



2016 Top Markets Report **Construction Equipment** Country Case Study

Mexico

Mexico is the second largest market for U.S. CE sector exporters. Sector exports to Mexico of \$31.0 billion/\$6.2 billion (2011 to 2015 combined/annualized average) are more than double the next largest export market. Engines, pumps and motors, and cylinders and actuators for use in CE sector equipment accounted for two-thirds of total exports. Mexican buyers look for service, repair parts and machinery that will stand up to rental/lease applications. Continued low crude oil prices and a historically strong dollar have slowed Mexico's strong economic growth; continued modest economic gains and the country's plans to invest heavily in infrastructure development, however, should keep demand for U.S. CE sector exports high in the long-term.

Overall
Rank

15

Mexico's Export Market

Mexico is the second largest U.S. export market for CE sector products. The two countries' shared border and business practices, membership in the North American Free Trade Agreement (NAFTA), and Mexico's strong and stable economy make it one of the most important sector top markets.

For the period from 2011 to 2015, cumulative U.S. CE sector exports to Mexico of \$31.0 billion (\$6.2 billion annualized average) accounted for 15 percent of the total global U.S. sector exports. U.S. exports to Mexico were more than double the next largest export market of Australia at \$13.7 billion. Exports of engines for use in CE sector equipment accounted for 62 percent of exports at \$19.1 billion.

Construction machinery and mining machinery and equipment accounted for 31 percent of total U.S. CE sector exports to Mexico at \$9.5 billion. Exports of pumps/motors and cylinders/actuators combined accounted for the remaining 7 percent of exports at \$2.4 billion.

Country Snapshot:

- Large export volume (second largest U.S. CE sector export market)
- Long-term steady export growth/short-term decline
- Service and repair parts are a large percentage of U.S. CE sector exports

Unlike those to the majority of other markets, U.S. CE exports to Mexico grew every year since the end of the 2008 recession until 2015, when exports declined by 21.5 percent. Despite this short-term decline, U.S. CE sector exports to Mexico have experienced long-term sustained growth. In addition to uninterrupted sector growth from 2008 to 2014, U.S. CE sector exports to Mexico grew 173.5 percent at a Compound Annual Growth Rate (CAGR) of 6.9 percent from 2000 to 2015.

Mexico's CE sector market differs somewhat from its NAFTA partners in the United States and Canada, and these differences are likely contributors to export growth for the U.S. CE sector. Unlike the United States and Canada, where many end users purchase equipment, a lack of capital by

construction equipment end users means they are much less likely to purchase machinery outright. Instead, these users enter into rental or lease arrangements with manufacturer-affiliated or independent rental companies. Rent/lease arrangements allow access to U.S. CE sector equipment without major cash investment. This practice leads to a large lease/rental equipment base, which in turn represents an attractive market for CE sector service and repair parts. As the lease/rental equipment ages, demand for service and repair parts, including engines, rises. The high percentage of engine and service and repair parts (62 percent) as a percentage of total CE sector exports supports this observation.

The customer base for these CE sector equipment rental companies include small, medium and large contractors as well as large construction firms engaged primarily in the following sectors: oil and gas, utility and electrical, general infrastructure, and commercial and residential construction. In addition, many U.S. CE sector companies operate Mexican business units for sales, service and manufacturing. Although Mexico does possess a significant manufacturing industry, U.S. CE sector exporters do not face any meaningful competition from domestic competitors in the sector.

Challenges and Barriers to Export

Barriers to export for U.S. CE sector goods are not significant. As a result of the enactment of the North American Free Trade Agreement (NAFTA) in 1994, U.S. CE sector goods enter into Mexico duty free.¹ To qualify for duty free treatment, however, CE sector products must satisfy NAFTA rules of origin requirements, which can be a difficult and complex task. To assist potential exporters with this requirement, the Department of Commerce maintains a website containing guidance on satisfying rules of origin requirements.²

Customs documentation/compliance for export goods can be problematic. Import documentation is complex, and although not required by law, the use of a customs broker maybe necessary to successfully export from the United States to Mexico.

Mexico's largest export commodity is crude oil, and continued low prices directly affect Mexico's economic performance and forecast. Slower

economic growth, as well as reduced funding for public and private infrastructure development, impact demand for U.S. CE sector exports. Currency fluctuations directly affect prices on CE sector products for Mexican buyers. The Mexican peso has continued to weaken against the U.S. dollar. After reaching an all-time high in February 2016, the U.S. dollar weakened slightly but is still up over 14 percent over the past twelve months against the peso.³ Continued low oil prices will likely put further downward pressure on the peso and drive prices of U.S. CE sector exports up.

Opportunities for U.S. CE Exporters

Despite these challenges, the opportunity outlook for U.S. CE sector exporters remains positive. Under NAFTA, U.S. CE exporters face very few barriers to trade. In addition, the following factors further increase Mexico's attractiveness as an export market:

Market stability: Although low prices on crude oil persist, the Mexican economy is relatively stable and growing. The Mexican economy lost some momentum in the first half of 2015; however, economic growth of 2.3 percent is predicted to increase to 3.0 percent by 2017.⁴

Recognized brands: U.S. CE sector brands are well known and respected in Mexico, including U.S. sector leaders such as Caterpillar and Deere.

Established dealer network: Virtually all major U.S. CE manufacturers have established dealer networks in Mexico, which, in turn, feed CE sector export demand. Unlike other developed markets, end users typically rent or lease equipment for use. These dealerships, along with other independent agents, make large equipment, service and repair parts, and product support services available to end users and offer comprehensive product support services.⁵

Business environment: In addition to the benefits of free trade under NAFTA, Mexico is ranked 38th in the World Bank Ease of Doing Business Index, which is a positive indicator of business friendly regulations and a generally favorable export climate.⁶ Intellectual property rights protection has strengthened over the past several years due to stricter laws protecting IPR, harsher penalties for violation, and stronger enforcement at the federal level.⁷

National Infrastructure Plan (NIP): The government of Mexico's recognition of the need for adequate infrastructure to support economic activity prompted the publication of the National Infrastructure Program (NIP) for 2014 to 2018. The NIP includes a diverse array of projects that would result in expenditures from the public and private sectors upwards of \$600 billion for upgrades in many sectors, including those for transportation, communications networks, energy (power generation, oil and gas), water, health care, urban development and housing, and tourism. Although doubts exist about the country's ability to organize, fund and execute the totality of the NIP, the plan's publication makes clear the desire for comprehensive investments in infrastructure development.⁸

Trade exhibitions: U.S. CE sector exporters have many opportunities to make contact with prospective Mexican buyers through trade exhibitions in North America. CONEXPO/ConAgg (Las Vegas, NV) is the largest sector trade exhibition in North America. Held every three years, the show is widely attended by Mexican buyers and exhibitors. MINExpo International (Las Vegas, NV) is the world's largest trade exhibition for the mining sector and is held once every four years. Along with annual shows

World of Concrete (Las Vegas, NV) and World of Asphalt (location varies by year), which are focused on equipment used in production and application of materials, these events provide good opportunities for U.S. CE sector exporters to reach Mexican buyers. The largest and most important CE sector trade show in Mexico is Expo CIHAC (Mexico City). EXPO CIHAC is actually the largest CE sector trade exhibition in Latin America and has expanded to include a regional trade exhibition Expo CIHAC Occidente in Guadalajara.

Know the Buyer

Engines, cylinders and actuators, and pumps and motors make up two-thirds of U.S. CE sector exports to Mexico. These components are used to service a large, pre-existing equipment base. Mexican buyers look for CE sector service and repair parts that will maximize the service life of this large equipment base. As for construction equipment, Mexican buyers look for equipment that is productive, reliable, and utilizes technology to achieve these characteristics. Since much of the construction equipment exported to Mexico ends up in rental or lease applications, service life and easy, low-cost maintenance are also factors in purchase decisions.

¹https://build.export.gov/main/FTA/nafta/eg_main_017794

²https://build.export.gov/main/FTA/nafta/eg_main_017794

³<http://www.tradingeconomics.com/mexico/currency>

⁴<http://www.worldbank.org/en/country/mexico/overview#1>

⁵ http://www.deere.com/en_US/docs/pdfs/parts/wwps_locations.pdf

⁶ <http://www.doingbusiness.org/data/exploreconomies/mexico/>

⁷ <http://www.iccwbo.org/Advocacy-Codes-and-Rules/BASCAP/Value-of-IP/IP-Guidelines-Launch-Events/Economist-Intelligence-Unit-Intellectual-property-environment-in-Mexico/>

⁸ <http://knowledge.wharton.upenn.edu/article/how-a-new-infrastructure-plan-could-help-build-mexicos-future/>