

Ford announces production investments in Mexico and South Africa

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Ford continues to invest in its global production footprint.

Ford announced two plant investments on 5 April. One announcement covered an expected all-new plant in Mexico, the other an expansion of existing facilities in South Africa.

In Mexico, Ford will invest USD1.6 billion in an all-new plant in the state of San Luis Potosi, and the announcement had largely been expected. Ford will build the all-new plant for production of small cars. In a statement, Ford said construction of the new plant will begin in mid-2016, with production beginning in 2018. By 2020, the plant should create 2,800 new jobs. While Ford did not confirm the vehicles it plans to build, or which markets the plant will serve, the company noted that its existing Mexican production is exported to the United States, Canada, China, Argentina, Bolivia, Brazil, Colombia, Chile, Paraguay, Peru, Uruguay, and South Korea. In media interviews relating to the announcement, Ford's president of the Americas, Joe Hinrichs, said the investment would "improve the profitability of our small-car line-up", and noted that "Mexico has more competitive labour costs, supplier costs, good logistics, good support from the government. But importantly also, as part of our global manufacturing footprint, Mexico is a good shipping location to many countries around the world with their trade agreements." Hinrichs also said the investment is consistent with discussions Ford has had with the United Auto Workers (UAW) union, which represents Ford's US manufacturing workforce, though the UAW has issued statements against the investment.

Regarding the Silverton Assembly Plant in Pretoria, South Africa, Ford's USD170-million investment is expected to create 1,200 new jobs. The investment will enable the plant to produce the all-new Everest seven-passenger sport utility vehicle (SUV), as well as prepare the plant for production of the latest Ranger pick-up. The Pretoria plant currently builds the previous Ranger, and the Everest is an additional model for the plant. Ford's announcement also indicated that the Everest will be exported to sub-Saharan Africa countries. "By producing the Everest in South Africa, we will be able to make it more readily available, and in a greater variety of models, for customers throughout sub-Saharan Africa. The ZAR2.5-billion investment reaffirms the importance of these markets as part of our growth strategy across the Middle East and Africa," said Jim Farley, Ford executive vice-president and president of Europe, Middle East and Africa, in the statement.

Production of the Everest in Silverton is scheduled to begin in the third quarter of 2016, ahead of fourth-quarter sales. The Everest is also built at Ford's AutoAlliance facility in Rayong, Thailand; its Chennai plant in India; and the JMC Xiaolan plant in Nanchang, China. Local production will also enable Ford to offer the 2.2-litre Duratorq TDCi 4-cylinder diesel engine in the SUV; currently, sub-Saharan Africa's supply is imported from Thailand and only the 3.2-litre 5-cylinder Duratorq TDCi engine is offered. Both engines are already produced at Ford's Port Elizabeth engine facility in South Africa.

Outlook and implications

Ford continues to invest in its global production footprint. Among the benefits of the new plant in Mexico will be increased export potential, as Mexico has more free trade agreements than the US does, as well as production of lower-margin vehicles in plants with lower operating costs. As is happening with other automakers, investment into production in Mexico is largely for small cars or small SUVs. The South African investment supports Ford's efforts to grow in Middle Eastern and African markets.

The Mexican announcement is part of a wider Ford effort to leverage its US production base for vehicles that can typically command higher profit margins and install production of lower-margin vehicles at plants with lower operating costs. With the announcement, Ford underlined its USD10.2-billion investment and 25,000 new jobs created in the US since 2011, as well as its commitment to invest USD9 billion more over the next four years in its US footprint. In 2015, Ford produced 14% of its North American production in Mexico, 80% in the US and 6% in Canada.

According to the IHS Automotive forecast, Ford's investment will increase its production in Mexico from about 433,000 units in 2015 to about 725,000 units in 2018 and 818,000 units in 2020, including both the new facility in San Luis Potosi and the existing Cuautitlan and Hermosillo facilities. Our forecast projects that the new products will include C-segment hybrid and fuel-cell EV models, as well as the next-generation Focus. Ford's overall North American production is forecasted to see some ebb and flow, as US and Canadian production aligns with expected market



demand. North American production in 2015 reached 3.10 million units; IHS forecasts that figure will be 3.14 million units in 2018 and 3.21 million units in 2020. While in 2015, only 14% of Ford's North American production was from plants in Mexico, that share is forecasted to increase to about 25% in 2020. Ford's new plant does not indicate a production pullback in the US or lack of commitment to the automaker's home country, but the change will affect the ratio of production for each of the participating countries in North America. North America will continue to be Ford's largest production location, and the region is forecasted to account for 56% of the company's global production in 2020.

Ford Motor Company global production, by region (excluding JVs, partnerships)						
Region	2015	2016	2017	2018	2019	2020
Europe	1,527,906	1,509,470	1,514,310	1,612,691	1,646,991	1,654,558
Middle East/Africa	74,202	75,767	84,663	89,800	91,331	94,686
North America	3,104,763	3,189,992	3,252,399	3,145,116	3,126,848	3,213,142
South America	316,618	250,651	238,093	224,233	262,371	352,243
South Asia	235,494	282,329	346,344	371,302	382,478	395,256
Total	5,258,983	5,308,209	5,435,809	5,443,142	5,510,019	5,709,885

Source: IHS Automotive

Overall, production in Mexico is increasing on a combination of factors. The environment is cost-friendly, there is access to infrastructure, and the country has free-trade agreements with a wide number of countries. The IHS production forecast sees light-vehicle production in Mexico increasing from 3.39 million units in 2015 to 5.0 million units in 2023. Ford is not the only company considering increasing production of trucks and SUVs in the US, with Mexico to provide smaller cars. A Daimler-Nissan arrangement includes compact premium vehicle production in Mexico, Kia's production in Mexico is expected to focus on compact cars, and Toyota, Honda, and Mazda have made investments in the region over recent years. At the same time, Fiat Chrysler Automobiles (FCA) and Hyundai have announced plans to increase production of trucks and SUVs in the US.

Ford's Middle Eastern and African production continues to be a comparatively small part of the company's global footprint, with completely built-up production located solely in the Silverton plant and it being less than 2% of company output throughout the decade. However, Ford's production in the region on a volume basis is forecasted to increase from about 74,000 units in 2015 to nearly 95,000 units in 2020. Production of the Everest is forecasted to reach 14,000 units by 2020, accounting for about 14% of the plant's output.

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