Auto Dealers' Economic Outlook

Insights for Automotive Dealers

Reflecting on 2025, Preparing for 2026

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Auto Dealers' 2025 Year in Review and 2026 Economic Outlook

The 2025 HHM Dealership Economic Outlook is being presented as the year draws to a close. This allows us to share what impacted dealership performance during the past 12 months – variable and fixed operations, talent, technology, capital, and risk – along with expectations for 2026 to help support planning, budgeting, and strategic decision-making within your own dealership organization in the coming months.

With insights from internal and external industry experts, the report merges practical, store-level perspectives with broader industry economic trends.

The HHM Dealership Services Group hopes you find this compilation informative and useful as you begin 2026.

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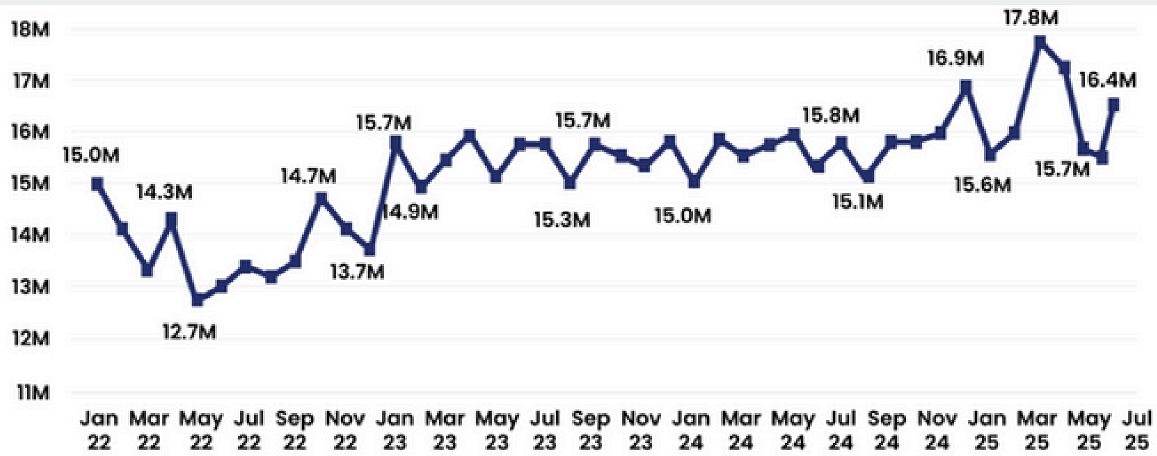
New Vehicle Sales

By Scott Lowe, CPA
Partner

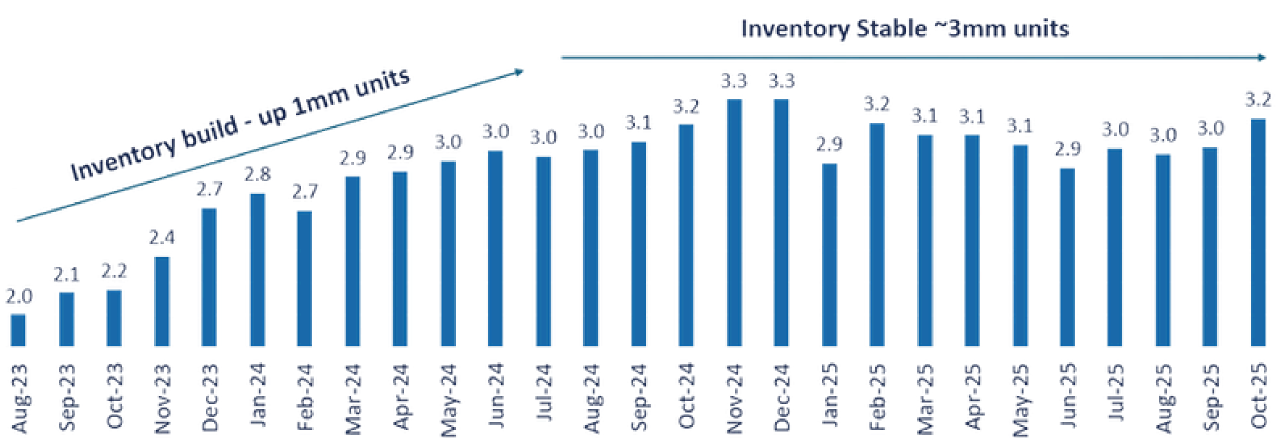
New vehicle demand in 2025 performed better than many anticipated, but it noticeably declined late in the year. Monthly Seasonally Adjusted Annual Rate (SAAR) mostly stayed in the mid-15M to low-16M range, peaking around spring or late summer, then declined in Q4 as affordability remained tight and pull-ahead demand decreased. [1a]

Figure 1: Monthly SAAR



Inventory was the main story for dealers. The Presidio Group's perspective presents an inventory build-up in units from mid-2023 to a fairly consistent 3 million units of inventory in the market. [2a]

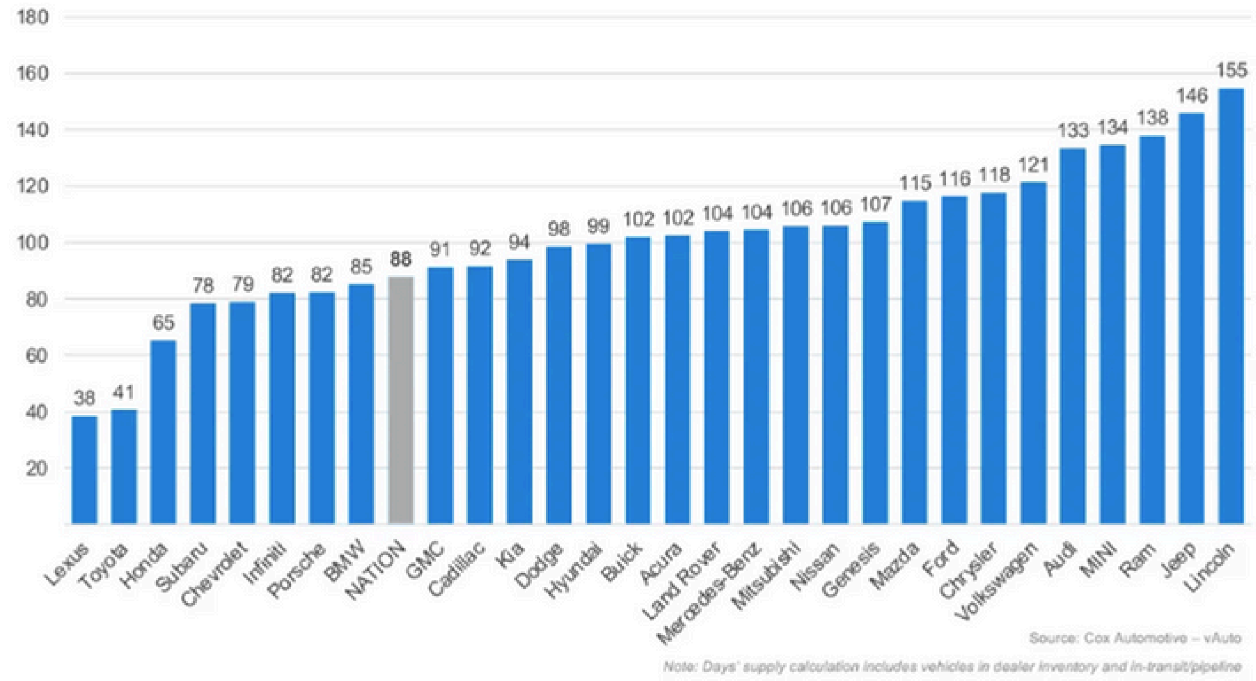
Figure 2: Inventory



New vehicle inventory supply returned to normal in 2025 and increased through the fall. Data shows days' supply rising to 88 days in early October, with many brands at or above 100 days. This clearly indicates a softening market where dealers need to shift from "find a car" to "move a car." [3a]

Our staff members have also commented on how the amount of inventory on lots has increased compared to recent years, as we visit clients on site to plan for the close of 2025.

Figure 3: October Days' Supply of Inventory by Brand



Pricing stayed elevated even as incentives crept higher. By November, the new-vehicle average transaction price (ATP) was about $49,800. This was mainly because there were more high-end trucks and SUVs. Incentives averaged approximately 7% of ATP across 2025. This matters because increasing supply often drives up incentive spending and price competition, which directly puts pressure on front-end gross. Expect automakers to offer targeted incentives to prepare for the start of 2026. [4a]

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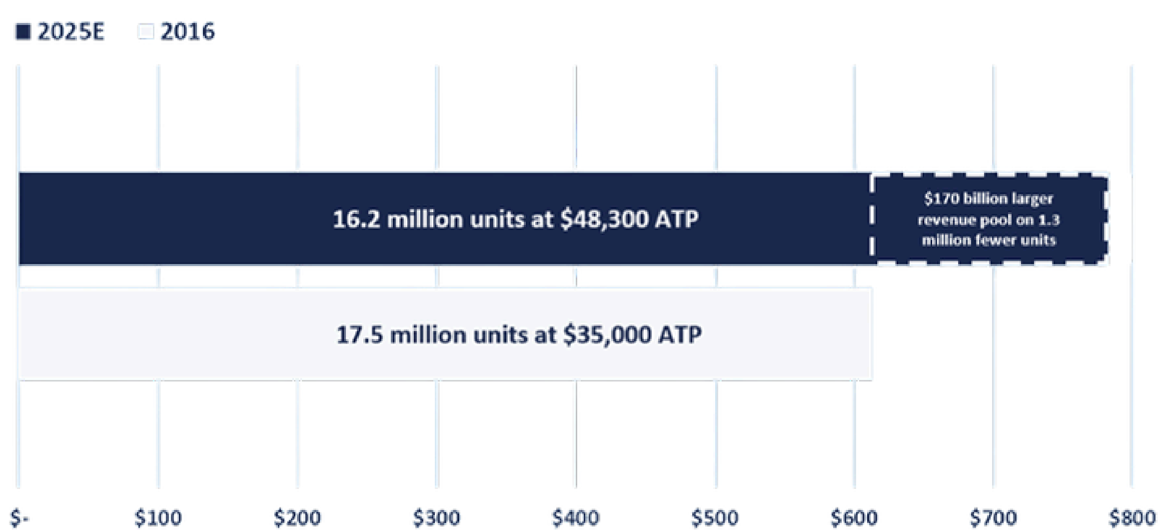
Travis Horton began his career at HHM in 1999 as a staff accountant. He was named partner in less than six years, making him one of the youngest partners in a large CPA firm to date. Spending time in both assurance services and tax ultimately led him to HHM Management Advisory Services (MAS). His work in that area requires a keen understanding of assurance and tax acumen. His experience in MAS has given him the opportunity to be involved in the day-to-day operations of his clients' businesses. It has proven to be an invaluable skill set for both startups and the well-established companies that he serves. In his role in HHM's MAS department, he has facilitated complex business decisions such as buying/selling, debt restructuring, and strategic growth. Travis leads some of the firm's largest audit and tax engagements and serves as the Managing Partner of HHM's successful Dealership Services Group, overseeing the firm's service of its 800+ dealership clients across the nation. He has been featured on industry podcasts and is a frequent speaker and/or presenter at regional and national industry meetings and conferences.

Figure 4: Industry Average Transaction Price Versus Industry Average Incentive Spend as of % of ATP

Automakers will have to navigate softening demand by balancing production discipline and the need to keep plants/utilization healthy. Their need to support reported results via wholesale/shipping cadence will further complicate the equation. Production outlooks suggest the OEMs will focus on managing supply rather than flooding the market.[4a]

The data seems to indicate that 2026 will maintain a similar volume, but with tighter margins. Edmunds projects near 2025 levels at approximately 16.0 million 2026.[6a] It appears it may be challenging to get back to a plus 17 million SAAR level without better affordability. The Presidio Group illustrated this by comparing new vehicle revenue pools for 2025 versus 2016 with the ATP amount.[2a]

Figure 5: ATP

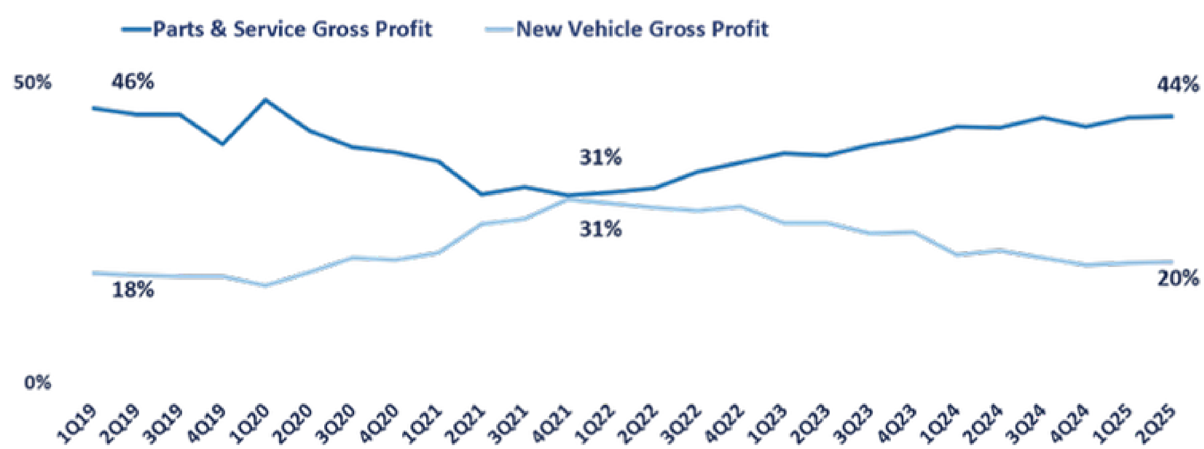


The two most significant swing factors include the unpredictability of tariffs and the elimination of EV incentives. Cox Automotive's senior economist believes that manufacturers are currently absorbing tariff costs, but they will eventually run out of alternatives, resulting in price increases in 2026. They also expect EV and plug-in hybrid vehicle sales to suffer without the $7,500 tax credit.[7a] In addition, Ford announced they will discontinue the production of the Ford Lightning, an all-electric F-150, indicating a potential overall industry shift. These factors will contribute to more volatile demand and greater price fluctuations.

Benchmark data indicates that new-vehicle gross profit per unit has been stabilizing since the pandemic. The ongoing combination of higher days' supply, increased incentive spending, and policy-driven price volatility suggests that front-end gross margins are likely to continue compressing. This is consistent with what we have seen during this fall's tax planning to wrap-up 2025.

The Presidio Group summarized the profit breakdown for public dealership groups across parts, service, and new vehicles. This further supports normalization back to the pre-pandemic environment. [2a]

Figure 6: Public Dealers' Gross Profit Contribution by Segment



The results vary widely by region and brand, but overall, dealers are having to return to the basics used before 2020 to achieve results. For 2026, we expect successful dealers will have to: (1) manage inventory turn, (2) utilize incentives as a tactical tool tied to aging, (3) protect total-deal economics by tightening F&I execution (4) make up more gross within the fixed operation departments, and (5) control cost, including personnel, interest, and floor plan. While 2026 will present challenges,

Sources:
1a - https://haigpartners.com/resources/saar-slips-in-q2-2025-what-it-means-for-dealership-owners-considering-a-sale/
2a – Market insight from Kevin Tynan, Director of Research from the Presidio Group - https://thepresidiogroup.com/
3a - https://www.coxautoinc.com/insights-hub/oct-2025-new-vehicle-inventory/
4a - https://www.coxautoinc.com/insights-hub/nov-2025-atp-report/
5a - https://www.cbtnews.com/us-new-vehicle-inventory-holds-steady-as-automakers-brace-for-2026/
6a - https://www.edmunds.com/car-news/trends-that-will-shape-2026-car-market-edmunds-insights.html
7a - https://www.wardsauto.com/news/tariff-storm-brewing-for-2026-auto-market/799138/

Used Vehicle Market – Returning to “Normal?”

By Jacob Pardue, CPA
Manager

Since the pandemic, which feels like yesterday but is now over half a decade ago, not much can be considered normal in the automotive industry. Supply constraints, poor inventory allocations, high prices, tariffs, and a plethora of unforeseen circumstances have made predicting what will happen next a fool’s errand. But for the first time since we began wearing masks and standing six feet apart in the grocery store line, we’re starting to see some consistency and normalization in used vehicle pricing, units retailed, and inventory levels.

According to the Manheim Used Vehicle Value Index [1b], a benchmark for average transaction prices for used vehicles across the industry, January 2024 through December 2025 is reading nearly flat, with just a small increase we’ll attribute to inflation. This trendline is similar to how it was before the pandemic, but prices are about 40% higher than before 2020. Since the late-2021 used car craze that lasted into 2023, those prices have fallen more than 20%.

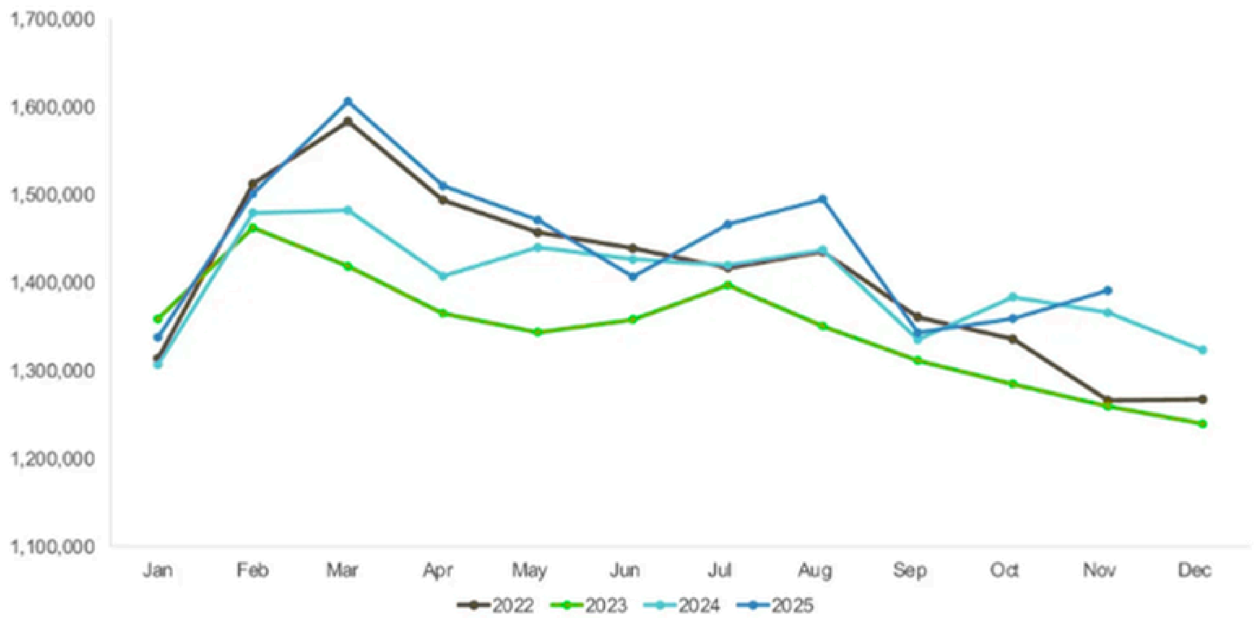
Figure 7: Manheim Used Vehicle Value Index - November 2025

(Source: Manheim)

We think these elevated post-pandemic prices are here to stay, and barring another shock to the system, should continue to moderately increase on pace with general inflation. Demand for used vehicles is still strong, with the average transaction price of new vehicles pricing a large subset of customers completely out of that market. Coupling this with a lack of quality, late-model units that were never produced due to the pandemic—approximately 3 million fewer units produced due to shutdowns—we believe a conservative target for 2026 is a moderate inflation-adjusted price, reflecting a stable used car market. Good condition, low-mileage examples will still move with relative ease, and CPO remains a strong opportunity for dealers to capitalize on customers who want new car warranties without new car prices.

Retail volume is poised to have its best year since the 2021 post-pandemic spike, as well, although at a moderate increase. 2025 looks to come in a tick above 20 million units retailed, compared to just under 20 million in 2024 and 19 million in 2023 [2b]. Again, we think 2026 is poised for moderate growth – with factors such as declining interest rates and favorable tax policy going into effect that should help prop up demand. Expect a spike in sales during tax time this year, as policies such as no tax on tips and no tax on overtime that have not been accounted for in W-2 withholdings for the 2025 tax year result in larger refunds.

Figure 8: Monthly Used Vehicle Retail Sales Volume

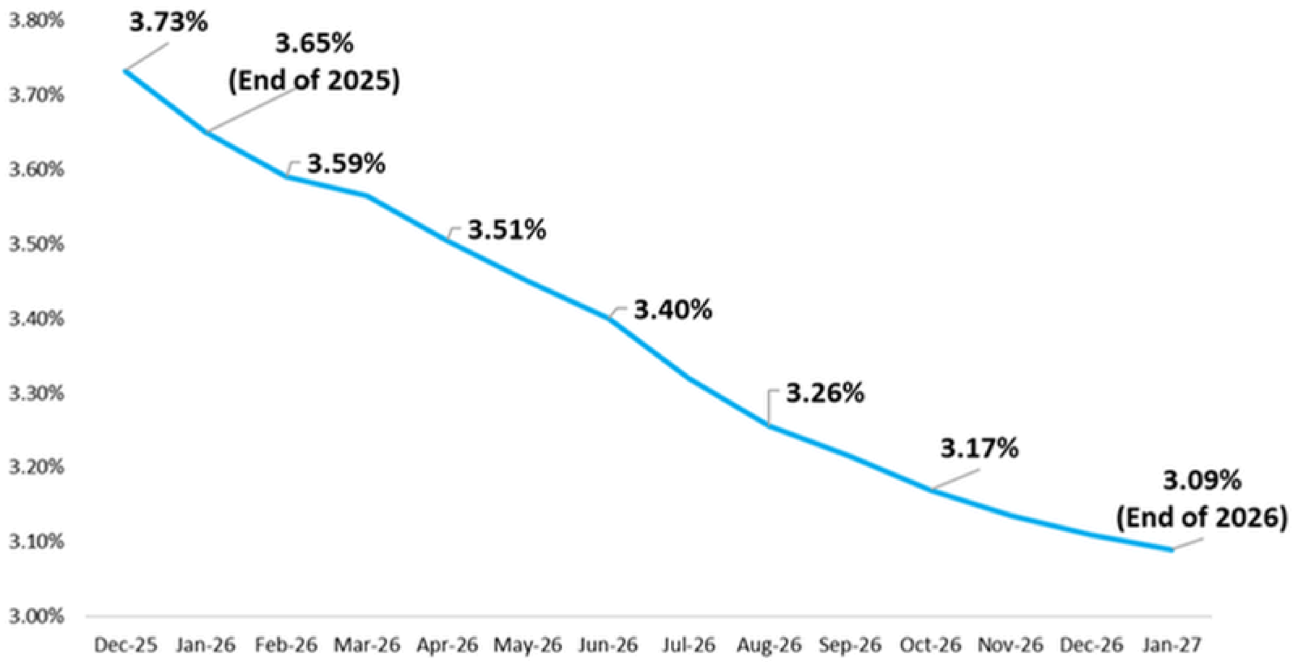


(Source: Cox Automotive)

Interest rates also play a major role in influencing used vehicle purchases, and financial markets are predicting a continued trend downward in the federal funds rate for 2026. In 2025, we saw three total rate cuts, most recently in December, which lowered the target rate to 3.50% - 3.75%.

Market pricing is estimating an additional 50 to 75 basis points being cut during 2026, which should help alleviate some pressure as consumers are facing continuing crunches on their budgets due to inflation [4b].

Figure 9: Market Expectations for the Fed Funds Rate: December 2025 - January 2027

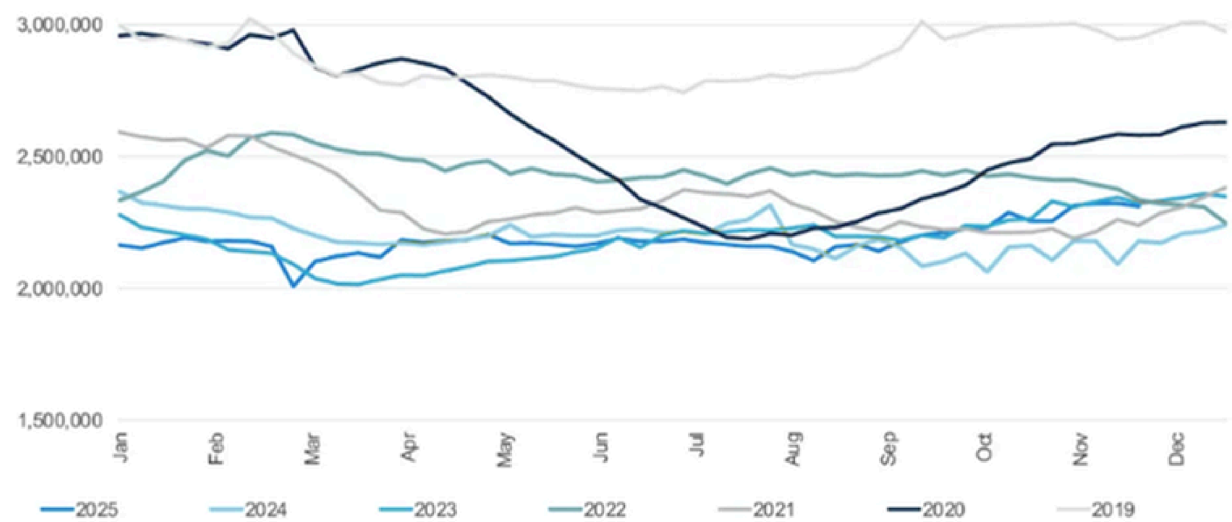


(Source: Creative Planning)

Used vehicle inventories have also been marginally increasing throughout the second half of 2025, with December inventories pacing 2.3 million units nationwide – up nearly 6% when compared to December 2024.

This is still far below 2019's ~3 million units, but shows relative consistency that should support asking prices into early-2026 and beyond [3b].

Figure 10: Used Vehicle Inventory Volume

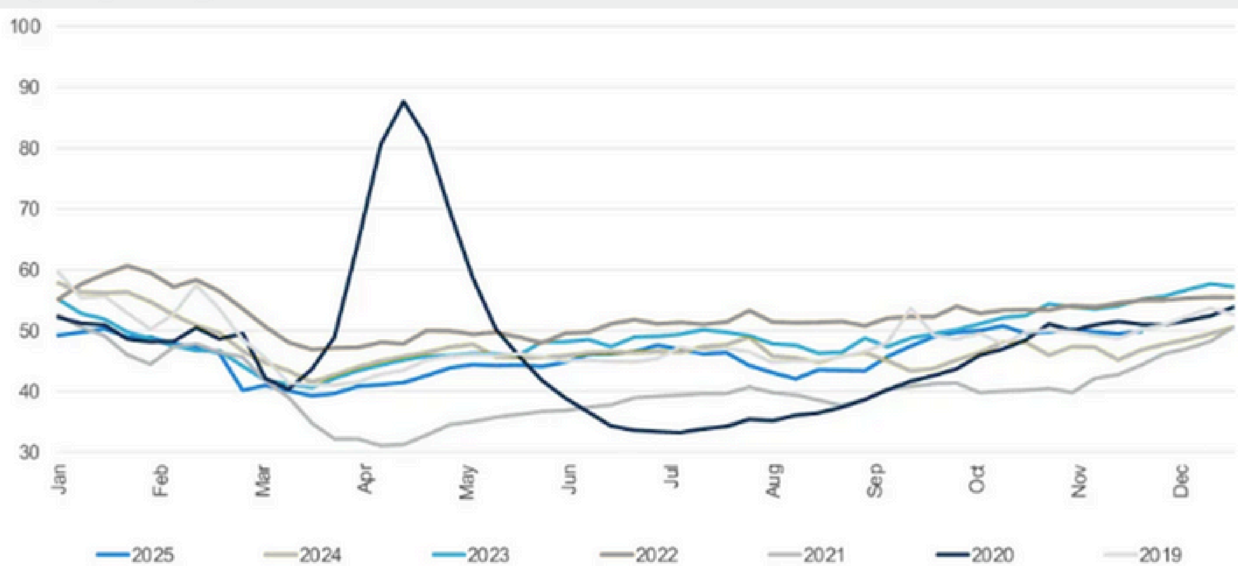


(Source: Cox Automotive)

Days' supply, as measured by Cox using the most recent 30-day sales data, currently sits at 50 days [3b]. Over the past five years, days' supply has remained relatively flat, suggesting dealers' ability to manage inventory relative to demand.

Don't be surprised to see a slight dip in days' supply in Q1 of 2026 as consumers take advantage of larger refunds and falling auto loan rates. We believe dealers whose inventory is properly stocked can capitalize on increased demand during this tax refund season.

Figure 11: Used Vehicle Inventory Days' Supply

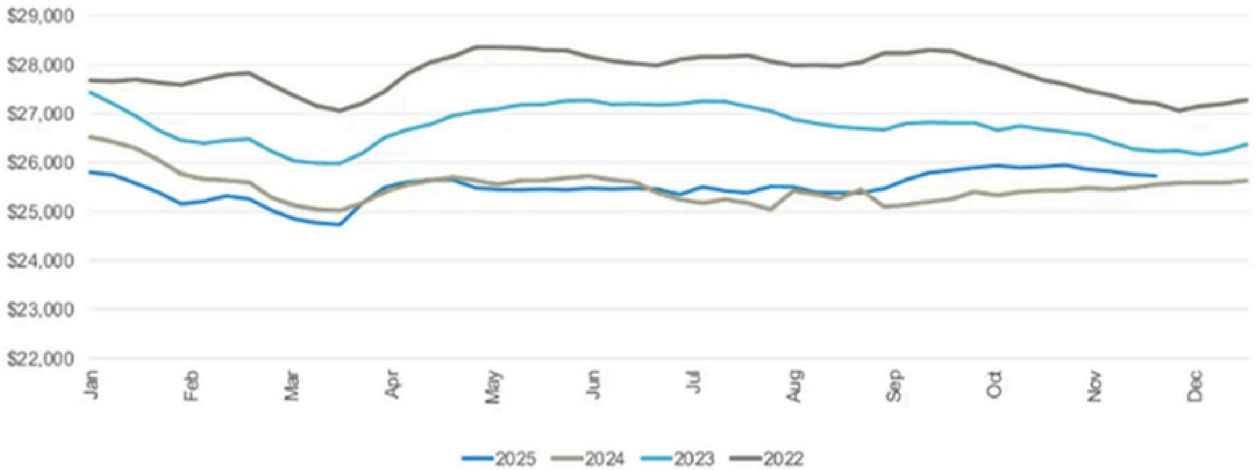


(Source: Cox Automotive)

Used vehicle prices are remaining sticky headed into 2026, with grosses falling slightly as dealers face pressure to acquire in-demand inventories. Prices have dropped steadily since 2021, with ATP's hovering around 2024 levels. Domestics Ford and Chevrolet, along with imports Toyota, Honda, and Nissan continue to pave the way in popularity for used vehicles retailed [3b].

These five brands account for one-half of all units sold. Inventory below $15,000, a popular price segment for entry-level buyers and low credit applicants, continues to have suppressed availability – sitting at just 36 days' supply. Expect that trend to continue as the market shakes out production issues experienced during the pandemic.

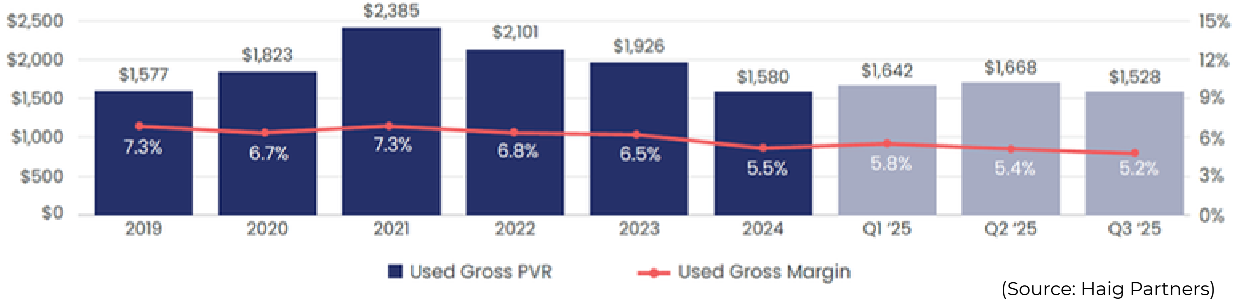
Figure 12: Average Used Vehicle Listing Price



(Source: Cox Automotive)

While prices remain high compared to 2019 and before, grosses are dropping due to increased competition in acquiring retail ready units. We expect grosses to increase marginally in Q1 2026 as demand is supplemented due to factors mentioned previously, but we expect the overall trend to settle between a 5-6 gross margin percentage [5b].

Figure 13: Used Gross Profit Per Vehicle/Public Company Data (Weighted Average Same Store Performance

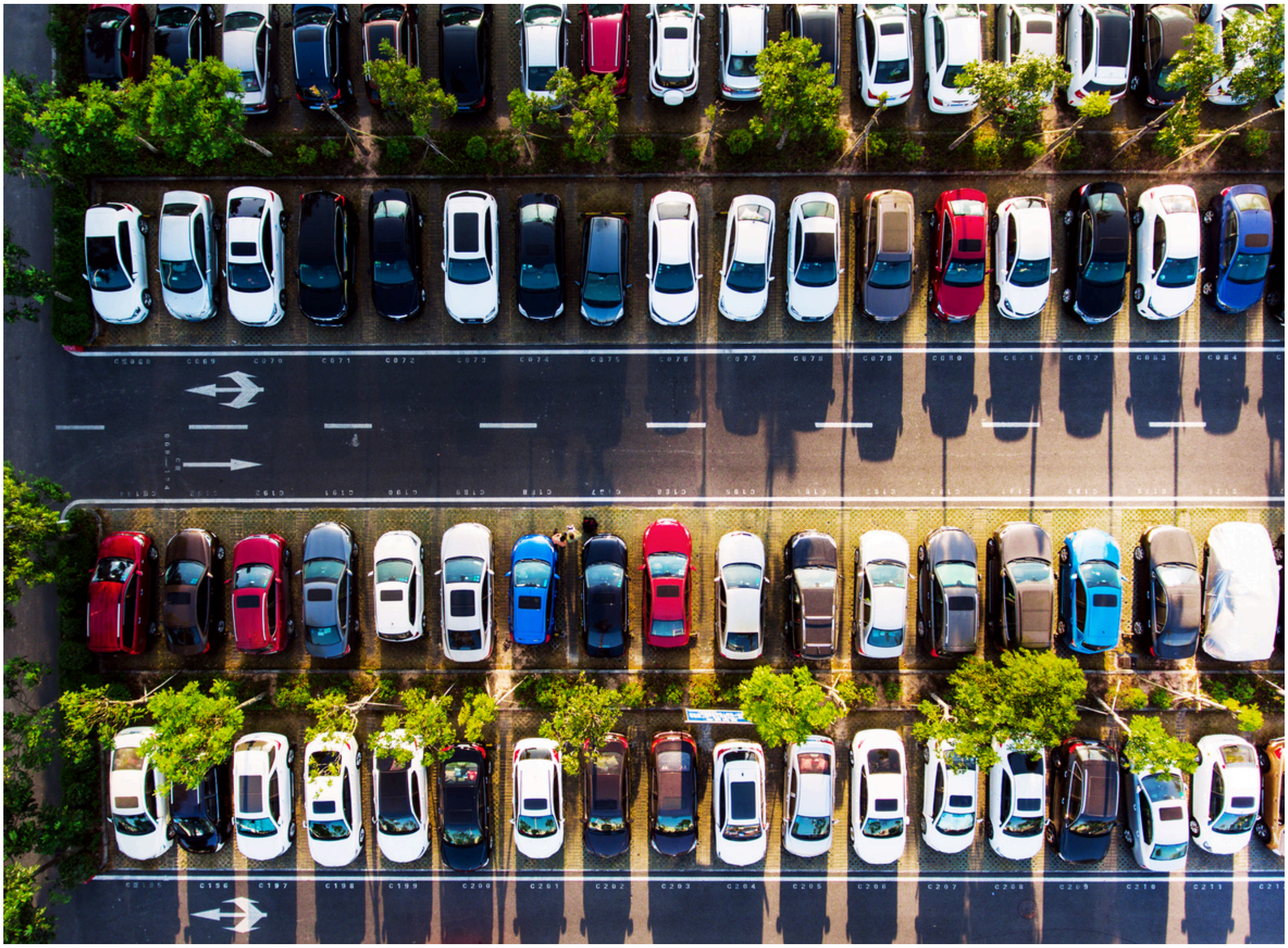


(Source: Haig Partners)

“Normal” may not be exciting, but (hopefully) it is more predictable. While the used market likely won’t go back to pandemic highs and extreme grosses, we still see an opportunity for used car retailers to remain profitable. Demand is still strong for quality used vehicles, and with MSRPs on new vehicles continuing to climb, consumers will likely still cling to good deals on pre-owned models.

With a strong tax season in the forecast and pricing stability seemingly here to stay, coupled with forecasts of interest rates falling, we expect demand to stay stable at a minimum, if not increase slightly. This signals opportunity for dealers, and good operators should continue to have success with their used vehicle departments.

Sources:
1b https://site.manheim.com/en/services/consulting/used-vehicle-value-index.html
2b https://www.coxautoinc.com/insights-hub/used-retail-vehicle-sales-november-2025/
3d https://www.coxautoinc.com/insights-hub/used-vehicle-inventory-november-2025/
4b https://creativeplanning.com/insights/
5b https://haigpartners.com/resources/q3-2024-haig-report-inflation-moderates-but-brings-new-dynamics-to-auto-retail/



Finance & Insurance

By Scott Lowe, CPA
Partner

In 2025, as front-end grosses continued to normalize, F&I carried even more of the profit-stabilization load for many stores, notably where pricing competition increased, and unit volume became harder to maintain. Industry benchmarking, summarized from the Presidio Group findings, cited average F&I income per retail unit up 6.9% year-over-year to $1,666, which helped offset pressure elsewhere in the income statement.[1c] The Haig Report's average F&I gross per vehicle was $2,534 an increase of 5.2% year-over-year, based on publicly traded auto dealers. [5c] You may ask why such a large $868 variance between the two sources. This can be attributed to non-public dealers utilizing reinsurance, which affects the cost structure of each contract and the overall gross per unit. Ultimately, the data shows growth of 5-7% in F&I and a greater reliance on back-end profits to make up for the reduction in front-end gross.

Heading into 2026, most dealers should assume this "more reliance on F&I" trend is structural rather than temporary. However, buyer affordability remains a defining constraint.Customers are more payment-sensitive, more comparison-oriented, and quicker to decline add-ons that feel misaligned with their needs. J.D. Power's 2025 Automotive Financing Satisfaction Study highlighted record average monthly payments of $758 (Oct 2025) and an elevated share of "financially vulnerable" borrowers. These conditions put additional pressure on trust, transparency, and right-sized product packaging.[2c]

Execution to optimize F&I gross will become even more essential in the future. To boost the F&I department, a dealer must craft the perfect mix of products at the right prices to match their customers' preferences, considering the overall significance of back-end gross. A clear, systematic F&I process, coupled with performance metrics, will be crucial. Dealers who focus on process tend to see consistently higher profits. Dealers should review their current practices and offerings. Using strategies such as earlier product introduction (sales-to-F&I handoff), disciplined menu presentation, regular training—including role-playing and suggested word tracks to handle objections—will equip F&I managers to face increased challenges within the box. Additionally, dealers need to set clear goals based on their target customers and products, which can differ from one dealership to another. This involves establishing specific benchmarks like penetration rate and products per sale, along with gross per contract. These goals should be tracked regularly (daily or weekly) to give enough time to adjust efforts and meet objectives.

Customer wait time significantly impacts both profit and retention, especially in 2026 when payments remain high.

Industry reports indicate that longer waits decrease the likelihood of recommendation and are linked to lower trust in the F&I process. Conversely, trust still strongly influences repeat purchase intent. The key takeaway is not to "rush the box," but to eliminate idle time. Implementing appointment-based F&I, pre-delivery menu reviews, quicker stip collection, and disciplined e-contracting can turn dead time into a smoother experience that boosts CSI and reduces risks of chargebacks.[3c, 4c]

Product cost management will be a factor in 2026. Whether a store participates through direct product offerings, reinsurance, or a combination of the two, the goal remains to protect underwriting economics and provide positive customer outcomes simultaneously. Rising claim costs can diminish dealer outcomes if pricing, adjustments, and reserves are not adequately managed, impacting product cost or reinsurance profits. In the current environment, repair-cost dynamics can quickly alter results. Therefore, regularly reviewing the related data, such as loss ratios and claim severity by product, term band, and vintage, should be on the dealer's to-do list for 2026.

If the dealer participated in reinsurance, additional discipline will be required to monitor (1) how labor and parts costs flow through reimbursement, (2) administrative fees and services (what you pay for and what you get), and (3) whether product pricing and coverage still make sense for today's higher-cost repair environment.

Finally, fee governance and "evaluate services" should be considered both as a margin and a compliance or reputation safeguard for 2026. While the FTC's CARS Rule was vacated by the Fifth Circuit in January 2025, this does not mean there will be less scrutiny; the real trend is continued pressure on disclosure, consent, and fee or add-on transparency through state enforcement and regulations. California's CARS Act, signed on October 6, 2025, and effective October 1, 2026, serves as a clear example where dealers should start preparing documentation and advertising or disclosure procedures well before the effective date. Dealers must stay updated on specific regulations in their respective states. As 2026 approaches, management teams should ensure that they follow the relevant law in their jurisdictions. This may include ensuring that fees are always disclosed clearly, defensible, and supported by documented customer consent, and that provider services are regularly tested for value (such as cancellations handling, claim experience, and compliance support) training). [6c, 7c, 8c] Overall, the outlook for F&I profits is positive, but dealership teams will have to stay focused. The profit will not come easily and will require greater discipline and energy to sustain the trend.

Footnotes / Source links
1c. https://thepresidiogroup.com/news-insights/#quarterly-report
2c. https://www.jdpower.com/business/press-releases/2025-us-automotive-financing-satisfaction-study
3c. https://www.wardsauto.com/news/wait-times-trust-gaps-threaten-f-i-profits/799143/
4c. https://us.dealertrack.com/resources/5-reasons-digital-contracting-is-essential-for-dealership-success/
5c. https://haigpartners.com/resources/q3-2025-haig-report-ev-driven-sales-shake-up-market-share/
6c. https://www.hklaw.com/en/insights/publications/2025/02/fifth-circuit-strikes-down-ftcs-auto-retail-scam-rule
7c. https://www.nelsonmullins.com/insights/blogs/driving-forward-developments-in-transportation-law-and-innovation/all/california-governor-signs-california-cars-act-into-law
8c. https://www.jdsupra.com/legalnews/2025-state-enforcement-recap-1792498/

Credit Markets

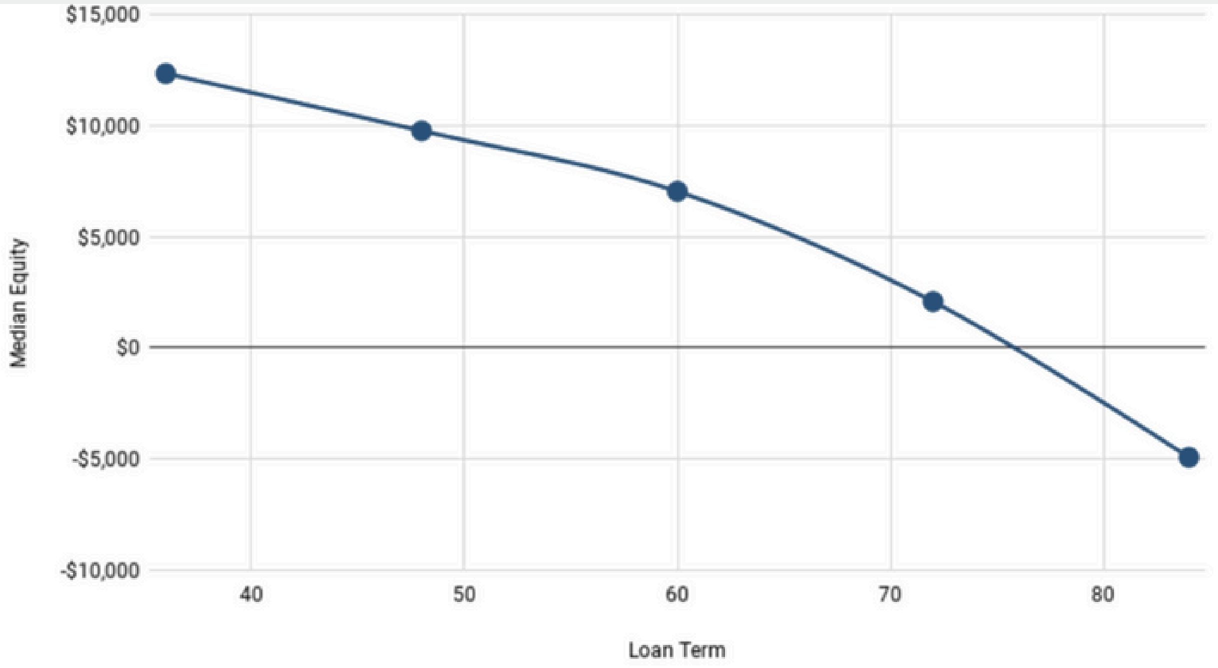
By Karsyn Guffey
Senior Accountant

Rising interest rates have traditionally strained automotive borrowers, but by 2025 the pressure shifted to lenders. In Q1 2025, 19.8% of new-vehicle loans carried 84-month terms, up from 15.5% a year earlier.[1d, 2d] This trend reflects a combination of high vehicle prices and strong consumer demand for lower monthly payments. Long-term financing is no longer limited to new vehicles; used-car buyers are also relying on extended terms.

Rapid depreciation is pushing more consumers into negative equity, where borrowers owe more than their vehicles are worth.

Approximately one in four new-car trade-ins carries negative equity, a figure projected to grow as extended loan terms become more common.[3d] This leaves lenders vulnerable to higher losses if the car is repossessed or sold before the loan is paid off. Borrowers, meanwhile, are enticed by the reduced monthly payment, even though seven-year loans significantly increase total interest expense. The extended loan term creates an illusion of affordability, with the real cost borne later through higher lifetime interest.

Figure 14: Auto Loan Equity - Equity vs. Loan Term



A new incentive has added to this appeal: the One Big Beautiful Bill, which allows borrowers to deduct up to $10,000 of interest paid on new-car loans.[5d] This tax benefit does not apply to used-car loans or refinances. Despite the incentive, overall borrower distress continues to rise.

By October 2025, 6.6% of subprime borrowers were 60 days past due on auto loans.[4d] Cox Automotive estimated 1.73 million repossessions in 2024, with further increases expected as long-term loans grow in popularity. Default rates though 2024 were above 3%, which is a 12 year high.

Figure 15: Estimated Defaults and Default Rate on Auto Loans

Year	Loan Base Ave (Million)	Defaults	Default rate	Repossessions (est millions)	Repossession Rate (est)
2006	54.77	1,506,833	2.75%	1.21	2.2%
2007	55.80	1,776,691	3.18%	1.42	2.5%
2008	55.70	2,094,796	3.76%	1.68	3.0%
2009	53.79	2,216,098	4.12%	1.77	3.3%
2010	51.91	1,670,750	3.22%	1.34	2.6%
2011	51.57	2,094,769	3.76%	1.06	2.1%
2012	52.67	1,232,516	2.34%	0.99	1.9%
2013	54.87	1,329,557	2.42%	1.06	1.9%
2014	57.91	1,475,066	2.55%	1.18	2.0%
2015	59.86	1,543,982	2.58%	1.24	2.1%
2016	64.61	1,865,535	2.88%	1.49	2.3%
2017	68.35	2,029,659	2.97%	1.62	2.4%
2018	70.34	2,013,689	2.86%	1.61	2.3%
2019	73.37	2,121,173	2.89%	1.70	2.3%
2020	73.25	1,623,972	2.22%	1.30	1.8%
2021	73.57	1,445,551	1.96%	1.13	1.5%
2022	73.58	1,662,547	2.26%	1.21	1.6%
2023	74.34	2,032,992	2.73%	1.49	2.0%
2024	74.44	2,332,837	3.13%	1.73	2.3%

Source: Cox Automotive / Experian

Given this elevated risk environment, lenders are likely to tighten underwriting standards, raise interest rates, and shift toward more conservative lending. Stricter criteria—such as higher minimum credit scores or larger down payments—may help contain losses associated with negative equity. Higher interest rates could offset default risk but may also reduce affordability and limit the pool of qualified buyers. If interest rates fall, the appeal of seven-year terms may fade. Historically, consumers have prioritized monthly payment over total loan cost, fueling demand for extended terms. Lower rates would allow borrowers to secure more affordable payments with shorter terms, reducing the need for 84-month loans. This shift would not only broaden affordability but also reduce long-term risks like heightened interest costs and persistent negative equity.

In summary, 84-month auto loans ease monthly payments but amplify lender risk by increasing negative equity exposure and total borrowing costs. As lenders tighten standards and adjust pricing, consumer behavior and affordability will shift accordingly. Future interest rates and tax policy will continue shaping the balance between short-term affordability and long-term financial stability.

This will directly impact dealers going into 2026.They should expect to see limits on the back-end F&I product financing, which is a larger portion of dealer profit. We expect more difficulties to get paper bought. This could include more stips on lower credit customers. It may be harder to match customers with the right priced inventory, which will directly impact how dealers buy and manage the used inventories. Dealers will need to be prepared to pivot throughout 2026 to compensate for changes in the credit markets.

Footnotes / Data Sources
1d - https://www.consumerreports.org/money/car-financing/dont-rush-into-an-84-month-car-loan-a9535693332/
2d - https://www.sfgate.com/news/article/report-84-month-car-loans-hit-a-record-high-20275516.php
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4d - https://www.reuters.com/business/autos-transportation/record-number-subprime-borrowers-miss-car-loan-payments-october-data-shows-2025-11-12/
5d - https://www.irs.gov/newsroom/one-big-beautiful-bill-act-tax-deductions-for-working-americans-and-seniors

Interest Rates

By Karsyn Guffey
Senior Accountant

Interest rates in the automotive industry began rising in 2022 as the Federal Reserve increased benchmark rates to combat inflation following the economic stimulus related to the COVID-19 pandemic. Because most dealerships rely on floorplan financing tied to variable interest rates, their inventory carrying costs climbed sharply, creating a clear year-over-year impact on profit-and-loss statements and cash flows. According to the Cox Automotive Dealer Sentiment Index, interest rates remain one of the most significant factors constraining business activity—44% of dealers identified interest rates as a barrier to sales momentum in Q3 2025. Among franchised dealers, that figure rises to 49%, making interest rates the top concern affecting business conditions.[1e]

These higher borrowing costs directly translate into more expensive inventory management. Each additional day a vehicle sits on the lot increases carrying costs, with units aged 90–120 days proving particularly burdensome. As a result, general managers are often compelled to accelerate sales through aggressive markdowns. At the same time, elevated interest rates reduce customer affordability and slow overall demand, further lengthening inventory turn times.

To help buyers manage higher monthly payments, dealerships may accept slimmer per-unit margins. The pricing pressure is evident: in 2025, only 16.9% of new vehicles sold above MSRP—about half the share from the prior year.[2e] As front-end margins compress, more of the manufacturers' incentives are passed directly to consumers, highlighting the growing importance of strong performance in finance & insurance (F&I) and fixed operations. As these pressures persist, slow-moving units force dealerships to adopt more disciplined, data-driven inventory strategies. With interest rates remaining elevated, days' supply becomes an even more critical metric, as the cost of carrying each vehicle grows with every passing day. Therefore, managing this metric will be essential for dealers seeking to protect margins and maintain profitability in a high-interest-rate environment.

From 2022 to 2024, interest rates steadily climbed, but the outlook throughout 2025 and beyond has begun to improve as rates started to decrease. In December 2025, the Federal Reserve cut the federal funds rate for the third time that year, marking the lowest level in the past three years.[4e] Forecasts point to moderate easing rather than a return to ultra-low rates; reductions are expected to be gradual, slower than markets initially anticipated. Experts note that while additional cuts are possible, the Fed may pause for extended periods to make data-dependent decisions.[5e]

Although the Fed is cutting benchmark rates, auto industry rates will not immediately fall. Consumer lending continues to set rates based on their own risk assessments, adjusting for credit risk, profit margins, and market conditions. As a result, the pass-through of federal rate cuts is gradual and often partial.[6e] So customers may not see a significant break in the financing rates. Nevertheless, further rate reductions should slowly lower dealer floorplan financing rates over time, easing inventory interest expenses and improving cash flow.

By 2026, the rate cuts implemented in 2025 are expected to be fully reflected across the broader dealership market. While the daily inventory carrying cost should decrease with lower interest rates in 2026, dealers will still need to maintain inventory discipline to keep or reduce the days' supply, with the overall goal of lowering interest expenses.

Dealers should see gradual relief on floorplan costs—especially as 2025 cuts fully flow through in 2026.

Footnotes / Data Sources1e https://www.coxautoinc.com/wp-content/uploads/2025/08/Q3-2025-Cox-Automotive-Dealer-Sentiment-Index-Results.pdf
2e https://www.nasdaq.com/articles/why-are-higher-federal-interest-rates-hurting-car-industry
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Fixed Operations

By Scott Lowe, CPA
Partner

In 2025, fixed operations remained the main profit stabilizer while variable margins continued to return to normal pre-pandemic levels. Service and parts now make up 13.2% of a dealership's total income, compared to 12.4% in 2023. NADA's mid-year data shows franchised light-vehicle dealers completed more than 137 million repair orders in the first half of 2025, with service and parts sales exceeding $81 billion —evidence that lane traffic and customer-pay demand remained strong even during a more volatile sales period environment.[1f]

While sales volatility returned in 2025, fixed operations continued to deliver consistent profitability for dealers.

Many dealers entered 2026 with the goal that fixed operations must increase revenue and gross profit to counter a more competitive vehicle market and better absorb overhead. That said, fixed operations growth is becoming more challenging to achieve and is increasingly limited by capacity. The Presidio Group's 3rd Quarter 2025 benchmark noted only a 1.8% increase year-to-date through the first nine months of 2025.[2f]

For 2026, the main challenge for many stores will be "techs, techs, techs." NADA estimates the industry graduates about 39,000 new service technicians each year but needs to replace nearly 76,000 annually resulting a continuous shortfall of roughly 37,000 trained techs.[3f]

Figure 16: Dealership Service & Parts Sales (June YTD)

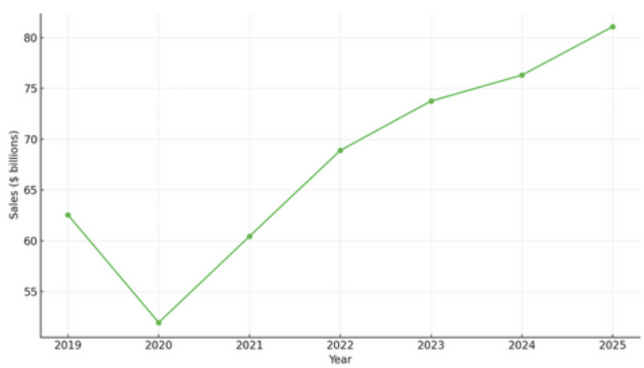
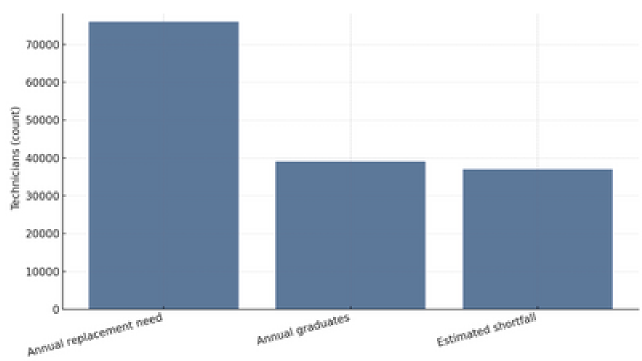


Figure 17: Dealership Technician Pipeline (Annual)



Federal labor forecasts show similar replacement pressures, with about 70,000 openings per year on average expected over the decade.[4f] Both public dealership groups and many of our clients have discussed how they have been combatting the problem over the past couple of years, focusing on increasing the tech headcount through programs to attract, train, and retain technicians. This trend is expected to continue in 2026.

Bay capacity limits have also been an obstacle. We have seen a movement in capital improvements to expand shop capacity. Construction lead times remain a concern, so a strategic plan for fixed operations is critical. Dealers need to closely monitor bay utilization to anticipate the potential need to increase work capacity, as they focus on increasing technician headcount.

Customer retention remains a key factor. Although fixed operation sales have increased, Cox Automotive reported that dealerships handled 12% fewer service visits than in 2018, signaling ongoing loss to independents, quick lube, and mobile service providers.[5f] The environment is becoming more complex, as simply raising the door rate is no longer enough. With more repair orders and parts sales, rate pressure increases, but so do risks. When customers face price shock, they might decline service, switch to independents, or delay maintenance. Therefore, door rate should not be seen solely as a pricing choice; it needs to be treated as a retention tool to safeguard long-term customer pay RO count and lifetime value.

NADA's June YTD 2025 profile shows an average customer mechanical labor rate of $179 and an average total service and parts dollars per customer repair order of $470. These benchmarks help determine whether posted rates are too high compared to actual labor rates. [1f]

Many stores will still need to raise door rates to keep up with technician pay, tooling/technology costs, and parts price fluctuations (including tariff-related disruptions). However, implementation should prioritize retention by tightening dispatch to boost hours-per-RO and first-time fix rates. Standardized menus (good/better/best) can help customers easily choose themselves, and provide quotes with clear outcomes, including what the work prevents, warranty details, and estimated completion time. The goal is to boost the effective labor rate without turning the upsell into a negotiation. Rate increases work best when the customer experience minimizes surprises through clear multi-point inspection utilizing photos/video, text-to-pay approvals, accurate promises, and proactive status updates. If guests feel respected and informed, they'll accept higher prices but if they feel "sold," they'll look elsewhere. The 2026 approach may lean towards a "value-based pricing combined with a seamless experience," rather than broad price hikes.

In addition, we expect dealers to focus on communication and retention programs during 2026. This may include increased efforts to secure next-visit appointments before vehicle departure and targeted interval-based maintenance messages. Pre-pandemic programs, such as enhanced loyalty perks like diagnostic credits, bundled services, and priority scheduling, are anticipated to grow.

Source: 10-k filings

Warranty reimbursement will remain a significant margin lever and monitoring focus in 2026. Dealers should monitor the legal and litigation activities in several states centered on warranty labor times and reimbursement methods (including disputes related to OEM labor time guides).[6f] Meanwhile, OEM parts exchange program practices are also being challenged by dealers who claim under-reimbursement for certain high-value components. The labor time and exchange program fights with various manufacturers will continue in 2026 and beyond.

These programs should be watched closely because they can impact both the gross and administrative costs in the warranty channel. [7f]

Dealers who can increase overall capacity, retain their customer base, improve throughput (such as dispatch discipline, schedule density, and express service design), cut non-productive time, and maintain warranty margins will have an advantage over the competition in 2026.

Footnotes / Data Sources
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2f. https://digitaldealer.com/news/dealership-profits-grow-in-q3-despite-shifting-market-presidio/168112/
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Sweeping Tax Law Changes Positively Impact Dealers, Customers Alike

By Jacob Pardue, CPA
Manager

The Trump administration made a splash on July 4th when it signed into law the One, Big, Beautiful Bill (OBBB). The bill enacts tax law updates and extensions that should positively impact both dealers and customers alike. Due to the timing of the bill, many of the impacts won't be felt until tax time in 2026. Below summarizes the changes in the new Bill as well as thoughts on how it will impact the industry.

For the Dealer – More Depreciation and Permanent Qualified Business Income (QBI)

- Reinstating 100% Bonus Depreciation – Bonus depreciation was previously on a phaseout schedule, with 2025 only 40% of eligible property. The Bill restores 100% bonus depreciation and makes the provision permanent. One caveatfor 2025 is assets must be placed in service after January 19. This new threshold will potentially allow 100% bonus depreciation on assets put in service during 2025.
- Increased Section 179 Limits – Section 179 limitations have also been bolstered by the Bill, increasing from $1.22 million in 2024 to $2.5 million for 2025. The phaseout threshold for assets placed in service is also indexed upward, going from $3.05 million in 2024 to $4 million in 2025.
- Reinstating EBTIDA for Purposes of Business Interest Limitations Under Section 163(j) – For dealers whose three-year average gross receipts exceed approximately $31 million, the reintroduction of EBITDA for 163(j) calculations will provide additional headroom for interest deductibility and bonus depreciation eligibility. For 2022-2024, adjusted taxable income was calculated using an EBIT-style addback, resulting in potentially lower interest deductions and ineligibility for bonus depreciation. The Bill reinstates pre-2022 rules that allow for depreciation and amortization to be added back when determining ATI, a key change that will provide dealers with greater likelihood of taking bonus depreciation while deducting all of their interest expense.
- Permanent Extension of the Qualified Business Income Deduction (QBI) – Prior to the Bill, the popular 20% deduction for certain business and passthrough income was set to expire after the 2025 tax year. The Bill now makes this deduction permanent. It also expands phase-in thresholds with certain limitations.

For the Customers – Higher Credits, Wider Brackets, and Greater Deductions

Expanded Marginal Tax Brackets and Standard Deductions are Made Permanent – The widened tax brackets that were previously put into place under the 2017 Tax Cuts and Jobs Act (TCJA) are here to stay, as well as the higher standard deductions. These will continue to be indexed upwards for inflation on an annual basis.

Figure 18: Standard Deduction Increases

2026 Tax Year	Amount
Married Couples Filing Jointly	$32,200
Single Filers and Marred Individuals Filing Seperately	$16,100
Heads of Household	$24,150

2025 Tax Year	Amount
Married Couples Filing Jointly	$31,500
Single Filers and Marred Individuals Filing Seperately	$15,750
Heads of Household	$23,625

Figure 19: 2026 Marginal Tax Rates

Marginal Rate	Single Filers	Married Filing Jointly
10%	Up to $12,400	Up to $24,800
12%	$12,401 – $50,400	$24,801 – $100,800
22%	$50,401 – $105,700	$100,801 – $211,400
24%	$105,701 – $201,775	$211,401 – $403,550
32%	$201,776 – $256,225	$403,551 – $512,450
35%	$256,226 – $640,600	$512,451 – $768,700
37%	Over $640,600	Over $768,700

(Source: Internal Revenue Service)

- State and Local Tax (SALT) Cap Increased (2025-2029) – The TCJA implemented a cap on SALT deduction for itemizers at $10,000. Under the new Bill, this cap is raised to $40,000 for married filers with incomes under $500,000 ($250,000 if filing separately).
- No Tax on Overtime (2025-2028) – The Bill allows for workers to claim a dollar-for-dollar deduction for overtime pay covered by the Fair Labor Standards Act. The maximum deduction is $12,500 for single filers and $25,000 for those filing jointly. The income phaseouts begin at $150,000 for singles and $300,000 for those filing jointly.
- No Tax on Tips (2025-2028) – The Bill also provides for a dollar-for-dollar deduction for tips earned by workers in industries where tipping is customary. The maximum deduction per return is $25,000, and has the same phaseouts as the no tax on overtime provisions ($150,000 single/$300,000 filing jointly).
- Additional Deduction for Seniors Aged 65+ (2025-2028) – What the administration originally proposed as no tax on Social Security benefits materialized as an additional standard deduction for taxpayers age 65 and older. It amounts to $6,000 per taxpayer and begins phasing out at $75,000 for single filers and $150,000 for those filing jointly.
- No Tax on Car Loan Interest (2025-2028) – One of the more controversial pieces of the Bill for the automotive sector, the law enacts an above-the-line (available for non-itemizing taxpayers) deduction for certain auto loan interest. The maximum annual deduction is $10,000 per return and begins phasing out with taxpayers who income is over $100,000 ($200,000 for joint filers).

What counts as qualified interest?

Interest must be paid on a loan that:
- Originated after December 31, 2024
- Was used to purchase a vehicle originally used by the taxpayer
- Was secured by a lien on the vehicle
- Was for a personal-use (nonbusiness) vehicle

If a qualifying vehicle loan is later refinanced, interest paid on the refinanced amount is generally eligible for the deduction.

What counts as a qualified vehicle?

A qualified vehicle is a car, minivan, van, SUV, pickup truck or motorcycle that:
- Has a gross vehicle weight rating of less than 14,000 pounds
- Underwent final assembly in the United States

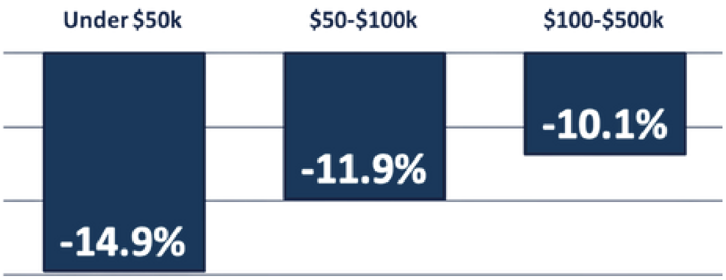
(Source: Internal Revenue Service)

Source: 10-k filings

Overview and Outlook

The Reconciliation Bill should keep tax bills at or below TJCA levels. The House Ways and Means Committee estimates that a majority of taxpayers will benefit from double digit percentage drop in taxes.

Figure 20: Reduction of Taxes with the Reconciliation Bill



(Source: U.S. House Ways and Means Committee)

For dealers, these policies are acquisition-friendly and should stimulate the buy/sell market as well as promote capital expenditures at the dealership level.

For customers, tax season 2026 is shaping up to be a small boom, as payroll providers have yet to update withholdings to accommodate for no tax on tips and overtime as well as expended tax credits.

This should result in higher refunds on 2025 returns and be a boost to Q1 2026 sales, especially in the used market. Deductibility of certain car loan interest sounds good on paper, but we estimate the impact will be negligible due to the loopholes required to receive the benefit. And finally, repealing the EV credits is impacting the market as one would expect – a surge in sales before September 30 followed by flattening demand. This shift has already impacted OEM decisions, with big manufacturers like Ford and Chevrolet backtracking EV agendas in favor of gas and hybrid powered variants. Overall, we view the bill as favorable for the automotive industry as a whole, positively impacting both dealers and customers alike.

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Dealership Buy / Sell Transactions

By Scott Lowe, CPA
Partner

Dealership values have generally declined over recent years, putting pressure on goodwill valuations since blue sky is ultimately a multiple applied to earnings. Larger brokers have confirmed the statistics. Haig Partners has explicitly noted that profits cooled from the 2023 peak while values remained resilient, which is consistent with goodwill stepping down as earnings normalized.[1h] Presidio described profitability as stabilizing and also highlighted a stronger M&A environment later in the year.[2h] Kerrigan similarly emphasized that defining ongoing earnings is central to valuation and that last year’s net income alone is not enough to establish a value of the dealership.[3h] This is consistent with what our firm has been seeing. However, many factors go into determining a dealership's value, including brand, location, how it fits into the dealer's current portfolio, and the availability of upside. We have seen both:

Great deals for the buyers included:

- Strong upside for underperforming stores
- Better parts and service operations
- Synergies across platforms geographically

Sellers are being paid a premium with record valuations:

- Certain metro markets
- Specific brands such as Toyota
- The right location to complement a buyer's existing holdings

In both cases, the amount of analysis pre-transaction has significantly increased compared to the pandemic period, when dealership profits were virtually guaranteed. Additionally, higher interest rates and tighter credit have pushed buyers to focus on leverage and consider the impact of covenants such as debt service coverage ratios. Overall, buyers are spending more time and resources kicking the tires to gain more knowledge of the potential investment.

For 2026, we expect quality of earnings (QOE) and due diligence work to be more important to dealers. Both tools help buyers avoid paying a multiple on earnings that are not repeatable. A strong QOE should clearly bridge reported results to a defendable run rate by testing add-backs, validating accounting consistency, and tying performance to the operational drivers that matter in auto retail.

That includes the durability of fixed operations and F&I, the sustainability of front-end gross, the OEM program income, and how any related-party rent and compensation affect the seller's numbers. Due diligence should then extend into areas that can change purchase price or deal structure after closing. Examples include facility and capex requirements, working capital needs, real estate terms, contingent liabilities, cybersecurity and data risk, and compliance exposure that could create customer restitution or lender issues. Presidio's reporting reinforces why buyers should invest additional energy and expense to complete QOE and due diligence. When profitability is stabilizing but no longer at peak levels, the difference between a good deal and a hard one to digest often comes down to how well the buyer underwrote normalized earnings and future required investments.[2h, 4h]

Additionally, dealers should anticipate OEM approval to become more involved in 2026. As earnings normalize and capital becomes more selective, manufacturers are increasingly focused on ensuring the proposed buyer has the financial capacity, operational capability, and long-term commitment to meet brand requirements. Recently, we had to assist clients with additional questions and documentation during the approval process, including post-close capitalization, working capital plans, facility and image compliance timelines, management depth, and CSI and fixed ops execution capability. This added scrutiny can lengthen timelines and emphasize the importance of conducting QOE and diligence early, because the buyer's financial story and operating plan must be consistent and defensible from the first OEM submission through closing.

Overall, the buy-sell activity in 2025 reflects a more selective market. Heading into 2026, buyers and sellers should expect increased scrutiny on the quality and sustainability of profits, with greater emphasis on trailing-twelve-month performance, normalization of one-time items, and proof of repeatable cash flow.

Footnotes / Source links

1h. Haig Partners Q2 2025 Haig Report (profit normalization and valuation context): https://haigpartners.com/wp-content/uploads/2025/08/Q2_2025_HaigReport_Digital.pdf

2h. Presidio Group Q3 2025 press release: https://thepresidiogroup.com/the-presidio-group-q3-report-ma-activity-remains-strong-amid-steady-profits/

3h. Kerrigan Advisors, Blue Sky Is in the Eye of the Beholder Part 2: https://www.kerriganadvisors.com/in-the-news/blue-sky-is-in-the-eye-of-the-beholder-part-2

4h. Presidio Group Q2 2025 press release: https://thepresidiogroup.com/the-presidio-group-q2-report-stabilizing-profits-make-for-robust-ma-climate/

Source: 10-k filings

AI in the Dealership

From our vantage point looking across a lot of public dealer and industry data, 2025 was the year "AI in the dealership" quietly moved from buzzword to plumbing.

Instead of living only as a chatbot on the website, AI started to show up in places your teams actually notice every day: answering more calls, booking more appointments, cleaning up customer data, and turning messy reports into something a GM can review in five minutes. That shift lined up with what groups like Cox Automotive reported in late 2025 — dealers are increasingly "ready for AI to deliver outcomes and skip the hype," focusing on practical use cases over shiny demos (Cox Automotive, "Automotive Dealers Are Ready for AI to Deliver Outcomes and Skip the Hype," Oct. 28, 2025).

The core takeaway from 2025 is pretty simple: AI creates value when it's embedded into the work you already do, not when it's bolted on as a gimmick. The dealerships that saw real value weren't trying to let AI "run the store." They were using it to strip out friction from dozens of small, repetitive tasks that quietly eat time, money, and customer goodwill.

How Dealers Actually Used AI in 2025

1. Sales, BDC, and Digital Retailing
On the variable side, AI mostly played a supporting role — a productivity multiplier, not a replacement for salespeople or BDC reps.

Typical patterns in 2025 dealer use:

- Smarter reporting from the CRM. Instead of spending hours pulling and slicing data, managers export from the CRM and let AI organize it into practical dashboards: units sold by model, gross by salesperson, close rate by lead source, and follow-up performance by day or rep. That makes it a lot easier to see, "We're great on website leads, weak on third-party, and this one rep is dropping follow-ups after day three."
- Faster, more consistent lead response. When a lead comes in, AI drafts a personalized email or text based on the vehicle of interest, source, and prior interactions. The rep still reviews and edits, but instead of starting from a blank screen, they're starting from a solid, on-brand draft.

Platforms such as CarNow and similar digital-retail tools have layered AI into chat and online buying flows to keep shoppers engaged, answer questions, and move the conversation toward appointments and deals (CarNow product overviews and case studies). The point isn't that AI can "close" a deal — it's that it keeps the conversation alive so a human can.

2. Service and Fixed Operations

Service is where the pain is loudest, so it's no surprise AI showed up there quickly: overloaded phones, not enough advisors, customers who want real-time answers. A July 21, 2025 article in Digital Dealer — "AI is Revolutionizing Automotive Service Scheduling" — pulled in Pied Piper's Service Telephone Effectiveness (STE) results and found what many of you already know: lots of calls go unanswered, mishandled, or dumped to voicemail, and that's money walking away (Digital Dealer, 7/21/2025; Pied Piper STE studies). How dealers have been using AI in that environment:

- AI answering and booking. Tools like STELLA Automotive AI are being deployed as a "virtual service receptionist" that answers routine inbound calls 24/7, offers real-time appointment slots, and books directly into the scheduler. Advisors still take the complex stuff and handle the relationship, but the simple "Do you have anything tomorrow at 8:00?" calls no longer clog the phones or disappear into voicemail.
- Proactive status updates. AI can read RO notes, technician punch times, and parts status and then help generate short, clear updates by text or email — "We're waiting on parts," "Vehicle is in diagnosis," "Ready for pickup." That cuts down on inbound "what's going on with my car?" calls and helps your advisors control the day instead of constantly reacting.

Put simply: fixed ops is where AI started to rescue minutes and ROs that were leaking out of the system.

3. Parts and Inventory Management

In parts and inventory, AI showed up more quietly — but the financial impact can be big.

- Used-vehicle risk flagging. AI tools scan used inventory and flag units at high risk of aging out using days on lot, market days' supply, online engagement (VDP views, leads), and competitive pricing. Managers can then decide whether to reprice, re-shoot photos, push marketing, or wholesale before it becomes a 120-day headache.
- Parts stocking support. By looking at RO patterns, seasonality, and fill rates, AI can suggest stocking levels, potential returns, and transfers across a group. The parts manager still makes the call — AI just gives a better starting point than static min/max tables and gut feel.

Here, AI isn't replacing expertise. It's catching patterns a human doesn't have time to constantly monitor.

Source: 10-k filings

4. Back Office, Reporting, and Process Automation

Some of the highest-ROI uses of AI in 2025 were the least glamorous.

- Reading and posting documents. AI can read invoices, vendor statements, or other documents, extract key fields (vendor, amount, GL hints, RO numbers), and help post them into the DMS or accounting system faster with fewer keystrokes.
- Summarizing reports. Controllers and GMs can hand AI a stack of reports and ask, “Tell me what changed this month and what I should worry about.” You still review the underlying numbers, but AI can draft the management narrative that used to chew up a lot of time.

Over time, this supports more frequent, shorter operational check-ins rather than one big “post-close” meeting where everyone is already behind.

The Guardrails: Data, Privacy, and Governance

As AI tools touch more of a dealership’s data, the rules of the game do not go away. If anything, the bar gets higher. Regulators and lawmakers have been clear:

- The FTC’s Safeguards Rule — and its June 16, 2025 FAQ specifically for auto dealers — says you must have a written information security program, vet and oversee service providers, and monitor them on an ongoing basis, whether they’re AI vendors or traditional software providers (FTC, “Automobile Dealers and the FTC’s Safeguards Rule: FAQ,” 6/16/2025).
- State privacy laws such as the Tennessee Information Protection Act (TIPA), Public Chapter 408, add obligations around how you collect, use, share, and disclose consumer data, and around honoring certain consumer rights for covered entities (TIPA text and summaries via Tennessee General Assembly).
- The Consumer Financial Protection Bureau has warned that if AI or complex models influence credit decisions, creditors still must provide clear, specific reasons when they deny or change credit terms. Its September 19, 2023 release, “CFPB Issues Guidance on Credit Denials by Lenders Using Artificial Intelligence,” makes it explicit that “the model did it” is not an acceptable explanation.

Practically, using AI often means more data is flowing between your DMS, CRM, web providers, and AI tools, not less. Combined with recent high-profile disputes and settlements over DMS data access and control, that should push dealers to tighten vendor due diligence, read contracts carefully around data use, access, and sub-processors, and make sure AI vendors are folded into the same security program as your DMS and F&I providers.

If AI is going to sit in the middle of your workflows, it also sits in the middle of your regulatory risk.

Source: 10-k filings

2026 Outlook: From Experiments to Execution

Looking ahead from what I see in broader tech and auto data, 2026 is shaping up as the “move from pilot to process” year. Analysts like IDC expect AI and generative-AI spending to keep expanding across industries over the next several years (IDC, “IDC FutureScape: Worldwide Generative AI 2025 Predictions”). For dealers, that likely translates into three big themes:

1. From Assist to Action (in Tight Lanes)
In 2025, AI mostly drafted and summarized. In 2026, more stores will let it do small things on its own in well-defined lanes: confirming or rescheduling appointments inside rules you set, sending standard reminders or status updates, and generating recurring reports and distribution emails. These are low-risk, auditable actions where you can always see what the system did.

2. Workflow, Not Widgets
The next wave will not be “one more AI feature” — it will be wiring whole workflows:

- In service: from call to appointment to reminders to status prompts to approvals to payment links to follow-up.
- In sales: from lead arrival to AI-drafted, human-approved response to multi-touch follow-up to clear tasks for the salesperson.

The dealerships that win will not be the ones with the most AI logos on their website; they will be the ones where AI quietly makes every step smoother.

3. Clear Lines and Human Oversight
As AI tools get more capable, you will need to be explicit about what AI can do automatically, what AI can only recommend, and what AI is not allowed to touch. Those lines protect your customers, your store, and your relationships with lenders, OEMs, and regulators — and make it much easier to explain your AI use in a buy–sell, a bank review, or an exam.

A Simple 2026 Game Plan

If you are a dealer principal, GM, or controller asking, “OK, what do we actually do with this?”, here is a straightforward game plan from my side of the screen:

1. Pick two or three high-impact, low-risk workflows to improve first: service call handling, appointment scheduling, lead response times, or internal reporting.
2. Map how those workflows really work today — who touches what, where hand-offs fail, which systems are involved. AI cannot fix a process nobody understands.
3. Decide where AI is allowed to act, recommend, or stay out. Put those rules in writing, and revisit them as you learn.
4. Tighten vendor selection and contracts around data, security, and integration, and make sure AI vendors are covered under your Safeguards and privacy programs.
5. Name an internal AI champion who understands operations and is curious about technology. Ask them to track concrete metrics: response times, answer rates, show rates, retention, hours freed up, and error rates.

If you approach AI this way — as a practical tool to clean up processes, not magic dust — it can become a genuine edge in a more competitive, margin-sensitive 2026.

China's Automotive Surge

By Ally Locke, CPA
Manager

2025 shaped up to be a pivotal year for Asia-Pacific automakers, especially in China. The country is ramping up exports, prices, and pushing further into certain markets. These trends could reshape global competitive dynamics. However, the question we all have is how that could affect U.S. dealers in 2026.

During 2025, China has remained the world's largest automotive and EV market. Adoption rates for electrified and "smart" vehicles continued to rise. In 2025, non-Chinese OEMs lost market share in China, as local brands led in both combustion and clean-energy vehicles.

China's environmental and labor standards, coupled with its ability to obtain critical natural resources both domestically and abroad, allow China to continue to increase production capacity, resulting in excess capacity and fueling a large influx of exports. EV exports remain significant; however, the largest growth segment is low-cost traditional combustion compact cars due to the oversupply in China and the increased demand in the developing markets. Most of these exports go to emerging markets, including Eastern Europe, Latin America, Africa, and Middle East. In these regions, EV infrastructure is limited, and demand for low-cost, gasoline-powered vehicles is still strong.

Yearly exports of gasoline-powered vehicles from China have increased from one million units a few years ago to approximately six and a half million in 2025. Industry reports indicate that Asia now accounts for roughly 55-60%, and still rising, of global vehicle output, with China driving the bulk of additional production and continuing to lean heavily on exports to fill remaining capacity.[1j] Fossil-fuel vehicles have accounted for 76% of Chinese auto exports since 2020, and total annual shipments jumped from 1 million to likely more than 6.5 million this year, according to data from China-based consultancy Automobility.[2j]

China's production and market penetration could have an impact on its competitors' strategic outlook. Eventually, China's excess capacity will affect global prices. While we don't expect this to directly affect dealerships in the U.S., it could affect the OEMs that also participate in the U.S. market. This could change how brands such as Toyota, Honda, Hyundai, GM, Ford, and Stellantis approach the markets outside the U.S. These potential impacts could eventually trigger a ripple effect that influences products and forces these giants to allocate more resources to markets outside the U.S.

The U.S. retail market is currently insulated from direct penetration by China. Given the current Washington D.C. administration's view on imports, we expect this to hold for the near future. In addition to baseline customs duties on imported vehicles, the current administration has imposed tariffs on imported passenger vehicles and light trucks (and certain parts), while Chinese EVs are also subject to Section 301 tariff increases that raised the duty rate on EVs to 100%.[3j, 4j] National security and data policy is another major hurdle. Commerce (BIS) finalized a connected-vehicle rule that prohibits certain transactions involving vehicle connectivity hardware and covered software with a sufficient nexus to China or Russia, which is meaningful because connectivity is now standard in most new vehicles.[5j]

Even if the trade and tech barriers are addressed, a vehicle still must clear U.S. regulatory gates. Manufacturers must certify compliance with applicable Federal Motor Vehicle Safety Standards (FMVSS) under NHTSA's self-certification framework, and vehicles and engines generally must be covered by an EPA Certificate of Conformity to enter U.S. commerce.[6j, 7j] To complicate Chinese efforts to enter the U.S. market, scaling nationwide retail also runs into state franchise and direct-sales restrictions, which can force new entrants toward a franchised dealer network and the long-term obligations that come with parts, warranty, recall, and service support.[8j]

China's outlook for 2026 does not seem to be slowing down. Excess supply will remain as China is unlikely to back off its current export and pricing strategies [5]. While legacy OEMs may feel pressure globally on profit margins, this could translate to changes in overall strategy. This means U.S. dealers should not have China on their "Hot Sheet" of problems to be concerned about, at least in the near future.

Source: 10-k filings

Other Areas to Consider in 2026

By Scott Lowe, CPA
Partner

Tariffs / trade policy (pricing, allocation, parts)

In 2025, tariff policy remained volatile and increasingly headline-driven, which matters because even small shifts can ripple into MSRP pressure, incentive strategy, and downstream parts availability. Reporting in 2025 highlighted a 25% tariff structure on autos and parts with partial relief mechanisms tied to U.S.-content and USMCA rules of origin, plus periodic exemptions for compliant automakers.

Going into 2026, most dealers should plan for continued pricing noise and more trim/region-specific allocation tightness when tariff risk flares, as OEMs adjust sourcing and build mix in response.[1k,2k,3k]

Direct sales / franchise-law pressure (Afeela and Scout as test cases)

A major 2025 theme was the next wave of OEM-adjacent brands testing direct-to-consumer retail playbooks and dealers responding through the courts. In California, CNCDA filed suit against Volkswagen and Scout Motors in April 2025 alleging unlawful competition and franchise-law violations. In Florida, a group of Volkswagen and Audi dealers sued Scout Motors in February 2025 over its direct-sales model and reservation/deposit approach.

Later in 2025, CNCDA filed suit tied to Sony Honda Mobility's planned Afeela direct-sales strategy. For 2026, expect continued market-by-market legal/legislative battles and more "hybrid" structures (OEM-controlled online funnel + dealer fulfillment) as brands try to scale without triggering maximum franchise pushback.[4k,5k,6k]

Cybersecurity (compliance + vendor concentration risk)

Cybersecurity remained a business-continuity issue in 2025, not just an IT issue. Dealer-focused reporting indicated that roughly one in five dealerships reported being targeted in 2025, with phishing and ransomware among top threats. At the same time, dealerships remain under compliance pressure via the Gramm-Leach-Bliley Act and the FTC Safeguards Rule, with the FTC publishing dealer-specific FAQs and guidance.

For 2026, expect more scrutiny from banks, OEM programs, and cyber insurers, greater emphasis on MFA/privileged access and vendor management, and a premium on operational playbooks that let the store run manually for several days if core systems go down.[14k,13k,15k]

EVs (demand volatility + policy sensitivity)

In 2025, EV demand remained choppy and highly incentive-sensitive. Cox Automotive estimated October 2025 new EV sales of 74,835 units, with EV share dropping sharply to 5.8% after September's 11.6% record.

For 2026, plan for continued EV "two-speed" markets (some metros hot, others slow), heavier OEM actions on specific nameplates, and used-EV valuation sensitivity tied to charging access, battery warranties, and incentive eligibility.[16]

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Conclusion

As we close 2025, the industry moves further into a "normalized" market: new-vehicle supply improved, days' supply rose, incentives and pricing discipline mattered more, and front-end gross compressed. While affordability continued to pressure results, all dealership departments have been impacted. In 2026, winning dealers will be the ones who manage capital and execution tightly—clean inventory turn and aging controls, creative used-sourcing, more substantial reliance on F&I, and continued fixed-ops focus to offset variable-margin pressure. Layered on top are meaningful external variables—tariffs, credit tightening, and the accelerating practical adoption of AI —each requiring active monitoring and rapid operational response. We're involved with clients across these areas to translate market conditions into specific action plans, strengthened controls and reporting, smarter operational decisions, and better profitability resilience through 2026.

What Makes HHM Different?

Working Partners

Our average annual billable hours for partners is 1400. Most firms' partners bill an average of 700 hours per year. Our partners are engaged with our clients.

Dealership Niche

Our firm is built around our dealership niche while other firms' dealership niches have to fall inline after other industries, impacting the ability to serve dealers.

Engagement Team

Your engagement team will be comprised of knowledgeable professionals, many of whom have worked inside dealerships in various roles.

Open Communication

You'll build relationships with three to four HHM professionals whose expertise you know and trust—giving you the confidence to reach out directly whenever you need support.

Employee Turnover

HHM's turnover rate is typically half the industry's average turnover rate. Our turnover rate was 10.5% in 2024, less than half of the industry average, which is over 20%.

Service Plan

Our engagements, our engagement letters, and our correspondence are built on our clients' needs and are not focused on the firm's risk management.

Outsourcing of Work

We don't outsource work to other countries. The larger firms have all started outsourcing work to India and sometimes the Philippines. This helps their bottom line but it has not impacted what they charge their clients.

Firm Culture

We closed the office for six weeks during COVID only. While other firms have struggled to keep their culture in tact, we have built larger offices and doubled down on facilities and amenities for our staff that other firms don't have.

HHM

DEALERSHIP SERVICES

TAX | AUDIT | ADVISORY