

Trade balance – Modest deficit at the start of 2020, with risks to manufacturing

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Juan Carlos Alderete, CFA
Director of Economic Research
juan.alderete.macal@banorte.com

Francisco Flores
Senior Economist, Mexico
francisco.flores.serrano@banorte.com

- **Trade balance (January): -US\$2,415.8 million; Banorte: -US\$2,653.1mn; consensus: -US\$3,300.0mn (range: -US\$4,346mn to US\$2,103mn); previous: US\$3,068.3mn**
- **Total exports came in at 3.7% m/m, strongest in more than two years. This was supported by the oil sector (13.0%) and autos (6.4%) within manufacturing**
- **Imports were up 2.5% m/m, also with strong dynamism in oil-related goods. We also highlight the recovery in non-oil intermediate goods. Meanwhile, capital goods remain on the downside**
- **On a positive note, manufacturing showed a relatively strong performance, particularly in autos. Nevertheless, we remain cautious given upcoming risks from the Coronavirus outbreak**
- **On the other hand, the outlook for investment remains muted, while non-oil consumption continues showing more favorable signals**

US\$2,415.8 million deficit in January. This was more modest than market consensus at -US\$3,300 million but quite close to our forecast, at -US\$ 2,653.1 million. We should mention that the period is highly seasonal, with the month showing the lowest deficit for a comparable period since 2012. As a result, the 12-month rolling sum reached a new high surplus of US\$ 8,047.0 million ([Chart 2](#)). Total exports were up 3.2% y/y, helped mainly by oil (13.7%) and the auto sector (9.5%), albeit with some weakness in the rest of manufacturing. Imports declined 3.2%, adding six consecutive months in contraction. Contrary to December, capital goods imports did not benefit from a base effect (-13.6%), while intermediate goods were also –both oil and non-oil– weakened (see [Table 1](#)).

Seasonally adjusted figures maintain recent trends broadly unchanged. Similar to the previous month, external demand seems to be holding well –with total exports increasing 3.7% m/m– while imports remain more limited despite advancing 2.5%. In the former, we highlight again the performance of the auto sector, up a sizable 6.4% m/m on top of the 1.4% observed in December, signaling a positive dynamic start of the year. In contrast, other manufacturing remains weak despite increasing 1.3% in the month, suggesting that the sector remains challenged even if some industries show resiliency. Regarding imports, we highlight that capital goods continue as the weakest link (-0.4%), providing negative signals about investment. All the remaining categories were higher, with non-oil intermediate at 1.9% while consumption advanced (1.0%), with the latter reaffirming other figures suggesting better sector dynamics. Lastly, we highlight that the oil sector accelerated further, a situation likely related to the administration’s efforts to increase production. In particular, total oil exports grew 13.0%, particularly positive after the 21.9% surge of the previous month. Imports grew 11.0%, driven by consumption-related goods (where gasoline is recorded), at 9.1% (see [Table 2](#)).

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Cautious on trade given the high likelihood of sizable global supply-chain disruptions. Despite today's deficit, which for some years has been more typical in terms of the dynamics of Mexico trade, the fact that its magnitude was the lowest in 8 years keeps open the possibility of an underlying and more relevant structural shift. As has been since last year, the skew towards lower deficits (or higher surpluses) remains a warning sign about economic activity. Specifically, this has been due to relatively strong external demand helping exports, while imports have stayed persistently contained (reinforcing weakness in terms of appetite for investments).

Despite of the latter, we should mention two caveats. First, the Chinese New Year took place in January 25th, typically resulting in a shift in the pattern of imports as those country's exporters front-load their shipments in advance of the holiday. Second and more importantly, we believe today's figures do not show any sizable impact from global supply chain disruptions due to the coronavirus outbreak. In our view, this is likely going to be clearer beginning next month. It is worth mentioning that Mexico imports sizable amounts of both final consumption and intermediate goods from this country. In 2019, China's share of total imports reached 18.2%, with the US leading strongly at 45.2%. On the opposite direction, Mexico's exports could potentially benefit as China's clients search substitute products because of these complications. We should warn this is only the direct link between countries, so it is highly likely that overall trade is more impacted given highly interconnected supply chains.

In oil, we would like to highlight that performance in consumption imports was influenced at least by two factors. First and in annual terms, the +26.0% was driven to some extent by a favorable base effect, as in the same period of last year this category fell strongly in the midst of delays in gasoline distribution. Second, the monthly advance could be related to challenges in terms of domestic refining, which according to the Mexican *Energy Information System* (SIE), fell to 36.1% of total capacity in the month (-2.3% m/m). On the other hand, exports seem to be benefitting from higher production, reaching 1,724kbpd, +6.2% y/y.

Considering all these and today's data, we remain concerned about trade prospects, even after green shoots in terms of relatively resilient external demand and the outlook for domestic consumption. The weakest link remains in investment, with business confidence failing to rebound at the start of the year. Despite strength in manufacturing exports, risks are clearly skewed to the downside, representing an additional headwind for GDP at least in 1Q20 and even with more optimism because of the advance in the ratification process of USMCA.

Table 1: Trade balance

% y/y nsa

	Jan-20	Jan-19	2019	2018
Total exports	3.2	6.2	2.3	10.1
Oil	13.7	-10.3	-15.1	29.0
Crude oil	16.2	-10.7	-14.9	32.2
Others	-1.0	-8.4	-16.1	11.2
Non-oil	2.5	7.5	3.6	8.9
Agricultural	4.5	1.9	9.7	3.2
Mining	32.3	-27.6	-0.7	14.8
Manufacturing	2.0	8.5	3.4	9.1
Vehicle and auto-parts	9.5	7.4	3.9	12.2
Others	-1.7	9.1	3.1	7.4
Total imports	-3.2	6.0	-1.9	10.4
Consumption goods	6.8	-2.3	-3.1	10.1
Oil	26.0	-8.9	-11.2	29.8
Non-oil	-0.7	0.6	0.5	3.1
Intermediate goods	-3.5	7.8	-0.8	10.3
Oil	-13.2	16.3	-12.8	27.0
Non-oil	-2.4	6.9	0.4	8.8
Capital goods	-13.6	4.8	-8.9	11.9

Source: INEGI

Table 2: Trade balance

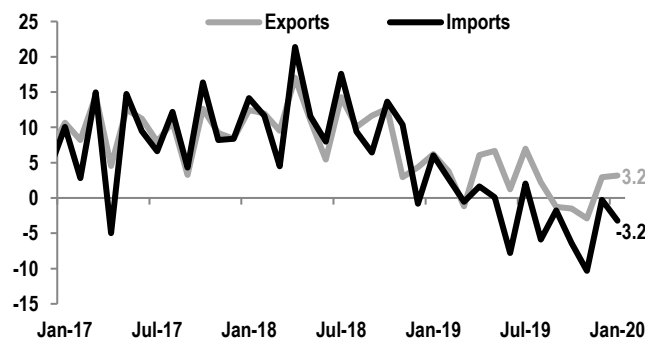
% m/m, % 3m/3m sa

	Jan-20	% m/m		% 3m/3m	
		Dec-19	Nov-19	Nov '19--Jan '20	Oct-Dec '18
Total exports	3.7	1.3	0.3	-0.2	-2.9
Oil	13.0	21.9	7.1	19.3	-1.5
Crude oil	18.7	13.9	17.1	23.2	-1.9
Others	-17.1	93.9	-39.5	-2.4	1.2
Non-oil	3.1	0.2	0.0	-1.2	-3.0
Agricultural	3.9	-5.6	3.5	-3.9	-7.5
Mining	3.2	7.0	-5.1	10.3	8.9
Manufacturing	3.1	0.4	-0.1	-1.2	-3.0
Vehicle and auto-parts	6.4	1.4	3.0	-1.2	-7.8
Others	1.3	-0.1	-1.7	-1.2	-0.1
Total imports	2.5	-0.3	-1.0	-1.3	-2.7
Consumption goods	6.0	-1.4	-2.6	2.0	2.0
Oil	19.1	-2.0	-0.3	8.9	2.9
Non-oil	1.0	-1.2	-3.4	-0.6	1.9
Intermediate goods	2.2	0.2	-0.9	-2.1	-4.1
Oil	5.9	-2.7	1.1	-2.1	-5.4
Non-oil	1.9	0.4	-1.1	-2.1	-4.0
Capital goods	-0.4	-2.3	1.2	0.3	2.0

Source: INEGI

Chart 1: Exports and imports

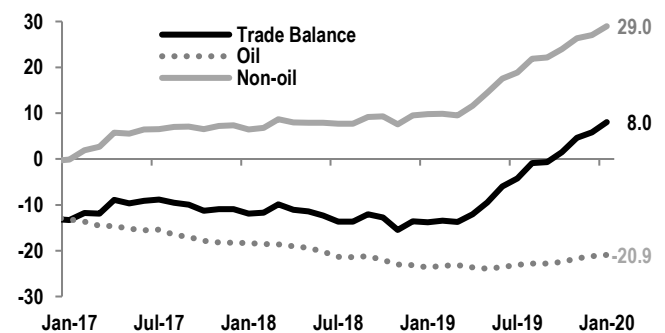
% y/y nsa



Source: INEGI

Chart 2: Trade balance

US\$ million, 12 month rolling sum



Source: INEGI

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GRUPO FINANCIERO BANORTE S.A.B. de C.V.

Research and Strategy			
Gabriel Casillas Olvera	IRO and Chief Economist	gabriel.casillas@banorte.com	(55) 4433 - 4695
Raquel Vázquez Godínez	Assistant	raquel.vazquez@banorte.com	(55) 1670 - 2967
Lourdes Calvo Fernández	Analyst (Edition)	lourdes.calvo@banorte.com	(55) 1103 - 4000 x 2611
Economic Research and Financial Market Strategy			
Alejandro Padilla Santana	Executive Director of Economic Research and Financial Markets Strategy	alejandro.padilla@banorte.com	(55) 1103 - 4043
Itzel Martínez Rojas	Analyst	itzel.martinez.rojas@banorte.com	(55) 1670 - 2251
Economic Research			
Juan Carlos Alderete Macal, CFA	Director of Economic Research	juan.alderete.macal@banorte.com	(55) 1103 - 4046
Francisco José Flores Serrano	Senior Economist, Mexico	francisco.flores.serrano@banorte.com	(55) 1670 - 2957
Katia Celina Goya Ostos	Senior Economist, Global	katia.goya@banorte.com	(55) 1670 - 1821
Luis Leopoldo López Salinas	Economist, Global	luis.lopez.salinas@banorte.com	(55) 1103 - 4000 x 2707
Market Strategy			
Manuel Jiménez Zaldivar	Director of Market Strategy	manuel.jimenez@banorte.com	(55) 5268 - 1671
Fixed income and FX Strategy			
Santiago Leal Singer	Senior Strategist, Fixed Income and FX	santiago.leal@banorte.com	(55) 1670 - 2144
Leslie Thalía Orozco Vélez	Strategist, Fixed Income and FX	leslie.orozco.velez@banorte.com	(55) 5268 - 1698
Equity Strategy			
Marissa Garza Ostos	Director of Equity Strategy	marissa.garza@banorte.com	(55) 1670 - 1719
José Itzamna Espitia Hernández	Senior Strategist, Equity	jose.espitia@banorte.com	(55) 1670 - 2249
Valentín III Mendoza Balderas	Senior Strategist, Equity	valentin.mendoza@banorte.com	(55) 1670 - 2250
Víctor Hugo Cortes Castro	Senior Strategist, Technical	victorh.cortes@banorte.com	(55) 1670 - 1800
Jorge Antonio Izquierdo Lobato	Analyst	jorge.izquierdo.lobato@banorte.com	(55) 1670 - 1746
Eridani Ruibal Ortega	Analyst	eridani.ruibal.ortega@banorte.com	(55) 1103 - 4000 x 2755
Corporate Debt			
Tania Abdul Massih Jacobo	Director of Corporate Debt	tania.abdul@banorte.com	(55) 5268 - 1672
Hugo Armando Gómez Solís	Senior Analyst, Corporate Debt	hugo.gomez@banorte.com	(55) 1670 - 2247
Gerardo Daniel Valle Trujillo	Analyst, Corporate Debt	gerardo.valle.trujillo@banorte.com	(55) 1670 - 2248
Economic Studies			
Delia María Paredes Mier	Executive Director of Economic Studies	delia.paredes@banorte.com	(55) 5268 - 1694
Miguel Alejandro Calvo Domínguez	Senior Analyst, Economic Studies	miguel.calvo@banorte.com	(55) 1670 - 2220
Wholesale Banking			
Armando Rodal Espinosa	Head of Wholesale Banking	armando.rodal@banorte.com	(81) 8319 - 6895
Alejandro Eric Faesi Puente	Head of Global Markets and Institutional Sales	alejandro.faesi@banorte.com	(55) 5268 - 1640
Alejandro Aguilar Ceballos	Head of Asset Management	alejandro.aguilar.cebaldos@banorte.com	(55) 5268 - 9996
Arturo Monroy Ballesteros	Head of Investment Banking and Structured Finance	arturo.monroy.ballesteros@banorte.com	(55) 5004 - 1002
Gerardo Zamora Nanez	Head of Transactional Banking, Leasing and Factoring	gerardo.zamora@banorte.com	(81) 8318 - 5071
Jorge de la Vega Grajales	Head of Government Banking	jorge.delavega@banorte.com	(55) 5004 - 5121
Luis Pietrini Sheridan	Head of Private Banking	luis.pietrini@banorte.com	(55) 5004 - 1453
René Gerardo Pimentel Ibarrola	Head of Corporate Banking	pimentelr@banorte.com	(55) 5268 - 9004
Ricardo Velázquez Rodríguez	Head of International Banking	rvelazquez@banorte.com	(55) 5004 - 5279
Víctor Antonio Roldan Ferrer	Head of Commercial Banking	victor.rolan.ferrer@banorte.com	(55) 5004 - 1454