or even send into deficit – the oversupplied oil market in an attempt to lift struggling crude oil prices out of a two-year slump. The landmark deal sent oil prices and gasoline prices soaring,⁸ with December closing out with an increase of 12.6% from last year.

Year-Over-Year

3.4%

Quarter-to-Quarter

0.6%



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.⁹ 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.¹⁰ 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.¹¹

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.¹² 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.¹³

Year-Over-Year

4.0% 

Quarter-to-Quarter

13.0% 

Source: Johnson Matthey

Palladium

In November, palladium prices rose to its highest levels in 17 months. The transition to a new U.S. presidential administration left investors hopeful that the expected infrastructure spending and tax cuts would lead to economic growth and consequent vehicle sales, since the metal sees an industrial use in catalytic converters, which makes it an attractive option for investors willing to bet on the strength of the economy.¹⁴ Palladium also got a boost from China's stimulus efforts, which also sparked car sales.¹⁵

Year-Over-Year

12.7% 

Quarter-to-Quarter

1.2% 

Source: Johnson Matthey

U.S. Dollar

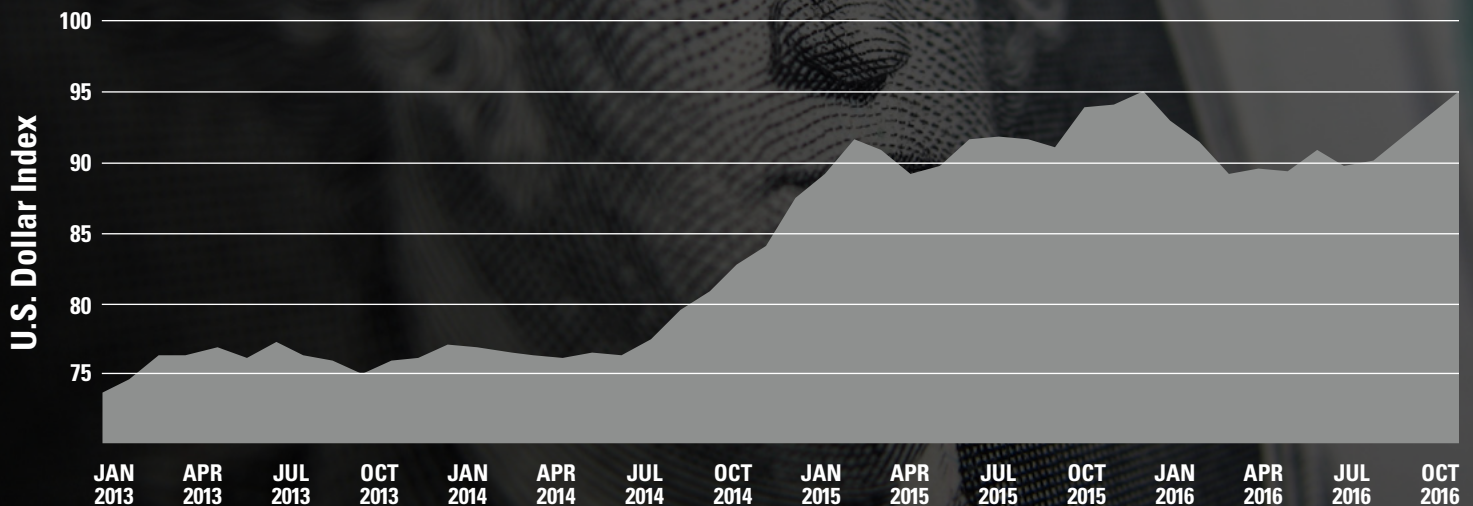
The value of the U.S. dollar has been making its move since the election, and it ended 2016 on a high note. High expectations for future economic growth spurred the Federal Reserve to raise interest rates in December, sending the U.S. dollar soaring to its highest levels against other global currencies in 14 years.¹⁶ 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.¹⁷

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.¹⁸ 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.¹⁹ 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.²⁰

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.²¹

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.²²

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 to learn more, and follow IAA on [Facebook](#) and [Twitter](#).



About the Author

Meggan O'Malley is manager of sales analysis at Insurance Auto Auctions, Inc. (IAA). Mrs. O'Malley leads the organization's efforts in monitoring and reporting on customer performance and analyzing industry trends. Mrs. O'Malley joined IAA in 2007 and held several positions before assuming her current responsibilities. Prior to joining IAA she served as a financial analyst at Grant Thornton, one of the world's leading organizations of independent audit, tax and advisory firms. Mrs. O'Malley holds bachelor's degrees in finance and marketing from Marquette University, and an MBA with a concentration in management from Argosy 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.

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