

Dealer Sentiment Index

FOURTH QUARTER 2018



Background

Data for the Cox Automotive Dealer Sentiment Index (CADSI) is gathered via a quarterly online survey of franchise 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 CADSI is based on 1,124 dealer respondents. The survey was conducted from October 24 to November 6, 2018.

The CADSI was first published in Q3 2017 by Cox Automotive. The next quarterly report will be released in March 2019.



Key Takeaways

Dealers were more negative than positive in describing the current market in Q4, as the current market reading of 44 moved into negative territory on the Cox Automotive Dealer Sentiment Index (CADSI). The decline relative to Q3's positive score of 51 was statistically significant.

Expectations for the next quarter also declined and moved into negative territory for the first time in the survey's history. The decline in expectations was statistically significant from last quarter as well as last year, an indication the recent decline is not just a reflection of a seasonal slowdown.

Other CADSI metrics were mostly stable or negative relative to Q3.

"Q4 showed a negative turn in dealer sentiment and their outlook for the future," said Cox Automotive Chief Economist Jonathan Smoke. "The big negative swing in expectations—lower than last quarter and lower than the same time last year—is especially alarming."

Several statistically significant changes from the last quarter occurred in key indicators that reflect an underlying deterioration in trends. The used-vehicle sales environment declined to 51 from 57. The used index was also lower than the same time last year, indicating the deterioration is not related to a normal seasonal slowdown.

Correspondingly, the used-vehicle inventory index was in weak territory at 48. That was a notable difference from last year.

One of the few positive take-aways from the Q4 survey was the perception of the new-car sales environment by franchise dealers which declined only slightly between Q3 and Q4 2018.

The top 5 factors holding back the business remained the same in Q4 as Q3, but relative positions changed. The biggest changes from the third to fourth quarters were in market conditions and interest rates.

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

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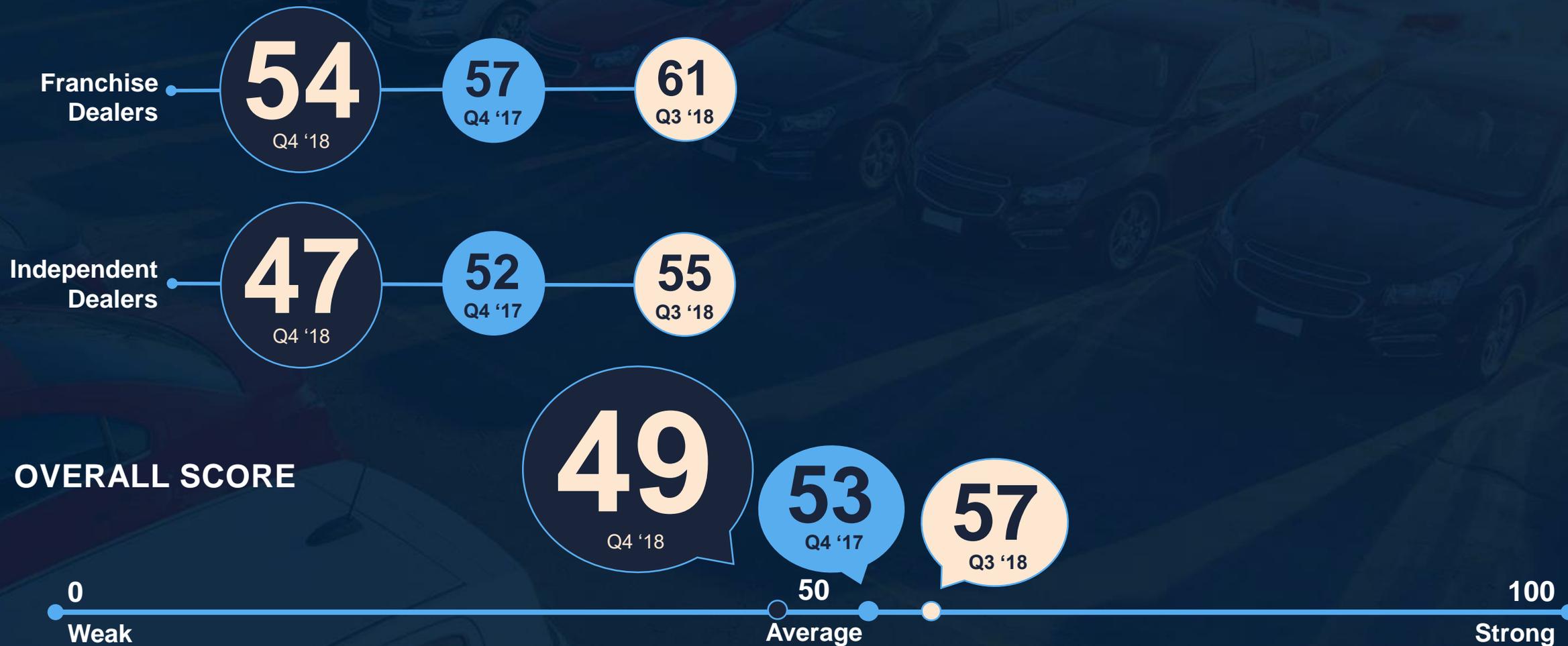
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Q2: What do you expect the market for vehicles in your area to look like 3 months from now?

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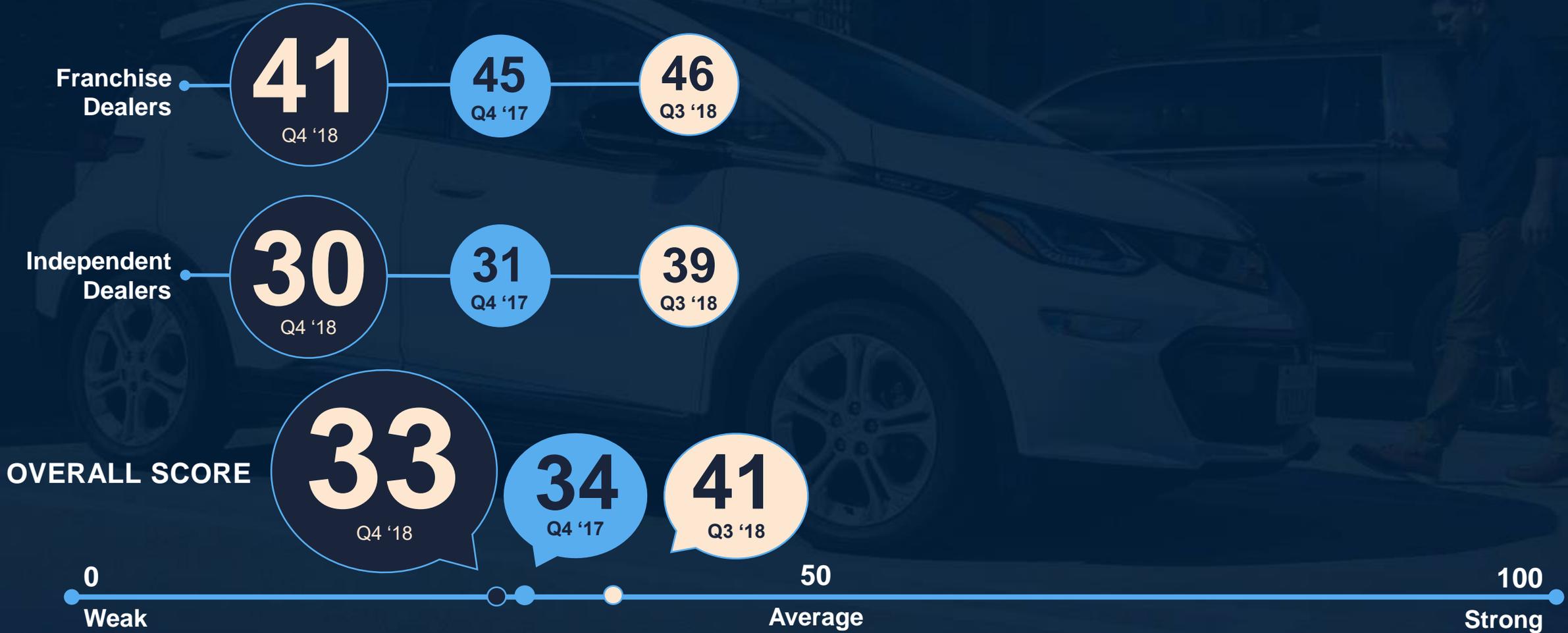
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Q3: How do you rate the customer traffic to your dealership over the past 3 months?

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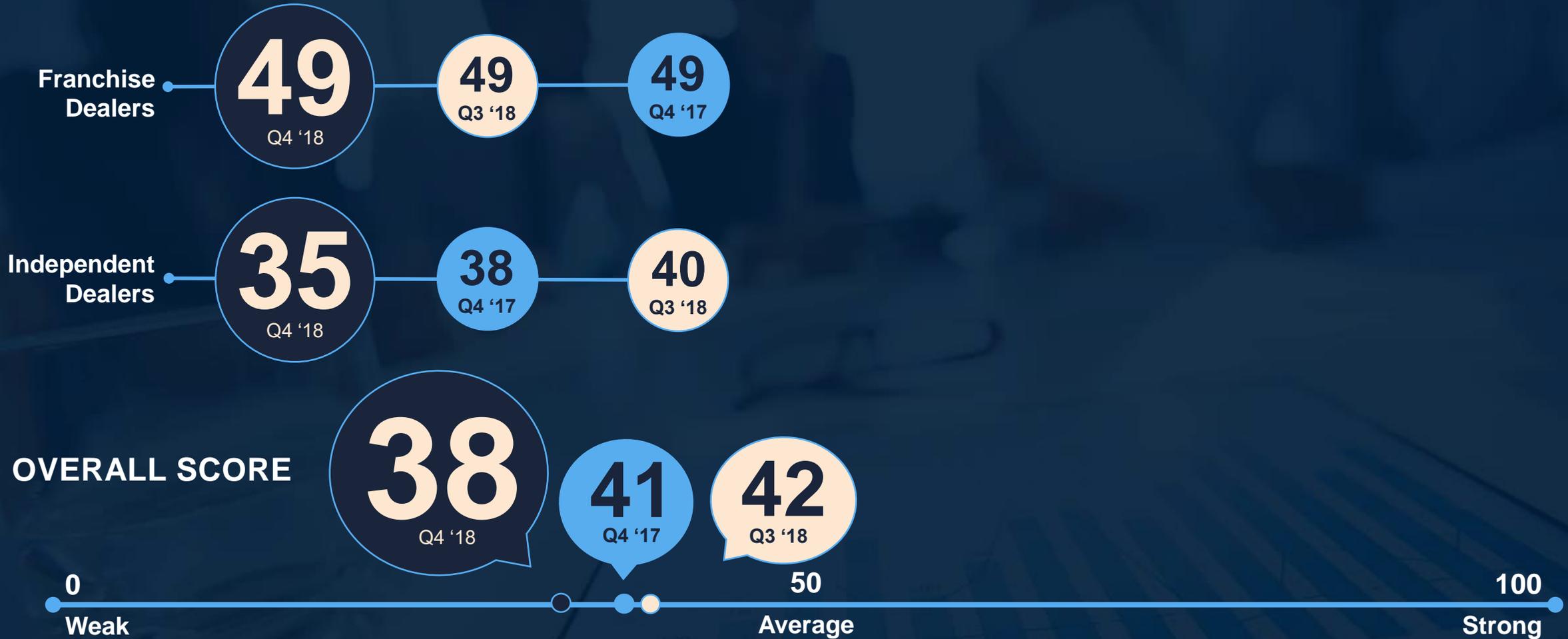
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Q4: How would you describe your profits over the past 3 months?

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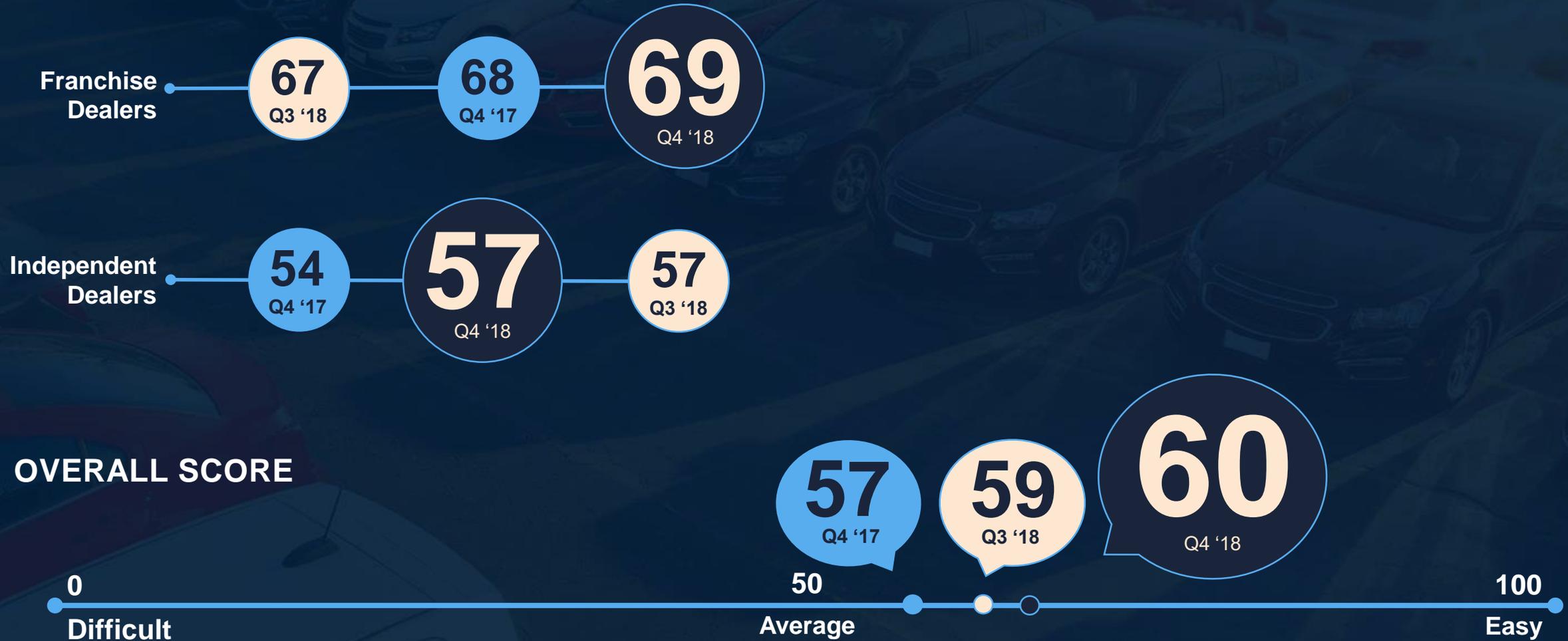
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Q5: How would you describe your ability to get credit to operate your business over the past 3 months?

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0
Difficult

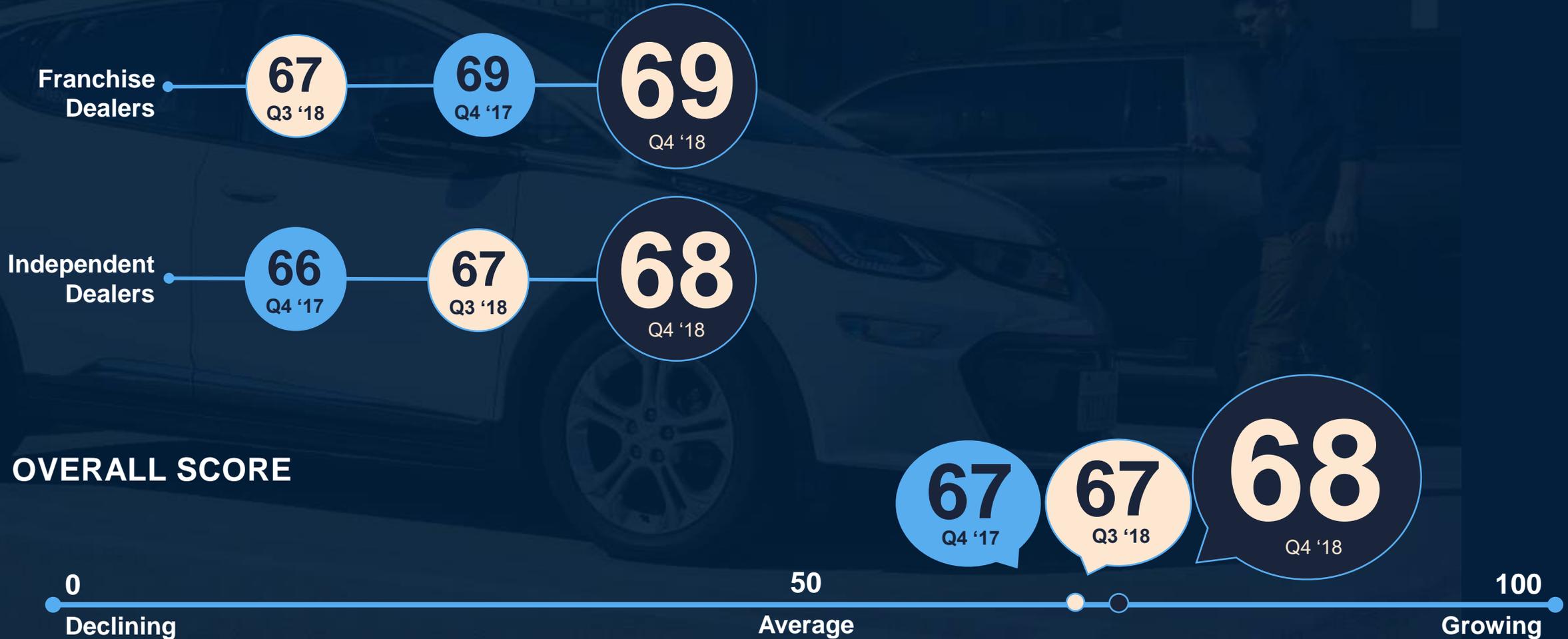
50
Average

100
Easy

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

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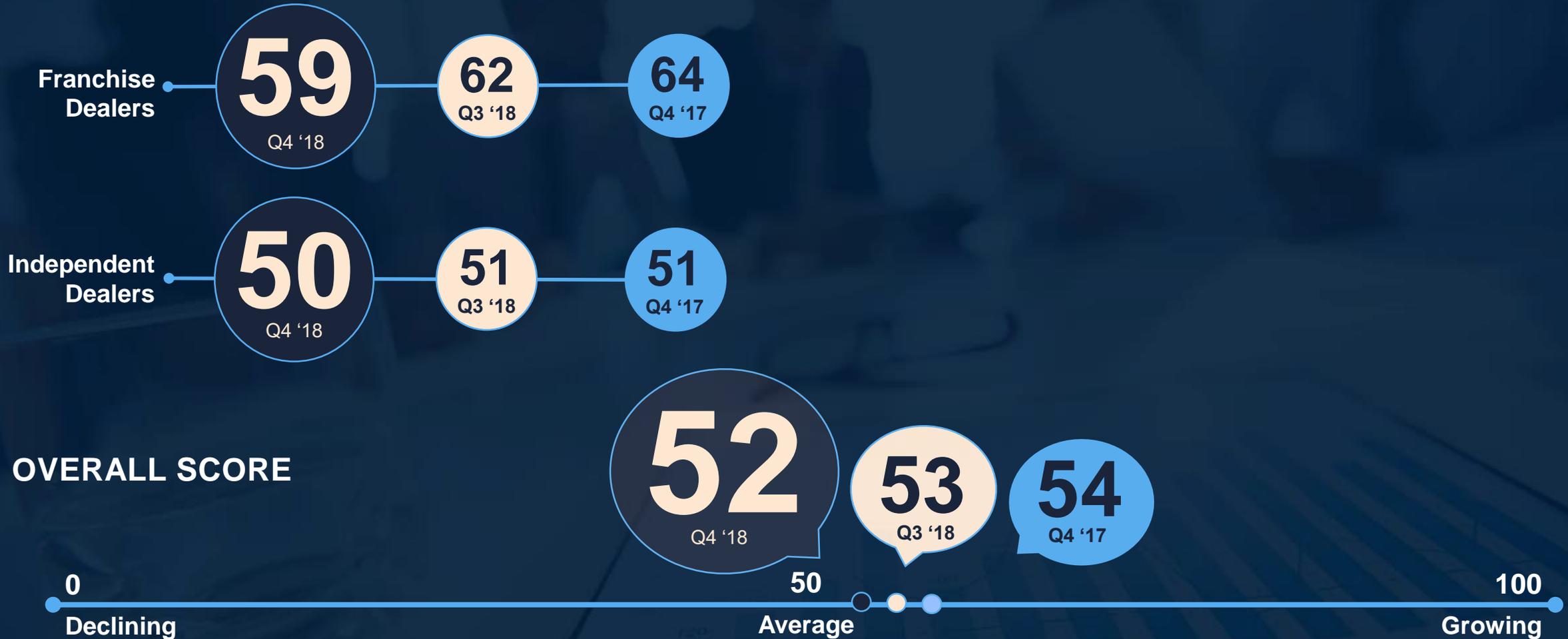
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Q7: How would you describe your dealership's current fixed capital investment levels?

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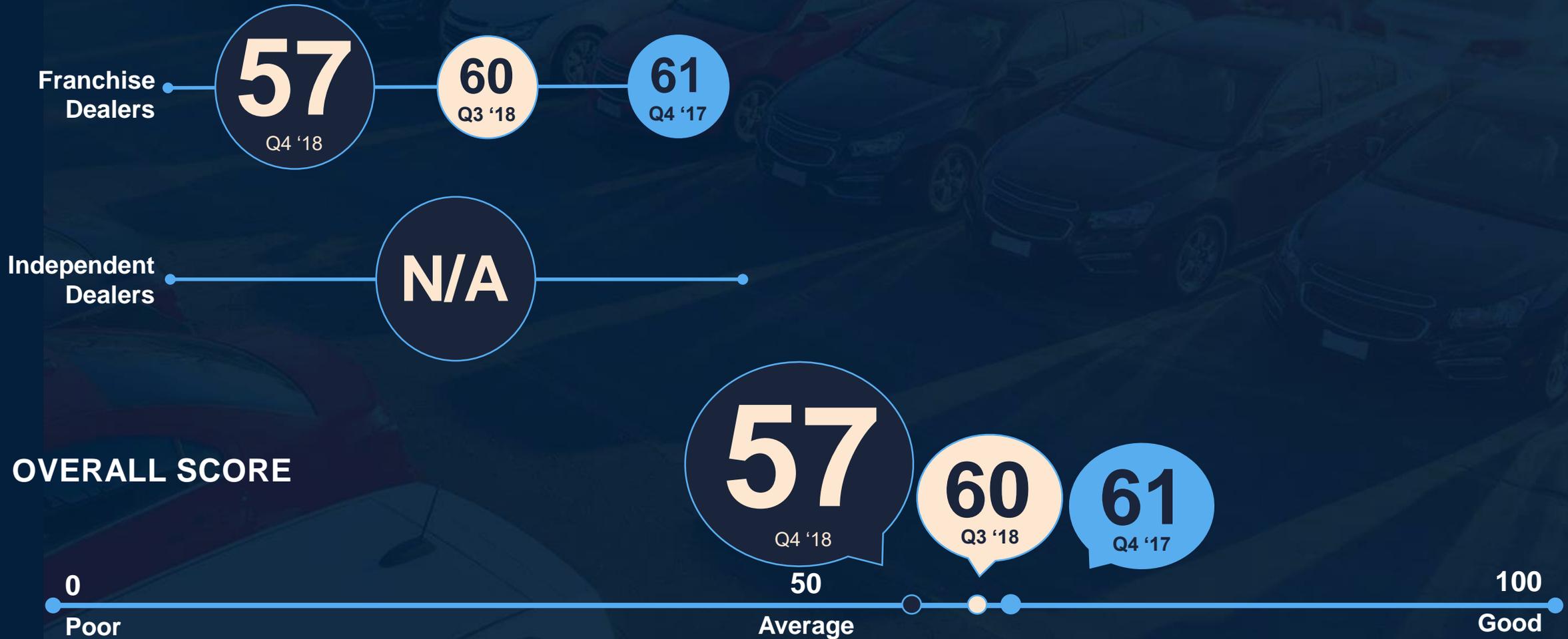
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Q8: How would you describe the current new-vehicle sales environment?

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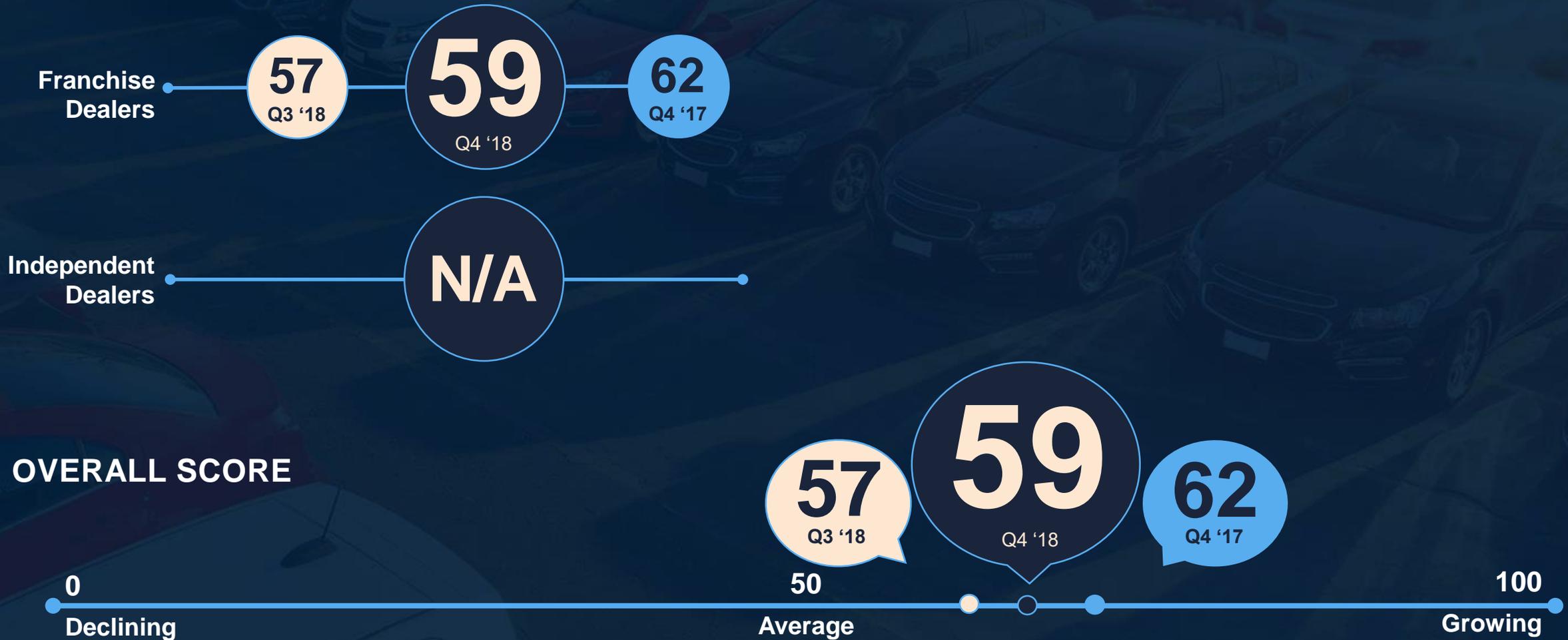
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Q9: How would you describe the current new-vehicle inventory levels?

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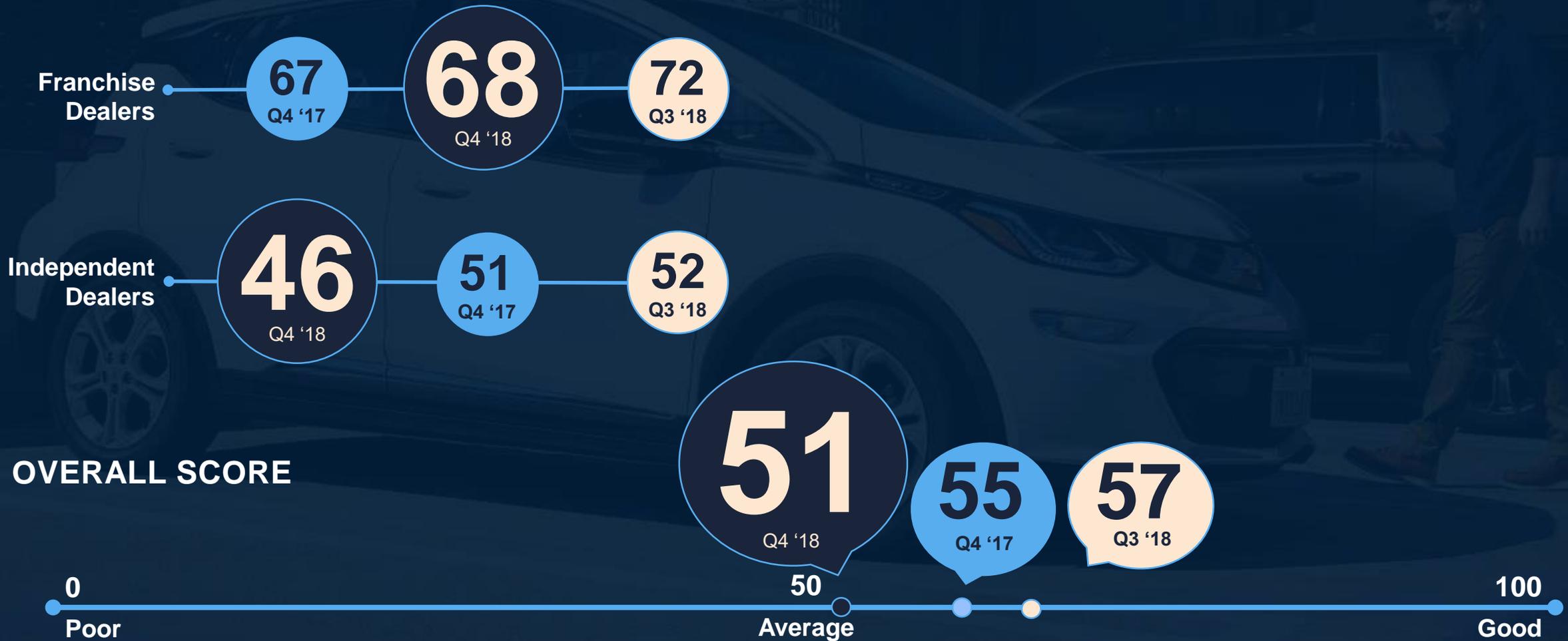
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Q10: How would you describe the current used-vehicle sales environment?

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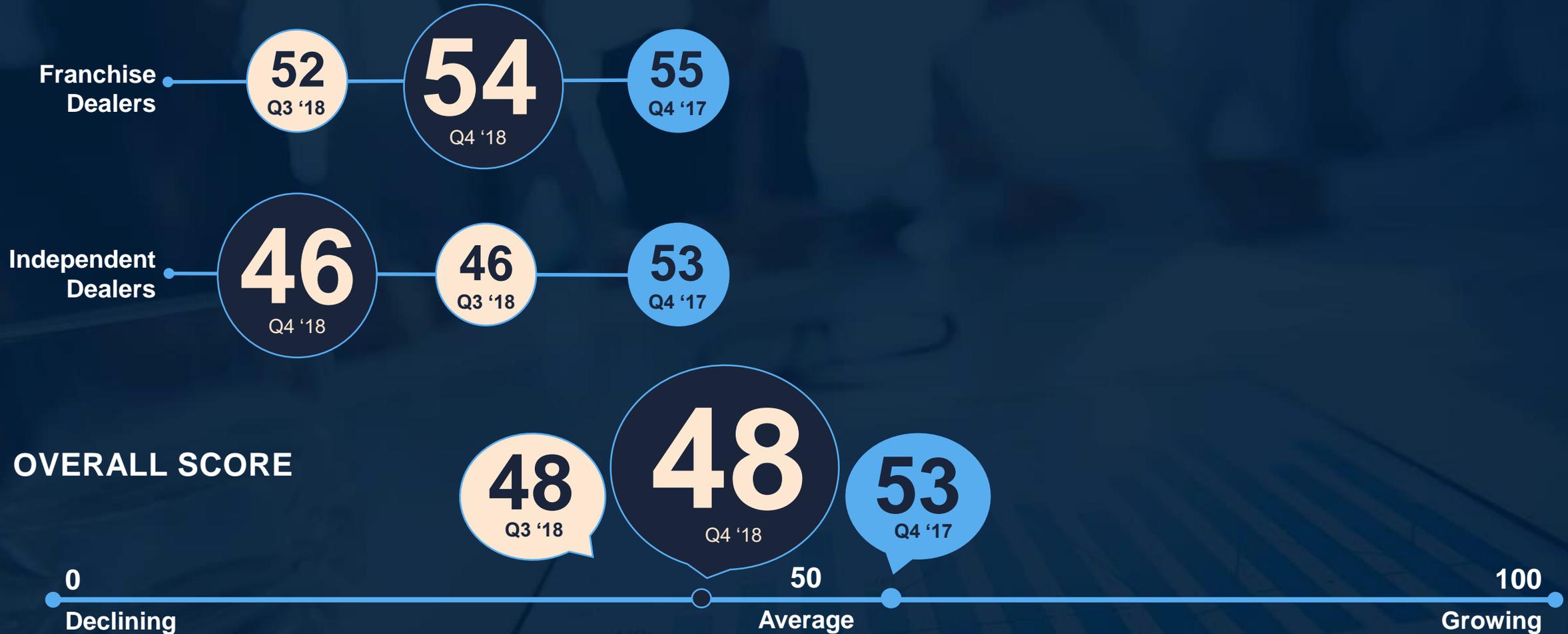
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Q11: How would you describe the current used-vehicle inventory levels?

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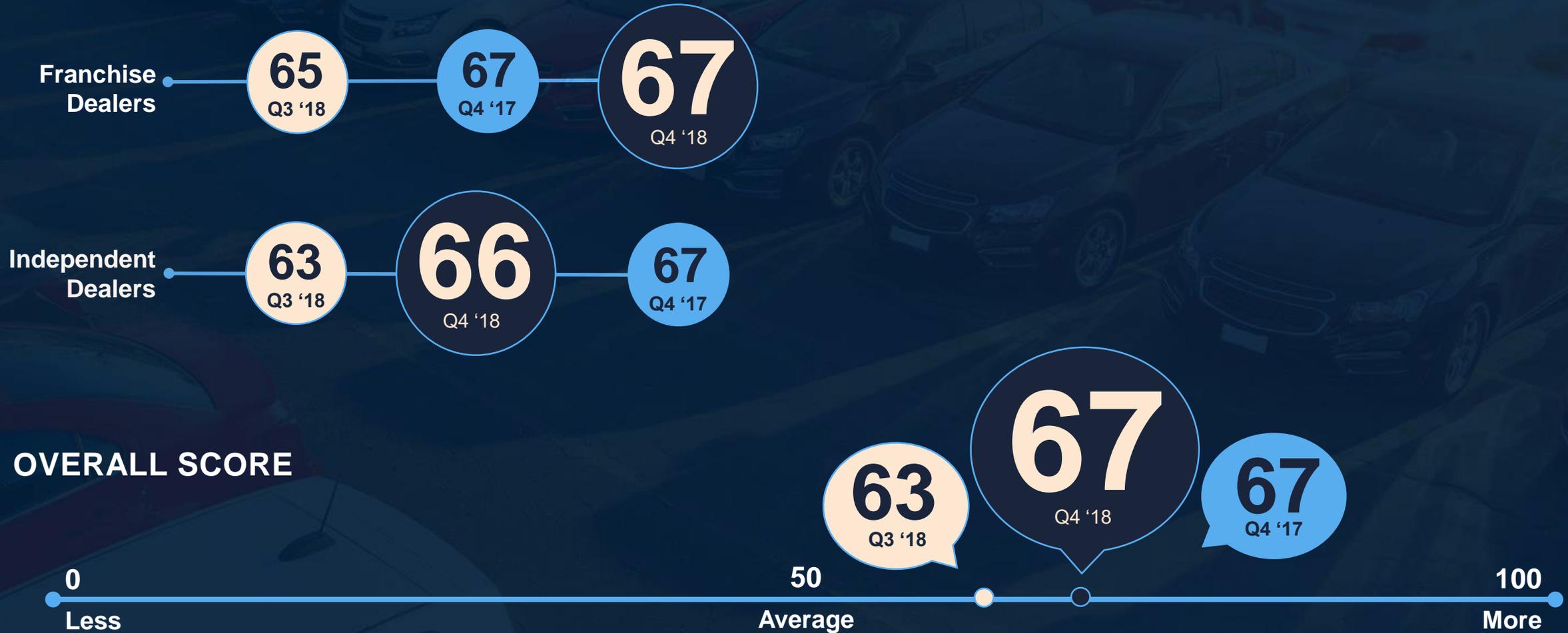
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Q12: How much pressure do you feel to lower your prices?

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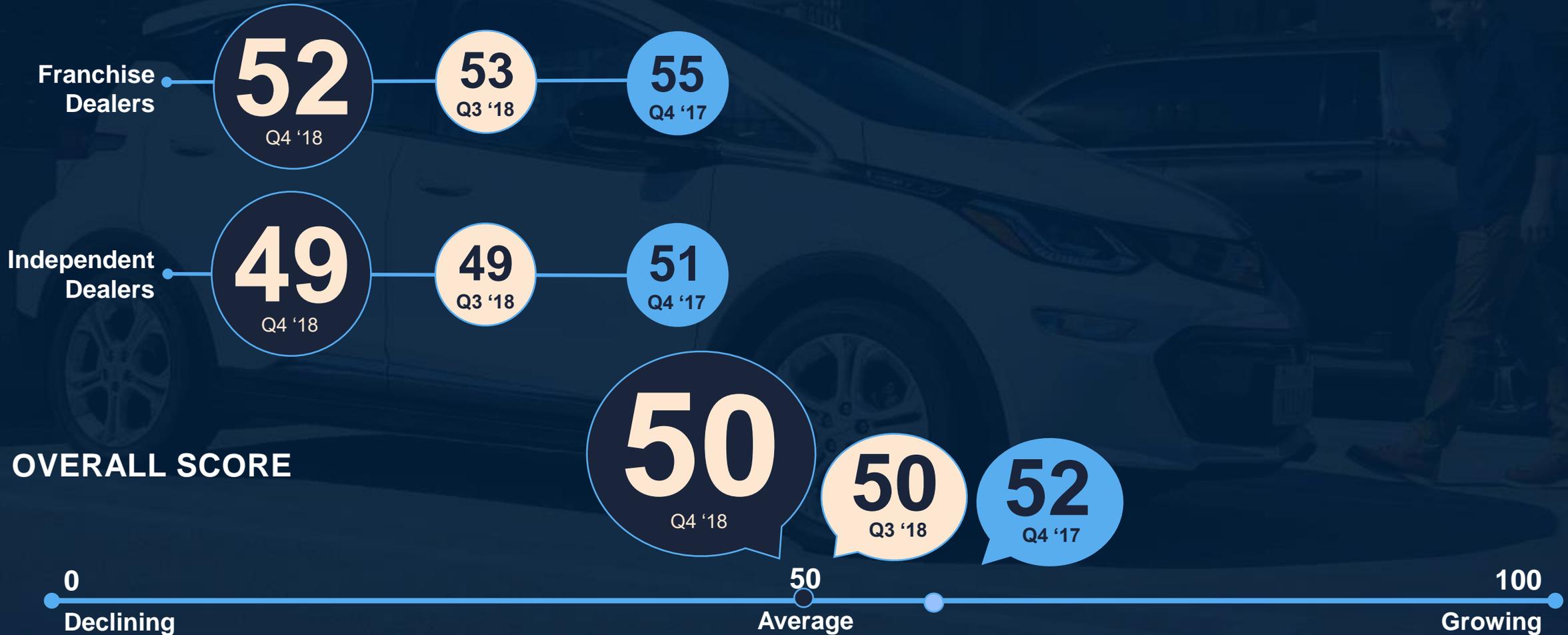
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Q13: How would you describe your dealership's current staffing levels?

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0
Declining

50
Average

100
Growing

What are the Factors Holding Back Your Business?

Significant decrease vs previous quarter

Significant increase vs previous quarter



OVERALL RANK

	Q4 '18	Q3 '18	Q4 '17
1 Market Conditions	44% ↑	37%	44%
2 Credit Availability for Consumers	36%	35%	33%
3 Limited Inventory	35%	38%	27%
4 Competition	33%	35%	36%
5 Expenses	27%	29%	29%
6 Interest Rates	23% ↑	17%	6%
7 Consumer Confidence	19%	16%	19%
8 Consumer Transparency in Pricing	12%	15%	15%
9 Staff Turnover	11%	12%	11%
10 Credit Availability for Business	8%	9%	8%
11 Regulations	7%	7%	11%
12 Dealership Systems/Tools	6%	7%	5%
12 Too Much Retail Inventory	6%	5%	9%
12 Tariffs on Imported Vehicles and Parts	6%	5%	N/A
15 OEM Mandates/Restrictions	5%	5%	5%
16 2018 Tax Law Changes*	2%	2%	N/A

What are the Factors Holding Back Your Business?

Significant decrease vs previous quarter

Significant increase vs previous quarter



FRANCHISE DEALERS

	Q4 '18	Q3 '18	Q4 '17
1 Market Conditions	43%	40%	40%
2 Interest Rates	38% ↑	22%	5%
3 Competition	36%	37%	32%
4 Staff Turnover	24%	28%	21%
5 Credit Availability for Consumers	23%	23%	15%
6 Limited Inventory	23%	28%	17%
7 Expenses	22%	25%	20%
8 Consumer Confidence	22%	20%	19%
9 OEM Mandates/Restrictions	19%	21%	19%
10 Consumer Transparency in Pricing	14%	18%	14%
11 Tariffs on Imported Vehicles and Parts	10%	7%	N/A
12 Dealership Systems/Tools	8%	12%	6%
12 Regulations	5%	5%	6%
12 Too Much Retail Inventory	5%	3%	5%
15 2018 Tax Law Changes*	3%	2%	N/A
16 Credit Availability for Business	2%	2%	1%

What are the Factors Holding Back Your Business?

Significant decrease vs previous quarter

Significant increase vs previous quarter



INDEPENDENT DEALERS

	Q4 '18	Q3 '18	Q4 '17
1 Market Conditions	45% ↑	36%	45%
2 Credit Availability for Consumers	41%	39%	39%
3 Limited Inventory	39%	41%	31%
4 Competition	32%	34%	37%
5 Expenses	29%	30%	33%
6 Consumer Confidence	19% ↑	15%	18%
7 Interest Rates	18%	15%	6%
8 Consumer Transparency in Pricing	11%	13%	15%
9 Credit Availability for Business	10%	12%	11%
10 Regulations	7%	7%	12%
11 Staff Turnover	7%	7%	7%
12 Too Much Retail Inventory	6%	5%	10%
13 Dealership Systems/Tools	5%	5%	5%
14 Tariffs on Imported Vehicles and Parts	4%	4%	N/A
15 2018 Tax Law Changes*	2%	2%	N/A
16 OEM Mandates/Restrictions	N/A	N/A	N/A



The Effect of Automotive Tariffs

Import Tariff Impact (Full Breakout)

OVERALL	Q4 2018	Q3 2018
Positive Impact	10%	11%
No Impact	51%	51%
Negative Impact	39%	38%

FRANCHISE		
Positive Impact	9%	9%
No Impact	34%	35%
Negative Impact	57%	56%

INDEPENDENT		
Positive Impact	11%	11%
No Impact	56%	57%
Negative Impact	33%	32%

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

Positive Impact of Import Tariffs – Overall

	Q4 2018	Q3 2018
Increased traffic for used vehicles	46%	44%
Increased domestic vehicles sales	39%	27%
Increased margin on all used vehicles as market adjusts	36%	27%
Will make the market stronger overall	24%	28%
Increased margin on all vehicle repairs as market adjusts	15%	8%
Increased margin on all new vehicles as market adjusts	8%	12%
Other	4% ↑	0%
No positive impact	8%	15%

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 difference between groups at the 95% confidence level

Negative Impact of Import Tariffs – Overall

	Q4 2018	Q3 2018
Higher prices on all used vehicles as market adjusts	61%	60%
Higher prices on imported vehicles	57%	55%
Higher prices on all new vehicles as market adjusts	40% ↓	48%
Lower (or delayed) used vehicle sales	28%	23%
Lower (or delayed) new vehicle sales	26%	27%
Higher prices on domestic vehicles	25%	25%
Other	5%	3%
No Concerns	2%	4%

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 difference between groups at the 95% confidence level

Positive Impact of Import Tariffs – Franchised

	Q4 2018	Q3 2018
Increased traffic for used vehicles	42%	30%
Increased domestic vehicles sales	47%	44%
Increased margin on all used vehicles as market adjusts	21%	8%
Will make the market stronger overall	23%	29%
Increased margin on all vehicle repairs as market adjusts	19%	12%
Increased margin on all new vehicles as market adjusts	25%	18%
Other	0%	0%
No positive impact	16%	17%

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 difference between groups at the 95% confidence level

Negative Impact of Import Tariffs – Franchised

	Q4 2018	Q3 2018
Higher prices on all used vehicles as market adjusts	48%	44%
Higher prices on imported vehicles	59%	62%
Higher prices on all new vehicles as market adjusts	66%	66%
Lower (or delayed) used vehicle sales	16%	16%
Lower (or delayed) new vehicle sales	38%	38%
Higher prices on domestic vehicles	28%	24%
Other	2%	4%
No Concerns	0%	2%

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 difference between groups at the 95% confidence level

Positive Impact of Import Tariffs – Independent

	Q4 2018	Q3 2018
Increased traffic for used vehicles	47%	48%
Increased domestic vehicles sales	37% ↑	22%
Increased margin on all used vehicles as market adjusts	41%	32%
Will make the market stronger overall	24%	28%
Increased margin on all vehicle repairs as market adjusts	13%	7%
Increased margin on all new vehicles as market adjusts	3%	11%
Other	5% ↑	0%
No positive impact	6%	15%

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 difference between groups at the 95% confidence level

Negative Impact of Import Tariffs – Independent

	Q4 2018	Q3 2018
Higher prices on all used vehicles as market adjusts	69%	70%
Higher prices on imported vehicles	55%	51%
Higher prices on all new vehicles as market adjusts	25% ↓	38%
Lower (or delayed) used vehicle sales	35%	27%
Lower (or delayed) new vehicle sales	20%	21%
Higher prices on domestic vehicles	24%	26%
Other	7%	3%
No Concerns	3%	5%

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 difference between groups at the 95% confidence level



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