Trade balance – Historical surplus after the start of the reopening of the economy

- **Trade balance (June): US$5,546.7 million; Banorte: US$2,246.9mn; consensus: US$1,547.0mn (range: US$351 to US$4,483mn); previous: -US$3,522.6mn**
- **It should be noted that this is the highest surplus in history, driven by the recovery in exports which sharply outpaced imports after the gradual restart of the economy in the month**
- **In this sense, total trade volumes (exports plus imports) recovered to -17.3% y/y, still impacted by disruptions from COVID-19 on economic activity, but far better than the -52.0% seen in the previous month**
- **With seasonally adjusted figures, exports increased 75.6% m/m, with oil-related goods up 49.7%, mainly on the back of higher prices. Meanwhile, non-oil came in at +76.9%, with manufacturing at +83.6% after strong results within autos**
- **Imports stood at +22.2% m/m, with the oil component higher only by 11.1%. Non-oil was better at +23.1%, although with most of the rebound driven by intermediate goods (+28.5%), while consumption (+4.2%) and capital goods (+5.0%) lagged behind**
- **Today's report was positive, showing a faster recovery of the economy than expected in June. In this sense, we believe this adds slight upside risks to our 2Q20 GDP estimate of -19.5% y/y**
- **Going forward, we believe this result is favorable in terms of short-term dynamics, at least for July. Nevertheless, we must remain cautious as there is still uncertainty regarding the impact of the recent increase of COVID-19 cases in the US, which might have an adverse effect on trade**

US$5,546.7 million trade surplus in June, highest in history. This was significantly higher than consensus at +US$1,547.0 million but slightly closer to our US$2,246.9 million forecast. Although figures in the annual comparison remain negative, we did see a recovery relative to both April and May, driven by the restart of economic activity. In this sense, exports (-12.8% y/y) strongly outperformed imports (-22.2%), as goods-producing activities came back on line while consumption and investment imports remained broadly muted on still elevated uncertainty (see Chart 1). With this result, the trade balance accumulated a US$ 4,832.3 million surplus in the last twelve months, partially reversing pressures to the downside in the last two months (Chart 2). Broadly speaking, within exports we highlight that manufacturing bounced back with some force at -13.5%, with sharp improvements both in autos and other manufacturing. On imports, non-oil intermediate goods were better at -17.2%, situation which seems to be linked with the broader reopening at a global scale as well as the restart of production locally. Nevertheless, non-oil consumption goods remained weak at -31.2%, still impacted by the deterioration in fundamentals, mainly employment as well as high uncertainty (see Table 1).

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Monthly figures show a rebound after strong declines in the previous two months. Both exports (+75.6% m/m) and imports (+22.2%) improved relative to the previous month (see Table 2), albeit with much more dynamism in the former as production activities came back online in our country. In our view, this performance is driven by: (1) Imports were slightly better in the previous two months, resulting in more challenging base effects; (2) the designation of new essential activities in terms of production (*e.g.* auto production and non-oil mining) boosted some sectors; and (3) uncertainty and muted consumption resulted in relative weakness in capital and consumption goods imports.

Looking at the details, within exports, oil was higher at 49.7%, mainly driven by higher prices, as reports suggest a decrease in volumes. On the other hand, within non-oil, manufacturing picked up 83.6%, with autos up 534.4% after being designated as an essential activity, and others also better at +40.9%. Finally, both agricultural and non-oil mining edged-up 21.8%. Regarding imports, the oil sector showed increased in both consumption (15.6%) and intermediate goods (9.6%), which is also probably related to the recovery on prices, but also on higher gasoline demand as mobility kept rising. In non-oil, intermediate goods led gains at +28.5%, which is consistent with the sharp rebound in manufacturing exports given that they are used as inputs in the production process. Meanwhile, consumption goods were barely up 4.2%, as already mentioned, probably lagging behind due to the deterioration in consumer fundamentals but also due to shifting consumption patterns. Finally, capital goods climbed 5.0%, possibly aided by the slight appreciation in the MXN during the period.

Positive report, with favorable implications for the short-term. Although we expected a recovery, figures were better than expected, –especially in exports–, adding slight upward risks for our 2Q20 GDP estimate which stands at -19.5% y/y (to be published on Thursday). We believe that a strong driver for higher exports was the designation of new industries as essential, in this case being auto production and non-oil mining. In this sense, mobility data continues to show an upward trend, while anecdotal evidence suggests a continuation of the gradual reopening in more and more sectors. There have been favorable comments from industry representatives, pointing to more dynamism as activities continue to normalize. Despite of the surprise, this is consistent with our expectation that external demand will be one of the key drivers for the recovery. It should be noted that this is happening despite epidemiological conditions still not showing strong signs of improvement, with the 'traffic light' indicator remaining in 'red' and 'orange' for most of the country. Going to the US, COVID-19 cases have continued to increase, and some states have reinstated some restrictions, resulting in additional risks for the recovery. Nevertheless, it is our take that local governments are reluctant on re-imposing strict stay-at-home orders, which while being positive in economic terms, it could have a negative implication on public health. Considering these factors, we are relatively optimistic in terms of exports, estimating a contraction of 9.5% y/y in 2020, while imports would fall 13.2%.

In this sense, we cannot remain as positive regarding imports, probably dragging behind for longer. Although non-oil intermediate goods imports will probably be benefited by higher manufacturing production, there is still a strong sense of uncertainty over consumption and capital goods.

As mentioned throughout the document, strong shocks to employment conditions, coupled with strong shifts in consumption patterns will probably continue to weigh on the former sector in coming months, resulting in dampened trade. Meanwhile, capital goods have not been as impacted both in annual and monthly terms, relative to other sectors, as they are coming from a very weak position through 2019. However, we believe that upside is limited as uncertainty over the recovery remains and greater weakness over the financial position of businesses, even with advances in terms of a possible vaccine among other positive developments including additional fiscal stimulus in several countries, mainly the US.

All in all, while signals for the short-term are positive, the mid-term outlook is still uncertain and will probably remain cloudy until there is more certainty over vaccines and/or effective treatment. Until then, we believe that businesses will continue to defer investment and hiring decisions. In this sense, we maintain our forecast of a 9.8% y/y decline of GDP in 2020, followed by a slight increase of 1.8% in 2021.

Table 1: Trade balance
% y/y nsa

	Jun-20	Jun-19	Jan-Jun'**20**	Jan-Jun'**19**
Total exports	-12.8	1.2	-19.5	3.7
Oil	-35.6	-22.1	-41.8	-9.8
Crude oil	-35.2	-21.1	-44.7	-8.0
Others	-38.3	-28.5	-21.7	-20.7
Non-oil	-11.6	2.9	-18.0	4.8
Agricultural	31.5	6.3	7.3	5.5
Mining	9.3	-7.3	5.8	-8.3
Manufacturing	-13.5	2.9	-19.6	4.9
Vehicle and auto-parts	-31.0	4.4	-34.6	6.2
Others	-3.4	2.1	-11.2	4.2
Total imports	-22.2	-7.8	-19.5	0.2
Consumption goods	-43.6	-7.1	-26.2	-2.5
Oil	-69.8	-9.7	-36.7	-4.3
Non-oil	-31.2	-5.7	-21.7	-1.7
Intermediate goods	-19.6	-6.2	-18.3	1.4
Oil	-46.0	-23.5	-35.2	-3.9
Non-oil	-17.2	-4.2	-16.6	2.0
Capital goods	-12.3	-21.2	-20.4	-5.8

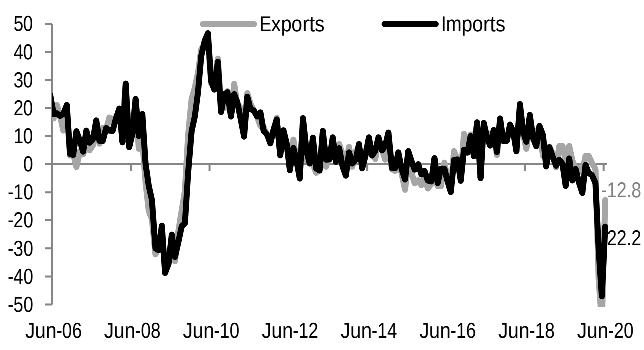
Source: INEGI

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

	% m/m			% 3m/3m	
	Jun-20	May-20	Apr-20	Apr-**Jun'20**	Mar-**May'20**
Total exports	-1.5	1.2	1.3	-36.1	-32.6
Oil	-14.9	2.8	-5.3	-42.4	-51.0
Crude oil	-15.5	3.9	-8.2	-45.7	-54.7
Others	-9.8	-4.6	20.6	-22.7	-29.4
Non-oil	-0.7	1.0	1.7	-35.8	-31.5
Agricultural	2.3	-6.3	9.5	-0.2	-2.8
Mining	-26.1	40.9	-12.0	-13.1	-33.3
Manufacturing	-0.3	0.9	1.6	-37.8	-33.3
Vehicle and auto-parts	0.2	2.5	1.1	-66.3	-58.8
Others	-0.6	-0.1	1.9	-22.0	-18.8
Total imports	-3.1	0.0	1.5	-29.7	-24.0
Consumption goods	-1.7	0.5	2.8	-43.8	-34.9
Oil	-4.3	5.2	2.1	-67.8	-50.7
Non-oil	-0.4	-1.5	3.1	-33.5	-28.3
Intermediate goods	-2.0	-0.4	1.4	-28.7	-22.9
Oil	-12.4	5.4	7.0	-36.8	-29.0
Non-oil	-0.9	-1.0	0.8	-28.1	-22.4
Capital goods	-13.7	1.9	0.7	-16.4	-17.5

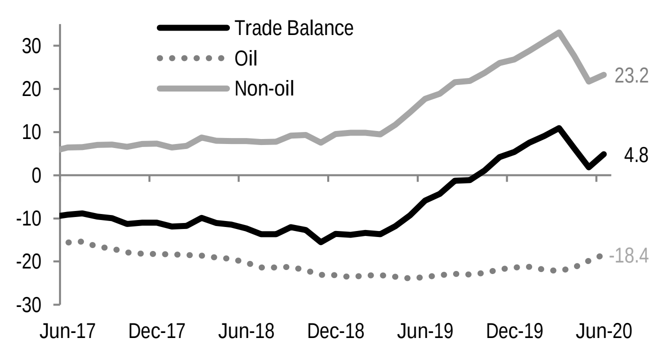
Source: INEGI

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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