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Distributors Confirm Sharp Drop in Automobile, Truck Sales in January

by LADB Staff

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In late February, the motor vehicle distributors association (Asociacion Mexicana de Distribuidores de Automotores, AMDA) released statistics that confirm a sharp downturn in sales of cars and trucks in Mexico because of the peso devaluation. According to the AMDA statistics, the country's nine largest manufacturers of motor vehicles assembled fewer than 27,000 cars and trucks during January, a decline of more than 8,500 vehicles from the same month in 1994. Additionally, the statistics showed that sales of passenger cars during January were down by more than 24% from the same month last year, while sales of light trucks fell by more than 17%. Sales of heavy trucks fell by more than 39%.

Despite the relatively sharp drop in motor vehicle sales for January as a whole, however, AMDA economist Alicia Jara noted that sales did not begin to plummet until well into the month. In fact, Jara said sales were heavy in the first several days of January, as consumers snapped up cars that had been priced before the devaluation. By mid-January, President Ernesto Zedillo's administration had authorized a price increase of 10% on vehicles assembled at the domestic level to compensate for an increase in costs for imported parts. For wholly imported cars, the government authorized increases of 30%.

In addition to the higher prices for vehicles this year, unprecedented increases in interest rates are expected to make vehicle purchases unattainable for the average consumer. As of mid-February, the average interest rate for automobile loans was 60%. Beyond the high interest rates, some economic observers report that many banks have become more selective in their loan policies, tightening loans even for their most reliable customers. According to economist Jara of AMDA, the high interest rates are expected to reduce sales of motor vehicles during February by 42% from a year ago. She projected sales for all of 1995 will drop by about 40% compared with 1994.

The general slowdown in sales during January resulted in varying declines in sales for the major motor vehicle companies. The largest drop was reported by Chrysler Corporation, whose sales dropped to about 1,900 units in January, compared with almost 9,000 cars and trucks sold in the same month in 1994. Similarly, Volkswagen sold only 3,400 vehicles in the Mexican domestic market in the first month of 1995, compared with sales of almost 12,000 vehicles in the same month last year. General Motors and Nissan also reported declines of several thousand vehicles. On the other hand, Ford reported an increase of 28.5% in sales in January, which company officials attributed to "panic buying" in expectation of further price increases in the future. To compensate for the drop in sales, most companies reduced production and announced temporary suspensions in operations.

According to some estimates, a total of 30,000 cars and trucks were assembled in January, a decline of 18,000 units from December. The US-based economic analyst J.D. Power & Associates estimates that total production this year will slow to just 886,000 vehicles, a decline of almost 18% from last

year. A number of the automobile companies are planning to further suspend operations this year because of forecasts of depressed economic conditions in Mexico. To compensate for the plunge in domestic sales, the automobile companies are expected to continue to increase exports, which is a trend that was already prevalent in recent years (see SourceMex, 03/16/94 and 05/04/94). The three large US automobile companies Ford, Chrysler, and General Motors had hoped that the enactment of the North American Free Trade Agreement (NAFTA) would increase opportunities to export from their Mexican automobile operations to the US. However, analysts at US-based J.D. Power & Associates suggest that even this option may be limited, since demand for motor vehicles in the US is expected to decline during 1995. (Sources: Agence France-Presse, 02/20/95; Dow Jones News Service, 02/23/95)

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