



Message from Tom Kontos

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Kontos Commentary: Hurricane Harvey Special Edition

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Meteorologists are calling Hurricane Harvey a thousand-year flood event—a storm of unprecedented magnitude and devastation. For the past week, no news cycle has been complete without photos of the human toll, miraculous rescues—and vehicles submerged in the flood plain. The recovery efforts in Houston and other impacted areas in Texas and beyond will take many weeks and months, if not years.

Estimates are only just starting to roll in, quantifying the impact of Harvey. Gasoline prices have already gone up, and the full macroeconomic impact will take months to sort out, but looking at the remarketing industry impact, there are several considerations:

- First, **total loss vs. damaged vehicles**: Historically, we know that many of the vehicles damaged in a hurricane are not total losses. For example, in 2012's Hurricane Sandy, of the 250,000 vehicles damaged, only about 160,000 were total losses. For the non-flood-damaged vehicles, a total loss is only declared if the cost of repairs exceeds a certain threshold versus the vehicle's value. So the same storm damage—dents, scratches, shattered glass—on one vehicle may be a total loss, but not on another, depending on their relative values.
- Second, **inventory**: At KAR, we've had conversations with rental, fleet and auto-finance customers who have talked about moving additional cars into the area to meet the anticipated increase in demand. Our 13 ADESA auctions in the area are operational and well-positioned to take on this additional inventory. But keep in mind, sellers don't necessarily have to move inventory into the market pre-sale. As we've seen over the past few years, the volume of vehicles sold at online auctions is growing. Our online capabilities can match buyers with sellers and help them find the specific car or cars they are seeking—and then transport them after the sale. And our analytical capabilities can help advise remarketers on the economic desirability of moving inventory versus selling online.

- Third, **insurance payouts**: We know from our IAA insurance company contacts that many insured individuals receive checks for the actual cash value, or the current value, of their vehicle—not the cost of a new model. As a result, we anticipate an uptick in demand for quality used cars once claims begin to be paid. Timing is an important factor here, given the current oversupply of used vehicles stemming from a surge of off-lease units hitting the market. While the number of total loss units is still unknown, IAA expects that number to be significant, and could help mitigate some of the downward pressure on used-vehicle values by helping absorb this oversupply.
- Finally, **regional dynamics**: At the micro-level, trucks are very popular in Texas and have resisted the price softening we've seen with cars. Trucks are holding value better, in part, because gas prices have been low and the supply has been tighter compared to cars. The net impact is there will be an increased demand in this region for trucks and SUVs as people seek to replace their total loss trucks and SUVs. Compared to cars, sellers may find more price justification to move truck inventory to Texas.

For Houston-area franchise dealers trying to replace damaged inventory, obtaining used-car inventory at a time like this may be their best immediate option and value. Floorplanning quality used cars is more affordable than new cars, and the current oversupply of off-lease used vehicles means these vehicles are quickly and readily obtainable. And a stable of quality used cars will readily-match dealer supply to demand as consumers seek to affordably replace their total loss vehicles.

In summary, Hurricane Harvey is a devastating event for which the whole-car and salvage auction industry stands ready to respond through efficient vehicle disposal and replacement with an abundance of supply.