The Automotive Industry in Mexico 2006

Ernesto de Keratry
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Summary

The automotive industry continued to be the largest and fastest growing manufacturing sector in Mexico during 2005 and 2006.

In late 2005 and early 2006, Mexico emerged with positive and encouraging results in the North American automobile industry. Mexico is rapidly becoming a more important strategic partner for automakers who want a competitive edge to succeed in the North American auto industry. In 2001, Mexico was the ninth largest producer of automotive vehicles in the world, manufacturing 1.92 million units (including trucks and busses). In 2004, production decreased to 1.5 million vehicles due to an economic slowdown. However, it grew to 1.6 million in 2005 and is expected to grow to over 2.1 million in 2006.

The accumulated production for the first quarter of 2006 was 54 percent ahead of the vehicles produced during the same period in 2005. Mexico will surpass the two million-unit annual production mark during 2006. 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.

This activity 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. Automotive assembly plants are now requiring their basic suppliers to be very near the plant installations so that they can reduce inventory investment and control and be able to supply just in time (JIT).

The Major Brands Drive Investment in Mexico

Due to tremendous competition from European and Asian manufacturers, major U.S. firms have been forced to find ways of reducing costs. Some have announced the increase of production lines in Mexico.

Ford Motor

Ford Motor Co. announced an expansion of their Hermosillo, Sonora plant. In October 2003, a new project to expand this plant was confirmed, with added investment of US$1.8 billion. This project includes the establishment, in the region, of a group of Ford associates, suppliers of resins, packaging materials, electronic parts and mechanical products, among others.

General Motors

With an initial investment of US$650 million, General Motors Mexico will establish an assembly plant in San Luis Potosi with a capacity to produce 30 vehicles per hour. **Nemak**, a subsidiary of Grupo Alfa, reported that General Motors granted them a contract for the production of a new V block. The new project consists of a total volume of 450 thousand blocks for GM vehicles to be sold worldwide. **Manufacturera de Cigueñales de Mexico** inaugurated the expansion of its plant located in Ramos Arizpe, increasing production capacity to 1.5 million crankshafts per year. GM has re-designed their Chevy production lines in their Ramos Arizpe plant.

Nissan

Nissan invested US$1.3 billion to take its installed production capacity from 234 thousand to 350 thousand units per year by 2008. **Jatco**, a Japanese company and Nissan subsidiary, will invest US$300 million in Mexico to expand its production capacity and increase from 300 thousand to 800 thousand transmissions per year. Nissan also announced expansion of their central Mexico (Aguascalientes) and Cuernavaca plants.

Toyota

Toyota announced an expansion of their Baja California plant. Toyota Motor Manufacturing de Baja California announced an increase in its capacity to produce Tacoma pick-ups by 20 thousand units, to reach an annual production of 50 thousand vehicles and 200 thousand pick-up bodies. Toyota is analyzing the possibility of establishing another assembly plant in North America, possibly in Mexico, to meet the growing demands for Toyota cars in this region. **Metalsa**, a subsidiary of Proeza Group, will open a chassis manufacturing plant in Saltillo in June 2007, with a capacity to produce 50 thousand units per year for the Toyota trucks. Toyota also recently announced that they seek to source the majority of their parts and components from Mexico or south of Mexico for their new truck assembly mega project in San Antonio, Texas, to take advantage of lower production costs in these countries.

Additional Brand Activity

Volkswagen recently announced that they are looking to expand their Puebla plant or open a new plant in the Monterrey-Saltillo area. **Daimler Chrysler** is increasing their light truck plant production capacity in Saltillo. Assembly plants are also being opened for **Seat**, **Renault**, **Peugeot**, and **Honda** in several states of Mexico. And with a US$2.5 million investment, Spain's passenger bus OEM **Rizar** expanded its manufacturing plant Queretaro. **Navistar** International's Mexican plant located in Escobedo, Nuevo Leon, will manufacture the "Traveler" bus, designed for short distance passenger transportation. The bus and truck OEM **Diesel Nacional** and **American Coach** started assembly operations for the domestic and export markets and expansions for Mexico's auto industry supply chain.

Opportunities for US Component, Material, Equipment and Service Providers

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, however, 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.

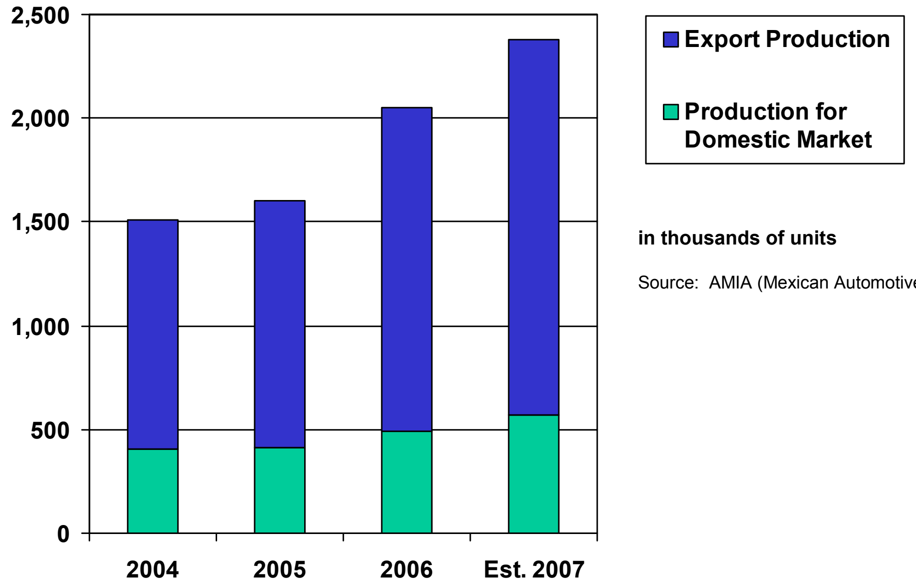
Most of the first tier companies are located near assembly plants to meet supply and delivery demands. Nuevo Leon, Mexico City and the State of Mexico are the three areas where the largest number of automotive companies are located, concentrating 53 percent of assemblers in Mexico.

Mexico's Light Vehicle Production Continues to Grow

The Mexican Automotive Industry Association (AMIA) estimates that the number of vehicles in circulation in Mexico was over 17 million units by the end of 2004. During 2003, 80 percent of these vehicles were over five years old with the median age of seven years. However, an improvement of the Mexican economy during 2004, the lowering of interest rates of automotive financing, and the large number of new brands that entered the market, greatly increased the sale of new vehicles and decreased the median age to around four years. Today, less than 60 percent of the vehicles in circulation are over five years old.

The rapid growth and distribution of market share across major brands and throughout Mexico can be seen graphically on the next two pages.

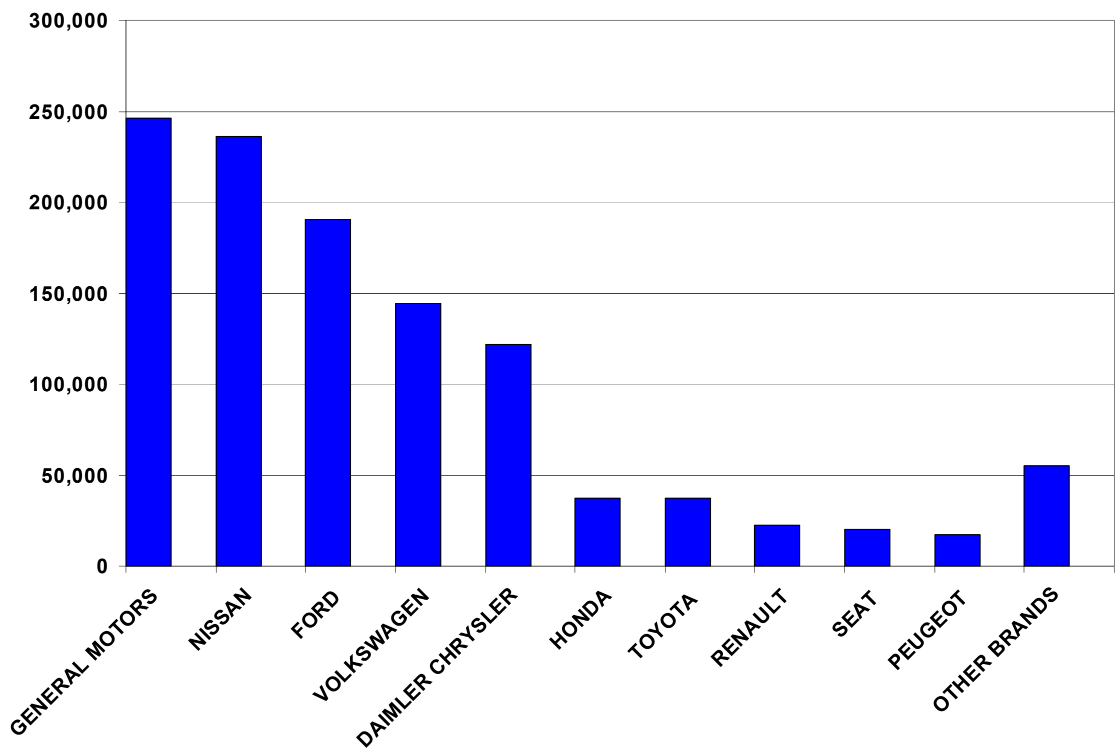
Mexico's Light Vehicle Production



in thousands of units

Source: AMIA (Mexican Automotive Industry Association)

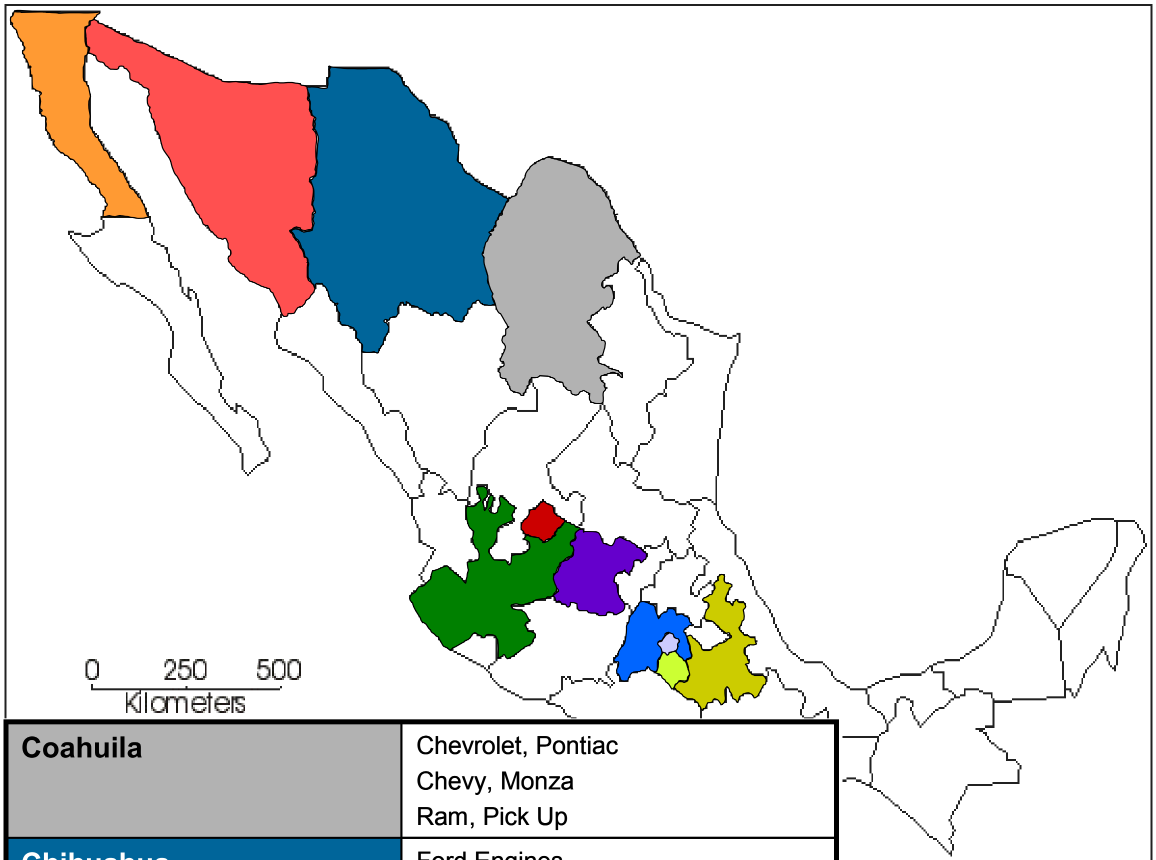
Breakdown of Mexico's 2005 Domestic Sales by Brand



Other brands include: Mercedes Benz, Suzuki, Audi, Volvo, Mini Cooper, Acura, Land Rover, Porsche, Smart, Jaguar, Fiat, Subaru, and Bentley.

Source: AMIA (Mexican Automotive Industry Association)

Location of Automotive Manufacturing Clusters in Mexico



Coahuila	Chevrolet, Pontiac Chevy, Monza Ram, Pick Up
Chihuahua	Ford Engines
Sonora	Fusion Mercury Lincoln Sephyr
Aguascalientes	Platina Centra
Jalisco	Accord
Guanajuato	Chevrolet, Suburban, Silverado, Tahoe
State of Mexico	Kodiak, Volvo, Pt Crusier, Ikon, Serie F Pick Up
Puebla	Beatle, Cabriolet, Jetta, Bora
Morelos	Tsubame, Tsuru, Pickup
Baja California	Toyota
D.F.	Chrysler, GM

Automotive Sector Financial Health Being Watched Closely in Mexico

Any sort of alliance between General Motors, Nissan, and Renault would have a tremendous and important impact on the Mexican automotive industry since all three of these companies have assembly plants in Mexico. The basic effect would be in the sales figures for the three brands, and, especially, in the OEM first and second tier parts suppliers. In addition, Delphi's restructuring is being monitored by the sector here, although it has not yet affected its Mexican subsidiary. Finally, the sweep of acquisitions of automotive parts manufacturers and general consolidation in this area may change purchaseing patterns here in Mexico and further cost-cutting drives that may lead to more first and second tier production shifts south.

Mexico's Automotive Parts Production Continues to be Healthy

Mexico has consolidated its position as the first auto parts supplier for the United States and has broadened the gap separating it from Canada and Japan, its closest followers in the share of the U.S. market. During the first quarter of 2006, Mexico exported automotive parts worth US$6.4 billion, a 10 percent increase when compared to the same term the previous year. Mexican industry has become increasingly integrated with the auto parts market in North America, one of the most competitive regions in the world in this sector.

In 2005 Mexico exported automotive parts amounting to US$23.9 billion to the United States, more than twice the amount for cars exported to the United States (US$1.8 billion) during the same period.

US Exporters Continue to Have Competitive Advantage in Market Access

While imports of automotive parts from NAFTA countries are free of any tariff, non-NAFTA countries have tariffs ranging from 3 to 18 percent. Mexico is vigorously pursuing free trade agreements with other countries in order to reap further benefits similar to those of NAFTA. Mexico has free trade agreements with the United States, Canada, the European Union and the European Free Trade Association (Norway, Switzerland, Iceland, and Liechtenstein), and Japan.

Since 1996, the U.S. share of imports of the items covered in this report has had an average of 27 percent. This is expected to hold or vary slightly in 2005, due mainly to the increase in two-way trade generated by NAFTA. There are virtually no import barriers for automotive parts in Mexico. The general import climate for auto parts and equipment in Mexico is favorable. NAFTA has made U.S. imports into Mexico even easier by eliminating all tariffs.

Sales Increasingly Dependant On Service Component

Customers in the automotive sector are demanding uniform quality control, compliance with international standards, high productivity, lower production costs, just-in-time delivery, and above all reliable local service and maintenance programs. This last factor has become, in many instances, even more important than pricing or financing in the purchasing decision. Demonstrated commitment to after-sale service has been the most effective tool that third country manufacturers, mostly Japanese, have used to penetrate the market. They offer to have their maintenance personnel at the client's plant no more than 48 hours after a service call is made. The availability of required spares is the natural complement to the presence of their technicians.

Further Links for Market Information

- 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 Tucks Producers: http://www.anpact.com.mx
- National Chamber of Cargo Transports: http://www.canacar.com.mx

A Note on Sources

Information for this report was obtained from an article written by Mr. Sergio L. Ornelas, Editor, of the magazine MEXICO-NOW, published in the May-June, 2006 issue (www.mexico-now.com), as well as from personal interviews with different automotive associations and the automotive dealers association in Monterrey.

For More Information

The U.S. Commercial Service in Monterrey, Mexico can be contacted by:

- e-mail Ernesto.deKeratry@mail.doc.gov
- phone: 52-81-8345-2120
- fax: 52-81-8342-5172
- or website: http://www.buyusa.gov/mexico/en/.

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