Trade balance – Tentative signs of weakness in manufacturing and consumption

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- **Trade balance (March): US$1,429.5mn; Banorte: US$1,624.7mn; consensus: US$1,624.7mn (range of estimates: US$650mn to US$2,561mn); previous: US$1,221.6mn**
- **Total exports fell 1.9% m/m, with weakness in manufacturing excluding autos which fell 4.6%. On the other hand, crude-oil exports grew 2.8%, with three consecutive months in positive territory**
- **Total imports fell 1.8% m/m, with the non-oil sector declining. In particular, consumption goods fell 3.5%, intermediate goods stood at -3.2% and capital goods remained flat**
- **Overall, details of the report are consistent with a more modest pace of economic activity at the end of 1Q19, particularly on manufacturing and, to a lesser extent, private consumption**

US$1,429.5 million surplus in March. This figure was lower than consensus (US$1,624.7mn) which coincided with our forecast. With this, the trade balance added two months with a surplus. Nevertheless, during 1Q19 the overall deficit stood at US$-2,158.5 million, higher than the -US$1,776.5 million deficit of the same period in 2018. We highlight that in spite of the Easter holiday taking place in April 2019 vs. March 2018 (which would suggest a favorable base effect), exports and imports declined both in their annual and monthly comparison, pointing to overall weakness in terms of activity during the month. In this respect, details of the report are less favorable than what the surplus in the headline shows.

Taking a look at the breakdown, the oil sector posted mixed to slightly negative results, influenced by the recent increase in prices. The oil balance reached a US$1,707 million deficit, higher than the -US$ 993 million of the previous month. In exports, crude-oil advanced 3.9% yoy nsa (5.1% yoy sa) but was more than compensated by the decline in "others", resulting in a total decline in oil exports of 2% (-0.6% yoy sa). Imports fell 5.2% (-6.6% sa), with a relevant contraction of 5.6% in intermediate (-10.2% sa) and -4.5% in consumption (0.1% sa). We will remain focused on the dynamics of oil production as a tentative stabilization would be less negative at the margin in terms of the outlook for exports, although the deficit is poised to widen given that prices have kept trending up in April.

The non-oil balance stood at US$ 3,136 million, higher than the +US$ 2,214 million observed in February. Exports fell 1.2% yoy (-1.7% yoy sa), with the weakness concentrated in manufacturing excluding the auto sector at -1.6% (-3.1% sa), while autos managed to stay positive at 0.3% (1.1% sa). Meanwhile imports edged up 0.1% (-2.3% sa), helping explain the improved balance. Intermediate goods picked up 0.7% (-1.4% sa), consumption plunged 4.6% (-6.3% sa), while capital goods were also weak at 0.2% (-4.8% sa).

Trade Balance in March
% yoy, sa & nsa

	Seasonally adjusted		Non-seasonally adjusted			
	Mar-19	**Mar-18**	**Mar-19**	**Mar-18**	**Jan-Mar '19**	**Jan-Mar '18**
Total exports	-1.6	14.5	-1.2	9.4	2.3	11.1
Oil	-0.6	42.6	-2.0	38.7	-4.8	32.7
Crude oil	2.8	-2.7	3.9	54.5	-2.6	44.2
Others	-33.7	-6.5	-34.4	-11.3	-19.1	-11.4
Non-oil	-1.7	12.9	-1.2	8.0	2.9	9.8
Agricultural	-2.4	7.6	-5.6	6.2	-3.8	11.3
Mining	-4.6	51.7	-4.6	51.7	-9.1	36.4
Manufacturing	-1.6	12.6	-0.9	7.5	3.4	9.3
Vehicle and autoparts	1.1	20.7	0.3	16.8	2.6	15.1
Others	-3.1	8.6	-1.6	2.4	3.9	6.3
Total imports	-2.8	12.7	-0.5	4.5	2.7	9.8
Consumption goods	-4.4	13.4	-4.6	5.5	-4.0	11.2
Oil	0.1	27.8	-4.5	23.5	-11.9	21.9
Non-oil	-6.3	8.4	-4.6	-0.7	-0.6	7.1
Intermediate goods	-2.2	12.1	0.1	4.6	4.2	9.2
Oil	-10.2	40.9	-5.6	24.8	2.5	22.8
Non-oil	-1.4	9.6	0.7	2.9	4.4	7.9
Capital goods	-4.8	17.3	0.2	2.3	0.0	12.8

Source: INEGI

In seasonally-adjusted terms the trade balance suggests weaker levels of activity in March. In our view, the most important categories supporting this view are the strong decline in non-oil consumption goods (-3.5% m/m, lowest since January 2018) and non-oil intermediate goods (-3.2%), which are used as key inputs for the manufacturing sector. The latter sector was also weak as portrayed by total exports, which fell 2.4% in spite of resiliency in autos as they managed to stay positive at 1.7%. In this respect, last month we said that the decline in manufacturing was not highly concerning as we believed that the sector would rebound after fading away the effect of transitory shocks, particularly on autos. Nevertheless, the fact that they accelerated their pace of decline is somewhat disappointing as it could imply that weakness is more persistent than we had previously anticipated. Last but not least, capital goods imports stayed flat after the strong 5.4% decline registered in February, in our view consistent with the still complicated outlook for investment.

Trade Balance in March
% m/m sa, 3m/3m saar

	Mar-19	**Feb-19**	**Jan-19**
Total exports	**-1.9**	**-0.8**	**1.7**
Oil	2.2	11.3	-3.2
Crude oil	2.8	14.0	0.0
Others	-3.1	-7.7	-20.9
Non-oil	-2.2	-1.5	2.0
Agricultural	0.4	-0.1	-1.8
Mining	2.2	17.7	-17.1
Manufacturing	-2.4	-1.8	2.5
Vehicle and autoparts	1.7	1.6	-3.1
Others	-4.6	-3.6	5.6
Total imports	**-1.8**	**-1.9**	**4.1**
Consumption goods	3.5	-2.0	1.5
Oil	23.6	-4.0	-2.7
Non-oil	-3.5	-1.3	3.1
Intermediate goods	-2.9	-1.4	3.9
Oil	0.4	-3.9	3.2
Non-oil	-3.2	-1.2	4.0
Capital goods	0.0	-5.4	9.6

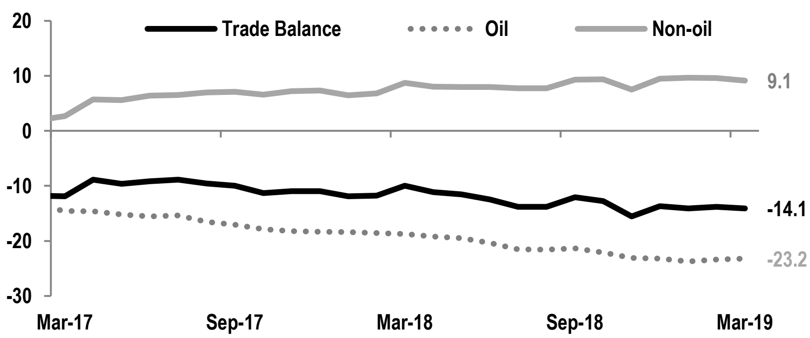
Source: INEGI

The report suggests that activity in 1Q19 seems to have ended in a more negative tone. Despite managing to print a second consecutive surplus, it is our take that the details of today's report paint a bleaker picture in terms of growth. This is consistent with the weaker and more volatile performance of global trade, which remains impacted by uncertainty about the possible imposition of tariffs by the US, although now more concentrated towards Europe as optimism on China has grown. What came most to our attention was the deceleration in non-oil consumption imports as private consumption has stayed strong. Nevertheless, signs of weakness in manufacturing are also very important as these activities a knock-on effect in the overall economy. Moreover, we also believe that the expected improvement due to the positive base effect because of the timing of the Easter holiday does not seems to have been favorable enough. The latter points to an even stronger deceleration than what non-seasonally adjusted data show.

Going forward, it is also very important to say that delays at the US border crossings have impacted the flow of goods to that country since the beginning of April. According to industry chamber *CONCAMIN*, a wide range of companies have already experienced sizable losses, with a preliminary estimate of US$ 800 million daily. We believe this situation is likely to affect the manufacturing sector the most, which coupled with the challenges still faced by mining and the global backdrop, could keep industrial performance contained. All in all, we maintain our 2019 GDP forecast at 1.5%, with this data pointing to more moderate dynamism at the end of the first quarter of the year.

Trade Balance

US$ billion, 12-month rolling sum



Source: INEGI, Banorte

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