

March 30, 2023

NEARSHORING BAROMETER: THE OPPORTUNITY IS HAPPENING

After the release of our nearshoring analysis ([Nearshoring: Mexico is the smart landing choice](#)) back in September, we are introducing a Nearshoring Barometer to track the progress of a lifetime opportunity for Mexico. We are including some leading indicators and economic variables, which, in a nutshell, suggest that the lifetime opportunity for Mexico is already materializing.

- **Indeed, Mexico has been gaining market share in U.S. imports of some products. Per our nearshoring index, Mexico's market share gain in the ten selected categories accounted for about US\$54 billion in 2022.** The latter strongly tilted to the upside the balance of risks to our US\$23 billion exports growth estimate for this year due to nearshoring. ([View page 4](#))
- **Our data team is introducing a new analysis of the electric sector, showing that electricity demand has picked up** in the country's northeast, west, and southeast regions so far in 2023, which could be attributed to the nearshoring effect. ([View page 5](#))
- **Moreover, since October 2022, investments worth over US\$9 billion have been announced.** The largest so far is Tesla, whose total investment could hover around US\$5 billion. At the same time, we have started to observe a diversification trend across the country's regions, as more states are becoming more relevant for nearshoring demand. ([View page 6](#))
- **Thus far, the undisputed beneficiary of nearshoring in Mexico is the manufacturing sector along its entire chain.** Manufacturing has been increasing as a percentage of GDP, while exports (mainly in the automotive industry) have delivered a solid performance. ([View page 8](#))
- **As for the foreign direct investment, the new investments category has increased its participation** in total foreign investments, from 34% before the pandemic to 48% in the post-pandemic period. ([View page 11](#))
- **Last but not least, Mexican banks accelerated credit supply in the second half of 2022,** with growth rates above 10% in all regions, where the North and Bajío stood out. ([View page 14](#))

Thus, we remain optimistic about the impact of nearshoring on Mexican exports and foreign direct investment (more than US\$10 billion expected), which leads us to reiterate our view that nearshoring is likely to boost GDP in the years to come.

ECONOMY

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NEARSHORING BAROMETER

Below we present the variables included in our Barometer, grouped by the trend recently observed.



Positive trend: Nearshoring is materializing.



Uncertain trend: Nearshoring is yet to materialize.



Negative trend: Risks to nearshoring lie ahead.

1. GBM Nearshoring Ranking



- Mexican exports to the United States in the ten selected categories of our Nearshoring Ranking increased by US\$54 billion in 2022 (vs. US\$23 billion expected for 2023), signaling there are upside risks to our estimate for this year. Some categories stand out for their positive performance, including Durable Goods, Stone & Cement Products, Furniture, Vehicles & Parts, and Mineral Fuels & Oils.

2. Electricity Demand



- Electricity demand has picked up in the Northeast, West, and Southwest regions of the country so far in 2023, which could be attributed to the nearshoring effect. Amid this increase, no bottlenecks appear on the horizon in the short term.

3. Investments Announced



- Since October 2022, investments of over US\$9 billion have been announced. The largest so far is Tesla, with a total estimated investment of US\$5-10 billion.

4. Real Estate



- Gross absorption by area of nearshoring transactions materialized reached 12.5 million sq. ft. through September 2022, way above the 7.9 million sq. ft. recorded in 2021. Furthermore, nearshoring demand has started to expand to new regions in the country. While eight states accounted for 99% of nearshoring demand in 1Q22, this figure climbed to thirteen by September 2022.

5. Manufacturing Sector



- Thus far, the undisputed beneficiary of nearshoring in Mexico is the manufacturing sector along its entire chain. Manufacturing has been increasing as a percentage of GDP (from 15.7% in 1Q20 to 16.6% in 4Q22), while exports (mainly in the automotive industry) have delivered a solid performance. Moreover, businesses foresee the trend will keep stepping up, as manufacturing orders and the IMEF Manufacturing Index already show.



NEARSHORING BAROMETER

Below we present the variables included in our Barometer, grouped by the trend recently observed.



Positive trend: Nearshoring is materializing.



Uncertain trend: Nearshoring is yet to materialize.



Negative trend: Risks to nearshoring lie ahead.

6. Foreign Direct Investment (FDI)



- Albeit losing some traction after the pandemic, foreign direct investment managed to post an average 12M inflow of US\$30 billion (excluding one-off transactions) in the post-pandemic period (vs. US\$34.8 billion, on average, in 2018-2019). At the same time, new investments have posted positive performance. Indeed, the new investments category has increased its participation in total foreign investments, from 34% before the pandemic to 48% in the post-pandemic period.

7. Commercial Bank Credits



- In 2022, commercial credits in Northern states increased at an accelerated pace of 12% YOY, 3 pp. above the rest of the country (9% YOY). Additionally, banks have been vocal about their intention to expand their credit lines, particularly in the North.

8. Nearshoring Sentiment

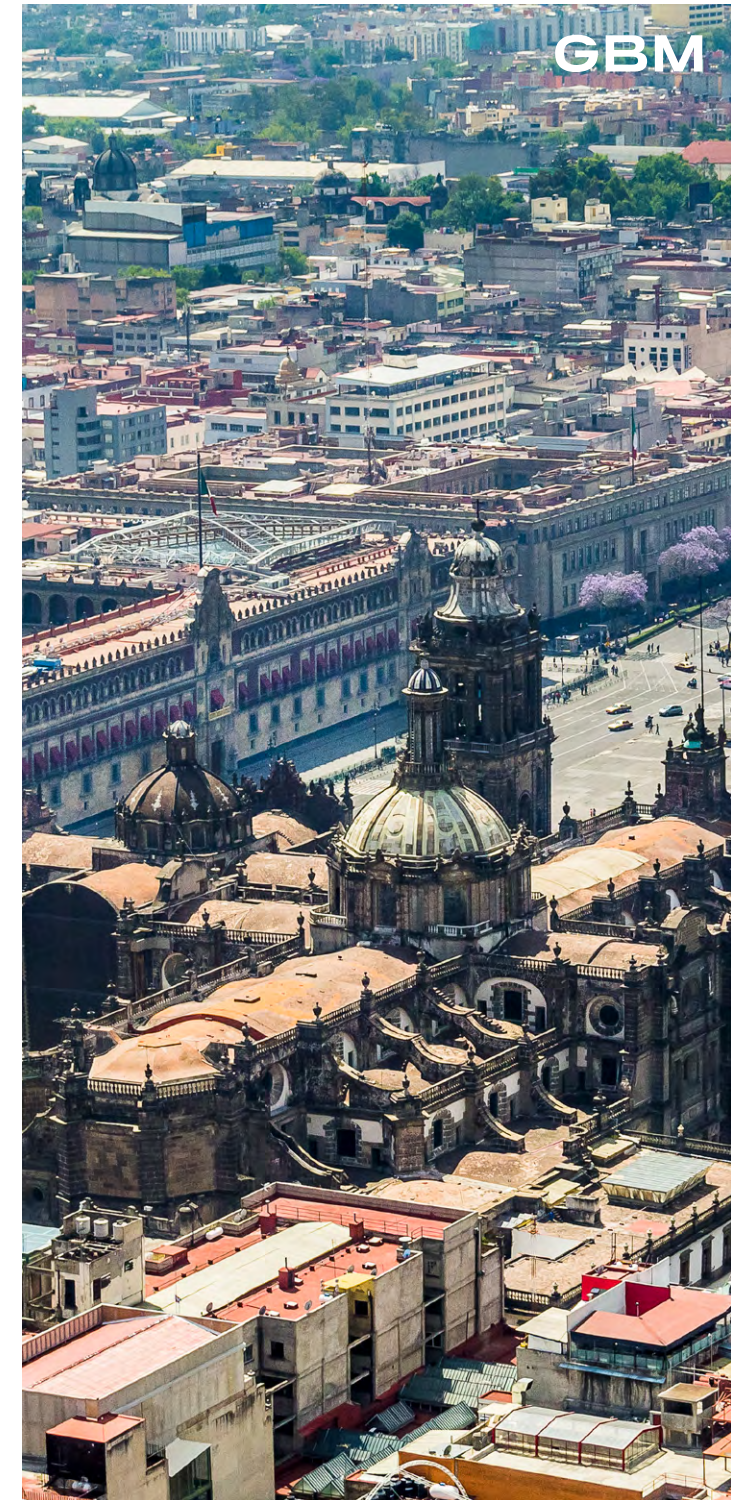


- Business confidence has recently posted a sharp uptick, surpassing its pre-pandemic levels. The increase is mostly attributed to a rise in manufacturing sentiment. Furthermore, topics revolving around nearshoring and supply chains have been gaining relevance for more than two years since the pandemic struck. Indeed, in 4Q22 earnings calls, the number of mentions of nearshoring-related bigrams quadrupled since 2Q22.

9. Government Agenda



- According to official data, permits granted by the government to foreign companies to operate in Mexico totaled 539 in 2021 and 2022, which contrasts favorably with the 105 permits granted in 2019. Furthermore, it is evident that nearshoring is top-of-mind with government officials. However, an industrial policy agenda or medium-term strategy is shining in its absence.



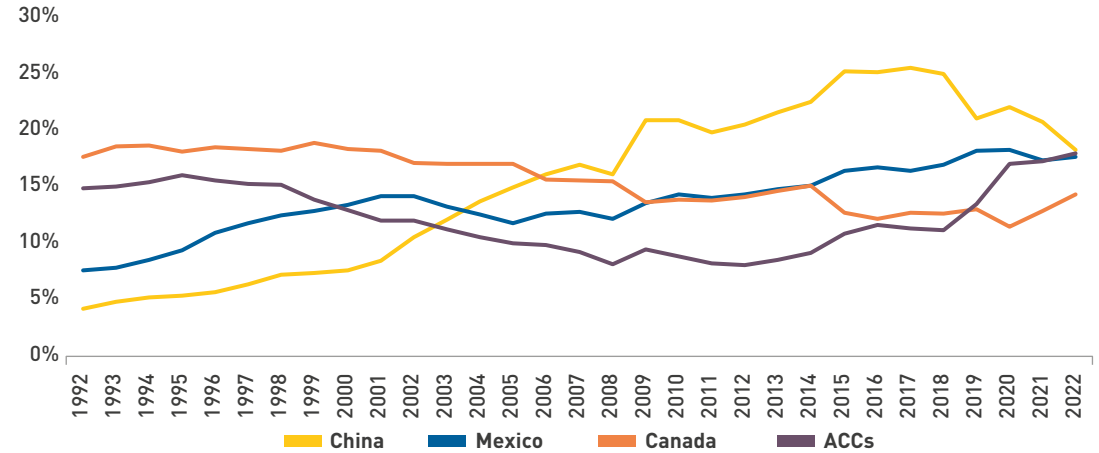
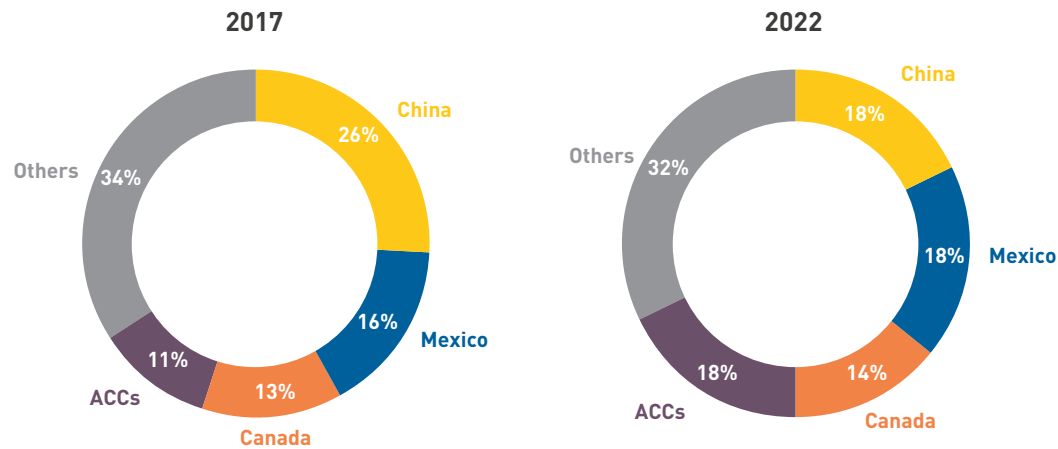
1. GBM NEARSHORING RANKING

While Mexico has increased its share in the U.S. imports of the ten selected categories in our GBM Nearshoring Ranking, Asian competitors remain an important threat.

Mexican exports to the United States in the ten selected categories of our Nearshoring Ranking increased by US\$54 billion in 2022 (vs. US\$23 billion expected for 2023), signaling there are upside risks to our estimate for this year. A few quarters back, Mexico's share in U.S. imports stalled; however, a slight uptick in the last months of 2022 reinforced our view that Mexico is in the nearshoring race for the long run. Some categories stand out for their positive performance, including Durable Goods, Stone & Cement Products, Furniture, Vehicles & Parts, and Mineral Fuels & Oils.

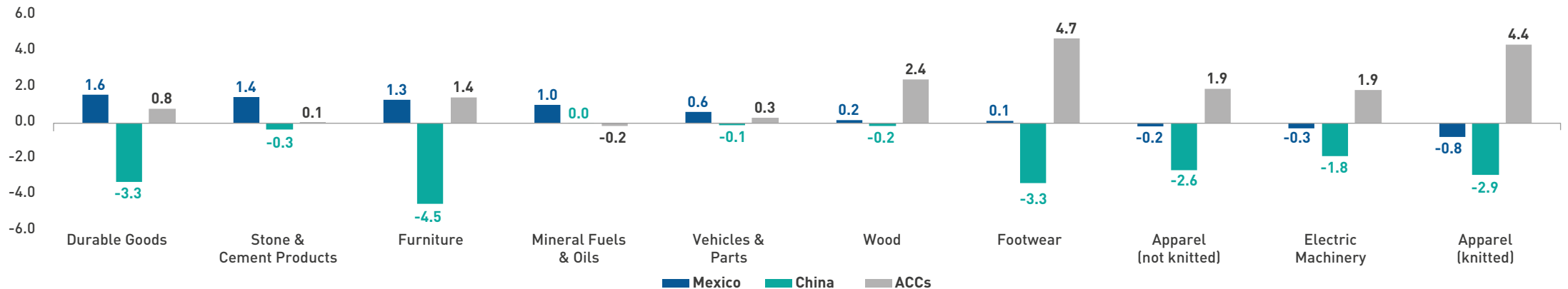
Overall, Mexico has gained ground in the categories featured in our GBM Nearshoring Ranking, which could be easily explained by their suitability for nearshoring.

-Ten selected categories; share % in total U.S. imports by region



Among the ten selected categories in our Nearshoring Ranking, Mexico had the largest market share gains in Durable Goods, Stone & Cement Products, and Furniture. Moreover, it is worth noting that Mexico outperformed Asian competitors in some relevant categories like Vehicles & Parts and Mineral Fuels & Oils.

-Market share variation in 2022 vs. 2021, in pp.



2. ELECTRICITY DEMAND IN MEXICO

Electricity demand has surged YTD in 2023 compared to previous years.

Electricity demand has picked up in the Northeast, West, and Southwest regions of the country so far in 2023, which could be attributed to the nearshoring effect. Amid this increase, no bottlenecks appear on the horizon in the short term. However, we recognize the continued surge in demand could eventually face constraints from the distribution of electricity, the shortage of renewable energy sources, and the lack of new private investment.

Electricity demand has surged in the Northeast, West, and East regions so far in 2023 (vs. 2022).

– MW, daily average by week



Regional Breakdown of Electricity Dispatch per CENACE data



Data. This CENACE dataset shows Mexico's daily demand for electricity (mWh) broken down by region.

Source: GBM with data from the National Center for Energy Control (CENACE)

3. INVESTMENTS ANNOUNCED

Since October 2022, investments of over US\$9 billion have been announced.

Since our [nearshoring analysis](#) published in September 2022, foreign firms have announced substantial investments in industries like Vehicles & Parts, Machinery & Equipment, Food & Beverage, and Consumer Goods, with the former standing out. The largest so far is Tesla, whose total investment could hover around US\$5-10 billion.

		Company	Investment (USD Million)	Location
Vehicles & Parts	Expected investment: US\$8.7 billion Expected job creation: 9,460+		5,000*	Nuevo Leon
			872	San Luis Potosi
			763	Puebla
			800	Nuevo Leon
			254	Querétaro
			225	Guanajuato
			209	
			120	Nuevo Leon
			130	Jalisco
			100	Nuevo Leon
			68	
			58	
Food & Beverage	Expected investment: US\$40.0 million		40	State of Mexico
Consumer Goods	Expected investment: US\$470.0 million Expected job creation: 1,900+		400	Nuevo Leon
			70	Coahuila
Machinery & Equipment	Expected investment: US\$205.0 million Expected job creation: 700+		150	Coahuila
			55	Nuevo Leon
			TOTAL = ~US\$9.4 billion	

*Projection from media sources. Others have reported a range of US\$1-10 billion.
 Sources: Press releases from companies and local governments

4. REAL ESTATE

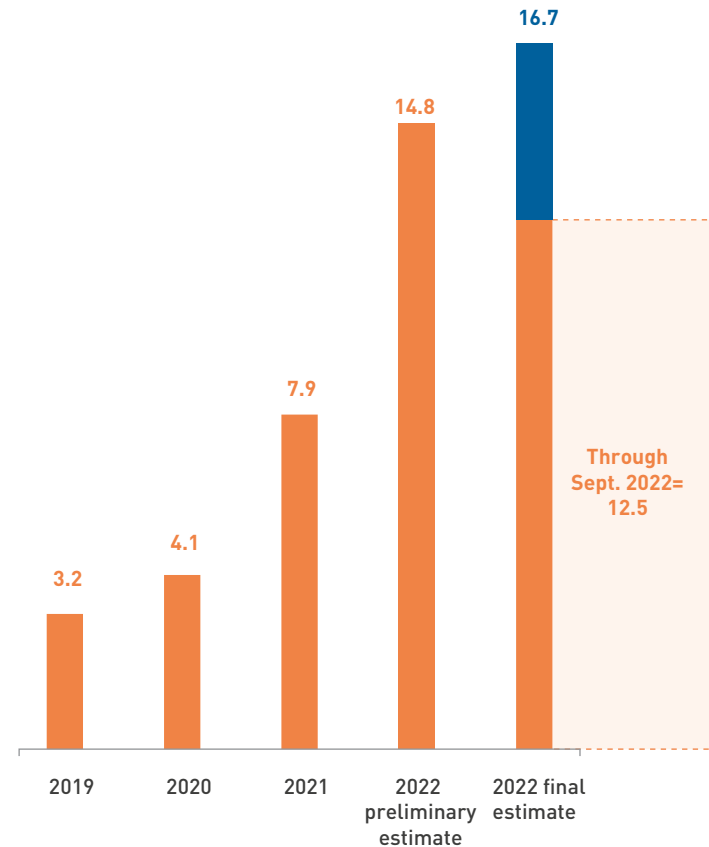
Nearshoring demand has started to expand to new regions in the country as gross absorption continues to step up.

Gross absorption by area of nearshoring transactions materialized reached 12.5 million sq. ft. through September 2022, way above the 7.9 million sq. ft. recorded in 2021. The most recent data prompted us to upwardly revise our gross absorption estimate for 2022, from 14.8 to 16.7 million sq. ft., given the encouraging performance of this indicator.

Additionally, states in different regions of the country started to gain importance for nearshoring. While, in 1Q22, eight states accounted for 99% of nearshoring demand, a diversification trend has been observed since. Through September 2022, this figure climbed to thirteen. While most of the new relevant states are in the north (Durango) and center (Queretaro, San Luis Potosi, and Mexico City), Yucatán, in the south, became the third state with the largest proportion (8%) of nearshoring transactions from foreign companies, only behind Nuevo Leon (50%) and Coahuila (11%). This reinforces the idea of a large and strong nearshoring potential in Mexico's south and southeast.

Nearshoring demand continues to gain strength and is on track to double the 2021 figure.

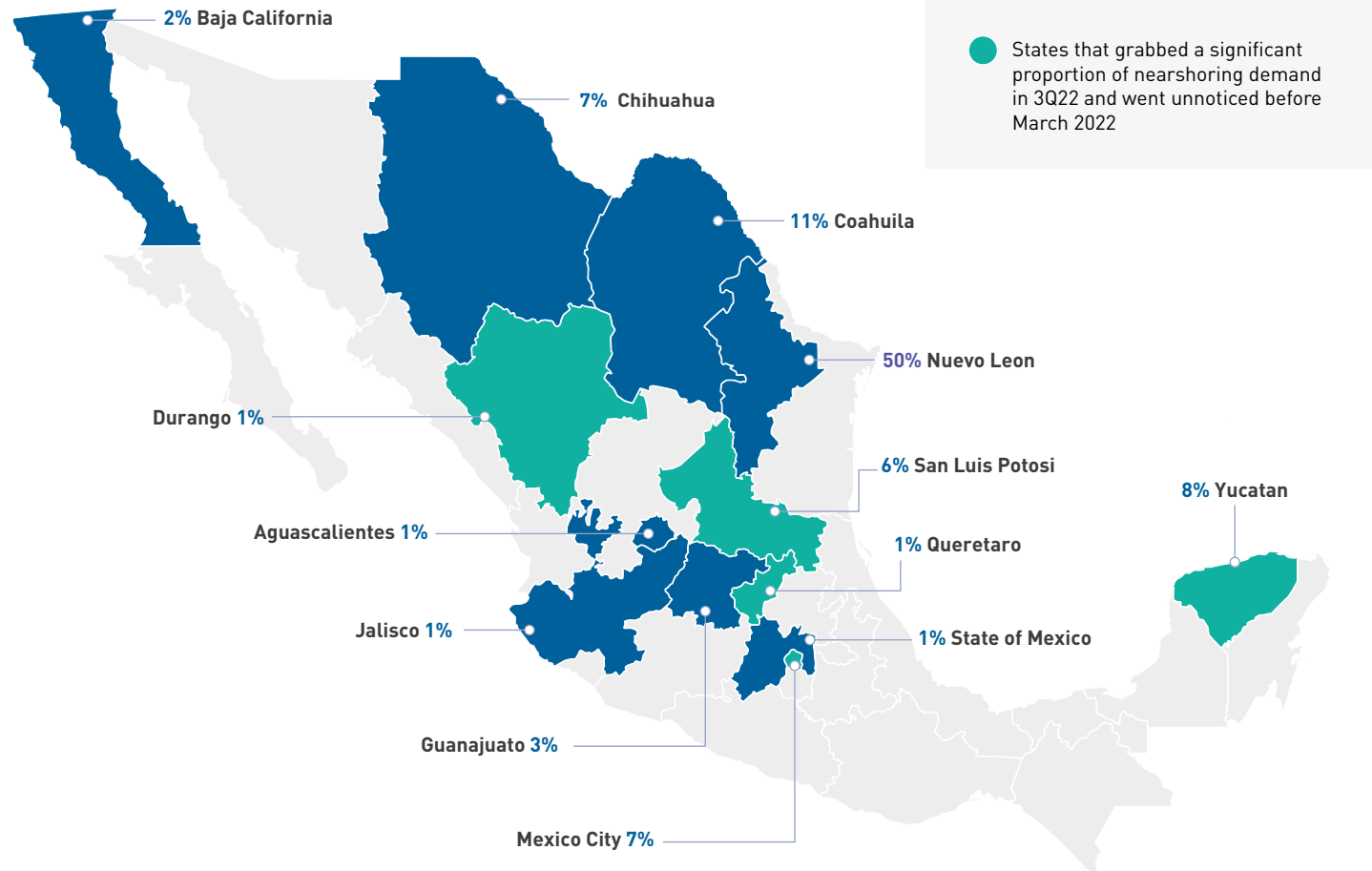
-Gross absorption by area of nearshoring transactions in Mexico (million sq. ft.)



Source: GBM with CBRE data

Through September 2022, 13 of the 32 states in Mexico accounted for 99% of nearshoring demand (vs. 8 in 1Q22).

-% of foreign firms that relocated their production to Mexico by state (Jan.-Sept. 2022)



● States that grabbed a significant proportion of nearshoring demand in 3Q22 and went unnoticed before March 2022

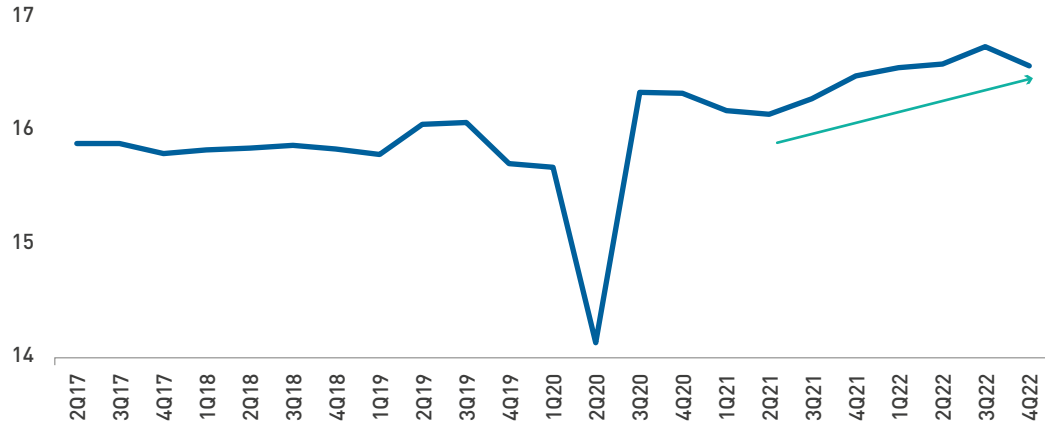
5. MANUFACTURING SECTOR

The manufacturing sector is showing an unprecedented boom.

Thus far, the undisputed beneficiary of nearshoring in Mexico is the manufacturing sector along its entire chain. Indeed, Mexico's manufacturing activity expanded by 5.3% YOY in 2022 and became one of the few to witness a full post-pandemic recovery (+5.0% vs. February 2020). Moreover, this has started to reflect in manufacturing exports, and businesses foresee the trend will keep stepping up, as manufacturing orders already show.

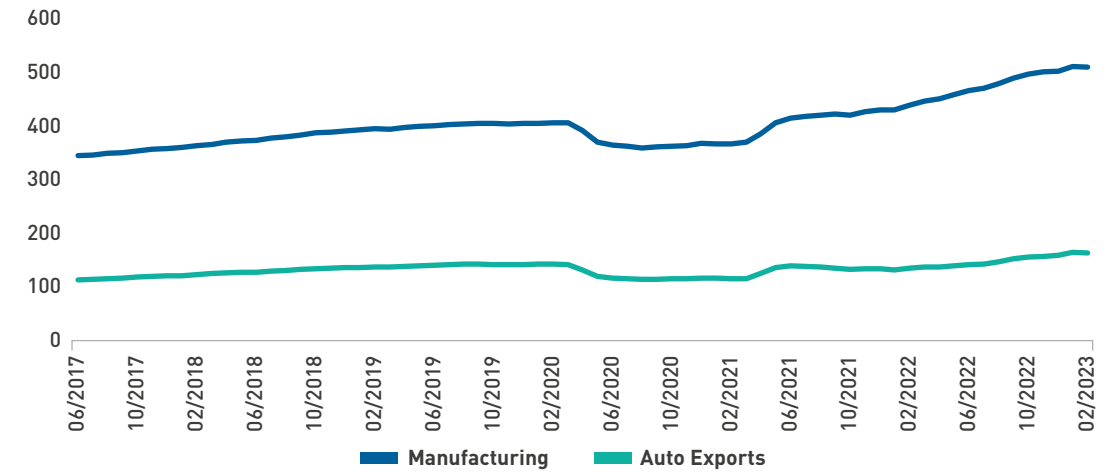
Manufacturing —which has returned to its pre-pandemic levels— remains a central piece of the Mexican economy.

-Manufacturing as a % of GDP, seasonally adjusted (2013 prices)



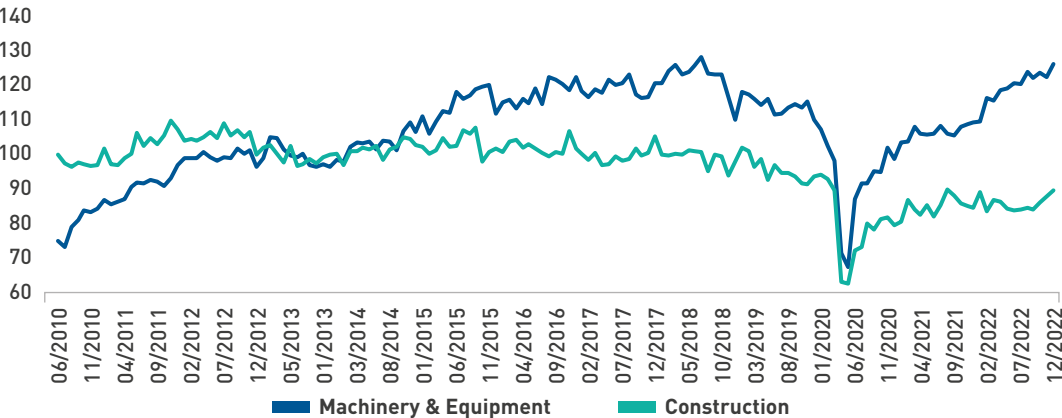
Manufacturing exports have recently shown a solid performance.

-Manufacturing exports, 12M (USD Billion)



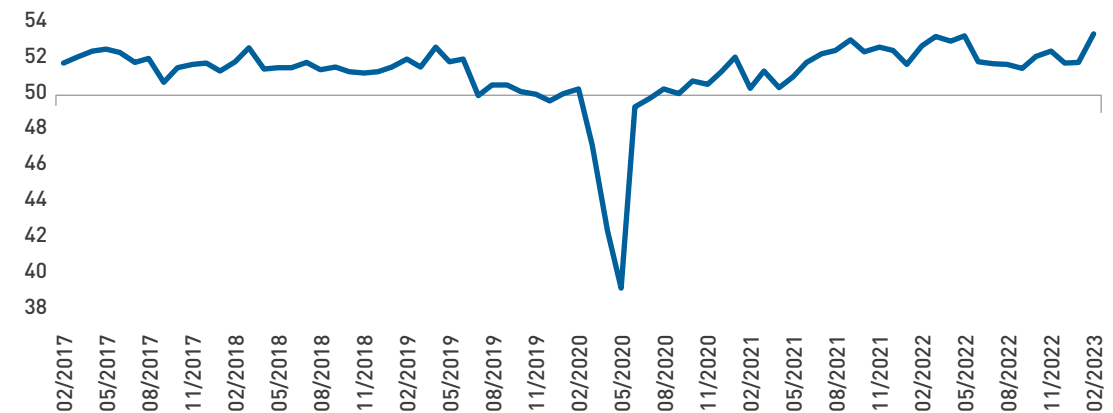
Investments in Machinery & Equipment have outperformed.

-GFI Breakdown, Index 100 = 2013



Manufacturing orders accelerated at the beginning of 2023.

-Manufacturing orders index (in pts.)



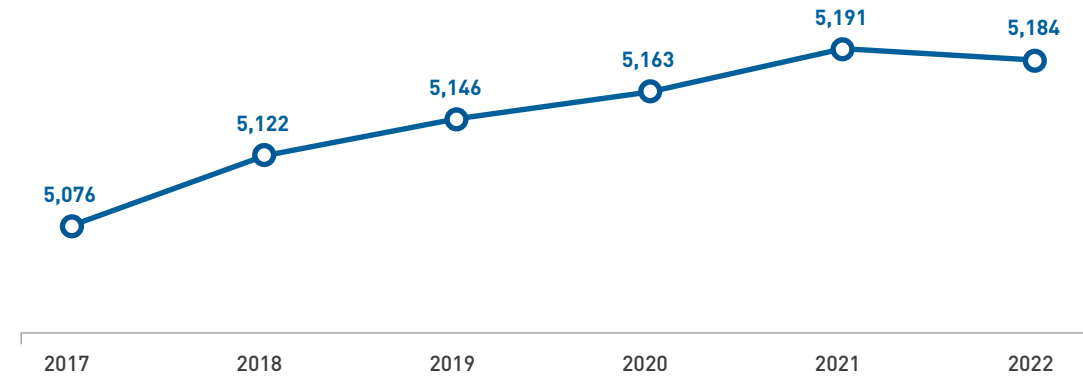
5. MANUFACTURING SECTOR

Manufacturing-related indicators show the sector remains strong and suggest a positive performance ahead.

Related indicators that already hint at a boom could continue to bolster the manufacturing sector in the short term. For instance, manufacturing companies continue to reap the benefits of the Program for the Manufacturing, Maquila, and Export Services Industry (IMMEX) given the trade advantages it offers. Also, the imports of capital goods —that will be used for manufacturing processes— have skyrocketed. Lastly, said boom has been propelled by a mild escalation in manufacturing employment.

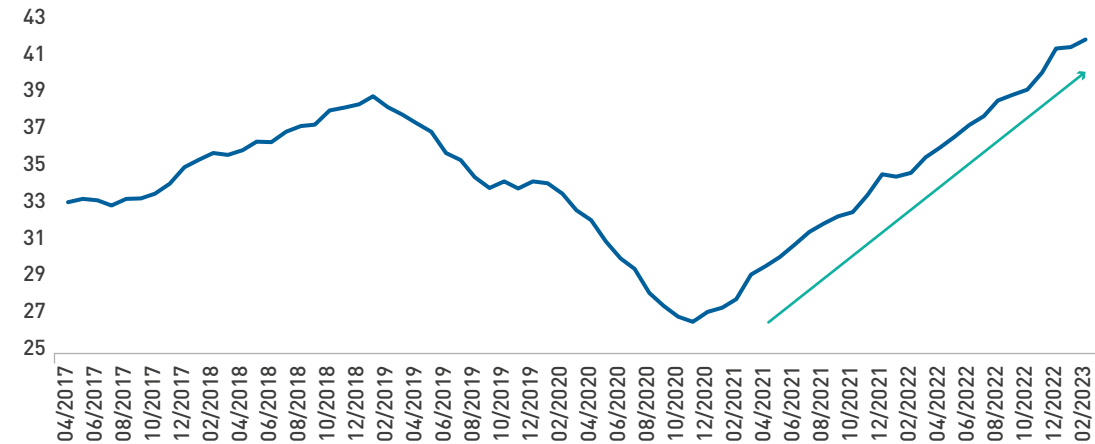
The IMMEX program remains successful and keeps attracting new companies.

-Number of manufacturing firms that operate under the IMMEX program, yearly average



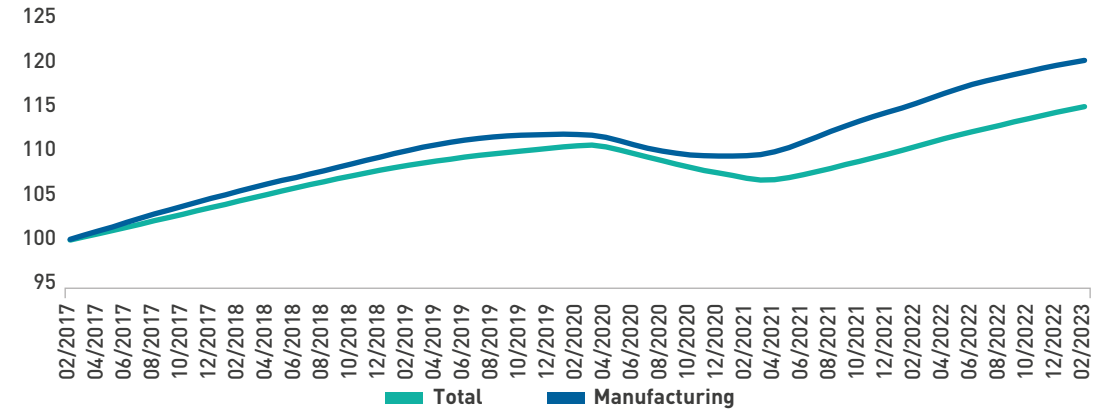
Capital goods imports, a leading indicator for manufacturing activity, project an overall strong upturn.

-Capital goods imports, 12M (USD Billion)



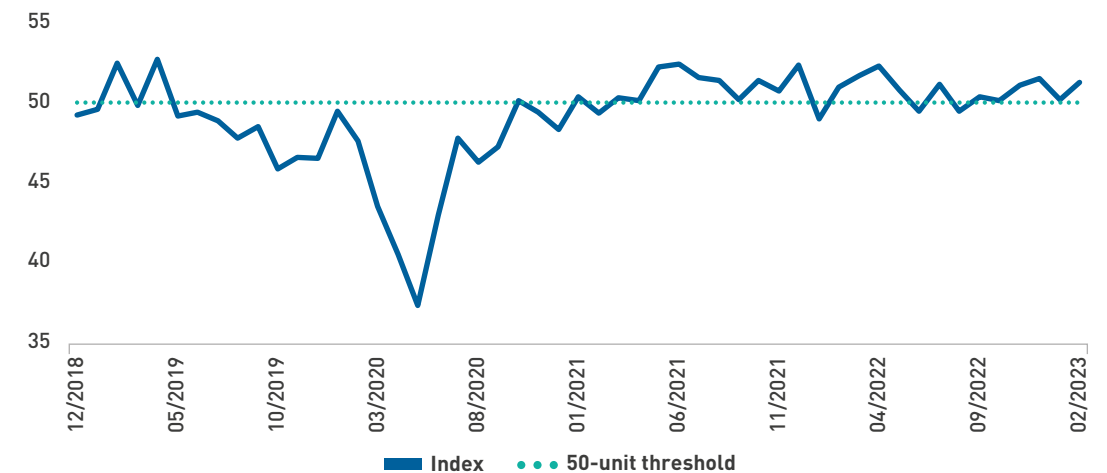
Manufacturing employment has maintained a steady uptrend, outperforming total formal labor.

-Formal jobs per IMSS data (12M), Index Jan. 2017 = 100



IMEF Manufacturing Index has remained in expansionary territory for the last six months.

-In pts.



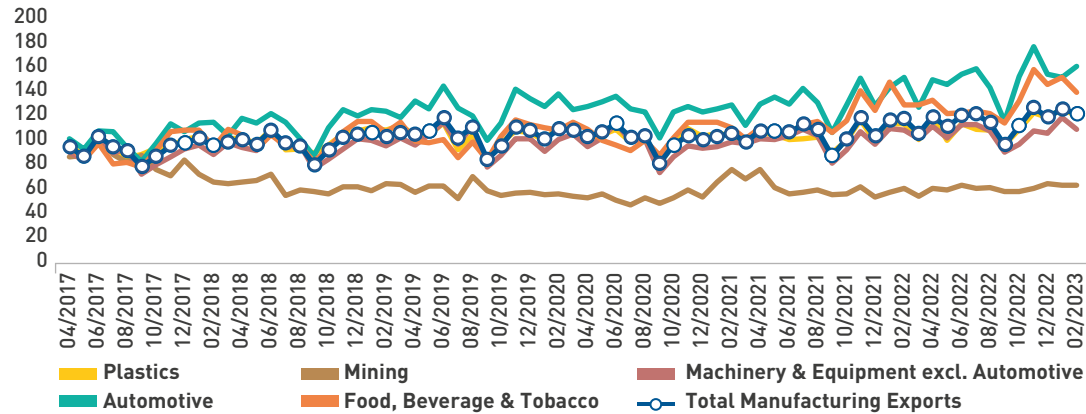
5. MANUFACTURING SECTOR

The manufacturing boom has been spurred by automotive production and other sectors with exposure to nearshoring.

Delving into manufacturing exports, some key sectors for nearshoring stand out, including the Automotive industry, Food, Beverage & Tobacco, and Plastics. The contribution of the Automotive sector is noteworthy, as it has increased its already high share in total manufacturing exports.

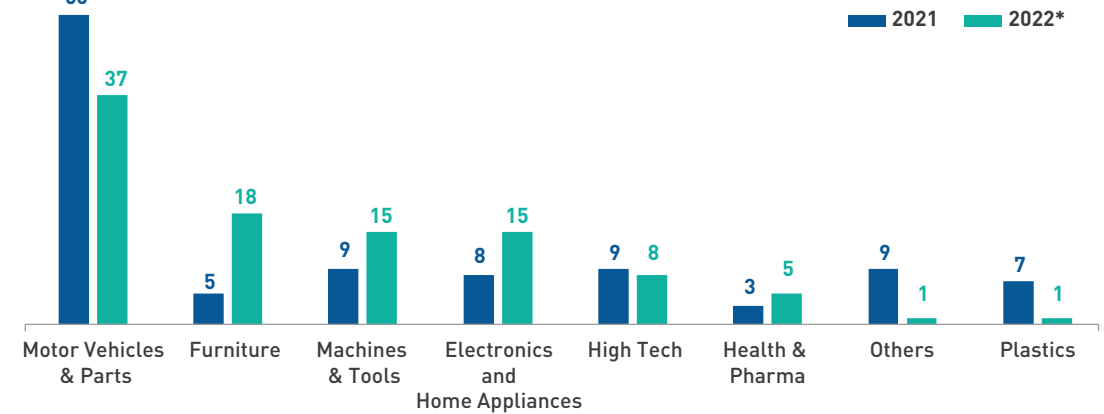
Between September 2022 and February 2023, manufacturing exports jumped by 26%, helped by a sharp rebound in nearshoring-prone categories.

-Manufacturing exports by component, SA; Index Jan. 2017 = 100



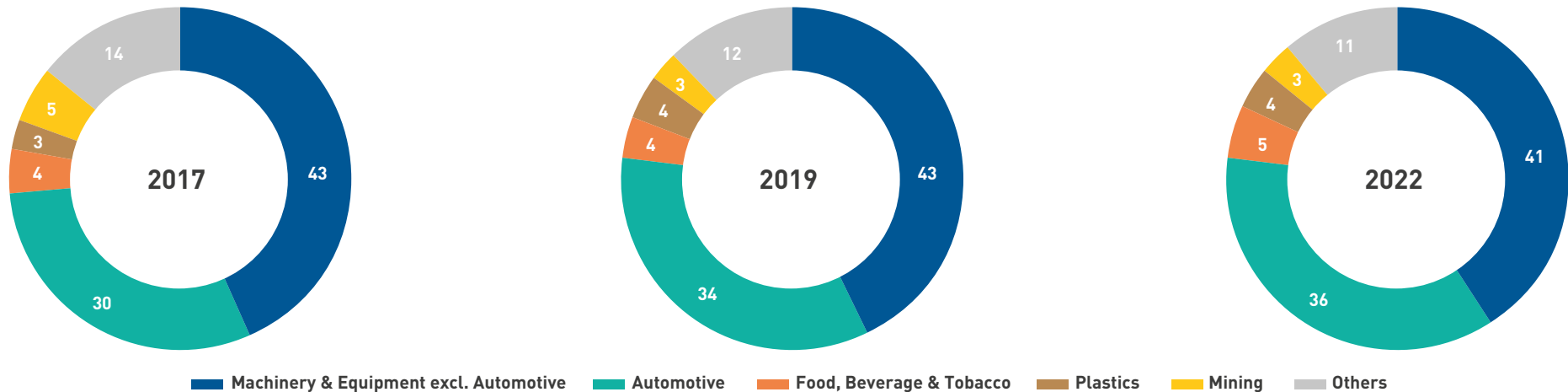
While Motor Vehicles & Parts account for most of nearshoring transactions materialized, other sectors like Furniture, Machinery & Electronics, and Home Appliances have become more relevant.

-% of nearshoring transactions by industry



Machinery & Equipment and Automotive still represent 77% of manufacturing exports, though the latter has gained more traction.

-% of total manufacturing exports



6. FOREIGN DIRECT INVESTMENT

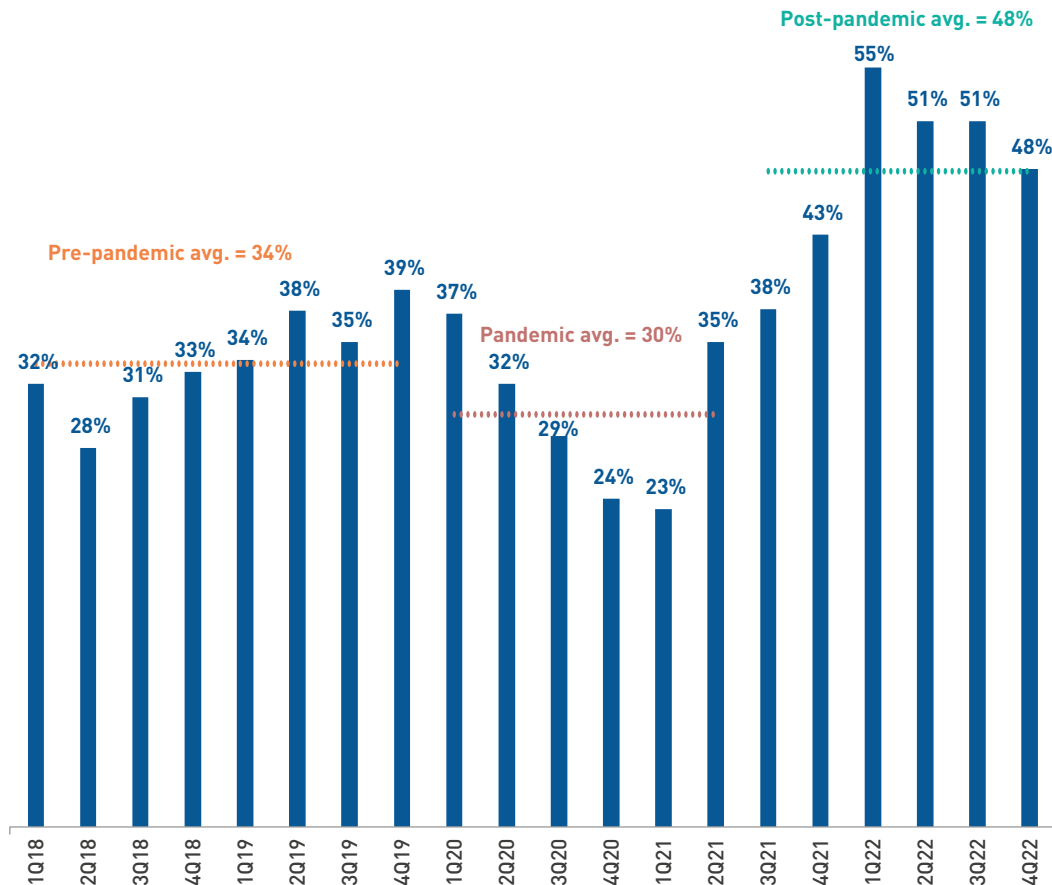
New investments have gained momentum, where one-off transactions have been crucial.

Albeit losing some traction after the pandemic, foreign direct investment managed to post an average 12M inflow of US\$30 billion (excluding one-off transactions) in the post-pandemic period, which contrasts with the US\$34.8 billion averaged in 2018-2019. At the same time, new investments have posted positive performance. Indeed, the new investments category has increased its participation in total foreign investments, from 34% before the pandemic to 48% in the post-pandemic period.

We expect the investments recently announced to translate into increased FDI over the coming quarters, especially under the new investments category. Indeed, total FDI flows could reach US\$40.4 billion in 2023, per our estimates (+42.2% compared to 2022, excluding one-off transactions). Consequently, we will continue to closely monitor FDI performance since an unequivocal uptrend could start to reflect in data soon.

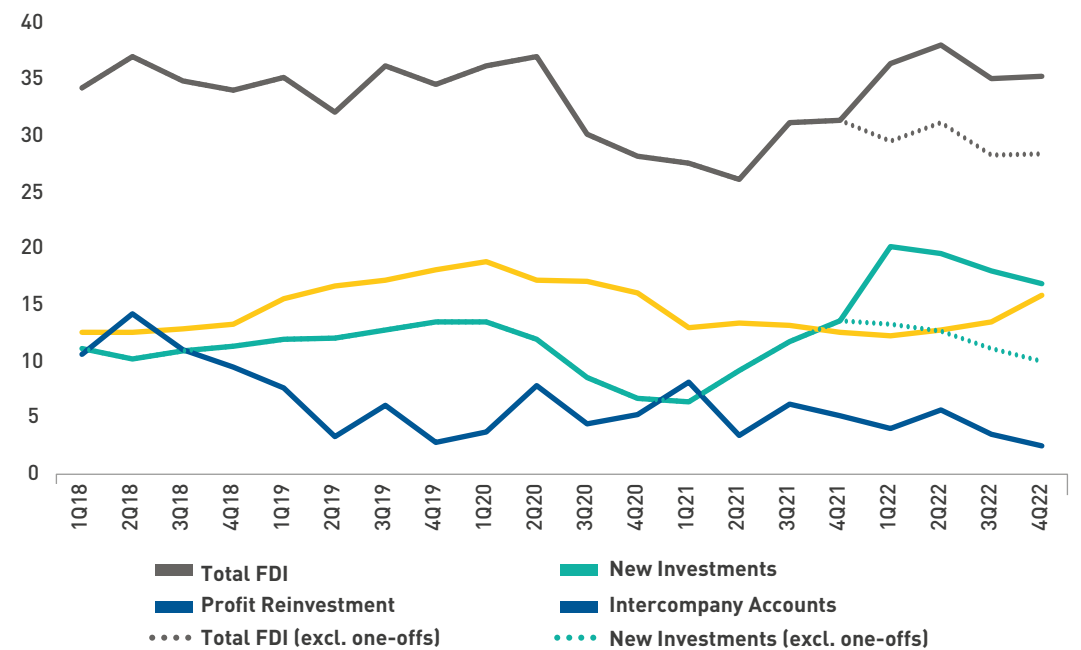
New investments have been crucial for FDI's post-pandemic recovery and now hold a larger proportion of total FDI.

-% of total FDI, 12M



FDI bounced back quickly to its pre-pandemic levels, yet this surge was mainly the result of one-offs.

-FDI by type of investment, 12M (USD Billion)



	Total FDI	New Investments	Profit Reinvestment	Intercompany Accounts
% of total FDI		48.0%	45.0%	7.0%
YOY % 2022	12.3%	24.7%	26.0%	-52.8%
YOY % 2022 (excl. one-offs)	-9.6%	-25.9%	26.0%	-52.8%

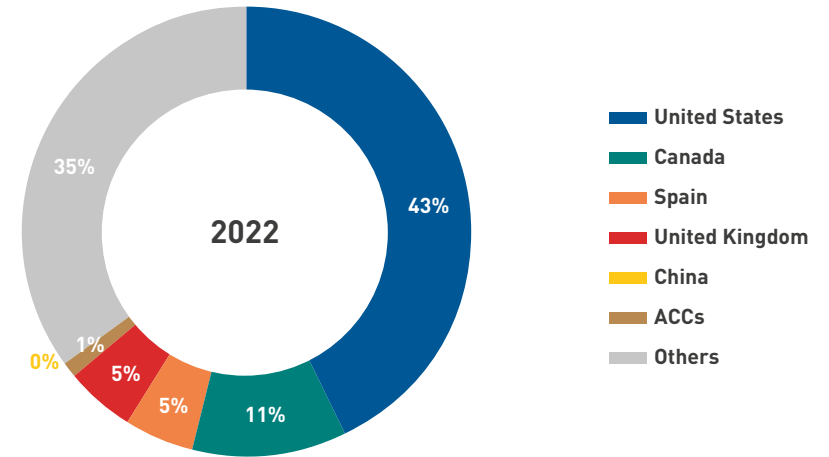
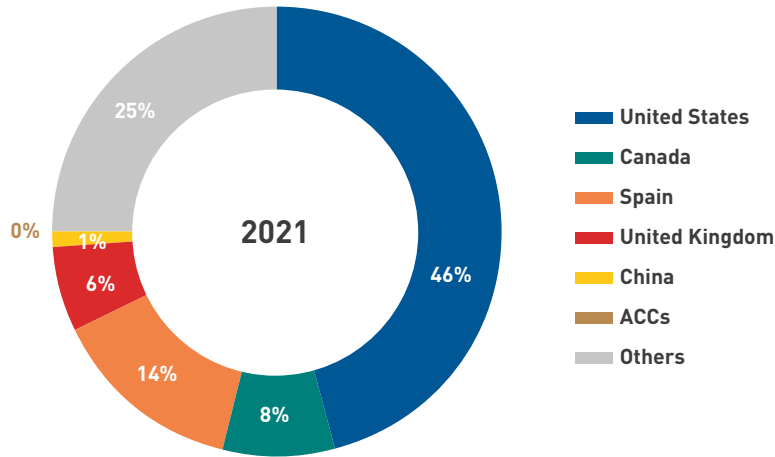
6. FOREIGN DIRECT INVESTMENT

FDI flows to Mexico for nearshoring purposes from strategic countries like the U.S., Canada, and other Asian competitors have increased recently.

A rising trend in FDI flows to Mexico from key nearshoring players like the United States, Canada, and other Asian competitive countries (ACCs) was observed in 2022. Since then, investment flows from those economies have increased as a proportion of Mexico's total FDI, currently representing more than 55%. Another key player in the nearshoring arena is China. The Asian country recently presented a negative trend; however, since it remains an important participant in global supply chains, it is important to monitor closely how it fares in terms of nearshoring.

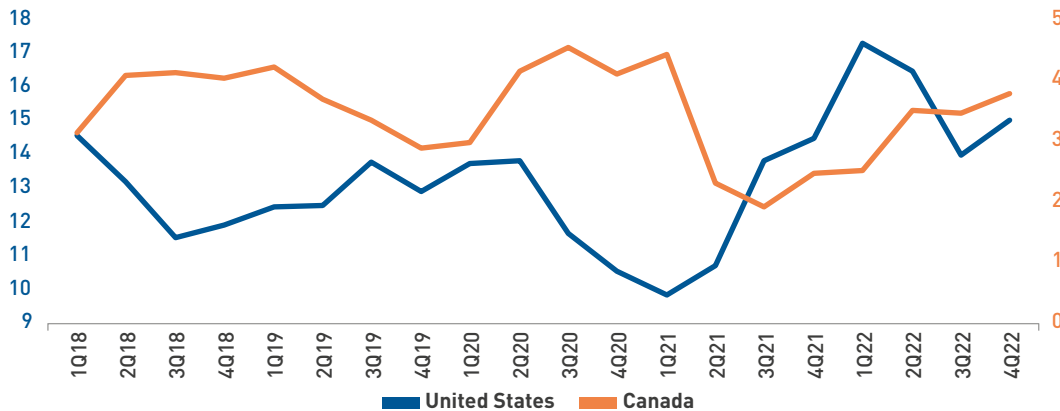
The U.S. and Canada account for more than half of Mexico's total FDI. Meanwhile, ACCs increased their share in FDI over the past year.

- % of total FDI



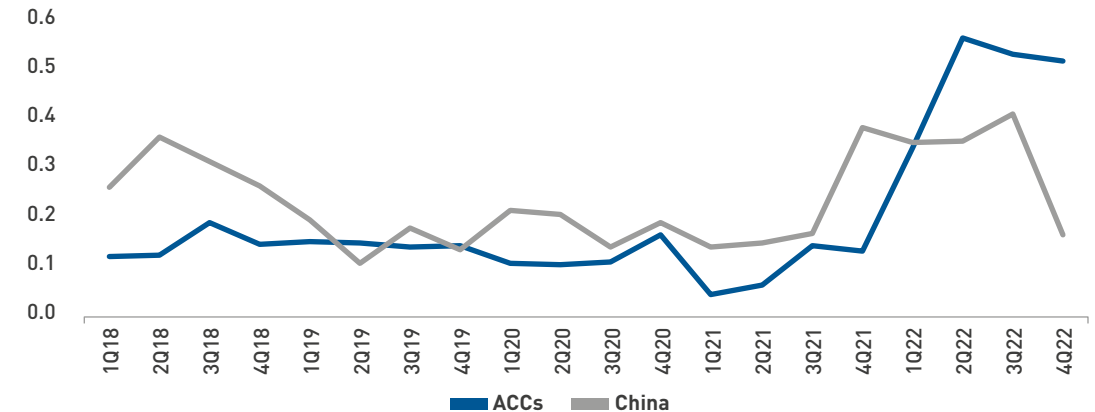
FDI flows to Mexico from the U.S. and Canada have resumed the path of growth.

-FDI by country, 12M (USD Billion)



While investments in Mexico from Chinese firms declined recently, Asian companies could be seeking to relocate to our country.

-FDI by country, 12M (USD Billion)



Source: Mexican Ministry of Economy (SE)

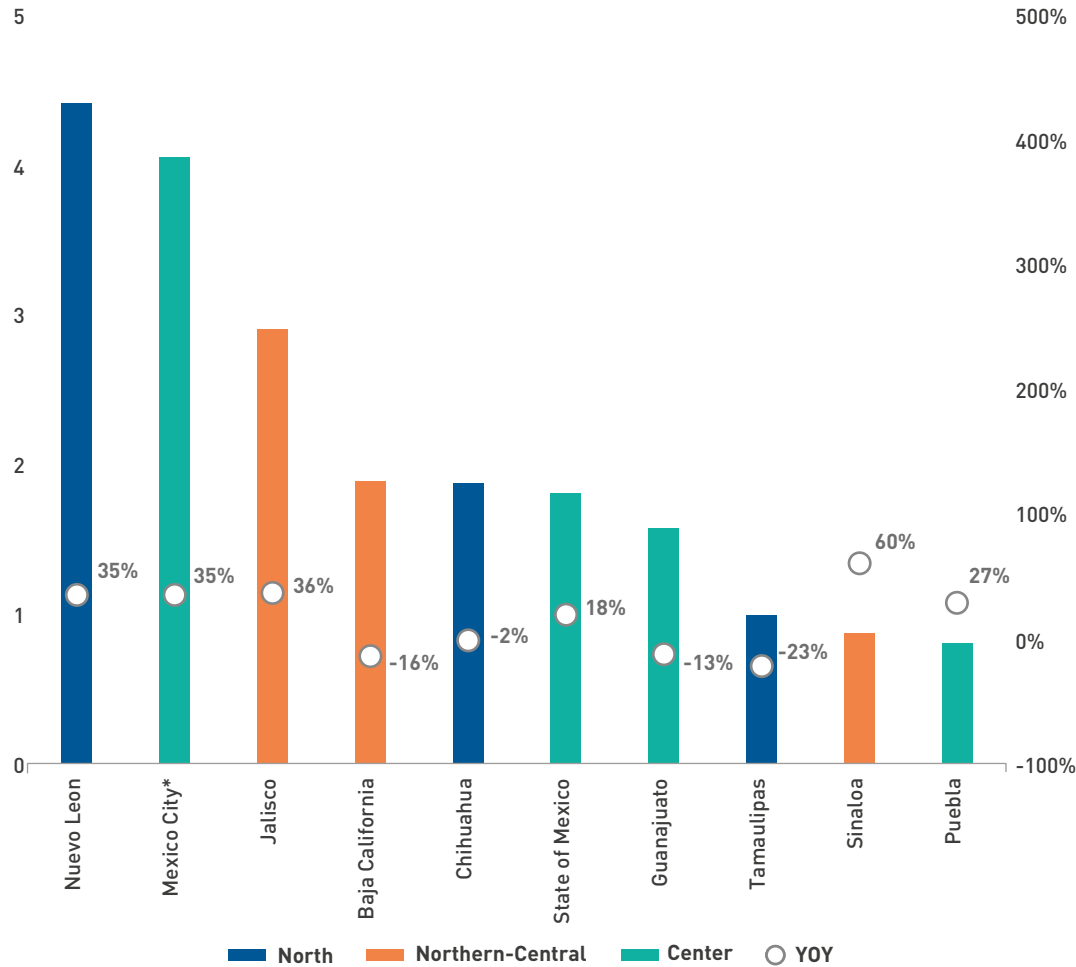
6. FOREIGN DIRECT INVESTMENT BY STATE

The center and north of Mexico remain the biggest beneficiaries of FDI —the former at an accelerated pace.

Mexico's central region has gained relevance recently amid strong demand for industrial spaces in the north, probably due to nearshoring. This trend may continue to foster foreign investment, reaching new regions of the country. In our opinion, even the south of Mexico could start to steal the limelight going forward, as it has plenty of structural advantages that can be capitalized on.

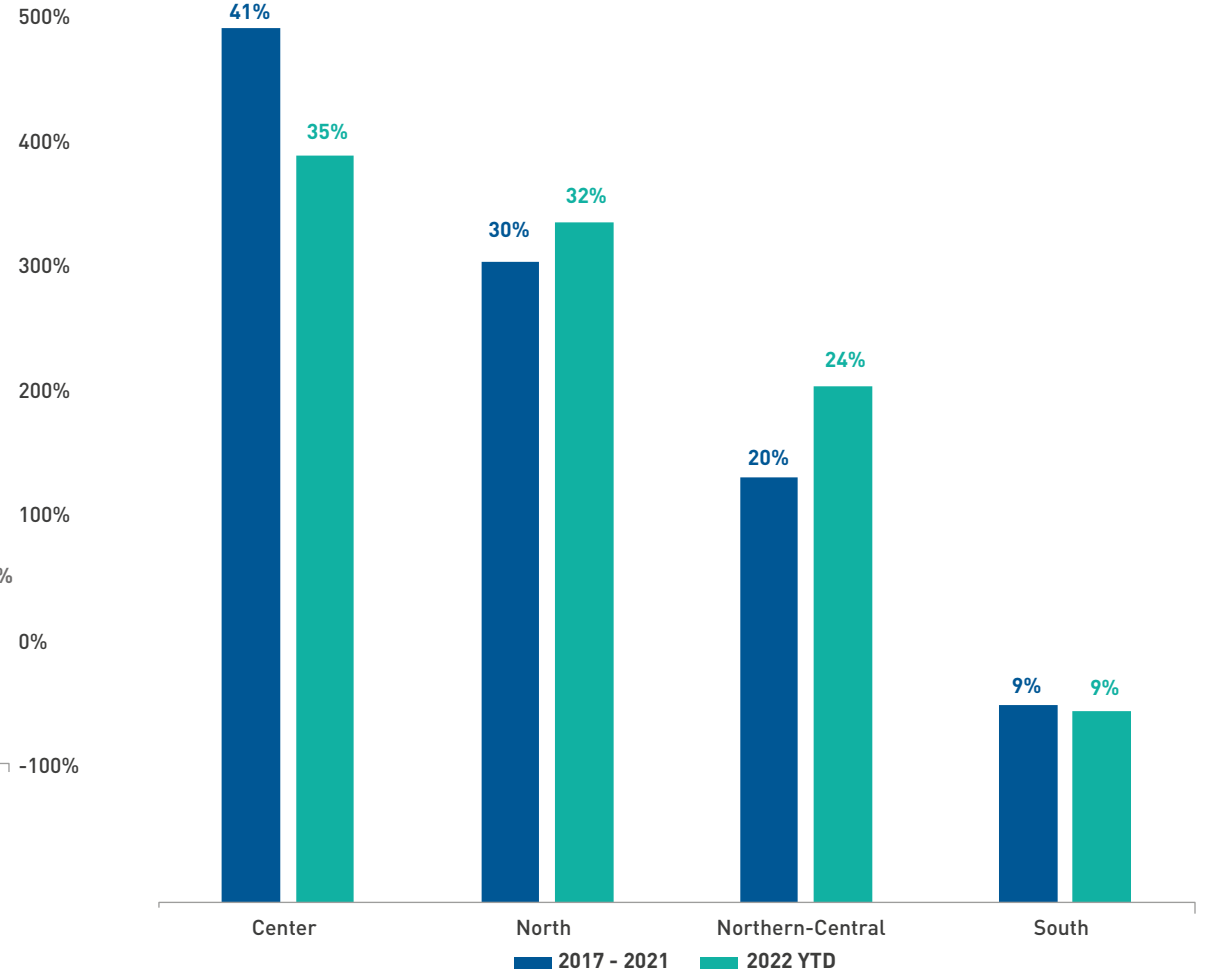
74% of total FDI is concentrated in ten states in the north and center of Mexico.

-FDI by state, 2022 (USD Billion)



The central region has lost ground on FDI, as the north and northern-central regions have pushed forward —a further sign of a regional spillover of nearshoring.

-% of total FDI by region



* Excluding one-offs
Source: Mexican Ministry of Economy

7. COMMERCIAL CREDIT BY REGION

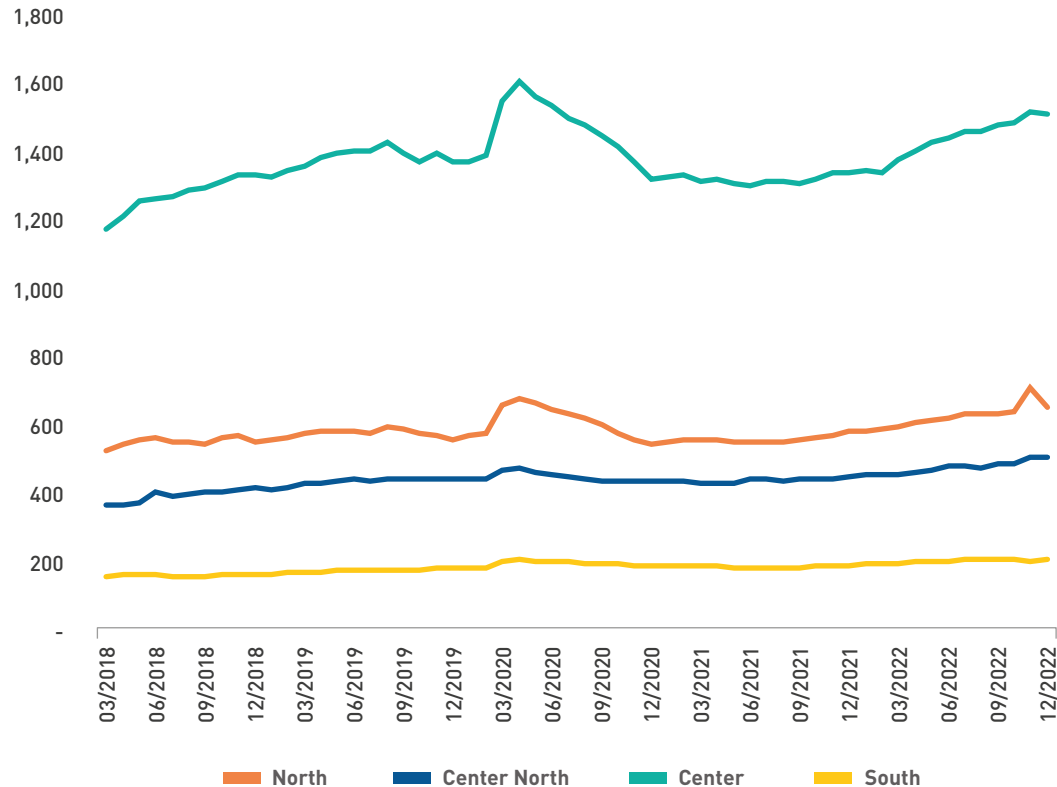
Commercial credits remained buoyant in 2H22 across all regions.

In 2022, commercial credits in Northern states increased at an accelerated pace of 12% YOY, 3 pp. above the rest of the country (9% YOY). Additionally, banks have been vocal about their intention to expand their credit lines, particularly in the North.

Moreover, in the second half of the year, Mexican banks accelerated credit supply with growth rates above 10% in all regions. Note that the Center remains the most relevant region considering the size of its commercial credit portfolio, followed by the North, Center North, and South, which could begin to gain more traction going forward because of nearshoring.

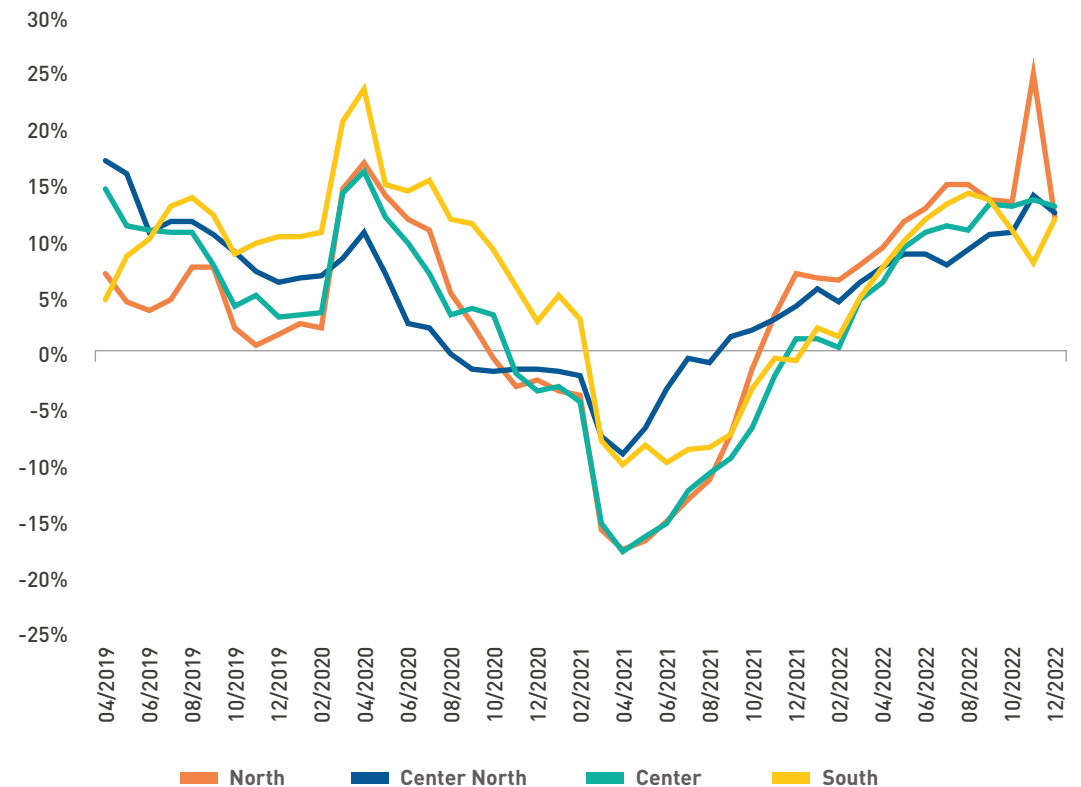
The portfolio of the Center region is the most relevant, as it holds more than half of total commercial credits (53%), followed by the North (23%), Center North (18%), and lastly, the South (7%).

—Commercial Credits by Region, MXN Billion



Mexican banks accelerated the supply of credits in 2H22 with double-digit annual increases in all regions.

—Commercial Credits by Region, YOY



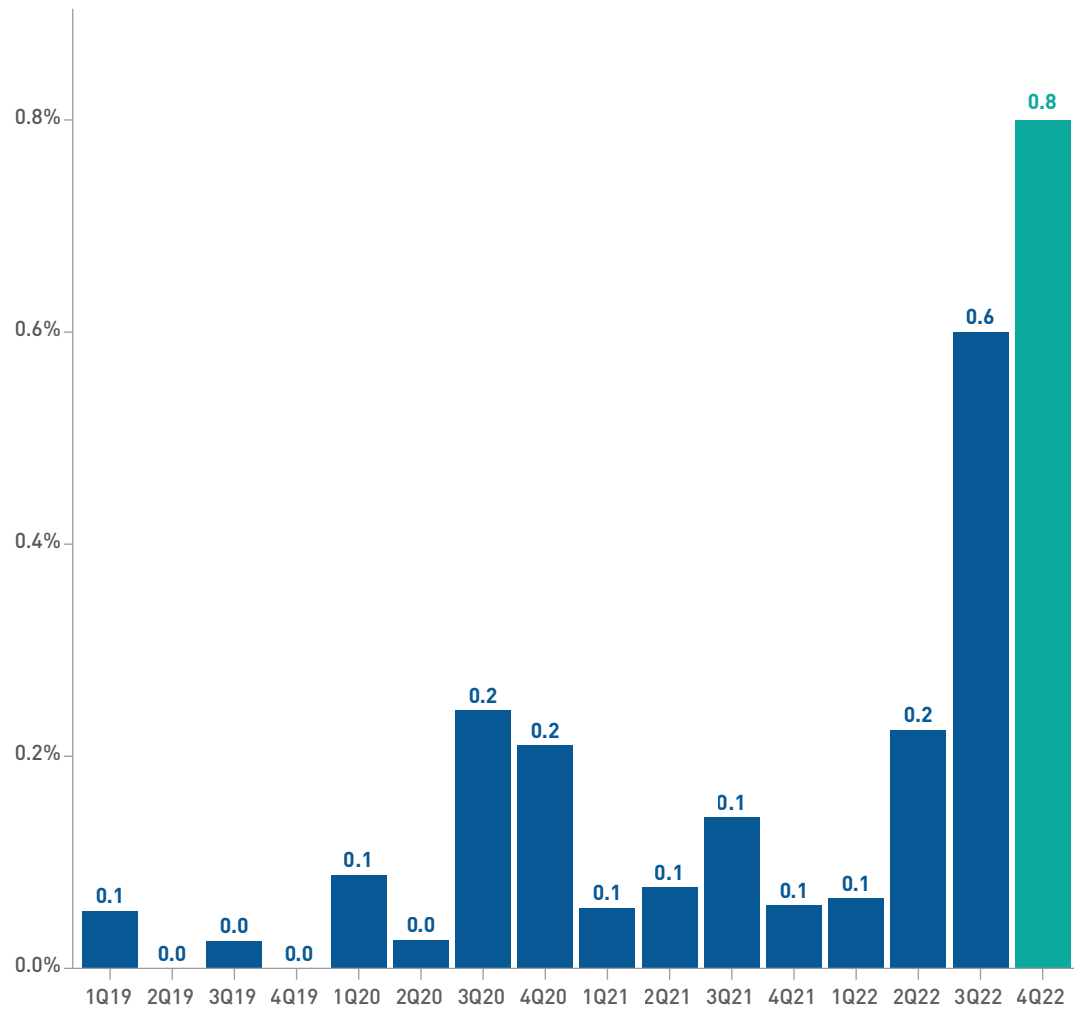
Source: GBM with data from CNBV.

8. NEARSHORING SENTIMENT

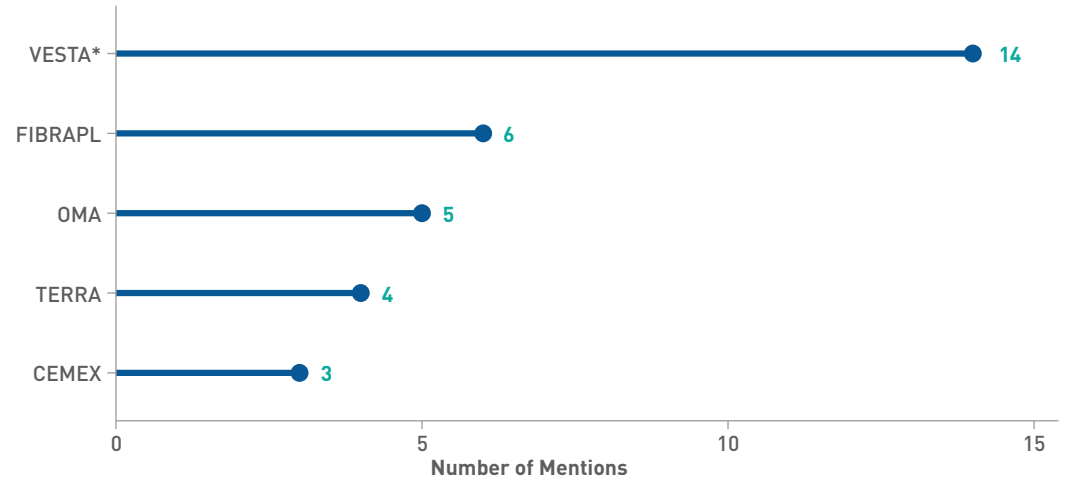
Mexico remains top-of-mind in executives' nearshoring plans.

Topics revolving around nearshoring and supply chains have been gaining relevance for more than two years since the pandemic struck, according to an analysis by our Data Science team. In 4Q22 earnings calls, the number of mentions of nearshoring-related bigrams quadrupled since 2Q22.

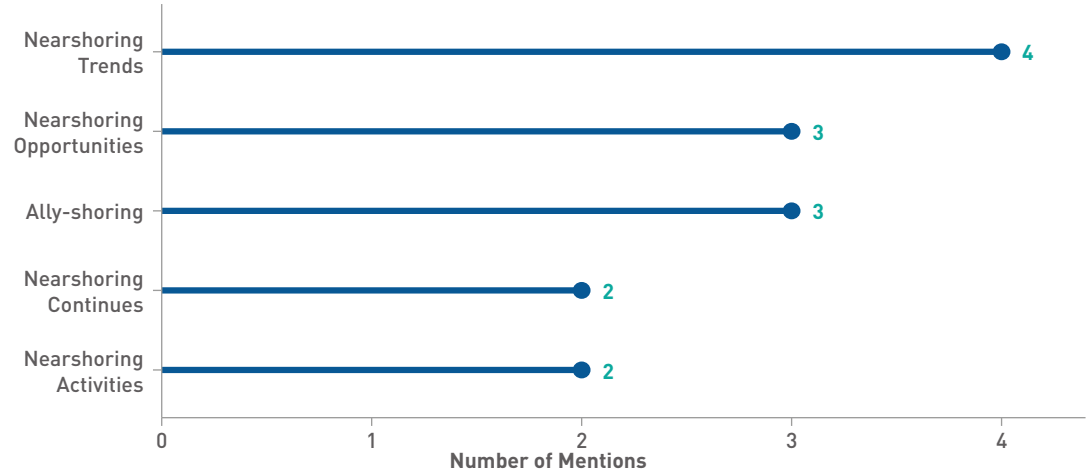
Nearshoring-related bigrams in Mexico's 4Q22 earnings calls
 -% of total pairs of words monitored



Top five companies mentioning a nearshoring theme
 -Mentions in 4Q22



Top five bigrams related to nearshoring
 -Mentions in 4Q22



8. NEARSHORING SENTIMENT

The business sector continues to have encouraging prospects for nearshoring in Mexico.

Nearshoring is showing up in business-related indicators. The recent uptick in Mexico’s business confidence index has reflected particularly in manufacturing, probably due to the arrival of foreign companies in Mexico and the increase in manufacturing orders. Furthermore, various polls indicate businesses are already noticing the shift in supply chains, for which Mexico is an ideal candidate.

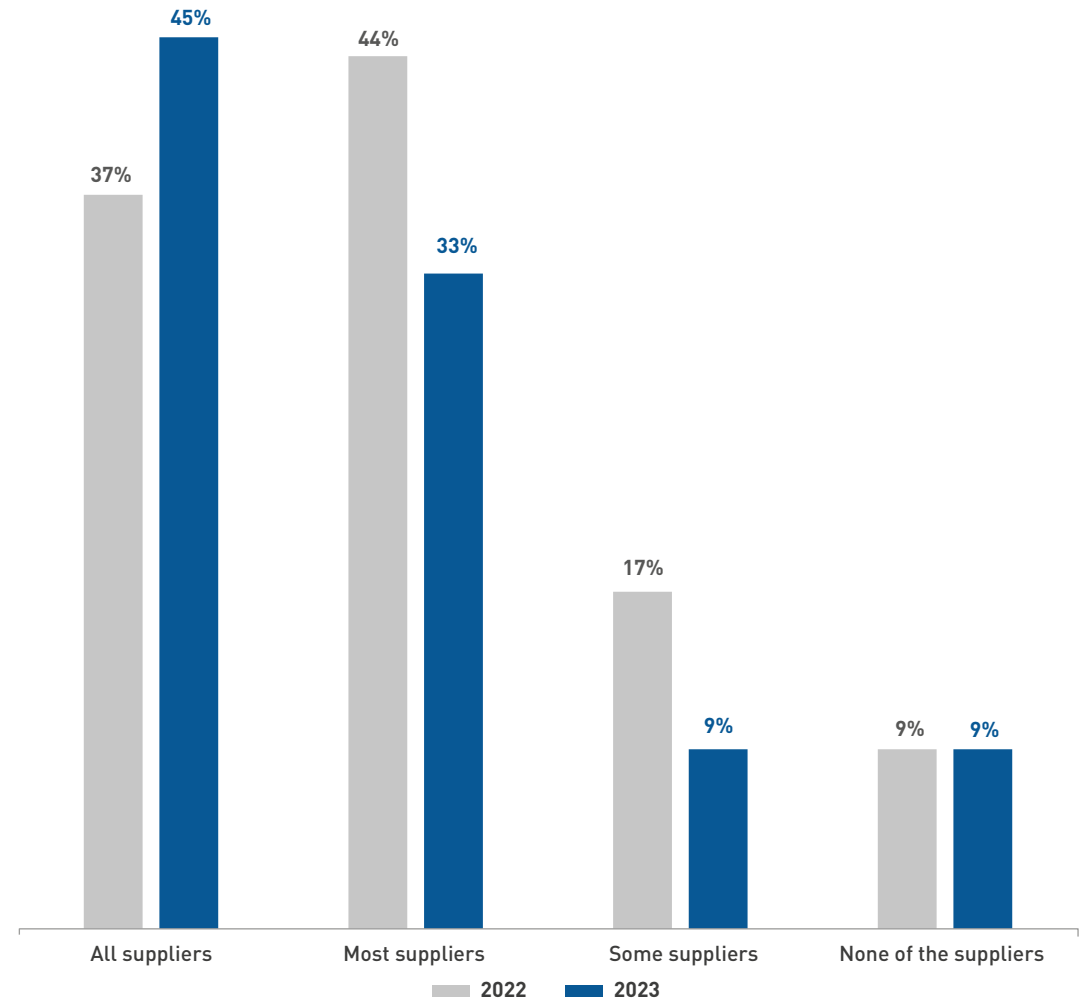
The business confidence index recently displayed a positive turnaround.

-In points



Companies relying on multiple suppliers have a more acute perception of nearshoring.

-Company suppliers planning to locate closer to the U.S., as a % of the total



9. GOVERNMENT AGENDA ON NEARSHORING

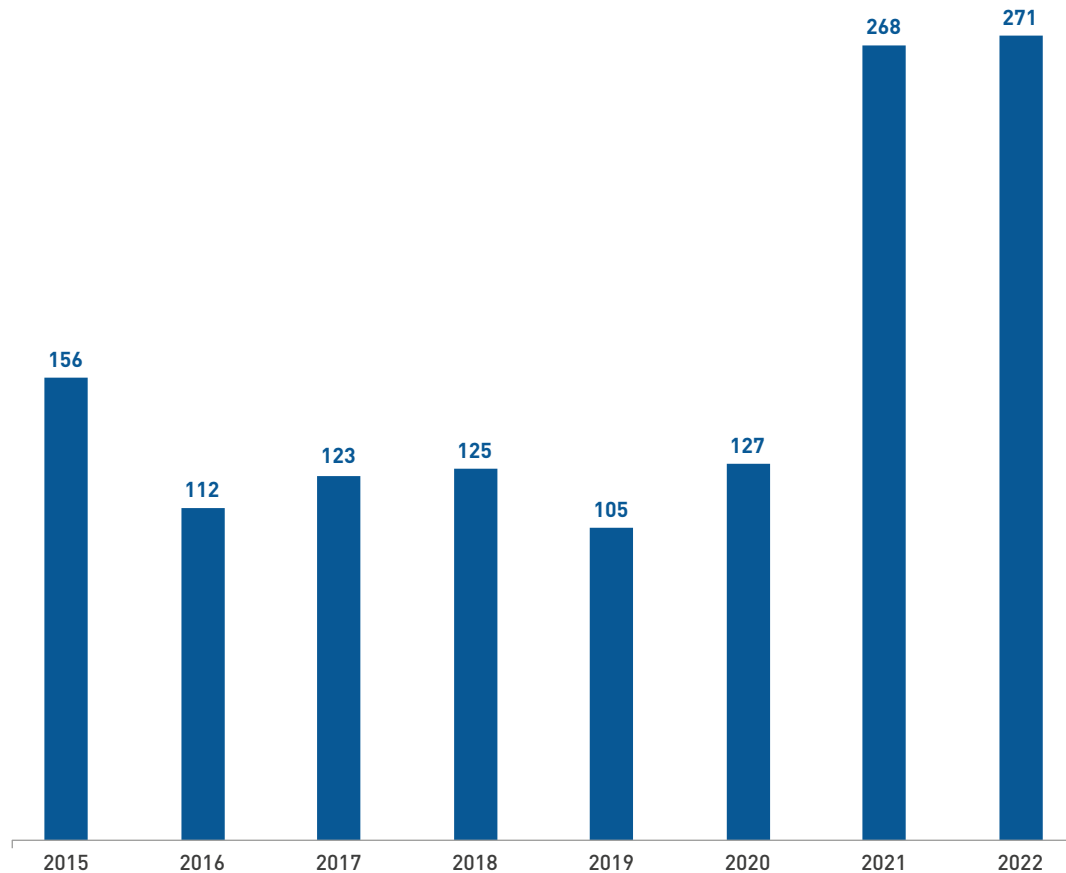
More permits have been granted by the government to foreign companies to operate in Mexico, proving nearshoring is top-of-mind with government officials.

According to official data, permits granted by the government to foreign companies to operate in Mexico totaled 539 in 2021 and 2022, which contrasts favorably with the 105 permits granted in 2019. Furthermore, it is evident that nearshoring is top-of-mind with government officials. So much so that government officials have recognized nearshoring could become a key driver for the Mexican economy in the short and medium term and have been working to make it a reality.

Despite the government's hands-on approach, an industrial policy agenda or medium-term strategy is shining in its absence.

Government collaboration for more foreign companies to operate in Mexico has been notable since the pandemic struck.

-Permits granted by the government to foreign companies to operate in Mexico



Source: Mexican Ministry of Economy

What has the government said lately on nearshoring?

“The Mexican economy will continue to outperform analysts’ expectations, mostly thanks to the manufacturing sector and the nearshoring trend.”

-Finance Minister Rogelio Ramírez de la O, Jan. 2023

“At least 400 companies are interested in nearshoring in Mexico to ease supply chain constraints.”

-Economy Minister Raquel Buenrostro, Nov. 2022

“Mexico’s GDP could be boosted in 2023 by a sustained intensification of the nearshoring trend and an increment in public investment.”

-Deputy Finance Minister Gabriel Yorrio, Oct. 2022

U.S. President Biden and Mexican President López Obrador “discussed their shared vision for greater economic integration to increase productive capacity and promote inclusive growth, including incentives under the CHIPS and Science Act to promote investment in semiconductor clusters along the border.”

-White House Statement, Jan. 2023

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