Cox Automotive™

FOR IMMEDIATE RELEASE

Cox Automotive Dealer Sentiment Index: Strong U.S. Auto Market Performance Expected in Q2

- The 3-month, forward-looking market outlook index rose sharply in the first quarter, indicating more dealers expect the Q2 market to be strong as opposed to weak.
- The cost index – specifically the cost of running a dealership – climbed 3 points quarter over quarter to 75 in Q1 2023, only 1 point below the record high recorded in Q2 2022.
- Interest Rates ranked as the top factor holding back business, jumping ahead of Economy. Limited Inventory falls to the third position.

ATLANTA, March 9, 2023 – U.S. automobile dealer sentiment in the first quarter of 2023 was little changed from the level recorded in Q4 2022 and remains at the lowest level since the height of the global COVID-19 pandemic, according to the Cox Automotive Dealer Sentiment Index (CADSI). At 43, the current market index is below the threshold of 50, indicating more dealers view the current auto market as weak. The index remained stable quarter over quarter and down 14 points year over year.

On a positive note, the 3-month, forward-looking market outlook index rose sharply in the first quarter to 52, up from 41 in Q4 2022. In spite of factors holding back their business, a majority of dealers view the Q2 auto market as strong. The increase in Q1 breaks a trend of three consecutive quarters with a declining market outlook. However, even with the improvement in Q1, the market outlook remains below last year's Q1 score of 64, when dealers were entering 2022 with a stronger sense of optimism.

"Despite high interest rates and stubborn inflation, the U.S. consumer continues to prop up the economy," said Cox Automotive Chief Economist Jonathan Smoke. "Auto sales are slow by historical standards, but the sales pace has been improving in early 2023, giving dealers reason to feel somewhat optimistic about the year ahead."

Profits Remain Under Pressure, Costs Rise to Near Record High

The overall profit index declined to 42, down from 44 last quarter and down significantly from 54 a year earlier. The profit index reached record highs in late 2021 and in the early part of 2022 – particularly for franchised dealers – but has declined for six straight quarters. While the profit index is now well below the threshold of 50, it continues to be propped up by franchised dealers who believe profits remain particularly strong at 63. Independent dealers, conversely, now see profits as weak, with an index score of only 36.

"For franchised dealers selling new vehicles at or above MSRP, the profit picture continues to be very strong," added Smoke. "The profit index for franchised dealers is down from the records seen in 2021 but still healthy and well above the long-term, pre-pandemic level. Unfortunately, for independent dealers, it's a different story altogether."

In Q1 2023, the cost index – specifically the cost of running a dealership – climbed 3 points quarter over quarter to 75; it is now 1 point below the record high recorded in Q2 2022. After reaching a record low of 51 at the height of the pandemic, the cost index has steadily increased.

Inventory Continues to Improve; Used-Vehicle Sales Still a Challenge
The new-vehicle inventory index improved in the first quarter and is up significantly from one year ago. The index was at 25 in the first quarter of last year. Now at 63, the new-vehicle inventory index indicates more franchised dealers feel their inventory is growing, not declining. Importantly, the sentiment index is currently at or above pre-pandemic levels.

The new-vehicle inventory mix index has also been increasing, up from 41 in Q4 to the threshold of 50 in Q1 2023, indicating dealers are generally neutral on their view of the current mix, with half indicating it is good and half indicating it is poor. In Q1 2020, before the start of the pandemic, the new-vehicle inventory mix index was 73. Overall, both new-vehicle inventory indexes continue to improve notably as supply chain issues are sorted and manufacturers have ramped up production.

The used-vehicle inventory index also improved in Q1 2023 to 43, 1 point higher than the previous quarter and up 7 points year over year. Unlike new inventory, franchised dealers indicate their used-vehicle inventory was declining in Q1. Among franchised dealers, the used-vehicle inventory level index improved by 4 points year over year to 49, just missing the threshold of 50. The index for independent dealers saw a 7-point gain year over year to 40.

The used-vehicle inventory mix index improved quarter over quarter and year over year to 52, marking the first time the index score was above the threshold of 50 since Q1 2021. Overall, franchised dealers continue to be far more positive about inventory than independent dealers. However, consistent with last quarter, Limited Inventory ranks as one of the top factors holding back business for dealers in Q1.

With new-vehicle inventory sentiment improving, the view of new-vehicle sales improved as well, increasing from 52 to a healthy 57, indicating more dealers see the new-vehicle sales environment as good. One year ago, the index score was 50. The new-vehicle incentives index dropped by 2 points quarter over quarter to 23 and has remained relatively stable since Q3 2021. The index reading indicates dealers view OEM incentives as small instead of large. For comparison, the incentive index was at 49 in Q1 2021.

In contrast to new-vehicle sales, which are viewed as good, most U.S. dealers view used-vehicle sales as poor. The overall used-vehicle sales index increased only 1 point quarter over quarter to 43, down significantly from Q1 2022 when the index score was 52. For franchised dealers, the used-vehicle sales index increased 1 point to 55 in Q1 but is down 9 points from year-ago levels. For independent dealers, the index rose 2 points from the previous quarter to 40 but is down 8 points from a year ago.

Majority of Dealers Feeling Pressure to Lower Prices
The important price pressure index increased in Q1 to 60, up from 57 in Q4, the fifth consecutive quarterly increase. At the current reading of 60, the price pressure index indicates a majority of dealers are feeling pressure to lower prices. Interestingly, the pressure to lower prices is being felt equally among franchised and independent dealers with scores of 59 and 60, respectively. The index is significantly higher than a year ago when it was 37 but remains below pre-pandemic levels when it averaged 64.

High Interest Rates and a Declining Economy Darken Market Outlook
Overall, Interest Rates are now the top factor holding back dealer business in the U.S., with 55% noting it as their primary concern, according to the Q1 2023 CADSI. Economy (54%), Limited Inventory (43%), Market Conditions (42%) and Expenses (29%) round out the top five factors holding back business.

Cox Automotive Dealer Sentiment Index Methodology
The Q1 2023 CADSI is based on 1,022 U.S. auto dealer respondents, comprising 571 franchised dealers and 451 independents. The survey was conducted from January 30 to February 13, 2023. 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 Q1 2023 Cox Automotive Dealer Sentiment Index.

About Cox Automotive
Cox Automotive is the world's largest automotive services and technology provider. Fueled by the largest breadth of first-party data fed by 2.3 billion online interactions a year, Cox Automotive tailors leading solutions for car shoppers, automakers, dealers, retailers, lenders and fleet owners. The company has 25,000+ employees on five continents and a family of trusted brands that includes Autotrader®, Dealertrack®, Kelley Blue Book®, Manheim®, NextGear Capital™ and vAuto®. Cox Automotive is a subsidiary of Cox Enterprises Inc., a privately-owned, Atlanta-based company with $22 billion in annual revenue. Visit coxautoinc.com or connect via @CoxAutomotive on Twitter, CoxAutoInc on Facebook or Cox-Automotive-Inc on LinkedIn.

Media contacts:
Dara Hailes
Cox Automotive
470 658 0656
dara.hailes@coxautoinc.com

Mark Schirmer
Cox Automotive
734 883 6346
mark.schirmer@coxautoinc.com