# Trade balance – Slowdown in January points to challenges to activity

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- **Trade balance (January): -US$1,236.4 million; Banorte: -US$1,237.9mn; consensus: -US$600mn (range: -US$2,981mn to +US$4,055mn); previous: US$6,262.0mn**
- **A deficit was seen for the first time since May 2020, when there were deep supply distortions due to the pandemic. Total exports (-2.6% y/y) and imports (-5.9%) were more modest, affected by a negative calendar effect, among other factors**
- **With seasonally adjusted figures, exports fell 0.4% m/m, in our view with some payback after increasing 3.8% last month. Oil-related goods (+2.3%) were benefited by higher crude-oil prices. Non-oil goods were lower, with manufacturing slowing down to -0.7%**
- **Imports were at +2.9% m/m adding eight consecutive months up. Oil was positive (2.9%) but more modest relative to December. In non-oil, we highlight that intermediate goods were the main driver behind the increase, contrasting slightly with the moderation in manufacturing**
- **In our view, these figures suggest a rough start of the year for the economy, with February affected by supply disruptions in both the US and Mexico due to bad weather conditions**

**US$1,236.4 million deficit in January.** This was lower than consensus at -US$600 million but practically in line to our forecast of -US$1,237.9 million. In this respect, it is the first deficit since May 2020, when there were deep disruptions on supply because of the pandemic, which in turn resulted in unprecedented corrections in trade volumes. Nonetheless, the month tends to show deficits as non-oil exports are usually low in the first month (especially manufacturing), with imports also moderating, albeit not as much. Total exports (-2.6%) fell for the first time since August, while imports were lower (-5.9%), as shown in Chart 1. An additional factor behind the slowdown was a very difficult calendar effect, as the month had two less working days in the annual comparison.

Specifically, oil exports came in at -20.1% y/y, benefited again at the margin by higher prices (with the Mexican oil mix averaging 50.86 US$/bbl from 45.64 in December), albeit with a more difficult base effect. Meanwhile, non-oil slowed to -1.4% from 13.1% in December. We highlight manufacturing at -1.5%, in our view also reflecting some payback after last month's considerable advance. Going to imports, oil stood at -27.9%, with available data pointing to both higher volumes and prices. Lastly, non-oil also moderated, to -3.1%. from 5.5% previously. We highlight that all categories went back into contraction, albeit with capital goods (-10.9%) remaining as the main laggard. (Table 1).

As a result, the trade balance accumulated a US$35,721.2 million surplus in the last twelve months, with a US$13,291.2 million deficit in oil and a positive balance of US$49,012.4 in non-oil (see Chart 2). Despite a modest setback relative to January, the former amount remains at a historical high.

**Sequential decline in exports, while imports gather some more momentum.** Exports fell 0.4% m/m, probably impacted by some payback after last month's +3.8%, while imports extended higher at +2.9% (previous: 3.0%; see Table 2). Within the former, we do not rule out an additional impact from worsening epidemiological conditions, with more states going to 'red' in the traffic light indicator. For the latter, we could have seen some boost given the timing of the Chinese New Year, with exporters from that country front-loading some shipments, resulting in an earlier delivery during the month. However, other problems prevailed, such as the reintroduction of railway blockades in Michoacán and seemingly some distortions still associated to changes in customs administration.

The oil sector was again positive, with exports up 2.3%. This seems to be mainly supported by higher prices, with the Mexican oil mix up 11.5% m/m, albeit with mixed signals on outgoing volumes. Imports were also higher (2.9%), driven by higher reference prices, with a decrease in mobility given new lockdowns. Specifically, consumption goods rose 6.1%, while intermediate were more moderate at 1.5%.

In non-oil, exports were at -0.5%. Inside, all categories were lower except mining (21.7%), with some payback after two consecutive declines. Meanwhile, agricultural goods fell 4.2%, while manufacturing was also weak at -0.7%. Within the latter, the auto sector surprised higher at +2.7% contrasting with timelier data, albeit consistent with its status as an essential industry. Meanwhile, others were weaker at -2.7%, in our view reflecting more forcefully the effects of limits on non-essential activities. Imports added eighth months to the upside, with strength centered in intermediate goods (+3.5%), aided by the previously mentioned effects. By contrast, consumption declined 0.2%, but only after considerable upside in the last two months, coinciding with the holiday season. Lastly, capital goods remained positive, albeit somewhat muted at +1.4%.

**Slow start of the year for the external sector, on top of other shocks.** In our opinion, the report suggests that the pace of economic activity moderated at the start of 2021. However, it is not surprising after strong dynamism in December in exports and, to a lesser extent, imports. In this sense, today's data are probably skewed to the downside after last month's strong result. As a result, December's IGAE –published yesterday– partly reflected said rebound, posting a 0.1% m/m expansion. However, there are signs that trade figures could be decoupling relative to the moment they are reflected within economic activity, making us a little weary of the results. This could be driven by several reasons, including: (1) Administrative changes in customs that have modified flows and reporting of shipments both in and out of the country; (2) distortions due to distribution changes because of the pandemic; (3) adjustments in inventories after recent discount periods (*e.g. El Buen Fin* –Mexico's Black Friday–) and/or different sales methods during the holidays. Apart from these potential distortions, it does seem that short-term dynamics are poised to be more complicated, at least in February. The most relevant factor was the shock from extreme cold weather in the southern US, impacting natural gas and electricity supply in the region. Despite these temporary disruptions, it is highly likely that it had an important effect through at least two channels.

The first is direct, which is in all flows regarding oil-related goods –and energy overall–. This will probably translate into a steeper decline in annual terms in both exports and imports within the oil balance, even after considering an upward adjustment in prices. The second, and in our opinion more important, is that the lack of basic raw materials for production resulted in the need to stop operations in practically all industries, especially manufacturing.

Meanwhile, several reports highlight problems due to the low availability of semiconductors. This is more concerning, not only for February but also for the following months. The lack of these components, which are key for the auto industry, technology and household appliances –just to mention a few– could impact volumes. Just to mention an example in the former, brands such as VW, Nissan, Fiat Chrysler, Daimler and Honda have reported delays, forcing them to at least reduce output. GM warned about work stoppages in three North American plants starting on February 8th which will extend at least until March, including their San Luis Potosí plant. According to *IHS Markit*, around 672,000 autos will not be produced relative to original estimates, with experts arguing this problem will not be solved before summer. Meanwhile, we will look closely to this sector's timely data, to be released by INEGI in about two weeks, for a preliminary evaluation about the overall magnitude of the impact, at least in this sector.

This environment implies that risks to the downside have increased. Nevertheless, we are waiting for additional information about its potential effect. On a more positive note, we still believe that external demand will be more vigorous and remain as the main driver of the domestic recovery. In this sense, we are more optimistic about US growth this year, expecting a 5.4% GDP expansion. We maintain our view that the boost will be stronger in the second half, as vaccinations have progressed further and allow for more normalization. Moreover, it is likely that the latter boosts confidence among both consumers and businesses, which in turn would be positive for consumption in said country, giving additional support for export-oriented companies in Mexico.

Table 1: Trade balance
% y/y nsa

| | Jan-21 | Jan-20 | 2020 | 2019 |
|---|---|---|---|---|
| Total exports | -2.6 | 2.9 | -9.3 | 2.2 |
| Oil | -20.1 | 5.5 | -32.6 | -15.6 |
| Crude oil | -19.8 | 6.7 | -34.8 | -15.6 |
| Others | -22.3 | -1.0 | -18.4 | -16.1 |
| Non-oil | -1.4 | 2.7 | -8.0 | 3.5 |
| Agricultural | -12.2 | 9.8 | 4.7 | 8.1 |
| Mining | 44.7 | 32.3 | 19.7 | -0.7 |
| Manufacturing | -1.5 | 2.0 | -8.9 | 3.4 |
| Vehicle and auto-parts | 1.7 | 9.5 | -16.8 | 3.9 |
| Others | -3.2 | -1.7 | -4.5 | 3.1 |
| Total imports | -5.9 | -3.2 | -15.8 | -1.9 |
| Consumption goods | -20.5 | 6.8 | -26.2 | -3.1 |
| Oil | -46.8 | 26.0 | -38.6 | -11.2 |
| Non-oil | -7.4 | -0.7 | -21.3 | 0.5 |
| Intermediate goods | -2.6 | -3.5 | -13.9 | -0.8 |
| Oil | -14.5 | -13.2 | -30.5 | -12.8 |
| Non-oil | -1.4 | -2.4 | -12.4 | 0.4 |
| Capital goods | -10.9 | -13.6 | -16.9 | -8.9 |

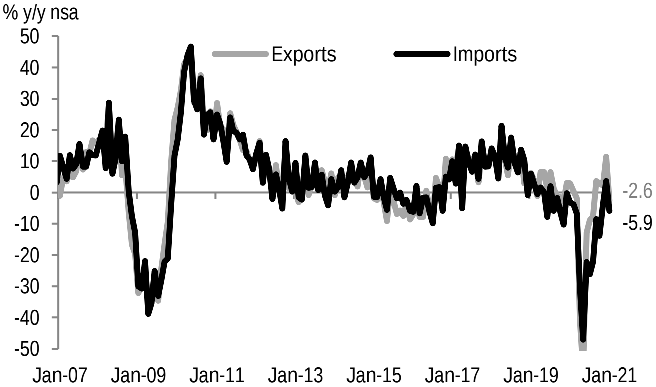
Source: INEGI

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

| | % m/m | | | % 3m/3m | |
|---|---|---|---|---|---|
| | Jan-21 | Dec-20 | Nov-20 | **Nov'20**-Jan'**2**1 | Oct-Dec'**20** |
| Total exports | -0.4 | 3.8 | -1.3 | 4.7 | 7.6 |
| Oil | 2.3 | 11.5 | 16.8 | 11.3 | 0.2 |
| Crude oil | 1.4 | 13.0 | 24.5 | 17.7 | 3.0 |
| Others | 8.9 | 2.3 | -15.9 | -18.0 | -13.7 |
| Non-oil | -0.5 | 3.5 | -1.9 | 4.4 | 7.9 |
| Agricultural | -4.2 | 0.4 | -4.8 | -3.2 | 4.3 |
| Mining | 21.7 | -13.2 | -15.0 | 2.5 | 25.1 |
| Manufacturing | -0.7 | 4.0 | -1.5 | 4.8 | 7.8 |
| Vehicle and auto-parts | 2.7 | 6.4 | -7.0 | 4.2 | 7.7 |
| Others | -2.7 | 2.8 | 1.7 | 5.1 | 7.8 |
| Total imports | 2.9 | 3.0 | 6.2 | 12.8 | 13.7 |
| Consumption goods | 1.1 | 5.2 | 18.0 | 22.6 | 17.8 |
| Oil | 6.1 | 12.9 | -3.6 | 6.5 | 6.1 |
| Non-oil | -0.2 | 3.3 | 24.5 | 27.6 | 21.4 |
| Intermediate goods | 3.4 | 2.9 | 5.1 | 12.5 | 14.3 |
| Oil | 1.5 | 10.4 | 5.0 | 16.8 | 16.7 |
| Non-oil | 3.5 | 2.4 | 5.1 | 12.2 | 14.2 |
| Capital goods | 1.4 | 1.3 | 2.4 | 3.6 | 3.1 |

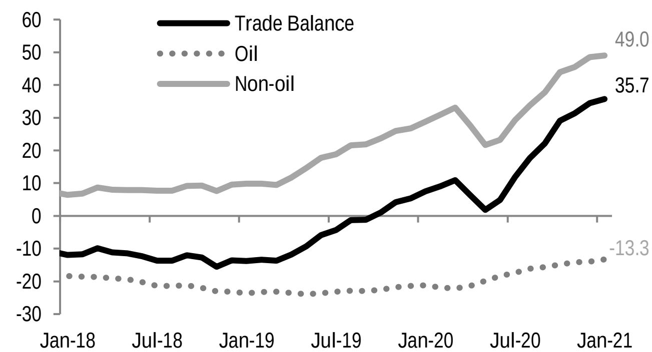
Source: INEGI

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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