Cox Automotive

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U.S. Automobile Dealer Sentiment Stumbles in Q3 as Political Climate Heats Up

- U.S. automobile dealer sentiment declined in Q3 2024, reflecting growing concerns about the political climate, rising costs and economic uncertainty.
- The cost index reached a record high, indicating that dealerships are facing increasing operational expenses, which dampens profitability, particularly among independents.
- While sentiment regarding electric vehicle (EV) sales showed a slight uptick, expectations for future EV sales decreased, reflecting persistent concerns among dealers.

ATLANTA, Sept. 6, 2024 – The Q3 2024 Cox Automotive Dealer Sentiment Index (CADSI) shows automobile dealers in the U.S. continue to view the market as weak. The overall Q3 market sentiment index dropped to a score of 40, down from 42 in Q2 and 45 from a year ago, signaling a weakened market sentiment.

"For more than two years now, after reaching peak profits in 2021, U.S. automobile dealers have viewed the overall market as weak," said Jonathan Smoke, chief economist at Cox Automotive. "The retail auto business today is working through a lot of uncertainty, with the coming national election front and center, and also expectations of shifting market dynamics. U.S. dealers are feeling the effects of these dynamics in the market today and their expectations for the future."

Franchised Dealers Show Slightly Optimistic Outlook, but Independent Dealers Struggle

Franchised dealers' sentiment increased by one point from Q2 to a score of 50 in Q3. However, independent dealers expressed a very negative outlook, achieving a score of 37, the second lowest in the survey's history, behind only the score of 17 recorded during the global economic shutdown in Q2 2020. In the Q3 report, independent dealers showed a particularly pessimistic view on almost every aspect of the market, which dragged down the overall sentiment scores.

Market Outlooks Cool Amid Political Uncertainty and Economic Challenges

The market outlook index – which asks dealers about market expectations three months from now – dropped further in Q3, falling to 42 from 44, and remains below the year-ago level of 45. The score of 42 suggests a majority of U.S. auto dealers expect the auto market to weaken in the coming three months, not strengthen. Franchised dealers, who are historically more optimistic in their market outlook index, had an index score of 49 in the latest survey, marking just the third time in survey history – dating back to 2018 – that franchised dealers posted a market outlook index score below 50. For independent dealers, the market outlook score in Q3 was 39, down from 41 in Q2.

Cost Index Hits Record High, Dampening Profitability

The cost index reached a new record high in Q3 at 77, indicating a majority of dealerships see the cost of running their business as growing, not decreasing, thereby impacting their profitability, which continues to be viewed as weak. The dealer profitability index score in Q3 was 34, lower than the score of 40 one year ago and down significantly from the index peak of 60 in Q3 2021. The profitability index for franchised dealers held steady from Q2 to Q3, at 43, exactly half of the peak score of 86 three years ago. For independent dealers, the profitability index of 30 marked the lowest point since the pandemic, suggesting that a vast majority of independent dealers see profits as weak, not strong.

"Dealer profitability is one of the central measures in our quarterly survey, as it showcases the core strength of the business," added Smoke. "And the profitability index has generally declined for three straight years, particularly for independent dealers. Most dealers feel their profitability picture is weak, and that is likely impacting many sentiment measures, dragging the overall survey scores lower."

High Inventory, Yet Price Pressure and Sales Environment Perceived as Weak

Despite inventory levels not being a concern for dealerships, the sales environment remains muted, with franchised dealers scoring 51 for new-vehicle sales, down from 59 in Q3 2023. The overall used-vehicle sales index (combined franchise and independent) was 43 in Q3, a level suggesting dealers view the market as poor, not good.

Both franchised and independent dealers agree on the price pressure index, which is at 66, suggesting that all dealers feel more pressure to lower prices. After hitting a low point during the inventory shortages of late 2021 and most of 2022, price pressure has now fully returned to the U.S. market. The price pressure scores in 2024 have been consistent with those from before the pandemic.

Electric Vehicle Sentiments Improve, but Future Expectations Show Decline

While sentiment about electric vehicle (EV) sales improved in Q3 following a low point in Q2, a majority of dealers continue to report EV sales that are worse than one year ago. The overall score in Q3 was 44, up from 41 in Q2, but lower than the score of 49 reported one year ago. Expectations for future EV sales, however, fell in Q3, dropping to 37 from 39. The score indicates that a majority of dealers feel their EV sales will decline in the months ahead, not grow. The future EV sales index scores for both franchised and independent dealers were lower quarter over quarter and year over year in Q3.

Despite a pessimistic view of the current and future EV sales environment, a growing majority of dealers feel the government-supported EV sales incentives are having a positive impact on sales. A year ago, shortly after the Inflation Reduction Act incentives were confirmed, the EV tax credit index score was 53 – a score above 50 indicating a majority of dealers described the impact of the tax credit as positive, not negative. In the latest survey, the index score was 58, increasing for the fifth consecutive quarter.

Political Climate and Economy Top List of Factors Holding Back Business

The Top Three factors holding back dealers shifted slightly in Q3, with the Economy ranking first, Interest Rates falling to second, and Political Climate making a significant jump up into the third-place position.

Top Factors	Overall Rank	Q3 2024 Percentage	Q3 2023 Percentage
Economy	1	61%	57%
Interest Rates	2	59%	59%
Political Climate	3	44%	36%
Market Conditions	4	41%	41%
Expenses	5	33%	31%
Credit Availability for Consumers	6	31%	31%
Consumer Confidence	7	30%	28%
Limited Inventory	8	30%	29%
Competition	9	15%	15%
Staff Turnover	10	8%	7%

When asked, 44% of dealers noted Political Climate was a factor holding back business, up from 36% in Q2 and 27% one year ago. The 44% in Q3 is the highest percentage recorded for Political Climate since the factor was added in 2019. Franchised dealers are particularly concerned about how the Political Climate is impacting their business, with 49% noting it is a factor holding them back.

Market Conditions and Expenses rounded out the Top Five factors holding back business in Q3. Additionally, Credit Availability for Consumers continues to be a notable factor holding back business, especially for independent dealers.

Limited Inventory, once the top factor holding back business, continues to fall down the list. Limited Inventory was the No. 8 factor holding back business in Q3, falling from No. 7 last quarter. Limited Inventory is a far greater issue for independent dealers than franchised dealers. In Q3, 34% of independent dealers noted Limited Inventory was holding back business, while only 16% of franchised dealers cited Limited Inventory as an issue.

Cox Automotive Dealer Sentiment Index Methodology
Derived from a quarterly survey that Cox Automotive issues to a representative sample of franchised and independent auto dealers from around the country, the Dealer Sentiment Index 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 various 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. The Q3 2024 CADSI is based on 933 U.S. auto dealer respondents, comprising 536 franchised dealers and 397 independents. The survey was conducted from July 23 to August 7, 2024.

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 +/- 3.21% margin of error.

Download the full results of the Q3 2024 Cox Automotive Dealer Sentiment Index.

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Media Contacts:
Mark Schirmer
734 883 6346
mark.schirmer@coxautoinc.com

Dara Hailes
470 658 0656
dara.hailes@coxautoinc.com