Trade balance – Volumes impacted by extreme weather conditions in February

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- **Trade balance (February): US$2,681.1 million; Banorte: US$2,779.2mn; consensus: US$2,905.0mn (range: -US$211mn to +US$4,200mn); previous: -US$1,236.4mn**
- **The balance returned to a surplus after last month's negative print which was driven by an adverse seasonality. We highlight that total exports (-1.1% y/y) and imports (-0.6%) were higher compared to January. Nevertheless, we believe annual rates could be starting to reflect distortions from the pandemic**
- **With seasonally adjusted figures, exports fell 3.6% m/m. Oil-related goods declined 3.3%, partially benefited by surging crude-oil prices. Non-oil goods were lower, with almost all categories weaker and manufacturing contracting 4.1%**
- **Imports also declined (-2.3% m/m), breaking with eight consecutive months recovering. Oil stood at -0.2%. In non-oil, weakness was centered in intermediate goods (-3.6%), also impacted by the outages. Capital goods extended higher to 5.0%**
- **In our opinion, sequential declines are mostly explained by disruptions due to bad weather, especially in manufacturing**
- **The report reinforces that trade and overall activity were hit by temporary factors, affecting industry more than services. We expect trade to rebound, still supported by external demand despite some supply challenges**

US$2,681.1 million surplus in February. This was lower than consensus at US$2,900 million, but closer to our forecast. The print returned to positive after last month's deficit, which was influenced by a seasonal effect. Hence, the shift towards higher balances –which accelerated since late 2019– remains firmly in place. On the other hand, total exports and imports contracted 1.1% y/y and 0.6%, in the same order (Chart 1). Both were higher than in January. We believe this is explained by a more favorable effect, considering that trade flows started to be affected by the COVID-19 pandemic since February of last year (especially due to the initial impact on China). Oil exports came in at 10.6% y/y, in our view strongly benefited by surging crude-oil prices, with a positive print in annual terms for the first time in little over a year). The Mexican oil mix averaged 57.66 US$/bbl from 50.87 in January, translating to +26.3% y/y (previous: -5.9%). In contrast, there was a hit in non-oil, which declined 3.7% from -1.4% in January. Performance was mixed, although we highlight autos (-13.1%) within manufacturing (-4.1%) as the main laggard. Nevertheless, other manufacturing was higher at 1.1%. In imports, oil reached -9.9%, with non-oil stronger at 0.3%. Within the latter, intermediate goods dipped 0.1%, also with COVID-19 distortions impacting figures. Meanwhile, capital goods returned to positive territory at 4.8% after nearly two years in contraction. Further details are presented in Table 1. As a result, the trade balance accumulated a US$35,534.3 million surplus in the last twelve months, with a US$12,795.8 million deficit in oil and a positive balance of US$48,330.1 in non-oil (see Chart 2).

Broad slowdown in trade flows, with both exports and imports falling sequentially. Exports declined 3.6% m/m, with mostly all categories down. Meanwhile, imports were slightly more resilient at -2.3%, albeit still weak (see Table 2). In our view, this was a result of bad weather in the south of the US and northern Mexico. As a result, this meant an interruption of gas supply, also affecting electricity production. This in turn impacted volumes given that several industries halted operations for some days at the middle of the month

Figures from the oil sector exhibited opposite forces, with lower volumes but surging prices. However, the former seems to be driving performance, as exports fell 3.3%, with imports more modest at -0.2%. On the former, several ports in the US had to stop receiving shipments, invoking *force majeure* clauses. In this sense we should remember that the main destination for our exports is the Texas coast. Going to imports, we note a 9.2% decline in consumption goods –which include gasolines–, consistent with reports of refineries in this region of the US shutting down due to the climate.

In non-oil, exports were more impacted at -3.7%. Inside, almost all categories were lower, with the exception of agriculture and 'other' manufacturing. The latter rose 1.1% m/m, albeit only after declining 2.8% in the previous month. Meanwhile, mining showed some payback at -7.6% (previous: +21.6%). More important, autos showed a 13.1% contraction. In our view, this matches comments from several automakers which saw production impacted by two factors: (1) Temporary disruptions due to the lack of natural gas; and (2) supply chain constraints due to the lack of semiconductors. Meanwhile, imports fell 2.5%, with weakness centered in intermediate (-3.6%) and consumption goods (-0.7%). In our view, the former were partly skewed down due to a challenging base, albeit also probably impacted to some extent from the cold weather disruptions. Lastly, capital goods extended further higher at 5.0%, largest expansion since June.

Report confirms a difficult start of the year for the external sector. In line with our comment in the previous month, the temporary shock to production from energy undersupply had a negative effect on trade dynamism in February. Another temporary factor that likely had an adverse impact was the timing of the Chinese New Year, which took place between February 11th to 17th. In this sense, INEGI's *Timely Indicator of Economic Activity* sees industry in said month contracting around 0.4% m/m (according to our calculations), which would be its first sequential decline since the reopening of the economy started in June. Apart from its direct effect to the energy industry, and indirectly to manufacturing (as stressed in today's figures), less dynamism in this sector could spillover and also limit growth in other closely-linked services, such as transportation. In this context, we maintain our view that GDP faced some relevant headwinds this quarter, maintaining our estimate of a 0.2% q/q decline in 1Q21.

Nevertheless, we should mention that energy supply issues were temporary. According to press reports, these problems have already been resolved, so its impact should be contained. On a more positive note, the US –our main trading partner– approved a US$1.9 trillion stimulus package. Direct transfers to individuals have already began to be disbursed.

In our view, this is likely to keep supporting Mexico's export-oriented sector, boosting GDP as early as in the second quarter. Although the outlook for external demand is favorable, we are more concerned about supply limitations, expecially with the aggravation of the scarcity of semiconductors. To turn matters even worse, automakers are assessing the potential impact from a fire at a semiconductor plant owned by Renesas Electronics (a key chip producer) in Japan. In this sense, several companies have announced that they are expanding and extending productions cuts at some North American plants. Statements in this regard have been made by almost all automakers in the region, including Ford, Stellantis (merger between Fiat and PSA Group), Nissan, Toyota, Honda, and Daimler. According to industry experts, these issues are not likely to be solved rapidly. So, the potential for growth is likely to be limited and adjustments may be felt more in terms of higher prices to accommodate demand, at least in the short-term. Hence, we keep looking closely to this industry's advanced data, with INEGI slated to release its March report on April 8th.

In the oil sector, limits to boost production remain firmly in place. In recent days, Pemex announced that the Federal Government will assume the company's debt interest payments in 2021 (for around US$6 billion), along other measures to help them to address their high financial burden, such as another direct capitalization of around US$3.5 billion. This could help free up some resources for the company to invest, although production and exports should stay challenged in the short-term. This, despite the boost from higher global crude oil and other commodities' prices. All in all, deficits in the oil balance should remain persistent, as domestic production of crude oil and other oil-related products (*e.g.* gasolines) faces important capacity constraints.

Table 1: Trade balance
% y/y nsa

	Feb-21	Feb-20	Jan-**Feb'21**	Jan-**Feb'20**
Total exports	-1.1	0.4	-1.8	1.6
Oil	10.6	-36.9	-7.0	-18.0
Crude oil	10.5	-39.2	-6.8	-19.4
Others	11.7	-16.7	-8.0	-8.2
Non-oil	-1.7	3.3	-1.5	3.0
Agricultural	5.9	7.1	-3.4	8.5
Mining	42.1	-0.4	43.4	13.1
Manufacturing	-2.7	3.2	-2.1	2.6
Vehicle and auto-parts	-10.0	3.4	-4.6	6.1
Others	1.5	3.1	-0.8	0.7
Total imports	-0.6	-3.8	-3.4	-3.5
Consumption goods	-10.8	0.4	-16.0	3.8
Oil	-37.2	15.0	-42.7	21.0
Non-oil	0.2	-4.6	-3.8	-2.6
Intermediate goods	0.5	-3.7	-1.1	-3.6
Oil	7.9	-19.4	-4.5	-16.1
Non-oil	-0.1	-2.2	-0.8	-2.3
Capital goods	4.8	-11.1	-3.8	-12.5

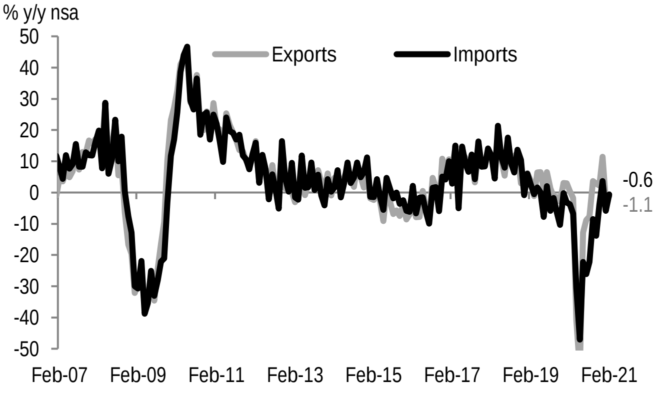
Source: INEGI

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

	% m/m			% 3m/3m	
	Feb-21	Jan-21	Dec-20	Dec'**20**-Feb'**2**1	**Nov'20-Jan'21**
Total exports	-3.6	-1.2	3.7	2.3	4.2
Oil	-3.3	2.5	12.0	20.2	12.1
Crude oil	-4.7	1.5	13.5	26.1	18.4
Others	5.9	9.4	2.9	-7.4	-17.1
Non-oil	-3.7	-1.3	3.3	1.6	3.9
Agricultural	7.9	-4.3	0.5	-4.5	-3.3
Mining	-7.6	21.6	-13.2	-1.1	2.3
Manufacturing	-4.1	-1.6	3.8	1.9	4.2
Vehicle and auto-parts	-13.1	0.6	5.6	-0.6	2.5
Others	1.1	-2.8	2.9	3.3	5.2
Total imports	-2.3	2.5	2.8	8.6	12.3
Consumption goods	-2.5	0.7	5.2	16.2	22.4
Oil	-9.2	4.8	13.0	11.5	6.0
Non-oil	-0.7	-0.4	3.3	17.5	27.4
Intermediate goods	-3.1	2.9	2.6	7.8	11.8
Oil	3.9	2.1	10.5	18.9	17.3
Non-oil	-3.6	2.9	2.1	7.1	11.4
Capital goods	5.0	1.8	1.8	6.2	4.3

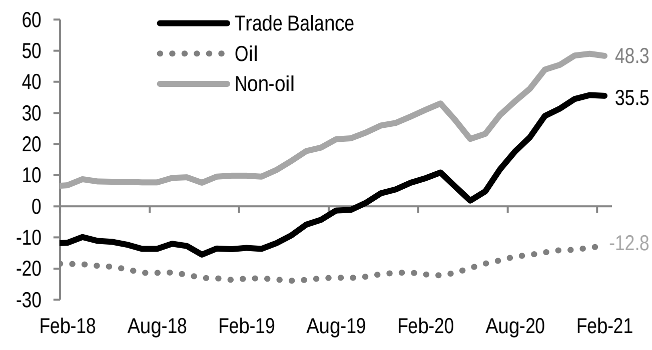
Source: INEGI

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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