Strength in Numbers

As you can see, the 2012 National Auto Auction Association Annual Review contains a cache of crucial data and useful information, but perhaps the most significant fact amongst the statistics is this:

Last year was the first time since the decline began in 2008 that the wholesale auto auction industry has seen an increase in volume. In 2012, NAAA member auctions experienced a 6.4 percent increase in vehicles entering their lanes and sold 7.9 million units worth $72.7 billion.

That’s not just a light at the end of the recessionary tunnel — that’s an exit sign.

The report, prepared with the assistance of the National Automobile Dealers Association and the National Independent Automobile Dealers Association, shows the industry moving in an upward direction last year with many encouraging indicators pointing to growth and a substantially improved 2013.

Another positive sign can be found in the fact that despite the sluggish economy the typical NAAA member auction operates an 8-lane facility on 79 acres and employs an average of 140 people with a payroll of $3.4 million. And in the 16 years the NAAA has been conducting its industry survey and producing this report, those member auctions have been responsible for the sale of 145 million vehicles!

It’s thanks to those dedicated auction owners, their hard-working staff, along with the loyal consigners and buyers standing together in tough times that helped the industry come through the dark economic tunnel and emerge on the other side. Uniting in efforts to establish universal policies and standards, streamline procedures, adopt new technologies, develop leadership, build strategic partnerships and increase legislative advocacy provide the strength to meet any challenge.

All the numbers contained in this annual review add up to one bottom line — working together can make a difference to the benefit of all in the remarketing industry and will continue to ensure its ongoing success.
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Overview & Highlights

In 2012, the 314 National Auto Auction Association’s North American member auctions sold 7.9 million vehicles with a gross value of $72.7 billion, according to the association’s 16th Annual Survey.

“The unit volume increase in 2012 promises to be the start of an extended period of growth during which the industry will expand its services to buyers and sellers of used vehicles,” notes NAAA President Paul Lips.

The auto auction industry turned an important corner in 2012 with the first increase in unit volume since 2007. This upturn demonstrates the strength and depth of a mature industry that despite various challenges over its seventy five years has proven its resiliency.

The National Auto Auction Association reported $72.7 billion in sales of used vehicles at its member auctions in 2012. The number of units entered increased 6.4% to 14.6 million, while the number sold grew 3.3% to 7.9 million for a conversion rate of 54%.

Dealer-consigned vehicles represented the largest number of units sold with a 58% share, while commercial consignment accounted for 42%, made up of finance and fleet at 35% and manufacturer at 7%.

Prices declined 3.9% as the increase in units entered put downward pressure on prices. Gross value was marginally down from $73.2 billion to $72.7 billion as the increase in unit volume offset most of the price decline.

It’s important to recall that our industry sprang from the entrepreneurial spirit to meet a consumer need in the Great Depression, and has survived 14 recessions in its lifetime. By displaying that same ingenuity, the industry has not only met recent challenges, it will continue to be a vital and growing part of our nation’s economy in the decades to come.
14.6 million light vehicles entered auctions in 2012, an increase of 6.4% from 2011. 54% of those vehicles were converted into sales resulting in 7.9 million units being sold by NAAA member auctions.

Units sold increased 3.3% in 2012 to 7.9 million, the first increase in five years. Increased supply from dealers more than offset a decline in commercial consignment related to weak new sales during the recession.
Tom Caruso earned the Hall of Fame honor for the many contributions he’s made to the remarketing industry during a career spanning more than three decades.

Caruso entered the profession as factory manager at Concord Auto Auction, where he was the general manager when ADESA acquired the Massachusetts business in 1992. Rising through the ranks, he became Northeast regional vice president in 1998, executive vice president of Eastern operations in 2007 and chief operating officer in 2008. A year later he took on his current role as president and CEO, overseeing ADESA’s operations throughout the U.S. and Canada.

Total auction volume is less related to current economic conditions than new vehicle sales. While dealer consignment closely follows new retail unit sales, the number of commercially consigned (fleet, off-lease, and manufacturer) vehicles offered and sold currently at auction is dependent on the number of new units sold in the past.

Dealer consignment has been growing since the end of the recession, while commercial consignment has dropped significantly in the past three years. Until 2012 the decline in commercial consignment more than offset the increase in dealer supplied vehicles. In 2012, a 13.7% increase in dealer consignment more than offset an 8.4% decline in commercial consignment and total units sold at auction increased 3.3%.

This diversified sourcing increases the stability of the auction industry and helps it weather difficult economic conditions. However, it also holds back industry growth when new sales recover and dealer consignment increases, but commercial consignment declines due to past weak new sales.

In 2012, the pickup in new sales raised the dealer consignment share of auction unit sales from new auto dealers to a record high of 58%. Just three years earlier the dealer consignment share had been at a record low of 39%. Past weakness in new light vehicle sales was reflected in sharp declines in the commercial consignment share of auction unit volume to 42% in 2012.
After three years of price increases, in 2012 the average auction price declined 3.9% as the number of vehicles entering the auction lanes increased sharply.

Higher volume and a price decline resulted in a small drop in gross value of vehicles sold in 2012 to $72.7 billion from $73.2 billion in 2011. Going forward as auction volumes continue growing with higher new vehicle sales, gross value is expected to increase.

The fast growth of Internet-based sales (online only and simulcasting) has increased the Internet share from 10.5% in 2008 to 16.8% just four years later. The fastest growth has been in online only which has seen its share more than triple from 1.4% in 2008 to 4.4% in 2012.
While housing has not followed its typical surge during the early stages of the economic recovery, new light vehicle sales have recovered strongly. Higher incomes, easier credit, a surging stock market, and improved consumer confidence have combined with pent-up demand to produce a near normal auto rebound in a sub-normal economic recovery. At the end of 2012 new light vehicle sales were back to 15 million units at an annual rate.

On an annual basis, new retail light motor vehicle unit sales have increased at a double-digit rate for each of the past three years, reaching 14.4 million last year after a combined near 40% decline during the recession. An improving labor market and the associated income growth should help new vehicle sales move close to levels hit in the early years of the last decade.

Jake Hershey, Jr., comes from “pioneering” stock in the auto auction profession. His father founded PADE in 1957 as the realization of a dream he nurtured as a young man. In 1980 Jake Jr. joined the growing family enterprise, bringing with him experience in auto leasing and rentals. Under his leadership, the auction continued to expand and develop, servicing customers from 49 states and 33 countries from its York, Pa. location.
After sharp declines in share during the recession, the light truck share climbed in 2010 and 2011 as more fuel-efficient light trucks, including popular crossovers sold well and gas prices stayed relatively low.

In 2012, the auto share moved back over 50% as many new attractive, highly fuel efficient vehicles were introduced, particularly by the recovering American manufacturers.

Used light vehicle retail sales increased for the third year in a row in 2012 to 40.5 million, after four years of decline. An improving economy and higher new sales helped increase both demand and supply.

Retail sales in the used vehicle market tend to follow new sales as trade-ins create used supply. However, used retail sales tend to be less volatile than new sales as their prices are lower, leading consumers to trade down to used vehicles during economic downturns and trade up to new vehicles when economic conditions improve.
In 2010 and 2011 low new sales in past years left the used market with low inventories and used prices moved up sharply compared to new prices, rising by 13% in 2010 and 4% in 2011.

Relatively high inflation in used vehicle prices are self-limiting as used prices start approaching new prices making new vehicles relatively more attractive to consumers. In 2012 used vehicle inflation was only 0.9%, about one half of the 1.7% increase in new vehicle prices.

Jerry Girvin
Auctioneer of the Year

A career spanning more than 45 years where Jerry has worked four to six auctions a week and continues today at two Manheim facilities, as well as auctioneering for numerous charitable organizations, has earned him the Bernie Hart Memorial Auctioneer Award, which recognizes the most visible person in the auction industry.
According to NIADA’s 2011 Industry Report, used car dealers reported an increase in the percentage of respondents who used wholesale auctions to purchase their inventory. Online/Other moved up sharply in 2011 replacing auctions as the primary source of used cars for independent dealers.

In 2011, new vehicle dealers acquired 57% of the used units they retailed from trade-ins, 28% from auctions, and the remaining 15% from street purchases and other sources.

Over the decade auctions as a source of used cars have declined from 35% to 28%.
For the third year in a row growth in real GDP has been about 2%. This rate of growth is about one half of what would typically be expected after a serious recession. Due to the low rate of GDP growth, the labor market has been very slow to recover. However, a slowly growing economy does not create the bubbles and excesses that often lead to downturns. Hence, while this recovery/expansion has been below average there is a good chance that it will continue for an extended period.

The leading sectors during the economic recovery have shifted as the economy has grown over the past three years. In 2010 exports and federal spending drove growth. Problems in foreign markets in 2011 and 2012 reduced the growth in exports and focus on deficit reduction turned federal spending negative.Offsetting that weakness was a pick-up in business investment in 2011 and 2012.

Adding to growth in 2012 was a major turnaround in housing from years of decline to a sharp increase. Throughout the 2010-2012 period moderate growth in consumer expenditures has offset declines in state and local spending.
Until 2012, the economic recovery had no help from housing. In past recoveries, new home construction was a strong contributor to economic growth early on in the pickup. Instead of this normal surge, housing starts remained near their recession low two years into the current recovery.

Record low mortgage rates were not enough to overcome the fear of declining home prices related to the overhang of homes built during the housing bubble of 2004 to 2006. The lack of a pickup in home construction has been a major factor in the weakness of the overall economic recovery.

In 2012, housing starts began to increase as home prices stabilized and started to rise. By the end of the year housing starts were close to one million units at an annual rate.

Employment growth has been lower than real GDP growth. While real GDP has more than made up its entire recession decline, employment has only increased by 5.3 million, after dropping 8.7 million during the recession. With higher productivity, firms have been able to increase output without significantly adding to payrolls.

The unemployment rate has slowly moved down from its 10% peak during the recession to about 8% at the end of 2012.

Jobs are important to economic growth as they add to spending power, which ultimately leads to higher sales and in turn, to additional hiring. Employment also increases tax revenue and reduces government spending resulting in lower federal deficits. The Federal Reserve has explicitly recognized the importance of jobs by pledging to not raise interest rates until the unemployment rate moves below 6.5%.
The National Auto Auction Association Certification Standard is an easy-to-use tool employing a concise checklist of 48 basic criteria, which describe in clear, straightforward language specific conditions to meet one of three quality levels — Silver, Gold or Platinum. The program is comprehensive in scope in order to handle a broad range of vehicle types with well-defined requirements for inspection, reconditioning and marketing.