

Trade balance – Manufacturing strong in May, but with additional signs of a slowdown in consumption

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- **Trade balance (May): US\$1,030.7mn; Banorte: -US\$1,030.4mn; consensus: -US\$1,030.4mn (range of estimates: US\$-1,450mn to US\$-366mn); previous: US\$1,370.2mn**
- **Total exports extended the dynamism observed in April, growing 3.9% m/m, the strongest year-to-date. Both oil- (6.0%) and non-oil (3.8%) exports were higher, with a strong rebound in non-oil mining and a still good performance in manufacturing**
- **Total imports were more modest, growing 1.8% m/m vs. 1.6% in the previous month. The weakest was non-oil consumption goods (-2.6%), while capital goods remain contained (0.7%). On the contrary, non-oil intermediate goods, mostly related to manufacturing, rebounded 2.3%**
- **Manufacturing is likely to be more favorable for 2Q19 GDP, suggesting resiliency in external demand. Nevertheless, today's print provided additional signs of a slowdown in consumption and a still muted investment outlook**

US\$1,030.7 million surplus in May. This figure was higher than both our forecast and consensus, which coincided at a US\$ 1,030.4 million *deficit*. It was also stronger than any economists' forecast and the fourth consecutive month with a positive balance. In this respect and as a result, the year-to-date trade balance has flipped to a US\$ 584.3 million surplus from a US\$ 446.4 million deficit at the end of April. Moreover, it is significantly higher than the US\$ 3,569.4 million deficit during the same period of 2018. This was driven by a 6.7% yoy advance in exports, with imports up only 0.1%. In our view, these dynamics suggest that external demand, particularly related to manufacturing, has held up well and looks stronger than expected considering trade tensions and the deceleration of global industrial activity. The latter could help GDP during 2Q19 after the deceleration in net trade in the first quarter. In contrast, the report is consistent with some preliminary signs pointing that domestic demand is cooling off, particularly in terms of consumption. Moreover, the outlook for investment remains contained.

Taking a look at exports, the oil sector fell 6.9%, better than our expectation of a 9.6% contraction and to the previous month at -14.3%. In particular, crude-oil stood at -2.6%, albeit dragged down by other oil exports which plunged 29.7%, partially due to a challenging base-effect. In our view, the performance in crude oil was positive considering that the price of the Mexican oil mix fell 2.9%, with an average of US\$/bbl 62.2 during the period. On the other hand, non-oil exports stood at 7.7%. The most surprising performance was in mining at 7.5%, breaking with two months in negative territory. In a similar fashion and not less importantly, autos surged 16.0%, showing that this key sector for manufacturing activity has stayed resilient.

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Considering imports, we highlight the 3.0% decline in capital goods, pointing to protracted weakness in investment. Moreover, non-oil consumption was also weak at -2.2%, its third consecutive month in contraction in the annual comparison. On the other hand, in the oil sector, consumption goods advanced 8.9% in spite of lower average prices for gasoline in the US, consistent with other data suggesting a significant increase in volumes. Those catalogued as intermediate declined 0.9%. Last but not least, non-oil intermediate goods, related to the manufacturing sector, were up by 0.4%.

Trade Balance in May

% yoy, nsa

| | May-19 | May-18 | Jan-May 19 | Jan-May 18 |
|-----------------------|--------|--------|------------|------------|
| Total exports | 6.7 | 11.0 | 1.5 | 12.3 |
| Oil | -6.9 | 73.4 | -7.3 | 45.7 |
| Crude oil | -2.6 | 82.3 | -5.3 | 57.2 |
| Others | -29.7 | 37.9 | -19.2 | 1.6 |
| Non-oil | 7.7 | 7.9 | 5.1 | 10.4 |
| Agricultural | 2.7 | 2.1 | 4.1 | 9.3 |
| Mining | 7.5 | 38.5 | -8.5 | 32.5 |
| Manufacturing | 8.0 | 7.8 | 5.4 | 10.1 |
| Vehicle and autoparts | 16.0 | 5.5 | 6.6 | 13.9 |
| Others | 4.0 | 9.1 | 4.7 | 8.1 |
| Total imports | 0.1 | 11.5 | 1.9 | 12.3 |
| Consumption goods | 1.1 | 12.6 | -1.5 | 14.3 |
| Oil | 8.9 | 47.2 | -3.1 | 32.1 |
| Non-oil | -2.2 | 2.5 | -0.9 | 8.0 |
| Intermediate goods | 0.3 | 11.7 | 3.0 | 11.8 |
| Oil | -0.9 | 53.6 | 0.5 | 33.0 |
| Non-oil | 0.4 | 8.7 | 3.3 | 9.9 |
| Capital goods | -3.0 | 9.1 | -2.5 | 14.4 |

Source: INEGI

Seasonally-adjusted figures show resiliency in manufacturing. In particular, exports picked up 3.7% m/m, matching the advance of the previous month. The performance of this sector in the first two months of 2Q19 suggests that external demand may contribute more positively to GDP. Autos were broadly stable and positive at 1.6%, while dynamism in other manufacturing was strong at 4.8%. Consistent with the annual figures, oil exports also surprised positively as they grew 6.0% after plunging 5.0% in the previous month. The latter was driven by crude-oil at 8.3%, highest since last February. In imports, capital goods inched higher at 0.7%, slightly higher than the -0.5% registered in April but still contained. The most relevant figure, in our view, was the 2.6% decline in non-oil consumption, overall weak in spite of the 4.0% increase of the previous month. In our view, this data suggests that consumption is moderating at the margin, which has been the main driver of the Mexican economy. In oil, consumption goods were higher by 2.9%, with three consecutive prints in positive territory, while intermediate goods were also relatively high at 4%, as shown in the table below.

Trade Balance in May

% m/m sa

| | May-19 | Apr-19 | Mar-19 |
|-----------------------|------------|------------|-------------|
| Total exports | 3.9 | 2.8 | -2.1 |
| Oil | 6.0 | -5.0 | 0.2 |
| Crude oil | 8.3 | -9.3 | 0.5 |
| Others | -7.8 | 34.3 | -2.8 |
| Non-oil | 3.8 | 3.4 | -2.3 |
| Agricultural | -1.6 | 3.6 | -0.9 |
| Mining | 31.2 | -14.7 | 2.3 |
| Manufacturing | 3.7 | 3.7 | -2.4 |
| Vehicle and autoparts | 1.6 | 1.5 | 2.4 |
| Others | 4.8 | 5.0 | -5.0 |
| Total imports | 1.8 | 1.6 | -1.7 |
| Consumption goods | -0.8 | 4.4 | 3.8 |
| Oil | 2.9 | 5.5 | 26.3 |
| Non-oil | -2.6 | 4.0 | -3.8 |
| Intermediate goods | 2.4 | 1.3 | -2.8 |
| Oil | 4.0 | 3.9 | 0.6 |
| Non-oil | 2.3 | 1.1 | -3.2 |
| Capital goods | 0.7 | -0.5 | 0.0 |

Source: INEGI

A mixed report in terms of the signal for economic activity. On a positive note and as already mentioned, figures suggest that dynamism in manufacturing has extended, further diluting concerns of a slowdown in a context of high trade tensions and uncertainty, both locally and externally. To the latter it should be added the delays in the ratification process of USMCA in the US. In our view, this is favorable taking into account other temporary shocks, such as delays in freight transportation at the Northern Border. In this respect, manufacturing exports have grown 5.4% on a year-to-date basis, accelerating at the margin relative to the 4.6% observed at the end of April.

On a more negative note, the recent performance in non-oil consumption goods suggests a slowdown in domestic demand, with imports on a year-to-date basis in this category actually at -0.9% yoy, slightly below the -0.5% at the end of the previous month. On the other hand, the outlook for investment remains limited according to the performance in capital goods imports, which are tracking at -2.5% so far in 2019. With business confidence still impacted by high local uncertainty in an environment of high financing costs, we believe that the upside in this category remains capped.

Overall, the external sector is poised to contribute more positively to 2Q19 GDP, with external demand showing stronger-than-expected resiliency. Nevertheless, signs of a slowdown in consumption (as suggested by other recent reports, such as April's IGAE) and investment point to a cool down of domestic demand.

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