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After Historic Turnaround in Q3, U.S. Auto Dealer Current Market Sentiment Fades in Q4

- Current market conditions drop into negative territory in Q4 after reaching an all-time high in Q3. Franchised dealers remain more optimistic than independents.
- Profitability increases in Q4; franchised dealer profitability reaches record high following all-time low in second quarter.
- Inventory levels begin to grow for both new and used vehicles, although still historically low.

ATLANTA, Dec. 14, 2020 – U.S. automobile dealer sentiment dropped in Q4 returning to its pre-pandemic levels, according to the latest Cox Automotive Dealer Sentiment Index (CADSI). The overall current market index dropped below 50 into negative territory with a score of 49, a statistically significant 7-point decrease from last quarter's 56. Year over year, the current market index was up by 2 points.

The Q4 CADSI research was undertaken from Nov. 4 to Nov. 15, immediately after Election Day and at a time when COVID-19 cases were surging in the U.S. Conversely, Q3 research was conducted in late July and early August, when vehicle sales were improving and dealerships were open for business, with some restrictions.

"Dealer sentiment declined in the fourth quarter as COVID-19 cases increased and market conditions became less than perfect compared to the third quarter," said Cox Automotive Chief Economist Jonathan Smoke. It is not all bad news, though. As Smoke notes, "Relative to a year ago, sentiment remains marginally better, and dealers describe both new and used sales as strong."

The key drivers of sentiment saw marginal shifts in Q4. The three-month market outlook index saw a 2-point decrease from the prior quarter to 48, indicating more than half of dealers are expecting the market in the next three months to be weak as opposed to strong. Independent dealers were more pessimistic about the future, falling below the 50 threshold to 44 in Q4, which means most independent dealers expect the market to be weak. Franchised dealers remain optimistic about the next three months with an index rating of 58, a drop from Q3 but above Q4 2019.

Derived from a quarterly survey that Cox Automotive issues to a representative sample of franchised and independent auto dealers from 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-car sales and used-car 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.

Profitability Remains Strong

The overall profit index was at an all-time high in Q3 of this year and grew further in Q4 to 48. This indicates nearly half of all dealers in the U.S. describe their profits as strong in Q4. For franchised

dealers, the profit index grew to 70, up from 66 in Q3 and significantly higher than the index score of 51 in Q4 last year.

While the profit index increased, the cost index also saw an increase compared to Q3, reflecting that dealers feel expenses are growing in Q4. The index score of 61, however, remains historically low. The price pressure index is also historically low in Q4, although the score did show a statistically significant increase from Q3, meaning more dealers are feeling pressure to lower prices.

Inventory Levels Improve

The new-vehicle inventory index of 48 significantly increased overall in Q4, up by 19-points compared to last quarter. The view from franchised dealers represents improving new-vehicle inventory conditions despite an index below the positive threshold of 50. For comparison, the new-vehicle inventory index was 59 in Q4 of last year.

The used-vehicle inventory index was also significantly higher from Q3 to Q4, moving from 21 to 41. The gap between the franchised and independent dealer perception of used-vehicle inventory stayed the same in Q2, at 9-points. The used-vehicle inventory mix index increased significantly compared to last quarter, reflecting an improving inventory mix. The reading of 52 means most dealers consider used inventory mix to be good.

The 20-point improvement in the used-vehicle inventory index—moving from 21 to 41—was the largest positive increase in the Q4 study. The new-vehicle inventory index saw the second-largest increase, up 19 points from Q3, as franchised dealers' perception of inventory improved significantly.

COVID-19, Limited Inventory Continue to Dampen Business

The top 5 factors holding back the business across all dealers shifted modestly in Q4 from Q3, with Business Impacts From COVID-19 reclaiming the top spot with 47% of dealers citing it, moving up from 2. Limited Inventory moved down to 2 from 1 last quarter, with 45% of dealers citing it. Political Climate rose to the third spot from fifth in Q3. Economy stayed in the fourth spot, and Market Conditions dropped from 3 to 5, with 37% of dealers citing it as a top factor holding their business back.

For franchises, Political Climate saw a statistically significant increase, rising to the top concern with 48% of franchised dealers citing it as a factor holding back their business. Limited Inventory fell to the No. 2 position at 44%, beating Business Impacts From COVID-19 at 39%. The Economy dropped in factor ranking for franchises and was No. 4 at 33%. Market Conditions remained within the top factors, dropping to fifth place for franchises and rounding out the top 5.

For independents, Business Impacts From COVID-19 was cited marginally less quarter over quarter at 49%, but remained the top factor holding back business. The second factor for independent dealers was Limited Inventory, with a statistically significant decline from the top spot in Q3. The Economy rose to the number 3 spot at 40%, switching positions quarter over quarter with Market Conditions at 39%. Political Climate stayed in the fifth ranking for independents at 37%.

Cox Automotive Dealer Sentiment Index Methodology

Data for the Cox Automotive Dealer Sentiment Index is gathered via online surveys. The Q4 results were based on 1,077 dealer respondents, comprising 584 franchised and 493 independents, across the country from Nov. 4 to Nov. 15, 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 +/- 3.0%.

[Download the full results](#) of the Q4 2020 Cox Automotive Dealer Sentiment Index.

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