

## Trade balance – Auto sector strength supports manufacturing activity

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**Juan Carlos Alderete, CFA**  
Senior Economist, Mexico  
juan.alderete.magal@banorte.com

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

- **Trade balance (September): US\$-193.9mn; Banorte: US\$-1,875.1mn; consensus: US\$-1,875.1mn (range of estimates: US\$-2,900 to US\$-1,283mn); previous: US\$-2,590.5mn**
- **Total exports increased 0.9% m/m, with a 0.6% and 1.1% expansion in oil and manufacturing, respectively. Inside the latter, autos picked up 5.2%, while the rest contracted 1.2%**
- **Total imports fell 0.9% m/m, with contractions in all subcomponents except intermediate oil goods. Non-oil consumption goods decreased 0.7%, suggesting a potential slowdown in consumption at the end of 3Q18**
- **Today's report consolidates our expectation of stronger manufacturing performance in the quarter in spite of high uncertainty in recent months**

**Trade balance for September with a US\$193.9 million deficit.** According to Banxico and *INEGI's* report published today, the trade balance posted a US\$193.9 million deficit, more modest when compared to our US\$1,875.1mn deficit forecast which exactly matched consensus. This deficit is the lowest figure since the surplus observed in February, which was mainly explained by the strength of auto exports.

In its year-on-year comparison, total exports increased 11.9% yoy, with oil at +43.8%. This was mainly driven by two factors. First, a benign base effect as production, and exports to a lesser extent, were impacted last year by the effect of natural disasters (earthquakes and Hurricane Katia). Second, the price of Mexico's crude oil basket surged 38.8% yoy, closing the month practically at a high since October 2014 and averaging 67 US\$/bbl. Going forward, these high growth rates could moderate due to the recent fall in global crude oil prices and the persistent reduction in production levels, in spite of a more moderate pace of contraction in the latter. Manufacturing exports grew 10.5%, stronger than the previous quarter according to the 3m/3m annualized rate at 13.9% vs +1.7% as of June's close. By components, auto exports picked up 17.8% and other non-oil stood at 6.4%, with the former consistent with the acceleration in exports according to AMIA's report and at its highest pace on a yearly basis since April.

On the other hand, total imports increased 6.4% yoy, with stronger purchases of oil-related consumption goods (16.4%) and intermediate goods (18.9%). We highlight the 3.3% fall of non-oil consumption goods, which could suggest a relative deceleration of consumption at the end of 3Q18 after a relatively strong couple of months. Non-oil intermediate goods increased 5.8% and capital goods 9.1%.

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### Trade Balance in September

% yoy, nsa

	Sep-18	Sep-17	Jan-Sep, '18	Jan-Sep, '17
<b>Total exports</b>	11.9	3.3	10.5	9.3
Oil	43.8	2.3	43.1	21.9
Crude oil	47.5	4.0	50.8	22.6
Others	18.9	-7.9	7.5	18.7
Non-oil	10.0	3.3	9.5	8.6
Agricultural	1.0	-9.2	5.9	6.5
Mining	-0.2	25.7	21.4	29.9
Manufacturing	10.5	3.5	9.5	8.5
Vehicle and autoparts	17.8	7.7	13.4	11.3
Others	6.4	1.2	7.4	7.0
<b>Total imports</b>	6.4	4.3	11.4	7.8
Consumption goods	1.8	7.0	12.8	8.2
Oil	16.4	11.5	38.9	26.8
Non-oil	-3.3	5.6	4.0	3.0
Intermediate goods	7.0	4.9	10.8	8.5
Oil	18.9	21.7	31.5	35.6
Non-oil	5.8	3.5	9.0	6.6
Capital goods	9.1	-3.2	13.6	2.1

Source: INEGI

**In seasonally-adjusted terms, total exports were up 0.9% m/m.** In spite of a lower increase with respect to the 3.8% observed in August, we note the strong performance of the auto sector (+5.2%), supporting the overall behavior of manufacturing (+1.1%) even after the fall of 1.2% in other exports. In this sense, manufacturing exports accumulated three consecutive months with positive growth. On the other hand, oil exports grew 0.6%, mining fell 8.3% and agricultural products expanded modestly at 0.2%.

**Imports decreased 0.9% m/m, its first contraction since April.** All subcomponents were lower with the exception of intermediate oil goods (+1.0%). Consumption goods were down 3.6%, with both oil (-9.8%, highest since January) and non-oil (-0.7%) contracting. Last but not least, capital goods imports fell 0.3%, its second consecutive month on the downside.

### Trade Balance in September

% m/m sa

	Sep-18	Ago-18	Jul-18
<b>Total exports</b>	0.9	3.8	0.2
Oil	0.6	5.9	-2.1
Crude oil	3.9	-0.8	4.7
Others	-18.7	76.4	-42.0
Non-oil	0.9	3.7	0.4
Agricultural	0.2	7.1	-2.4
Mining	-8.3	-2.5	8.2
Manufacturing	1.1	3.6	0.4
Vehicle and autoparts	5.2	1.9	2.0
Others	-1.2	4.6	-0.5
<b>Total imports</b>	-0.9	2.7	0.0
Consumption goods	-3.6	1.6	0.2
Oil	-9.8	-3.3	4.7
Non-oil	-0.7	4.1	-1.9
Intermediate goods	-0.5	3.5	-0.5
Oil	1.0	-2.5	-6.0
Non-oil	-0.7	4.2	0.2
Capital goods	-0.3	-1.7	3.6

Source: INEGI

**Today's report showed a strong performance of the external sector in spite of high uncertainty, which could help GDP growth in 3Q18.** We highlight that manufacturing exports (and the auto sector in particular) accelerated their growth rate when compared to the previous quarter. In our view, this improvement could support GDP in 3Q18 (with the advance report due next week), considering not only its direct impact on industrial production but its side-effect on services, particularly transportation. In this sense, we believe that the report confirms our expectation of strong exports performance in coming months, which could also be supported by at least three factors: (1) Lower uncertainty after the trade deal reached with Canada and the US; (2) the strength of the US economy as portrayed by today's advanced GDP for 3Q18 at 3.5% (q/q annualized rate), also reflected in the dynamism of industrial activity in that country; and (3) the possible elimination of aluminum and steel tariffs imposed by the US to imports from our country, with Mexico's Minister of Economy affirming that it is likely that a deal in this sense will be reached before the expected date for the signature of the agreement by the three Presidents involved at the end of November.

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**GRUPO FINANCIERO BANORTE S.A.B. de C.V.**
**Research and Strategy**

Gabriel Casillas Olvera	Chief Economist and Head of Research	gabriel.casillas@banorte.com	(55) 4433 - 4695
Raquel Vázquez Godínez	Assistant	raquel.vazquez@banorte.com	(55) 1670 - 2967

**Economic Analysis**

Delia María Paredes Mier	Executive Director of Economic Analysis	delia.paredes@banorte.com	(55) 5268 - 1694
Katia Celina Goya Ostos	Senior, Global Economist	katia.goya@banorte.com	(55) 1670 - 1821
Juan Carlos Alderete Macal, CFA	Senior Economist, Mexico	juan.alderete.macal@banorte.com	(55) 1103 - 4046
Miguel Alejandro Calvo Domínguez	Economist, Regional	miguel.calvo@banorte.com	(55) 1670 - 2220
Francisco José Flores Serrano	Economist, Mexico	francisco.flores.serrano@banorte.com	(55) 1670 - 2957
Lourdes Calvo Fernández	Analyst (Edition)	lourdes.calvo@banorte.com	(55) 1103 - 4000 x 2611

**Fixed income and FX Strategy**

Alejandro Padilla Santana	Head Strategist – Fixed income and FX	alejandro.padilla@banorte.com	(55) 1103 - 4043
Santiago Leal Singer	Strategist Fixed income and FX	santiago.leal@banorte.com	(55) 1670 - 2144
Leslie Thalía Orozco Velez	Fixed Income and FX Strategist	leslie.orozco.velez@banorte.com	(55) 1670 - 1698

**Equity Strategy**

Manuel Jiménez Zaldivar	Director Equity Research — Telecommunications / Media	manuel.jimenez@banorte.com	(55) 5268 - 1671
Victor Hugo Cortes Castro	Technical Analysis	victorh.cortes@banorte.com	(55) 1670 - 1800
Marissa Garza Ostos	Equity Research – Conglomerates / Financials/ Mining / Petrochemicals	marissa.garza@banorte.com	(55) 1670 - 1719
José Itzamna Espitia Hernández	Equity Research – Airlines / Airports / Cement / Infrastructure / REITs	jose.espitia@banorte.com	(55) 1670 - 2249
Valentín III Mendoza Balderas	Equity Research – Auto Parts/ Consumer Discretionary / Real Estate / Retail	valentin.mendoza@banorte.com	(55) 1670 - 2250
Francisco Duarte Alcocer	Analyst	francisco.duarte.alcocer@banorte.com	(55) 1670 - 2707
Itzel Martínez Rojas	Analyst	itzel.martinez.rojas@banorte.com	(55) 1670 - 2251

**Corporate Debt**

Tania Abdul Massih Jacobo	Director Corporate Debt	tania.abdul@banorte.com	(55) 5268 - 1672
Hugo Armando Gómez Solís	Senior, Corporate Debt	hugo.gomez@banorte.com	(55) 1670 - 2247
Gerardo Daniel Valle Trujillo	Analyst, Corporate Debt	gerardo.valle.trujillo@banorte.com	(55) 1670 - 2248

**Wholesale Banking**

Armando Rodal Espinosa	Head of Wholesale Banking	armando.rodal@banorte.com	(55) 1670 - 1889
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.cebillos@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 Asset Management	pimentelr@banorte.com	(55) 5268 - 9004
Ricardo Velázquez Rodríguez	Head of International Banking	rvelazquez@banorte.com	(55) 5004 - 5279
Victor Antonio Roldan Ferrer	Head of Corporate Banking	victor.rolan.ferrer@banorte.com	(55) 5004 - 1454