October 13, 2023

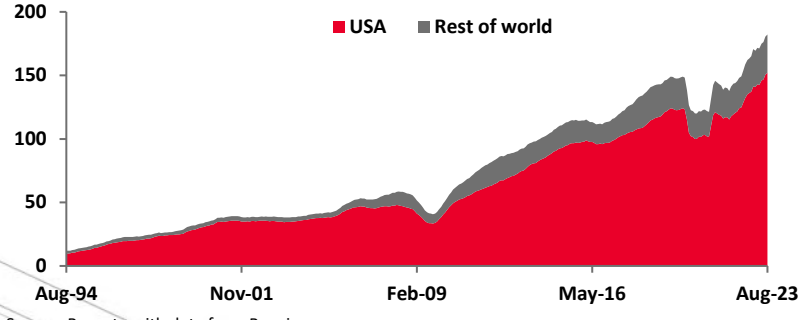
Mexico Economics – View from the Top

- **The strike in the US auto sector has reached 28 days. We analyze key data from the sector in Mexico, as well as some of its potential effects**
- **On the weekly agenda, we expect August's retail sales and September's *Timely Indicator of Economic Activity* to show that economic dynamism remained in place**

The strike in the US auto sector continues, with rising costs. The strike of the *United Auto Workers* (UAW) entered its 28th day, affecting the three main US producers: *General Motors, Ford,* and *Stellantis* (formerly *Fiat-Chrysler*). Together, they represent about 50% of US annual vehicle production (15 million). So far, 33.7 thousand of the 146 thousand autoworkers (23.1%) are on strike in 44 plants across 22 states. In addition, it has caused the temporary and permanent lay-offs of around 5,000 workers in the three companies –both in assembly and auto parts plants– due to supply chain disruptions. The union had US$825 million at the beginning of the strike to cover the lost wages of its members. According to our calculations, as of today –with the number of UAW autoworkers, closed plants, and an established 'strike pay' of US$500 per week–, missed wages for the 146 thousand employees could be covered for the next ten weeks (as of December 22nd). *Anderson Economic Group* calculated that the economic losses during the first three weeks were on the order of US$5.5 billion –with US$2.7 billion for the 'Big Three', and US$1.6 billion for their auto parts suppliers, among others. At the beginning of the strike, *Goldman Sachs* estimated that the weekly cost would be around US$2.5 and US$3.0 billion for GM and Ford, respectively. Meanwhile, their cost for accepting the UAW's conditions would be US$4.5 billion and US$5.5 billion in the next four years, in the same order. According to GM CEO, Mary Barra, the 2019 strike –that included 50,000 autoworkers and lasted for 42 days– caused losses of US$3.6 billion. Therefore, at today's prices, the daily cost was estimated at US$102.4 million vs US$128.6 million currently. In any case, the strike continues, its effects are likely non-linear, and have implications for the Mexican economy.

The importance of autos for the Mexican economy. In 2022, the sector represented 4.4% of GDP, with a 21.8% share of total manufacturing. Workforce figures are also notable –102.5 thousand autoworkers in assembly plants, and 876.7 thousand in auto parts– with a participation of around 22.0% in manufacturing. In terms of FDI, the sector received 12.4% of the total. According to the *International Organization of Motor Vehicle Manufactures*, Mexico is the seventh largest automaker in the world. In auto parts, it is the first supplier for the US –US$80 billion in 2022, according to the *National Auto Parts Industry* (INA)– and the fourth globally. There are more than 2,000 suppliers and 86% of their annual production is exported. In terms of international trade, in the last twelve months through August, the sector exported US$182.2 billion, with 83.5% of total exports destined to the US (see chart below).

Mexico auto exports
US$ billion, rolling 12-month sum



Source: Banorte with data from Banxico

Juan Carlos Alderete Macal, CFA
Executive Director of Economic Research and Market Strategy
juan.alderete.macal@banorte.com

Francisco José Flores Serrano
Director of Economic Research, Mexico
francisco.flores.serrano@banorte.com

Yazmín Selene Pérez Enríquez
Senior Economist, Mexico
yazmin.perez.enriquez@banorte.com

Cintia Gisela Nava Roa
Senior Economist, Mexico
cintia.nava.roa@banorte.com

www.banorte.com/analisiseconomico
@analisis_fundam

Winners of the 2023 award for best Mexico economic forecasters, granted by *Focus Economics*

Document for distribution among the general public

BANORTE

Presence of the 'Big Three' in Mexico. Back to the assembly subsector, 13 light vehicle companies were established in our country by 2022. The most important were *GM* (22.5%), *Stellantis* (12.5%), *Nissan* (11.8%) and *Ford* (9.2%). In particular, the 'Big Three' concentrate 44.2% of total production. On exports, the 'Big Three' explain 47.0% of the total, with GM as the largest participant. The following table shows total workers by company, the share of global workforce, and their locations within the country. Considering this, the states with a greater presence of the 'Big Three' are Estado de México, Coahuila, and Guanajuato.

'Big three' in México

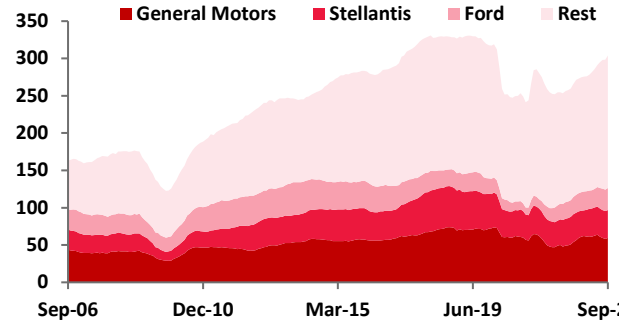
Thousands of workers, % of global workforce

Company	Workers	% Global workforce	Regional presence
General Motors	20.0	12.0	Coahuila, Estado de México, Guanajuato, San Luis Potosí
Ford	8.7	5.0	Chihuahua, Estado de México, Guanajuato
Stellantis	8.0	2.9	Coahuila, Estado de México

Source: Companies web sites

Light vehicles production by company

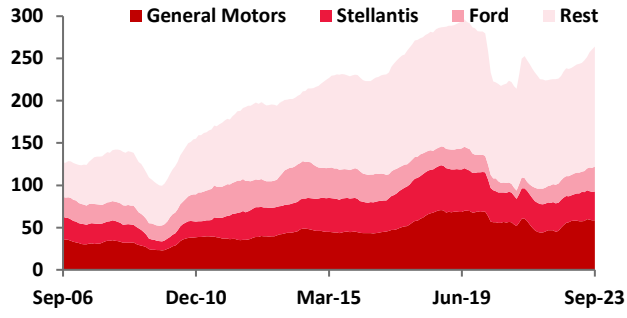
Thousand units, 12-month average



Source: Banorte with data from INEGI

Light vehicles exports by company

Thousand units, 12-month average



Source: Banorte with data from INEGI

Possible effects of the strike in Mexico. In 2019, the effects of the GM strike included: (1) Technical stoppages for about two and three weeks on assembly plants; (2) temporary layoffs, with approximately 6,500 autoworkers in two of its four plants furloughed, receiving an equivalent of 55% of their wages; (3) shortage of models and auto parts since the second week; and (4) the resumption of activities between one and three days after the end of the strike. Currently, the first reports about the strike already indicate technical stoppages in auto parts companies as early as four days after it started, with autoworkers receiving 50% of their wages and an estimated duration of a month and a half month due to the effects on supply chains (*e.g.* shortage of inputs, logistics, and inventory management). Comparing this with the 2019 strike, it is likely that there will be stoppages in local assembly plants. In this context, the INA estimates that the effects on the auto parts industry have amounted to US$412 million in four weeks, equivalent to 0.5% of exports to the US in 2022. However, we do not have a precise calculation for the 'Big Three' on Mexico. We anticipate that the impact in the assembly sector will be focused on these companies, although only partially. In this context, Estado de México, and Coahuila, would be the states with higher headwinds, while Querétaro will likely be more resilient due to its higher diversification.

Calendar of economic events

Date	Time (ET)	Event or indicator	Period	Unit	Banorte	Consensus	Previous
Tue 17-Oct	11:00am	International reserves	Oct-13	US$ bn	--	--	203.5
Tue 17-Oct	11:00am	Government weekly auction: 1-, 3-, 6-, and 12-month Cetes; 30-year Mbono (Jul'53), 10-year Udibono (Nov'31) and 2-, and 5-year Bondes F					
Thu 19-Oct	8:00am	Timely Indicator of Economic Activity*	September	% y/y	--	--	3.4
Fri 20-Oct	8:00am	Retail sales	August	% y/y	4.5	4.2	5.1
		Retail sales*		% m/m	0.3	--	0.2
Fri 20-Oct		Deadline for the approval of the Revenue Law by the Lower House					
Fri 20-Oct	4:30pm	Citibanamex bi-weekly survey of economic expectations					

*Seasonally adjusted figures. Source: Banorte with figures from INEGI, Banxico, and Bloomberg

Analyst Certification.

We, Alejandro Padilla Santana, Juan Carlos Alderete Macal, Alejandro Cervantes Llamas, Manuel Jiménez Zaldívar, Marissa Garza Ostos, Katia Celina Goya Ostos, Francisco José Flores Serrano, José Luis García Casales, Víctor Hugo Cortes Castro, José Itzamna Espitia Hernández, Carlos Hernández García, Leslie Thalía Orozco Vélez, Hugo Armando Gómez Solís, Yazmín Selene Pérez Enríquez, Cintia Gisela Nava Roa, Miguel Alejandro Calvo Domínguez, José De Jesús Ramírez Martínez, Gerardo Daniel Valle Trujillo, Luis Leopoldo López Salinas, Isaías Rodríguez Sobrino, Juan Carlos Mercado Garduño, Daniel Sebastián Sosa Aguilar, Jazmin Daniela Cuautencos Mora and Andrea Muñoz Sánchez, certify that the points of view expressed in this document are a faithful reflection of our personal opinion on the company (s) or firm (s) within this report, along with its affiliates and/or securities issued. Moreover, we also state that we have not received, nor receive, or will receive compensation other than that of Grupo Financiero Banorte S.A.B. of C.V for the provision of our services.

Relevant statements.

In accordance with current laws and internal procedures manuals, analysts are allowed to hold long or short positions in shares or securities issued by companies that are listed on the Mexican Stock Exchange and may be the subject of this report; nonetheless, equity analysts have to adhere to certain rules that regulate their participation in the market in order to prevent, among other things, the use of private information for their benefit and to avoid conflicts of interest. Analysts shall refrain from investing and holding transactions with securities or derivative instruments directly or through an intermediary person, with Securities subject to research reports, from 30 calendar days prior to the issuance date of the report in question, and up to 10 calendar days after its distribution date.

Compensation of Analysts.

Analysts' compensation is based on activities and services that are aimed at benefiting the investment clients of Casa de Bolsa Banorte and its subsidiaries. Such compensation is determined based on the general profitability of the Brokerage House and the Financial Group and on the individual performance of each analyst. However, investors should note that analysts do not receive direct payment or compensation for any specific transaction in investment banking or in other business areas.

Last-twelve-month activities of the business areas.

Grupo Financiero Banorte S.A.B. de C.V., through its business areas, provides services that include, among others, those corresponding to investment banking and corporate banking, to a large number of companies in Mexico and abroad. It may have provided, is providing or, in the future, will provide a service such as those mentioned to the companies or firms that are the subject of this report. Casa de Bolsa Banorte or its affiliates receive compensation from such corporations in consideration of the aforementioned services.

Over the course of the last twelve months, Grupo Financiero Banorte S.A.B. C.V., has not obtained compensation for services rendered by the investment bank or by any of its other business areas of the following companies or their subsidiaries, some of which could be analyzed within this report.

Activities of the business areas during the next three months.

Casa de Bolsa Banorte, Grupo Financiero Banorte or its subsidiaries expect to receive or intend to obtain revenue from the services provided by investment banking or any other of its business areas, by issuers or their subsidiaries, some of which could be analyzed in this report.

Securities holdings and other disclosures.

As of the end of last quarter, Grupo Financiero Banorte S.A.B. of C.V. has not held investments, directly or indirectly, in securities or derivative financial instruments, whose underlying securities are the subject of recommendations, representing 1% or more of its investment portfolio of outstanding securities or 1 % of the issuance or underlying of the securities issued.

None of the members of the Board of Grupo Financiero Banorte and Casa de Bolsa Banorte, along general managers and executives of an immediately below level, have any charges in the issuers that may be analyzed in this document.

The Analysts of Grupo Financiero Banorte S.A.B. of C.V. do not maintain direct investments or through an intermediary person, in the securities or derivative instruments object of this analysis report.

Guide for investment recommendations.

	Reference
BUY	When the share expected performance is greater than the MEXBOL estimated performance.
HOLD	When the share expected performance is similar to the MEXBOL estimated performance.
SELL	When the share expected performance is lower than the MEXBOL estimated performance.

Even though this document offers a general criterion of investment, we urge readers to seek advice from their own Consultants or Financial Advisors, in order to consider whether any of the values mentioned in this report are in line with their investment goals, risk and financial position.

Determination of Target Prices

For the calculation of estimated target prices for securities, analysts use a combination of methodologies generally accepted among financial analysts, including, but not limited to, multiples analysis, discounted cash flows, sum-of-the-parts or any other method that could be applicable in each specific case according to the current regulation. No guarantee can be given that the target prices calculated for the securities will be achieved by the analysts of Grupo Financiero Banorte S.A.B. C.V, since this depends on a large number of various endogenous and exogenous factors that affect the performance of the issuing company, the environment in which it performs, along with the influence of trends of the stock market, in which it is listed. Moreover, the investor must consider that the price of the securities or instruments can fluctuate against their interest and cause the partial and even total loss of the invested capital.

The information contained hereby has been obtained from sources that we consider to be reliable, but we make no representation as to its accuracy or completeness. The information, estimations and recommendations included in this document are valid as of the issue date, but are subject to modifications and changes without prior notice; Grupo Financiero Banorte S.A.B. of C.V. does not commit to communicate the changes and also to keep the content of this document updated. Grupo Financiero Banorte S.A.B. of C.V. takes no responsibility for any loss arising from the use of this report or its content. This document may not be photocopied, quoted, disclosed, used, or reproduced in whole or in part without prior written authorization from Grupo Financiero Banorte S.A.B. of C.V.

Directory

Research and Strategy

Alejandro Padilla Santana
Chief Economist and Head of Research
alejandro.padilla@banorte.com
(55) 1103 - 4043

Raquel Vázquez Godinez
Assistant
raquel.vazquez@banorte.com
(55) 1670 – 2967

Itzel Martínez Rojas
Analyst
itzel.martinez.rojas@banorte.com
(55) 1670 - 2251

Lourdes Calvo Fernández
Analyst (Edition)
lourdes.calvo@banorte.com
(55) 1103 - 4000 x 2611

María Fernanda Vargas Santoyo
Analyst
maria.vargas.santoyo@banorte.com
(55) 1103 - 4000 x 2586

Economic Research

Juan Carlos Alderete Macal, CFA
Executive Director of Economic Research and Market Strategy
juan.alderete.macal@banorte.com
(55) 1103 - 4046

Francisco José Flores Serrano
Director of Economic Research, Mexico
francisco.flores.serrano@banorte.com
(55) 1670 - 2957

Katia Celina Goya Ostos
Director of Economic Research, Global
katia.goya@banorte.com
(55) 1670 - 1821

Yazmín Selene Pérez Enríquez
Senior Economist, Mexico
yazmin.perez.enriquez@banorte.com
(55) 5268 - 1694

Cintia Gisela Nava Roa
Senior Economist, Mexico
cintia.nava.roa@banorte.com
(55) 1103 - 4000

Luis Leopoldo López Salinas
Economist, Global Internacional
luis.lopez.salinas@banorte.com
(55) 1103 - 4000 x 2707

Market Strategy

Manuel Jiménez Zaldívar
Director of Market Strategy
manuel.jimenez@banorte.com
(55) 5268 - 1671

Marissa Garza Ostos
Director of Equity Strategy
marissa.garza@banorte.com
(55) 1670 - 1719

Víctor Hugo Cortes Castro
Senior Strategist, Technical
victorh.cortes@banorte.com
(55) 1670 - 1800

José Itzamna Espitia Hernández
Senior Strategist, Equity
jose.espitia@banorte.com
(55) 1670 - 2249

Carlos Hernández García
Senior Strategist, Equity
carlos.hernandez.garcia@banorte.com (55) 1670 - 2250

Hugo Armando Gómez Solís
Senior Analyst, Corporate Debt
hugoa.gomez@banorte.com
(55) 1670 - 2247

Leslie Thalía Orozco Vélez
Senior Strategist, Fixed Income and FX
leslie.orozco.velez@banorte.com
(55) 5268 - 1698

Isaías Rodríguez Sobrino
Analyst, Fixed Income, FX and Commodities
isaias.rodriguez.sobrino@banorte.com
(55) 1670 - 2144

Gerardo Daniel Valle Trujillo
Analyst, Corporate Debt
gerardo.valle.trujillo@banorte.com
(55) 1670 - 2248

Juan Carlos Mercado Garduño
Strategist, Equity
juan.mercado.garduno@banorte.com
(55) 1103 - 4000 x 1746

Quantitative Analysis

Alejandro Cervantes Llamas Executive Director of Quantitative Analysis
alejandro.cervantes@banorte.com
(55) 1670 - 2972

José Luis García Casales
Director of Quantitative Analysis
jose.garcia.casales@banorte.com
(55) 8510 - 4608

Miguel Alejandro Calvo Domínguez
Senior Analyst, Quantitative Analysis
miguel.calvo@banorte.com
(55) 1670 - 2220

José De Jesús Ramírez Martínez
Senior Analyst, Quantitative Analysis
jose.ramirez.martinez@banorte.com
(55) 1103 - 4000

Daniel Sebastián Sosa Aguilar
Senior Analyst, Quantitative Analysis
daniel.sosa@banorte.com
(55) 1103 - 4000 x 2124

Jazmin Daniela Cuautencos Mora
Strategist, Quantitative Analysis
jazmin.cuautencos.mora@banorte.com
(55) 1103 - 4000

Andrea Muñoz Sánchez
Analyst, Quantitative Analysis
andrea.muñoz.sanchez@banorte.com
(55) 1103 - 4000

BANORTE