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Mexican Exports, Imports Set Records in 2017

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Mexico reported a record level of exports and imports in 2017, with trade levels reaching unprecedented heights despite protectionist threats coming from north of the border. According to the government statistics agency (Instituto Nacional de Estadística y Geografía, INEGI) total trade set a record of more than US$829 billion in 2017, with exports increasing by about 9.5% from 2016 to almost US$409.5 billion and imports growing by 8.6% to US$420.4 billion.

One positive result of the robust trade was a narrowing of the gap between exports and imports, which resulted in a trade deficit of US$10.88 billion, the smallest for Mexico in three years. According to INEGI, an increase in exports of manufactured goods more than offset a gap in the trade of petroleum products.

Analysts said one of the driving factors was a strong US economy, which boosted demand for consumer goods. “We must point out that the main impetus for Mexican exports was the recovery in the US market during the past year,” said an analysis by US-based Citibank.

Another factor behind the surge in exports was a competitive exchange rate for the peso versus the US dollar, even though the Mexican peso experienced a good deal of volatility during the year. The peso rebounded from a low of 20.80 pesos per US$1.00 immediately after the election of US President Donald Trump in 2016 (SourceMex, Nov. 16, 2016) to about 17.90 per US$1.00 by the summer (SourceMex, Aug. 2, 2017) before slumping again in the fourth quarter of 2017. The setback in October-December was not sufficient to derail the momentum of the Mexican currency, which recorded an increase in value of about 4.75%, the first positive result since 2014, according to the business newspaper El Financiero.

The strength of the Mexican currency continued into 2018, with the exchange rate quoted at 18.58 pesos per US$1.00 on Jan. 31. “Our currency is among the ones that has strengthened the most so far in 2018, increasing in value by more than 6%,” said an analysis from Grupo Multiva in the daily newspaper Excélsior. “This does not signal a return to the ‘super peso’ of recent years, but is simply a function of the great weakness that the US dollar has exhibited.”

In other words, said Grupo Multiva, the fate of the peso is still tied to the trade policies of the US, which at any time could impose trade restrictions.

“We must be clear that the peso faces significant risk, primarily the possibility that our commercial relations with the US, our principal trade partner, are linked to the fate of the North American Free Trade Agreement (NAFTA), which could end or could be renegotiated,” said Grupo Multiva, noting that either option could bring negative results for the Mexican economy.

NAFTA negotiations move forward

Mexico, the US, and Canada just concluded a sixth round of NAFTA talks. While the three countries are far from an agreement, Mexican Economy Secretary Ildefonso Guajardo Villarreal suggested

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that negotiators appeared to have made some progress. He noted that the countries were at "a better moment in this negotiation process," and that progress made so far had put them "on the right track to create landing zones to conclude the negotiations soon."

Canada's Foreign Minister Chrystia Freeland said she was heartened by advances in some areas and agreement by the three countries on ways to fight corruption. In contrast, US Trade Representative Robert Lighthizer offered a more guarded assessment. "This round was a step forward, but we are progressing very slowly," he said.

The relatively positive spin from the representatives is in stark contrast to earlier rounds, where the three countries appeared to make little progress, leading to concerns that the Trump administration would make good on its threat to withdraw from the accord unless its demands are met (SourceMex, Oct. 18, 2017, and Jan. 10, 2018).

A major sticking point has been the inability to find sufficient common ground on the content of motor vehicles assembled in the three countries. The Trump administration has proposed increasing the share of a typical car that must be built in the three countries to 85% from the current 62.5%, and adding an additional requirement of 50% US content.

Canada has countered with a proposed new formula to calculate whether a car counts as being of US origin, including a breakdown of its high-tech components. Lighthizer rejected this plan, suggesting that the move would lead to less content from the three NAFTA nations, the "opposite" of what the trade agreement is supposed to achieve.

The three countries are scheduled to meet gain in Mexico City from Feb. 26 to March 6 for the seventh round of talks.

Record auto exports

Without a renegotiated accord in place, the old rules of NAFTA continue in effect, including provisions dealing with Mexican exports of motor vehicles to the US. According to statistics from the car industry association, the Asociación Mexicana de la Industria Automotriz (AMIA), Mexico set new records for automobile production and exports in 2017 despite the US threats to impose import restrictions on vehicles assembled in Mexico (SourceMex, Feb. 22, 2017, and June 28, 2017).

According to the AMIA, 3.8 million vehicles were produced in Mexico last year, an increase of 9% from 2016. Exports increased by more than 12% from 2016 to reach 3.1 million units. According to AMIA president Eduardo Solís, the figure represented "the highest number of vehicles that we have exported to [the US] in history."

The US remained the most important market for Mexican vehicles, receiving more than 2.3 million units from Mexico in 2017, Solís said.

Still, the growth in exports to the US was only 9.4%, which lagged the overall increase of 12%, meaning that there was growth in other markets.

One area of significant growth was Europe, which increased imports of Mexican vehicles by more than 45% from 2016. The largest European market was Germany, which accounted for 97,000 vehicles, an increase of 22% from the year before.

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In Asia, overall sales increased by more than 38%, mostly because of strong demand from China. Slightly more than 14,000 vehicles were shipped to that country in 2017, an increase of 18% relative to the previous year.

"In a year of major uncertainty … I think it is important to reiterate that we not only attained a record for global exports, but also attained unprecedented sales to the US," Solís said.

The surge in auto exports was a stark contrast to the decline in domestic sales of autos in Mexico, which declined by 4.6% from 2016. A spike in fuel prices was among the reasons cited for the decline (SourceMex, Jan. 24, 2018).

One manufacturer who experienced a major drop was Ford. Analysts said the loss of sales in Mexico was due in part to the company's decision to cancel operations at two facilities. In January, the US-based company cancelled plans to build a US$1.6 billion assembly plant in the community of Villa de Reyes, in San Luis Potosí state. This was followed by the company's announcement in June that it would transfer assembly operations of the Ford Focus from its plant in Hermosillo, in Sonora state, to a new facility in Chongqing, China, effective in 2019 (SourceMex, June 28, 2017).

In an interview published in the daily newspaper El Universal, one auto industry analyst agreed that the cancellations affected Ford's reputation and its sales in Mexico, as many members of the business community boycotted the company and instead bought vehicles from competitors.

Ford sales in Mexico declined by almost 18% in 2017 from the year before, causing the company to fall from the sixth most popular brand to the eighth position last year

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