Trade balance – Rebound in flows suggests an upbeat start to the year

February 27, 2023

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Juan Carlos Alderete Macal, CFA
Executive Director of Economic Research and Financial Markets Strategy
juan.alderete.macal@banorte.com

Francisco José Flores Serrano
Director of Economic Research, Mexico
francisco.flores.serrano@banorte.com

Yazmín Selene Pérez Enríquez
Senior Economist, Mexico
yazmin.perez.enriquez@banorte.com

Cintia Gisela Nava Roa
Senior Economist, Mexico
cintia.nava.roa@banorte.com

- **Trade balance (January): -US$4,125.1 million; Banorte: -US$4,867.7 mn; consensus: -US$4,750.0mn (range: -US$5,900.0mn to -US$2,030.0mn); previous: US$984.0mn**
- **Annual growth rates accelerated for both exports and imports, both in double-digit territory. While this is partly due to higher dynamism, distortions from price adjustments and supply disruptions prevail**
- **With seasonally adjusted figures, exports rebounded 6.1% m/m. Oil-related increased 2.6%, with stability in prices. Non-oil grew 6.3% after three months of declines. In the latter, we highlight broad strength in manufacturing at 7.1%**
- **Imports advanced 2.4% m/m, with oil-related goods at 10.1% –with mixed dynamics across different fuels. Non-oil was also up at 1.5%. Inside, only consumption goods were higher (19.1%)**
- **We expect trade to remain supported by external demand across 1Q23, with an additional improvement in supply conditions being welcome. Nevertheless, risks stemming from further monetary tightening are gathering traction**

US$4,125.1 million deficit in January. This was lower than both consensus and our estimate. However, it is still in line with the period's seasonality, as exports declined in the aftermath of a slowdown in output at the end of the year and imports accelerated as China pushed flows ahead of the *Lunar New Year*. Annual rates accelerated, with exports and imports at 25.6% and 16.3%, respectively (Chart 1). In our view, some distortions related to prevailing price pressures and lingering supply constraints kept affecting, albeit with the result clearly supported by higher volumes. For details, see Table 1. Hence, the trade balance accumulated a US$24.3 billion deficit in the last twelve months, with oil at -US$35.6 billion and a US$11.4 billion surplus in non-oil (see Chart 2).

Rebounds in both outflows and inflows signal optimism at the start of the year. Exports rose 6.1% m/m, halting three months of declines. Inside, both sectors were stronger, with oil up 2.6% and non-oil at 6.3%. Meanwhile, imports increased for a second consecutive month at 2.4%, mostly driven by oil (10.1%), and with non-oil more mixed at 1.5% as seen in Table 2. In broad terms, we believe these results are positive, with volumes apparently picking up after a slowdown in 4Q22. Nevertheless, we remain wary of price distortions induced by China's reopening.

In the oil sector, the price of the Mexican oil mix was practically unchanged, with the balance likely driven by higher crude volumes. On imports, we believe demand remains relatively resilient, supporting additional inflows. However, the story with prices is more mixed, as evidenced by the spread in consumption (22.8%) and intermediate goods (4.8%). Fuels like gasoline and LP gas increased in the period –more related to the former– while natural gas declined sharply.

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Within non-oil, exports were more favorable at 6.3%, with strength centered in manufacturing (7.1%). Inside the latter, autos grew 12.1%, partly benefited by a less challenging base effect –with contractions since October– but gathering pace as supply constraints keep fading. ‘Others’ rose 4.5%, in our view supported by the revival in US industrial dynamism and with demand in said country more resilient than anticipated. To the downside, both agriculture (-5.4%) and non-oil mining (-7.8%) fell, albeit only after posting relevant expansions in December. For imports (1.5%), transportation costs moderated throughout the month after an uptick in late December. In addition, the MXN appreciated strongly, which may have skewed figures slightly lower. We believe these were the reasons behind the 0.6% decline in both intermediate and capital goods. Nevertheless, the compounded effect of the Chinese reopening and increased flows before the *Lunar New Year* was the driver behind strength in consumption goods at 19.1% (adding two months higher).

Dynamism will likely continue in coming months, albeit with attention to increasing headwinds. We believe the outlook for international trade has improved slightly, with expectations that the end of the COVID-zero policy in China will result in remaining supply disruptions fading away. In this context, the New York Fed’s *Global Supply Chain Pressure Index* moderated again in January. However, the metric remains high vs. historical averages, indicating that the problems have not been solved yet. Another factor that may be supportive in the short-term is the US economy. According to *S&PGlobal*’s PMIs, both manufacturing and services improved in February, suggesting that activity in said country is resilient despite additional monetary tightening. In this sense, we will be looking into the month’s jobs report to ascertain additional data on this front. Domestically, fundamentals for consumption remain quite strong, which along MXN gains, could keep supporting inflows. However, we expect the latter to be especially beneficial to intermediate and capital goods in an environment in which nearshoring efforts keep consolidating.

However, headwinds are also gathering traction. In our view, the main one is also related to the reopening in China, with the possibility of an increase in commodity prices as activity gathered pace. While this has not materialized so far –at least regarding energy–, the situation could change once industries fire up at full capacity. Transportation costs increased sharply at the end of February, being another point of focus ahead. Moreover, additional monetary tightening could represent an additional hurdle, with higher rates increasing the possibility of an economic slowdown. Locally, price pressures remain high. If we add the negative effect of a stronger currency on family remittances, risks to consumption are indeed present.

All in all, performance in the short-term will likely be positive. However, we consider that challenges will likely gather pace as the year goes through, possibly hindering flows. Despite of the latter, we believe external demand will play a role in helping our 2023 GDP estimate, which we currently hold at 1.5%.

Table 1: Trade balance
% y/y nsa

	Jan-23	Jan-22	2022	2021
Total exports	25.6	3.6	16.9	18.6
Oil	8.9	36.5	34.2	65.5
Crude oil	3.1	27.3	31.3	63.4
Others	33.7	98.8	48.7	76.5
Non-oil	26.9	1.7	15.8	16.5
Agricultural	9.8	11.9	7.5	8.9
Mining	9.6	-13.7	-4.2	29.0
Manufacturing	28.3	1.5	16.6	16.7
Vehicle and auto-parts	64.9	-20.5	18.2	13.8
Others	13.8	14.0	15.9	18.1
Total imports	16.3	18.5	19.6	32.0
Consumption goods	30.2	32.4	29.4	34.9
Oil	21.2	70.9	50.8	48.2
Non-oil	33.8	21.4	22.1	30.9
Intermediate goods	13.5	16.6	18.1	32.7
Oil	20.3	48.0	32.2	83.4
Non-oil	12.7	14.0	16.6	29.0
Capital goods	19.7	16.5	18.9	21.8

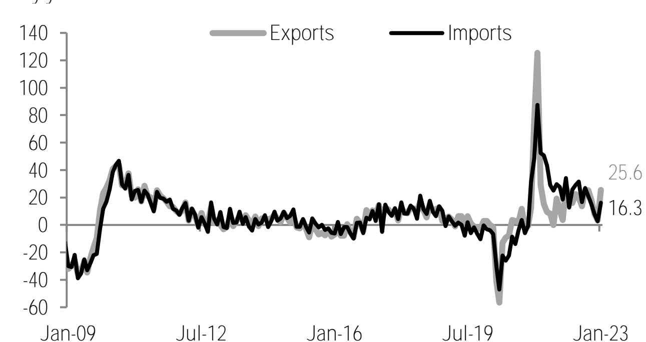
Source: INEGI

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

	% m/m			% 3m/3m	
	Jan-23	Dec-22	Nov-22	**Nov'22**-Jan'**2**3	Oct-Dec**'22**
Total exports	6.1	-1.7	-1.3	-2.1	-3.0
Oil	2.6	11.7	-11.6	-9.8	-16.2
Crude oil	12.0	-8.6	-10.7	-13.2	-14.4
Others	-20.7	149.8	-17.4	4.9	-23.3
Non-oil	6.3	-2.5	-0.7	-1.6	-2.0
Agricultural	-5.4	6.5	1.4	1.4	-6.2
Mining	-7.8	8.3	0.7	14.2	13.2
Manufacturing	7.1	-3.1	-0.8	-2.0	-2.1
Vehicle and auto-parts	12.1	-2.5	-0.5	0.5	1.1
Others	4.5	-3.4	-0.9	-3.3	-3.7
Total imports	2.4	2.7	-4.4	-3.6	-5.5
Consumption goods	20.0	5.3	-5.7	-4.6	-16.1
Oil	22.8	22.1	-7.9	-17.2	-39.5
Non-oil	19.1	0.7	-5.1	0.4	-5.1
Intermediate goods	-0.1	2.3	-4.4	-3.8	-4.2
Oil	4.8	7.0	-16.1	-16.6	-20.9
Non-oil	-0.6	1.8	-3.0	-2.2	-2.0
Capital goods	-0.6	3.2	-2.8	-0.7	0.4

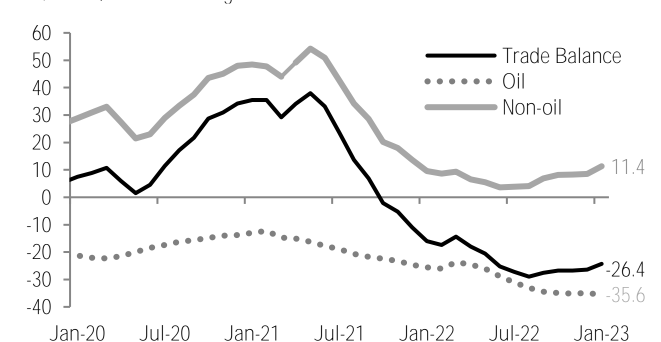
Source: INEGI

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

Research and Strategy			
Alejandro Padilla Santana	Chief Economist and Head of Research	alejandro.padilla@banorte.com	(55) 1103 - 4043
Raquel Vázquez Godinez	Assistant	raquel.vazquez@banorte.com	(55) 1670 - 2967
Itzel Martínez Rojas	Analyst	itzel.martinez.rojas@banorte.com	(55) 1670 - 2251
Lourdes Calvo Fernández	Analyst (Edition)	lourdes.calvo@banorte.com	(55) 1103 - 4000 x 2611
María Fernanda Vargas Santoyo	Analyst	maria.vargas.santoyo@banorte.com	(55) 1103 - 4000
Economic Research			
Juan Carlos Alderete Macal, CFA	Executive Director of Economic Research and Financial Markets Strategy	juan.alderete.macal@banorte.com	(55) 1103 - 4046
Francisco José Flores Serrano	Director of Economic Research, Mexico	francisco.flores.serrano@banorte.com	(55) 1670 - 2957
Katia Celina Goya Ostos	Director of Economic Research, Global	katia.goya@banorte.com	(55) 1670 - 1821
Yazmín Selene Pérez Enríquez	Senior Economist, Mexico	yazmin.perez.enriquez@banorte.com	(55) 5268 - 1694
Cintia Gisela Nava Roa	Senior Economist, Mexico	cintia.nava.roa@banorte.com	(55) 1103 - 4000
Luis Leopoldo López Salinas	Manager Global Economist	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			
Leslie Thalía Orozco Vélez	Senior Strategist, Fixed Income and FX	leslie.orozco.velez@banorte.com	(55) 5268 - 1698
Isaías Rodríguez Sobrino	Strategist, Fixed Income, FX and Commodities	isaias.rodriguez.sobrino@banorte.com	(55) 1670 - 2144
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
Carlos Hernández García	Senior Strategist, Equity	carlos.hernandez.garcia@banorte.com	(55) 1670 - 2250
Víctor Hugo Cortes Castro	Senior Strategist, Technical	victorh.cortes@banorte.com	(55) 1670 - 1800
Paola Soto Leal	Strategist, Equity	paola.soto.leal@banorte.com	(55) 1103 - 4000 x 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
Quantitative Analysis			
Alejandro Cervantes Llamas	Executive Director of Quantitative Analysis	alejandro.cervantes@banorte.com	(55) 1670 - 2972
José Luis García Casales	Director of Quantitative Analysis	jose.garcia.casales@banorte.com	(55) 8510 - 4608
Daniela Olea Suárez	Senior Analyst, Quantitative Analysis	daniela.olea.suarez@banorte.com	55) 1103 - 4000
Miguel Alejandro Calvo Domínguez	Senior Analyst, Quantitative Analysis	miguel.calvo@banorte.com	(55) 1670 - 2220
José De Jesús Ramírez Martínez	Senior Analyst, Quantitative Analysis	jose.ramirez.martinez@banorte.com	(55) 1103 - 4000
Daniel Sebastián Sosa Aguilar	Analyst, Quantitative Analysis	daniel.sosa@banorte.com	(55) 1103 - 4000
Andrea Muñoz Sánchez	Analyst, Quantitative Analysis	andrea.munoz.sanchez@banorte.com	(55) 1103 - 4000
Wholesale Banking			
Armando Rodal Espinosa	Head of Wholesale Banking	armando.rodal@banorte.com	(55) 1670 - 1889
Alejandro Aguilar Ceballos	Head of Asset Management	alejandro.aguilar.ceballos@banorte.com	(55) 5004 - 1282
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 - 5140
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) 8173 - 9127
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) 5249 - 6423
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) 5004 - 1051
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) 1670 - 1899