

## Trade balance – Manufacturing exports temporarily affected by weakness in autos

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- **Trade balance (September): US\$-116.2mn; Banorte: US\$-605.3mn; consensus: US\$212.5mn (range: US\$-1,050mn to US\$2,486mn); previous: US\$775.0mn**
- **Total exports contracted 5.3% m/m, with a generalized slowdown exacerbated by the decline in autos (-7.3%), most likely resenting the impact of GM's labor strike in the US**
- **Imports fell 2.4%, breaking with two consecutive months in positive territory. By sector, we highlight the contraction in all categories with the exception of non-oil consumption goods (1.8%), consistent with the possibility of a stronger performance of private consumption**
- **On a year-to-date basis the trade surplus remains quite high, moderating only slightly to US\$2,687.3 million**
- **In our view, trade in October could be impacted further by the temporary effect of GM's strike, while we remain worried by the muted dynamism of capital goods imports as they suggest additional weakness in investment**

**US\$116.2 million deficit in September.** This was higher than our forecast (US\$-605.3 million), but below consensus expectations. The difference was mainly a result of our overestimation of the impact that the GM strike in the US had on auto exports, which fell 7.3% m/m (-2.8% yoy). Nevertheless, we believe that non-oil intermediate goods imports could also have been affected. Nevertheless, the -2.3% m/m (+1.7% yoy) in this category makes us think that the effect was less pronounced. It is worth noting that this is barely the third month so far this year with a deficit. Total exports declined 1.3% yoy, its first fall since October 2016 (when excluding periods distorted by the Holy Week), while imports contracted 1.7%. During the first three quarters of 2019, the trade balance surplus moderated to US\$ 2,687.3 million, slightly below the US\$ 2,803.5 million accumulated until August.

The oil sector keeps declining in the annual comparison, deepening the fall both in exports and imports and with a US\$1,558.3 million deficit, improving at the margin. The former stood at -29.3% yoy, worse than our -22.7% forecast and the highest contraction since March 2016. Taking a look at the breakdown, we highlight the 31% fall in crude oil exports, in a context of high price volatility after the attacks to Saudi Arabia's oil infrastructure. On the other hand, imports were lower by 17.8%, with most of the weakness concentrated in consumption (23.1%) although also with a relevant decline in intermediate goods (-14.8%).

In non-oil the surplus stood at US\$ 1,442.0 million, with exports and imports up 1.0% and 0.3%, respectively. In particular, manufacturing was higher by 0.8%, with weakness in autos, as mentioned above. Nevertheless, the rest of manufacturing was stronger, advancing 3.1%. In imports, the most positive performance was in consumption (+4.2%), followed by intermediate goods (1.7%). Nevertheless, capital goods remain weak, falling 13.5%.

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**Trade Balance in September**

% yoy, nsa

	Sep-19	Sep-18	Jan-Sep'19	Jan-Sep'18
<b>Total exports</b>	-1.3	11.6	3.3	11.3
Oil	-29.3	43.4	-14.6	43.9
Crude oil	-31.0	47.1	-14.0	51.7
Others	-15.4	18.9	-18.8	7.5
Non-oil	1.0	9.7	4.7	9.5
Agricultural	12.1	-8.4	9.7	5.1
Mining	-10.1	-0.2	-5.9	21.4
Manufacturing	0.8	10.5	4.6	9.5
Vehicle and autoparts	-2.8	17.8	6.2	13.4
Others	3.1	6.3	3.8	7.4
<b>Total imports</b>	-1.7	6.4	-0.5	11.4
Consumption goods	-3.8	1.8	-3.6	12.9
Oil	-23.1	16.4	-10.8	38.9
Non-oil	4.2	-3.3	-0.4	4.0
Intermediate goods	0.2	7.0	1.1	10.8
Oil	-14.8	18.9	-8.7	31.5
Non-oil	1.7	5.8	2.1	9.0
Capital goods	-13.5	9.1	-9.0	13.6

Source: INEGI

**Seasonally-adjusted figures showed overall weakness.** Specifically, non-oil exports fell 5.4% m/m, more than reversing the +3.6% of the previous month. We note that all sectors within exports contracted, with manufacturing at -4.4% skewed lower by autos. Moreover, agricultural goods plunged 22.8%, lowest since September 2008. We should also mention that this was observed in spite of the agreement on tomatoes reached with the US, a situation we believed could keep favoring this sector in the period. In imports, non-oil intermediate goods fell 2.3%, which as we mentioned above were likely also affected by GM's strike as a relevant share of inputs used in domestic production come from the US. Capital goods were at -3.6%. The only positive sector identified was the +1.8% in consumption, providing tentative signs of an acceleration in private consumption.

In the oil sector results were weak despite a slight improvement in exports. Although the latter declined 2.6%, it is better than the -6.6% registered in August. Moreover, imports exacerbated their decline, with -1.1% in intermediate goods and -13.7% in consumption.

## Trade Balance in September

% m/m sa

	Sep-19	Aug-19	Jul-19
<b>Total exports</b>	<b>-5.3</b>	<b>3.0</b>	<b>1.0</b>
Oil	-2.6	-6.6	-0.4
Crude oil	-2.5	-7.6	-0.1
Others	-3.0	0.0	-2.0
Non-oil	-5.4	3.6	1.1
Agricultural	-22.8	9.6	12.0
Mining	-14.6	-6.0	17.3
Manufacturing	-4.4	3.4	0.4
Vehicle and autoparts	-7.3	4.3	3.5
Others	-2.6	2.9	-1.3
<b>Total imports</b>	<b>-2.4</b>	<b>0.1</b>	<b>3.1</b>
Consumption goods	-2.6	-2.2	-1.8
Oil	-13.7	-0.6	-11.9
Non-oil	1.8	-2.8	2.8
Intermediate goods	-2.2	0.1	4.1
Oil	-1.1	-0.7	-2.2
Non-oil	-2.3	0.2	4.7
Capital goods	-3.6	3.3	2.7

Source: INEGI

**Temporary weakness in trade will likely extend into October.** It is our take that the deceleration in manufacturing exports (up only 0.8% yoy in the period) was mostly due to the auto sector, situation that will likely extend into October. In this context and according to press reports, the GM strike in the US was finally solved on October 25<sup>th</sup>. On the first day of the month, the company's plant in Silao, Guanajuato, informed local operations would be temporarily suspended—affecting 6,000 workers—as they did not have the necessary imported components to keep producing. A similar situation happened in Ramos Arizpe, Coahuila, affecting about 415 employees. Given the deep integration of the supply chains, GM's relatively high share in final vehicle exports (with about 25% of this brand year-to-date), and this news, it is our take that non-oil intermediate goods imports could be more affected in October when compared to today's report. Despite of the latter and on a more positive note, the performance of manufacturing exports so far this year, advancing 4.6% yoy, has been resilient and has surprised to the upside in a context of heightened trade tensions, with Mexico benefitting at the expense of China in the US imports market.

Going into other components, we see the advance in non-oil consumption goods imports as favorable in terms of the performance in private consumption, which keeps growing albeit at a more modest pace. In particular, we believe the signal in the report is consistent with other figures that also suggest a gradual improvement, such as formal job creation, remittances growth and the slight decline in the unemployment rate during the period. This is likely to be further supported by lower inflation. Despite of this, caution is still needed as there is some evidence of higher savings which we attribute mostly to elevated uncertainty, both domestic and external.

On the contrary, we remain worried about the investment outlook, with capital goods imports still weak. In particular, the tentative improvement in July and August seems to be reversing, with actual imports hovering at levels not observed since 2016 (seasonally-adjusted). In our view, recent news in this front have been better, including a higher probability of a ratification of the USMCA by the US Congress before year-end, the deal of the Mexican government with private construction companies in charge of gas pipelines, and recent efforts to accelerate spending in infrastructure. In this sense, we will be focused on business confidence, particularly the ‘adequate moment to invest’ component, which seems to have bottomed out in August. We would take an additional improvement as a signal of a slow recovery in investment by the end of the year, a welcome development considering that this component of aggregate demand has been the weakest in this year’s growth story.

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