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NAFTA Lives

**Mexico once again
 is primary in
 automakers'
 sights.**

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Comparing side by side maps of automotive supplier plant density in 1980 and 2005, as Federal Reserve Bank of Chicago economist Thomas Klier did in May 2006, reveals an industry whose complexion is clearing, even as blemishes remain.

In a January 2006 white paper from the University of Michigan Transportation Research Institute, Walter S. McManus, PhD, director of the Automotive Analysis Division, noted that U.S. manufacturing employment fell by 19 percent from 1998 to 2005, but motor vehicles and parts employment as a fraction of all manufacturing was up 0.4 percentage points from 1998 to 2005. "From a national perspective, the industry is healthy," he wrote.

Conway Data's New Plant Database reflects that hesitant optimism, with 1,003 U.S. projects between Oct. 2004 through September 2006, up from 889 projects between October 2002 and September 2004. But before the large investments by Kia in Georgia and Honda in Indiana, the biggest automotive news of 2006 was DaimlerChrysler's planned investment of US\$1 billion in Toluca, Mexico. A look at the industry's investment patterns reveals Mexico may indeed be part of the way forward for a host of companies.



CRUISIN': On the same day in March 2006 that DaimlerChrysler celebrated the making of its 1 millionth PT Cruiser in Toluca, Mexico, the company announced a \$1-billion investment in the plant and adjacent supplier parks.

Ford Motor Co. for the first time has put up its existing plants as collateral for more financing, even as it plans to close 16 of them, including seven assembly plants by 2010. When added to the nine overall plant closures planned by General Motors, that's 25. But even as these and other car makers continue to perpetuate the infamous "jobs bank" that pays union workers to do nothing, their investments and others continue to pay a Mexican work force to do something at new plants and expansions:

- Ford in June announced upgrades of two assembly plants in Cuautitlan and Hermosillo and an engine plant in Chihuahua – though it was quick to say that the new assembly plant that is part of its "Way Forward" plan will not necessarily be in Hermosillo, as leaked documents had suggested.

- In San Luis Potosi, General Motors is investing at least \$650 million in a new assembly plant that could employ up to 2,400 people.

- In Guadalajara, Honda is investing \$52 million to increase assembly capacity.

- Nissan is investing \$800 million in its plant in Aguascaliente, and \$30 million in Cuernavaca.

- Truck makers are in on the action too: Commercial Vehicle Group is growing in Agua Prieta, while Kenworth Mexicana is investing \$78 million in Mexicali.

"Ford has been doing business in Mexico since 1925, and we were the first automaker ever in the country," said Mark Fields, Ford's president of the Americas, at that June announcement.

"We remain committed to a new low-cost manufacturing facility. But we have made no decisions on where it will be located. The key to success will be high quality and low cost, and that

certainly can be in the U.S., Canada or Mexico."

"Mexico remains an excellent business environment for Ford, and it will remain a key manufacturing location for our global automotive operations as a result of these investments," said Louise Goeser, Ford of Mexico president and CEO.

In San Luis Potosi, General Motors' investment takes advantage of the new highway infrastructure linking the area to Silao – where GM operates another plant – as well as to the newly forming transport corridor between the port of Lazaro Cardenas and the U.S. border. In addition, the San Luis Potosi-Zacatecas highway, linking the area to Ciudad Juarez, has been expanded. Next will come a highway linking Cerritos to



ROOM ENOUGH TO DRIVE A TRUCK THROUGH:

November 17, 2006, was the date the new \$1.28-billion Toyota Motor Manufacturing Tundra truck plant opened in San Antonio, Texas. The plant's investment was originally estimated at \$800 million in 2003, but grew to approximately \$1.28 billion because of a capacity expansion for 50,000 more trucks; rising material costs, especially for steel; and additional infrastructure needed for the 21 on-site suppliers. Those suppliers will employ 2,100 at full production, and have cumulatively invested

Tamaulipas. approximately \$300 million.

The economic impact forecast of the plant includes a potential \$440 million in annual purchases from Mexican suppliers and 16,500 indirect jobs. Meanwhile, the compensation split at the plant is dramatic, according to the groundbreaking announcement from the state, which touts average wages of \$12,000 for workers and \$52,000 for management.

In Toluca, DaimlerChrysler's \$1-billion investment includes upgrades to the Toluca Assembly Plant, the creation of two supplier parks, and additional operational improvements. The improvements at the Toluca Assembly Plant will include an all-new body shop with state-of-the-art manufacturing capabilities. New robotics will have the capability to make necessary tool changes automatically within cycle time, thus amplifying the plant's flexibility. The new and jointly funded supplier parks will provide head liners, cockpits, front-end modules and front and rear suspensions.

The investment follows on major investment made at the company's other major Mexican complex in Saltillo.

"The decision to invest in Mexico would not have been possible without the support of the union and the Mexican government's commitment to the automotive sector," said Chrysler Group Chief Operating Officer Eric Ridenour in March 2006. "Our Mexican Manufacturing Operations have earned this investment by embracing flexible work force processes."

In addition to an improving transportation infrastructure, the industry's supply pipelines are improving in both the before- and after-market. Among recent investments in the country are a flurry of high-ticket tire plants, as well as a \$250-million automotive steel plant from Korea-based juggernaut **Posco** in Altamira, Tamaulipas.

The following snapshots look in on trends and projects across an industry and a continent.

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