



Specialty Quarterly Report

QUARTER 3 2017

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 have been fairly steady through 2017 and ended the year with a 4.7% and 1.1% gain quarter-to-quarter and year-over-year, respectively. A newer and lower-mileage blend of medium-duty and sleeper tractor units helped boost the truck price sale index to positive growth.¹ Additionally, Class 7 and 8 trucks made impressive gains in August, indicating a shift in demand toward these more expensive trucks and boosting prices even higher.²

Year-Over-Year

1.1% 

Quarter-to-Quarter

4.7% 

Source: IAA

Trailer

Trailer prices saw large month-to-month fluctuations, ultimately leading the index to an impressive gain over the previous quarter. Seasonally-adjusted trailer orders in July came in at 20,500 units, and this solid result was at least partially due to confidence in the market.³ Don Ake of FTR CV attributes the rising prices to a lingering replacement cycle and truckers getting a head start on purchasing trailers that meet electronic logging device standards that will take effect in early 2018.⁴

Year-Over-Year

4.3% 

Quarter-to-Quarter

15.1% 

Source: IAA



Equipment

Equipment prices were especially volatile, taking a 42.4% month-to-month hit in July, recovering about half of that drop in August, and dipping again in September. From the previous quarter, prices were down 30.0%. Widening farmers' profit margins and increased disposable income applied upward pressure to unit values. However, Charlie Glass of the Farm Equipment Manufacturers Association noted that a shrinking buyer base due to farm consolidation is driving prices down. Additionally, weak seasonal demand and fewer purchases of more expensive equipment like combines put downward pressure on the segment.⁵

Year-Over-Year

6.1% 

Quarter-to-Quarter

30.0% 

Source: IAA

Boat

Boat prices had an up-and-down quarter, with values dropping sequentially but increasing year-over-year. Fiberglass outboard and aluminum fishing boats had the most robust gains in July,⁶ and this trend continued in August with the addition of a strong powerboat segment.⁷ By September, damage from Hurricane Irma cut sharply into new-boat sales in Florida, the industry's largest market. Shortfalls in supply typically raise prices, but this was likely offset by a short-term reduction in disposable income in effected areas.⁸

Year-Over-Year

7.7% 

Quarter-to-Quarter

4.0% 

Source: IAA

Motorhome

Following two months of negative price growth, a September recovery helped the motorhome sale price index to its third straight period of quarter-to-quarter and year-over-year growth. Towable RVs and motorhomes posted strong shipments for each month, and conventional motorhomes, van campers and mini motorhomes also had impressive showings for the quarter. Continued robust sales likely indicate that a demand surplus led to another solid performance for this category.^{9,10,11}

Year-Over-Year

18.6% 

Quarter-to-Quarter

5.0% 

Source: IAA

Metals

Aluminum

Aluminum prices surged for the eighth quarter in a row, with strong sequential gains in each month. Tightened pollution policy and increased demand from the Chinese automobile and aerospace industries contributed to a 5.4% quarter-to-quarter gain.¹² Additionally, the combination of a weaker U.S. dollar and robust global growth made commodities cheaper and more appealing to foreign investors. These factors helped the value of aluminum increase 24.0% year-over-year.¹³

Year-Over-Year
24.0% 

Quarter-to-Quarter
5.4% 

Source: World Bank

Platinum

Platinum saw its price drop to \$921.92 per troy ounce in July, the lowest monthly average this year. However, the metal rebounded in August and September to finish the quarter up 1.2% from last quarter. Expectations of increased emission standards and lingering effects from the Volkswagen fuel efficiency scandal seemed to have carried into this quarter, with the resulting lower automotive demand for diesel-fueled vehicles putting further downward pressure on platinum prices. Between two to seven grams of platinum are used in standard catalytic converters, making its value closely tied to the vehicle market.¹⁴ This helps to explain the poor year-over-year comparison, which was down 12.2%.¹⁵ Excess supply in the second quarter due to a slowdown in demand from the automotive, jewelry and industrial industries likely spilled over into Q3, also contributing to the disappointing year-over-year result.¹⁶

Year-Over-Year
12.2% 

Quarter-to-Quarter
1.2% 

Source: Johnson Matthey

Stainless Steel

After underwhelming results in July and August, a 10.2% gain in September kept the stainless steel index above last year's Q3 values. Efforts to reduce capacity alongside a boom in Chinese real-estate growth pushed prices higher,¹⁷ but a global surplus kept the metal from positive quarter-to-quarter growth.¹⁸

Year-Over-Year
7.1% 

Quarter-to-Quarter
1.6% 

Source: Bureau of Labor Statistics

Scrap Metal: Whole Crushed Auto-Body Prices

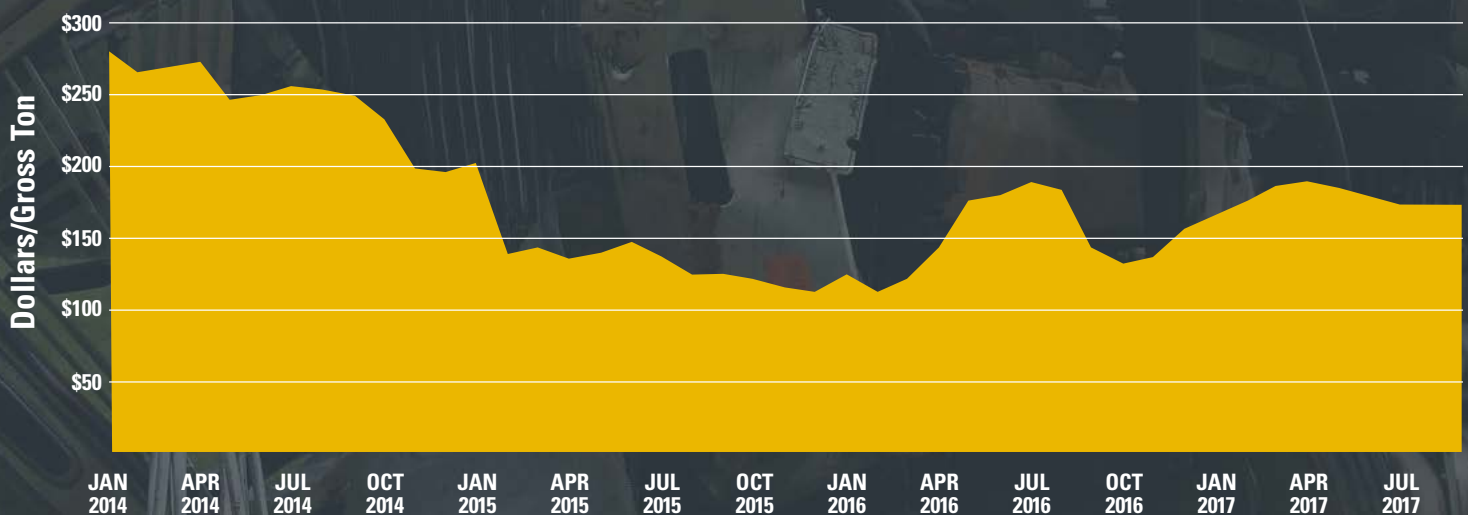
Whole crushed auto-body prices started off the quarter by dropping 3.7% in July, extending the downturn seen in the last two months of the second quarter. Despite China’s continued efforts to reduce steel production, output still remained high. Brazil and Mexico also saw increased production,¹⁹ with excess supply likely putting downward pressure on whole crushed auto-body prices.²⁰ Prices didn’t budge in August, but did tick up slightly in September. Joe Pickard of the Institute of Scrap Recycling Industries, Inc., has warned that logistical issues stemming from Hurricane Harvey could have buoyed short-term scrap metal prices. This may have canceled out any downward pressure on prices due to steel supply glut.²¹ Overall, whole crushed auto-body prices retreated 6.3% compared to the second quarter of 2017, but finished up 0.7% year-over-year.

Year-Over-Year

0.7% 

Quarter-to-Quarter

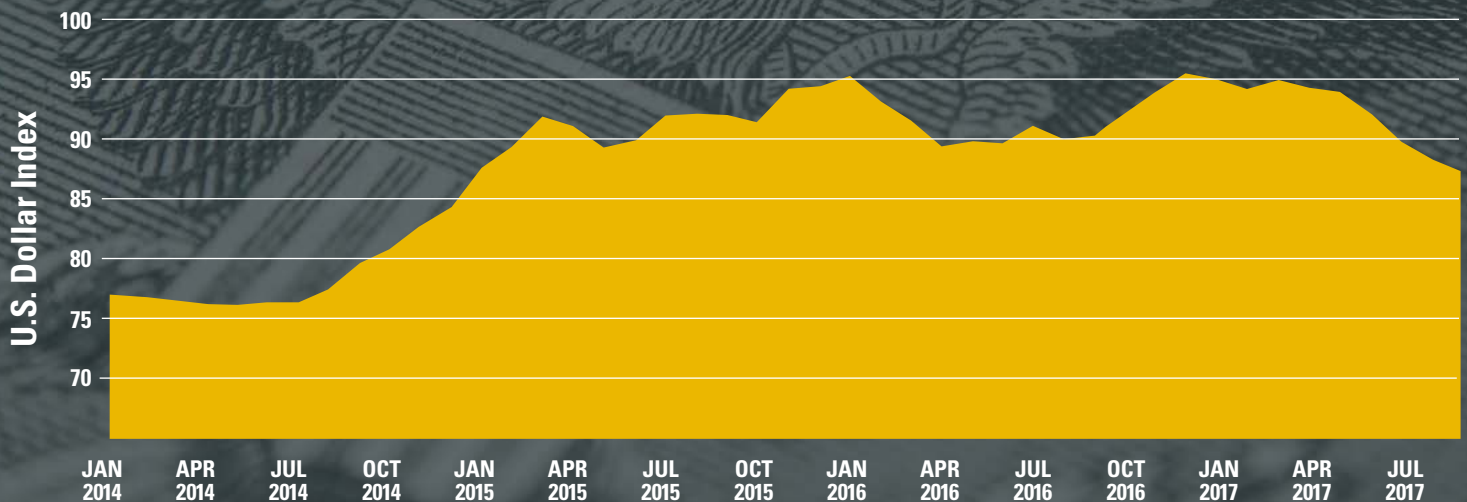
6.3% 



Source: American Recycler

U.S. Dollar

The U.S. dollar depreciated sequentially each month of the quarter to finish down 5.3% on a quarterly basis. September's result marked the ninth consecutive month of depreciation, and pushed the dollar to a negative year-over-year comparison for the first time in 2017. The dollar's largest monthly depreciation took place in July, likely partially due to the European Central Bank stating that it wasn't concerned with the euro's recent increase in value. This convinced traders that the ECB's plans to roll back its current expansionary policies were still on track, a move that would make the U.S. dollar a relatively lower-yielding currency.²² Additionally, sluggish inflation in combination with a "weaker-than-expected" August jobs report lowered expectations that the Federal Reserve will raise interest rates for the third time later this year – driving investors away from the U.S. dollar.²³ While the dollar fell quarterly and yearly, the currency's value remains historically strong.



Source: Federal Reserve Bank of St. Louis

Euro

Coming off a strong second quarter performance, the euro continued to see strong month-to-month movement. Analysts have attributed the euro's increase in value to strong economic growth. Joe Pickard of BMO Global Asset Management noted, "The reality is that the growth outlook in Europe has changed dramatically – the economy is growing strongly – so some currency strength is only to be expected." Additionally, the ECB's relatively unconcerned remarks on the currency's appreciation has maintained expectations of reducing the central bank's stimulus package in 2018, which would lead to higher interest rates.²⁴ Maintaining these expectations helped further boost the euro's value. The euro's strength against the U.S. dollar may also be a result of political uncertainty in the United States, pushing investors toward "safer" currencies.²⁵

Year-Over-Year

5.0% 

Quarter-to-Quarter

6.4% 

Source: OANDA Corp.

Canadian Dollar

The Canadian dollar rebounded from its depreciative results earlier in 2017 and saw sequential monthly appreciations throughout the third quarter, mirroring performances seen in the euro and Mexican peso. The Bank of Canada also raised their interest rates for the first time since 2010, going from 50 to 75 basis points in July,²⁶ and again in September to 1 percent. These decisions helped narrow the interest rate gap between the U.S. and Canada, boosting the loonie's September value to its highest mark since June 2015.²⁷ High oil prices were also a factor in the Canadian dollar's increase in value.²⁸

Year-Over-Year

3.6% 

Quarter-to-Quarter

6.6% 

Source: OANDA Corp.

Mexican Peso

The value of the Mexican peso continued to increase against the U.S. dollar in the third quarter, reaching its best quarter-to-quarter mark since late 2015. However, signs of an end to currency's rally began to show as slower month-to-month growth in August led to a slight 0.16% depreciation in September. Banxico, Mexico's central bank, did not raise its policy interest rate at all for the first quarter since the fall of 2015 and kept the rate at 7.0%. Since this was in line with expectations, it did little to affect the peso. However, a statement in September saying the Federal Reserve would commit to increasing the federal funds rate moving forward did put downward pressure on the peso. Additionally, a severe earthquake that hit Mexico City in early September added to investors' expectations of struggling economic growth for the country.²⁹

Year-Over-Year

5.0% 

Quarter-to-Quarter

4.0% 

Source: OANDA Corp.

Japanese Yen

Despite an impressive performance against the dollar, the Japanese currency received some downward pressure from heightened concerns with North Korea.³⁰ Political uncertainty and tax reforms in the United States applied modest appreciative pressure,³¹ but the currency remains historically weak against the U.S. dollar. Most analysts attribute this to the Bank of Japan's continued commitment to loose monetary policy.³²

Year-Over-Year

8.4% 

Quarter-to-Quarter

0.2% 

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



Mike Cole is executive director of Specialty Market 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 Market 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 Market 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.

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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