Trade balance – More dynamism in December, but still limited by supply issues

January 27, 2022

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- **Trade balance (December): US$590.3 million; Banorte: -US$524.8mn; consensus: US$0.4mn (range: -US$524.8mn to +US$3,800mn); previous: -US$111.7mn**
- **The balance was in surplus for the first time in six months, with sizable strength in non-auto manufacturing exports. With this, it accumulated a US$11.5 billion deficit in full-year 2021**
- **With seasonally adjusted figures, exports fell 0.1% m/m. Oil-related goods stood at -8.1% and non-oil at 0.4%. In the latter, manufacturing improved (0.5%), supported by 'others' (5.2%)**
- **Imports advanced 4.9%. Oil rebounded 6.0%. In non-oil (4.7%), we highlight the move higher in intermediate (5.5%) and consumption (3.2%), but capital goods backtracked (-0.1%) after relevant gains in the previous month**
- **Results suggest a recovery of manufacturing and consumption by year-end 2021. Nevertheless, the outlook remains very challenging due to new virus disruptions globally**

US$11.5 billion deficit in full-year 2021. December's result was above consensus (US$0.4mn) and to our -US$524.8 million estimate. This was the first positive print in six months, in our view still distorted by supply chain problems and with renewed strength in non-auto manufacturing shipments abroad. Annual rates are still heavily influenced by base effects, with exports at 10.8% and imports higher (27.7%), as shown in Chart 1. Oil categories remain very high on elevated prices. Details are presented in Table 1. As a result, the trade balance accumulated a US$11.5 billion deficit in full-year 2021, with oil at -US$24.9 billion and a non-oil surplus of US$13.4 billion (see Chart 2).

Mostly better signals from sequential performance, albeit cautious on price effects. We recall that these figures are in nominal terms, so they are also influenced by the global inflationary wave, which may be skewing results to the upside. Hence, reading them and translating them into real activity has become more difficult. Exports fell 0.1% m/m –albeit dragged mainly by oil-related goods–, while imports picked up to 4.9 (see Table 2). Apart from the auto sector which remains affected by the scarcity of key inputs such as semiconductors, both manufacturing exports and imports suggest renewed dynamism in the sector. In addition, consumption goods purchased abroad grew further.

In oil, shipments abroad dipped 8.1%, dragged by crude oil (-11.2%). This is consistent with preliminary reports of weak volumes, as well as more modest prices as fears about Omicron at the time hit the outlook for demand. Imports were stronger (+6.0%), with consumption goods surprising higher (21.8%) despite more modest gasoline prices in the US. On a 12-month basis, the trend towards higher deficits remains unchanged.

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In non-oil, exports grew 0.4%, with mixed results. Agricultural goods declined for a third consecutive month despite price signals suggesting higher production levels. Mining remains quite volatile but overall positive, in our view still supported by elevated prices. Manufacturing still shows that autos (-8.8%) are in a tight spot, albeit with others gathering strength (5.2%). In our view, these results are consistent with favorable external demand, Unfortunately, growth remains limited by production constraints, given supply chain management problems. Going to imports, consumption gathered pace and suggests some resiliency in domestic demand despite higher prices, while intermediate goods were relatively strong amid supply bottlenecks. In turn, capital goods inched lower after a string of recent gains, reinforcing our view that domestic investment is likely to be the less dynamic component of aggregate demand.

Favorable signals for year-end, but with higher uncertainty this year. Despite a plethora of distortions, these results and other data already available for December suggest that activity may have recovered some dynamism by the end of the year. Hence, the view of the period's GDP may not be as negative as suggested by INEGI's *Timely Indicator of Economic Activity*.

For 2022, the global outlook has turned more uncertain again because of Omicron. Although Western countries have kept their countries 'open', Asian governments preferred to reinstate lockdowns and other social-distancing measures. This is especially clear in China, where a 'zero COVID' policy remains in place. Closures of various cities and ports have been announced, highlighting some key trade and production hubs such as Shenzhen, Tianjin and Ningbo, resulting in further delays in shipments and pressuring prices of air cargo. Meanwhile, the trend in other countries, such as the US and Mexico, has been a rise in worker absenteeism as persons have to isolate. Nevertheless, economic activities have stayed as normal as possible, albeit with productivity losses most of the time. Considering this, advanced data indeed point to some impact. For example, the US PMI manufacturing from *Markit* fell to 55.0pts, lowest in 15 months. The report cites the extension of supply chain problems, adding also not enough workers. At the margin, they also mention lower price pressures, which could be favorable for performance ahead.

Locally, disruptions continue. Several automakers started the year with stoppages, noting Volkswagen's two weeks halt. This is consistent with higher waiting times for the delivery of semiconductors, reaching 25.8 weeks according to *Susquehanna Financial Group*. In USMCA-related issues, the dispute about national content thresholds in auto sector rules of origin has progressed, with Mexico formally applying for the installation of a panel to resolve this issue. Canada has joined Mexico as they are also interested in a more lenient interpretation of these rules. Although it is unlikely to have relevant implications in the short-term, it may well have a more sizable impact in the mid-term. In oil, prices could remain high given rising political tensions between the US and Russia, as well as few expected changes in OPEC+'s strategy in the meeting to be held next week. Nevertheless, the main limitation for higher exports will remain Pemex's production capacity, which has stayed mostly stable in the last months.

On domestic demand, we believe conditions will improve further, but the last COVID-19 wave could affect employment and wage conditions. Nevertheless, the latter may be benefitted by the 22% minimum wage hike and strong remittances from the US. Moreover, we will keep an eye on price dynamics and the broad impact they could have on households' purchasing power.

Table 1: Trade balance
% y/y nsa

	Dec-21	Dec-20	2021	2020
Total exports	**10.8**	**11.4**	**18.5**	**-9.5**
Oil	41.6	-11.7	65.4	-32.2
Crude oil	25.8	-5.3	63.3	-34.3
Others	150.8	-39.7	76.5	-18.4
Non-oil	9.3	12.8	16.5	-8.1
Agricultural	8.3	-2.1	7.6	2.5
Mining	17.4	16.0	29.0	19.7
Manufacturing	9.2	13.5	16.7	-9.0
Vehicle and auto-parts	-4.6	11.3	13.8	-16.8
Others	16.3	14.7	18.1	-4.6
Total imports	**27.7**	**3.6**	**32.0**	**-15.9**
Consumption goods	32.5	-6.9	34.9	-24.8
Oil	73.7	-31.0	48.2	-38.6
Non-oil	21.5	2.6	30.9	-19.4
Intermediate goods	27.7	6.7	32.7	-13.9
Oil	60.8	-0.8	83.4	-30.5
Non-oil	24.9	7.4	29.0	-12.4
Capital goods	21.5	-5.4	21.8	-19.3

Source: INEGI

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

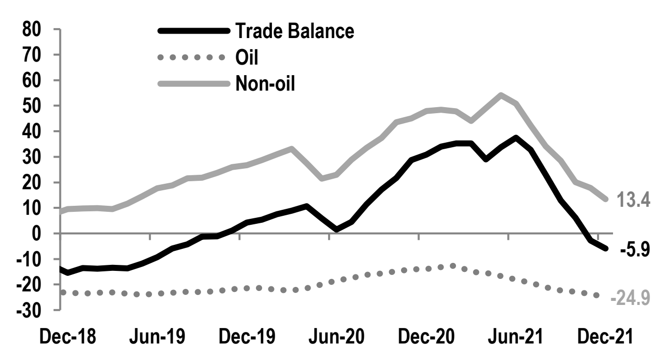
	% m/m			% 3m/3m	
	Dec-21	Nov-21	Oct-21	Oct-Dec'21	Sep-Nov'21
Total exports	**-0.1**	**6.2**	**1.2**	**6.0**	**3.7**
Oil	-8.1	-2.2	10.7	3.5	2.3
Crude oil	-11.2	-1.8	8.3	-2.3	-3.5
Others	4.3	-3.7	21.3	33.1	35.3
Non-oil	0.4	6.8	0.6	6.1	3.8
Agricultural	-1.1	-0.6	-2.8	-0.1	2.3
Mining	1.2	-15.8	49.6	6.6	-12.1
Manufacturing	0.5	7.7	-0.1	6.4	4.2
Vehicle and auto-parts	-8.8	19.2	-0.4	12.1	8.3
Others	5.2	2.7	0.1	4.0	2.4
Total imports	**4.9**	**1.3**	**1.6**	**2.5**	**0.2**
Consumption goods	7.7	0.2	1.8	2.6	-2.4
Oil	21.8	-5.3	-2.8	-2.9	-8.3
Non-oil	3.2	2.1	3.5	4.6	-0.2
Intermediate goods	4.9	1.2	1.6	2.3	0.3
Oil	-0.3	-1.7	5.2	-1.6	-1.6
Non-oil	5.5	1.5	1.2	2.8	0.5
Capital goods	-0.1	4.1	0.5	3.4	3.5

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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