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Cox Automotive Dealer Sentiment Index: With COVID-19 Concerns Mostly in the Rearview Mirror, U.S. Auto Dealers' Attention Turns to Inflation, High Costs and Tight Inventory

- Dealers rank limited inventory and the economy as the top two factors holding back business, while business impacts from COVID-19 drops out of the top five.
- Cost index – specifically the cost of running a dealership – hit a record high in the second quarter.
- Profit index declines again in Q2 but remains higher than pre-COVID levels.

ATLANTA, June 10, 2022 – U.S. automobile dealer sentiment in the second quarter of 2022 softened as U.S. auto dealers' attention turned to inflation, high costs and tight inventory, marking the fourth straight quarter-over-quarter decline in market sentiment. The current market index peaked at 67 in Q2 2021 and has been trending downward since. Still, at 54, the current market index remains above the positive threshold of 50 in the Cox Automotive Dealer Sentiment Index (CADSI).

The key drivers of sentiment saw disparate shifts in Q2. The 3-month, forward-looking market outlook index sharply dropped from the previous quarter and, at 53, is well below the 63 recorded a year ago in Q2 2021. The economy index increased slightly in Q2 to 50, up from 49 in the prior quarter. With the index now at 50, dealers are right at the positive threshold in judging the economy as strong.

"U.S. auto dealers are certainly feeling the pressure of inflation and tight inventory," said Cox Automotive Chief Economist Jonathan Smoke. "Franchised dealers continue to be very profitable, but the steep drop in the market outlook index indicates dealers are less enthused about the future. While all dealers are impacted by higher costs of doing business, the profit story is also different for independent dealers, as used vehicles have started depreciating again."

The Q2 2022 CADSI research was in market from April 25 to May 9, 2022, when COVID cases had retreated from omicron-driven records and activity was normalizing compared to the situation in January.

Inventory Continues to Impact Sales

One worrisome sign in the latest CADSI report is the small improvement in the new-vehicle inventory mix index for franchised dealers. The index increased only two points from Q1 and remains historically low at 25, an eight-point year-over-year decrease.

"Today's market continues to be framed by constrained new-vehicle inventory," added Smoke. "Low new-vehicle inventory and the associated low level of incentives and lack of discounting have priced many would-be buyers out of the market and into the used-vehicle market. Others may be delaying purchases, waiting for supply to improve, but supply has yet to see much change."

On the used-vehicle side, the inventory index dropped in Q2 2022 to 35, one point lower than the previous quarter but up fourteen points year over year. The used-vehicle inventory mix index improved among franchised dealers versus independent dealers, showing a 5-point increase year over year in Q2 to 55. All index scores associated with inventory, however, remain below the 50 threshold, indicating dealers are still facing significant inventory challenges for both new and used vehicles. Consistent with last quarter, Limited Inventory ranks as the No. 1 factor holding back dealer business in Q2.

While new-vehicle inventory remains tight, the view of new-vehicle sales improved, increasing from 50 to 52, meaning dealers are now more optimistic about new-vehicle sales. One year ago, the index score was 65, meaning significantly more dealers saw the market as good. The new-vehicle incentives index dropped by two points quarter over quarter to 21, the lowest level since the question was added to the CADSI in Q3 2019.

On the other hand, the used-vehicle sales index fell five index points to 47. For franchised dealers, the used-vehicle sales index increased by one point for Q2, breaking a downward streak but is still below year-ago levels. For independent dealers, the index fell six points from the previous quarter to 42 and is down 14 points from a year ago. Overall, most dealers view used-vehicle sales as weak.

Dealers Worried About the Economy and Costs

In Q2 2022, the cost index – specifically the cost of running a dealership – was at the highest level since the survey began in 2017. After reaching a record low in Q2 2020 of 51 at the height of the pandemic, the cost index has been steadily increasing. Overall inflation in the U.S. economy is clearly contributing to this view. The Economy is the second leading factor impacting dealer business at 46%, up from 37% in Q1, with Market Conditions, Expenses and Political Climate following closely behind. Dealers are worried about inflation and the possibility of a recession along with lagging consumer confidence.

Profits Remain Strong for Franchised Dealers

The overall profit index saw a small decline to 53, down from 54, but remains higher than at any point before the COVID-19 pandemic. The five highest profit index scores since 2017 have all been recorded in the past five quarters. The profit index also indicates that franchised dealers believe profits are particularly strong, at 82, whereas more independent dealers now see profits as weak, with an index score of 44. Importantly, the cost index increased by eleven points in Q2 versus a year ago and reached a new record high of 76, suggesting that the overall cost of running a dealership continues to grow. On the plus side, the price pressure index increased only slightly in Q2 to 41, up from 37 in Q1, but remains historically low, indicating fewer dealers feel pressure to lower their prices.

Business Impact of COVID-19 Drops from Top 5

The top 5 factors holding back the business across all dealers saw minor shifts in Q2, but three factors – Economy, Expenses and Political Climate – saw significant quarter-over-quarter increases. Limited Inventory remains in the top spot. The Economy rose to No. 2 ahead of Market Conditions. Expenses ranked 4th overall; Political Climate rounded out the top 5 factors. Notably, COVID-19 is no longer a top factor holding back business, falling to No. 7.

Cox Automotive Dealer Sentiment Index Methodology

The Q2 2022 CADSI is based on 1,099 U.S. auto dealer respondents, comprising 568 franchised dealers and 531 independents. The survey was conducted from April 25 to May 9, 2022. Dealer responses were weighted by dealership type and sales volume to represent the national dealer population. For each aspect of the market surveyed, respondents are given an option related 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 +/- 3.0 percent margin of error.

Download the full results of the Q2 2022 Cox Automotive Dealer Sentiment Index.

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