Big 3's Woes Migrate

■ Mexico's dependence on assembling cars for U.S. automakers puts pressure on its economy as Detroit loses market share to foreign competitors.

By Marla Dickerson, Times Staff Writer

MEXICO CITY — DaimlerChrysler's newest pickup is so enormous that you could fit a hockey team in the cab. Now the automaker — and the Mexican workers who build the truck — need it to be a monster hit with American consumers.

Available in U.S. dealerships by the end of this month, the 2006 Dodge Ram Mega Cab is the latest model to roll out of the company's plant in the northern Mexican city of Saltillo, where DaimlerChrysler recently invested $210 million to overhaul its assembly lines. The company hopes the six-passenger behemoth will boost U.S. sales of its Ram-series trucks, which have lost ground to competitors such as Japan's Toyota Motor Corp. and Nissan Motor Co.

The stakes are even higher for Mexico, whose auto industry is so dependent on the Big Three automakers that it might as well be called Motown South. Combined, Ford Motor Co., General Motors Corp. and DaimlerChrysler boast 11 assembly and parts plants in Mexico, which produced nearly 72% of the 1.1 million vehicles that Mexico exported last year, mostly to American showrooms.

But the Big Three's shrinking U.S. market share is putting the hurt on one of Mexico's crucial industries, which has seen its manufacturing volume, exports and assembly line employment decline for four years straight.

Between 2000 and 2004, the number of cars and trucks assembled in Mexico fell 18.5% to 1.6 million, while vehicle exports plunged 23%, according to SISAM, a Mexican automotive consulting group.

And the slide continues. Production through the first seven months of 2005 is off 4.9% compared with the same period last year, while exports are down 6.5%. The number of coveted assembly line jobs has fallen 18.5% since 2000 to just over 55,000. Mexico's sluggish auto sector was one of the major culprits behind an anemic 3.1% rate of growth in the nation's gross domestic product in the second quarter, which was well below expectations.

Experts blame war, recession, model changeovers and productivity gains for the decline in production and employment in the last few years. But some analysts say the root cause of the Mexican industry's troubles is that American buyers don't want what the Big Three are selling.

"The problem is that the types of cars that Mexico is manufacturing are not in demand in the U.S." said Suhas Ketkar, a Latin America economist at RBS Greenwich Capital Markets in Connecticut. For Mexican production to recover, he said, American automakers "have to retool those factories to produce the types of vehicles that are in demand."

The good news for Mexico is that the carmakers are trying to do just that. Duds such as the Pontiac Aztek and Dodge/Plymouth Neon have been yanked from Mexican plants while fresh models are ramping up. Some analysts predict that Mexico could end 2005 with a slight increase in vehicle manufacturing, snapping its four-year slide.

Ford has overhauled its plant in Hermosillo in the northwestern Mexican state of Sonora to produce a new line of mid-sized passenger cars, the Ford Fusion, Mercury Milan and Lincoln Zephyr. General Motors recently began building its retro Chevrolet HHR, a sort of Chrysler PT Cruiser look-alike, at its factory in Ramos Arizpe in the northeastern state of Coahuila.

Aside from the Big Three, some of their European and Asian competitors are also gearing up here. German automaker Volkswagen launched its new Jetta sedan (also known as the Bora) in the spring from its Puebla plant in central Mexico. Toyota in January began its first full year of assembling Tacoma pickups at its factory near Tijuana. Meanwhile, Nissan, which has an alliance with French automaker Renault in Mexico, plans to produce a new compact car next year at its plant in Aguascalientes, about 260 miles northwest of the capital.

"The last few years have been difficult," said Feliz Rojas Cruz, director general of SISAM. "Now things are looking up."

Mexico's economy is depending on it. Outside of electronics, no industry is more important to Mexico's trade balance than the automotive sector, which accounted for 16% of the nation's total exports last year. Last year Mexico exported more vehicles and auto parts than petroleum — $30.5 billion of autos and components compared with $21.2 billion of crude oil, according to Bank of Mexico figures. That's no fluke. The trend has held for more than a decade.

The automotive industry is also a major employer. Including auto parts and related industries, the sector provides jobs for nearly half a million Mexicans. That is about one of every eight jobs in the formal economy, according to an analysis by Morgan Stanley.

Experts credit the North American Free Trade Agreement for accelerating auto production in Mexico. Even including the recent drop, the nation's auto exports have tripled since the early '90s.

But Mexico's concentration on the Big Three has left it vulnerable now that those automakers are struggling. And trade pacts with more than 40 other nations have flooded Mexico's domestic market with imported vehicles while failing to bring much additional manufacturing to Mexico. Toyota's Tijuana factory, which opened last year, was Mexico's first new non-Big Three assembly operation in nearly a decade.

Mexican economic officials say they are trying hard to diversify, courting automakers from Japan, Europe, China, India and Russia among other places to set up shop next to the largest car-buying country in the world. "We are working very aggressively," said Ricardo Carrasco, director of the automotive sector for Bancomext, Mexico's government trade agency, who declined to give specifics.

But analysts say it won't be easy. A number of Japanese and European makers in recent years have opted to locate new North American assembly plants in the Southern U.S., lured by fat state incentives, an established supplier base, a nonunion environment and U.S. rule of law. Mexico's high energy costs, rigid work rules, bureaucratic red tape, perceived insecurity and poorly educated workforce have clearly offset its cheap factory hands in the eyes of some corporate decision makers.

"The automobile industry depends on the total package of wages, productivity, transportation costs and government regulations," said Christian Stracke, an emerging markets analyst with New York-based CreditSights. "Among those four, the only thing where Mexico can compete is wages, and their wages aren't that low compared to places like China or India."

Indeed, Asia is emerging as the region of choice for carmakers looking to build plants in the developing world. China, in particular, represents a huge potential consumer market as well as a high-quality, low-cost platform for exports to Europe and North America. Mexico's prime location next to the U.S. is no longer a slam-dunk in the face of rapidly declining shipping costs and Asia's growing manufacturing prowess.

"Geography still matters, but it's a lot less important than it used to be," said Gray Newman, senior Latin America economist for Morgan Stanley in New York. "The amount of competition that Mexico is facing is much higher today than in the past when it could rest on its geography and fairly closed [domestic] market."

For now, Mexico is counting on new products from its existing base of manufacturers to help revive the nation's auto production. How they'll fare remains to be seen.

U.S. sales of Volkswagen's Mexican-made Jetta got off to a slow start this spring but are picking up steam. Chevrolet's HHR won't hit U.S. showrooms until the fall, and the company has backed off its earlier sales projections of as much as 100,000 units annually in the face of waning consumer interest in retro-styled vehicles. Ford's three new sedans, also set to land in U.S. dealerships this year, face ferocious competition from popular Japanese and European passenger cars.

"Even with strong new products, it's going to be a dogfight for the Big Three to increase market share on the car side," said auto analyst Jeff Brodoski, of J.D. Power & Associates.

Then there's the matter of gasoline prices. The 2006 Dodge Ram Mega Cab, which is also being built in Michigan and Missouri, is coming out at a time when gas is averaging about $2.60 a gallon. Filling the 35-gallon tank with regular unleaded would cost $91, even more for models with diesel engines.

Still, pick-ups with "crew cabs" that can fit four or more passengers are the fastest-growing segment of the truck market.

DaimlerChrysler says interest is running high in the super-sized Ram. Dealers requested 18,000 of the vehicles the first week that the company opened accepted orders, according to Chrysler Group spokesman Colin McBean, who said the company wouldn't release the sticker price until Sept. 1.

"We put more room in the cab because that's what customers told us they wanted," McBean said. "Our cab goes beyond anyone else's. We're happy to be the first."

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Food
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Outdoors

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