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U.S. Auto Dealer Sentiment Reaches Record High; Inventory Becomes Top Concern

- Based on survey results from late July to early August, many key measures saw statistically significant improvement resulting in a record turnaround from Q2.
- The used-vehicle sales index for franchised dealers reaches an all-time high, indicating the used-vehicle market has never been more important than now.
- Looking ahead at the next 90 days, franchised dealers are far more optimistic than independents, but both groups are concerned about limited inventory.

ATLANTA, Sept. 8, 2020 – According to the Q3 2020 Cox Automotive Dealer Sentiment Index (CADSI) released today, U.S. automobile dealers' view of the current automotive market shows significant improvement and has mostly recovered from the historic, pandemic-driven drops in the second quarter.

The overall current market index moved into positive territory in Q3 with a score of 56, a 36-point increase from last quarter. The increase is the largest quarter-over-quarter jump in CADSI history and puts the current market index at a record high. The record-setting shift illustrates what has been a roller-coaster season for U.S. auto dealers, rocked by the COVID-19 pandemic. Year over year, the current market index is up 8 points, which is also statistically significant.

The quarterly survey by Cox Automotive was measured in late July to early August, when vehicle sales were improving and dealerships were open for business, with restrictions. Conversely, Q2 CADSI research was conducted in late April and early May, when business in many markets was fully shut down.

"Dealer sentiment improved dramatically in Q3 as the economy improved and dealers enjoyed strong sales," said Cox Automotive Chief Economist Jonathan Smoke. "Improved traffic, less price pressure, and stronger profits lifted sentiment higher than a year ago."

Derived from a quarterly survey that Cox Automotive issues to a representative sample of franchised and independent auto dealers around the country, the CADSI measures dealer perceptions of current retail auto sales and sales expectations for the next three months as "strong," "average," or "weak." The survey also asks dealers to rate new-vehicle sales and used-vehicle sales separately along with a variety of key drivers, including consumer traffic. Responses are used to calculate an index by which any number over 50 indicates that more dealers view conditions as strong rather than weak.

As the CADSI has consistently demonstrated, the current market sentiment skews more positive for franchised dealers compared to independent dealers, who sell only used vehicles. The gap widened this quarter but both franchised and independent dealers view the market as strong. Current market sentiment for franchised dealers increased from 30 in Q2 to 68 in Q3 while independents saw a 36-point increase into positive territory going from 17 to 53.

In the survey, 51% of independent dealers stated that finding and buying inventory is their top priority whereas as simply staying in business was the top concern last quarter.

When it comes to views of the future, franchised and independent dealers moved closer together in Q3. The combined 3-month market outlook index score of 50 reflects a statistically significant increase from last quarter's 45 and marks important growth in outlook for all dealers in their future expectations. Franchised dealers, with an improving index score of 60, are again more positive than independents. Franchised dealers cite pent-up demand, returning employment and the potential for a second stimulus check as reasons to anticipate a strong fourth quarter. The overall number is negatively impacted by the outlook of independents, which rose to 46, but still falls below the 50-point threshold, meaning the majority of independent dealers expect the market to be weak in the months ahead.

Improvement Seen in Key Drivers of Sentiment

Many key measures saw statistically significant growth from the prior quarter, which indicates that dealers' perception of the market is changing during the pandemic. The largest increase is in the view of the current market. Customer traffic saw the second largest increase, as dealers' perception of dealership traffic grew significantly to a record level. Used-vehicle sales and dealership profits trail closely behind with 29-point improvements from Q2, both setting records for franchised dealers. Lastly, new-vehicle sales round out the top five with a 22-point increase over Q2.

The economy index also saw a statistically significant 17-point increase from the second quarter. At 40, the economy index is still well below 50, meaning that dealers collectively see the economy as weak. An 11-point gap in views of the economy also opened up between franchised dealers and independents with the latter having a more negative view.

The costs index saw a statistically significant increase compared to the prior quarter, showing that dealers feel that expenses are growing. At the same time, the price pressure index declined significantly, dropping to 45, the lowest in CADSI history. This Q3 reading shows that less dealers feel pressure to lower their prices, likely due to low inventory levels.

New-Vehicle Sales Sentiment Improves Significantly, Inventory Remains Negative

The view of new-vehicle sales is also up significantly compared to last year and last quarter. The new-vehicle sales index rose above 50 to 61, indicating a strong market. New-vehicle inventory is significantly down compared to last quarter and last year along with new-vehicle inventory mix, which dropped 22 points and is viewed as poor for the first time. Despite the improvement in new sales, franchised dealers continue to see the used market as stronger than new, with a 16-point gap for Q3.

Used-Vehicle Sales Index Rebounds and Inventory Sentiment Sinks Further

Consistent with improving views of the market, the used-vehicle sales index significantly increased overall compared to last quarter. The view from independent dealers represented an increase in used-vehicle sales perception from last quarter, but the used vehicle index for independents remains below the positive threshold at 47 in Q3. The used-vehicle sales index is also significantly higher from Q2 to Q3 for franchised dealers, moving from 43 to 77. The gap between franchised and independent perception of the used market grew to 30 from 23 in Q2. The used-vehicle inventory index declined compared to last quarter and year, reflecting shrinking inventory. The reading of 21 means most dealers consider used inventory to be declining.

Limited Inventory Becomes Top Factor Holding Back Business

The top 5 factors holding back the business across all dealers significantly shifted in Q3 from Q2, with Limited Inventory at the top spot with 60% of dealers citing it, moving up from 5. Business Impacts From

COVID-19 moved down to 2 from 1 last quarter with 49% of dealers citing it. Market Conditions stayed in the 3rd spot from Q2 to Q3. Economy dropped from 2 to 4. Political Climate rose to the top 5, its highest rank in CADSI history with 27% of dealers citing it.

For franchised dealers, Limited Inventory rose to the top concern with 59% citing it as a factor holding back their business. Business Impacts From COVID-19 fell to the No. 2 position at 46%, beating the Economy at 33%. Market Conditions dropped in factor ranking for franchised dealers to 4, at 32%. Political Climate remained within the top factors, staying within the fifth rank for franchised dealers and rounding out the top 5. Additionally, Regulations and Consumer Confidence as a concern saw a statistically significant decrease from last quarter.

For independents, Limited Inventory was cited marginally greater at 60% and ranked as the top factor holding back their business with the biggest change in percentage from last quarter. The second biggest change in the percentage of independents citing a negative factor was the significant decrease in Business Impacts From COVID-19, which fell by 26 percentage points from the prior quarter.

Priorities During the COVID-19 Downturn

For almost a half of all dealers, Finding/Buying Inventory during this time is the top priority, while 19% of dealers state Staying in Business in General as their top concern. Improving Efficiency in General is shown to be the priority for 8% of dealers; Reducing Expenses by Cutting Unnecessary Costs follows closely behind at 7%. Rounding out the top 5 priorities for overall dealers is Improving Sales and Service Solutions as 7% of dealers list this as their main concern in Q3.

For franchised dealers, no priority emerges as consistent across a majority of dealers, but Finding/Buying Inventory is cited the most (36%). For 51% of independents, Finding/Buying Inventory is their main priority for Q3. Staying in Business in General is the first concern for 22% of independent dealers. Improving Efficiency in General (7%), Reducing Expenses by Cutting Unnecessary Costs (7%), and Improving Sales and Service Solutions (5%) round out the top 5 for independent dealers' concerns.

Cox Automotive Dealer Sentiment Index Methodology

Data for the Cox Automotive Dealer Sentiment Index is gathered via online surveys. The Q3 results were based on 1,112 dealer respondents, comprising 596 franchised and 516 independents, across the country from July 27 to Aug. 11, 2020. Dealer responses were weighted by dealership type and volume of sales to be representative of the national dealer population. For each aspect of the market surveyed, respondents are given an option that relates to strong/increasing, average/stable, or weak/decreasing, along with a "don't know" opt-out. Indices are calculated by creating a mean score in which:

- Strong/increasing answers are assigned a value of 100.
- Average/stable answers are assigned a value of 50.
- Weak/declining selections are assigned a value of 0.

Respondents who select "don't know" at a particular question are removed from the related index calculation. The total metrics reported have a margin of error of +/- 2.9%.

[Download the full results](#) of the Q3 2020 Cox Automotive Dealer Sentiment Index.

About Cox Automotive

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