Mexico

January 2021

Agriculture	Automotive/ Transport	Chemicals/ Pharma	Construction Const.Mtrls	Consumer Durables	Electronics/ ICT	Financial Services	Food	Machines/ Engineering	Metals	Paper	Services	Steel	Textiles

Source: Atradius

Industry performance

Changes since September 2020 · Sources: Atradius, Oxford Economics

Agriculture

Remains Poor

In 2020 businesses were affected by the economic contraction and higher import costs of commodities (especially agrochemicals) due to the peso volatility against the USD, which negatively impacted margins. However, in 2021 a slow recovery of the sector is expected. While agriculture will remain exposed to volatile commodity prices due to exchange rate fluctuations, the implementation of the USMCA agreement should also help sustain sector growth in 2021, mainly benefitting the livestock segment.

Automotive/Transport

Remains Poor

In 2020 production of vehicles decreased 30% year-on-year, while production of automotive parts and components declined 20%. This decline mainly happened in Q2 of 2020, while the sector has started to rebound again since Q3 of 2020. Regarding the aftermarket sector, the sale of new vehicles in Mexico has shown a downward trend since 2017, with a major year-on-year decrease in 2020 due to the pandemic. Consumers increased interest in the maintenance of their current vehicles and in the acquisition of used vehicles, which has benefited dealers of car parts. Payment delays and defaults increased in 2020 but are expected to level off in H1 of 2021, as the sector continues to rebound. After a 28% contraction in 2020, automotive value added is forecast to recover 20% in 2021.

Chemicals/Pharmaceuticals

Remains Fair

While many chemical businesses selling to the automotive, construction or textile sectors were severely affected by the economic downturn, manufacturers of items and goods such as specialized plastics destined for food and packing of healthcare products benefited in terms of sales and margins.

More than 80% of chemicals businesses in Mexico are small or medium sized, and the main funding vehicles in the industry are supply chains. In H1 of 2020, liquidity of businesses in the chemicals sector was squeezed due to currency volatility and low oil prices. However, in H2 of 2020, polyethylene prices recovered as a result of shortages triggered by the hurricane season and by the closure of petrochemicals plants in the Gulf of Mexico. It is expected that prices will remain stable in H1 of 2021, without a major decline. A slight increase in overdue payments has been recorded in the chemicals sector over the past couple of months. Industry value added is expected to increase 4% in 2021 after a 3% decline in 2020.

Pharmaceutical businesses are usually financially robust and well established. They have benefited from higher demand for drugs, as prices have remained steady. Pharmaceuticals value added is expected to increase by about 3% in 2021.

Construction

Remains Bleak

The sector already performed poorly in 2019, and the economic downturn due to the coronavirus pandemic has aggravated the situation for many businesses. Operations and projects were suspended in April-May 2020 due to the pandemic, and the reactivation has been slow since then. After a 15% contraction, sector value added is expected to increase only 7.5% in 2021. Payment delays have increased since Q3 of 2020.

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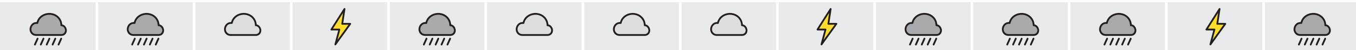

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Consumer Durables

Remains Poor

Sales of non-food consumer goods deteriorated in 2020 due to the coronavirus impact, with private consumption declining 10%. In Q2 of 2020, department stores reported a sales drop between 50% to 70% year-on-year, mainly due to lockdown measures. In Q3 of 2020 the decline continued, albeit less steep (down in the range of 10%-20%), while online sales were an exception, experiencing sharp increasing sales. Despite the holiday season, performance in Q4 of 2020 was negatively impacted by lockdowns in the capital, as well as by persistent low consumer confidence.

The outlook for Q1 of 2020 remains subdued, as households are still facing economic pressures, and consumer confidence is on a downward trend. In 2021 retail value added is expected to rebound by a modest 3% after contracting 8% in 2020. Due to the sharp contraction in 2020, the financial strength of many businesses has seriously deteriorated, and non-payments have sharply increased over the past couple of months.

Electronics/ICT

Remains Fair

The electronics/ICT performance was not as negatively affected by the coronavirus pandemic as initially forecast. Rather, the sector performed well compared to many other industries. ICT sales have benefited particularly from increased remote working and the need of many companies to upgrade their platforms in order to keep operating. Most ICT businesses reported stable or even rising revenues in 2020. ICT value added is expected to increase by 5% in 2021 after growing 2% in 2020.

Financial Services

Remains Fair

The financial services sector remains generally resilient. Banks are reporting lower revenue and smaller margins, in part due to the creation of higher reserves for bad debt. However, they have thus far reported no losses. Financial institutions recorded payment delays, but granted customers payment extensions.

Food

Remains Fair

Food and non-alcoholic drink spending will continue to perform well throughout 2021, as consumers prioritise essential items. Online food retail is expected to continue growing, after recording sharp increases in 2020. Food value added is expected to increase by more than 2% in 2021. A potential downside risk for certain segments could be high unemployment, another wave of the pandemic and uncertainty over the roll-out of vaccination. Another issue are tighter regulations on food and drink for health reasons (e.g. other states following Oaxaca, which banned the sale of junk food and sugary drinks to children in August 2020).

Machines/Engineering

Remains Bleak

Capital investment in Mexico deteriorated steeply in 2020, and engineering value added is expected to have declined 18% in 2020. Payment delays and business failures have increased in 2020. In H1 of 2021, the rebound is expected to remain slow.

Metals

Up from Bleak to Poor

In H1 of 2020 the industry suffered from peso depreciation, volatility of metal prices and decreased demand from key buyer sectors due to the economic downturn. Businesses´ financials have been increasingly strained, and metals value added is estimated to have declined by 8% in 2020, following a 10% contraction in 2019. Payment delays increased in H2 of 2020. Given the ongoing modest rebound of performance, a slight decrease in payment delays is expected in H1 of 2021. Metal prices are expected to increase modestly in 2021 due to rising demand for metals from China, and global demand for batteries for electric cars.

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Paper

Remains Poor

Subsectors like newspaper printing are severely impacted by higher prices for raw material imports and by decreasing demand due to the ongoing recession. However, businesses in some subsectors like packaging are not as negatively affected, with some benefitting from increased online shopping. Paper value added is expected to decrease by about 4.5% in 2021, and non-payments have increased.

Services

Remains Poor

Due to lockdown measures, closing of borders and the economic contraction, many segments suffered heavily in 2020, especially hotels and catering, restaurants, bars, entertainment and cultural events, airports, tourism, travel agencies and tour operators. It is expected that hotel and catering value added decreased by 22% in 2020.

At the end of December 2020, it was determined that restaurants in Mexico City and the metropolitan area had to close again, offering only take-away services. It is expected that by the end of 2020, 20% of restaurants finally ceded their business. Regarding the hotel sector, for the December holidays season the government of the state of Quintana Roo granted special permits for operations at 80% occupancy, which could lead to a slight recovery in the industry. However, this is still insufficient to offset the effects of the pandemic. The number and value of payment delays increased sharply in the Mexican service sector in 2020, particularly in the hotel and catering segment. A potential rebound in 2021 strongly depends on the further development of the pandemic and the spread of mass vaccination.

Steel

Remains Bleak

In 2020 the industry suffered from peso depreciation, higher iron ore prices and decreased steel consumption from key buyer sectors like automotive and construction. Steel businesses´ financials are increasingly strained, and steel value added is expected to decline almost 10% in 2020, after a 10.5% contraction in 2019. Payment delays and business failures have sharply increased in H1 of 2020, rising further in Q3 of 2020. Given the ongoing modest rebound of performance, a slight decrease in payment delays is expected in H1 of 2021.

Textiles

Remains Poor

Producers, wholesalers, and retailers already suffered before the coronavirus outbreak from fierce competition and thin margins. Deteriorating sales due to the coronavirus pandemic have exacerbated the market crisis. Although the clothing and footwear industry has significantly increased online sales volumes, this has not been enough to compensate for the losses by brick-and-mortar retailers. It is expected that textiles value added contracted by more than 20% in 2020. Payment terms in the industry are extensive, reaching up to 120 days, and the number and value of payment delays has increased sharply, with a further rise expected in H1 of 2021.