

## Trade balance – Weakness across the board in June

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- **Trade balance (June): US\$2,561.0mn; Banorte: US\$974.7mn; consensus: US\$398.0mn (range of estimates: US\$-1,210mn to US\$1,768mn); previous: US\$1,030.7mn**
- **Total exports fell 3.8% m/m, almost reversing the previous month increase and with contractions in both oil (-14.4%) and non-oil (-3.1%).**
- **In the latter, the only exception was agricultural goods (+2.5%), with manufacturing 3.0% lower and negative for the first time since March**
- **Total imports were even weaker, plunging 4.8% m/m. By type, the main driver was the 10.8% contraction in capital goods, while non-oil consumption goods were flat**
- **In 2Q19, the trade surplus reached US\$4,962 million, significantly above the US\$1,817 million deficit observed during the first quarter**
- **Nevertheless, the report was weak, suggesting a further moderation in domestic demand, with the highest concern on the outlook for investment given the strong decline in capital goods imports**

**US\$2,561 million surplus in June.** This figure was higher than both our forecast (US\$974.7 million) and consensus at US\$398.0 million. It is important to note that this is the fifth consecutive month with a surplus and the highest on record. As a result, the year-to-date balance reached a US\$3,145.3 million surplus, significantly above the US\$ 4,468.8 million deficit in the same period of 2018. In the monthly dynamics, exports grew 1.2% yoy while imports plunged 7.8% after barely advancing 0.1% in May. The external sector likely added more support to 2Q19 GDP relative to the previous quarter. Nevertheless, it is worth noting that these has been driven to a great extent by a steep deceleration in imports, consistent with an environment which will likely be more muted in terms of consumption growth, along persistent and worrying signs of weakness in investment. In this respect, during the first half of the year, exports accumulate a 3.7% yoy advance, while imports have increased just 0.2%

Taking a look at exports, the oil sector declined 20.4%, weaker than our view of a 14.9% contraction and the previous month of -6.9%. Specifically, crude-oil stood at -19.0%, while other oil exports plunged 28.5%. Regarding the former, performance is broadly consistent with our monitoring that pointed out to both lower volumes and price of the Mexican oil mix (-11%). On the other hand, non-oil exports reached 2.8%, slowing down significantly from the previous two months. Manufacturing remained in expansion (2.9%), with the auto sector leading higher (4.4%) while non-auto was also in positive territory (2.0%).

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Imports were very weak as they contracted 7.8%, lowest since July 2016 and with all main categories in contraction. The oil sector fell 18.6% and non-oil by -6.3%. In the first case, the decline was broadly in line with the 15% decline observed in gasoline prices with respect to the same period of 2018 but slightly lower as intermediate goods fell 23.5%. In our view, the more relevant aspect in non-oil imports was the significant plunge of 21.2% in capital goods, its third month in contraction and its steepest fall in the post-crisis period. Moreover, non-oil consumption goods fell 5.7%. Last but not least, non-oil intermediate goods, related to the manufacturing sector, were also down (-4.2%).

#### Trade Balance in June

% yoy, nsa

	Jun-19	Jun-18	Jan-Jun 19	Jan-Jun 18
<b>Total exports</b>	1.2	6.7	3.7	11.0
Oil	-20.4	-6.9	-9.5	44.9
Crude oil	-19.0	-2.6	-7.6	56.0
Others	-28.5	-29.7	-20.7	1.9
Non-oil	2.8	7.7	4.7	9.1
Agricultural	4.9	2.7	4.2	8.3
Mining	-7.3	7.5	-8.3	28.0
Manufacturing	2.9	8.0	4.9	8.9
Vehicle and autoparts	4.4	16.0	6.2	12.4
Others	2.0	4.0	4.2	7.0
<b>Total imports</b>	-7.8	0.1	0.2	11.6
Consumption goods	-7.1	1.1	-2.5	13.4
Oil	-9.7	8.9	-4.3	35.3
Non-oil	-5.7	-2.2	-1.7	5.9
Intermediate goods	-6.2	0.3	1.4	11.0
Oil	-23.5	-0.9	-3.9	36.2
Non-oil	-4.2	0.4	2.0	8.9
Capital goods	-21.2	-3.0	-5.8	13.6

Source: INEGI

#### With seasonally-adjusted figures, performance was weak across the board.

Specifically, exports declined 3.8% m/m, contracting for the first time in two months and with both oil (-14.4%) and non-oil (-3.1%) lower. In the latter, we highlight the strong decline in mining (-21.7%), although not enough to reverse the +32.2% observed in May. More importantly though, the auto sector fell 1.0% while other manufacturing exports fell 4.0%, closing the quarter in weak territory. Although exports were weak, imports declined at a faster pace (-4.8%). We note that no sector grew, only with non-oil consumption goods flat. The result was mainly driven by the hefty decline of 10.8% in capital goods, with protracted weakness since last February as they have fallen in four out of five months. This, in our view, confirms that investment prospects remain dim. On the other hand, non-oil intermediate goods fell 4%, in our view confirming recent signals that manufacturing is slowing down further. In oil, consumption goods were down 3.7% while intermediate goods declined 11.6%, more than reversing the relatively high print of 4.5% observed in May.

## Trade Balance in June

% m/m sa

	Jun-19	May-19	Apr-19
<b>Total exports</b>	<b>-3.8</b>	<b>3.9</b>	<b>2.8</b>
Oil	-14.4	4.7	-5.4
Crude oil	-14.5	6.8	-9.9
Others	-13.8	-7.9	34.1
Non-oil	-3.1	3.9	3.4
Agricultural	2.5	-1.5	3.7
Mining	-21.7	32.2	-14.6
Manufacturing	-3.0	3.7	3.6
Vehicle and autoparts	-1.0	1.6	1.4
Others	-4.0	5.0	4.9
<b>Total imports</b>	<b>-4.8</b>	<b>1.7</b>	<b>1.4</b>
Consumption goods	-1.2	-0.9	4.4
Oil	-3.7	2.7	5.2
Non-oil	0.0	-2.5	4.0
Intermediate goods	-4.7	2.4	1.1
Oil	-11.6	4.5	3.4
Non-oil	-4.0	2.2	0.9
Capital goods	-10.8	0.1	-1.1

Source: INEGI

**The report signals a weak performance of economic activity at the end of the quarter.** On a relatively positive note, the report showed manufacturing still growing in the annual comparison in a difficult global context. Nevertheless, exports in sequential terms signal a significant slowdown of external demand. We should remember that tensions in the trade relationship with the US increased at the start of the month, as President Trump threatened tariffs on all Mexican exports on migration issues. Fortunately, it was brief (lasting about one week) after an agreement was reached. Moreover, on Monday the US Secretary of State, Mike Pompeo, held a meeting with Mexico's Foreign Minister, Marcelo Ebrard, in which he acknowledged "significant" advances in efforts to curb migration, so they will meet again in 45 days to evaluate further. In this respect, we believe this factor is not likely to have accounted for a big part of the results.

Moreover, the US manufacturing PMI fell again in July and stands at post-crisis lows. With weakness persisting according to this index, it is our take that the relatively resilient performance in Mexico's manufacturing sector in recent months could be compromised. Moreover, we believe dynamics in non-oil consumption goods and capital goods still suggest weakness in domestic demand. In this respect, business confidence remains limited according to data up to June, with all sectors actually declining relative to the previous month.

All in all, it is our take that the report signals that economic activity in Mexico at the end of the quarter was weak, even if we take into account that the 2Q19 surplus of US\$4,962 million would be more favorable for GDP when compared to the US\$1,817 million deficit observed in the first quarter. In our view, what is most concerning is the performance of investment as reflected in capital goods imports, in a context in which we have recently revised further down our outlook for private investment for full-year 2019 with an expected contraction of 2.6% yoy.

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