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LATAM INSIGHTS

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Mexico—Auto Sector Recovers in 2023, But Faces Risks

The Mexican light vehicles sector ended 2023 close to an all-time production high, despite an economic slowdown expected in the US and, to a lesser extent, in Mexico. December results showed a still-dynamic pace in the sector, as demand for light vehicles remains solid, supported by a favourable trend in household income, owing to a strong labour market and increases in real wages. Additionally, production and exports have benefited from a further stabilization of supply chains, outperforming other manufacturing sectors that have felt a greater impact of restrictive interest rates and changes in consumption patterns. Going forward, we believe that the outlook for the sector still includes certain risks and uncertainty, in line with the overall outlook for the economy, but is biased to the upside on the possibility of nearshoring, relocating a bigger share to value chains in Mexico (chart 1 and table 1).

Table 1: Mexico—Summary of Indicators

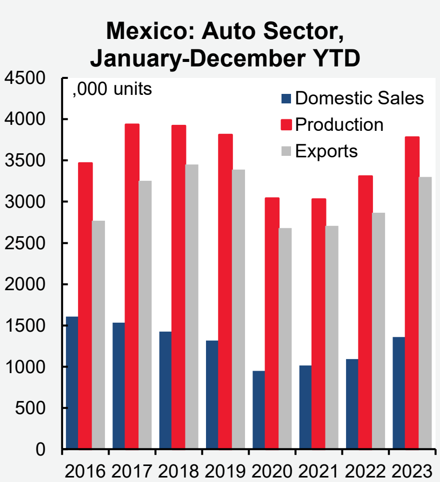
Date		Domestic Sales	Exports	Production
1.	Dec 2024	142,959	282,316	215,923
2.	Dec 2023	123,282	243,344	239,536
3.	**% y/y change**	16.0	16.0	- 9.9
4.	Jan-Dec 2024	1,361,433	3,300,876	3,779,234
5.	Jan-Dec 2023	1,094,728	2,865,641	3,308,346
6.	**% YTD change**	24.4	15.2	14.2

Sources: Scotiabank Economics, INEGI.

Domestic sales of light vehicles closed 2023 with a cumulative increase of 24.4% y/y with 1,361,433 units, its highest annual increase on record, since 2005, although below 2016's all-time high by -15.3%. In December alone, sales presented a total of 142,959 units, equivalent to an annual increase of 16.0% y/y. In terms of market share, Nissan (17.7%), GM (13.5%), Volkswagen (8.4%), Toyota (7.6%), and Chrysler (5.2%) hold just over half of the total, although we highlight the recent increase of new competitors, most of them from Chinese brands (Chirey, JAC, MG Motor, Motorination and Omoda), whose trend we expect to continue in the medium term (chart 2).

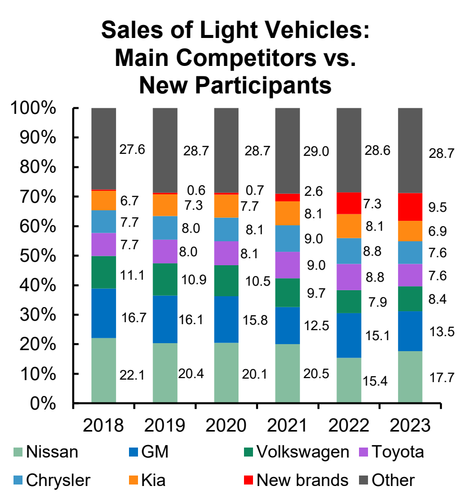
On the exports side, light vehicles grew less than domestic sales, although also with significant dynamism. During 2023, foreign sales totaled 3,300,876 units, representing an annual increase of 15.2% y/y, its highest pace in the last six years. Yet, exports are still -4.4% below its best year, in 2018, which totaled 3.451 million vehicles. December's annual advance was similar, at 16.0% y/y. In recent months, vehicle inventories in the United States have increased more than sales, which implies that the ratio of sales to inventory has shown a significant recovery, although still far from the ratio observed prior to the disruptions in value chains (chart 3). Although the news

Chart 1



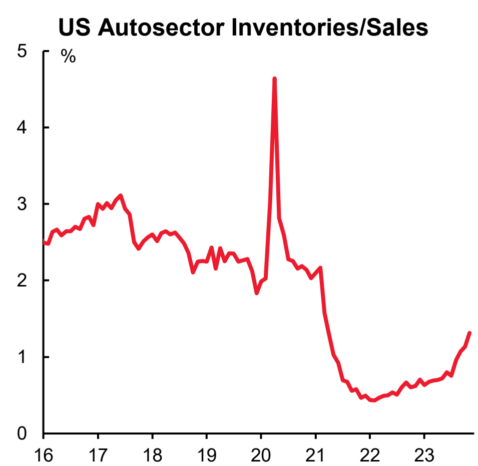
Sources: Scotiabank Economics, INEGI.

Chart 2



Sources: Scotiabank Economics, INEGI.

Chart 3



Sources: Scotiabank Economics, FRED.

of stabilization in inventories is positive, it is also reacting to the deceleration of retail sales, affected in turn by higher financing costs owing to restrictive interest rates, although with a positive outlook in the medium term, as the upcoming cutting cycle in the United States takes effect. For a detailed look at the global automotive outlook, **see here** for the most recent publication from our economist John Fanjoy, based in Toronto.

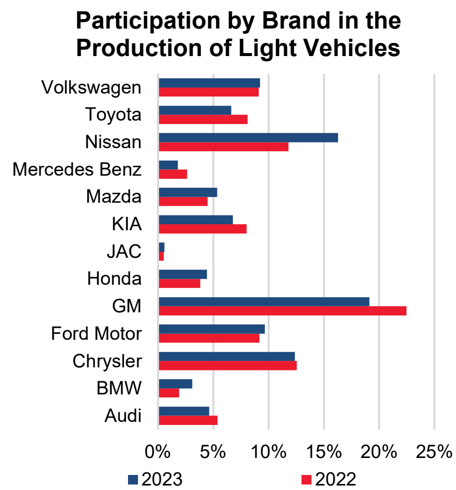
On the supply side, light vehicle production in 2023 achieved its highest increase since 2011, to 14.2%, summing 3,779,234 units assembled. However, in comparison to its stronger year, in 2017, when it reached 3,933,154 units, production holds with a -3.9% decline. By brand, GM continued to lead, although it lost some shares, going from 22% to 19% of total units, while Nissan, the second largest competitor, went up from 12% to 16%, followed by Chrysler (12% vs. 13% the previous year), Ford (10% vs. 9.0% previous) and Volkswagen (9% in 2022 and 2023). In terms of annual variations, GM's lower participation came from a -2.8% y/y decline, while Nissan increased its production lines by 57% y/y. We also highlight the increases in production of Mazda, Honda and JAC, with advances of 36.7% y/y, 32.4% y/y and 31.9% y/y, respectively (chart 4). In this sense, the normalization of production lines has allowed for a greater increase in vehicle production, narrowing the gap with respect to demand for automotive vehicles. We believe that in the short term, production will continue to make significant progress, despite an expected slowdown in the US economy. However, we believe the nearshoring expectations yield a more favourable outlook in the auto sector than the rest of the manufactures owing to its exports-oriented profile.

Despite favourable expectations in the sector, we believe that significant risks remain on the horizon:

- The worst stage of global supply chain disruptions has possibly ended, along with the pandemic, but the risks of new disruptions persist. In this sense, the prospect of a major relocation of supply chains will benefit Mexico in the medium and long term. However, for some time, the automotive sector will continue to be subject to input value chains from other regions, where geopolitical tensions could limit the supply of semiconductors (chart 5).
- Also related to geopolitical tensions and uncertainty, the US presidential campaigns could inject an additional dose of uncertainty owing to the possibility of changes in the USMCA and protectionist measures within campaign proposals.
- The possibility of new climate adverse conditions affecting production chains has become more relevant in recent years. Although nearshoring seeks to mitigate the impact of global disruptions, new regulations encourage the development of processes and technologies that favour the use of clean energy. In this regard, the change in the adoption of green technologies and electromobility will pose as part of the priorities for the sector in the long term (chart 6).
- In the short term, a final risk for production and exports, but no less relevant, is the expected slowdown in the US economy. The auto sector has been the exception in the drop in both manufacturing production and exports observed since mid-2023 in Mexico. By 2024, higher interest rates could negatively impact the sector. However, we believe that supply has not yet caught up with demand. In this sense, we believe that in 2024 we could see new record levels, owing to the stabilization of value chains, and in the domestic market, due to a solid labour market that allows the incorporation of new competitors.

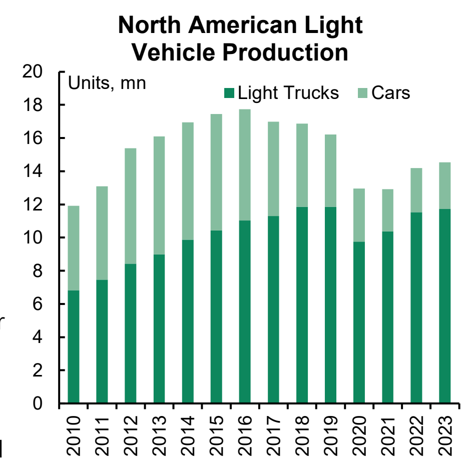
In our opinion, public sector participation will be necessary to promote a series of policies and programs that will allow the automotive sector in Mexico to take advantage of its potential and its strategic global position. In view of this, the proposals to be presented by presidential candidates will be relevant for future investment projects and public policies in the automotive sector.

Chart 4



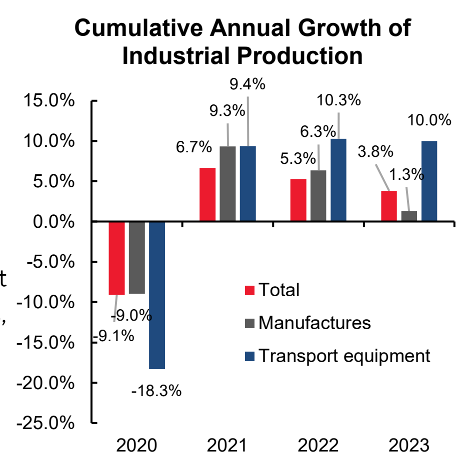
Sources: Scotiabank Economics, INEGI.

Chart 5



*2023 data is to November.
Sources: Scotiabank Economics, Wards Automotive.

Chart 6



* 2023 data as of November
Sources: Scotiabank Economic Studies, INEGI.

Table 2: Mexico—Production of Light Vehicles by Brand

Brand	Dec 2022	Dec 2023	% Annual	Jan-Dec 2022	Jan-Dec 2023	% YTD	Market Share 2023
1. Audi	14,099	7,750	-45.0%	178,000	175,121	-1.6%	4.6%
2. BMW	5,206	5,984	14.9%	63,465	117,462	85.1%	3.1%
3. Chrysler	31,590	31,553	-0.1%	414,952	467,542	12.7%	12.4%
4. Ford Motor	22,583	27,398	21.3%	303,419	365,365	20.4%	9.7%
5. General Motors	53,049	42,310	-20.2%	743,246	722,631	-2.8%	19.1%
6. Honda	6,414	11,155	73.9%	126,319	167,249	32.4%	4.4%
7. JAC	2,365	2,097	-11.3%	17,074	22,519	31.9%	0.6%
8. KIA	16,500	16,900	2.4%	265,000	256,000	-3.4%	6.8%
9. Mazda	13,243	13,996	5.7%	148,098	202,506	36.7%	5.4%
10. Mercedes Benz	2,618	4,589	75.3%	87,562	67,846	-22.5%	1.8%
11. Nissan	33,775	35,791	6.0%	391,002	615,751	57.5%	16.3%
12. Toyota	15,297	1,576	-89.7%	268,344	250,015	-6.8%	6.6%
13. Volkswagen	22,797	14,824	-35.0%	301,865	349,227	15.7%	9.2%
14. Total	**239,536**	**215,923**	**-9.9%**	**3,308,346**	**3,779,234**	**14.2%**	**100.0%**

Sources: Scotiabank Economics, (RAIAVL) INEGI.

Table 3: Mexico—Sales of Light Vehicles by Brand

Brand	September 2022	September 2023	% y/y	January-September 2022	January-September 2023	% YTD	Market Share 2023
1. Acura	25	105	320.0%	729	832	14.1%	0.1%
2. Alfa Romeo	10	36	260.0%	91	244	168.1%	0.0%
3. Audi	655	1,249	90.7%	7,386	9,627	30.3%	1.0%
4. Bentley	1	2	-	12	13	8.3%	0.0%
5. BMW	934	1,352	44.8%	8,983	9,555	6.4%	1.0%
6. Chirey	1,209	2,549	-	2,534	21,064	-	2.2%
7. Chrysler	5,140	6,127	19.2%	39,201	51,054	30.2%	5.2%
8. Fiat	813	1,072	31.9%	5,157	8,873	72.1%	0.9%
9. Ford Motor	3,222	4,445	38.0%	29,500	33,499	13.6%	3.4%
10. General Motors	14,190	16,132	13.7%	118,313	131,346	11.0%	13.5%
11. Honda	3,240	4,047	24.9%	28,531	24,601	-13.8%	2.5%
12. Hyundai	3,354	4,655	38.8%	30,130	35,237	16.9%	3.6%
13. Infiniti	107	87	-18.7%	576	726	26.0%	0.1%
14. Isuzu	81	130	60.5%	1,194	1,100	-7.9%	0.1%
15. JAC	1,430	1,703	19.1%	11,219	14,543	29.6%	1.5%
16. Jaguar	18	10	-44.4%	69	58	-15.9%	0.0%
17. KIA	7,405	7,770	4.9%	66,580	69,957	5.1%	7.2%
18. Land Rover	229	204	-10.9%	828	1,292	56.0%	0.1%
19. Lexus	137	210	53.3%	1,076	1,933	79.6%	0.2%
20. Lincoln	112	100	-10.7%	1,007	961	-4.6%	0.1%
21. Mazda	5,405	6,795	25.7%	31,344	53,138	69.5%	5.4%
22. Mercedes Benz	1,223	1,391	13.7%	10,899	10,882	-0.2%	1.1%
23. MG Motor	4,508	5,175	14.8%	33,204	40,497	22.0%	4.1%
24. Mini	305	416	36.4%	2,753	2,588	-6.0%	0.3%
25. Mitsubishi Motors	2,273	1,440	-36.6%	14,212	14,233	0.1%	1.5%
26. MOTORNATION	530	782	47.5%	4,066	6,990	71.9%	0.7%
27. Nissan	10,807	20,146	86.4%	120,864	175,210	45.0%	18.0%
28. Omoda	-	1,138	-	-	8,797	-	0.9%
29. Peugeot	167	1,248	647.3%	5,943	10,493	76.6%	1.1%
30. Porsche	116	161	38.8%	961	1,216	26.5%	0.1%
31. Renault	4,157	3,308	-20.4%	23,221	32,215	38.7%	3.3%
32. SEAT	817	1,514	85.3%	8,905	15,297	71.8%	1.6%
33. Subaru	105	404	284.8%	1,346	2,738	103.4%	0.3%
34. Suzuki	3,359	2,849	-15.2%	29,971	27,343	-8.8%	2.8%
35. Toyota	5,046	8,746	73.3%	68,701	73,827	7.5%	7.6%
36. Volkswagen	5,587	10,074	80.3%	68,513	80,090	16.9%	8.2%
37. Volvo	334	466	39.5%	3,042	3,772	24.0%	0.4%
38. **Total**	**87,051**	**118,038**	**35.6%**	**781,061**	**975,841**	**24.9%**	**71.7%**

Sources: Scotiabank Economics, Registro Administrativo de la Industria Automotriz de Vehículos Ligeros (RAIAVL) INEGI.