Trade balance – A less than expected slowdown in commerce in March

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- **Trade balance (March): US$3,391.8 million; Banorte: US$3,050.1mn; consensus: US$2,732.5mn (range: US$900mn to US$5,200mn); previous: -US$2,910.6mn**
- **In line with our expectations, overall trade volumes declined. Total exports fell 3.9% m/m, with oil at -21.7%, affected by significantly lower crude-oil prices. Non-oil exports also contracted (-3.0%), with manufacturing plunging 3.8%, particularly in autos (-6.5%)**
- **Moreover, imports declined 5.2% m/m, with oil down 7.8% and non-oil standing at -4.9%. Within the latter, intermediate (-3.8%) and capital goods (-9.8%) remain weak**
- **Today's report is the first that shows more clearly the effect of the COVID-19 pandemic on industrial activity, a situation we expect to drag 1Q20 GDP in next Thursday's release. In our view, the contraction of both exports and imports is related to the disruption of supply chains and the closure of several industries both in Mexico and the US (and worldwide), a situation that has extended to April**
- **On a more positive note, overall results signal that the magnitude of the impact in March was more modest than suggested by advanced data, particularly in the non-oil sector**

US$3,391.8 million trade surplus in March. This was higher than consensus at US$2,732.5 million but closer to our US$3,050.1 million forecast. It is worth mentioning that both exports (-1.6% y/y) and imports (-6.7%) contracted, particularly dragged by oil-goods. In our view, the report shows more clearly the impact in industry of disruptions on supply chains and the stoppage in several sectors due to the COVID-19 pandemic. With this result, the 12-month rolling sum reached a US$11,523.5 million surplus (Chart 2), which is again a new historical high. Within exports, we highlight that crude oil plunged 51.4%, dragged by the 61% y/y decline in the Mexican oil mix. Non-oil held up better, advancing 1.3% despite relative weakness in manufacturing. Regarding imports, we observed a stronger decline (-6.7%), also led by oil (-20.6%). Moreover, non-oil intermediate goods –related to manufacturing– fell 4.6%, while capital goods remain very negative at -18.1% (see Table 1).

For a second month in a row, seasonally adjusted figures show generalized weakness. Like in February, exports and imports contracted 3.9% m/m and 5.2%, respectively (see Table 2). In the former, we highlight that manufacturing stood at -3.8%, consistent with reports that several industries halted activities. This includes the auto sector (-6.5%), which had already observed some issues in February, but which exacerbated at the margin in this period. In contrast, non-oil mining (17.7%) and agricultural goods (7.6%) rebounded. Regarding imports, all categories were weak, in our view related to supply-chain disruptions, at least for the non-oil sector. Regarding this, we highlight that both consumption (-8.8%) and particularly capital goods (-9.8%) were highly impacted. On the other hand, intermediate goods (-3.8%) extended their decline.

We believe a stronger contraction is in store, at least for April. As mentioned above, the report was weak as a result of the effects from the pandemic on industrial activity. Nevertheless, non-oil exports and imports were better than we expected, inserting some upside risks to 1Q20 GDP to be released on Thursday. Despite of the latter, we believe that challenges exacerbated strongly in April, with a plethora of companies halting operations. In this respect, plans to reopen some sectors of the economy in May could help, although we should warn these will be gradual and in stages, according to available news reports. This includes the auto sector, with some plants such as those of Nissan and Honda planning to restart on May 4th. On the other hand, there is little clarity about businesses not considered as essential, which is relevant as this allows them to operate without the possibility of sanctions. Even if enforcement of these guidelines is limited, these companies will need to put sanitary and distancing measures in place, not allowing them to operate at full capacity. As far as we know, one relevant industry in this condition is non-oil mining. Moreover, and in our view, the depreciation of the Mexican peso will not be a strong boost in the short term to cope with the shock to both external and domestic demand, with the effect being more positive until the outbreak is contained or some other positive development shows up regarding the extent of contagion of the virus. Regarding the US, the preliminary PMI manufacturing for April stood at 36.9pts from 48.5pts in the previous month, while the ISM manufacturing, to be published later this week, is anticipated to plunge to 36.0pts from 49.1pts in the previous month.

In addition, the oil sector will likely be hit. This would be a result not only of lower crude oil prices that will impact dollar amounts, but also the decline in volumes. Regarding exports, it should be reminded that Mexico announced that it will reduce output both because of strategic reasons as profitability becomes compromised, along the commitment made with OPEC+ for a 100kbpd reduction in production starting in May. In imports, gasoline demand has plunged given social-distancing restrictions, with some accounts from sellers saying that the fall has been about 50% y/y. Other reports have stated that Mexico is trying to cancel imports of this good from at least one company in the US on "*force majeure*" clauses, with several shipments unable to unload. Other examples in this regard include the decision by Mexico City's government to reduce auto mobility in a bid to reduce contagions.

Considering these factors, among others, we have maintained our GDP forecast for 2020 at -7.8%, anticipating that the second quarter will be most impacted, with our preliminary estimate at -16.2% y/y (-11.0% q/q) in this period. Lastly, we warn that risks to the downside remain, as dynamism will depend on how the number of cases keeps evolving, both in Mexico and globally, and the duration and possible solutions to the pandemic, which remains unknown.

Table 1: Trade balance

% y/y nsa

	Mar-20	Mar-19	Jan-Mar'20	Jan-Mar'19
Total exports	-1.6	-1.2	0.6	2.6
Oil	-47.1	-4.7	-23.5	-5.0
Crude oil	-51.4	0.5	-25.5	-2.8
Others	-9.2	-34.4	-8.5	-19.1
Non-oil	1.3	-1.0	2.3	3.2
Agricultural	22.3	-2.1	10.2	1.2
Mining	19.3	-4.6	15.6	-9.1
Manufacturing	-0.1	-0.8	1.6	3.5
Vehicle and auto-parts	-5.0	0.3	1.8	2.6
Others	3.1	-1.5	1.5	4.0
Total imports	-6.7	-0.5	-4.6	2.7
Consumption goods	-11.5	-4.6	-1.5	-4.0
Oil	-17.4	-4.5	6.9	-11.9
Non-oil	-9.0	-4.6	-4.7	-0.6
Intermediate goods	-4.6	0.1	-3.9	4.2
Oil	-22.3	-5.6	-18.2	2.5
Non-oil	-2.9	0.7	-2.5	4.4
Capital goods	-18.1	0.2	-14.3	0.0

Source: INEGI

Table 2: Trade balance

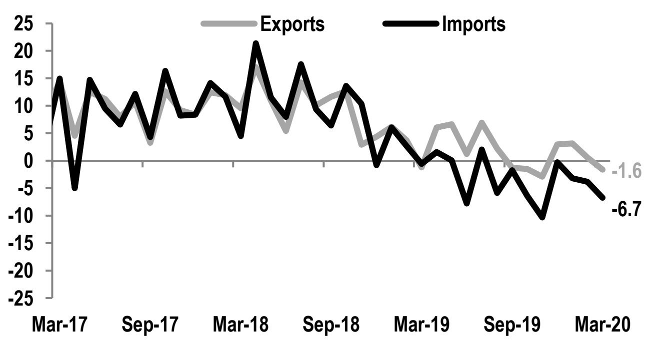
% m/m, % 3m/3m sa

	% m/m			% 3m/3m	
	Mar-20	**Feb-20**	**Jan-20**	**Jan-Mar'20**	**Dec'19-Feb'20**
Total exports	**-3.9**	**-3.6**	**4.1**	**1.2**	**2.3**
Oil	-21.7	-31.8	14.7	-4.1	14.8
Crude oil	-23.0	-33.8	21.3	-2.7	14.2
Others	-13.8	-17.5	-18.2	-11.9	18.1
Non-oil	-3.0	-1.7	3.5	1.4	1.6
Agricultural	7.6	-3.1	4.0	1.4	0.1
Mining	17.7	-9.7	3.2	4.8	9.7
Manufacturing	-3.8	-1.5	3.5	1.4	1.6
Vehicle and auto-parts	-6.5	-6.3	8.4	3.4	4.4
Others	-2.4	1.4	0.8	0.3	0.1
Total imports	**-5.2**	**-2.6**	**2.7**	**-1.4**	**-0.5**
Consumption goods	-9.6	-8.7	7.6	-3.7	0.6
Oil	-11.7	-15.8	24.7	5.8	12.1
Non-oil	-8.8	-5.4	1.2	-7.2	-3.6
Intermediate goods	-3.9	-1.6	2.4	-0.2	-0.3
Oil	-5.1	-10.6	7.9	-3.3	-2.9
Non-oil	-3.8	-0.8	1.9	0.1	0.0
Capital goods	-9.8	-2.1	-2.2	-8.4	-3.9

Source: INEGI

Chart 1: Exports and imports

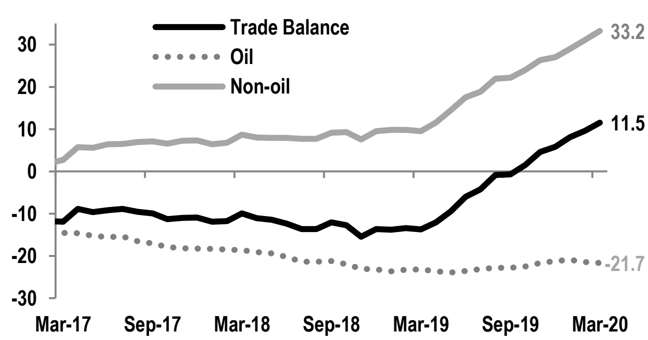
% y/y nsa



Source: INEGI

Chart 2: Trade balance

US$ million, 12 month rolling sum



Source: INEGI

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