Trade balance – Historically high surplus for a third time in a row on weak imports

- **Trade balance (August): US$6,115.7 million; Banorte: US$2,685.0mn; consensus: US$5,029.5mn (range: US$2,685mn to US$7,900mn); previous: US$5,798.7 mn**
- **The trade surplus reached a new historical high for third month in a row, with a stronger performance in exports (-7.7% y/y), especially in the oil sector, relative to imports (-22.1%) which show persistent weakness in the domestic front**
- **Total trade volumes (exports plus imports) kept recovering, standing at -14.9% y/y, mainly driven by higher shipments abroad**
- **With seasonally adjusted figures, exports increased 4.9% m/m, with oil-related goods strong at 19.9%. Non-oil goods came in at 4.3%, with non-manufacturing exhibiting good dynamics**
- **Imports picked up 7.0% m/m, although with a more modest base effect. after advancing 22.9% in June. By components, oil advanced 15.5% and non-oil 6.3%. We highlight that intermediate goods in the latter grew 7.0%, likely supported by the recovery in manufacturing**
- **We believe exports could keep improving, driven by better external demand dynamics, especially in the US, and likely the main factor behind the domestic recovery**
- **In contrast, the lag in imports reaffirms that domestic demand remains weak, with uncertainty weighing on the outlook for consumption and investment**

New historically high surplus of US$6,115.7 million in July. This was above consensus at +US$5,029.5 million and further away from our US$2,685.0 million forecast. In this respect, the balance reached a new historical high for a third month in a row, explained again by the relative strength of external relative to domestic demand. Also like in the previous month, exports (-7.7% y/y) outpaced imports (-22.1%), as shown in Chart 1. On a year-to-date basis, exports have declined 16.6% while imports have plunged 20.7% (see Table 1). Moreover, total trade volumes (exports plus imports) extended their recovery, standing at -14.9% y/y. The main drag in annual terms remains the relative performance of imports. With this result, the trade balance accumulates a US$ 17,634.6 million surplus in the last twelve months, extending the upward trend that started in early 2019, leaving behind the correction seen during the lockdown period (Chart 2). Within exports, we note that non-oil mining surged 41.7%, more than compensating for the deceleration in manufacturing to -8.3% (previous: -7.2%). In imports, all categories still show double-digit pace declines, helping to explain the high surplus observed during the period.

Monthly figures suggest a slowdown of the recovery in August. Specifically, exports grew 4.9% m/m after picking up 10.5% in July, while imports advanced 7.0% from a more favorable base (previous: 4.1%, see Table 2). The oil sector was relevant to both, remembering that international reference prices increased (both crude and related products) due to disruptions because of hurricane Laura

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

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Document for distribution among the general public in the Gulf of Mexico –shutting down operations mostly in the US– by the end of the month. In this respect, oil shipments grew 19.9%, with imports up 15.5%. Within the latter, consumption stood at 21.9% and intermediate goods at 12.6%. We believe the difference was influenced by higher mobility domestically, although we still think that *force majeure* clauses declared by Pemex could still be having an impact on these categories in absolute terms.

In non-oil, shipments increased 4.3% m/m, with mining leading gains (+26.7%). On the contrary, agriculture remained relatively weak, at 1.6% after plunging 16.5% in the previous month. Manufacturing moderated their pace of advance, reaching 4.0%. Although other manufacturing accelerated (5.5%), autos slowed to 1.4%, which nonetheless is favorable at the margin relative to advanced data for the sector. Imports grew 6.3%, with intermediate goods slightly better at 7.0%, which could partially help to close the gap that seems to have widened in coming months, although much less than we expected. This was the main difference between our forecast and actual data. On the other hand, consumption (+4.1%) and capital goods (2.9%) keep lagging, reflecting the relative weakness of domestic demand on an environment that remains very uncertain.

Si bien otras manufacturas se aceleraron (+5.5%), el sector automotriz disminuyó a +1.4%, lo cual en el margen es favorable relativo a los datos adelantados que habíamos observado para el sector. Las importaciones crecieron 6.3%, con los bienes intermedios avanzando un poco más en el margen en +7.0%, pudiendo ayudar en parte a cerrar la brecha que parece haberse abierto en meses previos, aunque mucho menos de lo que esperábamos, lo que fue la principal diferencia entre nuestro estimado y el observado. Por su parte, las importaciones de consumo (+4.1%) y de capital (+2.9%) continúan rezagándose, reflejando la relativa debilidad de la demanda interna ante un entorno todavía muy incierto.

A differentiated performance is likely to continue. Despite some deceleration in the pace of the recovery during the month, the report reaffirms the main support to Mexico's recovery in coming months is likely to be from external demand, likely extending at least through the end of the year. Despite the recent *impasse* about more fiscal stimulus in the US, we believe actions taken in this front have been key to explain export dynamics. This is particularly relevant as some of these measures had already expired at the start of August. Nevertheless, we will keep following closely the performance of activity and trade in that country to obtain additional information about the potential implications for Mexico.

We still think that the main channel in which this will be reflected is through manufacturing, which based on this indicator and industrial production, has shown more strength. We recognize the deceleration in the month, consistent with the IMEF indicator for the sector. Nevertheless, this could prove transitory as epidemiological conditions have been better, helping mitigate distancing measures and other restrictions which could in turn result in additional gains in businesses' capacity utilization, boosting production. In contrast, risks to the downside persist, particularly as winter approaches, potentially driving new cases higher again.

In the oil sector, we will heed Pemex's data despite improving in today's report. Specifically, prices for September reversed lower, while we need to confirm if the recovery in volumes persists, with a headwind coming from additional austerity measures at the company and at the whole federal level.

Lastly, implications in terms of domestic demand are more worrisome, as reflected in imports. Specifically, both non-oil consumption and capital goods keep showing protracted weakness. This suggests that conditions for the domestic recovery remain uncertain, which comes on top of the need of a more marked improvement in fundamentals for consumption and investment, which we keep arguing will take some time. About the former, we are still seeing only modest advances in terms of the recovery in employment, while for the latter business confidence indicators remain depressed, even declining at the margin in August. In intermediate goods and as already mentioned, we saw a higher recovery given the relative delay to manufacturing which pointed to a sizable drop in inventories in the last two months. Given that this did not materialize, there is the possibility that the decline exacerbated and/or the beginning of a relevant shift in the way production is structured along more muted expectations about demand growth. Nevertheless, we need more information to confirm which of these may be the main driver.

Broadly speaking, we keep seeing a very differentiated performance between exports and imports that is likely to prevail, explained by the divide in terms of dynamics of domestic and external demand. This reinforces our view of a stronger performance of exports in full-year 2020, anticipating a 7.2% y/y contraction, as opposed to a 12.1% decline in imports.

Table 1: Trade balance
% y/y nsa

	Aug-20	Aug-19	Jan-Aug'20	Jan-Aug'19
Total exports	-7.7	1.3	-16.6	3.8
Oil	-11.4	-30.1	-37.9	-13.2
Crude oil	-12.1	-29.3	-40.5	-12.2
Others	-6.6	-34.9	-20.1	-19.2
Non-oil	-7.5	3.6	-15.3	5.0
Agricultural	-5.0	3.5	4.1	6.4
Mining	41.7	1.4	10.1	-5.4
Manufacturing	-8.3	3.7	-16.5	5.1
Vehicle and auto-parts	-11.9	9.7	-28.0	7.5
Others	-6.1	0.3	-10.0	3.8
Total imports	-22.2	-5.9	-20.7	-0.4
Consumption goods	-34.5	-11.9	-29.0	-3.6
Oil	-42.9	-24.5	-39.2	-9.4
Non-oil	-31.3	-5.9	-24.8	-1.0
Intermediate goods	-20.3	-3.7	-19.5	1.2
Oil	-35.1	-21.4	-35.9	-7.9
Non-oil	-19.1	-1.8	-17.9	2.2
Capital goods	-19.8	-14.0	-19.7	-8.4

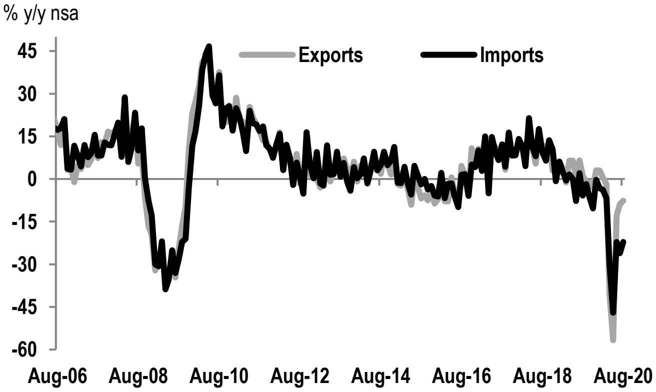
Source: INEGI

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

	% m/m			% 3m/3m	
	Aug-20	Jul-20	Jun-20	Jun-Aug'20	May-Jul'20
Total exports	**4.9**	**10.9**	**76.3**	**33.9**	**-12.9**
Oil	19.9	2.7	50.6	48.9	0.1
Crude oil	21.6	-3.3	74.0	62.9	3.1
Others	11.0	50.8	-27.7	-1.9	-13.3
Non-oil	4.3	11.3	77.7	33.3	-13.5
Agricultural	1.6	-16.5	21.9	3.5	0.0
Mining	26.7	8.4	25.7	15.9	-9.4
Manufacturing	4.0	13.1	84.2	35.6	-14.2
Vehicle and auto-parts	1.4	39.3	528.3	107.5	-18.3
Others	5.5	1.9	41.8	14.8	-12.5
Total imports	**7.0**	**4.1**	**23.9**	**2.7**	**-20.8**
Consumption goods	8.0	13.0	6.8	-7.1	-31.1
Oil	21.9	56.1	15.3	-12.1	-54.4
Non-oil	4.1	4.8	5.3	-5.7	-22.5
Intermediate goods	7.4	3.0	29.1	4.4	-20.4
Oil	12.6	13.8	12.2	-4.6	-29.2
Non-oil	7.0	2.3	30.4	5.0	-19.7
Capital goods	2.9	3.6	5.7	1.6	-10.7

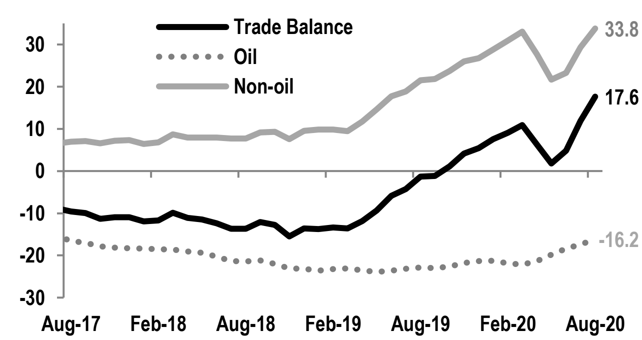
Source: INEGI

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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