Trade balance – Pervasive weakness in both exports and imports

March 27, 2020

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- **Trade balance (February): US$2,910.6 million; Banorte: US$3,511.3mn; consensus: US$2,438.5mn (range: US$465mn to US$3,912mn); previous: -US$2,415.8mn**
- **Total exports fell 3.3% m/m, with oil exports down 28.3%, breaking with three strong months and affected by lower crude-oil prices. Non-oil exports were also lower (-1.6%), with favorable results only in other manufacturing (0.7%)**
- **Imports contracted 1.9% m/m, with oil plunging 10.7%) and non-oil also contracting (0.9%). Within the latter, intermediate (-1.1%) and capital goods (-2.2%) were weak, in line with our expectations**
- **In our view, the deceleration of both exports and imports is related to the disruption of supply chains in China due to COVID-19, situation that will likely exacerbate in coming months. In this context, the outlook for the manufacturing sector looks very weak as industrial activity has been affected in a plethora of countries**
- **High uncertainty about the current backdrop also points to weak prospects for investment and capital goods imports, with the latter to the downside for three consecutive months**

US$2,910.6 million trade surplus in February. This was higher than consensus at US$2,438.5 million but below our US$3,511.3 million forecast. It is worth saying that results were quite weak considering that the leap-year skewed both exports and imports to the upside, as there was one more day in the annual comparison. With this result, the 12-month rolling sum reached a new historical surplus of US$9,617.6 million (Chart 2). Total exports grew only 0.6% y/y dragged by oil (-32.0% y/y from 13.7% in January) while non-oil grind higher (3.1%), with mining lagging behind. On the other hand, imports fell 3.8%, with seven consecutive months down despite a less difficult base effect. We highlight the 3.7% contraction in non-oil intermediate goods –related to manufacturing– and that capital goods remained in deeply negative territory (-11.1%) (see Table 1).

Seasonally adjusted figures show generalized weakness in trade. On a monthly basis, we highlight that both exports and imports contracted, at -3.3% and -1.9%, respectively (see Table 2). We highlight that the former fell for the first time since October 2019, in the midst of the shock to the auto sector. This time, oil was the leader (-28.3%), affected by plunging crude oil prices, with this category at -30% after three consecutive months with sizable gains. Moreover, non-oil was also disappointing at -1.6%, highlighting the -5.1% in autos and -9.5% in mining. Nonetheless, other manufacturing jumped 0.7%, adding two months of gains. Regarding imports, all categories were weak, which in our view could be related partially to supply-chain disruptions, at least for the non-oil sector. Regarding this, we highlight that both consumption (-3.6%), but more importantly, intermediate goods (-0.3%) were lower. Moreover, and extending its weak trend, capital goods fell 2.2%, with three months to the downside.

Similar to the performance in exports, oil imports were heavily influenced by the decline in oil prices, with consumption goods at -11.8% and intermediate goods falling -9.9%. As a result, this category plunged 10.7%, lowest in little over a year.

Relatively low impact from COVID-19 in February but will ramp-up in the short term. It is our take that the most direct signal about the impact from the Coronavirus is the sequential decline in both exports and imports, in which we highlight non-oil intermediate goods imports. We believe this is related to supply-chain problems, at the time mostly concentrated in China. In this sense, we should say that in 2019, 18.2% of all of Mexico's imports came from this country, only behind the US with 45.2%. The impact of the virus on industry has been far-reaching, as suggested by the strong 13.5% y/y decline in China's industrial production in January-February, well below the -3.0% expected by consensus. Given the high integration of global supply chains and the importance of this country as a manufacturing hub, the initial impact has reverberated across the world in a significant way.

To the best of our knowledge, economic activity in the US –our main trading partner– was not impacted meaningfully in February. In this context, the ISM manufacturing index of said month moderated slightly but remained in expansion, at 50.1pts. Nevertheless, the impact has been accelerating at a strong pace as governments announce increasingly drastic measures to slow contagions. Therefore, it is likely that data in coming months will show a massive effect in both exports and imports, mainly in the manufacturing sector. In this respect and in only one of many possible examples, US auto associations have urged their government for support as production in about 42 of 44 plants operating in the country has halted (about 95%). This is affecting about 165,000 employees and is estimated to result in a drop of about 90% in sales in March. In available data so far, the PMI manufacturing for the same month plunged to 49.2pts from 50.7pts in February, the Empire Manufacturing to -21.5pts and the Philly Fed to -12.7pts, all of them at lows not seen since 2009.

Despite the possibility that Mexican exports could eventually benefit as some countries search for substitutes from China, the deep shock to global industry suggests that, if that were the case, it would only likely be in the medium term. In this context and despite the high degree of caution needed as a result of high uncertainty about the length and impact from COVID-19, we have updated our macroeconomic framework. We anticipate a 3.5% GDP contraction in 2020, from +0.8% previously, with risks still skewed to the downside and dependent to a great deal on how the number of cases evolves, both in Mexico and globally, let apart its duration, which remains unknown.

Table 1: Trade balance

% y/y nsa

	Feb-20	Feb-19	Jan-Feb'20	Jan-Feb'19
Total exports	0.6	3.8	1.8	4.9
Oil	-32.0	-0.5	-11.7	-5.1
Crude oil	-33.7	1.0	-12.2	-4.4
Others	-16.7	-12.3	-8.2	-10.3
Non-oil	3.1	4.1	2.8	5.7
Agricultural	2.8	4.2	3.7	3.0
Mining	-0.4	4.1	13.1	-11.9
Manufacturing	3.2	4.1	2.6	6.2
Vehicle and auto-parts	3.4	1.7	6.1	4.2
Others	3.0	5.5	0.7	7.2
Total imports	-3.8	2.7	-3.5	4.4
Consumption goods	0.4	-5.3	3.8	-3.7
Oil	15.0	-22.7	21.0	-15.7
Non-oil	-4.6	2.6	-2.6	1.6
Intermediate goods	-3.7	5.1	-3.6	6.5
Oil	-19.4	-1.8	-16.1	7.0
Non-oil	-2.2	5.9	-2.3	6.4
Capital goods	-11.1	-5.5	-12.5	-0.1

Source: INEGI

Table 2: Trade balance

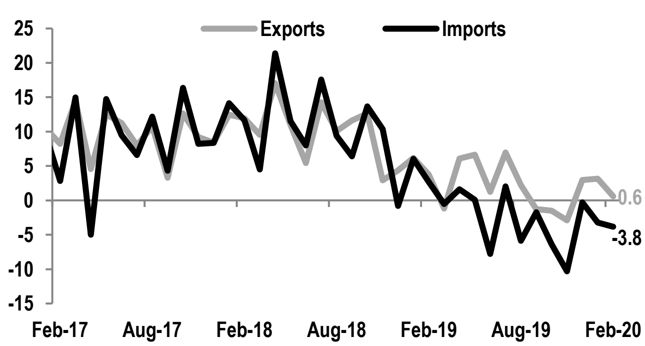
% m/m, % 3m/3m sa

	% m/m			% 3m/3m	
	Feb-20	Jan-20	Dec-19	Dec'19-Feb'20	Nov'19-Jan'20
Total exports	**-3.3**	**4.3**	**1.1**	**2.7**	**-0.1**
Oil	-28.3	15.5	18.6	17.9	15.1
Crude oil	-30.0	22.3	10.0	17.7	18.2
Others	-16.3	-18.2	94.1	18.6	-2.3
Non-oil	-1.6	3.7	0.3	1.9	-0.9
Agricultural	-3.2	3.8	-5.7	0.0	-3.9
Mining	-9.5	3.0	6.9	9.5	10.1
Manufacturing	-1.4	3.7	0.4	1.9	-0.9
Vehicle and auto-parts	-5.1	7.5	1.4	4.6	-0.8
Others	0.7	1.5	-0.1	0.4	-1.0
Total imports	**-1.9**	**2.6**	**-0.3**	**0.0**	**-1.3**
Consumption goods	-6.2	6.4	-1.5	1.0	1.9
Oil	-11.8	21.7	-1.9	12.3	9.9
Non-oil	-3.6	0.6	-1.4	-3.1	-0.9
Intermediate goods	-1.1	2.4	0.2	0.0	-2.0
Oil	-9.9	7.7	-3.0	-2.5	-2.2
Non-oil	-0.3	1.9	0.5	0.2	-2.0
Capital goods	-2.2	-0.6	-2.6	-2.1	-0.2

Source: INEGI

Chart 1: Exports and imports

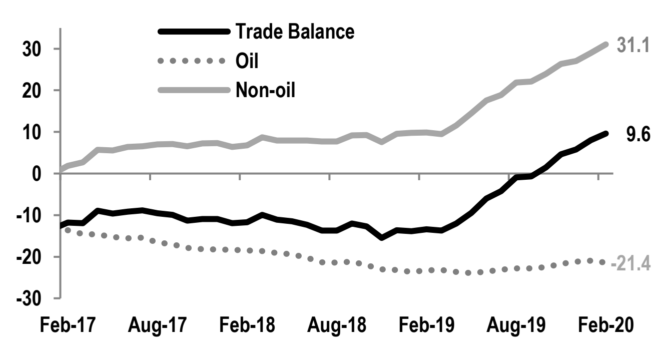
% y/y nsa



Source: INEGI

Chart 2: Trade balance

US$ million, 12 month rolling sum



Source: INEGI

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