

Mexico's Automotive Parts Supplier Base Importance and Current Trends



August 19th, 2010



Mexico: one of the largest auto producers

Mexico is one of the most highly integrated covering from assembly operations to the tier 3 suppliers.

The most important Original Equipment Manufacturers (OEM's) are already operating in Mexico

Mexico is an export oriented industry, with important clusters in the country

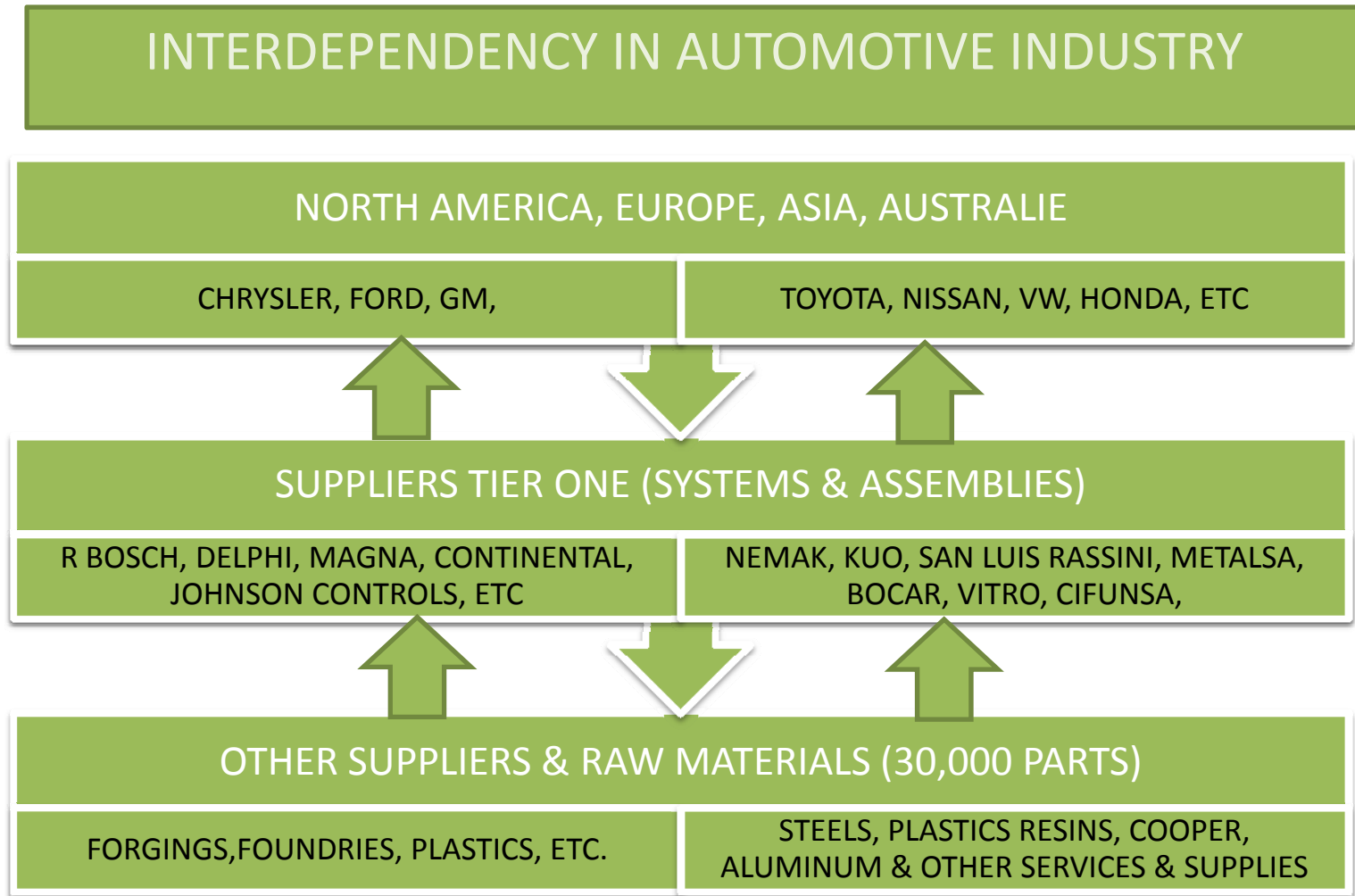
Mexico has competitive advantages for the industry (geographic position, supply chain, logistic, human capital...)



Automotive Parts Sector Importance



Interdependency Through Value Added Chain

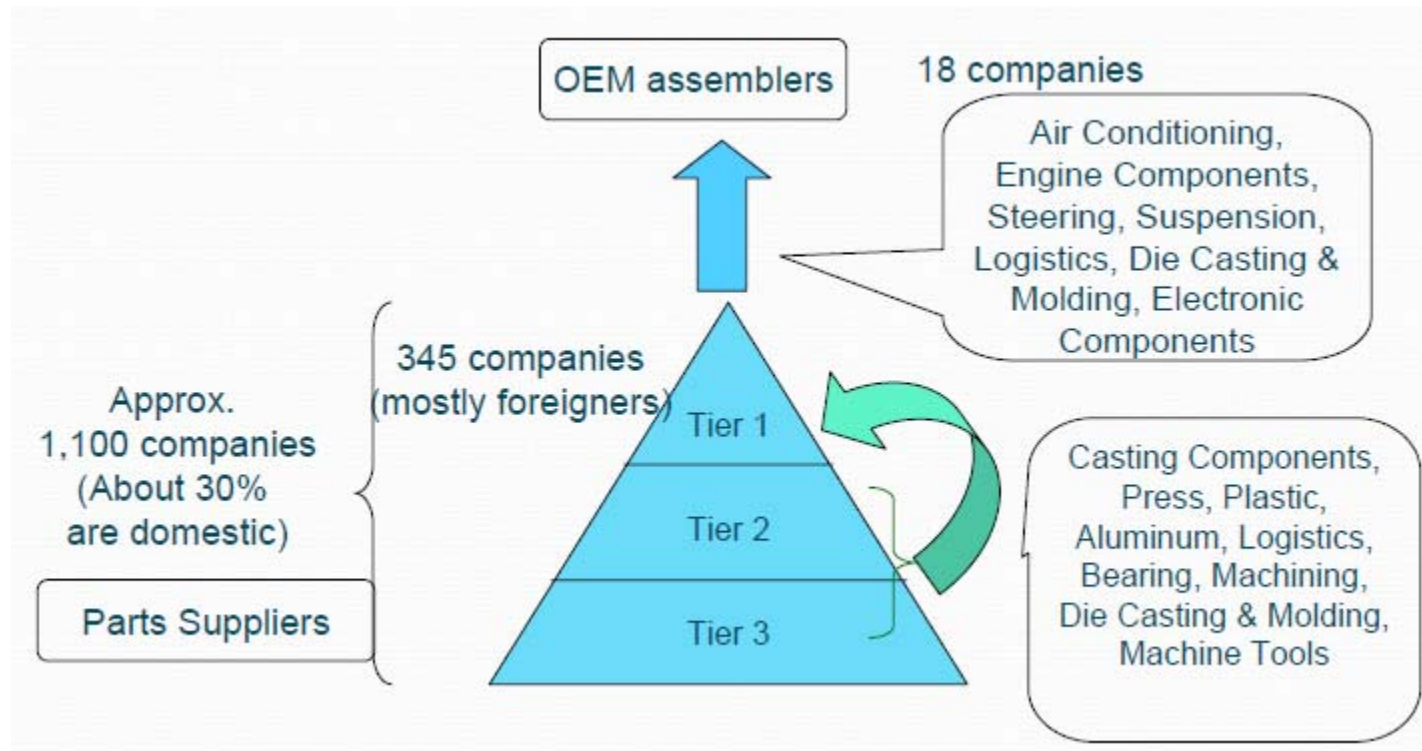


Strong auto part segment

Mexico has a strong auto parts industry, focused on developing technology.

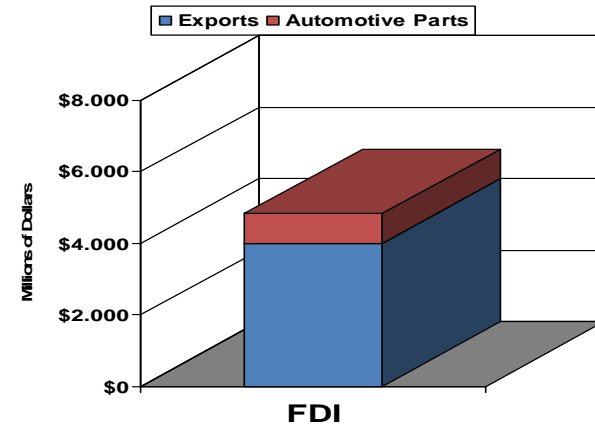
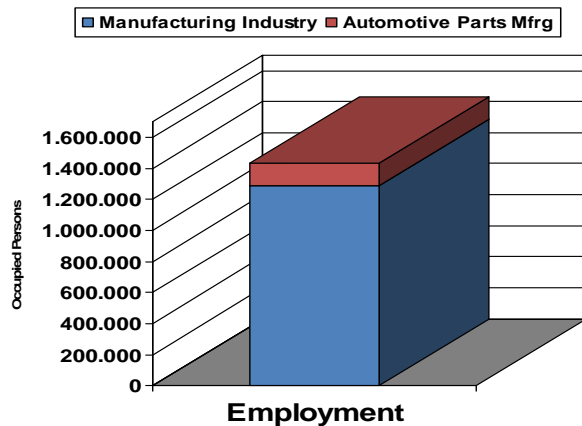
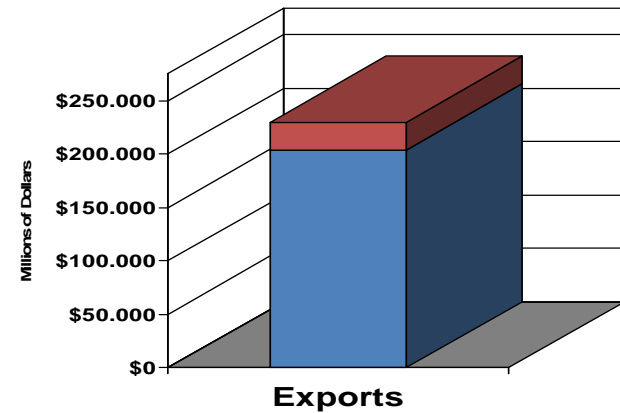
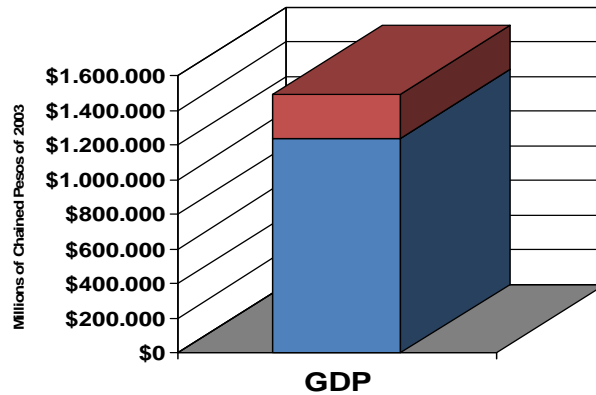
Automotive companies and their suppliers are intensifying the transfer of their production to Mexico as a result of the restructuring process of the automotive industry in North America to reduce production cost.

Mexico continues to be an attractive place for production thanks to the Competiveness of its manufacturing sector, low shipping costs and stable exchange rate.



Auto parts Industry General Economic Facts

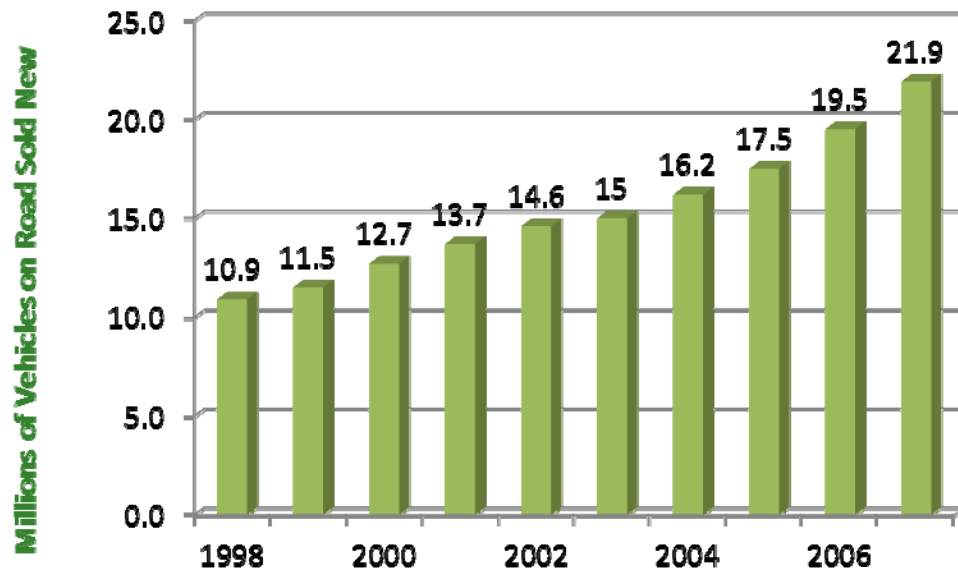
Automotive Parts manufacturing represents 17% of manufacturing GDP. Automotive parts exports represent 11% of total exports. Automotive industry employment represent 10% of manufacturing employment, and foreign direct investment in automotive parts is 17% of the total foreign direct investment directed to total manufacturing industry.



Vehicles on Road in Mexico

The average age of vehicles fleet on road in Mexico is of 11 years old, and this median age will increase with the economic recession as well as because of the used vehicle entry coming from the United States in 2009

Actually, there is a wide variety of vehicles due to the fact that more than 500 models are sold through new vehicle dealers in Mexico



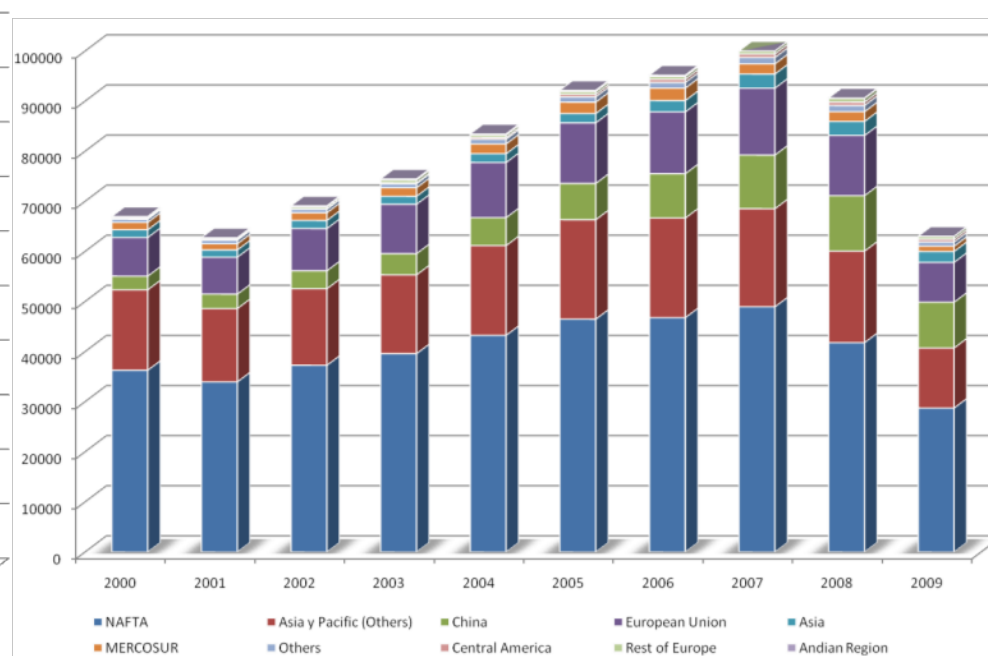
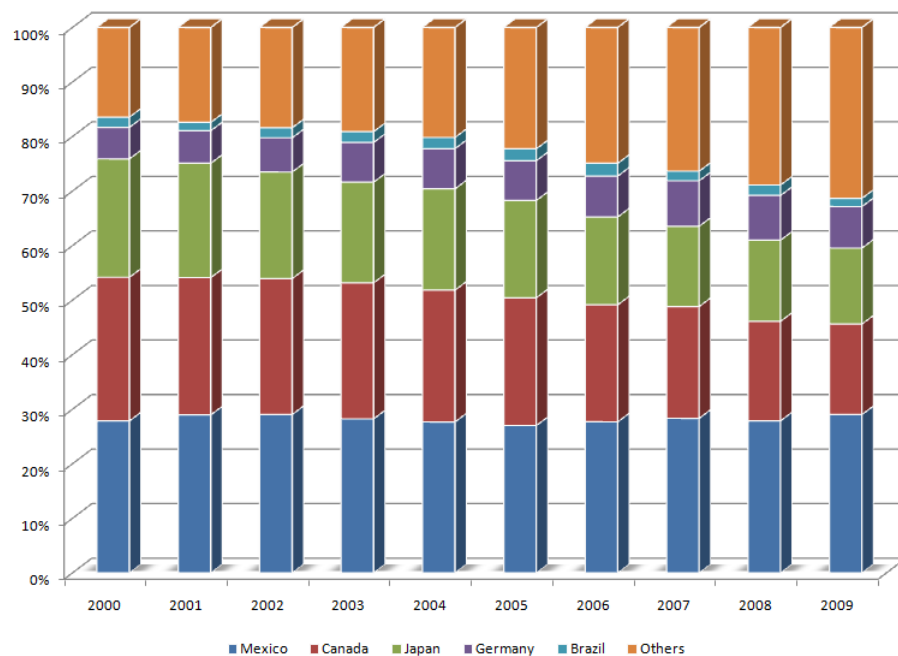
Age of Vehicles on Road in Mexico by Origin

Range of Age	Vehicles Sold New	Imported Used from the US and Canada	Total	% of Vehicles per Range
10 years	8,479,896 (39%)	156,488 (4%)	8,636,384	34%
11-15 years	2,377,979 (11%)	1,818,006 (50%)	4,195,985	17%
16-20 years	3,160,070 (14%)	1,533,159 (42%)	4,693,229	18%
21-30 years	4,085,335 (19%)	108,326 (3%)	4,193,661	16%
More than 31 years	3,696,865 (17%)	8,275 (0%)	3,705,140	15%
Total	21,800,145 (100%)	3,624,254 (100%)	25,424,399	100%

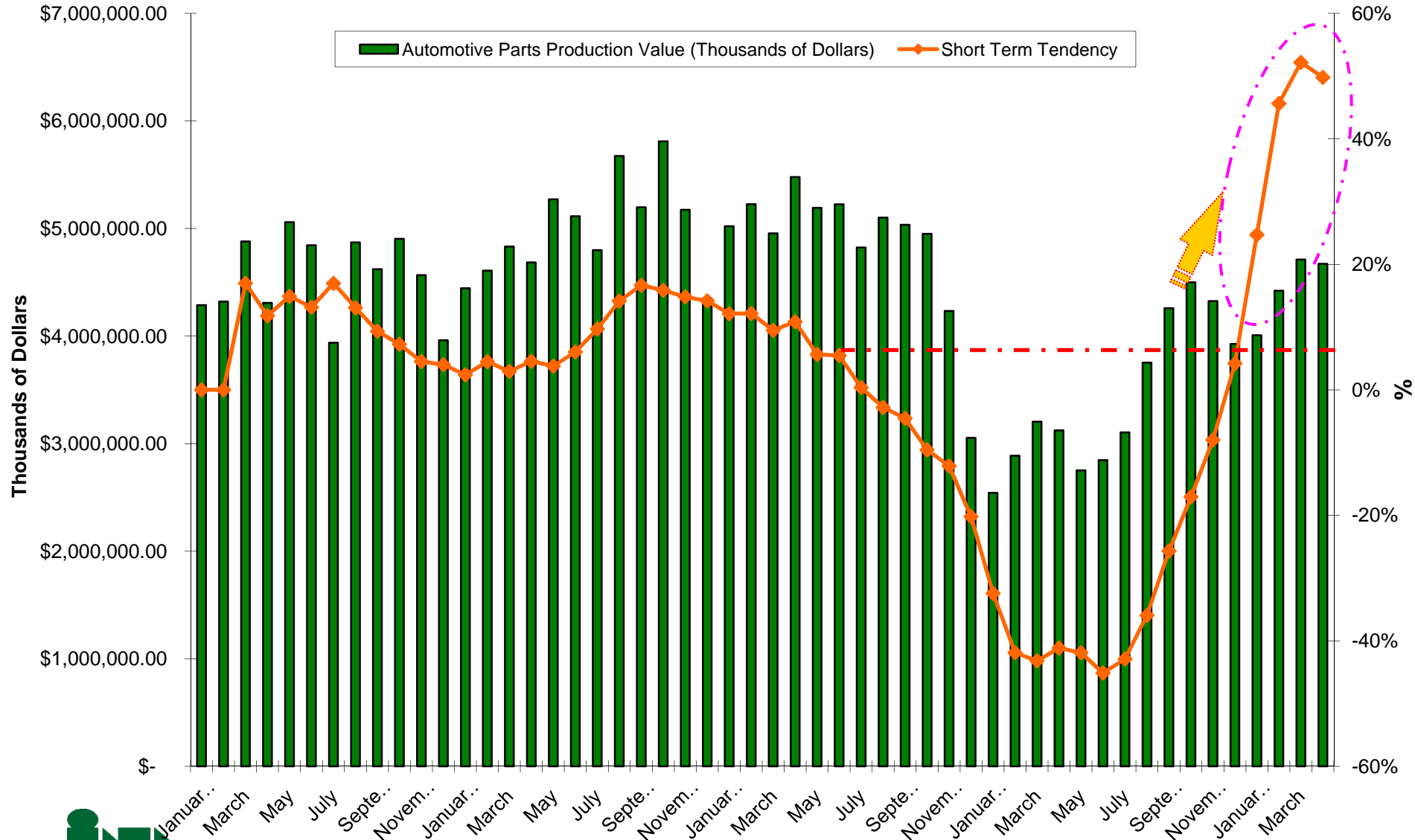


Main Automotive Parts Suppliers Countries for the United States

- ◆ The United States imported \$63 billions of dollars of automotive parts from all around the world in 2009 (which meant an annual contraction of 31% in comparison with 2008)
- ◆ Mexico is the main automotive parts supplier country for the United States' automotive industry
- ◆ Nonetheless, Mexico's market share is stagnant, meanwhile China's penetration is rapidly increasing

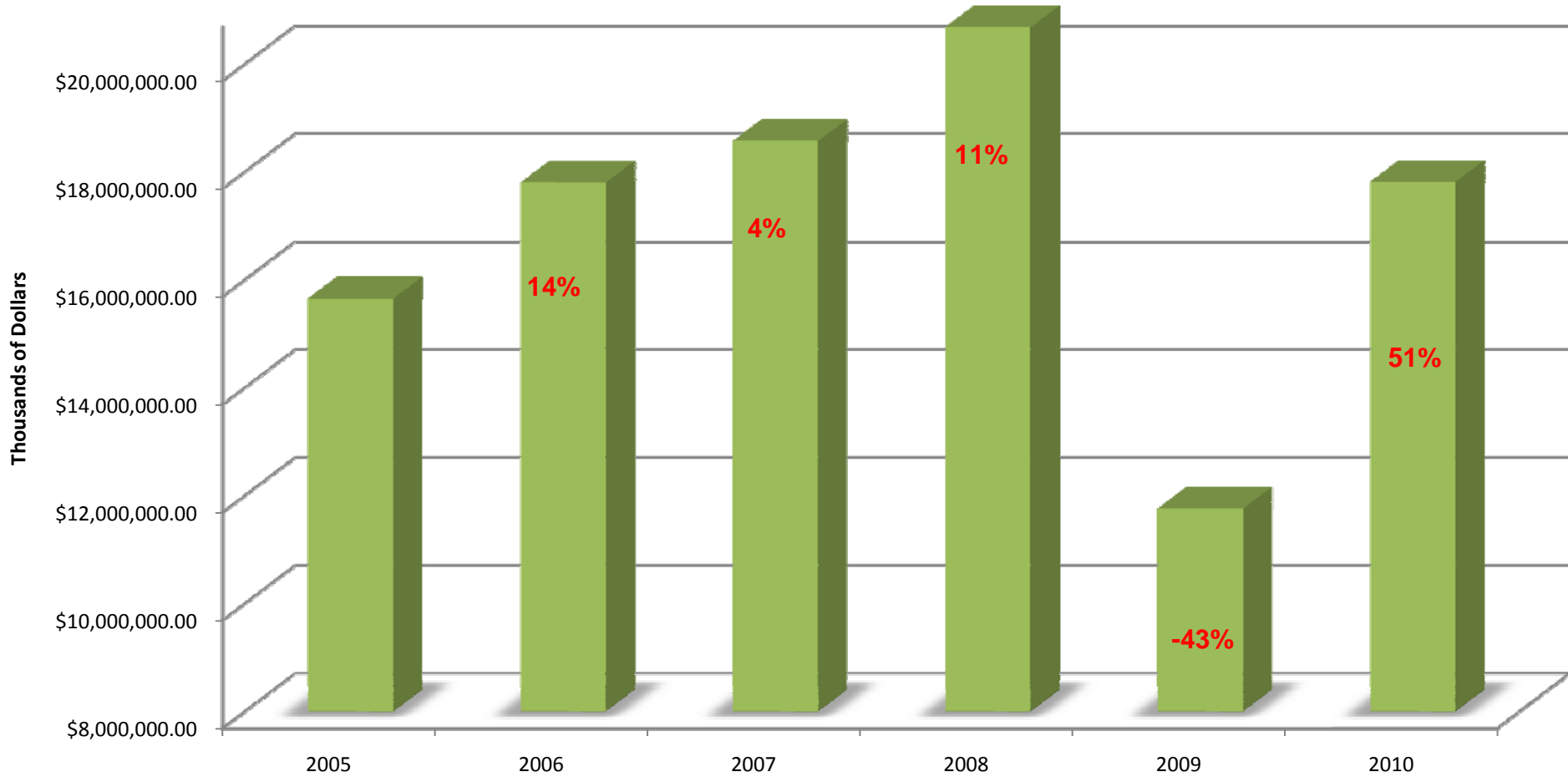


Monthly Automotive Parts Production Value



Nota: Se estima el valor de producción de la industria maquiladora de exportación
Fuente: INA en base a la EIMA de INEGI

Yearly Automotive Parts Production Value



Nota: Se estima el valor de producción de la industria maquiladora de exportación
Fuente: INA en base a la EIMA de INEGI



Yearly Automotive Parts Production Value by System

The systems that present the largest demand in terms of values are the manufacturing of electric parts, transmissions, clutch and its parts and engine parts.

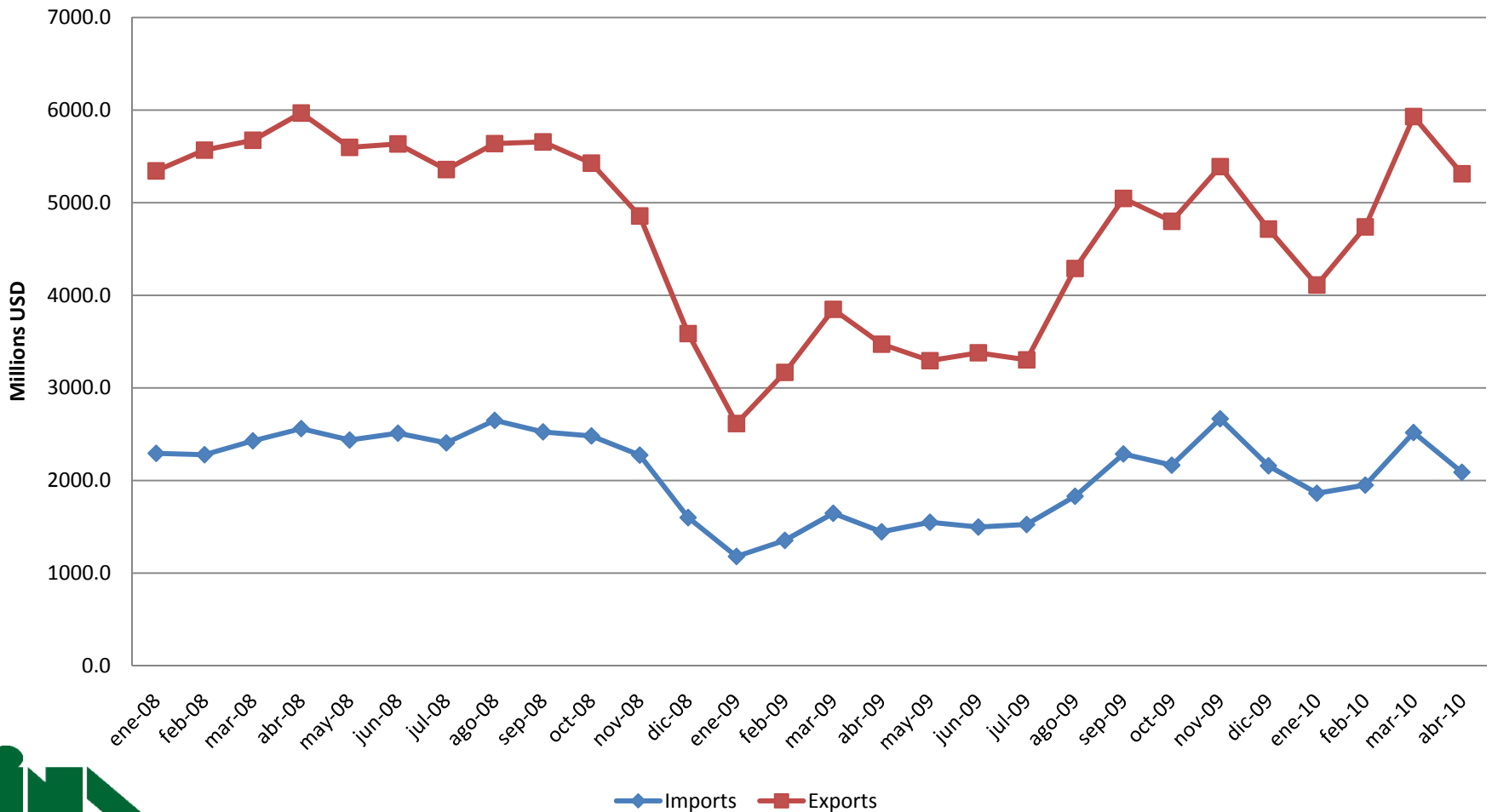
Value in Thousands of Dollars	Jan-Dec 2009	Jan-Dec 2008	Var. (%) 2009-2008	jan-may 2010	jan-may 2009	Var. (%) 2010-2009
Electric Parts	\$6.091.178	\$8.911.336	-32%	\$3.165.437	\$2.024.732	56%
Transmissions, Clutch and its Parts	\$5.814.841	\$7.140.616	-19%	\$3.543.044	\$2.011.516	76%
Engine Parts	\$4.764.627	\$7.793.453	-39%	\$3.013.434	\$1.664.712	81%
Gasoline Engines	\$3.865.059	\$5.119.142	-24%	\$2.805.177	\$1.291.940	117%
Carpets and Seats	\$3.159.960	\$4.532.546	-30%	\$2.119.042	\$1.092.312	94%
Oil, Lubricants and Vehicle Liquids	\$2.110.693	\$2.541.770	-17%	\$1.842.502	\$860.150	114%
Suspension, Direction and its Parts	\$1.928.587	\$2.539.011	-24%	\$1.077.158	\$730.613	47%
Automotive Accessories and Parts	\$1.498.337	\$2.521.448	-41%	\$926.765	\$511.388	81%
Tires	\$1.393.334	\$1.834.909	-24%	\$817.968	\$547.203	49%
Stamped and its Parts	\$1.321.928	\$1.877.218	-30%	\$745.853	\$450.089	66%
Vehicle Bodies	\$1.190.152	\$2.173.405	-45%	\$652.515	\$468.667	39%
Vehicle Rubber Products	\$858.244	\$1.061.990	-19%	\$467.011	\$301.611	55%
Glass, Crystal and Windshields	\$676.394	\$884.671	-24%	\$465.365	\$248.984	87%
Brakes and its Parts	\$667.453	\$1.236.496	-46%	\$371.953	\$245.014	52%
Cooling	\$252.098	\$358.193	-30%	\$359.592	\$97.967	267%
Other	\$5.634.156	\$7.768.614	-27%	\$86.480	\$1.963.048	-96%
TOTAL	\$41.227.040	\$58.294.816	-29%	\$22.459.296	\$14.508.946	55%



Automotive Parts International Trade

Automotive parts exports represent 11% of total exports, and 90% of these exports are for the United States.

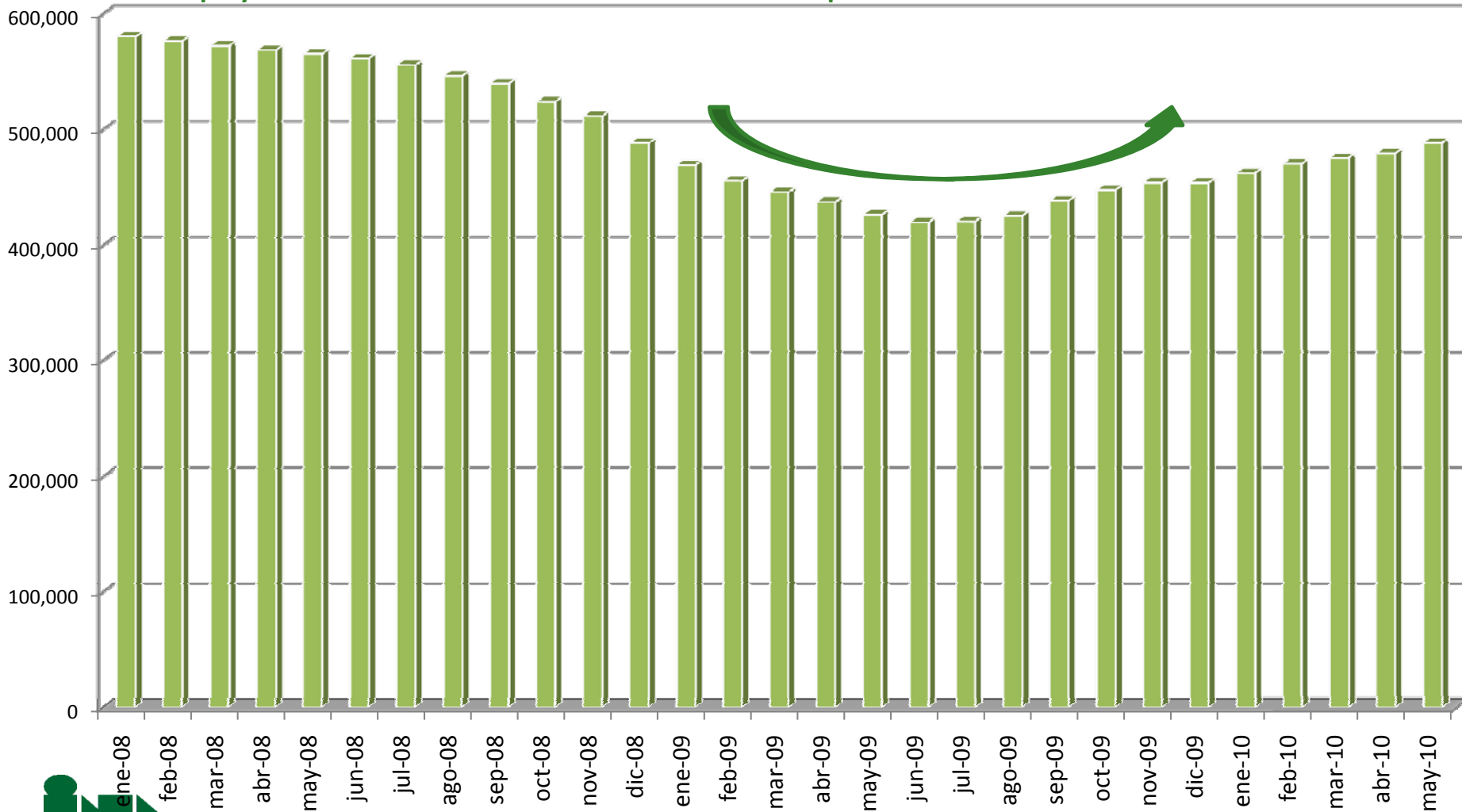
56% of total imports comes from United States, 10% from China, 9% from Japan and 5% from Canada .



Automotive parts employment

◆ From January 2008 to December 2009, a total of 125,486 persons lost their employment in the automotive parts sector, most of them worked in the “maquiladoras de exportación”.

◆ 90% of employees of the automotive sector work in the auto parts sector.



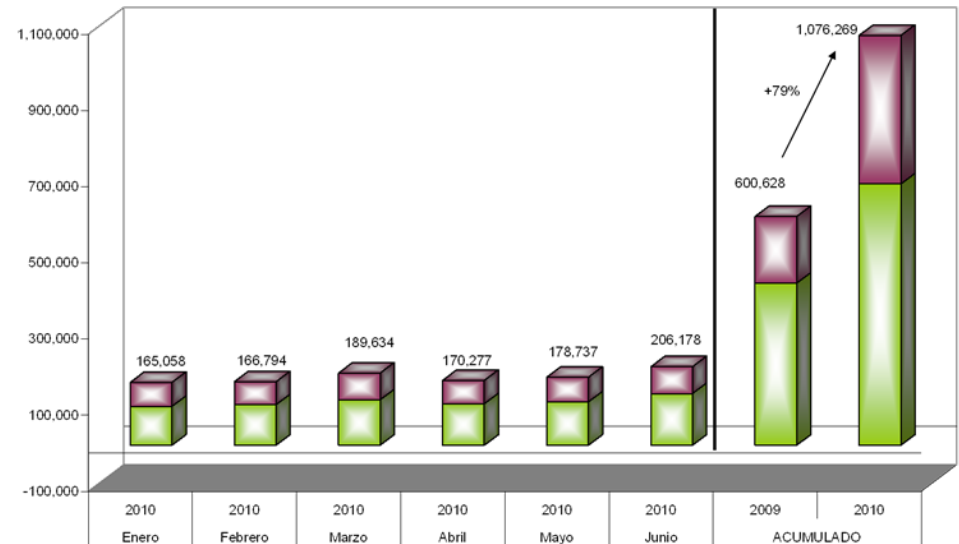
Light Vehicle Production in Mexico 2009

Original Equipment Manufacturers	Domestic Market			Exports			Total Production		
	Jan-Dec 2008	Jan-Dec 2009	Change %	Jan-Dec 2008	Jan-Dec 2009	Change %	Jan-Dec 2008	Jan-Dec 2009	Change %
General Motors	118,754	69,628	-41.4%	389,994	280,906	-27.9%	508,748	350,534	-31.1%
Nissan	168,338	127,941	-24%	281,109	227,473	-19%	449,447	355,414	-20.9%
Ford	38,578	2,960	-92.3%	275,653	231,370	-16%	314,231	234,330	-25.3%
Volkswagen	70,808	47,692	-32.6%	378,288	272,051	-28.8%	449,096	319,743	-28.8%
Chrysler	24,611	22,629	-8.1%	255,536	134,453	-47.3%	280,147	157,082	-43.9%
Toyota	0	0	-	49,879	42,696	-14.4%	49,879	42,696	-14.4%
Honda	16,579	10,164	-38.7%	34,674	37,564	8.3%	51,253	47,728	-6.88
Total	437,668	281,014	-35.7%	1,615,254	1,183,817	-26.1%	2,102,801	1,507,527	-28.3%



Light Vehicle Production in Mexico 2010

- The production for the domestic market, cumulated for the first half of 2010 represents +57% than 2009.
- Export units in June 2010, recorded a total volume of 173,463 light vehicles, representing more than 100% compared to June 2009. Cumulated units for this year amounts to 899,041 vehicles, +84% than the cumulative 2009 and +11% from 2008.
- 87% of vehicle exports remain in America: 70% to United States.
- Europe receives 9% and Asia 3%



Heavy Vehicle Production in Mexico 2009

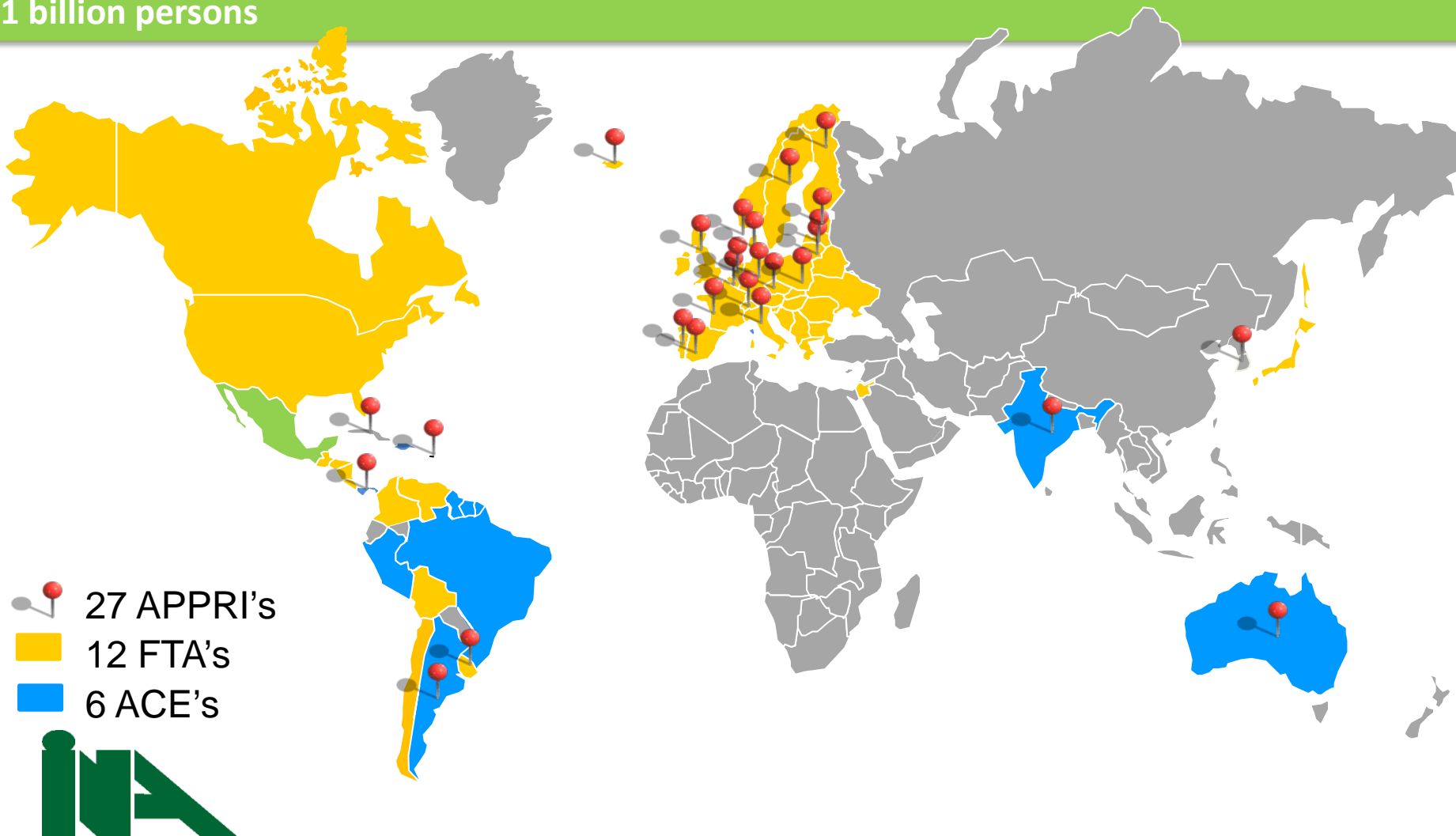
Original Equipment Manufacturers	Total Production		
	Jan-Dec 2008	Jan-Dec 2009	Change %
International	26,650	20,264	-24%
Mercedes Benz	6,146	2,918	-53%
Kenworth	13,611	6,037	-56%
General Motors	1,440	0	-100%
Volkswagen	1,706	958	-44%
Volvo	874	654	-25%
Scania	395	240	-39%
Freightliner	24,185	24,933	3%
Ford	3,451	0	-100%
Dina	118	132	12%
Man	159	55	-65.4%
Hino	0	89	100%
Isuzu	0	312	100%
Omnibus Integrales	198	50	-75%
Total	78,933	56,642	-28%



Mexico has a privileged access to many markets all around the world

Mexico has the world's largest free trade agreements network (12 FTAs in three continents) and preferential tariff access to 44 countries.

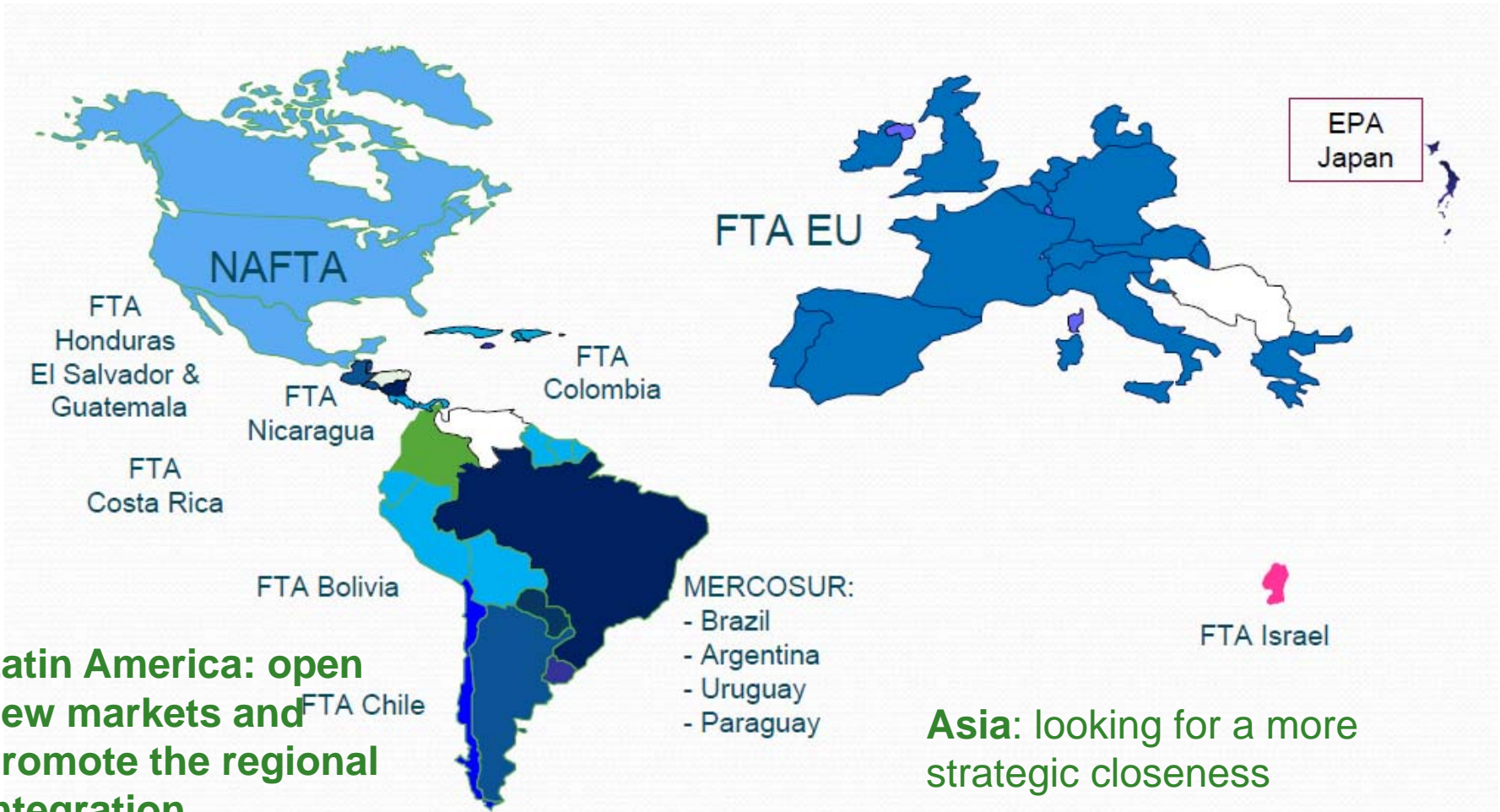
12 foreign trade agreements that allow the access to 44 countries, that represent more than 1 billion persons



Global Strategy in Negotiations

North America: increase the regional competitiveness

Europe: benefit from and improve the actual FTAs



Latin America: open new markets and promote the regional integration

Asia: looking for a more strategic closeness



Strengthening the multilateral trade system

Strategy of Priority Negotiations

Agenda for
Competitiveness
North America



Unique Foreign Trade
Agreement: **Mexico
& Central America**

Arch of the Pacific
Latin America
(11 countries)



Colombia

Peru



Brazil



Mexico Automotive Industry -SWOT

STRENGTHS	WEAKNESSES
<ul style="list-style-type: none"> • Proximity to the US + NAFTA supports a steady flow of export vehicles and components into the US marketplace 	<ul style="list-style-type: none"> • Primary status as an export base suggests near-term industry recovery will be intrinsically tied to US economic / market trajectory
<ul style="list-style-type: none"> • Relatively low manufacturing costs despite the rise of ultra low cost emerging markets in Developing Asia and East Europe 	<ul style="list-style-type: none"> • Limited upside for domestic light vehicle sales growth coupled with relatively underdeveloped vehicle infrastructure
<ul style="list-style-type: none"> • Highly developed automaker footprint and supplier network for vehicle and powertrain 	<ul style="list-style-type: none"> • Large scale volume reliance on entry level A/B/C segment vehicle assembly
<ul style="list-style-type: none"> • Relatively lower risk locale with regard to Intellectual Property theft 	<ul style="list-style-type: none"> • National economic instability risk and foreign exchange rate volatility against global currencies
OPPORTUNITIES	THREATS
<ul style="list-style-type: none"> • Automaker and supplier capacity reallocation to existing Mexico facilities may accelerate due to US rationalisation efforts 	<ul style="list-style-type: none"> • Mid to long-term inability to transition away from “low cost” proposition toward becoming a sustainable “value add” country in global context
<ul style="list-style-type: none"> • Foreign transplants may elect to set up / expand NA assembly footprint in Mexico as a means to gain longer term access to the US vehicle market 	<ul style="list-style-type: none"> • Potential negative implications of US government influence on future Detroit 3 program allocation
<ul style="list-style-type: none"> • MERCOSUR membership status may boost imports/exports from/to Brazil and Latin America 	<ul style="list-style-type: none"> • Failure to fully participate in the emerging advanced vehicle technology movement
	<ul style="list-style-type: none"> • Domestic political and economic turmoil related to US border tensions and policy implications

Priorities

- **Strengthening Domestic and Export Markets**

Renew vehicles

Investment Attraction

Free Trade Agreements

Innovation and Technology Development

Systems and Components

Vehicles

Global Manufacturing Center

Geographic Location

Automotive Manufacturing Experience

Real competitiveness



Innovación y Desarrollo



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Presented by:

Marisa Martínez
Economic Studies Manager
mmartinez@ina.com.mx