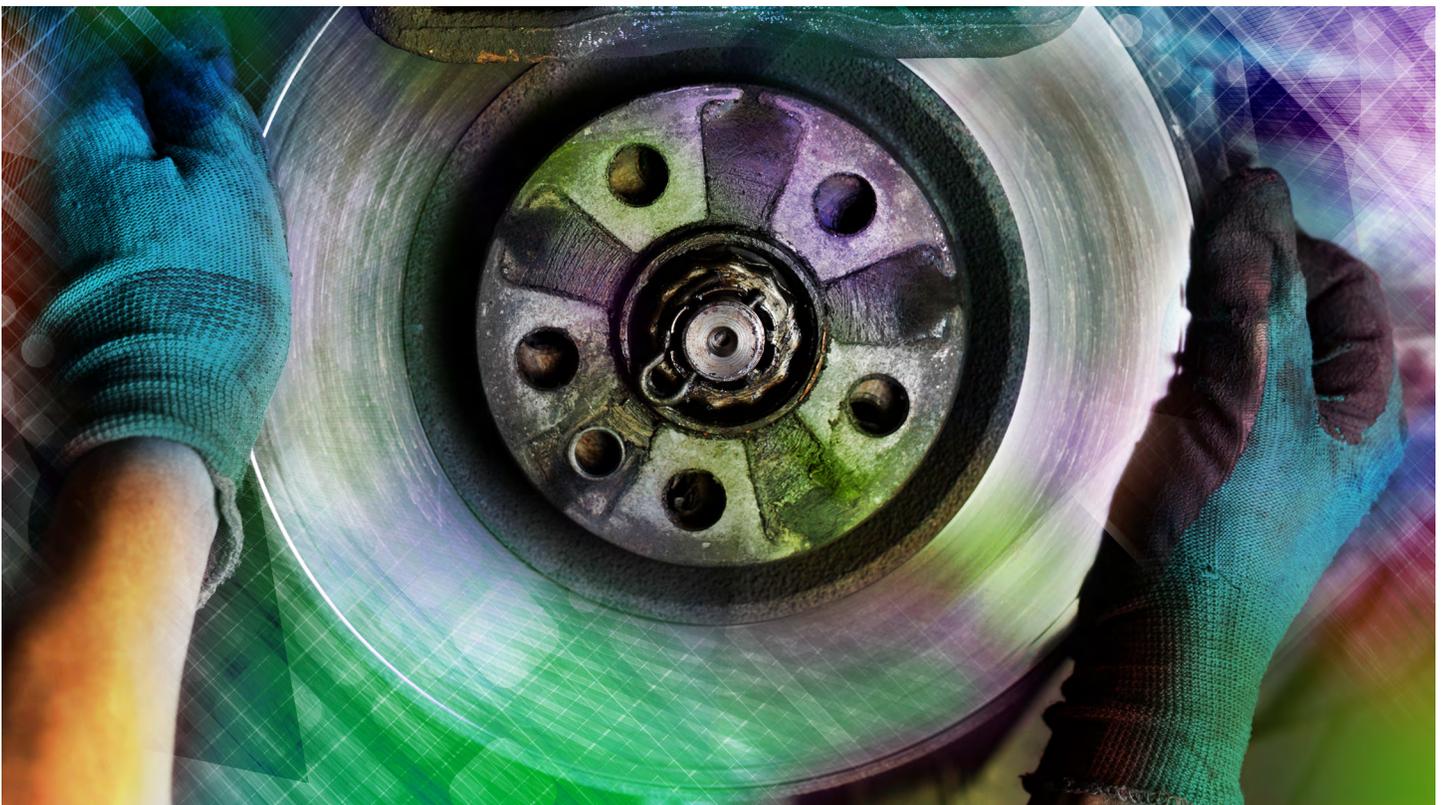


Industry Trends Report

FEATURED IN THIS ISSUE:

Do Lower Labor Rates Lead to More Repairs?

By **Greg Horn**, Vice President of Industry Relations, Mitchell





mitchell

Industry Trends Report

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A Message from the CEO

What Do We Learn from Our Customers? Just About Everything.

Welcome to the first 2014 issue of the *Mitchell Industry Trends Report*, Auto Physical Damage Edition. It's fitting that we begin the year by making one of the most important points for all businesses—dedication and commitment to the customer is essential. I say that because it's really our customers who we learn from, especially as more and more customers are expressing their satisfaction, loyalty, or displeasure through digital media and are driving companies to improve and grow their businesses through a focus on delivering better customer experiences.

Bryan Doyle's article on page 8, *How Valuable is Your Reputation*, is a timely and important reminder for what continuously drives how we do business—the customer. Bryan talks about how loyalty is created and nurtured, which is critical in today's digitally-driven world of instant feedback. Monitoring customer comments, gaining actionable insights, and automating the entire process of aggregating your customers' feedback is how successful companies of the future will gain a significant competitive advantage in the auto physical damage industry.

Mitchell not only brings this trend to you in our latest Report, we also bring the advanced customer management tools to you in our RepairCenter™ and WorkCenter™ solutions for 2014. If you haven't already, I suggest you talk with your knowledgeable Mitchell Representative about how keeping in touch with your customers through solutions like these can provide significant benefits for your business.

Thank you for your continued readership of the Industry Trends Report.



Alex Sun
President and CEO
Mitchell



Alex Sun

President and CEO, Mitchell

[Click here to view
Casualty Edition](#)



Do Lower Labor Rates Lead to More Repairs?

By Greg Horn

Vice President, Industry Relations, Mitchell



To examine these concerns, I looked at all repairable first-party collision estimates written in 2013 for all 50 states.

The data does reflect the average labor rates for estimates uploaded to the Mitchell servers that are written by independent appraisers, body shops and staff appraisers.

Frequent readers of the Industry Trends Report are accustomed to seeing the current year and previous year average labor rates charged by a select number of states and provinces as an indicator of rate increases. But the beginning of each new year inevitably brings requests for data that go beyond the states, provinces and cities that the charts typically show.

Some shop owners may think that the data I provide are merely the DRP prevailing rates and not the true labor rates charged by shops that don't participate in Direct Repair Programs. In fact, the data do reflect the average labor rates for estimates uploaded to the Mitchell servers that are written by independent appraisers, body shops and staff appraisers.

The results of the five states with the lowest hourly body labor rate and the highest hourly labor rate led to three interesting conclusions...

It reflects labor rates for both shops that do and do not participate in DRP programs.

Another frequent theory when discussing the disparity in labor rates in various states is that states with lower labor rates will have more labor hours per estimate or additional labor operations resulting in a fairly consistent overall labor charge throughout the U.S. Still others say that estimates have more additional operations noted on their estimates to offset the labor rates and achieve a consistent labor charge.

To examine these concerns, I looked at all repairable first-party collision estimates written in 2013 for all 50 states. By excluding comprehensive claims, I sought to eliminate any

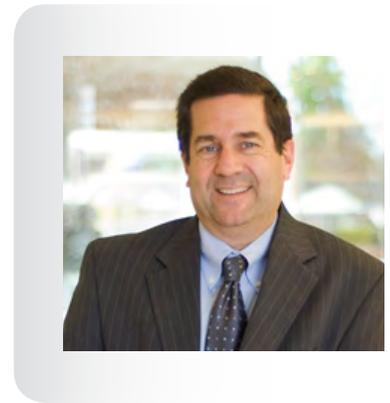
impact of Paintless Dent Repair and its impact on paint and repair labor.

I looked at estimates for passenger cars only to eliminate regional disparities in truck vs. car distribution that would impact paint hours.

The results of the five states with the lowest hourly body labor rate and the highest hourly labor rate (as shown in the charts on the following page) led to three interesting conclusions:

1. Lower labor rates do not mean more additional operations written on the estimate.

The state with the lowest labor rate, Massachusetts, averages 33.3 lines per estimate, yet Alaska, with the second highest labor rate, averages 35.7 lines, and Maryland, with the lowest five average labor chart, averages 34 lines. Further, the number of lines on the average Massachusetts estimate does not translate into significantly more labor hours, as five of the 10 states (three of which are in the bottom five of average labor rates) have



About the author...

Greg Horn
Vice President, Industry Relations, Mitchell

Greg Horn joined Mitchell in September of 2006 as Vice President of Industry Relations.

In this role, Greg assists the Mitchell sales force in providing custom tailored business solutions to the Property and Casualty Claims and Automotive Collision Repair industries.

Prior to joining Mitchell, Greg served as Vice President of Material Damage Claims at GMAC Insurance, where he was responsible for all aspects of the physical damage claims process and the implementation of a unique vehicle replacement program along with serving on the GM Safety Committee. Prior to GMAC, Greg served as Director of Material Damage Processes for National Grange Mutual in Keene, NH.

Lowest Labor Rate States

	Avg Body Hourly Labor Rate	Avg Repair Lines	Avg Repair Labor Hrs	Avg Rem/Repl Labor Hrs	Avg Refinish Labor Hrs	Total Labor Hrs
Massachusetts	\$37.07	33.3	9.44	6.45	9.83	25.72
Tennessee	\$41.14	26.4	7.82	8.85	10.22	26.89
Florida	\$41.29	28.5	8.38	9.03	9.52	26.93
Georgia	\$42.04	27.4	7.93	7.31	9.68	24.92
Maryland	\$42.12	34.0	9.33	10.79	10.51	30.63
Average	\$40.70	29.9	8.6	8.5	10.0	27.0

Highest Labor Rate States

	Avg Body Hourly Labor Rate	Avg Repair Lines	Avg Repair Labor Hrs	Avg Rem/Repl Labor Hrs	Avg Refinish Labor Hrs	Total Labor Hrs
Montana	\$63.05	29.8	8.54	8.54	10.57	27.65
Alaska	\$61.35	35.7	9.86	9.81	10.83	30.5
California	\$60.46	32.8	8.38	7.13	9.38	24.89
North Dakota	\$59.52	23.7	6.72	6.91	8.49	22.12
Wyoming	\$57.45	24.3	7.04	8.25	8.39	23.68
Average	\$60.40	29.3	8.1	8.1	9.5	25.8

Lower labor rates do mean more panel repairing occurs.

more labor hours. Only 1.2 hours of total labor separates the average of the bottom five labor rate states from the top five labor rate states.

2. Lower labor rates do mean more panel repairing occurs.

The lower labor rate in Massachusetts did translate into more panel repair labor than remove and replace, with the repair hours averaging the second highest of the 10 states in both charts.

3. Lower labor rates do not translate into additional refinish hours.

The five states in the lowest labor rate chart average only 0.5 hours more in refinish hours, but North Dakota and Wyoming have the lowest refinish hours of all 10 states surveyed.

I expect that these data points will elicit as many impassioned responses as my paint hours article did a few issues back. I look forward to discussing the findings of the study at industry meetings. I am not intending to pass judgment on insurers or collision repairers, but merely to present the facts and draw fact-based conclusions.



How Valuable is Your Reputation?

Customer Loyalty In The Digital Era

By Bryan Doyle

Product Manager, Customer Experience, Mitchell Auto Physical Damage



But just how valuable are loyal customers and how does a business in a competitive market inspire loyalty?

Unless you are running the only shop in town, you likely face some form of competition for customers. But just how valuable are loyal customers and how does a business in a competitive market inspire loyalty? These are questions facing every manager in just about every industry. While the importance of customer loyalty is obvious in industries such as soft drinks, coffee or even cellphones, the benefits of customer loyalty in the auto-repair industry may be less apparent, but it is just as important.

So how do you inspire loyalty in your customer base?

So how do you inspire loyalty in your customer base? And how do you even measure and monitor what customers are saying about their experience with your shop? There are three little words that go a long way in gauging customer loyalty: *Net Promoter Score (NPS)*. The Net Promoter Score was developed by Fred Reichheld of Bain & Company. It's based on a single question:

"How likely is it that you would recommend this company to a friend or family member?"

Using a 0–10 scale on customer surveys, customers are identified as Promoters (9 and 10), Passives (7 and 8) or Detractors (0 to 6). The score is calculated by subtracting the negative responses (detractors) from the positive ones (promoters). The higher your shop's NPS score, the more "promoters" you have.

Can you increase customer loyalty?

A few years back our group did an analysis of AutocheX¹ phone survey respondents. We identified four drivers of customer loyalty in the collision repair sector:

1. Being kept informed
2. On-time delivery
3. Shop service
4. Shop quality

Our analysis revealed that “being kept informed” had the largest correlation to whether or not a customer was willing to refer the shop to a friend or family member. This very simple, incredibly valuable concept can often be overlooked in the repair process. Customers in one of our largest programs who felt they were kept informed throughout the repair, when asked if they would refer the shop had scores 75 percent higher than those who indicated they were not kept informed. So if you’re looking for a simple solution to flip this problem into a benefit for your shop, keeping customers informed is your key to building loyal customers and turning them into your shop’s brand promoters.

This research, coupled with feedback from our shop customers, led us to develop our new product:

Reputation Manager. Reputation Manager is a suite of products that provides users the tools to manage their online brands, gain business insight from customer survey data and keep customers informed during a repair via email or text messages.

Reputation Manager automates the surveying and updating process and the delivery of a streamlined experience to your employees and customers.

Surveying customers is the first step in monitoring and understanding customer loyalty. Keeping customers informed is the secret sauce for building loyal customers. Reputation Manager automates the surveying and updating process and the delivery of a streamlined experience to your employees and customers.

The next step in tracking customer loyalty is monitoring what people are saying about you online. As the Internet continues to evolve, so has the way information and opinions are shared. Social media has gone from a buzzword to a widespread form of influential communication. As consumers pay more and more attention to what others are saying online, opportunities are created for businesses to market their brands, but new risks also appear. Social media and online communities are new channels which businesses need to monitor closely and frequently to protect their brands.

So why would auto body shops even care about online reviews? Research performed by Michael Luca, a professor at the Harvard Business School, has revealed that an increase of just a single star on a review site can lead to a 5 to 9 percent increase in revenue.² This is a huge economic incentive for independent businesses to actively manage their online reputations, or at the very least, monitor any negative reviews or comments.

At Mitchell we are continuously evolving our products to provide our clients with new ways to keep track of what people are saying about their businesses. This is where the second part of Reputation Manager comes in. It provides users with social media monitoring and text analytic tools to manage their online brands and gain business insight from customer reviews and social media comments. Through the use of these tools, Reputation Manager provides the data necessary to understand the potential of your business and attain the customer loyalty essential to growing your bottom line.

¹ [AutocheX is Mitchell's Customer Satisfaction Indexing service.](#)

² [Harvard Business School Harvard Magazine](#)

U.S. Average Length Of Rental Hits Five-Year High in Q4 2013

By Frank LaViola

Assistant Vice President, Insurance Replacement, Enterprise Rent-A-Car



This represents the highest length of rental in Q4 over the past five years, as rental length increased by 0.5 days.

The industry average length of rental (LOR), used as a proxy for cycle time, was 11.2 days for the United States in the fourth quarter of 2013. This represents the highest length of rental in Q4 over the past five years, as rental length increased by 0.5 days (see table). In addition, a five-year comparison of full-year results shows an increase of 0.4 days in calendar year 2013 over calendar year 2009.

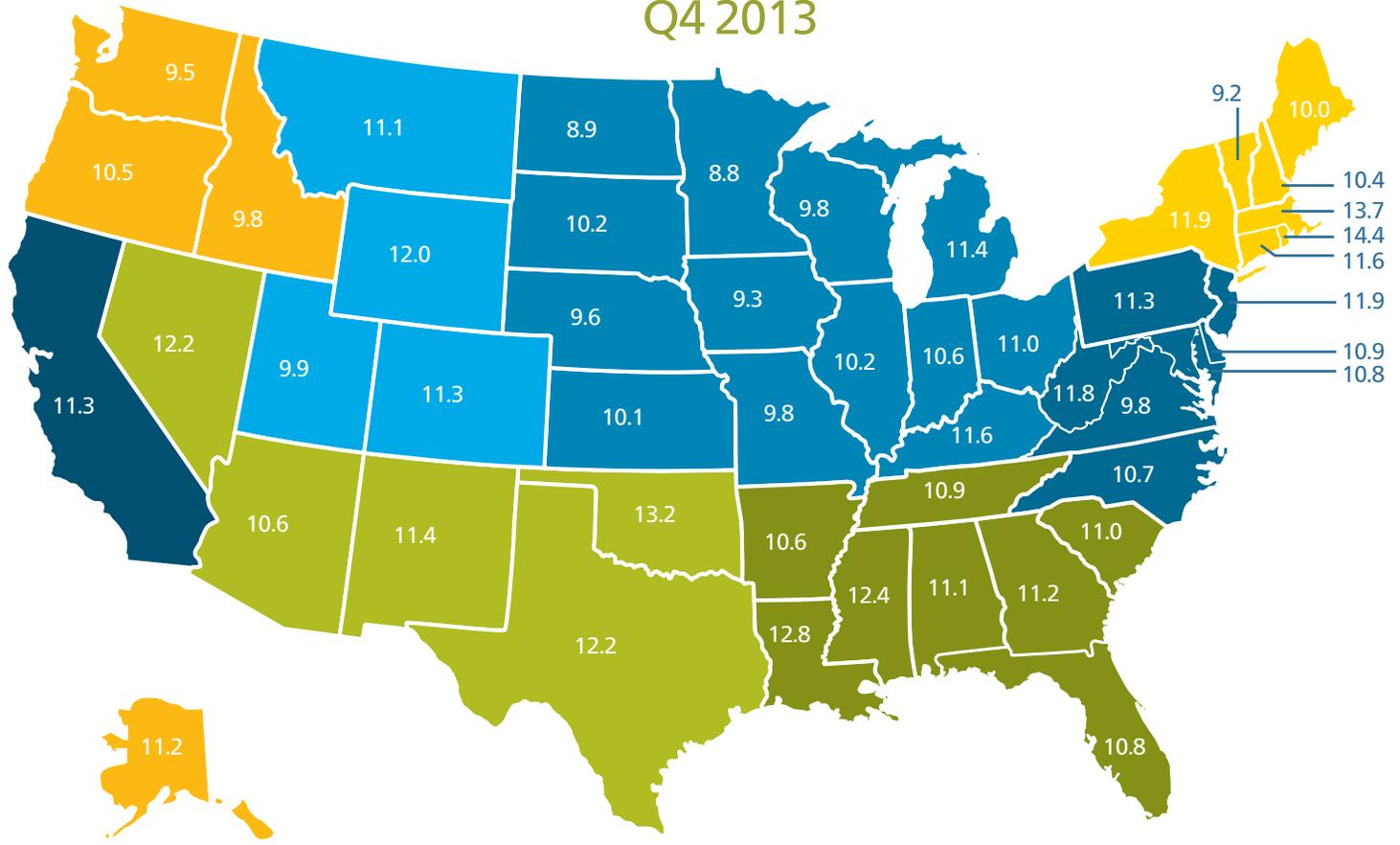
Several factors can influence LOR, including weather, the overall

The holidays also can impact LOR as many shops close their doors to allow employees to spend time with family.

economy, parts availability, repair shop conditions and processes, average age of vehicles and various other delays. Technology enhancements, high-strength steels, and repair methods for newer vehicles may also lead to an increase in LOR. The holidays also can impact LOR as many shops close their doors to allow employees to spend time with family.

Comparing Q4 2013 LOR to Q4 2009, only one region decreased while seven increased. The California region was the only region to decline in LOR by 0.4 days compared to Q4 2009. Northern California continued to outperform

U.S. Average Length of Rental by State Q4 2013



Southern California with an LOR of 10.5 days compared to 11.7 days, a significant difference of 1.2 days.

LOR in the Mid-Atlantic Region was 10.8 days compared to 10.6 days in Q4 2009. New Jersey once again held the distinction of having the highest LOR in the region at 11.9 days but down almost one full day over last quarter.

West Virginia increased the most in the region when compared to Q4

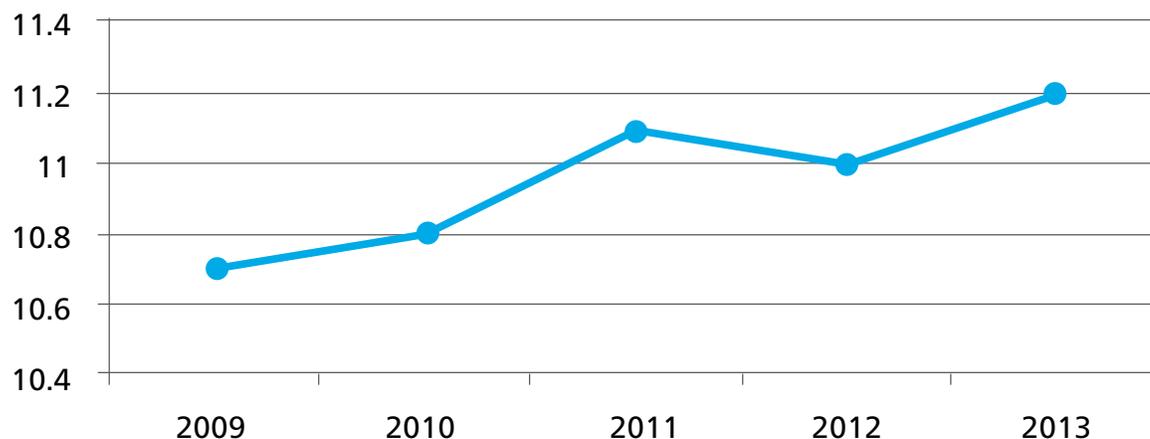
2009, up one full day since 2009 at 11.8 days for Q4 2013. The second largest LOR increase in the Mid-Atlantic region was held by North Carolina at 10.7 days, an increase of 0.7 days since Q4 2009.

In the Midwest region, LOR averaged 10.4 days, an increase of 0.7 days over Q4 2009. All states with the exception of Kentucky, at 11.6 in Q4 of both 2009 and 2013, increased in LOR. A few states with increases over one full

Overall U.S. LOR	
11.2	
Region	LOR
California	11.3
Mid-Atlantic	10.8
Midwest	10.4
Mountain	10.9
Northeast	12.1
Northwest	9.8
Pacific	10.5
Southeast	11.2
Southwest	12.0

Average Length of Rental for Repairable Vehicles

U.S. LOR Q4 09-13



day include North Dakota, up 1.6 days to 8.9; Minnesota, up 1.4 days to 8.8; Nebraska and Michigan, up 1.4 days each to 9.6 and 11.4 days respectively; and Wisconsin at 9.9 days, up 1.1. It should be noted that even with the 1.4 day increase in LOR, Minnesota still had the lowest LOR for Q4 2013 for the entire U.S. We may see large

The Northeast region once again led the country with the highest LOR at 12.1 days, barely edging out the Southwest Region.

increases in Q1 2014 as the winter takes hold and delivers a healthy amount of snow and record cold temperatures to start the New Year.

The Mountain region increased by 0.5 days from Q4 2009 to 2013, coming in at 10.9, which also was up 0.7 days over Q4 2012. All four states in the Region increased in LOR. Montana increased the most at 11.1 days, up 1.1 since Q4 2009 with Wyoming close behind, up 0.8 days at 12.0 days. Wyoming was fourth highest in the nation in LOR. Utah was the only state in the region to come in under 10 days at 9.9, an increase of 0.5 days.

The Northeast region once again led the country with the highest LOR at 12.1 days, barely edging out the Southwest Region. While

the region increased 0.7 days over 2009, when compared with Q4 2012, it decreased more than any other region, dropping 0.3 days. This may be due to claims volume subsiding since hurricane Sandy. Rhode Island holds the distinction of being not only the highest LOR for the region at 14.4 days but also the highest in the nation. Rhode Island added 0.9 days in LOR compared to Q4 2009. Neighbor Massachusetts was close behind, claiming the second highest LOR in the nation at 13.7 days, up 0.8 days since Q4 2009. The only state to come in under 10 days for Q4 2012 was Vermont at 9.2 days.

The three Northwestern states increased to 9.8 days, up 0.3 days over Q4 2009. Over the past five years the Northwest's LOR has

Average Length of Rental for Repairable Vehicles

been between 9.4 and 9.9 for the 4th quarter. The highest LOR in Q4 2013 belongs to Oregon at 10.5 days, up 0.3, followed by Idaho at 9.8 days and Washington at 9.5 days, up 1.2 days and 0.2 days respectively over Q4 2009.

The Southeast Region came in at 11.2 days, up 0.6 over Q4 2009. This marked the first time in five years the Southeast eclipsed 11 days in the 4th quarter. Mississippi had the largest LOR increase in the region for the five-year period, up 1.7 days to 12.4. Louisiana also was at 12.4 days, up 0.5 days over Q4 2009. Every state in the region increased in LOR, with Arkansas increasing the least to 10.6, up 0.1 days.

As mentioned earlier, the second highest LOR in the nation belongs to the Southwest Region at 12.0 days. This region has increased

the most since Q4 2009, up 0.9 days from 11.1 days. States with the largest increases during the five-year period include Oklahoma with a whopping 2.4 day increase to 13.2 days, the third highest LOR in the country. Multiple hailstorms from summer continue to have an impact in Oklahoma, according to collision repair centers. Texas saw the next highest increase in LOR, up 0.9 days over Q4 2009 to 12.2.

Finally, Alaska's LOR was 11.2 days, an increase of 0.8 days over Q4 2009 and up 0.2 days from Q4 2012.

The quarterly LOR summary is produced by Frank LaViola, Assistant Vice President Collision Industry Relations, at Enterprise

Rent-A-Car. Through its ARMS® Automotive Suite of Products, Enterprise provides collision repair facilities with free cycle time reporting with market comparisons, free text/email capability to update their customers on vehicle repair status, and online reservations. More information is available at armsautosuite.com or by contacting Frank LaViola at frank.r.laviola@ehi.com.



Most Dangerous Driving Conditions

We've already seen some of the worst winter weather in decades, along with graphic pictures of epic pile-ups on snowy roadways. But, while snow can create hazardous conditions, statistically-speaking, it isn't the most dangerous. That dubious distinction goes to wet pavement, according to the U.S. Department of Transportation. Here are some more frightening facts about perilous weather-related car crashes.



Over 673,000 people are injured and nearly 7,400 die in weather-related vehicular accidents.



Wet pavement causes approximately 1,128,000 crashes, or 75% of all weather-related crashes.



On average, fog is responsible for 38,000 crashes, or 3% of all weather-related accidents.²



Nationwide, 47% of weather-related crashes happen in the rain.³



Snow and sleet represent 15% of all weather-related crashes. Icy and snowy/slushy pavement account for 13% and 11%, respectively.



In assessing weather and seasonal effects of highway crashes in California, crash frequency on very wet days was twice the rate of dry days.



There are approximately 6.3 million vehicle crashes in the U.S. each year. About 24% are weather-related, caused by adverse conditions including rain, sleet, snow, fog and wet, slushy or icy pavement.¹



1,561,430 weather-related accidents are reported annually; another 57% go unreported.⁴



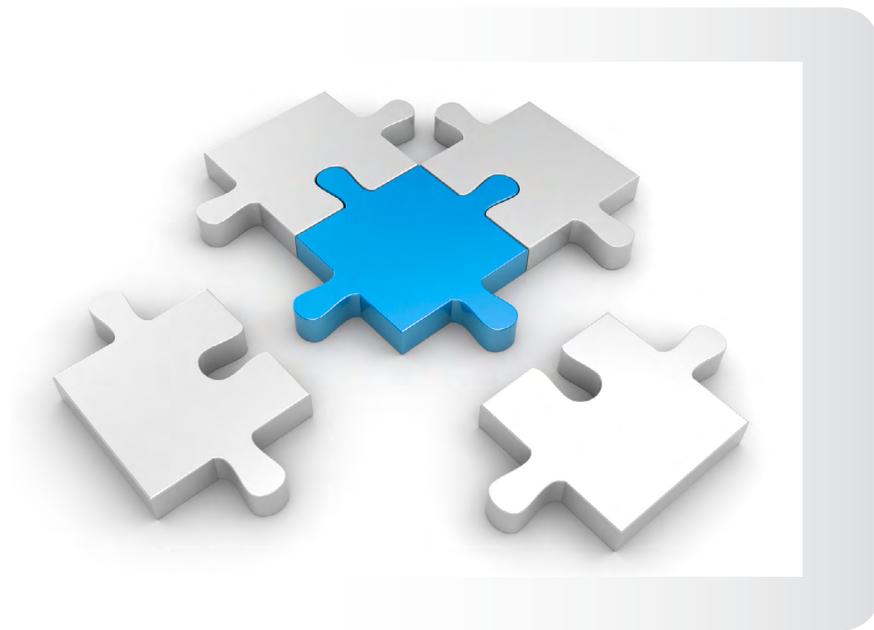
Roadway fatalities actually drop across the U.S. during days with high amounts of snow because people either opt to stay home or drive slower in snowy conditions. The exception is the first day after a major snowstorm, because it takes drivers a day or two to regain their sense of driving in snow.⁵

¹"How Do Weather Events Impact Roads?" http://www.ops.fhwa.dot.gov/weather/q1_roadimpact.htm
²"Fog: A Driving Danger," <http://www.weather.com/safety/autosafety/fog-driving-travel-danger-20121127>
³"U.S. Highway Crashes in Adverse Road Weather Conditions," U.S. DOT Research, <https://ams.confex.com/ams/pdfpapers/133554.pdf>
⁴"Driving Hazards," <http://www.autoinsurance.org/driving-hazards/>
⁵"Most Dangerous Times to Drive," http://www.forbes.com/2009/01/21/car-accident-times-forbeslife-ox_he_0121driving.html

LKQ Finalizes Acquisition of Keystone

From ABRN

Publish Date: January 7, 2014



LKQ Corporation has completed its acquisition of Keystone Automotive Operations, Inc., a leading distributor and marketer of specialty aftermarket equipment and accessories in North America.

Keystone has over 1,500 employees with 25 locations serving more than 20,000 specialty retailers and equipment installers throughout North America, offering a broad product line of over 300,000 SKUs from over 800 suppliers. Keystone distributes

products to serve the following six category segments: truck and off-road; speed and performance; recreational vehicle; towing; wheels, tires and performance handling; and miscellaneous accessories.

“We are delighted to complete the acquisition of Keystone, and excited about LKQ’s further entry into the specialty aftermarket equipment and accessories business. Keystone’s leading market position, unparalleled

distribution network, exceptional management team and diversified product offerings will play crucial roles in our efforts to grow LKQ’s presence in this highly fragmented industry,” stated Robert L. Wagman, President and Chief Executive Officer of LKQ Corporation.

The acquisition became effective January 3, 2014.

About LKQ Corporation

LKQ Corporation (www.lkqcorp.com) is the largest nationwide provider of alternative collision replacement parts and a leading provider of recycled engines and transmissions and remanufactured engines, all in connection with the repair of automobiles and other vehicles. LKQ also has operations in the United Kingdom, Canada, Mexico, Taiwan, the Netherlands, Belgium, France, Guatemala and Costa Rica. LKQ operates more than 500 facilities, offering its customers a broad range of replacement systems, components and parts to repair automobiles and light, medium and heavy-duty trucks.

I-CAR Makes Welding Training Certification More Affordable

From ABRN

Publish Date: January 6, 2014



As the major provider of welding training to the collision repair industry, I-CAR estimates that at least two-thirds of technicians who weld lack formal welding training.

I-CAR® introduced new enhancements to its industry-recognized Welding Training & Certification™ program, including significant price cuts that will save shops money, encouraging them to more broadly invest in the training that perhaps most directly contributes to complete, safe and quality repairs.

“As vehicle structures change in response to CAFE standards, the approaching ‘technical tsunami’ will pose considerable challenges to collision repair professionals as they strive to keep pace for the ultimate benefit of the consumer,” said John Van Alstyne, CEO & President of I-CAR. “To meet these challenges successfully,

it will be absolutely critical for every technician who welds to be trained and certified with up-to-date welding skills. This is a key I-CAR priority for 2014 and we’ve updated our program to help the industry accomplish this goal.”

Current Events in the Collision Industry

Today, as the major provider of welding training to the collision repair industry, I-CAR estimates that at least two-thirds of technicians who weld lack formal welding training. I-CAR's welding program enhancements are designed to change that. These changes include:

- New lower pricing that saves shops between 10 and 40% or more. Savings increase with each additional technician a shop trains, encouraging shops to train all technicians who weld.
- A new program name—Welding Training & Certification—which more accurately reflects the attributes of the product. These include assessment of the facility's readiness and capability for proper welding, intensive theory instruction, hands-on training of students tailored to their pre-training skill level, opportunities to practice new skills with instructor coaching, and finally I-CAR's standardized certification test that confirms technician skill level.
- A newly streamlined registration process that will see continued improvements in 2014.

- Ongoing course updates that will include proper welding techniques for the latest materials, keeping the training experience and skill development relevant to the work required of welding technicians not just today, but also in the future.

I-CAR is already gaining broad industry support in its effort to train more welding technicians.

I-CAR continues to offer three Welding Training & Certification programs: Aluminum GMA (MIG) Welding—WCA03, Steel GMA

(MIG) Welding—WCS03, and Steel Sectioning—SPS05. For all courses, the certification resulting from successfully completing the training will be valid for five years, after which the training and certification will need to be retaken to ensure the student maintains current welding skills.

I-CAR is already gaining broad industry support in its effort to train more welding technicians. Today, I-CAR announced a new initiative with State Farm® through which the insurer will encourage its Select Service® network shops to participate in I-CAR welding training. I-CAR is working on other welding-related initiatives across the industry that are expected to be announced later this year.



Collision Repair Industry Production Up for Fourth Straight Month in September

Industry reports flat production and non-supervisory staff in September. Total production improves with small increase in average hours worked.

From CollisionWeek

Publish Date: December 11, 2013



Production hours in September 2013 stood at 0.88 percent above September 2012, an improvement over the 0.4 percent increase in August versus 2012.

The industry reported declines in both April and May.

According to the latest data released from the U.S. Department of Labor Bureau of Labor Statistics (BLS), the total production picture for the auto body repair industry improved in September, continuing to build upon gains recorded since June. The industry reported declines in both April and May.

The industry's total production, which we define as the total

average weekly hours by month multiplied by the total number of production and non-supervisory workers employed each month, closed September 2013 at 6.68 million man hours, up from 6.66 million man hours in August and up from 6.59 million man hours in June.

Production hours in September 2013 stood at 0.88 percent above

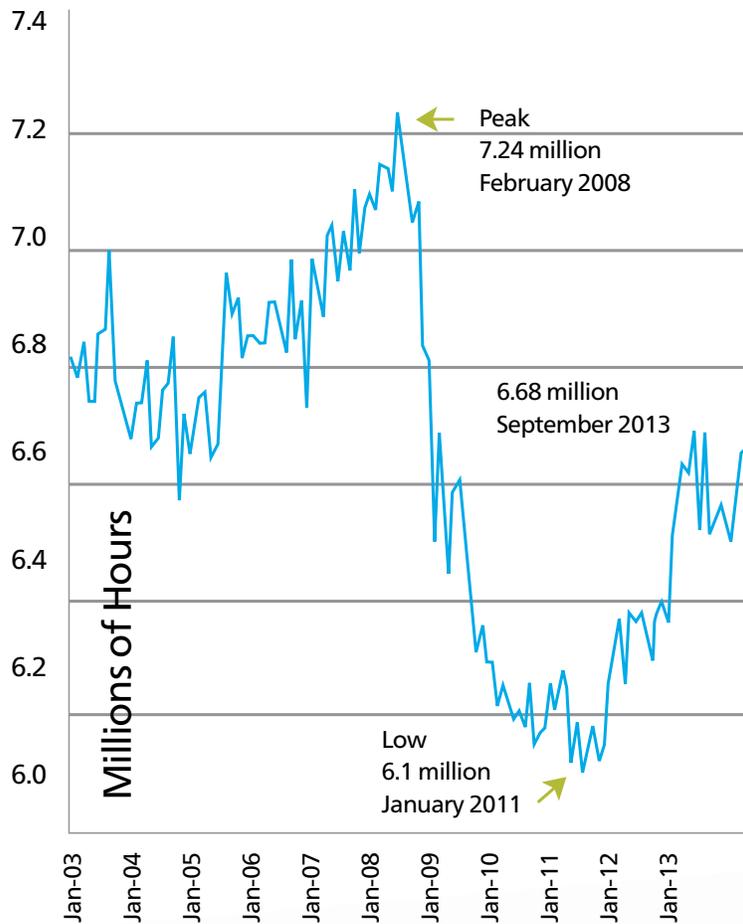
Current Events in the Collision Industry

September 2012, an improvement over the 0.4 percent increase in August versus 2012. The growth in production comes solely from an increase in the average weekly hours worked by production and non-supervisory employees to 38.4 hours in September from 38.3 hours in August.

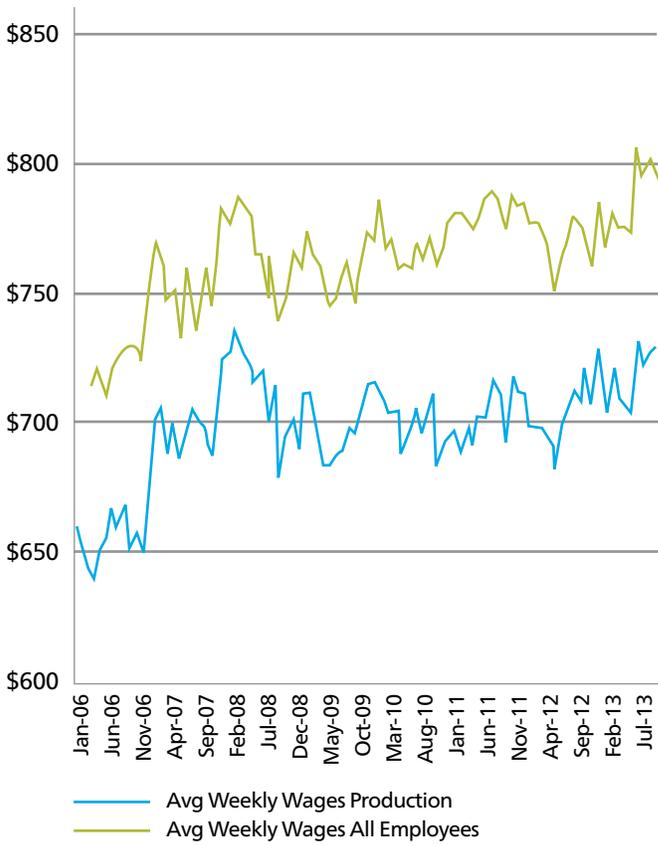
The chart to the right illustrates the total number of production employees multiplied by their average weekly hours worked in each month. This combination creates a view into the total number of production hours amassed each week by the collision repair population as a whole.

Added together, the average weekly production over the past twelve months through September 2013 now totals 79.12 million man hours.

Collision Repair Industry Production Total Average Weekly Hours By Month



Average Weekly Wages



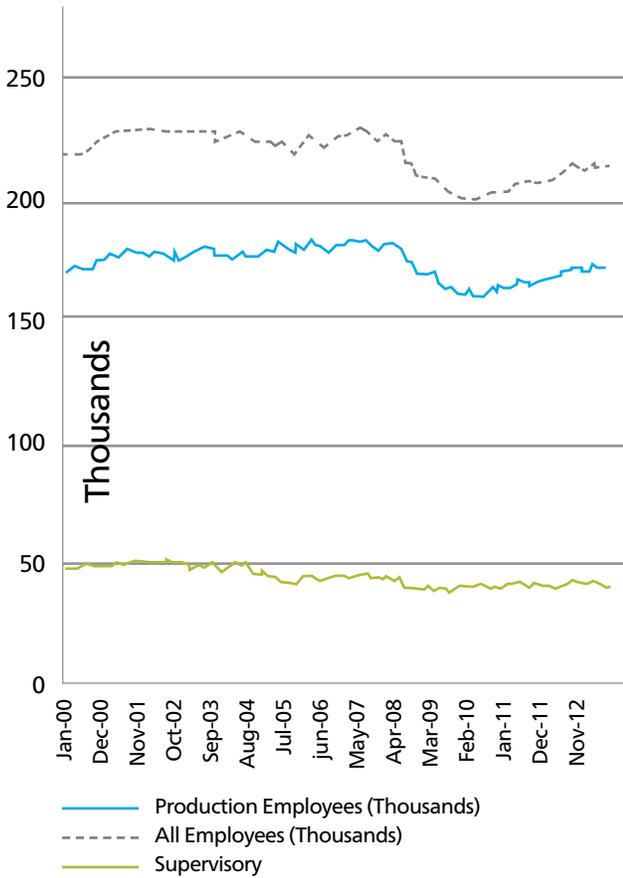
Average weekly wages for all employees, including management and supervisory positions, ended September at \$794.01, up from \$775.96 a year earlier.

That is 2.5 percent higher than the previous 12 month total a year ago.

The average weekly wages for production employees in September were 2.8 percent higher than a year ago coming in at \$728.06 compared to \$708.49 a year earlier. According to the BLS, each worker earned an average \$18.98 per hour down two cents from a month ago and up \$0.70 from a year ago.

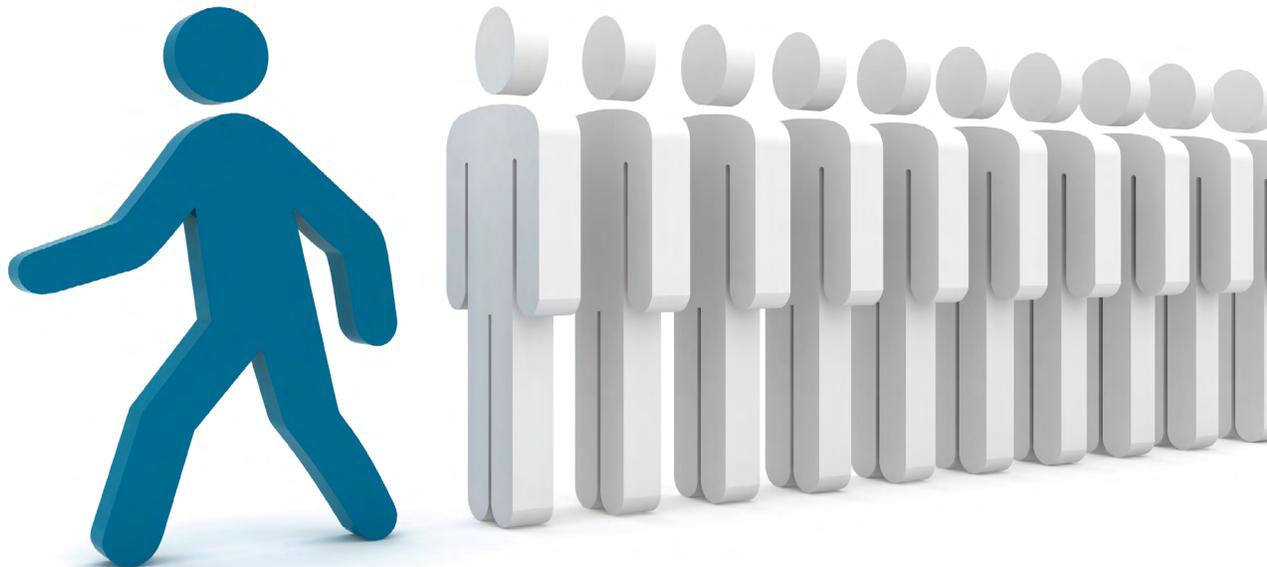
Average weekly wages for all employees, including management and supervisory positions, ended September at \$794.01, up from \$775.96 a year earlier. The average hourly wage in September was \$20.95, up nine cents from last month and down \$0.40 from a year earlier.

Collision Repair Employment 2000–2013



Total employment at the end of September 2013, including management and supervisory employees, stood at an estimated 213,700, just 100 higher than August, but 2,300 higher than the 211,400 total a year ago.

With the release of the September report, the BLS also released preliminary estimates for October 2013. Those figures are currently estimating a decrease of 300 production workers and a decrease in average hours worked each week of 0.1 hours. If the final October numbers, due out next month, remain unchanged, industry production would decrease for the month.



Body Repair Prices, Auto Insurance and Inflation

Body repair prices track closely with the broader consumer price index since 2009. Auto insurance prices continue to outpace body repair prices and overall inflation.

From CollisionWeek

Publish Date: January 7, 2014



Auto insurance prices started the year 4.09 percent higher in January 2012 than 2011 and remained relatively stable through the first half of the year.

The most recent government figures on inflation, including the months through November 2013, show the cost of auto insurance increased just over 7 percent versus prices in the same period in 2012. Auto insurance prices started the year 4.09 percent higher in January 2012 than 2011 and remained relatively stable through the first

half of the year. In July, prices broke through the 5 percent increase line and continued upward at 7.07 percent higher in November 2012 versus 2011.

The consumer price for auto body work climbed at a fairly uniform pace throughout the first 11 months with overall inflation recorded in November at 3.47 percent above the same period in 2012. Overall inflation, as represented by the United States Bureau of Labor Statistics Consumer Price Index (CPI) for all items rose 1.42 percent over the past twelve months to November 2012.

The Inflation Comparison Chart on the next page shows the relative percentage increase of body work, auto insurance and the Consumer Price Index (CPI) for all items over the past 12 months. Looking at

the chart of relative inflation, the consumer price of body work ended the past 12 month period slightly ahead of overall inflation. The overall CPI number is intended to represent all goods and services purchased for consumption from over 200 categories.

The inflation index for body work now stands at 273.3, compared to 233.1 for CPI and 426.6 for auto insurance. The baseline period is 1982–1984.

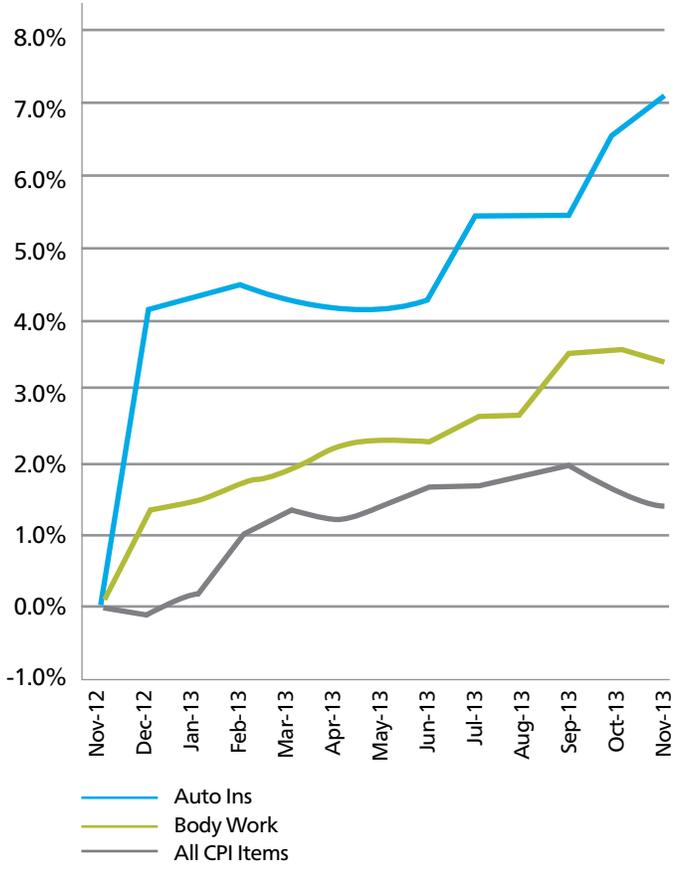
The average month over month increase for bodywork over the past year has been 0.2 percent while the overall CPI figure has increased at an average monthly rate of 0.1 percent. The price of auto insurance increased an average of 0.27 percent each month over the past year.

The chart shows the cumulative price increases represented by all three indices since Jan 2009.

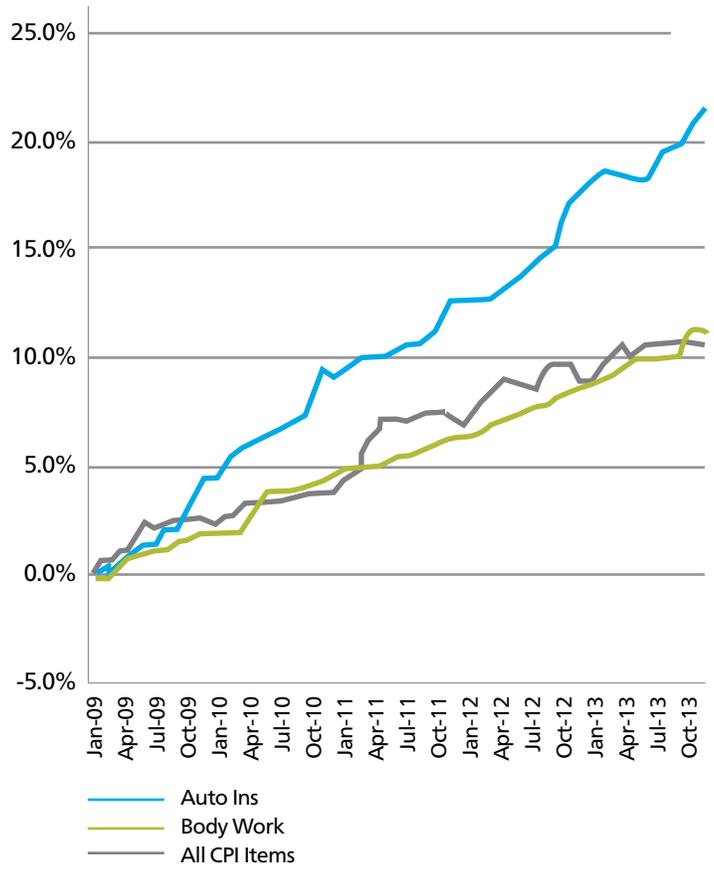
Overall CPI has risen 10.38 percent, body work 10.98 percent, and auto insurance is up 21.48 percent over the past four years. For comparison, the BLS reports that over the same period the cost of new cars has risen 6.34 percent, motor vehicle repair costs have risen 9.07 percent, and motor vehicle parts and equipment costs are up 8.75 percent.

From the beginning of 2009 through November 2013, the consumer price for body work has increased an average 2.25 percent each year. This is slightly above the overall CPI which has increased at an average annual rate of 2.03 percent. Auto Insurance, according to the BLS, has increased at an average annual rate of 4.12 percent since the start of 2009.

Inflation Comparison % rise past 12 months to Nov 2013



Inflation Comparison % rise since Jan 2009



The Economy & Short-Term Energy Outlook



The Federal Open Market Committee (FOMC) found that available data suggested that economic activity would continue to rise at a moderate pace.

At its October 29–30, 2013 meeting, the Federal Open Market Committee (FOMC) found that available data suggested that economic activity would continue to rise at a moderate pace. They noted, however, that the conclusion was based on a set of information that was somewhat reduced due to delays associated with the partial

federal government shutdown earlier in the month. While total payroll employment increased in September, the unemployment rate remained high. Consumer price inflation was still modest and measures of longer-run inflation expectations remained stable. The unemployment rate edged down to 7.2 percent in September, with both the labor

force participation rate and employment-to-population ratio unchanged. Measures of firms' hiring plan improved, the rate of job openings increased slightly and the rate of long-duration unemployment declined slightly. Household expectations of the labor market deteriorated somewhat, gross private-sector hiring rates remained flat and

Automakers' schedules suggested that the pace of light motor vehicle assemblies would be slightly lower in coming months but broader indicators of manufacturing pointed to further near-term factory output gains.

the share of workers employed part-time for economic reasons continued to be elevated.

Manufacturing expanded modestly in September, but except for the motor vehicle sector output was flat. Automakers' schedules suggested that the pace of light motor vehicle assemblies would be slightly lower in coming months but broader indicators of manufacturing pointed to further near-term factory output gains.

Real personal consumption expenditures (PCE) rose moderately in August. In September, nominal retail sales, excluding those at motor vehicle and parts outlets, increased significantly, while sales of light motor vehicles declined. Consumer spending indicators

were mixed: households' net worth expanded as home prices and equity values rose in recent months and real disposable incomes increased in August, but consumer sentiment declined in September and October.

The housing sector recovery appeared to continue. Starts and permits of single-family homes increased in August, but declined for multifamily units. Sales of new homes increased in August, but existing home sales decreased in August and September, and pending home sales also contracted.

Growth in real private expenditures for business equipment and intellectual property products was tepid in Q3/13. However, forward-looking indicators suggested some near-term gains in business equipment spending.

Real federal purchases declined as federal employment edged down in September; corresponding state and local government purchases increased, with payrolls in these governments expanding briskly in September.

The U.S. international trade deficit remained unchanged in August, with exports and imports flat.

The PCE price index for August and consumer price index for

September increased modestly, along with core measures (excluding food and energy). Near- and long-term inflation expectations from Thomson Reuters/University of Michigan Surveys of Consumers were little changed in September and October. Nominal average hourly earnings for all employees increased slowly in September.

Foreign economic growth improved in Q3/13 after a sluggish first half, driven largely by stronger growth estimated for China and a rebound in Mexico. Growth also picked up in the UK and Canada, and there was a mild recovery in the Euro area. Economic activity in Japan decelerated somewhat from its first-half pace, but continued to expand. Central banks in some emerging markets including Brazil and India tightened monetary policy.

Financial Situation Review

Longer-term interest rates declined and equity prices rose over the intermeeting period in response to expectations for more-accommodative monetary policy. Financial market views regarding the outlook for monetary policy shifted notably following the September FOMC meeting, as the outcome and communications from that meeting were seen as more accommodative than

expected. Concerns about the fiscal situation and somewhat weaker-than-expected economic data releases also contributed to the change in expectations about the timing of monetary policy actions. Five- and 10-year yields on nominal and inflation-protected Treasury securities declined 30 basis points or more over the intermeeting period. Short-term funding markets were adversely affected by concerns about delays in raising the federal debt limit. Yields on Treasury bills maturing between mid-October and early November rose sharply, and conditions in other short-term markets were also strained, but eased quickly after the debt limit agreement was reached in mid-October. Credit flows to nonfinancial businesses slowed somewhat during the fiscal standoff. In response to an October survey, banks generally indicated that they had eased C&I and CRE loan standards in Q3. Issuance of municipal bonds for new capital projects remained solid. Bank credit declined slightly during Q3, with growth of core loans slowed mostly because of a sizable decline in outstanding balances of residential mortgages on banks' books. Foreign stock prices rose while yields and yield

spreads declined and the dollar depreciated against most other currencies. Yields and the value of the dollar fell further after the debt ceiling agreement and in response to the U.S. labor market. Mutual fund flows to emerging markets stabilized, following large outflows earlier in 2013.

Economic Outlook

While the near-term growth forecast for the GDP were revised down somewhat for the October FOMC meeting due to the government shutdown and reports of softer-than-anticipated consumer spending, the medium-term forecast was revised up slightly based on the projected foreign exchange value of the dollar, longer-term interest rates and somewhat higher projections for home values and equity prices. The staff anticipated the pace of real GDP expansion would accelerate in 2014 and 2015, supported by an easing in the effects of fiscal policy restraints on economic growth, increases in consumer and business sentiment, further improvements in credit availability and financial conditions, and accommodative monetary policy. The unemployment rate was expected to decline

gradually. Inflation was projected to remain stable in the long-run and somewhat below the FOMC's objective of 2 percent through 2016. The staff continued to see risks around the forecast including: uncertain effects and future course of fiscal policy, concerns about consumer spending growth, and the potential effects of increasing mortgage rates on residential construction. Risks to the inflation forecasts included a greater-than-anticipated persistence of the low rates of core consumer price inflation; on the upside, unanticipated increases in energy or other commodity prices could emerge.

Participants' View on Current Conditions and the Economic Outlook

Participants noted that the broad contours of their medium-term economic projections had not changed since their September meeting, and continued to project an uptick in the pace of economic activity bolstered by the gradual abatement of headwinds that have slowed the pace of recovery and improved prospects for global growth. Downside risks to the outlook for the economy and labor market were generally viewed as

having diminished since last fall, although the uncertain effects of ongoing fiscal drag and continuing fiscal debate remained. A number of participants noted that the outlook for stronger economic activity was contingent on a pickup in the growth of consumer spending fueled by low interest rates, debt burden easing, gains in employment, lower gasoline prices, higher real incomes and higher household wealth due to rising home prices and equity values. A few participants noted that a pickup in economic activity growth rates or real disposable income could require productivity growth improvements, but that slower growth in productivity may have become the norm. They voiced concerns that the drop in the unemployment rate could overstate the actual improvement in the labor market because of declines in the labor force participation rate. Financial conditions eased notably over the intermeeting period and interest rate volatility was substantially lower than during the September meeting. A few participants expressed concerns that increases in mortgage rates and home prices had reduced housing affordability and were

The U.S. Energy Information Administration (EIA) reported that the average regular gasoline retail price for 2013 would be \$3.50 per gallon (down from a \$3.63 average in 2012) and projected a drop to \$3.43 in 2014.

partly responsible for slowing in that sector. One participant stated that the extended near-zero interest rate period continued to create challenges for the banking industry.

Short-Term Energy Outlook

The U.S. Energy Information Administration (EIA) reported that the average regular gasoline retail price for 2013 would be \$3.50 per gallon (down from a \$3.63 average in 2012) and projected a drop to \$3.43 in 2014.

The North Sea Brent crude oil spot price averaged near \$110 per barrel for the fifth consecutive

month in November, was projected to average \$108 per barrel in December and gradually decline to \$104 per barrel in 2014. An average \$95 per barrel was projected for West Texas Intermediate (WTI) crude in 2014.

The opening of a large Light Louisiana Sweet (LLS) discount to Brent and the increasing convergence of LLS and WTI prices result from pipeline expansions and reversals that have reduced Midcontinent bottlenecks, continued growth in domestic light production and a seasonal decline in crude runs at U.S. Gulf Coast refineries. Brent prices continue to be supported by ongoing supply outages in Libya and tightness in global light crude oil markets. EIA expects the WTI discount to Brent to average \$9 per barrel in 2014.

Estimated U.S. crude production averaged 8 million bbl/d in November, the highest monthly level since November 1988. EIA expects U.S. crude production to average 8.5 million bbl/d in 2014.

EIA expects that the Henry Hub natural gas spot price would average \$3.78 per MMBtu in 2014 (up from an average \$3.69 in 2013).

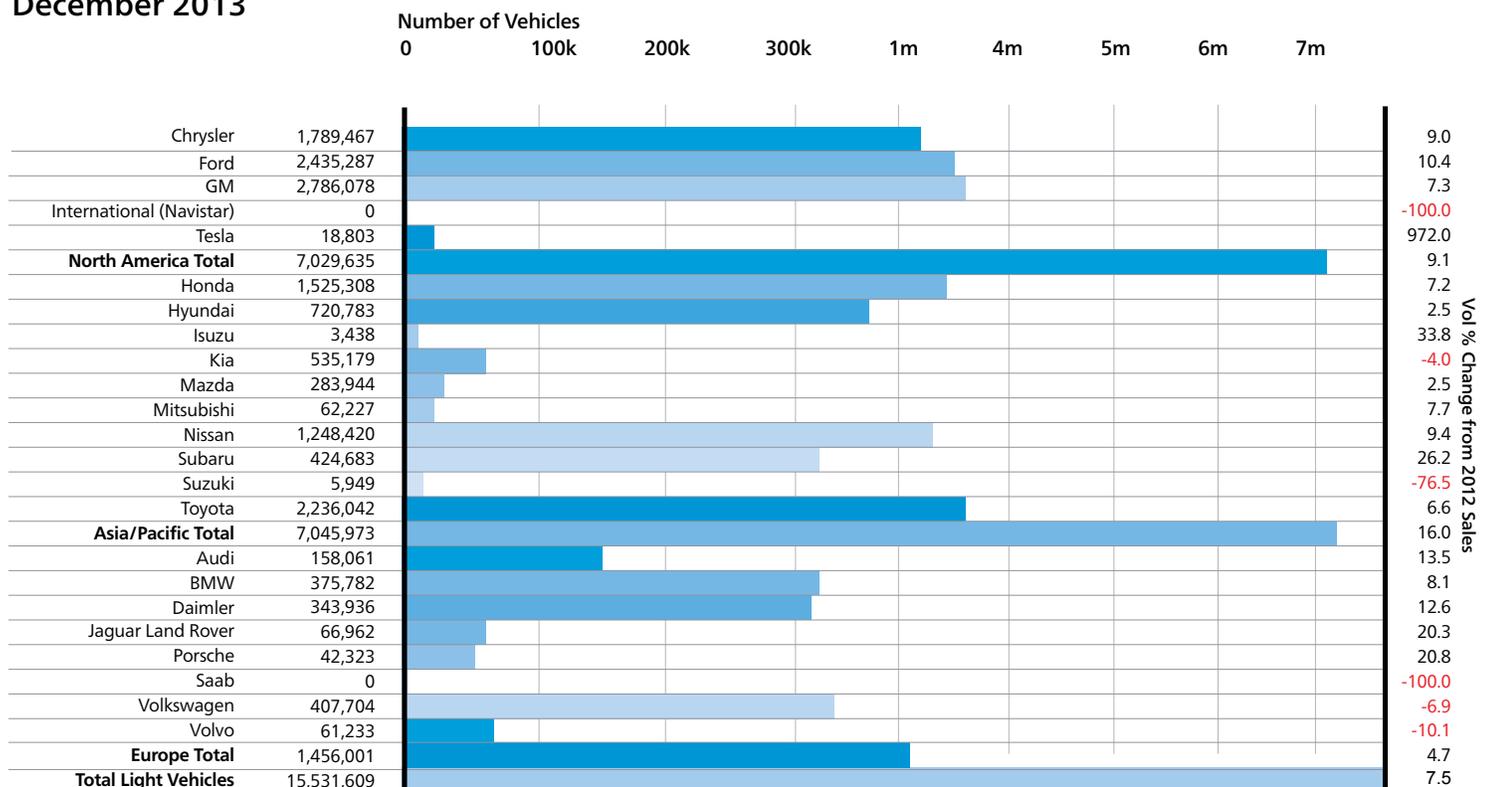
New Vehicle Sales

WardsAuto 10 Best Selling U.S. Cars and Trucks December 2013 (YTD)

Cars		Trucks/Vans/SUVs	
Camry	408,484	F-Series	713,453
Accord	366,678	Silverado	480,414
Civic	336,180	Ram Pickup	344,772
Altima	320,723	CR-V	303,904
Corolla	302,180	Escape	295,993
Fusion	295,280	Equinox	238,192
Cruze	248,224	RAV4	218,249
Elantra	247,912	Explorer	192,397
Focus	234,570	Sierra	184,389
Sonata	203,648	Grand Cherokee	174,275

Source: WardsAuto InfoBank

WardsAuto U.S. Light Vehicle Sales by Company December 2013



Light vehicles are cars and light trucks (GVW Classes 1-3, under 14,001 lbs.). DSR is daily sales rate.
Source: WardsAuto InfoBank

Current Used Vehicle Market Conditions

December 2013 Kontos Commentary

By Tom Kontos

Executive Vice President,
ADESA Analytical Services

The following commentary is produced monthly by Tom Kontos, Executive Vice-President, ADESA Analytical Services. ADESA is a leading provider of wholesale used vehicle auctions and ancillary remarketing services.

As part of the KAR Auction Services family, ADESA works in collaboration with its sister company, Insurance Auto Auctions, a leading salvage auto auction company, to provide insights, trends and highlights of the entire automotive auction industry.

Summary

After a one-month hiatus, wholesale used vehicle prices resumed their softening in December, as average prices declined on both a month-over-month and year-over-year basis. The softening price trend was evident throughout much of 2013, with some reversals at the beginning of the year due to lingering supply shortages arising from Superstorm Sandy, and later in the year due to strong retail used vehicle demand.

As stated many times in past reports, the overriding dynamic in today's used vehicle market is rebounding supply, which is putting downward pressure on wholesale prices. However, strong retail demand is restricting this downside, as is the gradual nature of the supply increase itself. Still, for the year, average wholesale prices fell nearly two percent as volumes grew by an estimated five percent. Lessening the impact was

Wholesale Used Vehicle Price Trends

	Average Prices (\$/Unit)			Latest Month Versus	
	Dec-13	Nov-13	Dec-12	Prior Month	Prior Year
Total All Vehicles	\$9,661	\$9,750	\$9,737	-0.9%	-1.3%
Total Cars	\$8,506	\$8,531	\$8,867	-0.3%	-4.1%
Compact Car	\$6,534	\$6,675	\$6,943	-2.1%	-5.9%
Midsize Car	\$7,786	\$7,950	\$7,978	-2.1%	-2.4%
Fullsize Car	\$6,311	\$6,555	\$7,645	-3.7%	-17.4%
Luxury Car	\$12,114	\$11,973	\$12,458	1.2%	-2.8%
Sporty Car	\$12,087	\$12,002	\$12,365	0.7%	-2.2%
Total Trucks	\$10,127	\$10,198	\$9,817	-0.7%	3.2%
Mini Van	\$7,461	\$7,740	\$6,853	-3.6%	8.9%
Fullsize Van	\$9,400	\$9,669	\$8,943	-2.8%	5.1%
Mini SUV	\$11,337	\$11,471	\$10,755	-1.2%	5.4%
Midsize SUV	\$6,823	\$7,039	\$6,733	-3.1%	1.3%
Fullsize SUV	\$11,183	\$11,194	\$11,501	-0.1%	-2.8%
Luxury SUV	\$19,351	\$19,130	\$19,233	1.2%	0.7%
Compact Pickup	\$7,040	\$7,223	\$7,221	-2.5%	-2.5%
Fullsize Pickup	\$12,081	\$12,231	\$11,652	-1.2%	3.7%
Total Crossovers	\$12,462	\$12,760	\$13,084	-2.3%	-4.8%
Compact CUV	\$11,073	\$11,143	\$11,381	-0.6%	-2.7%
Mid/Fullsize CUV	\$13,819	\$14,344	\$14,674	-3.7%	-5.8%

Source: ADESA Analytical Services. December data revised

growth in retail used vehicle sales of over three percent. (More information on annual results and trends will be provided in the year-end edition of Pulse.)

Details

According to ADESA Analytical Services' monthly analysis of Wholesale Used Vehicle Prices by Vehicle Model Class¹, wholesale used vehicle prices in December averaged \$9,661, -- down 0.9% compared to November, and down 1.3% relative to December 2012. Luxury cars and SUVs and sporty cars were the only segments that showed monthly upticks.

Prices for used vehicles remarketed by manufacturers were up 3.4% month-over-month and up 3.3% year-over-year, primarily due to tight supplies for this portion of the market (largely late-model off-rental program units). Prices for

fleet/lease consignors were down 0.3% sequentially, although up 1.0% annually. Dealer consignors saw a 1.5% average price increase versus November 2013, but a 2.6% downturn versus December 2012.

Based on data from CNW Marketing/Research, retail used vehicle sales were up 4.8% month-over-month and up 7.5% on a year-over year basis in December. This allowed total retail sales (i.e., sales by franchised and independent dealers) to reach close to 30 million units, and total used vehicle sales (including private sales) to reach nearly 42 million units, in 2013 -- increases of 3.4% and 3.6%, respectively. Sales of certified pre-owned (CPO) vehicles in December were down 3.0% from the prior month but up 9.4% from the prior year, based on figures from Autodata. Total certified pre-owned (CPO) sales exceeded two million units for the first time in 2013 and were up 15.1% from 2012.

¹The analysis is based on over six million annual sales transactions from over 150 of the largest U.S. wholesale auto auctions, including those of ADESA as well as other auction companies. ADESA Analytical Services segregates these transactions to study trends by vehicle model class.

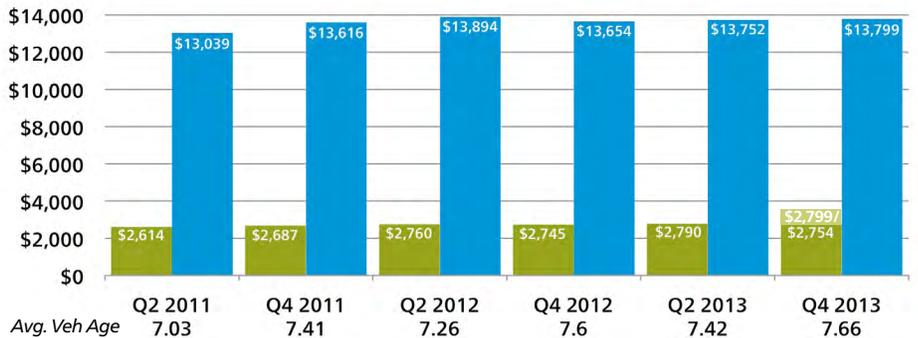
The views and analysis provided herein relate to the vehicle remarketing industry as a whole and may not relate directly to KAR Auction Services, Inc. The views and analysis are not the views of KAR Auction Services, its management or its subsidiaries; and their accuracy is not warranted. The statements contained in this report and statements that the company may make orally in connection with this report that are not historical facts are forward-looking statements. Words such as "should," "may," "will," "anticipates," "expects," "intends," "plans," "believes," "seeks," "estimates," "bode," "promises," "likely to" and similar expressions identify 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 the company's Securities and Exchange Commission filings. The company does not undertake any obligation to update any forward-looking statements.

Appraisal Values

The average initial Appraisal Value, calculated by combining data from all first- and third-party repairable vehicle appraisals uploaded through Mitchell systems in Q4 2013 was \$2,754, \$9 higher than the previous year's Q4 2012 appraisal average of \$2,745.

Applying the prescribed development factor of 1.62% to these data produces an anticipated average appraisal value of 2,799.

Average Appraisal Values, ACVs and Age | All APD Line Coverages*



* Values provided from Guidebook averages, furnished through Mitchell Estimating.

■ Appraisals ■ ACV's



MITCHELL SOLUTION:

Mitchell Estimating™

Mitchell Estimating is an advanced estimating system, combining database accuracy, automated calculations, and repair procedure pages to produce estimates that are comprehensive, verifiable, and accepted throughout the collision industry. Mitchell Estimating is an integral part of Mitchell's appraisal workflow solutions:

[RepairCenter Estimating](#)

for repair shops and

[WorkCenter Appraisal](#)

for staff appraisers.

Visit Mitchell's website at

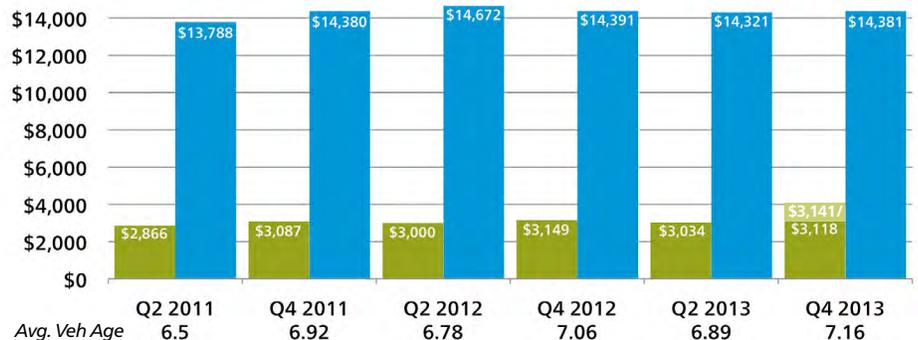
www.mitchell.com

Collision Losses

Mitchell's Q4 2013 data reflect an average gross initial Collision appraisal value of \$3,118, \$31 less than this same period last year. Applying the indicated development factor suggests a final Q4 2013 average gross collision appraisal value of \$3,141, a value \$8 lower than the same quarter in 2012.

At \$14,381, the average Actual Cash Value (ACV) of vehicles appraised for Collision losses during Q4 2013 reflects strong resale values for the year.

Average Appraisal Values, ACVs and Age | Collision Coverage*



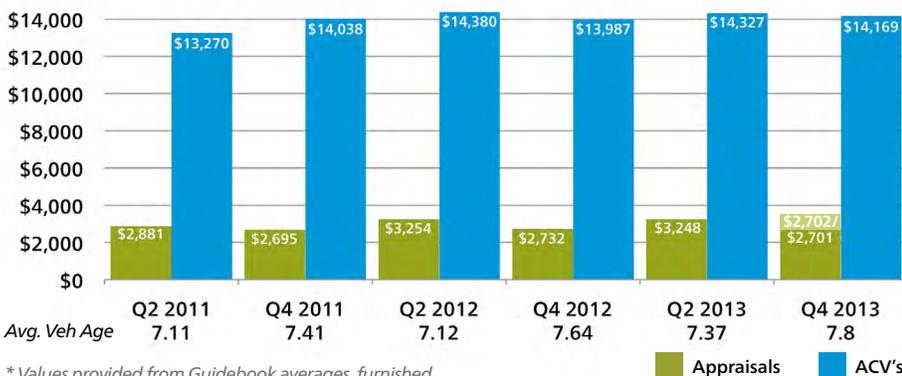
* Values provided from Guidebook averages, furnished through Mitchell Estimating.

■ Appraisals ■ ACV's

Comprehensive Losses

In Q4 2013, the initial Comprehensive average severity is \$2701, \$31 lower than the same quarter in the previous year. Applying the prescribed modest supplement development factor for this data set an anticipated final value of \$2,702.

Average Appraisal Values, ACVs and Age | Comprehensive Losses*



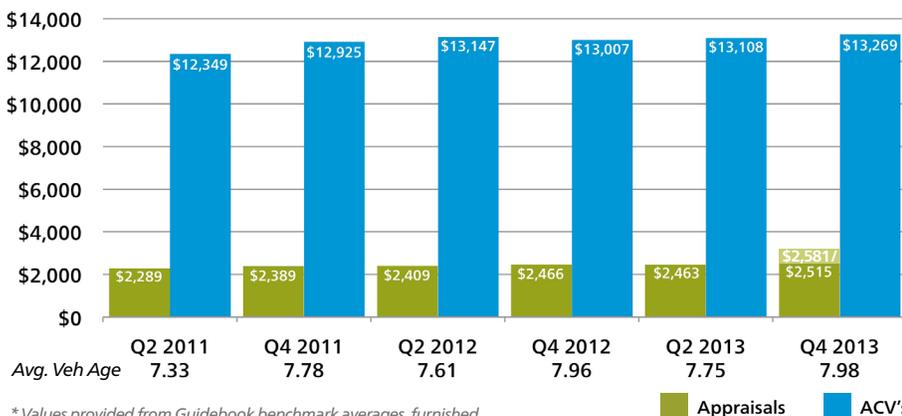
* Values provided from Guidebook averages, furnished through Mitchell Estimating.

Third-Party Property Damage

In Q4 2013, our initial industry average gross Third-Party Property Damage appraisal was \$2,515 compared to \$2,466 Q4 2012, reflecting a \$49 increase between these respective periods. However, adding the prescribed development factor for this coverage type yields a final anticipated Q4 2013 adjusted appraisal value of \$2,581, an overall \$115 increase from the same period in 2012.

In Q4 2012, the average PD appraised vehicle ACV was up again over previous quarters at \$13,269 and was higher than the five quarters charted.

Average Appraisal Values, ACVs and Age | Auto Physical Damage APD*



* Values provided from Guidebook benchmark averages, furnished through Mitchell Estimating.

[Click here to view Casualty Edition](#)



Supplements

EDITOR'S NOTE

As it generally takes at least three months following the original date of appraisal to accumulate most supplements against an original estimate of repair, we report (and recommend viewing supplement information) three months' after-the-fact, to obtain the most accurate view of these data.

In Q4 2013, 27.93% of all original estimates prepared by Mitchell-equipped estimators during that period were supplemented one or more times. In this same period, the pure supplement frequency (supplements to estimates), was 48.77%, reflecting a 1.87 point or a 4% relative increase from that same period in 2012. The average combined supplement variance for this quarter was \$660.96, \$-63.87 lower than in Q4 2012.

Average Supplement Frequency and Severity

Date	Q2/11	Q4/11	Q2/12	Q4/12	Q2/13	Q4/13	Pt. Change	% Change
% Est. Supplement	29.7	34.06	30.73	33.01	30.07	27.93	-5.08	-15%
% Supplement	41.88	47.68	42.34	46.9	43.41	48.77	1.87	4%
Avg. Combined Supp. Variance	699.19	723.5	732.52	724.83	750.6	660.96	-63.87	-9%
% Supplement \$	26.75	26.93	26.54	26.4	26.91	24	-2.4	-9%

Average Appraisal Make-Up

This chart compares the Average Appraisal Make-Up as a percentage of dollars, constructed by Mitchell-equipped estimators. These data points reflect a 2% increase in the use of paint and materials, and a 2% increase in labor, with a corresponding 4% jump in parts dollars.

% Average Appraisal Dollars by Type

Date	Q2/11	Q4/11	Q2/12	Q4/12	Q2/13	Q4/13	Pt. Change	% Change
% Average Part \$	37.97	44.49	39.48	45.18	41.85	46.84	1.66	4%
% Average Labor \$	51.28	43.99	49.67	44.5	50.59	45.54	1.04	2%
% Paint Material \$	10.9	10.44	10.59	10.38	10.62	10.6	0.22	2%

Average Appraisal

EDITOR'S NOTE

Parts Analysis

While there's no perfect correlation between the types of parts specified by estimators and those actually used during the course of repairs, we feel that the following observations to be directionally accurate for both the insurance and auto body repair industries. This segment illuminates the percentage of dollars allocated to each unique part-type.

Parts Type Definitions

Original Equipment Manufacturer (OEM)

Parts produced directly by the vehicle manufacturer or their authorized supplier, and delivered through the manufacturer's designated and approved supply channels. This category covers all automotive parts, including sheet metal and mechanical parts.

Aftermarket

Parts produced and/or supplied by firms other than the Original Equipment Manufacturer's designated supply channel. This may also include those parts originally manufactured by endorsed OEM suppliers, which have later followed alternative distribution and sales processes. While this part category is often only associated with crash replacement parts, the automotive aftermarket also includes a large variety of mechanical and custom parts as well.

Non-New/Remanufactured

Parts removed from an existing vehicle that are cleaned, inspected, repaired and/or rebuilt, usually back to the original equipment manufacturer's specifications, and

re-marketed through either the OEM or alternative supply chains. While commonly associated with mechanical hard parts such as alternators, starters and engines, remanufactured parts may also include select crash parts such as urethane and TPO bumpers, radiators and wheels as well.

Recycled

Parts removed from a salvaged vehicle and re-marketed through private or consolidated auto parts recyclers. This category commonly includes all types of parts and assemblies, especially body, interior and mechanical parts.





MITCHELL SOLUTION:

Mitchell QRP™

Mitchell's **Quality Recycled Parts (QRP)** program is the most comprehensive source for finding recycled parts, providing online access to a parts database compiled from a growing network of more than 800 of the highest quality recyclers in North America and Canada. QRP is fully integrated with UltraMate / UltraMate Premier Suite for total ease-of-use.

For more information on QRP, visit Mitchell's website at www.mitchell.com.



MITCHELL SOLUTION:

Mitchell MAPP™

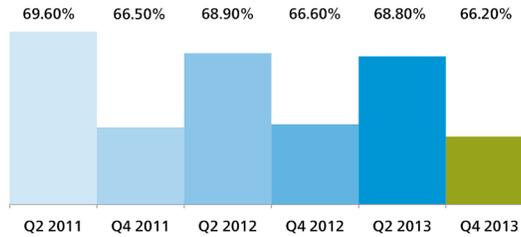
Mitchell Alternate Parts Program (MAPP) offers automated access to nearly 100 remanufactured and aftermarket part types from over 700 suppliers ensuring shops get the parts they need from their preferred vendors. MAPP is fully integrated with UltraMate / UltraMate Premier Suite for total ease-of-use.

For more information on MAPP, visit Mitchell's website at www.mitchell.com.

Original Equipment Manufacturer (OEM) Parts Use in Dollars

In Q2 2013, OEM parts represented 66.22% of all parts dollars specified by Mitchell-equipped estimators. This a slight decrease over Q4 2012, but roughly in line with the four other quarters surveyed, with Q2 spikes a result of hail storms.

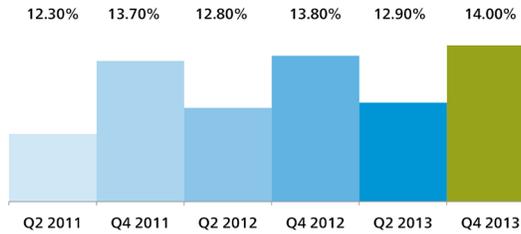
Parts-New



Aftermarket Parts Use in Dollars

In Q4 2013, 14.0% of all parts dollars recorded on Mitchell appraisals were attributed to Aftermarket sources, back up from Q2's hail influenced dip.

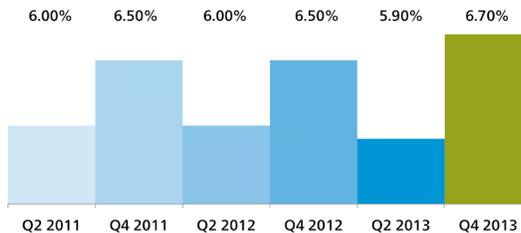
Parts-Aftermarket



Remanufactured Parts Use in Dollars

Listed as "Non-New" parts in our estimating platform and reporting products, Remanufactured parts currently represent 6.7% of the average gross parts dollars used in Mitchell appraisals during Q4 2013.

Parts-Remanufactured



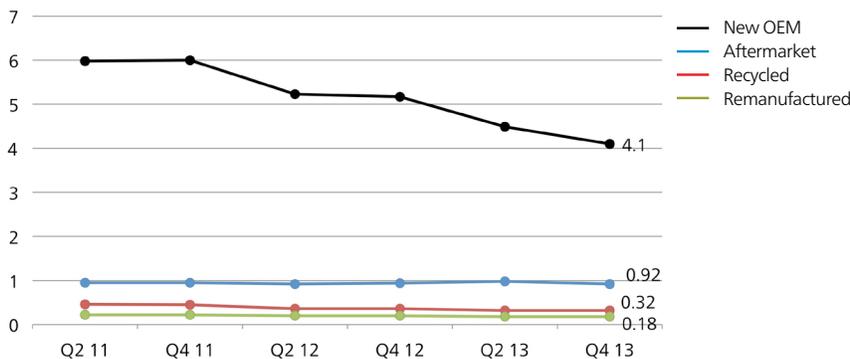
Recycled Parts Use in Dollars

Recycled Parts constituted 13.1% of the average parts dollars used per appraisal during Q4 2013, reflecting no change from Q4 2012.



The Number of Parts by Part Type

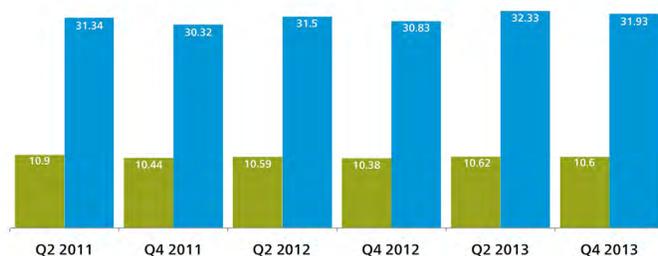
The number of new OEM parts per repairable estimate decreased for Q4 2013, but the number of alternate parts did not increase, suggesting the impact of paintless dent repair and conventional bodywork increased. More panels were repaired rather than replaced as repair labor is more often the more cost-effective method of collision damage restoration.



Paint and Materials

During Q4 2013, Paint and Materials made up nearly 10.6% of our average appraisal value, representing a .22-point relative increase from Q4 2012. Represented differently, the average paint and materials rate—achieved by dividing the average paint and materials allowance per estimate by the average estimate refinish hours—yielded a rate of \$31.93 per refinish hour in this period, compared to \$30.83 in Q4 2012. Editor’s note: The chart shown now excludes comprehensive estimates in the calculations to avoid seasonal hail-related swings in the data reported.

Paint And Materials, By Quarter



EDITOR’S NOTE

It is commonly understood within the collision repair and insurance industries that a very large number of recycled “parts” are actually “parts-assemblies” (such as doors, which in fact include numerous attached parts and pieces). Thus, attempting to make discrete comparisons between the average number of recycled and any other parts types used per estimate may be difficult and inaccurate.



MITCHELL SOLUTION: Mitchell RMC™

Mitchell’s **Refinishing Materials Calculator (RMC)** provides accurate calculations for refinishing materials costs by incorporating a database of over 7,000 paint codes from eight paint manufacturers. It provides job-specific materials costing according to color and type of paint, plus access to the only automated, accurate, field-tested, and industry-accepted breakdown of actual costs of primers, colors, clear coats, additives and other materials needed to restore vehicles to pre-accident condition.

For more information on RMC, visit Mitchell’s website at www.mitchell.com.

Adjustments

In Q4 2013, the percentage of all Adjustments made decreased by 8%. The dollar amount of betterment taken also decreased by \$1.11 compared to Q4 2012 levels. Average appearance allowances in the fourth quarter of 2013 decreased by \$7.31.

Adjustment \$ and %'S

Date	Q2/11	Q4/11	Q2/12	Q4/12	Q2/13	Q4/13	Pt/\$ Change	% Change
% Adjustments Est	3.03	3.44	3.08	3.28	2.94	3.02	-0.26	-8%
% Betterment Est	2.34	2.76	2.4	2.66	2.31	2.46	-0.2	-8%
% Appear Allow Est	0.49	0.52	0.48	0.48	0.45	0.45	-0.03	-6%
% Prior Damage Est	2.77	2.85	2.84	2.78	2.91	2.77	-0.01	0%
Avg. Betterment \$	126.82	121.91	126.81	117.75	120.63	116.64	-1.11	-1%
Avg. Appear Allow \$	198.78	191.55	196.15	204	204.04	196.69	-7.31	-4%

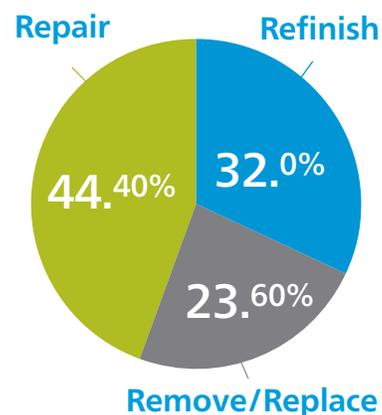
Labor Analysis

Average body labor rates show some increases, with Hawaii and California showing the highest increases. However, because of the varying labor rates in the major cities in southern and northern California, a mix of volume allocation is likely behind the increases.

Average Body Labor Rates and Change by State

	2012	2013	\$ Change	% Change
Arizona	48.37	48.89	\$ 0.52	1%
California	51.66	59.46	\$ 7.80	15%
Florida	41.17	41.52	\$ 0.35	1%
Hawaii	44.44	49.19	\$ 4.75	11%
Illinois	49.28	49.56	\$ 0.28	1%
Michigan	42.82	43.48	\$ 0.66	2%
New Jersey	45.59	46.46	\$ 0.87	2%
Nevada	46.15	46.54	\$ 0.39	1%
Ohio	43.84	44.57	\$ 0.73	2%
Rhode Island	44.72	44.96	\$ 0.24	1%
Texas	42.92	44.01	\$ 1.09	3%

Percent of Average Labor Hours by Type



J.D. Power ACV Trends

By Blaine Bogus

Analyst, Insurance Practice MVV, J.D. Power

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Automotive Account Analyst, J.D. Power

Information courtesy of J.D. Power



The main cause for a decline in used vehicle ACV is due to larger used vehicle inventory. New car sales and lease volumes are returning to pre-recession levels.

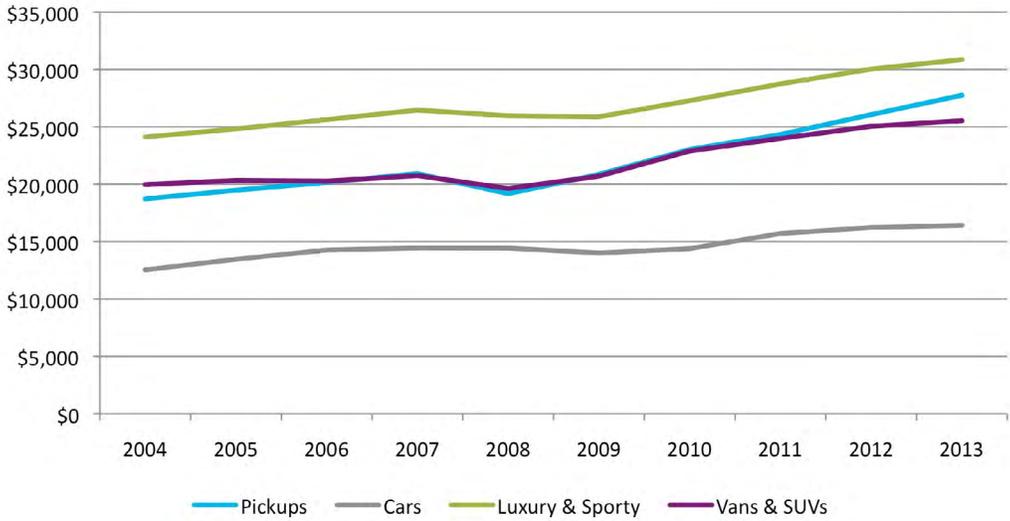
Used car values may be starting a new trend. Used vehicles have seen their values increase dramatically due to low sales and lease volumes in the years of the recession. This short supply, along with strong demand for gently used vehicles, had used vehicle ACV trending upward. Now that the years of short supply are behind us, as new cars sales and lease volumes are returning to pre-recession levels, the trend looks to be turning around.

The main cause for a decline in used vehicle ACV is due to larger used vehicle inventory. New car sales and lease volumes are returning to pre-recession levels. J.D. Power and strategic partner LMC Automotive have estimated US retail sales at 12.8 million units in 2013. New car sales are being helped by low interest rates and longer finance terms. J.D. Power's Global Auto Blog states that loan terms have risen, as nearly one in three retail sales has a loan carrying

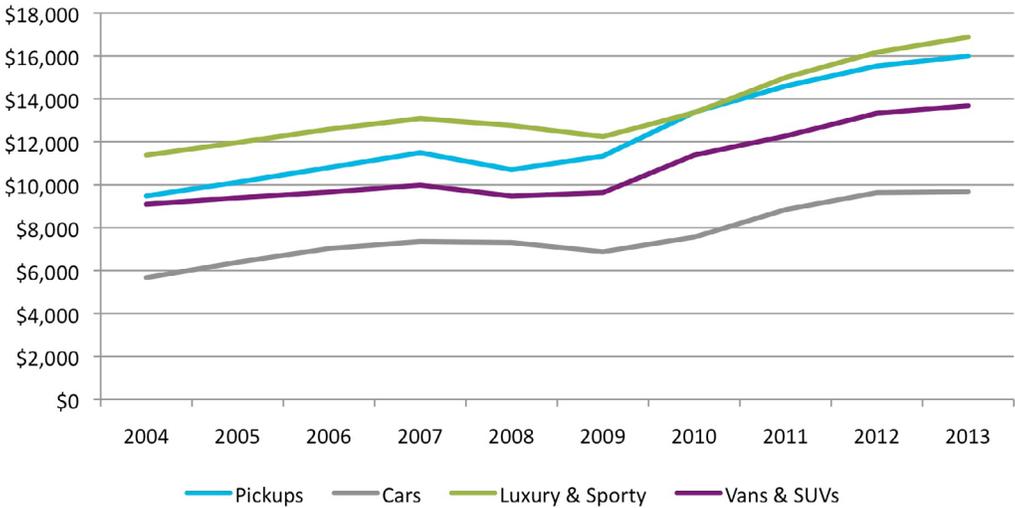
a term of 72 months or longer. Collectively, these factors have allowed new retail sales to increase to levels seen before the recession.

We also see similar trends in the Canadian used vehicle market. The biggest story in Canada right now is the record growth in new light vehicle sales. Canada is on pace to deliver about 1.735 million light vehicles this year, which would break the previous annual record set in 2002, when 1.703 million

US Group 1: 0–4 Years Old



US Group 2: 5–9 Years Old

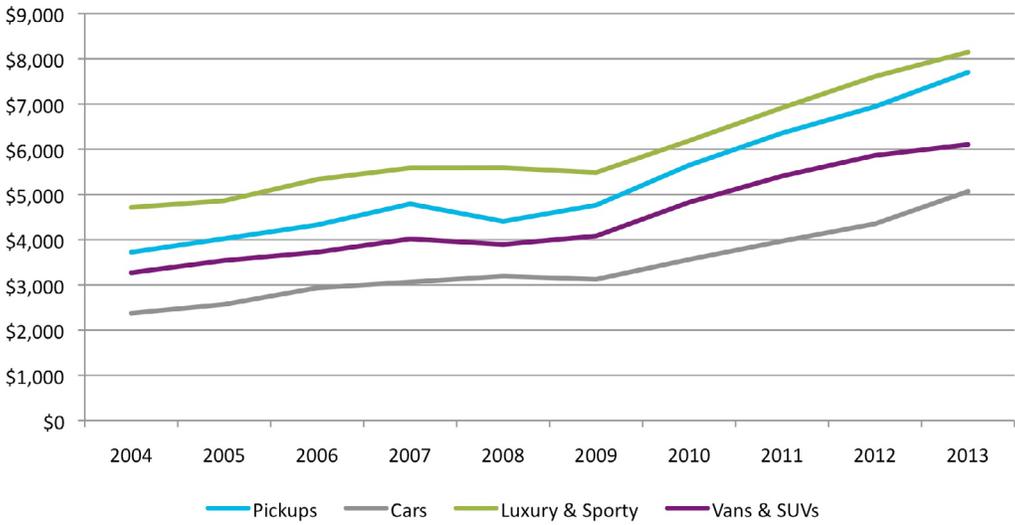


units were sold. The growing popularity of long-term finance rates and the return of leasing among consumers have propelled the market. In 2013, 62% of loan terms for financed new vehicles were 72 months or greater, up from 55% in 2012. Leasing accounted for almost 20% of all transactions in 2013.

The stable growth in the Canadian economy over the past few years has resulted in a robust performance in both the new and used vehicle markets. According to PIN, used vehicle year-over-year pricing has inched up a modest 2.8% while vehicle

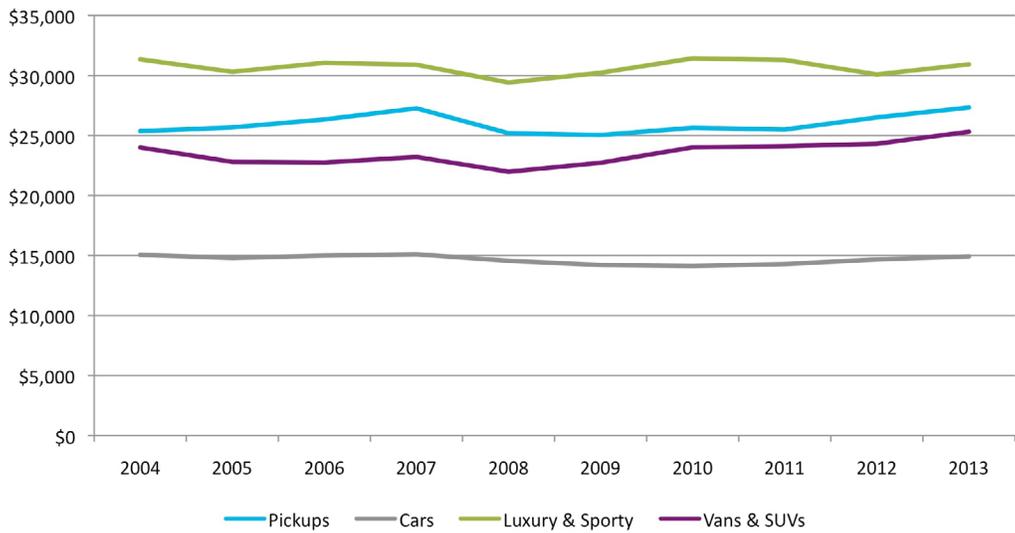
As new car sales and leases continue to increase, the ACV of used vehicles will start to trend lower in the first quarter of 2014.

US Group 3: 10 Years and Older



age has remained flat over the past three years. There should be more inventories entering the used vehicle market in the near term, as vehicles that were leased and purchased during the recovery period in 2010–2011 enter the supply chain. According to LMC, the new vehicle market in Canada is forecast to secure modest year-over-year growth over the next five years. This should result in a fallback in vehicle pricing in the used vehicle market in that time.

Canada Group 1: 0–4 Years Old

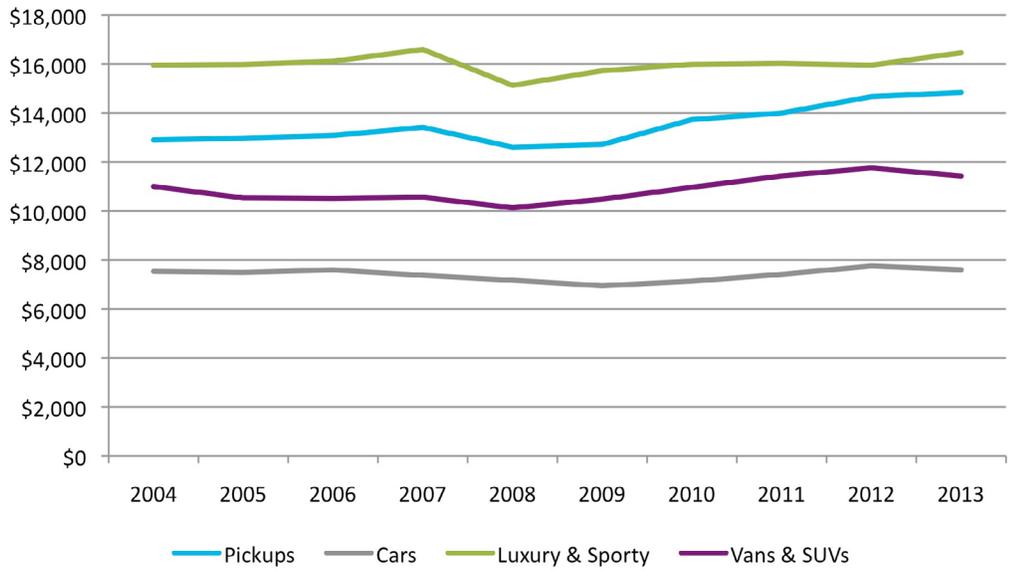


As new car sales and leases continue to increase, the ACV of used vehicles will start to trend lower in the first quarter of 2014. As the years following the recession saw used vehicle ACV increase, that trend will be heading in a new direction.

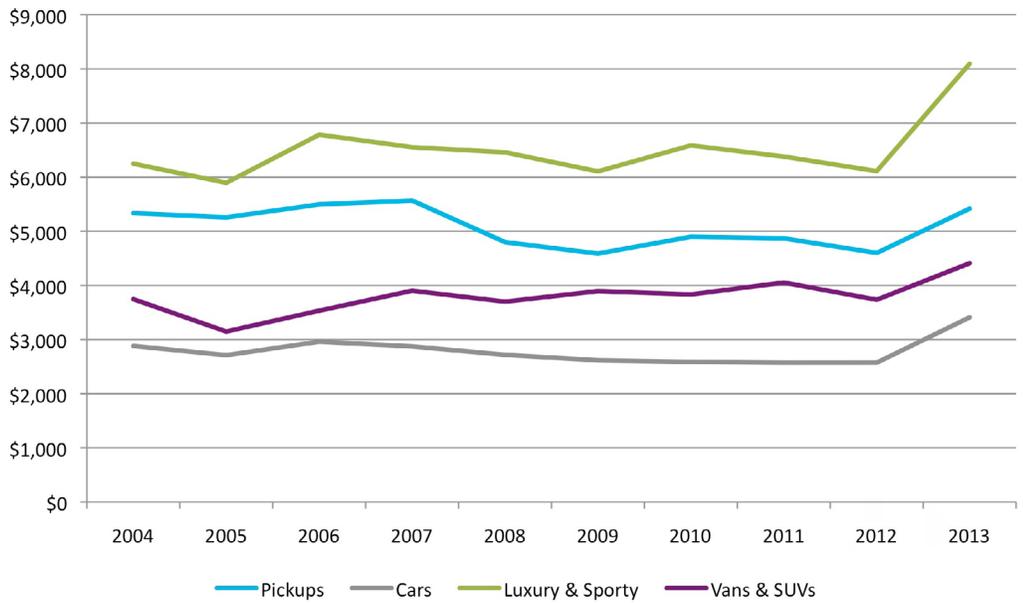
[Click here to view Casualty Edition](#)



Canada Group 2: 5-9 Years Old



Canada Group 3: 10 Years and Older



Total Loss

The charts below show that some vehicle segments are softening, but values of crossovers and pickups have strengthened.

Average Vehicle Age in Years

Vehicles	Q2/11	Q4/11	Q2/12	Q4/12	Q2/13	Q4/13
	Average Vehicle Age					
Convertible	11.06	11.54	11.34	11.7	11.59	12.15
Coupe	11.1	11.63	11.51	11.89	11.58	12.07
Hatchback	9.23	9.63	9.35	9.07	8.76	8.9
Sedan	9.96	10.47	10.26	10.43	10.25	10.57
Wagon	8.64	9.25	9.01	9.28	9.13	9.73
Other Passenger	11.69	11.99	11.68	12.11	11.98	12.57
Pickup	11.12	11.56	11.53	11.94	11.74	12.22
Van	10.42	10.96	10.76	10.93	10.8	11.26
SUV	9.36	9.89	9.75	9.89	9.95	10.36

Average Vehicle Total Loss Actual Cash Value

Vehicles	Q2/11	Q4/11	Q2/12	Q4/12	Q2/13	Q4/13
	Average Actual Cash Value					
Convertible	\$10,124.43	\$10,212.44	\$10,193.30	\$11,086.92	\$9,915.07	\$9,631.90
Coupe	\$6,587.92	\$6,900	\$6,969.58	\$7,327.88	\$7,185.38	\$7,037.34
Hatchback	\$7,072.45	\$7,420.53	\$7,713.14	\$8,094.18	\$8,068.27	\$7,890.41
Sedan	\$6,672.91	\$6,990.80	\$7,096.59	\$7,442.21	\$7,291.60	\$7,238.73
Wagon	\$7,561.26	\$7,719.64	\$7,634.72	\$7,748.33	\$7,423.95	\$7,072.58
Other Passenger	\$12,626.33	\$16,372.66	\$18,309.82	\$17,668.86	\$13,730.44	\$16,089.66
Pickup	\$9,464.68	\$9,503.38	\$9,323.35	\$9,665.46	\$9,628.07	\$10,057.37
Van	\$5,662.47	\$5,796.81	\$5,757.92	\$6,087.45	\$5,792.03	\$5,756.50
SUV	\$9,289.25	\$9,283.57	\$9,194.77	\$9,870.41	\$9,097.84	\$8,960.81



MITCHELL SOLUTION:

Mitchell WorkCenter™ Total Loss

Mitchell WorkCenter™ Total Loss gives your claims organization a statistically driven, fully automated, web-based total loss valuation system that generates fair, market-driven values for loss vehicles. It combines J.D. Power and Associates' data analysis and pricing techniques with Mitchell's recognized leadership in physical damage claims processing solutions. Mitchell WorkCenter™ Total Loss helps you reduce settlement time and improve customer satisfaction. www.mitchell.com/workcenter/totalloss.

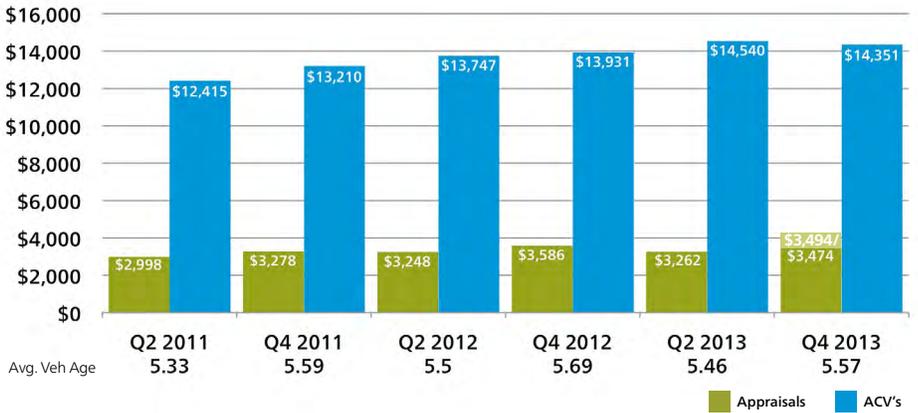


At the request of our customers and friends in Canada, we are pleased to provide the following Canada-specific statistics, observations, and trends. **All dollar-figures appearing in this section are in CN\$.** As a point of clarification, these data are the product of upload activities from Body Shop, Independent Appraisers and Insurance personnel, more accurately depicting insurance-paid loss activity, rather than consumer direct or retail market pricing.

Canadian Appraisal Severity

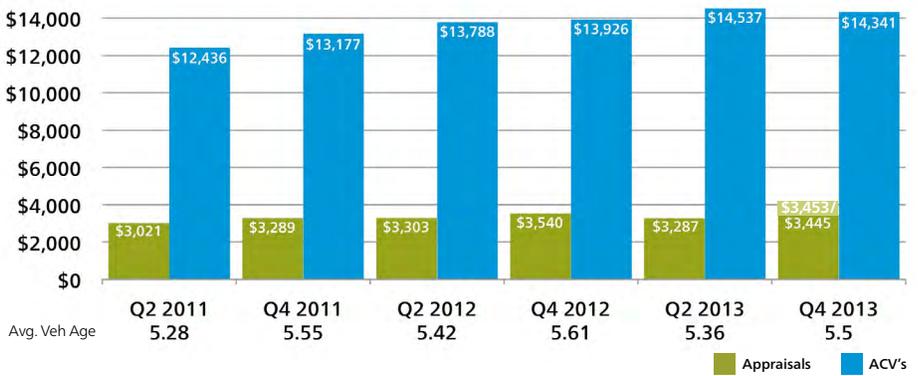
Average Appraisal Values Severity Overall

The average initial gross Appraisal Value, calculated by combining data from all first- and third-party repairable vehicle appraisals uploaded through Mitchell Canadian systems in Q4 2013, was \$3,474, a \$112 decrease from Q4 2012. However when applying the prescribed development factor, we find an anticipated average appraisal value of \$3,494.



Collision Losses

Mitchell's Q4 2013 data reflect an initial Canadian average gross Collision severity of \$3,445, a \$95 decrease over Q4 2012. But when we apply the prescribed development factor, we obtain an estimated final value of \$3,453, reflecting a modest supplement development.



Canadian Average Appraisal Make-Up

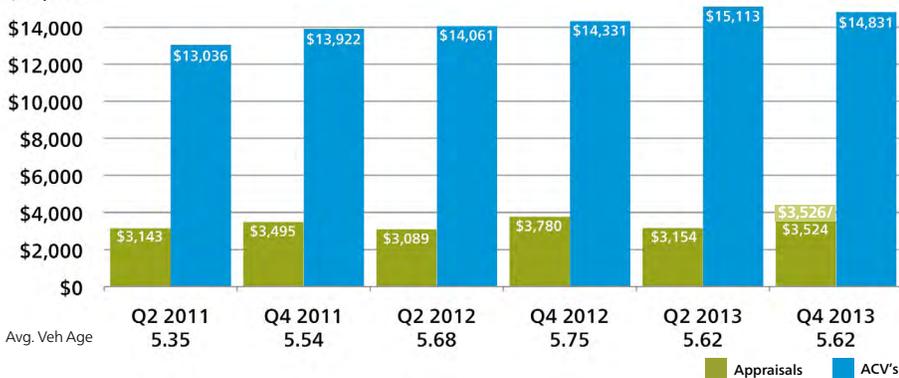
This chart compares the Average Appraisal Make-Up as a percentage of dollars, constructed by Mitchell-equipped estimators. These data points reflect an increase in parts and paint as a percentage of the estimate.

Date	Q2/11	Q4/11	Q2/12	Q4/12	Q2/13	Q4/13	Pt/\$ Change	% Change
% Average Part \$	40.47	42.93	42.27	41.59	41.74	43.82	2.23	5%
% Average Labour \$	47.22	45.21	45.89	47.41	46.42	44.62	-2.79	-6%
% Paint Material \$	9.33	8.91	8.83	8.32	8.89	8.69	0.37	4%



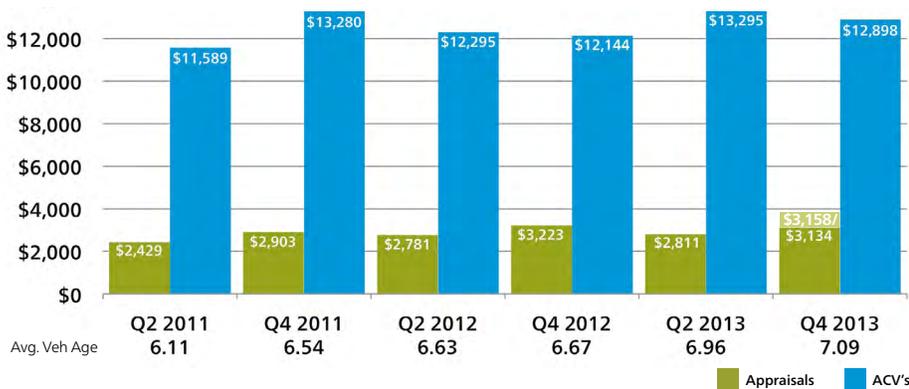
Comprehensive Losses

In Q4 2013, the average initial gross Canadian appraisal value for Comprehensive coverage estimates processed through our servers was \$3,524, or \$256 lower than in Q4 2012. However, by applying the prescribed development factor, the anticipated average appraisal value will increase to \$3,526.



Third-Party Property Damage

In Q4 2013, our Canadian industry initial average gross Third-Party Property Damage appraisal was \$3,134, a decrease of \$89 from Q4 2012 on an older vehicle age estimated. Applying the prescribed development factor, the anticipated appraisal value will increase to \$3,158.



About Mitchell in Canada...

For more than 20 years, Mitchell's dedicated Canadian operations have focused specifically and entirely on the unique needs of collision repairers and insurers operating in the Canadian marketplace. Our Canadian team is known for making itself readily available, for being flexible in its approach to improving claims and repair processes, and for its 'second to none' commitment to customer support. Headquartered in Toronto, with offices across Canada, Mitchell Canada delivers state-of-the-art, multi-lingual collision estimating and claims workflow solutions (including hardware, networks, training, and more), world-class service, and localized support.

Canadian Supplements

The Percentage of estimates supplemented one or more times decreased by 17% compared to Q4 2012. The average dollar amount of those supplements decreased by 27% or \$162.73.

Date	Q2/11	Q4/11	Q2/12	Q4/12	Q2/13	Q4/13	Pt/\$ Change	% Change
% Est Supplements	43.4	43.48	48.37	47.38	47.96	39.34	-8.04	-17%
% Supplements	86.42	55.09	69.87	69.14	77.12	75.09	5.95	9%
Avg Combined Supp Variance	447.92	562.42	555.41	593.68	518.34	430.95	-162.73	-27%
% Supplement \$	14.94	17.16	17.1	16.56	15.89	12.4	-4.16	-25%



Canadian Adjustments

In Q4 2013, the average times betterment was taken on estimates decreased by 30%, yet the dollar amount increased by 27%. The number of times appearance allowances were given decreased, with the average amount given decreasing by 10%.

Date	Q2/11	Q4/11	Q2/12	Q4/12	Q2/13	Q4/13	Pt/\$ Change	% Change
% Adjustments Est	2.63	2.78	2.83	2.62	2.27	1.87	-0.75	-29%
% Betterment Est	2.08	2.26	2.52	2.33	1.98	1.64	-0.69	-30%
% Appear Allow Est	0.45	0.42	0.32	0.29	0.29	0.22	-0.07	-24%
% Prior Damage Est	0.24	0.19	0.03	0.02	0.05	0.04	0.02	100%
Avg. Betterment \$	203.28	201.75	201.93	195.04	219.89	247.83	52.79	27%
Avg. Appear Allow \$	189.9	195.99	253.68	231.48	223.58	208.32	-23.16	-10%

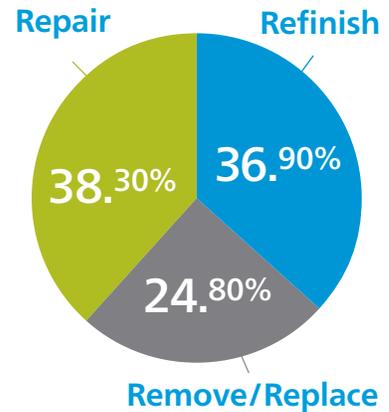
Canadian Labour Analysis

All data reflect the percentage of labour-type dollars utilized in the construction of Mitchell appraisals by Canadian estimators.

Average Body Labour Rates and Change By Province

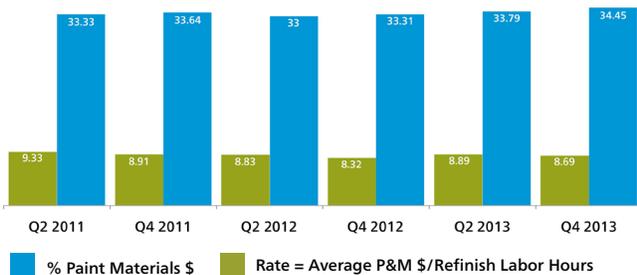
	2012	2013	\$ Change	% Change
Alberta	71.51	72.41	\$0.90	1%
British Columbia	68.16	69.31	\$1.15	2%
Newfoundland & Labrador	59.16	61.1	\$1.94	3%
Nova Scotia	57.33	58.06	\$0.73	1%
Northwest Territories	81.71	88.42	\$6.71	8%
Ontario	54.59	55.26	\$0.67	1%
Quebec	47.71	49.72	\$2.01	4%
Saskatchewan	72.94	71.65	\$(1.29)	-2%
Yukon Territory	87.65	89.28	\$1.63	2%

Labour Operations



Canadian Paint and Materials

For Canadian appraisals, Paint and Materials make up 8.69% of the average repairable appraisal. Looking at hourly reimbursements, The average hourly rate is now \$34.45.





Canadian Number of Parts by Part Type

Date	Q2/11	Q4/11	Q2/12	Q4/12	Q2/13	Q4/13
Parts - Aftermarket	1.19	1.33	1.25	1.31	1.2	1.27
Parts - Recycled	0.65	0.71	0.57	0.58	0.52	0.56
Parts - Remanufactured	0.15	0.14	0.14	0.14	0.13	0.12
Parts - OEM	6.1	6.8	6.74	7.52	6.58	6.96

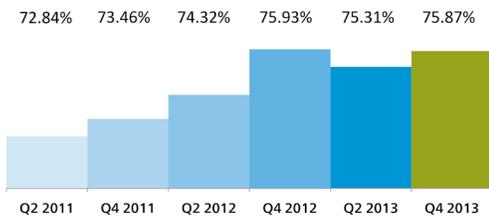
Canadian Parts Utilization

All data reflect the percentage of parts-type dollars utilized in the construction of Mitchell appraisals by Canadian estimators.

Original Equipment Manufacturer (OEM) Parts Use in Dollars

In Q4 2013, Canadian OEM parts decreased slightly compared to Q4 2012, but still remain robust at over 75% of parts dollars spent for repairable estimates.

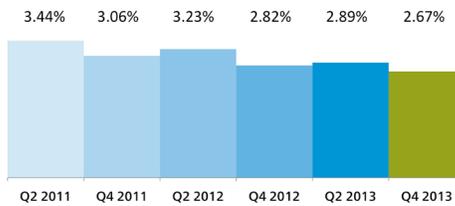
Parts-New



Remanufactured Parts Use in Dollars

Remanufactured parts decreased from Q4 2012, and continue to be lower than 2011 levels.

Parts-Non-New



Aftermarket Parts Use in Dollars

Canadian aftermarket parts use posted a 12.64% of dollar use rate, in line with previous quarterly performance.

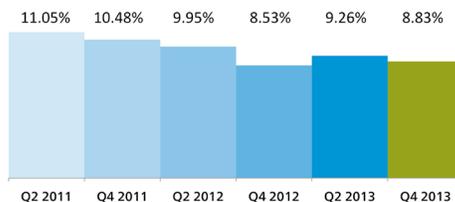
Parts-Aftermarket



Recycled Parts Use in Dollars

Canadian recycled parts have increased slightly from the fourth quarter of 2012 but overall have decreased from 2011 levels.

Parts-Recycled





mitchell

**Mitchell San Diego
Headquarters**

**6220 Greenwich Dr.
San Diego, CA 92122**



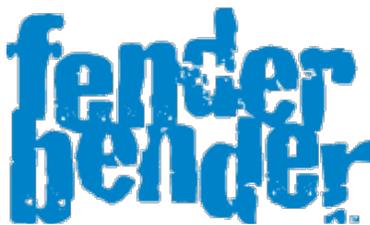
Mitchell empowers clients to achieve measurably better outcomes. Providing unparalleled breadth of technology, connectivity and information solutions to the Property & Casualty claims and Collision Repair industries, Mitchell is uniquely able to simplify and accelerate the claims management and collision repair processes.

As a leading provider of Property & Casualty claims technology

solutions, Mitchell processes over 50 million transactions annually for over 300 insurance companies/claims payers and over 30,000 collision repair facilities throughout North America. Founded in 1946, Mitchell is headquartered in San Diego, California, and has 1,700 employees. The company is privately owned primarily by KKR, a leading global investment firm.

For more information on Mitchell, visit www.mitchell.com.

Mitchell in the News



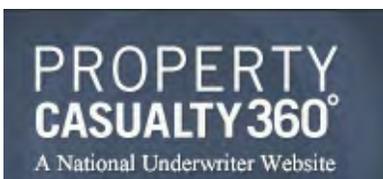
Electronic Parts Procurement on the Rise

Use of electronic parts procurement methods are on the rise among collision repair shops, says Jim O'Leary, vice president of product management and repair solutions for Mitchell International. The technology has been available for years, but more shops are just jumping onboard. In fact, nearly 50 percent of Mitchell's RepairCenter shop management customers signed up to use the company's electronic ordering function through its ToolStore portal by the third quarter of 2013, up from 7 percent in the second quarter of 2012. [Read More](#)



Mitchell Releases 2014 Industry Predictions

The new year will bring a shift in operational efficiency as new technology and resources improve processes, while increased new vehicle sales and favorable financing will drive down the value of used vehicles, according to industry predictions released by Mitchell. The predictions focus on the auto repair and body, insurance, claims and payer ecosystems. The broad industry and specific predictions relate to the company's core Auto Physical Damage, Auto Casualty and Workers' Compensation divisions, including key collision-related predictions. [Read More](#)



Lean Agile: The Customer-Centric Approach to Software Development

By Mike Bishop & Robin Peters, Mitchell Auto Casualty Solutions

Technology companies using Agile development offer a variety of benefits for their customers, and ensure that the voice of the customer is truly integrated into all aspects of the software-development process. Lean Agile is a software-development methodology that emphasizes incremental and iterative development, and is a departure from the more traditional waterfall style where work is planned and performed in a sequential manner (requirements, design, implementation, verification, maintenance). Where waterfall lends itself to so called "big-bang" releases, Lean Agile favors a more rapid and flexible approach where small amounts of functionality are delivered at more frequent intervals. This allows product organizations that employ Lean Agile concepts to be more responsive to customer requirements and needs as they evolve. [Read More](#)



Toyota, Mitchell Partner to Develop New Estimating Tool

Toyota Motor Sales USA announced Monday a partnership with Mitchell International to develop a new mobile and online estimating system that would expose Toyota recommended repair procedures during the estimating process. Toyota said the new solution could reduce the time required to write an estimate by eliminating the need to reference multiple sources when repairing a Toyota vehicle. [Read More](#)



Industry Trends Report

The **Industry Trends Report** is a quarterly snapshot of the auto physical damage collision and casualty industries. Just inside—the economy, industry highlights, plus illuminating statistics and measures, and more. Stay informed on ongoing and emerging trends impacting the industry, and you, with the Industry Trends Report!

Questions or comments about the Industry Trends Report may be directed to:

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Kontos Commentary is produced monthly by Tom Kontos, Executive Vice-President, ADESA Analytical Services. ADESA is a leading provider of wholesale used vehicle auctions and ancillary remarketing services. As part of the KAR Auction Services family, ADESA works in collaboration with its sister company, Insurance Auto Auctions, a leading salvage auto auction company, to provide insights, trends and highlights of the entire automotive auction industry.

For more information about Enterprise Rent-A-Car Average Length of Rental and to access your market and shop numbers please contact frank.r.laviola@ehi.com

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