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The Motor Vehicle Industry Situation in Mexico: A sector and regional appraisal

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The dramatic decline in motor vehicle demand on a worldwide scale from the second half of 2008 onwards has been one of the clearest signs of the global recession and perhaps the least expected in terms of its extent, in terms of the heavy fall in sales and the growing financial problems of companies, especially North American. With a more than 40% drop in sales during the first few months of this year, only comparable in terms of units sold to the volumes recorded in the early 1980s, the global industry, in particular the North American industry, is facing a profound restructuring that had commenced years ago and that this crisis is probably going to speed up. These changes will include updating or eliminating models, in some cases the relocation of factories, aggressive cost cutting and incentives to increase productivity. They will have huge implications for countries such as Mexico, where the motor vehicle industry bears significant weight in the manufacturing sector and in the economy as a whole.

Against this backdrop of major transformations, which could be of a structural scope and could in some cases take years to become consolidated, this article analyses the global motor vehicle industry context, with a special emphasis on the situation that US car markers are experiencing and the implications for Mexico. Based on the characteristics and recent changes in factories located in Mexico, forecasts are made for the rest of 2009 and for 2010, from both a domestic point of view and the state economies that rely heavily on this activity.

Vehicle sales in US

	Million units			Annual % Change	
Origin	2007	2008	2009*	2008	2009
North America	8.4	6.4	4.3	-23.9	-32.7249
Japan	5.2	4.6	3.7	-12.3	-18.48
Germany	0.9	0.9	0.7	-5.5	-22.9491
Other	1.6	1.4	0.7	-13.1	-48.0
Total	16.1	13.2	9.5	-18.0	-28.2

* Annualized with January-May information

How did Mexico get on in 2008?

Until 2008, transactions in Mexico were some of the least affected by the global crisis, in relative terms, compared to the US and Canada. In the North America Free Trade Agreement (NAFTA) zone, the total volume of vehicles and lorries (including heavy vehicles) manufactured in 2008 fell by 16.2% in annual terms. This represents 12.6 million units produced compared to 15 million in the same period in 2007. In Mexico, however, manufacturing rose by 4.4% that year, increasing its participation as a manufacturer in North America from 13.4% in 2007 to 16.6% in 2008. The different companies have used the advantages of producing in Mexico to assemble vehicles mainly for the US, but also for other markets: in 2008, around 77% of the units exported from Mexico were sent to the US, whereas in the same period in 2007 the proportion was higher, at 80%. Without losing its focus as a regional supplier, the motor vehicle sector in Mexico has gradually progressed towards the geographical diversification of its sales.

Light vehicle production in North America

	Thousands of units		Contribution %		% Change	Segment
Mix	2007	2008	2007	2008	Annual	product
US						
Cars	3.9	3.8	60.6	60.9	-3.8	44.7
Light	6.5	4.7	76.6	73.2	-28.5	55.3
Total	10.5	8.5	69.7	67.1	-19.3	100.0
Canada						
Cars	1.3	1.2	20.7	19.3	-10.9	58.5
Light	1.2	0.8	14.0	13.3	-29.4	41.5
Total	2.5	2.0	16.9	16.2	-19.6	100.0
Mexico						
Cars	1.2	1.2	18.7	19.8	1.6	58.6
Light	0.8	0.9	9.3	13.5	8.7	41.4
Total	2.0	2.1	13.4	16.6	4.4	100.0
Total						
Cars	6.5	6.2	100.0	100.0	-4.3	49.2
Light	8.5	6.4	100.0	100.0	-25.2	50.8
Total	15.0	12.6	100.0	100.0	-16.2	100.0

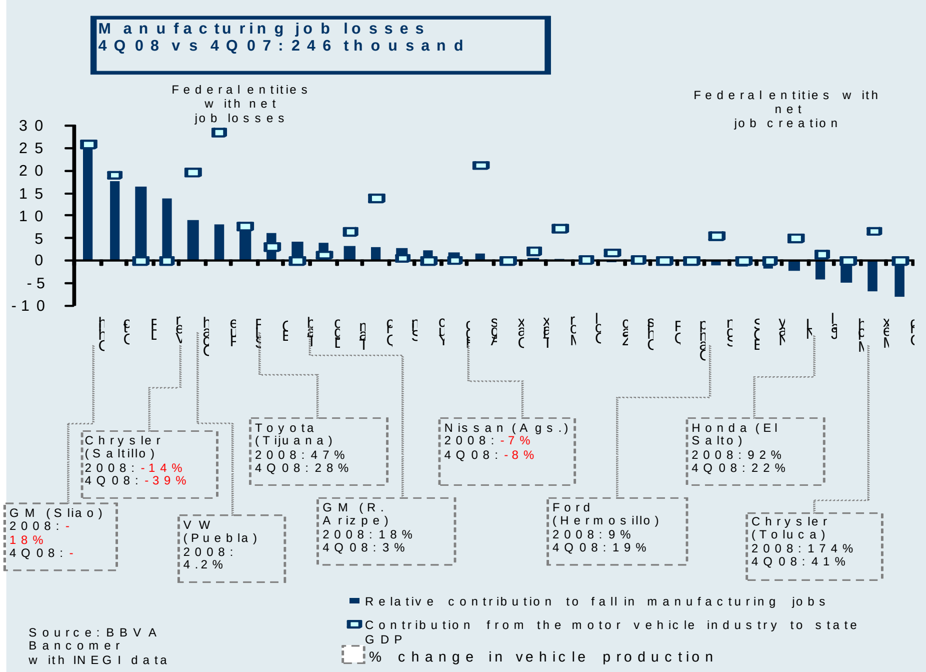
Source: BBVA Bancomer with Ward's AutoInfoBank data

A thorough analysis of vehicle production in Mexico helps to explain the high growth levels in the industry and its special features on a regional level. Considering the motor vehicle segment alone, in Mexico 24 models are manufactured, eight of which recorded positive growth levels in 2008 and represented 48% of output. The most dynamic makes were Honda and Toyota, with high annual growth levels, 97% and 47% respectively, although their weight in the total produced volume is relatively low (3.2% taken together). As for other car makers, it is worth noting that the results were generally mixed, with some models growing at two-digit rates and other, even manufactured at the same plant, with just as significant falls.[1] This reflects the change in consumer preferences and the strong competition in the industry.

In Mexico, locally-differentiated results

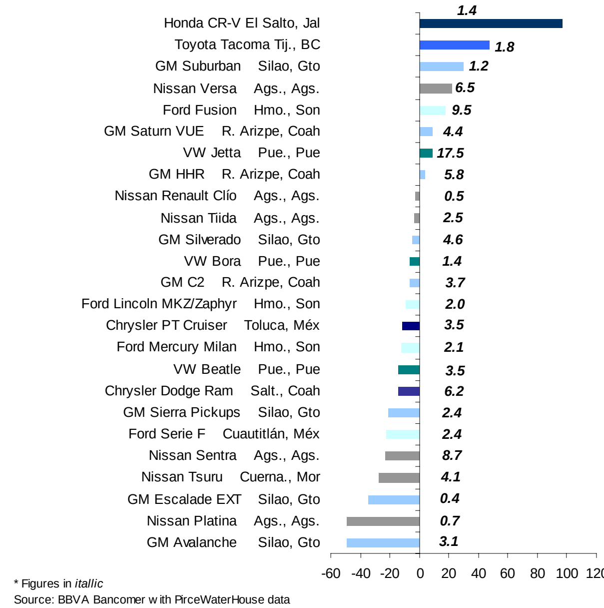
In accordance with the INEGI, the motor vehicle industry (vehicle, engine and car parts manufacturing) represents around 3% of the GDP, 3% of total employment in the formal sector and 6% of total remuneration, also on a domestic scale. However, for federal entities such as Puebla, Chihuahua and Aguascalientes it represents one of the pillars of the state economy, with shares of between 20 and 30% of the GDP and between 18 and 33% of employee wages.

Decline in manufacturing jobs in 2008 and motor vehicle industry
(Relative contribution)



Source: BBVA Bancomer with INEGI data

Which automobiles are made in Mexico and which ones grew in 2008?
(2008 growth y relative contribution*, %)



* Figures in *itallic*
Source: BBVA Bancomer with PircweWaterHouse data

How important is the motor vehicle industry?
(% contribution, 2006)

	GDP	Employment*	Wages*
Domestic	**3.3**	**3.2**	**5.8**
Puebla	28.6	4.0	18.0
Chihuahua	25.9	22.6	33.1
Aguascalientes	21.3	5.2	18.1
Coahuila	19.6	13.1	19.0
Guanajuato	19.1	2.1	5.0
Querétaro	13.9	5.8	13.7
San Luis Potosí	7.7	3.8	6.3
Morelos	7.3	1.5	10.2
Mexico	6.6	2.8	7.6
Tamaulipas	6.4	7.4	11.2
Sonora	5.5	4.2	7.5
Nuevo León	5.1	4.1	4.7
Baja California	3.1	3.0	5.5
Tlaxcala	2.2	1.3	2.5

* On a domestic level
Source: BBVA Bancomer with INEGI data (Economic Census 2004 and the Motor Vehicle Industry in Mexico, published 2008)

1 This is the case of General Motors, for example, with 23% growth in Suburban, and falls of more than 20% in Avalanche, Escalade and Sierra pickup trucks.

The results in terms of employment during 2008 reveal these regional differences. According to the National Occupation and Employment Survey (ENOE) results, out of the 246 thousand jobs lost in the manufacturing sector in 2008, a significant part can be linked to the fall in vehicle output volumes at motor vehicle factories. Examples are: Guanajuato and Coahuila, which together account for 26% of the job losses and recorded falls in output of 18 and 39% respectively over the year; and Puebla, which also accounted for a relatively high percentage of the decline in employment (8%), recorded a 36% drop in its output in the fourth quarter of the year (although in accrued annual terms the result was a 4% increase). At the opposite end are Sonora, Jalisco and the State of Mexico, where a net creation of manufacturing jobs was recorded, which is in keeping with increases in Ford production in Hermosillo (9%), Honda in El Salto (92%),and Chrysler in Toluca[2] (174%).

Changes in 2009

Due to the persistent decline in vehicle demand, the industry has continued to change its production plans. In early 2009 initial forecasts hinted at a drop in output volume of between 30 and 40%. However, reality has exceeded expectations, and in view of the market squeeze and the changes in US car maker output levels, the annual output volume is now expected to reduce by around 60%, dropping from 2.1 to just 1 million units.

Vehicle production in Mexico

	Thousands of units		Contr. %		Annual % change
Company	2008	2009*	2008	2009	2009 vs. 2008
Nissan	449.4	298.7	21.6	29.3	-33.5
VW	449.1	197.5	21.6	19.3	-56.0
GM	484.3	186.1	23.3	18.2	-61.6
Chrysler	280.1	141.7	13.5	13.9	-49.4
Ford	314.2	124.1	15.1	12.2	-60.5
Honda	51.3	46.5	2.5	4.6	-9.2
Toyota	49.9	26.5	2.4	2.6	-46.8
	2,078.3	1,021.2	100.0	100.0	-50.9

Source: BBVA Bancomer with PwC and AMIA data

* Own estimate

In the case of Chrysler, apart from the falls that have already taken place, we must add those resulting from the restructuring of its transactions due to filing for protection under chapter 11 of the North American bankruptcy code (see Chrysler bankruptcy table). In Mexico, the first impact will be the temporary shutting down of most of its transactions for 30 days from May 4, further harming current output levels. At the end of the year 146 thousand vehicles fewer than 2008 will be produced, or a reduction of just over 50%, with the Toluca factory being the worst hit. In Coahuila, Chrysler has two factories, one engine factory in Saltillo and an assembly plant in Ramos Arizpe where it produces the Dodge Ram Pickup. Toluca's output is exported everywhere in the world.

It is worth mentioning that the Chrysler factories in Mexico, unlike many in the US and Canada, are modern, small and versatile in which the investment flow has not stopped in spite of the difficult circumstances. At the moment a 570 million dollar factory is being built near the city of Saltillo, which is expected to produce 440,000 engines a year.

Chrysler production in Mexico

	Thousands of units		Difference	
Factory	2008	2009*	Abs.	Rel. %
Toluca				
Dogen Journey[b]	124.8	30.6	-94.2	-75.5
PT Crusier[a]	57.9	-	-	-
Saltillo				
Dodge Ram pickup[b]	105.5	111.3	5.9	5.6
Total Chrysler Prod.	288.1	141.9	-146.2	-50.8
Contr. % to Mexico Prod.	14.4	10.6	-3.8	
Export Chrysler	255.5	129.2	-126.4	-49.4
Contr. % Mexico Export	15.3	12.1	-3.2	

Source: PwC which means there could be differences compared to AMDA and AMIA data

* BBVA Bancomer estimate with Jan-Apr data

a/ car segment b/ SUVs and Pickups

The outlook for GM Mexico also became gloomy due to the restructuring plans in which the company is involved. For the time being, some temporary halts in activity were announced, the longest-lasting of which will be in Silao[3]. Together with the low levels that output is recording, this points to a fall of around 60% in 2009, or 286 thousand fewer units. The Ramos Arizpe and Silao factories will be the most affected, because their output is mainly focused on pick-up trucks and SUVs, for which the decline in demand has been the heaviest.

The San Luis Potosí facilities will be the least affected because they came into operation half way through last year. A further 300 million dollars were

2 There are two factories in the State of Mexico: Chrysler in Toluca, with 174% output increases in 2008, and Ford in Cuautitlán, with a 22% fall over the year. In net terms, vehicle production for the State recorded an 89% increase.

3 Silao will shut down for seven weeks from May 18 onwards; Ramos Arizpe, from May 18 through 22; and San Luis Potosí from June 1 through 12.

added to the billion dollar investment in this factory in order to start a new transmissions factory during 2009.

In 2008, the GM and Chrysler operation generated around 14,000 direct jobs and 56,000 indirect jobs in Mexico, which were then affected by the temporary shutdowns and job losses.

What effect will these changes have on employment and the GDP? In accordance with the records of workers covered by the IMSS (Mexican Social Security Institute), in the motor vehicle sector changes in the employment level started a year earlier than the economy as a whole. From its highest point, in October 2007, to May this year, the number of workers in this industry fell by 27% (from 490 thousand to 360 thousand). On the other hand, on a domestic level, employment started to decline in November 2008, and its fall in May was 4.8%.

Technical slowdowns (which in some cases will mean stopping factories from operating for more than three months during the year) have helped to avoid a bigger decline: from their maximum level (third quarter of 2007), in the January-March period this year the value of motor vehicle output had plunged by 40%; and the drop in the employment level has been less than proportional (see employment support program table).

As regards the impact on the GDP, in view of the relative important role that the motor vehicle industry plays in the domestic economy, a fall in production volume in 2006 of around 50% hints at a negative impact on GDP growth of at least 1.6 percentage points.

How will this affect local economies? Clearly the most vulnerable federal entities are those that have built most of their development on the motor vehicle industry although, like what happened in 2008, significant differences can be expected in accordance with the type of vehicle and the make manufactured in each state.

By region, the greatest impact from the changes in the motor vehicle industry will be on federal entities such as Chihuahua, Coahuila, Guanajuato, Puebla and Aguascalientes, due to their high share in the state economy. Although there could be up to twelve federal entities affected to a certain extent, significant differences between them can be expected depending on the type of vehicles that they manufacture, the make and the type of plant. For example, federal entities such as Coahuila, State of Mexico and Guanajuato, where the GM and Chrysler factories are located, are not only facing the difficult situation, they are also facing bankruptcy proceedings or state intervention of these companies in the US. In Chihuahua, although there is no assembly plant, engines and car parts are manufactured, and as a proportion of the GDP, the motor vehicle industry in the federal entity bears the most weight on a domestic level. The worst hit federal entities in relative terms could be those where factories are relatively new, such as Baja California, Jalisco and San Luis Potosí, or where the models manufactured are better received on the market. This could be the case of Sonora, where the models that the Ford factory assembles recorded better results in 2008 compared to other makes.

Still-favorable outlook in the medium-term

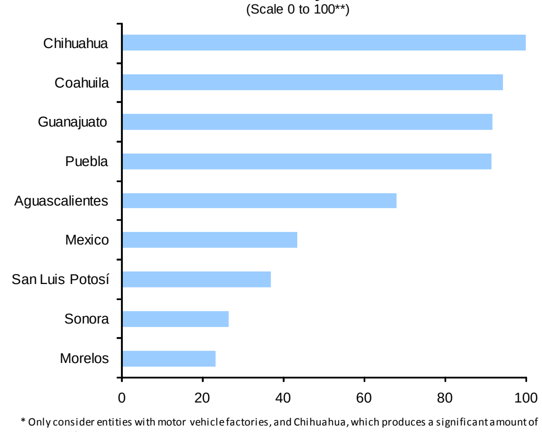
In the medium-term, in order words, once this crisis is over, Mexico could hold onto its relative advantage as a vehicle manufacturer in North America. The type of vehicles manufactured in the country and the type of output (relatively new, small and flexible factories with a chain of suppliers, cheap and specialized labor, high productivity and geographical proximity to the US) will continue to hold appeal.

General Motors production in Mexico

	Thousands of units		Difference	
Factory	**2008**	**2009***	**Abs.**	**Rel. %**
Ramos Arizpe				
Saturn VUE Hybrid[b]	88.7	14.6	-74.1	-83.5
Chevrolet Captiva Hybrid[b]	18.4	13.5	-4.9	-26.4
Chevrolet C2[a]	63.3	16.1	-47.2	-74.6
Chevrolet HHR[b]	110.6	27.8	-82.8	-74.9
Silao[b]				
Chevrolet Avalanche	29.2	14.1	-15.2	-51.9
Cadillac Escalade EXT	4.6	1.0	-3.6	-78.4
GMC Sierra Pickups	35.7	18.3	-17.4	-48.7
Chevrolet Avalanche	80.6	54.5	-26.2	-32.4
Chevrolet Suburban	28.9	8.7	-20.1	-69.7
San Luis Potosí				
Aveoa	24.2	29.5	5.3	22.0
Total GM Prod.	484.3	198.1	-286.1	-59.1
% Contr. to Mexico Prod.	24.1	19.4	-4.7	
Total GM Export	390.0	148.6	-241.4	-61.9
Contr. % to Mexico Export	23.4	21.9	-1.5	

Source: PwC which means there could be differences compared to AMDA and AMIA data
* BBVA Bancomer estimate with Jan-Apr data
a/ car segment b/ SUVs and Pickups

Which federal entities are facing the biggest risk due to the motor vehicle industry in 2009*?
(Scale 0 to 100**)



* Only consider entities with motor vehicle factories, and Chihuahua, which produces a significant amount of engines and car parts.
** Indicator based on the relative importance of the motor vehicle industry in the state GDP and scope of the change announced per factory
Source: BBVA Bancomer with INEGI, AMIA and PriceWaterHouse data

In Mexico, motor vehicles that are widely accepted on the US market are manufactured, to the extent that it ranks among the ten most sold in 2008, including Ford's F series (first place), the Chevrolet Silverado (second place) and the GMC Sierra (fifth place), both from GM.

The relatively small size of factories in Mexico also brings important advantages, because they can be used more intensively than large manufacturing centers in Michigan or Canada, in other words, they are more flexible. PriceWaterhouse figures reveal that in 2008 factory use capacity in Mexico was 85% vs. 74% in the US.

There is also the well-known matter of labor costs: 3.0 dollars an hour in Mexico vs. 21 in Canada and 25 in the US, and that is without considering the compensation package that the trade union in the US (the UAW) is negotiating in favor of workers in this industry. In addition, the recent depreciation of the peso (which during 2009 could be 35% compared to 2008) makes Mexican labor even more competitive, as well as other intermediate goods in domestic output.

Having said that, this year at least will see major definitions for the global industry, and thereafter will come a period of consolidation with new players and strategies. Examples of this situation can be found in the recent transfer of the operation and management of Chrysler to Fiat and the heavy restructuring of GM in the US which has involved, among other measures, the sale of several of its divisions and the shutdown of factories, mostly in the US (see GM bankruptcy table). In the short-term, then, it is unlikely that production processes will be transferred or the production factory will be reactivated. This is especially true of US car makers as far as their factories outside the country are concerned, because the government aid that they have received could cause them in the short-term to keep a certain number of jobs or production centers within their territory. Although there is little doubt that factories in Mexico will continue to operate, it is clear that, at least in the short-term, they will do so on a lower scale and with fewer resources, leaving a lot of vacant niches for other foreign capital makes.

Conclusions: Mexico is holding onto its appeal as an investment recipient in the motor vehicle sector

2009 will no doubt be a long, difficult year for the motor vehicle industry, both on a global scale and in Mexico. In terms of supply, factors such as the accrual of inventories, excess capacity and financial problems of car makers are laying the foundations for an industry re-sizing process. In terms of demand, the decline in employment (and other sources of income) and the credit crunch (which restricts funding) will limit the industry's recovery potential, at least this year and perhaps next year. For the Mexican economy, the announced changes in output (in May) for vehicle manufacturing by different car makers could take away around 1.6 percentage points from economic growth. On a local level, the impact will clearly be greater in federal entities that play a strong role in this industry. Nevertheless, in the medium-term the outlook is still favorable for the industry in Mexico, which will hold onto its relative advantage and highly competitive position as a vehicle manufacturer in the North American region. In this regard, we maintain our appraisal from the last Regional and Sector Situation, in the sense that Mexico is an appealing place to attract foreign investment as a result of the global restructuring of the industry. It is likely that we will see the survival of the main regional car makers, a profound restructuring process and high competition in the industry. To sum up, the medium- and long-term potential for the motor vehicle and car parks sector in Mexico is holding on in spite of the global crisis. In the short-term there will be a re-sizing due to trends towards lower demand levels, perhaps for several years, but in the long-term the trend towards high motor vehicle growth on a world-wide scale seems to be strong, as the emerging economic continue to grow and their purchasing power increases.

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Chrysler Bankruptcy

Chrysler's application to file for protection under Chapter 11 of the United States bankruptcy code[4] last April will bring with it a deep restructuring process for the third largest car maker in the US (behind GM and Ford), which will involve public funds, corporate re-sizing (including the shutdown of factories, and fewer models and even distributors) and a merger process with Fiat.

The bankruptcy scene is nothing new for Chrysler. In 1980 it managed to avoid it with public funding totaling 1.5 billion dollars. In 1998 Chrysler was bought out by Daimler for 36 billion dollars, and this sold it ten years later, in 2007, to the Cerberus investment fund for 7 billion. The detonator in 2009 was ultimately the lack of liquidity due to the market squeeze and the need to cover short-term liabilities for its creditors (46 overall, totaling 6.9 billion dollars) partly linked to its labor costs, which represent 10 billion euros in terms of medical care and pensions alone.

Regardless of the time that the bankruptcy procedure takes, there is the certainty that Chrysler will come out of this situation with fewer labor liabilities. In fact, this was the condition that Fiat laid down for the merger. It was achieved through an agreement with the trade union and the Health Trust through this would agree to swap debt securities for the company's shares equivalent to 68% of the share capital. Fiat will initially buy 20% of the company -in exchange for technology and innovation-, with the option of increasing its shareholding to 51% once the liabilities are liquidated with the US and Canada Governments equivalent to 12% of the share capital. The merger promises to create synergies in technology and access to the European market.

Two companies are born out of the Chrysler bankruptcy. One that has been called “good”, to which the profitable assets will be transferred (including factories), and another that has been nicknamed “bad”, which will keep the non-productive assets, liabilities and obligations, which will have to be sold or liquidated. Chrysler will receive 8 and 1.5 billion dollars from the US and Canada Governments respectively to back the new company. As for the employees, their wages and benefits will continue under the bankruptcy protection and a judge will allocate 2 billion dollars to the creditors for their loans in order of priority.

The restructuring plan with the merger includes the shutting down of seven factories in the US, apart from the two closed in 2008. This will result in a total 23 operating factories (from 32 in 2008) with which they plan to cut output to less than half compared to 2008. It should be noted that until now all of the factories considered for shutdown are in the United States. The factories in Mexico, rated as profitable assets, have practically stopped due to the lack of intermediate goods supplies from the company's factories in the US and, although there are still no plans to resume activities, it is thought that due to their flexibility and efficiency, they will shortly be included in Fiat's production projects to avoid further market share losses. To conclude, the merger with Fiat could allow the new company to create certain scale economies that could make navigating through these times of global crisis easier for them.

Chrysler production in North America

Thousands of units

	Chrysler	US car makers
2008 Total	1,864.9	7,248.4
Annual % change	-24.5	-21.2
Contr. %	14.40	56.0
Mexico 2008	288.1	1,086.6
Annual % change	1.5	2.9
Contr. %	15.5	15.0
2009 Total*	776.6	3,789.0
%% change	-58.4	-47.7
Contr. %	10.9	53.3
Mexico 2009*	110.0	552.3
Annual % change	-61.8	-49.2
Contr. %	9.2	14.6

* Annualized with January-May data

Source: BBVA Bancomer with Ward's data

Chrysler factories about to close

	State	Date
Conner Avenue	Detroit	2009
St. Louis North Factory	Missouri	2009
Twinsburg	Ohio	2010
Steling Heights	Michigan	2010
Axe factory	Detroit	2010
Kenosha	Wisconsin	2010

Source: Detnews.com

4 Chapter 11 allows a company in financial difficulties to continue to operate while an agreement is sought with creditors. During this period it allows the debtor to keep all of its assets, object to its creditors' requests, reject its due payments and even unilaterally reduce the amount of its debt. However, resorting to this chapter requires time and money and obliges the applying company to regularly update the bankruptcy judge in detail about the progress of transactions with its creditors. The application to file for protection under Chapter 11 alone can set a company back 800 thousand dollars. The alternative to Chapter 11 is Chapter 7, which envisages immediate liquidation.

General Motors (GM) Bankruptcy

The GM bankruptcy was finally concluded a month after Chrysler, which had been taken for granted for quite some time. Since the end of 2008, when it needed an emergency Government bailout of 17.4 billion dollars, in a climate of falling sales and restricted access to credit, it was obvious that the most important car maker in the United States (and until 2007 the most important in the world in terms of units produced) would have problems keeping up its financial feasibility with a consolidated debt of 172.8 billion dollars and assets of 82.3 billion dollars in the first quarter of the year. This is the same as a loss of 90 billion dollars of non-secured debt for investors and creditors.

GM Corp. Consolidated Debt

Billions of dollars

as at March 31, 2009	
Assets	**82.29**
Liabilities	**172.81**
In unsecured bonds	27.4
Wilmington Trust Company	22.8
Deutsche Bank AG	4.4
Bank of New York Mellon	0.2
Commercial*	0.9
Secured banks**	6.0
Trade unions	25.4
US Government	19.4
Canadian Government	9.5
Subtotal	**88.6**
Other	84.2

*Only considers main creditors

**Citigroup, JP Morgan, Chase and Credit Suisse

Source: BBVA Bancomer with Detnews.com data

The US Government will back the car maker with 30 billion dollars to liquidate its liabilities. This will make it the main shareholder, holding 60.8% of the company's worth in exchange for 50.1 million dollars that the Treasury securities total. The Canadian Government will own 11.7% of the share capital in exchange for 9.5 billion in loans granted. Non-secured bondholders will also participate in the share capital structure with 10%. The company also reached a deal with trade unions to swap 25.4 billion dollars of trust fund debt to pay medical care to pensioners in exchange for holding 17.5% of the company's share capital.

The bankruptcy does not mean that GM will disappear, but it does mean an imminent change in its operating scale, especially in the US, and only keeping its most profitable assets. According to its restructuring program, the “New GM”, which is expected to start operations during the third quarter of this year, will keep the Chevrolet, Cadillac, Buick and GMC makes on the market, while it will sell or restructure Saab, Hummer, Saturn and Opel. So far, Pontiac is the only make for which an exit from the market has been announced in 2010.

GM owns 47 factories in North America, of which it plans on shutting down 17 (nine of them at the end of 2009 and the rest between 2010 and 2011). In 2008 it closed the Toluca factory that mainly manufactured engines and parts, with 2.2 job loses. Overall, the changes will involve the loss of 21 thousand jobs, which will represent 38.8% of the total employees belonging to trade unions in the US and its supply of models on the market will fall from 48 to 34 in 2010. By then, distributors will have dropped by more than 40% (from 6,246 to 3,605).

GM factories about to close

Factory		Date
Massena, N.Y	Stamping	May-09
Grand Rapids, Mich	Stamping	Jun-09
Wilmington, Del	Assembly plant	Jul-09
Orion Twp, Mich	Assembly plant	Sep-09
Pontiac, Mich	Assembly plant	Oct-09
Spring Hill, Tenn	Assembly plant	Nov-09
Boston, Mass	Distribution centre	Dec-09
Jacksonville, Fla.	Distribution centre	Dec-09
Columbus, Ohio	Distribution centre	Dec-09
Mansfield, Ohio	Stamping	Jun-10
Livonia Engine, Mich	Stamping	Jun-10
Pontiac	Stamping	Dec-10
Flint North, Mich	Stamping	Dec-10
Ypsilanti Twp	Stamping	Dec-10
Parma, Ohio	Stamping	Dec-10
Fredericksburg NY	Stamping	Dec-10
Indianapolis	Stamping	Dec-11

Source: GM

The restructuring of output in North America will continue with the scheduled technical slowdowns under the close supervision of output results to ensure they are in line with market demand. All trade operations will continue as normal.

In Mexico, the company has three factories in the states of Coahuila, Guanajuato and San Luis Potosí that together employ some 9 thousand people. The three of them are still operating, although on a lower scale due to the previously scheduled technical slowdowns. In fact, there are three launches just around the corner. In Silao, Guanajuato will exclusively produce the GMC Sierra and Chevrolet Silverado hybrid pickup trucks for North America. In Ramos Arizpe, Coahuila tests will be run to manufacture the Cadillac BRX, a new “crossover” that is expected to be included in the production line at the end of the summer. The rest of the models will continue to be produced as normal, although on a lower scale.

GM production in North America

Thousands of units

	GM	US car makers
2008 Total	3,258.6	7,248.4
%% change	-19.7	-21.2
Contr. %	25.20	56.0
Mexico 2008	484.3	1086.6
%% change	3.5	2.9
% Contr.	14.9	15.0
2009 Total*	1,544.4	3,789.0
%% change	-52.6	-47.7
Contr. %	21.7	53.3
Mexico 2009*	285.9	552.3
Annual % change	-41.0	-49.2
Contr. %	18.5	14.6

* Annualized with January-May data

Source: BBVA Research with Ward's data

As far as the European market is concerned, GM finally reached an agreement for 1.5 billion euros of German Government funding and a memorandum of understanding to join forces with Magna International Inc. which will contribute 0.7 billion euros in exchange for 20% of the share capital. Under the agreement, Opel/Vauxhall will be grouped in Adam Opel GMBH, and the Russian bank Sberbanck will also own 35% of the share capital, Opel employees 10% and GM 35%.

Out of the rest of the makes put up for sale, three are yet to be realized. Chinese group Sichuan Tengzhong Heavy Industrial Machinery was the chosen buyer for the Hummer 4x4. This includes brand rights, the management team and the operational team. The same applies for Saturn and Saab which will be sold to Penske Automotive Group and the Swedish firm Koenigseeg, respectively. In the three cases, the terms of the agreement protocol are not yet known.

If course, this is only the beginning and there are still a lot of issues to be resolved. Although bankruptcy was inevitable, above all to oblige the parties to drop most of their claims, should the bankruptcy last for a long time the implications are likely to be very negative because not many investors want to buy something valuable and long-term from a losing company.

Of course, in the short-term GM will no longer be the icon of the US motor vehicle world. Although at the moment it has more appealing models for consumers than in the past, the “new GM” will involve a lower market share, even significantly lower than the company estimates in its restructuring plan.

Another concern are medical care costs, because these have not been eliminated. In 2010 the “new GM” will have to give UAW (workers trade union) 600 million dollars in the form of dividends to meet this obligation. The pension fund has not been sufficiently capitalized either, and at the 2008 year-end it recorded a deficit of around 13 billion dollars. To sum up, the start of the GM restructuring process should be interpreted as another, but not the last, chapter in the company's evolution. We must acknowledge the improvement in products in recent years and a strong attempt to modernize the company, both positive factors that will help it through these times.

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