Mexico

September 2020

Agriculture	Automotive/ Transport	Chemicals/ Pharma	Construction Const.Mtrls	Consumer Durables	Electronics/ ICT	Financial Services	Food	Machines/ Engineering	Metals	Paper	Services	Steel	Textiles

Source: Atradius

Industry performance

Changes since June 2020 · Sources: Atradius, Oxford Economics

Agriculture

Remains Poor

Businesses are affected by higher import costs of commodities (especially agrochemicals) due to the peso volatility against the USD, which negatively impacts margins. Agriculture value added is expected to decrease by about 1.5% in 2020. However, the mid-term outlook is more positive, as some segments (e.g. meat) will benefit from government measures to promote self-sufficiency and support of the coffee sector. The implementation of the US-MCA agreement should also help sustain sector growth in 2021.

Automotive/Transport

Remains Poor

Beyond the current slump due to the coronavirus pandemic, a decrease in production is expected in the medium-term, with fewer sales of personal and commercial vehicles both in Mexico and the US. Automotive value added is forecast to decrease by more than 25% in 2020. The impact on businesses' credit risk could be lower than in other industries, given the financial strength of large groups participating in the vehicle assembly chain. However, non-payments have increased over the past couple of months, and further increases are expected in H2 of 2020.

In the transport sector, the main impact of the coronavirus pandemic is on passenger transport services. Transport value added is forecast to decrease by more than 6% in 2020.

Chemicals/Pharma

Remains Fair

Chemicals value added is forecast to decrease moderately, by about 1.5%, in 2020. While many chemical businesses selling to the automotive, construction or textile sectors are severely affected by the economic downturn, manufacturers of items and goods destined for the food and healthcare sectors benefit in terms of sales.

The peso volatility against the USD and the lower oil derivatives prices could have an impact on the liquidity of several companies, as there is a large number of chemical businesses that depend on basic chemicals and/or refined oil product imports from abroad (mainly from the US). More than 80% of chemicals businesses in Mexico are small or medium sized, and the main funding vehicles in the industry are supply chains. A slight increase in overdue payments has been recorded over the past couple of months and, due to tighter liquidity, more payment delays are expected in the coming months, although the increase should not be very high.

Pharmaceutical businesses are usually financially robust and well established, and are expected to face higher demand for drugs in H2 of 2020. However, supply chain issues for imported drugs could emerge, while sales prices could be affected by decreasing household purchase power in Mexico.

Construction

Remains Bleak

The sector already performed poorly in 2019, and the economic downturn due to the coronavirus pandemic has aggravated the situation for many businesses. Sector value added is expected to decrease by more than 9% in 2020 after shrinking 5.0% in 2019. In H1 of 2020, the level of credit insurance claims was lower than in 2019. However, in H2 and early 2021, an increase in payment delays and claims is expected, due to the ongoing slowdown in economic activity. In 2021 only a 3% growth rebound is expected for the construction industry.

Consumer Durables

Remains Poor

Sales of non-food consumer goods are deteriorating due to the coronavirus impact, with private consumption expected to decrease by more than 7%, and unemployment sharply rising in 2020. In Q2 of 2020, department stores reported a sales drop between 50% to 70%, mainly due to lockdown measures. The Q3 performance will probably provide a clue to whether the downturn will bottom out. Currently, retail value added is expected to decrease by 8.5% in 2020. Due to the sharp contraction in H1 of 2020, the financial strength of many businesses has seriously deteriorated, and non-payments have sharply increased over the past couple of months.

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Industry performance

Changes since June 2020 · Sources: Atradius, Oxford Economics

Electronics/ICT

Up from Poor to Fair

The electronics/ICT performance was not as negatively affected by the coronavirus pandemic as initially forecast. Rather, it performed rather well compared to many other industries. ICT sales have benefited particularly from increased remote working and the need of many companies to upgrade their platforms in order to keep operating. Most ICT businesses reported stable or even rising revenues in H1 of 2020, and sector value added is expected to increase by more than 5% in 2020. While electrical machinery value added is forecast to decrease 3% in 2020, a significant increase in payment delays is not expected in H2.

Financial Services

Remains Fair

While the financial services sector is resilient, consumers will start draining saving accounts in the coming months, leading to an increase in payment delays of indebted consumers and companies. This could cause banks to experience losses at P&L levels, as cash will have to be used to increase reserves for bad debt.

Food

Remains Fair

Food and non-alcoholic drink spending will continue to perform well throughout 2020, as consumers prioritise essential items and stay at home, boosting opportunities for food deliveries. A potential downside risk for certain segments could be tighter regulations on food and drink for health reasons (e.g. other states following Oaxaca banning the sale of junk food and sugary drinks to children in August 2020).

Machines/Engineering

Remains Bleak

Businesses in this industry are affected by more expensive imports of products due to exchange rate volatility, while demand from key buyer sectors in Mexico and the US has deteriorated. Capital investment in Mexico is expected to contract 15%, and engineering value added is forecast to decline 13% in 2020. Payment delays and business failures have increased in H1 of 2020. This negative trend is expected to continue in the coming months, as peso appreciation and ongoing contraction of industrial activity will avoid a quick rebound of the machines/engineering sector.

Metals

Remains Bleak

The industry is suffering from peso depreciation, volatility of metal prices and decreased demand from key buyer sectors, due to the economic downturn. Businesses´ financials are increasingly strained, and metals value added is forecast to decline by 6% in 2020 after a 10% contraction in 2019. Payment delays and business failures are expected to increase in the coming months due to the ongoing economic slump in Mexico.

Paper

Remains Poor

Subsectors like newspaper printing are severely impacted by higher prices for raw material imports and decreasing demand due to the ongoing recession. However, businesses in some subsectors like packaging are not as negatively affected, with some benefitting from increased online shopping. Paper value added is expected to decrease 6% in 2020 and 3% in 2021. Non-payments have sharply increased in H1 of 2020, and this negative trend is expected to continue in the coming months.

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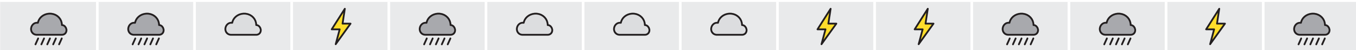

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Services

Remains Poor

Due to lockdown measures, closing of borders and the economic contraction, many segments suffer heavily, especially hotels and catering, restaurants, bars, entertainment and cultural events, airports, tourism, travel agencies and tour operators. Hotel and catering value added is expected to decrease by almost 8% in 2020. Non-payments in the small restaurant, cafeteria and hotel service segments have increased, as many businesses have not been able to cover operating expenses, only allowed to operate at 30% of their capacity. Approximately 15% of bars and nightclubs and 20% of small restaurants in Mexico have already been closed, and further closures and rising payment delays due to lack of liquidity are expected in Q4 of 2020 and in early 2021.

Steel

Remains Bleak

The industry has suffered from peso depreciation, higher iron ore prices and decreased steel consumption from key buyer sectors like automotive and construction. Steel businesses´ financials are increasingly strained, and steel value added is forecast to decline by more than 8% in 2020, after a 10.5% contraction in 2019. Payment delays and business failures are expected to increase in the coming months. Payment delays and business failures have sharply increased in H1 of 2020, and further increases are expected in the coming months.

Textiles

Remains Poor

Producers, wholesalers and retailers already suffered before the coronavirus outbreak from fierce competition and thin margins. Deteriorating sales due to the coronavirus pandemic have exacerbated the market crisis. Textiles value added is forecast to contract by more than 10% in 2020 after shrinking 4% in 2019. Payment terms in the industry are extensive, reaching up to 120 days, and non-payments are expected to increase in the coming months.