

Manufacturers
ALLIANCE

Nearshoring Trends & Freight Outlook 2024

Influencing Mexico's Logistics Landscape

Presented by:



Agenda



Introductions

- Mauro González – Chief Synergy Officer & President, On-Demand
- Micah Holst – Chief Commercial Officer & President, Forwarding

What is Driving Nearshoring?

Mexico's Competitive Advantage – Nearshoring Hub

Current and 2024 Freight Market Outlook

- Ocean
- Air
- Ground
- Crystal Ball – Freight Market Pricing

Q&A



Recent Drivers of Nearshoring



US/China – Tariffs

Tariffs imposed by the United States in 2018 have caused some businesses to look for alternative markets to reduce costs.

NAFTA vs USMCA (2020)

The United States-Mexico-Canada Agreement increased regional value content requirements for products to be made in North America, giving producers an incentive to relocate their supply chains.

Technology

Uptick in e-commerce is changing the way companies manage their supply chains as they are closer to their customers.

COVID-19

The rapid spread of COVID-19 led to closing of borders globally which impacted the availability of goods and delivery times during a time when the demand for various products increased.

Disruptions to logistics

The availability of equipment globally and the increase in the cost and reliability of transport due to multiple factors.

Geopolitical tension

Russia-Ukraine & Israel-Palestine war
US/China/Taiwan

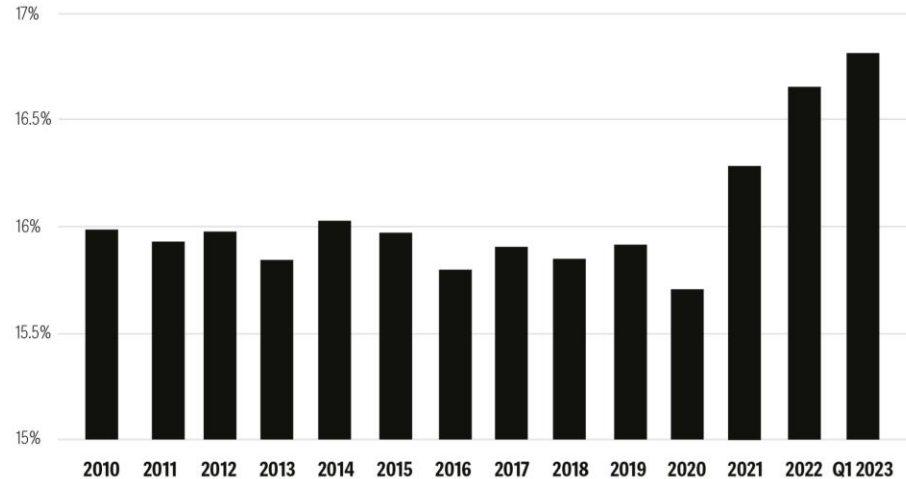
Climate Change

Natural disasters are becoming more and more normal – need to be closer to markets

Mexico Economic Growth



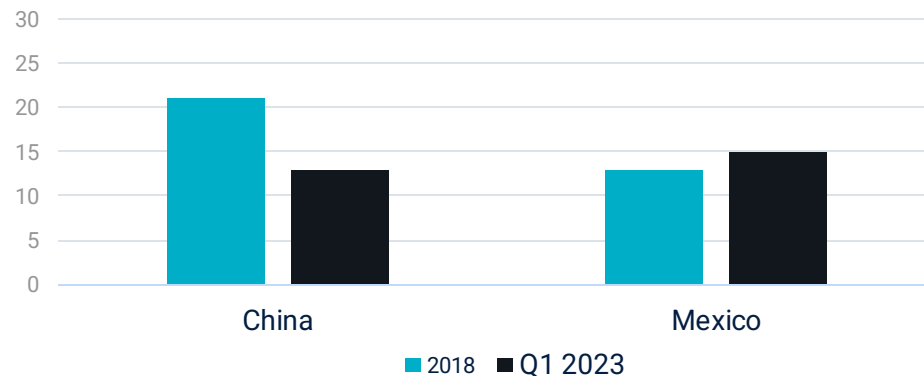
Mexico's manufacturing production as percentage of the GDP



Source: National Institute of Statistics and Geography.

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Mexico has grabbed a portion of the share lost by China



- Once-in-a-generation opportunity for Mexico
- Can supercharge the country's economic growth across different sectors
- Can add an additional 3% to its GDP in the next five years
- Higher demand from the global market has caused an acceleration of manufacturing production in Mexico
- In 2022, it grew 5.2% annually, significantly higher than the previous 10-year average (+2.3%)

Spreading the Love



China had been a go-to hub for U.S. manufacturers, but US/China relations and tariffs have been pushing trade towards other countries (Vietnam, Mexico, India gained most)

Commodity	Total US Imports			Country wise Changes (2018 v LTM August 2023)			
	2018 (\$B)	LTM Aug 2023 (\$B)	Change (%)	China 🇨🇳	Vietnam 🇻🇳	India 🇮🇳	Mexico 🇲🇷
				Chg. %	Chg. %	Chg. %	Chg. %
Apparel & Textiles	\$116	\$116	0%	(32%) ▼	23% ▲	20% ▲	5% ▲
Automotive & Transportation Parts	\$340	\$400	18% ▲	(8%) ▼	168% ▲	1% ▲	32% ▲
Chemicals & Allied Industries	\$233	\$331	42% ▲	27% ▲	112% ▲	58% ▲	64% ▲
Computer & Electronics	\$363	\$447	23% ▲	(21%) ▼	213% ▲	474% ▲	34% ▲
Food & Beverage	\$151	\$210	39% ▲	(24%) ▼	3% ▲	12% ▲	64% ▲
Footwear, Headgear & Others	\$32	\$35	9% ▲	(22%) ▼	45% ▲	31% ▲	68% ▲
Furniture	\$67	\$65	(2%) ▼	(46%) ▼	110% ▲	50% ▲	25% ▲
Leather Goods	\$15	\$15	1% ▲	(57%) ▼	27% ▲	30% ▲	46% ▲
Mechanical & Electricals	\$379	\$446	18% ▲	(26%) ▼	381% ▲	89% ▲	32% ▲
Metals, Parts and Products	\$139	\$169	21% ▲	(15%) ▼	76% ▲	88% ▲	50% ▲
Misc. Goods & Manf. Products	\$476	\$586	23% ▲	2% ▲	187% ▲	25% ▲	32% ▲
Plastics & Rubber products	\$86	\$103	20% ▲	(9%) ▼	230% ▲	90% ▲	51% ▲
Wood & Pulp Products	\$47	\$53	12% ▲	(33%) ▼	204% ▲	121% ▲	52% ▲
Others	\$104	\$125	20% ▲	37% ▲	450% ▲	63% ▲	19% ▲
Total	\$2,548	\$3,102	22%	(19%)	117%	52%	36%
LTM Aug 2023 US Imports (\$B)				\$438	\$111	\$83	\$468

Key nearshoring trends:

- Over the past 5 years (2018 to Last Twelve Months ending June 2023), overall imports into the US increased by 22%. However, imports from China decreased by 19% from \$543B to \$438B
- Vietnam, Mexico, and India** have been the biggest gainers
 - Vietnam has seen 117% increase to reach \$111B; Mechanical and electricals are flourishing the most in this region
 - Imports from Mexico increased by 36% to \$468B (which is now more than China); Footwear, Headgear & Others have seen biggest increase in Mexico
 - Imports from India have seen a consistent growth across industries, overall increase of 52% in imports into US to \$83B

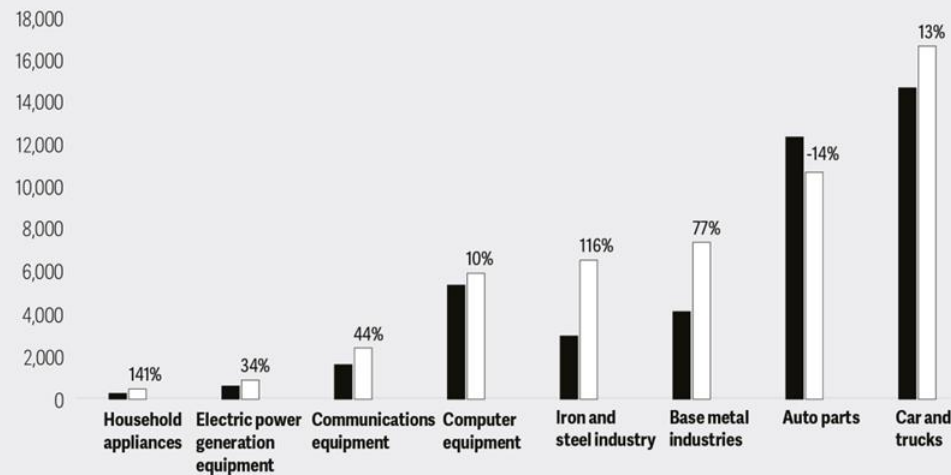
Mexico – Manufacturing by Sector



Manufacturing foreign direct investment in Mexico

Cumulative figures between 2013–2017 and 2018–Q1 2023 (US\$ M)

● 2013–2017 ○ 2018–Q1 2023



Notes: Only the sectors that witnessed the highest increase in their flows between 2018 and Q1 2023 and that also exceed US\$100 million are included. We have included "auto parts" due to its relevance to the present analysis.

Source: Ministry of Economy of Mexico.

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Manufacturing activity growth in Mexico, by sector

Cumulative progress from Q1 2018 to Q1 2023



Source: National Institute of Statistics and Geography.

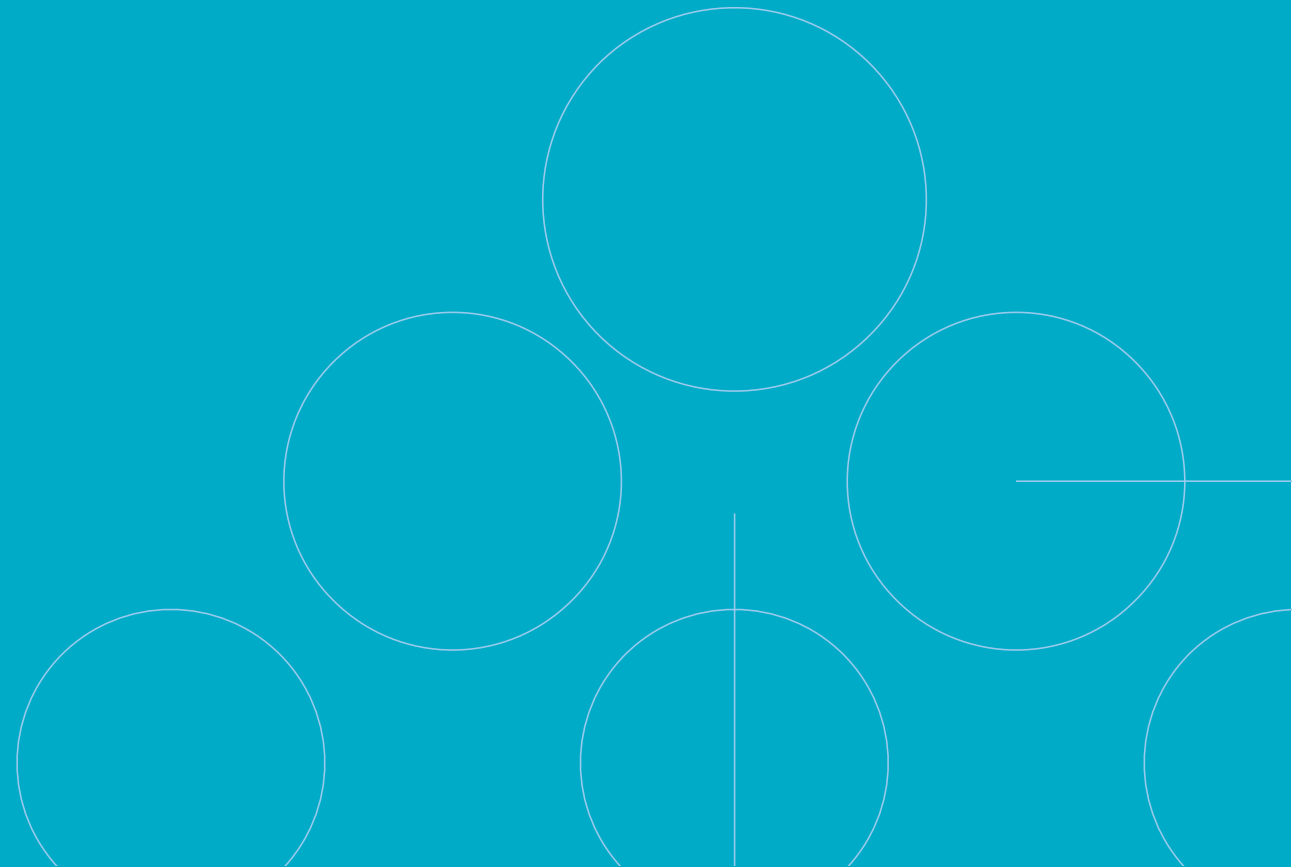
- Estimated manufacturing property demand for 2023/24 is up nearly 80% from the previous year, particularly in the auto, electronics, and machinery sectors.
- The central car-making region known as El Bajío is attracting multinational interest due to its labor pool, logistics, and strong infrastructure.
- Mexico attracted around \$29 billion in foreign direct investment in the first half of 2023, up 5.6% from 2022, with over half in the industrial sector.
- The Tesla electric vehicle factory in northern Mexico has attracted \$1 billion in Chinese investments to nearby industries.

Nearshoring Opportunities & Challenges



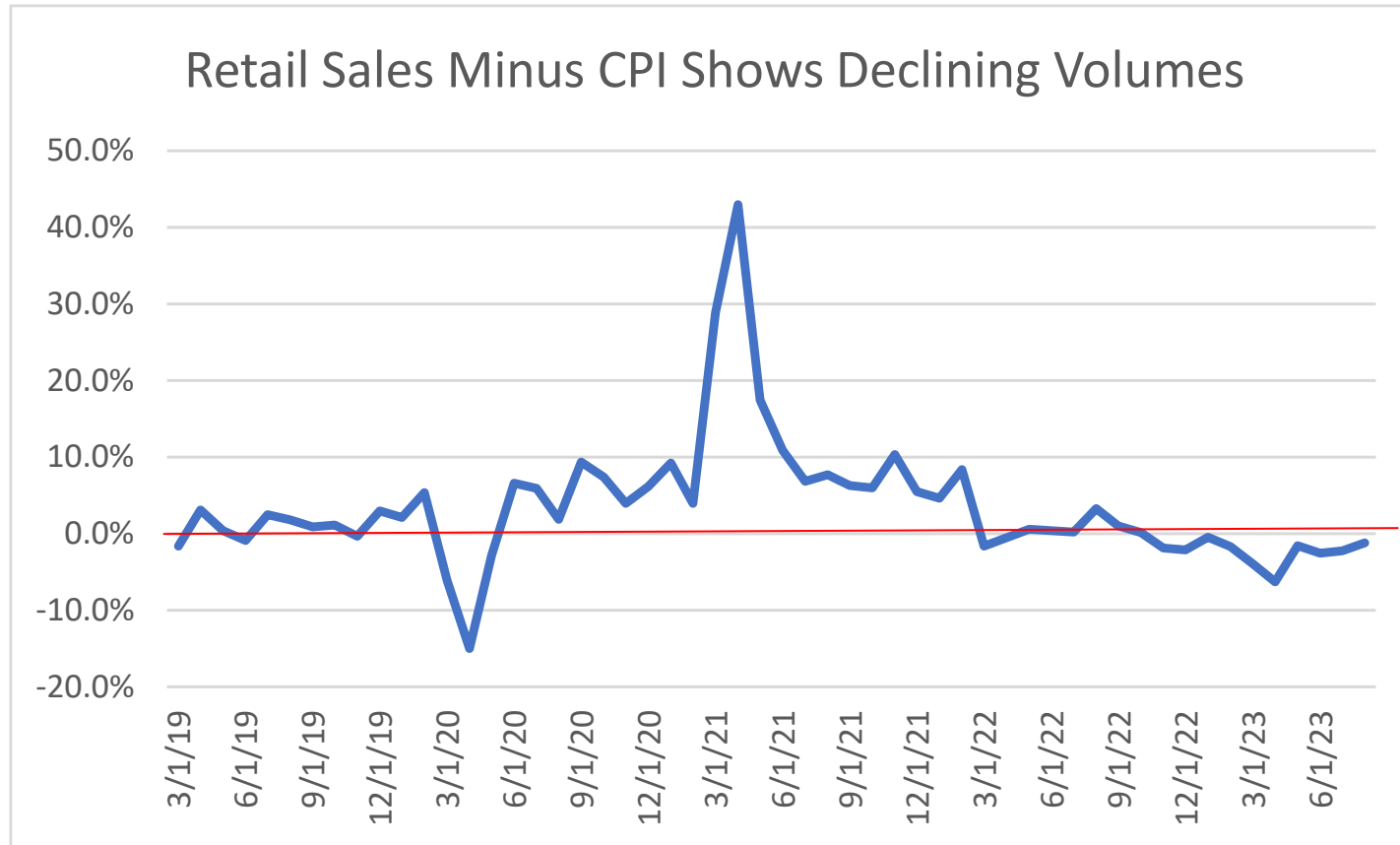


Current & 2024 Freight Market Outlook



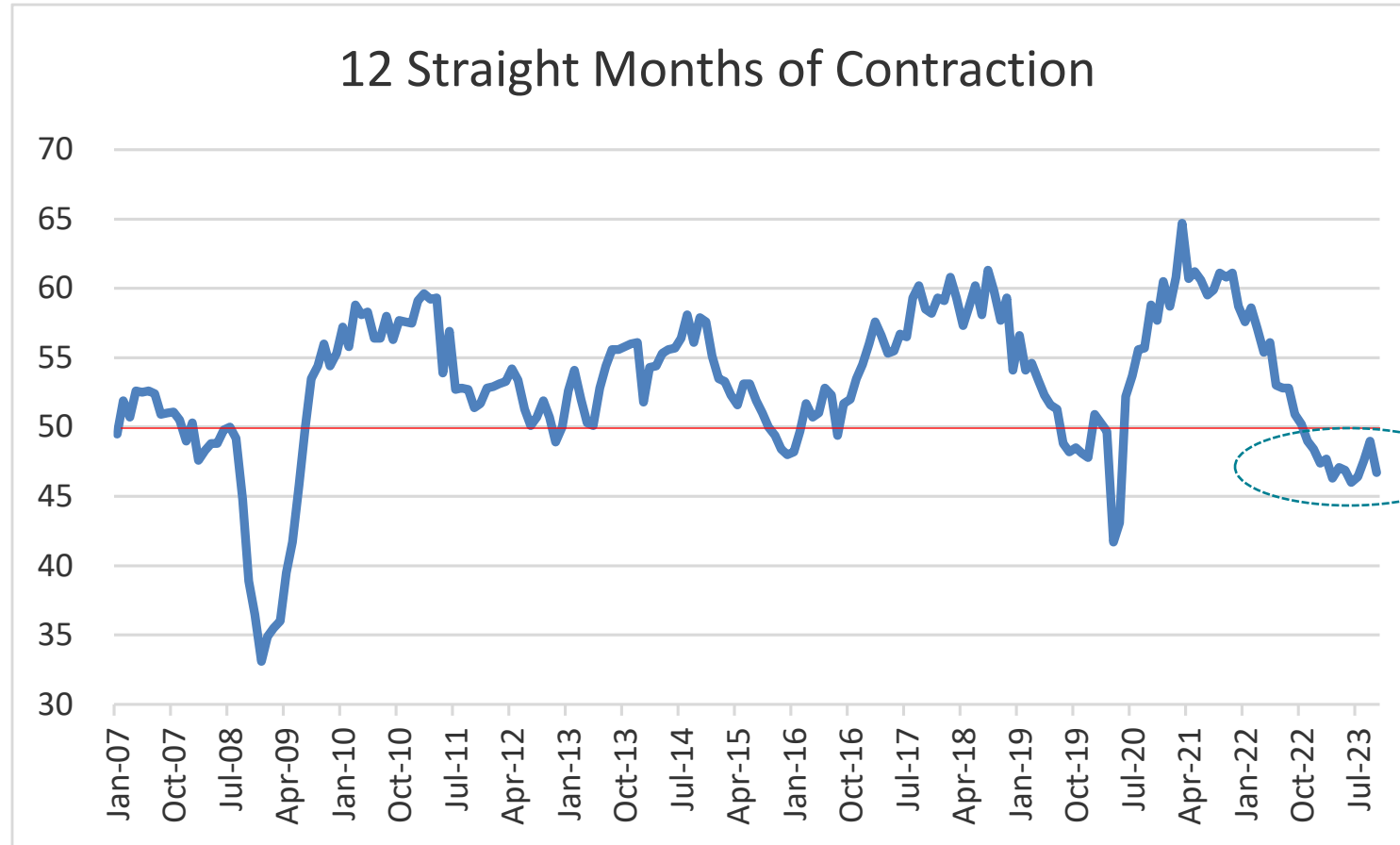
Retail Freight Volumes Lower due to Inflation

despite growth in headline retail sales



Source: Federal Reserve Bank of St Louis

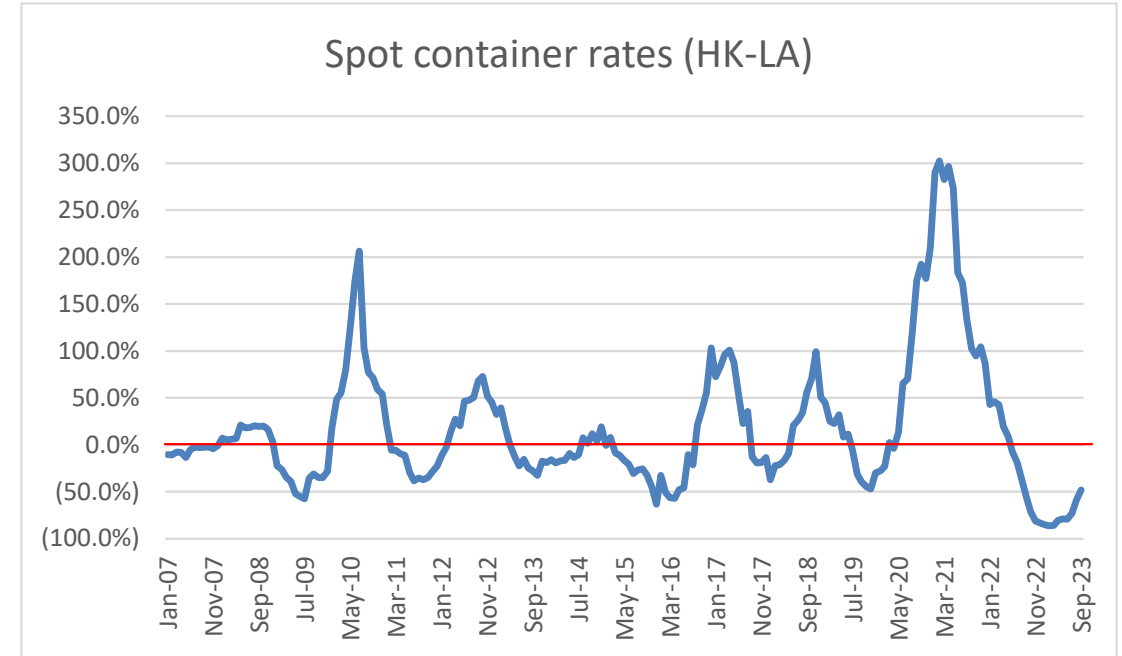
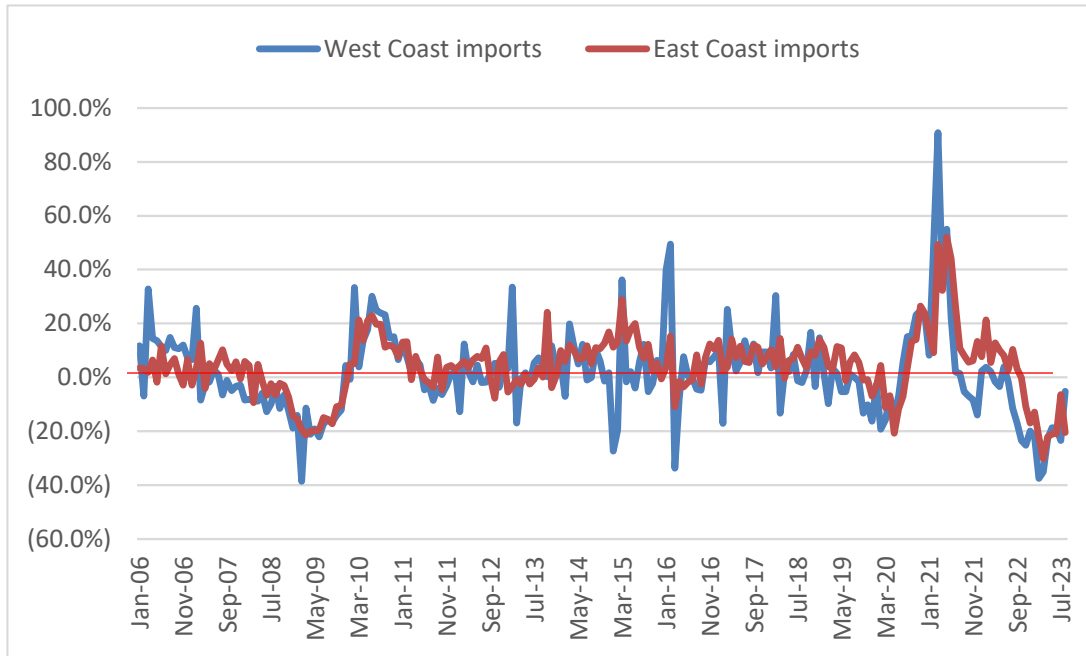
Manufacturing in Mid-Cycle Slowdown



We've only seen a shallow downturn, not indicative of a broad or deep recession (usually <40) and expect ISM >50 again in Q124

Container Rates Down 77% from Recent Highs

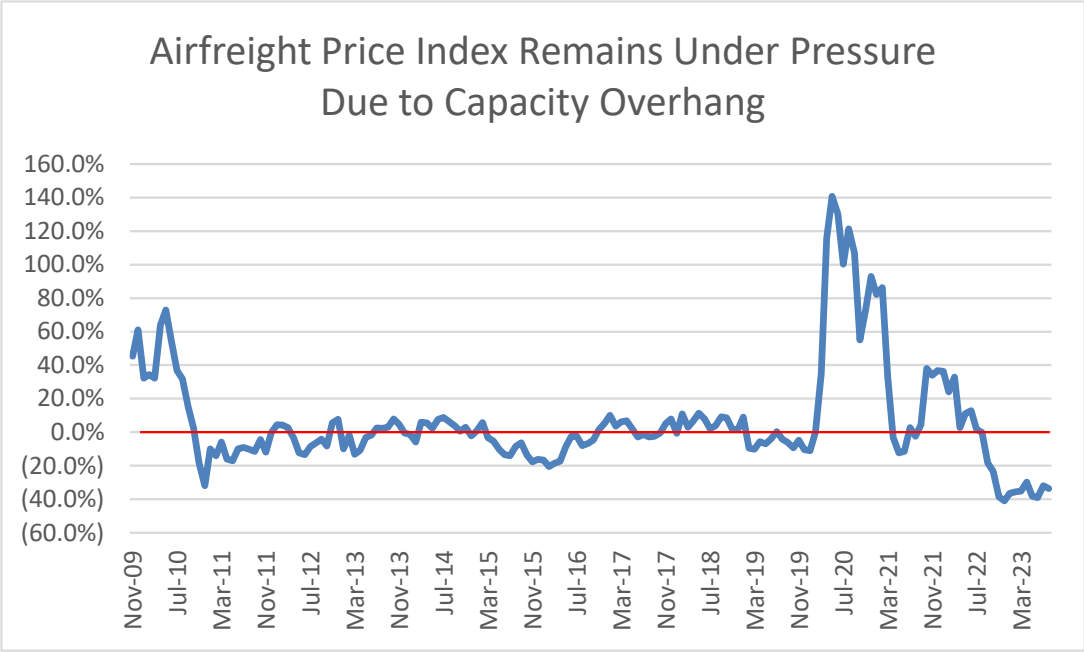
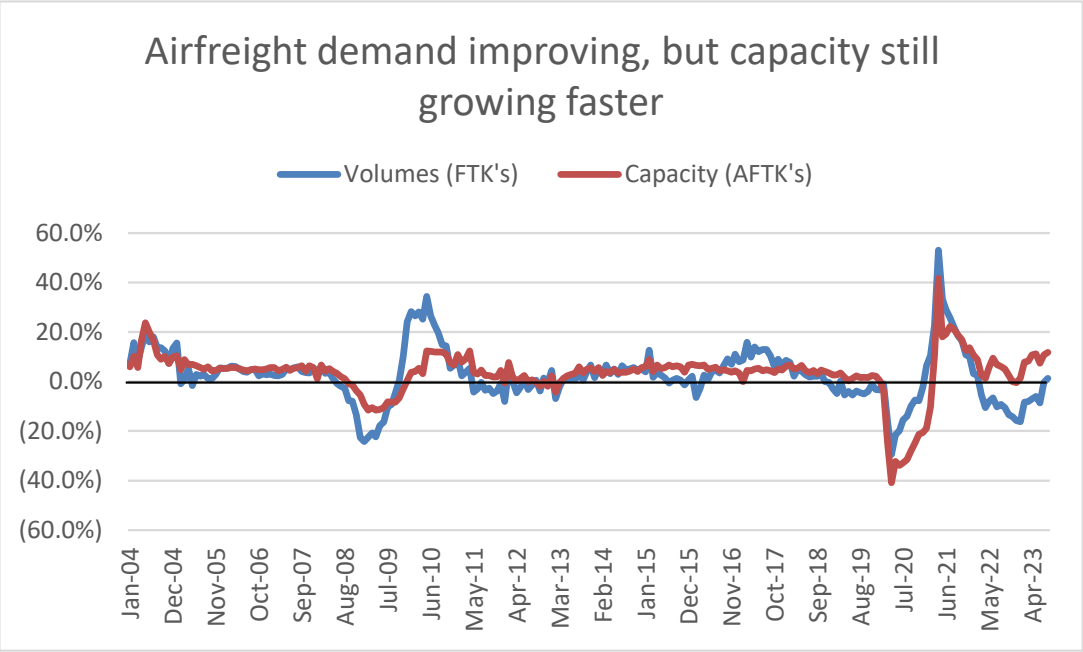
more in-line with 2015-H120 levels



Source: Ports of LA, Long Beach, and Oakland, Ports of NY/NJ, Savannah, Charleston, and Norfolk.
Drewry Shipping Consultants London

International Airfreight Looking to Find a Bottom

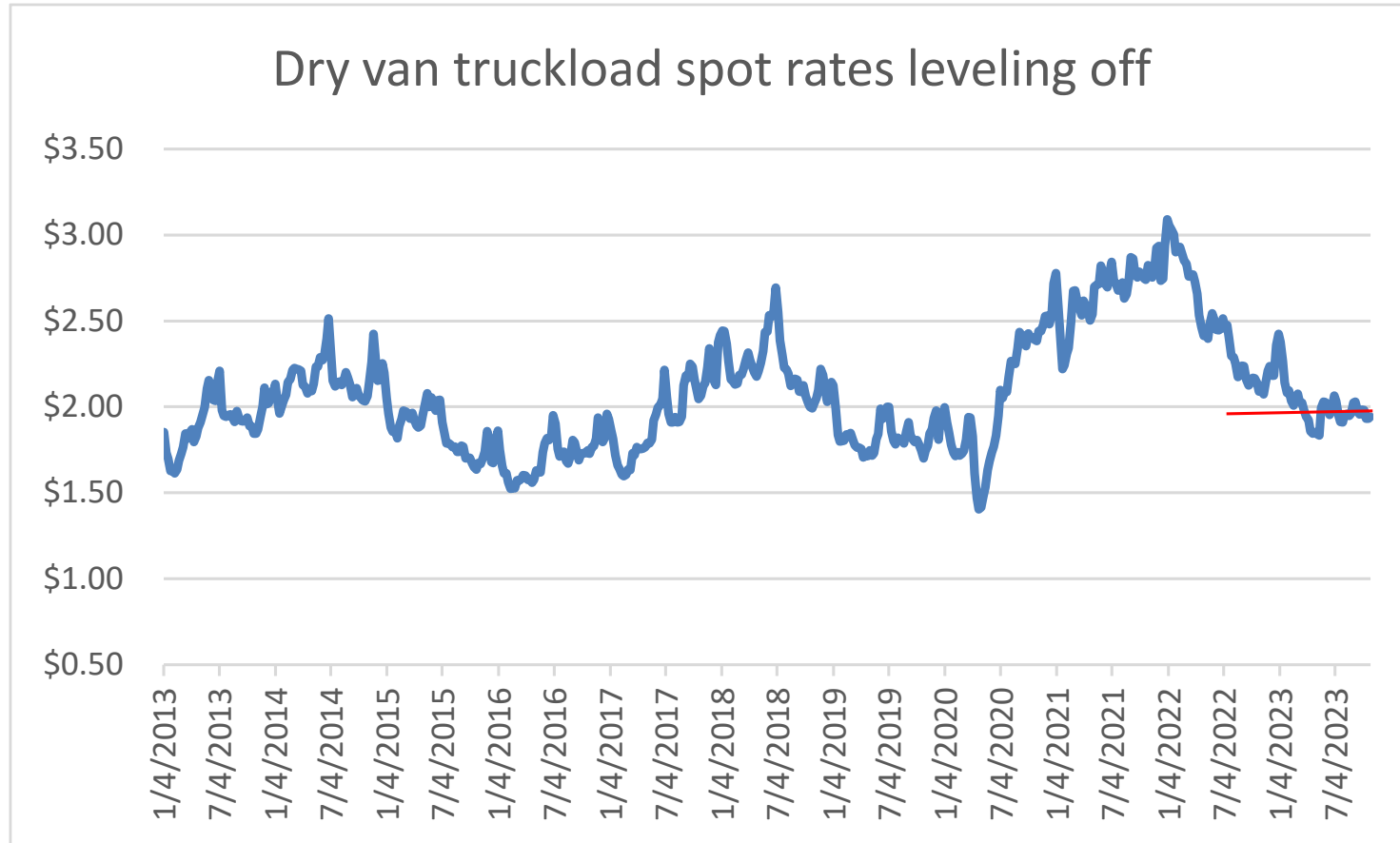
demand slowly improving



Source: Drewry Shipping Consultants London

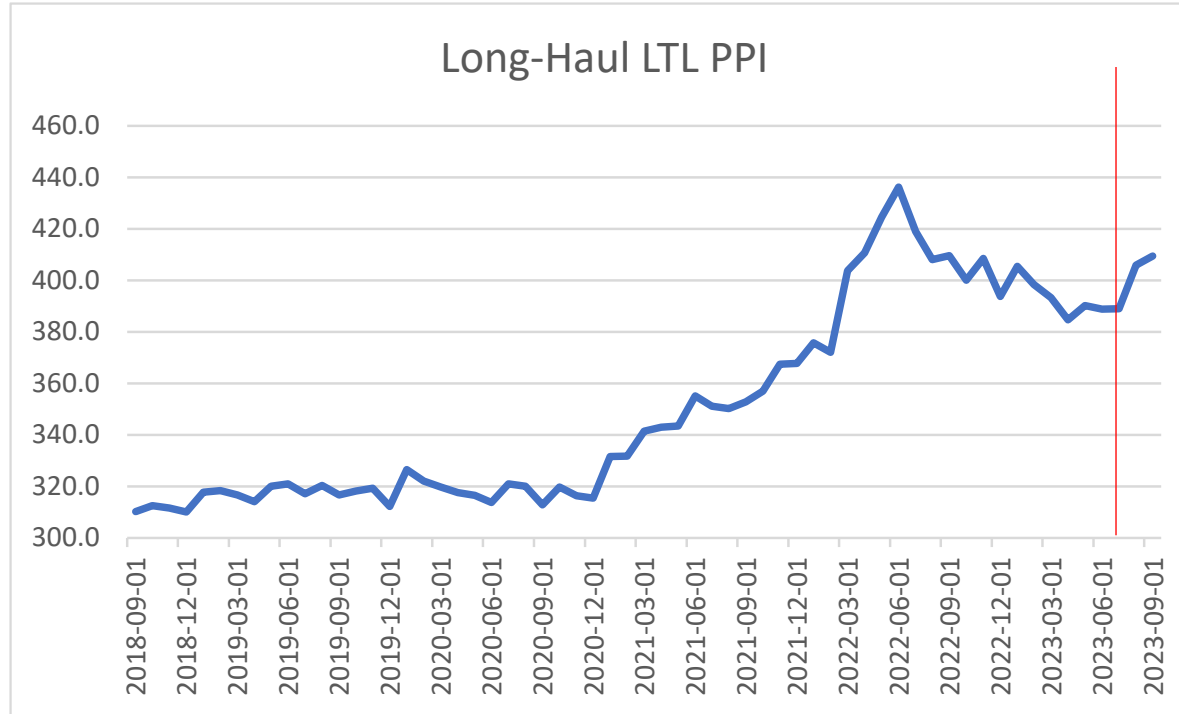
Trucking Supply Still Shaking Out

reaching an equilibrium



Spot TL rates have been harder hit than contract rates (which are still falling), but they appear to be finding a new base. We've seen meaningful capacity exits in 2023, and absent another drop in demand, rates should firm again in 2024.

LTL Pricing Boosted by Loss of Yellow



Yellow on brink in July 2023,
files bankruptcy early
August

Source: Federal Reserve Bank of St Louis

2024 Rate & Volume “Crystal Ball”



Our below volume and (contract) pricing forecast for next year assumes some level of stability in the freight markets with an eye toward slight volume improvement

	Volume growth	Rate increase
Airfreight (international)	(5%)-5%	(10%)-10%
Ocean freight	(1%)-3%	(5%)-5%
Truckload	(1%)-2%	(5%)-5%
LTL	0%-3%	4%-6%
Parcel	(2%)-3%	3%-5%
Rail	0%-3%	3%-4%
Intermodal	0%-3%	(5%)-5%

Source: Ascent Global Logistics estimates

2024 Freight Outlook



Q4 should be soft

- Muted peak this year. Don't expect much pick-up in demand between now and year-end

Economy in 2024 – likely flat

- Broader recession is possible – watching consumer and interest rates
- Forecasters expecting GDP growth of ~1% next year
- Election is certain – any potential change in administration creates uncertainty
- Chaos seems normal, so have contingency plans for best (upside) and worst (downside) cases

Freight trends should *now* be in line with the economy

- After underperforming the overall economy in 2022-23 due to the downside of the pandemic-induced freight bubble
- Retail is coming under pressure, while manufacturing is likely to emerge from a mid-cycle slowdown
- Pricing is mode-dependent, as overcapacity still looms heavy in ocean freight and truckload

Potential Known Challenge on the Horizon - ILA (USEC & Gulf ports) Labor Negotiation in 2024

ILA President Harold Daggett warns of a coast-wide strike in October 2024. This could be the first major labor disruption on the US East and Gulf coasts since 1977.

Q&A

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