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Domestic Sales of Motor Vehicles in Mexico Stronger than Expected in 1998

by LADB Staff

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High interest rates and an economic slowdown limited production and total sales of motor vehicles in Mexico during 1998, but the industry's overall performance was better than anticipated. A report published in mid-January by the Asociacion Mexicana de la Industria Automotriz (AMIA) said Mexican motor-vehicle manufacturers assembled more than 1.42 million cars, trucks, and buses in 1998, a 6.6% increase from the previous year.

The AMIA was particularly encouraged by production for the domestic market, which approached 449,000 units, an increase of more than 26% from 1997. The increased production allowed domestic retail sales, which includes imports, to surpass 643,000 units during the year, a 33% increase from 1997. The motor-vehicle sector's strong performance was a pleasant surprise, since high interest rates in the second and third quarters were expected to keep sales sluggish during the fourth quarter of 1998 (see SourceMex, 09/30/98).

Sales particularly strong in December

Economists said the industry's strong domestic performance came primarily from a surge in sales during December, which more than compensated for dismal sales in August and September when the Asian crisis sent Mexican interest rates soaring to as high as 50%, drying up sales. A large percentage of the sales concluded in September were cash transactions because of the difficulty buyers had getting credit.

The six major manufacturers of passenger automobiles and small trucks General Motors (GM), Chrysler, Ford, Nissan, Volkswagen, and Honda reported domestic sales of more than 80,000 units in December. Sales during the month were led by GM and Nissan. In contrast, Mexican manufacturers sold about 50,000 units in August and a similar number in September. Domestic sales were also strong for manufacturers of commercial trucks and buses last year. The Asociacion Nacional de Productores de Autobuses, Camiones y Tractocamiones (ANPACT) said more than 23,500 heavy vehicles were sold in the domestic market in 1998, an increase of 33% from the previous year.

In an interview with the daily business newspaper El Economista, ANPACT president Cesar Flores said industrial-vehicle manufacturers have enjoyed a steady recovery during the past three years. Flores said last year's sales increased by 167% from 1996 and by 332% from 1995. "All this is evidence that the modernization of Mexico's transportation sector is continuing," said Flores. Analysts said the surge in sales of passenger automobiles during December was in large measure because many automobile manufacturers assumed the financing, since the credit offered by commercial banks remained tight.

The favorable financing terms during late 1998 were used particularly to sell compact and subcompact models, which accounted for more than 60% of the total sales during the year, according

to statistics from the Asociacion Mexicana de Distribuidores de Automobiles (AMDA). The popularity of the smaller cars benefitted companies like Volkswagen de Mexico, which plans to invest about US\$30 million in 1999 to expand production of Beetles at its Puebla plant. Armando Soto-Armenta, automotive analyst for the Mexico City-based financial consultant Ciemex-Wefa, said the major automobile companies are expected to extend the favorable financing terms into 1999, since commercial banks are expected to remain selective in their consumer-credit transactions.

But favorable financing terms have not been sufficient to lure consumers in the first part of the year. Speaking at a conference in Guadalajara in late January, AMDA advisor and former president Ari Kahan said domestic sales have been very poor in the first weeks of 1999. The value of domestic sales of passenger cars this year is only expected to increase by 2.4% from the US\$10.8 billion reported in 1998. Last year, sales increased by more than 24.5% from 1998. In addition to the sluggish economy, the government's increase in the sales tax on new cars (Impuesto Sobre Automobiles Nuevos, ISAN), effective Jan. 1, 1999, is expected to depress the domestic market this year, an industry spokesperson said.

Export statistics mixed

While the motor-vehicle industry reported encouraging statistics for the domestic market last year, export statistics were mixed. Slightly less than 972,000 motor vehicles were exported in 1998, a decline of about 1.1% from 1997, AMDA statistics showed. The decline was attributed in part to a prolonged strike at two GM-owned US parts-manufacturing plants. The plants, which produce parts for most GM operations in North America, forced GM plants in Coahuila and Guanajuato to reduce production considerably (see SourceMex, 07/15/98, 07/29/98).

In contrast, ANPACT reported exports of commercial vehicles at almost 14,500 units last year, an increase of almost 170% from 1997. Buses and commercial vehicles assembled in Mexico last year were shipped to 21 countries, said ANPACT's Flores. External factors, particularly the economic crisis in Brazil, could affect exports of motor vehicles this year, some analysts said.

The company that will be most affected is Volkswagen de Mexico, which exports about 6,200 units of the Golf model from the Puebla plant to Brazil annually. Carlos Semano, analysis director at Grupo Financiero Bancomer, said the devaluation of the Brazilian real could also result in increased exports of Volkswagen's Pointer model to the Mexican market. Volkswagen shipped more than 15,700 Pointers to Mexico in 1999. (Sources: Reuters, 01/08/99, 01/13/99, 01/15/99, 01/18/99, 01/19/99; Excelsior, 01/06/99, 01/15/99, 01/20/99; El Economista, 12/18/98, 01/11/99, 01/12/99, 01/22/99; Novedades, 01/15/99, 01/27/99)

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