



Nearshoring in Mexico

Ready, set... go? | May 2024

Econosignal

Index

- 1 The basics of relocation
- 2 Mexico in the balance
- 3 A closer look into regions and industries
- 4 Challenges ahead: a tight energy market



The basics of relocation

What is it all about?

Nearshoring is the practice of relocating business operations to a nearby country, offering advantages like geographical proximity, similar time zones, and potential cost savings compared to distant offshoring locations:



Geographic advantages



Cultural alignment



Reduced costs



Temporal (time zone)



Linguistic



Political, or historical linkages.



Factors Driving Nearshoring

- **Supply Chain Disruptions:** Events like COVID-19 lockdowns, [economic disputes](#), and [geopolitical tensions](#) have exposed weaknesses in global supply chains, leading to unfinished or undelivered manufacturing components.
- **Shifting Consumer Preferences:** The growing demand for customized products and rapid delivery times puts pressure on traditional supply chain models.



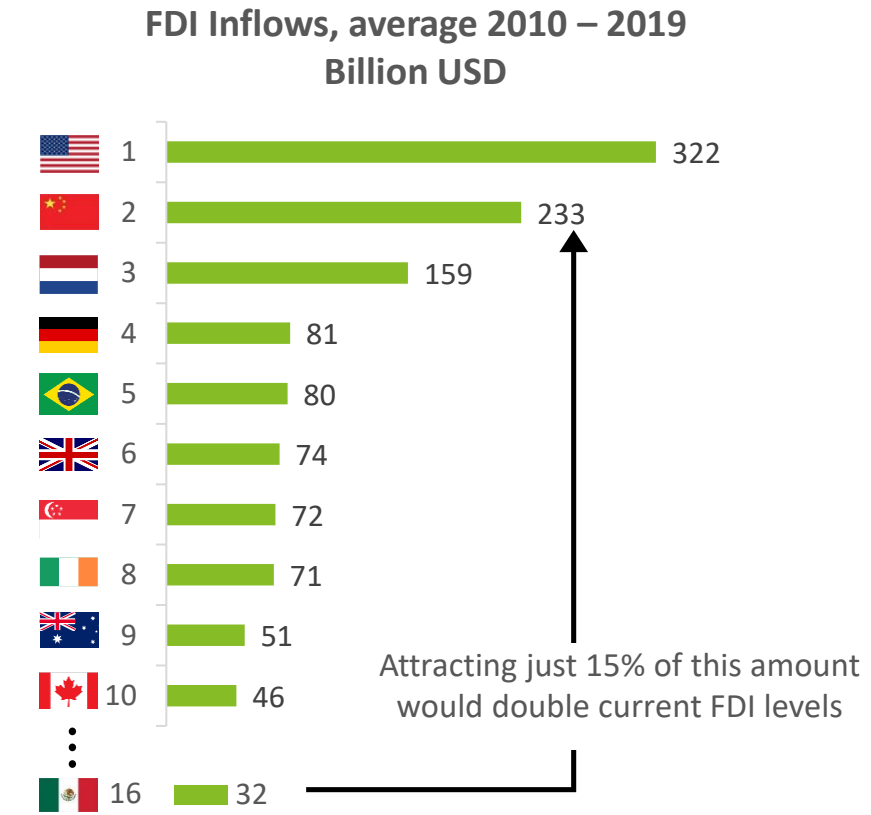
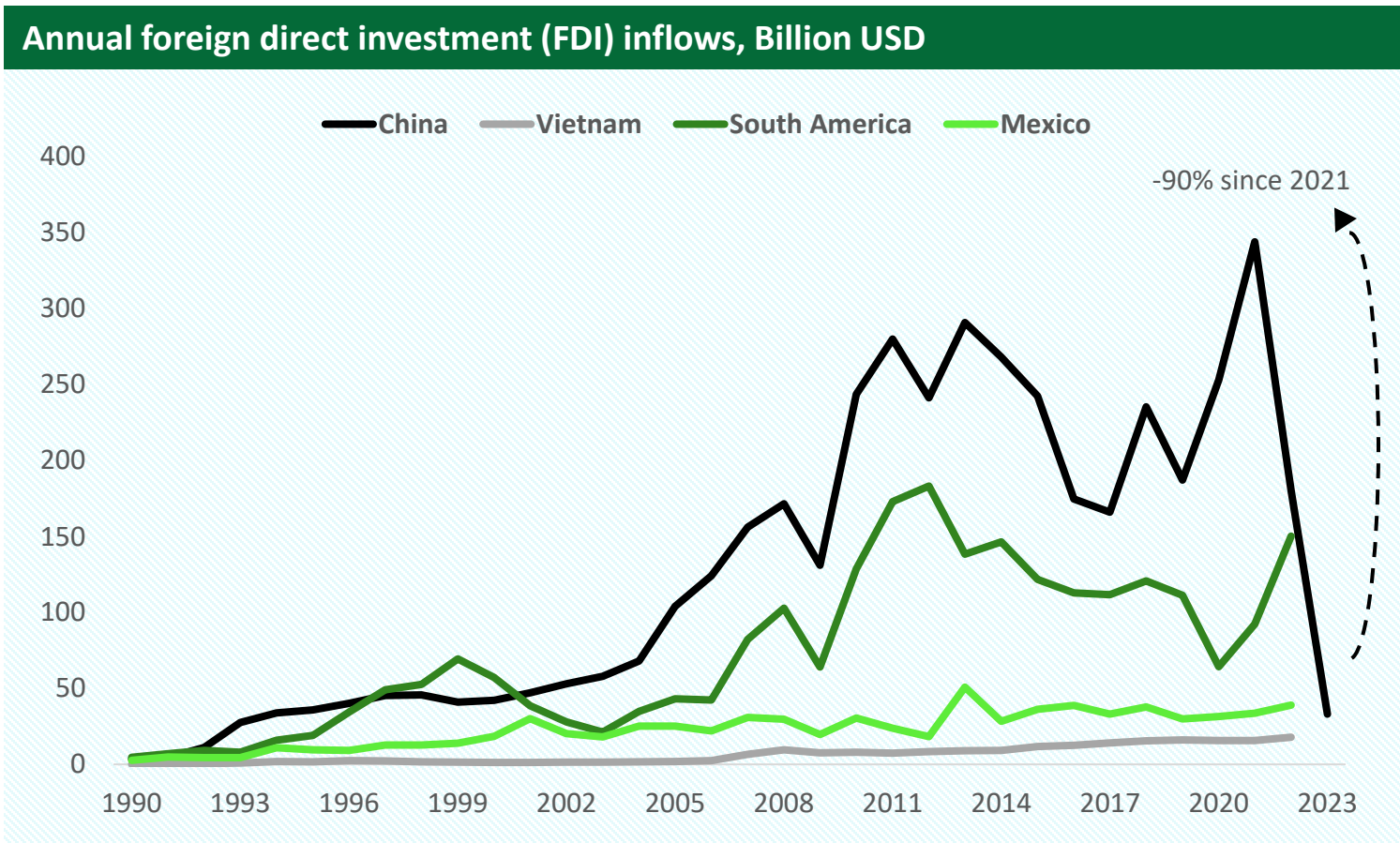
Shifting Economic Dynamics Impacting Industries

- **Boom and Bust:** Sectors like household goods, technology, and retail saw surging demand, while, in the short run, automotive, construction, oil and gas, and others experienced a downturn.
- **Changing Consumption Patterns:** Consumer spending patterns shifted, contributing to these divergent outcomes.
- **Focus on Efficiency:** Companies are adopting a more cost-conscious perspective, impacting supply chains and production decisions.

Source: Deloitte Market Intelligence.

Global investment relocation

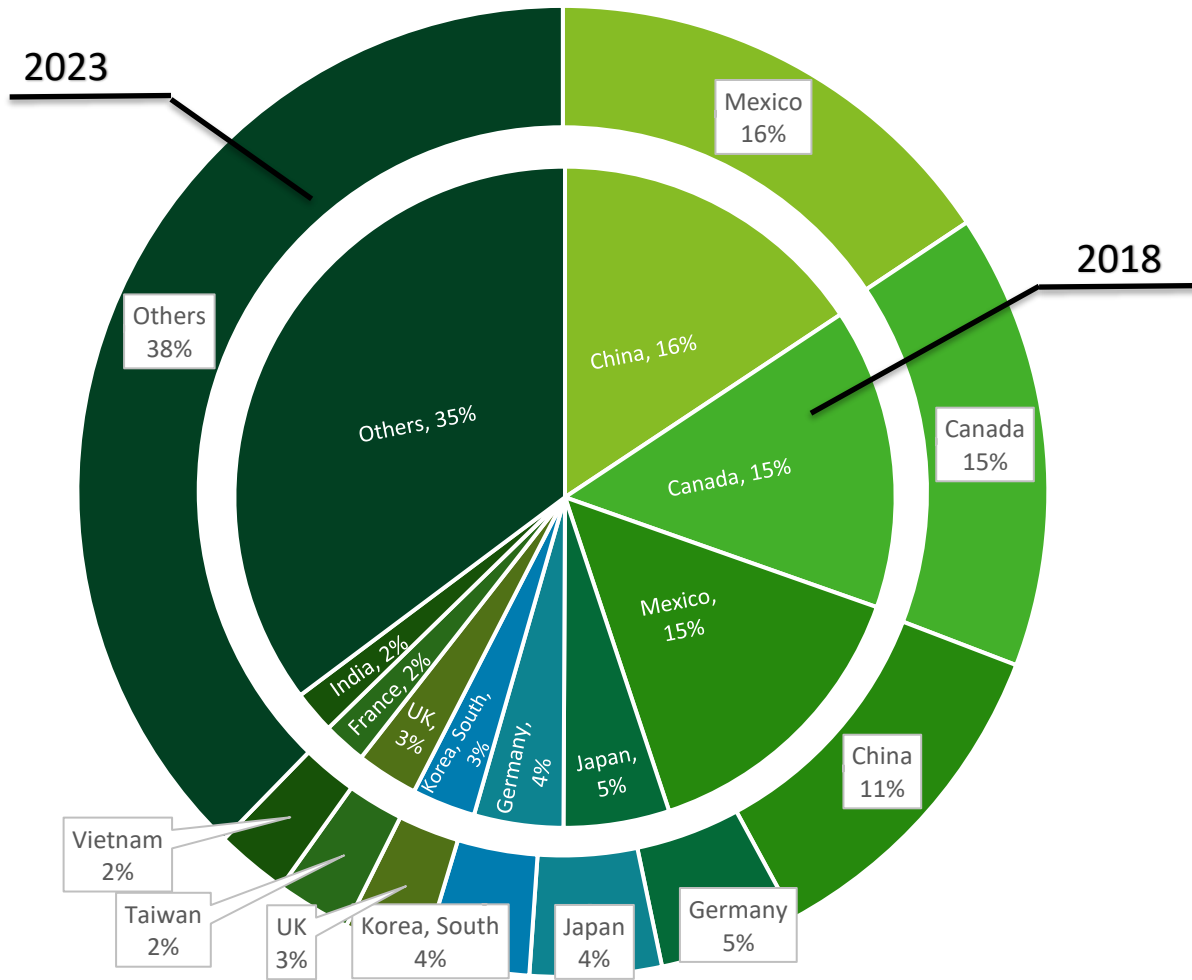
Although relocation may occur anywhere, **China is in the center of the current trend**. Tensions with the US have intensified in the last decade and notorious changes in investment and trade dynamics ignited after the pandemic. Countries that succeed in capturing a share of the Chinese loss will find **a massive opportunity ahead**.



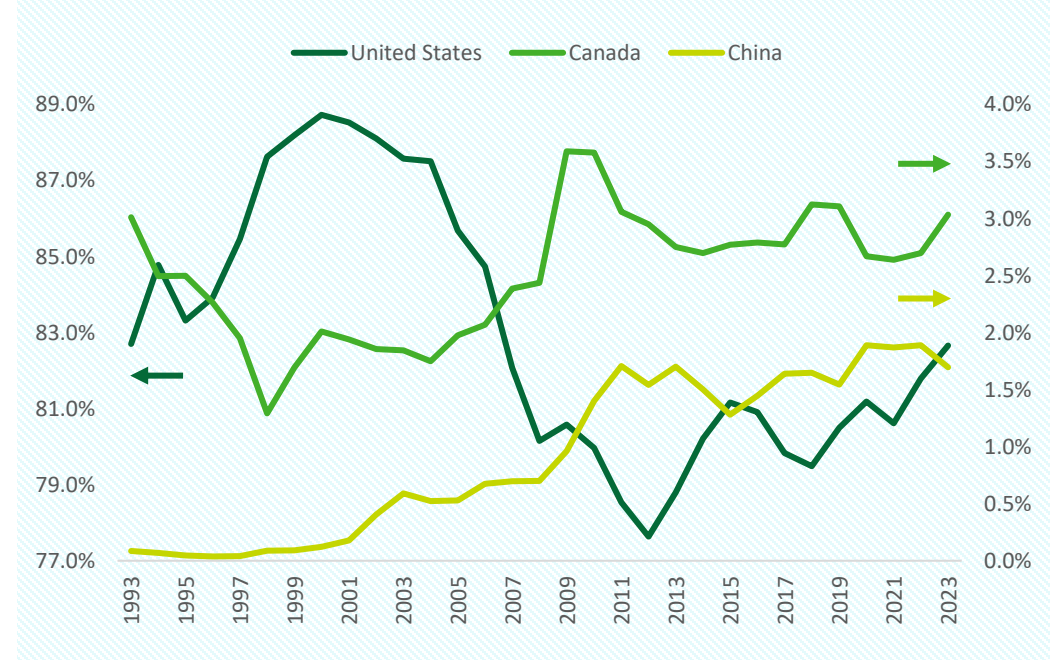
Source: World Bank and China's State Administration of Foreign Exchange

A rapid transformation with unclear implications

US total international commerce, % of total trade



Mexico's top trading partners, % share of total exports

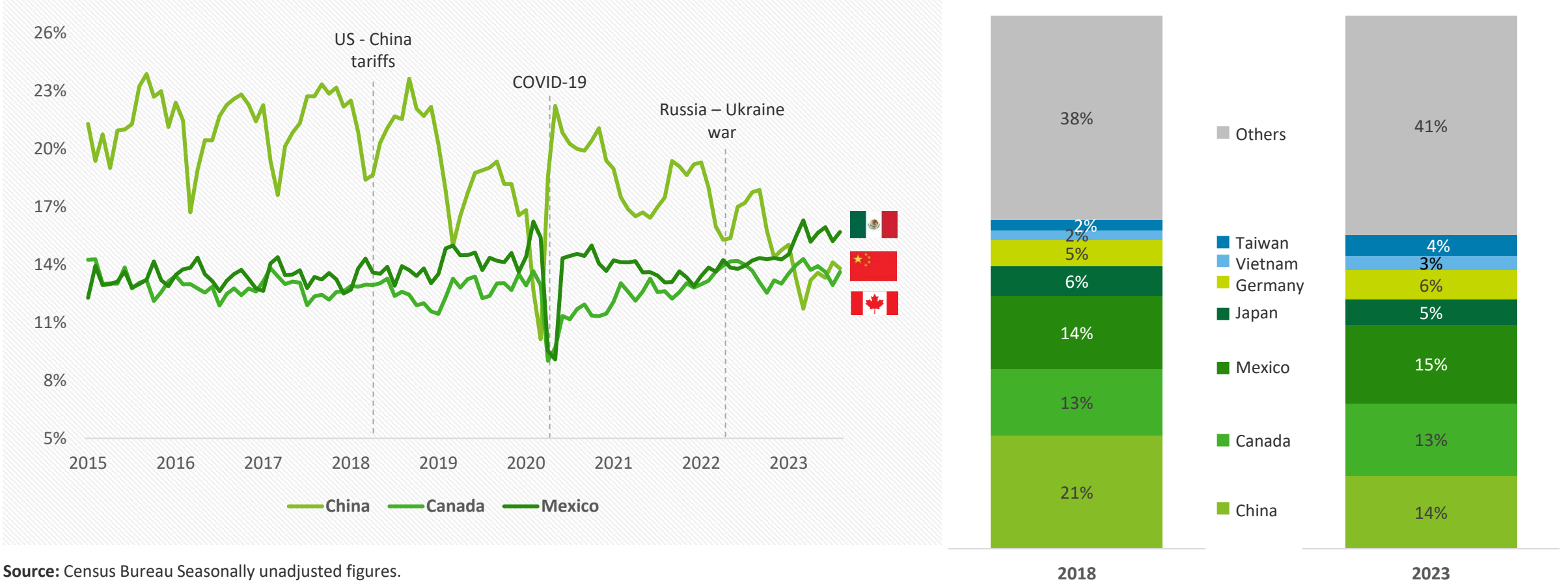


The US is rapidly shifting away from its trade dependency with China. **Mexico seems to hold an advantageous position** and in 2023 became its major trading partner for the first time in the last 20 years. However, it is unclear that the country is fulfilling its whole potential.

Global trade relocation

Regarding trade, **South-East Asian countries** are the ones that have mostly substituted China inside the United States mix of imports. Mexican exports have also been boosted, though not in the same proportion, which suggests that factors additional to geographical proximity are determinant in the decision taking process. The nearshoring phenomenon is thus proving to be **highly competitive**.

Share of US imports by country of origin



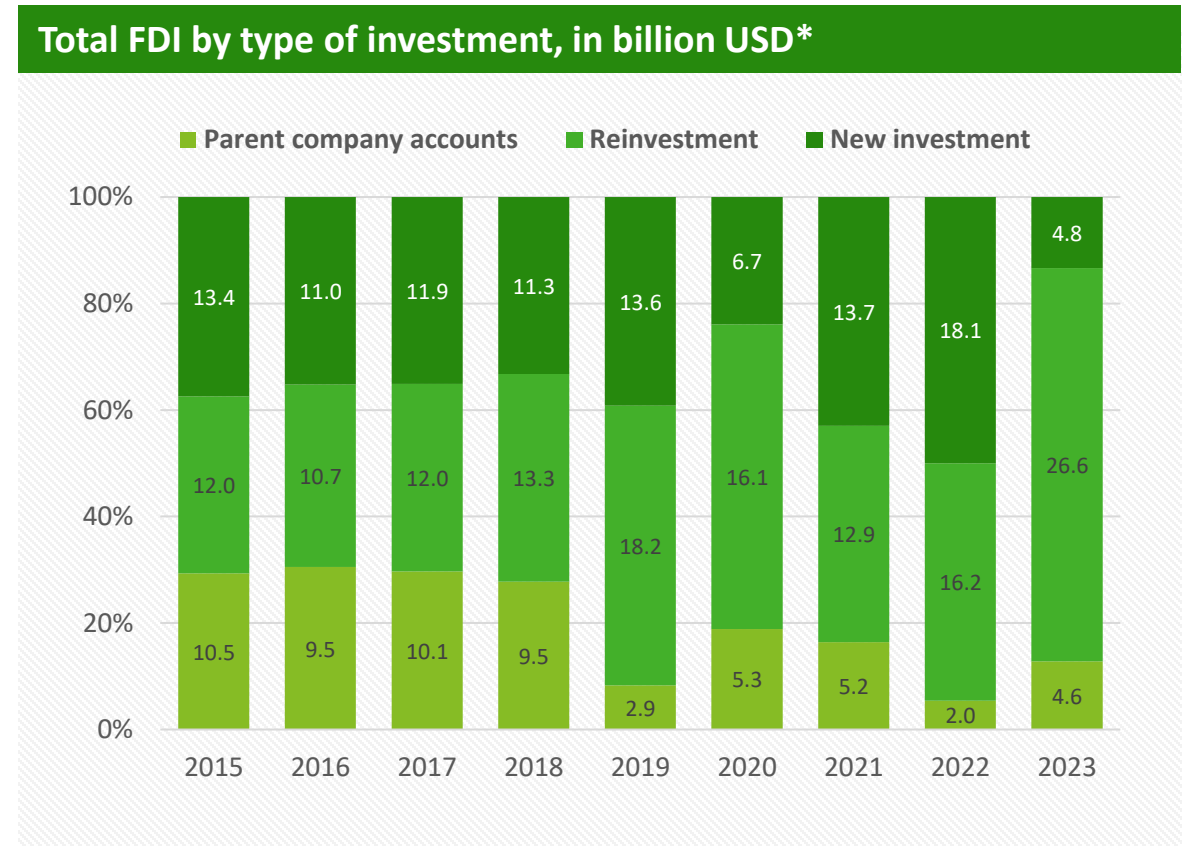
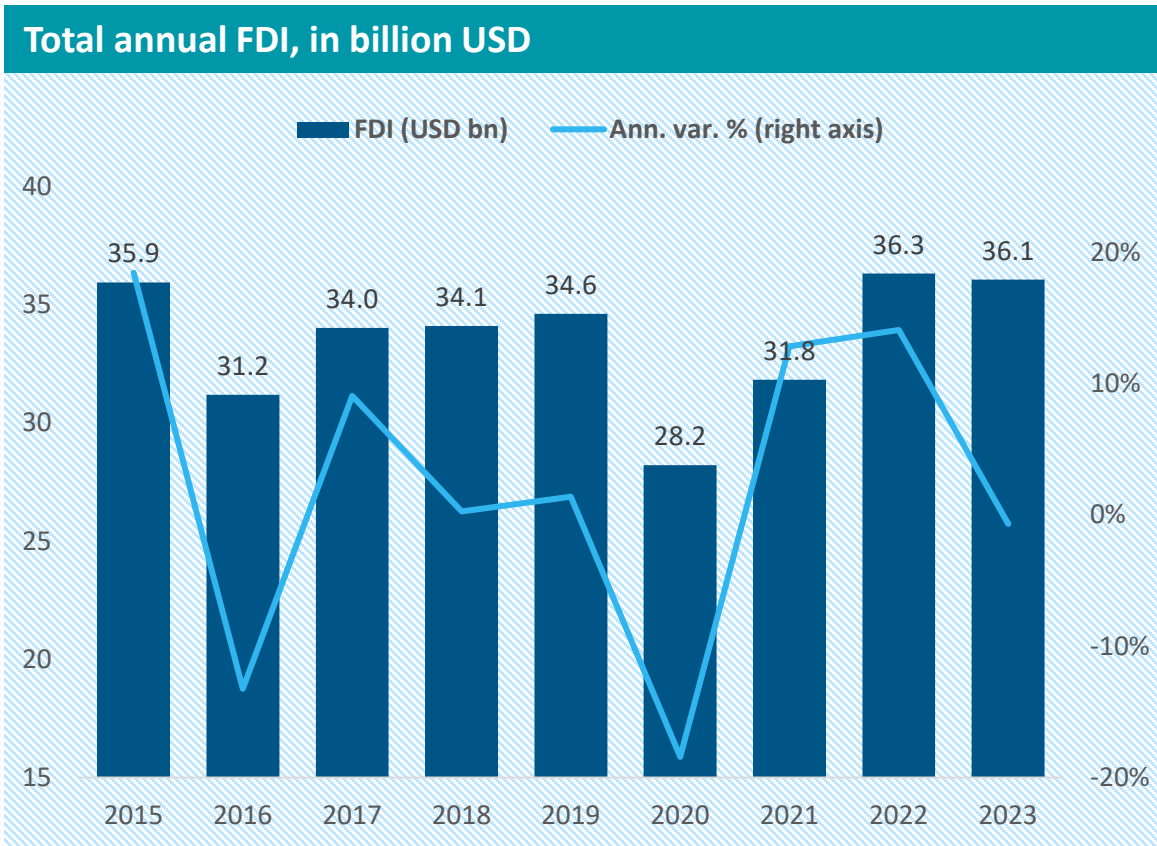
Source: Census Bureau Seasonally unadjusted figures.



Mexico in the balance

Foreign direct investment shows few signs of transformation

Although foreign direct investment has been increasing since 2020, only 16% corresponds to new investments, while almost 76% relates to reinvestments. Actually, **2023 was one of the years with the smallest new investments** in the past decade.



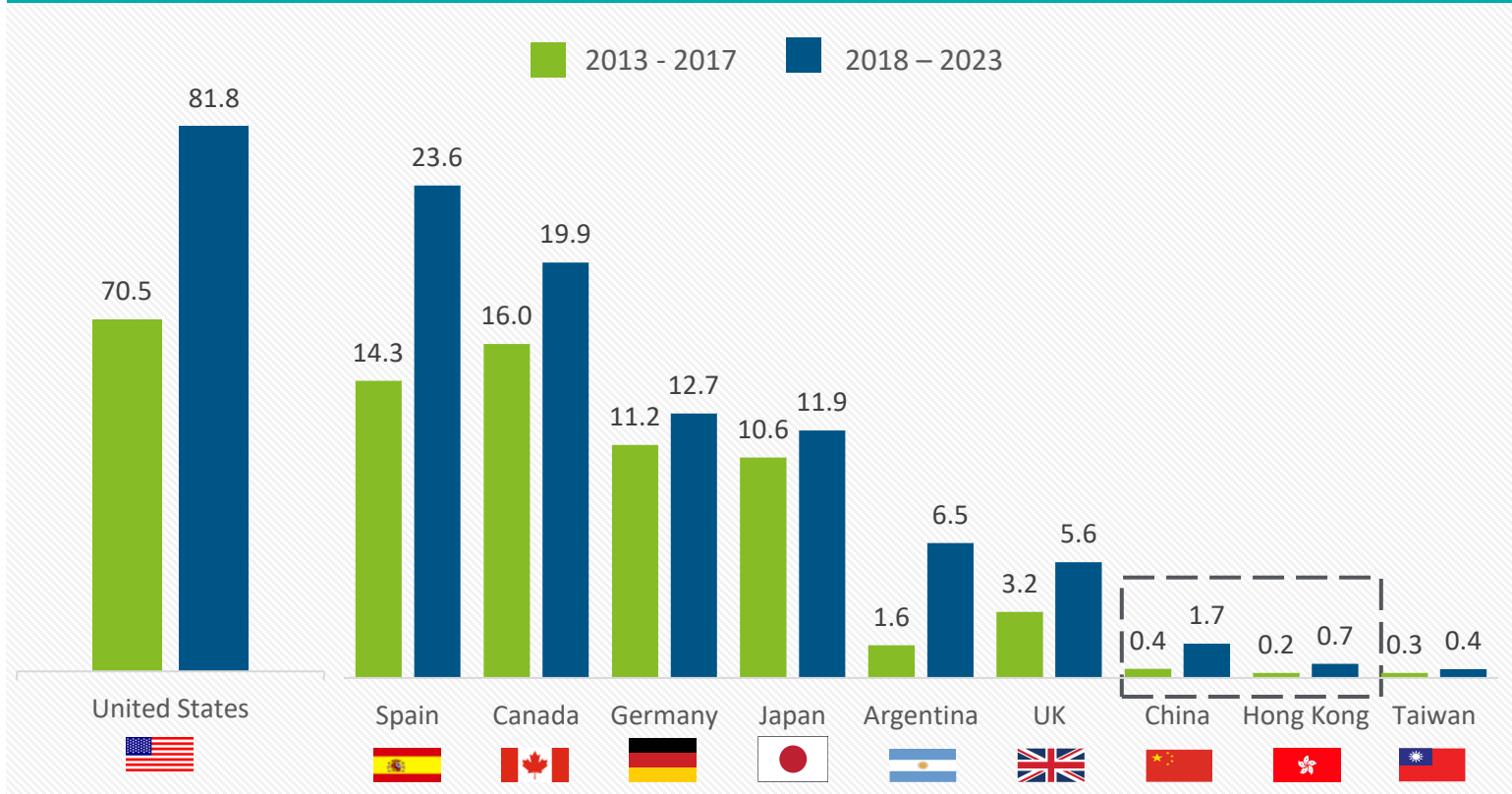
*The sum of the three items gives the total FDI (100%), which is why the vertical axis is presented as a percentage.

Source: Ministry of Economy of Mexico. The latest published data are used, but since this is a preliminary version, it is very likely that the figures will be adjusted.

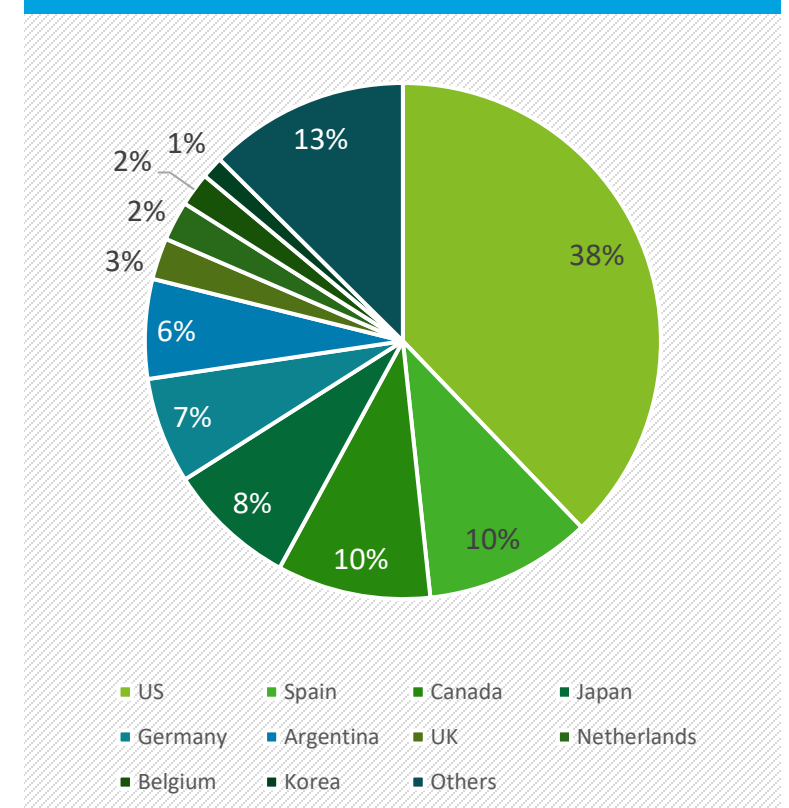
However, Mexico is indeed drawing attention

Official FDI figures show that since 2018 -when the US-China trade war began-, investment flows from Asian countries to Mexico have increased notably: **China +278%** and **Hong Kong +181%**.

FDI sorted by country of origin, cumulative figures between 2013-2017 and 2018-2023, billion USD.



FDI distribution in Mexico, 2023



End of 2023.

Source: The Ministry of Economy of Mexico. For a better visualization of the information, the United States data is separated from the rest.

Investment monitor

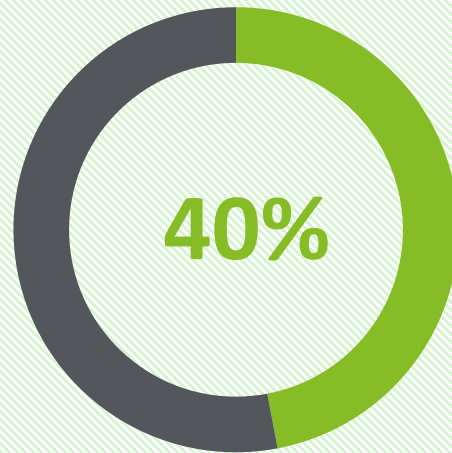
Our nearshoring tracker suggests that **higher investment disbursements may likely occur in subsequent years**. 40% of the \$39.9 billion dollars in announcements related to nearshoring made since 2021 are still pending to begin construction.

Companies that have either announced their first-time entry into the country driven by nearshoring or announced significant expansions motivated by nearshoring, spanning the period from the beginning of 2021 until December 2023.

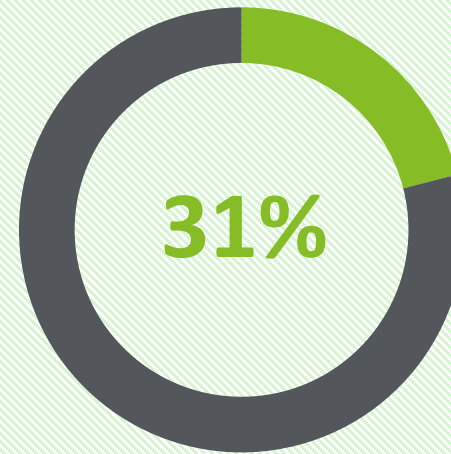
Project status



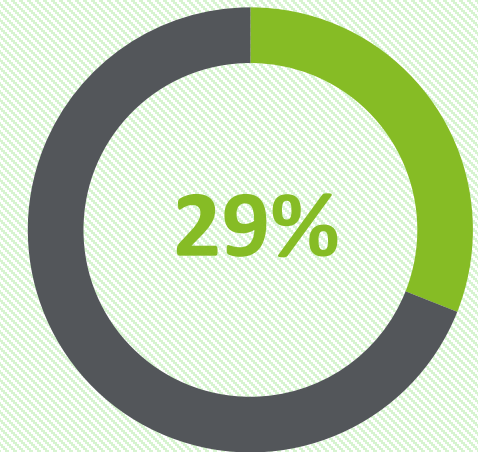
A total of USD \$39.9 bn worth of investments related to nearshoring has been announced since 2021.



Announced



Construction



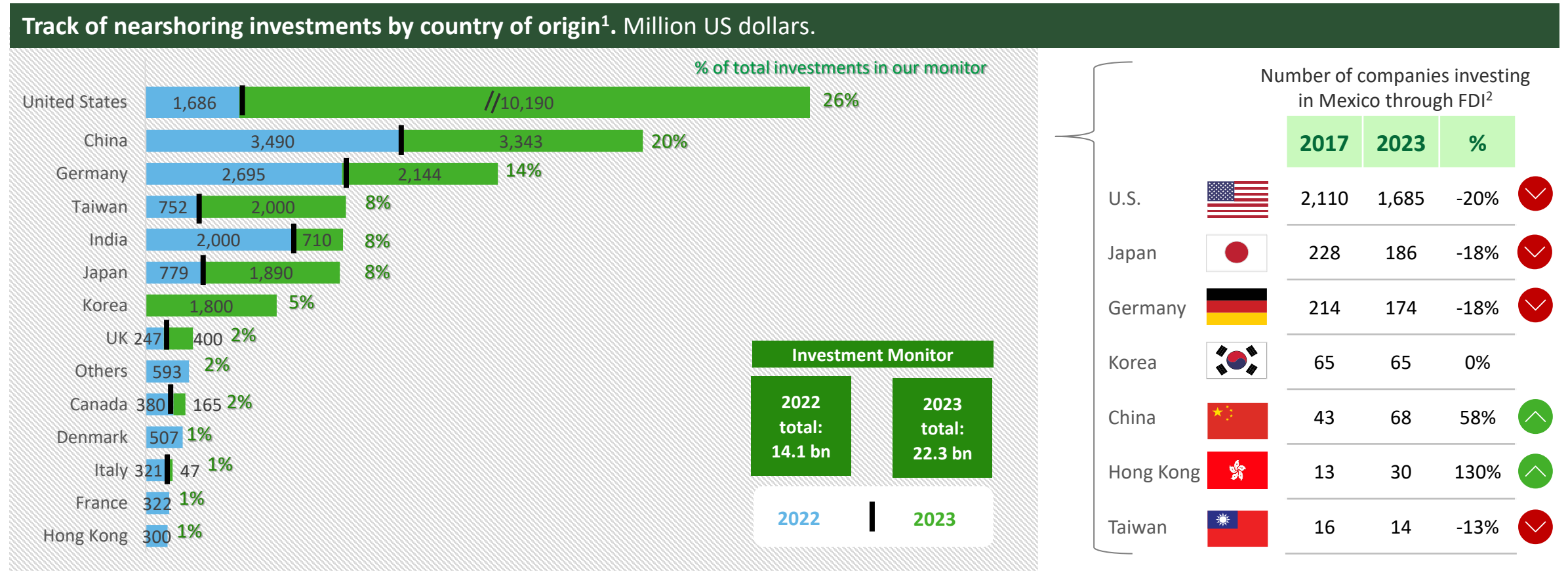
Operative

*We track companies that have announced that they will expand their operations or that have come to the country for the first time exclusively for nearshoring reasons since the beginning of 2021. This is a manual process, so we have not necessarily account for all the announcements associated with nearshoring during the study period.

Source: Econosignal.

Who is coming to the country?

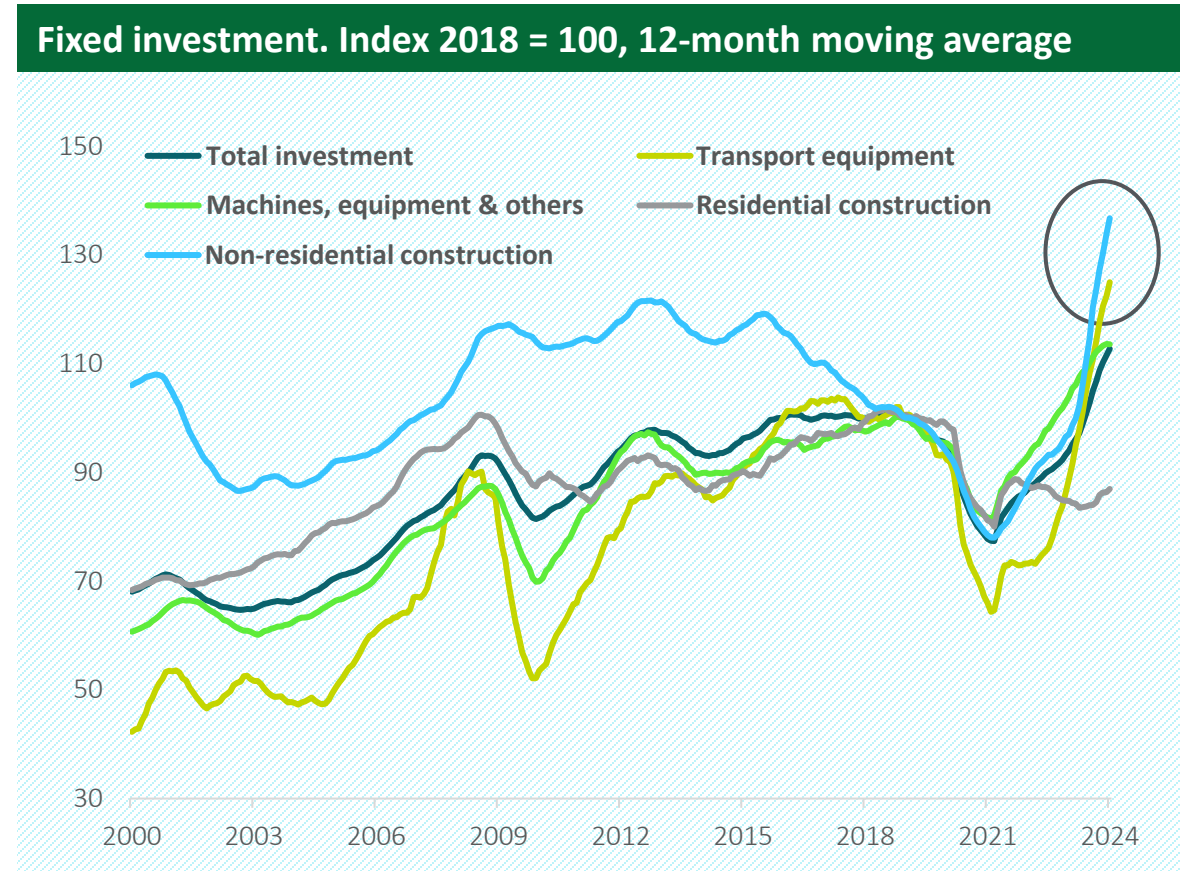
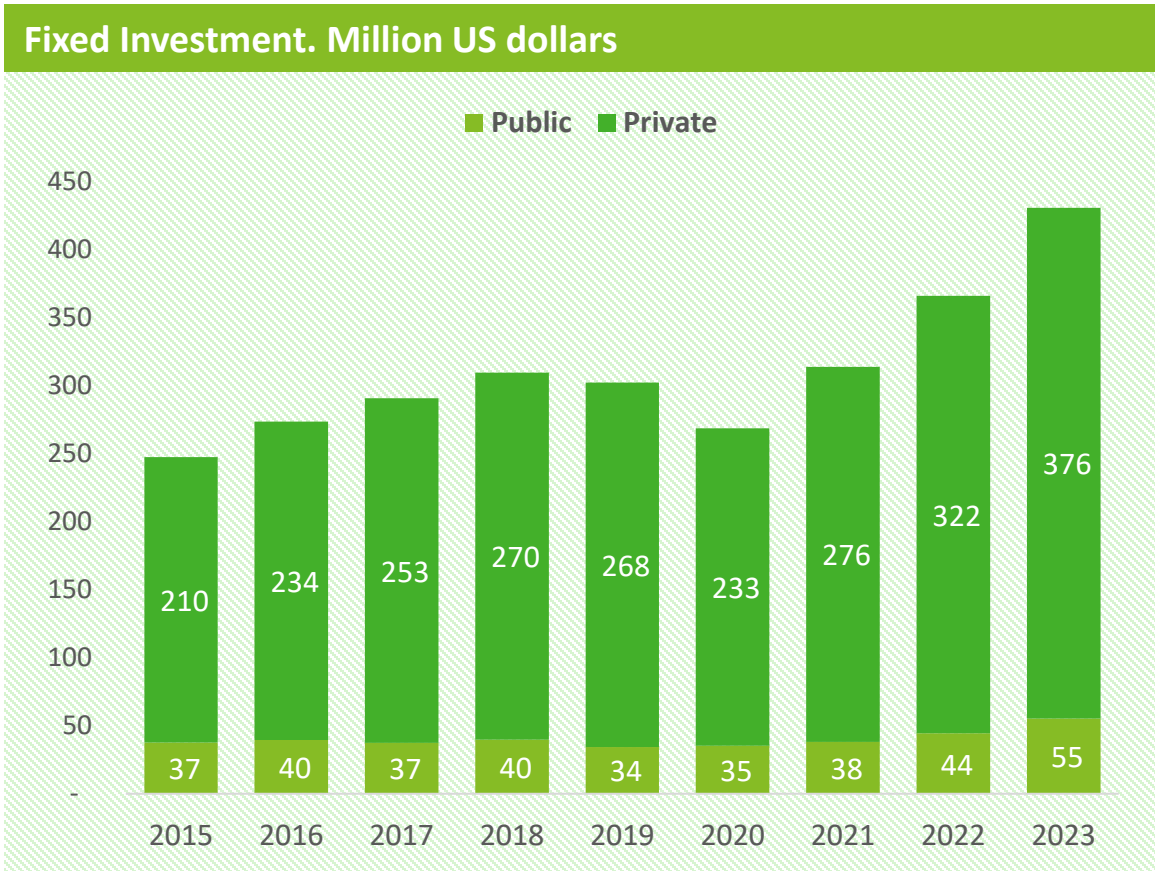
Based on our investment monitor, there are **two groups of countries that are reallocating to Mexico**. The first one is integrated by American companies that already had operations in Mexico and now are expanding their capacity. The second group comprises Asian companies that chase the benefits of producing in North America while avoiding high costs of labor.



1. For a better visualization of the information, the United States data is separated from the rest. | 2. Information collected by The Ministry of Economy of Mexico. | **Source:** Econosignal. We conducted a follow-up at Econosignal on companies that have announced that they will expand their activities or that have arrived for the first time in the country exclusively for nearshoring purposes from the beginning of 2021. As this is a manual process, we have not necessarily counted all the projects announced through nearshoring during the study period.

Speaking about investment...

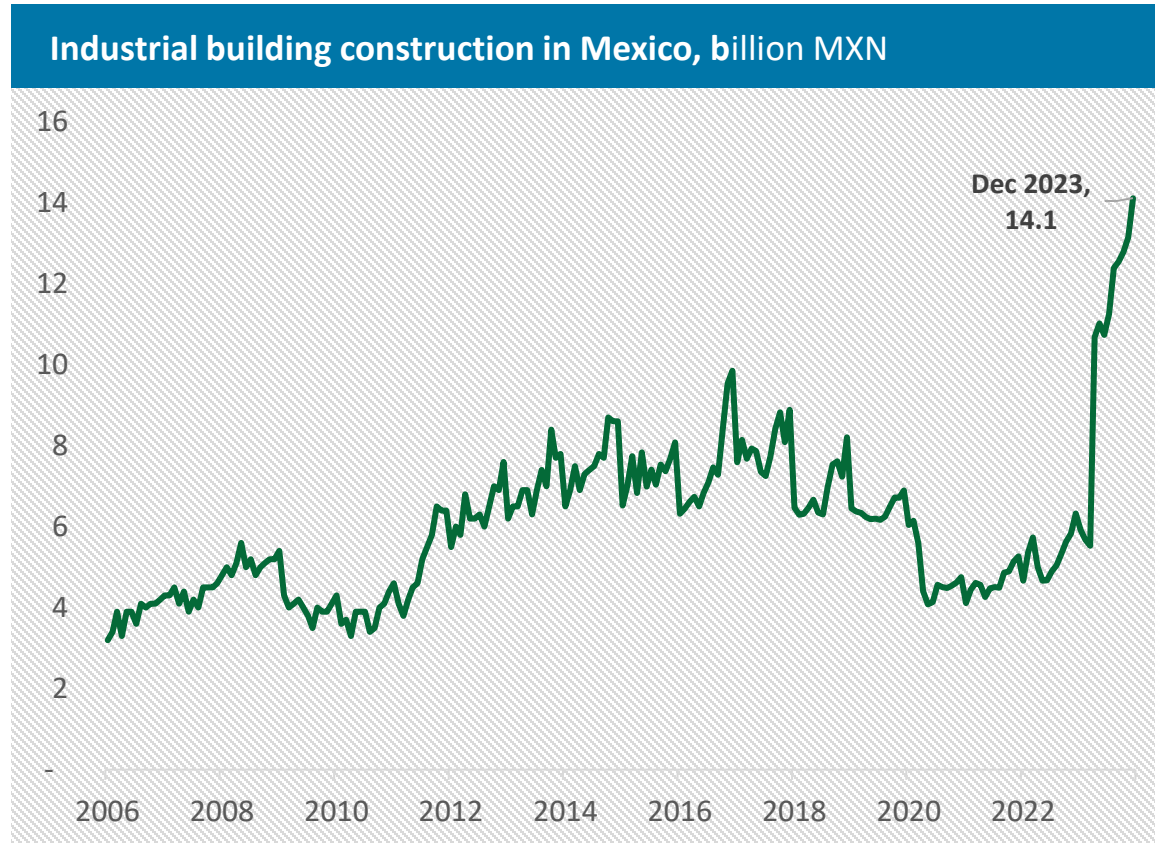
Both **public and private investment flows have experienced a recent surge**. Though the former is essentially related to the government's flagship projects, the latter shows private interest is taking advantage of the strong appreciation of the peso to acquire goods that may help expand the existing operations.



Source: INEGI.

The strongest evidence

Perhaps the most compelling sign of the renewed attention drawn by Mexico is the dynamics of industrial facilities. Construction by the private sector grew at **annual rates of 30.3% in 2022 and 17.6% in 2023**, while the occupation rate of industrial parks stands at 98%. Even with those numbers, it is estimated that the available space should double to match the demand of the following 5 years.



The occupancy of industrial parks is growing fast. Million m²

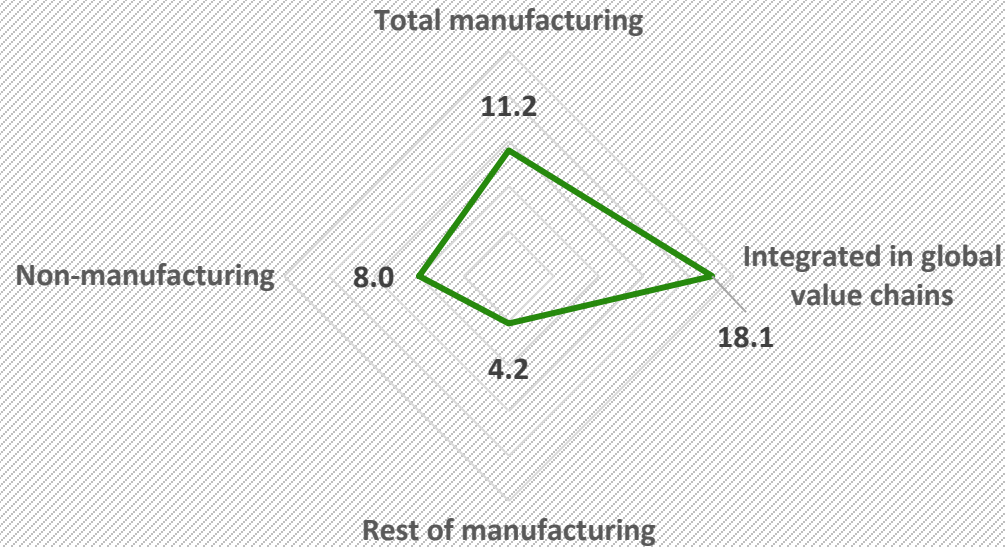
	2019	2020	2021	2022	Q3 2023
Industrial space occupied	72.8	74.9	78.4	82.7	85.1
New occupied space	2.0	2.1	3.5	4.3	2.4
New occupied space for nearshoring	0.3	0.4	0.7	2.2	NA
Available spaces ¹	5.5%	6.3%	3.8%	2.1%	2.0%

NA. Not available. This information was public until 2022. | 1. Available space to be marketed in existing and under-construction properties.
Sources: INEGI and AMPIP.

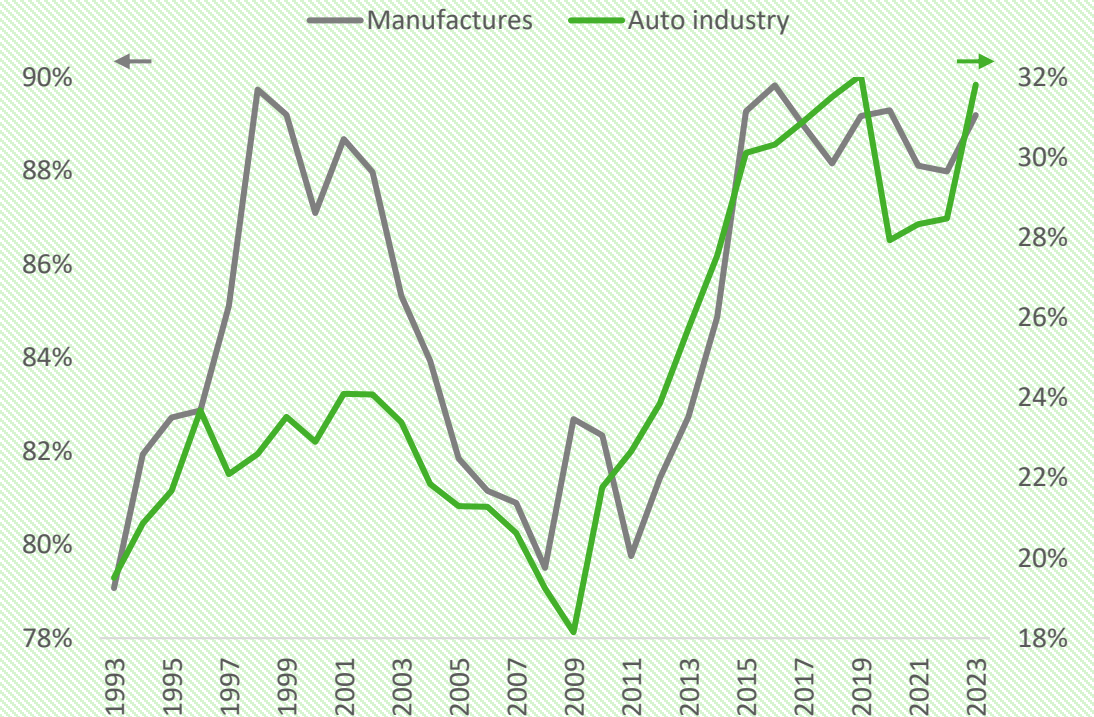
Who is capturing the largest share?

So far, the already established industries seem better positioned to grasp the benefits of nearshoring, something that would increase the specialization of the Mexican economy. However, even within the most interconnected sectors there are **few signs that something profoundly transformative is happening.**


% of companies benefited by nearshoring in the past 12 months¹



Share of total exports (%)²



¹Source: Interview program conducted by Banco de México in July 2023. Interview question: “For the previous 12 months, please indicate how your company’s production, sales, or investment have changed as a result of the following phenomena.” Many of the interviewees affirm that it is very difficult to differentiate between whether the higher demand is being caused exclusively by nearshoring or by the recovery of the national and global economy. ²Source: INEGI, Auto industry is a subcomponent of manufactures.

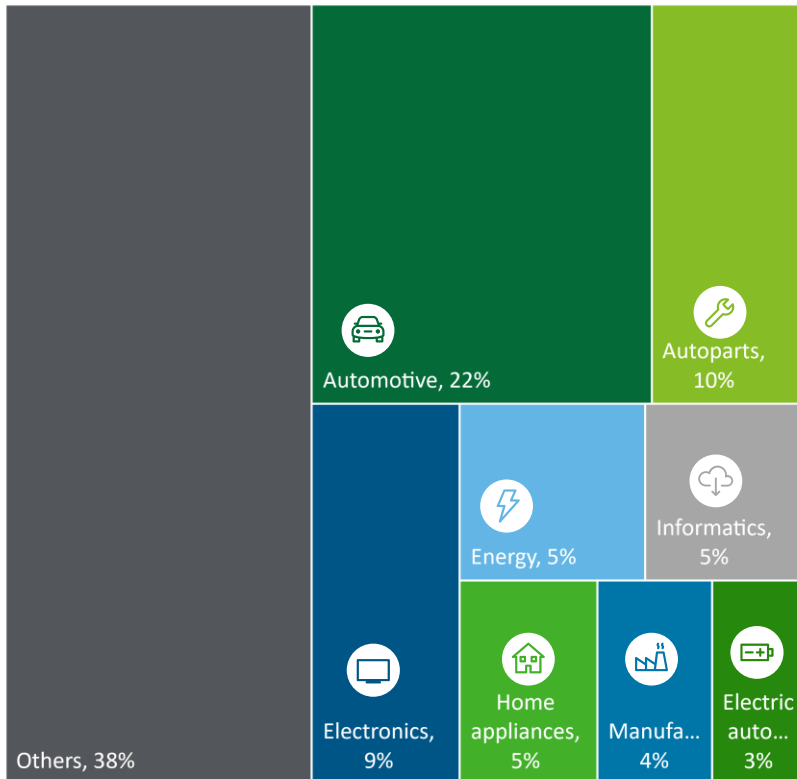


A closer look into regions and industries

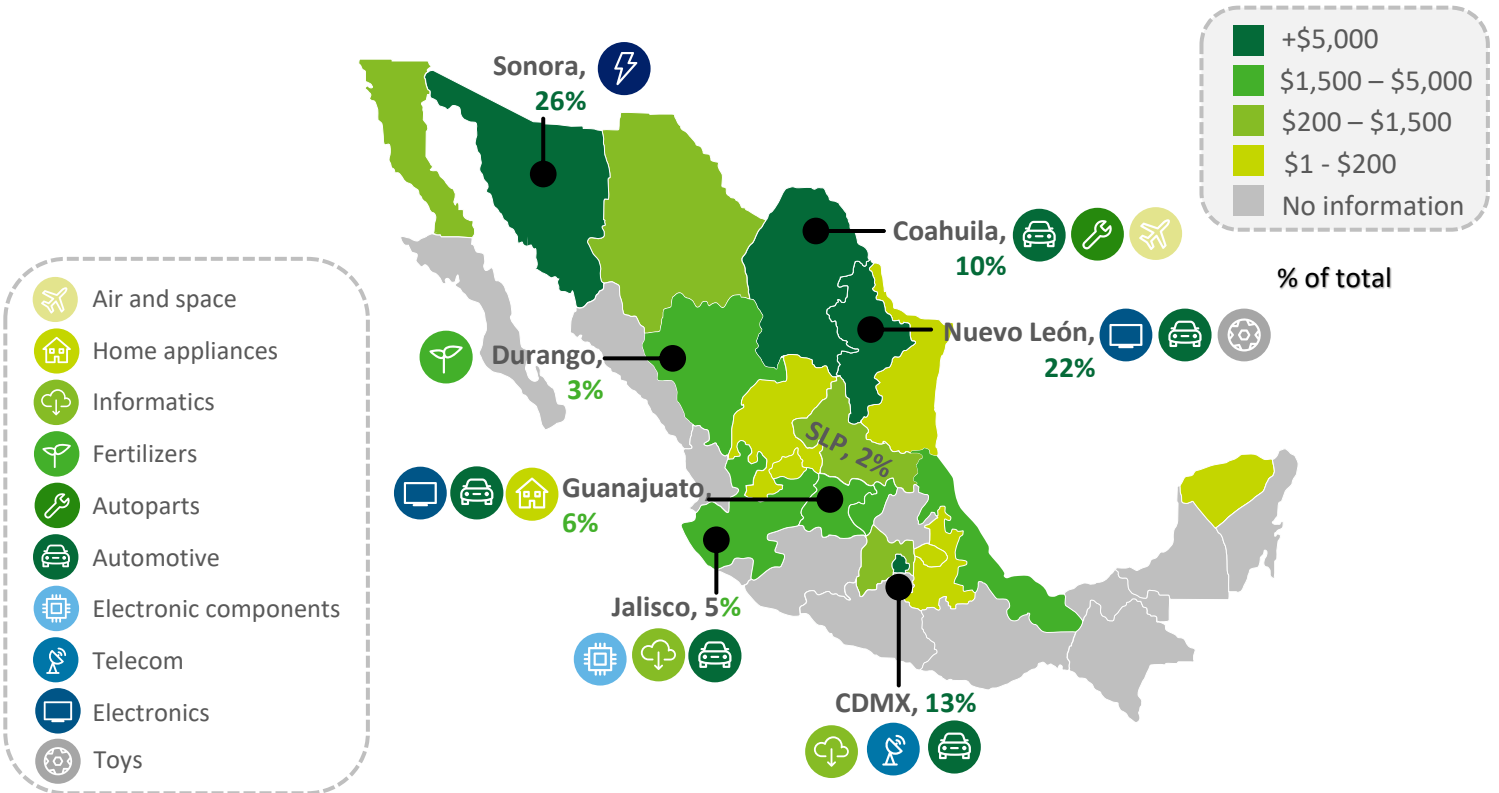
Investment monitor – Regional & industry distribution

Because of its proximity to the United States, **the north of the country is getting the most attractive investment announcements.** Nevertheless, states in the central region that count with high quality infrastructure and enough presence of benefited sectors are also being considered.

Main sectors of investment, % total



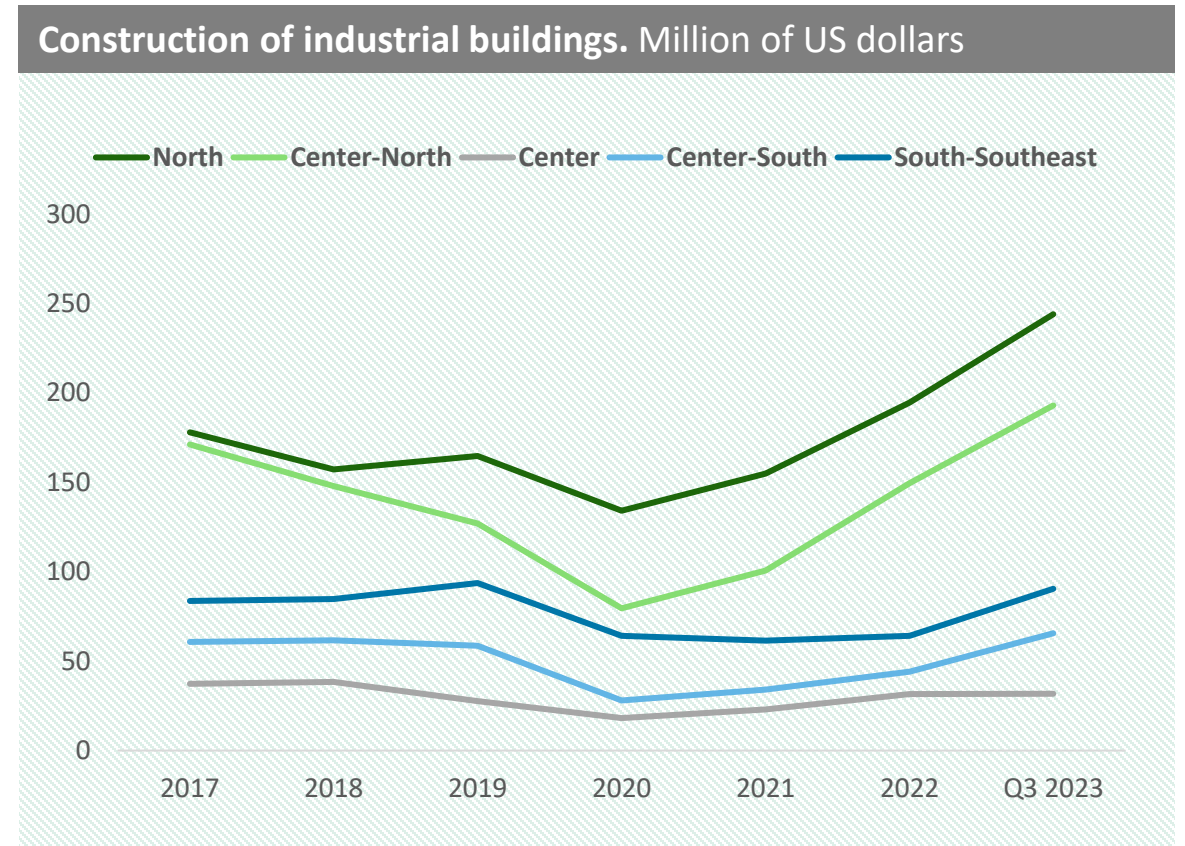
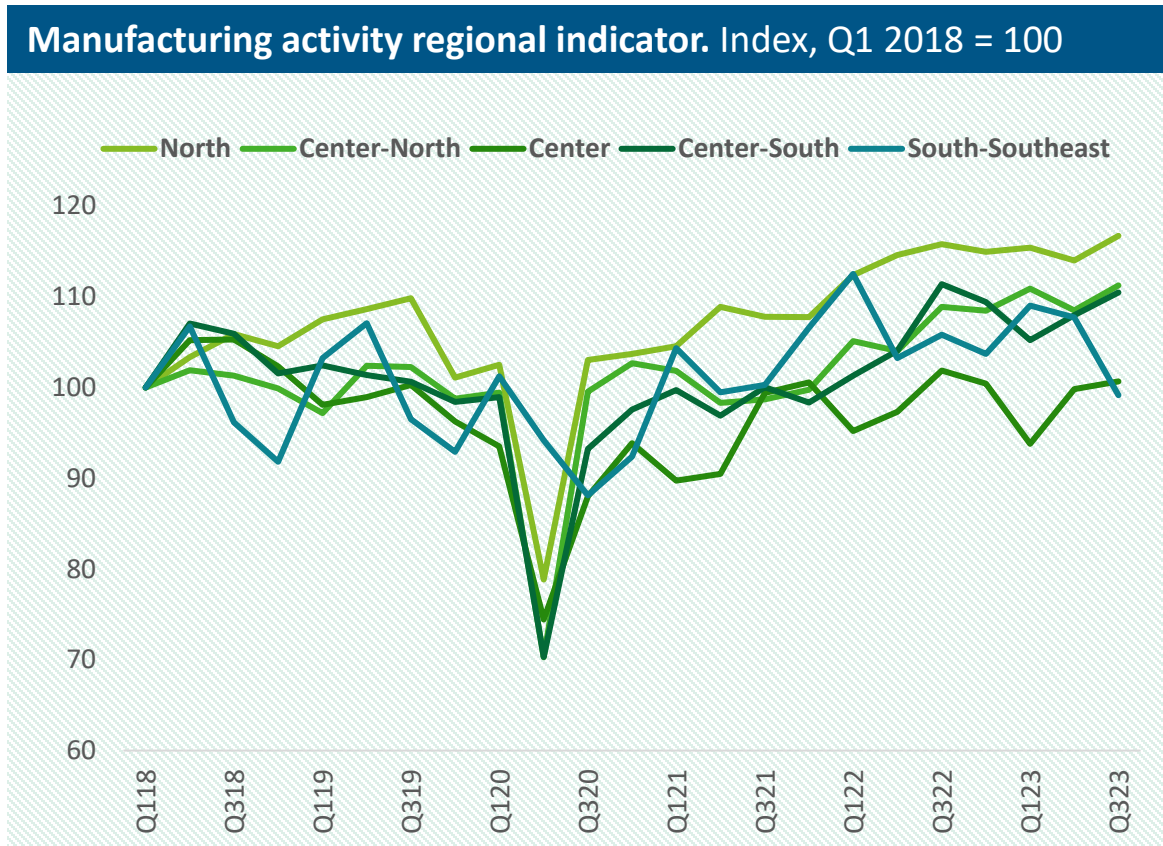
Tracker of nearshoring investments by state and main destination sectors, million USD



Source: Econosignal. We conduct a follow-up of companies that have announced that they will expand their activities or that have arrived for the first time in the country exclusively for nearshoring purposes from 2021 to 2024. As this is a manual process, we have not necessarily counted all the projects announced through nearshoring during the period of study.

The north takes the lead, but the center follows closely

Although **FDI is advancing faster in the center of the country**, both manufacturing activities and the construction of industrial buildings are growing quicker in cities close to the U.S. border or in states that specialize in manufacturing activities.

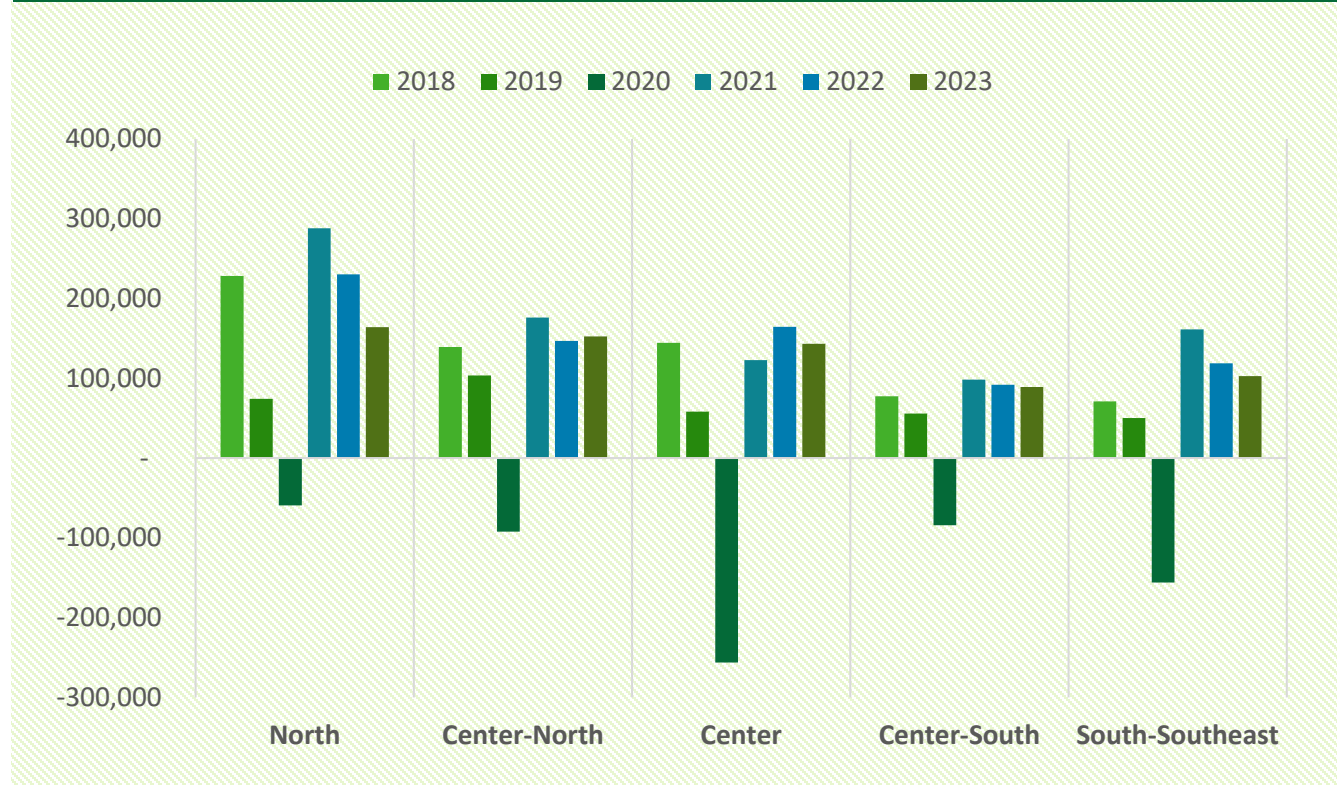


North: BC, BCS, Coahuila, Chihuahua, NL, Sinaloa, Sonora and Tamaulipas. **Center-North:** Aguascalientes, Colima, Durango, Guanajuato, Jalisco, Nayarit, SLP and Zacatecas. **Center:** Mexico City and State of Mexico. **Center-South:** Guerrero, Hidalgo, Michoacán, Morelos, Puebla, Querétaro and Tlaxcala. **South-Southeast:** Campeche, Chiapas, Oaxaca, QROO, Tabasco, Veracruz and Yucatan. | **Source:** INEGI.

Employment numbers may be misleading

The labor market has shown a strong performance across the country, but it is difficult to ascribe it to the nearshoring announcements. **Queretaro may be the only exception** with lots of positive indicators in employment, investment, and overall growth. Recently, AWS has confirmed the largest investment within the scope of our monitor in that state.

New formal job positions, annual difference



States where working population has grown the most. Annual rates

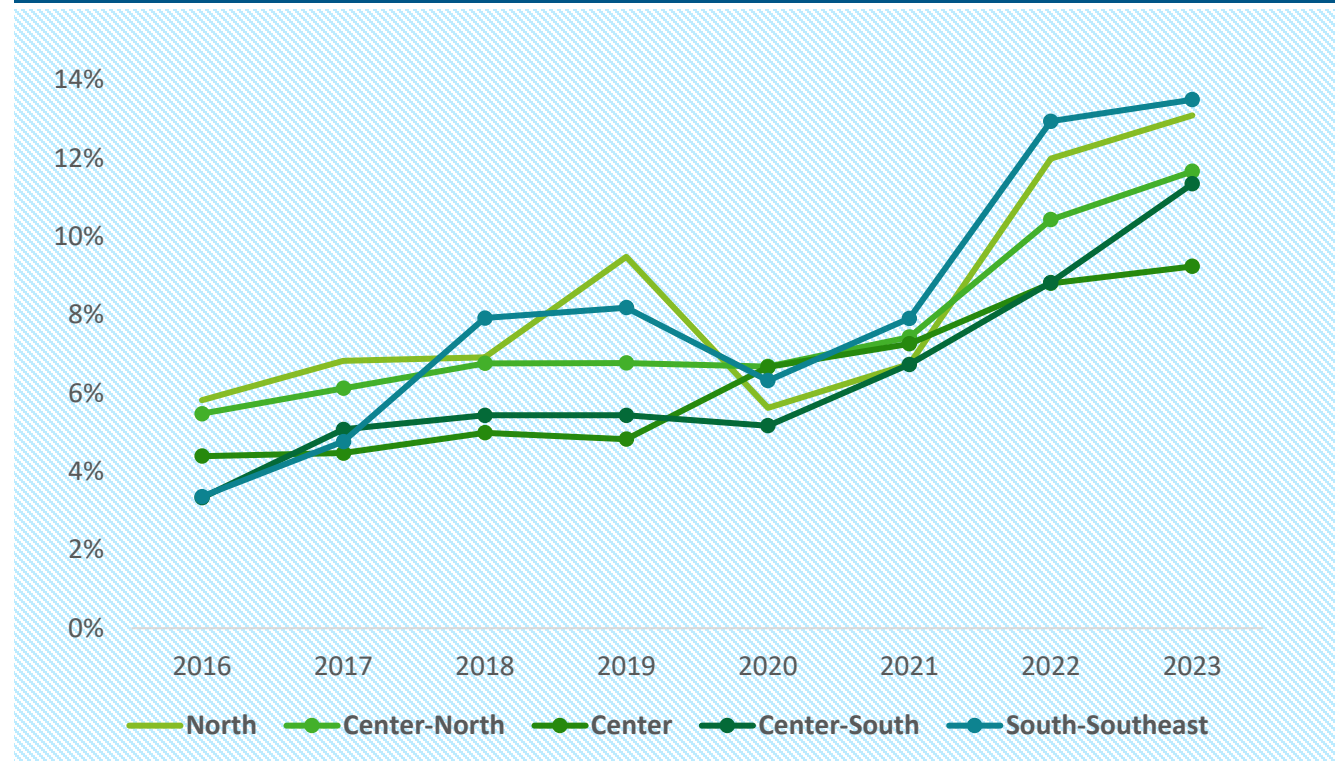
State	2022	2023	Average
Queretaro	2.9%	10.0%	6.4%
Tabasco	6.3%	6.4%	6.4%
Hidalgo	7.3%	4.6%	6.0%
Baja California S.	5.9%	5.9%	5.9%
Mexico City	7.8%	3.3%	5.6%
Quintana Roo	7.4%	3.2%	5.3%
Tlaxcala	5.0%	5.2%	5.1%
Sinaloa	4.1%	5.3%	4.7%
Guerrero	1.3%	8.0%	4.7%
State of Mexico	6.1%	2.9%	4.5%
National	3.9%	2.7%	3.3%

1. End of 2023. | **North:** BC, BCS, Coahuila, Chihuahua, NL, Sinaloa, Sonora and Tamaulipas. **Center-North:** Aguascalientes, Colima, Durango, Guanajuato, Jalisco, Nayarit, SLP and Zacatecas. **Center:** Mexico City and State of Mexico. **Center-South:** Guerrero, Hidalgo, Michoacán, Morelos, Puebla, Querétaro and Tlaxcala. **South-Southeast:** Campeche, Chiapas, Oaxaca, QROO, Tabasco, Veracruz and Yucatan. | **Source:** INEGI.

Are wages following?

Manufacturing wages have shown stronger growth in the South (potentially indicative of a catch-up effect) with the North now gaining ground. Notably, **five northern states have emerged** among the top ten for wage increases within the manufacturing sector.

Nominal annual % change in manufacturing wages























States with the highest increases in manufacturing wages. (Daily average wage, MXN).

State	2022	2023 ¹	YoY % Dif.
Chiapas	312	372	19%
Quintana Roo	357	421	18%
Guerrero	316	370	17%
Campeche	388	453	17%
Durango	327	377	15%
Yucatán	371	426	15%
Baja California	547	628	15%
Zacatecas	356	409	15%
Tamaulipas	528	605	15%
Chihuahua	508	581	14%
Nuevo León ²	555	618	11%

1. End of 2023. | 2. Nuevo León is in position number 19 in the ranking. | **North:** BC, BCS, Coahuila, Chihuahua, NL, Sinaloa, Sonora and Tamaulipas. **Center-North:** Aguascalientes, Colima, Durango, Guanajuato, Jalisco, Nayarit, SLP and Zacatecas. **Center:** Mexico City and State of Mexico. **Center-South:** Guerrero, Hidalgo, Michoacán, Morelos, Puebla, Querétaro and Tlaxcala. **South-Southeast:** Campeche, Chiapas, Oaxaca, QROO, Tabasco, Veracruz and Yucatan. | **Source:** IMSS.

Most benefited sectors

According to Banco de México, the manufacturing sectors with a higher propensity to nearshoring are **mostly related to metals or high-tech products**¹. Those sectors have exhibited higher levels of production and employment compared to how they would have performed in the absence of nearshoring².

Activity	Propensity to nearshoring (%)	GDP performance, annual % change			
		2021	2022	2023	2024 f
 Semi-conductor and other components	 100%	11.0	4.0	3.4	2.8
 Office furniture	 83%	14.6	13.2	-4.8	1.4
 Agriculture, construction and mining machinery	 78%	18.0	2.6	-0.2	2.3
 Steel products	 78%	9.7	6.2	5.1	3.4
 Other fabricated metal products	 73%	18.3	0.5	-3.3	1.9
 Metalworking machinery	 58%	43.1	-0.9	-19.1	3.0
 Paper products	 57%	9.6	2.8	-3.8	3.3
 Foundries	 55%	15.9	10.7	2.0	3.0
 Nonferrous metal products (ex. aluminum)	 54%	6.5	0.8	-0.2	0.6
 Computer and peripheral equipment	 48%	7.2	33.9	7.1	5.7
Total manufacturing activity		9.3	5.6	2.4	3.0

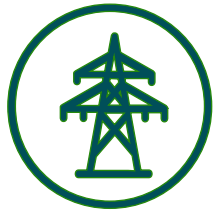
1. The index was calculated by analyzing Google search results for 'nearshoring' alongside the name of each manufacturing activity and the word "Mexico". The resulting count was divided by the total searches combining the sector and 'nearshoring.' Data from January 2015 to May 9, 2023, was considered to capture and reflect trends over a representative period. This approach provides a relative measure of interest in nearshoring in each sector, offering a concise and up-to-date insight into trends. | 2. A counterfactual scenario was constructed based on how the sectors would have performed in the absence of nearshoring. | **Source:** Banco de México with data from Google and the Monthly Manufacturing Industry Survey, INEGI. GDP forecasts are from Econosignal.



Challenges ahead: a tight energy market

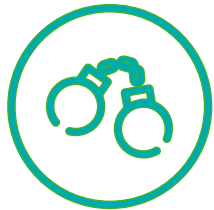
Barriers to new investments

To make the most out of the nearshoring megatrend, **Mexico must overcome several challenges.** In this issue of our quarterly report, we analyse some features related to **the energy problematic.**



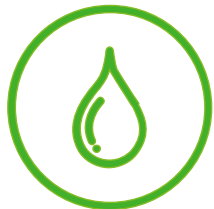
Energy

Mexico must ensure sufficient generation and supply capacities, in addition to increasing the availability of clean energy sources.



Crime

The country is going through a severe insecurity crisis that could keep investors away; highway robberies constitute a direct risk to merchandise trade.



Water supply

In 2024 there have been unprecedented water shortages, the problem is most acute in the north of the country, where a large portion of the manufacturing industry is located.



Human capital

Although the labor market is one of the strongest aspects of the economy, there are still doubts about whether the supply of skilled labor will be sufficient to cover the needs of incoming companies.



Currency appreciation

The Mexican Peso is the currency that has appreciated the most in the last two years, which could significantly increase the cost of new investments and exports.



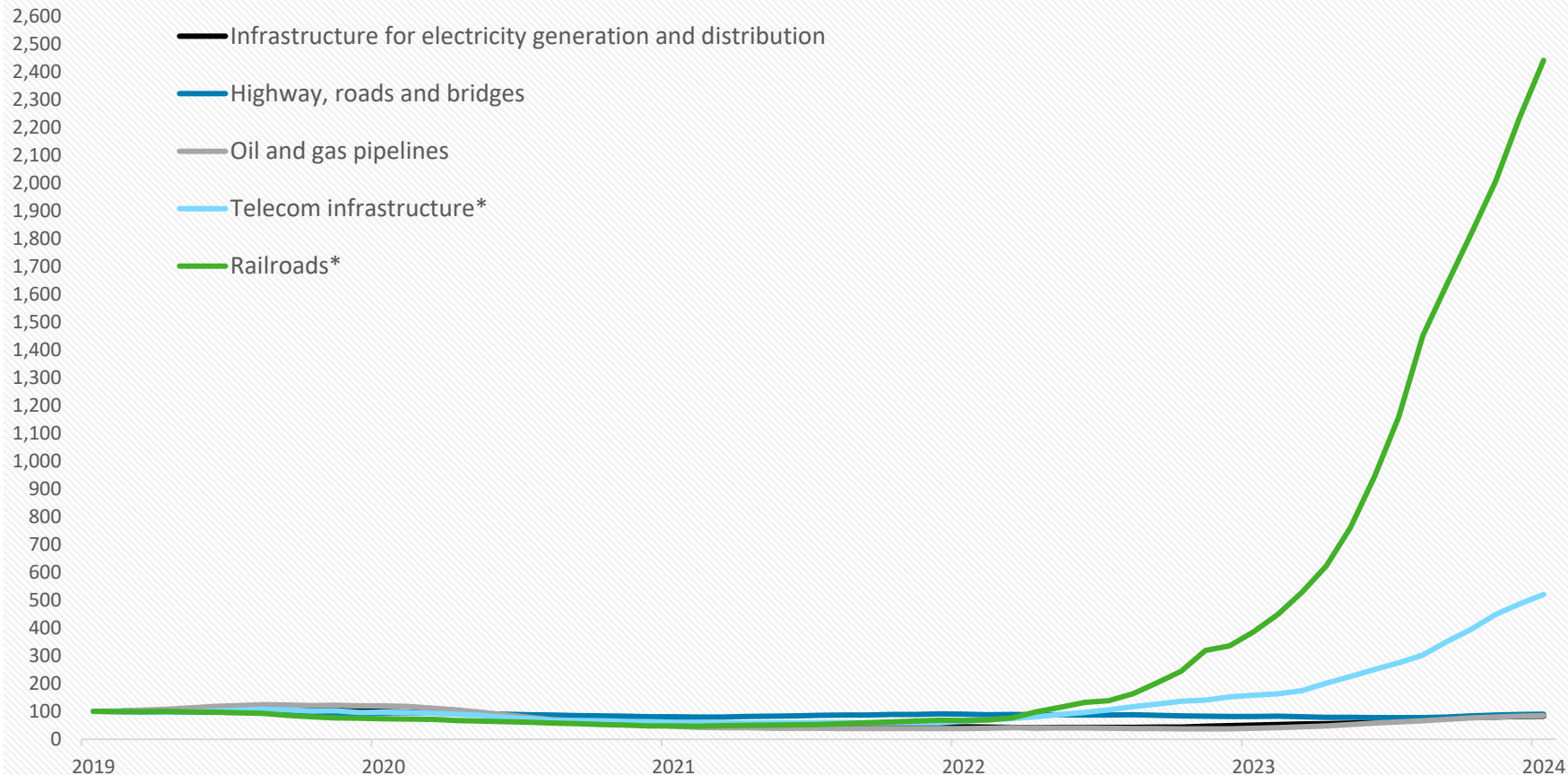
Regional disparities

Mexico's insertion into international trade generated a great disparity in the development of its regions; for nearshoring to be truly successful, it will have to contribute in more equitable manners.

Infrastructure in Mexico

Investment on new energy facilities, roads, and water supply, among others, is necessary to guarantee the sustainability of the increase in the production that will come with the arrival of firms from abroad. In the past years, these areas have not been much of a priority for public resources as can be seen through the construction figures. **Electricity is one of the least favored fields.**

Construction of infrastructure in Mexico. Index, January 2019 = 100



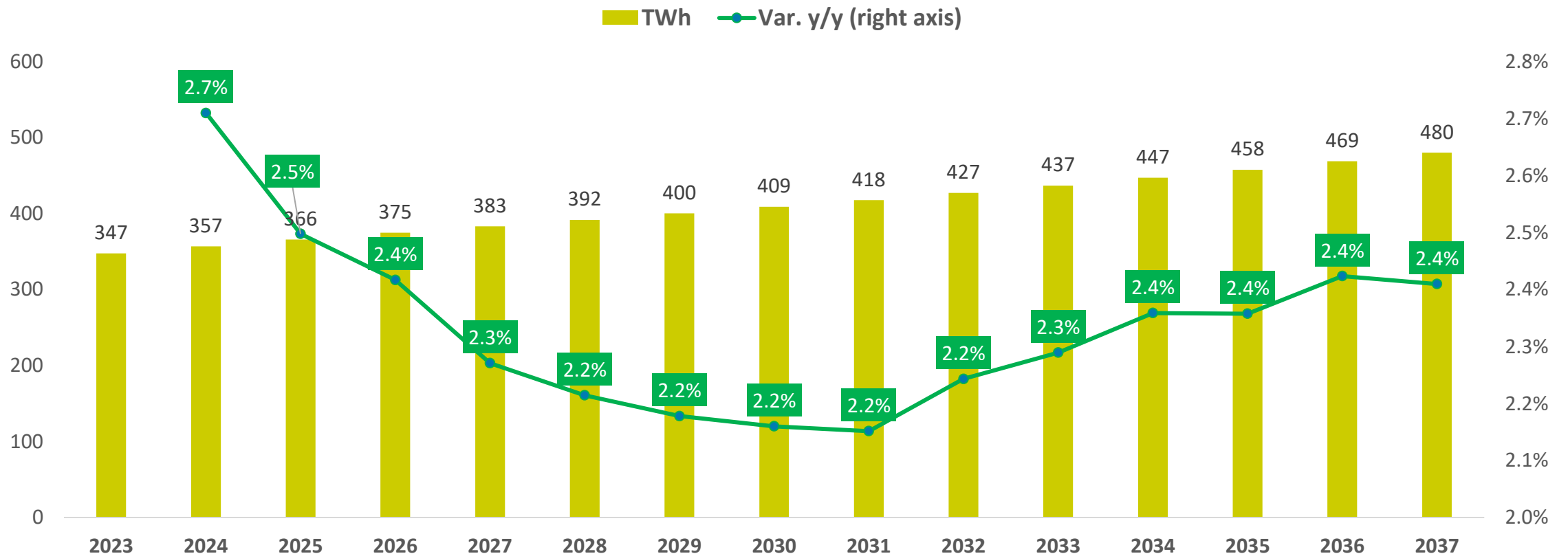
Variation 2021 - 2023 (% change)	
Railways	3,066
Telecom infra. ¹	528
Oil plants and refineries	351
Water and drainage systems	124
Oil and gas pipelines	112
Dams and irrigation works	109
Seaports and river infra.	73
Infra. for electricity	52
Transport works in cities and urbanization	24
Highway, roads and bridges	-11

*Most of this trend is explained by the construction of Tren Maya. | Source: INEGI.

Energy consumption

Energy consumption in Mexico is set to increase from 347 TWh in 2023 to 480 TWh in 2037, the implied average annual growth rate is of 2.3%. **Will it be enough energy for fulfilling the nearshoring potential?** For now, legal uncertainties faced by private participants in the sector could complicate the matter.

> Net Consumption Forecast 2023-2037 (TWh) and Annual Variation (%)

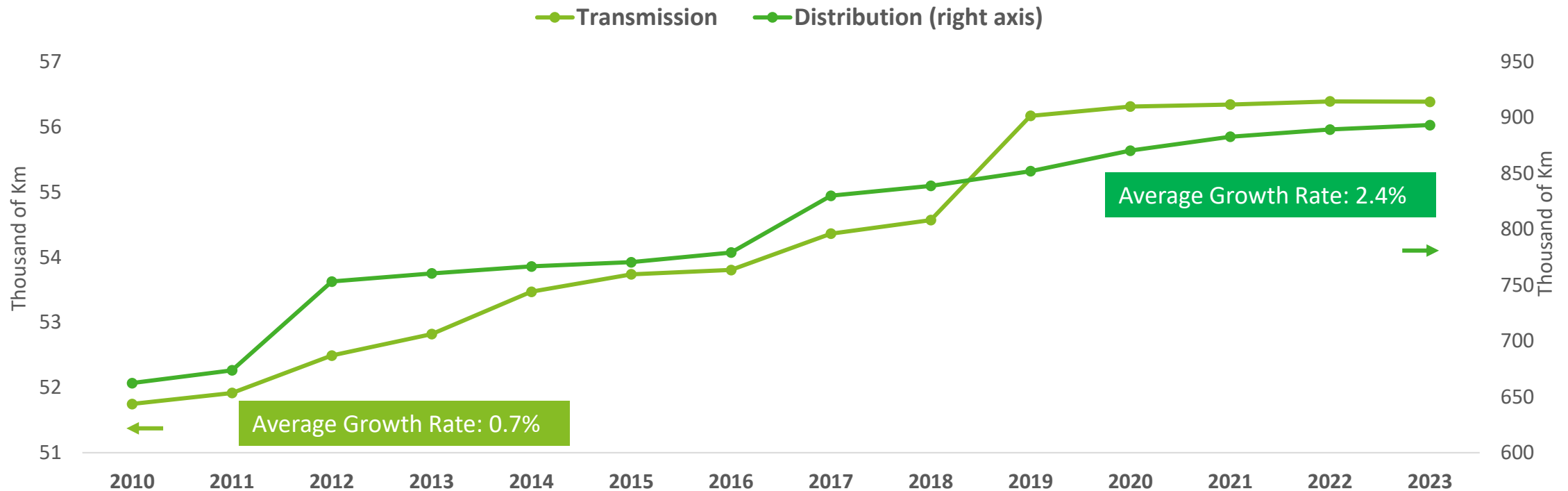


Sources: PRODESEN, EMIS, EIU.

Transmission and Distribution of Electric Power

Generation issues apart, the lack of other types of electric energy infrastructure is a major hurdle for nearshoring. In 2022, 73.2% of operational alerts were due to a lack of infrastructure in the National Transmission Network, which along with the Distribution Network, has remained static in the past 5 years.

Transmission and Distribution Network 2010-2023 (Km)*



Fuentes: PRODESEN, PAMRNT 2023- 2027, EMIS, EIU.

1. In the Operational Alert State, all the variables of the SEN are still within their operational limits. However, in the event of a Contingency, the SEN may remain stable without the action of the supplementary control schemes, or it may be led to the Emergency Operational State in which the system is at potential risk of instability.

2. PAMRNT 2023-2027, CENACE.

Manufacturing regions are among the most vulnerable

Out of the 1,321 operational alerts in 2022, the Malpaso-Tabasco (14.4%), Ensenada (13.4%), and Tijuana (13%) zones registered the highest frequency of events. These regions are **significant hubs for manufacturing and trade**. The data underscores the critical need for infrastructure upgrades to support rising activity connected to nearshoring, especially within these key zones.

> Origin of operational alerts in 2022

1	Malpaso – Tabasco	14.4%
2	Ensenada Zone	13.4%
3	Tijuana Zone	13.0%
4	North - North east	11.3%
5	Salamayuca – Moctezuma	10.9%
6	Piedras Negras Zone	10.4%
7	Monterrey - South 2	9.2%
8	Los Mochis – Guamúchil	8.9%
9	Mazatlán - Tepic	8.5%



Sources: PAMRNT 2023- 2027, CENACE.

Final remarks, what is truly happening?



- ✓ There are **changing patterns in the international trade**, and, at first glance, Mexico is one of the natural candidates to gain a **larger integration** with the United States and the world.
- ✓ However, after a couple of years since the word *nearshoring* began resonating in the media and business environment, investment and trade **statistics have changed little** within the country.
- ✓ The **sectors and regions most connected to the outside world** live a booming period, but it is difficult to argue that what is happening is any different to what the Mexican economy has experienced in past years.
- ✓ To go from the dream to the reality, the country needs to address a number of structural challenges, **including energy generation and transmission**, which is facing a true test with the surge in demand.

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