

First 100 days of Trump's Presidency

May 2017

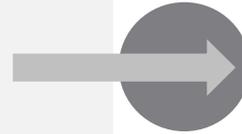
Trump's Presidency

Implications for the Mexican Automotive Industry

During his campaign, Donald Trump promised to implement a series of protectionist policies, several of them involving Mexico.

Policies involving Mexico

▶ Renegotiation of the NAFTA or withdraw from the deal under Article 2205



Loss of brand competitiveness for Mexico-reliant producers

▶ Promise to prevent US manufacturers from moving US jobs overseas, particularly to Mexico
▶ Opposition to carmakers setting up plants in Mexico



Slowdown in FDI into automotive production

▶ Rise in import costs and tariffs



Downsizing of investment projects

▶ End Illegal Immigration Act Fully - construction of a wall on the southern border



Decreasing inflow of remittances

Trump's Presidency

Since elected, Trump has posted a series of tweets related to the industry



Donald J. Trump 
@realDonaldTrump

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Toyota Motor said will build a new plant in Baja, Mexico, to build Corolla cars for U.S. NO WAY! Build plant in U.S. or pay big border tax.



Donald J. Trump 
@realDonaldTrump

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Thank you to Ford for scrapping a new plant in Mexico and creating 700 new jobs in the U.S. This is just the beginning – much more to follow.



Donald J. Trump 
@realDonaldTrump

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Big announcement by Ford today. Major investment to be made in three Michigan plants. Car companies coming back to U.S. JOBS! JOBS! JOBS!

04:36 - 28 Mar 2017



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General Motors is sending Mexican made model of Chevy Cruze to U.S. car dealers – tax free across border. Make in U.S.A. or pay big tax!



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It's finally happening – Fiat Chrysler just announced plans to invest \$1BILION in Michigan and Ohio plants, adding 2000 jobs. This after...

Trump has made progress on 2 out of 10 of his core goals

1 Create 25 million jobs, rebuild industry
Status: **Some progress**

2 Unite the Nation
Status: **No efforts nor progress**

3 Eradicate ISIS
Status: **Unknown**

4 Replace Obamacare
Status: **Stalled**

5 Deport undocumented immigrants
Status: **Some progress**

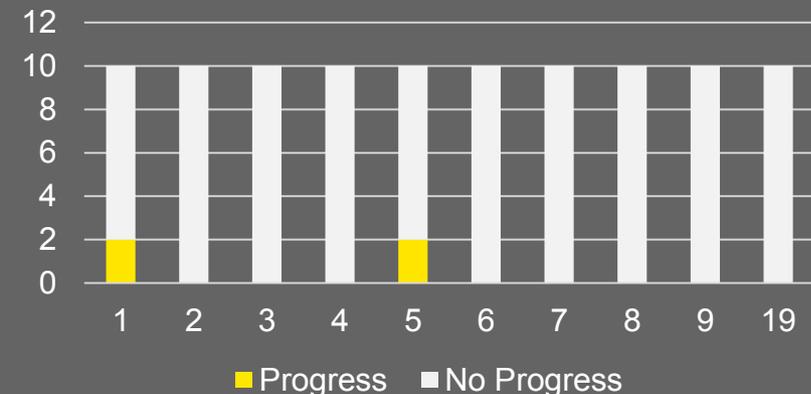
6 \$1 trillion infrastructure plan
Status: **Little action, no progress**

7 Impose Congressional term limits
Status: **Some action, no real progress**

8 Negotiate better global deals
Status: **Some action, no progress**

9 Reduce crime
Status: **No progress**

10 Border Adjustment Taxes
Status: **No real action, no progress**



Trump's Presidency

Overview

Number of
Tweets

993

Meters of Wall
Built

0

Approval
rating

40%

Last updated on 28/04/2017

Regarding immigration, president Trump has:

- ▶ He signed an Executive Order known as the "Muslim ban" which suspended all refugee admissions for 120 days and blocked citizens of 7 Muslim-majority countries from entering the US.
- ▶ On the other hand, early numbers suggest that he hasn't increased deportation numbers from Mexican citizens substantially
- ▶ Law enforcement experts believe that the president's efforts on immigration could **increase crime**



Around 77% of Americans still see the nation as divided. Trump himself has criticized minority groups on several occasions

Trump hasn't removed the US from NAFTA nor from the Paris Climate Change Agreement



\$1 trillion Infrastructure Plan: Trump hasn't even rolled out a plan to "Rebuild America"

Donald Trump recently said that he didn't think being the US President was going to be so difficult

NAFTA

Trump presented the first draft proposal

Although President Trump once called NAFTA “the worst trade deal”, the draft letter sent to the Congress on **March 2017** suggests a much more diplomatic tone than the one the President threatened to use during NAFTA renegotiations. The letter includes some key points that would have a direct effect on the Automotive Industry :

1

Levelling the playing field on taxes

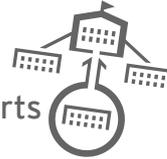
During the campaign, Trump floated a tariff of 20%-35% on certain goods imported from Mexico.



2

Harden the rules of origin

This could suggest duties on foreign parts and components, increasing their cost and reducing the percentage of Mexican components on US products.



3

Restrain the Foreign participation in governmental purchases

Trumps seeks to prioritize U.S. companies over Mexican and Canadian ones for any American government contracts



Other Key Points include:

- ▶ Implement a general safeguard mechanism
- ▶ Establish a “snap back” resource
- ▶ New labor, intellectual property and environmental regulations
- ▶ Ecommerce regulations
- ▶ Eliminating Chapter 19's countervailing and anti-dumping provisions

What will happen next?

1. The Congress will be involved in revising that list.
2. The administration will issue a formal notice that it wants to renegotiate the deal and spend a minimum of 90 days consulting lawmakers and industry
3. Formal talks with Canada and Mexico could begin in the summer or fall

NAFTA

Trump stated that he is willing to renegotiate



Donald J. Trump ✓
@realDonaldTrump



I received calls from the President of Mexico and the Prime Minister of Canada asking to renegotiate NAFTA rather than terminate. I agreed..

06:12 - 27 Apr 2017

↩ ↻ 11.239 ❤ 43.662

Even though he is willing to negotiate, Trump said the US could still leave NAFTA



Donald J. Trump ✓
@realDonaldTrump



...subject to the fact that if we do not reach a fair deal for all, we will then terminate NAFTA. Relationships are good-deal very possible!

06:21 - 27 Apr 2017

↩ ↻ 7.070 ❤ 30.590

After months of uncertainty , Trump announced that he was not leaving NAFTA on April 26 2017

- ▶ The President of the United States said that he was willing to renegotiate the treaty
- ▶ Trump, Peña Nieto (México) and Trudeau (Canada), agreed on initiating the renegotiation as soon as possible
- ▶ After the announcement, the Mexican Peso dropped 0.33 cents against the US Dollar



Border Adjustment Taxes

Effects on the US Economy

Possible consequences of a 35% Tariff on good imported from Mexico:



- ▶ US has limited production capacity, shifting foreign plants to the US would mean building new ones or expanding the existing ones. This would require a **\$4.7-\$6.5 billion investment**.
- ▶ Many parts and components cross the US-Mexico border several times before arriving to their final assembly plant. An increase in taxes would most likely **increase these components' prices**.
- ▶ US vehicle production contains around 11.7% of Mexican parts, the tariff would lead to a **loss of 11,000 assembly jobs**.
- ▶ Potential **loss of 20,000 jobs** related to Autoparts. Plus, a risk of losing 6,800 more assembly jobs due to the probable **450,000 units decrease** in sales.



Potential consequences in numbers:

\$4.7-\$6.5 billion costs for the automakers
At least **31,000 Jobs lost**

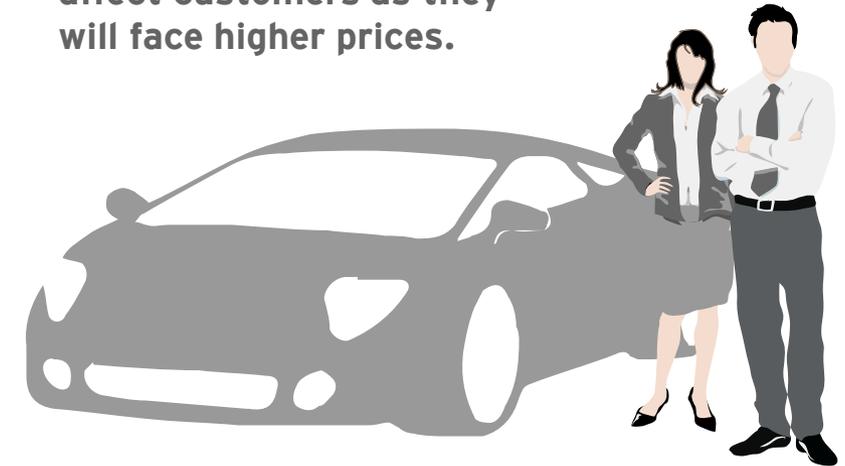
Border Adjustment Taxes

Estimated Impact on US vehicle prices

Price impact of a 20% border adjustment-tax (Average dollar amount needed to offset tax hike per vehicle brand)

Tesla	\$0	Subaru	\$3,656
Ford	\$282	BMW	\$3,725
General Motors	\$995	Mercedes	\$4,211
Honda	\$1,312	Mazda	\$5,156
Fiat Chrysler	\$1,672	Mitsubishi	\$5,938
Nissan	\$2,298	Volkswagen	\$6,779
Toyota	\$2,651	Geely (Volvo)	\$7,643
Hyundai/Kia	\$2,704	Tata (Jaguar Land Rover)	\$17,204

Tariff increases will mostly affect customers as they will face higher prices.



Source: Baum & Associates

Average vehicle price increase

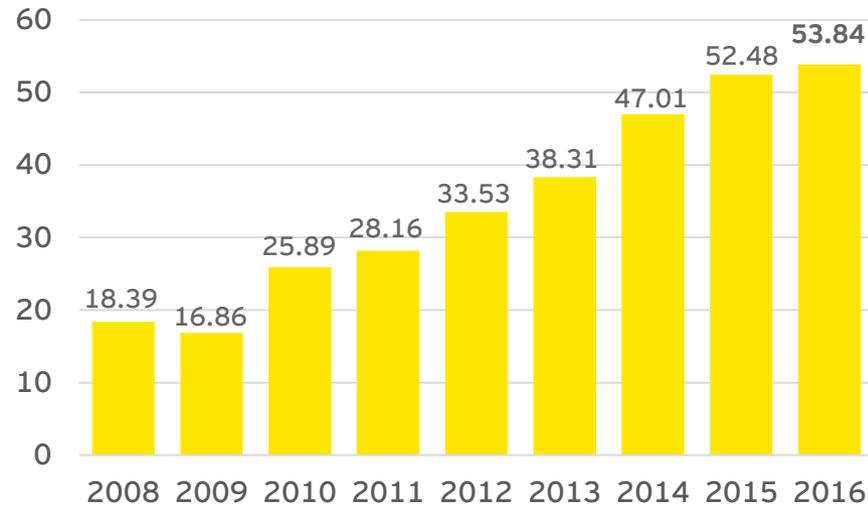
\$4,139

- ▶ As an immediate response to a border adjustment tax, the U.S. light vehicle prices would **increase around 5.6%**
- ▶ The current U.S. average transaction price for new vehicles is \$34,968; increases are estimated at **\$1,970**.
- ▶ U.S. sales were 17.5 million vehicles in 2016; the light vehicle price will increase the cost for consumers in **\$34.6 billion**.
- ▶ The Border Adjustment Tax was not included in Trump's new tax reforms.

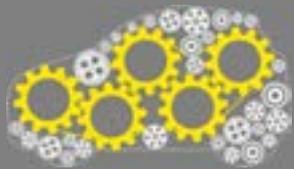
US-Mexico relation

US is expanding its automotive deficit with Mexico

During the last 8 years, Mexico's automotive surplus has increased 192.74%, reaching 53,800 million pesos in 2016



- ▶ Mexico's main trading partner is the US, representing around 80% of their total exports and 49.8% of their imports
- ▶ Around 0.5 million Jobs in California and 5 million jobs in all US depend from the cross-border trade with Mexico
- ▶ The Cali-Baja macro region is valued in around \$230,000 million USD
- ▶ Larry Rubin, American Society of Mexico's President, has declared full cooperation with whoever succeeds President Enrique Peña Nieto in the 2018 elections



51%
of the value of the US automotive parts imports came from NAFTA partners

75%
of the value of the US automotive parts' exports came from NAFTA partners



40%
of the US light vehicles were exported to NAFTA partners

50%
Were imported from them



What has been happening in Mexico?

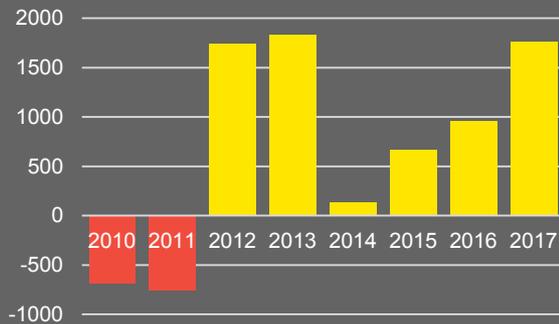
Trump's election caused fear and uncertainty on our country's finances and stability. This led the Mexican peso to reach all-time low prices, foreign capital outflows and a 4.6% decrease of the equity market. However, up until now, the scenario hasn't been catastrophic.

The main stock indexes show a renewed confidence on the Mexican economy.

Foreign Investment in the Equity Market

+ \$759 million USD

Foreign investment on the first bimester of 2017



Net inflow on the first semester of each year, in USD million

Equity Market

Due to Trump's announcement about leaving the TPP and the NAFTA

▼ **4.6%** equity securities on the stock Market

Just 75 days after his election there was a

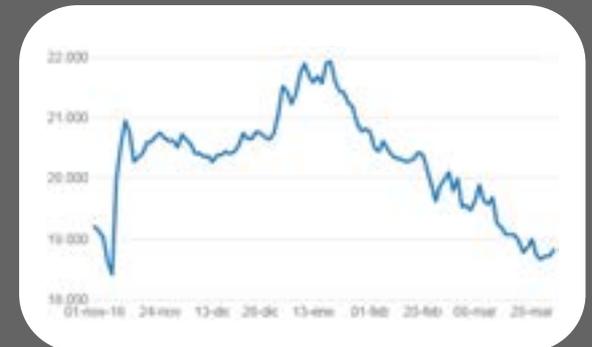
▲ **6.7%** rise on this index

Bond Markets

In February, the securities balance in possession of foreigners **reached its highest value** since October 2016.

Dollar vs Peso

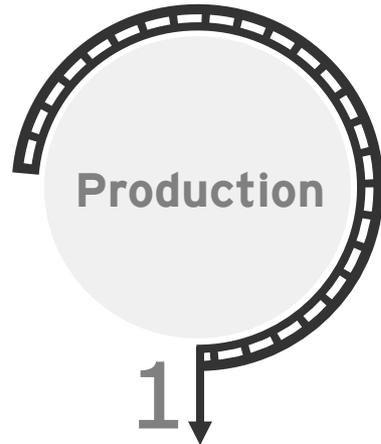
- ▶ Trump's assumption date: the **dollar reached its highest level** against the peso
- ▶ April 2017: the **peso recovered 12.8%**



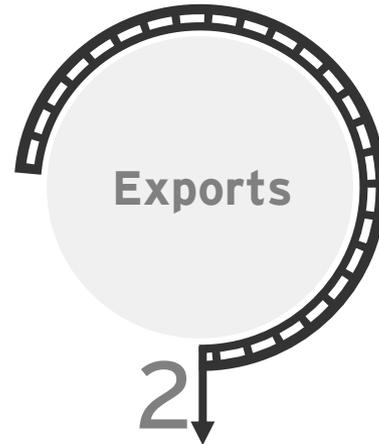
Mexico's Automotive Industry

Despite Trump's threat, the Industry has kept growing

Despite the economic uncertainty and the increasing interest rate, production, exports and sales have kept rising during the first months of 2017. As of March 2017, the industry in Mexico presented the following numbers:



- ▶ Total production **increased 36.2%** y-o-y
- ▶ The automotive plants in Mexico produced **363,687 light vehicles** in March



- ▶ Total exports **increased 32.7%** y-o-y with a total of 297,571 units
- ▶ Exports to **United States increased in 37%**



- ▶ Total vehicle sales **increased 17.2%** y-o-y.
- ▶ **Auto financing** registered a 13.5% growth y-o-y and reached a **73.5% participation** within the total sales nationwide.

378,248

Light vehicles sold since January 2017

75%

of the US automotive parts imports came from Mexico in past years

8.9%

Increase on light vehicles sales y-o-y

Commercial relations

Mexico is seeking to diversify its commercial partners

- ▶ During February 2017, the automotive trade balance increased its surplus on an annual rate of 3.5%, reaching 4,131 million USD.

1

Mexico is seeking to close a commercial agreement with Argentina.



- ▶ Their negotiations will drive the automotive and agricultural trade. The commercial agreement would allow Mexico to increase its automotive exports to Argentina, from whom Mexico would be able to import more corn and soy.

2

New Asian companies have entered the Mexican market



- ▶ There was a 12.6% increase on imported vehicles y-o-y
 - ▶ 50.8% came from Asia, 16.9% came from US and CanadaThis reflects the impact of the new Asian companies entering the Mexican market such as Kia, whose sales increased 101.4% y-o-y.

3

Mexico - EU Free Trade Agreement



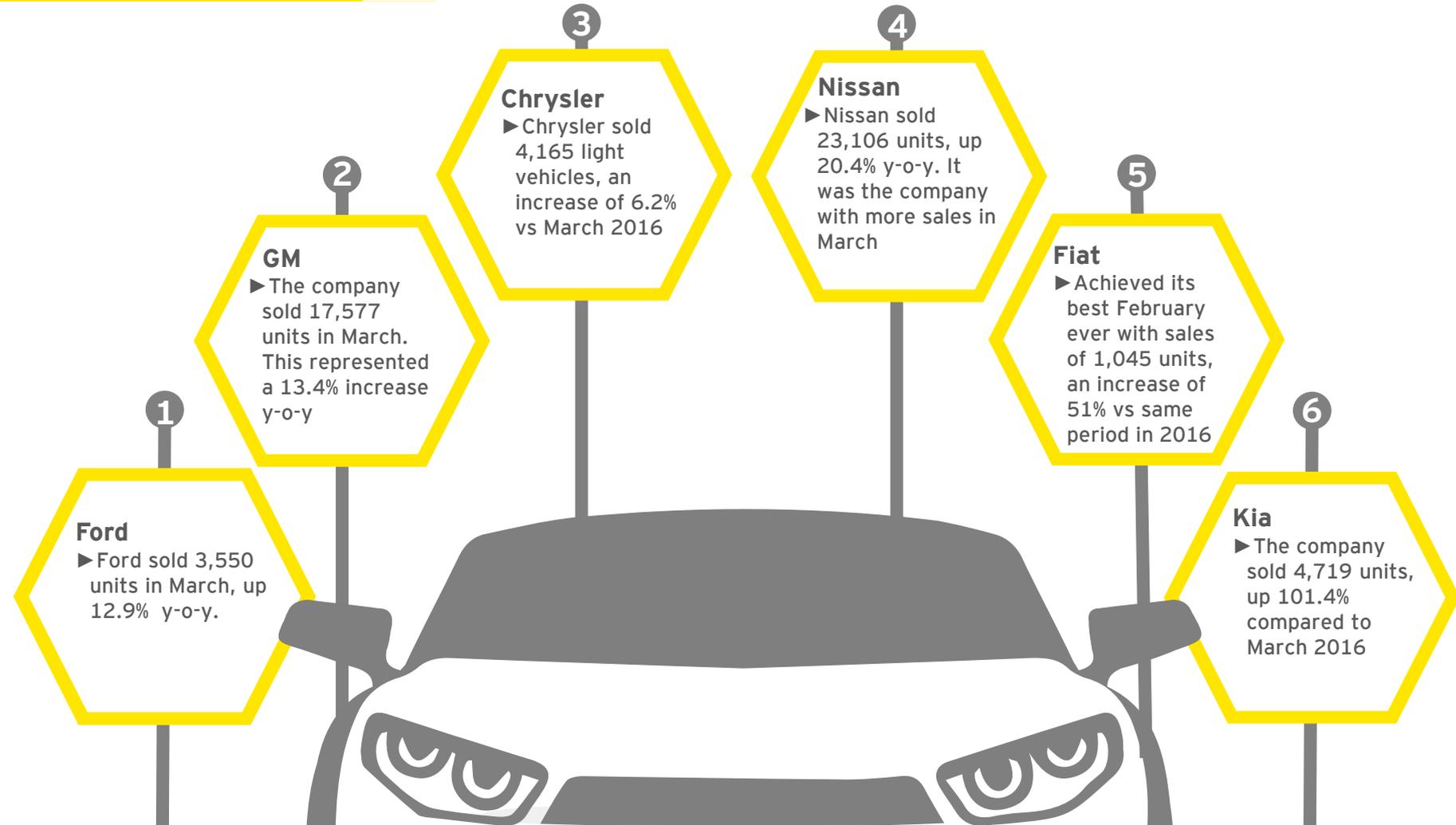
- ▶ There have been recent negotiations between Mexico and the EU in order to discuss the expansion of the EU-Mexico Free Trade Agreement. According to Mexico's Undersecretary of Foreign Trade, this negotiation is being considered as vital.

- ▶ In recent years the Mexican ports' capacity has increased; nowadays, they can manage up to 405 million tons. The capacity expansion has been an effort from the government in order to increase commercial trade and reach more countries around the world.



Overview of Automakers in Mexico

- ▶ Overall 17.2% increase on sales y-o-y
- ▶ Nissan was the best-selling brand in March
- ▶ Some automotive firms in Mexico took advantage of the stock Market's leverage to issue 204 million pesos in debt
- ▶ This represents 53.7% of the total debt issued during 1Q17



New Investments

Automakers will continue investing in Mexico

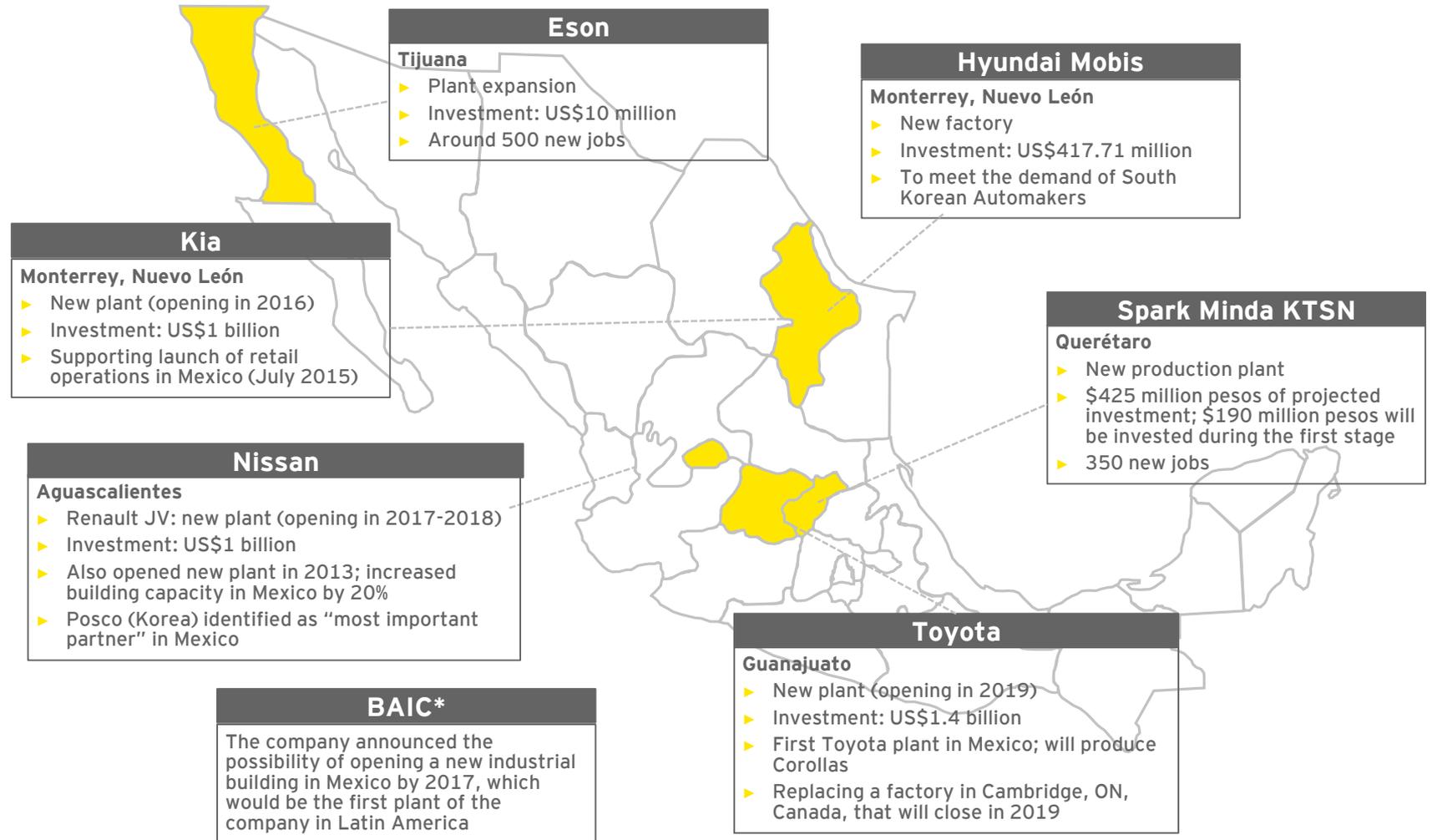
Mexico's ties with Asian OEMs are growing stronger



Several Asian companies have opened new Mexican assembly plants, or disclosed plans for one



Following the US Presidential election, Mexico and China pledged to deepen ties



*Not yet confirmed

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