

HSBC Global Connections

Trade Forecast Update: Mexico

February 2012

Forecast exploring the future of world trade and the opportunities for international businesses

- World trade to grow by 86% in the next 15 years (2012-2026)
- International trade growth will accelerate from 2014
- Companies to increase trade activity by 4.70% annually to achieve projected growth
- Fastest growing emerging sectors support trade infrastructure and the transportation of goods around the world
- Mexico trade forecast to grow 112.04% to 2026
- Mexican companies to increase trade activity annually over the next 15 years by 4.02%
- The largest, fastest growing export sector will be unwrought, semi manufactured and powdered gold which will grow at an annualised rate of 13.26% over the next five years

Trade overview

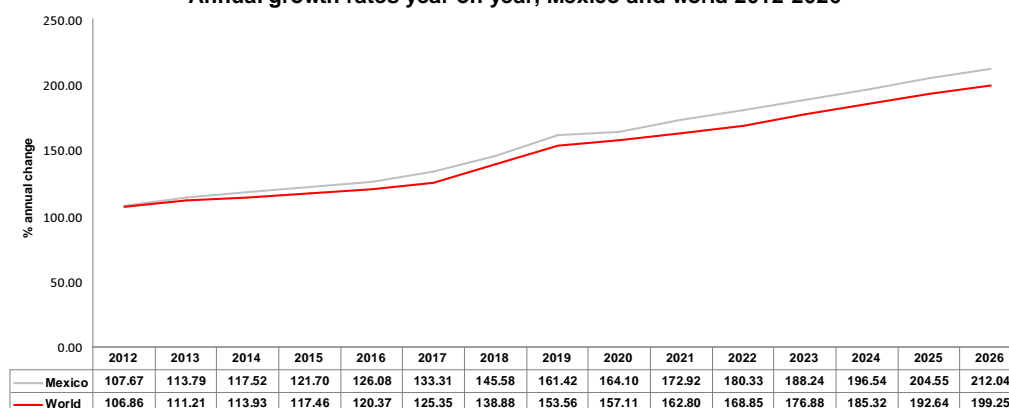
As the world continues to face well-documented economic challenges, the Trade Forecast suggests grounds for optimism for international businesses. Despite the current climate the overall trend for international trade is positive with growth acceleration sooner than expected from 2014, rather than 2015. After 2014 the global economy ends a period of slow growth and contraction and sees an upturn in trade in line with GDP forecasts. Over the next five years it is forecast that world trade will grow at an annualised rate of 3.78% (see below graph for year-on-year predictions), due primarily to the expectation of an earlier recovery of the overall global economy. In the period 2017-2021, the Forecast predicts even more rapid annualised growth at 6.23%, as world demand for traded goods recovers its dynamism. As a result world trade is predicted to grow by 86.00% in the next 15 years, taking total trade activity in that year to \$53.8 trillion.

The Trade Forecast predicts that trade in Mexico will grow at an annualised rate of 3.32% over the next five years to 2016. It will then increase substantially with annualised growth between 2017 and 2021 at 5.61%. This equates to growth indexed to a base in 2011 of 112.04% and is the result of the strengthening of relations between Mexico and its largest and emerging trade partners outside of the North America Free Trade Area. Annualised total trade growth in the Mexico over the next 15 years will 4.20%: the rate at which companies will need to increase their international activities if they are to keep pace with this change.

Mexico's trade outlook

Mexico's trade index, based to 2011, will grow consistently faster than the world average over the next 15 years. This shows the robustness of both Mexican import and export sectors and the country's efforts to build its international presence outside of North America. The higher than average rate of growth reflects the predicted upturn in world trade after 2015, which will be driven by an acceleration of trade in the Latin American and Asia Pacific regions. The Trade Forecast shows that Mexico provides opportunities for businesses particularly within the car and consumer electronics sectors as these represent both the largest and fastest growing emerging sectors respectively.

Annual growth rates year on year, Mexico and world 2012-2026



Alan Keir, Group Managing Director and Global Head, HSBC Commercial Banking:

"Where once businesses followed economic investment, now, forward-thinking companies lead, taking matters into their own hands and making business happen. Whether that's taking advantage of shorter-term growth in international trade, which despite economic uncertainty sits at \$1trillion a year, or by creating new supply chains that open up trade corridors, businesses are connecting themselves to future opportunities. The reality is that growth opportunities lie internationally. The companies that succeed will be planning for that today."

Trade corridors and trends

Mexico historically has been dependent on North America for trade as a member of the North America Free Trade Area. It is reducing this dependency but the USA and Canada remain important export destinations. Germany is Mexico's third largest export partner, largely because of Mexico's integration into the German automotive supply chain. As supply chains in automobiles and consumer electronics expand, so are Mexico's export partners with exports to Brazil set to increase annually by 12.55% to 2016 and to China by 11.84%.

Mexico's largest import partners are the USA, China and Japan reflecting Mexico's important role in the global supply chain for consumer electronics and automobiles. Mexico's pattern of import trade is changing with much of the increase in imports from the Netherlands accounted for by a forecast annual increase over the next five years of 11.06% in oil imports. The fastest growing emerging import corridors also reflect this diversification with imports from Nigeria forecast to increase annually by 11.75%, Denmark by 10.44% and Vietnam by 10.18% to 2016.

Mexico's Emerging Growth Importers and Exporters (2012-2016)⁶

Mexico's Largest (2012) Export Partners Ordered by Value	CAGR (2012)	Emerging Growth Export Partners	%	Mexico's Largest (2012) Import Partners Ordered by Value	CAGR (2012)	Emerging Growth Import Partners	%
USA	2.78%	Switzerland	15.34%	USA	3.14%	Nigeria	11.75%
Canada	10.89%	Hungary	15.08%	China	7.79%	Denmark	10.44%
Germany	6.43%	UAE	13.61%	Japan	3.09%	Vietnam	10.18%
Colombia	9.16%	Vietnam	13.59%	Korea	5.92%	Poland	10.13%
Brazil	12.55%	Russia	13.19%	Germany	4.77%	Bangladesh	10.02%
Spain	3.45%	Singapore	12.76%	Canada	4.55%	Netherlands	9.62%
China	11.84%	Paraguay	12.60%	Malaysia	5.92%	Greece	9.62%
Netherlands	9.97%	Turkey	12.58%	Italy	2.57%	South Africa	8.90%
Venezuela	4.59%	Brazil	12.55%	Brazil	0.99%	Hungary	8.78%
Japan	7.75%	Uruguay	12.41%	Netherlands	9.62%	Indonesia	8.19%

N.B. Emerging Growth Import and Export Partners are trade partners that are growing most quickly over the period, albeit potentially from a small base.

Sector watch

The table below shows Mexico's fastest growing export and import sectors by partner:

Mexico's Fastest Growing Export and Import Sectors by Partner (2012-2016)

Export Sector	Export Partner	CAGR (2012-16)	Import Sector	Import Partners	CAGR (2012-16)
Radio and TV transmitters, television cameras	Canada	18.24%	Electrical apparatus for line telephony, telegraphy	USA	13.77%
Printing and ancillary machinery	USA	16.12%	Electrical apparatus for line telephony, telegraphy	China	13.73%
Motor vehicles (except buses)	Brazil	13.67%	Liquid crystal devices, lasers, optical appliances	China	11.28%
Gold, unwrought, semi-manufactured, powder form	USA	12.15%	Oils, petroleum, bituminous, distillates, except crude	Netherlands	11.06%
Tractors	USA	11.26%	Radio and TV transmitters, television cameras	China	10.48%
Television receivers, video monitors, projectors	Canada	10.37%	Articles for fun fairs, table and parlour games	China	8.21%
Silver, unwrought, semi-manufactured, powder form	USA	9.03%	Electronic integrated circuits and micro assemblies	South Korea	8.20%
Motor vehicles (except buses)	Germany	7.12%	Radio and TV transmitters, television cameras	USA	7.98%
Commodities not elsewhere specified	USA	7.05%	Parts and accessories for motor vehicles	Japan	7.90%
Refrigerators, freezers and heat pumps	USA	6.36%	Electronic integrated circuits and micro assemblies	Malaysia	7.54%

N.B. Fastest growing import and export sectors by partner are developed from the top 50 export and import partners and are selected alongside the trade sectors that constituted values of above \$100 million at the end of 2010. The top ten fastest growing partners by sector were selected for this table.

Sector opportunities

Automotives: Mexico represents a major trade route for German and Japanese manufacturers entering the North and Latin American markets. As a result exports of cars are forecast to increase by 9.06% annually over the next five years. Mexico's exports of cars to Brazil are forecast to grow by 13.67%. Germany is also growing fast as an export destination for Mexico's car sector, with exports forecast to increase by 7.12% annually over the next five years. Exports of tractors to the USA will increase by 11.26% annually to 2016 utilising the expertise and distribution networks of the automotive sector. Businesses in the sector will be aware of its competitive, innovative and global nature but being a trade hub between Asia, Europe and Latin America, new opportunities, and a growth rate of above 9% will be essential to keep up with the pace of change.

Consumer electronics: Mexico is a key part of the consumer electronics global supply chain. Radio and TV transmission equipment is one of the country's top export sectors and export growth in this sector will be at an annual rate of 9.59%. Exports across a range of sub-sectors and countries are forecast to grow rapidly. The radio and TV transmitters and TV cameras sector is one the Trade Forecast predicts that exports to Canada will grow at 18.24% annually to 2016, while exports of printing equipment and exports of fridges to the USA will grow by 16.12% and 6.36% annually over the next five years. To meet this growing demand, imports of electrical apparatus for parts for radio and TV transmitters and TV cameras from South Korea will grow by 5.85% annually to 2016. Similarly, imports of integrated circuits from Malaysia will grow at a forecast rate of 7.54% over the next five years. Mexico is a major assembly area and distribution hub within this sector and businesses should work within a global supply chain to fulfil this role. Businesses need to grow these international activities by nearly 10% in order to keep up with the speed at which it is internationalising.

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Trade Forecast

The Trade Forecast predicts how trade is going to develop over the next five, 10 and 15 years. It forecasts overall trade growth (exports, imports and total trade) globally, in global regions, and individual countries. Spanning 37 countries, it covers the top 10 sectors for exports and imports for each of these. The forecast has a unique approach to understanding the drivers of trade from a business perspective, informed by: trade trends, macroeconomic and market influences trade (for example GDP, oil prices, inflation, foreign direct investment), and business environment influences on trade (including regulation, demographics, access to capital and finance). The research has been commissioned by HSBC and undertaken by Delta Economics. The economic and business narratives stem from a broader documentary search that includes material from National Statistical Offices, the World Bank and International Monetary Fund, economic blogs, the Economist Intelligence Unit, Bloomberg, the Financial Times and other professional and financial services news websites.

About HSBC Commercial Banking

Headquartered in London, HSBC is one of the largest banking and financial services organisations in the world. HSBC is one of the world's most international commercial banks with over three million customers in more than 60 markets.