

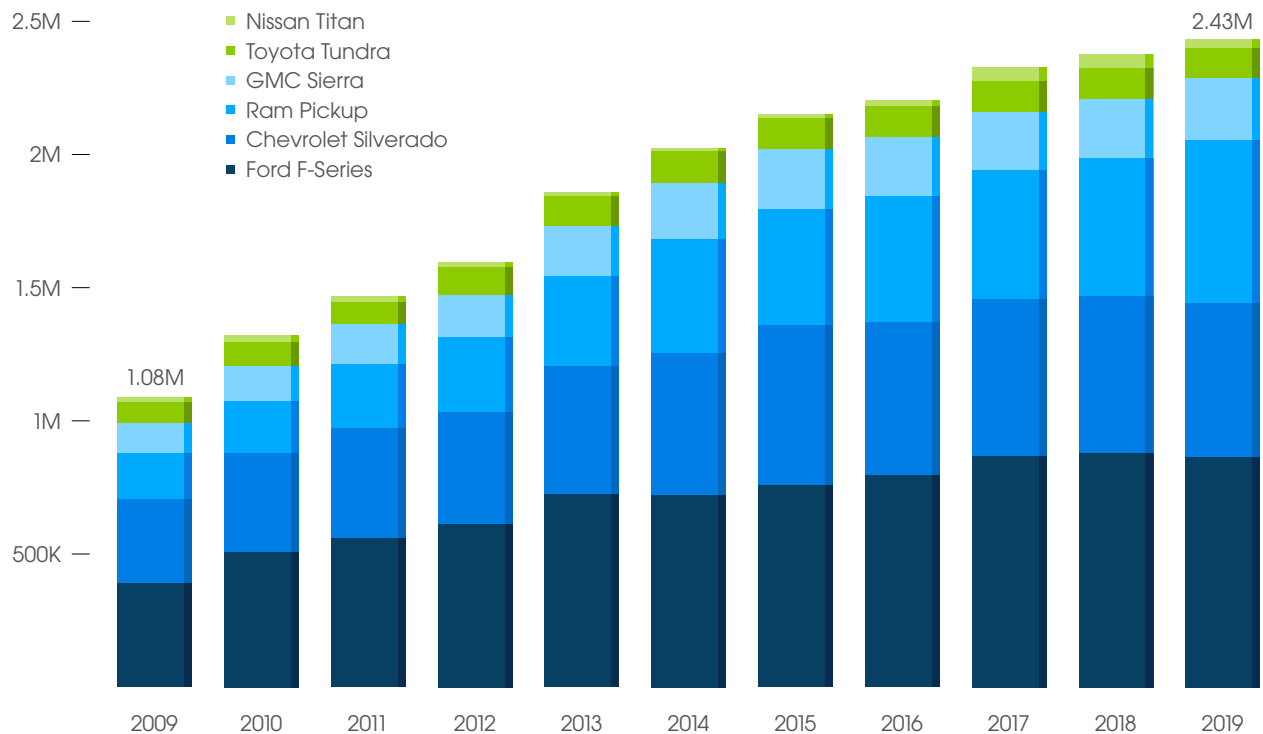


TRUCK REPORT

2020

The great pickup truck comeback

FULL-SIZE TRUCK SALES



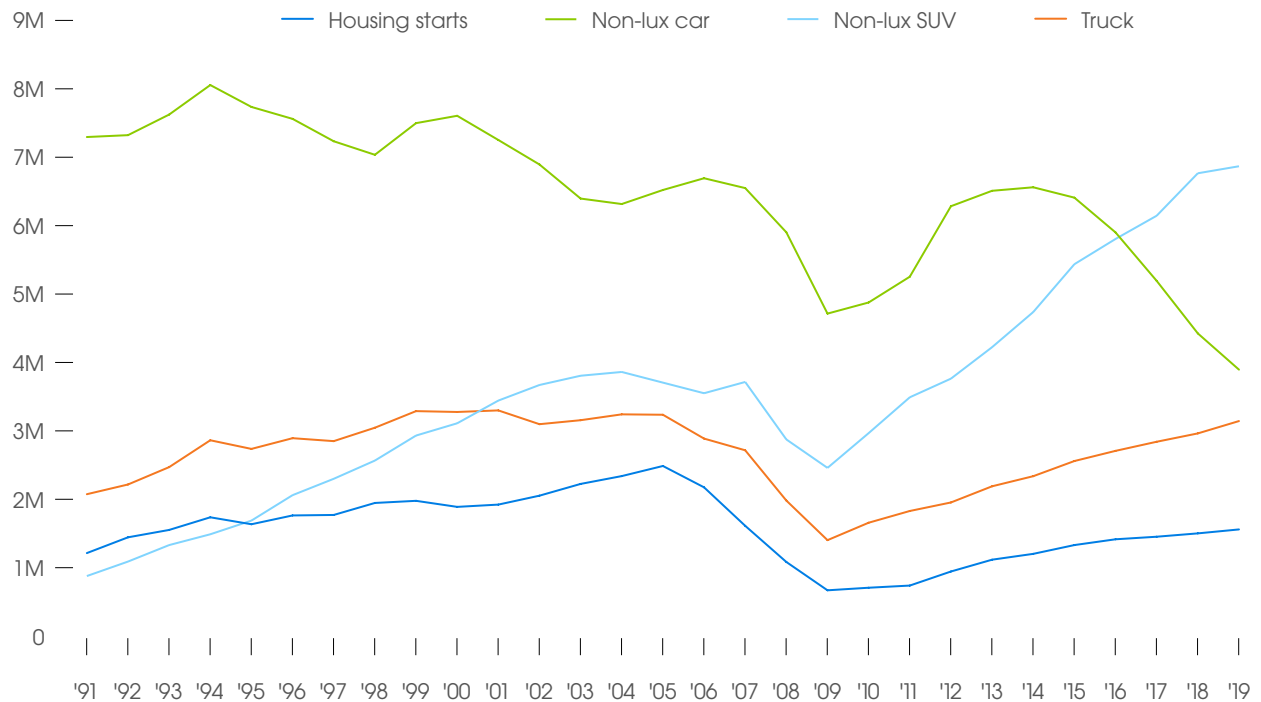
Source: Edmunds, includes heavy duty

After a collapse in sales during the Great Recession and record low market share, it was questionable whether pickup trucks would ever regain their dominance. After all, the booming SUV market of the last decade swept up many buyers looking for recreational utility, leaving trucks with those who truly needed them. More recently, buyer preferences are shifting yet again and the truck market finds itself amid a renaissance. Market share for full-size trucks soared to a 14-year high in 2019 to 14.5% of the new vehicle market. And that was even amid the staggering rise of the midsize truck market, which has grown 124% in sales over the past 10 years. Auto executives only have reason to celebrate the resurgence since trucks generate enormous profits. But the question is: Why did this happen? In this report, we will explore how full-size trucks have made a comeback and how the perennial third best-selling truck, the Ram 1500, outsold the perennial second best-selling truck, the Chevrolet Silverado, for the first time.

2M+
full-size trucks
sold in 2019

Favorable economy tied to a boost in truck sales

VEHICLE TYPE SALES VS. HOUSING STARTS



Source: Edmunds, <https://www.macrotrends.net/1314/housing-starts-historical-chart>

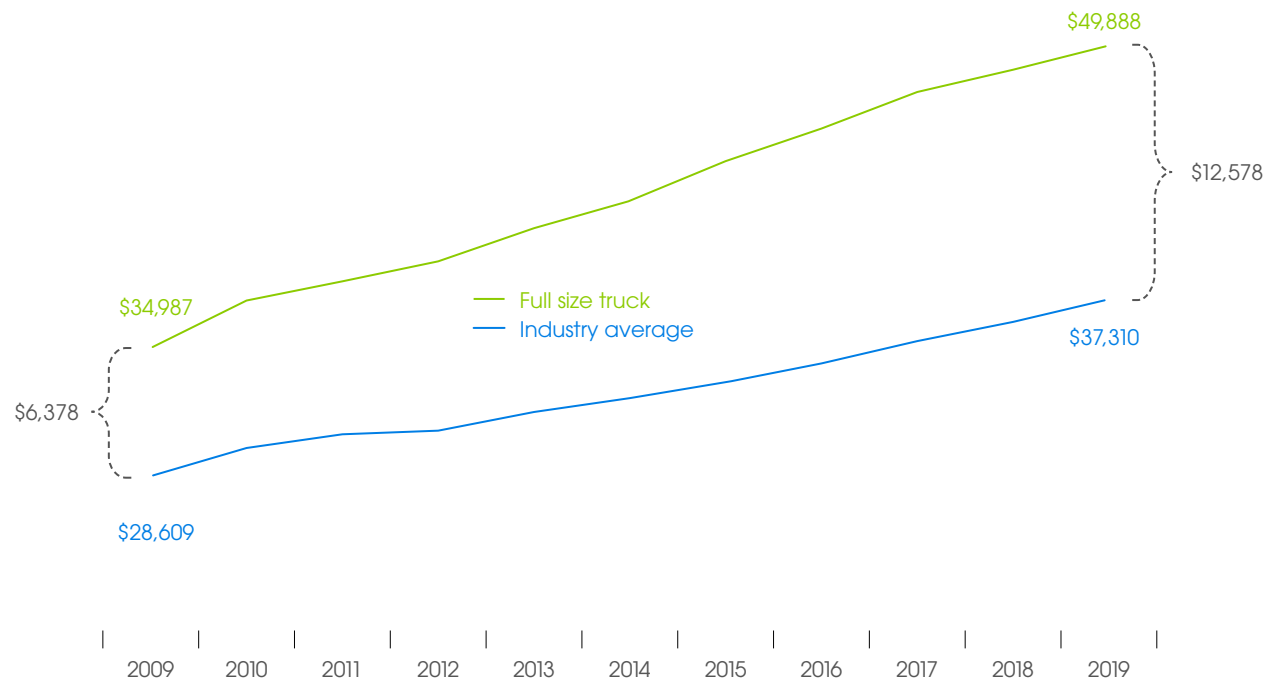
Pickup trucks are heavily interwoven into the fabric of the American economy, and with the U.S. in a relatively peaceful period with strong economic activity, truck sales have experienced a windfall.

Truck sales and housing starts are highly correlated — a relationship that doesn't hold true for passenger cars or SUVs. With a good economy, a buoyant truck market follows. Additionally, due to an increase in North American crude oil production, gas prices stayed stable for several years without long-lasting price spikes or shocks.



Growth in options and amenities broaden truck appeal

FULL-SIZE TRUCK AVERAGE TRANSACTION PRICE



Source: Edmunds, full-size truck includes heavy duty

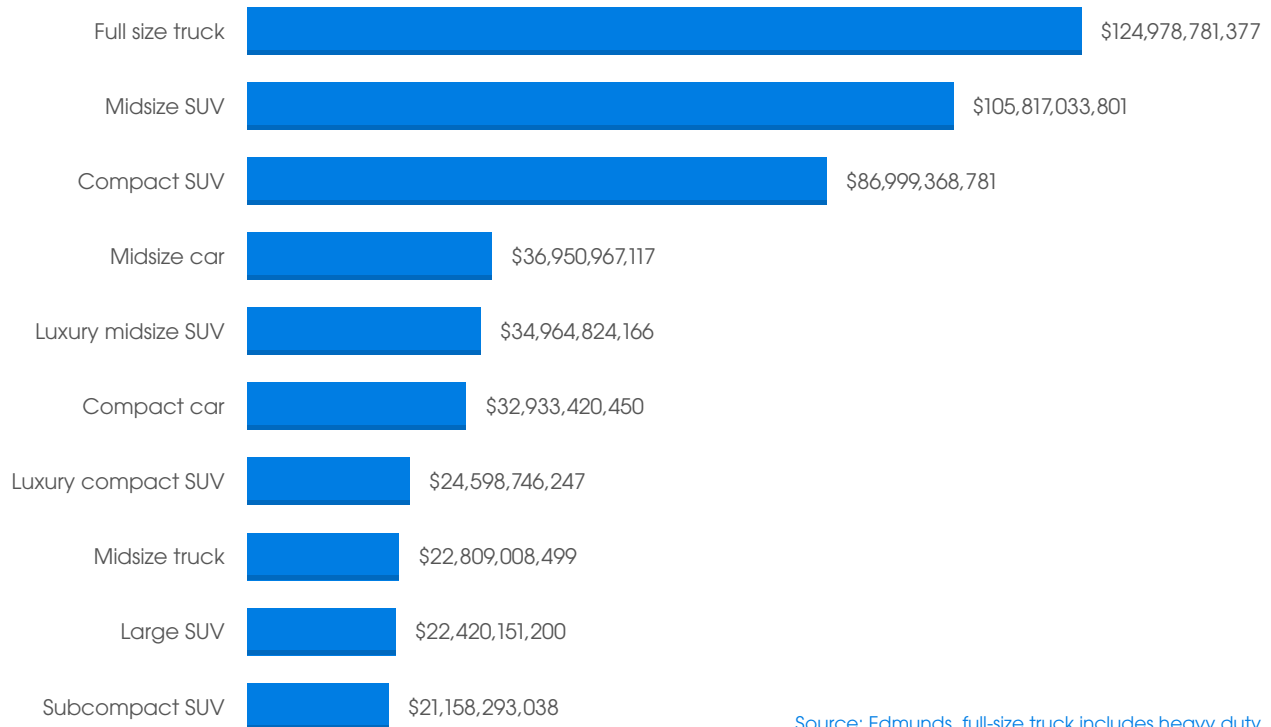
Once regarded primarily as the mode of transportation for America's working class, full-size trucks have gained favor with many more consumer segments. The increase in amenities and interior quality improvement in trucks have caught the eye of buyers with more discretionary income, thus expanding the market's buyer base.

Full-size truck
average transaction
prices up

43%
from 2009

Growth in options and amenities broaden truck appeal

TOP 10 HIGHEST VALUE SEGMENTS 2019 - VOLUME*AVG TRANSACTION PRICE



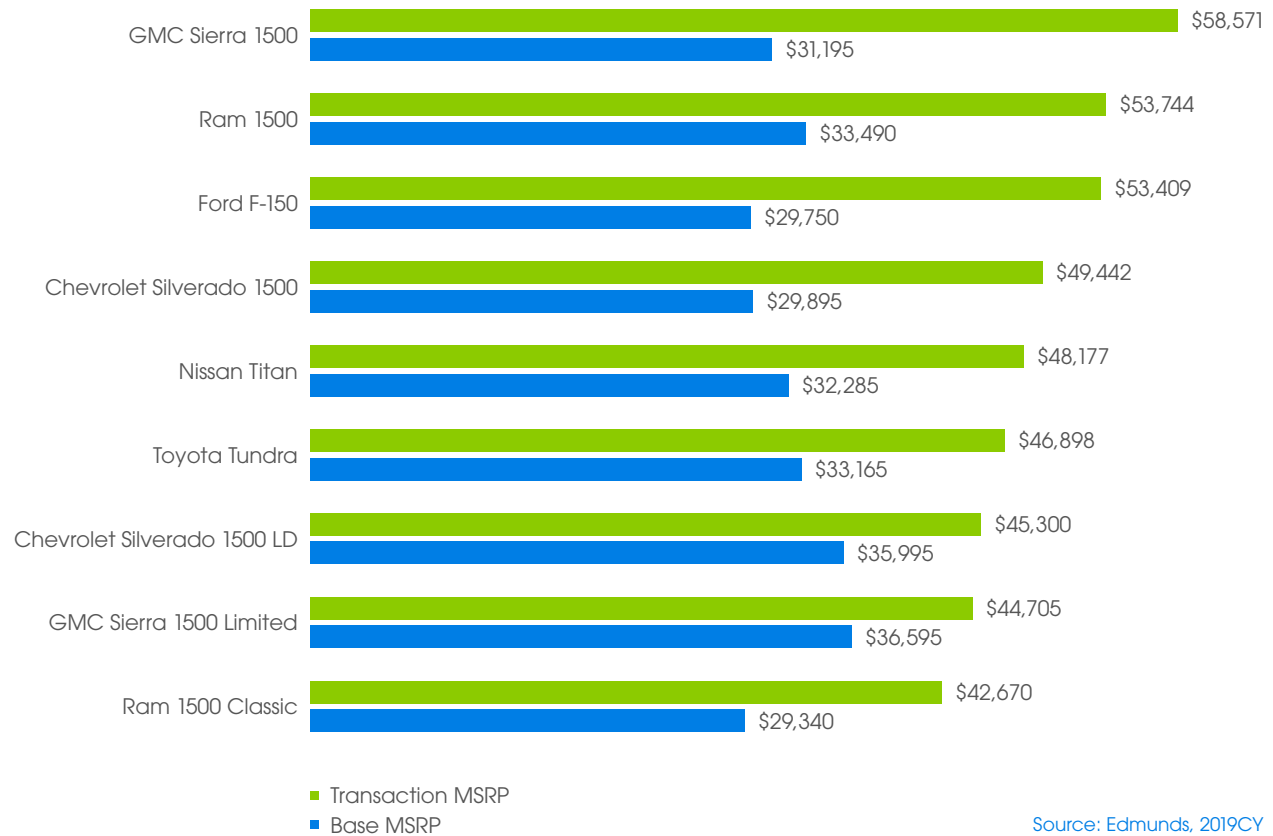
Source: Edmunds, full-size truck includes heavy duty

And while the increase in amenities — and escalating prices — is common across the industry, trucks have outpaced other segments in price growth.



Growth in options and amenities broaden truck appeal

FULL-SIZE TRUCKS: BASE MSRP VS. TRANSACTION MSRP



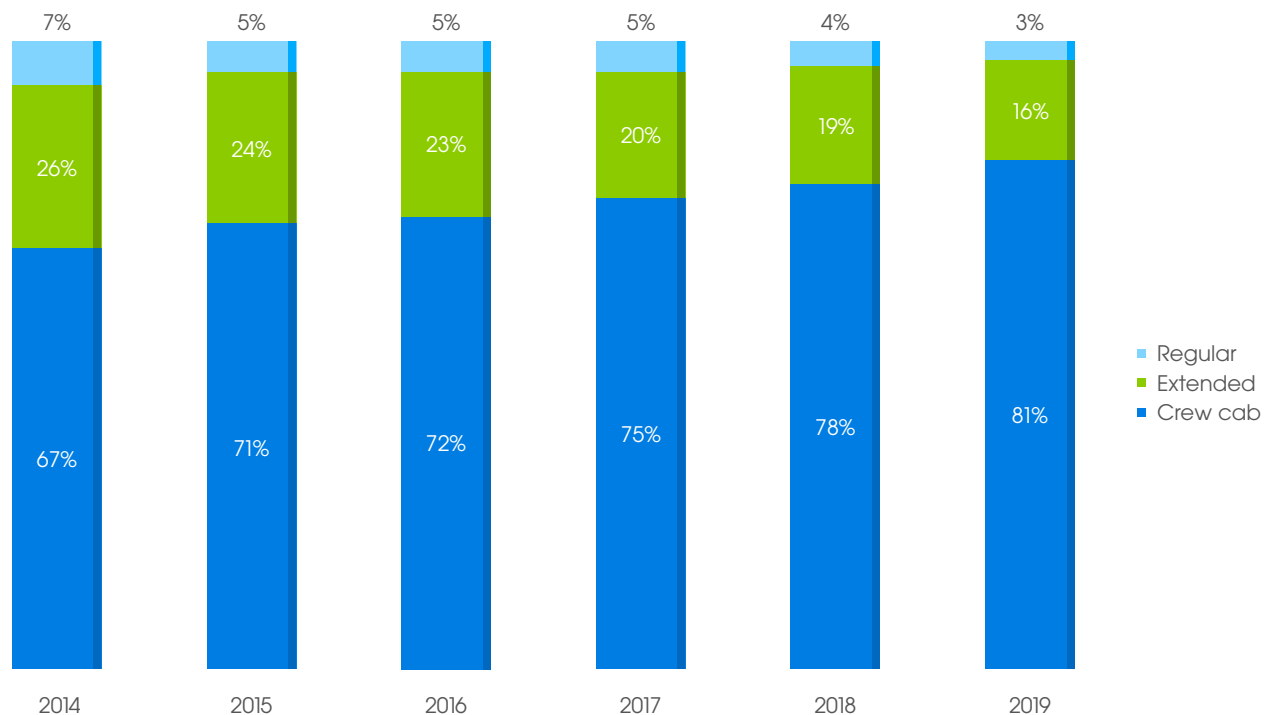
Source: Edmunds, 2019CY



Consumer behavior has predominantly brought about the rise in truck prices. The transaction MSRP is climbing further away from the base MSRP, which shows that consumers are opting for increased levels of features and options rather than sticking close to the base model. As a result, automakers are offering a slew of special editions and variants that deliver more differentiation, oftentimes at more cost.

Growth in options and amenities broaden truck appeal

FULL-SIZE TRUCKS: REGISTRATIONS DISTRIBUTION BY CAB TYPE



Source: IHS Markit 2014-2019, retail only, includes heavy duty

Though inventory availability plays a part in increasing prices, it remains a safe assumption the majority of buyers opt to go up the price ladder to get the truck they want. And with a steady economy and low interest rates, this behavior does not necessarily raise red flags.

Beyond just amenities, customers are choosing physically bigger trucks. The overwhelming majority of full-size trucks now come with four standard-size doors, which suggests these vehicles can be used beyond business. Trucks can serve a multitude of purposes, business and personal, which helps consumers justify paying more.

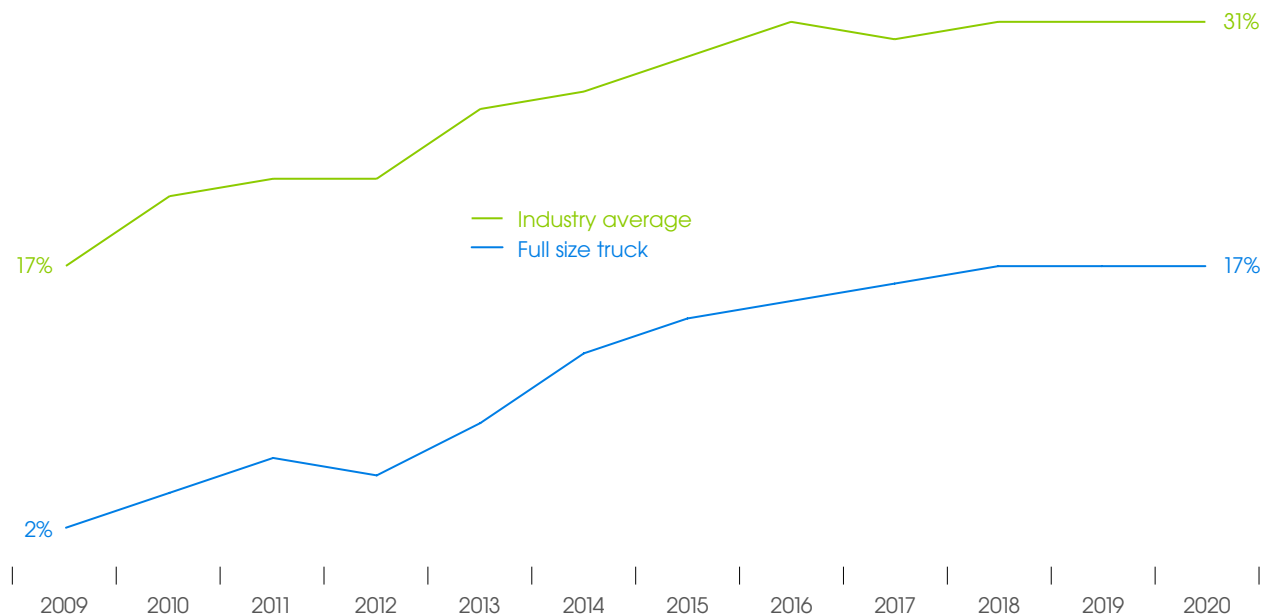
81%
of full-size trucks
are crew cab

More midsize SUV trade-ins go to truck purchases

So, where are these big-spending consumers coming from? Many are the traditional truck loyalists, but whereas folks migrated out of the full-size truck segment in the past, we are now seeing a reverse migration. While two-thirds of all trade-ins for full-size trucks are full-size (including heavy-duty) trucks, we are seeing a bit of growth in trade-ins from other areas as well. More SUV owners — particularly from the high-volume midsize segment — are ditching

their SUV for a full-size truck. Midsize SUVs made up nearly one-quarter of all non-truck trade-ins in 2019, up from 17% a decade prior. This is a promising opportunity for the truck market since midsize SUVs have a big consumer base as potential conquests. Trade-ins of large SUVs are decreasing for trucks, which underscores some buyers' uncompromising need for a third row. For those not needing a third row, a pickup offers a wider cabin with increased interior space as well as a ton more cargo capacity.

LEASE PENETRATION FOR FULL-SIZE PICKUPS



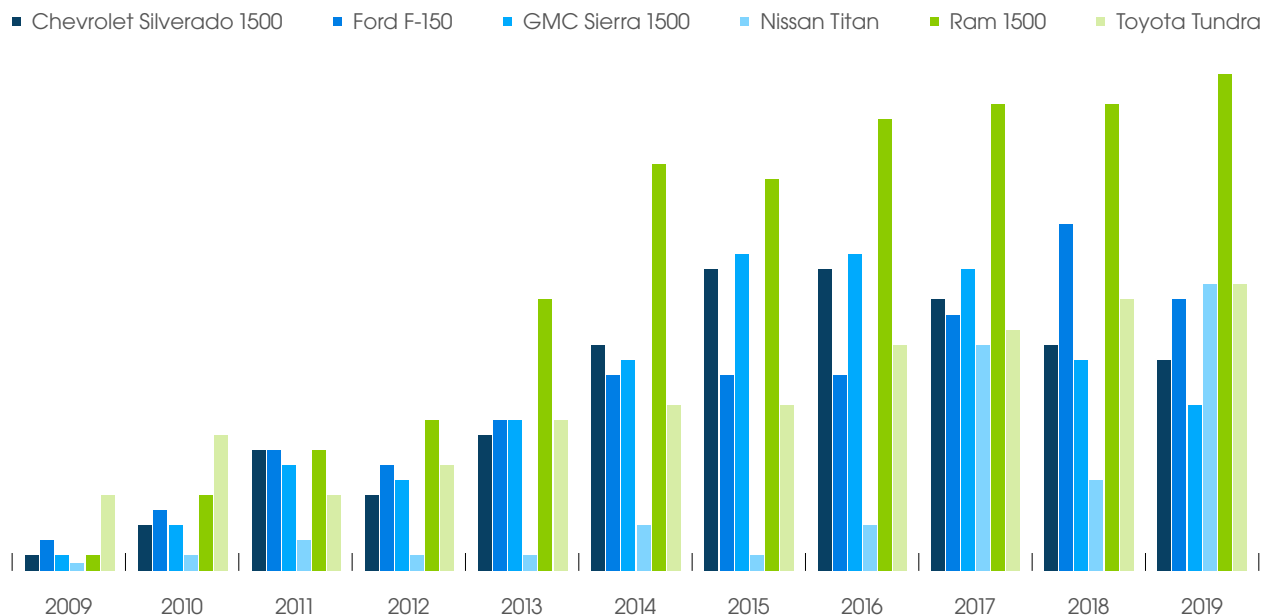
Source: Edmunds 2009-2019 Transaction Data, full-size truck includes heavy duty

Higher prices result in hefty monthly payments, and as we've seen for decades in the luxury market, more buyers are turning to leasing to mitigate those high costs. The full-size truck market had little leasing in the past, but there's been a dramatic uptick in leasing as prices have increased. In 2019, 14% of

trucks were leased compared to only 2% in 2009. In 2014, lease penetration in the full-size truck market grew beyond double digits, which corresponds to the time when average transaction prices rose well above \$40,000.

Ram uses leasing to expand its buyer base

LEASING PENETRATION BY TRUCK



Source: Edmunds 2009-2019 Transaction Data

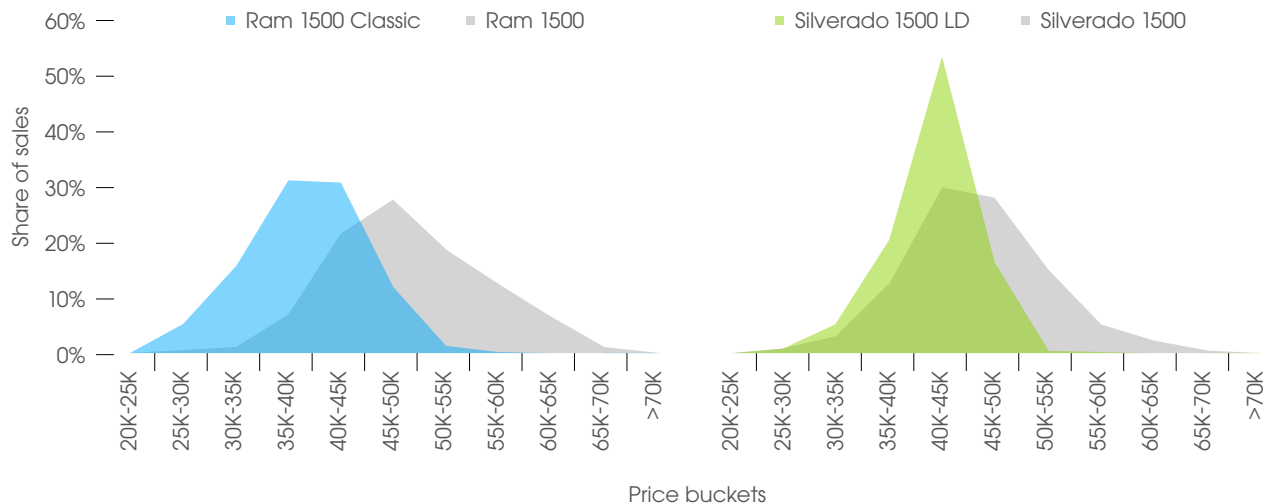
With truck prices soaring, both GM and FCA have continued selling their last-generation trucks with varying degrees of success. The automakers recognized not all truck buyers wanted or could afford increased truck content, and these legacy trucks could serve as effective backup choices, particularly for consumers who were denied a loan. Leasing was also an effective part of that strategy. Leasing enabled consumers to secure affordable payments and in some cases helped them with loan approval.

It goes without saying that leasing is no replacement for ownership, but looking strictly at monthly payments, leasing saved a buyer \$247 (on average) for a truck with a transaction price in the \$40,000-\$45,000 range and \$207 for a truck in the \$55,000-\$60,000 range. For buyers focused solely on monthly costs, leasing has proven an effective way to drive sales. And with high residual values for trucks on the used market, leasing has not caused automakers to take a financial hit.

33%
of Ram 1500s were
leased in 2019

Ram has a wide-reaching product and pricing strategy

TRANSACTION PRICES WAVES



Source: Edmunds 2019 Transaction Data

Besides leasing, a distinct pricing strategy has led the Ram to increased sales success. The Ram and Ram Classic transaction prices occur in discrete sets, which implies two distinct buyer price points. In contrast, Silverado has a bit more overlap in prices for its two trucks, so the customer's price point is not as clearly defined.

The Ram Classic has also achieved success with a high number of configurations (46), and it's treated as a true second model, which gives itself a wider consumer base to pull from. Nearly \$10,000 separated the average transaction prices of the Ram 1500 and the Ram Classic in 2019. The Chevrolet Silverado LD had a much more limited offering (7 configurations) and, as a result, its transaction price differed from the Silverado's by about \$4,000 during the same period. Ram also covers a large price territory with its two models — the Ram Classic is the cheapest in its full-size competitive group, while the Ram 1500 is approaching the most expensive. The GMC Sierra still holds that title.

For 2019MY, Ram Classic offered

46

configurations while Silverado LD offered 7

Ram is capturing a younger consumer

NEW TRUCK FINANCING

Make	Model	Average transaction price	APR	Finance with negative equity (trade-in)
Ram	1500 Classic	\$39,121	8.1%	38.4%
GMC	Sierra 1500 Limited	\$41,851	5.5%	31.3%
Chevrolet	Silverado 1500 LD	\$41,985	6.1%	26.9%
Toyota	Tundra	\$44,800	4.2%	23.2%
Nissan	Titan	\$45,000	6.3%	39.2%
Chevrolet	Silverado 1500	\$45,701	6.2%	24.5%
Ford	F-150	\$48,469	4.7%	21.1%
Ram	1500	\$48,753	6.0%	28.4%
GMC	Sierra 1500	\$53,952	5.7%	20.5%

Source: Edmunds

Finance data suggests that the Ram Classic also appeals to consumers with a wider range of credit profiles including those without the highest level of creditworthiness. Ram Classic buyers on average pay the highest interest rates and roll more negative equity into their loans than buyers of any other full-size truck.

Ram has also increased sales due to winning over the most coveted section of the market: people under 35. While the F-Series is undoubtedly the champ of the entire market, the Ram just edged out the F-Series last year to be the most registered vehicle among these younger buyers.¹ While we can't see the sales breakout for the Ram and the Ram Classic, we can safely assume the lower price point appealed to many of these buyers who are likely not at the stage in life where a \$50K truck is financially within reach.

¹Source: IHS Markit, CY 2019



Ram taking more Silverado trade-ins

When Silverado 1500s get traded in for a new vehicle, the most common purchase is another Silverado 1500, with the GMC Sierra 1500 firmly in second place. However, for the past two years, the Ram 1500 has edged out the F-150 to win the third spot. It solidly ranked as the fourth, fifth or sixth most popular purchase (with a Silverado trade-in) during the previous eight years. The Ram 1500 is also the third most popular new

vehicle purchase with a Ford F-150 trade-in after the F-150 itself and the F-250 in the second position. The Chevrolet Silverado takes the fourth spot. This trade-in data suggests that Ram is now capturing a larger swath of the truck market. Truck buyers are known for their brand loyalty, so this shake-up is important for the future for FCA and the Ram brand.

Looking ahead

The competitive nature of truck sales of late will pale in comparison to what lies ahead for this market. It will go far beyond Ram versus Silverado or Tundra versus Titan. The horizon is filled with a slew of battery electric trucks that nearly outnumber the current offerings. Despite the hefty increase in transaction prices over the past decade, a good portion of recent growth and diversification of the buyer base has ironically come from prior generation trucks with older technology. That aside, the legacy automakers are dumping R&D cash into innovation to protect themselves against a crop of new competitors such as Tesla, Rivian, Lordstown Motors, Nikola Motor and

Bollinger. Meanwhile, these new players are eager to cash in on hefty truck profits. Their emergence will change the truck landscape more radically than the forces of the past few years. Americans' love for large vehicles isn't waning, so this rapid product expansion will meet an expanding buyer base. However, questions remain: Is there space for everyone? And most of that will come down to the health of the U.S. economy, individual spending power, and whether automakers can make their battery-powered trucks compelling enough to get the traditional truck buyer to make the switch.



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Publish date: February 2020

