Trade balance – Historically high surplus of US$34.5 billion in 2020

- **Trade balance (December): US$6,262.0 million; Banorte: US$4,874.4mn; consensus: US$4,600mn (range: US$1,980mn to US$6,672mn); previous: US$3,032.5mn**
- **A trade surplus was observed for a seventh consecutive month. Total exports strengthened (11.5% y/y), while imports (3.7%) returned to positive territory for the first time since mid-2019**
- **As a result, there was a US$34,476.4 million surplus in full-year 2020, the largest in history. Both exports and imports contracted, standing at -9.3% and -15.8%, respectively**
- **With seasonally adjusted figures, exports advanced 3.4% m/m. Oil-related goods (10.5%) were higher, benefited by better meteorological conditions and higher crude-oil prices. Non-oil goods picked up 3.1%, with strength in manufacturing (3.6%)**
- **Imports were also positive at 2.9% m/m. Oil grew 10.9%. In non-oil, consumption (3.5%), intermediate (2.2%) and capital goods (1.0%) were all higher, possibly suggesting better conditions domestically**
- **Despite today's report signaling some strength in December, we remain cautious about short-term dynamics, with mounting risks for activity**

US$6,262.0 million surplus in December. This was a new historical high, vastly surpassing consensus at +US$4,600 million, which was somewhat close to our +US$4,874.4 million forecast. In line with the recent trend, exports (+11.5% y/y) continue outpacing imports (+3.7%), as shown in Chart 1, albeit with the latter back into positive territory for the first time since mid-2019. This still reflects the mismatch in the pace of the domestic recovery relative to other countries, mainly the US, our main trading partner. Total trade in nominal terms (exports plus imports) picked up meaningfully to +7.7% y/y from -0.8%. Oil exports came in at -14.2% y/y in the month, benefited by rising prices (with the Mexican oil mix at 45.64 US$/bbl, highest since February). Non-oil shipments rose 13.1%, driven by manufacturing (+13.6%). On imports, oil-related goods were slightly better (-12.5%), boosted by two additional working days and also higher gasoline prices. In non-oil, intermediate goods were stronger again (+7.4%), while consumption goods extended higher (2.9%) after last month's improvement.

A total trade surplus of US$34,476.4 million was observed in full-year 2020, vastly surpassing 2019's +US$5,408.5 million and a new historical high. This was explained by a US$48,471.1mn surplus in the non-oil balance, with a US$13,994.7 mn deficit in the oil sector (Chart 2). Total exports fell 9.3% y/y, with oil at -32.6% and non-oil at -8.0%. Specifically, manufacturing reached -8.9%. In imports (-15.8%), oil goods were sharply down at -33.5%, while in non-oil the most resilient was intermediate (-12.4%), followed by capital goods (-16.9%) and with consumption (-21.3%) as the weakest (Table 1).

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

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

Sequential increases suggest some strength in activity. Exports rose 3.4% m/m, more than compensating for last month's decline (-1.4%), while imports extended higher at +2.9% (previous: 6.1%; see Table 2). We do not rule out some favorable performance in both sectors as railway blockades were lifted in Michoacán, favoring trade flows through the Lázaro Cárdenas port. In addition, some of the problems regarding logistics in Customs may have prevailed (with changes in administration and labeling laws), albeit possibly starting to get smoothed over, benefiting trade.

The oil sector was very positive, with exports up 10.5%. This seems to be supported by both higher volumes (especially as weather conditions were mostly favorable after the end of the hurricane season) and prices, with the Mexican oil basket up 16.4% m/m on better prospects about the global recovery. Imports were also higher (10.9%), driven by higher reference prices. We also note this happened with relatively flat mobility in comparison to November, despite deteriorated epidemiological conditions. Specifically, consumption goods rose 12.5%, while intermediate were slightly more moderate at 10.2%. In non-oil, exports were at 3.1%, erasing last month's decline which ended a streak of five sequential improvements. Inside, all categories were better except mining (-13.2%), still declining after surging in October. Meanwhile, agricultural goods edged-up 0.7%, while manufacturing was stronger at 3.6%. Within the latter, the auto sector rebounded 6.0% after a somewhat dismal performance in November, while others (+2.4%) kept improving. Meanwhile, imports added a seventh month to the upside, with a positive surprise from consumption (+3.5%), especially after a massive increase in the previous month. Moreover, both intermediate and capital goods were also higher, rising 2.2% and 1.0%, respectively.

Despite today's positive performance, we are cautious about short-term dynamics. In our view, today's report was very favorable, especially in a rather challenging environment, adding upside risks to our -5.6% y/y forecast for GDP in 4Q20. However, we still believe risks for activity in the short-term have increased. The main ones are related to the deterioration in epidemiological conditions, both in Mexico and the US, albeit with the latter country starting to relax restrictions again in the last days. While today's report did not reflect this, we could see an impact on exports in January through a decrease in 'other' manufacturing, with sectors not considered essential having to stop activities in some states. In addition, on imports we could see a hit on consumer goods – both oil and non-oil– given lower mobility levels (reducing demand for gasoline) and with shopping malls and other non-essential stores closed.

On top of this, other idiosyncratic risks remain. Among them, railway blockades were once again deployed in Michoacán, which could impact overall traffic through the Lázaro Cárdenas port again. Weakness in domestic demand, with the lack of significant stimulus locally, will probably extend in coming months. On the contrary, one positive factor is the continuation of the public-private infrastructure plan, which according to the outlined timeframe, should have had around 24 projects already under way in January (out of a total of 68), possibly supporting capital goods imports which have been advancing sequentially in recent months.

On external factors, PMIs in the US continued to climb in January. We highlight the manufacturing indicator at 59.1pts, highest since mid-2014. According to *Markit*'s report, 'new orders' and 'production' picked up considerably despite some shortages of raw materials, which could suggest weakness in our country. The deployment of the vaccine in said country continues at a favorable pace and optimism about additional fiscal stimulus is still high despite some challenges in the Senate. Moreover, recent comments from several officials in the US suggest pressures on China will continue, which in turn could favor our country, albeit probably only with a meaningful impact in the medium-term.

Considering this, we judge that uncertainty over short-term performance has increased further, with a non-negligible possibility of more weakness ahead. Nevertheless, we are more positive about the medium-term as the vaccination process continues worldwide, trade jitters with the US have waned and the latter country implements large economic stimulus, which should have a positive spillover effect in our country. In addition, as vaccinations also advance in Mexico, we could start to see a more significant recovery of domestic demand.

On a final note, 2020's historical surplus will occur just when GDP likely contracted 8.6% (with preliminary figures for the fourth quarter to be published tomorrow). This should be a forceful reminder that a positive trade balance is not directly related to higher economic growth and welfare for the population. In this sense, GDP likely fell the most since 1932, even with a surging surplus. Although the US will shift to a more pro-trade stance after Biden's win, we should not rule out completely that protectionism it comes back, as globalization has been increasingly challenged.

Table 1: Trade balance
% y/y nsa

	Dec-20	Dec-19	2020	2019
Total exports	11.5	3.0	-9.3	2.2
Oil	-14.2	2.3	-32.6	-15.6
Crude oil	-8.6	-1.6	-34.8	-15.6
Others	-39.7	24.2	-18.4	-16.1
Non-oil	13.1	3.1	-8.0	3.5
Agricultural	2.7	11.7	4.7	8.1
Mining	16.0	5.7	19.7	-0.7
Manufacturing	13.6	2.6	-8.9	3.4
Vehicle and auto-parts	11.3	2.7	-16.8	3.9
Others	14.8	2.5	-4.5	3.1
Total imports	3.7	-0.3	-15.8	-1.9
Consumption goods	-6.7	4.1	-26.2	-3.1
Oil	-31.0	2.5	-38.6	-11.2
Non-oil	2.9	4.8	-21.3	0.5
Intermediate goods	6.7	-1.0	-13.9	-0.8
Oil	-0.8	-16.0	-30.5	-12.8
Non-oil	7.4	0.6	-12.4	0.4
Capital goods	-4.9	-0.6	-16.9	-8.9

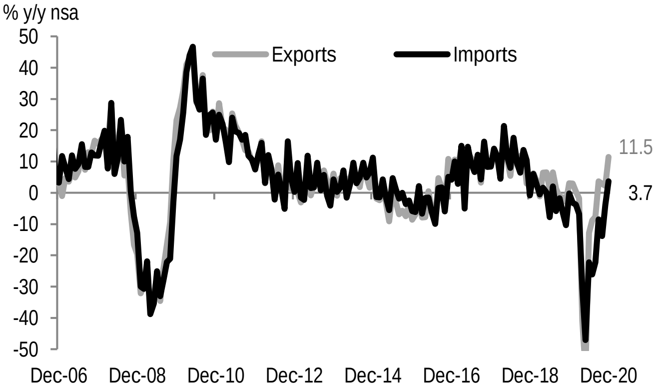
Source: INEGI

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

	% m/m			% 3m/3m	
	Dec-20	Nov-20	Oct-20	Oct-Dec**'20**	Sep-Nov**'20**
Total exports	3.4	-1.4	5.0	7.5	10.8
Oil	10.5	16.7	-11.1	-0.7	-2.6
Crude oil	11.7	24.6	-9.5	2.4	-6.2
Others	2.3	-17.3	-17.4	-15.6	18.3
Non-oil	3.1	-2.0	5.6	7.9	11.4
Agricultural	0.7	-4.7	-3.9	4.5	7.1
Mining	-13.2	-15.2	57.5	25.2	22.9
Manufacturing	3.6	-1.5	5.2	7.7	11.4
Vehicle and auto-parts	6.0	-7.2	10.3	7.5	16.0
Others	2.4	1.8	2.5	7.9	9.0
Total imports	2.9	6.1	2.2	13.4	15.4
Consumption goods	5.2	18.1	-0.9	17.8	18.5
Oil	12.5	-3.9	3.5	5.5	18.7
Non-oil	3.5	24.9	-2.2	21.5	18.4
Intermediate goods	2.7	4.9	3.0	14.1	16.2
Oil	10.2	4.6	4.0	16.0	18.5
Non-oil	2.2	5.0	2.9	13.9	16.1
Capital goods	1.0	2.3	-1.2	2.9	5.1

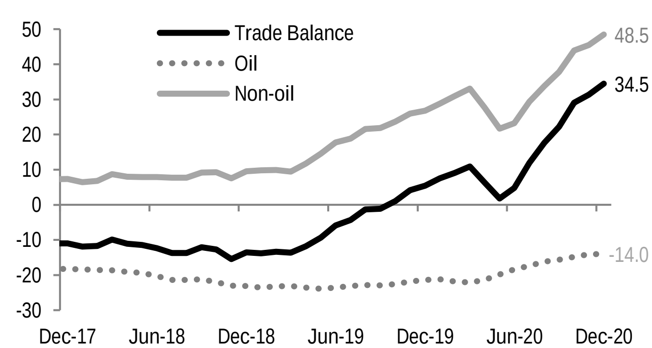
Source: INEGI

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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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 Godinez	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
Katia 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
Juan Barbier Arizmendi, CFA	Analyst	juan.barbier@banorte.com	(55) 1670 - 1746

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 Aguilar Ceballos	Head of Asset Management	alejandro.aguilar.ceballos@banorte.com	(55) 5268 - 9996
Alejandro Eric Faesi Puente	Head of Global Markets and Institutional Sales	alejandro.faesi@banorte.com	(55) 5268 - 1640
Alejandro Frigolet Vázquez Vela	Head of Sólida Banorte	alejandro.frigolet.vazquezvela@banorte.com	(55) 5268 - 1656
Arturo Monroy Ballesteros	Head of Investment Banking and Structured Finance	arturo.monroy.ballesteros@banorte.com	(55) 5004 - 1002
Carlos Alberto Arciniega Navarro	Head of Treasury Services	carlos.arciniega@banorte.com	(81) 1103 - 4091
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
Lizza Velarde Torres	Executive Director of Wholesale Banking	lizza.velarde@banorte.com	(55) 4433 - 4676
Osvaldo Brondo Menchaca	Head of Specialized Banking Services	osvaldo.brondo@banorte.com	(55) 5004 - 1423
Raúl Alejandro Arauzo Romero	Head of Transactional Banking	alejandro.arauzo@banorte.com	(55) 5261 - 4910
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