Administrative Record of the Light Vehicle Automotive Industry, August 2024

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Production

The Administrative Record of the Light Vehicle Automotive Industry for August showed that light vehicle production stood at 352,615 units, showing an annual growth of 8.27%, ranking only 5.60% below the historical maximum for an August month reached in 2018, when 373,520 units were produced.

In the cumulative of 2024, 2,651,060 light vehicles have been produced (Figure 1), showing a growth of 5.33% compared to the same period in 2023. With this growth, cumulative production in the first 8 months of the year is 0.27% above the historical maximum for the same months, occurred in 2019.

In the first eight months of 2024, 86.1% of what was produced was exported, up 1.56 percentage points compared to the same period of 2023 (Figure 2). On the other hand, sales in the first eight months of 2024 were equivalent to 36.2% of what was produced, the highest proportion for a similar eight-month period since 2017.

Internally, the three brands with the highest production of light vehicles in Mexico in August were:

Nissan (64,449 units), increasing 7.59% compared to the same month in 2023.
General Motors (62,939 units), increasing 17.11% compared to the same period in 2023.
Chrysler (39,432 units), falling 10.86% compared to the same month in 2023.

Figure 1. Light vehicle production, cumulative January-August 2024

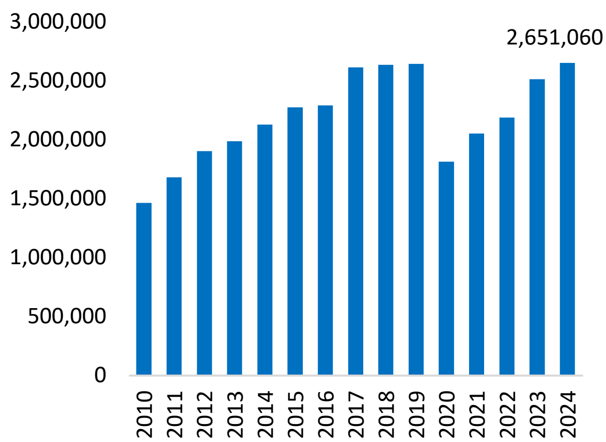
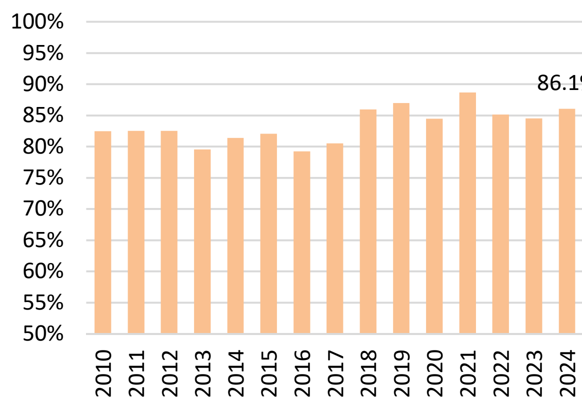


Figure 2. Ratio of exports to production, accumulated January-August of each year.



Fuente: GF Base con información de INEGI.

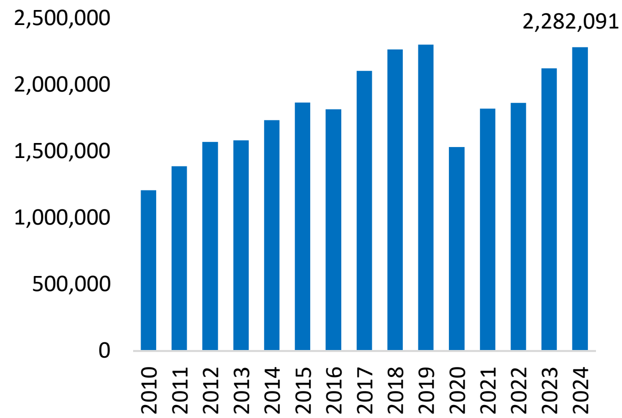
Exports

Although production continues to grow at an annual rate, light vehicle exports show a deterioration. In August, 292,670 units were exported, showing an annual growth of 1.68% compared to the same month in 2023. Exports for August 2024 are 9.32% below the historical peak in 2019.

With the above, in the accumulated first eight months of the year, exports total 2,282,091 units, accumulating an annual growth of 7.45% comparing with the same period of 2023 (Figure 3). Exports for the first eight months of the year are 0.76% below the historical peak in the first eight months of 2019.

The deterioration in automotive exports, while not severe, could be an early result of the weakening consumption of durable goods in the U.S.

Figure 3. Exports of light vehicles, cumulative January-August 2024



Fuente: GF Base con información de INEGI.

The top three light vehicle exporting brands in August were:

General Motors (74693 units), growing 28.33% at annual rate.
Volkswagen (35055 units), falling -.47% at annual rate.
Ford Motor (30823 units), growing 4.70% at annual rate.

The United States has been the main destination for Mexico's light vehicle exports. In August, 239,993 vehicles were shipped, increasing 8.76% compared to the same month of the previous year. With this, vehicles exported to this country represented 82% of the total.

Sales

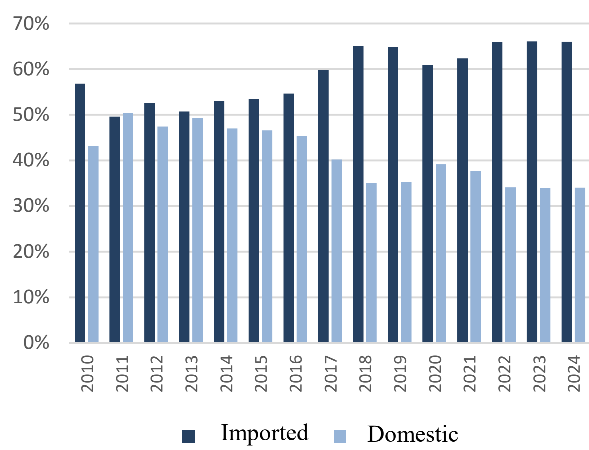
In August, sales of light vehicles in the domestic market were 127,684 units, showing an annual growth of 11.91%, accumulating 28 consecutive months of growth.

It is worth mentioning that sales are 4.99% below the historical high recorded in 2016 for the month of August.

In the cumulative for the first eight months of the year, sales amount to 962,870 units, showing a growth of 12.18% compared to the same period of 2023.

The three brands with the highest sales of light vehicles in August were:
Nissan (21,539 units). It is worth mentioning that Nissan has held this position for 20 consecutive months.
General Motors (18,156 units).
Volkswagen (11,493 units).

Figure 4. Imported vs. domestic vehicle sales (%), August of each year



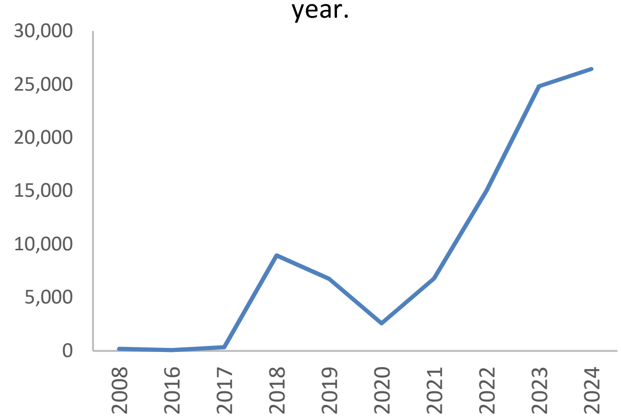
Fuente: GF Base con información de INEGI.

Imported vs. domestic light vehicle sales

In August, 66.01% of sales in Mexico were of imported automobiles with 84,286 units. Domestic vehicle sales accounted for 33.99% of total sales.

In August, 26,449 vehicles imported from China were sold, showing a 6.48% growth compared to the same month of 2023 (Figure 5), ranking 1st in the country with the highest number of imported light vehicles sold in Mexico, followed by the United States and Brazil. It's worth mentioning that, sales of imported vehicles from China for the month of August represented 20.71% of total sales of light vehicles and 31.38% of total sales of imported vehicles, the highest on record for the same month. In the same period, the United States accounted for 7.61% and Brazil for 8.70% of total sales.

Figure 5. Vehicles imported from China for domestic sale, data from August of each year.



Fuente: GF Base con información de INEGI.

Finally, sales of hybrid and electric vehicles in August 2024 totaled 9,933 units, reaching an all-time high for this month and increasing 57.44% compared to the same month in 2023. Domestically, for the month of August, 1,728 electric vehicles were sold, increasing 24.68% with compared to the same month of the previous year and reaching an all-time high for a month of August.

Supply chain integration and slowdown in 2024

Since 2006, foreign direct investment (FDI) received in Mexico by the automotive sector has come mainly from three countries: the United States (34.34%), Japan (26.55%) and Germany (26.48%). Together, they have accounted for 87.73% of FDI in the manufacture of automobiles and trucks. Investment from these countries has consolidated Mexico as a key manufacturing center for the automotive industry and has led to the integration of production chains with its main trading partner, the United States. This is made possible by the USMCA, in addition to Mexico's low production costs, geographic proximity to the United States, stable logistics costs, supplier development and stable goods transit times.

The correlation between Mexican and U.S. automotive production is almost perfect, standing at 0.98, evidencing the interdependence of both economies and deeply integrated supply chains, considering data between 2007 and 2024. Although correlation does not mean causation, in the first 7 months of 2024, light vehicle production in Mexico has decelerated, accumulating a growth of 4.90% with respect to the same period of 2023, when annual growth was 14.04%. Something similar has been observed in the United States, as in the first 7 months of 2024, production has grown 5.52%, decelerating from 22.76%, in the same period of 2023.

The slowdown in production in both countries reflects greater consumer caution in the face of concerns about the deteriorating labor market, mainly in the United States, and high financing costs. In fact, deteriorating employment conditions coupled with high financing costs have translated into a deterioration in the quality of automotive credit in the United States.

Consumer caution is directly reflected in sales. In Mexico, in the first 7 months of 2024, sales accumulated annual growth of 12.03%, a rate that is still high, but decelerating from 23.57% in the same period of 2023. In the United States, the slowdown is more evident, accumulating a growth of 1.45% in the same period of 2024, compared to an annual growth of 13.15% in the same period of 2023. Considering data between 2007 and 2024, the correlation between Mexican and U.S. automotive sales is 0.80 and reflects that U.S. market conditions directly affect domestic sales in Mexico.

The United States has been the destination of 40.09% of Mexico's total light vehicle exports in the first 7 months of 2024, showing a 22% growth compared to the same period in 2023. Other important markets for Mexican vehicle exports are Canada and Germany, which together accounted for 7.16% of exports through July 2024. In line with the slowdown in production and sales, in the first 7 months of 2024 vehicle exports from Mexico accumulated a 7.73% annual growth, decelerating from a 15.24% growth in the same period of 2023.

Consumption preferences and entry of the Chinese automotive industry

In the domestic market, consumer preferences have shown a significant inclination toward imported vehicles. In August 2024, 66.01% of vehicle sales in Mexico were imported, with a total of 84,286 units. This figure shows the strong presence of foreign vehicles in the Mexican market, especially those imported from China. In August, sales of vehicles imported from China totaled 26,449 units, an increase of 6.48% over the same month of the previous year, representing 20.71% of total light vehicle sales and 31.38% of imported vehicle sales. Other relevant import countries include the United States and Brazil, with a 7.61% and 8.60% share of total sales in July.

The growth in sales of vehicles of Chinese origin has two explanations: 1) traditional brands that commercialize cars of Chinese origin, reducing development and production costs, and 2) the entry of Chinese brands into the domestic market, which initially aims to position the brand in order to later make fixed investments for production.

Investment announcements in Mexico totaled US$31.512 billion in the first quarter of 2024, with 54% destined to the manufacturing sector, where 23% are automobiles, trucks and auto parts. Among the most outstanding announcements, Chinese investment played an important role, especially in the auto parts industry. IKD, with an investment of US$178 million, Minth Group, with US$173 million, and Unison Shanghai, with US$400 million, were among the main announcements in terms of investment size, respectively. In the automotive industry, announcements were made by two Chinese companies. Solarever, with US$601 million, and ELAM-FAW, with US$407 million. Within foreign direct investment expectations, China ranked 4th with US$1,809 million or 6% of total investment expectations. These investments underscore China's growing influence in the Mexican manufacturing sector, particularly in auto parts, reflecting a trend towards greater diversification of foreign direct investment sources. The presence of Chinese capital in strategic industries could have significant implications for the global supply chain and for strengthening the economic relationship between Mexico and China. However, it is worth mentioning that recently the Chinese automobile producer with the highest sales of electric vehicles in 2023, BYD, announced that it will halt the investment of US$894 million for the new factory in Mexico for basic components, until the U.S. elections are concluded. This announcement was made because presidential candidate Donald Trump has mentioned on several occasions the implementation of tariffs on Chinese products made in Mexico.

However, the growing Chinese presence has raised concerns in the United States. According to a biannual report released on July 1 by the United States Trade Representative (USTR), they are concerned about Chinese automotive investments in Mexico. Because China's automotive industry is heavily subsidized by the Chinese government and the United States is engaged in a trade war with that country, there is a risk that the United States will impose higher tariffs against Chinese automobile imports.

In the context of the U.S.-China trade war, several significant tariffs on Chinese automotive imports have been implemented since June 2018. Initially, the U.S. imposed a tariff on China of 25% on $50 billion in June 2018, followed by a 10% tariff on $200 billion in September 2018. In June 2019, this tariff was increased to 25% on the same $200 billion, and in September 2019, a 15% tariff on an additional $125 billion was added. In October 2019, tariffs reached 30% on $250 billion in Chinese goods. More recently, in May 2024, the Biden administration published that it plans to implement a 100% tariff on Chinese electric vehicles, as part of its strategy to ensure that the future of the auto industry is built in the United States by American workers.

Similarly, Canada has decided to impose a 100% tariff on all Chinese-made electric vehicles starting October 1, 2024. This measure is in addition to the 6.1% tariff already applied to Chinese electric vehicles under the most favored nation clause. The Canadian government argues that this additional tariff is necessary to protect Canadian workers from China's unfair trade practices, which include weak standards in electric vehicle supply chains, as well as poor labor and environmental standards. It also seeks to prevent trade detour caused by the policies of Canada's trading partners. The Minister of Innovation, Science and Industry, François-Philippe Champagne, emphasizes that the Canadian automotive industry, which supports nearly 550,000 jobs, is crucial to the country's economy and needs protection from unfair competition.

On the other hand, former President Donald Trump promised to impose a 100% tariff on all imported automobiles during a March 17 campaign speech, warning, "We're going to put a 100% tariff on every car that crosses the border, and you won't be able to sell those vehicles if I'm elected." In that speech, he suggested that this 100% tariff will apply specifically to Chinese-brand vehicles manufactured in Mexico. It is worth mentioning that, on other occasions, Trump has proposed significantly different tariffs. He has promised a 10% tariff on all imported goods, a 50% tariff on imported Chinese automobiles, and a 60% tariff on all Chinese goods. These proposals reflect a very aggressive stance toward imports, especially from China, and could jeopardize the jobs of approximately 1 million U.S. workers in vehicle and parts manufacturing, as well as the 1.2 million employed in auto dealerships.

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