Trade balance – Monthly performance impacted by a moderation in prices

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- **Trade balance (August): -US$5,498.2 million; Banorte: -US$4,171.8mn; consensus: -US$4,900.0mn (range: -US$6,500.0mn to -US$2,934.0mn); previous: -US$5,959.5mn**
- **Double-digit growth continued in annual terms in both exports and imports, still favored by higher prices (despite a recent moderation) and with some trade disruptions prevailing**
- **With seasonally adjusted figures, exports fell 0.9% m/m. Oil-related goods remained low at -14.8%, while non-oil was better at +0.3%. In the latter, we highlight the 1.0% increase in manufacturing, boosted by autos (8.6%)**
- **Imports declined 2.1% m/m, with oil-related goods lower by 13.3% as prices kept falling. Non-oil was better at -0.1%. Inside, only capital goods were higher by 3.0%**
- **While some trade conditions keep improving, headwinds also seem to be gathering strength. Coupled with an additional moderation in prices, figures could be skewed to the downside going forward**

US$5,498.2 million deficit in August. This was below consensus and our estimate, showing a deficit for a fifth month in a row. Exports and imports grew 25.2% and 27.0% y/y, respectively (Chart 1). In our view, flows continue to face some challenges. Despite some trade conditions improving at the margin –such as lower transportation costs–, increasing risks about a deceleration in global activity could be weighing on inventory decisions. In addition, annual figures remain distorted by previously built-up pressures despite a recent moderation in prices. For details, see Table 1. Hence, the trade balance accumulated a US$29.0 billion deficit in the last twelve months, with oil at -US$33.0 billion and a US$4.1 billion surplus in non-oil (see Chart 2).

Sequential declines once again, impacted by lower prices. Exports fell 0.9%, adding two months lower. Inside, oil declined 14.8% and non-oil rose 0.3%. Imports had a larger contraction at -2.1%, with oil at -13.3%, and non-oil lower by 0.1%, as seen in Table 2.

Regarding the oil sector, prices extended their downward trend, explaining much of the results. In this sense, the Mexican crude oil mix averaged US$87.27/bbl from US$96.16/bbl. Meanwhile, gasoline front-month futures went from about 3.34 to 2.91 US$/gallon in the period. In volumes, trends seem to have diverged once again, with signs of a deceleration in shipments abroad, especially to the US. On the contrary, inflows seem to have rebounded after relevant distortions in the previous month regarding offloading problems in some fuel terminals. In our view, this helps explain the difference between the -14.8% fall in exports relative to the -13.3% in imports.

In non-oil, performance was mixed. On exports (+0.3%), agricultural goods fell by 8.0%, after a strong increase in July and with modest improvements in climate conditions. Non-oil mining contracted 15.9% with a challenging base and an additional moderation in commodities. More importantly, manufacturing rose 1.0%, with strength in autos at +8.6%. This contrasts with AMIA export data, but is consistent with a favorable performance of the sector in the US. ‘Others’ fell 2.5%, breaking with four months of improvements and likely also affected by the moderation in prices. In imports, activity likely moderated on softer prices, still with mixed signals for overall trade conditions. As such, intermediate goods fell 0.4%, while consumption goods declined 1.1%, adding two months lower. Lastly, and somewhat surprising, capital goods rose 3.0%, positive considering heightened global recession fears.

Mixed signals for trade, with risks tilted to the downside. Conditions for trade remain in a challenging position. The supply side seems to be improving, but demand expectations are turning more negative. Regarding the former, we note the sharp and recent decline in shipping costs, with some references falling around 50% from their highs late last year. For example, the New York’s Fed *Supply Chain Pressure Index* declined to 1.4pts, its lowest level since January 2021, quoting better delivery times for all countries tracked. While this is positive, problems out of China continue. Although some progress on virus restrictions has been seen in Hong Kong, industry specialists believe that the ‘COVID-zero’ policy will remain in place at least until 2023. Hence, this still represents a major risk for global supply chains in the event of further outbreaks. On short-term dynamics, typhoon Muifa triggered the shutdown of key infrastructure in coastal cities for several days, including ports and airports. Closer to home, some timely indicators are favorable despite pessimism about the performance of US activity, boosted by expectations of additional tightening by the Fed. Among them, September’s *S&P Global*’s manufacturing PMI for said country picked up for the first time in four months to 51.8pts, partly explained by ‘new orders’. However, overall economic dynamism remains dampened, at least based on the composite indicator at 49.3pts, despite improving significantly from August at 44.6pts. Another factor is price dynamics and their effects on flows. If the moderation in commodities’ prices continues –and especially if it extends to intermediate and final goods– flows could decrease in magnitude. As such, it will be key to gauge other metrics, such as domestic manufacturing and consumption, to see if the effect is merely nominal or if volumes also start to moderate.

Domestically, signals are also mixed. On the positive side, nearshoring efforts continue, which should be positive in the short- and medium-term. Meanwhile, consumer fundamentals remain strong, supporting consumption goods imports, especially ahead of the holiday season. Nevertheless, the main risk for the latter continues to be inflation, which we think will last longer, having a more relevant impact on purchasing power. Moreover, we are waiting the resolution about rules of origin for autos within the USMCA, which could happen as soon as next month. We will also pay close attention to ongoing talks about the energy sector, albeit with positive signs out of the last *High Level Economic Dialogue* between Mexico and the US this month.

Regarding procedural facilities, some additional progress between the Tax Administration Service (SAT in Spanish) and the newly created National Customs Agency (ANAM in Spanish) has been achieved, with more clarity about the charges related to some rights and authorizations, which we believe could have a positive impact.

All in all, we expect some short-term dynamism to prevail, with the effects of a deceleration in demand likely taking more hold towards the end of the year and/or in early 2023.

Table 1: Trade balance
% y/y nsa

	Aug-22	Aug-21	Jan-Aug'22	Jan-Aug'21
Total exports	**25.2**	**9.4**	**18.9**	**24.5**
Oil	19.7	59.8	50.3	65.9
Crude oil	9.2	59.9	44.1	68.7
Others	83.7	59.6	85.6	51.5
Non-oil	25.6	7.0	17.0	22.6
Agricultural	17.9	24.2	10.6	7.8
Mining	-24.1	23.6	-6.3	43.8
Manufacturing	27.1	6.1	17.8	23.0
Vehicle and auto-parts	42.5	-11.8	15.2	28.4
Others	20.5	16.2	19.1	20.6
Total imports	**27.0**	**43.3**	**24.1**	**34.5**
Consumption goods	43.8	43.9	39.6	35.1
Oil	73.0	76.5	77.1	39.7
Non-oil	32.9	34.6	26.5	33.6
Intermediate goods	24.2	44.5	22.2	36.0
Oil	40.1	133.0	40.6	85.9
Non-oil	22.4	38.6	20.3	32.2
Capital goods	30.1	31.2	19.9	20.6

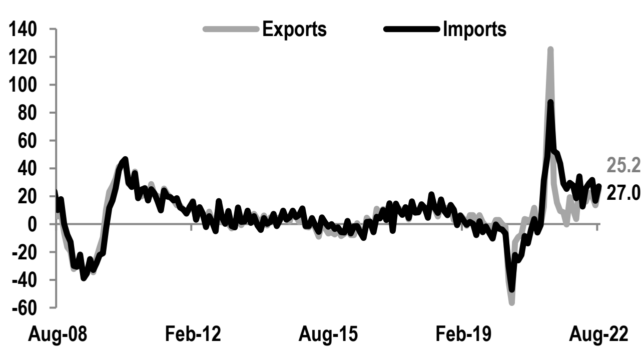
Source: INEGI

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

	% m/m			% 3m/3m	
	Aug-22	Jul-22	Jun-22	Jun-Aug'22	May-Jul'22
Total exports	**-0.9**	**-0.4**	**1.1**	**1.6**	**1.6**
Oil	-14.8	-5.1	2.8	-6.1	5.1
Crude oil	-17.4	-8.0	2.5	-8.4	5.6
Others	-4.5	8.9	4.6	4.7	2.5
Non-oil	0.3	0.0	1.0	2.3	1.4
Agricultural	-8.0	17.9	-1.2	10.4	10.7
Mining	-15.9	25.3	-22.8	-10.7	-7.5
Manufacturing	1.0	-1.2	1.5	2.2	1.1
Vehicle and auto-parts	8.6	-4.0	3.9	4.3	-1.4
Others	-2.5	0.2	0.5	1.2	2.3
Total imports	**-2.1**	**-3.8**	**6.2**	**4.6**	**6.9**
Consumption goods	-5.6	-3.5	11.6	9.8	14.1
Oil	-14.0	-9.0	34.2	23.5	33.5
Non-oil	-1.1	-0.2	1.7	3.7	6.1
Intermediate goods	-2.0	-4.3	5.9	4.1	6.0
Oil	-13.0	-7.9	14.7	18.4	40.6
Non-oil	-0.4	-3.7	4.7	2.4	2.4
Capital goods	3.0	0.1	-1.0	0.8	3.9

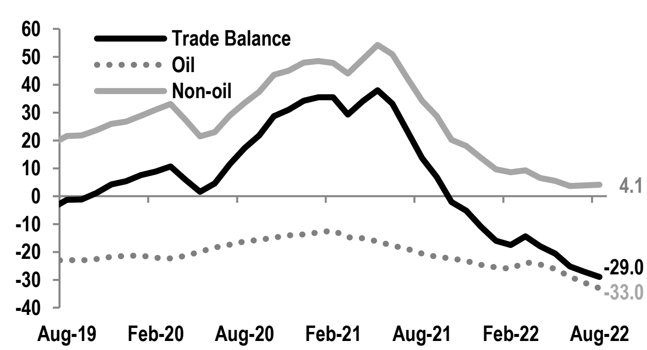
Source: INEGI

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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