

Trade balance – Impact to the auto sector extends to October

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- **Trade balance (October): US\$-725.6mn; Banorte: US\$-1,938.2mn; consensus: US\$-1,938.2mn (range: US\$-2,883mn to US\$300mn); previous: US\$-116.2mn**
- **Total exports inched slightly higher at 0.3% m/m. Nevertheless, the auto sector was once again weak (-6.6%), impacted by both the GM strike as well as the retooling of two Ford and one VW plant. Crude-oil exports (6%) were also affected by one-off events**
- **Imports were modestly up at 0.1% m/m. However, performance inside was mixed, with non-oil intermediate goods weaker (-0.9%) partially compensated by an acceleration in consumption goods, both oil (15.6%) and non-oil (3.4%)**
- **Despite two consecutive months in deficit, the trade balance accumulates a year-to-date surplus of US\$1,961.7 million, on pace for staying positive for the whole-year, a situation not seen since 2012**
- **The auto sector will likely rebound in coming months, shaking-off part of the adverse shocks within this category, with manufacturing still resilient**
- **The report reaffirms the possibility of a recovery in consumption. Nevertheless and despite lower trade uncertainty, capital goods imports remain limited, still pointing to a challenging outlook for investment**

US\$725.6 million deficit in October. This was above our forecast of US\$-1,938.2 million), which matched consensus. As expected, the deficit was driven by weak auto exports, impacted by the GM strike in the US coupled with the retooling of two Ford and one VW plant during the month. As a result, these plunged 6.6% m/m (-6.2% yoy), extending the previous month's weakness which had already been affected by the strike. Another category that also reflected these shocks, albeit less so, was non-oil intermediate imports, down -0.9% m/m (-4.4% yoy). Nevertheless, it was partially aided by favorable results in non-auto manufacturing, also highly dependent on foreign inputs for supplies. Today's print marks only the fourth month so far this year with a deficit, with the year-to-date balance at US\$1,961.7 million, on pace for a whole-year surplus, a situation not seen since 2012. On a yearly basis both exports and imports managed to stay slightly positive at 0.3% and 0.1%, respectively.

The oil balance deficit widened significantly, standing at US\$-2,243.3 million, low in almost one year. Exports dropped a considerable 30.4% yoy, impacted by both lower volumes and prices. In particular, we believe some of the reduction within the former is explained by planned servicing of two platforms and a shipping vessel, which had been announced by Pemex in September. Going to imports, the decline was not as severe, with an overall 22.1% contraction, with both consumption and intermediate goods on the downside.

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The non-oil balance came in at a US\$1,517.7 million surplus, slightly higher than in September. It should be noted that this month's balance is typically low due to by the seasonality of consumer goods imports, which tend to increase as retailers get ready for the holiday season. Nevertheless, imports fell 4.3% yoy while exports climbed 0.4%. Regarding the former, consumption goods indeed advanced (5.7%) albeit intermediate goods (-4.4%) and particularly capital goods (-13.1%) stayed weak. Contractions in the latter have been the main driver of this year's accumulated surplus, with 5 consecutive months posting double-digit declines. On the other hand, weakness in auto exports was even higher than we expected (see above). Nevertheless, other manufacturing helped to partially alleviate this impact (3.3%), now adding 7 months in positive territory.

Trade Balance in October

% yoy, nsa

	Oct-19	Oct-18	Jan-Oct'19	Jan-Oct'18
Total exports	-1.5	-2.9	2.8	11.5
Oil	-30.4	-5.4	-16.2	40.3
Crude oil	-34.2	-6.9	-16.0	46.2
Others	-5.9	5.5	-17.5	11.0
Non-oil	0.4	-2.7	4.2	9.8
Agricultural	6.9	2.9	9.4	4.9
Mining	28.7	-10.6	-3.2	17.5
Manufacturing	-0.1	-2.8	4.1	9.9
Vehicle and autoparts	-6.2	-5.5	4.8	13.5
Others	3.3	-1.2	3.7	8.0
Total imports	-6.4	0.2	-1.2	11.6
Consumption goods	-2.4	0.5	-3.5	12.9
Oil	-19.7	6.6	-11.9	38.7
Non-oil	5.7	-2.3	0.3	4.1
Intermediate goods	-6.3	0.2	0.3	11.1
Oil	-23.5	1.6	-10.3	30.4
Non-oil	-4.4	0.0	1.4	9.4
Capital goods	-13.1	-0.2	-9.5	14.2

Source: INEGI

Seasonally adjusted figures show some recovery in consumption. Within the report and apart from the impact experienced by the auto sector, we highlight that non-oil consumption goods were relatively strong, in line with other figures suggesting that private consumption may be gathering some strength. In this respect, we highlight that this category advanced 3.4% m/m on top of the 2.2% of the previous month, adding two consecutive months in positive territory. This provides some credence to our view that consumption is starting to recover more meaningfully. On the other hand, we also highlight that capital goods grew 2.8%, partially reversing the decline observed in September. Despite of the latter, the absolute level remains relatively muted, in our view still impacted by muted business confidence levels, which retraced some of the advance seen in the two previous months. Last but not least and within exports, we also highlight that agricultural and non-oil mining rebounded quite strongly, standing at 6.8% and 24.6%, respectively.

Trade Balance in October

% m/m sa

	Oct-19	Sep-19	Aug-19
Total exports	0.3	-5.5	3.1
Oil	-6.0	-4.3	-6.6
Crude oil	-9.9	-4.6	-7.6
Others	18.1	-2.8	0.0
Non-oil	0.6	-5.6	3.6
Agricultural	6.8	-22.9	9.5
Mining	24.6	-14.5	-5.9
Manufacturing	0.0	-4.6	3.5
Vehicle and autoparts	-6.6	-8.1	4.3
Others	3.8	-2.5	3.0
Total imports	0.1	-2.5	0.0
Consumption goods	6.5	-2.6	-1.8
Oil	15.6	-14.8	-0.4
Non-oil	3.4	2.2	-2.4
Intermediate goods	-1.2	-2.4	0.0
Oil	-4.4	-1.3	-0.9
Non-oil	-0.9	-2.5	0.1
Capital goods	2.8	-3.2	3.5

Source: INEGI

We expect exports to rebound in November. Considering that most of the weakness in the past couple of months was explained by an adverse, one-off shock to the auto sector, we believe there will be some relief as soon as next month. This is based on the fact that the GM strike in the US ended in October 25th, allowing for some recovery in the last few days of the period and for November's production to start on the right foot. Meanwhile, the stoppage in one Ford plant (Hermosillo, Sonora), could have ended in the final part of the month, while the timeframe for the remaining one (Cuautitlán, México) is more uncertain. Meanwhile, VW's retooling meant operations stopped only during the last week of October, impacting production of three of its flagship models (Jetta, Golf and Audi's Q5), allowing for a quicker turnaround in November. This would result in a more favorable performance in both auto exports and non-oil intermediate goods imports, particularly within the former, which accumulates a year-to-date expansion of 4.8%. Moreover, dynamism in other manufacturing supports this scenario, as it suggests that external demand remains healthy.

Regarding consumption and as already mentioned, we see the report as positive. Its advance is also in line with yesterday's retail sales report for September, which showed a favorable result. Despite of the latter, we should point out that the monthly private consumption index, which resembles more closely this component of aggregate demand within GDP, has stayed muted. In this respect, we see this as a positive signal, although additional information to confirm this relative pickup is granted, particularly as there is some evidence of higher savings given a context of high uncertainty.

Investment remains our top concern, with the recent trend tilting more towards stabilization than acceleration and after weakening meaningfully at the turn of the year. This has been the case even with some positive developments such as lower trade tensions between the US and China and a higher probability of ratification of USMCA. We keep thinking that business confidence needs to recover first, with the indicator in October falling for all sectors after improving in the previous two months. In our view, this could be signaling that the outlook for this sector is still bleak, with additional improvements still necessary and the main underperformer in terms of aggregate demand so far this year.

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