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U.S. Automobile Dealers Find Optimism in Declining COVID-19 Cases, Vaccine Availability

- The 90-day outlook index jumped 11 points to 59, the highest level since the onset of the global pandemic and indicating auto dealers feel the spring market could be strong.
- Current market sentiment is stable, with a majority of dealers seeing the market as average or weak. Franchised dealers are more positive on the current market than independents.
- Inventory remains tight; dealers report lower profits versus Q4 and pressure to reduce prices.

ATLANTA, March 8, 2021 – With COVID-19 case trends declining and vaccination rates increasing, U.S. automobile dealers are mostly optimistic about the automobile market in the coming 90 days, according to the latest Cox Automotive Dealer Sentiment Index (CADSI) released today. The 90-day outlook index jumped 11 points to 59, the highest level since the onset of the global pandemic, indicating automobile dealers in the U.S. believe the market will be strong in the coming three months.

The 90-day outlook index typically moves up in the first quarter of the year, as dealers optimistically look forward to a strong spring selling season. Franchised dealers – those who sell both new and used vehicles – are particularly optimistic about the next 90 days, with an index score of 68, a rating above Q1 2020 (66) and the third-highest rating since the CADSI was introduced in 2017.

The current market index, however, stayed at 49, a rating below 50, indicating a majority of U.S. auto dealers feel the current market is average or weak. The quarter-over-quarter consistency is in marked contrast to the large shifts seen in 2020 as a result of COVID-19 and the presidential election.

“Current dealer sentiment was remarkably stable to start the year despite pandemic conditions reaching their worst level yet in the U.S. in January,” said Cox Automotive Chief Economist Jonathan Smoke. “Compared to a year ago, the economy is weaker, used-vehicle sales are not as strong, and used and new inventory levels are declining.”

When looking at factors holding back business, Business Impacts from COVID-19 was cited as the overall top factor by 46% of franchised and independent, edging out Limited Inventory (43%) and Economy (42%). Business Impacts from COVID-19 has maintained the top spot in factors holding back business for the past two quarters. So, while advances in overcoming the impact of COVID-19 appear to be bolstering dealer optimism, the pandemic continues to weigh on current dealer sentiment.

The Q1 CADSI research was in market from Jan. 26 to Feb. 7, 2021, a time after the U.S. presidential election had been decided and the Senate run-off had been sorted. Further, the number of COVID-19 cases rose and fell during this time, and vaccines were beginning to roll out. The timeframe, however, was before frigid winter weather blanketed much of the country, disrupting lives and businesses – and impacting vehicle sales – as far south as Houston.

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.

A Mixed Market with Declining Profits

Franchised automobile dealers report new-vehicle inventory continues to decline. The new-vehicle inventory index was at 44 in Q1, down from 48 last quarter and 56 in Q1 2020, a year ago when dealers reported new-vehicle inventory was growing. The view of new-vehicle sales, on the other hand, was down compared to last quarter but higher compared to a year ago. The new-vehicle sales index fell to 61 but remains well above 50, indicating a majority of franchised dealers feel the new-vehicle sales environment remains good.

The used-vehicle sales index was down in Q1, dropping to 47 from 52 in Q4. Franchised dealers continue to see the used market as stronger than the new market and are more positive than independent dealers. With an index score of 66, franchised dealers see the used-vehicle sales environment roughly on par with pre-pandemic levels. Independent dealers, however, have a negative view of used-vehicles sales, with an index score of 40, well below the pre-pandemic scores of 47 in Q1 2020, 48 in Q1 2019 and 52 in Q1 2018, when independents reported the used-vehicle sales environment was fair or good.

Views of a Biden Administration

With the election decided, concerns over the political environment in the United States waned in Q1 2021, with fewer dealers noting the political climate as a factor holding back their businesses. But as dealers are now less concerned about the election outcome, many have shifted their focus to the current administration.

When asked how the current administration may impact their business, many dealers suggested they do not expect the actions of the Biden administration to impact business greatly. However, several stated concerns over fuel prices, electric vehicle policy, and tax reform. Direct comments include:

- “With a liberal administration increasing oil demand from Mideast sources and driving oil prices up that will soften the economy as it will drive prices up on all consumer goods across the board….” – Independent Dealer, West
- “If gas prices start to rise due to Biden, I would expect more customers to be looking for the most fuel-efficient vehicles and that may pull people away from our brand and onto hybrid or electric cars.” – Franchised Dealer, Midwest
- “Biden is pursuing electric automobiles which will definitely affect my business. It will be difficult to stay in business if there are no used electric cars for a while.” – Independent Dealer, South
- “I think with the political party in charge, taxes, fuel prices going up, things are going to get worse.” – Franchised Dealer, Midwest
- “Newer regulations may drive operational costs higher. Increased concerns of higher fuel taxes to support “green” initiatives are weighing on consumers’ decisions to purchase a vehicle.” – Independent Dealer, Midwest

Cox Automotive Dealer Sentiment Index Methodology
Data for the Cox Automotive Dealer Sentiment Index is gathered via online surveys. The Q1 results were based on 1,058 dealer respondents, comprising 599 franchised and 459 independents, across the country from Jan. 26 to Feb. 7, 2021. 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 Q1 2021 Cox Automotive Dealer Sentiment Index.

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