Trade balance – Signals of a slowdown in manufacturing and investment in June

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- **Trade balance (June): US$762.0 million; Banorte: US$2,005.3mn; consensus: US$2,005.3mn (range: US$400mn to US$2,200mn); previous: US$339.7mn**
- **The balance remained at a surplus for a third month in a row, widening vs. May. Annual figures remain highly distorted due to the pandemic, albeit with exports (29.1%) less so than imports (52.3%), as June 2020 marked the start of the domestic reopening**
- **With seasonally adjusted figures, exports rose 0.2% m/m. Oil-related goods bounced back 18.5%. Nevertheless, non-oil goods backtracked 0.8%, with a heavy drag from manufacturing (-1.4%)**
- **Imports expanded 0.3%, building up on the +3.7% of the previous month. Oil climbed 1.3%. In non-oil, intermediate (0.7%) and consumption (0.3%) were higher, while capital goods posted a hefty decline (-4.2%)**
- **While overall sequential performance is positive, signals across some key sectors suggest caution ahead, especially for manufacturing and investment**
- **Despite renewed concerns over rising COVID-19 cases –both here and abroad–, the main limitation for trade is related to supply issues, with demand poised to remain strong given high stimulus in the US**

US$762.0 million surplus in June. This was lower than both our forecast and consensus, matching our +US$2,005.3 million estimate. This marks a third consecutive surplus, consistent with the trend of the last few years. We should mention that annual rates remain highly skewed due to the pandemic, albeit now with exports (+29.1%) less so than imports (+52.3%), as seen in Chart 1. This is explained by the start of the reopening of some key activities in our country (*e.g.* construction, auto production, non-oil mining, etc.) in June 2020. Therefore, the former outpaced the latter throughout the remainder of last year, resulting in differenced base effects. In this sense, oil exports were still high at 103.8% y/y, boosted by the 101.5% rise in the Mexican oil mix. On the other hand, non-oil stood at 26.1%, with manufacturing up 26.7%. On imports, oil rose 161.6%, with non-oil more modest at 45.1%. Within the latter, consumption was the outperformer at 71.2%, while capital goods lagged (24.3%). Details are presented in Table 1. The trade balance accumulated a US$32.7 billion surplus in the last twelve months, with a US$18.1bn deficit in the oil sector and a US$50.8bn surplus in non-oil (see Chart 2).

Monthly expansion suggests some dynamism, albeit with some warning signs. As distortions prevail in annual terms, sequential results remain most important. In this respect, we observed an extension higher after last month's rebound, with exports up 0.2% and imports at +0.3% (see Table 2). While the headline suggests some dynamism in activity even as COVID-19 cases trended up, performance by sector flags some concerns, especially for IP.

The oil sector maintained an upbeat pace, especially oil shipments at +18.5%, with strong performances in crude and 'others'. In our view, part of this boost comes from prices, as the Mexican oil mix averaged 67.58 US$/bbl from 62.54, as well as signals of higher volumes also present. Imports were more modest at +1.3%, led by intermediate (+1.5%), with consumption up 0.8%. In our view, the expansion may have been dampened by the restart of operations in two local refineries, *Tula* and *Minatitlán*, despite the strong tailwind from high prices.

Non-oil exports fell 0.8%, its first decline after three months growing. Mining remained very high at 20.1%, propped up by surging prices –likely incentivizing also higher volumes–. Agricultural goods climbed 3.5%, in our opinion, aided by prevailing drought conditions in the US despite some improvements locally. Lastly, and more concerning, manufacturing fell 1.4%. Weakness was centered in autos at -6.0%, with supply chain issues finally seen in this figure. We should remember that there were stoppages from VW and other automakers in the period, which along dwindling inventories, may explain the decline. On a slightly more positive note, 'others' rebounded 1.0% after two consecutive downturns. Non-oil imports rose 0.2%, with advances in both intermediate (0.7%) and consumption goods (0.3%). In our view this is positive, considering shipment delays from China –due to a key port shutdown due to a COVID-19 outbreak– along the increase in cases domestically, which could have hindered the latter. In addition, this is favorable considering significant upticks in the previous month, especially for consumption. Lastly, capital goods shrank 4.2%, erasing May's gains and an increasing for concern for investment in the short-term.

The main limitation for trade is related to supply issues, with demand poised to remain strong given high stimulus in the US. As already mentioned, performance within the report was mostly positive, signaling a modest –if not any– impact from the recent deterioration of COVID-19 cases in June for some sectors. However, manufacturing exports reflects persistent issues impacting supply chains which are not limited to semiconductors as scarcity has been reported in several raw materials. Going forward, it is likely this persists to some degree, as suggested by more timely information (see details below). However, we believe there is some resiliency embedded for exports due to elevated demand levels, especially from the US. Moreover, higher rates of vaccination in said country may allow it to surf through the 'third wave' less damaged than in the first stages of the pandemic.

The most pressing issue is the outlook for manufacturing. While demand remains high, supply woes continue posing big challenges. For example, auto makers continue announcing technical stoppages. One of the latest additions is Audi, ending July with at least a three-day halt in production. During the month, Nissan's operations in the State of Mexico were suspended for six days and they announced that rolling shutdowns are likely to extend at least until October. GM also announced a week-long halt due to the lack of parts in its Silao plant. Meanwhile, Mazda announced a one-week stoppage because of its retooling process, which is positive at the margin as it was not explicitly related to these factors.

On a more positive note, advisors of the Biden administration said some relief might come soon for automakers, as they are seeing commitments from chip manufacturers to make more automotive-grade chips as soon as early 3Q21. However, some structural issues remain, as evidenced by recent disputes on the implementation of some content rules as part of USMCA. Specifically, it relates to the locally-produced share of manufactured products for the whole assembly of autos. Canada and Mexico pushing for a looser approach, while the US wants to be stricter. In this sense, high level talks between Mexican Economy Minister, Tatiana Clouthier and US Commerce Secretary, Gina Raimondo, were held last week, albeit with no progress. This is part of a series of talks held on a wide range of topics –including labor rules, agriculture, and even the energy sector–, with some of them resolved in a positive manner. The willingness for cooperation from the US may come as a side-effect of ever-increasing tensions with China, with seemingly more challenges every week.

On agricultural goods, drought reports for the US still show a difficult situation throughout the southwest. However, conditions in Mexico have improved at a more rapid pace. In this sense, we expect shipments abroad to remain high, albeit not ruling out a slight moderation in prices. On mining, challenges are still present for oil as there was another accident in early July, with a gas fire breaking out in an underwater duct near the *Ku Maloob Zaap* field. While it was controlled quickly, we do not rule out some impact on production. This could result in higher imports for the month and comes on top of other recent disruptions, as detailed in previous publications. On the other hand, considering recent actions from OPEC+ to keep prices from rising further, we could see very limited upside from exports in this sector. On oil imports, it is still possible that the spike in cases reduces mobility (despite evidence still not pointing this way), with the latter being the key driver.

Regarding non-oil purchases abroad, one factor that remains relevant is that the *General Customs Administration* was separated from the IRS (*Servicio de Administración Tributaria*, or SAT in Spanish). It is now a standalone body within the Ministry of Finance, with the daily management of customs in charge of the Armed forces. While the stated rationale behind this move is to fight corruption within the agency, several industry participants assure that it is having a negative impact on day-to-day operations. Among them, the lack of expertise is inducing greater delays in trade flows. Separately, we believe non-oil imports are relatively exposed to the fallout from renewed contagions and the degree to which the economy goes back into lockdown. Fortunately, activity is unlikely to be as affected as last year, thus having a more modest impact on inflows. In our view, those that might be more susceptible to shocks are capital and consumption goods, as they have a tighter relationship with domestic demand. On the other hand, intermediate goods could remain strong, supported by their close relationship in the regional production process.

Table 1: Trade balance
% y/y nsa

	Jun-21	Jun-20	Jan-Jun'21	Jan-Jun'20
Total exports	**29.1**	**-12.9**	**29.2**	**-19.6**
Oil	103.8	-34.1	57.8	-41.9
Crude oil	97.7	-33.4	60.4	-44.8
Others	147.2	-38.3	45.0	-21.7
Non-oil	26.1	-11.7	27.9	-18.2
Agricultural	0.0	29.1	4.2	5.0
Mining	76.5	9.3	47.7	5.8
Manufacturing	26.7	-13.6	29.0	-19.7
Vehicle and auto-parts	37.9	-31.0	48.0	-34.6
Others	22.0	-3.4	21.1	-11.2
Total imports	**52.3**	**-22.2**	**30.3**	**-19.5**
Consumption goods	101.1	-43.6	29.2	-26.2
Oil	244.4	-69.8	24.0	-36.7
Non-oil	71.2	-31.2	31.0	-21.7
Intermediate goods	49.8	-19.7	31.9	-18.3
Oil	131.2	-46.0	73.3	-35.2
Non-oil	44.9	-17.3	28.7	-16.6
Capital goods	24.3	-12.0	17.8	-20.8

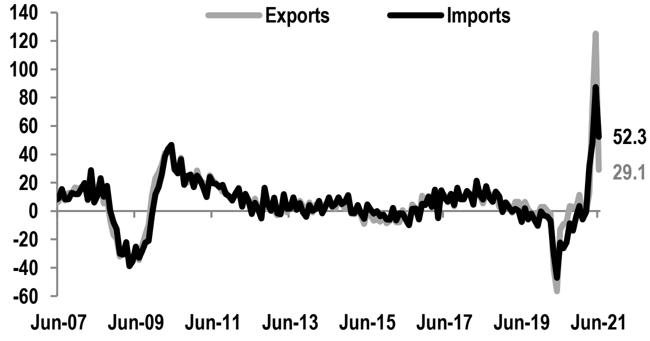
Source: INEGI

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

	% m/m			% 3m/3m	
	Jun-21	May-21	Apr-21	Apr-Jun'21	Mar-May'21
Total exports	**0.2**	**1.3**	**0.6**	**3.3**	**2.7**
Oil	18.5	0.3	1.0	19.2	20.0
Crude oil	17.8	3.9	4.7	21.4	16.4
Others	22.9	-18.5	-14.9	7.0	43.3
Non-oil	-0.8	1.4	0.6	2.5	1.9
Agricultural	3.5	6.6	-2.8	5.3	5.0
Mining	20.1	20.4	-22.7	-2.0	0.8
Manufacturing	-1.4	0.8	1.2	2.5	1.8
Vehicle and auto-parts	-6.0	3.1	9.3	2.9	-3.5
Others	1.0	-0.4	-2.4	2.3	4.6
Total imports	**0.3**	**3.7**	**-7.9**	**5.1**	**13.7**
Consumption goods	0.4	15.9	-2.7	14.8	14.4
Oil	0.8	24.6	10.9	40.9	33.0
Non-oil	0.3	13.0	-6.4	7.8	9.4
Intermediate goods	0.8	2.1	-9.0	4.0	13.9
Oil	1.5	12.8	-51.3	-12.7	67.1
Non-oil	0.7	1.2	-1.6	5.9	9.8
Capital goods	-4.2	2.2	-4.4	2.6	10.9

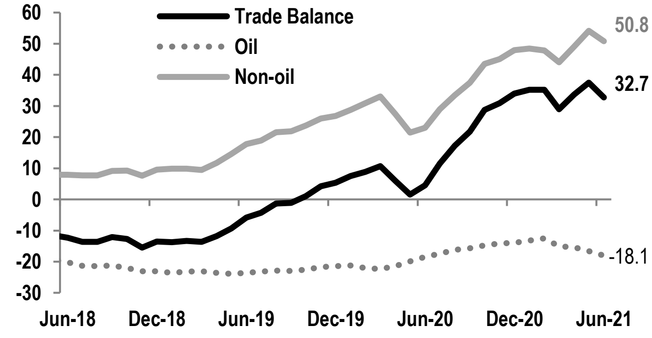
Source: INEGI

Chart 1: Exports and imports
% y/y nsa



Source: INEGI

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



Source: INEGI

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