

Mexico

Change in 2006 from 2005:

U.S. trade deficit: Increased by \$14.9 billion (22 percent) to \$82.5 billion

U.S. exports: Increased by \$12.9 billion (13 percent) to \$114.6 billion

U.S. imports: Increased by \$27.8 billion (17 percent) to \$197.1 billion

The U.S. trade deficit with Mexico, the third largest trading partner of the United States, continued to increase in 2006, rising by \$14.9 billion (22 percent) to \$82.5 billion as imports outpaced exports. In spite of a downturn in energy prices and related products in 2006 (a large component of U.S.-Mexico trade), imports from Mexico continued to increase at a record rate. The increase in U.S. imports from Mexico reflected higher prices for petroleum and expanded use of assembly in Mexico to support growing U.S. manufacturing. In 2006, U.S. imports from Mexico for all merchandise sectors increased by \$27.8 billion (17 percent) to \$197.1 billion.

U.S. Exports

In 2006, U.S. exports to Mexico rose \$12.9 billion (13 percent) to \$114.6 billion, driven in part by economic growth in Mexico.¹ The economy grew by 4.5 percent for the first time since 2000, bolstered by increasing consumer confidence, continued high oil prices, and a resurgence of the Maquiladora Program, or export-for-assembly industry. Mexico's robust economic expansion resulted in an upsurge of U.S. exports in such leading product sectors as miscellaneous manufactures, minerals and metals, transportation, and chemical products (table MEXICO-1).² Mexico was the third-largest export destination for U.S. products, exceeded only by the EU and Canada.

In 2006, U.S. exports of miscellaneous products increased \$416 million (26 percent) to \$2 billion in response to surging Mexican demand. Leading U.S. exports were home video game cartridges (up \$131 million, or 524 percent) and parts of motor vehicle seats (up \$79 million, or 66 percent) which accounted for over one-half of the total increase in exports of miscellaneous manufactures to Mexico in 2006 (table MEXICO-2). The growth in exports of home video game cartridges reflects the spike in demand resulting from the introduction of a new generation of video game consoles. The continuing shift in the assembly of motor vehicle seats from the United States and Canada to Mexico was responsible for a \$79 million rise in exports of seat parts to Mexico in 2006. Sewing seat covers from fabric or leather is the most labor-intensive aspect of seat assembly. The seat covers sewn in Mexico are delivered to vehicle assembly plants or seat-finishing operations throughout North America.

U.S. exports of minerals and metals to Mexico increased by \$2.4 billion (26 percent) to \$11.6 billion. Steel demand in Mexico grew by 5 percent in 2006, largely as a result of a robust economy and a shortage of product capacity in the domestic steel consuming industries. Steel imports from the United States typically involve products that are destined

¹ Mexico exports approximately 80 percent of its total exports to the United States.

² Americas News Intel Publishing, *Mexico Watch Monthly Report*.

TABLE MEXICO-1 Mexico: U.S. exports of domestic merchandise, imports for consumption, and merchandise trade balance, by major industry/commodity sectors, 2002–06^a

Item	2002	2003	2004	2005	2006	Change, 2006 from 2005	
						Absolute	Percent
<i>Million dollars</i>							
U.S. exports of domestic merchandise:							
Agricultural products	7,534	8,176	8,994	9,678	11,066	1,389	14.4
Forest products	3,056	3,217	3,451	3,860	4,258	398	10.3
Chemicals and related products	12,444	13,300	15,797	18,122	20,573	2,451	13.5
Energy-related products	3,274	2,897	3,379	5,508	5,925	417	7.6
Textiles and apparel	4,939	4,696	4,730	4,705	4,551	-154	-3.3
Footwear	95	90	60	46	47	1	2.6
Minerals and metals	6,671	6,454	7,958	9,258	11,635	2,377	25.7
Machinery	9,183	9,086	10,078	11,418	12,454	1,037	9.1
Transportation equipment	14,524	13,725	15,882	16,871	19,266	2,395	14.2
Electronic products	18,965	16,414	17,383	16,609	18,333	1,724	10.4
Miscellaneous manufactures	1,687	1,511	1,525	1,611	2,027	416	25.8
Special provisions	3,705	3,541	3,781	3,981	4,428	446	11.2
Total	86,076	83,108	93,018	101,667	114,562	12,896	12.7
U.S. imports of merchandise for consumption:							
Agricultural products	6,378	7,220	8,189	9,323	10,498	1,176	12.6
Forest products	1,038	1,075	1,274	1,420	1,559	139	9.8
Chemicals and related products	3,637	3,779	4,790	5,429	6,347	918	16.9
Energy-related products	11,567	14,792	18,966	25,029	32,116	7,087	28.3
Textiles and apparel	9,649	9,015	8,826	8,305	7,497	-808	-9.7
Footwear	279	275	242	247	274	26	10.7
Minerals and metals	7,013	7,116	9,623	11,366	13,266	1,900	16.7
Machinery	16,321	16,596	18,029	20,173	23,036	2,863	14.2
Transportation equipment	31,117	30,664	33,025	34,451	41,291	6,840	19.9
Electronic products	35,029	34,560	38,945	40,160	47,044	6,884	17.1
Miscellaneous manufactures	6,356	6,252	6,555	6,814	7,022	208	3.1
Special provisions	5,738	5,855	6,493	6,499	7,105	606	9.3
Total	134,121	137,199	154,959	169,216	197,056	27,839	16.5
U.S. merchandise trade balance:							
Agricultural products	1,155	956	805	355	568	213	60.0
Forest products	2,018	2,142	2,177	2,440	2,698	259	10.6
Chemicals and related products	8,807	9,521	11,007	12,694	14,226	1,532	12.1
Energy-related products	-8,294	-11,894	-15,587	-19,522	-26,191	-6,670	-34.2
Textiles and apparel	-4,710	-4,319	-4,097	-3,600	-2,946	654	18.2
Footwear	-183	-185	-183	-201	-227	-25	-12.5
Minerals and metals	-342	-661	-1,665	-2,108	-1,631	478	22.6
Machinery	-7,138	-7,510	-7,951	-8,755	-10,582	-1,826	-20.9
Transportation equipment	-16,593	-16,939	-17,143	-17,579	-22,025	-4,446	-25.3
Electronic products	-16,064	-18,146	-21,562	-23,550	-28,711	-5,161	-21.9
Miscellaneous manufactures	-4,668	-4,741	-5,030	-5,204	-4,996	208	4.0
Special provisions	-2,033	-2,314	-2,713	-2,518	-2,677	-160	-6.4
Total	-48,045	-54,091	-61,941	-67,549	-82,493	-14,944	-22.1

Source: Compiled from official statistics of the U.S. Department of Commerce.

Note.—Calculations based on unrounded data.

^aImport values are based on customs value; export values are based on f.a.s. value, U.S. port of export.

TABLE MEXICO-2 Leading changes in U.S. exports to and U.S. imports from Mexico, 2002–06^a

Sector/commodity	2002	2003	2004	2005	2006	Change, 2006 from 2005	
						Absolute	Percent
<i>Million dollars</i>							
U.S. EXPORTS:							
Increases:							
Transportation equipment:							
Certain motor-vehicle parts (ET010)	5,852	5,278	5,559	5,464	6,435	970	17.8
Aircraft, spacecraft, and related equipment (ET013)	317	600	792	801	1,581	780	97.4
Construction and mining equipment (ET004)	554	561	572	649	1,015	366	56.4
Copper and related articles (MM036)	462	467	779	959	1,594	635	66.2
Telephone and telegraph apparatus (ET017)	1,328	1,229	1,573	1,459	1,949	489	33.5
Cereals (AG030)	1,491	1,514	1,695	1,553	2,038	485	31.2
Decreases:							
Motor vehicles (ET009)	3,711	3,186	3,983	4,323	3,964	-358	-8.3
Nonelectrically powered handtools and parts thereof (MM094)	56	51	260	503	208	-295	-58.6
Cathode-ray tubes (ET031)	1,595	1,103	878	503	212	-291	-57.9
All other	70,711	69,119	76,926	85,452	95,567	10,115	11.8
TOTAL	86,076	83,108	93,018	101,667	114,562	12,896	12.7
U.S. IMPORTS:							
Increases:							
Crude petroleum (CH004)	10,490	13,630	17,186	22,364	29,195	6,831	30.5
Transportation equipment:							
Motor vehicles (ET009)	20,793	19,327	19,116	18,520	23,539	5,019	27.1
Certain motor-vehicle parts (ET010)	5,121	5,492	6,487	7,576	8,991	1,415	18.7
Electronic products:							
Television receivers and video monitors (ET022) ...	5,165	5,532	7,743	10,029	14,386	4,357	43.4
Telephone and telegraph apparatus (ET017)	4,210	4,664	5,913	5,645	7,123	1,477	26.2
Household appliances, including commercial applications (MM073)	1,993	2,092	2,322	2,739	3,862	1,123	41.0
Precious metals and non-numismatic coins (MM020)	448	530	732	927	2,023	1,097	118.3
Decreases:							
Apparel (CH049)	7,732	7,200	6,944	6,322	5,530	-792	-12.5
Electronic products:							
Radio and television broadcasting equipment (ET023)	2,364	1,556	1,348	741	531	-210	-28.3
Cathode-ray tubes (ET031)	325	378	472	409	249	-160	-39.1
All other	75,479	76,797	86,696	93,944	101,626	7,682	8.2
TOTAL	134,121	137,199	154,959	169,216	197,056	27,839	16.5

Source: Compiled from official statistics of the U.S. Department of Commerce.

Note.—Calculations based on unrounded data.

^aImport values are based on customs value; export values are based on f.a.s. value, U.S. port of export.

for Mexico's automotive and major appliance transplant factories and that are not produced in Mexico.³ Copper and insulated wire, steel and aluminum mill products, zinc and related articles, and aluminum steel bars used in the structural construction industry registered the largest increase in U.S. exports to Mexico. U.S. exports of copper and insulated wire rose by \$635 million (66 percent) to \$1.6 billion, whereas exports of zinc and related articles increased by \$200 million (79 percent) to \$454 million. According to industry sources, Mexico's imports of steel and aluminum products are expected to continue to grow in future years as a result of domestic industry consolidation and a shortage of product capacity for certain types of specialty steels and scrap metals.⁴

Exports of transportation equipment and parts to Mexico, the fourth-largest market for such U.S. exports, increased by \$2.4 billion (14 percent) to \$19.3 billion in 2006. U.S. exports of original equipment auto parts rose by \$970 million (18 percent) to \$6.4 billion, due to an increase in Mexican automobile production in 2006.⁵ For the first time, Mexico's assembly plants built more than two million cars and trucks in 2006, an increase of more than 400,000 units from 2005. Lured by lower labor costs and the need to be closer to major suppliers, hundreds of auto parts firms have relocated to Mexico from the United States and Canada and to a lesser extent from Asia and Europe in recent years.⁶

Rising Mexican discretionary income and a major shortfall in domestic production of corn due to prolonged drought conditions in Mexico led to a \$1.2 billion (14 percent) increase in U.S. agricultural product exports which reached \$11.0 billion in 2006. Leading U.S. agricultural product exports to Mexico were cereals (corn for human and animal consumption), increasing \$485 million (31 percent) to \$2 billion, and cattle and beef products, increasing \$231 million (36 percent) to \$873 million.⁷

U.S. Imports

Leading U.S. imports from Mexico in 2006 were energy-related products, machinery, transportation equipment, chemicals and related products, and minerals and metals (table MEXICO-1). Mexico was the third-largest source of U.S. imports in 2006, exceeded only by Canada and China.

U.S. imports of energy-related products from Mexico, which largely consisted of petroleum products, increased by \$7.1 billion (28 percent) to \$32.1 billion in 2006. The increased value of U.S. imports from Mexico in 2006 continued to reflect higher energy prices more than increased import quantities. The quantity of U.S. imports of crude petroleum from Mexico increased slightly from 1.56 million barrels per day (b/d) in 2005 to 1.61 million b/d in 2006. U.S. imports of refined petroleum products from Mexico remained stable, increasing slightly from 106,000 b/d in 2005 to 120,000 b/d in 2006. During 2006, Mexico was the third-largest source of U.S. crude petroleum imports by quantity.⁸

³ Haflich, "Mexican Steel: No Bull in the China Shop," 2.

⁴ *Purchasing*, "Mexico's Steel Consumption Seen Soaring," 40B10.

⁵ Chappell, "U.S. Parts Market Shrinks 5 Percent in 2006," 95-96.

⁶ Cisneros, "With Ongoing Woes In The U.S. Market, Mexico Angles to Provide a Competitive Platform," 6.

⁷ Montoya, "Mexican Balancing Act," 5.

⁸ According to official statistics of the U.S. Department of Energy, Mexico was the fifth largest oil producer in the world in 2005.

Mexico has benefitted significantly from increased demand for transportation equipment from the United States. U.S. imports of transportation equipment from Mexico, which consist largely of automobiles, increased by \$6.8 billion (20 percent) to \$41.3 billion in 2006. A key factor was rising production in Mexico of new car models by Ford, General Motors, and Nissan. Although the U.S. car market as a whole has not grown significantly in the last few years, the introduction of new models (e.g., Ford Focus, Nissan Sentra and Versa) produced in Mexico has contributed to the expansion of U.S. imports in this sector.⁹

U.S. imports of electronic products from Mexico, such as television sets, telephone equipment, and electrical capacitors and resistors, rose by \$6.9 billion (17 percent) to \$47 billion in 2006 as a result of escalating demand. Several manufacturers, including European (Philips Corp.) and Japanese (Sharp) producers of television and video monitors, as well as Chinese (Technology Comforts Life or TCL) telephone and flat-screen television set producers, continued to expand their production capacity in Mexico to meet rising consumer demand in the United States.¹⁰ A sizeable portion of U.S. trade with Mexico for these products continued to reflect cross-border integration of manufacturing and foreign-based manufacturers' foreign direct investment through subsidiaries and joint-ventures.¹¹

U.S. imports of minerals and metals from Mexico continued to rise in 2006 as a result of rising prices, increasing raw material shortfalls, and a robust U.S. economy.¹² U.S. imports of minerals and metals rose by \$1.9 billion (17 percent) to \$13.2 billion, led primarily by steel and copper.

In 2006, U.S. imports of chemicals from Mexico increased by \$918 million (17 percent) to \$6.3 billion. A boost in production capacity in inorganic plastic resins, specialty chemicals, and pigments by multinational firms based in Mexico led to a surge in U.S. imports. With lower labor costs and a relatively large supply of hydrocarbon feedstocks, firms such as Koch Industries (U.S.) have increased their production capacity in Mexico in anticipation of increasing U.S. and Asian demand for specialty chemicals (e.g., coatings for steel).¹³

U.S. imports of machinery and parts from Mexico increased by \$2.9 billion (14 percent) to \$23 billion in 2006. Factors that fueled the demand for machinery imported from Mexico included liberalization of NAFTA content requirement rules, which allowed more Mexican products to qualify for duty-free access to the U.S. market.¹⁴ The leading machinery and

⁹ Amiel, "Mexico Country Monitor," 52.

¹⁰ Hall, "Sharp Aims to Rejuvenate Its TV Brand,"9.

¹¹ Owen Media Partners, "2006 Complete Twin Plant Guide."

¹² Data Monitor, "Grupo Mexico Company Profile."

¹³ Data Monitor, "Koch Enterprises, Inc, Profile."

¹⁴ Downer, "Machine Sales Booming In Maquiladora Area."

equipment products imported from Mexico in 2006 were electrical transformers, static converters, and inductors (\$1.7 billion), major household appliances (\$2.5 billion), air conditioning equipment and parts (\$2.5 billion), and household and commercial appliances (\$3.9 billion).

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