

Mexico—Automotive Sector Performance and Outlook to June 2023

In the first half of 2023, the Mexican automotive sector continues showing signs of stabilization in supply chains even as production levels remain below its peak, in 2019, making significant gains also in domestic and foreign sales. At end-H1, the sector reflects still solid domestic demand, supported by a strong labour market, and increases in real wages. Additionally, production and exports have benefited from further stabilization in supply chains, although we see some risks ahead (chart 1 and table 1).

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Date	Sales	Exports	Production
June 2023	113,553	286,291	331,707
June 2022	90,368	237,674	285,317
% y/y Change	25.7	20.5	16.3
Jan-Jun 2023	633,087	1,560,206	1,892,635
Jan-Jun 2022	518,424	1,404,595	1,661,344
% YTD Change	22.1	11.1	13.9

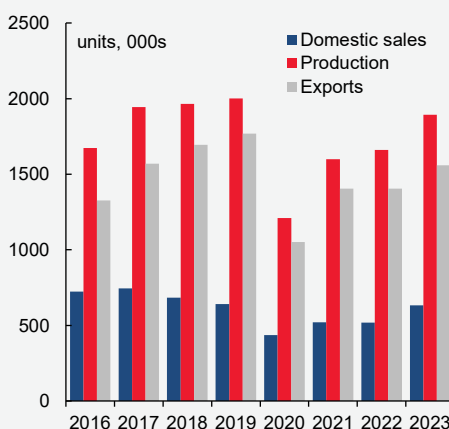
Sources: Scotiabank Economics, Registro Administrativo de la Industria Automotriz de Vehículos Ligeros (RAIAVL), INEGI.

In June, domestic sales growth accelerated to 25.7% y/y, equivalent to 113.5k units sold. On a cumulative basis, domestic sales totaled 633k vehicles, equivalent to a 22.1% YTD increase. Nevertheless, H1 numbers show a -15.0% decline compared to the same period of 2017, which marked the strongest recorded first half of a calendar year. Within the details, we highlight the market share gains of new competitors in the year-to-date period from Chirey (2.5% share), JAC (1.5%) and Omoda (0.4%) brands, despite the fact that the largest participants, including Nissan (18.2%), General Motors (13.1%), Volkswagen (8.2%), Toyota (7.5%) and KIA (7.4%) retain over half of the market (see table 2 on page 3).

Exports of light vehicles showed annual gains of lesser magnitude than domestic sales. In June, exported units increased 20.5% y/y, to 286.3 k units. The cumulative numbers show the same story of growth in H1, as exports advanced 11.1% YTD in the January–June period, with 1.51mn units—though compared to 22.1% y/y increase in domestic sales. In comparison to its January–June peak in 2019, foreign sales remain -11.7% lower. In the United States, the largest destination for Mexican automotive exports, the ratio of sales to inventories remains close to but less than one car in inventory per sale. This implies that a significant percentage of sales are in backlog, suggesting persistent pressures in vehicle prices (chart 2 and chart 3)

Chart 1

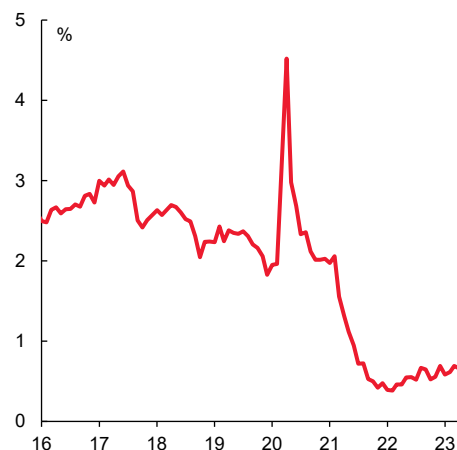
Auto Sector: January - June (YTD)



Sources: Scotiabank Economics, INEGI.

Chart 2

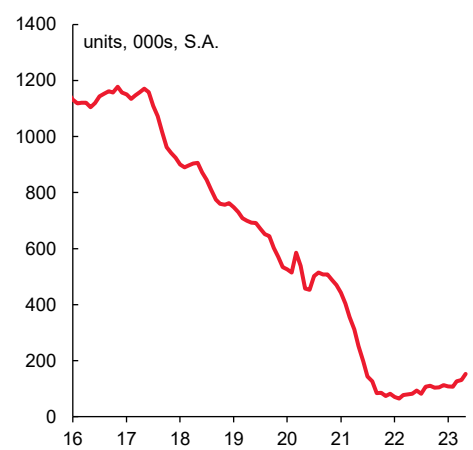
US Auto Sector: Inventories/Sales



Sources: Scotiabank Economics, FRED.

Chart 3

US Auto Vehicles Inventories



Sources: Scotiabank Economics, FRED.

On the supply side, light vehicles production decreased by -3.6% m/m in June, to 331.7 k units. However, the cumulative figure reached 1.892 million units, equivalent to a 13.9% YTD increase. Compared to its highest January–June numbers, production stands -5.4% below its highest level, in 2019.

Despite these results, we believe there are significant risks to production for the remainder of the year owing to the possibility of new scenarios of input shortages:

- We believe the recent news that China will limit its exports of metals used for chip manufacturing (mainly Gallium and Germanium, of which China is the largest producer), could limit the aggregate supply of inputs needed for the automotive industry.
- The recent boom in AI technologies could divert the supply of microchips and semiconductors towards industries related to those recent developments (i.e. processors, computers, and electronics in general). In fact, the recent rise in the Philadelphia Stock Exchange Semiconductor Index suggests that demand for these types of inputs has increased in recent months. As noted in Derek Holt’s [The Global Week Ahead](#), movements in U.S. producer prices and import prices for semiconductors appear to be moving in the same direction with twelve-month lag of the index, which reinforces our assumption of a recent increase in demand for inputs, which in turn may build cost pressures and new bottlenecks in light vehicle production (chart 4 and chart 5).
- One last risk to production, but no less relevant, is the expected slowdown in both the US and Mexican economies by the end of the year. Currently, initial signs of a slowdown in the economies, owing to the restrictiveness of policy rates, point to a slower pace in manufacturing (chart 6). However, we believe that supply has not yet caught up with demand despite the expected slowdown in the Mexican economy. In this regard, we believe that domestic sales will continue to be supported by a strong labour market. Proof of this is the entrance of new competitors that have been slowly gaining market share.

In the medium term, we see a more positive balance of risks, promoted by the positive Mexican growth outlook and optimism regarding nearshoring. In this sense, we highlight recent US efforts to reduce dependence on technological inputs from Asia, allocating large amounts to domestic investment. In this regard, despite the possibility of new bottlenecks, we believe that the worst is over for the Mexican automotive industry, and the medium-term outlook continues to be positive, towards its normalization.

Chart 4

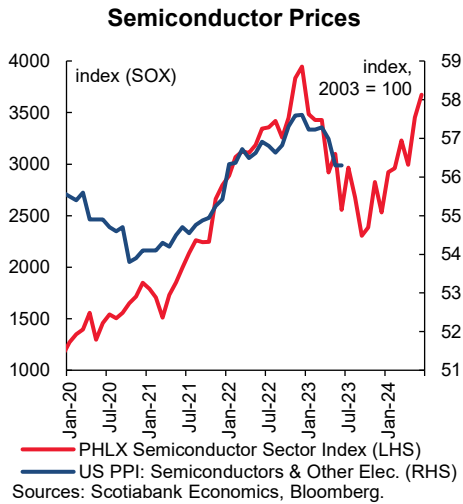


Chart 5

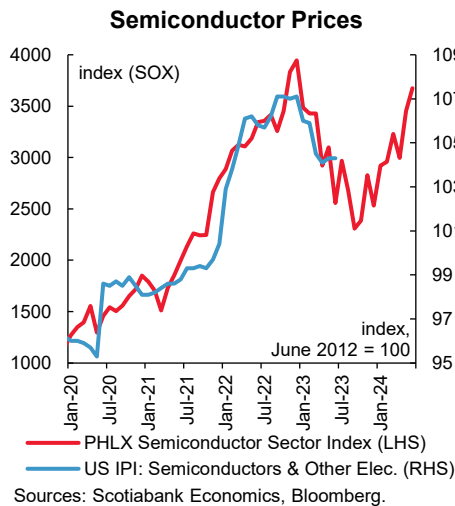


Chart 6

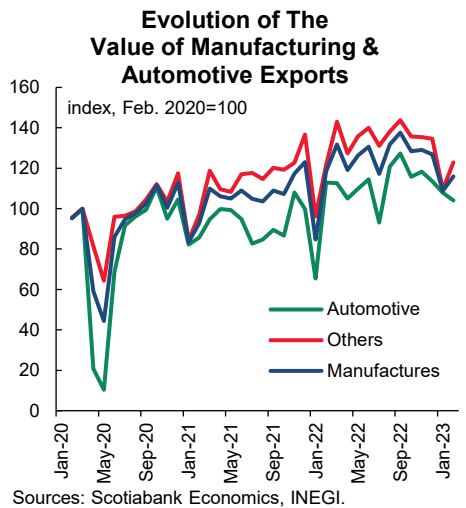


Table 2: Mexico - Sales of Light Vehicles By Brand

Brand	June '22	June '23	% y/y	Jan-Jun '22	Jan-Jun '23	% YTD	Market Share '23 (%)
Acura	61	50	-18.0	619	576	-6.9	0.1
Alfa Romeo	10	49	390.0	57	112	96.5	0.0
Audi	1,098	1,186	8.0	5,123	6,328	23.5	1.0
Bentley	-	3	-	8	9	12.5	0.0
BMW	1,101	1,259	14.4	6,089	6,055	-0.6	1.0
Chirey	-	2,578	-	-	16,094	-	2.5
Chrysler	5,362	5,248	-2.1	25,021	34,508	37.9	5.5
Fiat	772	1,249	61.8	2,643	5,708	116.0	0.9
Ford	3,506	4,414	25.9	19,056	20,895	9.7	3.3
General Motors	12,712	15,405	21.2	76,420	82,866	8.4	13.1
Honda	3,161	2,152	-31.9	18,077	14,750	-18.4	2.3
Hyundai	3,271	4,117	25.9	19,905	22,251	11.8	3.5
Infiniti	67	72	7.5	325	494	52.0	0.1
Isuzu	116	116	0.0	877	741	-15.5	0.1
JAC	1,261	1,544	22.4	7,039	9,766	38.7	1.5
Jaguar	4	3	-25.0	33	40	21.2	0.0
KIA	7,407	8,005	8.1	44,349	46,565	5.0	7.4
Land Rover	78	150	92.3	318	782	145.9	0.1
Lexus	208	219	5.3	648	1,285	98.3	0.2
Lincoln	123	93	-24.4	618	674	9.1	0.1
Mazda	2,479	5,539	123.4	16,510	34,525	109.1	5.5
Mercedes Benz	1,412	1,222	-13.5	7,320	7,178	-1.9	1.1
MG Motor	4,009	4,121	2.8	20,429	26,188	28.2	4.1
Mini	332	298	-10.2	1,819	1,690	-7.1	0.3
Mitsubishi Motors	1,906	1,962	2.9	9,258	9,539	3.0	1.5
MOTORNATION	580	668	15.2	2,535	4,258	68.0	0.7
Nissan	13,975	21,011	50.3	87,592	115,268	31.6	18.2
Omoda	-	1,087	-	-	2,703	-	0.4
Peugeot	1,025	1,999	95.0	4,587	7,128	55.4	1.1
Porsche	88	118	34.1	611	759	24.2	0.1
Renault	2,450	4,542	85.4	14,290	22,207	55.4	3.5
SEAT	1,722	1,747	1.5	5,018	9,998	99.2	1.6
Subaru	228	361	58.3	919	1,458	58.7	0.2
Suzuki	3,591	2,363	-34.2	19,459	17,722	-8.9	2.8
Toyota	7,047	9,208	30.7	50,428	47,632	-5.5	7.5
Volkswagen	8,892	8,883	-0.1	48,308	51,809	7.2	8.2
Volvo	314	512	63.1	2,116	2,526	19.4	0.4
Total	90,368	113,553	25.7	518,424	633,087	22.1	100.0

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

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