

Trade balance – Higher than expected surplus on a moderation in imports

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- **Trade balance (February): US\$ 1,221.6mn; Banorte: US\$303.5mn; consensus: US\$303.5mn (range of estimates: US\$-600mn to US\$1,308mn); previous: US\$-4,809.6mn**
- **Total exports presented null growth in monthly terms, with manufacturing decline 1.1% m/m despite positive growth in autos**
- **Total imports fell 1.5% m/m, with a broad slowdown led by the decline in oil-related goods and only non-oil consumption imports expanding modestly, suggesting resiliency in private demand**
- **In our view, today's report signals some impact from recent supply chain disruptions in manufacturing but is also consistent with a moderation in activity, particularly the outlook for investment**

US\$ 1,221.6 million surplus in February. This figure was higher than consensus, which matched our own estimate, and comes after the unusually high US\$4,809.6 million deficit of the previous month. Total exports and imports grew 3.5% and 2.7% yoy, respectively, with a more modest than expected increase in the latter behind the stronger surplus. All in all, the breakdown is consistent with an overall moderation in trade activity and some impact from recent transitory shocks, with some resiliency in consumption compensating for the muted outlook in terms of investment.

In exports, we highlight less dynamic growth in manufacturing at 4.0%, with autos increasing only 1.7% from 7.4% previously. In our view, this could have been at least partially a result of a lagged impact from supply disruptions in January. Oil exports surprised positively at -0.7%, with crude-oil edging up 0.8% helped by a more favorable price when compared to the previous year.

Trade Balance in February

% yoy, nsa

	Feb-19	Feb-18	Jan-Feb 19	Jan-Feb 18
Total exports	3.5	5.6	4.5	12.2
Oil	-0.7	-12.4	-6.2	30.0
Crude oil	0.8	-13.1	-5.6	39.8
Others	-12.3	-8.4	-10.3	-11.5
Non-oil	3.8	7.1	5.3	10.9
Agricultural	-1.0	-4.5	-2.8	14.4
Mining	4.1	-27.6	-11.9	28.4
Manufacturing	4.0	8.5	6.1	10.5
Vehicle and autoparts	1.7	7.4	4.2	13.9
Others	5.4	9.0	7.1	8.7
Total imports	2.7	6.0	4.4	12.9
Consumption goods	-5.3	-2.3	-3.7	14.5
Oil	-22.7	-8.9	-15.7	21.1
Non-oil	2.6	0.6	1.6	11.9
Intermediate goods	5.2	7.8	6.5	11.9
Oil	-1.8	16.3	7.0	21.7
Non-oil	5.9	6.9	6.4	11.0
Capital goods	-5.5	4.8	-0.1	18.6

Source: INEGI

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On the other hand, we note the strong fall in oil-related imports of 9.5%, particularly consumer goods at -22.7% which was its highest decrease since August 2016. Nevertheless, non-oil consumption goods recovered to 2.6%. Non-oil intermediate goods –closely related to the manufacturing process–, decelerated to 5.9% from 6.9% previously. In our view, the latter could suggest that even with a more challenging global outlook and recent shocks, the impact from the latter in manufacturing is likely to be transitory. On the contrary, we highlight that capital goods plunged again (-5.5%) after rebounding in January, which we consider is a bad omen on investment going forward.

In seasonally-adjusted terms, total exports posted null growth, with manufacturing weakening 1.1%. This was driven by the non-auto sector, which declined 2.3%, partially compensated by 1.4% growth in autos. Nevertheless, the period could have been impacted by supply chain disruptions, with operations normalizing in the second half of the month. On a more positive note, oil-related exports surged 11.6%, driven by crude oil at 14.3%, mostly on an improvement in prices on a monthly basis. Given the impact of possible impact of transitory shocks and the performance in autos, we do not take the signal of a decline in overall manufacturing as highly concerning despite being looking closely for additional information in coming reports.

Total imports fell 1.5% m/m, with a broad slowdown. It is our take that the latter is mainly a result of less dynamism in terms of economic activity. Nevertheless, it should be noted that oil-related consumption goods (which includes fuels) declined 4.1%, adding four months in contraction. We will be tracking closely this category, as if it extends further could be a relevant driver in terms of moderating the oil deficit. In contrast, non-oil consumption goods expanded 0.2%, adding three months in expansion territory. In our opinion, monthly dynamics support the view that consumption remains relatively resilient. Nevertheless, the impact on industry is more palpable, as non-oil intermediate goods fell 1.1% while capital goods plunged 3.7% after surging 8.3% in the previous month.

Trade Balance in February

% m/m sa

	Feb-19	Jan-19	Dec-18
Total exports	0.0	1.0	1.6
Oil	11.6	-2.9	3.0
Crude oil	14.3	0.2	-0.2
Others	-7.7	-20.9	25.2
Non-oil	-0.8	1.3	1.5
Agricultural	0.0	-1.8	10.8
Mining	17.5	-17.1	24.2
Manufacturing	-1.1	1.7	0.9
Vehicle and autoparts	1.4	-3.3	2.5
Others	-2.3	4.5	0.0
Total imports	-1.5	4.0	-5.1
Consumption goods	-0.9	1.3	-3.9
Oil	-4.1	-2.9	-14.0
Non-oil	0.2	2.9	0.5
Intermediate goods	-1.4	3.9	-5.1
Oil	-3.9	3.0	-17.4
Non-oil	-1.1	4.0	-3.7
Capital goods	-3.7	8.3	-6.7

Source: INEGI

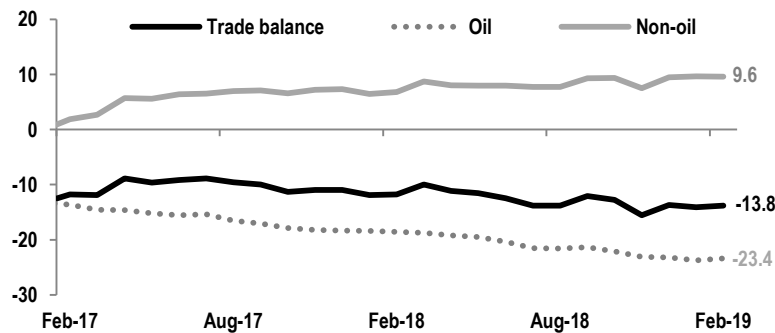
In our view, today’s report signals some impact from recent supply chain disruptions, but is also consistent with a moderation in economic activity. In particular, we believe that the monthly decline in capital goods imports after surging last month is a reflection of a muted outlook for investment, with the latter not enough to compensate for the recent downward trend in terms of growth. On the other hand, non-oil consumption goods imports suggest that private consumption has stayed on a relatively solid footing.

We warn that, in our view, results today were likely impacted by recent supply disruptions, especially in the manufacturing sector (both in terms of exports and imports). Therefore, it will be relevant to watch coming reports to confirm the degree of the expected slowdown, which is probable given both trade data and the weaker performance of the sector globally. In this respect, we believe that the report gives credence to the view that Mexico’s economic activity is decelerating. Considering other indicators such as the recent performance of the transportation sector according to January’s *IGAE* and the unemployment rate, it seems that the magnitude of this slowdown is more modest than we expected at the turn of the year.

Last but not least, we also noted that the oil-balance has improved at the margin, mostly due to lower imports. In this respect, the 12-month rolling oil balance went from US\$ 23.7 to 23.4 billion deficit, still deep in negative territory but less unfavorable for the whole balance. On the other hand, the non-oil balance was broadly unchanged at US\$ 9.6 billion. As a result, the total deficit moderated to US\$ 13.8 from 14.1 billion, as shown in the chart below.

Trade Balance

US\$ billion, 12-month rolling sum



Source: INEGI, Banorte

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