

# Dealer Sentiment Index

FOURTH QUARTER 2019



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# Dealer Sentiment Index

FOURTH QUARTER 2019

## Background

Data for the Cox Automotive Dealer Sentiment Index (CADSI) is gathered via a quarterly online survey of franchised and independent auto dealers.

Dealer responses are weighted by dealership type and volume of sales to closely reflect the national dealer population. Data is used to calculate an index wherein a number over 50 indicates more dealers view conditions as strong or positive rather than weak or negative.

The Q4 2019 CADSI is based on 1,073 U.S. auto dealer respondents, comprising 592 franchised dealers and 481 independents. The survey was conducted from October 21 to November 1, 2019.

The CADSI was first published in Q3 2017. The next quarterly report will be released in March 2020.

# Key Takeaways

According to the Q4 2019 Cox Automotive Dealer Sentiment Index (CADSI), the current U.S. auto market is mostly unchanged from Q3 and remains negative, with an index score of 47. The slight decrease from Q3's 48 was not statistically significant.

Year-over-year, the current market index is up by three points, which is a statistically significant improvement, but the index remains below 50. A score below 50 is considered negative.

As the CADSI has consistently demonstrated, the current market sentiment skews more positive for franchised dealers compared to independents. The gap narrowed this quarter, however, as franchised dealers became less positive—decreasing from 56 in Q3 to 51 in Q4—while independents dealers remained negative at 46, unchanged from Q3.

Franchised dealers' lower current

market sentiment is likely tied to perceptions of used-vehicle sales, which saw a statistically significant decline from last quarter, dropping from 73 to 66. The new-vehicle market is stable according to franchised dealers, down just one point from Q3 and still in positive territory at 56.

When it comes to views of the future, franchised and independent dealers moved closer together in Q4 as well. Franchised dealers scored 54, down from Q3, while independents increased from 49 to 51.

In a year-over-year comparison, independents have seen a statistically significant increase in their outlook for the future. The improvement likely relates to improved used-vehicle inventory as well as increasing profits.

“Q4 reveals an important turning point for dealer sentiment, especially compared to this time last year when

views of the future dimmed,” said Cox Automotive Chief Economist Jonathan Smoke. “Independents are more optimistic about the next 90 days, and that improvement is related to increasing used vehicle inventory.”

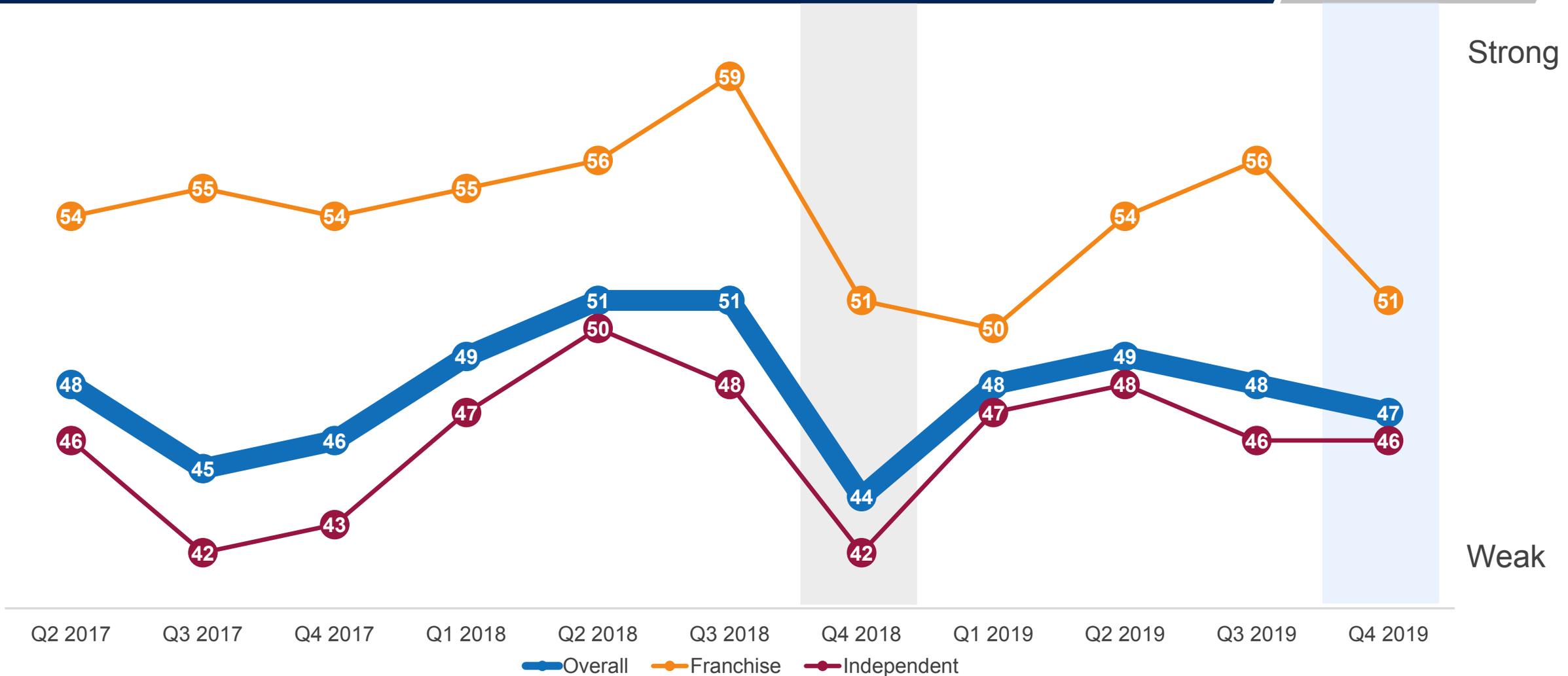
The factors holding back the business across all dealers remained fairly consistent in Q4, although “The Economy” entered the Top 5 and pushed “Expenses” to number 6. “Market Conditions” remained in the top spot, with 35% of dealers citing it as holding back their business, down from 38% in Q3. “Competition” remained in second place, followed by “Credit Availability for Consumers” and “Limited Inventory.” “The Economy” rounded out the Top 5.

Notably, compared to last quarter, “Consumer Confidence” and “The Political Climate” both saw significant increases as factors holding back the business.

Q1: How would you describe the current market for vehicles in the areas where you operate?

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Note: Scale 1 - 100

Q2: What do you expect the market for vehicles in your area to look like 3 months from now?

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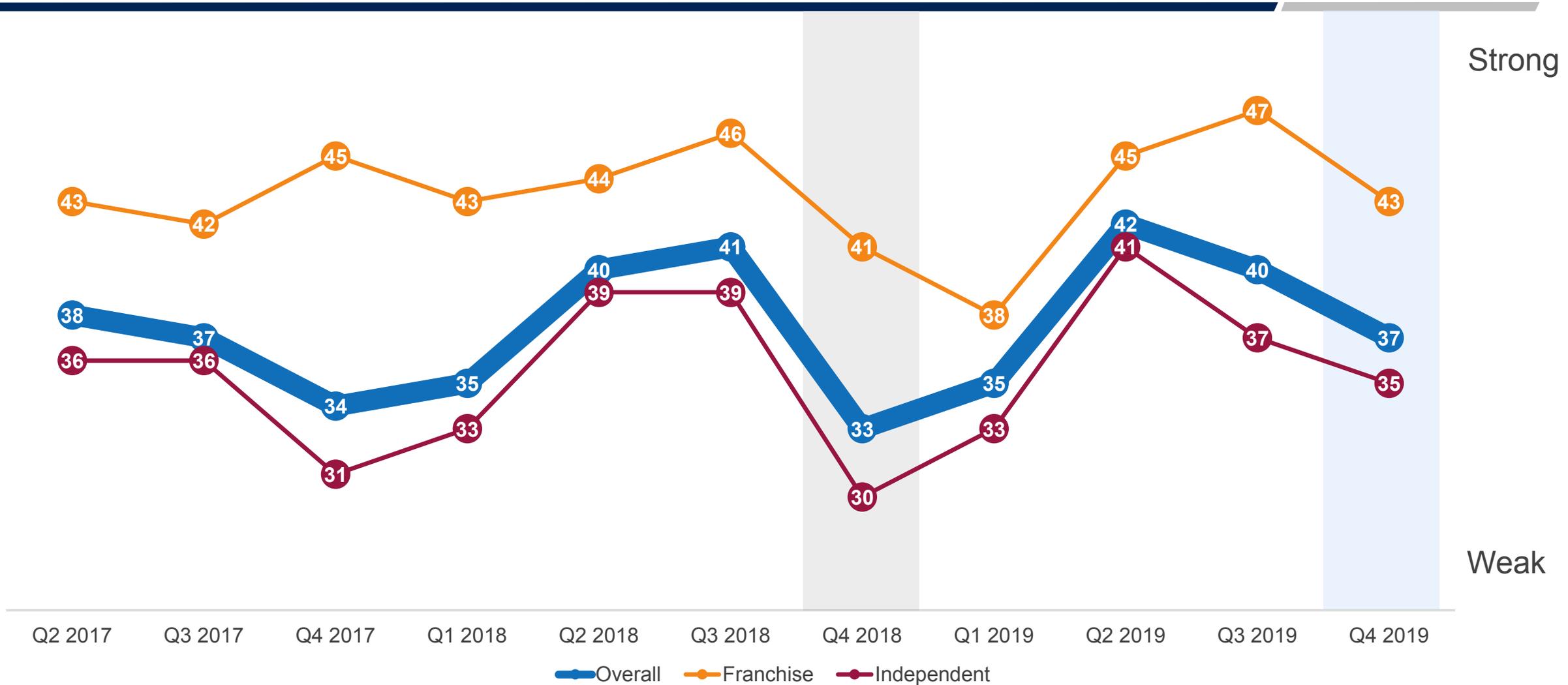


Note: Scale 1 - 100

Q3: How do you rate the customer traffic to your dealership over the past 3 months?

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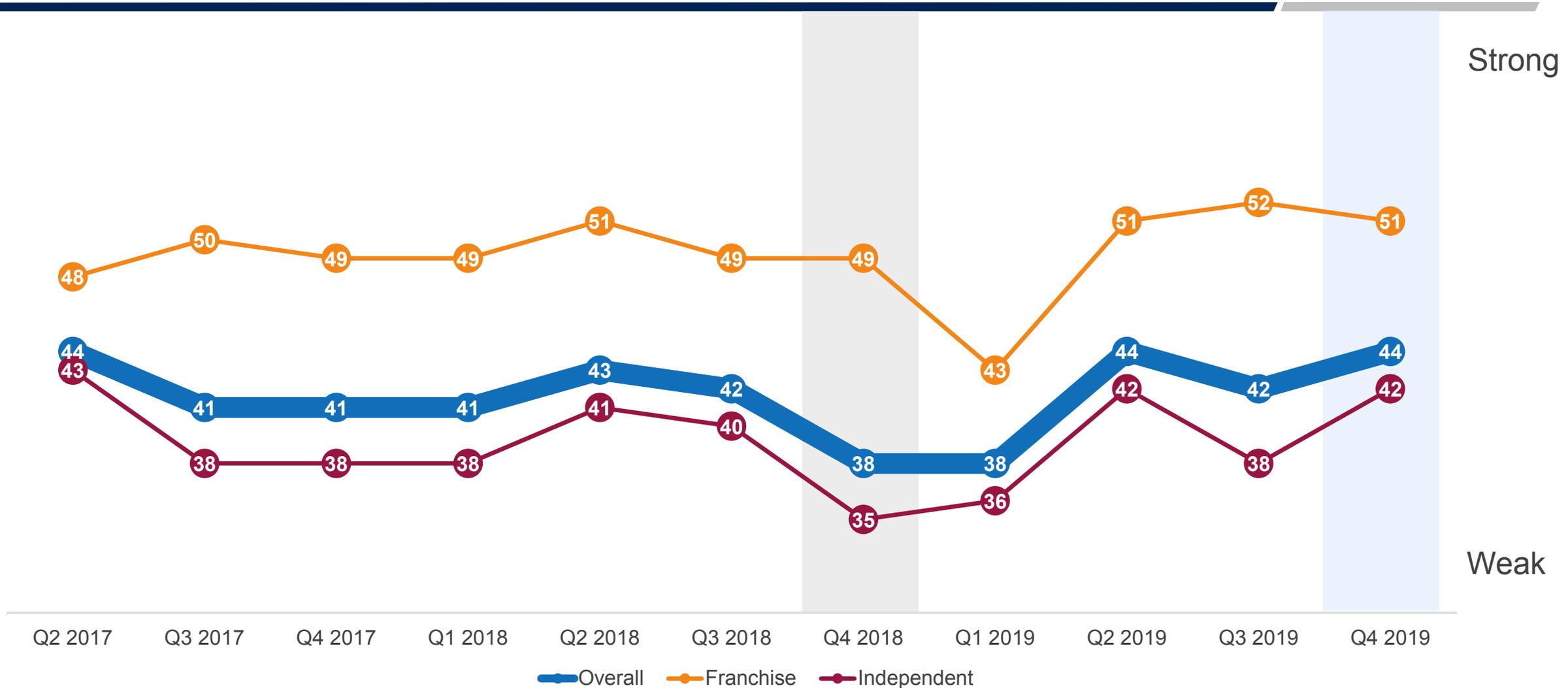


Note: Scale 1 - 100

Q4: How would you describe your profits over the past 3 months?

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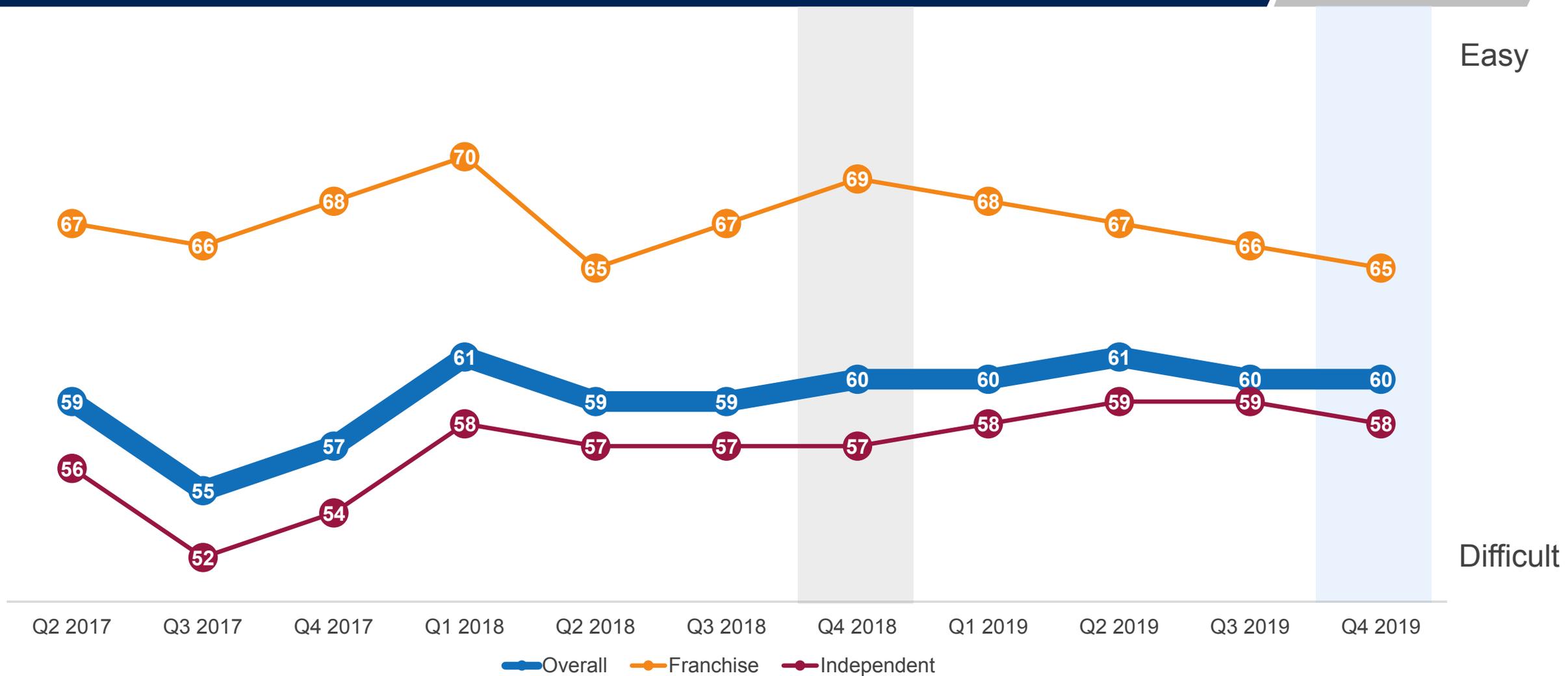


Note: Scale 1 - 100

Q5: How would you describe your ability to get credit to operate your business over the past 3 months?

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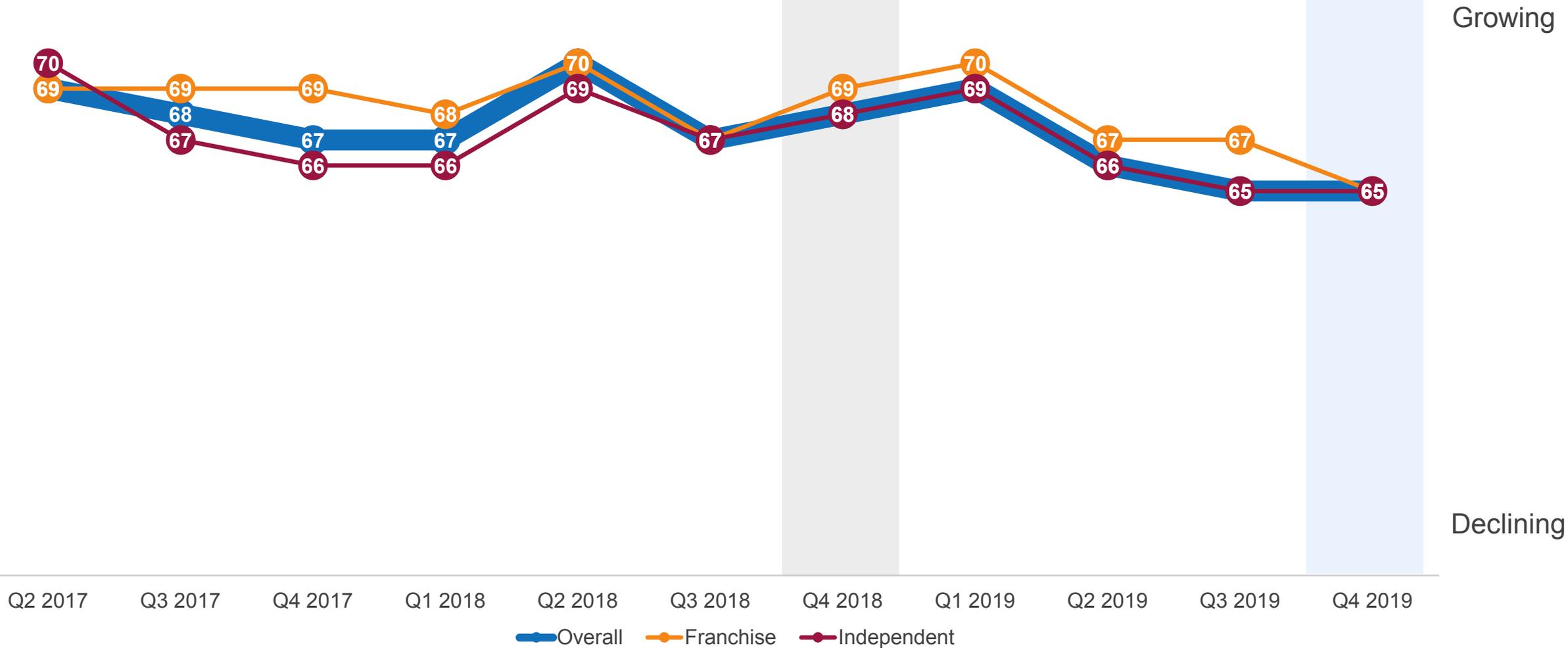


Note: Scale 1 - 100

Q6: How would you describe the cost of running your dealership over the past 3 months?

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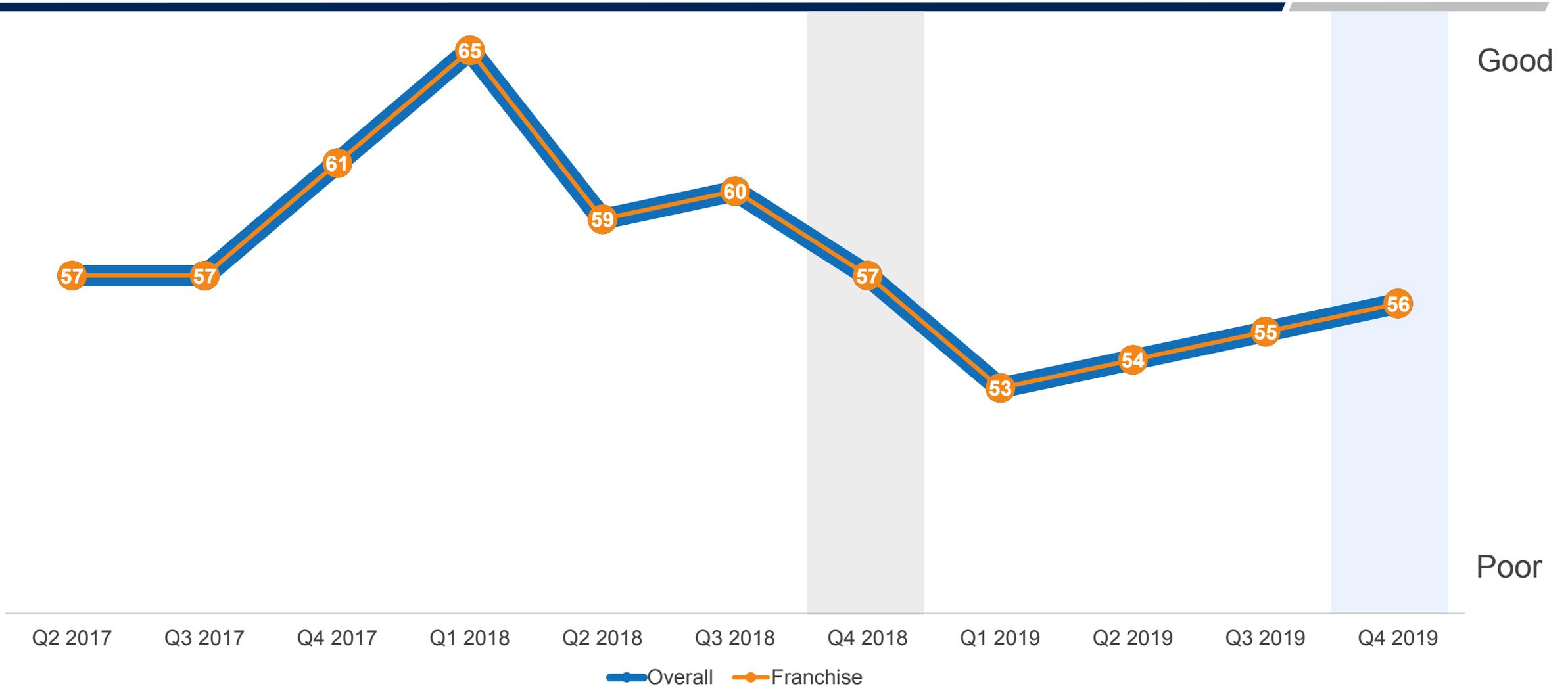


Note: Scale 1 - 100

Q7: How would you describe the current new-vehicle sales environment?

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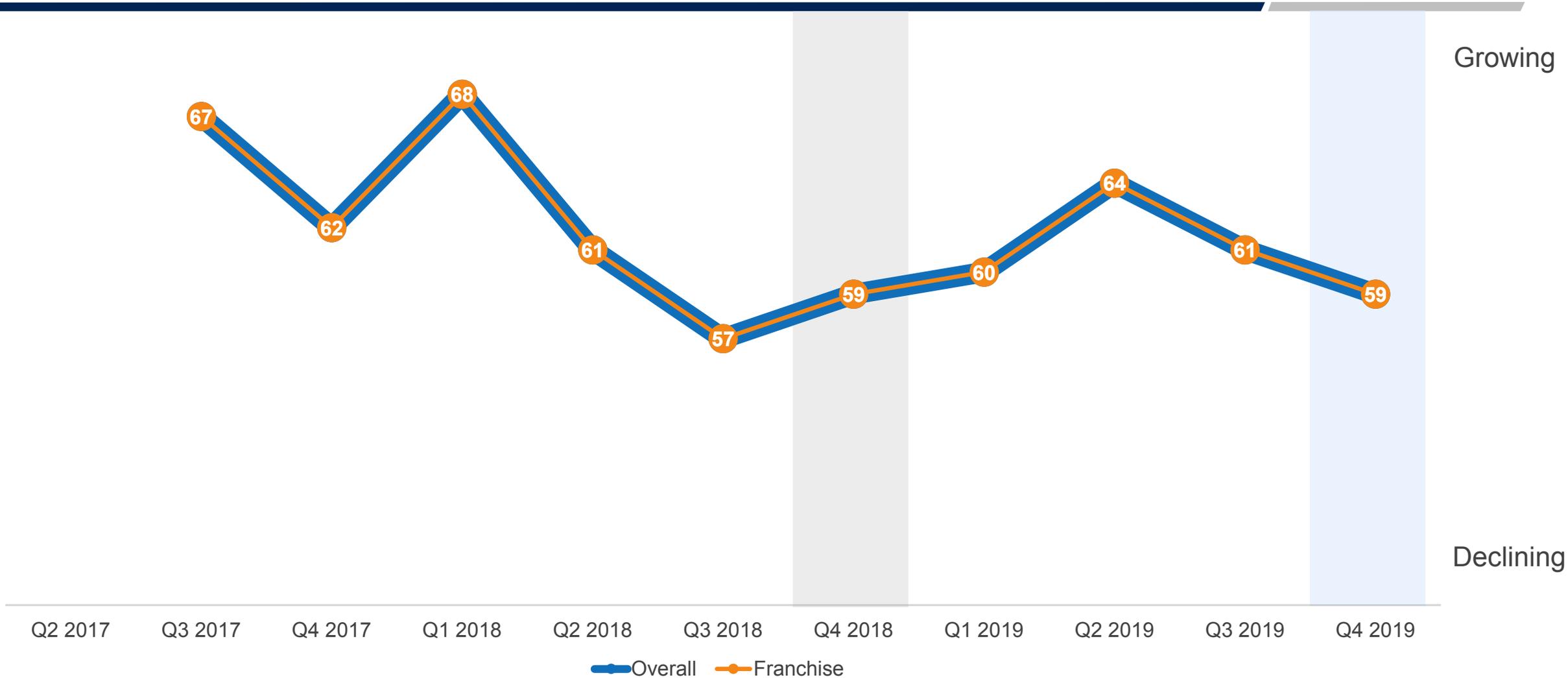


Note: Scale 1 - 100

Q8: How would you describe the current new-vehicle inventory levels?

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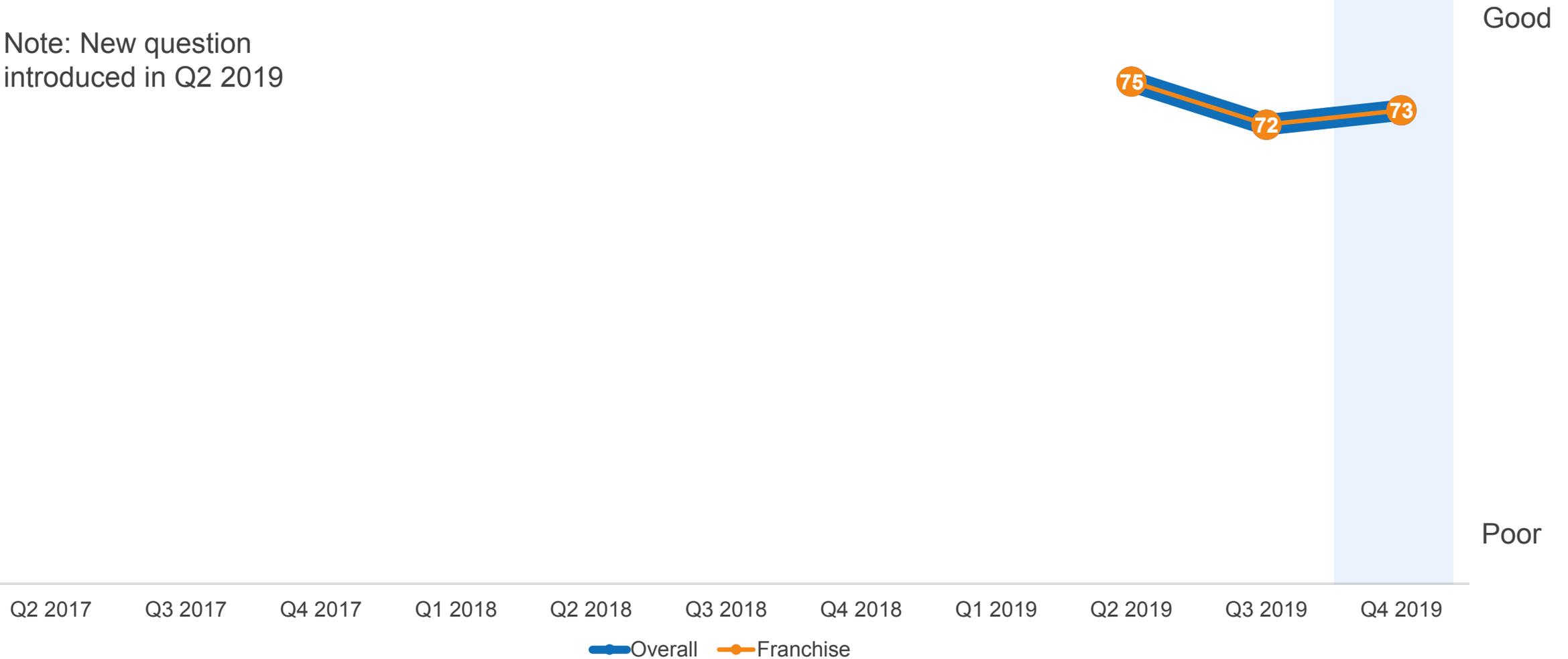
Note: Scale 1 - 100

# Q9: How would you describe the current new-vehicle inventory mix?

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Note: New question introduced in Q2 2019

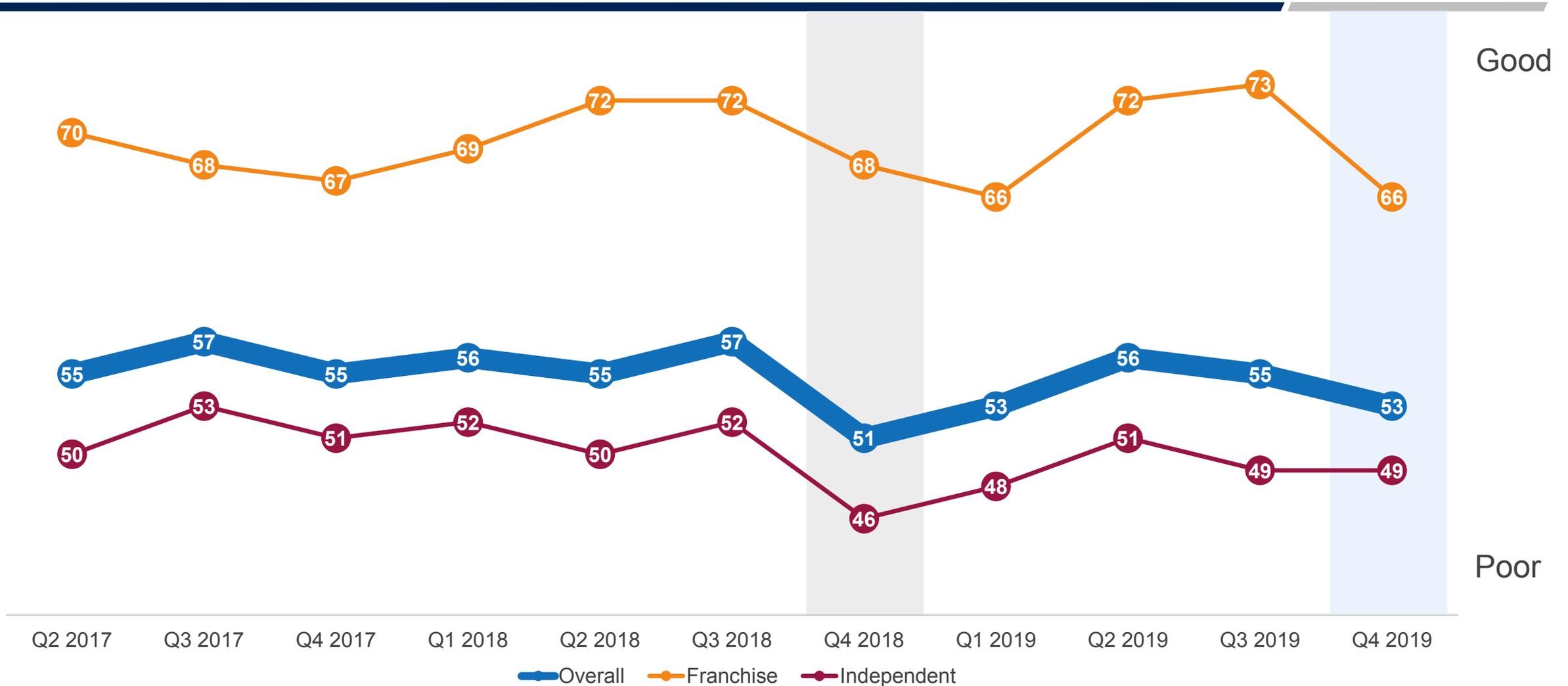


Note: Scale 1 - 100

Q10: How would you describe the current used-vehicle sales environment?

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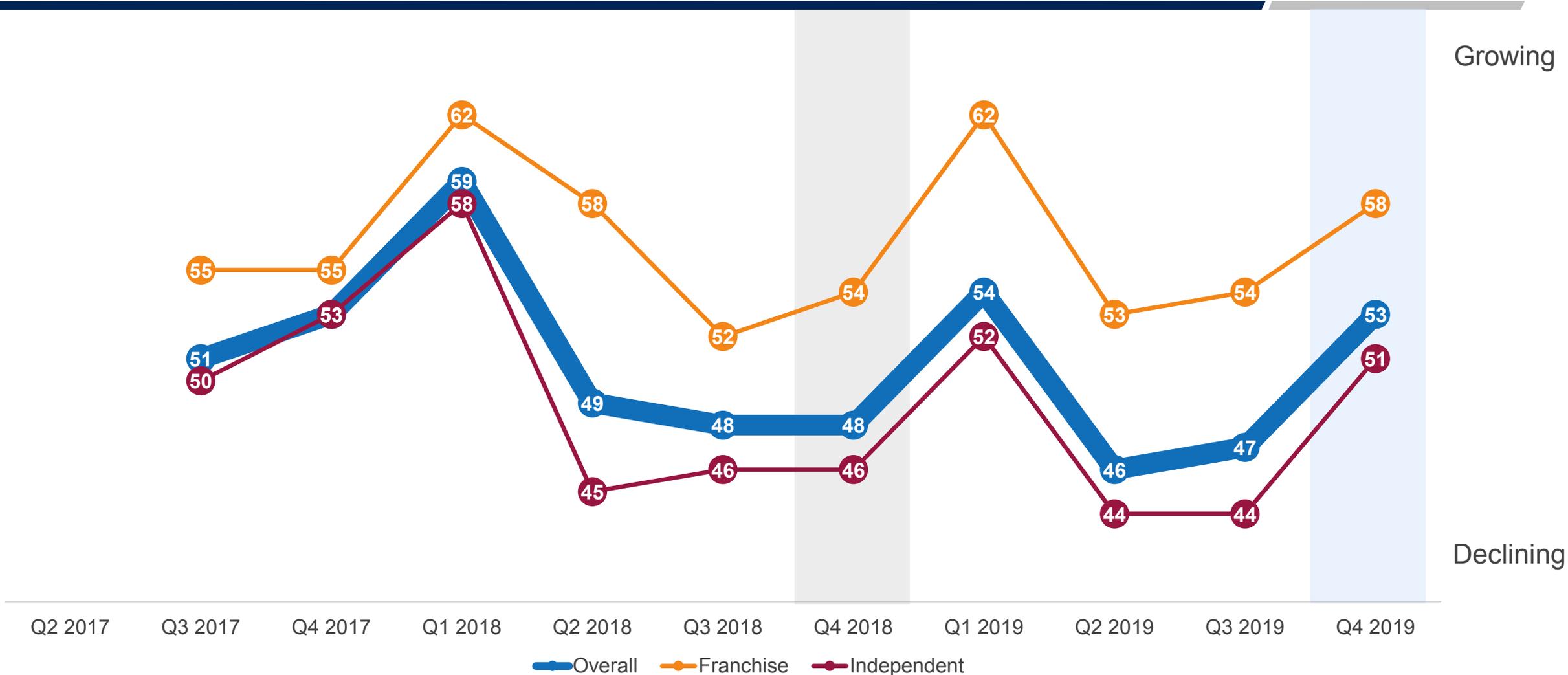


Note: Scale 1 - 100

Q11: How would you describe the current used-vehicle inventory levels?

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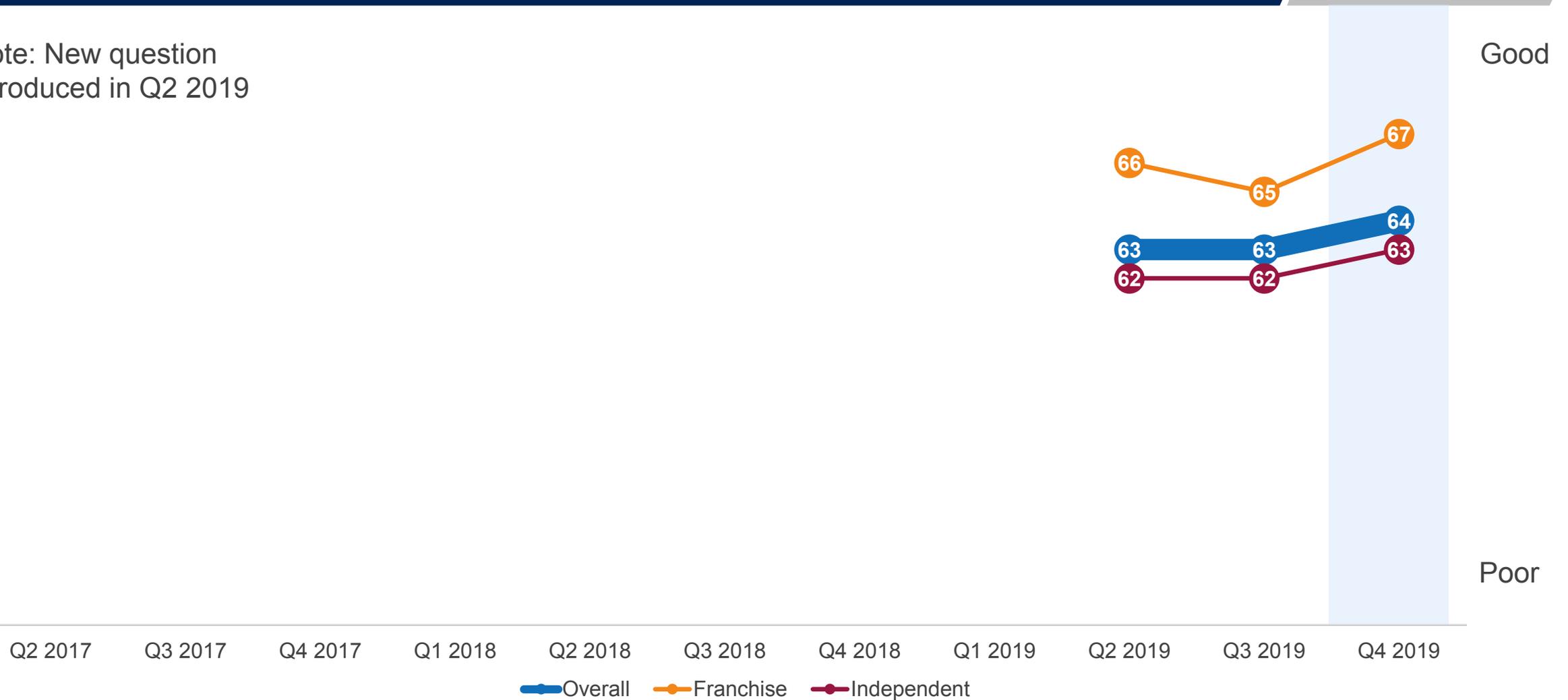
Note: Scale 1 - 100

# Q12: How would you describe the current used-vehicle inventory mix?

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Note: New question introduced in Q2 2019

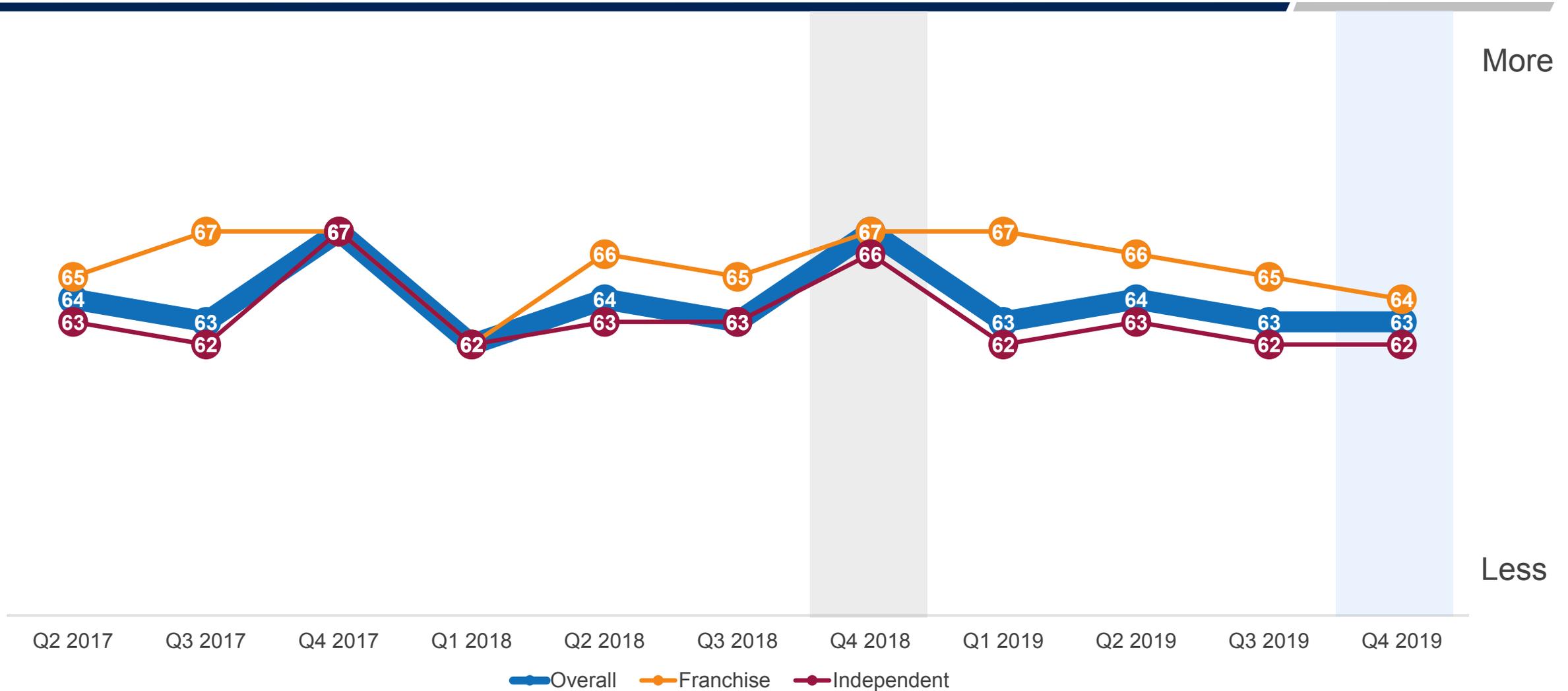


Note: Scale 1 - 100

Q13: How much pressure do you feel to lower your prices?

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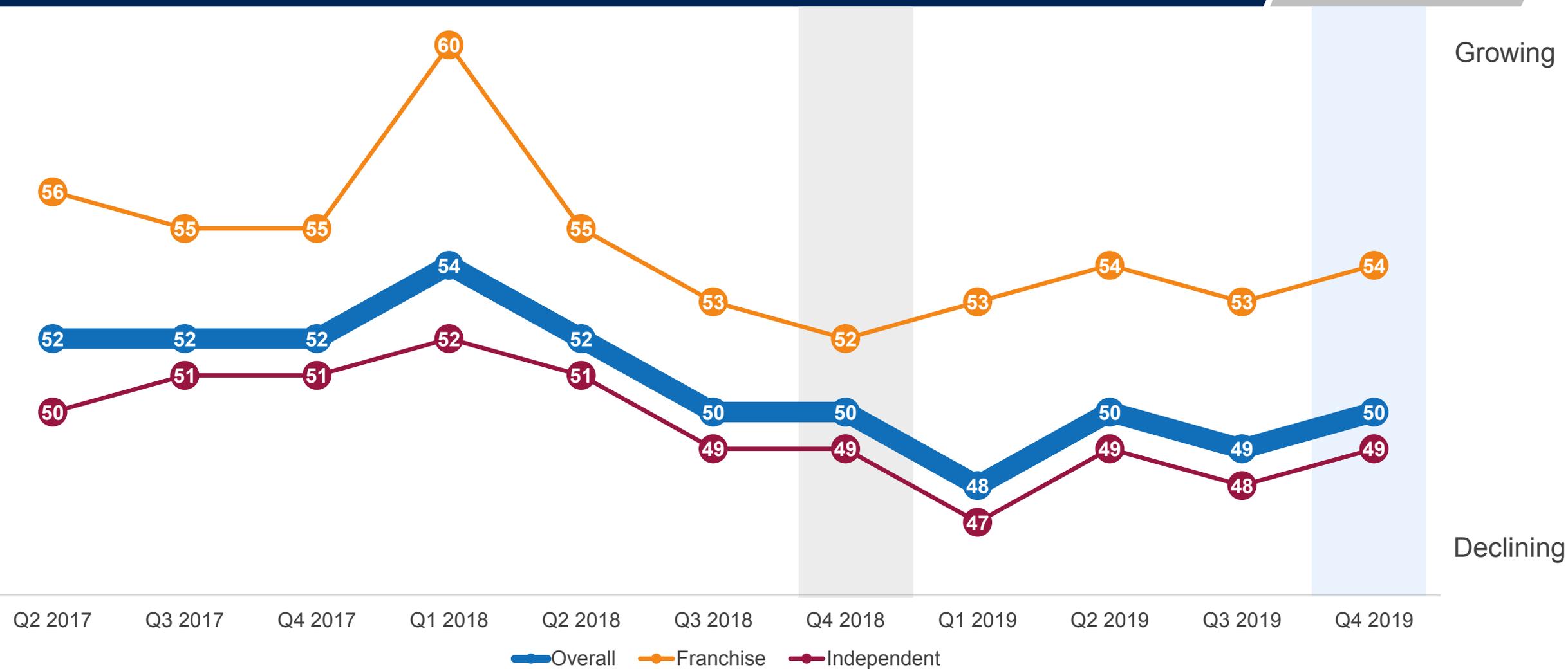


Note: Scale 1 - 100

Q14: How would you describe your dealership's current staffing levels?

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Note: Scale 1 - 100

# Q15: How would you describe the current level of OEM new-vehicle incentives?

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Note: New question introduced in Q3 2019



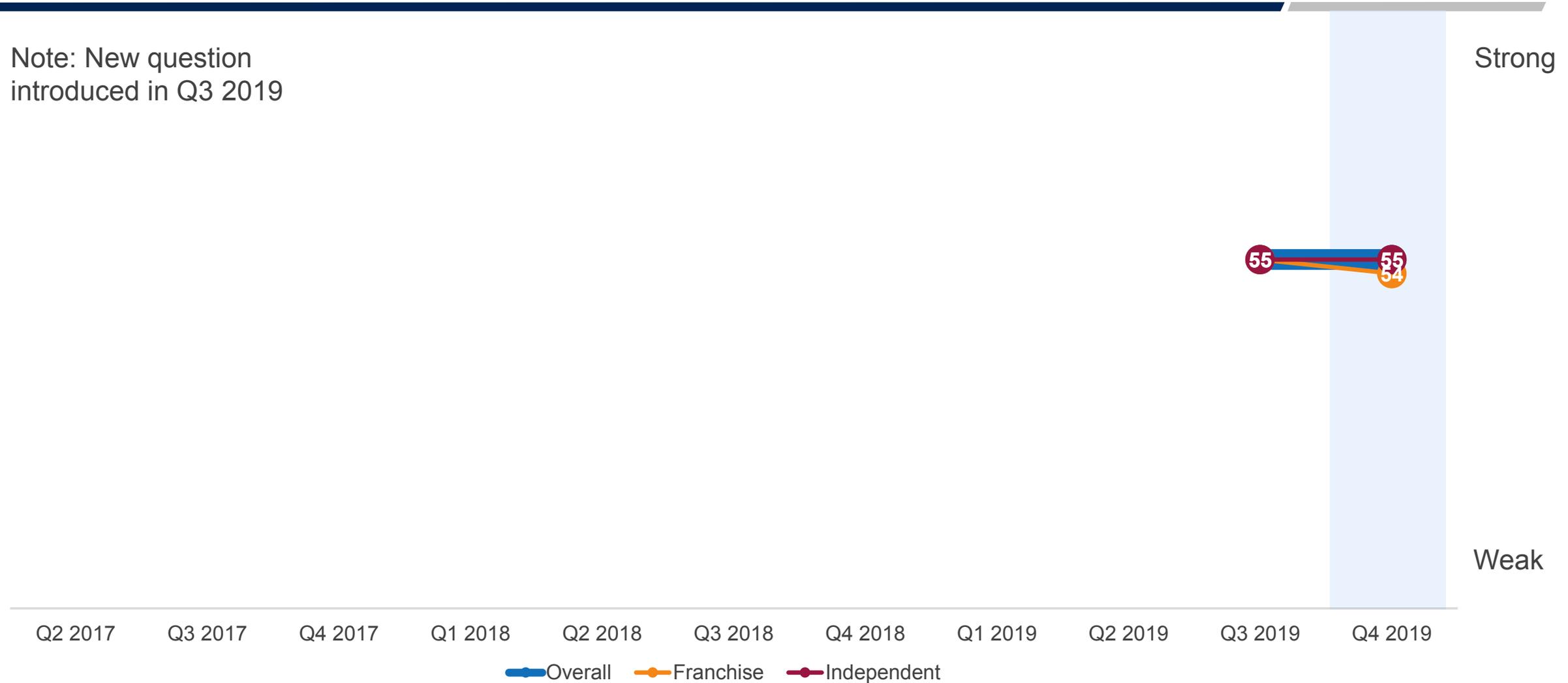
Note: Scale 1 - 100

# Q16: How would you describe the current U.S. economy?

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Note: New question introduced in Q3 2019



Note: Scale 1 - 100

# Factors Holding Back Your Business?

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OVERALL RANK

		Q4 '19	Q3 '19	Q4 '18
1	Market Conditions	35%	38%	44%
2	Competition	33%	33%	33%
3	Credit Availability for Consumers	27%	31%	36%
4	Limited Inventory	26% ↓	31%	35%
5	Economy	25%	23%	N/A
6	Expenses	22%	25%	27%
7	Consumer Confidence	19% ↑	14%	19%
8	Political Climate	18% ↑	14%	N/A
9	Weather	11%	10%	N/A
10	Consumer Transparency in Pricing	10%	11%	12%
11	Regulations	8%	7%	7%
11	Staff Turnover	8%	9%	11%
13	Interest Rates	7% ↓	11%	23%
14	Credit Availability for Business	6%	7%	8%
14	Too Much Retail Inventory	6%	7%	6%
14	Tariffs on Imported Vehicles and Parts	6%	5%	6%
17	Dealership Systems/Tools	5%	5%	6%
18	Lack of consumer incentives from my OEM	4%	4%	N/A
18	OEM Mandates/Restrictions	4%	3%	5%

Significant decrease vs previous quarter



Significant increase vs previous quarter



# Factors Holding Back Your Business?

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FRANCHISED DEALERS

		Q4 '19	Q3 '19	Q4 '18
1	Market Conditions	<b>38%</b>	37%	43%
2	Competition	<b>31%</b>	36%	36%
3	Economy	<b>26%</b>	26%	N/A
4	Political Climate	<b>24%</b>	19%	N/A
5	Consumer Confidence	<b>21%</b>	17%	22%
6	Expenses	<b>18%</b>	20%	22%
7	Limited Inventory	<b>17%</b>	20%	23%
8	Staff Turnover	<b>16%</b>	22%	24%
9	Credit Availability for Consumers	<b>15%</b>	21%	23%
9	Lack of consumer incentives from my OEM	<b>15%</b>	18%	N/A
11	OEM Mandates/Restrictions	<b>14%</b>	14%	19%
11	Weather	<b>14%</b>	11%	N/A
13	Interest Rates	<b>9%</b> ↓	17%	38%
14	Consumer Transparency in Pricing	<b>8%</b>	11%	14%
15	Dealership Systems/Tools	<b>7%</b>	7%	8%
15	Tariffs on Imported Vehicles and Parts	<b>7%</b>	8%	10%
17	Too Much Retail Inventory	<b>5%</b>	5%	5%
18	Regulations	<b>4%</b>	4%	5%
19	Credit Availability for Business	<b>3%</b>	2%	2%

Significant decrease vs previous quarter



Significant increase vs previous quarter



# Factors Holding Back Your Business?

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INDEPENDENT DEALERS

		Q4 '19	Q3 '19	Q4 '18
1	Market Conditions	34%	38%	45%
2	Competition	33%	32%	32%
3	Credit Availability for Consumers	31%	34%	41%
4	Limited Inventory	30% ↓	35%	39%
5	Economy	24%	22%	N/A
6	Expenses	23%	27%	29%
7	Consumer Confidence	18% ↑	12%	19%
8	Political Climate	17% ↑	12%	N/A
9	Consumer Transparency in Pricing	11%	11%	11%
10	Weather	10%	10%	N/A
11	Regulations	9%	8%	7%
12	Credit Availability for Business	7%	9%	10%
13	Interest Rates	6% ↓	9%	18%
13	Too Much Retail Inventory	6%	7%	6%
14	Staff Turnover	5%	5%	7%
14	Tariffs on Imported Vehicles and Parts	5%	4%	4%
14	Dealership Systems/Tools	5%	4%	5%

Significant decrease vs previous quarter



Significant increase vs previous quarter



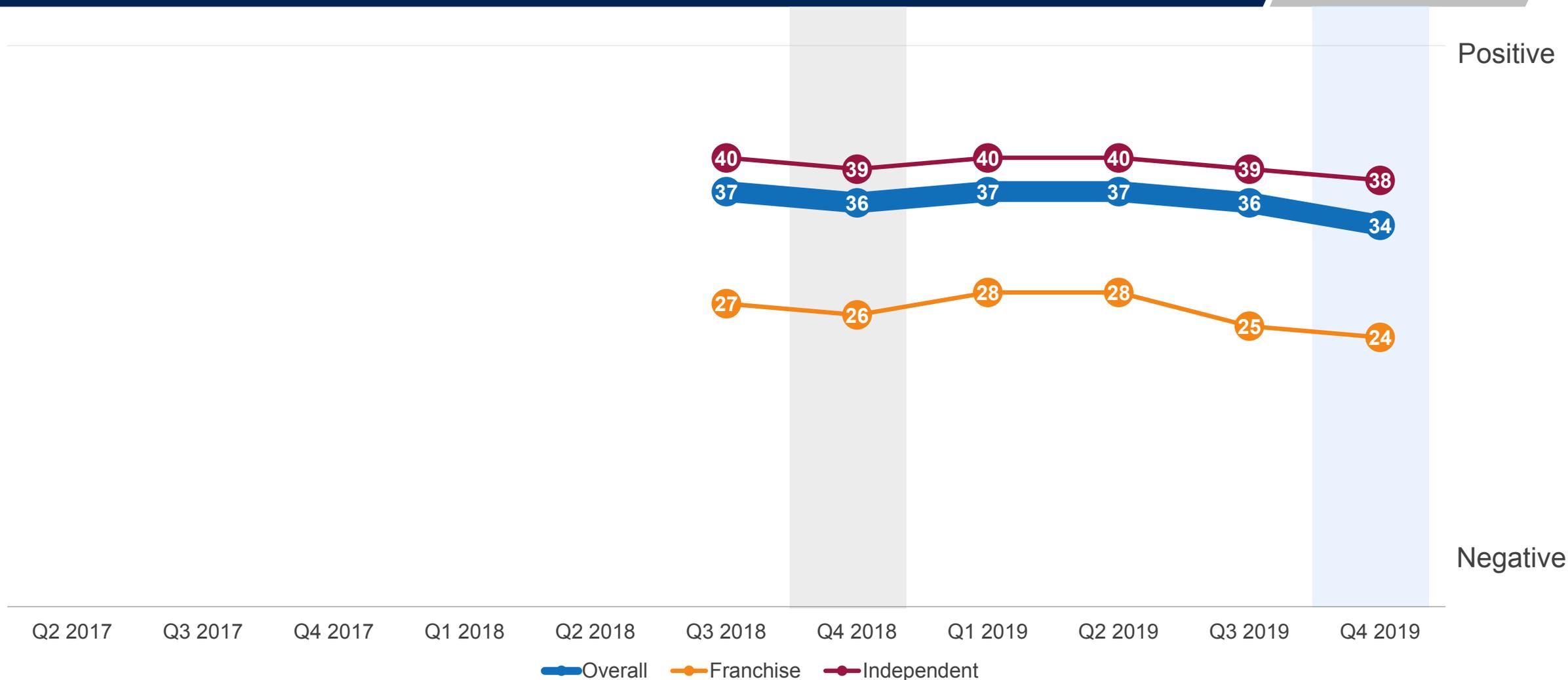
# The Effect of Automotive Tariffs



*Q: Will a tariff on imported vehicles have a positive or negative impact on your business?*

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Note: Scale 1 - 100

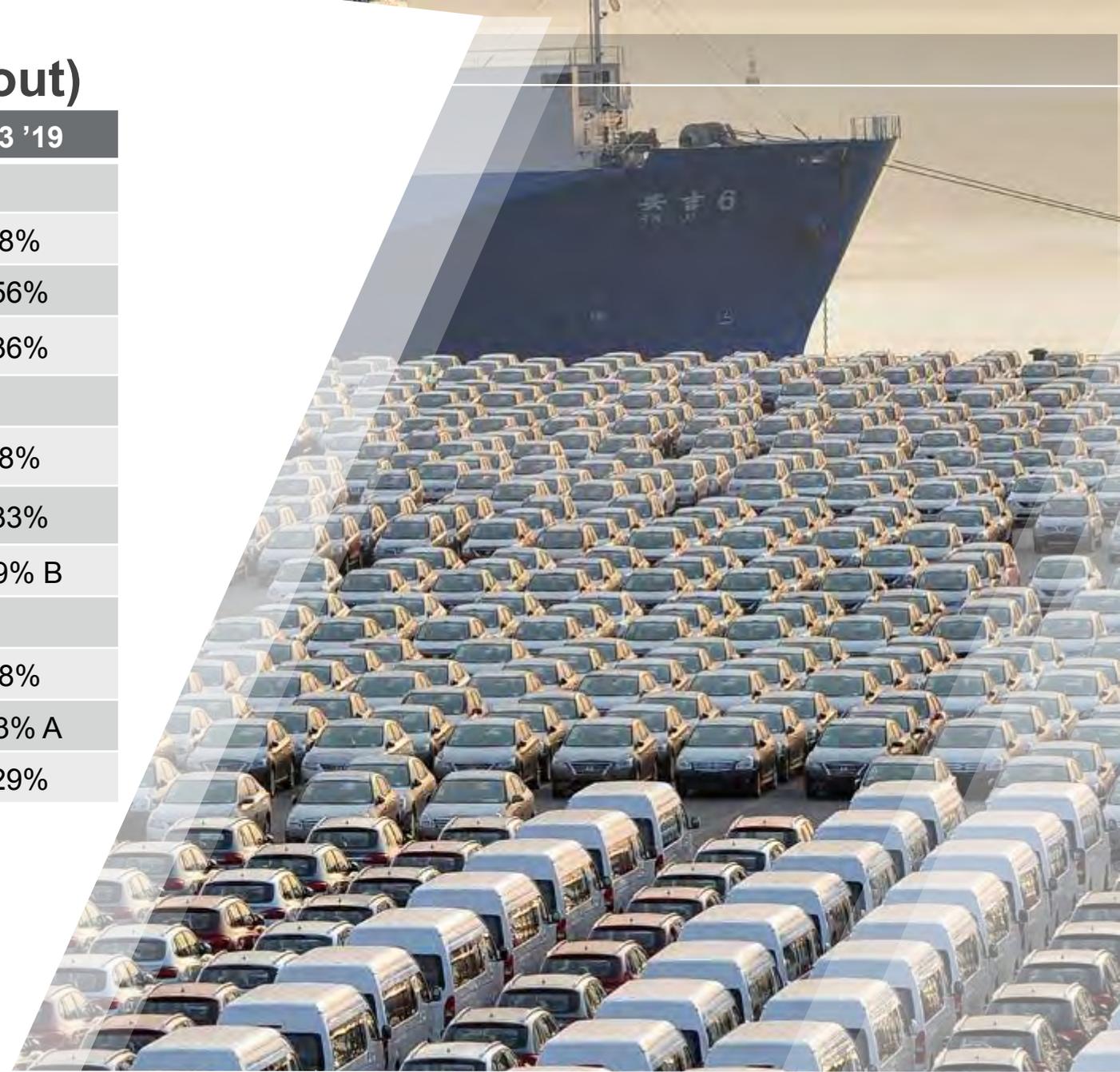
# Import Tariff Impact (Full Breakout)

	Q4 '19	Q3 '19
<b>OVERALL</b>		
Positive Impact	<b>6%</b>	8%
No Impact	<b>57%</b>	56%
Negative Impact	<b>37%</b>	36%
<b>FRANCHISE (A)</b>		
Positive Impact	<b>7%</b>	8%
No Impact	<b>34%</b>	33%
Negative Impact	<b>59% B</b>	59% B
<b>INDEPENDENT (B)</b>		
Positive Impact	<b>5%</b>	8%
No Impact	<b>65% A</b>	63% A
Negative Impact	<b>30%</b>	29%

A/B indicates significant difference between groups

Q: Which of the following best describes the impact on your business' profitability next quarter if tariffs are imposed on imported vehicles and parts?

 Arrows indicate significant increase vs previous quarter  
 Arrows indicate significant decrease vs previous quarter

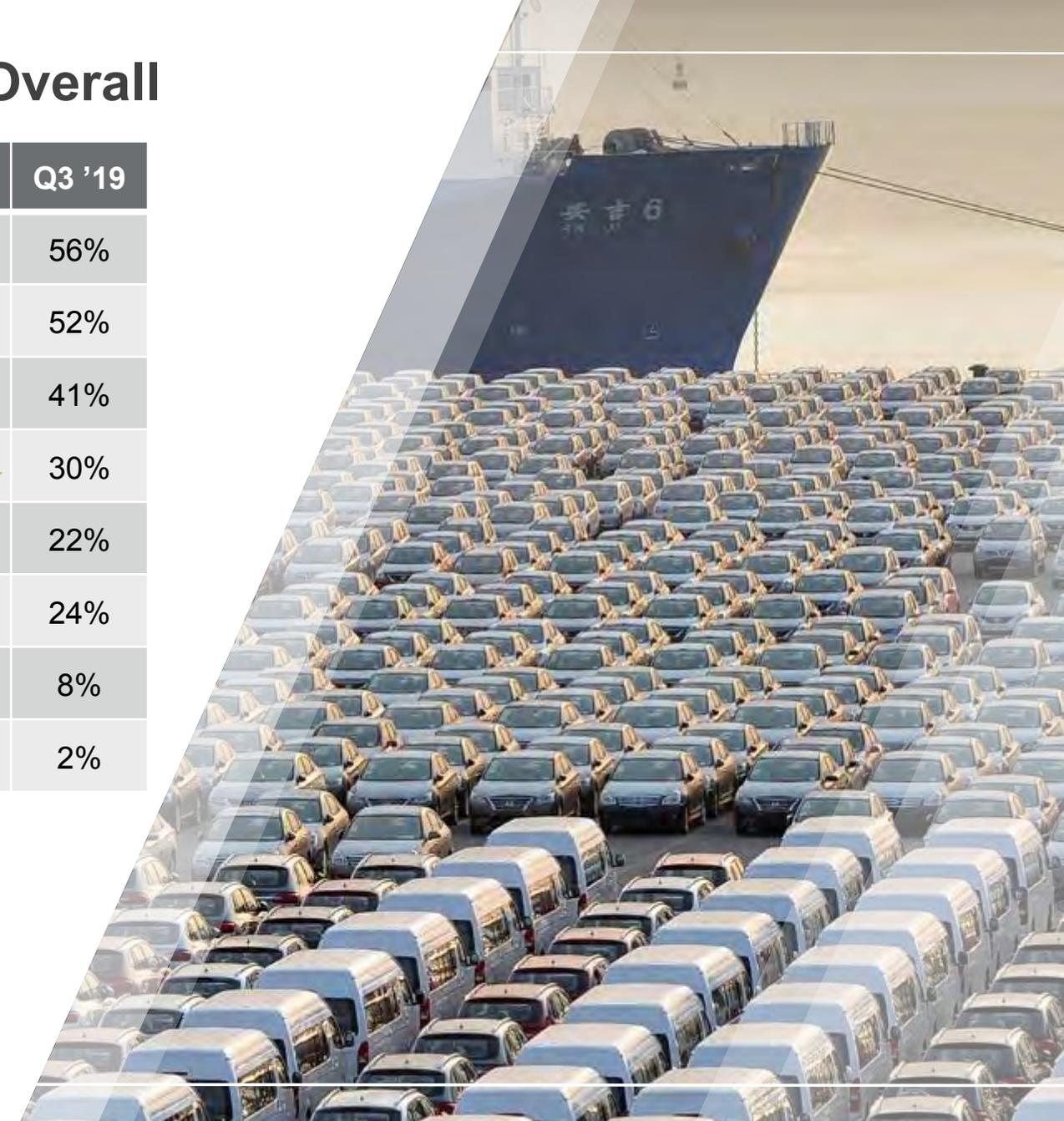


# Negative Impact of Import Tariffs – Overall

	Q4 '19	Q3 '19
Higher prices on all used vehicles as market adjusts	<b>57%</b>	56%
Higher prices on imported vehicles	<b>50%</b>	52%
Higher prices on all new vehicles as market adjusts	<b>44%</b>	41%
Higher prices on domestic vehicles	<b>22%</b> ↓	30%
Lower (or delayed) new vehicle sales	<b>22%</b>	22%
Lower (or delayed) used vehicle sales	<b>21%</b>	24%
Other	<b>7%</b>	8%
No concerns	<b>3%</b>	2%

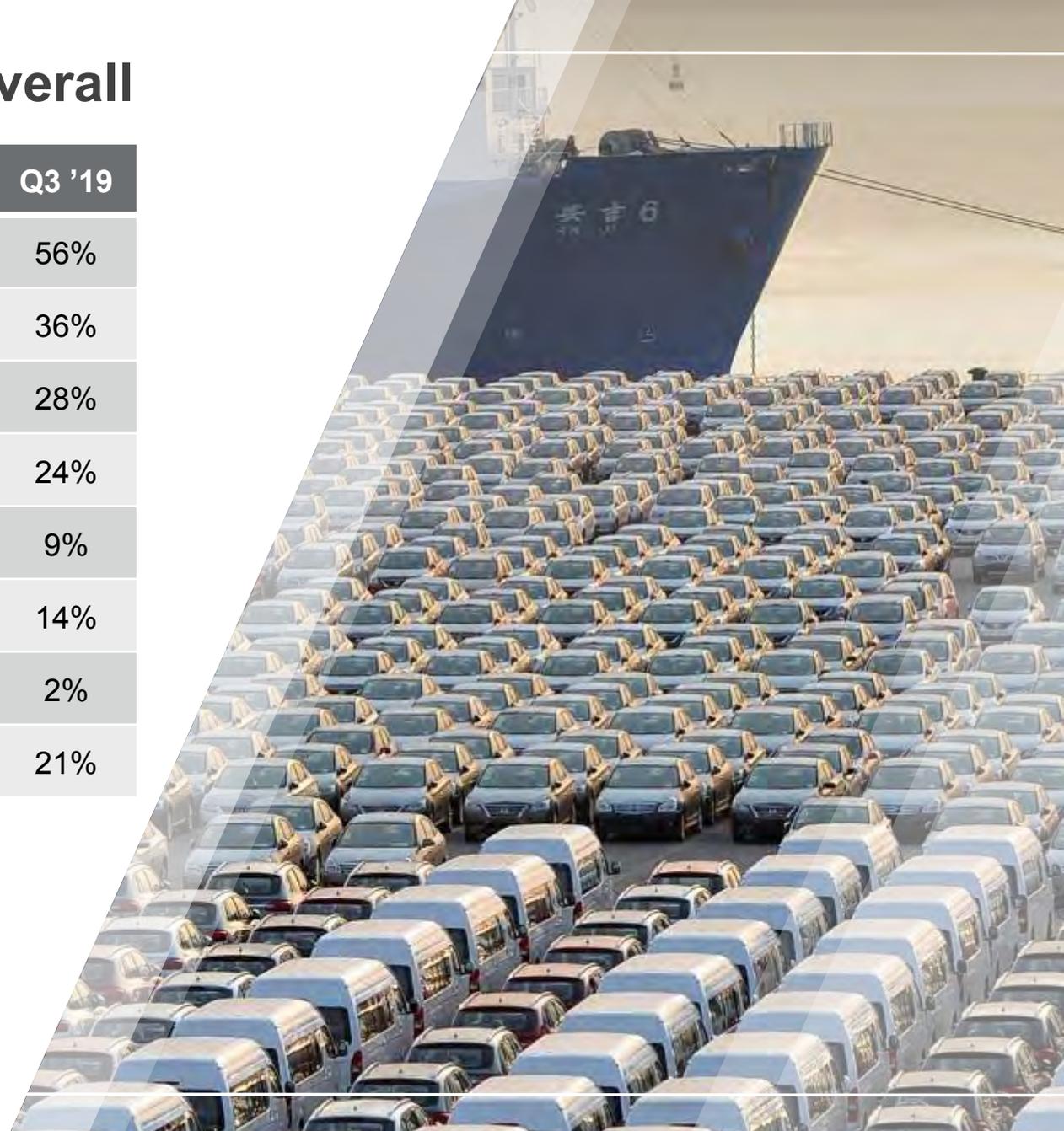
Q: What, if any, negative impacts would imposing tariffs on imported vehicles and parts have on your business? Please select all that apply.

↑ Arrows indicate significant increase vs previous quarter  
 ↓ Arrows indicate significant decrease vs previous quarter



# Positive Impact of Import Tariffs – Overall

	Q4 '19	Q3 '19
Increased traffic for used vehicles	<b>43%</b>	56%
Increased margin on all used vehicles as market adjusts	<b>33%</b>	36%
Will make the market stronger overall	<b>24%</b>	28%
Increased domestic vehicles sales	<b>22%</b>	24%
Increased margin on all new vehicles as market adjusts	<b>20%</b>	9%
Increased margin on all vehicle repairs as market adjusts	<b>10%</b>	14%
Other	<b>1%</b>	2%
No positive impact	<b>18%</b>	21%



Q: What, if any, positive impacts would imposing tariffs on imported vehicles and parts have on your business? Please select all that apply.

 Arrows indicate significant increase vs previous quarter  
 Arrows indicate significant decrease vs previous quarter

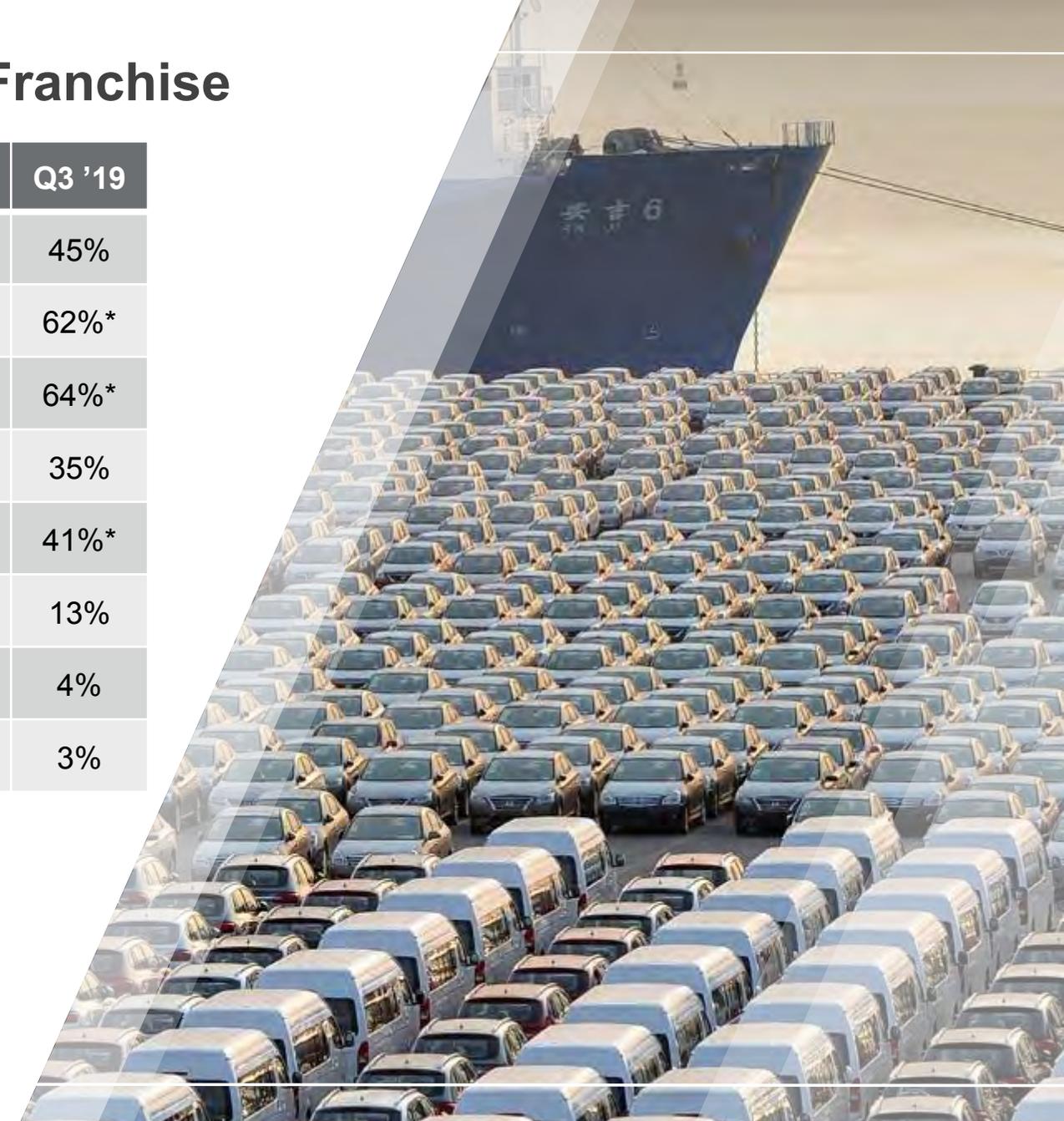
# Negative Impact of Import Tariffs – Franchise

	Q4 '19	Q3 '19
Higher prices on all used vehicles as market adjusts	<b>39%</b>	45%
Higher prices on imported vehicles	<b>59%*</b>	62%*
Higher prices on all new vehicles as market adjusts	<b>65%*</b>	64%*
Higher prices on domestic vehicles	<b>28%</b>	35%
Lower (or delayed) new vehicle sales	<b>40%*</b>	41%*
Lower (or delayed) used vehicle sales	<b>12%</b>	13%
Other	<b>3%</b>	4%
No concerns	<b>2%</b>	3%

\* Significant difference from Independent Dealers

Q: What, if any, negative impacts would imposing tariffs on imported vehicles and parts have on your business? Please select all that apply.

 Arrows indicate significant increase vs previous quarter  
 Arrows indicate significant decrease vs previous quarter



# Positive Impact of Import Tariffs – Franchise

	Q4 '19	Q3 '19
Increased traffic for used vehicles	<b>31%</b>	33%
Increased margin on all used vehicles as market adjusts	<b>28%</b>	29%
Will make the market stronger overall	<b>29%</b>	36%
Increased domestic vehicles sales	<b>34%</b>	36%
Increased margin on all new vehicles as market adjusts	<b>29%</b>	38%*
Increased margin on all vehicle repairs as market adjusts	<b>23%*</b>	30%*
Other	<b>3%</b>	6%
No positive impact	<b>18%</b>	20%

\* Significant difference from Independent Dealers

Q: What, if any, positive impacts would imposing tariffs on imported vehicles and parts have on your business? Please select all that apply.

 Arrows indicate significant increase vs previous quarter  
 Arrows indicate significant decrease vs previous quarter



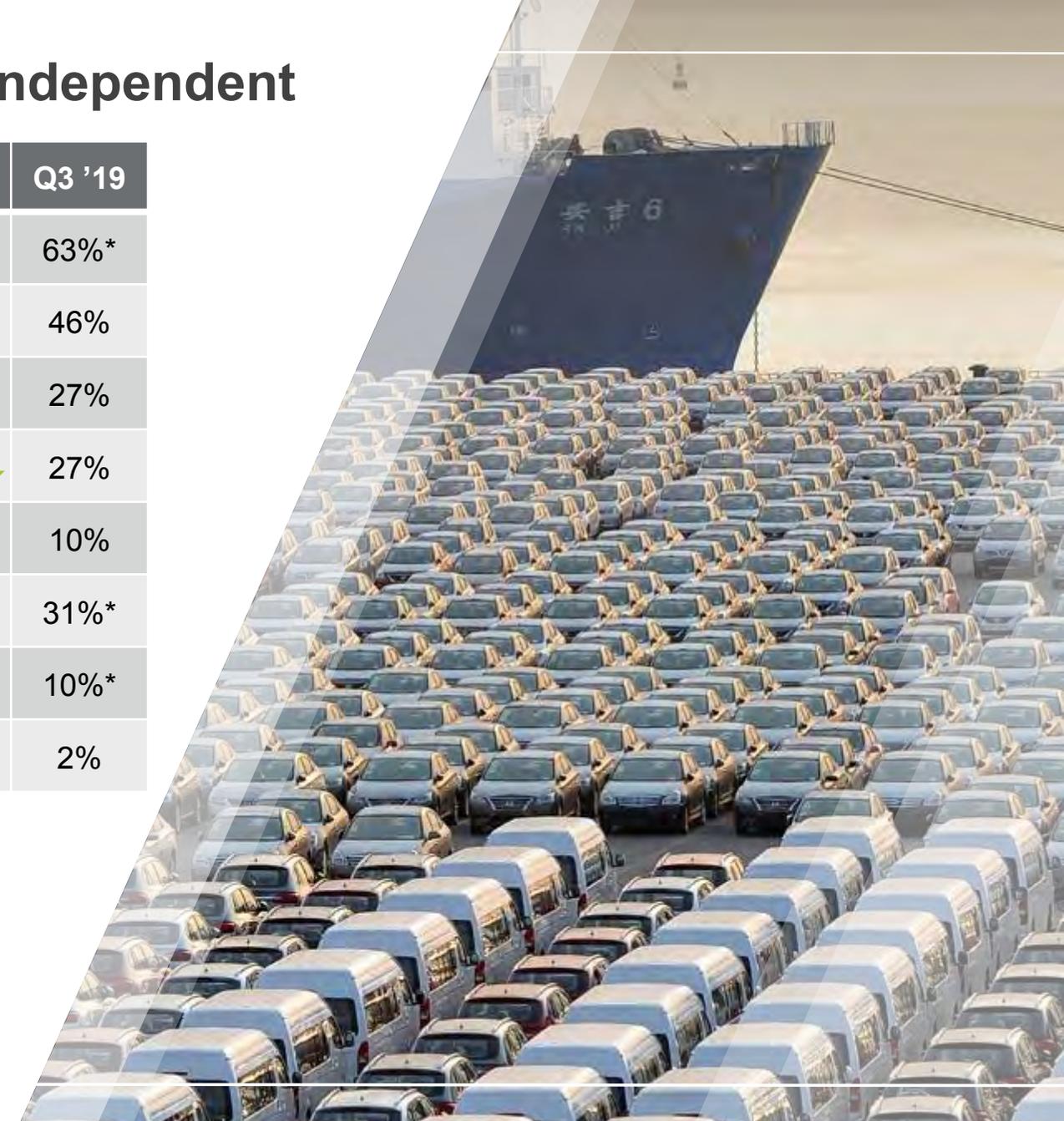
# Negative Impact of Import Tariffs – Independent

	Q4 '19	Q3 '19
Higher prices on all used vehicles as market adjusts	<b>69%*</b>	63%*
Higher prices on imported vehicles	<b>44%</b>	46%
Higher prices on all new vehicles as market adjusts	<b>30%</b>	27%
Higher prices on domestic vehicles	<b>19%</b> ↓	27%
Lower (or delayed) new vehicle sales	<b>11%</b>	10%
Lower (or delayed) used vehicle sales	<b>27%*</b>	31%*
Other	<b>9%</b>	10%*
No concerns	<b>4%</b>	2%

\* Significant difference from Franchised Dealers

Q: What, if any, negative impacts would imposing tariffs on imported vehicles and parts have on your business? Please select all that apply.

↑ Arrows indicate significant increase vs previous quarter  
 ↓ Arrows indicate significant decrease vs previous quarter



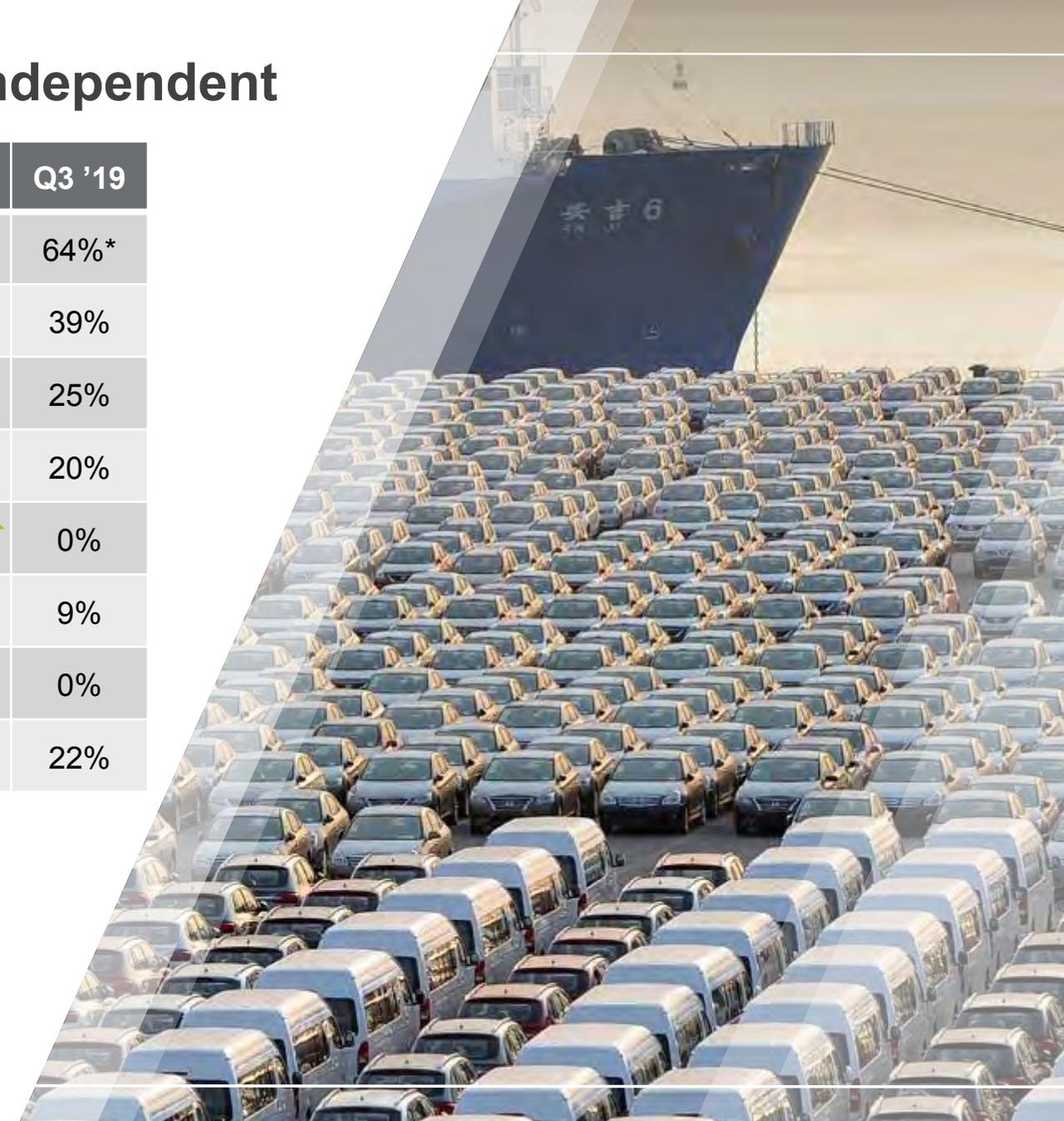
# Positive Impact of Import Tariffs – Independent

	Q4 '19	Q3 '19
Increased traffic for used vehicles	<b>49%</b>	64%*
Increased margin on all used vehicles as market adjusts	<b>35%</b>	39%
Will make the market stronger overall	<b>22%</b>	25%
Increased domestic vehicles sales	<b>15%</b>	20%
Increased margin on all new vehicles as market adjusts	<b>15%</b> ↑	0%
Increased margin on all vehicle repairs as market adjusts	<b>4%</b>	9%
Other	<b>0%</b>	0%
No positive impact	<b>19%</b>	22%

\* Significant difference from Franchised Dealers

Q: What, if any, positive impacts would imposing tariffs on imported vehicles and parts have on your business? Please select all that apply.

↑ Arrows indicate significant increase vs previous quarter  
 ↓ Arrows indicate significant decrease vs previous quarter



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