

## Trade balance – October data points to a slight deceleration in 4Q18

- **Trade balance (October): US\$-2,936.0mn; Banorte: US\$-1,740.2mn; consensus: US\$-1,500.0mn (range of estimates: US\$-2,748 to US\$-450mn); previous: US\$-193.9mn**
- **Total exports fell 1.9% m/m, with a 5.1% and 1.5% contraction in oil and manufacturing, respectively**
- **Within oil, we highlight the 6.7% m/m decrease in crude oil explained in large part by international prices. Moreover, autos edged down 4% following four consecutive months in expansion**
- **Total imports grew 0.3% m/m, with increases in oil consumption goods (11.6%) and capital goods (1.9%). By contrast, non-oil consumption goods fell 1.3%, reaffirming signals of a slowdown going into year-end**
- **In our opinion, today's report points to a slight slowdown in economic activity at the start of 4Q18, both in industrial activity as well as consumption**

**Trade balance for October with a US\$2,936.0 million deficit.** According to Banxico and *INEGI's* report published today, the trade balance posted a US\$2,936.0 million deficit, larger to our US\$1,740.2mn deficit forecast that was slightly lower than consensus. In our view, there could have been a relative base effect in which imports turned out surprisingly low in September but picked up the pace considerably this month, thus resulting in a larger-than-expected deficit. YTD, the trade balance deficit stands at US\$-13.2bn, 15.7% larger when compared to the same period of 2017.

In its annual comparison, total exports increased 12.6% yoy, with oil at +17.7%, its lowest expansion in a year and decelerating relative to the previous month, when oil exports grew 43.8%. This was mostly due to a negative base effect, as export volume returned to more normal levels in Oct'17 after dipping in the previous month due to natural disasters. This effect more than compensated for the high price of oil, which increased 51.2% in the yearly comparison. In this sense, we believe oil exports could moderate even more in the coming months due to the fall in prices since October's second half. Manufacturing exports grew 13.2%, stronger than the previous five months. By components, auto exports expanded 14.5%, slightly lower than the 17.8% of the previous month but still with a healthy pace of growth. Moreover, other manufacturing exports posted a 12.5% increase. Nevertheless, there was a significant fall of 14.7% in non-oil mining exports, its strongest contraction since June 2016.

On the other hand, total imports surprised to the upside, growing 13.7% yoy, with stronger purchases of oil-related consumption goods (37.3%) and intermediate goods (22.5%), both above the previous month. We also highlight the 18.6% advance in capital goods, on top of greater non-oil intermediate goods (12.2%). By contrast, the main drag continued to be non-oil consumption goods, expanding only 4.6%.

Trade Balance in October

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% yoy, nsa

	Oct-18	Oct-17	Jan-Oct, '18	Jan-Oct, '17
<b>Total exports</b>	12.6	12.6	10.9	9.6
Oil	17.7	18.0	40.0	21.4
Crude oil	13.5	22.3	45.8	22.6
Others	56.6	-10.9	11.0	16.0
Non-oil	12.3	12.3	9.8	9.0
Agricultural	-1.7	8.3	5.2	6.7
Mining	-14.7	10.5	17.5	27.5
Manufacturing	13.2	12.5	9.9	8.9
Vehicle and autoparts	14.5	18.8	13.5	12.1
Others	12.5	9.3	8.0	7.3
<b>Total imports</b>	13.7	16.3	11.6	8.7
Consumption goods	13.2	18.0	12.9	9.3
Oil	37.3	40.0	38.7	28.3
Non-oil	4.6	11.8	4.1	4.0
Intermediate goods	13.1	16.9	11.1	9.3
Oil	22.5	40.2	30.4	36.1
Non-oil	12.2	15.1	9.4	7.5
Capital goods	18.6	9.6	14.2	2.9

Source: INEGI

**In seasonally-adjusted terms, total exports were down 1.9% m/m, with a generalized weakness among sectors.** In this context we highlight the 4% fall in autos after four months in positive territory. In addition, we highlight that non-oil mining exports fell 5.9%, to a great extent due to lower commodities prices, while agricultural exports decreased 6.5%. In our opinion, these figures suggest a slowdown in economic activity at the start of 4Q18. Moreover, crude oil fell 6.7%, its strongest contraction since January, thus impacting negatively overall oil exports (-5.1%).

**Imports picked up 0.3% m/m despite weakness in non-oil imports.** In particular, consumption goods within this sector fell 1.3% while intermediate edged-down 0.3%. Nevertheless, the increase in overall imports was explained by the 5.1% increase in oil, mainly driven by the 11.6% expansion in consumption goods (gasoline). Moreover, capital goods increased 1.9%, its highest growth rate since July.

#### Trade Balance in October

% m/m sa

	Oct-18	Sep-18	Aug-18
<b>Total exports</b>	<b>-1.9</b>	<b>0.8</b>	<b>3.7</b>
Oil	-5.1	-2.4	5.8
Crude oil	-6.7	0.4	-1.1
Others	6.1	-18.7	76.3
Non-oil	-1.7	1.1	3.6
Agricultural	-6.5	-0.1	6.7
Mining	-5.9	-8.3	-2.6
Manufacturing	-1.5	1.2	3.5
Vehicle and autoparts	-4.0	6.0	1.8
Others	0.1	-1.4	4.5
<b>Total imports</b>	<b>0.3</b>	<b>-1.0</b>	<b>2.7</b>
Consumption goods	2.7	-3.8	1.7
Oil	11.6	-10.0	-2.7
Non-oil	-1.3	-0.8	4.0
Intermediate goods	-0.3	-0.6	3.5
Oil	1.5	1.0	-2.3
Non-oil	-0.5	-0.7	4.2
Capital goods	1.9	-0.2	-1.5

Source: INEGI

**In our opinion, today's report points to a slight slowdown in economic activity at the start of 4Q18.** We highlight two issues. First, the slight contraction in autos after an accelerated rate of expansion in the previous quarter, coupled with the slowdown in non-oil intermediate goods imports, which tend to be highly correlated with industrial activity in Mexico. Both suggest a lower rate of expansion in industrial activity during the month, in particular in manufacturing. Secondly, there are signs of lower dynamism in consumption, as shown by the moderation in the yearly rate of expansion of non-oil consumption goods imports in recent months. Consistent with these figures and our comments in previous publications, we believe economic activity will moderate in 4Q18 to grow around 2.1% yoy, below the 2.5% seen in 3Q18.

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