

Mexico

Capital: Mexico D.F. (Mexico City)
Population: 105 million (2008 estimate)
GDP:* US\$ Billion: 190.7 (2007 estimate)
Currency: Pesos
Language: Spanish



Summary

Between 2006 and 2007, the Mexican auto parts industry and vehicle production and assembly reached record production levels even after signs of economic slowdown in the principal export market in the United States.

Current Market Trends

As a result of new investments in their assembly lines and the launching of innovative vehicle platforms, Ford, Volkswagen, and Nissan significantly increased their production. General Motors announced that they will start operations of their new plant in the city of San Luis Potosi in the month of April with a production of 30 automobiles per hour and could be increased to 60 units per hour by the end of 2008.

The city of Aguascalientes will be the headquarters of a plant to be built by European investors to produce hybrid and fully electric ecological cars for the Mexican and U.S. markets. This provides an extraordinary opportunity for further growth for U.S. first and second tier suppliers, and especially for providers of raw materials, technological advancement, parts, machinery, and consumable supplies.

In the production of new automotive parts, assembly plants are now requiring that their suppliers be as close as possible to them in order to reduce inventory volumes and to facilitate just-in-time delivery during the assembly process. This shift in production areas has forced many U.S. first- and second-tier suppliers to move to these new areas so that they can produce at lower costs, reduce freight and handling expenses, and deliver parts and components very quickly in a JIT program.

This trend opens a new field of opportunity to U.S. suppliers of production machinery and equipment, materials, pre-assembled components, molds and tooling, cutting tools and chemicals, automation process equipment, raw materials, engineering and design, and in many cases, finished parts and accessories sold through local representatives or distributors.

Market Entry

On August 25, 2005, the Mexican government began allowing the importation of used vehicles into Mexico for use by the importer. The move came four years ahead of the 2009 date originally agreed upon under NAFTA. However, the imports of used vehicles are subject to a new decree, which became effective in February 2008. For more details on the contents of the decree, NAFTA and other regulations related to the imports of used cars into Mexico, please contact Ernesto de Keratry. These new regulations opened a tremendous amount of opportunities for U.S. auto parts manufacturers and distributors to enter the Mexican market.

Current Demand

Best Prospects

The replacement market for standard auto parts will remain in place so long as vehicles continue to be sold; therefore, many of such products remain best prospects for exporters to Mexico. Yet overall, the more technologically advanced and value-enhancing products will prevail as the Mexican economy continues to strengthen in its current fashion. Due to these changing consumer preferences and the position in which a high cost, capital intensive producer, like the U.S., is placed, the best prospects for U.S. exporters of auto parts to the Mexican market are as follows (listed alphabetically):

Air conditioning parts and accessories: In the first quarter of 2007, Mexico imported 87.2% more automotive air conditioning parts and accessories compared to the same quarter in 2006. The U.S. posted a 117.8% increase in export sales to Mexico in the same time period. A similar pattern has been seen in each of the last three years. Due to this unprecedented growth, air conditioning parts and accessories appear to be an US\$85 million a year industry for 2007.

Brake systems: This is an US\$867.5 million import market. In 2006, nearly 22% of these imports came in the form of disk brake systems, an example of a more sophisticated product within this genre. The United States provides 69.2% of Mexico's imported disc brakes, of which Mexico imported 15% more last year.

Engine replacement parts (rings, pistons, carburetor parts, fuel injection, etc.): This ever-needed and reliable sector creates demand for its parts that corresponds with the demand of vehicles. So long as consumers continue to buy cars, these products will remain integral to the auto parts & supplies industry. Last year, the driving force behind these replacement parts – larger piston engines – created export sales to Mexico from foreign countries worth over US\$1.34 billion, 74% of which came from U.S. exporters (an 87.4% annual increase). This indicates a tremendous, growing market that continually needs maintenance. In addition to engine parts, both replacement and original input products for electrical systems and transmissions pose good opportunity for U.S. exporters.

GPS systems and accessories: With a similar logic to that of providing hybrid vehicle accessories, GPS navigational equipment is an automotive item that will become commonplace in Mexico in the near future.



Fortunately for vendors, such systems and their accessories can be sold both pre and post market. All that impedes growth is the lack of fuller navigational information technology. Once this information technology becomes adequately gathered, one should expect to see these products in higher end car almost immediately.

Hybrid vehicle accessories/inputs: Mexico is following the same trend that the United States has set. According to JD Power and Associates, hybrid vehicles will comprise 5% to 10% of the automobile market in the U.S. by 2015⁸. Who is to say that Mexico would not follow suit? There is already a long waiting list to buy the Toyota Prius in Mexico and both Honda and Ford have recently introduced hybrid alternatives to the Mexican markets⁹. Additionally, the Mexican government is offering incentives to definitive (versus temporary) importers – and, in turn, to consumers – of hybrids. As of the fiscal year 2007, the tax applied to imported vehicles with combustion engines, which is normally 2.6% of the automobile's value, has been lowered to a mere 0.16% for hybrids⁹.

Polishing waxes & paintjob restoration: With a growing concern for cosmetic design of their automobiles, Mexicans are more and more eager to purchase products and services that aesthetically improve their cars, trucks and SUVs. Something as simple as maintaining a paintjob through the use of car wax has seen remarkable returns. The U.S. only continues to increase its 94% share in the US\$56.8 million a year import market of polishing wax products. The product that enhances these cosmetics (i.e. paint, wax,

etc.) and the manner in which it maintains, restores or improves the look of a vehicle (i.e. the service) are both emergent markets that warrant attention from exporters.

Rims and tires: Tireless wheels (more commonly known as rims) posted US\$109.4 million in export sales to Mexico in 2006, 65.75% of which came from the United States. Mexico imported nearly 20% more rims in 2006 than in 2005. In 2006, Mexico imported US\$548.4 million worth of new motorcar tires. During 2006, the near 25% export sales growth of tires from the U.S. coincided nicely with the entire Mexican import market's 23% growth. As with rims, American manufacturers benefit from the majority of these import sales transactions in Mexico.

Sophisticated alarm systems (e.g. vehicle tracking systems): Considering the 13% upsurge in vehicle thefts in Mexico during the first quarter of 2007 (compared to the same period in 2006), consumers are increasingly seeking out alarm systems that work more effectively than what is currently available. Last year, 54% of the US\$9 million in vehicle alarm systems that Mexico imported arrived from the U.S. In this same time frame, this import market grew 34.2% and U.S. exports to Mexico increased 47.8%.



Sound equipment: Radio receivers for vehicles (most often with CD or mp3 capabilities) alone generated US\$361.6 million worth of exports from foreign producers to Mexico. The U.S. sold US\$227.7 million of these exports. Other increasingly popular car audio equipment, such as woofers, amps and speakers, are not included in this figure and they all pose great growth potential for firms supplying such products.

Suspension systems: The U.S. maintains seven times the export sales to Mexico than its closest competition in this category (Japan). The \$36 million in suspension systems that Mexicans imported during 2006 is 91.4% greater than the value imported throughout 2004. As suspension systems' technical capabilities improve, so do prospects of selling such products to the Mexican market.

Trade Shows

PAACE Automechanika

Centro Banamex, Mexico City

July 9 - 11, 2008

<http://www.paaceautomechanika.com>

Available Market Research

Auto Parts and Accessories in Western Mexico (Feb 2007)

Importing used vehicles (May 2007)

Automotive Accessories in Mexico 2007 (Sep 2007)

Government Initiates Program For the Importation of Pre-Owned Vehicles (Sep 2007)

Mexico: Auto Parts & Supplies Industry (Sep 2007)

The Market for Automotive Parts and Accessories in Northwest Mexico (Oct 2007)

Mexico - The Automobile Industry in Jalisco (Dec 2007)

Mexico - New Car Assembly Plant in Michoacan (Dec 2007)

Up Date and Overview of the Mexican Automotive Industry 2008 (Apr 2008)

Resources and Key Contacts

State of Jalisco Autoparts Distributors Association: <http://www.rujac.com>

The National Association of the Manufacturers of Buses, Trucks and Tractor Trailers:

<http://www.expotransporteanpact.com.mx>

National Autoparts Industry Association: <http://www.ina.com.mx>

Mexican Association of Automobile Distributors: <http://www.amda.org.mx>

Mexican Association of Automotive Industries: <http://www.amia.com.mx>

National Association of Bus and Cargo Trucks Producers: <http://www.anpact.com.mx>

National Chamber of Cargo Transports: <http://www.canacar.com.mx>

Commercial Service Contact Information

me: Ernesto de Keratry
Position: Senior Commercial Specialist
Email: Ernesto.deKeratry@mail.doc.gov
Phone: + 52-81-8343-4450, 8345-2120, ext. 496

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