# Trade balance – Generalized slowdown in January, with auto exports still very weak

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- **Trade balance (January): -US$6,286.3 million; Banorte: -US$3,834.4mn; consensus: -US$3.834.4mn (range: -US$6,106.0mn to -US$564.2mn); previous: US$590.3mn**
- **The period is typically negative on relatively low manufacturing exports. Overall data points to a slowdown, reinforcing signals of a more modest pace of the economy**
- **Seasonally adjusted, exports fell for a second month in a row (-5.3% m/m). Oil-related goods were at -0.8% while non-oil dipped 5.5%. We highlight the 5.7% drop in manufacturing, especially autos (-9.9%)**
- **Imports also contracted (-3.4% m/m). Oil fell 3.0% despite help from higher prices. Non-oil was a drag (-3.5%), with consumption somewhat resilient, albeit with intermediate goods down 4.3%**
- **Supply chain bottlenecks likely exacerbated in the period on renewed problems because of Omicron. Despite a likely improvement in February, this problem –as well as price increases– maintains some risks for trade and real activity, at least for the first quarter of the year**

**US$6.3 billion deficit in January, weaker than seasonal trends.** This was below consensus, which matched our -US$3,834.4 million estimate. The period is typically negative on relatively low manufacturing exports relative to purchases abroad. Exports and imports grew 3.8% and 18.5% y/y, respectively (Chart 1), aided to some extent by more benign base effects. Oil-related categories are still growing at a faster pace, helped by high prices. Details are presented in Table 1. With this, the trade balance accumulated a US$16.5 billion deficit in the last twelve months, with oil at -US$25.9 billion and a non-oil surplus of US$9.4 billion (see Chart 2). This was about US$5 billion lower than the sum for full-year 2021, in our view signaling a generalized slowdown in activity.

**Weak sequential performance, especially in autos and some domestically-driven categories.** Exports fell 5.3% m/m, with non-oil down 5.5% and oil lower by 0.8%, with a second consecutive month in contraction. Meanwhile, imports declined 3.4%, its first fall since last September (see Table 2). These results suggest an important moderation, particularly if we factor-in that they are expressed in nominal terms and therefore skewed to the upside due to the influence of high global inflation. In this sense, Markit's PMI manufacturing in the US suggests that companies are increasingly passing on higher costs to their customers. Apart from this, we believe additional disruptions caused by surging Omicron cases –both in Mexico and the US– likely exacerbated the stress coming from ongoing supply bottlenecks.

Within exports, we highlight that auto sector shipments remain very weak (-9.9%), with the recent trend still highly volatile. Despite better signals from production in both Mexico and the US, inventory and shipment management is likely an important issue for most automakers. Meanwhile, other manufacturing exports fell 3.9%.

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Oil declined 0.8% despite signals of higher volumes and prices, with the Mexican oil mix reaching 77.85 US$/bbl (+53.0% y/y) on average, better than the 66.73 US$/bbl of the previous month. Here, it is also important to say that the government has stated its intention to reduce crude oil exports to refine products domestically. At least in the short-term, it is likely that this will show up as higher oil deficits.

Moreover, we flag that domestically-driven categories within imports, such as capital goods (-0.4%), are consistent with an economic slowdown. In turn, this is in line with the signals provided by other soft indicators. More positively, consumption (0.8%) was more resilient, adding five consecutive months higher. On the other hand, intermediate goods dipped 4.3%, probably affected by supply chain issues. Oil purchases were higher than our expectations, helping explain the stronger deficit at the headline. In particular, consumption inched higher despite a very sizable move up in the previous month.

**A downbeat start of the year, with important headwinds still present in the short-term.** It is our take that today's report reaffirms earlier signs of a difficult start of 2022 for the economy. In this respect, INEGI's *Timely Indicator of Economic Activity* estimates a slight 0.1% m/m contraction in January, with weakness concentrated in industry (more directly related to trade in goods).

The evolution of the virus remains key for global trade despite less restrictions as Omicron wanes. China has maintained a 'zero COVID' policy, while adding stimulus in a bid to boost growth. This maintains the risk of further disruptions to supply chains, which would affect other parts of the world given its importance for global manufacturing. Although authorities have claimed that they have shifted to a more "precise" and targeted approach to lockdowns, they will likely remain a potential source of disruption. To the latter we must add the invasion of Ukraine by Russia, for which the US and other countries have retaliated with sanctions. Markets have focused on the issues that may arise because of this on commodities' prices, especially energy –including gasoline– and wheat. Geographically, immediate concerns are on its possible effect on Europe. Nevertheless, we cannot rule out a more widespread effect given the diverse and complicated linkages of global production and trade. In Mexico, the main effect is likely to be through financial markets. So far, the exchange rate has adjusted in an orderly fashion, depreciation from around 20.25 per dollar to a high of 20.78 yesterday, currently trading at 20.42. Moreover, we do not rule out an impact on trade volumes, especially in the oil balance, with higher prices also reflected indirectly in both exports and imports.

At least for now, the manufacturing sector in the US seems to have regained some dynamism in February. Specifically, *Markit's* PMI strengthened to 57.5pts from 55.5pts. According to the report, output gained considerable momentum as virus disruptions diminished, also fostering demand. A slight easing of supply bottlenecks also helped production, while export sales grew at its fastest pace in five months. Despite of this, price pressures remain elevated, with higher input costs on raw materials, transportation and wages. Given high demand, more companies planned to pass them to their customers to protect profit margins, with the increase in delivery times boosting the headline. Moreover, new orders also picked up dynamism, supporting confidence.

Locally, we had some brief interruptions to trade in February (*e.g.* temporary ban on avocado exports to the US from February 11 to 18, halted activities at the Lazaro Cardenas port for a few hours due to protests), although they were likely not material. On the other hand, costs remain a headwind, with January's PPI showing elevated annual rates in storage (+7.9% y/y), and transportation by sea (6.1%) and road (4.7%), among others. As a result, we will watch closely at IMEF's PMI indicators, to be released next week. Although they would not include any effect from what was happened in recent days, it should help us assess the position in which companies established in Mexico are to face these problems.

Overall, recent global developments may be portrayed as an additional supply shock, further limiting global GDP prospects and probably accommodated via higher prices. This could eventually hurt Mexico as it is a very open economy. Nonetheless, it is still too early to tell if these geopolitical issues will be durable and sizable enough to affect dynamism, while it is more certain that they will likely be accompanied by additional price pressures that would keep impacting households' real incomes.

Table 1: Trade balance
% y/y nsa

| | Jan-22 | Jan-21 | 2021 | 2020 |
|---|---|---|---|---|
| Total exports | 3.8 | -2.7 | 18.5 | -9.5 |
| Oil | 36.4 | -19.5 | 65.4 | -32.2 |
| Crude oil | 26.8 | -19.1 | 63.3 | -34.3 |
| Others | 98.8 | -22.3 | 76.5 | -18.4 |
| Non-oil | 1.9 | -1.5 | 16.5 | -8.1 |
| Agricultural | 15.0 | -13.7 | 7.6 | 2.5 |
| Mining | -13.7 | 44.7 | 29.0 | 19.7 |
| Manufacturing | 1.6 | -1.5 | 16.7 | -9.0 |
| Vehicle and auto-parts | -20.5 | 1.7 | 13.8 | -16.8 |
| Others | 14.1 | -3.3 | 18.1 | -4.6 |
| Total imports | 18.5 | -6.0 | 32.0 | -15.9 |
| Consumption goods | 32.1 | -20.6 | 34.9 | -24.8 |
| Oil | 70.9 | -46.8 | 48.2 | -38.6 |
| Non-oil | 21.0 | -7.7 | 30.9 | -19.4 |
| Intermediate goods | 16.7 | -2.7 | 32.7 | -13.9 |
| Oil | 48.0 | -14.5 | 83.4 | -30.5 |
| Non-oil | 14.1 | -1.6 | 29.0 | -12.4 |
| Capital goods | 16.5 | -10.5 | 21.8 | -19.3 |

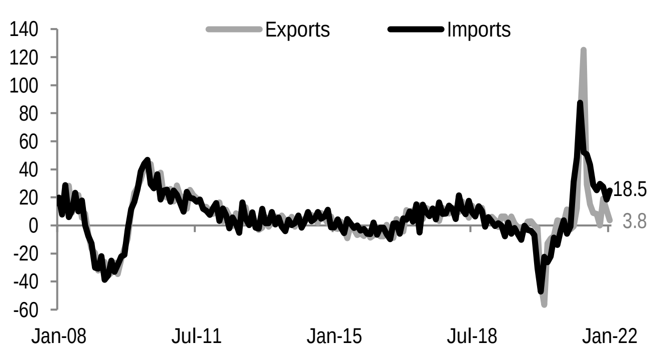
Source: INEGI

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

| | % m/m | | | % 3m/3m | |
|---|---|---|---|---|---|
| | Jan-22 | Dec-21 | Nov-21 | **Nov'21**-Jan'**2**2 | Oct-Dec'21 |
| Total exports | -5.3 | -0.4 | 5.9 | 5.3 | 5.4 |
| Oil | -0.8 | -7.3 | 1.0 | 1.6 | 5.1 |
| Crude oil | 1.5 | -9.3 | 3.3 | -0.4 | -0.2 |
| Others | -9.6 | 1.0 | -7.6 | 10.4 | 31.3 |
| Non-oil | -5.5 | 0.1 | 6.3 | 5.6 | 5.5 |
| Agricultural | 0.2 | -1.1 | -0.6 | -2.1 | -0.3 |
| Mining | -8.6 | 1.1 | -15.8 | -5.4 | 6.2 |
| Manufacturing | -5.7 | 0.1 | 7.2 | 6.2 | 5.7 |
| Vehicle and auto-parts | -9.9 | -9.1 | 18.4 | 9.2 | 10.0 |
| Others | -3.9 | 4.7 | 2.3 | 4.9 | 3.9 |
| Total imports | -3.4 | 4.8 | 1.2 | 4.1 | 2.2 |
| Consumption goods | 0.7 | 7.9 | 0.0 | 7.0 | 2.6 |
| Oil | 0.4 | 22.3 | -5.9 | 5.6 | -3.3 |
| Non-oil | 0.8 | 3.3 | 2.1 | 7.5 | 4.9 |
| Intermediate goods | -4.4 | 4.8 | 1.2 | 3.6 | 2.1 |
| Oil | -4.6 | -0.4 | -1.9 | -3.8 | -2.0 |
| Non-oil | -4.3 | 5.3 | 1.5 | 4.4 | 2.5 |
| Capital goods | -0.4 | 0.5 | 3.1 | 4.1 | 2.8 |

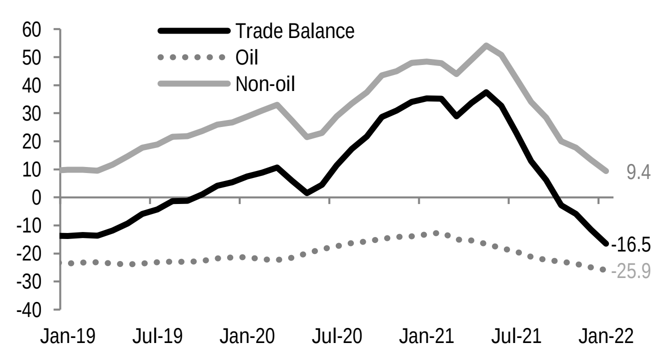
Source: INEGI

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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