Trade balance – Exports outperformed at the end of 3Q22

- **Trade balance (September): -US$895.4 million; Banorte: -US$4,829.6mn; consensus: -US$4,530.5mn (range: -US$5,339mn to -US$1,750mn); previous: -US$5,498.2mn**
- **Double-digit growth rates extended in annual terms for both exports and imports, with the impact from high prices still evident (considering accumulated growth), as well as with supply disruptions seemingly easing**
- **With seasonally adjusted figures, exports rose 5.0% m/m. Oil-related climbed 8.6% despite lower prices at the margin, while non-oil grew 4.7%. In the latter, we highlight manufacturing at 5.7%, boosted by others (6.4%)**
- **Imports declined 0.7% m/m, with oil-related goods lower by 2.7%. Non-oil was better at -0.4%. Inside, only consumption goods were up (0.2%)**
- **We believe drivers for trade are mixed, with further signs of some supply disruptions decreasing, while prospective demand could take a hit on increased recession fears. In addition, flows could now be skewed to the downside on a moderation in energy prices**

US$895.4 million deficit in September. This was more modest than consensus and our estimate, although with a deficit for sixth month in a row. Exports and imports grew 25.3% and 20.8% y/y, respectively (Chart 1). The annual comparison remains propped up in large part by high prices, even despite a recent moderation across commodities and transportation costs. However, the easing of some supply disruptions could be compensating some of this, albeit with increased recession fears and possibly lower demand due to tighter monetary policy globally. For details, see Table 1. Hence, the trade balance accumulated a US$27.5 billion deficit in the last twelve months, with oil at -US$34.4 billion and a US$6.9 billion surplus in non-oil (see Chart 2).

Exports outperform, suggesting some dynamism at the end of 3Q22. Exports rose 5.0% m/m, erasing the losses of the two previous months. Inside, oil climbed 8.6% and non-oil +4.7%. Imports were more modest, falling 0.7%. Oil was weaker at -2.7%, as seen in Table 2.

In the oil sector, prices extended their move lower, influencing results. The Mexican crude oil mix averaged US$81.84/bbl from US$87.26/bbl. Meanwhile, gasoline front-month futures went from about 2.91 to 2.45 US$/gallon in the same period. In volumes, trends seem to have diverged once again, with signs of a relevant acceleration in shipments abroad, especially to the US. On the contrary, inflows seem to have moderated after a slight improvement in the previous month. In our view, this helps explain the difference between the 8.6% increase in exports relative to the -2.7% in imports.

Non-oil was mixed. On exports (+4.7%), agricultural goods fell 14.6%, possibly on lower commodities prices despite still challenging climate conditions. Non-oil mining contracted 1.4%, consistent with a more modest decline in prices.

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More importantly, manufacturing rose 5.7%, with strength in 'others' (+6.4%), rebounding after a decline in August, and consistent with a good performance from the sector in the US. Autos were still high at +5.7%, remarkable after the +11.0% of the previous month, and matching AMIA's export data. In imports, activity may have moderated on softer prices (including transportation), despite better overall trade conditions. As such, intermediate goods fell 0.4%, while consumption goods climbed 0.2%. Lastly, and surprisingly, capital goods backtracked 0.5%, not enough to erase the 3.1% gain of the previous month.

Mixed conditions for trade as disruptions ease but demand starts to cool down. Signals on supply continue improving, both bottlenecks and commodities prices, in turn also impacting shipping costs. In this context, the New York Fed's *Global Supply Chain Pressure Index* improved further in September, down to 1.05pts, its lowest since November 2020. In addition, the situation out of China seems to be improving, with fewer lockdowns as part of the COVID-zero policy, noting only a two-week shutdown in Chengdu in September and some sparce closures in the western regions of the country in October. However, this policy will remain in place at least in the short-term, so the virus continues to represent a relevant risk for supply chains. On transportation costs, ocean shipping rates have fallen considerably since their peak last year, which should alleviate some backlogs –when production allows so– and companies' operating margins. Nevertheless, we believe that new risks on energy prices –triggered by the recent announcement from OPEC+ to cut production– could at best halt their decline, or even rebound modestly. Turning to demand, we believe both businesses and consumers –especially in the US– may be gearing up for a deceleration if not a recession, as the Fed continues to tighten monetary conditions. This is happening despite labor market resiliency, which continues improving. In this context, most fears were reflected within *S&P Global's* manufacturing PMI for the US, falling to 49.9pts in October. They signaled that "*...firms noted easing supply chain pressures and the delivery of some key inputs…*", albeit also that "*…the decrease in client demand was solid...*". This is a point of concern for domestic manufacturing, as the US remains as our main trade partner.

Domestically, conditions are also mixed. Nearshoring efforts continue, with new reports of companies looking to expand operations in our country. However, given limited space for additional expansion –as available industrial workplaces have been mostly taken up–, the main constraint will be related to the development of facilities. Meanwhile, stoppages continue in the auto sector, with reports from VW, Nissan, and Ford having to halt some operations in October.

On USMCA, we are still waiting the resolution of the controversy on rules of origin for autos –which we expected in September–, while consultations on the energy sector were extended by the US. In our view, this latter development is favorable, showing willingness to try and solve issues as part of the treaty in an conciliatory way, fostering the region's economic integration. We will continue monitoring flows closely, analyzing the effect of price fluctuations and their likely impact on activity. In our view, downside risks are growing larger, with demand woes likely outweighing supply improvements towards the end of the year and into 2023.

Table 1: Trade balance
% y/y nsa

	Sep-22	Sep-21	Jan-Sep'22	Jan-Sep'21
Total exports	25.3	8.3	19.7	22.4
Oil	30.8	68.0	48.0	66.1
Crude oil	26.6	72.7	42.1	69.1
Others	49.3	50.0	80.3	51.3
Non-oil	25.0	6.0	17.9	20.4
Agricultural	-4.7	4.7	9.2	7.5
Mining	1.8	2.7	-5.6	39.0
Manufacturing	26.4	6.1	18.8	20.7
Vehicle and auto-parts	42.1	-10.0	18.2	22.7
Others	19.6	14.9	19.2	19.9
Total imports	20.8	29.1	23.7	33.8
Consumption goods	34.2	35.9	38.9	35.2
Oil	50.5	73.3	73.8	43.2
Non-oil	28.4	26.3	26.8	32.7
Intermediate goods	18.5	28.5	21.8	35.0
Oil	44.5	88.8	41.1	86.3
Non-oil	15.9	24.5	19.8	31.3
Capital goods	22.6	24.6	20.2	21.0

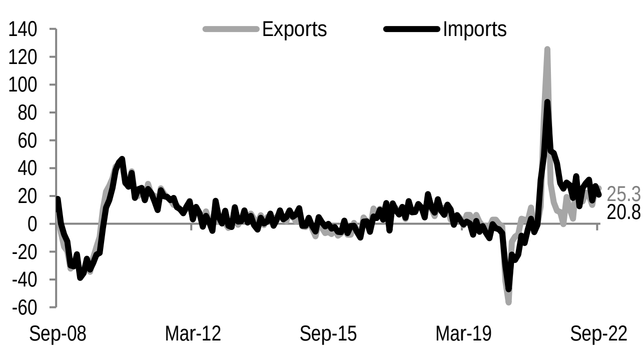
Source: INEGI

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

	% m/m			% 3m/3m	
	Sep-22	Aug-22	Jul-22	Jul-Sep'**22**	Jun-Aug'**22**
Total exports	5.0	-0.2	-0.3	2.6	2.3
Oil	8.6	-13.8	-4.8	-10.8	-5.2
Crude oil	11.1	-16.2	-7.6	-14.7	-7.4
Others	-0.2	-4.2	9.2	8.7	5.2
Non-oil	4.7	0.9	0.1	3.7	2.9
Agricultural	-14.6	-8.8	18.3	5.2	10.1
Mining	-1.4	-15.8	24.3	-4.2	-10.8
Manufacturing	5.7	1.7	-1.0	3.8	2.8
Vehicle and auto-parts	4.4	11.0	-4.2	7.8	5.6
Others	6.4	-2.5	0.5	2.0	1.6
Total imports	-0.7	-1.9	-3.9	-1.4	4.6
Consumption goods	-2.2	-5.5	-3.2	0.3	10.1
Oil	-7.4	-13.9	-8.3	-1.5	24.5
Non-oil	0.2	-1.0	-0.2	1.2	3.8
Intermediate goods	-0.4	-1.8	-4.4	-1.9	4.0
Oil	-0.4	-11.2	-8.1	-4.5	18.8
Non-oil	-0.4	-0.4	-3.8	-1.6	2.2
Capital goods	-0.5	3.1	0.1	0.5	0.9

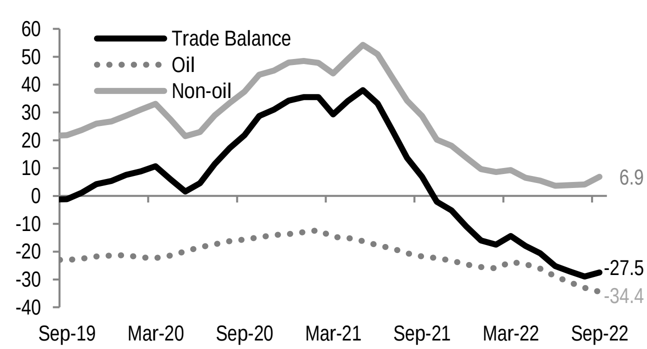
Source: INEGI

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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