

Trade balance – Investment will be affected by the contraction in capital goods imports

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- **Trade balance (July): US\$ -1,827.1mn; Banorte-Ixe: US\$ -1,804mn; consensus: US\$ -1,341.5mn (range: US\$ -2,597mn to US\$ -174mn); previous: US\$ -523.6mn**
- **Total exports decreased 8.9% yoy, given the 22.3% yoy reduction in oil exports and the 8% contraction in non-oil exports**
- **Manufacturing exports fell 9% yoy; however, in seasonally-adjusted terms, manufacturing exports increased 0.5% m/m**
- **Moreover, imports declined 9.9% yoy, where we highlight the 9.5% fall in capital goods imports**
- **We believe that today's report suggests that GFI will contract in the third quarter, as a result of the significant fall in capital goods imports**

Trade balance figures for July show a US\$ 1,827.1 million deficit, in line with our forecast (Banorte-Ixe: US\$ -1,804 million; consensus: US\$ -1,341.5 million). Today's figure comes as a result of an 8.9% contraction in exports and a 9.9% reduction in imports. With today's figures, trade balance now adds a US\$ 8,943.1 million deficit.

Total exports decreased 8.9% yoy. Oil exports fell 22.3% vs. July 2015, as a result of the reduction in Mexico's oil production, and the significant decline in international crude oil prices. Moreover, non-oil exports fell 8% yoy. In particular, manufacturing exports edged-down 9%, as a result of a 10.5% fall in car-industry exports, while the rest of manufacturing exports decreased 8.3% (refer to the table on the following page).

Total imports decreased 9.9% yoy. Non-oil consumption imports –associated with private spending– posted a 12.6% reduction in annual terms. Moreover, non-oil imports of intermediate goods –usually used as inputs in the manufacturing sector– fell 10% in July. Finally, capital goods imports edged down to -9.5% yoy during the period in question, as a result of the accumulated depreciation of the Mexican currency.

In seasonally adjusted terms, manufacturing exports increased 0.5% m/m. Taking a look at the breakdown, car-industry exports posted a 2.8% m/m expansion, while the rest of manufacturing exports edged-down to -0.6% m/m. Moreover, non-oil consumption imports increased 0.3% m/m, while non-oil imports of intermediate goods posted a null growth. Finally, capital goods imports fell 2.5% m/m.

With today's figures, manufacturing exports expanded 8.3% 3m/3m saar, as a result of the 5.9% m/m expansion in the previous month. However, capital goods imports edged-down to -10.7% 3m/3m saar (refer to the chart on the next page).

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Negative report. Today's report shows a significant decline in capital goods imports, as a result of the accumulated depreciation of the Mexican currency. Even though Mexican firms have partially replaced these capital goods imports with national machinery and equipment, it is likely that the overall investment will be strongly affected during the third quarter of the year, if we also take into account the reduction in public investment projects as a result of the fiscal cuts implemented by the Federal Government in order to improve Mexico's fiscal perception.

Trade Balance in July

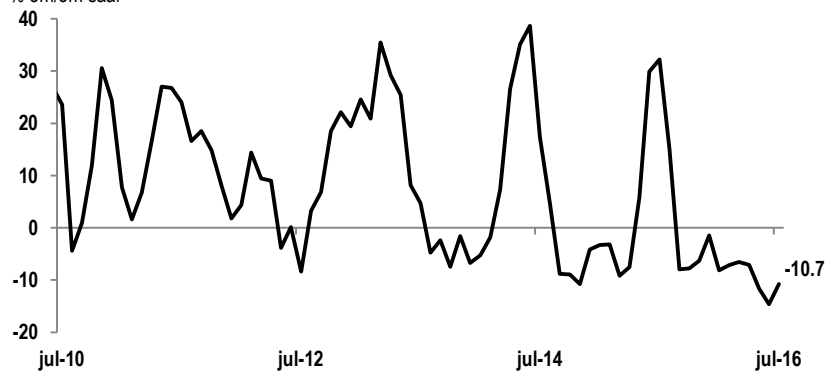
% yoy

	Jul-16	Jun-16	Jan-Jul,'16	Jan-Jul,'15
Total exports	-8.9	-5.4	-5.7	-2.3
Oil	-22.3	-27.5	-34.7	-43.7
Crude oil	-20.6	-21.8	-35.1	-46.5
Other	-30.6	-45.6	-33.4	-27.8
Non-oil	-8.0	-3.8	-3.6	3.2
Agriculture	6.6	4.4	9.4	5.9
Mining	60.1	-39.0	-15.5	-15.2
Manufacturing	-9.0	-3.4	-3.9	3.4
Car industry	-10.5	-6.7	-4.5	8.9
Other	-8.3	-1.6	-3.7	0.8
Total imports	-9.9	-6.1	-4.4	0.0
Consumption	-9.2	-12.5	-7.6	-4.9
Oil	1.0	-13.9	-17.8	-20.4
Non-oil	-12.6	-12.1	-4.4	1.3
Intermediate imports	-10.1	-5.1	-3.6	0.1
Oil	-11.0	-7.8	-12.7	-18.8
Non-oil	-10.0	-4.9	-2.9	1.9
Capital goods	-9.5	-5.1	-6.6	6.6

Source: INEGI

Capital goods imports

% 3m/3m saar



Source: Banorte-Ixe

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