Auto Physical Damage

Episode 10: Collision Claim Trends and What to Expect in 2024

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What keeps carriers and collision repairers up at night? In this episode, Ryan highlights the effect of recent collision claim trends—including rising repair costs, parts supply chain disruptions and advancements in vehicle technology—on the auto insurance ecosystem. He also provides a sneak peek at the four trends to watch for in 2024.

Ryan Mandell: Welcome back to the Mitchell Collision Podcast. I'm your host, Ryan Mandell. Today we're going to be doing a review of the first half of 2023. We're several months past the midway point in the year, so we can feel pretty confident that the numbers we're going to review today are fairly mature. So I think it's a good time to take a look back at the first half of the year compared to the first half of 2022 and really see what has changed in the industry and the trajectory that we're on.

I think the big question that everybody has is where are we seeing the cost of repair headed? You know, certainly when we're looking at all of the different factors that are taking place in the industry right now, all of the different variables, many of which are leading towards more expensive repairs, more complex repairs. And so when we look at the first half of the year already, we see the average repair costs in the United States are already above $4,700. This is up roughly about 8% compared to the first half of 2022. So already we're seeing a tremendous amount of growth in that average cost of repair. Typically, when we look at year-over-year numbers,

we see about 3% to 5% annualized growth. We're already seeing close to 8% growth in that number for 2023. So, really, we expect to see this number continue to trend in that direction throughout the rest of the year. Again, we're going to see those numbers mature for the second half of the year throughout the rest of the beginning part of 2024. But already we're seeing that those numbers have increased tremendously.

You know, when you look at what has been driving this, I think, number one, we have to look at parts. Parts continue to take up a greater share of the estimate. We've been seeing roughly just under a one percentage point increase year over year in terms of the percentage of cost of the total amount of the estimate that is devoted to parts. We're seeing a number of different factors that drive that. We see that the average number of parts is increasing, the average number of replacement parts has increased. We see that number increased by about half a part between 2022 and 2023 for the first half of the year. So what that means is that now we're having to put more replacement parts on these estimates, and we used to see that it would take several years, really four or five years for us to get, you know, just close to one additional part per estimate. But now you're seeing it's taking close to one year to get a full additional part replacement per estimate. And already, again, for the first half of the year, we have already seen an additional half a part that has been required. And that's really significant because when you think about the average cost of those parts, the average cost of a replacement part is over $275. And that number has gone up significantly from about $200 in 2020 to around $275.

Inflation is certainly playing a big role in that. When we look at inflation numbers, we see that the trajectory of inflation has slowed significantly from where it was in 2022, specifically for the aftermarket parts. When we look at aftermarket parts, we saw about a 17% increase in the top 150 most commonly replaced aftermarket parts in 2022—a lot of that driven by the disruption in cargo shipping. The fact that we saw, you know, almost overnight near the end of 2021, this rapid increase in the cost of moving cargo. We went from $1,200 on average to move a 40-foot cargo container over an ocean to now north of $12,000. Well, when that happens, that cost has to be worked through to the end consumer. And so we saw that increase in parts prices really happened first with the aftermarket. OEM prices have followed suit, but not to the same degree as what we saw with aftermarket.

Now in 2023, we're seeing those numbers slow. We're seeing closer to, you know, just to slightly over a 10% increase in the average cost of those top 150 parts. And that's really kind of more of a basket of goods type of analysis, something that's more in line with how a CPI would be calculated. And so when we do that, we do a non-weighted analysis and that gives us a really close investigation of what that inflation looks like over time. And so we track that from 2017 to today. Typically when we're looking at those price increases and this is relatively similar for both aftermarket and OEM parts, we've seen about that 4% to 4-1/2% increase year over year. Well, again, now 2022, obviously that 17% increase for the aftermarket, we saw about an 11% increase for OEM parts, similar price increases in 2023 year to date. So far, we've seen about 13% for OEM parts and closer to 10% for aftermarket parts. And we expect that that number is going to continue to probably stabilize. I think where we'll see next year end up in 2024 is more in the single digit increases. Now, you know, a lot is going to depend on what the final fallout is from these UAW strikes and what impact that's going to have. But that may only be for certain manufacturers. We've yet to find out what the final impact is going to be on parts prices and certainly on availability as well.

Kind of staying with the parts theme, you know, we have to look at what are these parts utilization trends. You know, how has that trended over the last year? And I think kind of tying back to that cargo disruption, as prices were going up so significantly in the aftermarket, we saw lower inventories available of those parts. And this makes a lot of sense, when your price went up by ten X to move that cargo container from Taiwan to North America, now all of a sudden you're making different decisions about what is going to go into that cargo container and also what is the velocity of cargo that you're going to be importing, because at that time, we still weren't really quite sure what vehicle miles traveled were going to look like moving forward.

There is still some uncertainty about what return-to-the-office strategies look like for many employers. What were consumer transit behaviors going to look like? So now as we've kind of seen this return to normalcy, when we look at traffic patterns, I think many of those questions have been answered. And we're starting to see—and we've seen throughout this year—a return to normal levels of inventory and normal levels of fill rates for aftermarket providers. And so when you saw during that period of time in the beginning of 2022, we saw a decrease in the percentage of aftermarket parts being written on estimates as just the availability had shrunk.

What we see now is that those numbers are recovering. Essentially, cargo costs have returned to normal right around that $1,200 to $1,300 dollar range. And so we've completely unwound that increase in cargo costs. And so what that's done is normalize inventory levels as well. So when we look at the first half of 2023, we see about 21-1/2% of parts dollars being spent on aftermarket parts. That's an increase of about a quarter of a percentage point from the same time period in the beginning of 2022.

Now, you might ask, well, why didn't we see a lower number in the beginning of 2022 when this cargo disruption was taking place? Well, we have to remember that at that time, aftermarket companies typically have roughly about six months of stock on hand. So during that time when the disruption was taking place, the inventory was already onshore that needed to meet the current demand put on the industry. It's really kind of the subsequent, you know, the rest of the year. If we look at the second half of 2022 and even the first, you know, the first month or two of 2023, that's where we see those big dips. But now that number has recovered, and I think we're going to continue to see that number increase slightly as the rest of the year goes on, certainly into the beginning of 2024.

Now, the other piece is looking at recycled parts. I think this is really an interesting one because when we look at recycled parts utilization over time and we draw that number back several years, it has been fairly consistent, you know, for a long period of time. We don't see a lot of movement. We really see this kind of 8-1/2% maybe getting close 8-3/4% number—with a little bit of variability quarter to quarter, but not a whole lot. It's very, very consistent over time.

When we look at the first half of 2023, however, we see that number jumped to about 9.4%. So it doesn't seem like a whole lot. We went from about 8.4% in the beginning in the first half of 2022 to 9.4% in the first half of 2023. So that one percentage point, that's a pretty sizable jump when you're talking about that level of utilization. I think what has really been the driver for this and I continue to see this anecdotally through working with many of our carriers, many of our shop clients. I think a lot of this has to do with the supply chain disruption that continues to affect the industry. You know, there are some parts that are not available either from an OEM or an aftermarket manufacturer. And I think what recyclers are doing is optimizing their inventories and spending more time inventorying these vehicles to make it more likely that someone is going to source one of their parts. And I think what you're seeing is a greater attention to detail in terms of the notes that we're seeing with these parts being inventoried. I'm certainly seeing a lot more photos that are being put in inventory to where you can actually look at a part and see an associated photo with it. That's really something that's been taken after the vehicle has been dismantled. So it gives you a much better idea of what you're going to get when you order that part.

So I think that's something that recyclers have been able to capitalize on this opportunity, and I think that's something that moving forward is going to really bode well, I think, for the industry as a whole by having a higher level of quality of recycled parts that are available. And that's really a great way for shops and insurance carriers to be able to insulate themselves from supply chain disruption.

Now, the other part of the coin that we have to look at when it comes to parts is looking at the repairability of those parts. And the fact of the matter is that as time has gone on, we see less and less parts being repaired. I think there's a number of reasons why this is the case. First of all, we see the fact that composite materials, the

material choices that manufacturers have made have changed and we see less and less parts that have a high likelihood of being repaired. You know, it's certainly possible to repair aluminum body panels. I don't think anyone would dispute that. But the fact is that the properties of the aluminum panel itself mean that it's more likely that the crash energy will create a pattern of damage that means you are not able to repair that part safely. So when we look at the first half of 2022, it's about 17-1/2% of parts based on the quantity of parts on an estimate, 17-1/2% of those were being repaired. When we look at 2023, that number has dropped to 17.1%. And this is fairly consistent when we look at years past. We see this slow trend downward. And I think, again, a lot of the policies, a lot of the choices being made by manufacturers are resulting in this number that we're seeing here in the first half of 2023. In addition to the material choices, we also have to look at, of course, the technology. You know, I think the technology on these vehicles certainly gets quite a bit of the publicity when you talk about safety systems, you know, ADAS functionality, all of these different components that are standard with today's vehicles. But when you look at that, we see that manufacturers are much more likely to have a position out there that prohibits the repair of a part where a sensor of some kind sits behind that part.

So, for instance, you know, bumper covers. The presence of a millimeter wave radar sensor behind a bumper cover is potentially—not for all manufacturers but for some—going to limit the repair options that a technician has, being able to affect a repair on the bumper cover that sits in front of that sensor. The reason for this is so that to ensure the sensor is going to function properly. You know, if you're adding too much coating onto that part, whether it be by paint or primer or body filler, then that is going to impede the functionality of that sensor or other component that may be sitting there. So I think that's part and parcel of what is happening in terms of that trend, in terms of a decrease in the percentage of parts that are being repaired.

A couple of other things here that I think are worth mentioning as I look at these numbers for the first half of 2023. You know, we continue to see the average vehicle age really trend into where every single year we get the next model year is kind of the average. So into the first half of 2022, we saw the average model year for vehicles being repaired is about model year 2015 and on the earlier side of that similar first half of 2023, we see 2016 been the average model year. I mention that because I don't think there's anything too significant by that change year over year. But what we can expect is that as we get closer to and we finally reach an average vehicle model year of vehicles being repaired of 2018, I think we're going to see an even greater increase in that average repair cost.

When we look at 2018, there really appears to be a watershed moment, a watershed model year when it comes to the bringing to market and greater ubiquity of these Advanced Driver Assistance System (ADAS) components and a greater level of safety functionality in these vehicles. And so as we get closer to that, I believe that we are going to see, again, this greater need for calibrations. You know, we see the current frequency of calibrations in the United States, it’s about 17%. We expect that number to continue to grow exponentially and really get close to about 60% by the end of 2025 based on the current trajectory and based on the trajectory that we've seen when we look at diagnostic trends from earlier in about 2018. So I think as we get closer to that average model year of 2018, it's going to ramp up the need for those calibrations because of this greater ubiquity of these safety components on these vehicles.

Another thing I think is worthy of noting is we've really seen this dramatic increase in labor rates over the past year, about a 7-1/2% increase in labor rates. So we've gone from, you know, right around $55 to over $59 an hour when we look at the United States national average when it comes to just the body rate. That is a really big departure from what we have traditionally seen, where you see much slower movement in the increase in labor rates. So when you see that dramatic rise, coupled with inflation, coupled with all of these safety systems and lighter weight construction, you know, the industry is dealing with a perfect storm here. And it's no wonder that we see insurance carriers, you know, really looking at rate increases to ensure that they're able to earn an underwriting profit from these vehicles, because it’s a lot more challenging from a physical damage side to earn that underwriting profit today. We've seen again that 7-1/2% increase in that average labor rate just in the first

half of this year. We expect that we'll probably see that number increase again in the second half of this year.

The final thing that's interesting is, you know, when you look at consumer behavior and you look at kind of the consumer decisions being made around auto insurance, you know, one of the proxies we have to be able to understand that trend is by looking at the average deductible that is being written on estimates. They're coming from first-party estimates. And interestingly enough, you saw this number stay stable for a long period of time. If we look at the first half of 2022, we see the average deductible paid on a first-party claim by the insured is $670. Well, already in the first half of 2023, that number is $697, so almost $700. So that number has increased by $27 year over year. Again, it may not sound like much, but I think what this is, is an indicator of the affordability of auto insurance and the decisions, again, that consumers are making. They're having to increase their deductibles to be able to afford their premiums. And again, this is kind of the by-product of this cost of repair that we're seeing and this increase in the percentage of, you know, vehicles that have this kind of safety technology. And we're not seeing that safety technology is, as of yet, reducing frequency.

When we look at the volume of claims for the first half of this year compared to the first half of last year, it's up about 1% when we look at the claims that we have visibility to. So we're not seeing that there's a decline. We're not seeing that there is this, you know, this trend towards fewer claims in the industry. The fact of the matter is that distracted driving is on the rise significantly. And we see that related to the use of smartphones and the greater reliance on safety technology to really compensate for other misgivings in the driving process. The fact that many people are now relying so heavily on these safety systems to complete acts of driving that they're more disengaged from that driving process. So it's really counteracting the gains that can be made from these different safety systems. So I think we're going to continue to see an environment where we're dealing with higher severity. But we're not seeing the reduction in frequency that offsets that. So that's a that's a troubling trend if you're an insurance carrier and certainly something where you have to look at other ways in the business to achieve, you know, cost savings around efficiency and optimizing different processes.

I think when we look at the first half of this year, I think it really is a harbinger of things to come for where we are going to see the year as a whole end up. I think really showing a lot of interesting trends around parts, around consumer behavior, around the labor market. And I think we're going to continue to see this average cost of repair trend higher, close to that 8% to 10% number year over year. And we expect to see that throughout the rest of 2023 and certainly into 2024.

As far as what I think we're going to see in the coming year, it has to deal with calibrations and the increasing frequency of the need for calibrations in collision repair. I mean, already at the end of 2023, we're seeing about 18% of vehicles being repaired getting some kind of a calibration operation written on that estimate. We expect that number to continue to increase significantly throughout 2024. And if that number is not close to 40% by the end of next year, I'm going to be extremely surprised. We just see more and more OEMs coming out with policies that mandate the need for these calibrations in a wider array of instances where we have more and more situations where the vehicle is simply just requiring calibration in the event of an accident. So I think that's going to drive that number higher, that we're going to see more and more of these operations needed. That's certainly going to continue to add cost to the overall repair process. When we look at the average cost of calibrations, right now, it's about $500 for all calibrations in total on an estimate when they are present. So that certainly will continue to add pressure.

So we'll continue to see additional variables coming into play when we talk about pressure for insurance carriers. And in terms of the overall cost of repair that's happening right now. One of those being labor rate increases. We've certainly seen the labor rates have increased faster in 2022 and in 2023 than any time in the last several decades. We expect there to be, while a slowing trajectory, still a trajectory upwards in the advance of labor rates. I think that's going to continue across the industry, not just in body rates but across the board. You know, refinish, frame, mechanical, all of it—and that certainly will trickle down into many different operations that's

going to increase the overall cost of repair.

I think really what we're seeing is the trend towards costly repairs is certainly continuing. We see that used vehicle values have not really dropped as we initially expected them to earlier in the year. Certainly, the UAW strikes, I think, are going to play a role in the continual propping up of used vehicle values as we now have this kind of renewed inventory constraint that's taking place. And so as you have these used vehicle values that remain higher and the average new vehicle sales price right now is close to about $47,000. We see vehicles are much more expensive than they have been in the past. And so that raises the threshold by which to achieve a total loss. More of these vehicles are going to get repaired, which is going to leave, again, that overall average repairable severity a little bit higher within where we would normally expect it to be.

We expect this year to end right around $5,000 in terms of the average cost of repair. And I think we're going to trend even higher in the year ahead and probably close to $5,300 to $5,500 when all is said and done. So I think all a lot of things are coming together that are increasing severity and they are continuing to put pressure on the insurance industry, continuing to cause challenges in terms of the repair process. And certainly as the average age of vehicle continues to shift right and we see that greater ubiquity of these ADAS components throughout the industry, we're going to continue to see that complexity rise almost unabated into the near future.

I appreciate everyone taking the time to join us today. This has been the Mitchell Collision Podcast and, again, I’m your host Ryan Mandell. We look forward to having you with us next time.

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