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Slow Sales Create Uncertainty for Mexican Motor Vehicle Industry

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The Mexican motor-vehicle industry is facing some uncertainties in 2006 with the reported problems of US motor-vehicle manufacturers. Ford, General Motors (GM), and DaimlerChrysler, which all operate assembly plants in Mexico, announced some restructuring at the beginning of this year to help improve their financial positions. Ford and GM, which each plan to eliminate about 30,000 jobs during the next several years, cited a major sales slump in the North American market. Ford earned a global profit of US$2 billion, but the company posted a pretax loss of US$1.6 billion in its North American operations. Ford operates assembly plants in Cuautitlan in Mexico state and Hermosillo in Sonora and an engine-manufacturing facility in Chihuahua.

GM, the world's largest motor-vehicle manufacturer, reported global losses of US$8.6 billion in 2005, including US$5.6 billion in North America. The company operates assembly plants in Silao in Guanajuato state, Ramos Arizpe in Coahuila state, and Toluca in Mexico state. DaimlerChrysler, which operates plants in Mexico City and Toluca in Mexico state, plans to eliminate 6,000 jobs at the global level, but these will be mostly administrative positions.

**Ford's plant in Cuautitlan may be vulnerable**

The greatest concern for the Mexican auto industry is the possible loss of Ford's plant in Cuautitlan, which assembles some pickup trucks like the Ford Ikon and some models of the F Series that have experienced a sales slump in the US and Canada.

In January, the company announced that it would shut down 14 facilities in North America as part of a plan to reduce its production capacity by 26% and adjust to a decline in demand in the region. The company initially identified only five plants as targets for closure, including facilities near Detroit, St. Louis, and Atlanta.

The absence of the Cuautitlan facility from the list was initially welcome news but the future of the facility remains uncertain. In a recent article, The CarConnection, which reports on the US automobile industry, described the Cuautitlan facility as having a "sorely underutilized" assembly line. "It is very probable that the Cuautitlan plant will be included in a list of future cuts because of low production levels, small capacity, and the unwillingness of its corporate parent to make new investments in this facility," said analyst Guido Vildoso of Global Insight.

Officials at Ford de Mexico acknowledged that the Cuautitlan facility could well be among those targeted for elimination. "Yes, there is a possibility that Cuautitlan will be on the list, but there is also the possibility that the plant will receive an infusion of new investments," said Hernan Morfin, public-relations director at Ford Mexico. He noted that the facility continues to operate at normal levels pending a decision.
Ford's Hermosillo plant reports good results in 2005

Some auto-industry analysts said Ford will probably conduct a full evaluation of its three Mexican facilities, but only Cuautitlan appears vulnerable. The auto-assembly plant in Hermosillo could even see some expansion of its operations because of its flexibility and because Ford invested more than US$1.2 billion between 2003 and 2005 to make this one of its most modern facilities. "In Hermosillo, we are able to assemble three models on the same platform, the Ford Fusion, the Mercury Milan, and the Lincoln Navigator," said Morfin. "All three models have surpassed sales expectations."

The Hermosillo plant may have contributed to a strong performance for Ford in the Mexican market in 2005. In its annual performance report, the Asociacion Mexicana de la Industria Automotriz (AMIA) reported an increase of 6.6% in production and 8.4% in exports from the Mexican automobile industry last year. The AMIA specifically mentioned strong performances by Ford, Nissan, and Volkswagen.

GM has not mentioned any plant closures, but there are some concerns that any cuts in personnel could affect the facilities that assemble vehicles for the US market. Pickups assembled at the GM plants in Silao and Toluca are facing increasing competition from Japanese rivals Toyota, Honda, and Nissan, and South Korean-manufacturer Hyundai. "We have not received any communications [related to cutbacks] from the corporate office in Detroit," said Juan Bernardo Urrutia, a spokesperson for GM Mexico. DaimlerChrysler, which also assembles pickups at its plant in Mexico City, has not announced personnel cuts as drastic as its two US competitors.

Some announced cutbacks involved operations in Europe. In contrast to the poor prospects for US companies, Toyota plans to spend US$37 million to expand its plant in Tijuana to boost production of pickups. The expansion, targeted for completion by 2007, would enable the Tijuana plant to expand its capacity to 50,000 midsize trucks annually, compared with its current levels of 30,000. The expansion of the Toyota facility in Tijuana has created optimism among some Mexican officials.

In mid-January, Economy Secretary Sergio Garcia de Alba projected direct investments in Mexico's auto assembly plants at US$3 billion and US$2.5 billion in auto parts during 2006. Garcia de Alba was especially optimistic about the auto-parts industry, which he said would service existing markets like Japan and new markets like China. Toyota has already projected that its purchases of Mexican auto parts will reach US$1.4 billion in 2006, an increase of 75% over the last four years. (Sources: The Herald-Mexico City, 11/10/05; Los Angeles Times, The San Diego Union-Tribune, 01/21/06; Spanish news service EFE, El Financiero, The CarConnection, 01/23/06; The Detroit Free Press, 01/24/06; Reforma, 01/12/06, 01/14/06, 01/25/06; La Jornada, 12/06/05, 01/24/06, 01/25/06, 01/27/06; El Universal, 01/24/06, 01/27/06; El Economista, 01/11/06, 01/31/06; La Cronica de Hoy, 01/11/06, 01/22-24/03, 01/31/06)

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