Trade balance – Weak imports explain the surplus in December

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- **Trade balance (December): US$1,836.3mn; Banorte: US$-593.7mn; consensus: US$-900.0mn (range of estimates: US$-2,180 to US$-250mn); previous: US$-2,381.8mn**
- **With today's figures, the trade deficit in 2018 reached US$ 13,704.4 million, 25% higher than in the previous year**
- **During the month, total exports increased 1.7% m/m, with a 1.8% and 1.0% expansion in oil and manufacturing, respectively, and the latter showing a better performance in autos (2.7%)**
- **Total imports contracted 5.2% m/m, its highest fall since May 2016, driven by a strong 17.2% decline in oil-related goods. Meanwhile non-oil imports fell 3.5%**
- **Today's report is consistent with a slowdown in economic activity, particularly the outlook for investment, while consumption seems to remain the most resilient component of aggregate demand**

Trade balance for December with a US$1,836.3.0 million surplus. According to Banxico and *INEGI's* report, the trade balance posted a US$1,836.3 million stronger, stronger to both our US$593.7mn deficit forecast that was higher than consensus. In this respect, we believe that the positive surprise in terms of this print's surplus was due to the significant decrease in oil-related imports during the month, contracting 7.5% yoy, which is the lowest figure since August 2016.

With this result, the trade balance deficit for 2018 reached US$13.704.4 million, 25% larger when compared to the previous year. The latter was mainly driven by higher oil imports as prices recovered during most of 2018 when compared to the previous year, with the oil balance deficit surging 26.7% yoy to 23,189.6 million. In its annual comparison, total exports increased 9.6% yoy, practically the same pace as in 2017 at 9.5%. In particular, manufacturing was relatively stronger as it grew 9.1%, driven by acceleration to 12.2% in the automotive sector. In contrast, both agricultural (+2.7%) and mining (+14.8%) moderated their pace of expansion relative to last year, suggesting that manufacturing remains the most vigorous export sector for the Mexican economy.

On the other hand, total imports grew 10.4% yoy in 2018, higher than the 8.6% of the previous year. This was mostly due to higher oil imports, as already mentioned. Excluding this sector, imports increased 8.5%. Non-oil consumption goods moderated to 3.1% from 4.8% in 2017 On the contrary, non-oil intermediate goods were stronger at 8.8%, while capital goods were also higher in the annual comparison at 11.9%. Nevertheless, both of these categories were significantly weak in December, suggesting less economic dynamism at the turn of the year, particularly in terms of investment going forward.

Trade Balance in December
% yoy, nsa

	Dec-18	Dec-17	2018	2017
Total exports	**4.3**	**8.4**	**9.6**	**9.5**
Oil	-16.8	45.9	29.0	25.9
Crude oil	-20.2	58.9	32.3	28.5
Others	9.4	-10.2	11.2	13.4
Non-oil	6.0	6.2	8.9	8.6
Agricultural	-6.8	20.7	2.7	7.9
Mining	16.6	21.7	14.8	24.2
Manufacturing	6.5	5.3	9.1	8.4
Vehicle and autoparts	7.4	9.3	12.2	11.8
Others	6.0	3.4	7.4	6.7
Total imports	**-0.8**	**8.4**	**10.4**	**8.6**
Consumption goods	-9.7	16.0	10.1	10.4
Oil	-15.5	24.4	29.8	29.8
Non-oil	-7.1	12.7	3.1	4.8
Intermediate goods	1.4	7.6	10.3	9.0
Oil	-2.8	29.2	27.0	35.0
Non-oil	1.9	5.6	8.8	7.1
Capital goods	-4.0	4.1	11.9	3.3

Source: INEGI

In seasonally-adjusted terms, total exports were up 1.7% m/m, its first advance in three months. In particular, oil-exports surprised positively with a 1.8% m/m increase in spite of the strong 18.3% decline in the price of the Mexican oil mix, implying that crude-oil volumes should have picked-up. Non-oil imports grew 1.7% m/m highlighting the recovery in mining (+24.2%) and manufacturing (+1.0%). Regarding the latter, autos grew 2.7% and the rest of manufacturing inched higher by 0.1%.

Imports contracted 5.2% m/m, its highest contraction since May 2016. This print is unusually low, explained to a great extent by plunging oil and gasoline prices, but also by below average volumes in terms of oil imports. As a result, total oil imports fell 17.3%. Adding to this, non-oil imports were also weak, contracting 3.5%, In this category, we note the accelerated pace of declines in both capital goods (-6.5%) along intermediate goods (-3.6%).

Trade Balance in December
% m/m sa

	Dec-18	Nov-18	Oct-18
Total exports	**1.7**	**-1.5**	**-2.2**
Oil	1.8	-5.7	-6.1
Crude oil	-1.6	-4.3	-7.8
Others	25.4	-14.0	6.2
Non-oil	1.7	-1.2	-1.9
Agricultural	11.8	-4.5	-6.7
Mining	24.2	-3.5	-6.0
Manufacturing	1.0	-1.1	-1.7
Vehicle and autoparts	2.7	-2.8	-4.8
Others	0.1	-0.1	0.1
Total imports	**-5.2**	**1.3**	**0.4**
Consumption goods	-5.2	-4.0	2.5
Oil	-17.2	-10.0	11.4
Non-oil	0.2	-1.0	-1.3
Intermediate goods	-5.0	3.0	-0.2
Oil	-17.3	10.3	1.5
Non-oil	-3.6	2.2	-0.4
Capital goods	-6.5	-4.5	2.1

Source: INEGI

In our opinion, today's report points to a slowdown in economic activity. Despite the acceleration in exports during the month, even in the automotive sector, the relative stagnation in the rest of manufacturing suggests underlying weakness in the sector. To the latter, we must add the slowdown in non-oil intermediate goods, which are mainly used as inputs to this industry. Considering other categories, we also highlight the relatively strong decline in capital goods imports, suggesting that investment demand is poised to weaken in the short term, and which is more relevant taking into account the appreciation of the Mexican peso during the month. On the contrary and consistent with other data, non-oil consumption goods have stayed relatively resilient, actually increasing at the margin in December (in monthly terms) after three consecutive months contracting, which could suggest that retail sales could remain relatively positive at the end of the year.

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