Administrative record of the light vehicle automotive industry, September 2024

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Production

The administrative record of the light vehicle automotive industry for September showed that light vehicle production was 378,583 units, showing an annual growth of 11.71%, marking a new historical high for a month of September, for the second consecutive year.

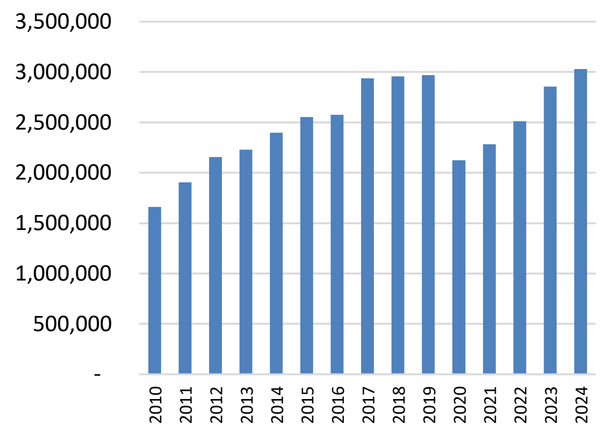
In the cumulative year of 2024, 3,030,855 light vehicles have been produced (Figure 1), showing a growth of 6.13% compared to the same period in 2023. The cumulative production in the first 9 months of the year reached a new historical high, for the second consecutive year.

In the first nine months of 2024, 85.5% of what was produced was exported, increasing 0.73 percentage points compared to the same period in 2023 (Figure 2). On the other hand, sales in the first nine months of 2024 were equivalent to 35.61% of what was produced.

Within the three brands with the highest production of light vehicles in Mexico, in September, were:

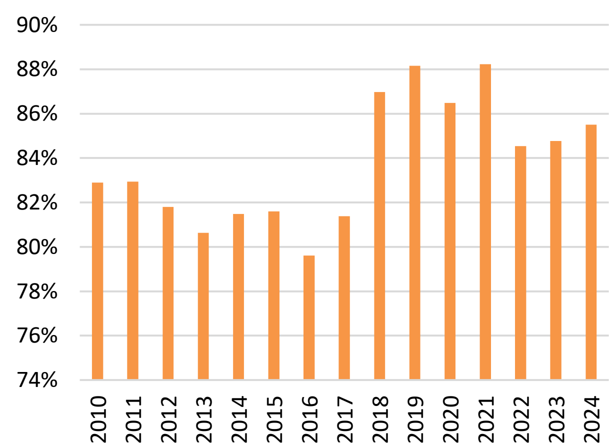
General Motors (97,269 units), increasing 44.87% compared to the same month in 2023.
Nissan (57,683 units), increasing 15.95% compared to the same period in 2023.
Chrysler (38,120 units), increasing 2.36% compared to the same month in 2023.

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



Source: GF Base with information from INEGI.

Figure 2. Export-to-production ratio, January-September of each year

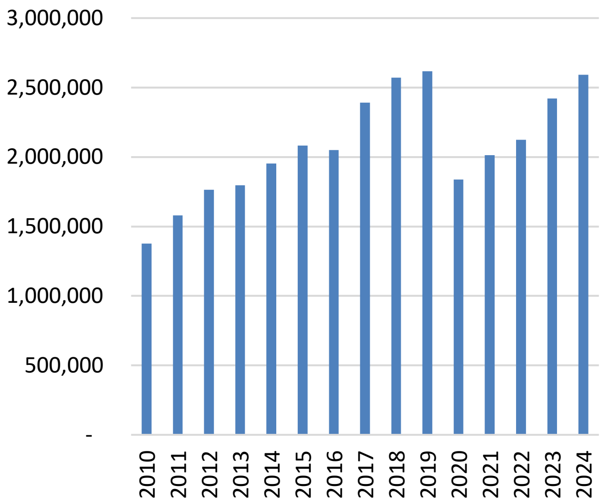


Source: GF Base with information from INEGI..

Exports

In September, 315,706 units were exported, showing an annual growth of 4.77% compared to the same month in 2023. Exports for September 2024 mark a new historical high, standing 3.17% above the previous historical high recorded in 2018. With the above, in the accumulated total of the first nine months of the year, exports total 2,591,467 units, accumulating an annual growth of 7.05% compared to the same period in 2023. Exports for the first nine months of the year are 0.81% above the historical high in the first nine months of 2018, marking a new historical high.

Figure 3. Light vehicle exports, cumulative January-September 2024



Source: GF Base with information from INEGI.

The three main exporting brands of light vehicles in September were:

General Motors (76,339 units), growing 23.72% at an annual rate.
Nissan (44,637 units), growing 96.72% at an annual rate.
Ford Motor (36,452 units), falling 5.53% at an annual rate.

The United States has been the main destination for light vehicle exports from Mexico. In September, 257,429 vehicles were shipped, increasing 9.88% compared to the same month last year. With this, the vehicles exported to this country represented 81.54% of the total.

Sales

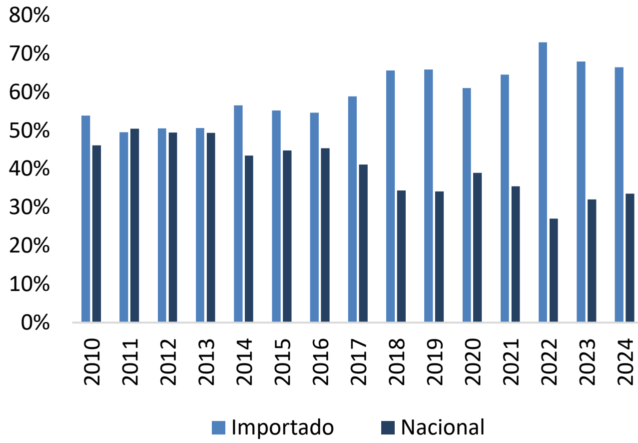
In September, light vehicle sales in the domestic market were 116,543 units, showing an annual drop of 1.45%, breaking a streak of 28 consecutive months of growth.

It is worth mentioning that sales are 11.63% below the historical maximum recorded in 2016 for the month of September.

In the accumulated total of the first nine months of the year, sales amount to 1,079,413 units, showing a growth of 10.53% compared to the same period in 2023.

The three brands with the highest sales of light vehicles in September were:
Nissan (18,727 units). It is worth mentioning that Nissan has remained in this position for 22 consecutive months.
General Motors (16,197 units).
Volkswagen (11,490 units).

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



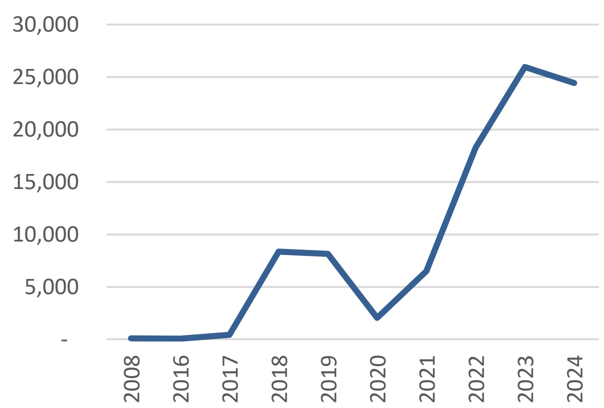
Source: GF Base with information from INEGI.

Imported vs. domestic light vehicle sales

In September, 66.45% of sales in Mexico were imported cars with 77,445 units. Meanwhile, sales of domestic vehicles accounted for 33.55% of total sales.

In September, 39,098 imported vehicles from China were sold, showing a drop of 5.82% compared to the same month in 2023 (Figure 5), ranking 1st in the country with the most imported light cars sold within Mexico, followed by the United States and Brazil. It is worth mentioning that sales of imported vehicles from China for the month of September represented 20.98% of total light vehicle sales and 31.57% of total imported vehicle sales. In the same period, the United States had a share of 8.09% and Brazil 7.92% of total sales.

Figure 5. Vehicles imported from China for domestic sales, data from September of each year



Source: GF Base with information from INEGI.

Finally, the sale of hybrid and electric vehicles in September 2024 stood at 10,601 units, reaching an all-time high for this month and increasing 70.02% compared to the same month in 2023. Domestically, for the month of September, 1,765 electric vehicles were sold, increasing 42.33% compared to the same month of the previous year and reaching an all-time high for the month of September.

Supply chain integration and slowdown in 2024

Since 2006, foreign direct investment (FDI) received in Mexico by the automotive sector comes mainly from three countries: The United States (36.32%), Japan (28.09%) and Germany (27.93%). Together, they have accounted for 92.34% of the FDI destined for the manufacture of cars and trucks, that is, 79,507.8 million dollars. So far in 2024, these three countries have invested 5,624.2 million dollars, representing 93.4% of the FDI in this sector in 2024. The investment of 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 possible thanks to the trade agreement, in addition to Mexico's low production costs, geographic proximity to the United States, stable logistics costs, supplier development, and stable merchandise transfer times.

In the first 8 months of 2024, light vehicle production in Mexico has slowed, accumulating a growth of 5.3%, since in 2023 the growth in the same period was 12.5%. This is consistent with the slowdown in US production, which in the first 8 months has grown 1.7%, after having grown 13% in the same period of 2023. The slowdown in the United States is mainly due to high interest rates, which have increased financing costs for companies, and caution due to the possibility of recession.

This caution is directly reflected in sales. In Mexico, sales have accumulated an annual growth of 12.18% in the first 8 months of 2024, a rate that remains high, but slowing down from 23.67% in the same period of 2023. In the United States, the slowdown is more evident, accumulating a growth of 2.25% in the same period of 2024, compared to an annual growth of 13.54% in the same period of 2023.

The United States has been the destination of 79.45% of Mexico's total light vehicle exports in the first 8 months of 2024, a period in which automotive sector exports have grown by 10%. Other important markets for Mexican vehicle exports are Canada and Germany, which together accounted for 11.98% of exports through August 2024. In line with the slowdown in production and sales, in the first 8 months of 2024 vehicle exports from Mexico have accumulated an annual growth of 7.37%, slowing down from a growth of 13.74% in the same period in 2023.

Sensitivity to changes in interest rate expectations and the automotive industry.

Using data from the University of Michigan consumer sentiment survey and data on production, exports and sales of the Mexican automotive industry published by INEGI, the following was found:

A 1% increase in the percentage of people who expect the US interest rate to rise, the production of the Mexican automotive industry rises by 0.69%. This suggests that, in the face of expectations of higher rates in the United States, companies in Mexico bring forward their production. This is due to the interconnection between the supply chains of Mexico and the United States.

It is worth mentioning that there is no symmetry in the behavior of production in the face of expectations of an increase or decrease in the interest rate. When repeating the analysis, now using the expectation of a cut in the interest rate, it was found that, if the percentage of people who expect a decrease in interest rates increases by 1%, production is reduced by 0.22%. This implies that the expectation of an increase in interest rates has a much greater effect on production than the effect on the expectation of a decrease.

The difference between the impact of an increase or a decrease in interest rates is due to the fact that interest rates tend to move with the economic cycle. When rates are expected to fall, it is because a slowdown is expected. On the other hand, when rates are expected to rise, it is usually a reflection of the fact that the economy is growing.

In a growing economy, demand for products increases and this pushes companies to produce more. On the other hand, when the economy slows down, demand falls, which causes companies to accumulate inventories. Although these accumulated products can be sold later, companies prefer not to continue producing if they believe that demand will continue to decrease.

The data confirm this: when the number of people who believe that interest rates will fall increases, sales and exports also decrease. This happens because companies prefer to delay production and sales, hoping that conditions will be better later, with lower interest rates, waiting for more favorable financial conditions.

Historically, these effects have manifested themselves in the automotive industry in a significant way. In 2019, the percentage of people expecting a cut in interest rates is 1.8 times higher than in 2018. This was reflected in a 3% drop in light vehicle production, 8% in sales, and 2% in exports. In contrast, during 2022, with the start of the war between Ukraine and Russia, rising production costs and upward pressures on inflation in the United States raised the percentage of people expecting an increase in interest rates by 30% compared to the previous year, which drove annual increases in production, sales, and exports of 9%, 8%, and 6%, respectively.

Consumer preferences and entry of the Chinese automotive industry

In the domestic market, consumer preferences have shown a significant inclination towards imported vehicles. In September 2024, 66.45% of vehicle sales in Mexico corresponded to imported units, with a total of 77,445 units. This data shows the strong presence of vehicles from abroad in the Mexican market, especially those imported from China. In September, sales of imported vehicles from China amounted to 39,098 units, marking a drop of 5.82% compared to the same month of the previous year and representing 20.98% of total light vehicle sales and 31.57% of imported vehicle sales. Other relevant countries in imports include the United States and Brazil, with a share of 8.09% and 7.92% in total sales in July.

The growth in sales of Chinese-made vehicles has two explanations: 1) traditional brands that sell Chinese-made cars, reducing development and production costs and 2) the entry of Chinese brands into the national market, which initially has the objective of positioning the brand in order to subsequently make fixed investments for production. China's share of Mexico's imports in June (latest available data) accounted for 20% of the total. 4.6% of Mexico's purchases from China were cars and 4.26% were parts and accessories for motor vehicles, for the same month.

In the year to September, investment announcements totaled 64.703 billion dollars, of which 56% is directed towards the manufacturing sector. The main countries with investment announcements were:

1. United States with 30.750 billion dollars (47.53%)
2. Germany with 6.994 billion dollars (10.81%)
3. Spain with 5.198 billion dollars (8.03%)
4. Argentina with 5.197 billion dollars (8.03%)
5. China with 3.747 billion dollars (5.79%)

For the same period, the main investment announcements for the automotive industry by China were:

- IKD with an investment of 178 million dollars.
- Minth Group with an investment of 173 million dollars.
- Unison Shanghai with an investment of 400 million dollars.
- Solarever with an investment of 601 million dollars.
- ELAM-FAW with an investment of 407 million dollars.

High investment expectations underscore China's growing influence in Mexico's manufacturing sector, reflecting a trend toward 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, China's growing presence in Mexico's automotive industry has raised concerns in the United States. According to a biannual report released on July 1 by the White House Trade Representative (USTR) under the USMCA, concerns were raised 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-origin automobile imports. Recently, a list of new tariffs on Chinese products went into effect on September 27, which included a 100% tariff on electric cars and a 25% tariff on electric car batteries.

Similarly, starting October 1, 2024, Canada imposed a 100% tariff on all electric vehicles manufactured in China. 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, including weak standards in electric vehicle supply chains, as well as poor labor and environmental standards. In addition, it seeks to prevent trade diversion caused by the policies of Canada's trading partners.

On the other hand, presidential candidate Donald Trump said on September 24 that he will impose a 100% tariff on all vehicles crossing the Mexican border if he wins the presidency. He also stressed that in order to avoid the tariff, a plant in the United States operated by Mexicans could be built by offering tax breaks and few regulations. This is in addition to the fact that he previously promised to impose a 100% tariff on all imported cars during a campaign speech on March 17, warning: “We are going to put a 100% tariff on every car that crosses the border, and you will not be able to sell those vehicles if I am elected.” In that speech, he suggested that this 100% tariff would apply specifically to Chinese-branded 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 cars, and a 60% tariff on all Chinese goods. These proposals reflect a very aggressive stance towards imports, especially those from China, and could put at risk the jobs of approximately 1 million American workers in vehicle and parts manufacturing, as well as 1.2 million employed in car dealerships.

It is worth mentioning that recently there have been news reports stating that the Chinese automobile producer with the most sales of electric vehicles in 2023, BYD, announced that it will stop investing $894 million for the new factory in Mexico for basic components for electric vehicles, until the United States elections are over. However, the regional head of the Chinese automotive company for the Americas, Stella Li, has come out to say in a statement that these statements are not true and that work will continue to build a factory specifically aimed at the Mexican market and not for exports to the United States and the rest of the world.

Importance of the automotive industry in the Mexican economy and judicial reform

The automotive industry plays a fundamental role in the Mexican economy, evidenced by several key indicators:

1. Foreign direct investment (FDI): From 2006 to 2024, the automobile and truck manufacturing sector has accounted for 7.74% of total investments. In the accumulated first half of 2024, this sector received 6,090.8 million dollars, (19.59%) of total foreign direct investment, compared to 9.63% in 2023. This highlights the confidence that foreign investors have in the growth potential of the sector.
2. Contribution to GDP: In the first half of 2024, the automobile and truck manufacturing, body and trailer manufacturing, and motor vehicle parts manufacturing sectors accounted for 4.70% of the national GDP.

However, the recent reform of the Judiciary, approved in the early hours of September 11, 2024, has raised concerns among businessmen, as it affects the way of doing business in the country. According to financial media, it is estimated that approximately 35 billion dollars in investment projects in the automotive sector have been stopped by foreign companies. Despite this, the National Institute of Auto Parts has not reported immediate consequences, and FDI directed to the automotive sector in the first half of 2024 reached 1,634 million dollars, 15% more than in the same period of the previous year.

In the context of foreign relations, especially with the United States and Canada, the reform has generated uncertainty regarding the T-MEC. Graeme C. Clark, Canada's ambassador to Mexico, has expressed that the relationship between investors and the Mexican government could be affected, which has generated concern among Canadian investors. This concern could result in a significant decrease in investment and affect Mexico's competitiveness, as well as hinder nearshoring.

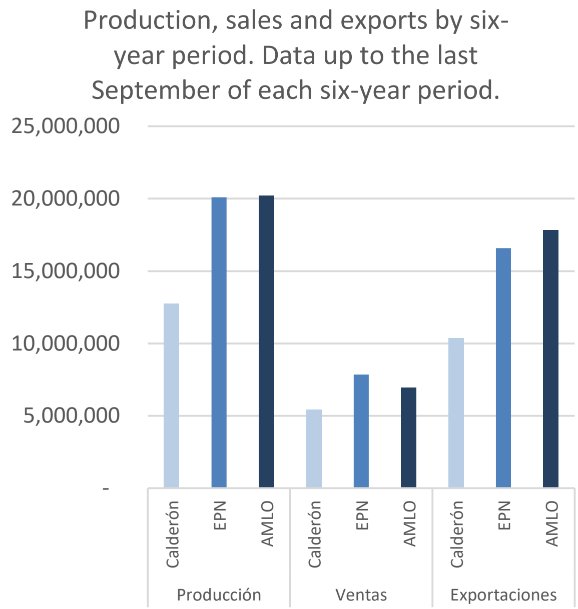
Additionally, in a recent post on X, presidential candidate Kamala Harris recalled that she was one of the 10 senators who voted against the USMCA. Harris stated that, if elected president, she will review the agreement because she claims that almost 200 thousand jobs have been lost in the United States, especially in the automotive sector. This position reflects the existing tensions in the trade relationship between Mexico and the United States, suggesting that the automotive industry could face additional challenges in the near future. Trump's campaign against vehicles produced in Mexico, Harris' opposition to the USMCA, and the recent judicial reform could generate tensions that further discourage investment in the sector.

The interaction between judicial reform and the current state of the automotive industry in Mexico is complex. Although the industry has demonstrated the capacity for growth, the new policies generate uncertainty that could discourage investment and growth in the long term. The reaction of foreign investors is important, as their trust is essential for the development of the sector. In addition, the context of foreign relations is vital, as the revision of the USMCA could introduce modifications that affect the operating conditions for automotive companies, increasing pressure on the industry at a time when it is already facing challenges due to changes in the legal and economic environment.

End of the previous presidential term

During the López Obrador six-year term, between December 2018 and September 2024, a cumulative production of 19,858,960 light vehicles was recorded, which represents an increase of 228,452 units (1.14%) compared to the Peña Nieto six-year term. It is important to highlight that in the last six-year term, a 56.64% growth in production was experienced compared to the Felipe Calderón six-year term. For the comparison between the López Obrador and Peña Nieto six-year terms, data up to the last month of September of each were considered, while for the comparison of Peña Nieto and Felipe Calderón, all months were considered.

Regarding cumulative sales, 6,962,889 light vehicles were recorded, showing a decrease of 879,765 units (11.22%) compared to the Peña Nieto six-year term. In contrast, during the Peña Nieto administration, there was a 43.92% growth in sales compared to the Felipe Calderón administration. Finally, 17,811,037 light vehicles were exported, registering an increase of 1,238,614 units (7.47%) compared to the previous administration. In contrast, during the Peña Nieto administration, there was a 58.81% growth in exports compared to the Felipe Calderón administration.



Source: GF Base with information from INEGI..

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