

## Trade balance – Back to surplus in August on resilient manufacturing exports

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- **Trade balance (August): US\$775mn; Banorte: US\$-952.3mn; consensus: US\$-974.7mn (range: US\$-2,715mn to US\$600mn); previous: US\$-1,116.8mn**
- **Total exports picked up 2.8% m/m, gathering additional strength and up for a second consecutive month. Oil exports plunged 6.3%, with non-oil relatively strong at 3.4%. The latter was driven by manufacturing, which were up 3.1% in both autos and ‘others’**
- **Imports were weak once again after rebounding in June as they barely grew 0.1%. Similarly to exports, the oil sector was lower (-0.6%), with non-oil consumption goods weakening to -3.2%. Capital goods imports advanced for second consecutive month (+3.9%) but remain limited**
- **On a year-to-date basis, the trade surplus widened to US\$2,803.5 million, still significantly above relative to the almost US\$ 10 billion deficit observed during the same period of 2018**
- **The report reinforces the signal of a strong performance in manufacturing despite global trade headwinds, along pouring some cold water to the possibility of a rebound in domestic demand**

**US\$775 million surplus in August.** This was significantly above our forecast (US\$-952.3 million), which was virtually in line with consensus. We highlight that the balance returned to a surplus after last month’s deficit, which was driven by higher imports. So far in the year, only two out of eight months have been in deficit. Contrary to our expectations, exports were stronger than suggested by advanced data, particularly in manufacturing. On the other hand, imports weakened once again, which in our view suggests that activity in August remained relatively limited. Last but not least, oil was a heavier drag than in the previous month, also impacting overall results.

Total exports grew 2.2% yoy from 7.0% in July, while imports returned to contraction territory at -5.9% (previous: 2.0%). In this respect, it should be mentioned that August had one less working day relative to both the previous month and the same period of 2018, helping explain to some extent the relative moderation in both categories. Hence, the year-to-date surplus widened to US\$ 2,803.5 million, remaining significantly higher than the accumulated deficit of almost US\$ 10 billion during the same period a year ago.

Within exports, oil fell 29.1%, worse than our -23.3% and the previous month of -14.1%. Crude-oil plunged 28.1%, while ‘others’ were lower by 34.9%. The former was driven by the 21.5% fall in price, averaging 50.37 US\$/bbl, in a context of renewed trade tensions that had an additional impact on growth prospects. According to Pemex, exported volumes were 8.4% lower, which was an additional drag. On the contrary, non-oil exports were resilient at +4.6%. We were surprised by the 9.7% advance in autos, much more positive than suggested by advanced data, helping manufacturing to grow 3.7%, now adding five consecutive months in positive territory.

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As mentioned above, imports weakened significantly, returning to negative at -5.9% after last month's rebound (+2.0%). First, oil-related consumption goods plunged 24.5%, also due to the strong decline in global oil prices, which was also reflected in US gasoline. Second, and more worrisome in terms of the signal for activity, non-oil imports fell 3.6%, with consumption falling 5.9%, intermediate goods at -1.8% and capital goods stood at -14%, with the latter in contraction since April.

#### Trade Balance in August

% yoy, nsa

	Aug-19	Aug-18	Jan-Aug'19	Jan-Aug'18
<b>Total exports</b>	2.2	7.0	4.2	11.2
Oil	-29.1	-14.1	-12.6	44.0
Crude oil	-28.1	-17.6	-11.6	52.4
Others	-34.9	21.9	-19.2	6.5
Non-oil	4.6	8.6	5.5	9.3
Agricultural	35.6	30.7	10.2	5.9
Mining	1.4	6.7	-5.4	24.7
Manufacturing	3.7	7.9	5.5	9.2
Vehicle and autoparts	9.7	12.6	7.8	12.7
Others	0.4	5.4	4.2	7.4
<b>Total imports</b>	-5.9	2.0	0.0	11.7
Consumption goods	-11.9	-0.7	-3.1	13.8
Oil	-24.5	-18.7	-8.8	41.4
Non-oil	-5.9	9.2	-0.5	4.5
Intermediate goods	-3.7	5.0	1.6	11.1
Oil	-21.4	-15.7	-7.6	32.8
Non-oil	-1.8	7.3	2.6	9.2
Capital goods	-14.0	-16.5	-8.0	13.7

Source: INEGI

#### With seasonally-adjusted figures, manufacturing was the bright spot.

Specifically, non-oil exports accelerated to 3.4% m/m from 1.2% in the previous month. Only mining was down (-6.0%), with agricultural goods surging 12.5%, which we think may be related to the agreement with the US regarding tomato trade. Nevertheless, their share remains modest. In this respect, we highlight the 3.1% advance in manufacturing, both in autos and others. Anecdotal evidence suggests that the sector may be benefitting to some extent from the trade war, with some companies seeing higher demand for their products from the US as they try to substitute imports from China.

Regarding imports, we are relatively concerned about the 3.2% decrease in non-oil consumption goods, reversing the previous month gain, which in our view signals that this component of aggregate demand remains limited. Additionally, intermediate goods, closely related to the manufacturing sector, decelerated to 0.2% from 4.7% in July. Last but not least, capital goods were up 3.9% and added two consecutive months higher. Although positive, it should be taken into account that the absolute level has not recovered from the 11.1% decline in June and is hovering near those observed about two years ago.

In the oil-sector, results were significantly weaker. Exports fell 6.4%, adding three months in contraction and mostly dragged by crude-oil (-7.3%). Imports also fell but more modestly (-0.6%), with the bulk of the fall in intermediate goods at -0.8%, while consumption declined 0.4%.

## Trade Balance in August

% m/m sa

	Aug-19	Jul-19	Jun-19
<b>Total exports</b>	<b>2.9</b>	<b>1.1</b>	<b>-4.0</b>
Oil	-6.4	-0.5	-14.2
Crude oil	-7.3	-0.3	-14.3
Others	0.1	-2.0	-13.9
Non-oil	3.4	1.2	-3.3
Agricultural	12.5	11.5	2.9
Mining	-6.0	17.6	-21.3
Manufacturing	3.1	0.5	-3.2
Vehicle and autoparts	3.1	3.5	-0.8
Others	3.1	-1.3	-4.6
<b>Total imports</b>	<b>0.1</b>	<b>3.1</b>	<b>-4.9</b>
Consumption goods	-2.4	-1.7	-1.2
Oil	-0.4	-11.8	-3.9
Non-oil	-3.2	2.9	0.1
Intermediate goods	0.1	4.1	-4.8
Oil	-0.8	-2.2	-14.1
Non-oil	0.2	4.7	-3.8
Capital goods	3.9	2.4	-11.1

Source: INEGI

**The report pours some cold water to the possibility of a rebound in domestic demand.** In particular, the performance of non-oil consumption imports suggests that this component will remain positive in the annual comparison, but will advance at a slow pace, failing to confirm tentative signs of a stronger outlook observed in July. In our view, this is still consistent with our forecast that aggregate consumption will grow about 1.4% during 2019, although with today's report increasing the risks to the downside. On the other hand, capital goods imports also show that the outlook for investment remains weak, which despite gathering pace sequentially and adding two consecutive months in recovery being a more favorable sign for 3Q19 when compared to the previous quarter, they will likely remain quite modest in terms of magnitude.

As already mentioned and on a more positive note, manufacturing remains relatively strong despite global headwinds. We should mention that the Mexican peso was significantly pressured during the month as a result of renewed trade tensions between the US and China, increasing global risk aversion. In particular, the exchange rate went from 19.05 to 19.68 per dollar on average, maintaining an upward trend and closing near 20.15 by the end of the month. We do not discard that this was an important driver behind the deceleration in non-oil intermediate imports, while simultaneously helping manufacturing exports. Therefore, it will be important to see in September if this dynamic was transitory, given the performance of the currency. Despite of the latter, manufacturing is proving to be relatively resilient. This is likely to remain the case, as the most recent signals coming from US industry have been favorable (+0.6% m/m in August, a one-year high) along likely market share gains against China in the US. This is important in terms of overall GDP growth given the close relationship that manufacturing has with other sectors of activity, including transportation. In this respect, today's data helps confirm our more comfortable stance about this sector's performance, which we had already stated after the release of July figures.

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