# Trade balance – More modest surplus as imports improve in September

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- **Trade balance (September): US$4,384.7 million; Banorte: US$5,565.0mn; consensus: US$3,559.5mn (range: US$1,781.4mn to US$5,565mn); previous: US$6,115.7mn**
- **The trade surplus remains wide by historical standards, as exports (3.7% y/y) have rebounded significantly more than imports (-8.5%). Year-to-date these have contracted by -14.4% and -19.4%, respectively**
- **Total trade (exports plus imports) was again better in annual terms when compared to August, standing at -2.4% y/y**
- **With seasonally adjusted figures, exports increased 0.9% m/m, despite the drag from oil-related goods, which fell 13.8%. Non-oil goods picked up 1.6%, mainly on non-auto manufacturing (2.4%)**
- **Imports strengthened 5.3% m/m after rebounding 7.2% in the previous month. This component was also affected by oil (-1.9%), but with non-oil intermediate goods increasing 6.5% and consumption goods at 5.5%**
- **Today's report signals that the recovery in activity continued at the end of 3Q20. We continue seeing greater strength in exports relative to imports, with some domestic challenges for the latter in the last quarter of the year**

**US$4,384.7 million surplus in September, still high.** This was higher than consensus at +US$3,559.5 million but below our US$5,565.0 million forecast. Overall, the balance remains quite high as exports (3.7% y/y) continue outpacing imports (-8.5%), as shown in Chart 1. Nevertheless, total trade in nominal terms (exports plus imports) kept improving in the annual comparison, standing at -2.4% from -14.9% in the previous month. Year-to-date, exports have declined 14.4% while imports have plunged 19.4% (see Table 1). We note that oil shipments (-22.1%) and purchases from abroad (-27.4%) declined more strongly, most likely driven by the correction lower in prices –with the Mexican oil mix averaging 37.56 US$/bbl, from 40.31 in the previous month)– given the lack of any significant meteorological phenomena in the period. On the other hand, non-oil exports were very favorable as they stood at 5.0%, with all sectors positive. In non-oil imports, all categories remain negative but more modestly than in August, highlighting the -4.1% in intermediate goods, mostly related to the manufacturing industry. With this, the trade balance accumulates a US$22,171.5 million surplus in the last twelve months, a new historical high and continuing with the upward trend that started in early 2019 (Chart 2).

**After lagging recently, imports start to catch up.** Specifically, exports grew 0.9% m/m after picking up 4.5% in August. In turn, imports advanced 5.3% from 7.2% previously (see Table 2). As already mentioned, the oil sector was mostly lower, driven by the correction in crude-oil and gasoline prices that had spiked briefly at the end of August due to hurricane Laura–shutting down operations mostly in the US–.

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As a result, oil exports declined 13.8% and imports were down 1.9%. Within the former, the most impacted category was crude oil (-18.7%), while in the latter the highest contraction was in in consumption goods (-8.5%).

In contrast, non-oil shipments managed to stay positive for a fourth consecutive month, at 1.6% m/m. Agriculture grew 16.9%, while mining backtracked 21.6% after surging 27.1% in August. Manufacturing was also more modest relative to the previous month, up 1.5%. Within, autos fell 0.2%, with AMIA's figures of finished vehicles slowing down but with a relatively good performance in US production and sales, suggesting auto parts picked up at least some of the slack. Other manufacturing was more positive (2.4%), broadly consistent with ISM manufacturing data showing some resiliency in the 'imports' component (related to Mexican exports). Imports surprised us to the upside, up 5.9% after advancing 6.7% in August. By component, a positive signal came from intermediate goods as they grew at a relatively brisk pace for a second month in row (6.5%), suggesting good underlying dynamics in the manufacturing sector. This was the main difference between our forecast and actual data. Moreover, consumption goods accelerated to 5.5% (previous: 4.3%) although still with a long way to recover. Finally, capital goods were more modest but remained positive at 1.5%, possibly helped by the appreciation of the Mexican peso during the first half of the month but in our view still challenged due to high levels of uncertainty.

**Positive report, but with risks of a slowdown in 4Q20.** In our view, today's report signals a positive performance for activity in September, given that: (1) Manufacturing remained strong, with exports turning positive in the annual comparison and with a better print for non-oil intermediate goods imports; and (2) the advance in non-oil consumption goods, which may be related to a gradual recovery in domestic demand. Despite of the latter, we believe the skew towards relatively high balances will remain, even after accounting for a bias towards deficits –particularly in October– as companies restock ahead of the holiday season.

Apart from this, we see some tentative signals of a potential slowdown in trade flows, which so far have been more resilient in this recovery. First, the US may decelerate as no new fiscal stimulus has been agreed yet since some important measures expired in July, increasing risks for activity in said country during 4Q20. Second, COVID-19 cases have been accelerating in the US and more recently in Mexico, with the upcoming winter season possibly worsening this trend. In our country, we highlight that some important northern states such as Chihuahua (back in red according to the 'traffic light' indicator), Nuevo León, Durango and Coahuila may backtrack in terms of their reopening strategy, potentially affecting manufacturing exports. Third, the US PMI manufacturing for October showed that foreign client demand slowed notably, with producers registering a renewed contraction in new export orders (related to Mexican imports). On the contrary, confidence remains high as there are hopes of an end to COVID-19 restrictions in the coming year and less political uncertainty after the November 3rd election.

Moreover, we highlight other challenges stemming from idiosyncratic factors. Among them, several reports warn that imports have suffered from delays due to bottlenecks in customs processing. In this sense, new regulations were established on October 1st for commercial packing that will include non-oil intermediate goods along final consumption goods. Although companies in relevant programs for manufacturing production are exempted, such as those on IMMEX and PROSEC, it may nonetheless impact supply chains, particularly those arranged as “just in time”. In addition, businesses’ have complained about railway blockades in several states, including in Chihuahua and Michoacán. The former was lifted on October 25th after two months, which impacted crossings between Mexico and the US. The latter remains in place, with reports stating that it has mostly affected the steel, auto and oil industry.

Overall, we continue seeing healthier external demand relative to domestic conditions, supporting the trend towards higher surpluses which may be exacerbated by local headwinds to imports, as mentioned above. Nevertheless, we will focus on the latter component, particularly intermediate goods but also consumption, as they have recently shown some revival. In this sense, next week’s IMEF indicator may help us gauge underlying dynamics more clearly. Given their accumulated performance so far this year, we now see a more positive contribution from net exports to GDP this year, which was one of the drivers behind our revision to a full-year contraction of -9.0% y/y from -9.8%.

**Table 1: Trade balance**
% y/y nsa

| | Sep-20 | Sep-19 | Jan-Sep'20 | Jan-Sep'19 |
|---|---|---|---|---|
| **Total exports** | 3.7 | -1.4 | -14.4 | 3.2 |
| Oil | -22.1 | -31.5 | -36.4 | -15.3 |
| Crude oil | -29.0 | -33.4 | -39.4 | -14.8 |
| Others | 22.4 | -15.4 | -15.8 | -18.8 |
| Non-oil | 5.0 | 1.0 | -13.0 | 4.6 |
| Agricultural | 19.3 | 14.7 | 5.3 | 7.0 |
| Mining | 25.4 | -10.1 | 11.7 | -5.9 |
| Manufacturing | 4.3 | 0.8 | -14.2 | 4.6 |
| Vehicle and auto-parts | 0.2 | -2.8 | -24.8 | 6.2 |
| Others | 6.8 | 3.1 | -8.1 | 3.8 |
| **Total imports** | -8.5 | -1.7 | -19.4 | -0.5 |
| Consumption goods | -23.8 | -3.8 | -28.4 | -3.6 |
| Oil | -29.2 | -23.1 | -38.3 | -10.8 |
| Non-oil | -22.1 | 4.2 | -24.4 | -0.4 |
| Intermediate goods | -5.9 | 0.2 | -18.0 | 1.1 |
| Oil | -26.5 | -14.8 | -35.0 | -8.7 |
| Non-oil | -4.1 | 1.7 | -16.4 | 2.1 |
| Capital goods | -8.4 | -13.5 | -18.5 | -9.0 |

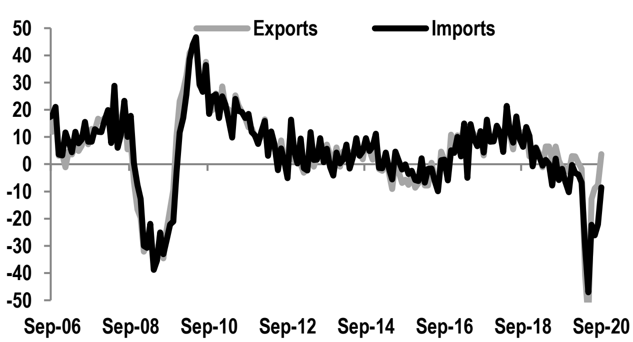
Source: INEGI

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

| | % m/m | | | % 3m/3m | |
|---|---|---|---|---|---|
| | Sep-20 | Aug-20 | Jul-20 | Jul-Sep'20 | Jun-Aug'20 |
| **Total exports** | **0.9** | **4.5** | **11.1** | **50.2** | **33.8** |
| Oil | -13.8 | 24.0 | 2.4 | 50.8 | 48.6 |
| Crude oil | -18.7 | 26.0 | -4.1 | 54.5 | 62.0 |
| Others | 12.9 | 14.0 | 53.0 | 35.6 | 0.5 |
| Non-oil | 1.6 | 3.8 | 11.5 | 50.2 | 33.2 |
| Agricultural | 16.9 | 1.1 | -17.6 | -2.6 | 2.2 |
| Mining | -21.6 | 27.1 | 8.4 | 25.5 | 16.0 |
| Manufacturing | 1.5 | 3.5 | 13.3 | 54.6 | 35.7 |
| Vehicle and auto-parts | -0.2 | 1.4 | 39.5 | 188.1 | 107.8 |
| Others | 2.4 | 4.6 | 2.3 | 22.8 | 14.9 |
| **Total imports** | **5.3** | **7.2** | **3.7** | **18.5** | **2.9** |
| Consumption goods | 2.0 | 8.1 | 13.6 | 20.6 | -6.5 |
| Oil | -8.5 | 21.2 | 57.1 | 63.6 | -11.5 |
| Non-oil | 5.5 | 4.3 | 5.3 | 11.8 | -5.1 |
| Intermediate goods | 6.2 | 7.6 | 2.5 | 19.7 | 4.4 |
| Oil | 1.6 | 9.1 | 15.1 | 18.5 | -6.1 |
| Non-oil | 6.5 | 7.5 | 1.7 | 19.7 | 5.2 |
| Capital goods | 1.5 | 2.9 | 3.8 | 7.6 | 1.9 |

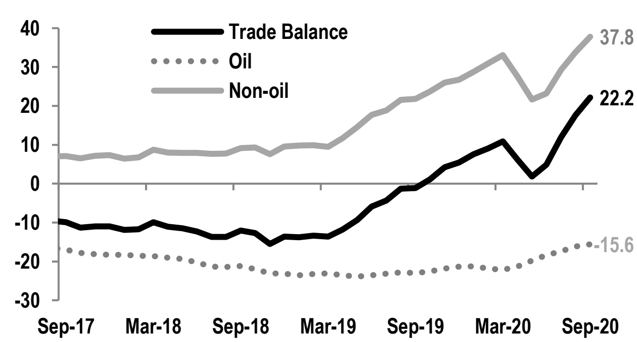
Source: INEGI

**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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