



# TRADE LINKS LAZOS COMERCIALES

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## Rebound in the Mexican Automotive Industry

Excerpts from the magazine “Negocios” published by ProMéxico\*

*Rebound in the Mexican Automotive Industry*

**A**fter having suddenly slowed down and then creeping forward during the recent recession, the Mexican automotive sector is once again revving up its engines and accelerating, thanks to the recovery in sales of cars and SUVs to the U.S. –its largest client– and to the re-activation of the internal market. All this has brought good news for the Mexican automotive industry: more investments, higher demand for raw materials and increased sales of auto parts.

Indeed, this new period is reflected in the positive effect on the entire supply chain: from the production of raw materials such as steel, copper and aluminum, to the manufacture of auto parts such as cylinder heads, cable harnesses, instrument panels and body stamping.

### Recovery in Gear

With a production of more than 1.5 million vehicles in 2009, Mexico reaffirmed its position as the world’s tenth largest producer of vehicles, according to figures released by the International Organization of Motor Vehicle Manufacturers (OICA, by its French acronym).

The automotive industry is the second most strategic sector of the Mexican economy after the oil industry, and the most important subsector of manufacturing industry (contributing 17% to domestic production and 17% to exports). Its activity generates around 3% of the country’s Gross Domestic Product (GDP).

Seven of the world’s largest manufacturers have chosen Mexico as their center of production and export platform: some of them have been in Mexico for over eight decades. The “Big Three” Detroit car manufacturers (GM, Ford and Chrysler), the leading German company (Volkswagen) and the main Japanese companies (Nissan, Honda and Toyota) all have assembly operations in Mexico, which all together produce 40 car models in Mexico.

With the close geographical proximity together with the economic and business ties between Mexico and U.S., 81% of Mexican automotive production (1.2 million vehicles in 2009) is destined for the export market of which NorthAmerica accounts for 80%, the EU for 10% and LatinAmerica 8%.

### MEXICO

*Trade Balance*

*Financial and Economic Indicators*

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\* with data from the Mexican Automotive Industry Association (Asociación Mexicana de la Industria Automotriz A.C.)

# Rebound in the Mexican Automotive Industry

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In 2009, sales of vehicles in the U.S. fell to 10.4 million units, compared to the annual average of 16 million vehicles in the 2000-2007 period. As a result, exports of Mexican-made vehicles to the U.S. fell by 28%. Although, in the last three years Mexico gained three points of market share in the U.S. vehicle import market.

But this year the prospects have changed. Since the end of the second quarter of 2009, the U.S. economy has shown signs of recovery and that has been reflected in the performance of the Mexican automotive industry which from January to August 2010 exported 77% more than the same period in the previous year.

During the first nine months of 2010, Mexican vehicle production increased 67% compared to 2009 (totaling 1.66 million vehicles) and 4.2% higher than the record level of 2008. Also, exports of vehicles increased by 71% (with a total of 1.38 million units), and 10.5% more than 2008, according to figures published by the Mexican Automotive Industry Association (AMIA).

The Mexican domestic market has also shown signs of recovery. During the same period (January-September) of this year, domestic vehicle sales increased by almost 7% (an increase of 35,626 vehicles), compared to the same period in 2009, according to AMIA figures.

## Strategic Platform

Despite the crisis, Mexico reasserted its position as a strategic platform for the automotive industry. Its geographical position, wide range of free trade agreements, skilled workforce and an export tradition dating back several decades, all give the country significant competitive advantages.

The know-how, argued José Muñoz, President and General Director of Nissan Mexico, had not only created efficiency but had also enabled manufacturers to start using Mexican engineers in the design stage of new models. "Now we are designing in Mexico, modelling in Mexico and doing integral engineering in Mexico" he stated.

In recent years that has led the major manufacturers to reinforce their business presence in Mexico as a production center and to increase their investments, especially in the so-called "compact" and "sub-compact" vehicles as manufacturers discover that Mexico offers one of the best export platforms to meet global consumers' increasing preference for smaller, cheaper cars.

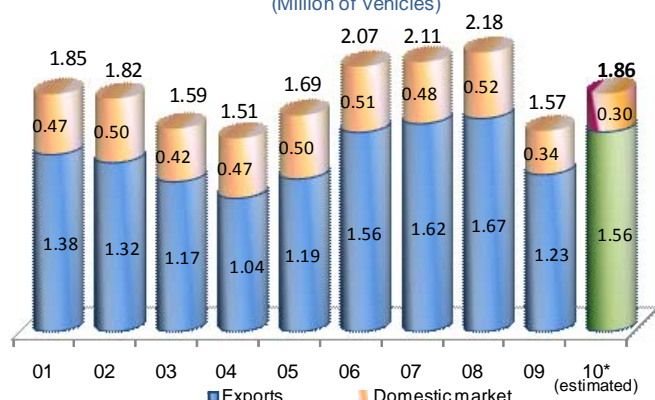
Thomas Karig, Vice-president of Corporate Relations at Volkswagen in Mexico, said the need to bring down costs on lower-priced cars was one of the main reasons his company and others are choosing Mexico to develop their "compact" and "sub-compact" models.

"You can produce an SUV anywhere in the world and make a profit but you can't make a compact car anywhere," said Mr Karig. "That is why Mexico has emerged as a global centre for producing small cars."

In July 2009, Volkswagen announced an investment of US\$1 billion at its Puebla plant to develop and produce a new compact sedan, which some analysts identify as the successor to the *Beetle*, as well as modernizing other assembly lines.

In February 2010, Chrysler, the U.S. firm now controlled by the Italian company Fiat, confirmed an investment of

Mexican Automotive Industry Production  
(Million of vehicles)



Source: Ministry of the Economy of Mexico with data from Asociación Mexicana de la Industria Automotriz (AMIA) and Asociación Nacional de Productores de Autobuses, Camiones y Tractocamiones (ANPACT)

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### Mexico's Total Trade in August (billion US\$)

	2009	2010	%
<b>Total</b>	39.8	54.5	37.0
<b>Exports</b>	19.6	26.9	37.6
<b>Exports (excluding oil)</b>	16.9	23.5	39.1
<b>Imports</b>	20.2	27.6	36.5

Source: Banco de México

### Mexico's Trade with EU and EFTA (million US\$)

	2009	2010	%
<b>January - August</b>			
<b>Exports to the EU</b>	7,062.4	8,873.4	25.6
<b>Imports from the EU</b>	17,287.5	21,066.8	21.9
<b>Exports to the EFTA</b>	272.7	633.7	132.4
<b>Imports from the EFTA</b>	905.7	1,079.1	19.1

Source: Banco de México

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US\$550 million to start production of the *Fiat 500*, a compact model, at the Toluca plant in Estado de México.

In May 2010, Ford reinaugurated its plant in Cuautitlán, Estado de México, which was entirely refitted to install the production line of the new *Fiesta*, a model that will be sold throughout the Americas. That represented an investment of approximately US\$1 billion and, according to the company's directors, it will generate 2,000 direct and 6,000 indirect jobs.

Nissan will invest US\$600 million in order to upgrade its manufacturing plants located in Aguascalientes and Cuernavaca with the aim of producing three new low-cost cars, one of them the *Nissan March*, positioning Mexico as its supply hub for the Americas markets.

## Supply on the Rise

The reactivation of automotive production and exports has caused a knock-on effect on the sector's supply chain. In fact, several manufacturers are increasing their purchase of supplies in Mexico, such as raw materials and auto parts, as a measure to improve their levels of competitiveness and efficiency.

During the first quarter of 2010, there was a 28% increase in iron and steel manufacturing in Mexico compared to the same period in 2009, to reach a total volume of 8.4 million tons, according to the National Iron and Steel Industry Chamber (Canacero). The demand was spearheaded by the automotive, construction and electrical appliance sectors.

With some 1,500 companies and a workforce of around half a million workers, auto parts has been one of the manufacturing areas to have benefitted most from the recovery of the automotive sector.

As of April 2010, Mexico auto part exports reached US\$11.7 billion (57% more than during the same period in 2009), while imports reached US\$8.4 billion (50% more than the previous year).

According to the U.S. Department of Commerce, American imports of Mexican auto parts during the first eight months of this year are 7% and 75.5% higher compared with the same period of 2008 and 2009 respectively, consolidating Mexico as the largest supplier of auto parts in the U.S. market.

In June 2010, BMW, the German luxury vehicle manufacturer, announced plans to implement a four-fold increase in its volume of purchases of Mexican auto parts, from the current level of US\$615 million to US\$2.4 billion for 2012. These auto parts will be sent to BMW's various plants around the world, mainly in the U.S. and Germany.

Also in June, Nissan Mexicana, currently the largest automotive manufacturer in Mexico, reported that during 2010 it will increase its purchase of auto parts from Mexican suppliers by over US\$78 million, as it will shortly be adding a new model to its production lines. In total, Nissan Mexicana will make purchases of around US\$235 million from Mexican providers in 2010.

In terms of employment, by May the auto parts sector had recovered some 60,000 jobs compared to the level recorded at May 2009.

## Final remarks

The consulting firm Kaso y Asociados estimates that the Mexican automotive industry will close 2010 with exports of around 1,560,000 vehicles, representing a 23% increase compared to 2009. Total production is expected to reach 1,860,000 vehicles, a 19% annual increase.

As regards the domestic market, the consulting firm predicts that, taking into account sales to the public over recent months, the sector may overtake the level of 800,000 vehicles sold in 2010. "We wouldn't yet be reaching pre-2008 levels, but at least the industry would no longer be in recession like in 2009," concludes Armando Soto of Kaso y Asociados.

Therefore, Mexico is all set to consolidate and upscale its position among the top players at the champion league of the international automotive industry.

### Mexico's Economic Indicators

<p><b>Inflation rate:</b> 0.52% (September, 2010); 3.70 % (2010, annual)</p> <p><b>Industrial Production:</b> 8.1% (August 2010 / August 2009) <b>Manufacturing:</b> 11.6%; <b>Construction:</b> 1.1%, <b>Mining:</b> 7.4%</p> <p><b>Global Index of Economic Activity:</b> 5.13% (July 2010 / July 2009)</p> <p><b>Consumer Confidence Index:</b> 91.6 pts. (September 2010) 9.7 percentage points (September 2010 / September 2009)</p> <p><b>Open unemployment rate:</b> 5.44 % (August. 2010)</p>	<p>Source: INEGI</p>
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### Mexico's Financial Indicators

<p><b>Foreign exchange rate:</b> 12.39 peso/dollar (October 26, 2010)</p> <p><b>International reserves:</b> \$109,477 million dollars (October 22, 2010)</p> <p><b>Mexican stock market index (IPC):</b> 35,373 (October 26, 2010)</p> <p><b>Interest rate treasury bonds CETES 28 days:</b> 3.84 % (October 28, 2010)</p>	<p>Source: Banco de Mexico</p>
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## Mexico's Official Gazette Notices

- **13/09/2010** Supplement of the National Standardization Program 2010.
- **21/09/2010** Resolution declaring the beginning of the sunset procedures and the ex-officio review of the countervailing quota imposed on imports of steel plate in carbon sheets originating from Rumania, Russia and Ukraine, regardless the shipping country. This merchandise is classified, according to the Mexican Custom Tariff Schedule, under items 7208.51.01, 7208.51.02, 7208.51.03 and 7208.52.01.
- **23/09/2010** Enacting Decree of the Modifying Protocol to the Free Trade Agreement between Mexico and Nicaragua, signed on June 30, 2009.
- **23/09/2010** Decree modifying the Mexican Custom Tariff Schedule, the Decree by which it is established several Sectoral Promotion Programs, as well as certain provisions establishing the import and export tariff rates applicable at the "border zones" (Región Fronteriza and Franja Fronteriza Norte), the preferential tariff rates applicable to the import of merchandises originating from some countries under trade agreements celebrated by Mexico.
- **23/09/2010** Decree modifying the Mexico's Customs Tariff Schedule.
- **23/09/2010** Twentieth-first amendment to the Agreement through which the Ministry of the Economy has issued general rules and practices on foreign trade.

## EU Official Journal

- **04/09/2010 L234** Council Decision of 12 July 2010 on a position of the European Union to be adopted in the EU-Mexico Joint Committee relating to Annex III to Decision No 2/2000 of the EU-Mexico Joint Council concerning the definition of the concept of 'originating products' and methods of administrative cooperation
- **15/09/2010 L242** Council Implementing Regulation (EU) No 805/2010 of 13 September 2010 re-imposing a definitive anti-dumping duty on imports of ironing boards originating in the People's Republic of China, manufactured by Foshan Shunde Yongjian Housewares and Hardware Co. Ltd, Foshan
- **16/09/2010 L243** Commission Regulation (EU) No 810/2010 of 15 September 2010 amending Regulation (EU) No 206/2010 laying down lists of third countries, territories or parts thereof authorised for the introduction into the European Union of certain animals and fresh meat and the veterinary certification requirements
- **16/09/2010 L243** Council Decision of 12 July 2010 on the signature of an Agreement between the European Union and the Government of the Federative Republic of Brazil on civil aviation safety
- **29/09/2010 L254** Council Implementing Regulation (EU) No 855/2010 of 27 September 2010 amending Regulation (EC) No 1631/2005 imposing a definitive anti-dumping duty on imports of trichloroisocyanuric acid originating, inter alia, in the People's Republic of China
- **29/09/2010 L254** Council Implementing Regulation (EU) No 857/2010 of 27 September 2010 imposing a definitive countervailing duty and collecting definitively the provisional duty imposed on imports of certain polyethylene terephthalate originating in Iran, Pakistan and the United Arab Emirates

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