

Financing has also emerged as a critical competitive issue. Capital is scarce and very expensive, with interest rates on peso loans running at 50 percent or more in mid-1995. Companies that can take advantage of lower financing costs in Canada and offer deferred payments and preferential interest rates will enjoy a competitive advantage. The ability to hedge against future devaluations by denominating contracts in pesos is also a benefit.

Mexican Competitors

Mexican forest products producers are expected to have no difficulty selling their entire output. The devaluation of the peso in December 1994 has made them more competitive and at the same time has softened demand from consumers for international levels of quality.

The capacity of the industry, however, is well-short of demand, even in the present depressed market. This means that the principal competitors for Canadian producers are other foreign suppliers, particularly those from the United States.

Foreign Competitors

Many American firms have established a presence in Mexico through local distributors, representatives or agents, or through joint ventures and multinational firms. This has increased product visibility and facilitated fast, cost-effective delivery. As a result, the United States claims about three-quarters of the import market for wood and cellulose products. Canada is the next largest supplier, followed by Sweden, Indonesia and Spain. Since the devaluation of the peso in December 1994, Brazil is expected to increase its market share through imports of eucalyptus-based cellulose.

TRENDS AND OPPORTUNITIES

Sales of both imported and domestic wood products are expected to fall as a result of the devaluation of the peso in December 1994. While the cheaper peso has driven increased exports in many other sectors, wood products will not fully benefit from the devaluation. As a result of this decline, more than 80 Mexican lumber mills have closed. Many of the remaining mills are merging or forming joint ventures to survive.

THE CONSTRUCTION INDUSTRY

The construction sector is expected to remain depressed well into 1996. A contraction of 15 percent in construction activity is forecast for 1995. Many finished projects remain vacant, and work has stopped on some unfinished buildings.

Government-sponsored housing projects will stimulate the construction industry somewhat. But cultural and institutional obstacles will continue to limit the use of wood in this market. The best opportunities for wooden building materials are for finishing applications such as doors and windows, wall panelling, flooring and cabinetry.

THE FURNITURE INDUSTRY

The devaluation of the peso in December 1994 has reduced consumer purchasing power and therefore, the demand for furniture. Mexico exports some furniture, but as it generally does not meet international quality standards, the furniture industry is not in a position to take full advantage of the devalued peso. Some wood product manufacturers are coping with falling demand by providing repair and maintenance services rather than selling new products. Others, such as *Perroni* furniture, are now insolvent.

DO-IT-YOURSELF RETAILERS

The do-it-yourself (DIY) culture has yet to take root in Mexico. Skilled labour is relatively cheap and most Mexicans lack the skills to do home projects on their own. Nonetheless, retailers believe that this market has a promising future. Mexican consumers are impressed with the large array of DIY products, and tend to be lured by the convenience of having many such products under one roof. Industry experts say that the consumer's lack of skills is still an obstacle and that this is a good time to start educating the public about DIY products.

CHRISTMAS TREES

There is a seasonal demand for douglas and noble firs for Christmas trees. Domestic Christmas trees are in short supply and of poor quality, and imports are expected to grow. Sales of Christmas trees are not expected to suffer from the devaluation of the peso in December 1994, because the natural tree is a well-established cultural tradition. Most trees are imported from the United States. Buyers interviewed for this profile believe that Canada will have to substantially improve shipping and logistical details in order to increase its market share in this area.

RAILWAY TIES

Railway ties will be in demand as soon as plans to privatize the national railway network are finalized. The recent passage of the railway privatization law has spurred substantial interest on the part of North American companies. *Ingenieros Civiles Asociados (ICA)* and Union Pacific are preparing to purchase and modernize portions of the rail network, but are believed to be waiting for the economy to improve first.

WOOD PULP

Canada has been a major beneficiary of the problems besetting the Mexican cellulose industry. As a result of declines in domestic production, imports rose by 32 percent, from