Overview of the Sector

The Mexican construction industry employs two million workers in approximately 18,000 companies. The industry is dominated by a few large companies. Fewer than two percent of construction companies account for 55 percent of industry activity. A few of the largest firms have sales in the order of US $1 billion per year and operate internationally as well as domestically.

In the past few years, construction activity has focussed primarily on infrastructure improvements, with the greatest activity in the following subsectors:

- roads and highways;
- water infrastructure;
- the energy sector;
- housing; and
- tourism.

In addition, significant opportunities are emerging in marine ports, airports, railways, industrial plants, and commercial development.

There is a large informal residential construction sector, consisting of very small unregistered contractors and owner-builders. More than half of home construction activity is believed to be in the informal sector.

The Role of Imports

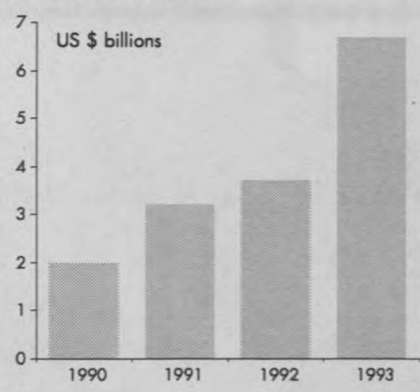
Imports have not traditionally been a major source of building materials in Mexico, but this is beginning to change. Imports of building materials have increased sharply over the past few years and import penetration has now reached 20 percent.

Several forces are at work. First, tariff reductions and currency stability have reduced the cost of imports. Second, the domestic industry has been unable to meet the rapidly growing demand. Finally, domestic production tends to be limited to a relatively small number of products, and quality and availability are often inadequate. Imported products offer a wider choice of alternatives and more reliable supply. This is particularly true of decorative items.

The United States dominates the market for imported building materials, with an import market share of more than 70 percent. Competitive factors favouring U.S. manufacturers include the proximity to the market and familiarity of U.S. brand names. In certain products, Italy, Germany, Japan, Sweden and Spain successfully compete with U.S. imports.

Canadian producers of building materials have not achieved substantial penetration of this market. In 1993, exports amounted to just under $20 million*, while imports from Mexico totalled almost $75 million.

Purchases of Construction Materials by the Formal Construction Sector



Source: Compiled from a series of publications; *Instituto Nacional de Estadística, Geografía e Informática (INEGI)*, National Institute for Statistics, Geography and Informatics.

***Note:** *Unless otherwise specified, currency used is Canadian dollars.*

Understanding Mexican Tastes

Understanding Mexican tastes is essential to success in the construction industry. Cultural factors, the natural environment, and growing demand for high-quality interior finishes all play critical roles.

In residential construction, there is a strong preference for brick and cement-based products and a general prejudice against wood. To a large extent, these preferences are based on concerns about earthquakes, fire, termites and other hazards of nature, but the predominance of owner-built homes is also a major factor. Such homes are typically built a little at a time, and concrete and bricks can be left exposed as the builder finishes the project. There are also concerns that wood does not have a Mexican look.

Wood is used for roofs, interior walls and finished surfaces, but the lack of skilled carpenters has limited these applications. The *Consejo Nacional de la Madera en la Construcción*, the National Advisory Board for Wood in Construction, now offers a training program in wood building techniques.

In commercial construction, the most common materials are concrete, steel, glass, paving tile and cement blocks, followed by wood. There is a trend towards the use of advanced technologies and special materials, especially in Mexico City, which is subject to earthquakes. The influx of foreign investors has created a demand for top-quality office space in the major urban centres. This is creating a market for high-quality interior finishing products.

The state-of-the-art in office space is an "intelligent building" which boasts energy-efficient materials, telecommunications channels, automated control systems for temperature and ventilation, controlled-access security systems, centralized maintenance and cleaning, clear signage and emergency systems. There are only eight "intelligent buildings" in Mexico, but this is considered a major growth area.