

Trade balance – Surprising deficit, with historical declines in trade volumes

May 25, 2020

www.banorte.com
@analisis_fundam

Juan Carlos Alderete, CFA
Director of Economic Research
juan.alderete.macal@banorte.com

Francisco Flores
Senior Economist, Mexico
francisco.flores.serrano@banorte.com

- **Trade balance (April): -US\$3,087.4 million; Banorte: US\$2,653.8mn; consensus: US\$2,040.0mn (range: US\$1,135mn to US\$3,804mn); previous: US\$3,335.5mn**
- **In line with expectations, trade volumes plunged. Total exports fell 37.7% m/m, dragged down by oil exports at -41.2%, impacted by price dynamics. Non-oil exports also declined (-37.5%), with manufacturing down by 39.7%, particularly in autos (-77.1%)**
- **Imports were also lower at -21.9% m/m, with oil also the weakest at -36.6% with non-oil falling 20.4%. Within the latter, consumption goods declined 25.2%, while intermediate (-21.3%) and capital goods (-7.4%) were also down**
- **Today's report is consistent with the massive shock stemming from the COVID-19 pandemic on economic activity, especially in April given more stringent social distancing measures. The effect was compounded by still ongoing disruptions in global supply chains, albeit marginally improving with China starting to come back online**
- **Overall, the outlook for May remains negative despite some activities being able to gradually restart operations in the latter part of the month. Nevertheless, the lack of supplies and the need for hygiene measures, among other woes derived from the pandemic, will likely maintain very low levels of activity in coming months**

US\$3,087.4 million trade deficit in April. This was much lower than consensus at +US\$2,040.0 million and further away than our +US\$2,653.8 million forecast. Both exports (-40.9% y/y) and imports (-30.5%) extended their decline, with the former reaching a new historical low, with the main drag being oil-goods, but also with strong weakness in non-oil. The report undoubtedly shows the impact from the COVID-19 pandemic, not only from supply chain disruptions but also from the stoppage of non-essential activities. With this result, the 12-month rolling sum reached a US\$6,306.9 million surplus ([Chart 2](#)), falling from an historical high in the previous month. Within exports, we highlight that crude oil plunged 73.6%, dragged by the 80.8% y/y decline in the Mexican oil mix, which recorded a negative price one day in the month (April 20th, -2.37 US\$/bbl). Non-oil was also very weak, falling 39.4% and with autos plunging 79.1%. Regarding imports, we observed a slightly better performance, also dragged by oil (-53.0%). Non-oil consumption plunged by 37.9%, while non-oil intermediate goods –related to manufacturing– fell 26.3% (see [Table 1](#)).

Highest monthly decline in history. Exports and imports contracted 37.7% m/m and 21.9%, respectively (see [Table 2](#)). In the former, we highlight that manufacturing came in at -39.7%, consistent with several industries halting activities. This was more evident in the auto sector, plunging 77.1%, hit by the closure of auto plants. In contrast, non-oil mining (-11.8%) and agricultural goods (-1.5%) were slightly stronger, albeit also down.

Winners of the award for best economic forecasters for Mexico in 2019, granted by *Refinitiv*



**STARMINE AWARDS
FOR REUTERS POLLS
FROM REFINITIV**

Document for distribution among the general public

Regarding imports, all categories showed double-digit declines expect capital goods, with the effects from the pandemic also wreaking havoc, particularly in oil, as already mentioned. In non-oil, dynamics were better relative to exports on more favorable base effects. In this sense, we highlight that both consumption (-25.2%) and intermediate goods (-21.3%) were most impacted. Capital goods were slightly better (-7.4%) despite higher uncertainty and the strong depreciation of the MXN, most benefited by a base effect as it plunged 14.8% in the previous month.

We might see a slight sequential recovery in May, although the outlook is still quite negative. As mentioned, the report was dismal on the back of the effects from the pandemic on activity. Nevertheless, there are some takeaways that we will need to confirm once the revised data is published (on June 10th). It is our theory that outperformance in imports relative to exports was mainly driven by two factors: (1) The possibility that China's recovery in late March and early April had a positive impact; and (2) a mismatch in essential vs. non-essential activities in other countries, especially in the US, which besides also showing less strict social distancing measures in some states, also seems to have maintained a broader range of industries operating. Another factor to confirm is performance within non-auto manufacturing exports, considerably better than in autos. Additional details could convey information whether this was driven by essential activities or if there were some other factors are behind.

Despite of the latter, we still believe the outlook for May is highly negative. While the government announced its [plan for reopening the economy](#) in the middle of the month, very few states and municipalities have fulfilled the conditions to do so safely. Moreover, the number of cases still hasn't shown signs of a persistent decline, which could imply a later reopening in some hubs for economic activity, particularly manufacturing states. Despite more favorable data coming from China and the US –in the latter, the preliminary PMI manufacturing for May stood at 39.8pts from 36.1pts in March–, the potential mismatch in activities described above could not translate into higher performance in our country given their possible implications in terms of inventory management.

Regarding oil, we expect very weak results ahead on persistently low prices despite recovering in the last few weeks. In addition, the OPEP+ agreement, which entails a reduction of 100kbpd in monthly output, started in May. In a related fashion, the government closed operations in some of its new wells, a factor that might be already accounted for in the deal. Nonetheless, reports of contagions in PEMEX that have resulted in scaling back operations in several sites will likely hit production further. In imports, gasoline demand will remain very low as mobility remains constrained.

Considering these factors, among others, we maintain our forecast of a sharp reduction in the economy in 2Q20, plunging 17.1% y/y (-11.7% q/q), leading to a 7.8% contraction in terms of whole-year GDP. As previously mentioned, risks to the downside remain elevated, mainly as: (1) The timing of the reopening is still uncertain, hinging on the development of new cases going forward; and (2) there could be permanent effects on the stock of capital and labor, along the number of businesses restarting operations, after the pandemic recedes.

Table 1: Trade balance

% y/y nsa

	Apr-20	Apr-19	Jan-Apr'20	Jan-Apr'19
Total exports	-40.9	6.5	-10.7	3.7
Oil	-66.4	-14.0	-37.0	-6.9
Crude oil	-73.6	-15.2	-40.3	-5.5
Others	-28.6	-7.1	-14.7	-15.8
Non-oil	-39.4	8.0	-8.9	4.4
Agricultural	-8.2	22.0	6.3	6.2
Mining	20.0	-21.7	16.6	-12.4
Manufacturing	-41.9	7.9	-10.1	4.7
Vehicle and auto-parts	-79.1	9.0	-20.0	4.3
Others	-20.9	7.3	-4.5	4.9
Total imports	-30.5	1.6	-11.3	2.4
Consumption goods	-46.5	2.8	-13.7	-2.3
Oil	-65.0	10.6	-14.6	-6.2
Non-oil	-37.9	-0.4	-13.4	-0.5
Intermediate goods	-28.1	2.8	-10.1	3.8
Oil	-45.5	-3.5	-25.1	0.9
Non-oil	-26.3	3.5	-8.6	4.1
Capital goods	-26.7	-9.2	-17.3	-2.4

Source: INEGI

Table 2: Trade balance

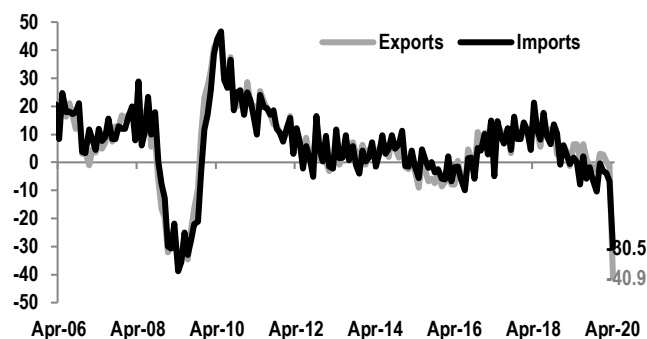
% m/m, % 3m/3m sa

	% m/m			% 3m/3m	
	Apr-20	Mar-20	Feb-20	Feb-Apr'20	Jan-Mar'20
Total exports	-37.7	-3.9	-3.4	-15.1	1.0
Oil	-41.2	-18.2	-29.9	-40.6	-7.8
Crude oil	-50.5	-19.0	-31.8	-43.9	-7.0
Others	8.0	-14.1	-17.1	-19.1	-12.0
Non-oil	-37.5	-3.2	-1.7	-13.6	1.5
Agricultural	-1.5	1.9	-3.6	-0.6	1.8
Mining	-11.8	17.6	-9.7	0.9	4.7
Manufacturing	-39.7	-3.8	-1.5	-14.5	1.4
Vehicle and auto-parts	-77.1	-6.4	-6.3	-28.9	3.4
Others	-20.0	-2.4	1.4	-6.3	0.4
Total imports	-21.9	-5.5	-2.5	-11.2	-1.2
Consumption goods	-33.3	-9.7	-8.8	-20.5	-3.8
Oil	-53.8	-11.7	-16.1	-26.8	5.3
Non-oil	-25.2	-8.8	-5.4	-18.0	-7.3
Intermediate goods	-21.6	-3.7	-1.6	-9.3	0.0
Oil	-25.7	-5.1	-10.7	-17.9	-3.4
Non-oil	-21.3	-3.6	-0.8	-8.6	0.2
Capital goods	-7.4	-14.8	-0.6	-13.5	-6.9

Source: INEGI

Chart 1: Exports and imports

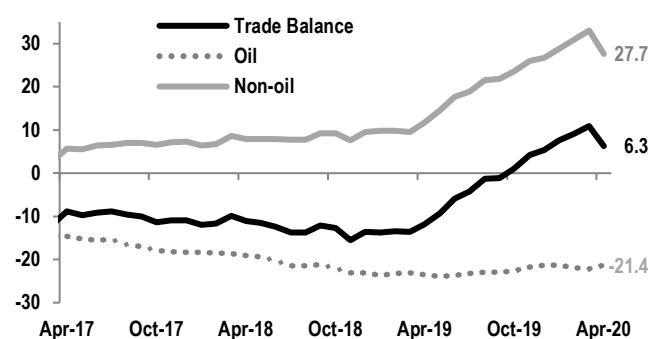
% y/y nsa



Source: INEGI

Chart 2: Trade balance

US\$ million, 12 month rolling sum



Source: INEGI

Analyst Certification

We, Gabriel Casillas Olvera, Alejandro Padilla Santana, Delia María Paredes Mier, Juan Carlos Alderete Macal, Manuel Jiménez Zaldívar, Marissa Garza Ostos, Tania Abdul Massih Jacobo, Francisco José Flores Serrano, Katia Celina Goya Ostos, Santiago Leal Singer, José Itzamna Espitia Hernández, Valentín III Mendoza Balderas, Víctor Hugo Cortes Castro, Hugo Armando Gómez Solís, Miguel Alejandro Calvo Domínguez, Luis Leopoldo López Salinas, Leslie Thalía Orozco Vélez, Gerardo Daniel Valle Trujillo, and Eridani Ruibal Ortega, certify that the points of view expressed in this document are a faithful reflection of our personal opinion on the company (s) or firm (s) within this report, along with its affiliates and/or securities issued. Moreover, we also state that we have not received, nor receive, or will receive compensation other than that of Grupo Financiero Banorte S.A.B. of C.V. for the provision of our services.

Relevant statements

In accordance with current laws and internal procedures manuals, analysts are allowed to hold long or short positions in shares or securities issued by companies that are listed on the Mexican Stock Exchange and may be the subject of this report; nonetheless, equity analysts have to adhere to certain rules that regulate their participation in the market in order to prevent, among other things, the use of private information for their benefit and to avoid conflicts of interest. Analysts shall refrain from investing and holding transactions with securities or derivative instruments directly or through an intermediary person, with Securities subject to research reports, from 30 calendar days prior to the issuance date of the report in question, and up to 10 calendar days after its distribution date.

Compensation of Analysts.

Analysts' compensation is based on activities and services that are aimed at benefiting the investment clients of Casa de Bolsa Banorte and its subsidiaries. Such compensation is determined based on the general profitability of the Brokerage House and the Financial Group and on the individual performance of each analyst. However, investors should note that analysts do not receive direct payment or compensation for any specific transaction in investment banking or in other business areas.

Last-twelve-month activities of the business areas.

Grupo Financiero Banorte S.A.B. de C.V., through its business areas, provides services that include, among others, those corresponding to investment banking and corporate banking, to a large number of companies in Mexico and abroad. It may have provided, is providing or, in the future, will provide a service such as those mentioned to the companies or firms that are the subject of this report. Casa de Bolsa Banorte or its affiliates receive compensation from such corporations in consideration of the aforementioned services.

Over the course of the last twelve months, Grupo Financiero Banorte S.A.B. C.V., has not obtained compensation for services rendered by the investment bank or by any of its other business areas of the following companies or their subsidiaries, some of which could be analyzed within this report.

Activities of the business areas during the next three months.

Casa de Bolsa Banorte, Grupo Financiero Banorte or its subsidiaries expect to receive or intend to obtain revenue from the services provided by investment banking or any other of its business areas, by issuers or their subsidiaries, some of which could be analyzed in this report.

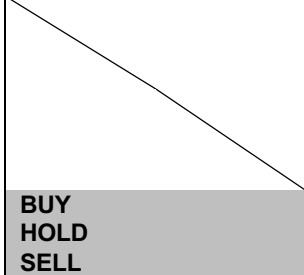
Securities holdings and other disclosures.

As of the end of last quarter, Grupo Financiero Banorte S.A.B. of C.V. has not held investments, directly or indirectly, in securities or derivative financial instruments, whose underlying securities are the subject of recommendations, representing 1% or more of its investment portfolio of outstanding securities or 1 % of the issuance or underlying of the securities issued.

None of the members of the Board of Grupo Financiero Banorte and Casa de Bolsa Banorte, along general managers and executives of an immediately below level, have any charges in the issuers that may be analyzed in this document.

The Analysts of Grupo Financiero Banorte S.A.B. of C.V. do not maintain direct investments or through an intermediary person, in the securities or derivative instruments object of this analysis report.

Guide for investment recommendations.

	Reference
BUY HOLD SELL	When the share expected performance is greater than the MEXBOL estimated performance. When the share expected performance is similar to the MEXBOL estimated performance. When the share expected performance is lower than the MEXBOL estimated performance.

Even though this document offers a general criterion of investment, we urge readers to seek advice from their own Consultants or Financial Advisors, in order to consider whether any of the values mentioned in this report are in line with their investment goals, risk and financial position.

Determination of Target Prices

For the calculation of estimated target prices for securities, analysts use a combination of methodologies generally accepted among financial analysts, including, but not limited to, multiples analysis, discounted cash flows, sum-of-the-parts or any other method that could be applicable in each specific case according to the current regulation. No guarantee can be given that the target prices calculated for the securities will be achieved by the analysts of Grupo Financiero Banorte S.A.B. C.V, since this depends on a large number of various endogenous and exogenous factors that affect the performance of the issuing company, the environment in which it performs, along with the influence of trends of the stock market, in which it is listed. Moreover, the investor must consider that the price of the securities or instruments can fluctuate against their interest and cause the partial and even total loss of the invested capital.

The information contained hereby has been obtained from sources that we consider to be reliable, but we make no representation as to its accuracy or completeness. The information, estimations and recommendations included in this document are valid as of the issue date, but are subject to modifications and changes without prior notice; Grupo Financiero Banorte S.A.B. of C.V. does not commit to communicate the changes and also to keep the content of this document updated. Grupo Financiero Banorte S.A.B. of C.V. takes no responsibility for any loss arising from the use of this report or its content. This document may not be photocopied, quoted, disclosed, used, or reproduced in whole or in part without prior written authorization from Grupo Financiero Banorte S.A.B. of C.V.

GRUPO FINANCIERO BANORTE S.A.B. de C.V.

Research and Strategy			
Gabriel Casillas Olvera	IRO and Chief Economist	gabriel.casillas@banorte.com	(55) 4433 - 4695
Raquel Vázquez Godínez	Assistant	raquel.vazquez@banorte.com	(55) 1670 - 2967
Lourdes Calvo Fernández	Analyst (Edition)	lourdes.calvo@banorte.com	(55) 1103 - 4000 x 2611
Economic Research and Financial Market Strategy			
Alejandro Padilla Santana	Executive Director of Economic Research and Financial Markets Strategy	alejandro.padilla@banorte.com	(55) 1103 - 4043
Itzel Martínez Rojas	Analyst	itzel.martinez.rojas@banorte.com	(55) 1670 - 2251
Economic Research			
Juan Carlos Alderete Macal, CFA	Director of Economic Research	juan.alderete.macal@banorte.com	(55) 1103 - 4046
Francisco José Flores Serrano	Senior Economist, Mexico	francisco.flores.serrano@banorte.com	(55) 1670 - 2957
Katía Celina Goya Ostos	Senior Economist, Global	katia.goya@banorte.com	(55) 1670 - 1821
Luis Leopoldo López Salinas	Economist, Global	luis.lopez.salinas@banorte.com	(55) 1103 - 4000 x 2707
Market Strategy			
Manuel Jiménez Zaldívar	Director of Market Strategy	manuel.jimenez@banorte.com	(55) 5268 - 1671
Fixed income and FX Strategy			
Santiago Leal Singer	Senior Strategist, Fixed Income and FX	santiago.leal@banorte.com	(55) 1670 - 2144
Leslie Thalía Orozco Vélez	Strategist, Fixed Income and FX	leslie.orozco.velez@banorte.com	(55) 5268 - 1698
Equity Strategy			
Marissa Garza Ostos	Director of Equity Strategy	marissa.garza@banorte.com	(55) 1670 - 1719
José Itzamna Espitia Hernández	Senior Strategist, Equity	jose.espitia@banorte.com	(55) 1670 - 2249
Valentín III Mendoza Balderas	Senior Strategist, Equity	valentin.mendoza@banorte.com	(55) 1670 - 2250
Víctor Hugo Cortes Castro	Senior Strategist, Technical	victorh.cortes@banorte.com	(55) 1670 - 1800
Eridani Ruibal Ortega	Analyst	eridani.ruibal.ortega@banorte.com	(55) 1103 - 4000 x 2755
Corporate Debt			
Tania Abdul Massih Jacobo	Director of Corporate Debt	tania.abdul@banorte.com	(55) 5268 - 1672
Hugo Armando Gómez Solís	Senior Analyst, Corporate Debt	hugoa.gomez@banorte.com	(55) 1670 - 2247
Gerardo Daniel Valle Trujillo	Analyst, Corporate Debt	gerardo.valle.trujillo@banorte.com	(55) 1670 - 2248
Economic Studies			
Delia María Paredes Mier	Executive Director of Economic Studies	delia.paredes@banorte.com	(55) 5268 - 1694
Miguel Alejandro Calvo Domínguez	Senior Analyst, Economic Studies	miguel.calvo@banorte.com	(55) 1670 - 2220
Wholesale Banking			
Armando Rodal Espinosa	Head of Wholesale Banking	armando.rodal@banorte.com	(81) 8319 - 6895
Alejandro Eric Faesi Puente	Head of Global Markets and Institutional Sales	alejandro.faesi@banorte.com	(55) 5268 - 1640
Alejandro Aguilar Ceballos	Head of Asset Management	alejandro.aguilar.cebillos@banorte.com	(55) 5268 - 9996
Arturo Monroy Ballesteros	Head of Investment Banking and Structured Finance	arturo.monroy.ballesteros@banorte.com	(55) 5004 - 1002
Gerardo Zamora Nanez	Head of Transactional Banking, Leasing and Factoring	gerardo.zamora@banorte.com	(81) 8318 - 5071
Jorge de la Vega Grajales	Head of Government Banking	jorge.delavega@banorte.com	(55) 5004 - 5121
Luis Pietrini Sheridan	Head of Private Banking	luis.pietrini@banorte.com	(55) 5004 - 1453
René Gerardo Pimentel Ibarrola	Head of Corporate Banking	pimentelr@banorte.com	(55) 5268 - 9004
Ricardo Velázquez Rodríguez	Head of International Banking	rvelazquez@banorte.com	(55) 5004 - 5279
Víctor Antonio Roldan Ferrer	Head of Commercial Banking	victor.roldan.ferrer@banorte.com	(55) 5004 - 1454