



# Maintaining Mexico's competitiveness

A look forward at the Automotive sector in Mexico

Automotive Logistics Mexico

26 February 2020



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# Agenda

1. Market Overview
2. Vehicle Production in Mexico
3. Domestic Market
4. Electric Vehicles in Mexico
5. Market Disruptors

# Market Overview

# Automotive Market in MX - Overview

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- 2019 Automotive sector by the numbers (incl. components)
  - > 3.5% of GDP
  - > 1.5M jobs
  - > 4 M vehicles produced
    - 2018 Record year for production in MX
    - 2019 minimal decrease vs 2018
  - Approximately 80% of production is exported
    - 75% of exports to US
  - Domestic vehicle sales
    - >1.3M vehicles sold in MX in 2019
    - Market has shown downward trend last 3 years

# Automotive Market in MX - Overview

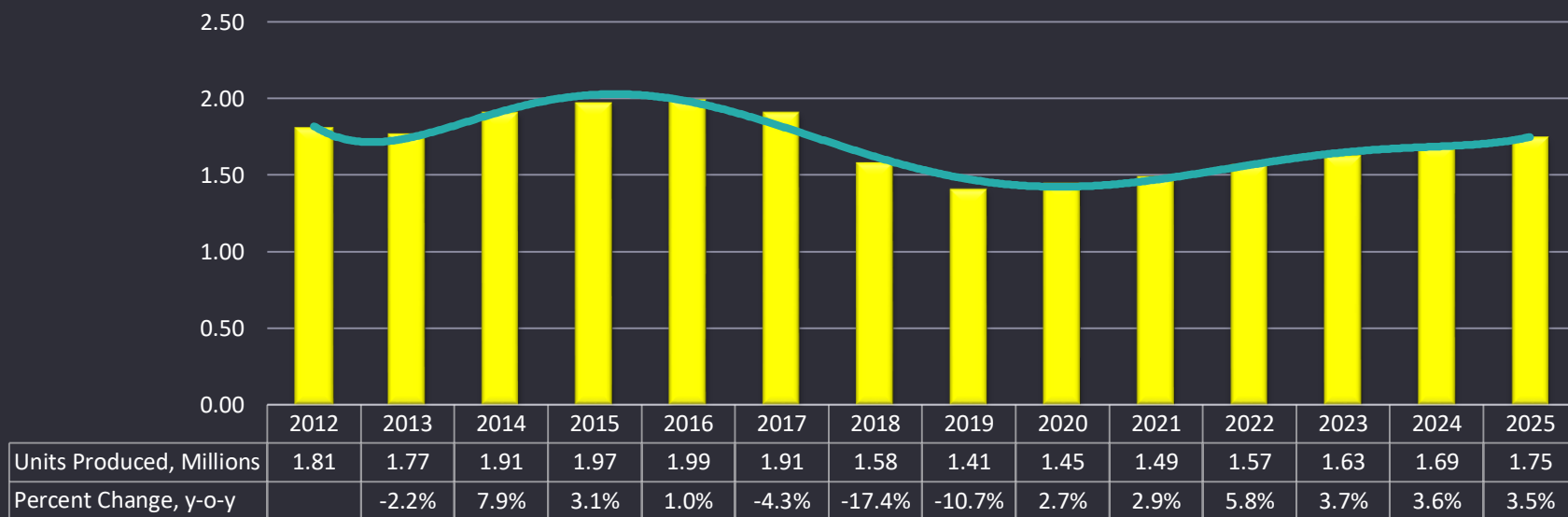
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- Mexico continues to be an attractive destination for manufacturing vehicles and components:
  - Geographic location
  - Number of trade agreements
  - Government incentives for FDI
  - Low cost (labor, shipping)
  - Recent OEM investment in new facilities

# Vehicle Production Forecasts for Mexico – 2020 and beyond



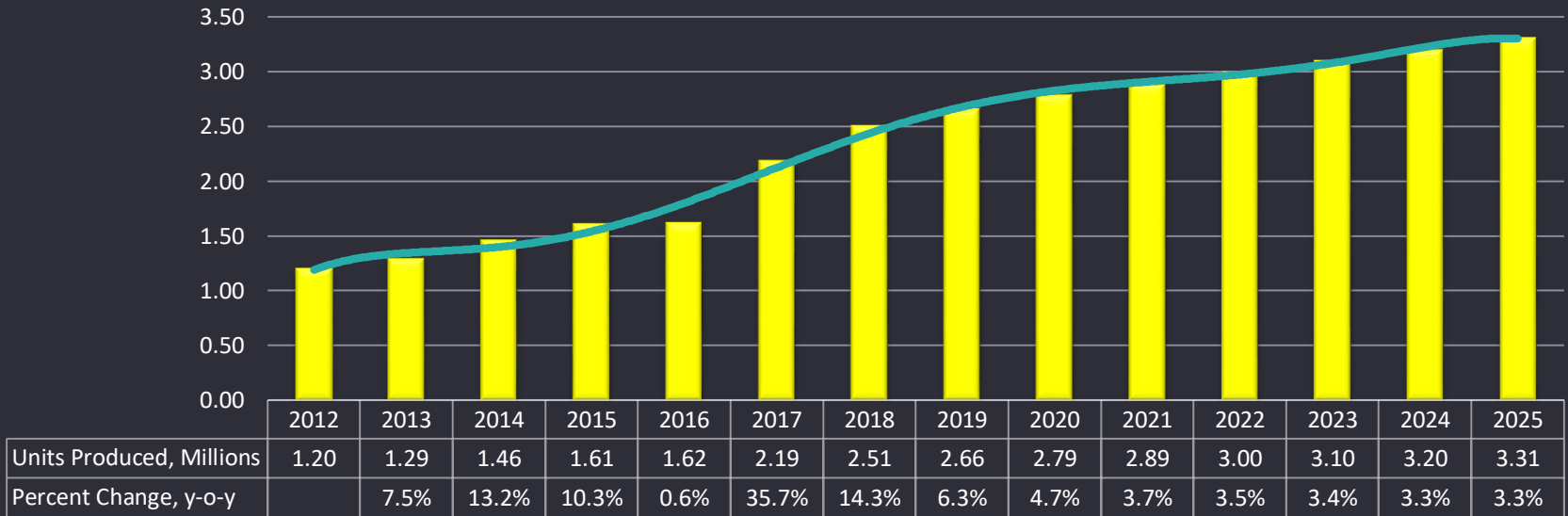
# Passenger vehicle production and forecast



Trends	Analysis
<p>Passenger vehicle production saw strong declines the past two years, but is expected to have sustained growth for the next 10 years</p>	<ul style="list-style-type: none"> <li>• Trade uncertainty regarding implementation of USMCA reduced demand for vehicles</li> <li>• Mexico's Automotive industry is export focused, so changes in consumption in the US and elsewhere have a direct impact (increased demand for SUVs in US and CA have negatively impacted MX production volumes)</li> <li>• CPTPP and ACE55 provide new market opportunities for increased production</li> </ul>

\*Source: Constructed by author with data from INEGI, Fitch Solutions, AMIA

# Commercial vehicle production and forecast



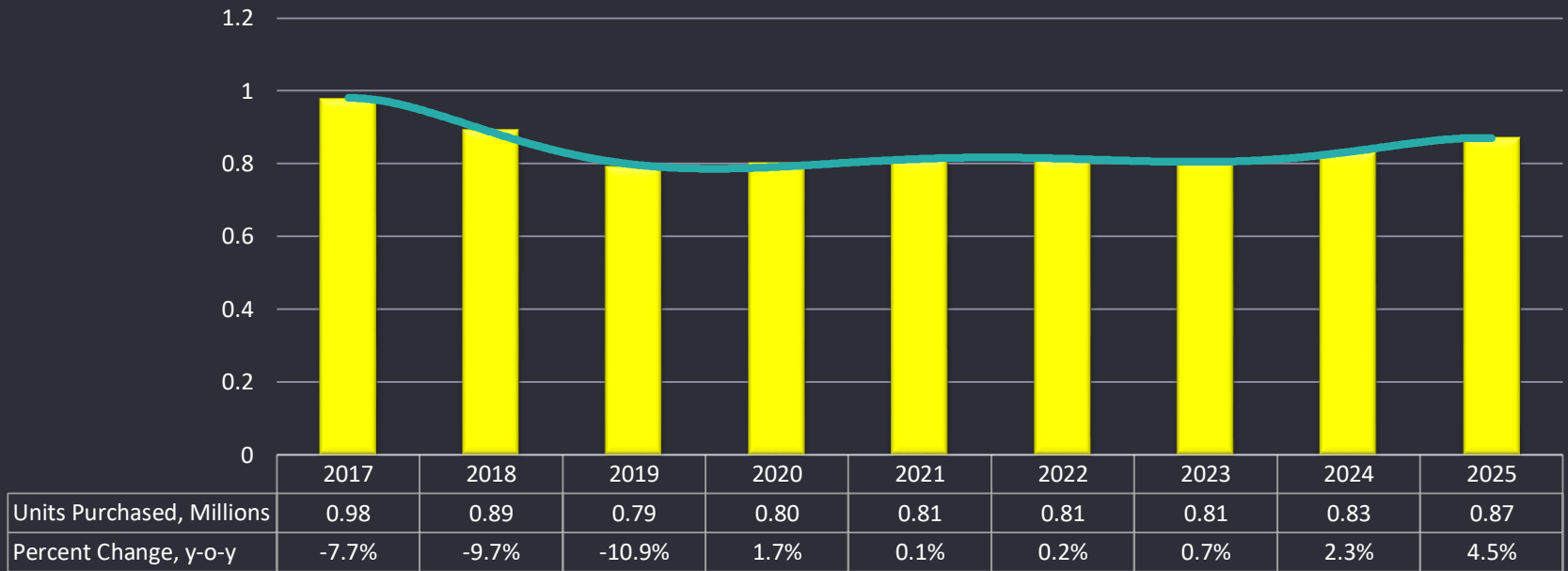
Trends	Analysis
Commercial vehicle production will continue to grow, but at a slower pace than seen through 2018	<ul style="list-style-type: none"> <li>• Assembly plants reaching full capacity</li> <li>• CPTPP and ACE55 provide new market opportunities for increased production</li> </ul>

\*Source: Constructed by author with data from INEGI, Fitch Solutions, AMIA



# Mexico's Domestic Automotive Market

# Mexican domestic market passenger vehicle sales and forecast



## Trends

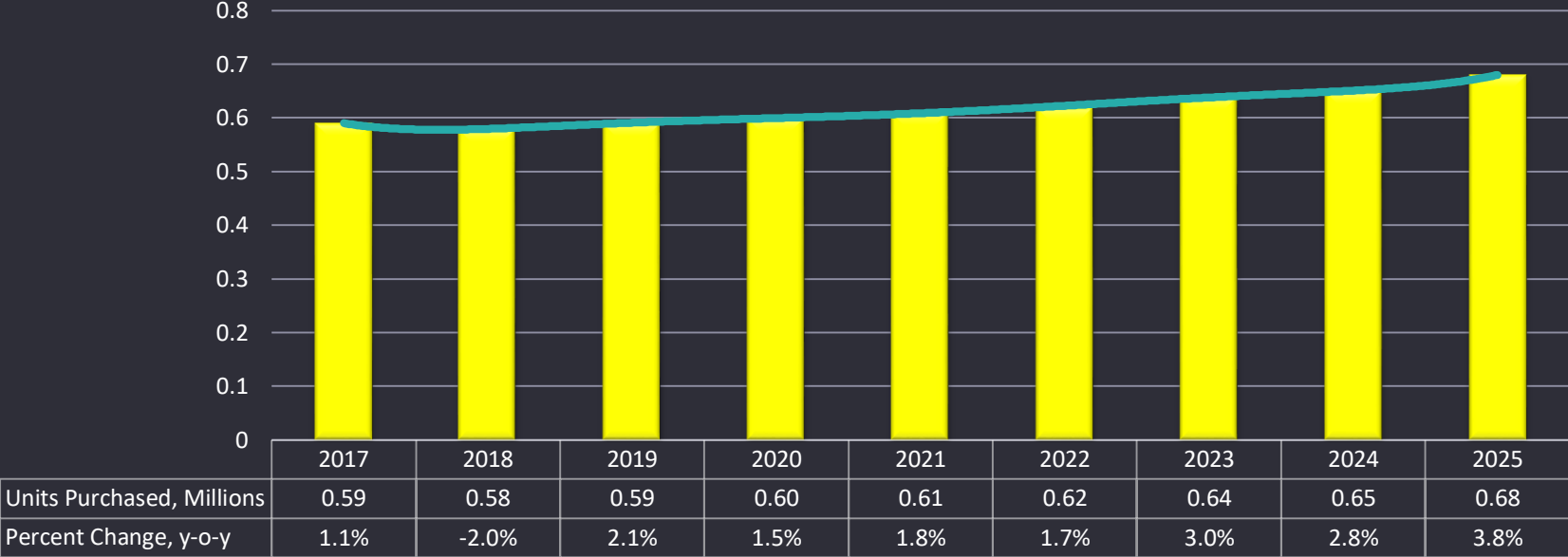
After 3 consecutive years of decreasing sales, the market is expected to remain stable and have minimal growth going forward

## Analysis

- Expectation that MX economy will trend positively
- Better credit conditions for consumers
- Increased wages

\*Source: Constructed by author with data from INEGI, Fitch Solutions, AMIA

# Mexican domestic market commercial vehicle sales and forecast



Trends	Analysis
Commercial vehicle sales are expected to steadily increase in the short term	<ul style="list-style-type: none"> <li>• New emissions regulations resulting in replacement of non compliant fleets</li> <li>• Increased infrastructure projects in MX</li> <li>• Improved access to credit</li> </ul>

\*Source: Constructed by author with data from INEGI, Fitch Solutions, AMIA



# Electric Vehicles in Mexico



# Hope for growth in the Electric Vehicle Segment

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- Current market
  - Sales in 2019 topped 21k vehicles (<1% of total vehicle sales)\*
  - 30 different models available for sale (from basic to luxury)
- Future Production in Mexico
  - Ford: Plans to build the Mustang Mach-E in Cuautitlán
  - Thalia: The first electric vehicle assembled and designed in Mexico. Expected to release in the second half of 2020.
- Legislation and plans to cut target emissions
  - As Mexico looks to cut target emissions, EVs provide a viable option
  - The government plans to create tax breaks for production and purchases of electric and hybrid vehicles, in order to incentive the use of these types of vehicles.

\*Source: INEGI

# Market Disruptors

# Industry Disruptors

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- Uncertainty
  - Economic
  - Trade
- USMCA
  - Implementation
  - Regional Value Content increase
  - Labor Value Content / Wage requirements
- New Markets
  - ACE 55
  - CPTPP

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