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Effect of Peso Devaluation Causes Slump in Domestic Sales of Motor Vehicles

by LADB Staff

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The severe recession that has gripped Mexico since the end of last December appears to be taking a heavy toll on the motor vehicle industry, where sales have plummeted because of a loss of purchasing power by most of the population. Many potential customers are either unemployed or cannot afford to purchase new vehicles given the high interest rates and general rise in prices set in motion by the peso devaluation. The trends are reflected in statistics released by the three major motor vehicle industry organizations: the Asociacion Mexicana de la Industria Automotriz (AMIA), the Asociacion Mexicana de la Industria de Automotores (AMDA), and the Asociacion Nacional de Productores de Autobuses, Camiones, y Tractocamiones (ANPACT).

According to the three organizations, total sales of cars, trucks, and buses during February dropped below 26,000 units, about 50% below the 52,000 vehicles sold in February of last year. The sales in February of this year contrast with the slightly more than 40,000 in January of this year. Some economists note that sales in the first month of the year were still relatively high, compared with February, because consumers scrambled to acquire passenger vehicles that were still priced at pre-devaluation levels. AMDA economist Alicia Jara told reporters that sales are expected to decline even further in the coming months, given the strict austerity measures enacted by President Ernesto Zedillo's administration, which will keep vehicles unaffordable for the majority of the population. Jara said prices increased twice during March, which could reduce sales for the month by about 65% from the same period last year. Additionally, she said interest rates on car loans have surpassed 100%.

Jara said that the sharp reduction in sales during March prompted AMDA to reduce sales forecasts for this year even further. Initially, the organization had anticipated a 40% drop in sales, but has now revised that prediction downward to an expected decline of closer to 50%. During March, the US economic forecasting company J.D. Power & Associates issued a similar forecast, projecting total sales of motor vehicles for this year at about 325,000 units, compared with more than 600,000 vehicles in 1994. While automobile sales are expected to remain in a severe slump, the problem appears to be even more acute for manufacturers of trucks and commercial vehicles. According to ANPACT, sales of these vehicles during February were down a whopping 83% from the same month last year. The report said that only 460 units were sold in January and February, compared with 2,799 in the first two months of last year. At the same time, 55 passenger busses were sold domestically in January and February, compared with a total 255 busses during the same period in 1994. Additionally, only six construction-related vehicles were sold during January- February, compared with 94 in the same period in 1994.

While all nine major manufacturers of motor vehicles reported a sharp reduction in sales during February, the declines varied from company to company. For example, Ford Motor Co. plants in Mexico were able to sell more than 5,200 vehicles in February, a decline of only about 23% from a

year ago. Similarly, Nissan Motor Co. sold more than 6,300 vehicles, down about 33% from last year. On the other hand, declines in domestic sales were as high as 49% for General Motors Corp., 65% for Chrysler Corp., and 68% for Volkswagen AG. The sharp declines in motor vehicle sales has forced all the companies to periodically suspend operations this year to prevent inventories from building. Because of the economic slump, some of the companies have been forced to reduce their workforce, although many are attempting to keep layoffs or firings at a minimum. Many of these automobile companies have been able to remain solvent by increasing the number of vehicles intended for the export market. Last year, exports accounted for 51% of the total sales by Mexican assembly plants, but that proportion is expected to increase greatly this year.

On the other hand, many automobile dealers do not have the same alternatives as their automobile suppliers, and many have been forced out of business by the economic crisis. According to AMDA economist Jara, roughly 300 of the 1,100 car dealers in Mexico will have abandoned the business by year-end 1995 because of the extreme difficulties in selling cars. For example, AMDA officials noted that dealers in San Luis Potosi state sold only about 45 cars in the first three months of the year, compared with 300 vehicles in the same period in 1994. (Sources: La Jornada, 03/21/95; El Financiero International, 03/27/95; Inter Press Service, Dow Jones news service, 03/29/95; Notimex, 04/01/95)

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