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Mexican Auto Industry Faces Mixed Prospects in 2017

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The export market for automobiles remains uncertain for assembly operations in Mexico because of US President Donald Trump’s threat to impose tariffs on motor vehicles produced in the country (SourceMex, Jan. 11, 2017). The uncertainty was evident in the decline of 0.7% in Mexico’s total exports of motor vehicles in January relative to a year ago. Industry sources said a slowdown in exports to the US market accounted for much of the downturn.

The uncertain environment was also present in Mexico’s domestic market, with the growth in sales of new cars to Mexican consumers increasing only in the single digits. According to the two leading auto industry groups, the Asociación Mexicana de Distribuidores de Automotores (AMDA) and the Asociación Mexicana de la Industria Automotriz (AMIA), domestic sales during January rose by only 3% relative to January 2016. AMDA director Guillermo Rosales said uncertainty about the economy, related in part to concerns about Mexico’s relationship with the Trump administration, contributed in part to the slowdown in sales.

The biggest factor in the slower domestic growth, however, was a spike in sales during December, which in turn reduced the inventories available during January, particularly for Nissan and General Motors, Rosales said.

Sales of motor vehicles in December were up almost 20% from the same month in 2015, with nearly 193,000 vehicles sold. This was the highest total for any December on record.

Industry sources were quick to point out that the increase in gasoline prices at the beginning of the year, following the government’s decision to end fuel subsidies (SourceMex, Jan. 4, 2017), had little or nothing to do with the slowdown in sales.

Analysts said sales activity during February and March would provide a more accurate picture of the domestic auto market, which likely is experiencing a slowdown. “[The market is growing, but not at the same rate as in the past six or seven years,” said Brais Álvarez, an automotive analyst at the global market research company J.D. Power. “A slowdown is anticipated, but with the industry continuing to grow through the end of the year.”

A strong 2016
The slowdown in January was preceded by record sales for the auto industry for all of 2016, including the strong sales during December. According to both AMIA and AMDA, a record 1.6 million units were sold in 2016, an increase of almost 19% from the previous year.

Roberto Gómez del Campo, president of the AMDA chapter in Sonora, noted, “We are anticipating growth of 5% to 6% this year after the spectacular performance last year, where sales increased by 20% at the national level and 30% in our state.” He predicted, however, that sales would surpass 6% because of the wide availability of credit.

AMDA officials said price stability, an expansion of financing opportunities, and a decline in used auto imports contributed to the growth in sales.
The biggest increase during the year occurred in the states that border the US, where a record 342,000 units were sold. The region as a whole accounted for more than 21% of total sales in 2016, surpassing Mexico City for the first time ever. The Mexican capital, however, remains the state where the most vehicles are sold in Mexico. In 2016, more than 290,000 cars and light trucks were sold in Mexico City.

“The increase in the northern region of the country was very favorable because it helped compensate for a decline in the southeast,” said AMDA president Guillermo Prieto Treviño, who noted that sales in the Bajío region (Aguascalientes, Guanajuato, Querétaro, and parts of Jalisco state) were also favorable.

A push to diversify exports

The uncertain relationship with the US resulted in a decline of 0.7% in exports to all destinations in January, the first decline for the first month of the year since 2014. Shipments in January to the US market, which accounts for 77% of Mexico’s exports of motor vehicles, declined by 1.8% relative to the same month in 2016. Exports of automobiles to the US declined by almost 13% in the first month of this year, but this was partially offset by an increase of more than 6% in shipments of light trucks to the US, according to statistics from the automobile industry data provider WardsAuto.

AMIA director Fausto Cuevas Mesa said the decline was not a direct result of the Trump administration’s threat to impose tariffs on motor vehicles shipped from Mexico to the US market. Trump’s threat, however, has created a climate of uncertainty for the auto industry, which is not certain whether the Trump government will follow through with its threat to apply an import tax.

Cuevas attributed the decline more to “tendencies” in the US market, and said the industry was taking a positive view of future sales to the US. “We have a fairly optimistic outlook,” he said. “We hope that the exports of motor vehicles to the US will stabilize during the rest of the year.” At the same time, Cuevas mentioned the need to diversify auto exports by increasing sales to Europe, Asia, and Latin America, especially if changes to the North American Free Trade Agreement (NAFTA) result in barriers to exports to the US and Canadian markets.

Cuevas said every company and segment of the automobile sector in Mexico is analyzing the implications of US policy, but the industry is also proceeding with caution. “We are an industry that believes in development and expansion of trade opportunities,” Cuevas said. “The worst thing we can do is to overreact to the tweet of the day [from Trump].”

Cuevas pointed out that the industry had no signs of what issues in NAFTA would be renegotiated. “We do not want to speculate,” he said. “We don’t want to feed the rumor mill that has existed since Trump came to office.”

Mixed investment news

The Mexican automobile and auto parts industry has received mixed news regarding new investments in the sector. In early February, Japanese auto parts manufacturer Nisshinbo Holdings Inc. cancelled plans to build a manufacturing facility in Mexico because of concern about Trump’s protectionist policies, said a report in the Nikkei Asian Review.

Nisshinbo is a leading manufacturer of brake friction materials, accounting for 15% of the global market. The parts that were to be manufactured in Mexico would have been exported to the US. The Japanese company will instead locate the facility in the US.
“Mexico was the strongest candidate [to host the new plant], but we decided to backtrack,” a spokesperson for the company told the French news agency Agence France-Presse.

Two major automobile manufacturers, meantime, reaffirmed their commitment to Mexico during February. Japanese automaker Nissan Motor Company announced plans to move forward with construction of a facility in Aguascalientes, in partnership with Germany’s Daimler AG. The new factory would assemble next-generation premium compact vehicles for the Mercedes-Benz and Infiniti brands.

“[The project] is underway, on schedule, and by the end of our fiscal year, new Infiniti cars will be produced there,” said Nissan corporate vice president Joji Tagawa.

Ford Motor Company also announced intentions to move forward with plans to construct facilities in Guanajuato and Sonora states. The factory in Irapuato, in the central state of Guanajuato, will produce vehicles for export to the US and elsewhere, while the facility in Hermosillo, Sonora, will build diesel engines.

Ford México president Gabriel López reiterated that the company’s decision to scrap plans to build a plant in San Luis Potosí was based on an assessment of the US consumer market and not so much a reaction to a threat by Trump to impose steep tariffs on vehicles from the facility (SourceMex, Jan. 11, 2017). “The decision . . . was the correct one for shareholders, and not a response to political concerns,” López said.

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