Trade balance – Strong surplus in full-year 2019, first in seven years

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- **Trade balance (December): US$3,068.3 million; Banorte: US$365.0mn; consensus: US$2,500.0mn (range: US$-600mn to US$3,200mn); previous: US$790.4mn**
- **With today's print, the trade balance accumulated a US$5,820.3 million, surplus in full-year 2019, first for a calendar year since 2012**
- **Total exports came in at 0.5% m/m. This was mainly driven by the 21.6% increase in oil exports, offsetting the 0.5% decline in total manufacturing**
- **Imports were down 1.3% m/m, with all subcomponents down. Weakness persists in capital goods (-1.9%), with the worst performance in the non-oil sector**
- **Despite a relative improvement in auto sector exports, the figures from other manufacturing suggests that challenges remain in this sector**
- **Moreover, other categories within the report suggest that domestic demand, including consumption and investment, stayed limited in December**

US$3,068 million surplus in December. This was above our forecast of US$365 million and consensus at US$ 2,500 million. This is the highest surplus ever recorded for a single month, driven by a recovery in exports (3.0% y/y) –particularly within oil– on top of relatively contained imports at -0.3%, even when accounting for a favorable base effect. As a result, the trade balance in 2019 reached US$ 5,820.3 million, first for a calendar year since 2012 (Chart 2). The oil balance accumulated a US$ 21,221.9 million deficit, improving by US$ 1,938.5 million when compared to the previous year, while the non-oil balance stood at US$ 27,042.3 million, surging by US$ 17,499.6 million relative to 2018, with the latter largely explained by the full-year decline of -1.9% in imports (see Table 1).

Seasonally adjusted figures show autos are recovering, with capital goods dipping again. Regarding exports, we highlight that the auto sector extended the previous month's increase as they grew 1.0% m/m, stronger than our expectations and providing some support to manufacturing. Nevertheless, others contracted 1.3% (see Table 2). In our view this situation is somewhat concerning, as it signals further challenges faced by this sector, particularly when coupled with weak signals from the US, including the decline in US PMI and ISM indices. In this respect, we also noted that non-oil intermediate goods, closely related to this industry, contracted for a fifth consecutive month (-1.1%), suggesting that businesses may be reducing their inventories on prospects of muted growth. Moreover, capital goods imports, related to investment, dipped 1.9% after two consecutive months recovering, remaining subdued for several months. Consumption goods imports were also modest (-1.2%), consistent with other signals of relatively low domestic demand.

On a more positive note, oil-related exports improved, surging 21.6%. This was mostly driven by a price-effect in crude oil (10.4%), with the Mexican oil mix picking up to 54.99 US$/bbl –from 50.61 in the previous month– helped to some degree by US-Iran tensions. Exports volumes according to Pemex were mostly unchanged in the month. On the other hand, imports were not as sensitive to these price dynamics, with consumption goods falling 2.2% despite higher gasoline prices in the US, while intermediate goods declined by 3.0%.

Despite the rebound in auto exports, the report suggests limited activity levels in December. First and foremost, the historically high surplus for the month was due to a combination of: (1) More positive price-effects in oil exports relative to imports; (2) some normalization in supply chains within the auto sector; (3) still limited dynamism in terms of imports; and (4) some skew higher in terms of seasonality. In this respect, it is our take that these figures, despite positive for 4Q19 GDP at the margin, continue suggesting a muted outlook for economic activity.

In particular, signals from consumption and capital goods imports suggest domestic demand stayed weak in December. Regarding the former, it is our take that the inventory build-up observed in October may have affected figures in recent months. Retail sales data indicate a shift in spending patterns to take advantage of discounts; nevertheless, the monthly private consumption index has failed to gather pace, limiting dynamism in this component. In terms of investment, we believe it is necessary to observe higher business confidence levels before a more decisive turnaround, with the outlook still challenging despite a more modest pace of decline in annual terms which was mainly due to base effects.

Last but not least, we are a little concerned about the recent performance in manufacturing excluding autos (with the latter recently affected by temporary shocks). In particular, the sequential decline in exports during the last two months has been coupled with similar moves in the US manufacturing PMI, declining modestly in January despite the US-China trade deal and other relevant developments in this front, including the ratification of USMCA by the US –with the expectation of President Trump signing the deal into law tomorrow–. Despite these warning signals, we maintain our view that manufacturing could slow down in 2020 but remain positive for GDP, with uncertainty declining in the midst of expectations about USMCA coming into force by 2H20.

Table 1: Trade balance
% y/y nsa

	Dec-19	Dec-18	2019	2018
Total exports	**3.0**	**4.4**	**2.3**	**10.1**
Oil	4.3	-17.0	-15.1	29.0
Crude oil	0.8	-20.4	-14.9	32.2
Others	24.2	9.4	-16.1	11.2
Non-oil	2.9	6.1	3.6	8.9
Agricultural	7.5	-5.8	9.7	3.2
Mining	5.7	16.6	-0.7	14.8
Manufacturing	2.6	6.5	3.4	9.1
Vehicle and auto-parts	2.7	7.4	3.9	12.2
Others	2.5	6.1	3.1	7.4
Total imports	**-0.3**	**-0.8**	**-1.9**	**10.4**
Consumption goods	4.1	-9.7	-3.1	10.1
Oil	2.5	-15.5	-11.2	29.8
Non-oil	4.8	-7.1	0.5	3.1
Intermediate goods	-1.0	1.4	-0.8	10.3
Oil	-16.0	-2.8	-12.8	27.0
Non-oil	0.6	1.9	0.4	8.8
Capital goods	-0.6	-4.0	-8.9	11.9

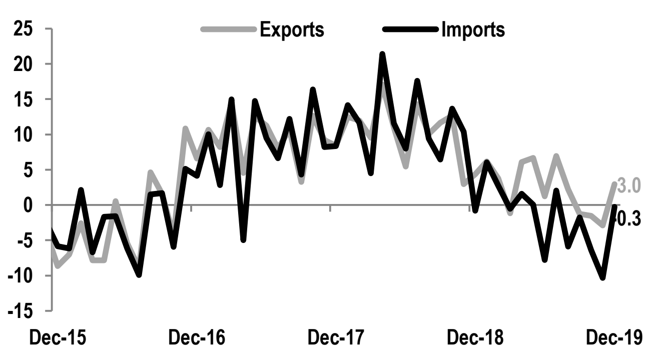
Source: INEGI

Table 2: Trade balance
% m/m, % 3m/3m sa

	% m/m			% 3m/3m	
	Dec-19	Nov-19	Oct-19	Oct-Dec ‘19	Sep-Nov ‘18
Total exports	**0.5**	**-1.2**	**0.1**	**-3.4**	**-3.8**
Oil	21.6	5.7	-9.4	-2.6	-10.6
Crude oil	10.4	16.2	-13.6	-4.5	-10.8
Others	132.7	-44.2	18.4	9.5	-9.6
Non-oil	-0.6	-1.6	0.6	-3.4	-3.4
Agricultural	-5.8	3.5	6.7	-7.4	-10.0
Mining	6.9	-5.2	25.2	8.5	-1.1
Manufacturing	-0.5	-1.7	0.1	-3.4	-3.1
Vehicle and auto-parts	1.0	2.7	-6.1	-8.4	-8.0
Others	-1.3	-4.0	3.6	-0.5	-0.2
Total imports	**-1.3**	**-1.5**	**0.1**	**-3.2**	**-2.2**
Consumption goods	-1.5	-2.7	6.8	1.9	-1.0
Oil	-2.2	-0.8	14.6	2.3	-9.7
Non-oil	-1.2	-3.5	4.2	1.8	2.6
Intermediate goods	-1.2	-1.7	-1.4	-4.7	-2.9
Oil	-3.0	0.7	-4.4	-5.9	-5.5
Non-oil	-1.1	-1.9	-1.1	-4.6	-2.7
Capital goods	-1.9	1.8	2.8	2.4	2.6

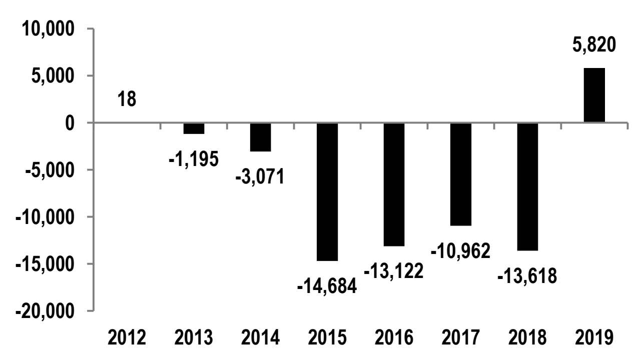
Source: INEGI

Chart 1: Exports and imports
% y/y nsa



Source: INEGI

Chart 2: Trade balance
US$ million



Source: INEGI

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