



Nearshoring in Mexico

A path to consolidate | November 2023

Econosignal

Nearshoring

Nearshoring is **the transfer of business processes to companies** (related or non-related) in a country **closer to the target market**, **where both parties expect to benefit** from one or more of the following dimensions of proximity:



Geographic



Cultural



Economic



Temporal (time zone)



Linguistic



Political, or historical linkages.



Disruptions in recent years

Some of them being:

- Covid19 lockdown
- Economic warfare
- Military warfare

Have exposed systems' weaknesses, leaving manufacturing parts unfinished and/or undelivered.

The constant increase in customer demand for unique products and short-term deliveries.



Market consequences

- Economic sectors including household goods, technologies and retailing have experienced **massive increases in demand**.
- Others, such as automotive, construction, oil and gas, and others, faced **the opposite problem**.
- **Change in consumption.**
- **More efficient perspective on cost.**

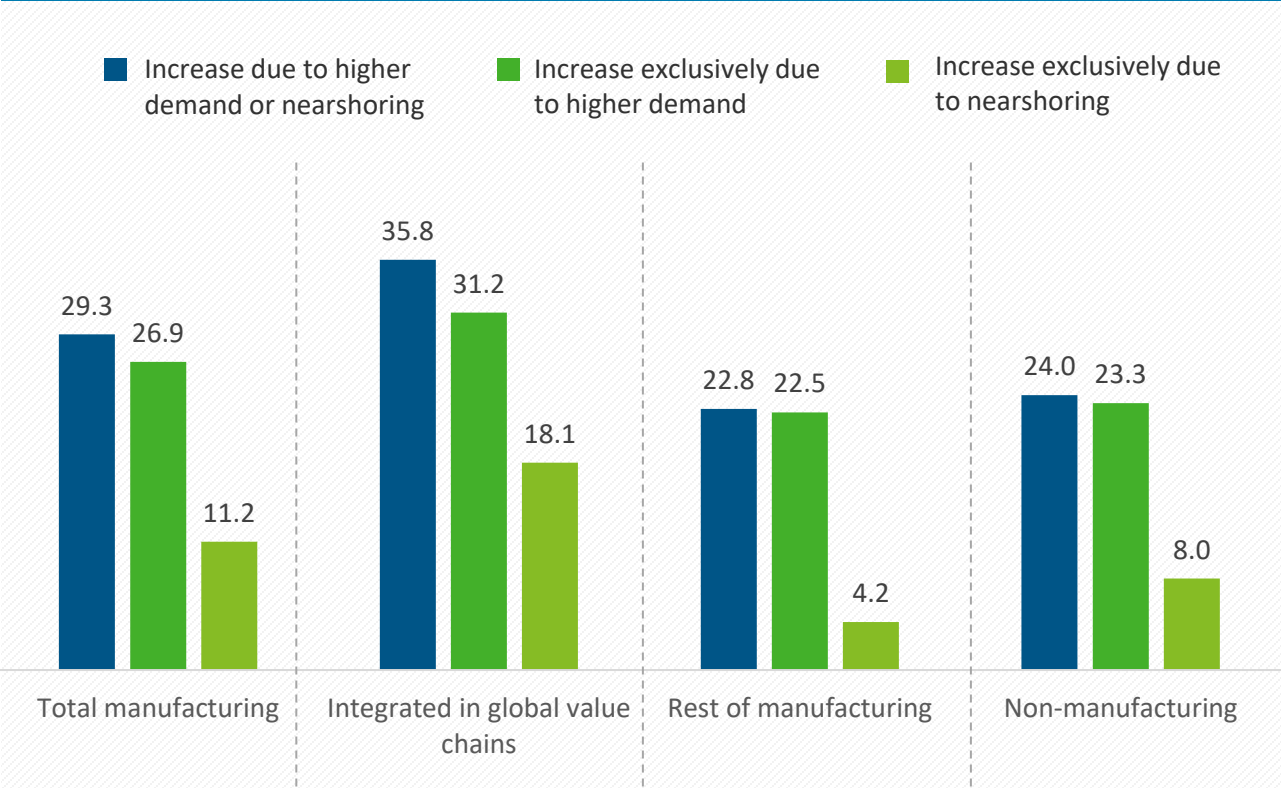
Source: Deloitte Market Intelligence.



How hard and deep is it happening?

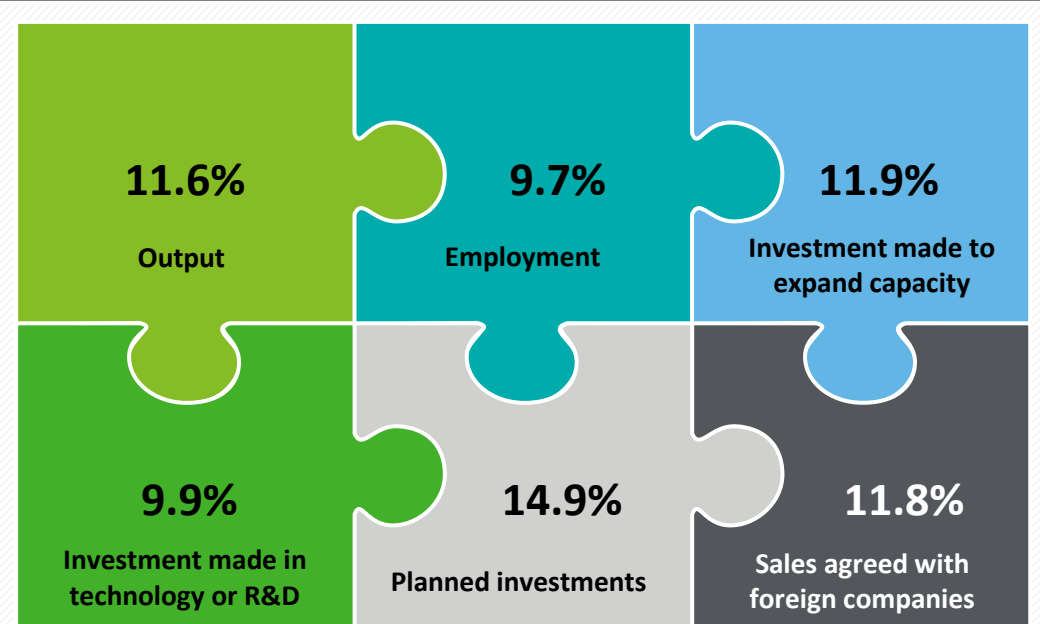
The process of nearshoring is heterogeneously benefitting businesses in Mexico across sectors.

% of companies that responded that their production, sales, or investment increased due to each factor in the previous 12 months:



Source: Interview program conducted by Banco de México in July 2023. Interview question: “For the previous 12 months, please indicate how your company’s production, sales, or investment have changed as a result of the following phenomena.” Many of the interviewers affirm that it is very difficult to differentiate between whether the higher demand is being caused exclusively by nearshoring or by the recovery of the national and global economy.

By how much have the following factors increased as a result of nearshoring? (% change, only manuf. companies)

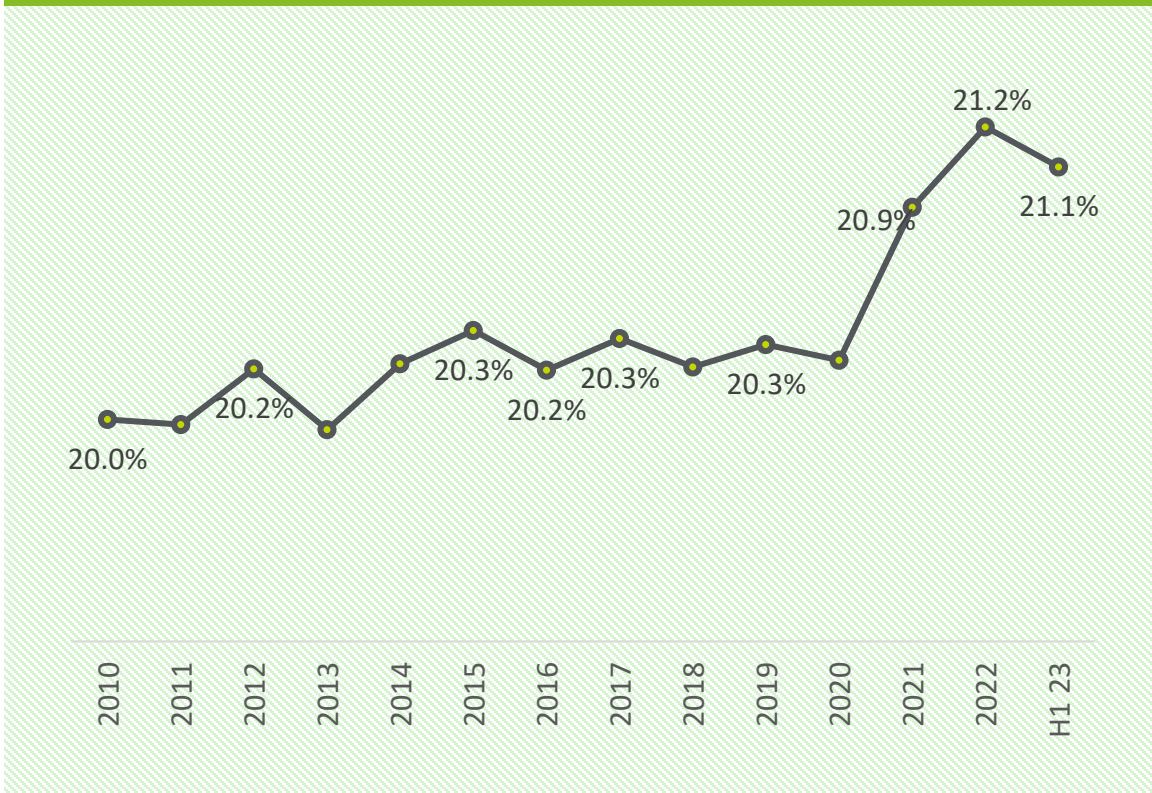


Source: Interview program conducted by Banco de México in July 2023. Interview question: “For the previous 12 months, please indicate the impact observed of the following factors in your company as a consequence of nearshoring.” The calculations are made using the information from the EMAER (Monthly Survey of Regional Economic Activity), which is representative of establishments with more than 100 workers in the manufacturing and non-manufacturing sectors. In the case of the manufacturing sector, this group of establishments represents around 87.9% of gross production.

Effects of nearshoring on manufacturing activity in Mexico

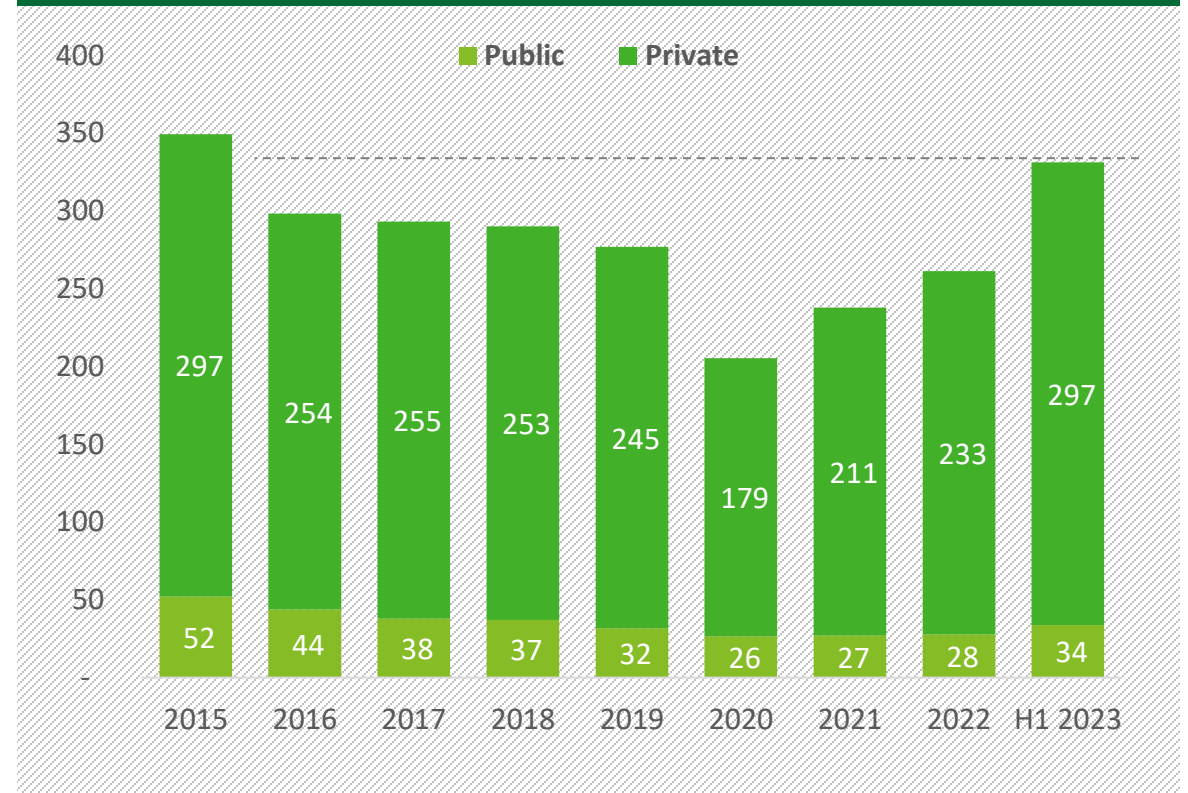
Although manufacturing activity has slowed recently, it remains well above prepandemic levels. Also, private investment is finally rebounding after several years in a downward trend.

Manufacturing as % of the GDP



Source: INEGI.

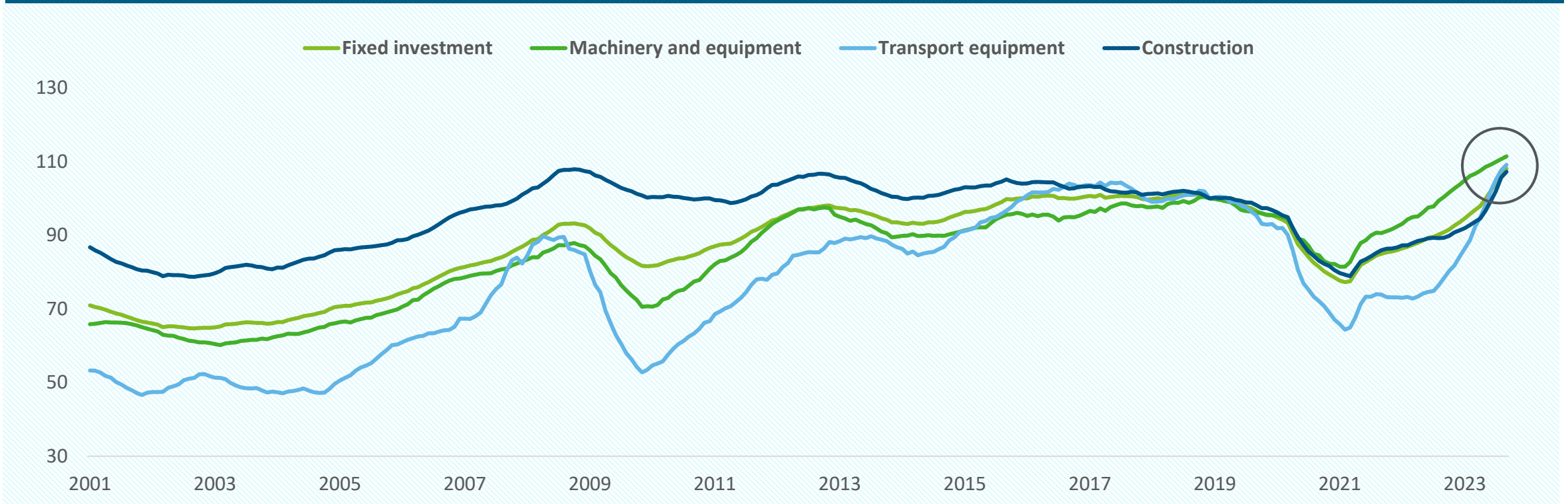
Fixed Investment. Million US dollars



Fixed investment

Fixed investment in Mexico is growing in a manner not seen in years, especially investment in machinery and equipment, something that could be associated with nearshoring.

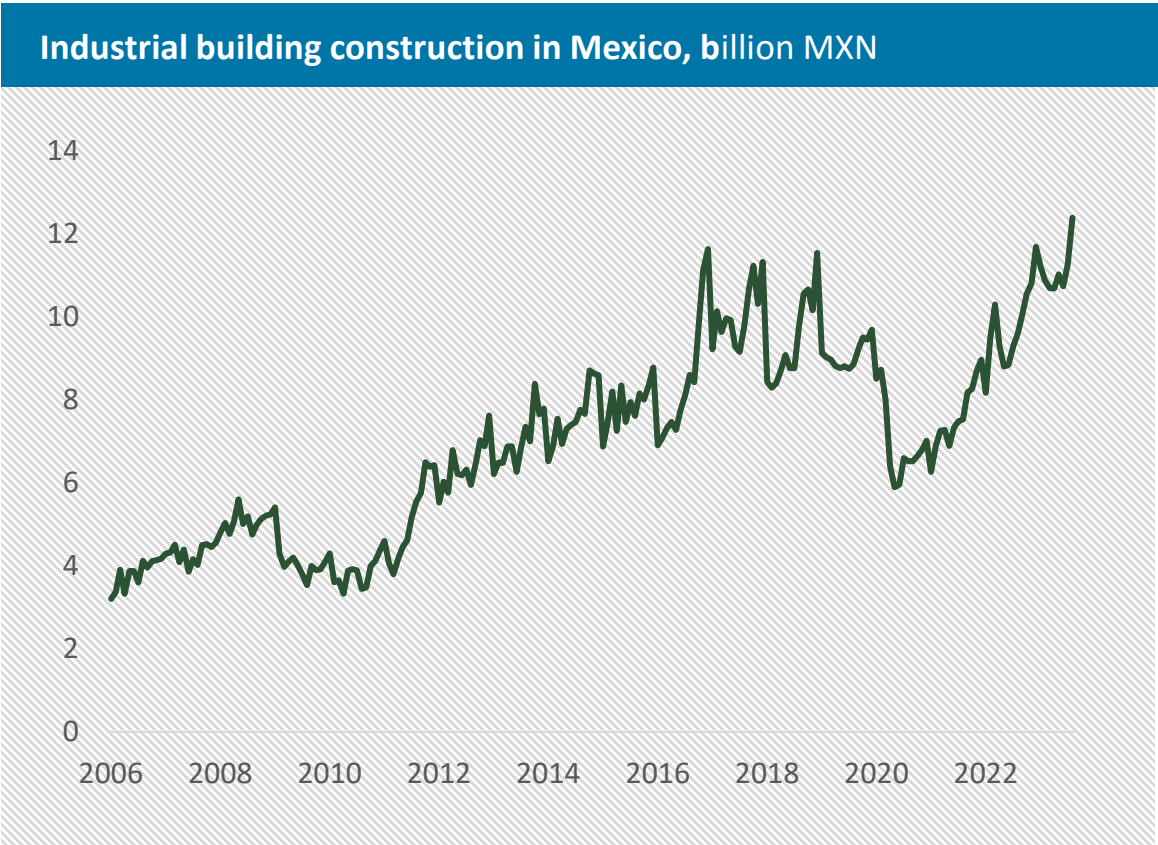
Fixed investment in Mexico. Index 2018 = 100, 12-month moving average



Source: INEGI.

Industrial buildings

Another factor that reflects how nearshoring is growing in the country is the construction of industrial facilities. In the first eight months of 2023, it grew 20% compared to the same period last year and has finally exceeded the previous highest level reached in 2017. Also, the occupation rate is very close to 100%.



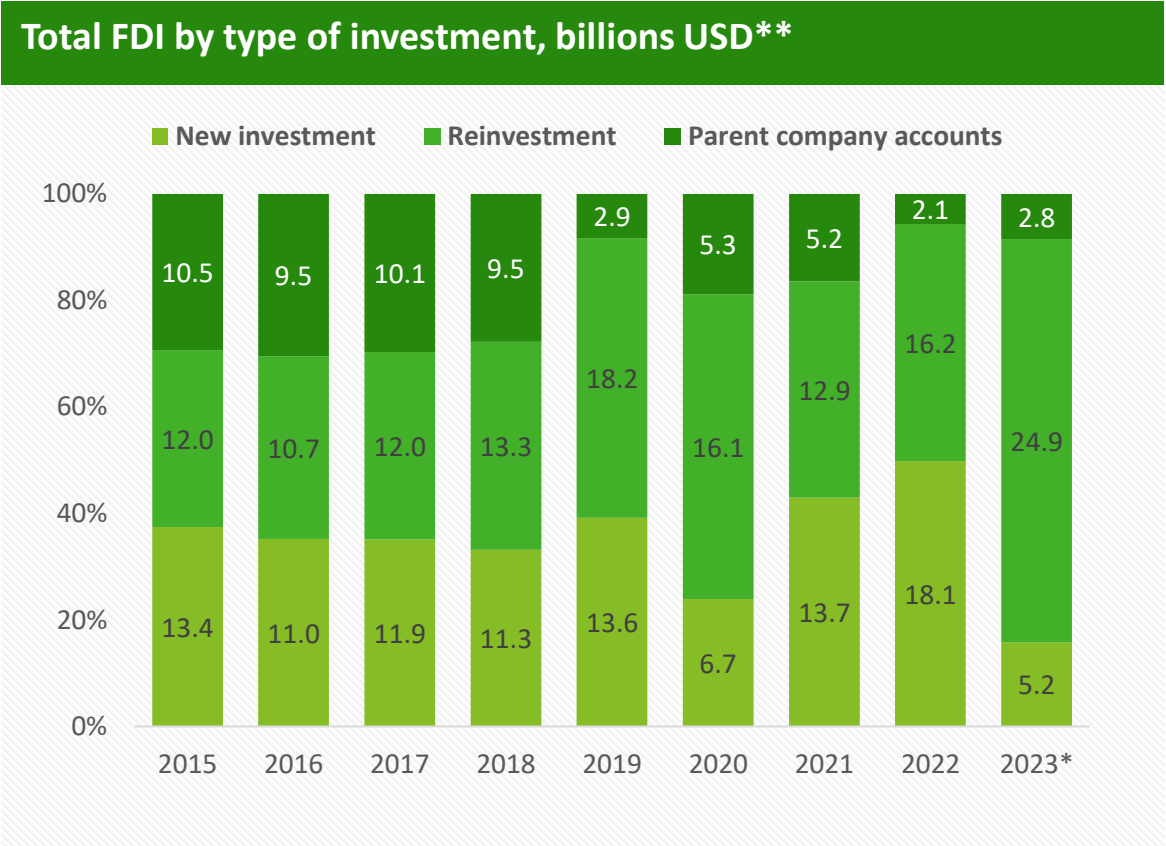
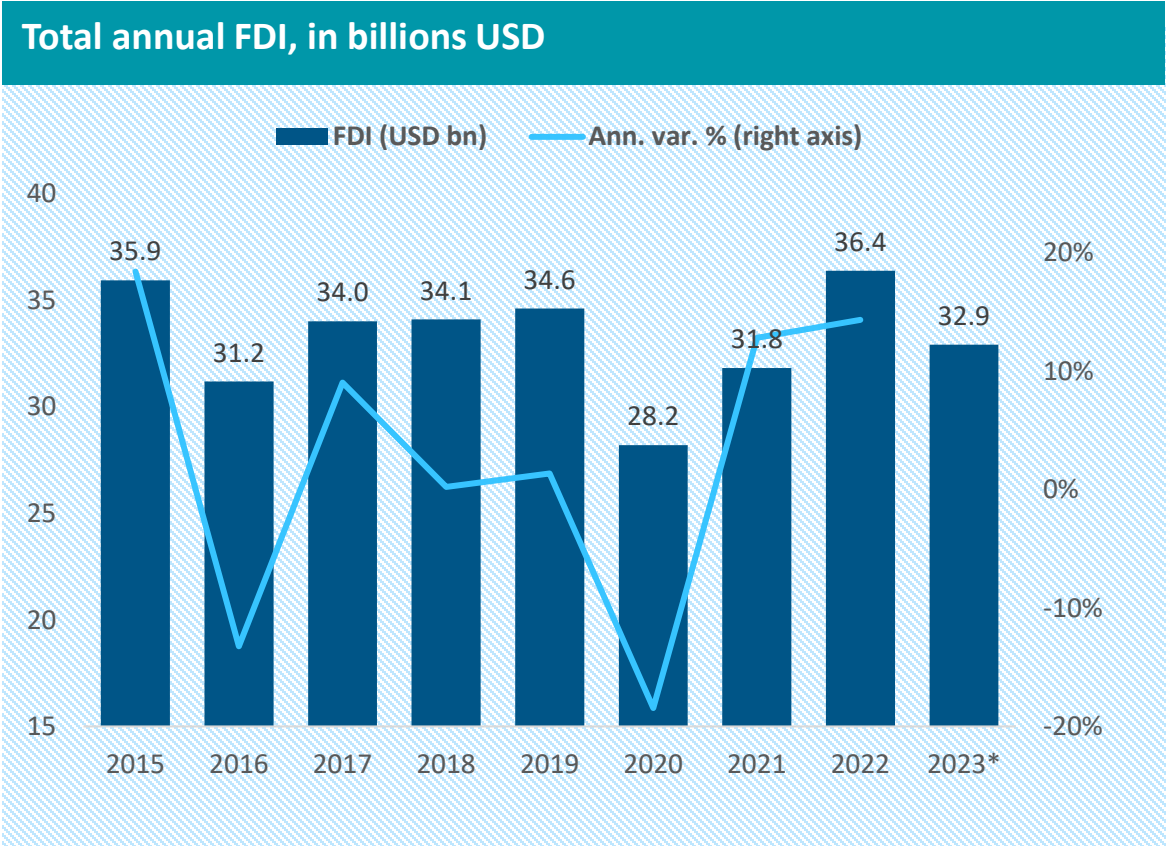
The occupancy of industrial parks is growing fast. Million m²

	2019	2020	2021	2022	Q2 2023
Industrial space occupied	72.8	74.9	78.4	82.7	85.1
New occupied space	2.0	2.1	3.5	4.3	2.4
New occupied space for nearshoring	0.3	0.4	0.7	2.2	na
Available spaces ¹	5.5%	6.3%	3.8%	2.1%	2.0%

NA. Not available. This information was public until 2022. | 1. Available space to be marketed in existing and under-construction properties.
Sources: INEGI and AMPIP.

Foreign direct investment

When observing the volume of inward foreign direct investment in the first three quarters of 2023, we find that although it has been increasing since 2020, only 16%—just over US\$5 billion—corresponds to new investments, while almost 76% relates to reinvestments.

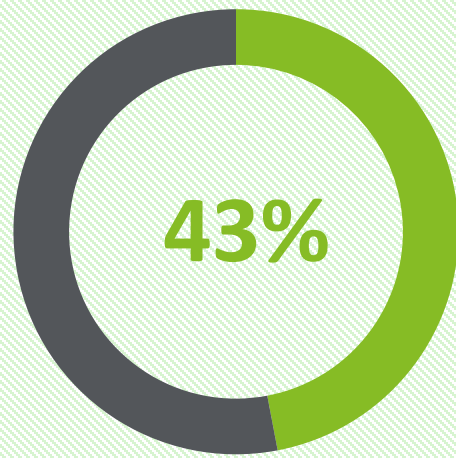


*Up to the third quarter of 2023, preliminary information. **The sum of the three items gives the total FDI (100%), which is why the vertical axis is presented as a percentage.
Source: Ministry of Economy of Mexico. The latest published data are used, but since this is a preliminary version, it is very likely that the figures will be adjusted.

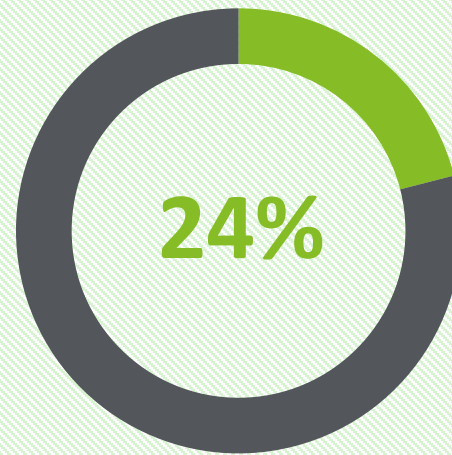
If we take a look at our tracker of nearshoring, it seems that the largest investment disbursements will occur in the following years. Thirty six percent of FDI received in the past two years may be associated with nearshoring. However, 43% of it has only been announced.

Companies that have announced that they will expand their operations or that have come to the country for the first time exclusively for nearshoring reasons since the beginning of 2021 until September 2023.

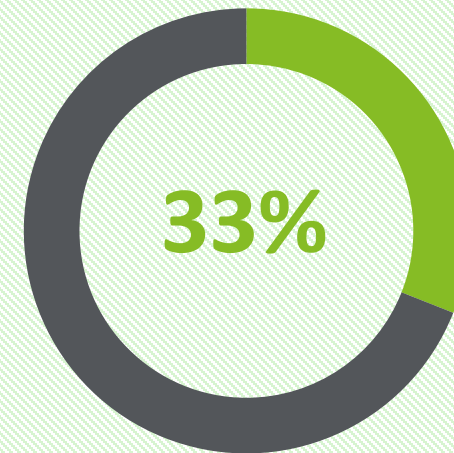
Project status



Announced



Construction



Operative



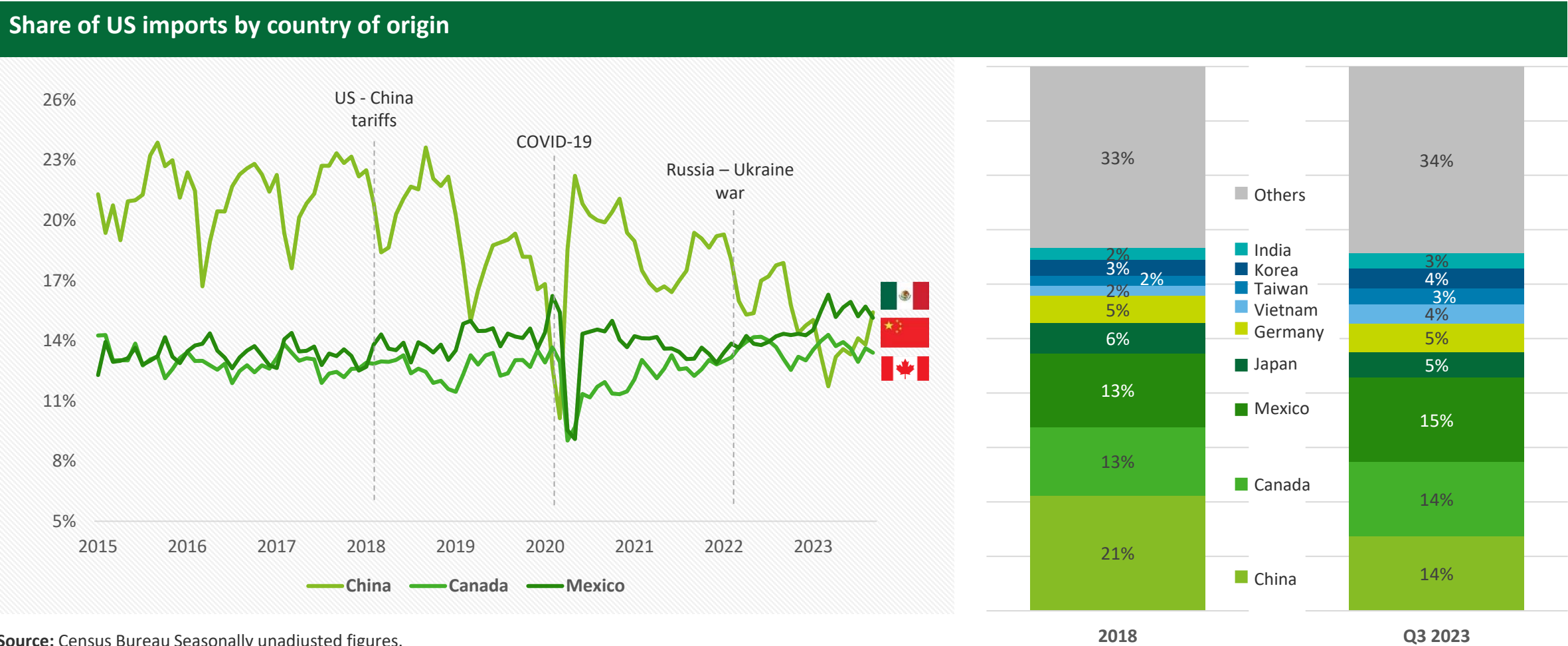
Total of 33 billion USD,
equivalent to 36% of
the total FDI received in
the accounting period.

*We track in Econosignal companies that have announced that they will expand their operations or that have come to the country for the first time exclusively for nearshoring reasons since the beginning of 2021 until September 2023. As this is a manual process, we have not necessarily accounted for all the projects announced through nearshoring during the study period.

Source: Econosignal.

Global trade

Also, although US-China trade has been sharply declining, this has not been necessarily reflected in a significantly higher share of Mexican exports. Instead, US imports from other Asian countries have increased, which would indicate that the nearshoring phenomenon is very competitive and countries with the best conditions will be the most favored.



Source: Census Bureau Seasonally unadjusted figures.

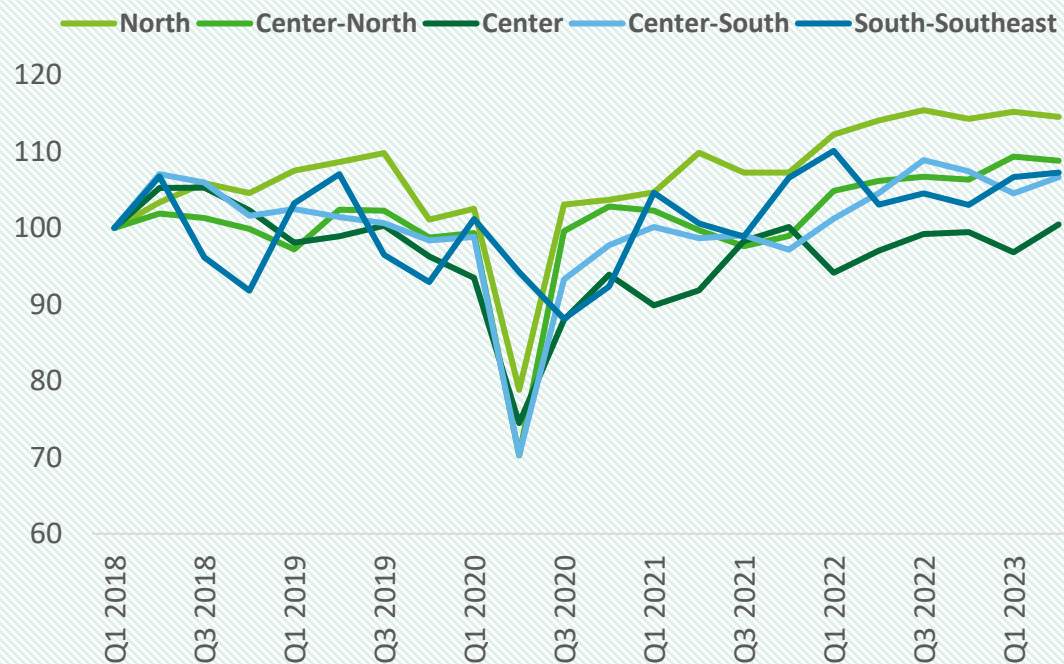


Where are nearshoring projects
being concentrated in Mexico?

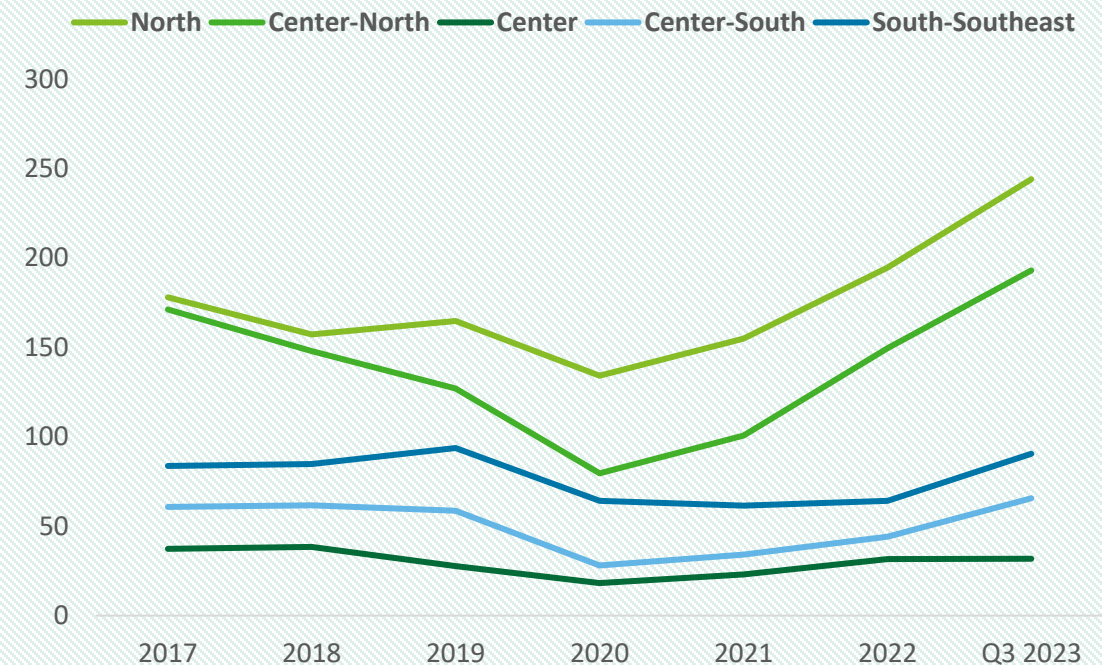
The award goes to the North

Both manufacturing activities and the construction of industrial buildings are growing faster in cities close to the U.S. border or in states that specialize in manufacturing activities.

Manufacturing activity regional indicator. Index, 1Q 2018 = 100



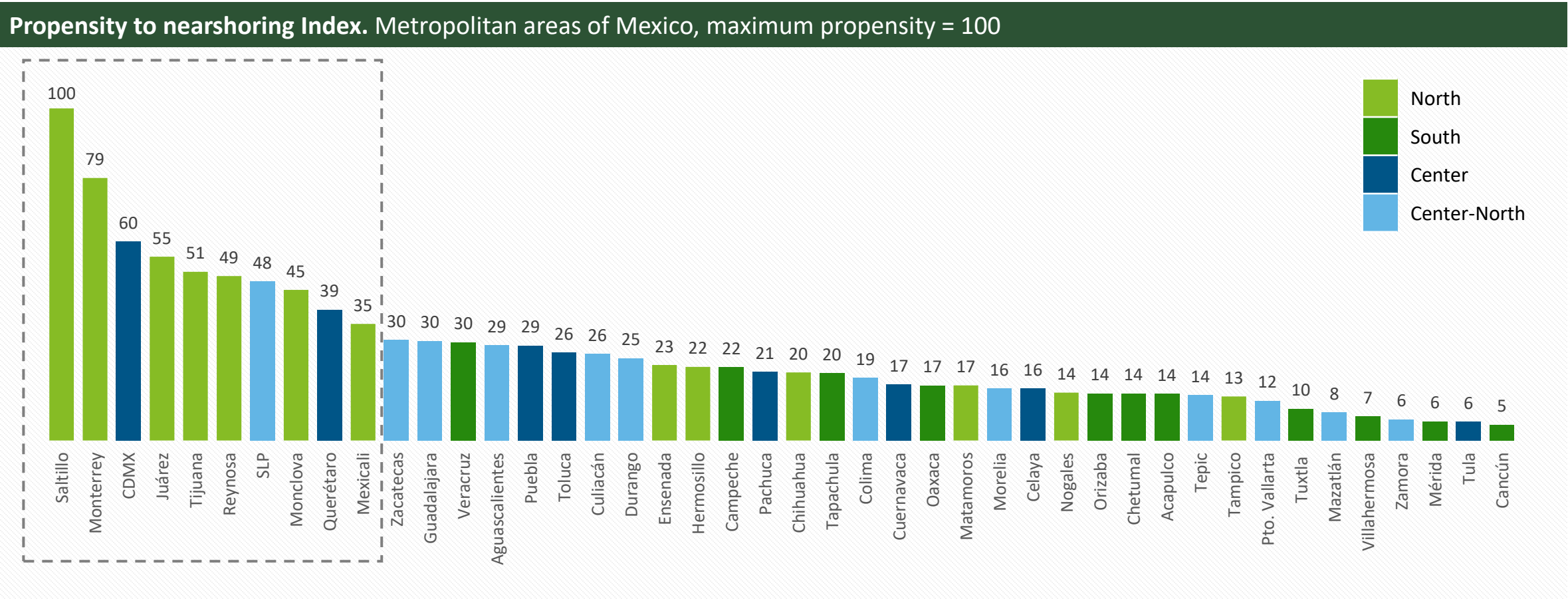
Construction of industrial buildings. Million of US dollars



North: BC, BCS, Coahuila, Chihuahua, NL, Sinaloa, Sonora and Tamaulipas. **Center-North:** Aguascalientes, Colima, Durango, Guanajuato, Jalisco, Nayarit, SLP and Zacatecas. **Center:** Mexico City and State of Mexico. **Center-South:** Guerrero, Hidalgo, Michoacán, Morelos, Puebla, Querétaro and Tlaxcala. **South-Southeast:** Campeche, Chiapas, Oaxaca, QROO, Tabasco, Veracruz and Yucatan. | **Source:** INEGI.

Most benefited cities

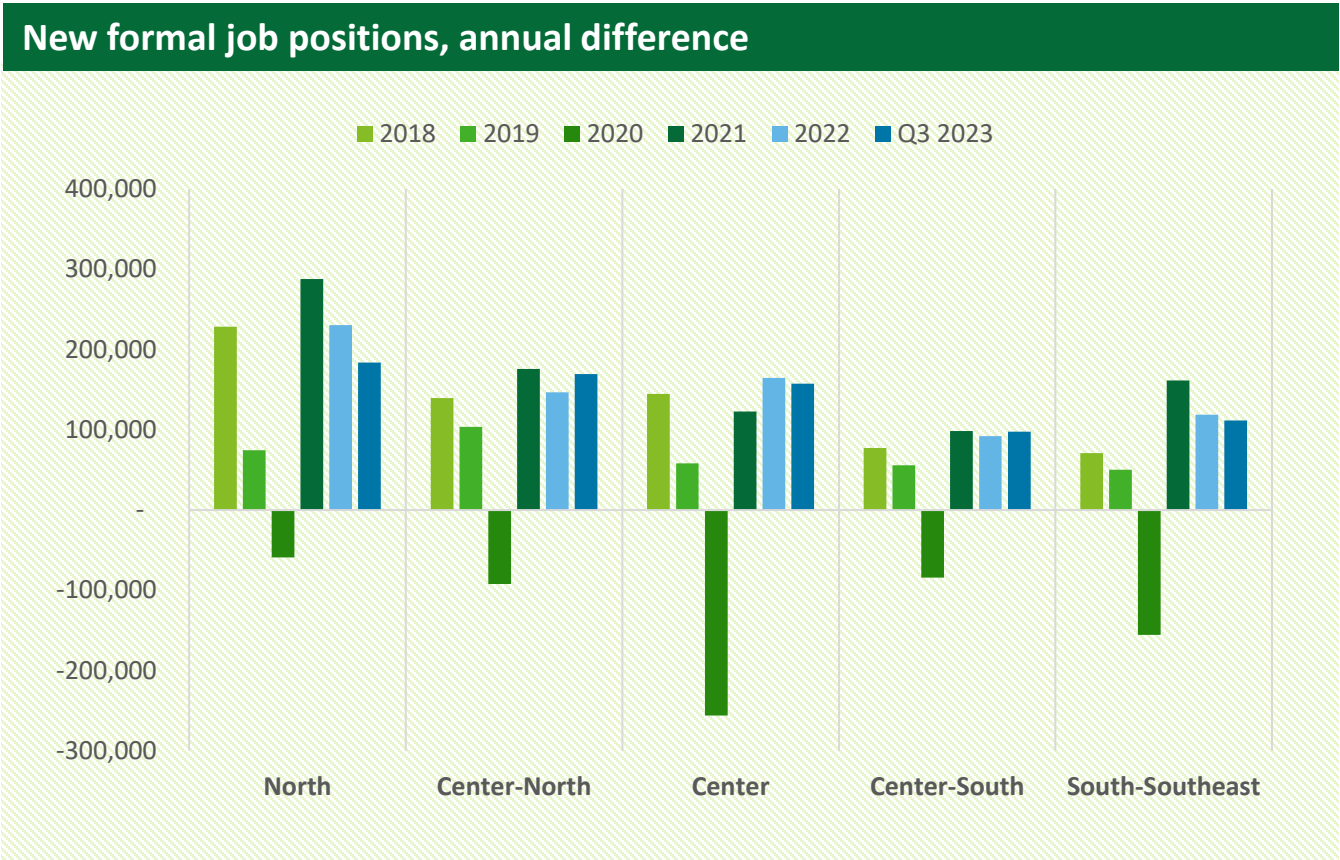
According to *Banco de México*, the cities with the highest propensity to nearshoring are mostly located in the northern region, such as *Saltillo*, *Monterrey*, *Juárez*, and *Tijuana*.



Source: Banco de México with data from Google and the Monthly Manufacturing Industry Survey, INEGI. The index was calculated by analyzing Google search results for 'nearshoring' alongside the name of each metropolitan city. The resulting count was divided by the total searches combining the city name and 'nearshoring.' Data from January 2015 to May 9, 2023, was considered to capture and reflect trends over a representative period. This approach provides a relative measure of interest in nearshoring in each location, offering a concise and up-to-date insight into trends.

Employment

Also, employment is increasing more in the North of the country than in any other region.



States where most jobs have been created in 2023.
Thousands of jobs.

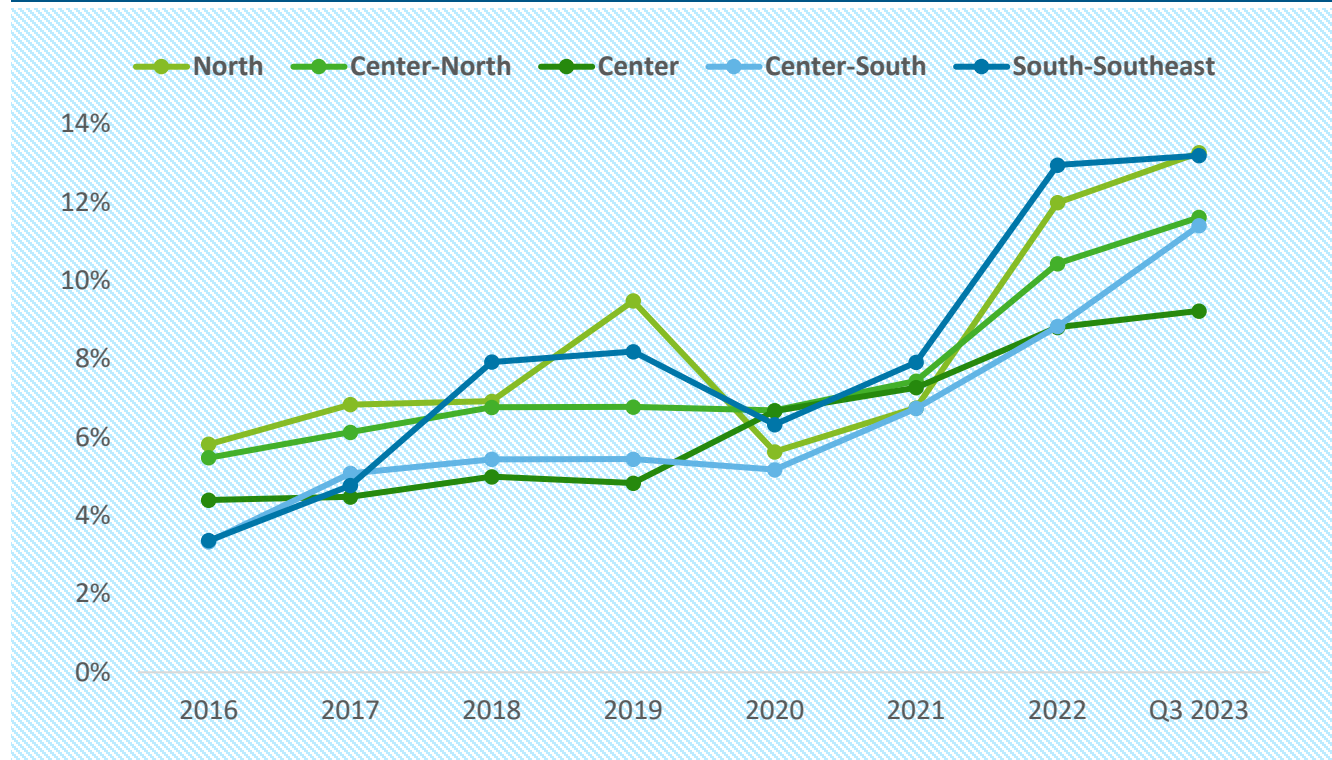
State	2022	2023 ¹	YoY % Dif.
Nuevo León	76,412	89,984	18%
CDMX	82,390	86,331	5%
Jalisco	82,963	66,398	-20%
México	82,319	64,753	-21%
Guanajuato	27,017	51,065	89%
Coahuila	35,694	42,039	18%
Baja California	35,833	41,180	15%
Querétaro	33,933	38,913	15%
Quintana Roo	35,746	38,884	9%
Sonora	13,882	27,916	101%
National	752,749	756,537	0.5%

1. January - September 2023. | **North:** BC, BCS, Coahuila, Chihuahua, NL, Sinaloa, Sonora and Tamaulipas. **Center-North:** Aguascalientes, Colima, Durango, Guanajuato, Jalisco, Nayarit, SLP and Zacatecas. **Center:** Mexico City and State of Mexico. **Center-South:** Guerrero, Hidalgo, Michoacán, Morelos, Puebla, Querétaro and Tlaxcala. **South-Southeast:** Campeche, Chiapas, Oaxaca, QROO, Tabasco, Veracruz and Yucatan. | **Source:** INEGI.

Wages

Although manufacturing wages have performed better in the South (maybe associated with a catching up effect), the North is reaching out. Among the top ten, there are only three northern states with the largest wage increases in the manufacturing sector.

Nominal annual % change in manufacturing wages













States with the highest increases in manufacturing wages. (Daily average wage, MXN).

State	2022	2023 ¹	YoY % Dif.
Chiapas	310	373	20%
Quintana Roo	353	417	18%
Guerrero	314	369	18%
Campeche	387	452	17%
Durango	326	377	16%
Zacatecas	356	412	16%
Baja California	542	624	15%
Chihuahua	504	579	15%
Yucatán	369	423	15%
Tamaulipas	529	604	14%
Nuevo León ²	552	613	11%

1. January - September 2023. | 2. Nuevo León is in position number 20 in the ranking. | **North:** BC, BCS, Coahuila, Chihuahua, NL, Sinaloa, Sonora and Tamaulipas. **Center-North:** Aguascalientes, Colima, Durango, Guanajuato, Jalisco, Nayarit, SLP and Zacatecas. **Center:** Mexico City and State of Mexico. **Center-South:** Guerrero, Hidalgo, Michoacán, Morelos, Puebla, Querétaro and Tlaxcala. **South-Southeast:** Campeche, Chiapas, Oaxaca, QROO, Tabasco, Veracruz and Yucatan. | **Source:** IMSS.

Most benefited sectors

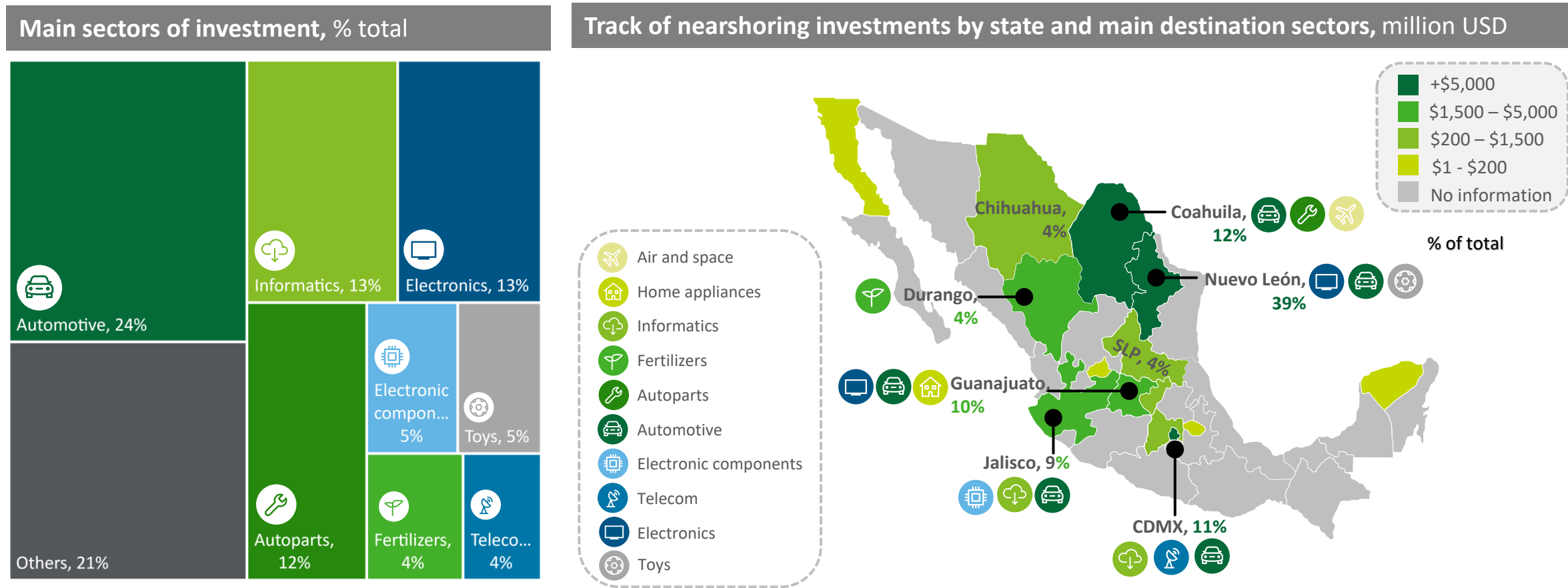
According to Banco de México, the manufacturing sectors with a higher propensity to nearshoring are mostly related to metals or high-tech products¹. Those sectors have exhibited higher levels of production and employment compared to how they would have performed in the absence of nearshoring².

Activity	Propensity to nearshoring (%)	GDP performance, annual % change			
		2021	2022	2023 f	2024 f
 Semi-conductor and other components	<div><div></div></div> 100%	11.0	4.0	3.4	2.8
 Office furniture	<div><div></div></div> 83%	14.6	13.2	-4.8	1.4
 Agriculture, construction and mining machinery	<div><div></div></div> 78%	18.0	2.6	-0.2	2.3
 Steel products	<div><div></div></div> 78%	9.7	6.2	5.1	3.4
 Other fabricated metal products	<div><div></div></div> 73%	18.3	0.5	-3.3	1.9
 Metalworking machinery	<div><div></div></div> 58%	43.1	-0.9	-19.1	3.0
 Paper products	<div><div></div></div> 57%	9.6	2.8	-3.8	3.3
 Foundries	<div><div></div></div> 55%	15.9	10.7	2.0	3.0
 Nonferrous metal products (ex. aluminum)	<div><div></div></div> 54%	6.5	0.8	-0.2	0.6
 Computer and peripheral equipment	<div><div></div></div> 48%	7.2	33.9	7.1	5.7
Total manufacturing activity		9.3	5.6	2.4	3.0

1. The index was calculated by analyzing Google search results for 'nearshoring' alongside the name of each manufacturing activity and the word "Mexico". The resulting count was divided by the total searches combining the sector and 'nearshoring.' Data from January 2015 to May 9, 2023, was considered to capture and reflect trends over a representative period. This approach provides a relative measure of interest in nearshoring in each sector, offering a concise and up-to-date insight into trends. | 2. A counterfactual scenario was constructed based on how the sectors would have performed in the absence of nearshoring. | **Source:** Banco de México with data from Google and the Monthly Manufacturing Industry Survey, INEGI. GDP forecasts are from Econsignal.

Investment monitor

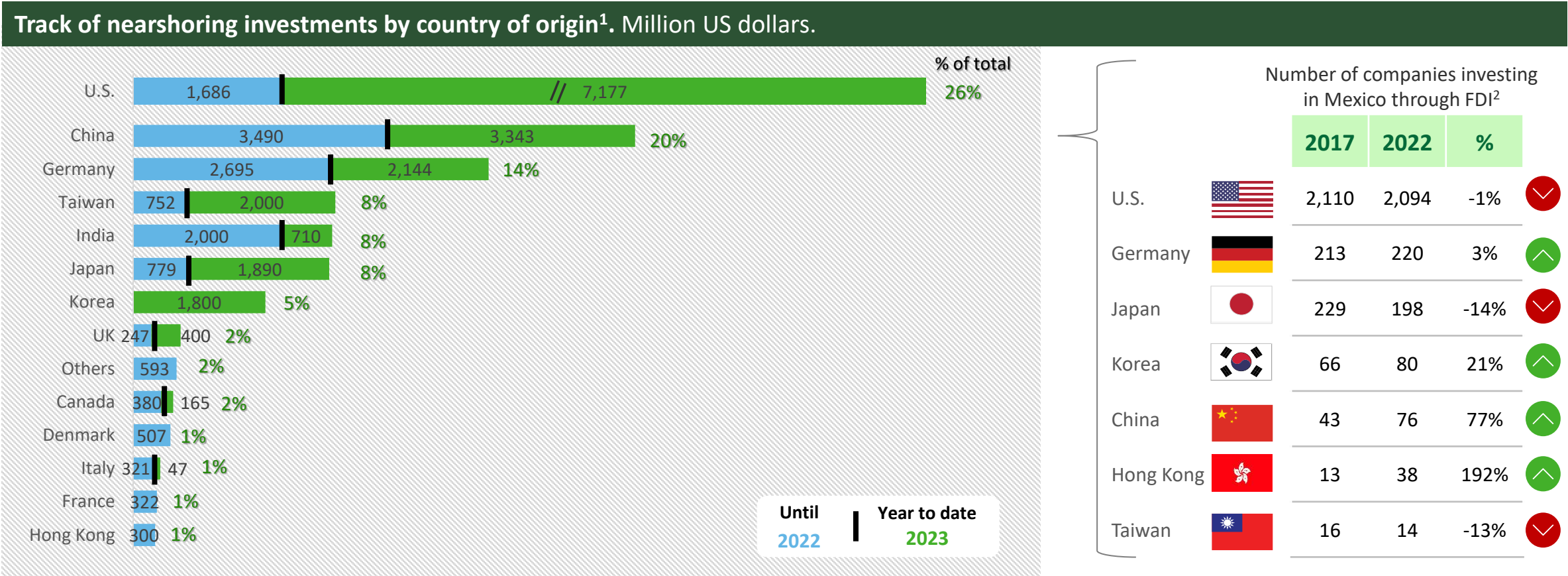
Many of the industries mentioned in the previous sheet, match with our investment monitor, in which we track the projects that are arriving in the country exclusively for nearshoring. The largest amounts of investments are being placed in the north.



Source: Econosignal. We conducted a follow-up at Econosignal on companies that have announced that they will expand their activities or that have arrived for the first time in the country exclusively for nearshoring purposes from the beginning of 2021 to September 2023. As this is a manual process, we have not necessarily counted all the projects announced through nearshoring during the study period.

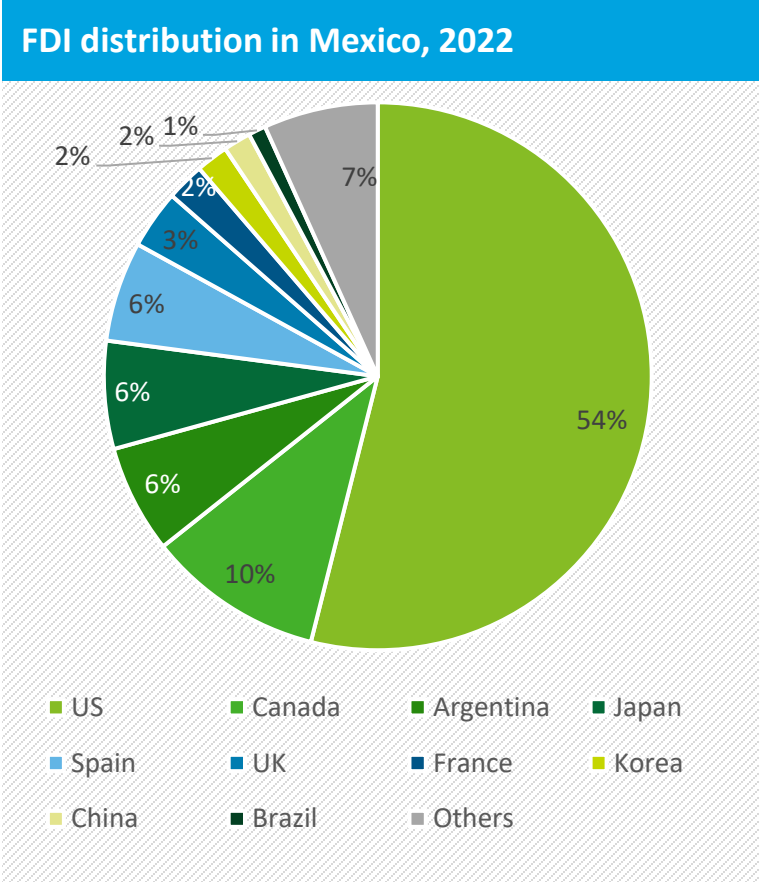
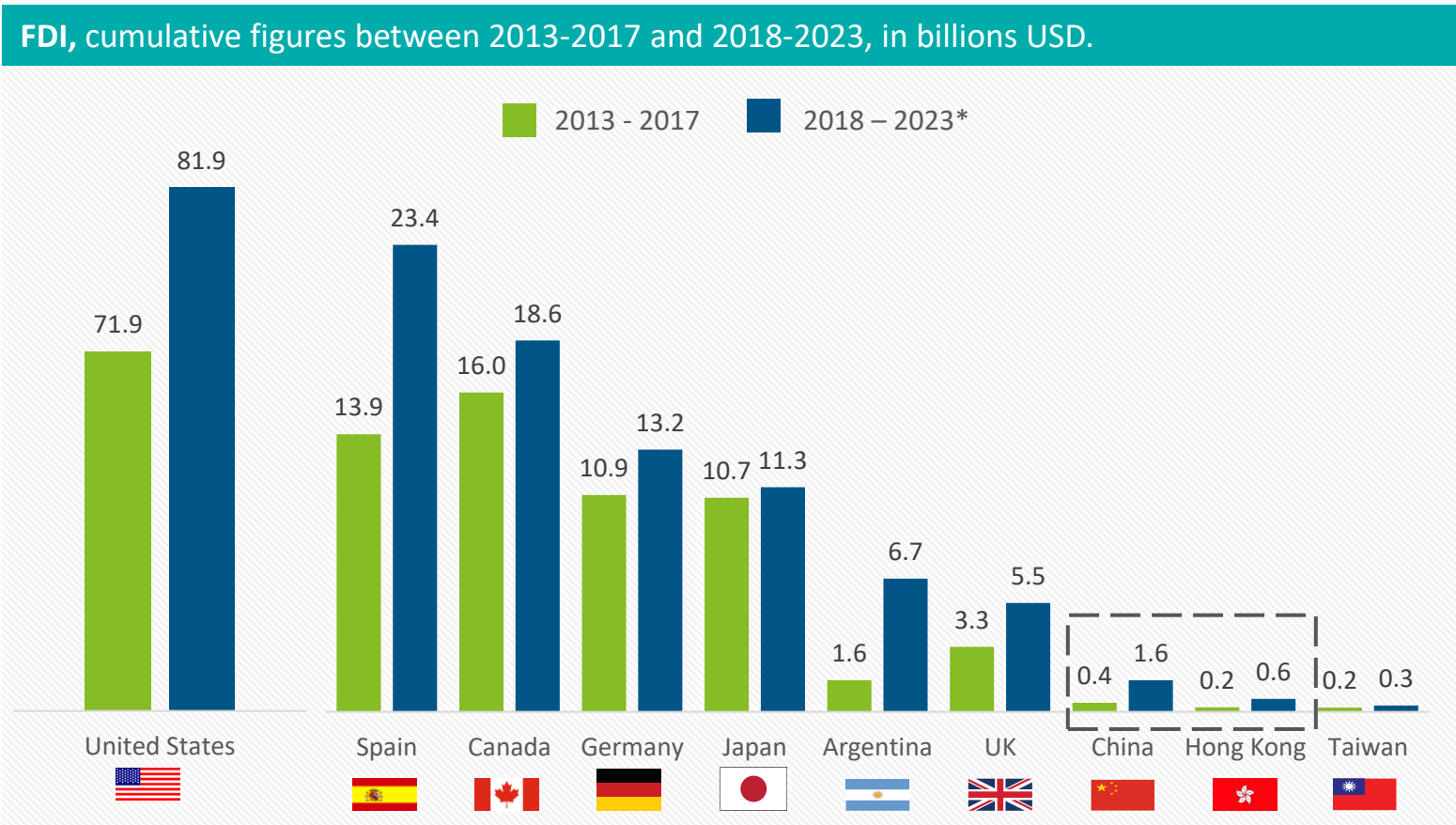
Investment monitor

There are mainly two types of groups that are reallocating in Mexico. The first group is integrated by American companies that already had operations in Mexico and now are expanding their capacity. The second group comprises Asian companies that want the benefit of producing in North America while avoiding the high costs of labor and reducing the risks of disruptions in the supply chain.



Foreign investment by country of origin

It can be observed in the official FDI figures that, since 2018 -when the US-China trade war began-, investment flows from Asian countries to Mexico have started to increase notably: China +255% and Hong Kong +188%.



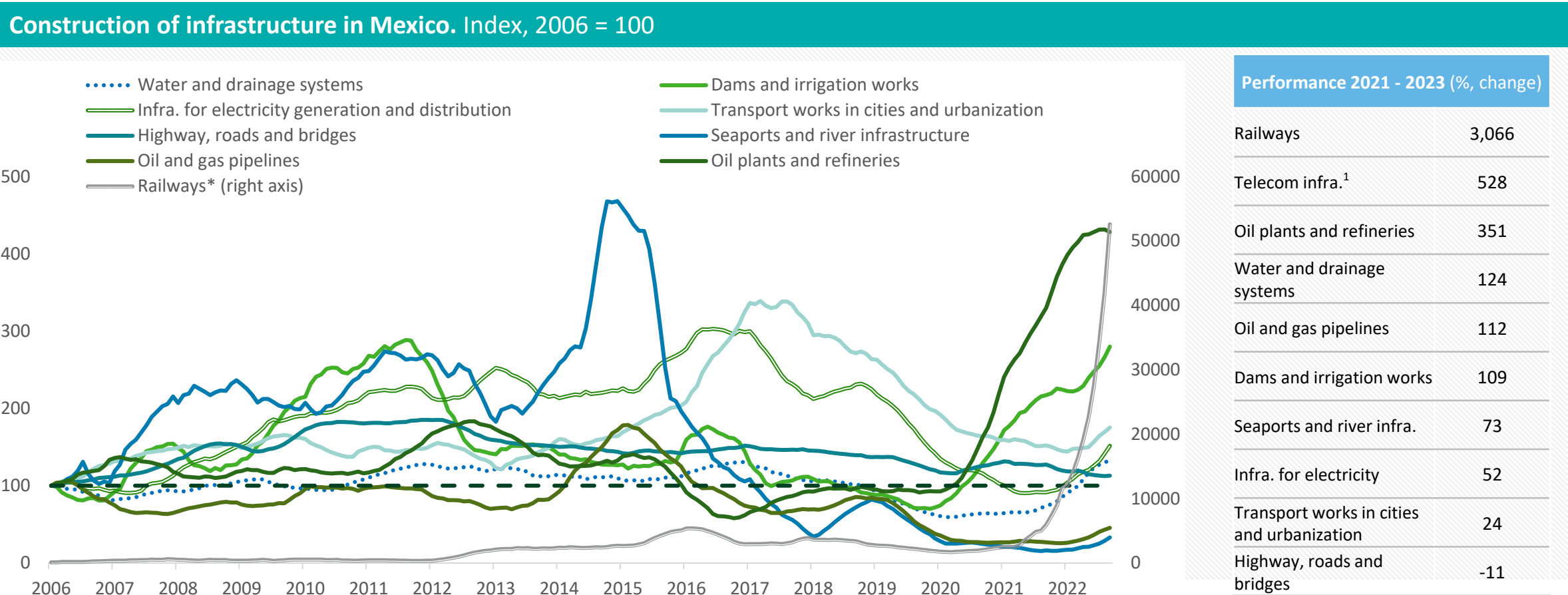
*January – September 2023.
Source: The Ministry of Economy of Mexico. For a better visualization of the information, the United States data is separated from the rest.

Challenges to consolidate the nearshoring effect in Mexico



Infrastructure in Mexico

With nearshoring, it is necessary to increase investment in public services (such as the drainage system, electricity generation, bigger and better roads, etc.). In the last years, investment in railways (due to the Mayan Train) and in telecom infrastructure are the sectors with the largest increases.



*Railway is presented on the right axis because its performance differs from the rest. Most of this trend is explained by the construction of the Mayan Train. | 1. We do not show the telecommunications infrastructure in the graph for illustrative purposes, as its behavior has been erratic. | Source: INEGI.

The Federal Government has recently issued tax incentives for nearshoring

The objective is to provide tax benefits to companies operating within pivotal sectors of the export industry, aiming at enhancing their operations through nearshoring. These incentives specifically target companies, who engage in the production, processing, or industrial manufacturing of specific goods for export.

Key manufacturing sectors



Machinery



Electronics



Automotive



Air and space

Key services sectors



Telecom



I+D
software



Logistics



Informatics

Tax deduction for new fixed assets, acquired for the remainder of 2023 and until December 31st, 2024.

Along with the additional tax deduction of 25% for expenses disbursed, with respect to training that the workers receive in the fiscal year in question.

Taxpayers may deduct from their taxable income the entire investment made in new fixed assets, if they are used exclusively for the development of the key activities referred to in the decree.

Companies are required to maintain a specific registration system of the respective investments and they should maintain the investment for a minimum period of three years.

Source: Federal Official Gazette, 11 October 2023.

Highlights

What are the benefits for Mexico?

It would enhance **bilateral relations** with the U.S. and the **chain production** development.



Exports would increase by up to an additional **\$50 billion USD** annually.
(11% of 2022 exports).



It would imply the entry of **new technologies**.



It would add more than **1.1 million jobs** and would **boost wages**.



It would boost the **companies' productivity and R&D** (Research and Development).



Foreign investment would reach 60 billion USD; 4% of Mexico's GDP.



Manufacturing production would add 2.4 percentage points to the national GDP.



About our calculations

In order to prepare the calculations presented in sheets 2 and 19, several assumptions were used:


- For the case of Foreign Direct Investment (FDI), a 10% annual growth rate is assumed for the next 5 years (during 2021 and 2022 it grew 12% annually). Under this assumption, FDI would reach around \$60 billion dollars by 2027.
- In the case of exports, a 10% annual growth rate is assumed for the next 5 years (in 2021 it rose 19% and in 2022, 17%). With that, between 50 and 60 billion would be added to exports each year.
- In the case of manufacturing production, it was considered that it would maintain a 5% annual growth rate over the next 5 years (from 2023 to 2027). In 2022 it grew 5.2% annually.
- Finally, for the calculation of employment, it was considered that FDI would contribute 0.5 percentage points (pp) to GDP and manufacturing production another 2.4 pp over a 5-year period. This would translate into 2.9pp more to economic growth. Considering an employment multiplier of 2.1 (which is an average of all sectors of the economy, using the 2013 base Input-Output matrix), this would result in 1,169,000 additional jobs.

Note: The forecasts given are based on growth rates already observed in 2021 and/or 2022. However, they are optimistic assumptions that assume that the nearshoring opportunity would be exploited to its fullest capacity.




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