

Trade balance – Higher deficit on a rebound in non-oil imports

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- **Trade balance (January): US\$-4,809.6mn; Banorte: US\$-3,491.3mn; consensus: US\$-3,884.0mn (range of estimates: US\$-5,050 to US\$-2,700mn); previous: US\$1,836.3mn**
- **During the month, total exports increased 1.0% m/m, with a 3.5% contraction in oil but +1.7% and manufacturing. Nevertheless, within the latter, autos dipped by 3.3%**
- **Total imports increased 4.1% m/m, benefitted by the strong pickup in intermediate and capital goods of 4% and 8.9%, respectively, reversing to a great extent the decline of the previous month**
- **In our view, today's report provides tentative signs of a more modest deceleration in economic activity, especially given the performance in non-oil related imports**

Trade balance for January with a US\$4,809.6 million deficit. This figure is lower than the US\$-3,884.0 million figure estimated by consensus and our own estimate of US\$-3,491.3mn. This comes after a strong surplus of US\$ 1,836.3mn in December, highest since data is available (1991). In this respect, January's deficit is partially consistent with a payback after the positive surprise of the previous month, which was explained to a great extent by lower oil-related, intermediate- and capital-goods imports. In our view, today's print provides some early and tentative signs of a more moderated slowdown in economic activity at the start of the year, in particular regarding the short-term outlook for investment given the rebound in both intermediate- and capital-goods imports, which grew more than enough to compensate for three consecutive monthly declines in oil-related consumption goods (mostly gasoline).

Trade Balance in January

% yoy, nsa

	Jan-19	Jan-18	2018	2017
Total exports	5.6	12.5	9.6	9.5
Oil	-12.4	23.4	29.0	25.9
Crude oil	-13.1	29.7	32.3	28.5
Others	-8.4	-4.1	11.2	13.4
Non-oil	7.1	11.6	8.9	8.6
Agricultural	-4.5	21.0	2.7	7.9
Mining	-27.6	60.7	14.8	24.2
Manufacturing	8.5	10.5	9.1	8.4
Vehicle and autoparts	7.4	9.0	12.2	11.8
Others	9.0	11.2	7.4	6.7
Total imports	6.0	14.1	10.4	8.6
Consumption goods	-2.3	16.9	10.1	10.4
Oil	-8.9	11.8	29.8	29.8
Non-oil	0.6	19.3	3.1	4.8
Intermediate goods	7.8	13.1	10.3	9.0
Oil	16.3	16.7	27.0	35.0
Non-oil	6.9	12.8	8.8	7.1
Capital goods	4.8	17.8	11.9	3.3

Source: INEGI

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Total exports grew 5.6% yoy, picking up relative to the +4.3% of the previous month. This was driven by a moderation in the decline of oil-related exports (-12.4% vs -16.8% in December), particularly crude-oil and in spite of the 12.3% fall in the price of the Mexican oil mix. Manufacturing exports were also stronger at 8.5%, with both autos (+7.4%) and others (+9%) with a positive performance. On the other hand, non-oil mining surprised to the downside as they fell 27.6%, along agricultural goods at -4.5%.

Total imports surged 6.4% yoy after contracting 0.8% in December. We highlight that this was driven by higher intermediate- and capital-goods imports, related to manufacturing activity and investment, respectively. Moreover, non-oil consumption goods imports also rebounded, growing 3.9%. On the contrary, oil-related consumption imports extended their decline at -8.9%, while intermediate in this category returned to positive territory at +16.3%.

In seasonally-adjusted terms, total exports were up 1% m/m, with a stronger performance in manufacturing (+1.7%). Although autos returned to negative at -3.3% yoy after a brief improvement in December, manufacturing managed to end in positive territory due to the strength in the non-auto manufacturing sector (+4.5%). Given the decline in prices, oil-related exports returned to contraction territory at -3.5%, with crude oil falling 0.3% but others plunging 20.8%. Despite the better performance in manufacturing, we believe that a strengthening in this sector is relatively unlikely given recent weakness in autos and the moderation in global economic activity.

Total imports surged 4.1% m/m, highest in a year. The rebound came after the 5.2% contraction of the previous month. Broadly speaking, monthly results were in line with the annual comparison, with oil-related consumption goods the only category lower. In our view, the renewed dynamism in imports is positive, particularly the rebound in intermediate- (4%) and capital-goods (8.9%) as they suggest better prospects for industrial activity after their recent weakness. Additionally, non-oil consumption-goods also improved (+2.9%), growing at its highest pace since Dec'17 which is intimately related to private consumption.

Trade Balance in January

% m/m sa

	Jan-19	Dec-18	Nov-18
Total exports	1.0	1.6	-1.4
Oil	-3.5	1.8	-5.6
Crude oil	-0.3	-1.5	-4.3
Others	-20.8	25.2	-14.0
Non-oil	1.3	1.6	-1.1
Agricultural	-1.7	11.2	-4.4
Mining	-17.1	24.0	-3.5
Manufacturing	1.7	0.9	-1.0
Vehicle and autoparts	-3.3	2.4	-3.0
Others	4.5	0.1	0.1
Total imports	4.1	-5.2	1.5
Consumption goods	1.3	-4.0	-3.9
Oil	-3.1	-14.2	-10.5
Non-oil	2.9	0.5	-0.7
Intermediate goods	4.0	-5.2	3.1
Oil	3.2	-17.1	11.3
Non-oil	4.1	-3.8	2.2
Capital goods	8.9	-6.8	-3.8

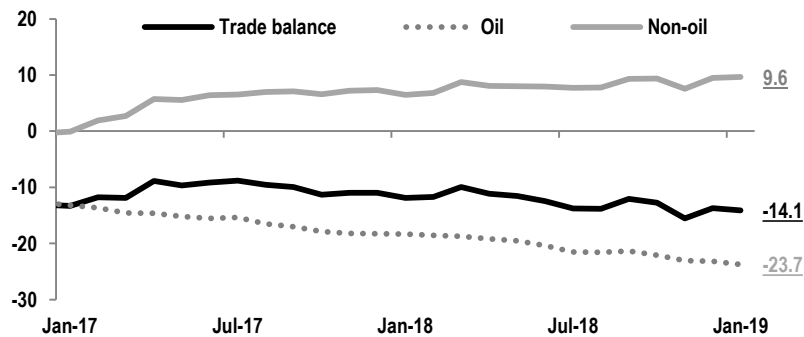
Source: INEGI

Today’s report provides tentative signs of a more modest deceleration in economic activity. In particular, we see positively the increase in non-oil related imports as they suggest that aggregate demand could have started better than suggested by recent indicators for the end of last year. Nevertheless, it is worth mentioning that the impact of recent events on supply chains could still be seen in February, as it depends on the timing of registration of imports and the build-up in inventories. Despite of the latter, the rebound in intermediate and capital-goods imports is positive as the dip in December raised significant red flags. Although we maintain our view that economic activity is decelerating, today’s report provides some relief in terms of its possible magnitude. We expect manufacturing to keep contributing positively to growth but will watch carefully for the performance in autos, which has recently been weaker. On the other hand, we believe that oil will remain a drag to the trade balance, even if imports have been reduced meaningfully in recent months.

In this respect, the twelve-month rolling oil balance stands at -US\$ 23,425.0 million, while the non-oil balance improved to US\$ 9,692.9 million (see chart below). In the former, we do not foresee a sizable improvement this year despite the fact that the deficit moderated at the margin during the month. On the other hand, the non-oil balance has exhibited a better performance in recent months, although risks remain given the slowdown in global manufacturing activity.

Trade Balance

US\$ billion, 12-month rolling sum



Source: INEGI, Banorte

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