

Dealer Sentiment Index

FIRST QUARTER 2020



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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 Q1 2020 CADSI is based on 1,084 U.S. auto dealer respondents, comprising 606 franchised dealers and 478 independents. The survey was conducted from Jan. 27, 2020 to Feb. 10, 2020.

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

Key Takeaways

According to the Q1 2020 Cox Automotive Dealer Sentiment Index (CADSI), the current U.S. auto market is mostly unchanged from Q4 and remains negative, with an index score of 49. The slight increase from last quarter's 47 was not statistically significant.

Year over year, the current market index was up by one point, which was not statistically significant and remained 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 expanded this quarter after narrowing in Q4, with franchised dealers becoming more positive – increasing from 51 in Q4 to 55 in Q1 – while independents remained negative at 47, up only one point from Q4.

“The start of 2020 seems to have favored franchised dealers over independents,” said Cox Automotive Chief Economist Jonathan Smoke. “All dealers are optimistic about the spring, but the strong start of the year has made franchised dealers the most optimistic we have seen since the beginning of 2018.”

When it comes to views of the future, dealer types moved farther apart in Q1 as well. Franchises scored 66, the highest for the 3-month market outlook since Q2 of 2018, while independents increased to 61. Both saw a strong quarter-over-quarter increase – a typical spring bounce – but no substantial change year over year.

The used-vehicle sales index was directionally higher from Q4 to Q1 for franchised dealers, moving from 66 to 72 and near an all-time high. The gap between franchised and independent

perception also widened to 25, the largest gap in Dealer Sentiment Index history.

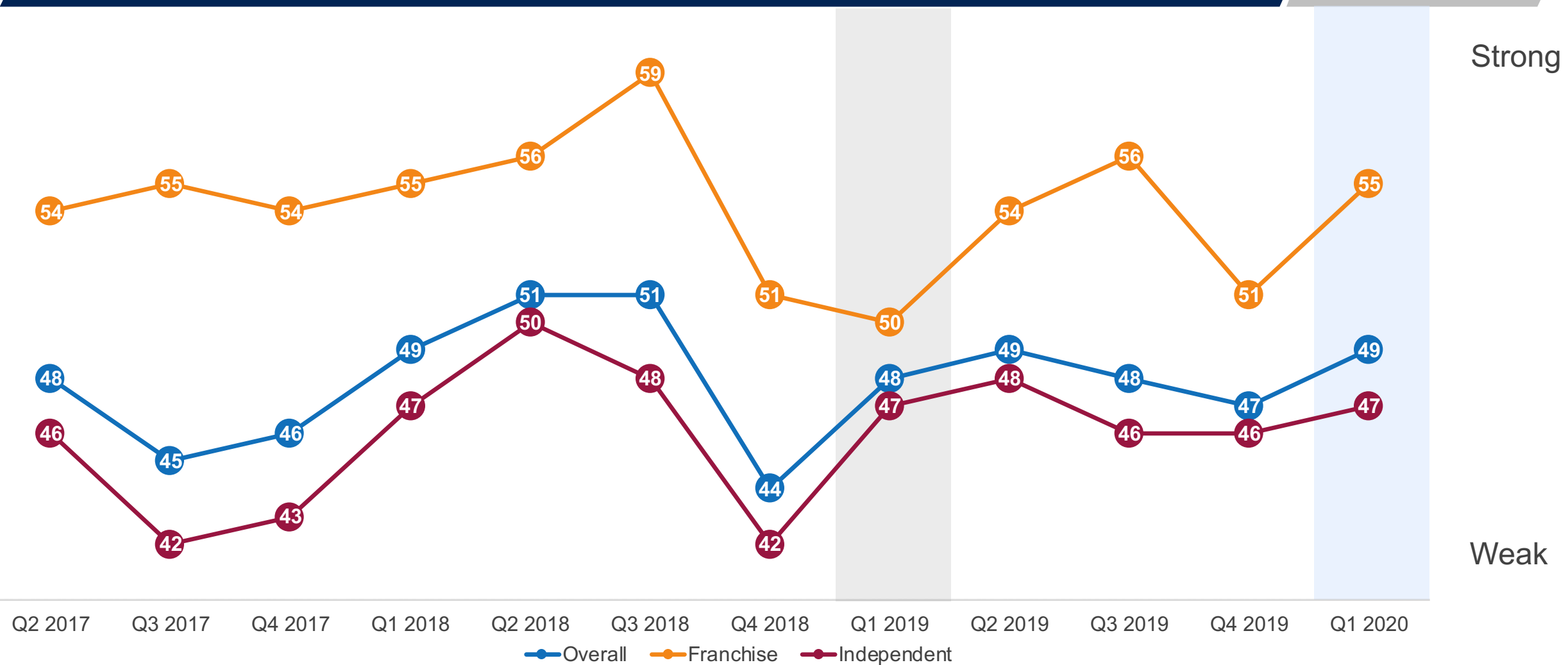
The top 5 factors holding back the business across all dealers marginally shifted in Q1 from Q4, with Expenses reentering as No. 5 from 6, pushing Economy down to 7. Competition and Market Conditions exchanged ranks as Competition rose to the top spot at 34% and Market Conditions dropped to second. Credit Availability and Limited Inventory remained in the third and fourth spots like the previous quarter.

Also noteworthy: Scores regarding dealer perception of the political climate holding back their business increased overall, as the political climate factor moved up to No. 6 from No. 8 in Q4 2019. The survey for the Q1 2020 CADSI was in-market during the Senate impeachment trial of President Trump.

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

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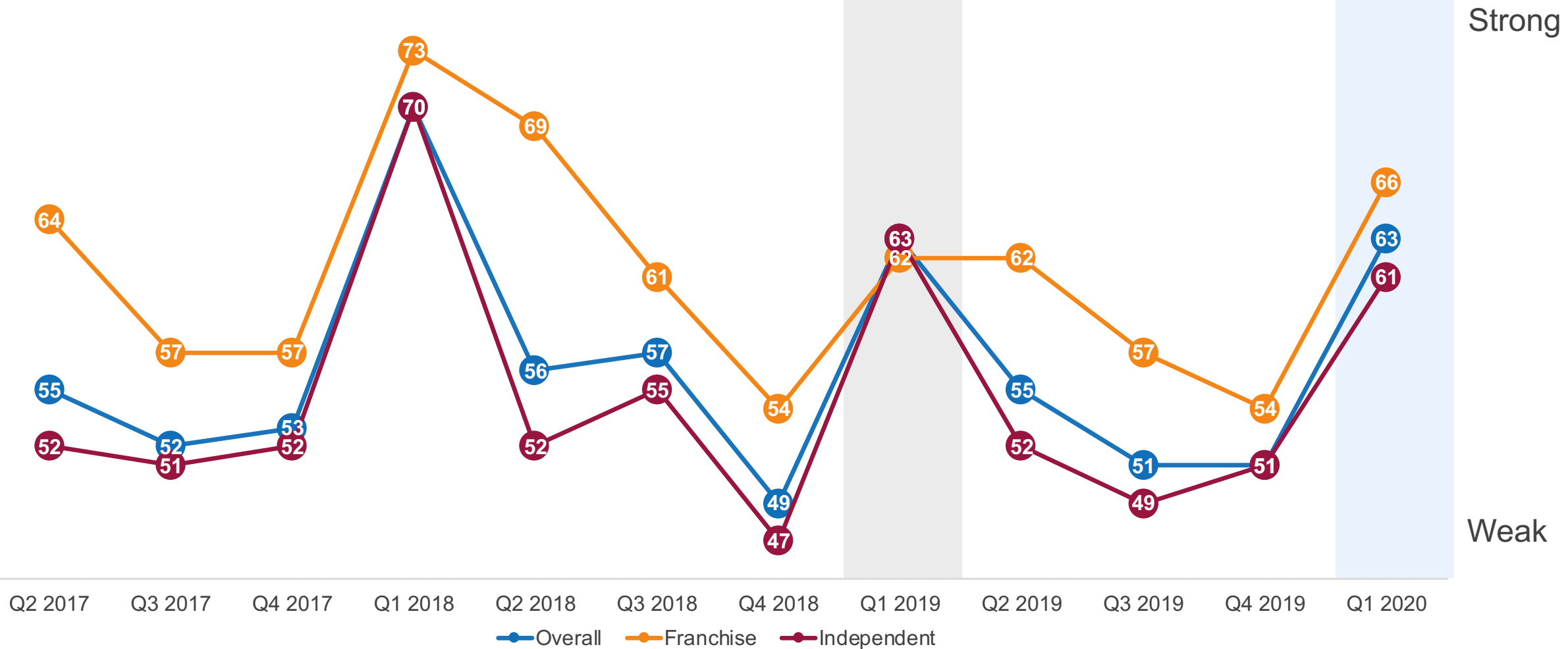


Note: Scale 1 - 100

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

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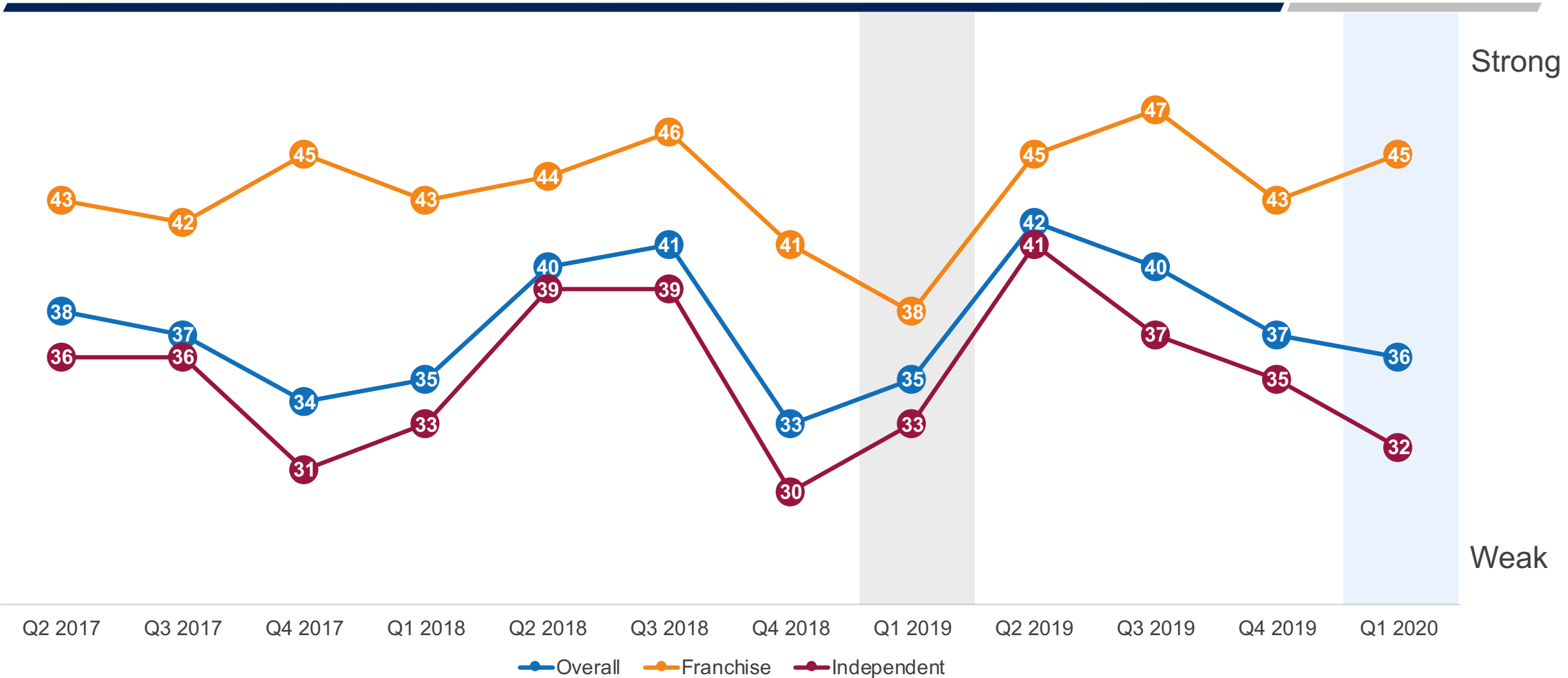


Note: Scale 1 - 100

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

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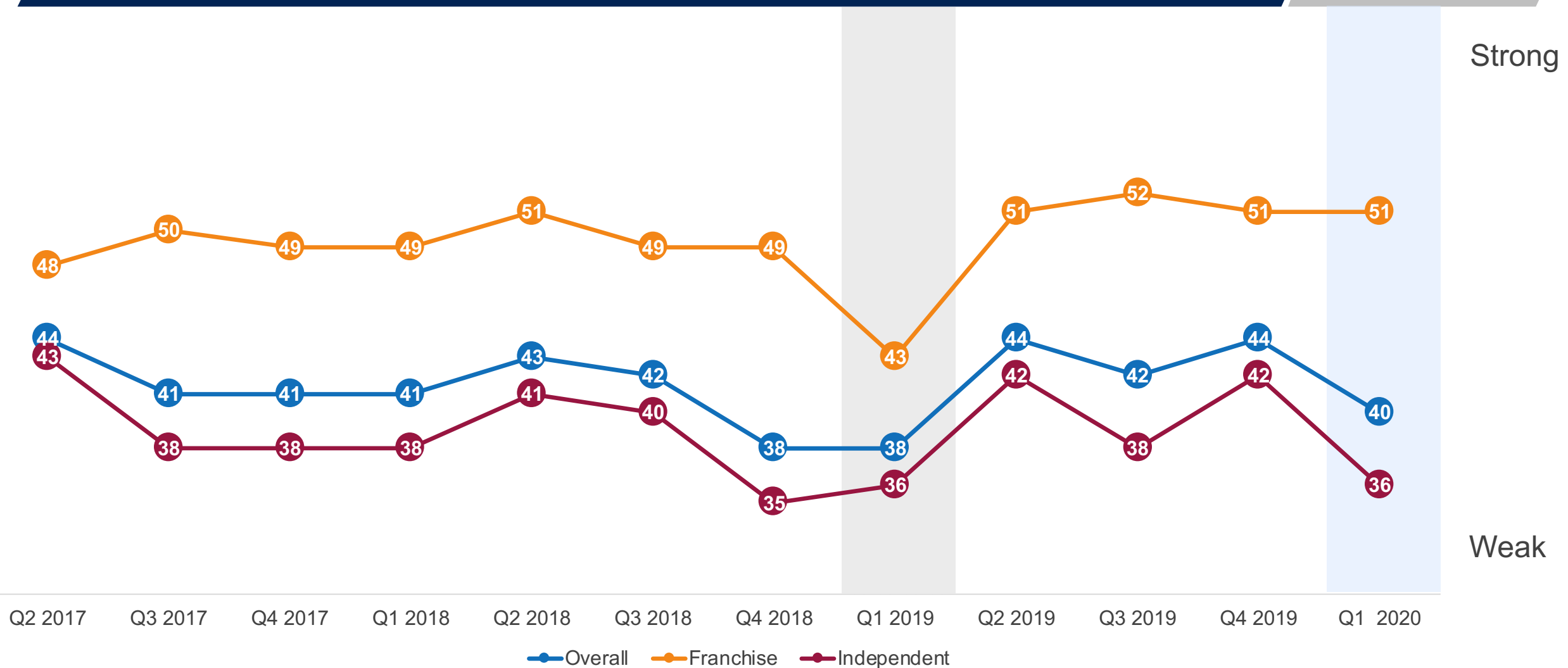


Note: Scale 1 - 100

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

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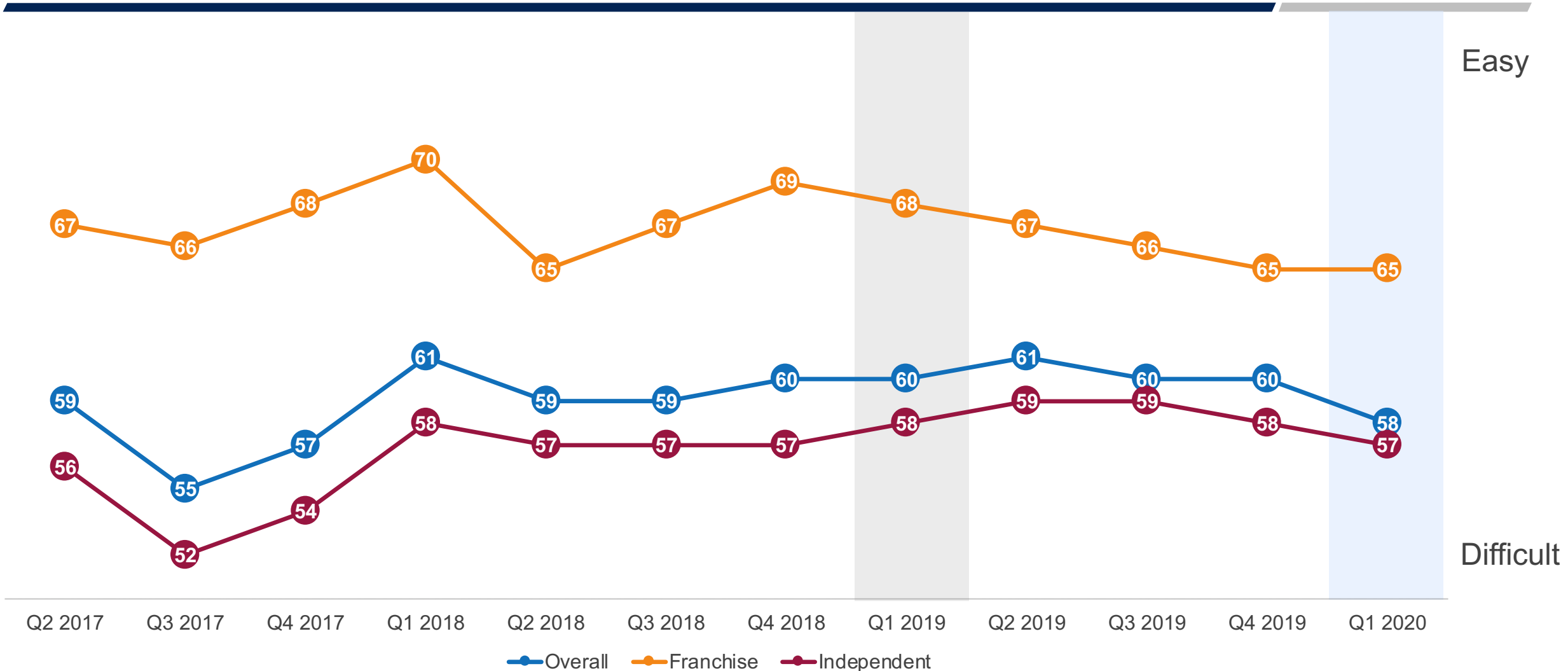


Note: Scale 1 - 100

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

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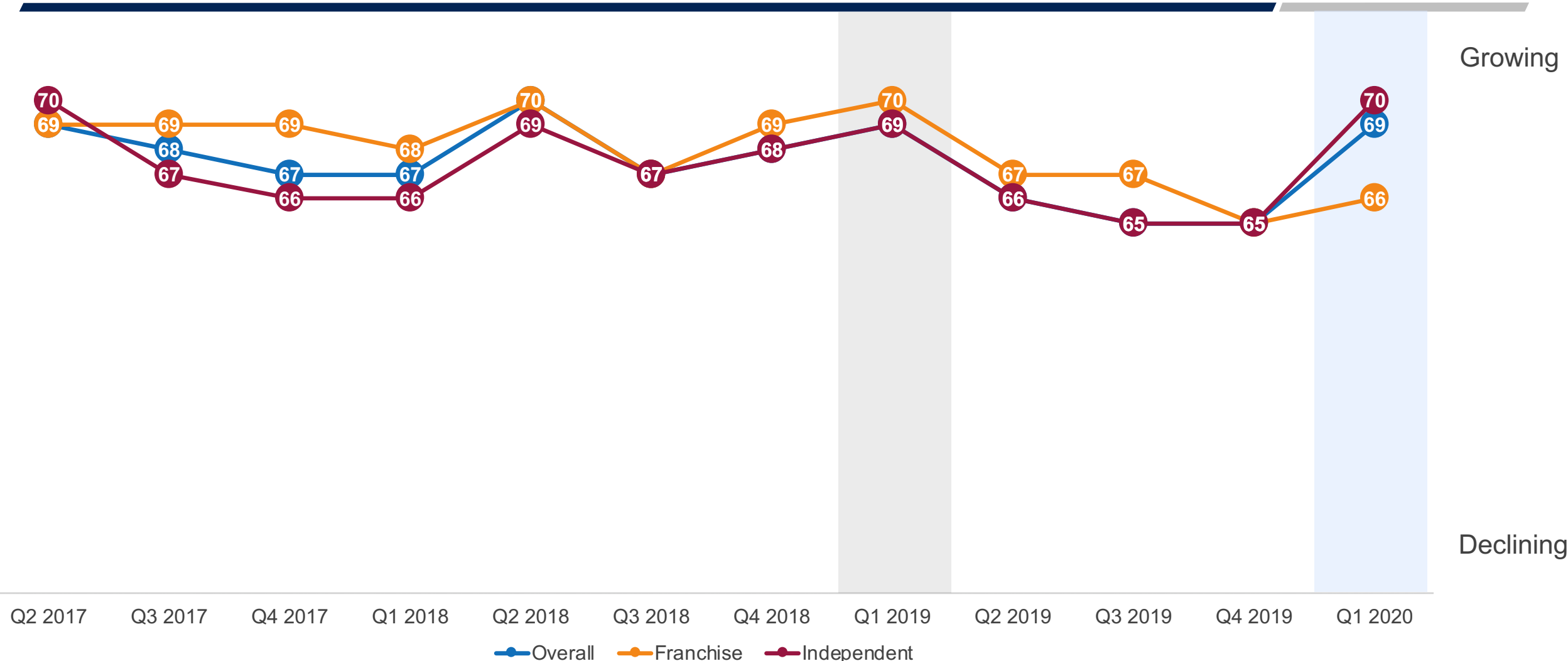


Note: Scale 1 - 100

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

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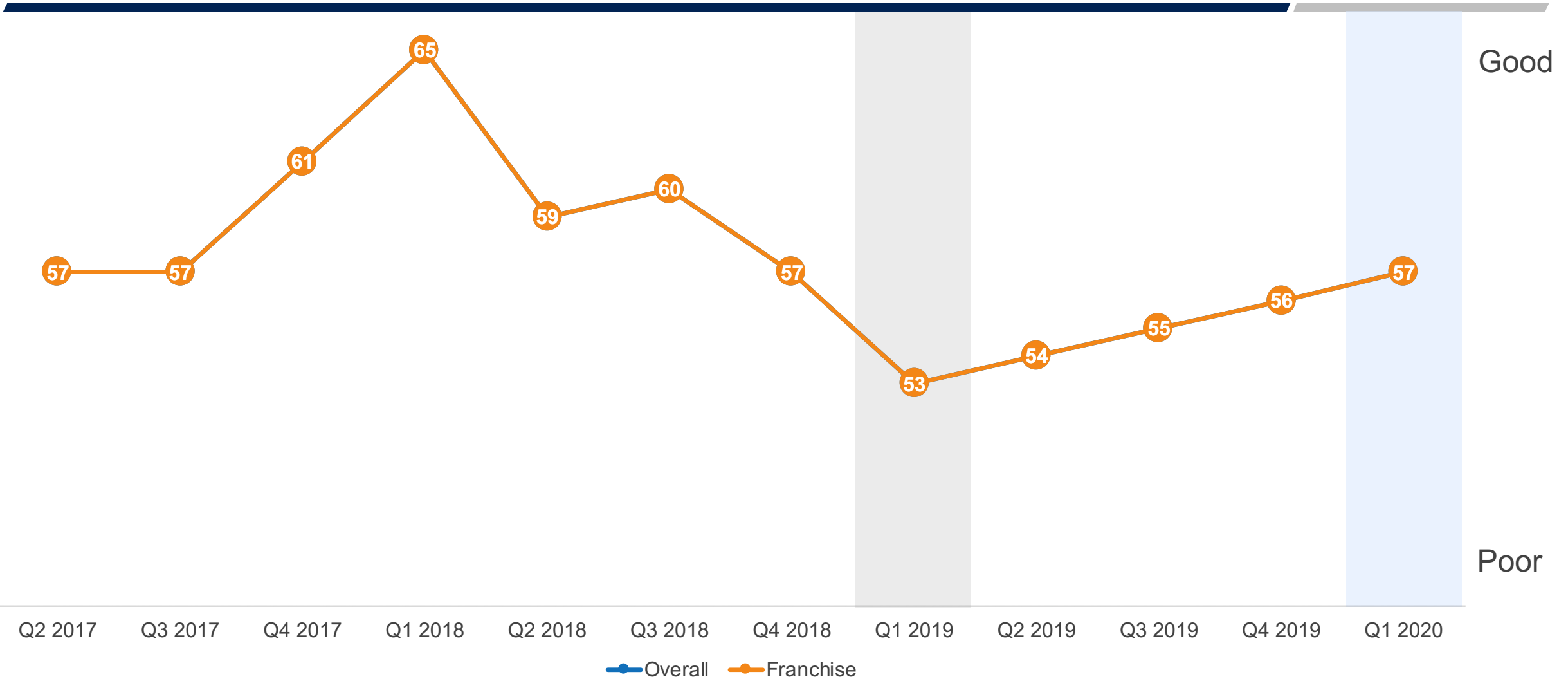


Note: Scale 1 - 100

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

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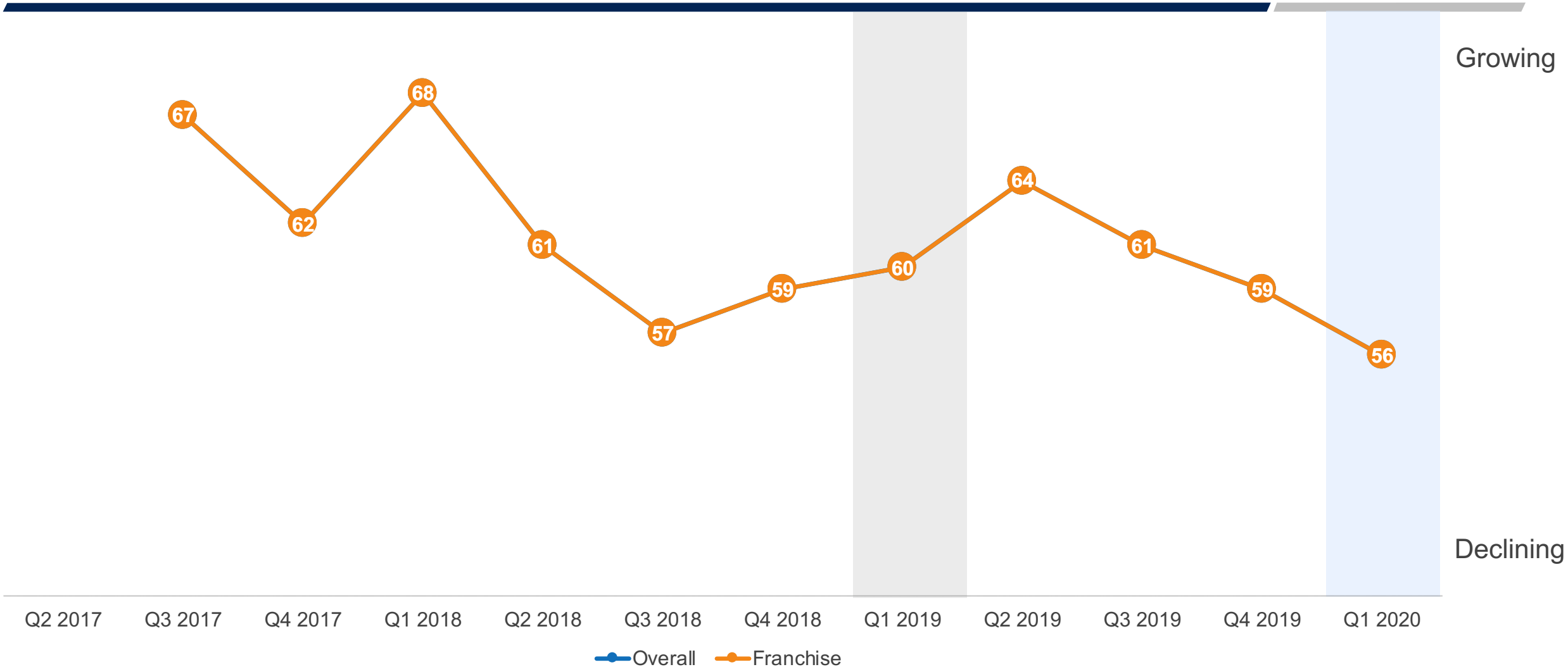


Note: Scale 1 - 100

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

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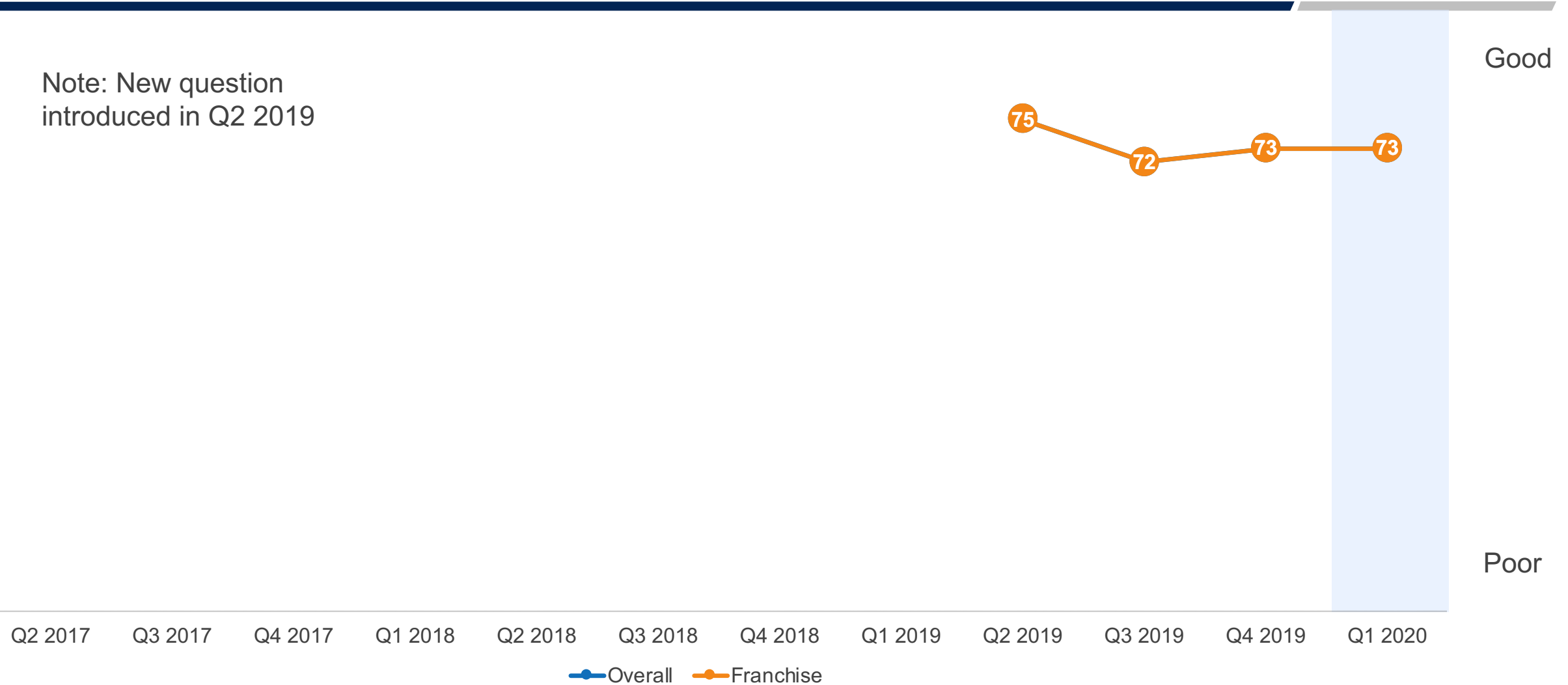
Note: Scale 1 - 100

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

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Note: New question introduced in Q2 2019

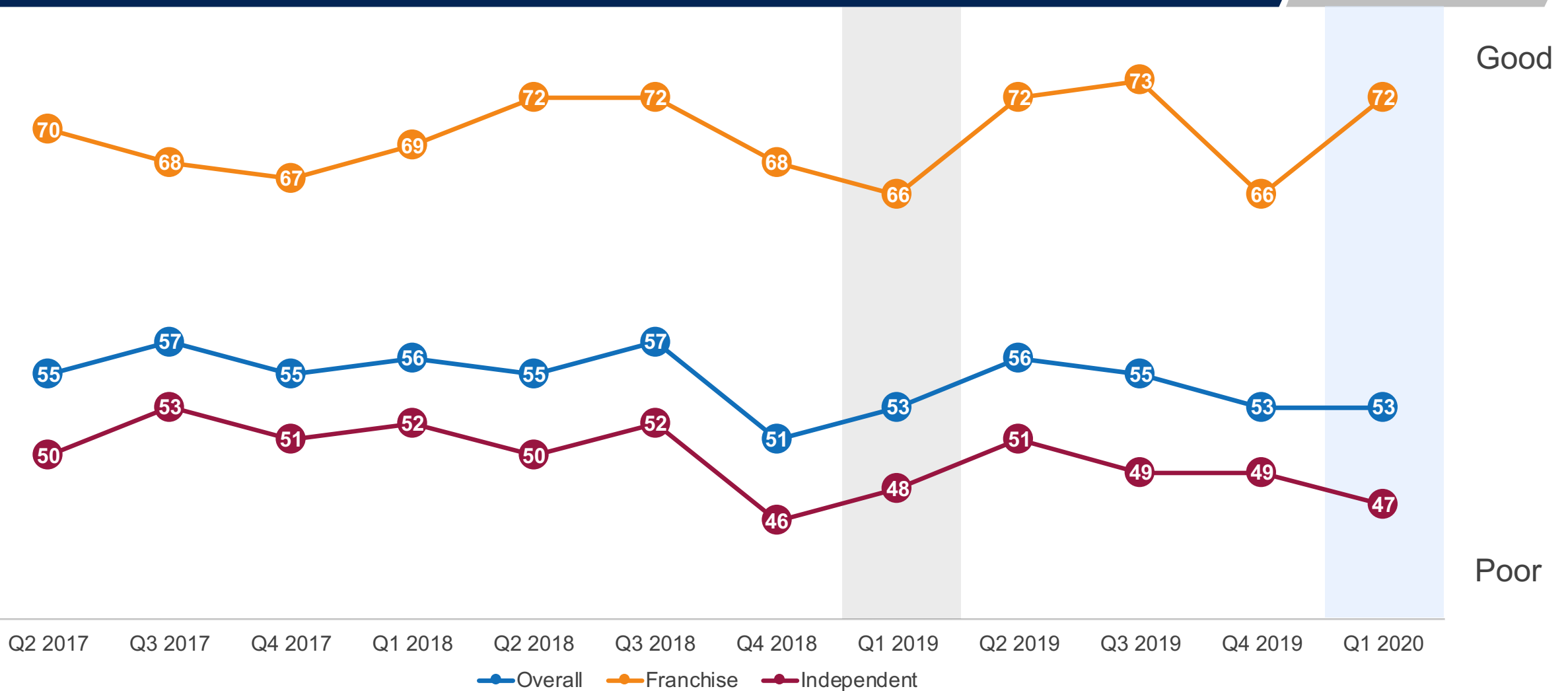


Note: Scale 1 - 100

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

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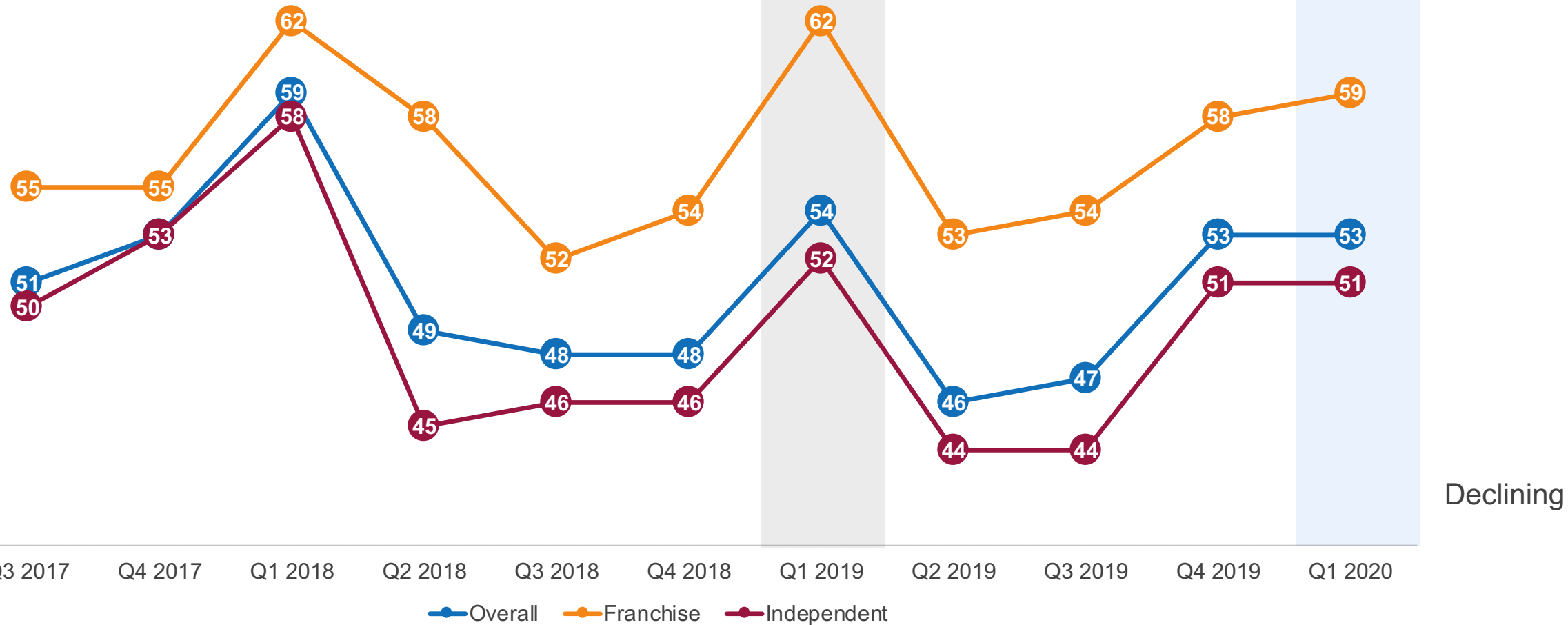


Note: Scale 1 - 100

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

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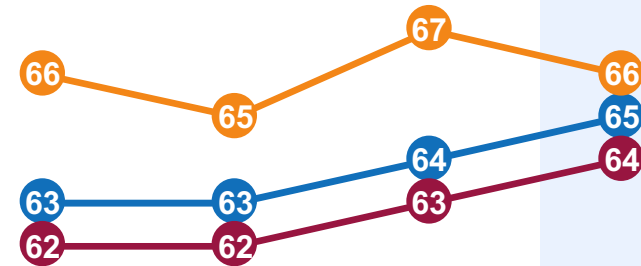
Note: Scale 1 - 100

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

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Note: New question introduced in Q2 2019



Good

Poor

Q2 2017 Q3 2017 Q4 2017 Q1 2018 Q2 2018 Q3 2018 Q4 2018 Q1 2019 Q2 2019 Q3 2019 Q4 2019 Q1 2020

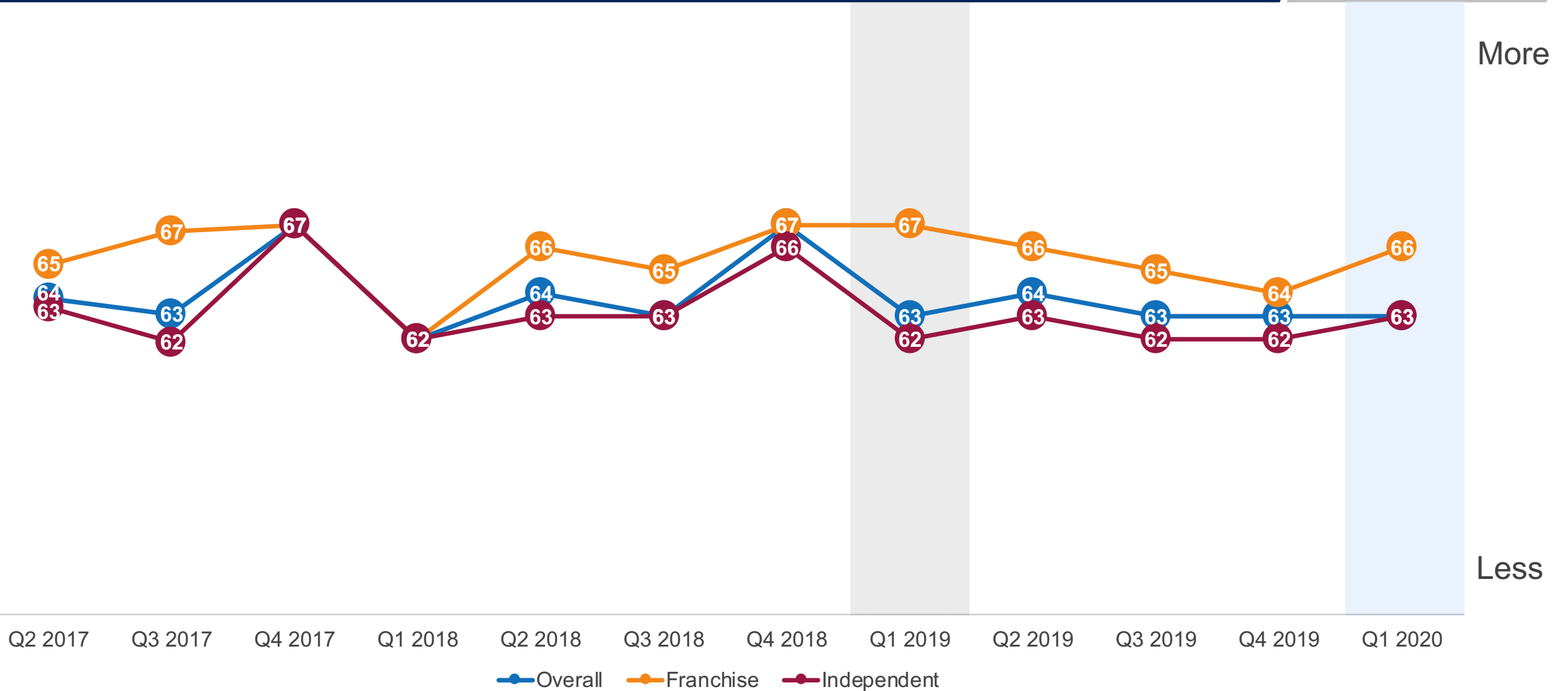
Overall Franchise Independent

Note: Scale 1 - 100

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

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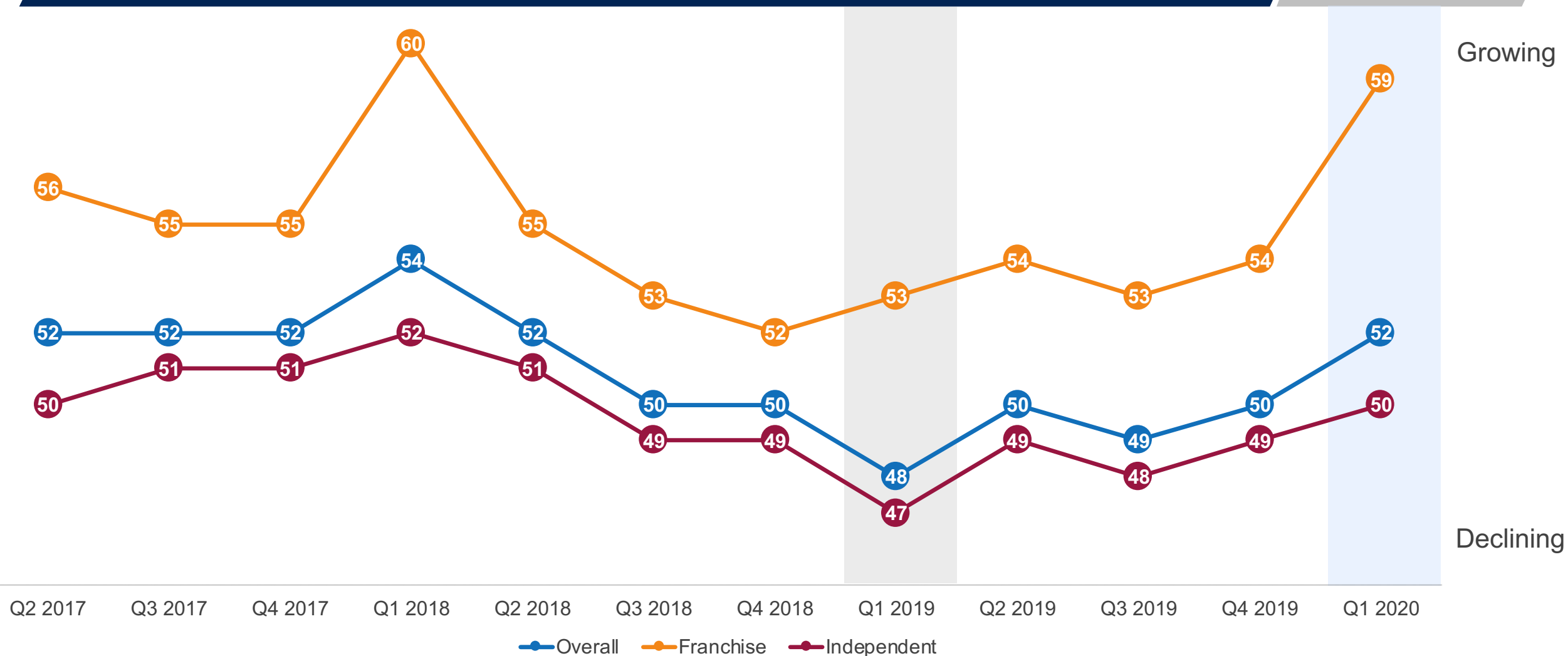


Note: Scale 1 - 100

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

		Q1 '20	Q4 '19	Q1 '19
1	Competition	34%	33%	37%
1	Market Conditions	34%	35%	45%
3	Credit Availability for Consumers	30%	27%	33%
4	Limited Inventory	29%	26%	29%
5	Expenses	21%	22%	30%
6	Political Climate	19%	18%	N/A
6	Economy	19% ↓	25%	N/A
6	Weather	19% ↑	11%	N/A
9	Consumer Confidence	17%	19%	24%
10	Consumer Transparency in Pricing	9%	10%	14%
11	Interest Rates	8%	7%	22%
11	Staff Turnover	8%	8%	11%
13	Credit Availability for Business	7%	6%	7%
14	Regulations	6% ↓	8%	10%
15	Too Much Retail Inventory	5%	6%	6%
15	Dealership Systems/Tools	5%	5%	6%
15	Lack of consumer incentives from my OEM	5%	4%	N/A
18	Tariffs on Imported Vehicles and Parts	3% ↓	6%	6%
18	OEM Mandates/Restrictions	3%	4%	5%

Significant decrease vs previous quarter



Significant increase vs previous quarter



Factors Holding Back Your Business?

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FRANCHISED DEALERS

		Q1 '20	Q4 '19	Q1 '19
1	Market Conditions	34%	38%	46%
2	Competition	32%	31%	41%
3	Political Climate	23%	24%	N/A
3	Weather	23% ↑	14%	N/A
5	Lack of consumer incentives from my OEM	21%	15%	N/A
6	Economy	20%	26%	N/A
7	Staff Turnover	19%	16%	23%
8	Credit Availability for Consumers	18%	15%	20%
8	Limited Inventory	18%	17%	17%
8	Consumer Confidence	18%	21%	32%
11	Expenses	17%	18%	24%
12	Interest Rates	11%	9%	36%
13	OEM Mandates/Restrictions	10%	14%	19%
14	Consumer Transparency in Pricing	9%	8%	13%
15	Dealership Systems/Tools	8%	7%	8%
16	Too Much Retail Inventory	4%	5%	5%
16	Tariffs on Imported Vehicles and Parts	4%	7%	8%
18	Credit Availability for Business	2%	3%	2%
18	Regulations	2%	4%	5%

Significant decrease vs previous quarter



Significant increase vs previous quarter



Factors Holding Back Your Business?

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INDEPENDENT DEALERS

		Q1 '20	Q4 '19	Q1 '19
1	Competition	35%	33%	36%
1	Credit Availability for Consumers	35%	31%	37%
3	Market Conditions	34%	34%	44%
4	Limited Inventory	33%	30%	33%
5	Expenses	22%	23%	31%
6	Economy	19% ↓	24%	N/A
7	Political Climate	18%	17%	N/A
8	Weather	17% ↑	10%	N/A
8	Consumer Confidence	17%	18%	21%
10	Consumer Transparency in Pricing	9%	11%	14%
11	Credit Availability for Business	8%	7%	9%
12	Interest Rates	7%	6%	17%
12	Regulations	7%	9%	11%
14	Too Much Retail Inventory	6%	6%	7%
15	Staff Turnover	4%	5%	7%
15	Dealership Systems/Tools	4%	5%	5%
17	Tariffs on Imported Vehicles and Parts	3% ↓	5%	6%

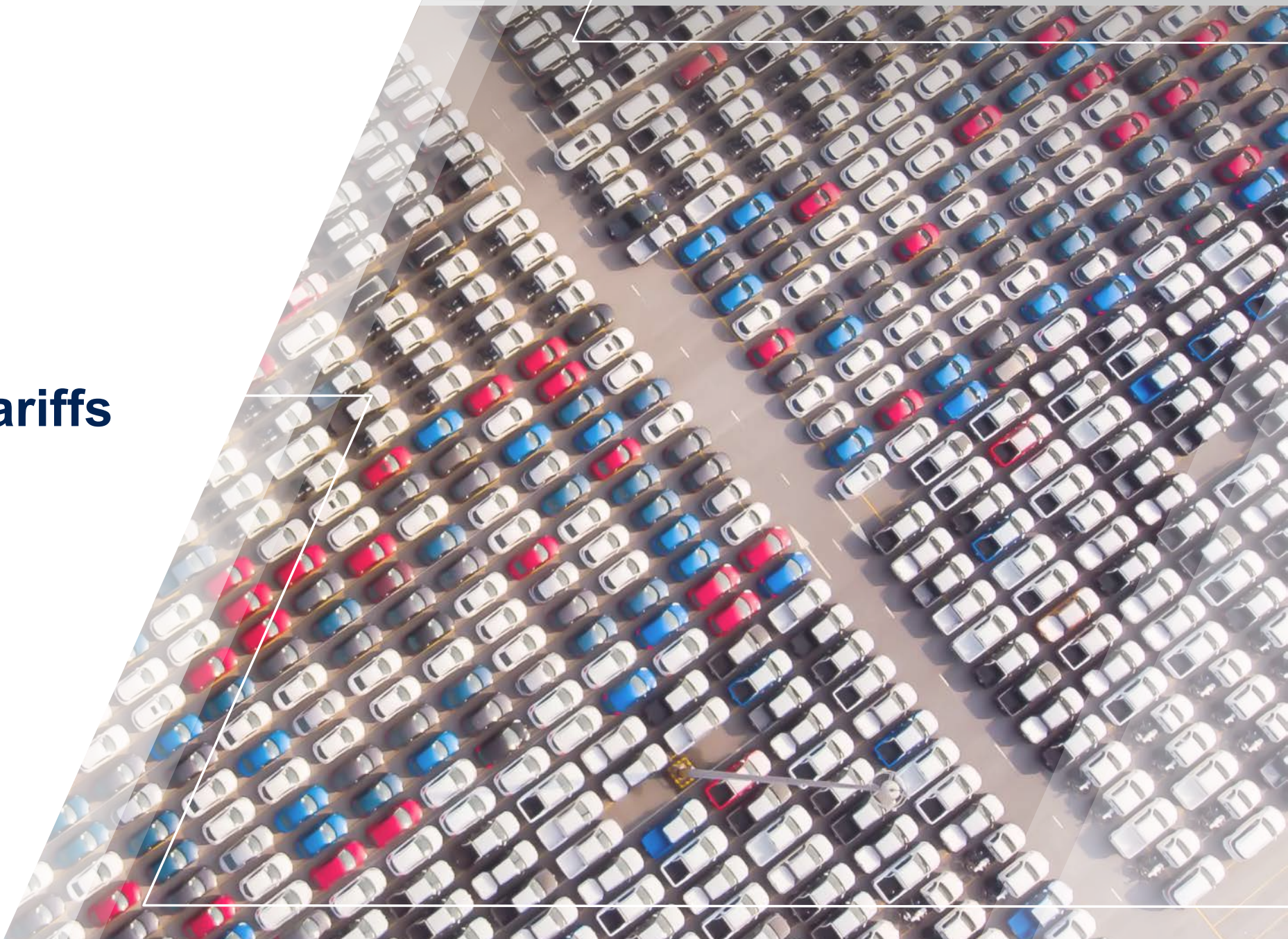
Significant decrease vs previous quarter



Significant increase vs previous quarter



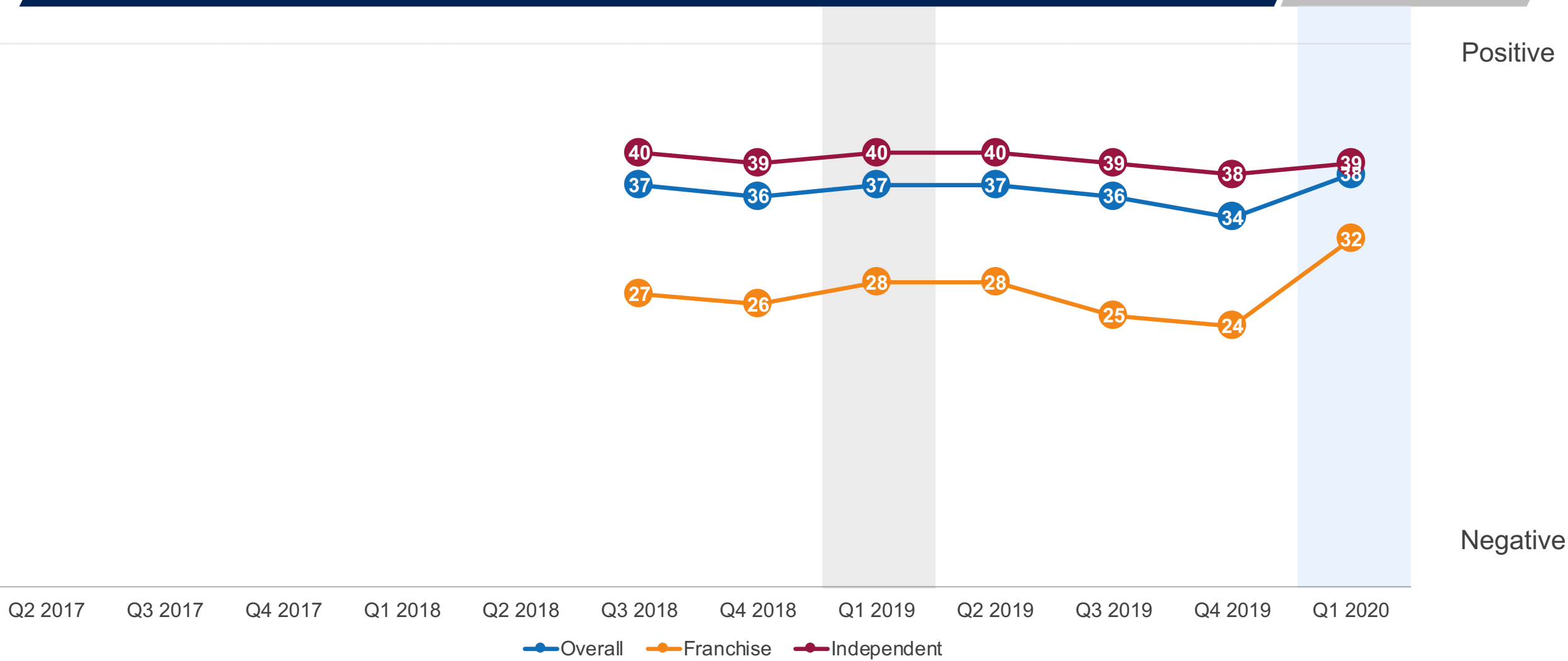
The Effect of Automotive Tariffs



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

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Note: Scale 1 - 100

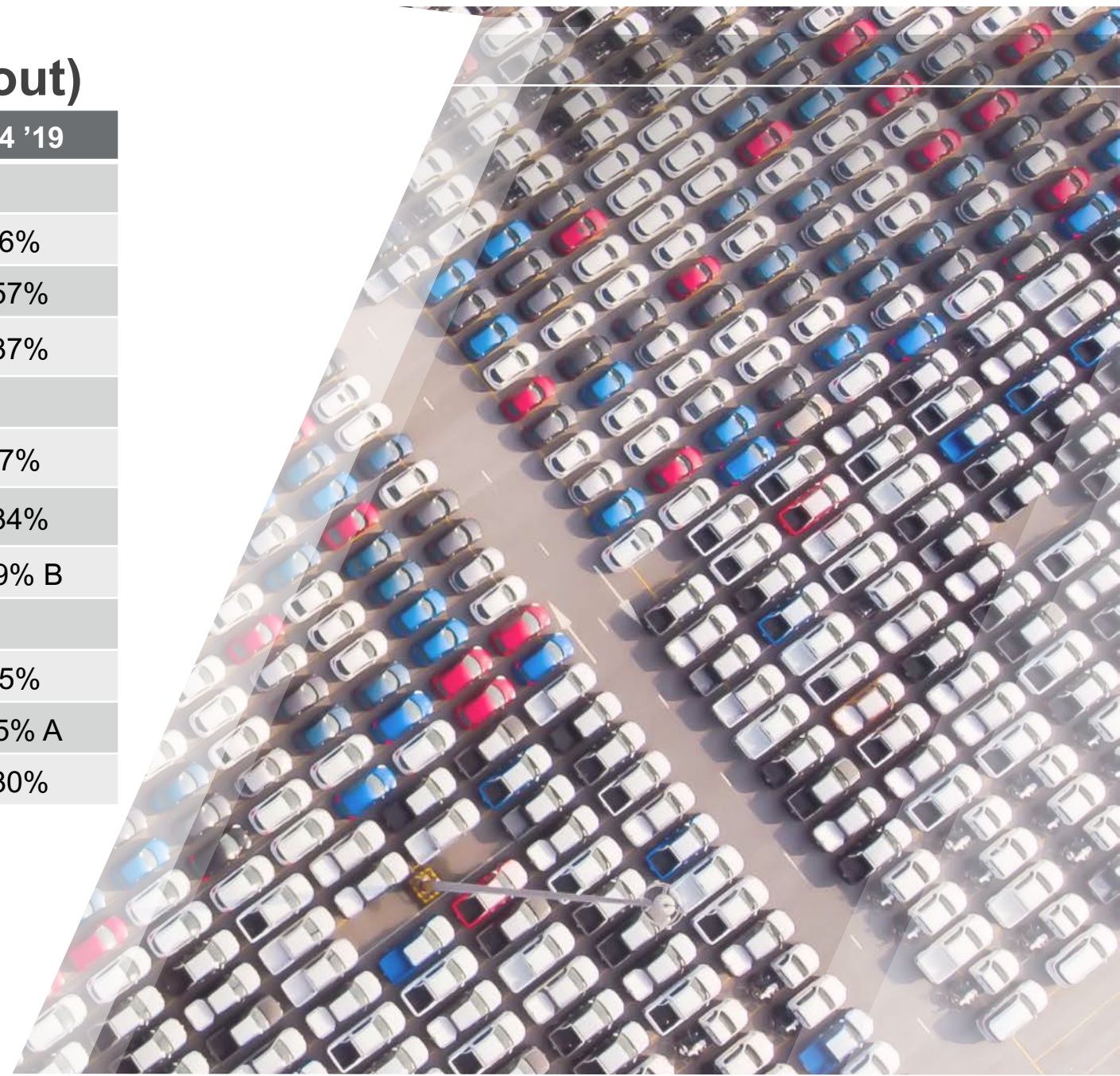
Import Tariff Impact (Full Breakout)

	Q1 '20	Q4 '19
OVERALL		
Positive Impact	8%	6%
No Impact	59%	57%
Negative Impact	33%	37%
FRANCHISE (A)		
Positive Impact	11%	7%
No Impact	42%	34%
Negative Impact	47% B ↓	59% B
INDEPENDENT (B)		
Positive Impact	8%	5%
No Impact	63% A	65% A
Negative Impact	29%	30%

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

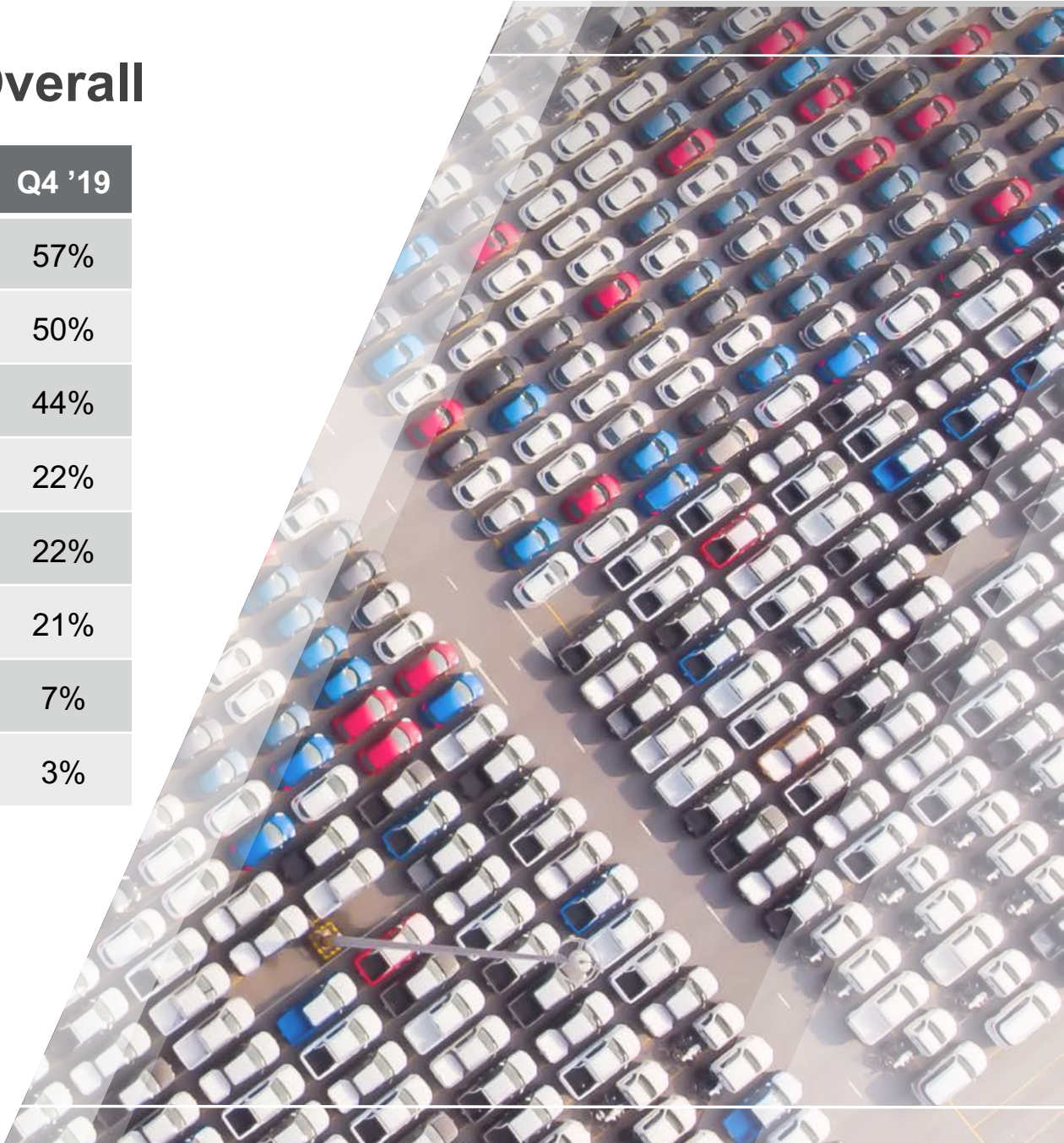


Negative Impact of Import Tariffs – Overall

	Q1 '20	Q4 '19
Higher prices on all used vehicles as market adjusts	56%	57%
Higher prices on imported vehicles	55%	50%
Higher prices on all new vehicles as market adjusts	40%	44%
Lower (or delayed) new-vehicle sales	21%	22%
Higher prices on domestic vehicles	21%	22%
Lower (or delayed) used-vehicle sales	19%	21%
Other	3% ↓	7%
No concerns	3%	3%

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

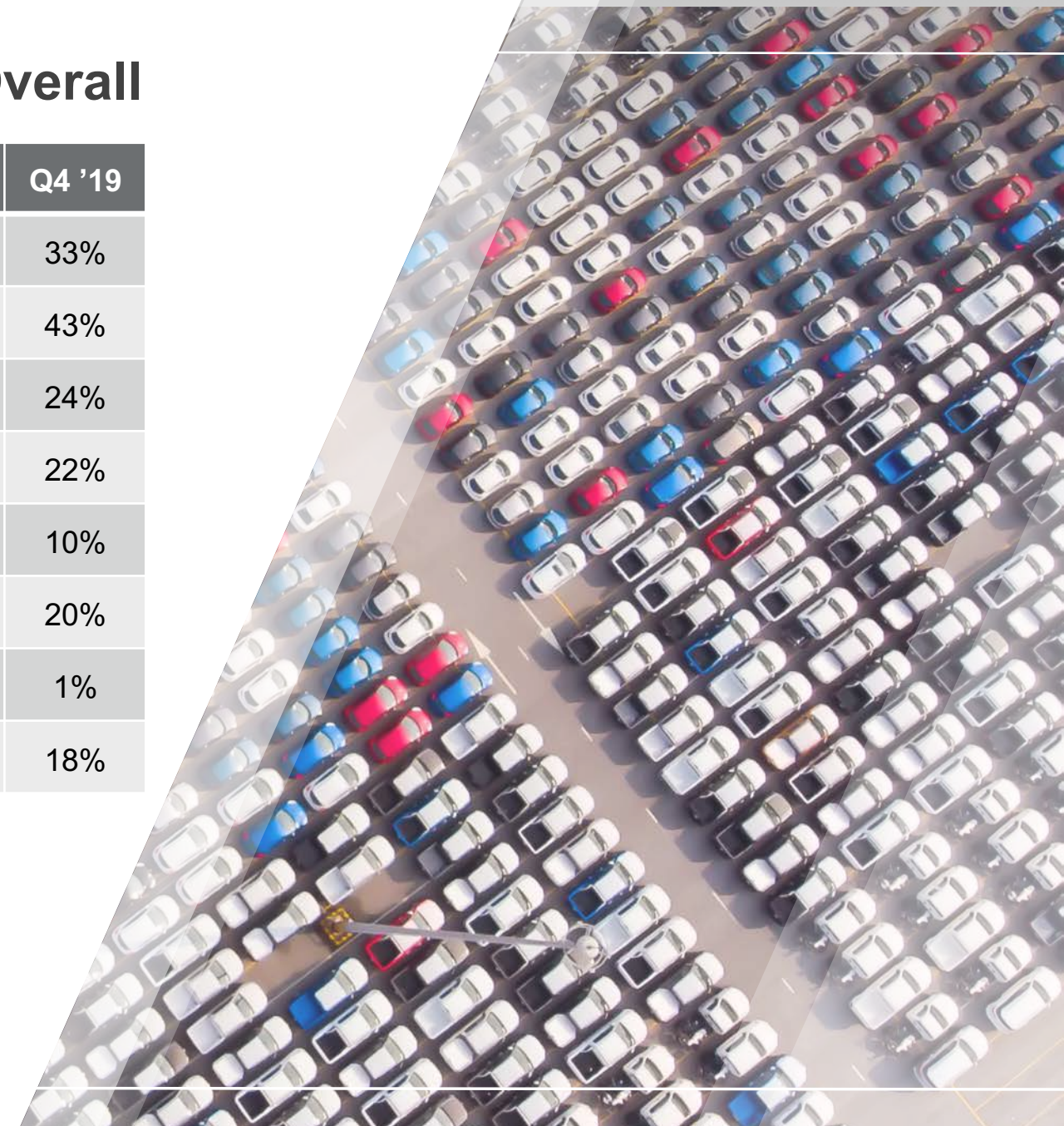


Positive Impact of Import Tariffs – Overall

	Q1 '20	Q4 '19
Increased margin on all used vehicles as market adjusts	34%	33%
Increased traffic for used vehicles	32%	43%
Will make the market stronger overall	26%	24%
Increased domestic vehicles sales	26%	22%
Increased margin on all vehicle repairs as market adjusts	15%	10%
Increased margin on all new vehicles as market adjusts	13%	20%
Other	1%	1%
No positive impact	16%	18%

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





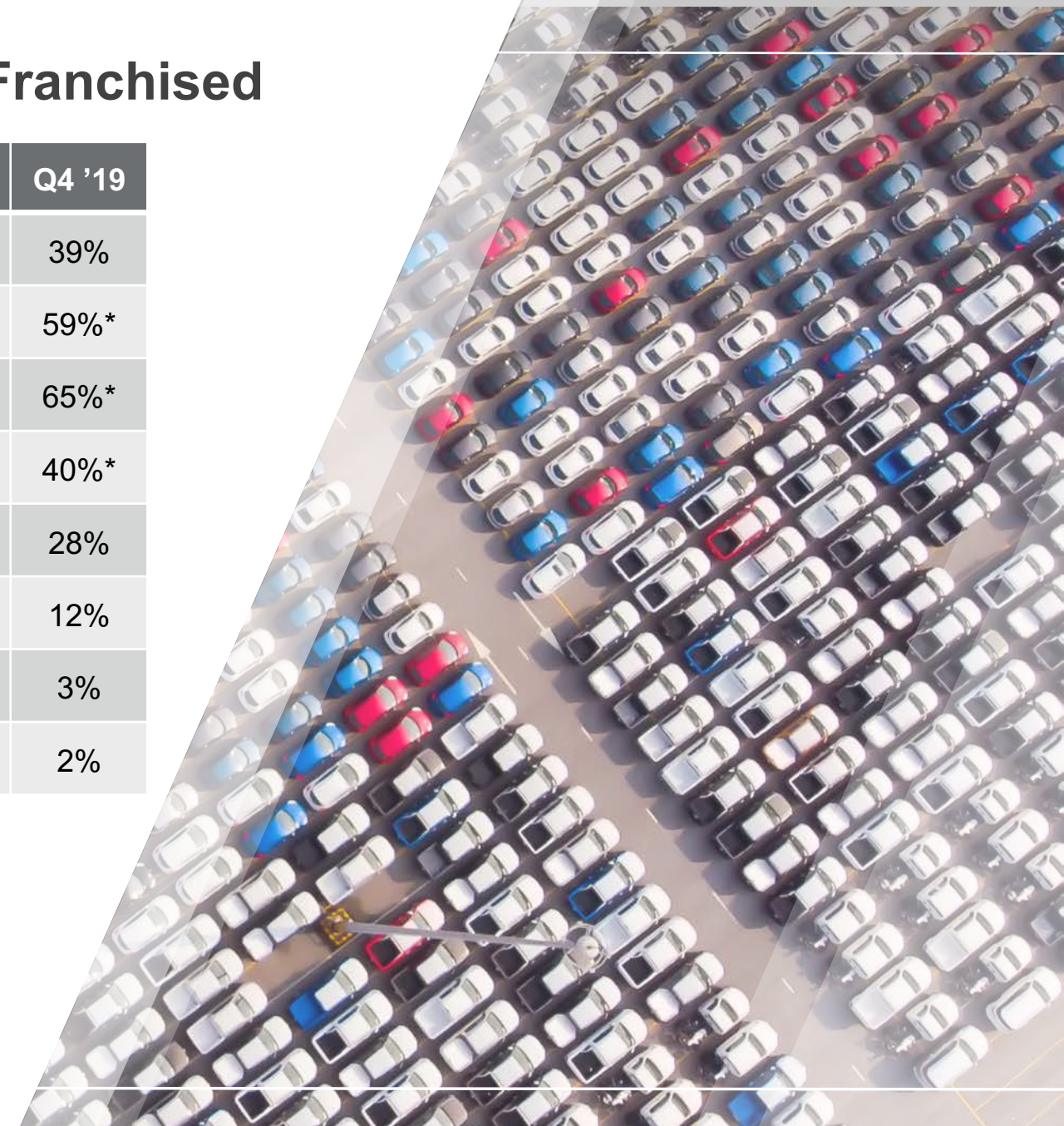
Negative Impact of Import Tariffs – Franchised

	Q1 '20	Q4 '19
Higher prices on all used vehicles as market adjusts	42%	39%
Higher prices on imported vehicles	59%	59%*
Higher prices on all new vehicles as market adjusts	63%*	65%*
Lower (or delayed) new-vehicle sales	43%*	40%*
Higher prices on domestic vehicles	21%	28%
Lower (or delayed) used-vehicle sales	18%	12%
Other	3%	3%
No concerns	4%	2%

* 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 – Franchised

	Q1 '20	Q4 '19
Increased margin on all used vehicles as market adjusts	19%	28%
Increased traffic for used vehicles	27%	31%
Will make the market stronger overall	33%	29%
Increased domestic vehicles sales	39%	34%
Increased margin on all vehicle repairs as market adjusts	17%	23%*
Increased margin on all new vehicles as market adjusts	21%	29%
Other	0%	3%
No positive impact	22%	18%

* 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



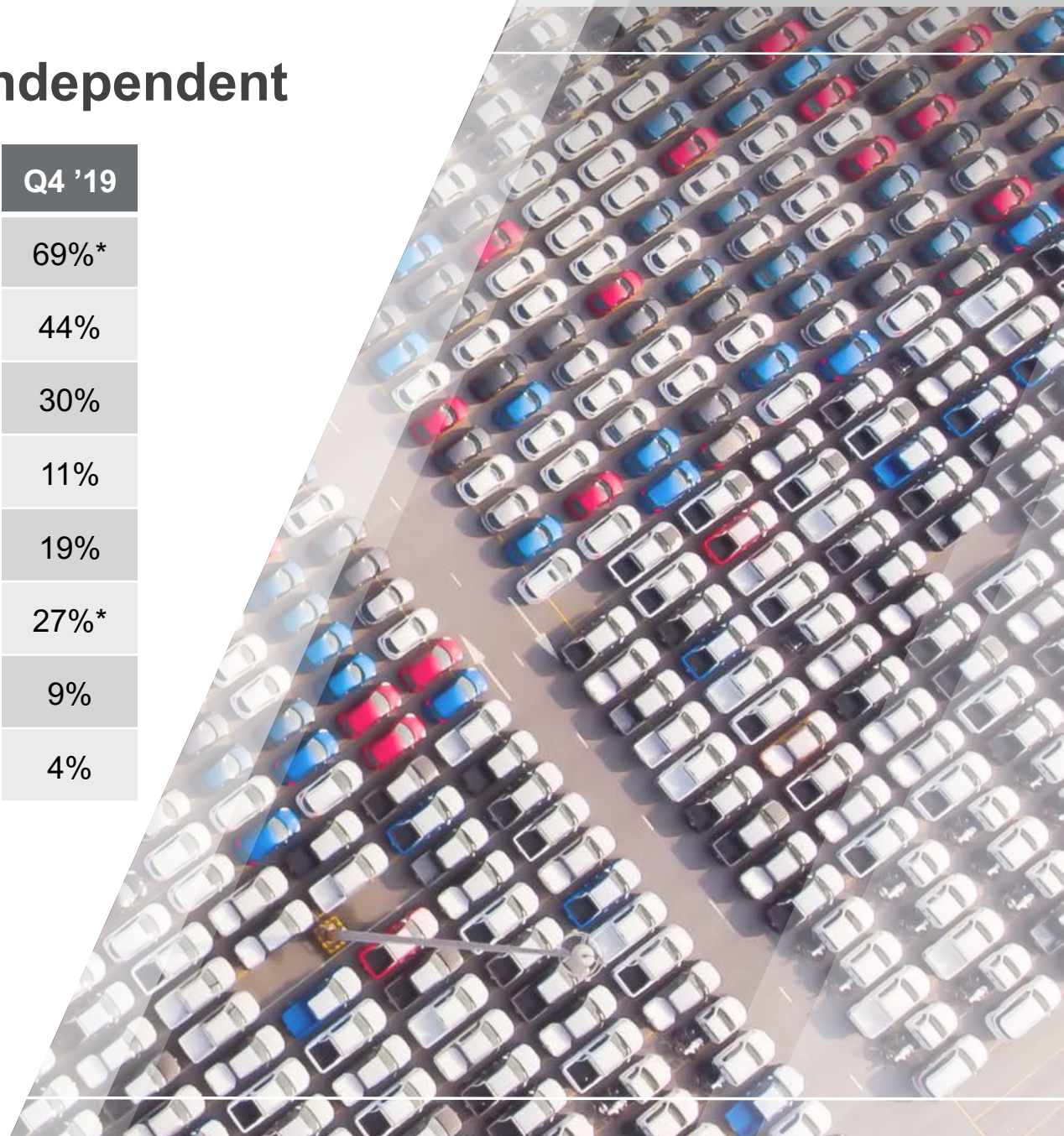
Negative Impact of Import Tariffs – Independent

	Q1 '20	Q4 '19
Higher prices on all used vehicles as market adjusts	63%*	69%*
Higher prices on imported vehicles	54%	44%
Higher prices on all new vehicles as market adjusts	29%	30%
Lower (or delayed) new-vehicle sales	10%	11%
Higher prices on domestic vehicles	21%	19%
Lower (or delayed) used-vehicle sales	20%	27%*
Other	3% ↓	9%
No concerns	3%	4%

* 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





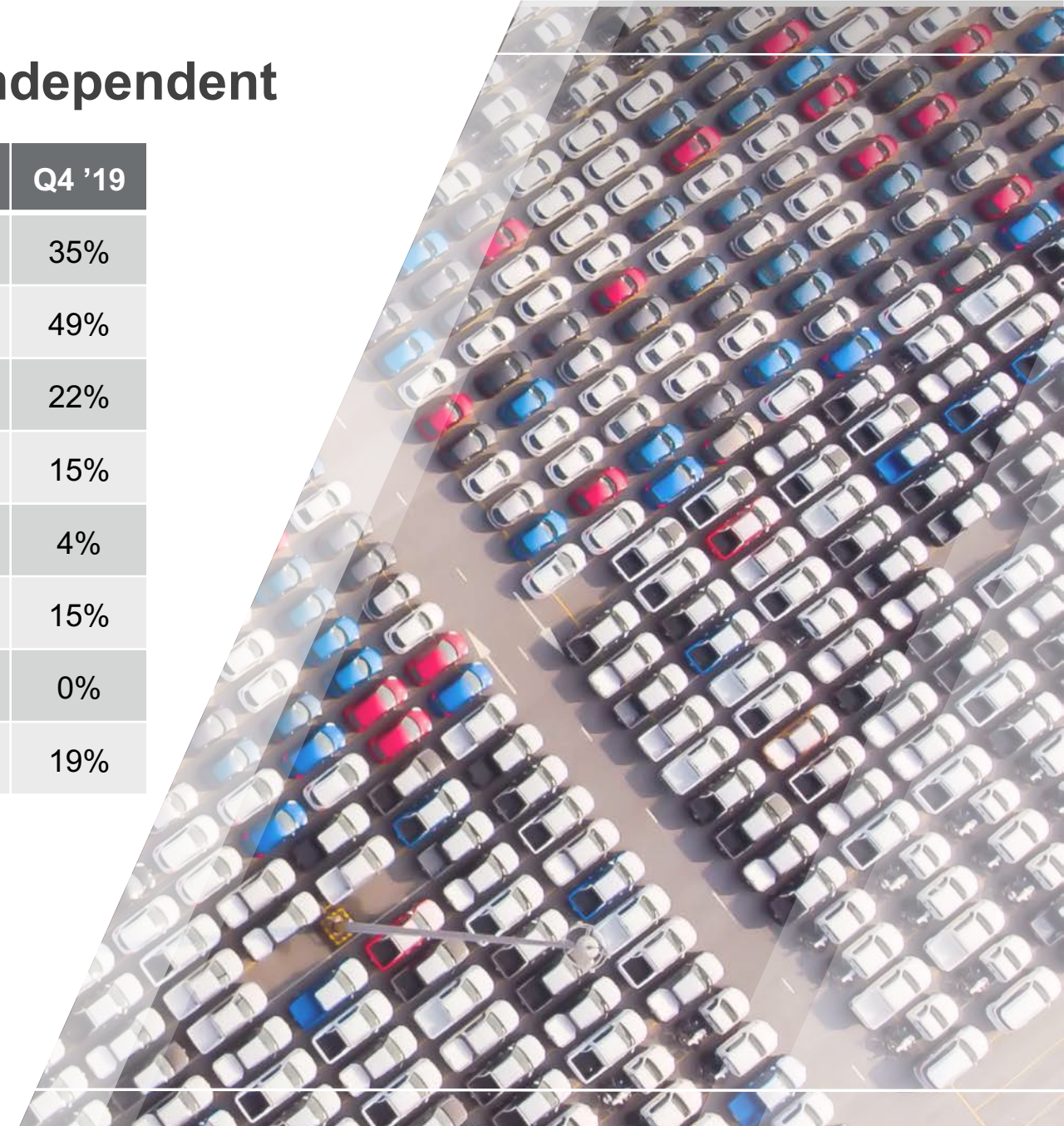
Positive Impact of Import Tariffs – Independent

	Q1 '20	Q4 '19
Increased margin on all used vehicles as market adjusts	40%	35%
Increased traffic for used vehicles	35%	49%
Will make the market stronger overall	23%	22%
Increased domestic vehicles sales	20%	15%
Increased margin on all vehicle repairs as market adjusts	15%	4%
Increased margin on all new vehicles as market adjusts	10%	15%
Other	1%	0%
No positive impact	14%	19%

* 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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