

Q1 2026

State of the Industry

Affordability Pressures Drive Shift in Demand

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Abstract

The automotive industry entered 2026 facing sustained affordability pressure that is reshaping consumer demand rather than halting it. Elevated vehicle prices, higher borrowing costs, fuel volatility, and weakened consumer confidence have combined to constrain purchasing power, particularly in the new-vehicle market. Rather than exiting the market, consumers are increasingly substituting new purchases with lower-cost alternatives, creating structural shifts in demand across segments, powertrains, and regions.

This white paper examines Q1 2026 market performance across new, used, and certified vehicles to understand how affordability pressures are redistributing demand and what this means for retailers and OEMs. Using sales velocity, pricing, turn-rate, and regional data, the analysis highlights where demand is contracting, where it is accelerating, and which consumer trade-offs are shaping buying behavior.

The findings show new vehicle demand softening for a third consecutive quarter, while used and certified segments reached multi-year highs. Rising gas prices also influenced purchasing decisions, accelerating hybrid demand while electric vehicle adoption remained uneven. Regional performance diverged meaningfully, reducing the effectiveness of standardized national strategies.

The results indicate that success in the current environment depends on precision rather than scale. Retailers and OEMs that align inventory mix, pricing strategy, and marketing support to real-time demand, particularly in used, certified, and fuel-efficient segments, will be better positioned to sustain performance. As affordability becomes the defining force shaping consumer choice, performance will depend less on a return to prior demand levels and more on the ability to operate effectively within a structurally reshaped market.

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Q1 2026 Summary

The automotive market entered 2026 with a continued and accelerating shift in consumer behavior that is focused on affordability. **In the first quarter, new vehicle demand softened for the third consecutive quarter, while used and certified segments gained meaningful momentum—highlighting a selling environment that is still viable, but shifting.**

Macroeconomic pressure is a central driver. Depressed consumer confidence—exacerbated by geopolitical instability—is intersecting with renewed upward pressure on new vehicle pricing. At the same time, soaring gas prices are hastening hybrid sales that were already on an upward trajectory.

The result is not a uniform slowdown, but a redistribution of demand—away from higher-cost new vehicles and toward more value-friendly alternatives.

Segment Analysis: Where Demand Is Shifting

Shift from New to Used/CPO Accelerates

New vehicle sales velocity declined for the third consecutive quarter, continuing a steady pullback from mid-2025 levels.

In contrast, used and certified vehicles saw sharp increases in both vehicles moved per day and turn rate, reaching multi-year highs.

THIS SHIFT IS MOST EVIDENT IN:

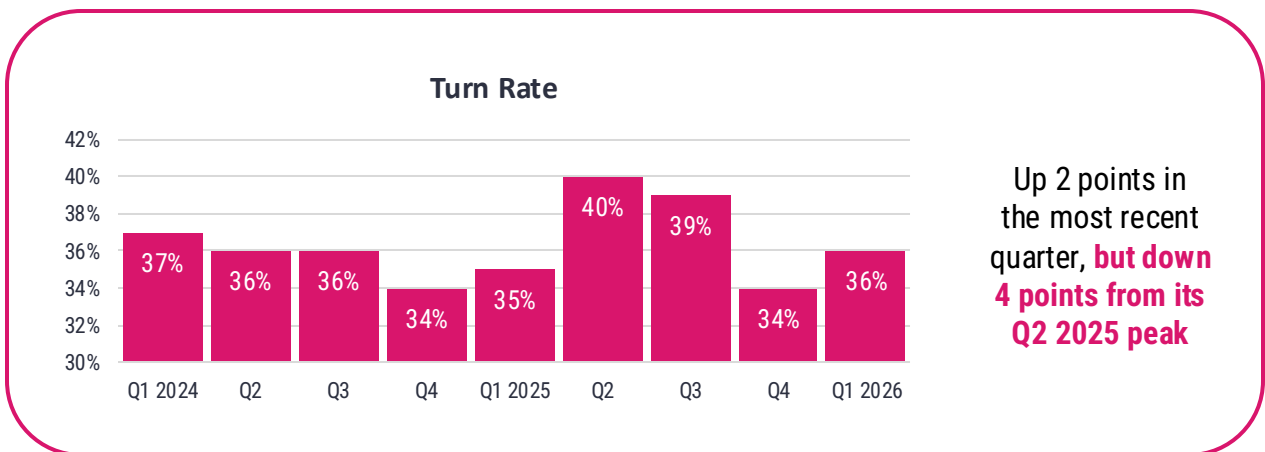
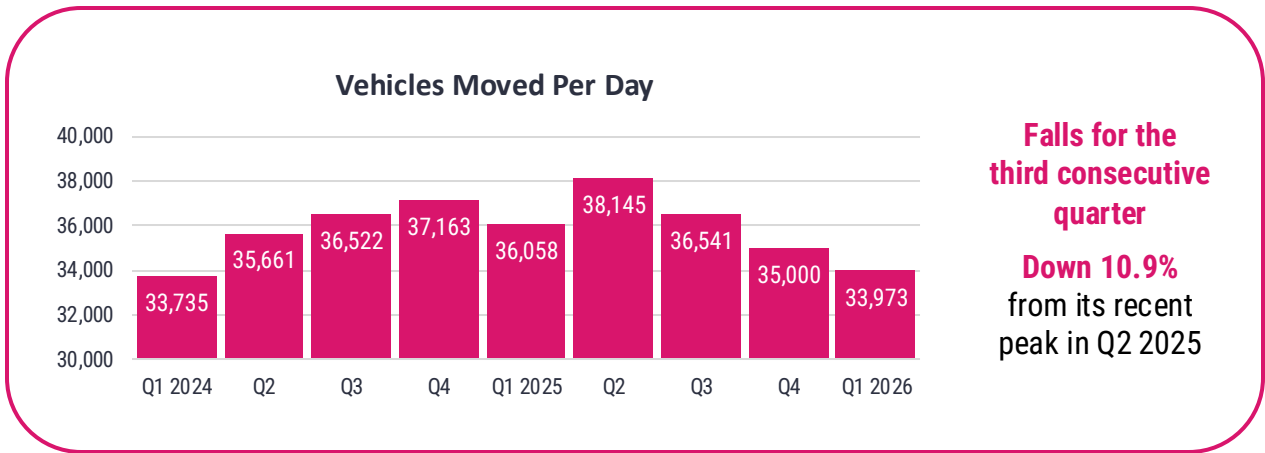
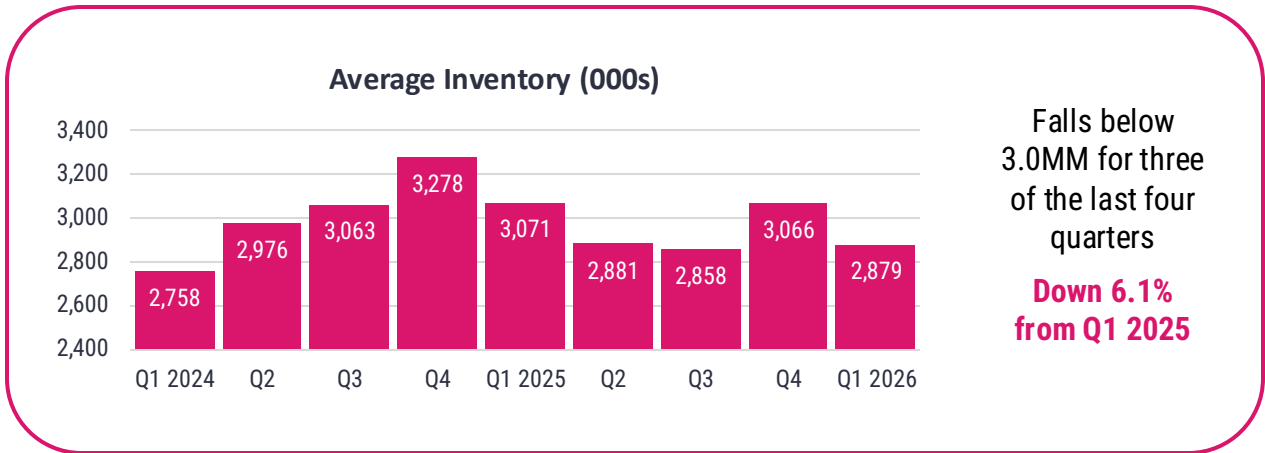
- ✓ Non-luxury trucks and small/mid-size SUVs
- ✓ Luxury mid-size SUVs

Shift from New to Used/CPO Accelerates

- ✓ Consumers are still willing to buy but are doing so with caution and compromise
- ✓ Selling strategies must adapt to balance affordability, sales viability, and profitability
- ✓ Promotion and pricing precision will be a key factor in attracting shoppers and converting them to buyers

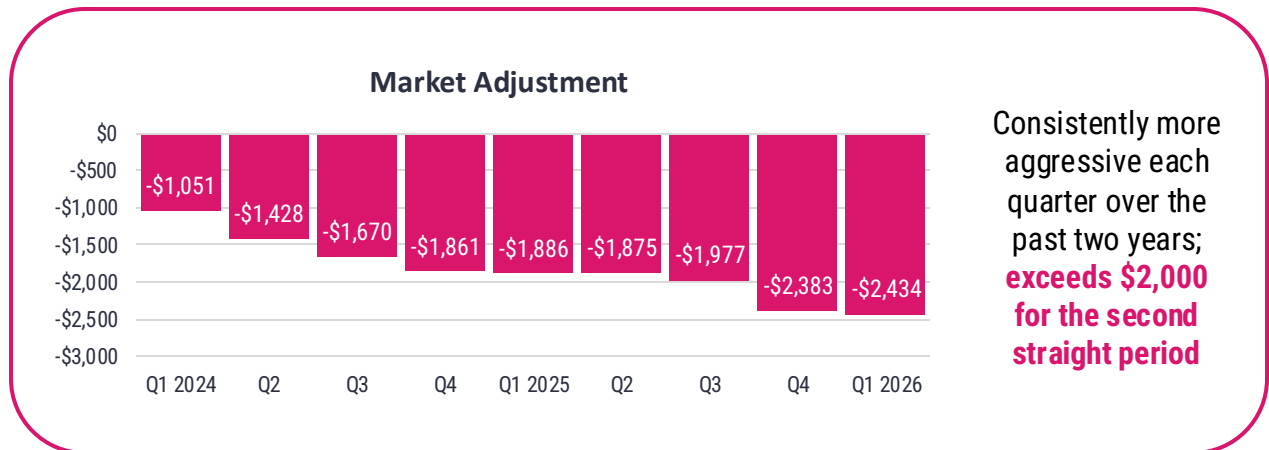
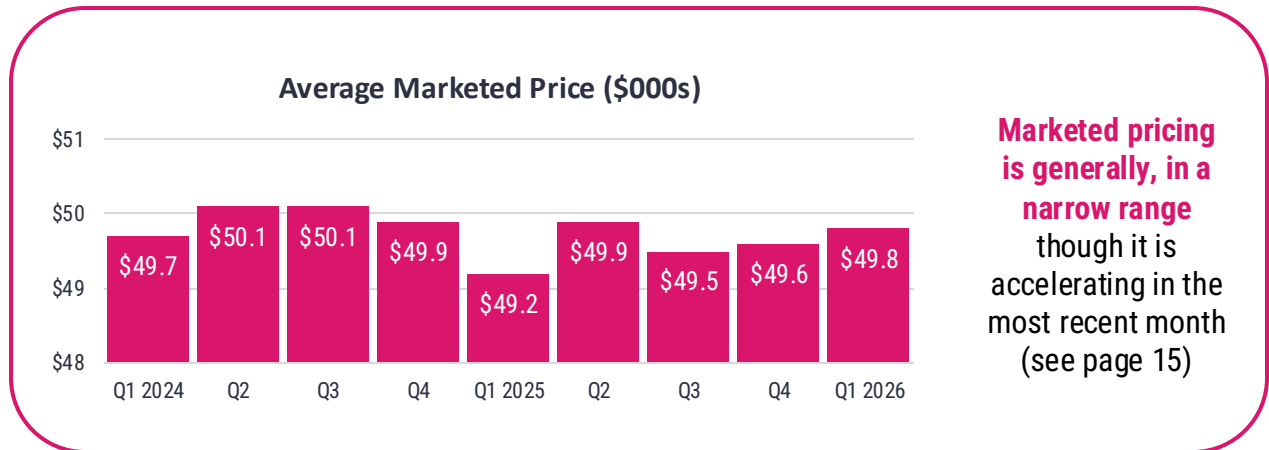
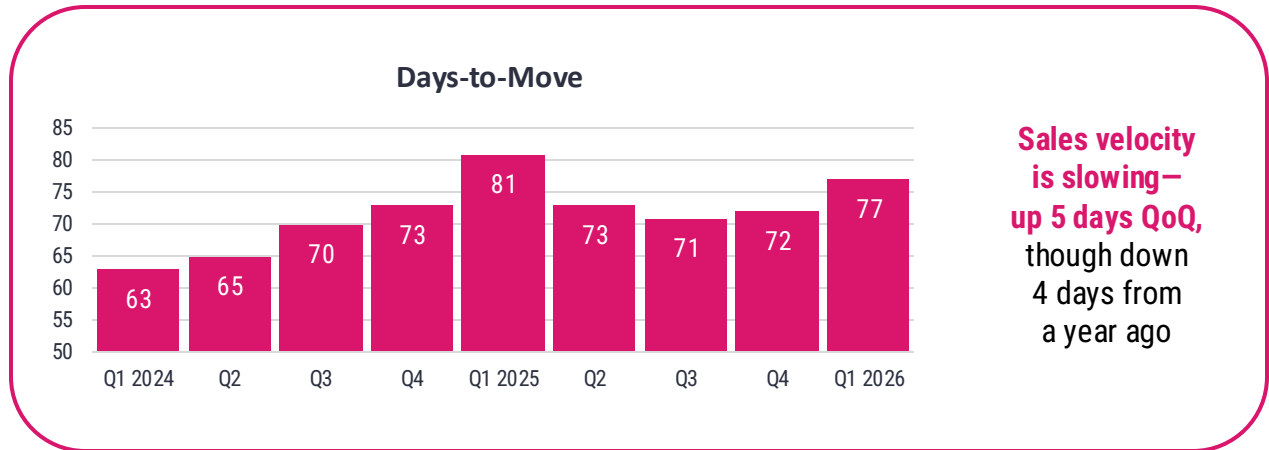
New Vehicles:

Movement down for the third straight quarter, velocity slowing despite increasingly aggressive market adjustments



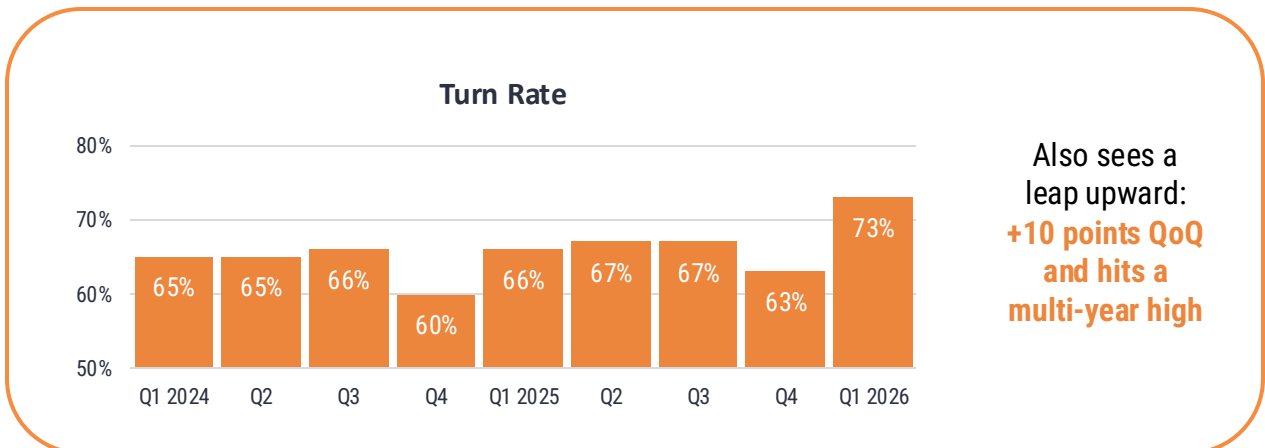
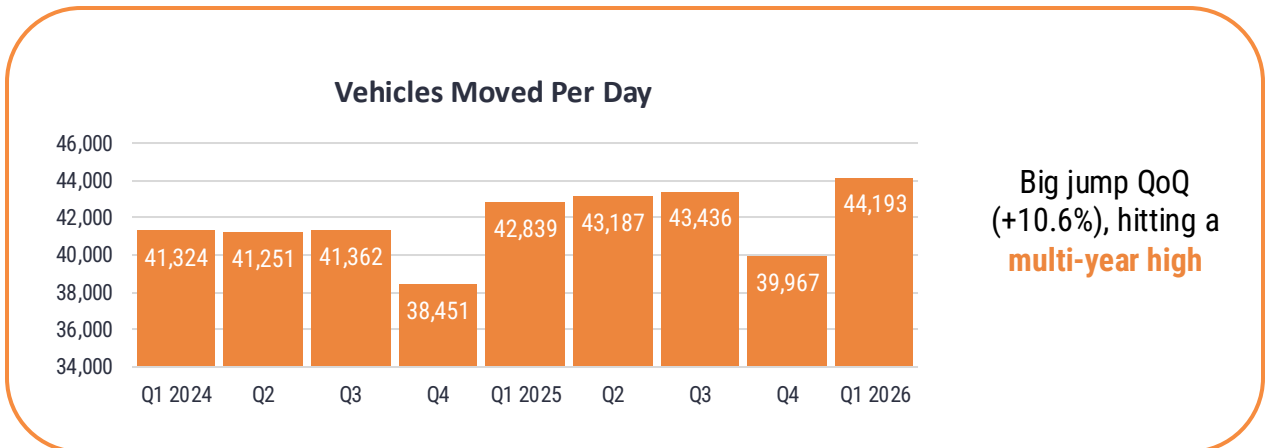
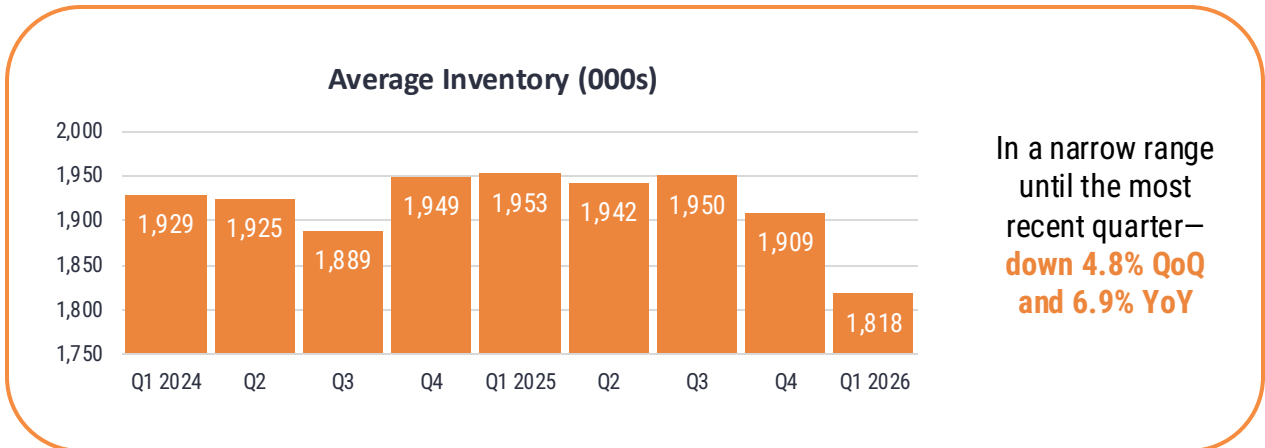
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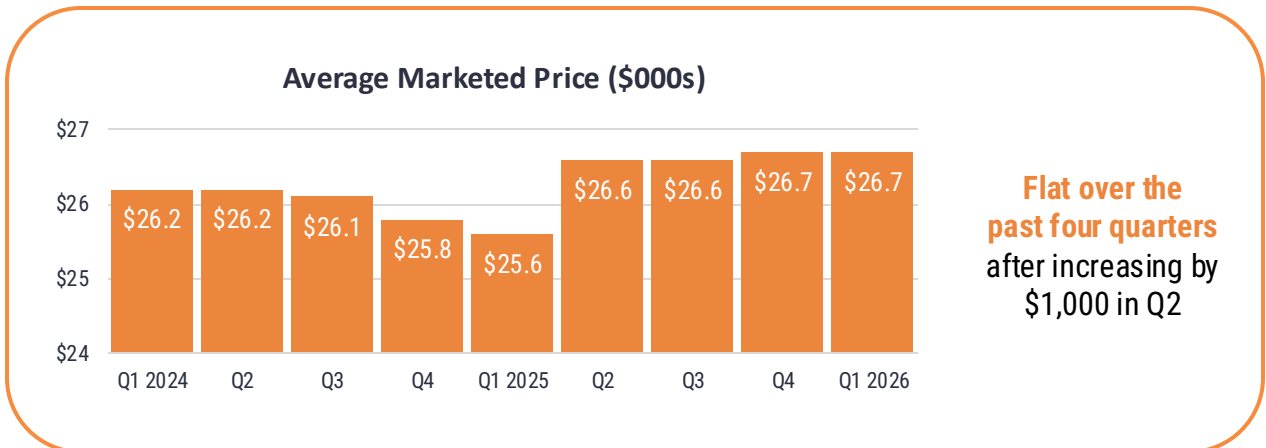
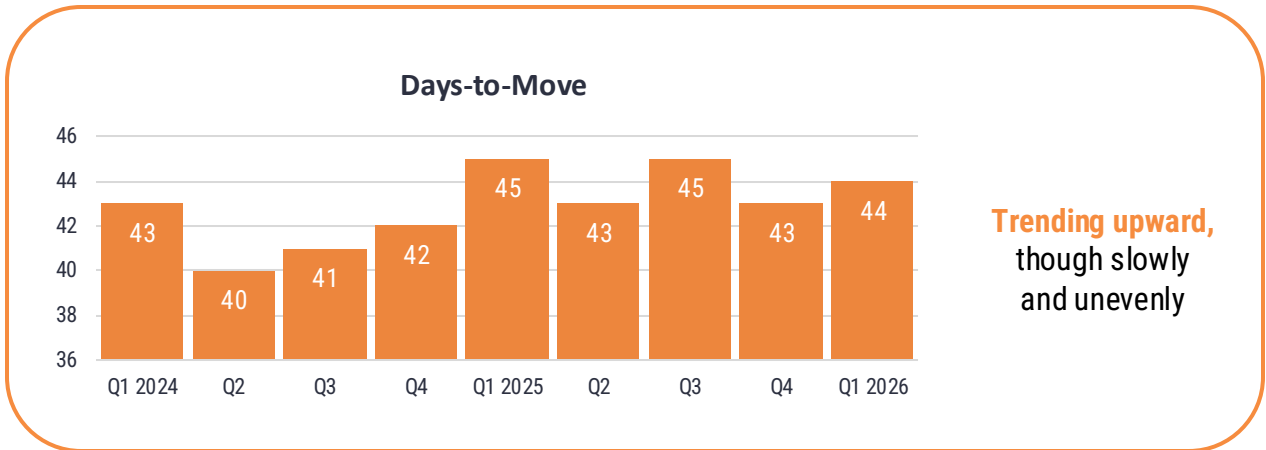
Used Vehicles:

Movement hits multi-year high; turn rate jumps 10 points in latest quarter as consumers gravitate toward affordability



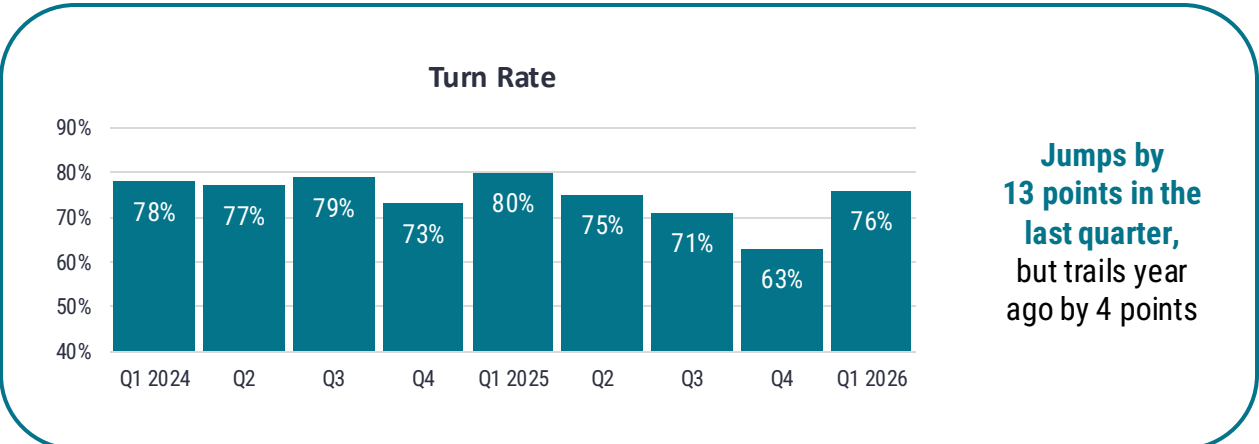
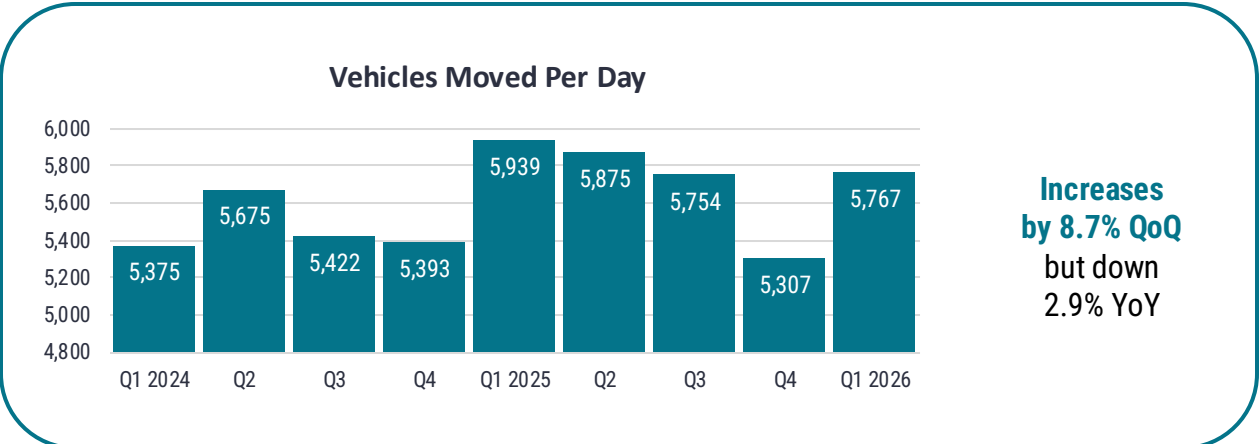
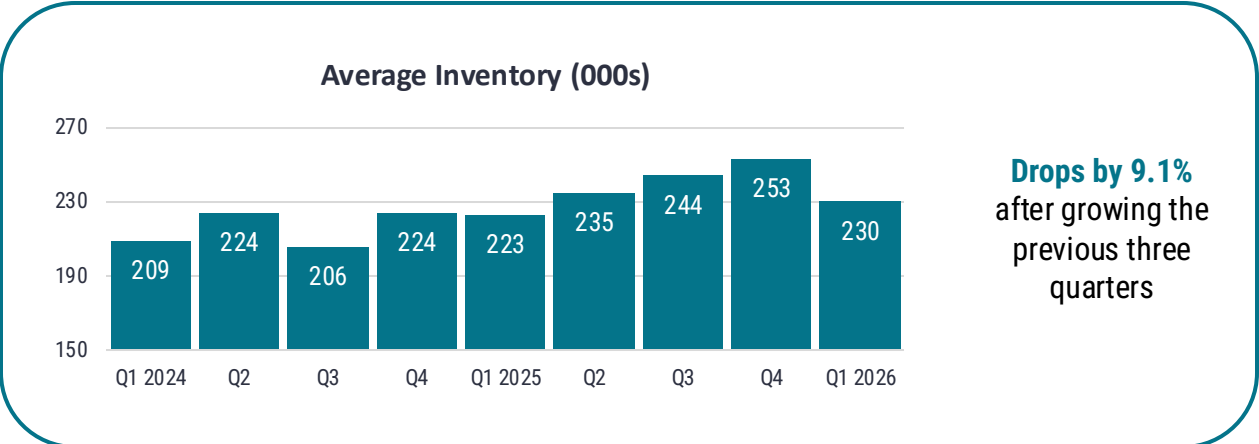
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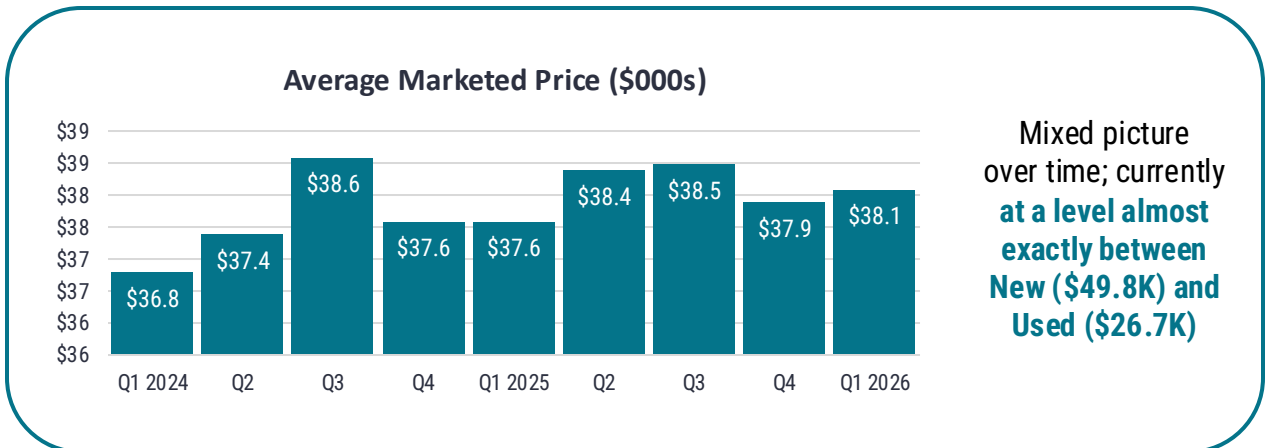
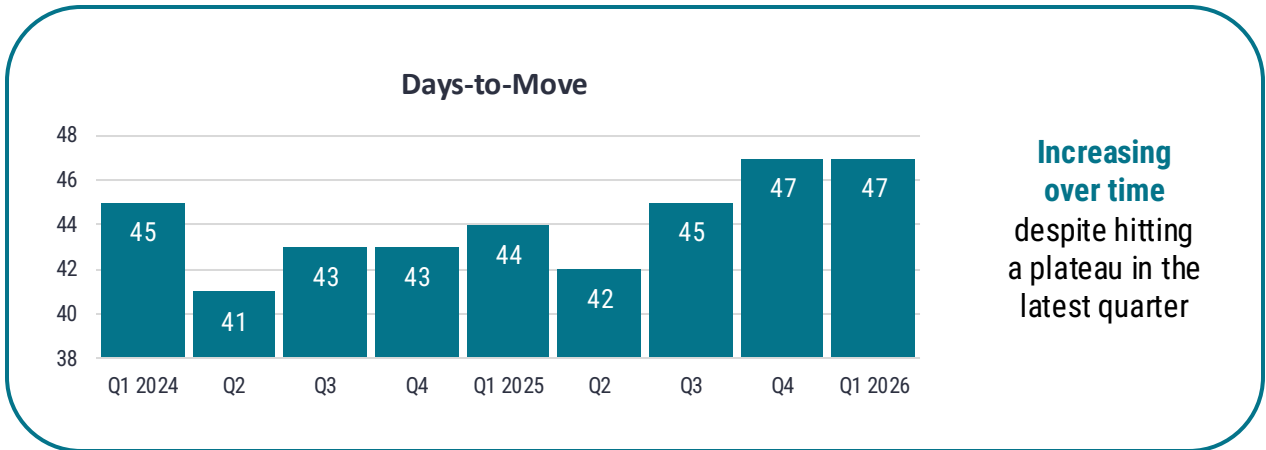
Certified Vehicles:

Movement pops in latest quarter; turn rate jumps 13 points as consumers seek cost relief.



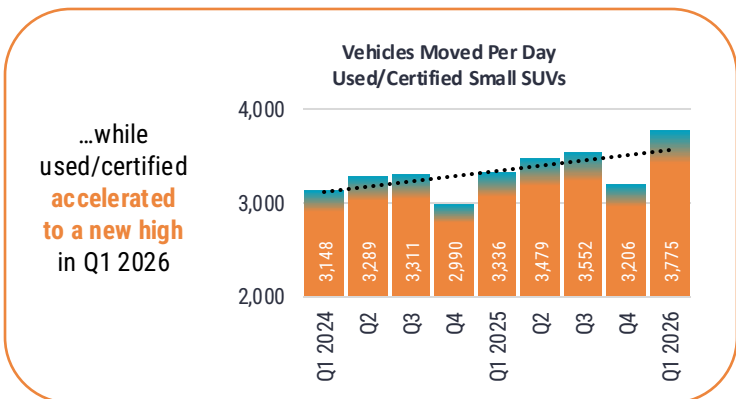
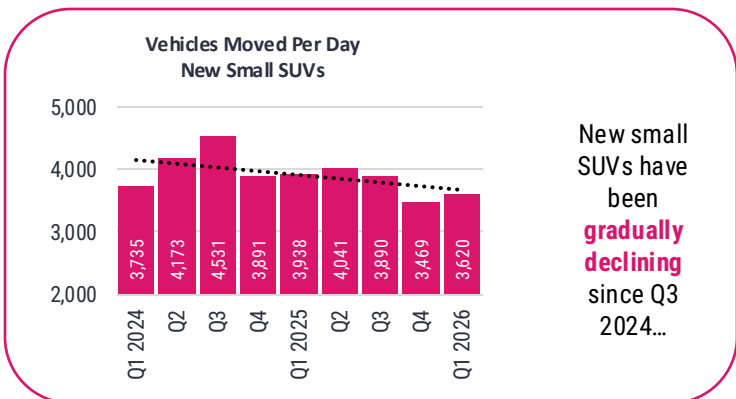
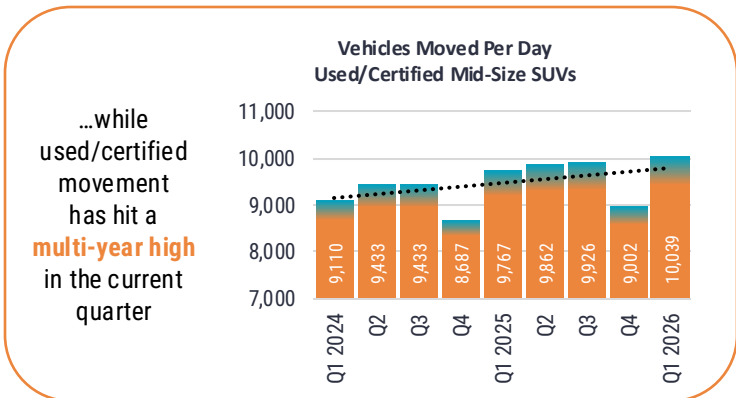
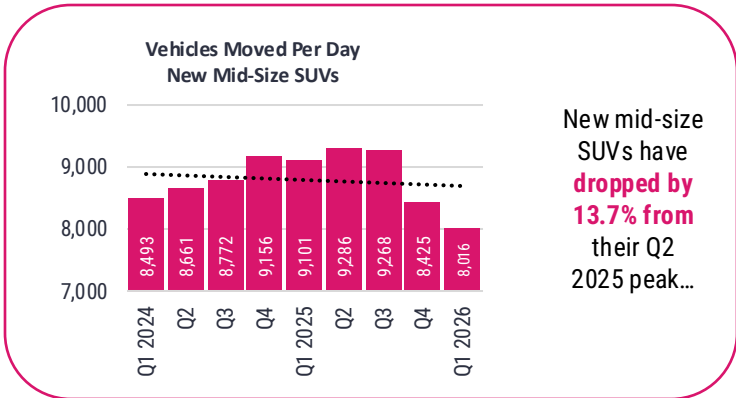
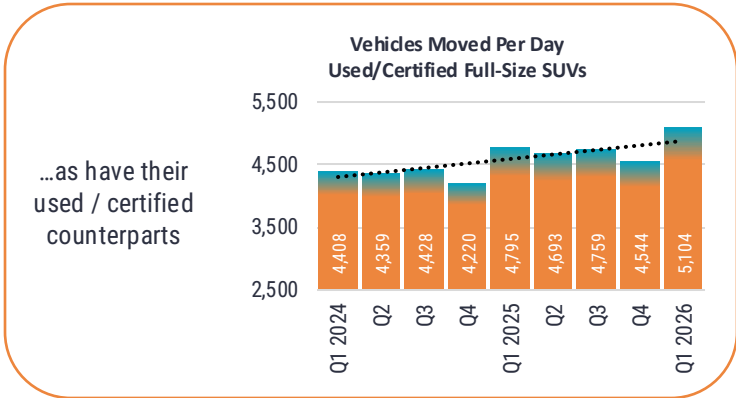
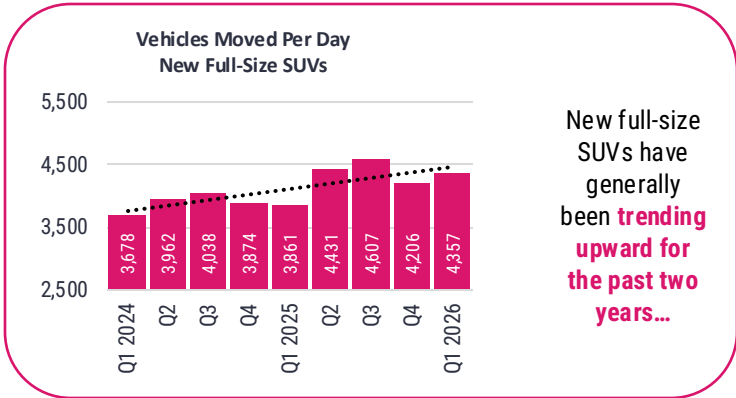
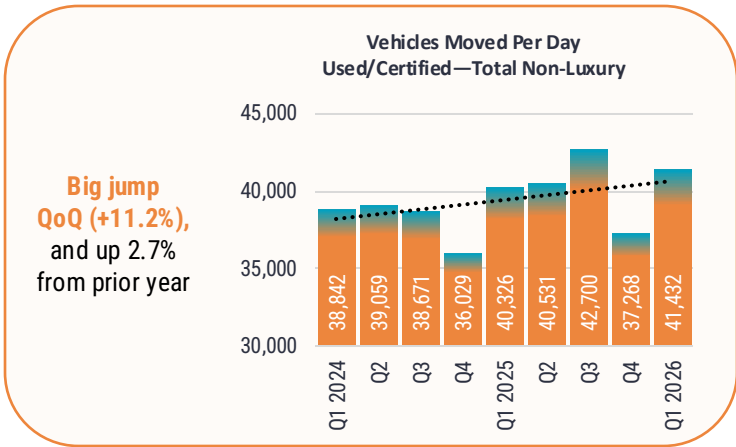
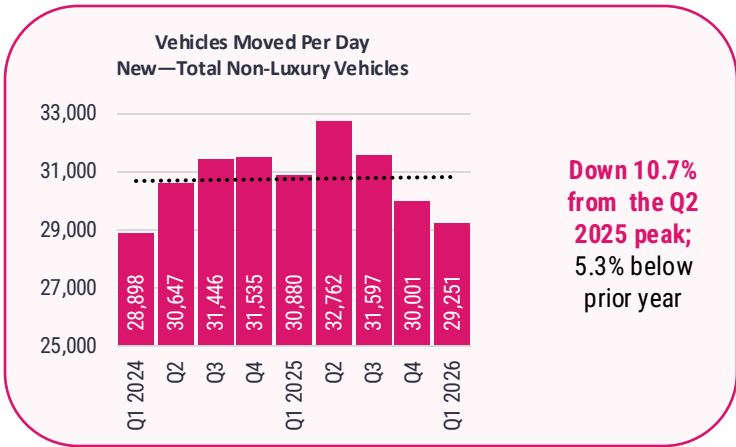
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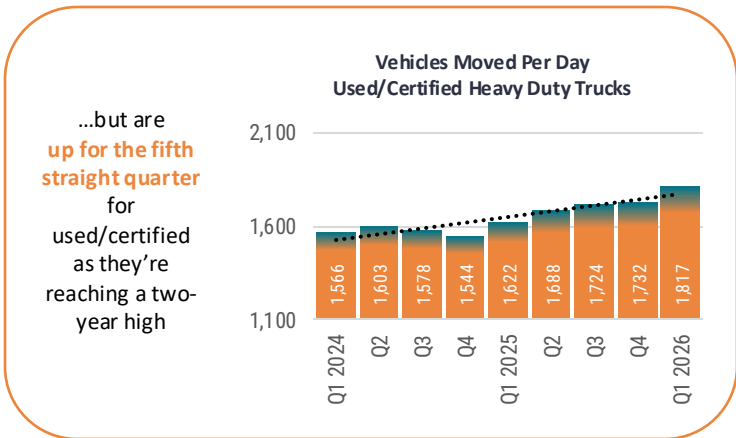
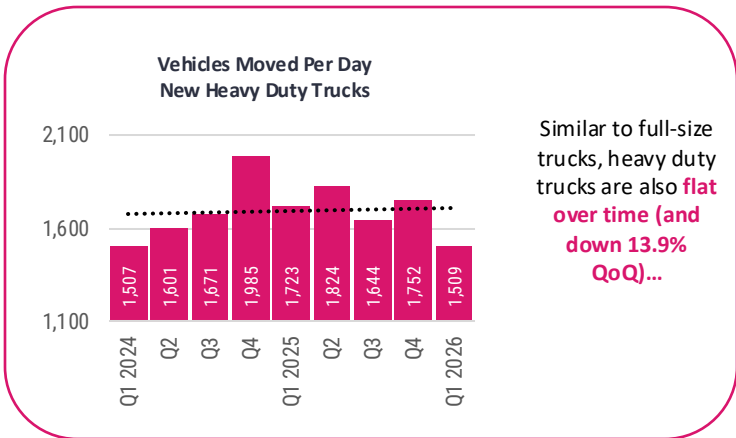
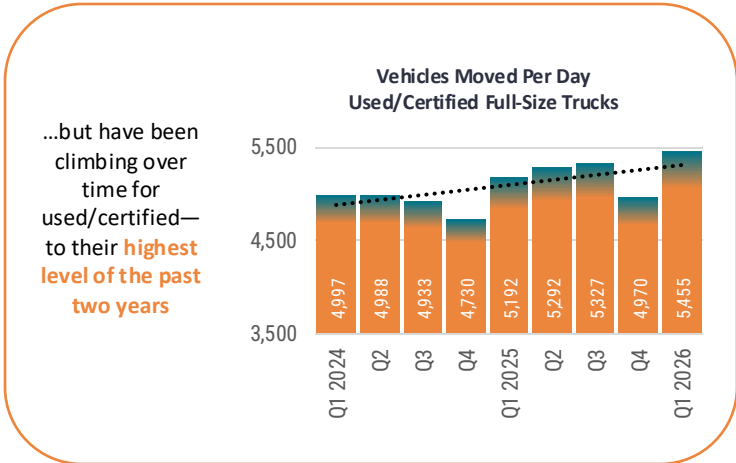
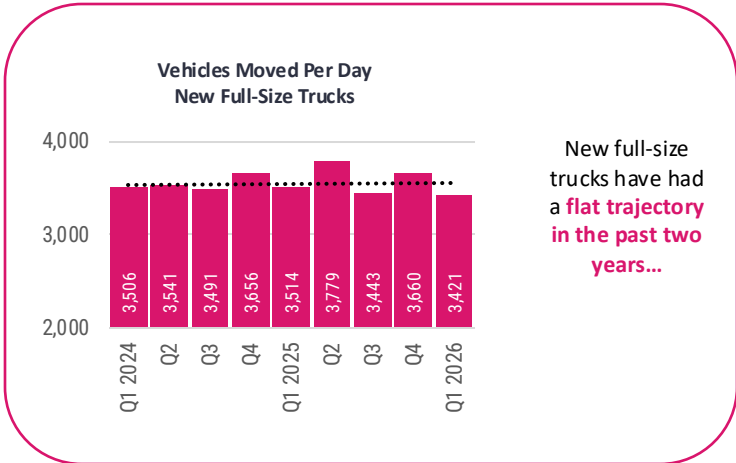
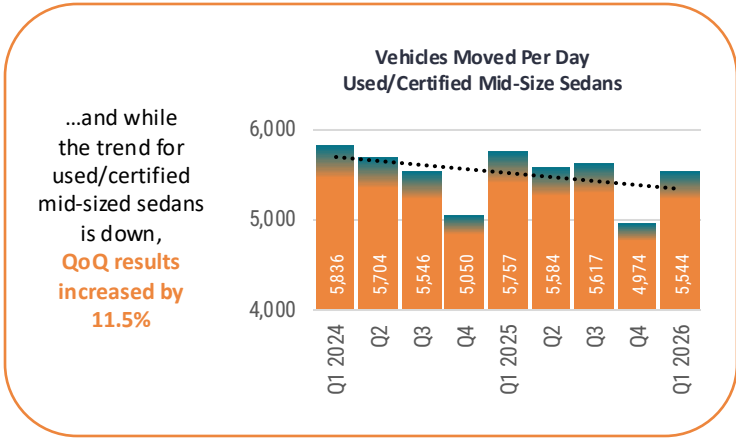
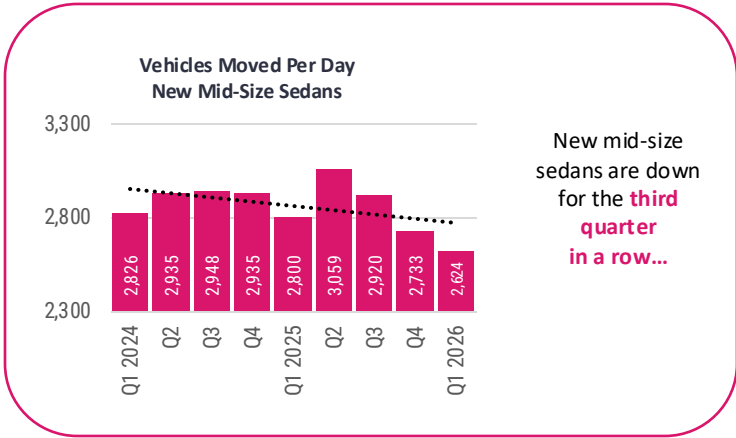
Non-Luxury Vehicles:

New mid-size and small SUVs are down; trucks are flat as consumers gravitate toward used and CPO for those segments



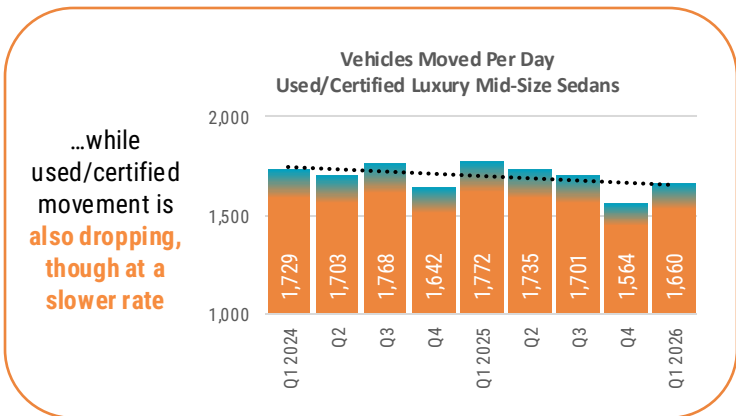
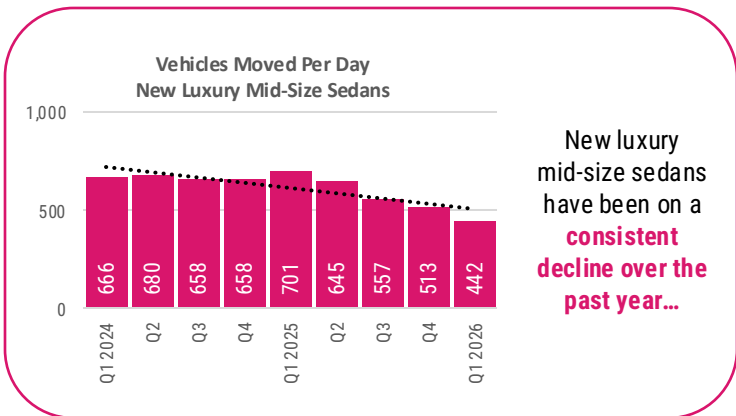
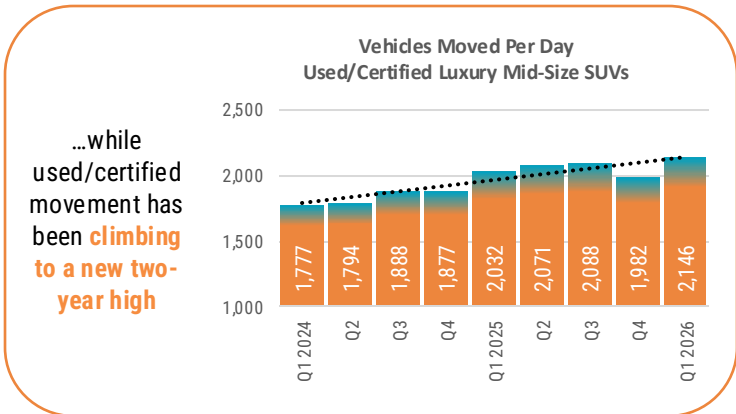
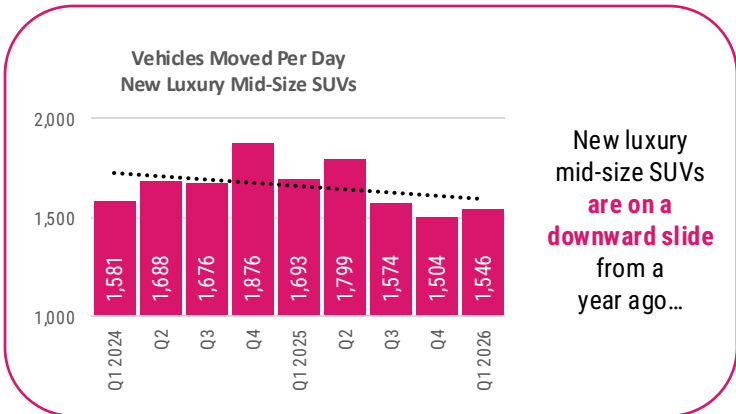
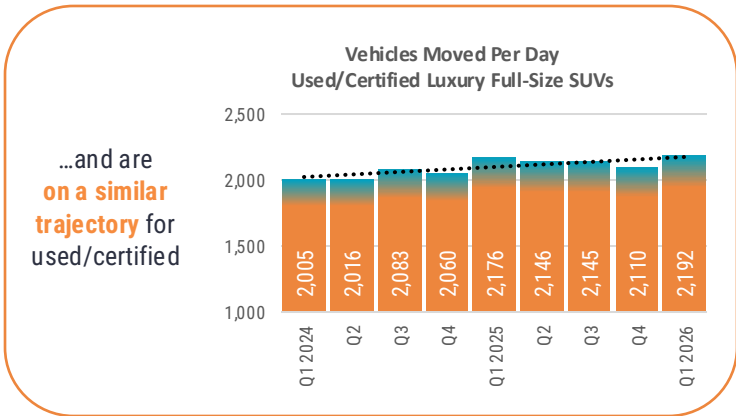
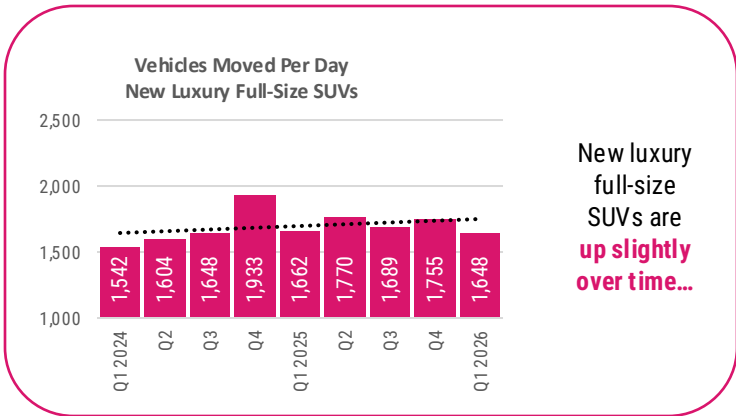
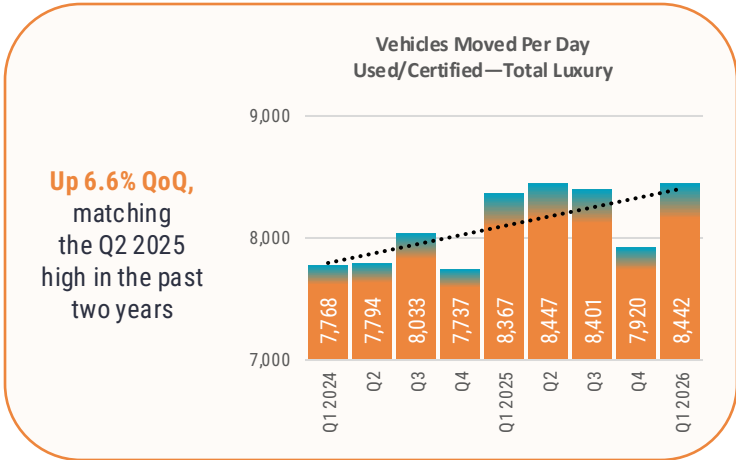
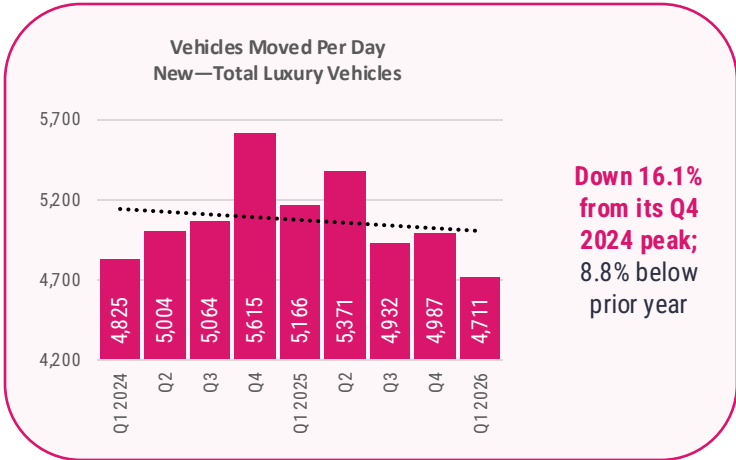
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Luxury Vehicles:

Trending downward for new; mid-size SUVs are driving these results



Actionable Guidance for Automotive Retail

Consumers are not exiting the market—they are trading down by substituting new purchases with lower-cost used and CPO options. This dynamic reflects sustained affordability pressure rather than short-term volatility.

Implications for Retailers

- ✓ **Balance affordability with profitability:** Promote vehicles that offer a win-win for the consumer and the business
- ✓ **Rebalance toward used/CPO:** Inventory mix should increasingly reflect faster-turning used and certified units.
- ✓ **Prioritize sourcing:** Trade-ins, off-lease vehicles, and auction strategy become critical to maintaining supply.
- ✓ **Maximize CPO conversion:** Certified programs offer a margin and trust advantage—lean into them.
- ✓ **Manage new vehicle aging risk:** Slower turns require targeted marketing support, tighter pricing discipline, and aging inventory controls.

Implications for OEMs

- ✓ **Reassess production and allocation:** Align output with structurally softer new vehicle demand.
- ✓ **Strengthen CPO programs:** CPO is a key lever to retain customers within the brand ecosystem.
- ✓ **Support dealer used strategies:** Enable better data, tools, and incentives tied to used/CPO performance.
- ✓ **Protect residual values:** Used market strength is an opportunity—but requires careful supply balance.

Market and Consumer Dynamics

Economic Pressure is Reshaping Demand

Economic conditions intensified as a constraint in Q1 2026. Consumer confidence remains depressed, with geopolitical instability and rising gas prices compounding persistent inflationary pressure.

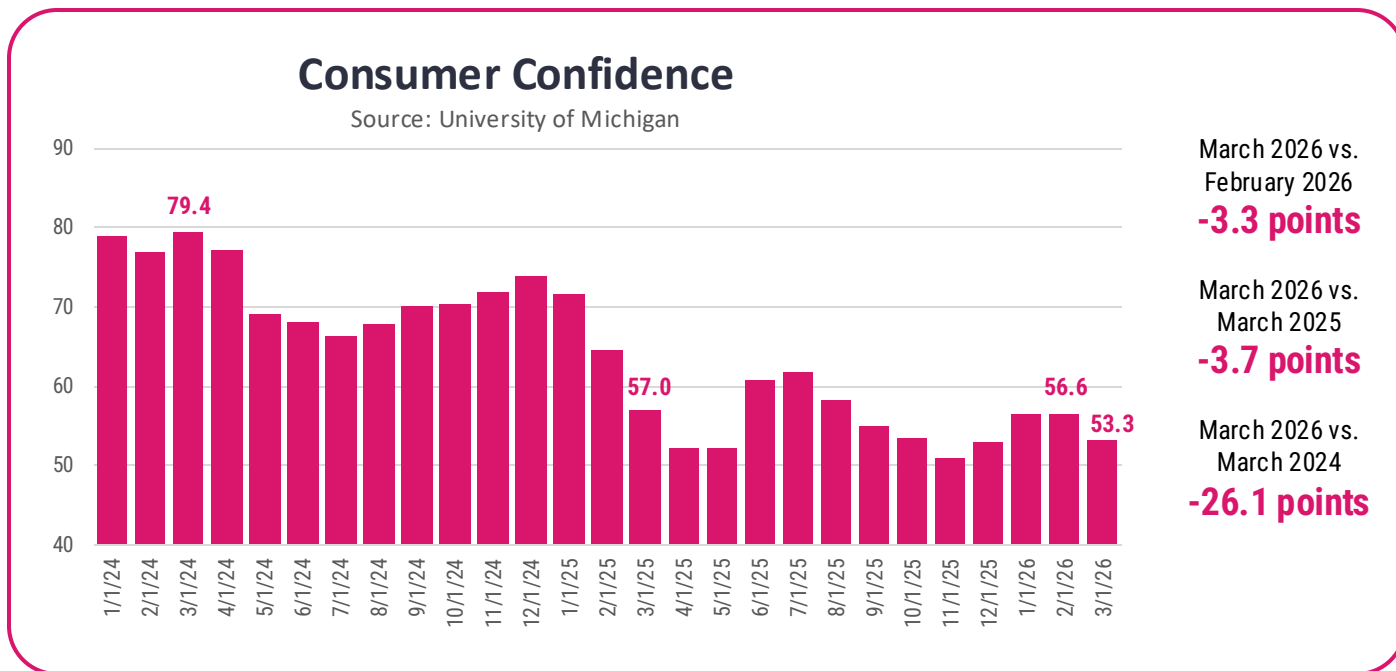
At the same time, new vehicle Average Marketed Price began to rise again in recent periods. This creates a widening affordability gap at a time when consumers are increasingly payment-sensitive.

Takeaways

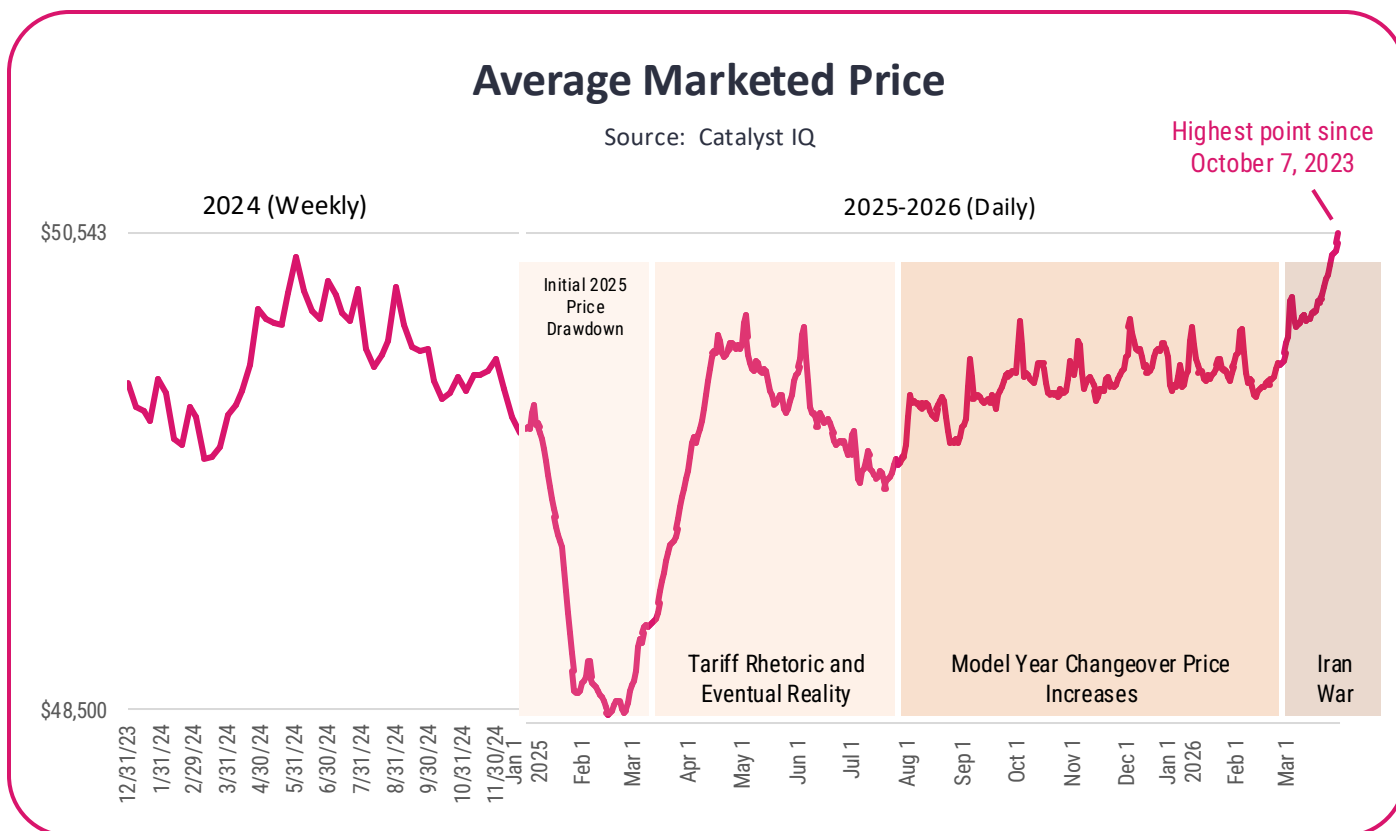
- ✓ High prices and waning consumer confidence are weighing on consumer spending
- ✓ Selling in this environment depends on simplified pricing and straightforward value communications

Confidence Waning, Vehicle Prices Rising

In the past two years, consumer confidence has fallen from a recent high of 79.4 to its current 53.3 (and is down from 100 in the period prior to the COVID pandemic).



Over the same timeframe, the Average Marketed Price of a new vehicle has seen increases related to tariffs, model year changeover hikes, and, most recently, the Iran war.



Actionable Guidance for Automotive Retail

Higher prices, elevated borrowing costs, and reduced confidence are directly influencing whether consumers buy—and what they choose.

Implications for Retailers

- ✓ **Lead with affordability:** Payment-focused selling, financing flexibility, and value messaging are critical.
- ✓ **Use incentives surgically:** Target discounts where they drive conversion without eroding margin unnecessarily.
- ✓ **Shift mix toward attainable price points:** Entry-level and mid-tier offerings will outperform premium-heavy inventories.
- ✓ **Support VINs with precision:** Deploy targeted support for inventory that needs help to sell; maximize margin for inventory that doesn't.
- ✓ **Prepare for longer decision cycles:** Consumers are more deliberate, requiring stronger follow-up and engagement.

Implications for OEMs

- ✓ **Balance price and demand:** Continued price increases risk further demand suppression.
- ✓ **Refine incentive strategy:** Efficiency matters more than volume—target segments under the most pressure.
- ✓ **Support financing solutions:** Reduced rates and creative financing will be key demand stabilizers.
- ✓ **Focus on affordability innovation:** Trim strategies, packaging, and feature sets should reflect current consumer constraints.

Fuel and Technology Shifts

Gas Prices Driving Powertrain Shifts

Rising gas prices are beginning to materially influence vehicle choice. Hybrid vehicles saw a notable increase in sales velocity in Q1, reflecting strong consumer interest in fuel efficiency without the trade-offs associated with full electrification.

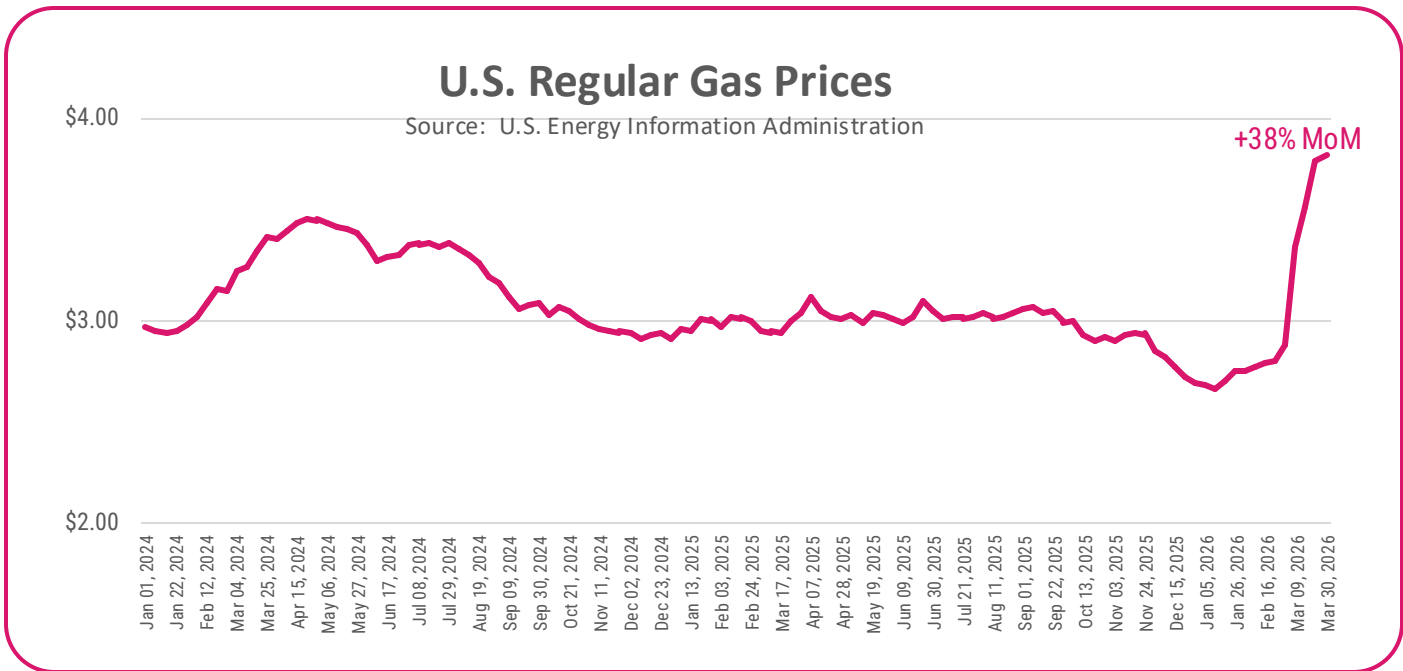
EVs also posted gains, though from a smaller base and with more variability. In the current environment, hybrids are emerging as the more immediate and broadly accessible response to fuel cost pressure.

Takeaways

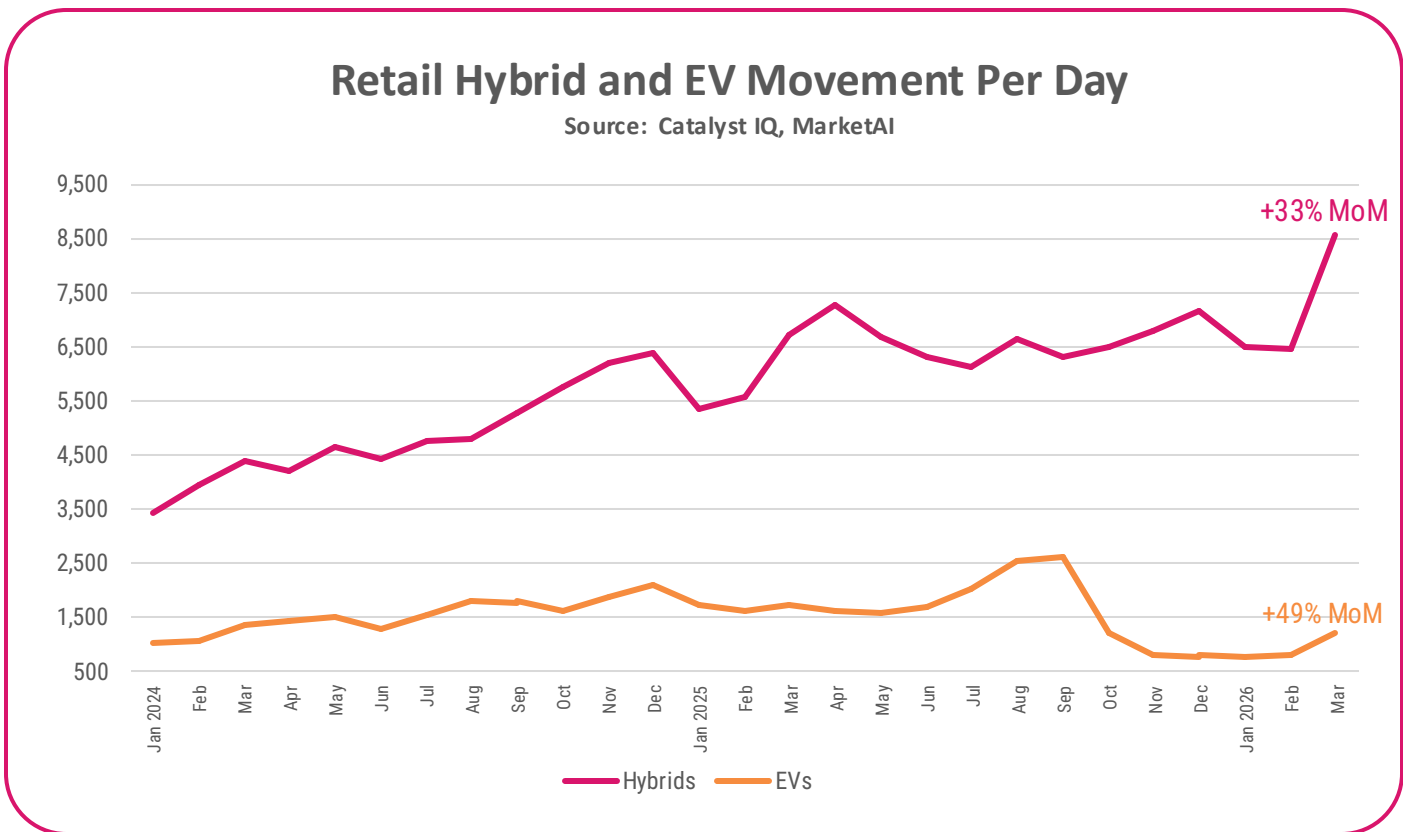
- ✓ Hybrids are building on already-strong momentum as consumers seek fuel efficient solutions in the wake of rapidly rising fuel prices
- ✓ While volatile, this situation presents an opportunity to keep consumers in the new vehicle sector (and other fuel-efficient vehicles including EVs)

Gas Price Soar, Hybrid Sales Follow

Since the commencement of the war with Iran, gas prices have rocketed upward, increasing by more than a dollar per gallon in March 2026.



Consumers are now pursuing fuel efficient solutions. Momentum for hybrids accelerated, while EVs ticked upward from very low post-tax-credit levels.



Actionable Guidance for Automotive Retail

Consumers are prioritizing practical efficiency—balancing cost, convenience, and risk.

Implications for Retailers

- ✓ **Elevate hybrid visibility:** Ensure hybrids are prominently featured in inventory and marketing.
- ✓ **Educate on fuel savings:** Clear communication of total cost of ownership can accelerate conversion.
- ✓ **Position EVs selectively:** Focus on use cases and buyers where EV adoption barriers are lower.
- ✓ **Align mix with local fuel dynamics:** Higher-cost fuel markets will see stronger shifts in demand.

Implications for OEMs

- ✓ **Accelerate hybrid strategy:** Hybrids are a near-term demand sweet spot and should be prioritized.
- ✓ **Right-size EV expectations:** Growth continues, but pacing realities and regional variability must be accounted for.
- ✓ **Support dealer education:** Equip retailers to effectively communicate total-cost-of-ownership and fuel savings benefits.
- ✓ **Align product mix with fuel trends:** Powertrain strategy should reflect current consumer pragmatism, not just long-term targets.

Regional Dynamics

Q1 performance continues to diverge across regions, with differences in economic exposure, fuel costs, and consumer behavior driving increasingly uneven demand patterns.

These variations are becoming more pronounced, limiting the effectiveness of national-level strategies. Demand elasticity, segment performance, and powertrain adoption are all showing meaningful regional differences.

DMA	Vehicles Moved Per Day			
	Q1 2026 vs. Q4 2025		Q1 2026 vs. Q1 2025	
	New	Used/ Certified	New	Used/ Certified
Atlanta	-7%	+7%	-3%	+4%
Boston	-7%	+2%	-12%	-2%
Chicago	-3%	+10%	-6%	+3%
Dallas	-6%	+8%	No change	-1%
Houston	-7%	+7%	-3%	+5%
Los Angeles	No change	+13%	-6%	+2%
Miami	+1%	+12%	-2%	+7%
New York	No change	+4%	-7%	-3%
Philadelphia	-3%	+8%	-8%	-5%
Seattle	-3%	+7%	-14%	-2%
Washington DC	-5%	+7%	-3%	-4%

Actionable Guidance for Automotive Retail

The market is fragmenting—requiring more localized precision.

Implications for Retailers

- ✓ **Localize inventory decisions:** Align vehicle mix to what is selling in the immediate market, not national trends.
- ✓ **Adjust pricing to local conditions:** Competitive model/trim supply and demand should directly influence pricing strategy.
- ✓ **Tailor marketing prioritization and messaging:** Local dynamics and consumer priorities vary significantly by region; retail marketing should too.
- ✓ **Act on real-time data:** Dealers that stay ahead of local shifts will outperform static planning.

Implications for OEMs

- ✓ **Move beyond national programs:** Regional flexibility in incentives and allocation is increasingly necessary.
- ✓ **Enable dealer-level agility:** Provide tools and data that support localized decision-making.
- ✓ **Align distribution with demand pockets:** Ensure high-demand regions are adequately supplied with the right mix.
- ✓ **Incorporate regional signals into planning:** Allocation, pricing, and incentive strategies should reflect geographic variation based on real-time supply and demand metrics and trends.

Closing Perspective

The Q1 2026 market is best understood not as a broad-based slowdown, but as a continued reallocation of demand driven by affordability. Consumers remain active, but increasingly selective—gravitating toward lower price points, alternative ownership pathways, and vehicles that better align with immediate financial realities.

This shift is unlikely to reverse in the near term. Economic pressure—from elevated prices, borrowing costs, and fuel expenses—continues to constrain purchasing power, reinforcing the move away from new vehicles and toward used, certified, and efficiency-oriented options. At the same time, pockets of strength across segments and powertrains highlight that demand has not disappeared—it has simply moved.

For retailers and OEMs, this environment places a premium on precision. Broad, volume-driven strategies are becoming less effective, replaced by the need to align closely with where demand is actually materializing. Inventory mix, VIN-level marketing support, pricing strategy, and product positioning must all reflect a more value-conscious and pragmatic consumer.

Those who adapt to this shift—by leaning into affordability, optimizing for faster-turning segments, and aligning offerings with evolving consumer priorities—will be best positioned to sustain performance. Those who do not risk being mismatched to a market that is no longer behaving as it did a year ago—or even a quarter ago.

In the near term, success will not be defined by a return to prior demand levels, but by the ability to operate effectively within a reshaped market—one where affordability is not just a constraint, but the defining force behind consumer choice.

About Us

Catalyst IQ is redefining automotive marketing intelligence.

Powered by [MarketAI®](#), Catalyst IQ delivers real-time, actionable insights that help dealers see the market as it shifts, understand their position, and activate strategies to move inventory and grow their business.

MarketAI is designed to support decision-making when precision matters.

MarketAI turns real-time market data into actionable strategies and dynamic ad execution. By surfacing early indicators of inventory risk, demand strength, and pricing pressure, MarketAI provides clarity, speed, and control for every marketing decision so you can outperform the market and drive measurable results.

Why Choose Catalyst IQ

- **Unmatched Coverage:** For over 10 years, MarketAI has been tracking nearly 20,000 franchise dealers and 99% of independent dealers across the US, giving you the most complete, up-to-date view of the market.
- **Actionable, Accurate Data:** Built on years of accumulated data, our AI and machine learning models deliver higher accuracy, smarter predictions, and measurable performance gains.
- **Accelerated Sales:** MarketAI pinpoints vehicles that need help selling and activates VIN-level ads across every major channel, accelerating sales by prioritizing and scoring inventory relative to market dynamics.
- **Competitive Advantage:** Instantly compare your inventory to competitors down to the trim level using MarketAI's predictive analytics and inventory mix visualization.

Ready to See MarketAI in Action?

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