



**COLLISION INDUSTRY**  
CONFERENCE

# Parts & Materials

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COMMITTEE CHAIR:

AARON SCHULENBURG | SOCIETY OF COLLISION REPAIR SPECIALISTS



# Introductions

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## **Robert Dauffenbach**

Senior Associate Dean

Price College of Business, University of Oklahoma

Economic Development and Impact

Director, Center for Economic and Management Research

# Introductions

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**Rick Palmer**

President

Computer Logic, Inc.

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**Ryan Mandell**

Director, Performance Consulting  
Mitchell International

# Introductions

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**Tim Ronak**

Senior Services Consultant

AkzoNobel Performance Coatings

# Introductions

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**Braxton Ewing**  
Performance Group Manager  
BASF

# Recent Rise In Inflation Affects A Growing Number Of Small Businesses: Survey

Edward Segal Senior Contributor @  
*I cover crisis-related news, issues and topics.*

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Mar 31, 2022, 02:34pm EDT

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## More paint price hikes likely this year

– August 16, 2021

Paint companies have been announcing sizable price increases over the past several months due to “unprecedented” rising costs for raw materials, and recent reports indicate...

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## Inflation: What are the causes & how should shops plan ahead?

– January 17, 2022

Supply chain issues go hand in hand with increased costs – that’s a given that repairers and business owners see at work and at home...

## U.S. Auto Body Repair Prices Up Over 8% in November Compared to 2020

DECEMBER 10, 2021 BY COLLISIONWEEK EDITOR

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**The increase in auto body repair prices continues above the rate of inflation. Marks largest year-on-year increase since 1982.**

The most recent government figures on inflation through November 2021 show the rate of growth of auto body repair prices is above the rate of general inflation for the fifth month in a row. The result comes after increasing at a rate below inflation during the second quarter. The rate of inflation for both auto body repair and general inflation is continuing to accelerate in the fourth quarter. Both measures were markedly higher through the second and third quarters as the

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## Gerber reports securing rate increases from insurers, says it expects more

– March 24, 2022

Boyd Group, the owner of Gerber Collision, has negotiated an “unprecedented” number of rate increases with a majority of insurers, and expects to obtain more...



## Allstate pursues auto insurance rate increases in bid to return to profitability

– March 28, 2022

Allstate continues to raise rates in response to increased loss ratios, company executives said during a special investor conference focused on auto insurance. Since the...

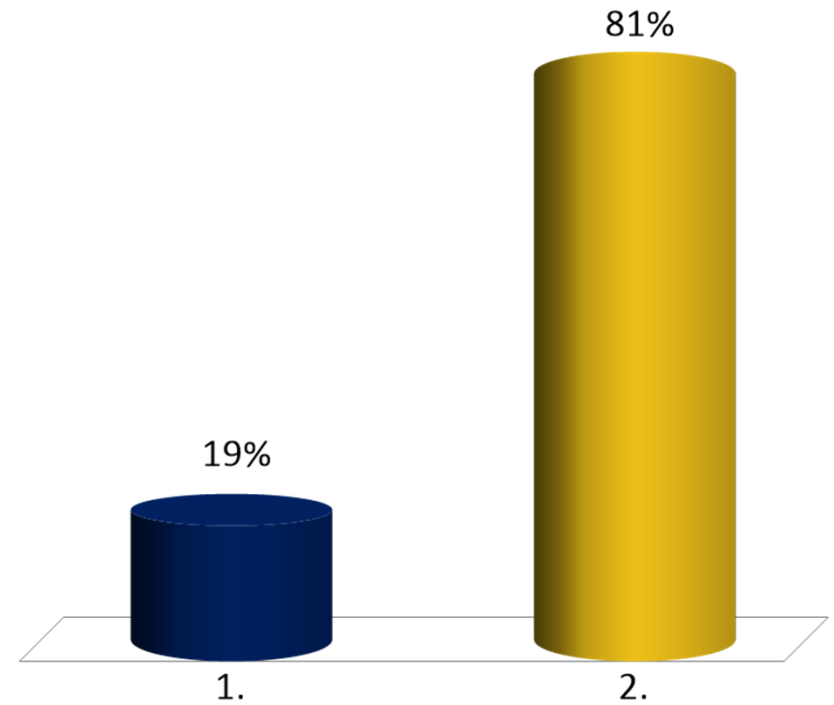
## REPAIRER Response Question:

Are settlement practices changing in accordance with costs?

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1. Yes

2. No

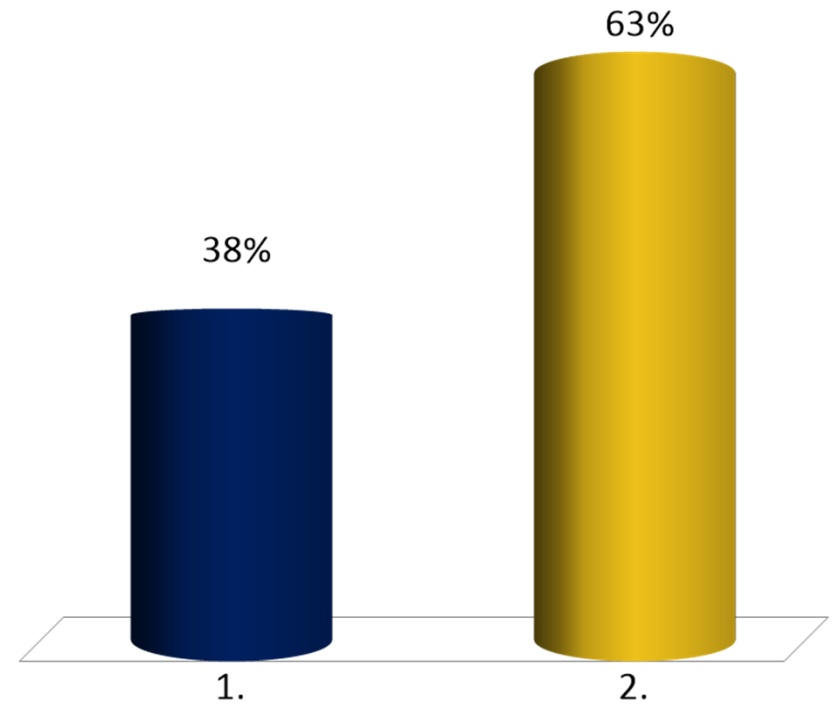


# INSURER Response Question:

Are settlement practices changing in accordance with costs?

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- 1. Yes
- 2. No



# Data Snapshot: Paint Materials Costs and Rates

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**Rick Palmer**

President

Computer Logic, Inc.

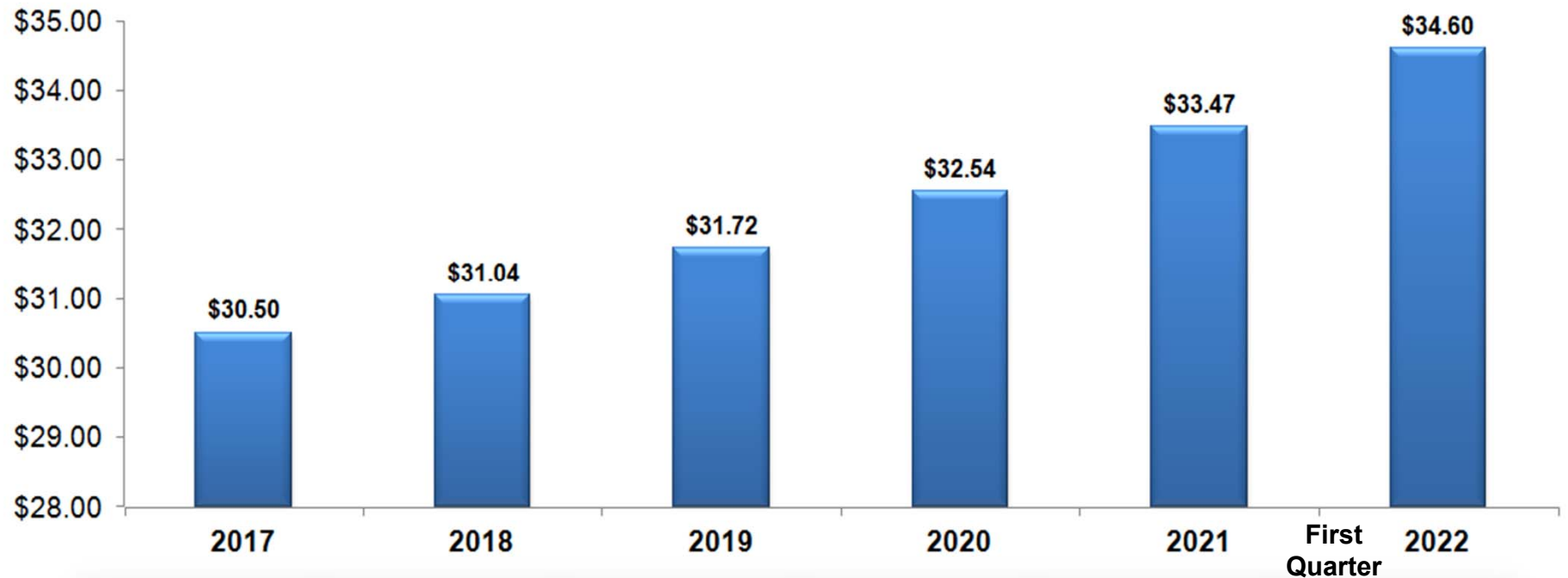


# COLLISION INDUSTRY CONFERENCE

Paint & Materials Costs and Allowance Amount Compensation Increases  
2017 – 1<sup>st</sup> Quarter 2022

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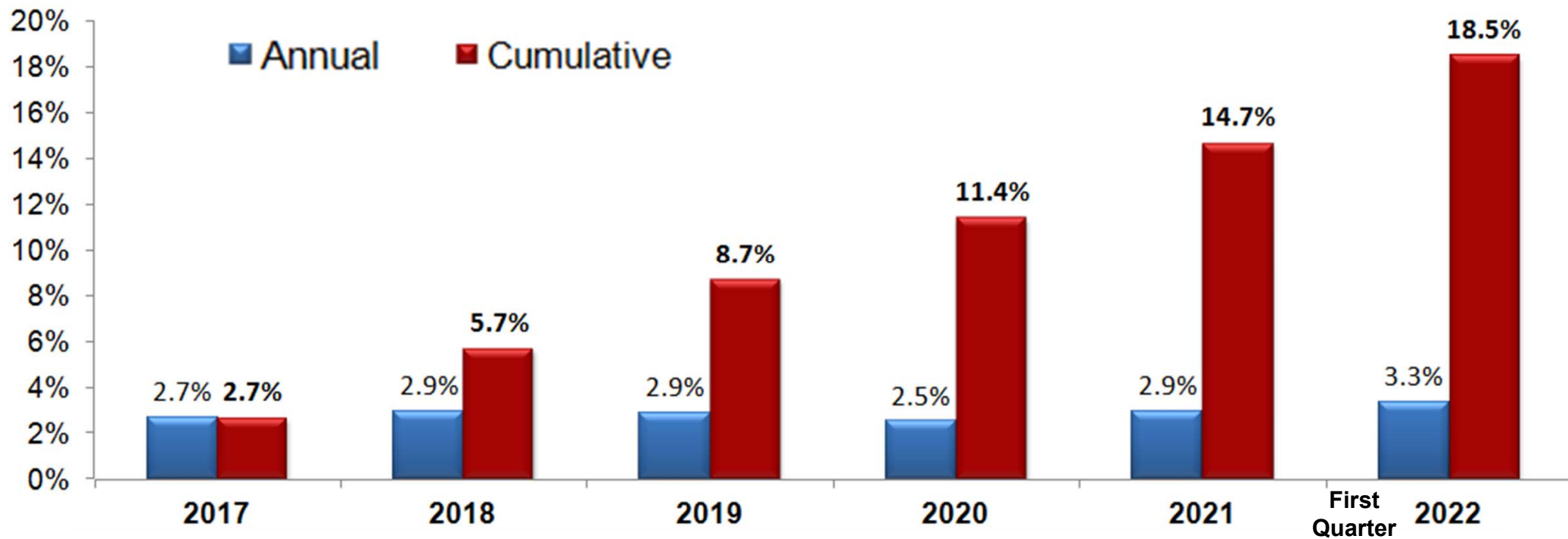
## National Average \$ 'Allowance Amount' for Paint and Materials



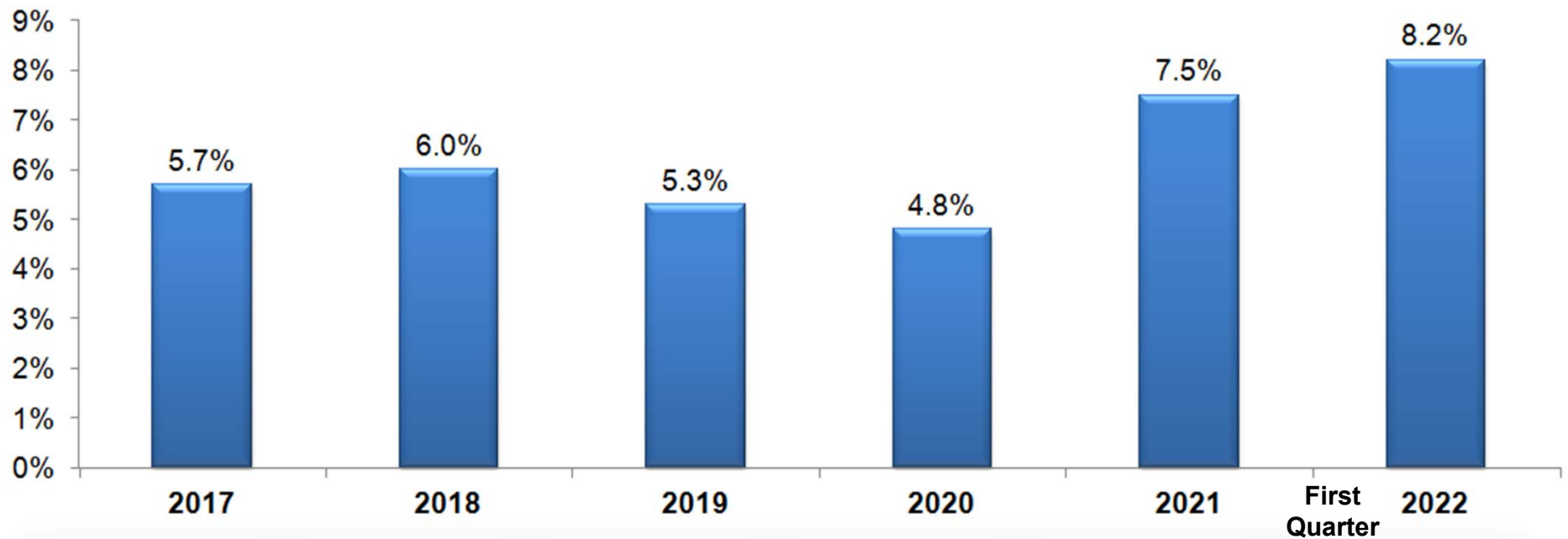
### % Increase

	2017	2018	2019	2020	2021	First Quarter 2022
<b>Annual</b>	2.7%	2.9%	2.9%	2.5%	2.9%	3.3%
<b>Cumulative</b>	2.7%	5.7%	8.7%	11.4%	14.7%	18.5%

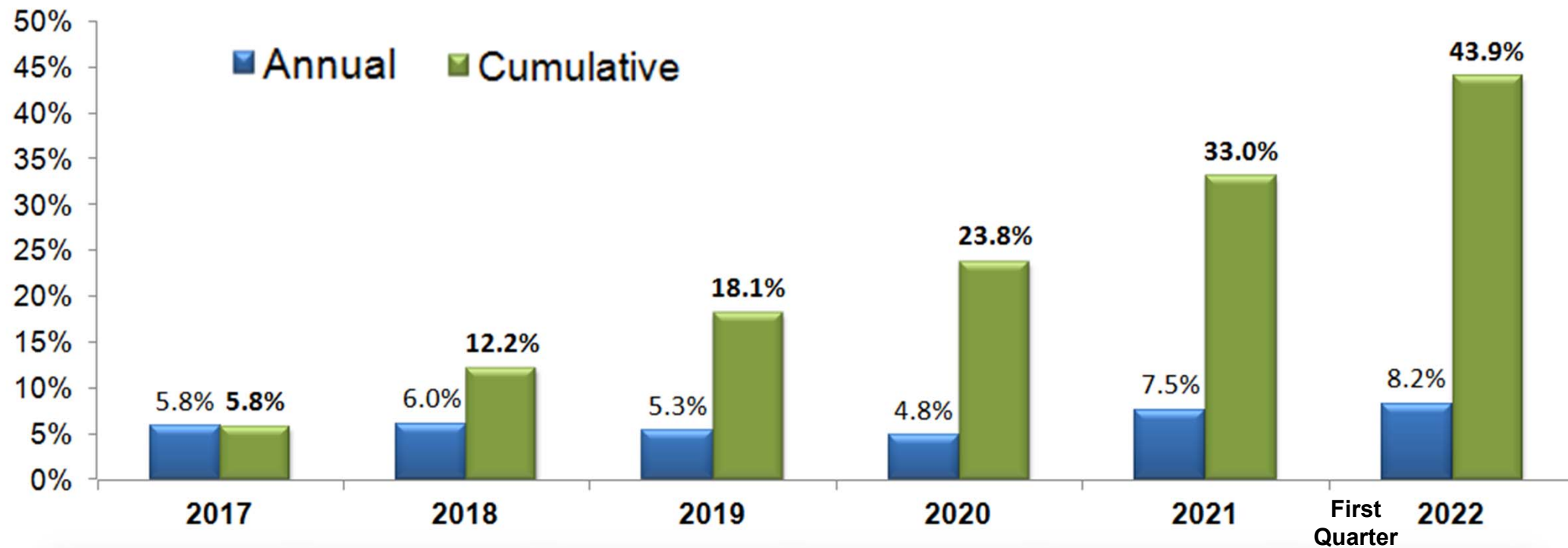
## 5+ Years 'Allowance Amount' Cumulative % Increase



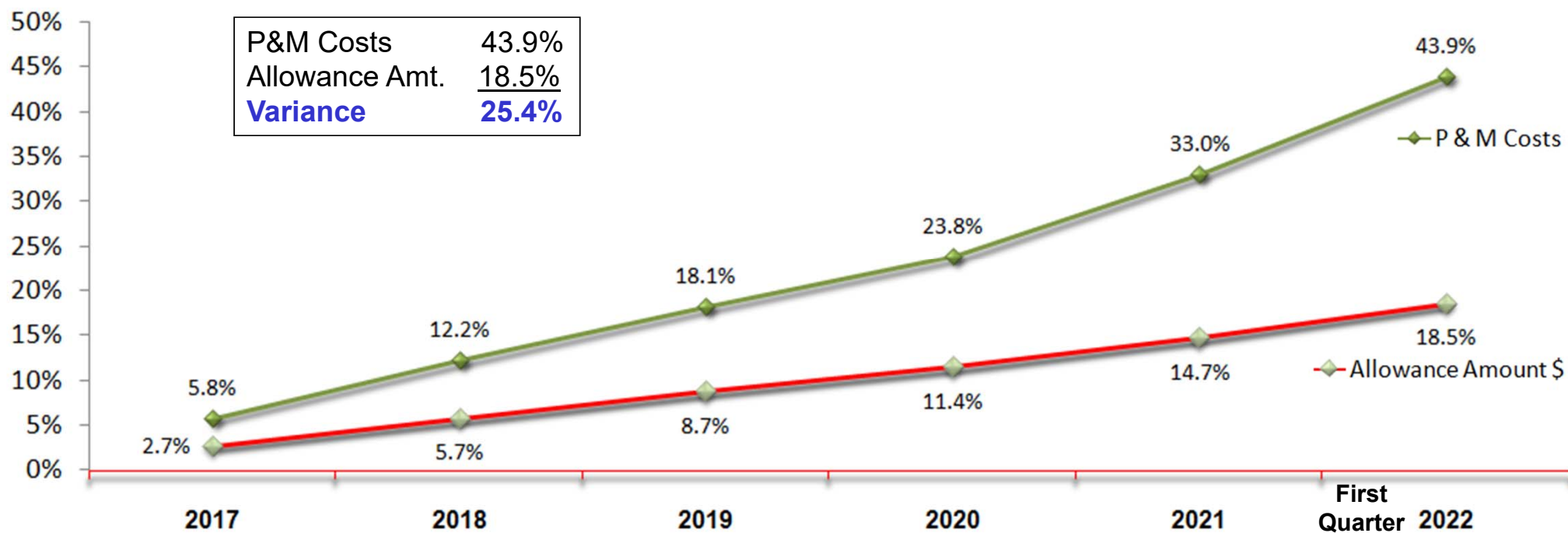
## Industry Average 'Annual' % Costs Increase for Paint and Materials



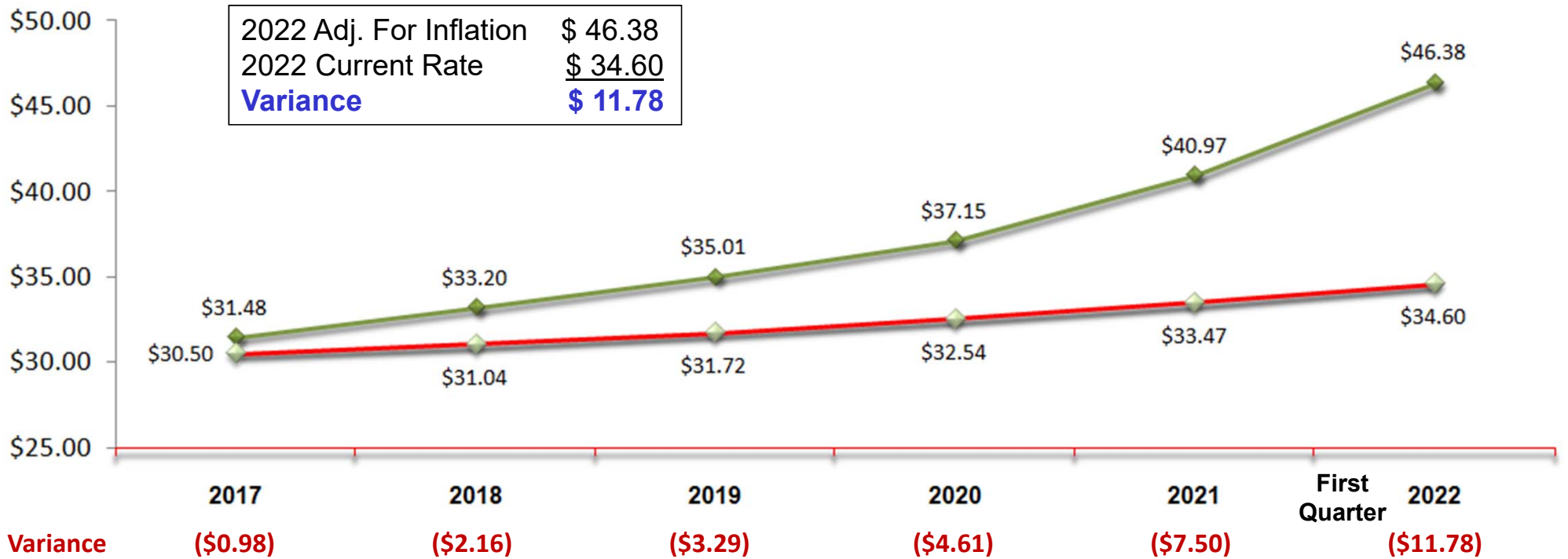
## 5+ Years 'Cumulative' Increase % for Paint and Materials



## 2017-2022: 'P&M Costs' vs. 'Allowance Amount' % Increase Variance



## 2017-2022: 'Allowance Amount' \$\$ Variance



## 2017-2022: 'P&M Costs' vs. 'Allowance Amount' Variance

P&M Costs	43.9%
Allowance Amt.	<u>18.5%</u>
<b>Variance</b>	<b>25.4%</b>

# SUMMARY

2022 Adj. For Inflation	\$ 46.38
2022 Current Rate	<u>\$ 34.60</u>
<b>Variance</b>	<b>\$ 11.78</b>

- Based on the 25.4% gap between the 'compensation' paid to bodyshops versus the rising cost of P&M's, the **"Allowance Amount" rate today would need to be \$46.38 to stay consistent with P&M costs increases.**
- Based on the fact that these graphs are 'historical' data and price increases announced from many of the paint companies are just going into effect, and assuming there are no further major price increases forthcoming, **P&M's costs could actually show an increase of between 11% to 13%, by the end of 2022.**

# Data Snapshot: An Economist's Perspective on Inflation

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**Robert Dauffenbach**

Senior Associate Dean

Price College of Business, University of Oklahoma

Economic Development and Impact

Director, Center for Economic and Management Research

# Questions the Presentation Addresses

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- How do economists define inflation?
- What, briefly, are the types of inflationary processes economists identify?
- How has U.S. inflation trended over time?
- How did we get into this particular “current mess?”
- Where are we likely headed?
- How has inflation impacted the collision repair industry?

# Content of the Presentation

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- **Macroeconomics of Inflation**
  - Theoretical backdrop of the “Equation of Exchange”
  - Aggregate Demand and Aggregate Supply
  - Two Types of Inflation: Demand-Pull and Cost-Push
  - U.S. Inflation and Real Output Trends
- **Collision Industry Specific Trends**
  - Occupational Employment and Wage Trends
  - Producer Price Trends

# Inflation Theory: The Equation of Exchange

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- M: Money Supply
- V: Velocity of money; number of times the money stock circulates per year
- P: The Price Level
- Q: Real Output
- Equation of Exchange:  $P*Q = M*V$  or  $P=MV/Q$
- Through calculus we can show:  $\% \Delta P = \% \Delta M + \% \Delta V - \% \Delta Q$
- If V is stable and we are at full employment,  $\% \Delta P = \% \Delta M$

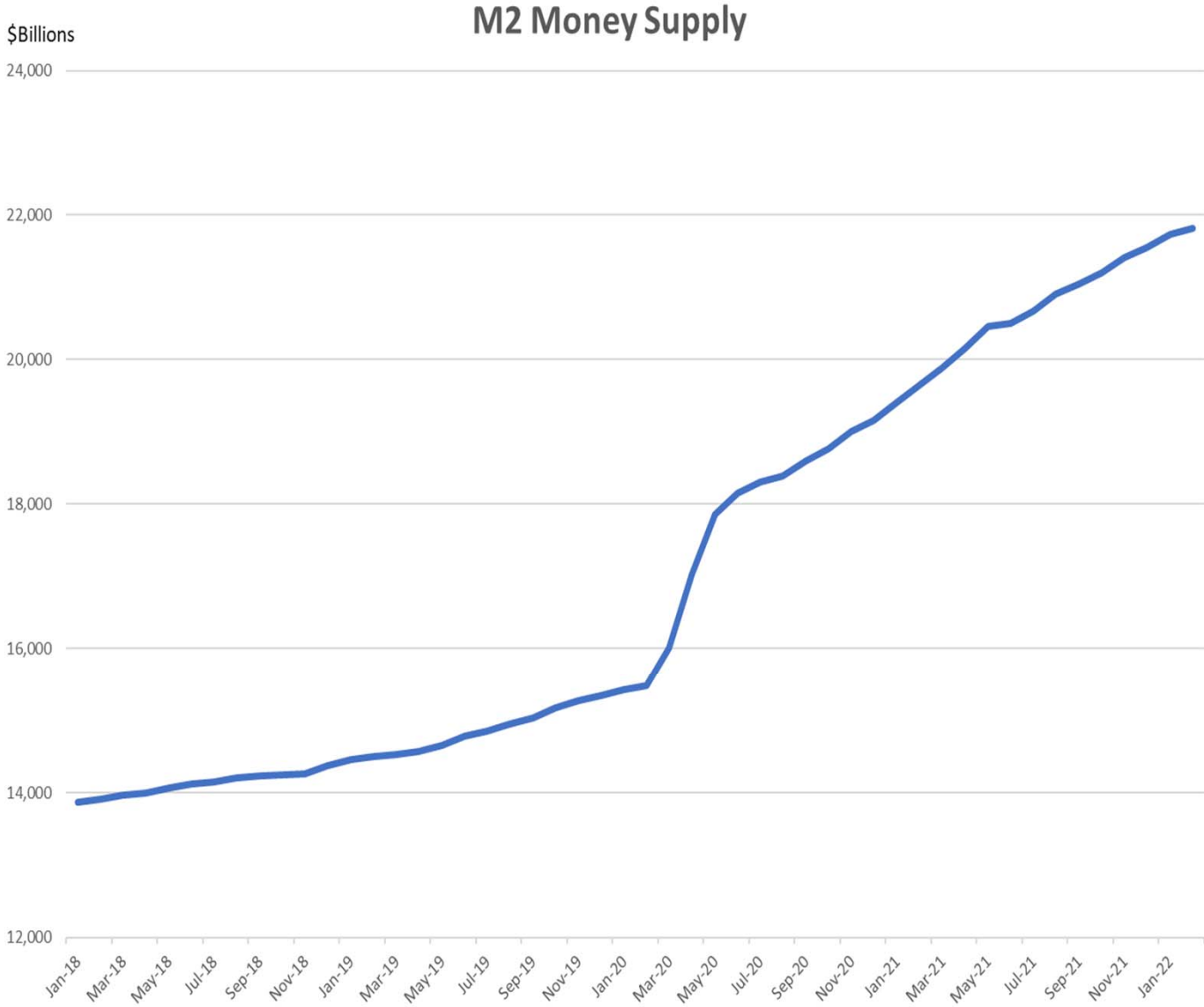
# Inflation: Meaning, Causes, Taming

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- Inflation as a continuing rise in price levels throughout the economy, not just in a particular sector.
- Nobel Prize Winning Economist Milton Friedman
  - “Inflation is always and everywhere a monetary phenomenon, in the sense that it is and can be produced only by a more rapid increase in the quantity of money than in output.”
  - “The Federal Reserve Board can be replaced by a computer.”
- Paul Volker, Chair, Federal Reserve Board of Governors, 1979-87
  - In the face of 15% annual rate of inflation in 1980, dramatically raising interest rates, “breaking the back” of imbedded inflationary trends.

# Growth of the M2 Money Supply

Monthly, January 2018 – February 2022

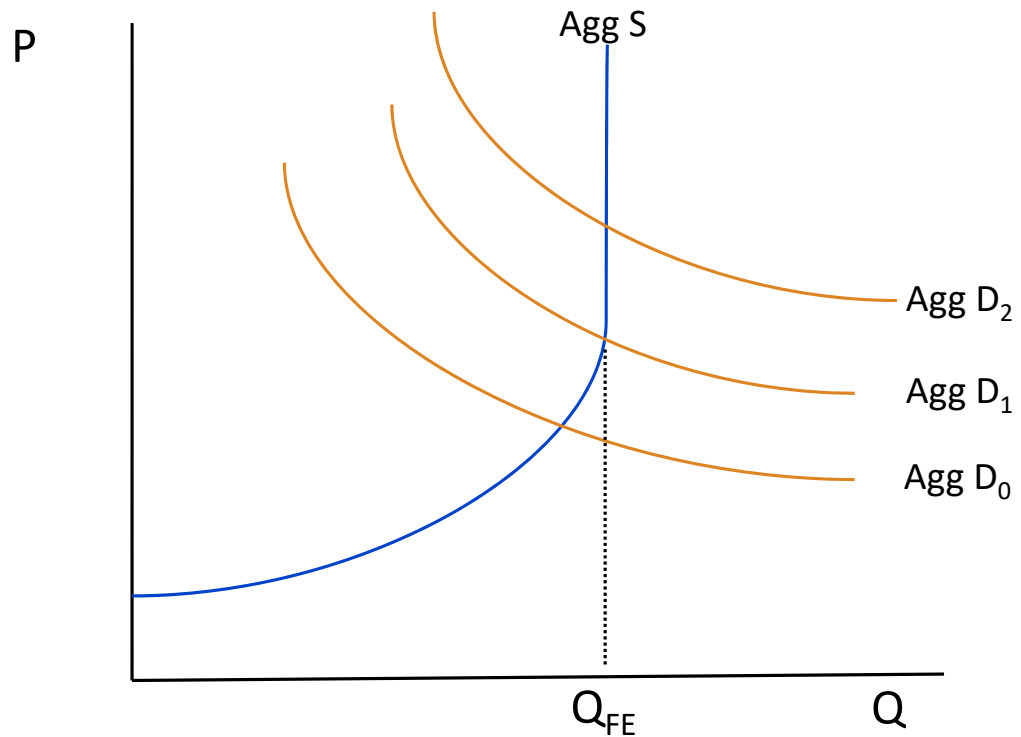


# Inflation Theory: Demand-Pull Inflation

The blue line is Aggregate Supply. The curve becomes vertical at full employment.

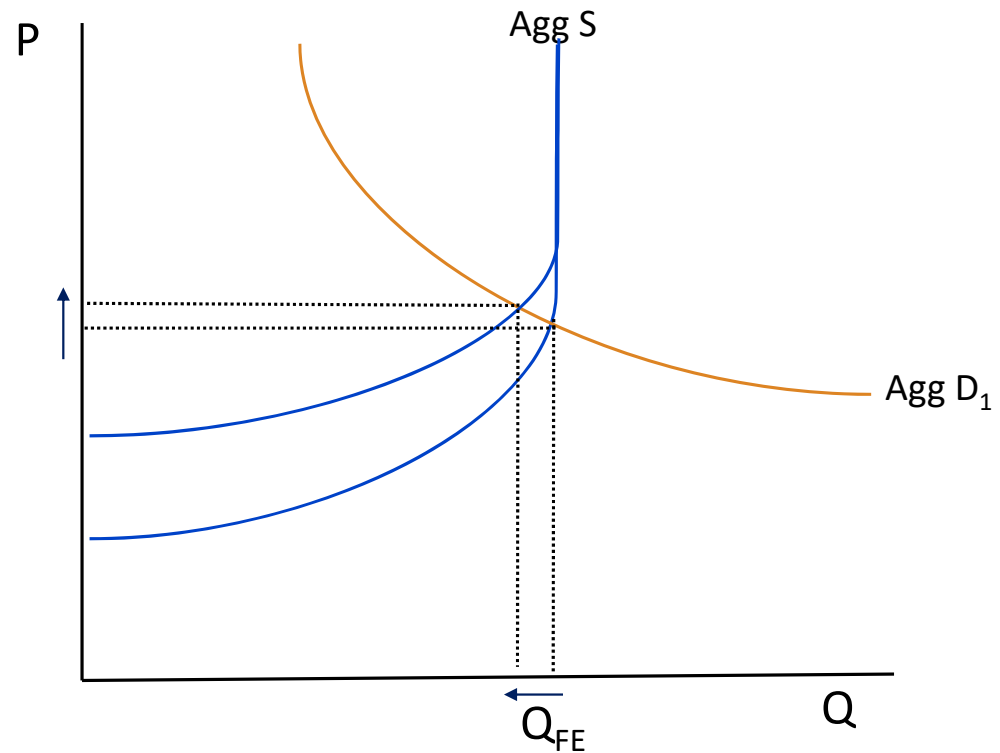
The orange lines are various levels of Aggregate Demand. Monetary and fiscal policy can be used to increase (or decrease) Aggregate Demand.

From  $Agg D_0$  to  $Agg D_1$  produces both an increase in real output and the price level. Once full employment is achieved, further increases in Agg Demand only increases the price level.



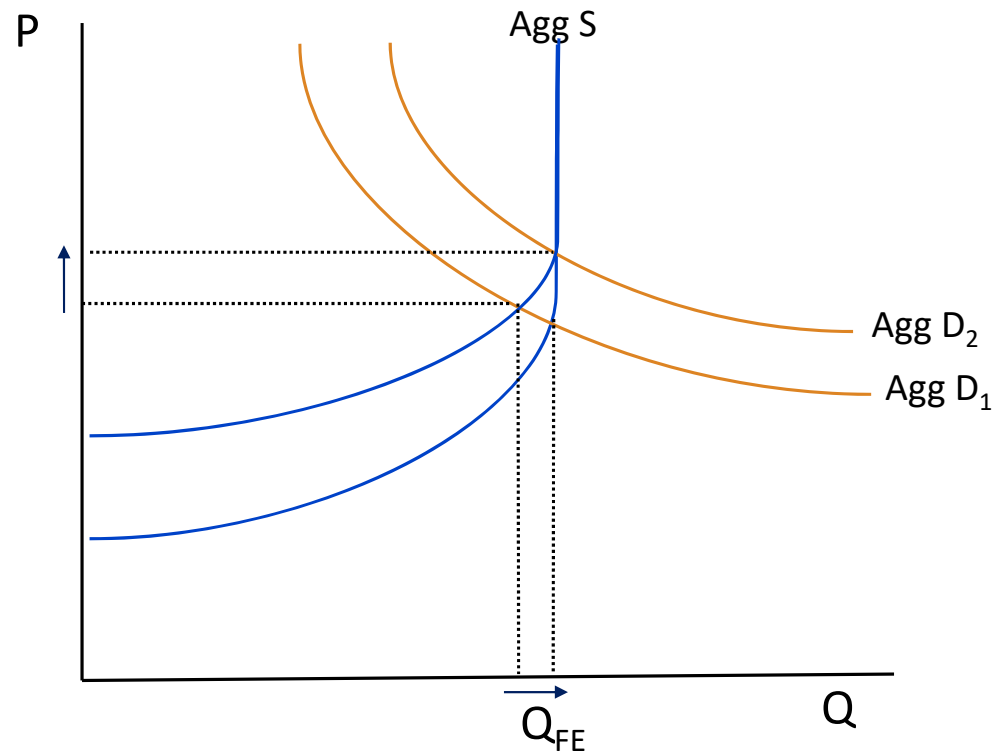
# Inflation Theory: Cost-Push Inflation

A rise in input costs, such as energy, labor, raw materials and other input costs causes the Agg Supply to shift leftward, with attendant decline in output and rise in the price level.



# Cost-Push and Demand-Pull Combination

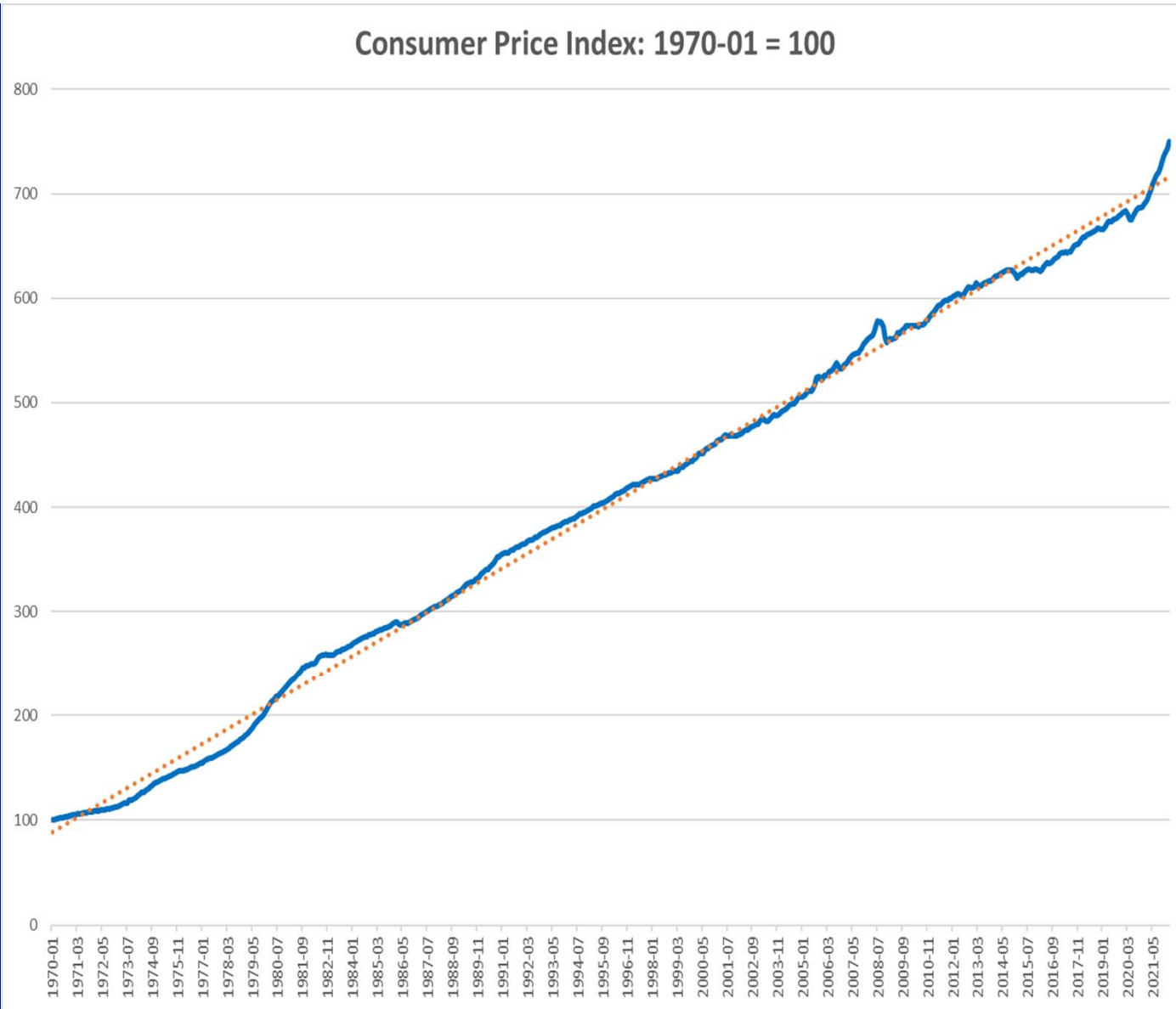
The fall in real output and subsequent rise in unemployment generates political pressure for expansionary fiscal and monetary policy to restore full employment, resulting in an increase in aggregate demand and further increases in the price level.



# All-Urban Consumer Price Index

Monthly, January 1970 –  
February 2022

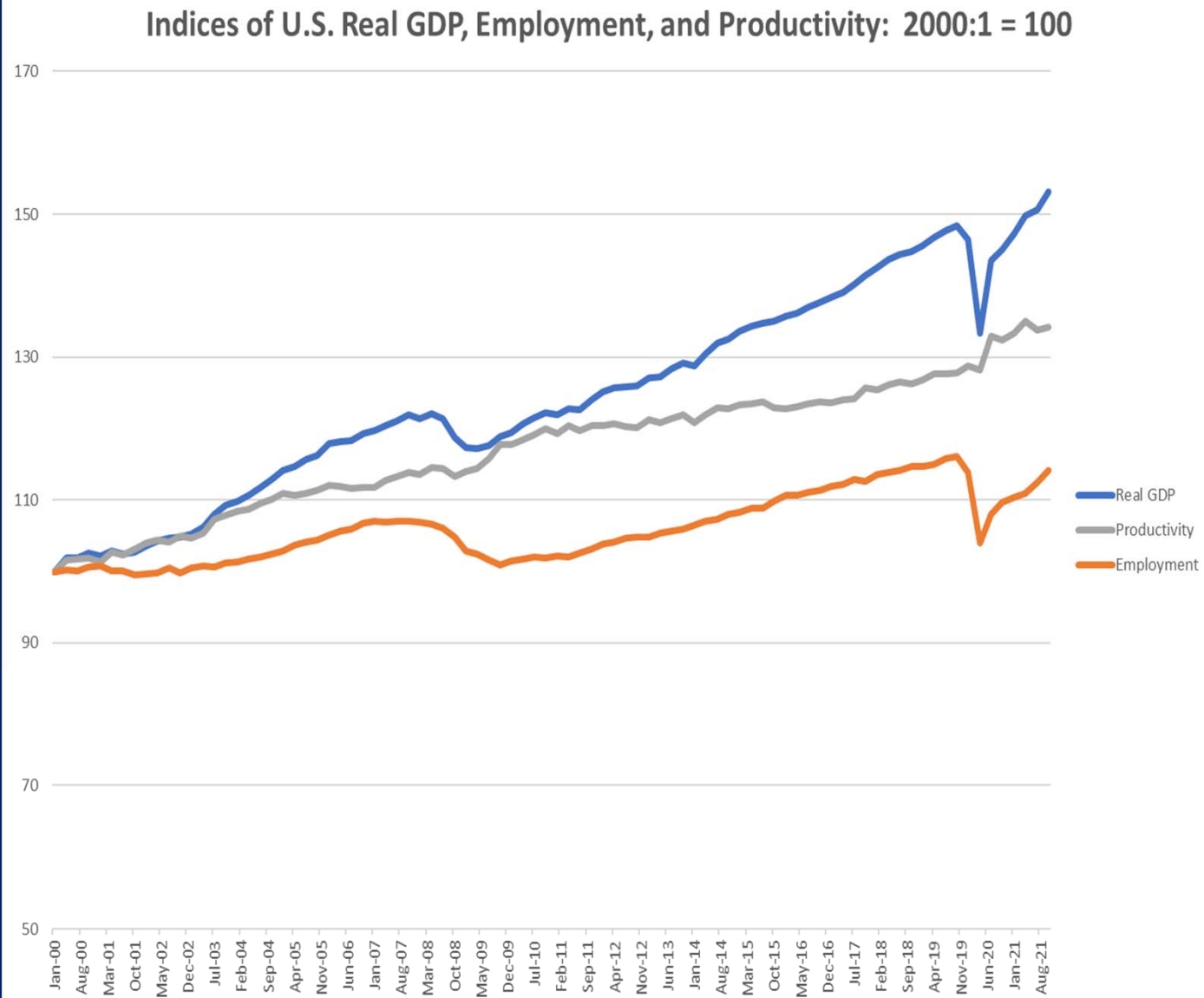
The average, compounded,  
annual rate of increase is almost  
4.0 percent. Essentially, we  
have over the past 52 years  
been on a constant linear trend  
in inflation.



# Indices of U.S. Real GDP, Employment, and Productivity

Quarterly, January 2000 – Oct 2021

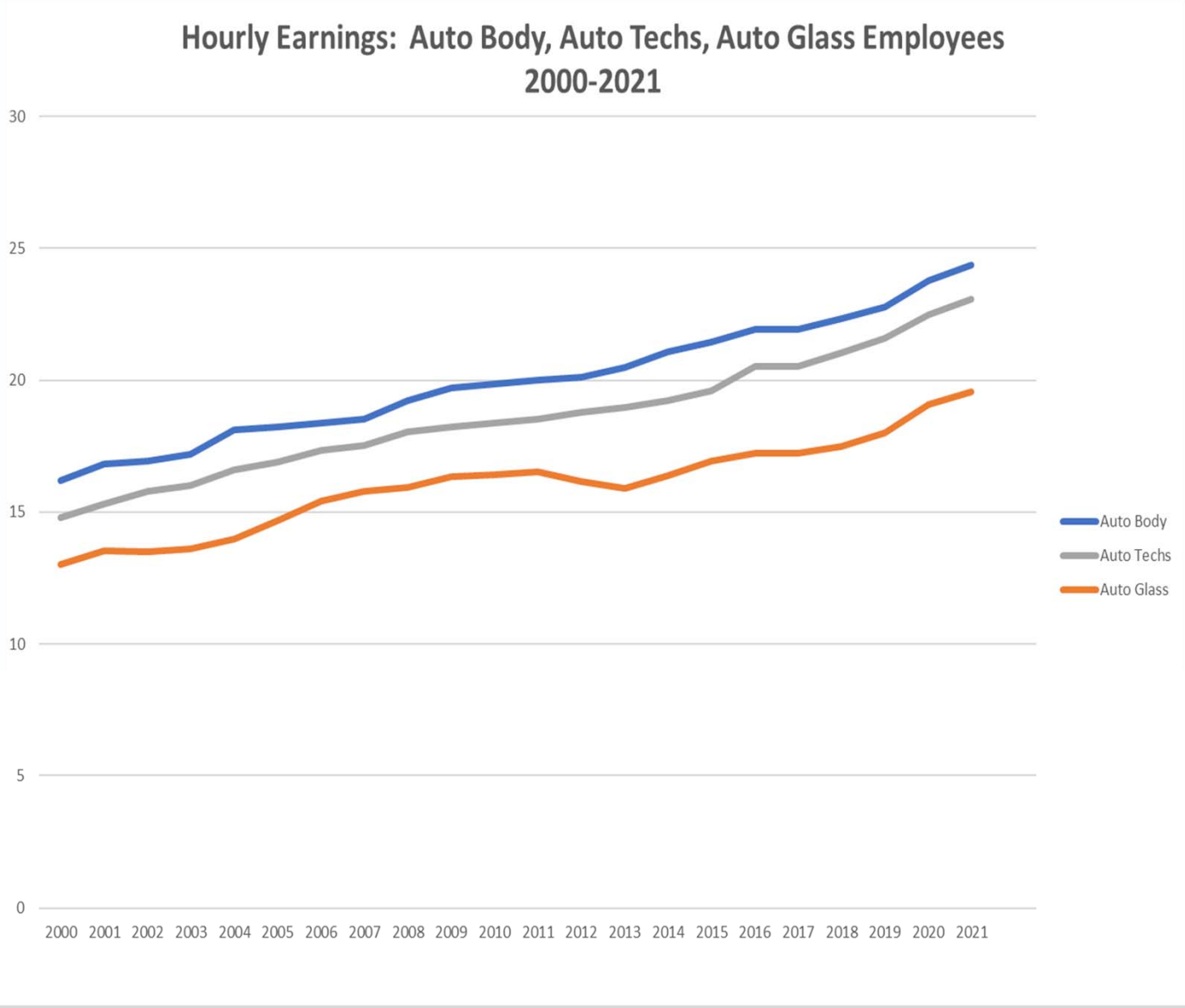
Real GDP has expanded by 50% since 2000. Employment has grown by only 15%. Hence, productivity has expanded by about 35%.



# Hourly Earnings for Auto Body, Auto Techs, and Auto Glass Employees

Annual 2000 – 2021

The hourly earnings for these three occupational categories has expanded at an average annual rate of 2.0 percent, slightly higher for Auto Techs.

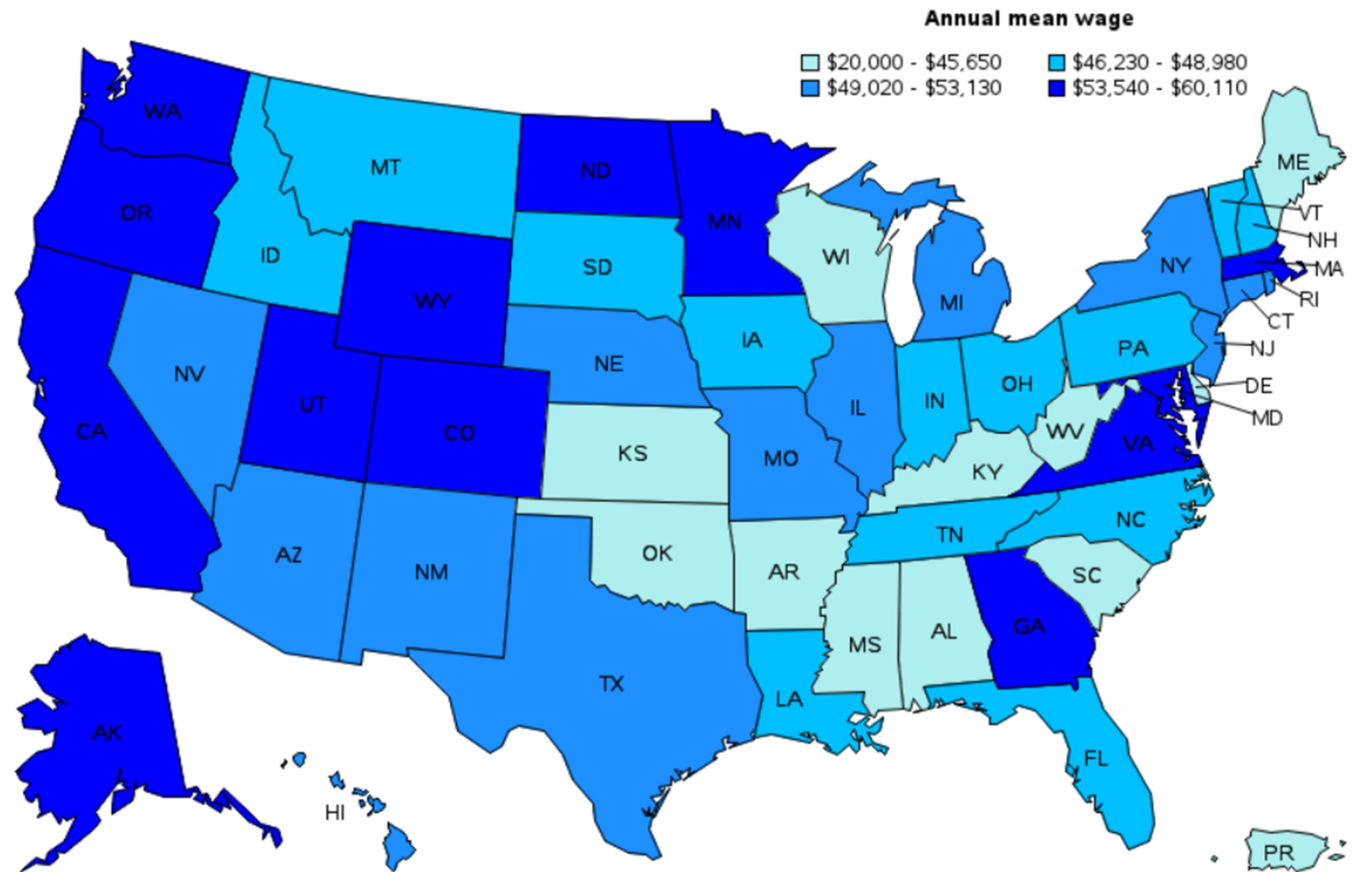


# Average Mean Wage for Auto Body and Related Repairers by State

May 2021

There is, of course, significant variability in earnings for across the nation, as is the case with almost all occupations.

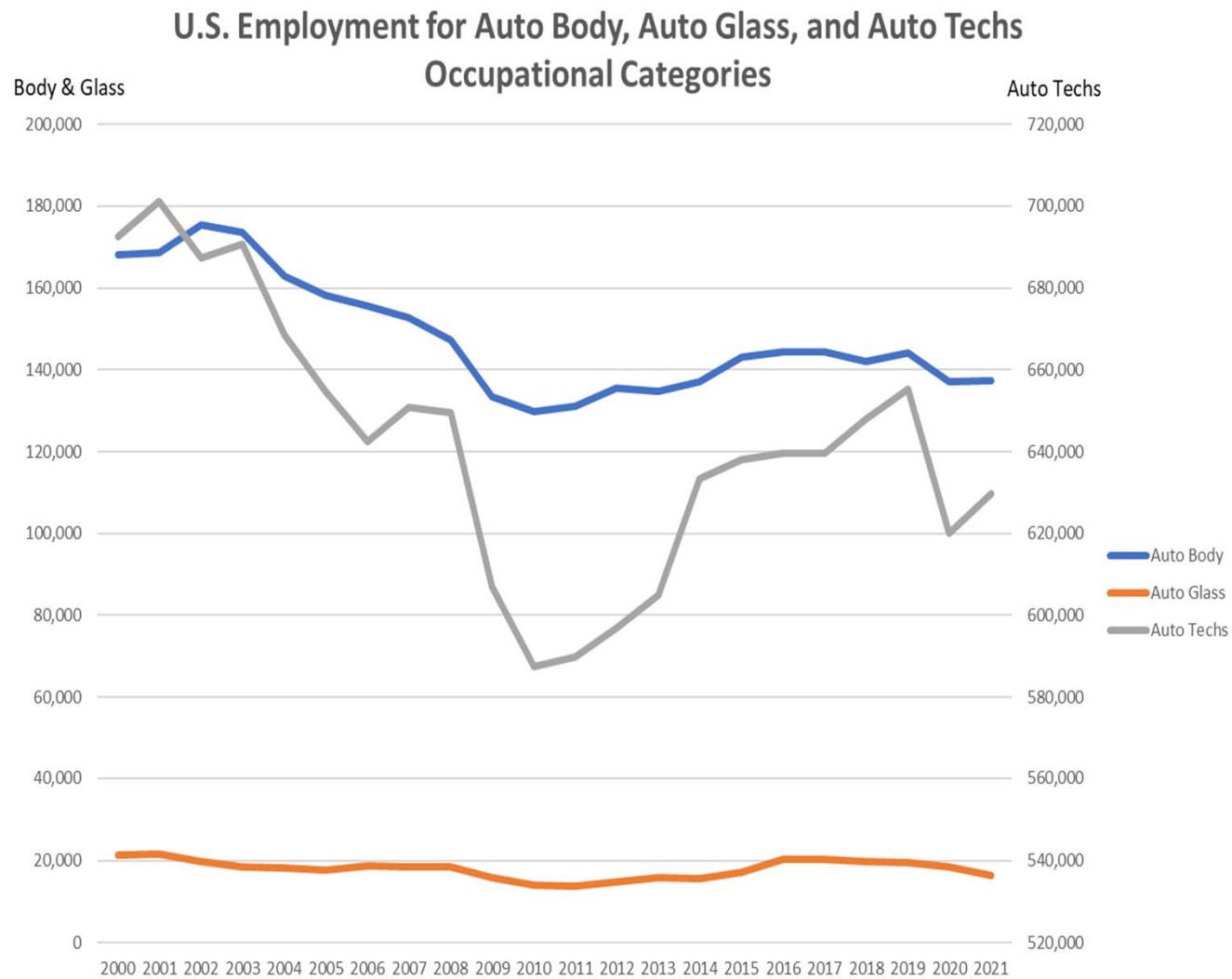
Annual mean wage of automotive body and related repairers, by state, May 2021



# U.S. Employment for Auto Body, Glass, and Tech Occupations

May 2000 – May 2021

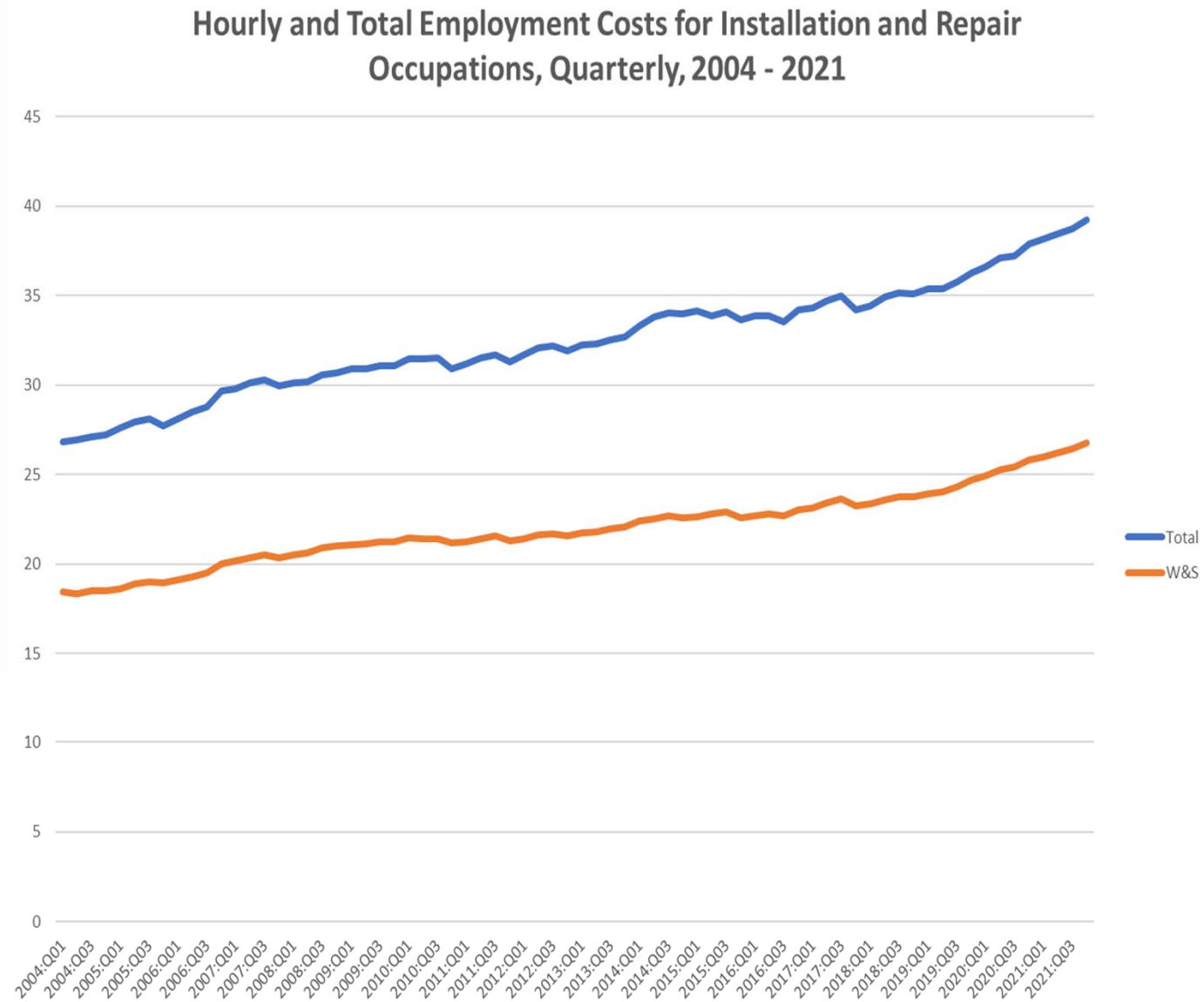
Employment trends were initially down from 2000 to 2010, but have recovered and stabilized.



# Hourly and Total Employment Costs—Installation and Repair Occupations

2004 –2021, Quarterly

While hourly earnings have continued to rise at about a 2.2 percent compounded rate, benefits have been relatively constant at about 31.6 percent of total employment costs.

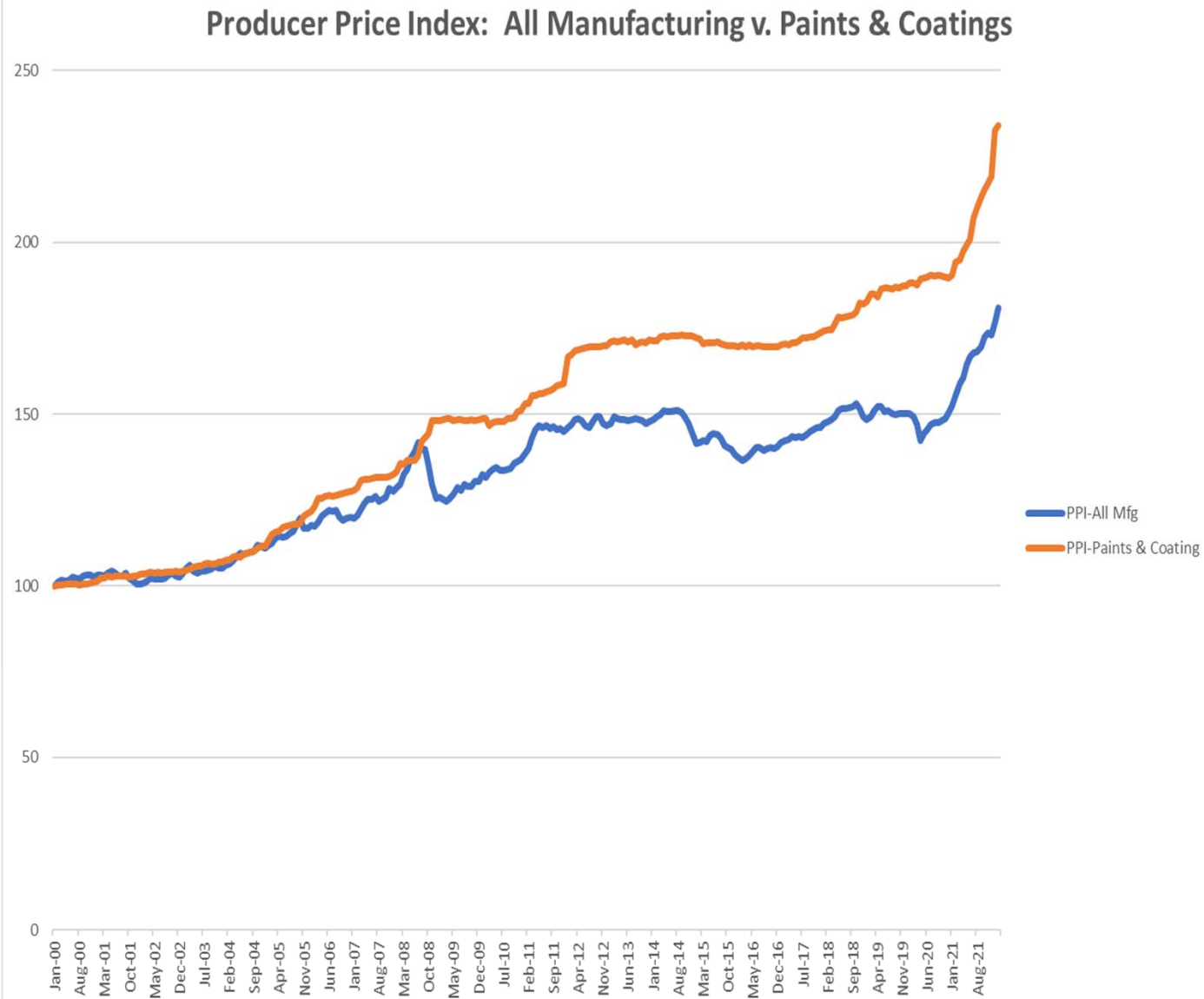


# U.S. Producer Price Indices: All Manufacturing v. Paints & Coatings

2000 – 2022, Monthly

Input costs rose from year 2000 until the Great Recession, essentially stabilized until 2018 and proceeded to increase, especially for Paints & Coatings.

Since March 2020, costs have exploded and are up about 24 percent at an annual rate for both all manufacturing and the Paints & Coatings sector.



# The Path Ahead

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- It's likely to get worse before it gets much better
  - The Federal Reserve Board of Governors willingly admit that they erred, are way "behind the curve," and will have to accelerate interest rate increases.
  - Running annual federal deficits in excess of \$1 trillion per year, as far as the eye can see, inhibits responses to a potential recession.
  - China, manufacturer to the world, is at present in lockdown, further disrupting supply chains that have only been recently recovering.
  - Russia's war with Ukraine, and resulting sanctions will inhibit international trade, potentially yield even higher energy and definitely food prices.
- Collision industry
  - Labor costs will continue to rise, although the pace has not been outside the ranges experienced economy wide.
  - Materials costs remain a question mark, but are likely to continue higher; however, recent acceleration in prices do not appear out of line from what the manufacturing sector is experiencing presently.

# Data Snapshot: Refinish Material Calculations

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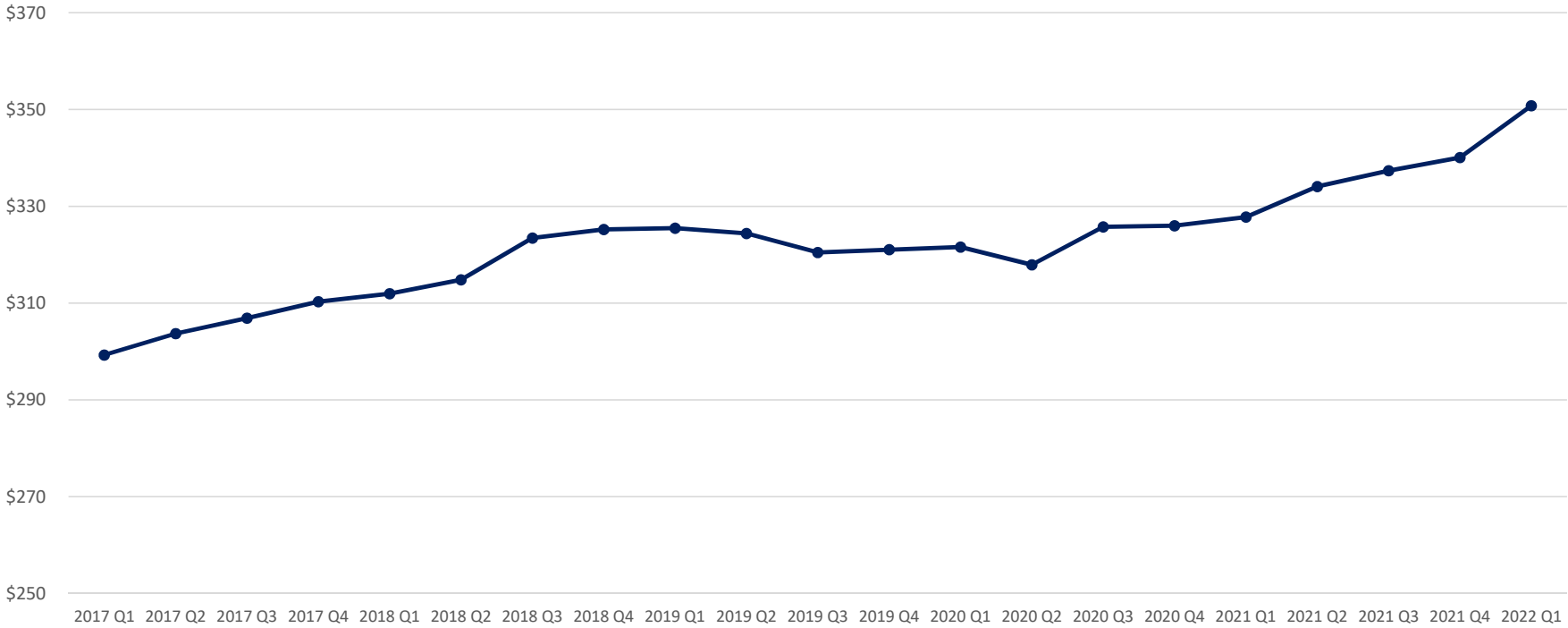
**Ryan Mandell**

Director, Performance Consulting  
Mitchell International

# Basket of Parts Analysis

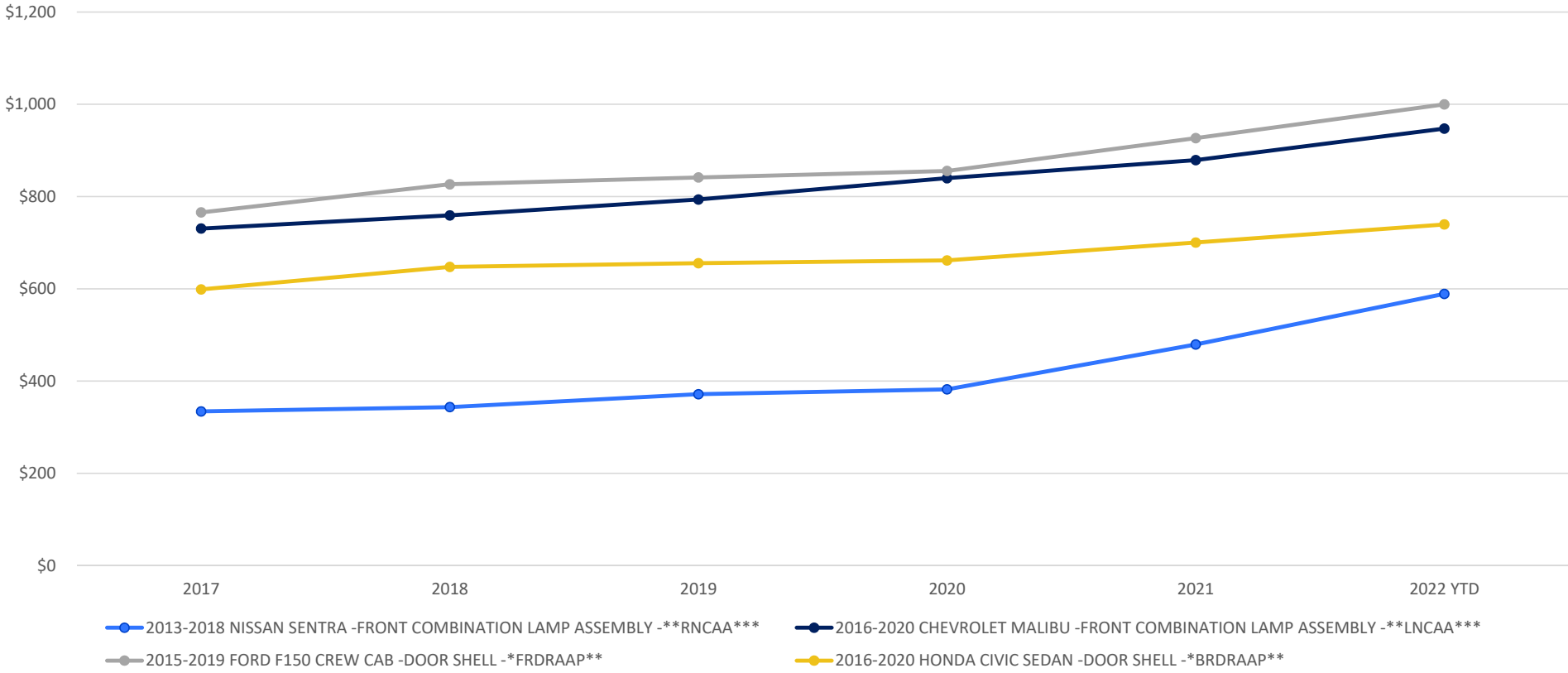
Top 50 parts in each major component part category

All Part Types



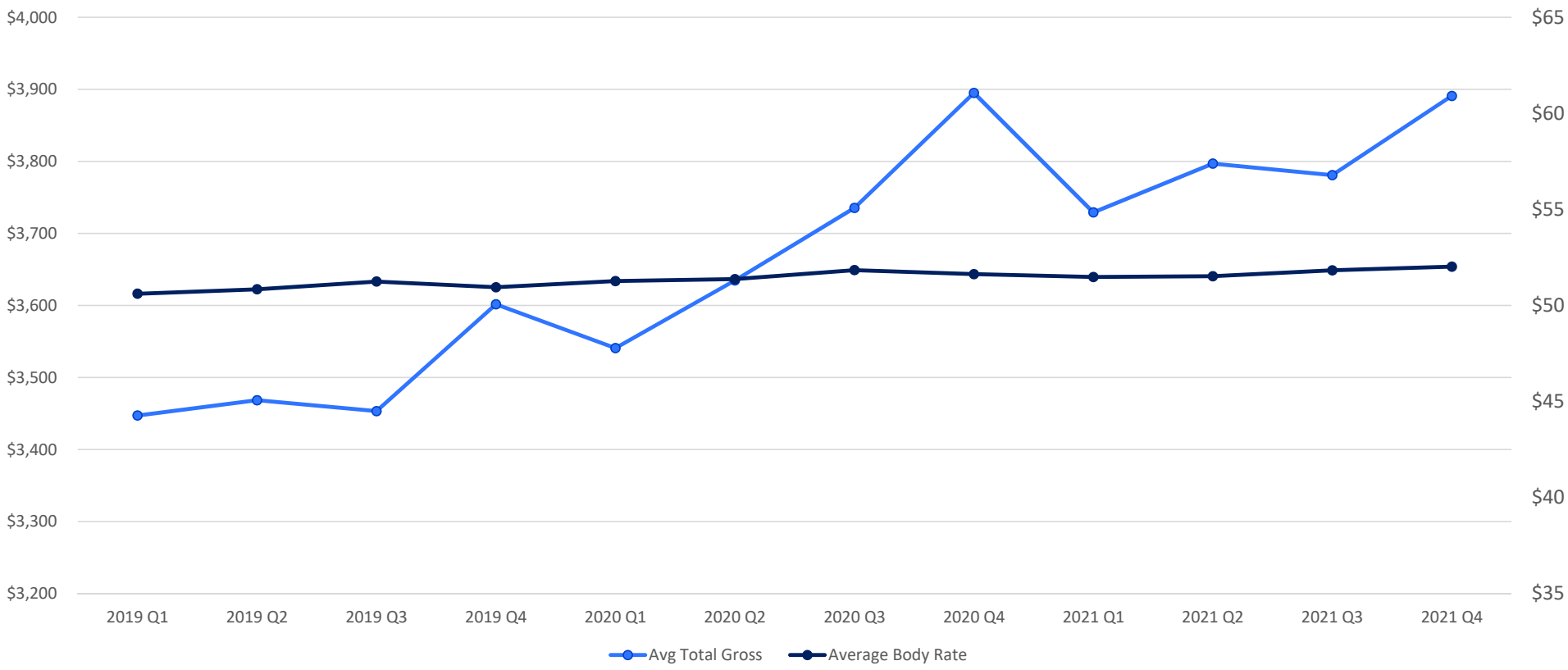
# Common Part Price Trends

Based on OEM Price Only



# Average Gross Estimate & Average Body Rate

2019-2021



# Panel Discussion

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**Aaron Schulenburg**  
SCRS

**Robert Dauffenbach**  
Price College of Business  
University of Oklahoma

**Braxton Ewing**  
BASF

**Tim Ronak**  
AkzoNobel

**Rick Palmer**  
Computer Logic, Inc.

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**Thank you!**

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