Trade balance – Strong imports in July, but with lingering risks ahead

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Juan Carlos Alderete, CFA
Director of Economic Research
juan.alderete.macal@banorte.com

Francisco Flores
Senior Economist, Mexico
francisco.flores.serrano@banorte.com

- **Trade balance (July): -US$4,062.9 million; Banorte: -US$1,253.9mn; consensus: US$33.4mn (range: -US$1,253.9mn to +US$640mn); previous: US$762.0mn**
- **The balance showed a deficit for the first time since March and at highest level since January 2018. In annual terms, exports (15.2%) grew less than imports (50.6%), in part, but not exclusively, because of base effects**
- **With seasonally adjusted figures, exports rose 1.5% m/m. Oil-related goods climbed 3.3%. Nevertheless, weakness was seen in non-oil, up only 1.3% despite manufacturing climbing 1.9%, dragged by the auto sector**
- **Imports picked up 4.9%, accelerating after weakness in the previous month. Oil climbed 7.9%. Meanwhile, in non-oil we highlight renewed strength in capital (5.8%) and intermediate goods (5.1%)**
- **Today's report is consistent with our view that the recovery is likely to extend in 3Q21, albeit at a more modest pace. Nevertheless, risks to dynamism in trade remain given COVID-19 and its potential effect on already challenging supply constraints**

US$4,062.9 million deficit in July. This was much lower than consensus and closer, but still far, from our -US$1,253.9 million estimate. It is also the first deficit since March and reached its highest level since January 2018. In annual terms, exports (15.2%) grew less than imports (50.6%), as seen in Chart 1. This is in part, but not exclusively, because of base effects. In this respect, it should be recalled that exports recovered much faster than imports since the economy reopened last year. Nonetheless, in seasonal terms the period tends historically towards deficits. Regarding the former, oil exports remain very high at 104.6% y/y, still boosted by the rise of the Mexican oil mix (+87.6%). Non-oil stood at 11.5%, with mining still leading (47.7%) as prices remain supportive. Manufacturing rose 10.7%, limited by the 9.7% contraction in autos, which was the only category in negative territory. On imports, oil rose 119.7% and non-oil by 44.9%. Within the latter, both intermediate (46.6%) and capital goods (27.3%) were higher at the margin. Details are presented in Table 1. The trade balance accumulated a US$23.0 billion surplus in the last twelve months, with a US$19.3bn deficit in oil and a US$42.3bn surplus in non-oil (see Chart 2).

More dynamism in non-oil imports is positive for domestic demand. Sequential results remain more important to assess the state of the recovery given high distortions because of the pandemic. Both exports (1.5% m/m) and imports (4.9%) were stronger (see Table 2), highlighting the latter's rebound after a modest 0.6% advance in June and with three consecutive months on the upside.

The oil sector keeps growing, with shipments sent abroad at +3.3% and very high dynamism in others (13.7%). Nonetheless, its effect is modest given their low share in the sector's total. Prices remain supportive, with the Mexican oil mix averaging 68.50 US$/bbl from 67.58 in June, highest since October 2018. On the contrary, available information pointed to a moderation in volumes.

Imports gathered steam, at +7.9%, led again by intermediate (+10.4%) but with consumption also higher (2.9%). Data on volumes singaled strength, consistent with resilient mobility despite an uptick in cases. As far as we know, there were no major disruptions to refining capacity, although there were some issues with loading of outgoing ships and a leak in an underwater gas pipeline near the *Ku-Maloob-Zaap* oilfield.

Non-oil exports grew 1.3%, in our view quite modest considering the -1.2% seen in the previous month. In our view, this performance signals caution despite relatively better details as manufacturing led gains, up 1.9%. Nevertheless, within the latter, the auto sector remains in a very challenging position, down 3.0% after dipping 7.7% in June. This is consistent with AMIA data, believing that it also reflects additional stoppages due to supply issues (*e.g.* semiconductors). On this, we had announcements from at least VW, GM, Nissan, and Mazda –albeit the latter related to the yearly retooling. In contrast, 'others' were much more positive, picking up 4.2% after advancing 1.3% in June. We think headwinds remain due to logistic challenges, although vigorous US demand should remain as supportive going forward and limit the possibility of a persistently weak trend. Non-oil imports rose 4.5%, more dynamic than the 0.4% in June and with three consecutive months of growth. We think this is positive as some signals were emerging of cooling domestic demand. In this sense, consumption is still giving warning signs, down 0.6%. In contrast, and in a more favorable tone, capital goods reversed the previous month's decline, up 5.8%. Although quite difficult to assess, we do not rule out that businesses resumed purchases after knowing the results of the mid-term elections, which typically increase uncertainty levels. Meanwhile, intermediate goods (5.1%) gained dynamism, which in our view shows that manufacturing is still poised for growth despite ongoing and persistent challenges.

COVID-19 remains a challenge for economic activity and trade flows. In our view, today's report is positive despite some pockets of weakness, mainly in the auto sector. Unfortunately, growth will remain limited there as the problem in semiconductors is not expected to be resolved at least for the rest of the year. This will likely affect also other industries in which Mexico has a strong regional position, such as in electronics equipment. Apart from this, we are concerned about the renewed impact that the rise in COVID-19 cases may have on global trade flows. Just to given one example of how it may affect (as there are several fronts in which disruptions can occur), we have had reports of significant delays in some key Chinese ports, such in the Yantian terminal in June, as well as in Ningbo-Zhoushan currently. Moreover, shipping costs remain near record high levels and experts think that the problems underlying this rise now look likely to last well into 2022. Given the high complexity of the interrelationships in international trade, flows of both exports and imports in Mexico are also likely to be affected by this situation, either directly or indirectly.

Apart from this, some domestic factors also represent a headwind in the short-term. Among them, we highlight the likely hit in crude oil exports due to an explosion of an oil platform and gas distribution hub in the *Ku-Maloob-Zaap* complex, located in the shores of the state of Campeche.

According to PEMEX's CEO, Octavio Oropeza, production in 125 wells was affected, estimating losses of around 421,000 barrels per day (US$24.9 million). The company stated that production would be back online by the end of this month. Some of them have already been reactivated. Nevertheless, a recent *Reuters* report affirms that people close to the matter said that re-connecting wells is proving more difficult than planned, while the company has not provided an estimate of the impact that this may have on shipments abroad.

In non-oil, we highlight comments by the president of the *Mexican Association of Train Operators*, Oscar del Cueto. He assured that a sizable amount of container cargo that reached the Lázaro Cárdenas port is being redirected to US ports, such as Long Beach and Los Angeles. This is related to persistent railway blockades in the state of Michoacán, which in turn is affecting investments and employment in our country. Although its effect on the trade balance is ambiguous, it is clearly negative in term of Mexico's trade competitiveness. On the other hand, the Mexican government has officially requested a consultation with the US about the different interpretations of USMCA rules of origin in autos. Although this issue will eventually get resolved, in our view it represents another source of uncertainty in an already challenged sector which has been the leader in terms of Mexico's growth in manufacturing. More positively, tensions between the US and China are likely to persist in coming years, giving our country a key advantage as a production hub for the whole North American region.

All in all, our view that trade will continue trending higher rests primarily on high demand in the US. Therefore, we see supply bottlenecks mostly as limits to the pace of growth, albeit with economic activity levels ultimately supporting flow dynamics. Nevertheless, production may be hit harder if supply bottlenecks exacerbate and input prices keep climbing, which in turn may be passed through final goods and result in a change in consumption patterns.

Table 1: Trade balance
% y/y nsa

	Jul-21	Jul-20	Jan-Jul'**21**	Jan-Jul'**20**
Total exports	15.2	-9.2	26.9	-18.1
Oil	104.6	-36.3	64.8	-41.1
Crude oil	108.5	-38.4	67.7	-43.9
Others	83.6	-22.1	50.3	-21.8
Non-oil	11.5	-7.6	25.2	-16.6
Agricultural	15.0	-15.0	5.2	2.7
Mining	47.7	3.7	47.7	5.5
Manufacturing	10.7	-7.5	26.0	-17.9
Vehicle and auto-parts	-9.7	-7.2	36.7	-30.6
Others	22.1	-7.7	21.3	-10.7
Total imports	50.6	-26.1	33.2	-20.6
Consumption goods	63.7	-36.2	33.9	-27.7
Oil	113.6	-49.9	34.9	-38.6
Non-oil	48.8	-30.6	33.5	-23.1
Intermediate goods	51.4	-25.1	34.7	-19.3
Oil	122.8	-41.0	79.7	-36.0
Non-oil	46.6	-23.7	31.3	-17.7
Capital goods	27.3	-20.5	19.2	-20.8

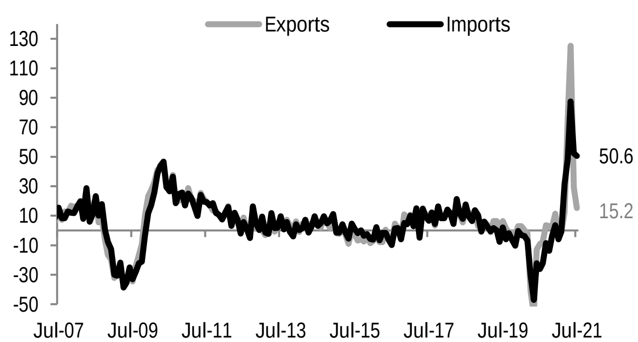
Source: INEGI

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

	% m/m			% 3m/3m	
	Jul-21	Jun-21	May-21	May-Jul'**21**	Apr-Jun'**21**
Total exports	1.5	-0.1	1.9	3.8	2.9
Oil	3.3	19.2	0.2	21.0	19.8
Crude oil	1.6	18.0	4.1	24.8	22.1
Others	13.7	27.0	-19.7	2.2	8.0
Non-oil	1.3	-1.2	2.0	2.8	2.1
Agricultural	-5.0	3.2	6.5	4.7	4.9
Mining	-7.5	18.9	21.4	15.0	-2.2
Manufacturing	1.9	-1.8	1.4	2.5	2.0
Vehicle and auto-parts	-3.0	-7.7	4.4	2.5	1.5
Others	4.2	1.3	-0.1	2.5	2.3
Total imports	4.9	0.6	3.8	6.3	5.7
Consumption goods	0.3	0.4	14.7	17.4	14.4
Oil	2.9	1.1	20.0	39.0	38.7
Non-oil	-0.6	0.2	12.9	11.2	7.8
Intermediate goods	5.5	1.3	2.4	5.3	4.8
Oil	10.4	4.0	13.1	-7.6	-11.0
Non-oil	5.1	1.0	1.5	6.8	6.6
Capital goods	5.8	-5.1	2.4	0.5	2.6

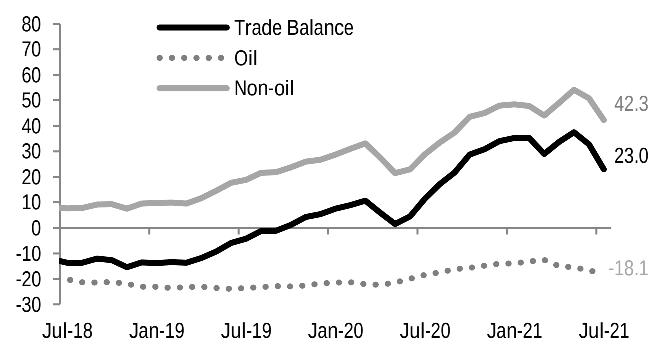
Source: INEGI

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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BANORTE

GRUPO FINANCIERO BANORTE S.A.B. de C.V.

Research and Strategy			
Gabriel Casillas Olvera	IRO and Chief Economist	gabriel.casillas@banorte.com	(55) 4433 - 4695
Raquel Vázquez Godinez	Assistant	raquel.vazquez@banorte.com	(55) 1670 - 2967
Lourdes Calvo Fernández	Analyst (Edition)	lourdes.calvo@banorte.com	(55) 1103 - 4000 x 2611
Economic Research and Financial Market Strategy			
Alejandro Padilla Santana	Executive Director of Economic Research and Financial Markets Strategy	alejandro.padilla@banorte.com	(55) 1103 - 4043
Itzel Martínez Rojas	Analyst	itzel.martinez.rojas@banorte.com	(55) 1670 - 2251
Economic Research			
Juan Carlos Alderete Macal, CFA	Director of Economic Research	juan.alderete.macal@banorte.com	(55) 1103 - 4046
Francisco José Flores Serrano	Senior Economist, Mexico	francisco.flores.serrano@banorte.com	(55) 1670 - 2957
Katia Celina Goya Ostos	Senior Economist, Global	katia.goya@banorte.com	(55) 1670 - 1821
Luis Leopoldo López Salinas	Economist, Global	luis.lopez.salinas@banorte.com	(55) 1103 - 4000 x 2707
Market Strategy			
Manuel Jiménez Zaldívar	Director of Market Strategy	manuel.jimenez@banorte.com	(55) 5268 - 1671
Fixed income and FX Strategy			
Santiago Leal Singer	Senior Strategist, Fixed Income and FX	santiago.leal@banorte.com	(55) 1670 - 2144
Leslie Thalía Orozco Vélez	Strategist, Fixed Income and FX	leslie.orozco.velez@banorte.com	(55) 5268 - 1698
Equity Strategy			
Marissa Garza Ostos	Director of Equity Strategy	marissa.garza@banorte.com	(55) 1670 - 1719
José Itzamna Espitia Hernández	Senior Strategist, Equity	jose.espitia@banorte.com	(55) 1670 - 2249
Alik Daniel García Alvarez	Senior Strategist, Equity	alik.garcia.alvarez@banorte.com	(55) 1670 – 2250
Víctor Hugo Cortes Castro	Senior Strategist, Technical	victorh.cortes@banorte.com	(55) 1670 - 1800
Juan Barbier Arizmendi, CFA	Analyst	juan.barbier@banorte.com	(55) 1670 - 1746
Corporate Debt			
Hugo Armando Gómez Solís	Senior Analyst, Corporate Debt	hugoa.gomez@banorte.com	(55) 1670 - 2247
Gerardo Daniel Valle Trujillo	Analyst, Corporate Debt	gerardo.valle.trujillo@banorte.com	(55) 1670 - 2248
Economic Studies			
Delia María Paredes Mier	Executive Director of Economic Studies	delia.paredes@banorte.com	(55) 5268 - 1694
Miguel Alejandro Calvo Domínguez	Senior Analyst, Economic Studies	miguel.calvo@banorte.com	(55) 1670 - 2220
Wholesale Banking			
Armando Rodal Espinosa	Head of Wholesale Banking	armando.rodal@banorte.com	(81) 8319 - 6895
Alejandro Aguilar Ceballos	Head of Asset Management	alejandro.aguilar.ceballos@banorte.com	(55) 5268 - 9996
Alejandro Eric Faesi Puente	Head of Global Markets and Institutional Sales	alejandro.faesi@banorte.com	(55) 5268 - 1640
Alejandro Frigolet Vázquez Vela	Head of Sólida Banorte	alejandro.frigolet.vazquezvela@banorte.com	(55) 5268 - 1656
Arturo Monroy Ballesteros	Head of Investment Banking and Structured Finance	arturo.monroy.ballesteros@banorte.com	(55) 5004 - 1002
Carlos Alberto Arciniega Navarro	Head of Treasury Services	carlos.arciniega@banorte.com	(81) 1103 - 4091
Gerardo Zamora Nanez	Head of Transactional Banking, Leasing and Factoring	gerardo.zamora@banorte.com	(81) 8318 - 5071
Jorge de la Vega Grajales	Head of Government Banking	jorge.delavega@banorte.com	(55) 5004 - 5121
Luis Pietrini Sheridan	Head of Private Banking	luis.pietrini@banorte.com	(55) 5004 - 1453
Lizza Velarde Torres	Executive Director of Wholesale Banking	lizza.velarde@banorte.com	(55) 4433 - 4676
Osvaldo Brondo Menchaca	Head of Specialized Banking Services	osvaldo.brondo@banorte.com	(55) 5004 - 1423
Raúl Alejandro Arauzo Romero	Head of Transactional Banking	alejandro.arauzo@banorte.com	(55) 5261 - 4910
René Gerardo Pimentel Ibarrola	Head of Corporate Banking	pimentelr@banorte.com	(55) 5268 - 9004
Ricardo Velázquez Rodríguez	Head of International Banking	rvelazquez@banorte.com	(55) 5004 - 5279
Víctor Antonio Roldan Ferrer	Head of Commercial Banking	victor.roldan.ferrer@banorte.com	(55) 5004 - 1454