# Trade balance – Second consecutive deficit in May, driven by weaker exports

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- **Trade balance (May): -US$3,522.6 million; Banorte: -US$3,786.6mn; consensus: US$1,327.1mn (range: -US$4,786 to US$1,900mn); previous: -US$3,087.4mn**
- **Total trade volumes remain very weak, with the sum of exports and imports plunging by 52.0% y/y after the -35.8% observed in the previous month, with activity brought to a halt affected by measures to contain the spread of COVID-19**
- **With seasonally adjusted figures, exports fell by 20.6% m/m, with oil-related goods up 18.9% on the back of higher prices. On the contrary, non-oil extended its decline (-22.0%), with manufacturing at -23.2%**
- **Imports stood at -18.4% m/m, although with the oil component down 26.9%. Non-oil also extended their fall at -17.7% after the -20.3% of April. Within the latter, the strongest category was consumption goods, at -5.7%**
- **Today's report marginally weakens our view of a modest sequential recovery in May. In this context, we highlight that figures were lower across the board relative to April, with only oil exports standing out**
- **Going forward, we believe downside risks remain elevated on signs of a second global wave of contagion, suggesting the possibility of new stoppages that would make the recovery even more gradual than already expected**

**US$3,522.6 million trade deficit in May.** This was significantly below than consensus at +US$1,327.1 million and much closer to our -US$3,786.6 million. Exports (-56.7% y/y) and imports (-47.1%) kept declining strongly, with both declining even more than the print of the previous month (see Chart 1). In this respect, the report keeps showing the strong impact of the pandemic as social distancing and non-essential activities restrictions in Mexico extended and local inventories ran down, despite some supply chains –mostly in China– beginning to recover. With this result, the trade balance accumulated a US$ 1,826.8 million surplus in the last twelve months, heavily reversing the upward trend shown since the beginning of 2019 (Chart 2). Broadly speaking, within exports we highlight that manufacturing deepened its decline relative to April at -58.7%, in our view on limits to production driven mostly by lower inventories of both raw materials and finished goods. On imports, we see as most relevant that oil-related goods plunged 63.3%, a new historical low in the series. Moreover, capital goods accelerated their decline, standing at -38.3% (see Table 1).

**Monthly figures extend their previous month decline.** Despite April's steep drop, both exports (-20.6% m/m) and imports (-18.4%) extended their fall as disruptions to economic activity persisted in the period (see Table 2). In our view, these figures show clearly the compounded effect of the near-full halt in industry along inventory drawdowns in previous periods activities that compromised supply chains.

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In the former, we highlight that non-oil mining (-22.5%) was even lower than in April. On the other hand, oil-goods (+18.9%) were the only ones advancing sequentially despite lower volumes, boosted by the recovery in prices. In manufacturing, auto remain as a laggard at -49.5%, while others stood at -19.2%. Regarding imports and contrary to exports, the oil sector plunged 35.9% in consumption and 23.3% in intermediate goods. We believe that a sizable effect was observed due to PEMEX's declaration of *force majeure* clauses in fuel shipment contracts due to the pandemic. In non-oil, consumption goods were relatively resilient at -5.7%, while intermediate goods (related to manufacturing) declined 20.6%. We were relatively surprised by capital goods as they "only" fell 6.3% despite the very high uptick in uncertainty and accumulated depreciation of the Mexican peso, although coming off from a very low base already and at a level not observed since mid-2010.

**Trade balance to benefit modestly from June's reopening of the economy.** As expected, weakness in trade volumes exacerbated in the month as disruptions to global and domestic activity due to COVID-19 build-up from April. In our view, this is clear evidence of the critical interrelationship between countries, both in demand and supply. In this sense, we believe June will improve, driven mainly by: (1) The start of the reopening of the economy, which included the designation of construction, non-oil mining and transportation manufacturing as essential activities; and (2) renewed efforts in both the US and Mexico to reestablish and coordinate supply chains, which in our view had a very sizable impact in May. Despite of the latter, the recovery will likely be modest. We reiterate our view that downside risks remain elevated on signs of a second global wave of contagion, suggesting the possibility of new stoppages that would make the recovery even more gradual than already expected. As the report was broadly in line with our expectations, we maintain our 2Q20 GDP forecast of -19.4% y/y.

In manufacturing, industry is still incapable of operating at full-capacity, not only considering the hit to demand but also due to required sanitary measures to protect employees' health at their facilities. In our view, one clear example is the auto sector, with companies such as VW (on June 15th), GM and Nissan restarting at quite limited capacity levels. According to AMIA's President, auto exports this year will plunge about 33%. *Maquiladoras* are in a similar situation, among others. Going forward, and on a more positive note, we highlight that USMCA will formally start on July 1st, with some reports suggesting that Asian countries are eyeing to establish operations in our country to take advantage of the trade deal. Coupled with sizable stimulus in the US, these could eventually help for a more vigorous recovery.

In the oil sector we believe headwinds remain firmly in place. In this respect, the OPEP+ agreement is still binding, PEMEX has scaled back some operations at offshore sites as COVID-19 contagions increased, and reports affirm that services contracts were cancelled on austerity measures, among others. Moreover, fuel demand remains very low given that mobility has stayed much lower than pre-pandemic levels, as suggested by data from *Apple* and *Google*, despite recovering some ground according to private retailers' association ONEXPO.

Table 1: Trade balance
% y/y nsa

| | May-20 | May-19 | Jan-May'20 | Jan-May'19 |
|---|---|---|---|---|
| **Total exports** | -56.7 | 6.5 | -20.8 | 4.3 |
| Oil | -63.8 | -9.1 | -42.8 | -7.4 |
| Crude oil | -68.0 | -5.2 | -46.3 | -5.4 |
| Others | -34.1 | -29.7 | -18.9 | -19.2 |
| Non-oil | -56.3 | 7.7 | -19.4 | 5.1 |
| Agricultural | -8.6 | 1.9 | 3.5 | 5.4 |
| Mining | -32.6 | 7.5 | 5.1 | -8.5 |
| Manufacturing | -58.7 | 8.0 | -20.9 | 5.4 |
| Vehicle and auto-parts | -90.1 | 16.0 | -35.4 | 6.6 |
| Others | -41.4 | 4.0 | -12.8 | 4.7 |
| **Total imports** | -47.1 | 0.1 | -19.0 | 1.9 |
| Consumption goods | -55.8 | 1.1 | -22.8 | -1.5 |
| Oil | -79.9 | 8.9 | -29.7 | -3.1 |
| Non-oil | -44.6 | -2.2 | -19.9 | -0.9 |
| Intermediate goods | -46.6 | 0.3 | -18.1 | 3.0 |
| Oil | -63.3 | -0.9 | -33.4 | 0.5 |
| Non-oil | -45.0 | 0.4 | -16.5 | 3.3 |
| Capital goods | -38.3 | -3.0 | -21.7 | -2.5 |

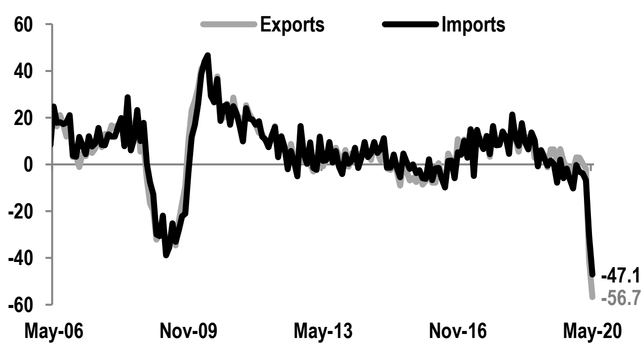
Source: INEGI

Table 2: Trade balance
% m/m, % 3m/3m sa

| | % m/m | | | % 3m/3m | |
|---|---|---|---|---|---|
| | May-20 | Apr-20 | Mar-20 | Mar-Jun'20 | Feb-Apr'20 |
| **Total exports** | **-20.6** | **-37.7** | **-3.9** | **-32.9** | **-15.3** |
| Oil | 18.9 | -40.0 | -16.6 | -49.4 | -41.2 |
| Crude oil | 29.5 | -49.1 | -17.1 | -53.1 | -44.7 |
| Others | -7.1 | 7.2 | -13.8 | 28.2 | -19.1 |
| Non-oil | -22.0 | -37.6 | -3.4 | -32.0 | -13.8 |
| Agricultural | -6.1 | -2.9 | 1.6 | -3.3 | -1.5 |
| Mining | -22.5 | -11.9 | 17.2 | -5.8 | 0.0 |
| Manufacturing | -23.2 | -39.7 | -3.9 | -33.7 | -14.6 |
| Vehicle and auto-parts | -49.5 | -77.1 | -6.8 | -59.0 | -29.1 |
| Others | -19.2 | -20.0 | -2.4 | -19.4 | -6.3 |
| **Total imports** | **-18.4** | **-21.9** | **-5.3** | **-24.1** | **-11.1** |
| Consumption goods | -11.7 | -34.0 | -9.6 | -34.9 | -20.7 |
| Oil | -35.9 | -53.9 | -11.6 | -50.8 | -26.9 |
| Non-oil | -5.7 | -26.0 | -8.8 | -28.2 | -18.2 |
| Intermediate goods | -20.8 | -21.6 | -3.8 | -23.0 | -9.3 |
| Oil | -23.3 | -25.7 | -5.0 | -30.4 | -17.7 |
| Non-oil | -20.6 | -21.2 | -3.7 | -22.4 | -8.6 |
| Capital goods | -6.3 | -6.1 | -12.3 | -17.3 | -11.1 |

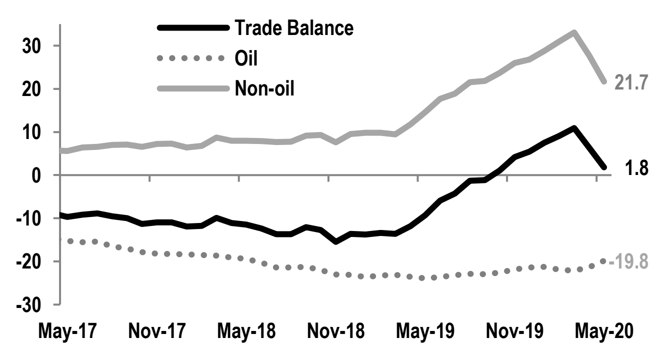
Source: INEGI

Chart 1: Exports and imports
% y/y nsa




Source: INEGI

Chart 2: Trade balance
US$ million, 12 month rolling sum




Source: INEGI

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