Trade balance – Rebound in key categories suggests dynamism in May

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- **Trade balance (May): US$339.7 million; Banorte: US$1,277.5mn; consensus: US$1,284.8mn (range: -US$1,019mn to US$1,701); previous: US$1,500.6mn**
- **The balance remained at a surplus, albeit more modest than in the previous month. Exports (125.2% y/y) grew more than imports (87.5%), remembering that the month exhibited the greatest distortions as a result of the pandemic and lockdowns in 2020**
- **With seasonally adjusted figures, exports advanced 1.2% m/m. Oil-related goods declined 0.7%, driven by a contraction in 'others'. Non-oil goods picked up 1.3%, with additional gains in autos (3.3%)**
- **Imports expanded 4.2%, rebounding after the -7.8% seen in the previous month. Oil picked up 19.9%. In non-oil, intermediate goods rose 1.4%, while consumption (12.8%) and capital (3.1%) were stronger**
- **Considering the rebound in some key categories, we believe data suggests activity grew through the middle of 2Q21. However, judging by the performance of other manufacturing exports, some risks remain**
- **We expect dynamism on the external front to remain as the main driver behind growth in 2021. However, dynamism within imports also suggests that domestic demand may be accelerating**

US$339.7 million surplus in May, below expectations. This was lower than both consensus (+US$1,284.8 million), and our +US$1,277.5 million. We believe conditions may be starting to normalize after some distortions in March and April, albeit possibly trending to more modest surpluses relative to the last three years. Annual rates remained high for every category, with total exports up 125.2% y/y and imports at 87.5% (Chart 1). We should mention these metrics are heavily skewed due to distortions from a very benign base effect, with May 2020 showing the sharpest downturns as a result of the lockdowns domestically. In this context, oil exports remained high, with crude oil at 166.8% y/y. In this sense, the Mexican oil mix averaged around 62.5 US$/bbl in the period, which was +159.7% y/y. Meanwhile, non-oil grew 124.5%, with manufacturing up 136.5%. On imports, oil picked up 184.1% and non-oil 80.8%. In the latter, intermediate goods led the increase (85.6%), followed closely by consumption (84.9%). Lastly, capital goods stood at 43.0%. Details are presented in Table 1. The trade balance accumulated a US$37.5 billion surplus in the last twelve months, with a US$16.6 billion deficit in the oil sector and a US$54.2 billion surplus in non-oil (see Chart 2).

Monthly rebound points to an extension in the recovery. As distortions prevail in annual terms, sequential results remain as the most important. In this respect, we observed a rebound after some declines in the previous month, with exports up 1.2% and imports stronger at 4.2% (see Table 2). In our view, overall results suggest an acceleration after a modest setback in April, which was also seen in broader activity figures.

On the oil sector, shipments declined 0.7% dragged by ‘others’, with crude up 2.2%, in line with an increase in reference prices. Meanwhile, imports surged 19.9%, driven by consumption goods (28.6%), in our view related to both higher prices and volumes, with the latter supported by increased mobility and epidemiological conditions improved further.

Meanwhile, on non-oil, exports grew 1.3%, stringing three months to the upside. The outperformer was mining at 18.7%, albeit also being the one with the largest decline in April. Agricultural expanded 6.9%, in our view mostly related to rising prices as drought conditions in both Mexico and the US continued. Manufacturing was more modest at 0.8%. Inside, autos were rather strong at 3.3%, even despite reports of shutdowns in Nissan and Ford plants during the month. On the contrary, ‘others’ added a second month of declines (-0.6%), in our view starting to become a warning sign as supply shortages might be extending to sectors other than autos. In turn, total inbound shipments grew 2.6%, with a less challenging base and all categories higher. The most significant increase was in consumption (12.8%), followed by capital goods (3.1%). Even after acknowledging that these sectors had the largest contractions in the previous month, considering March’s expansion, this suggests that dynamism from domestic demand might be building up faster than we expected. Lastly, intermediate goods rose 1.4%, broadly in line with the acceleration seen in manufacturing.

We expect growth to remain on external demand, albeit with mounting signs of a domestic acceleration. In our view, the rebound suggests the recovery continued, with April just a bump in the road. While strength from abroad is still a key support, it seems that limits for a substantial acceleration –mostly related to supply chain disruptions– might remain in place at least for a couple of months. Nevertheless, categories related to local activity, such as non-oil consumption and capital goods imports, point that domestic demand might be recovering faster than anticipated. We do not rule out that we could see a trend towards more modest surpluses or even slight deficits in the short-term, as was the case before 2019.

On manufacturing, woes continue in the semiconductor industry. Considering the highly complex nature of their production process, it is rather challenging to build new facilities. Given this, a bipartisan effort in the US is being carried out to incentivize investments, aiming to relief some of the current pressures. Measures include ‘tens of billions of dollars’ in manufacturing incentives and R&D over the next 5-10 years. In other news, other supply distortions might arise from a COVID-19 outbreak in a Chinese port in Shenzhen (Yantian). This resulted in shipments delayed for almost a month, ending by late June and with congestion built-up because of this expected to clear in the next 6 to 8 weeks. Industry experts say this could have an even greater impact than the blockage of the Suez Canal. On local news, VW announced production stoppages in their Puebla plant in June, with a gradual restart commencing in July. This has also impacted their suppliers, Fujikura and Seglo, which have needed to implement similar actions. Within the latter, workers are not being laid-off but some of their payments have been reduced, a situation which could have negative spillover effects in other sectors, mainly consumption. Meanwhile, Nissan also halted production in the current month, with stoppages centered in the tail end of the period.

On agriculture, the latest available drought reports still suggested a complex environment, especially in the US. Using more timely data for Mexico, conditions until mid-June seem to be improving in the southern and central regions but worsened in the northwest. As such, we could keep seeing high prices in coming months, especially as key export goods such as tomatoes are still under pressure. Turning to oil, reports suggest that the *Minatitlan* refinery is back online, which could help curb oil imports slightly. In addition, we will remain on the look about information of flows from the recently acquired *Deer Park* refinery, given that despite now being fully owned by Pemex, gasoline brought from there will still be considered imported. Lastly, the coker unit in the *Tula* refinery has resumed activities after a three-week hiatus following a technical failure. All in all, this should help gasoline and other hydrocarbon production in the country.

On imports, and as already stated, dynamism in non-oil consumption and capital goods may be suggesting an acceleration in private consumption and investment within aggregate demand. It should be stated that performance from these components in 1Q21 was already stronger than expected, with the latest figures reinforcing this trend. For the former, we believe better employment and epidemiological conditions have been the main drivers, highlighting a mostly favorable outlook in the short-term. Nevertheless, risks might be arising from higher prices, with inflation accelerating substantially in the last few months. For the latter the outlook is more uncertain, making the data even more surprising. Nevertheless, key geographical and other advantages –such as the USMCA– might be offsetting for some idiosyncratic clouds that remain on the horizon.

Table 1: Trade balance
% y/y nsa

	May-21	May-20	Jan-May**'21**	Jan-May**'20**
Total exports	125.2	-56.6	29.2	-21.0
Oil	137.9	-62.8	49.0	-43.2
Crude oil	166.8	-66.9	52.8	-46.7
Others	34.5	-34.1	31.6	-18.9
Non-oil	124.5	-56.2	28.3	-19.5
Agricultural	17.5	-6.4	5.1	1.2
Mining	80.6	-32.6	41.7	5.1
Manufacturing	136.3	-58.8	29.6	-20.9
Vehicle and auto-parts	859.5	-90.1	50.3	-35.4
Others	68.5	-41.4	20.9	-12.8
Total imports	87.5	-47.1	26.4	-19.0
Consumption goods	115.9	-55.9	19.0	-22.8
Oil	298.4	-79.9	4.1	-29.7
Non-oil	84.9	-44.6	24.6	-19.9
Intermediate goods	89.4	-46.6	28.6	-18.0
Oil	147.8	-63.3	65.2	-33.4
Non-oil	85.6	-45.0	25.7	-16.5
Capital goods	43.0	-38.4	16.5	-22.3

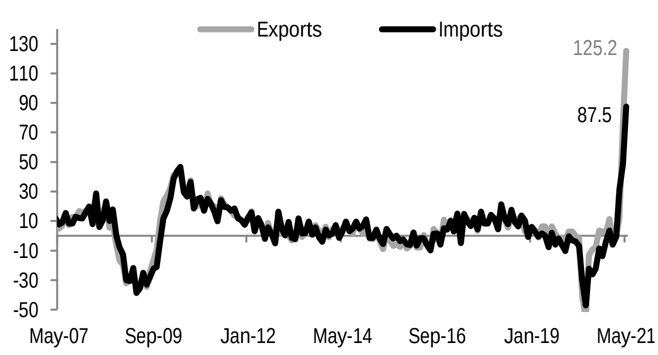
Source: INEGI

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

	% m/m			% 3m/3m	
	May-21	Apr-21	Mar-21	Mar-May**'21**	Feb-Apr**'21**
Total exports	1.2	0.6	4.1	2.5	0.4
Oil	-0.7	-0.3	15.4	17.0	18.7
Crude oil	2.2	3.2	8.6	12.8	13.8
Others	-15.9	-15.5	56.8	44.1	52.1
Non-oil	1.3	0.6	3.5	1.8	-0.4
Agricultural	6.9	-3.3	-0.4	4.6	6.1
Mining	18.7	-22.5	10.8	0.2	-1.5
Manufacturing	0.8	1.3	3.6	1.7	-0.6
Vehicle and auto-parts	3.3	9.7	-2.2	-3.2	-8.4
Others	-0.6	-2.5	6.4	4.4	3.6
Total imports	4.2	-7.8	19.5	14.0	10.6
Consumption goods	16.7	-2.8	12.1	14.4	7.4
Oil	28.6	10.9	24.5	34.5	12.5
Non-oil	12.8	-6.5	9.2	9.1	6.0
Intermediate goods	2.5	-8.9	21.8	14.2	10.8
Oil	15.9	-51.2	135.8	67.8	65.4
Non-oil	1.4	-1.7	12.5	10.1	6.8
Capital goods	3.1	-4.1	8.5	11.7	12.7

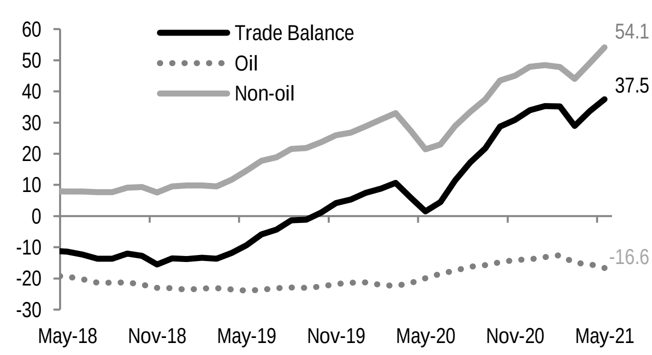
Source: INEGI

Chart 1: Exports and imports
% y/y nsa



Source: INEGI

Chart 2: Trade balance
US$ billion, 12 month rolling sum



Source: INEGI

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