Trade balance – Rebound in manufacturing, but investment remains weak

May 24, 2019

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- **Trade balance (April): US$1,370.2mn; Banorte: -US$196.0mn; consensus: -US$196.0mn (range of estimates: US$-1,700mn to US$1,167mn); previous: US$1,485.9mn**
- **Total exports recovered to 2.2% m/m after contracting 2.0% in March, driven by manufacturing. In contrast, crude-oil exports plunged 9.3%, weakest since October**
- **Total imports rebounded to 1.5% m/m, with a more positive performance in consumption but dragged down by capital goods, which extended their weakness**
- **Today's report suggests that the strong contraction in manufacturing in March was temporary, albeit with the sector still decelerating. On the other hand, the outlook for investment remains weak**

US$1,370.2 million surplus in April, above expectations. This figure was above both consensus (which coincided with our estimate) and the highest expected surplus among economists of US$ 1,167 million. Moreover, this was the third consecutive surplus, reaching a year-to-date balance of –US$ 446.4 million, higher than the US$ 2,017.5 million deficit during the same period of the previous year. This was a result of the recovery of total exports to 6.1% yoy after the 1.2% contraction observed in March. Meanwhile, imports registered a similar performance, rebounding to 1.6% from -0.5% previously. This suggests that strong deceleration experienced in the previous month in both components could have been transitory, although it should also be considered that analyzing these figures is more challenging given the distortion from the calendar effect related to the Easter holiday.

Taking a look at exports, the oil sector fell 14.3%, contrary to our expectation of a slight increase driven by higher prices, with the Mexican oil mix ending at US$/bbl 63.66 (+9% yoy). In this respect, crude-oil declined 15.6% after the 0.5% increase of the previous month. Manufacturing rebounded strongly, reaching 7.8% (previous: -0.8%). This was driven by the auto sector (9.0%) while the rest returned to positive territory at 7.2%. In contrast, non-oil mining plunged 21.7%, its weakest print since January. On the other hand, oil imports were stronger at 1.5%, driven by the pickup in consumption of 10.6% after four consecutive months declining. Intermediate goods in this category kept declining, reaching -2.5%. Going to the non-oil sector, intermediate goods picked up 3.5%, consistent with the rebound in manufacturing exports. Consumption retraced 0.4%. Last but not least, capital goods were meaningfully weak at -9.2%, lowest since July 2016.

In our view, this report lessens some concerns raised from dynamics in March, particularly about the performance in manufacturing and, to a lesser extent, in consumption. Nevertheless, investment remains as the weak spot, with capital goods imports accumulating a 1.4% contraction year-to-date.

Trade Balance in April

% yoy, sa & nsa

	Seasonally adjusted		Non-seasonally adjusted			
	Apr-19	Apr-18	Apr-19	Apr-18	Jan-Apr '19	Jan-Apr '18
Total exports	**3.1**	**12.4**	**6.1**	**17.0**	**3.5**	**12.7**
Oil	-15.2	56.2	-14.3	56.4	-7.4	39.5
Crude oil	-15.5	69.1	-15.6	68.8	-6.1	51.4
Others	-13.4	6.3	-7.1	9.8	-15.8	-6.4
Non-oil	4.7	9.9	7.6	14.8	4.4	11.0
Agricultural	8.4	6.1	14.5	12.0	4.4	11.2
Mining	-21.8	18.6	-21.7	18.3	-12.4	31.1
Manufacturing	5.0	9.9	7.8	14.9	4.6	10.7
Vehicle and autoparts	5.9	17.5	9.0	19.9	4.3	16.3
Others	4.4	6.0	7.2	12.3	4.9	7.8
Total imports	**1.1**	**12.0**	**1.6**	**21.4**	**2.4**	**12.6**
Consumption goods	1.8	15.5	2.8	26.1	-2.3	14.7
Oil	5.6	49.1	10.6	53.9	-6.2	28.7
Non-oil	0.2	5.3	-0.4	17.2	-0.5	9.6
Intermediate goods	1.6	11.5	2.8	20.0	3.8	11.8
Oil	1.1	29.0	-3.5	46.1	0.9	28.2
Non-oil	1.6	10.0	3.5	17.8	4.1	10.3
Capital goods	-4.1	10.8	-9.2	25.8	-2.4	15.9

Source: INEGI

Seasonally-adjusted figures are consistent with the rebound in annual terms. Both exports and imports rebounded when compared to March, standing at 2.2% and 1.5% m/m, respectively. Regarding exports, we highlight the strong rebound in manufacturing, advancing 2.9% m/m which was enough to compensate for the 2.2% decline observed in March. This was due to the reversal in the non-auto sector, reaching 3.9% after plunging 4.5% previously. Nevertheless, we will be focused on autos given the modest deceleration to 1.3%. A more concerning result was the 9.3% contraction in crude-oil exports, weakest print since last October. Going to imports, we highlight that capital goods was the only category in negative territory, failing to pick-up in each one of the previous three months. On the positive side, non-oil consumption goods (4.6%) reversed the decline of 4.3% in March. Nevertheless, intermediate goods picked up 0.9% but only after falling in the previous two prints. Another relevant driver behind overall growth, and in contrast to exports, were oil-related imports, both in consumption (+5.4%) and intermediate (+3.5%).

Trade Balance in April

% m/m sa

	Apr-19	Mar-19	Feb-19
Total exports	**2.2**	**-2.0**	**-0.9**
Oil	-4.9	-0.7	10.3
Crude oil	-9.3	-0.5	12.9
Others	34.2	-2.8	-7.7
Non-oil	2.7	-2.0	-1.6
Agricultural	3.6	-0.9	-0.8
Mining	-14.6	2.0	17.5
Manufacturing	2.9	-2.2	-1.9
Vehicle and autoparts	1.3	2.0	1.6
Others	3.9	-4.5	-3.7
Total imports	**1.5**	**-1.9**	**-1.9**
Consumption goods	4.9	3.2	-1.8
Oil	5.4	25.4	-5.2
Non-oil	4.6	-4.3	-0.6
Intermediate goods	1.1	-2.9	-1.5
Oil	3.5	0.4	-3.8
Non-oil	0.9	-3.2	-1.2
Capital goods	-0.5	0.0	-5.4

Source: INEGI

Less concerns over the dynamism in manufacturing after recent shocks to the sector. Today's report was better than we expected, particularly regarding the rebound in manufacturing which we believed was likely to show a more negative performance due to delays in freight transportation at the Northern Border, according to news reports. In this respect, manufacturing seems to have regained a more solid track after disappointing in March. Nevertheless, adding up manufacturing exports in the last two months, these advanced 3.4% yoy, 10.9% than in the same period of 2018, signaling that there's indeed a relative deceleration. This is also confirmed with year-to-date figures at 4.6% and 10.7%, respectively. In our view, trade tensions and its impact on global growth, are likely to keep a lid on the sector even in spite of some recent advances in the US-Mexico relationship (e.g. lifting tariffs to aluminum and steel) but with uncertainty about the approval of the USMCA still remaining.

On the contrary, the outlook for investment remains weak as portrayed by the dynamics in capital goods imports. Business confidence remains muted after declining in the latter part of 2018, with uncertainty about growth prospects remain high (as evidenced by today's GDP report) and financing costs are still elevated. In this respect, we keep forecasting that investment will contract in 2019, even in spite of the possibility of higher spending by the Federal Government later in the year.

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