Trade balance – Supply chain disruptions kept impacting flows in August

September 27, 2021

www.banorte.com
@analisis_fundam

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

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

- **Trade balance (August): -US$3,902.2 million; Banorte: -US$1,064.7mn; consensus: -US$1,084.7mn (range: -US$2,679.0mn to -US$100.0mn); previous: -US$4,062.9mn**
- **The balance showed a considerable deficit for a second month in a row, situation which had not happened since May 2020. In annual terms, exports (9.0%) grew less than imports (43.3%) once again, with heavy skews from base effects still in play**
- **With seasonally adjusted figures, exports plummeted 4.6% m/m. Oil-related goods plunged 6.0%. In addition, weakness was also seen in non-oil, down 4.5%. This decline was driven by manufacturing (-5.0%), both in autos and 'other'**
- **Imports fell 3.4%, albeit not enough to erase gains from the previous month. Oil climbed 0.2%. Meanwhile, in non-oil all three categories were lower, highlight the decline in consumption (-5.7%) and intermediate goods (-3.7%)**
- **Today's report suggests that activity remained in a difficult environment during the month, with COVID-19 still affecting supply chains. It also points to a moderation in domestic demand, subtracting some dynamism to GDP in 2H21**

US$3,902.2 million deficit in August. This was much lower than both consensus (-US$1,084.7mn) and our -US$1,064.7 million estimate. This represents a substantial deficit for a second month in a row, a situation which had not been seen since April-May of 2020, during the first lockdown. In annual terms, exports (9.0%) grew less than imports (43.3%) once again, as seen in Chart 1. We should remember that the recovery in 2020 was quite heterogeneous, resulting in a much faster comeback from exports than for imports, helping explain this large difference. However, and considering historical patterns, August tends to show deficits, likely related to distortions from the *summer* holiday period. Regarding the former, oil exports remain high at 53.0% y/y, still boosted by the rise of the Mexican oil mix (+59.7%). Non-oil stood at 6.9%, with mining (23.6%) and agricultural (20.4%) being quite strong. Nevertheless, manufacturing rose only 6.1%, limited by the 11.8% contraction in autos, which was the only category in negative territory for a second month in a row. On imports, oil rose 113.5% and non-oil by 37.5%. Within the latter, both intermediate (38.6%) and consumption goods (34.6%) were lower, with capital goods higher at the margin (31.2%). Details are presented in Table 1. The trade balance accumulated a US$12.9 billion surplus in the last twelve months, with a US$21.1bn deficit in oil and a US$34.1bn surplus in non-oil (see Chart 2).

Weakness across the board suggests that challenges related to the pandemic continue. In our view, sequential results continue to be more important to assess progress on the recovery. In this sense, the month was rather weak, especially for exports (-4.6% m/m), albeit with imports also lower (-3.4%), as seen in Table 2.

Document for distribution among the general public

In our view, the main culprit continues to be the pandemic, especially the recent uptick at a global scale which has resulted in additional lockdowns –mainly in China and other Asian countries–, having a compounded effect on already strained supply chains.

The oil sector is somewhat mixed, with weaker outflows (-6.0%) than inflows (+0.2%). On exports, we believe that the recent accident in a platform in the *Ku-Maloob-Zaap* field helps explain the decline. According to reports from Pemex, production was affected between August 22nd and the 30th, with an impact of around 1.6 million barrels of oil production being lost in the period. In addition, there was a slight impact from a sequential decrease in oil prices, with the Mexican oil mix coming in at 64.3 US$/bbl from 68.5 in July. On imports, performance was mixed, with consumption goods lower by 8.0%, consistent with signals of a decline in volumes and marginally lower prices. On the contrary, intermediate rose 3.9%.

Non-oil exports plunged 4.5%. On the positive side were mining (+1.6%) and agricultural goods (3.4%), both rebounding after declines in July. We believe that drivers for these sectors remain high commodities prices and the drought in southwestern states in the US, respectively. Meanwhile, and more concerning, manufacturing fell 5.0%, more than erasing gains from the previous month. Losses were seen in both autos (-4.7%) and 'other' (-5.1%). The impact on the former happened despite some positive signals in the US along comments from automakers suggesting that some of the issues regarding chips were starting to moderate. On the latter, additional delays on inputs (as detailed below) could continue having a toll, despite still strong demand from abroad, as suggested by different surveys (*e.g.* Markit, ISM). Non-oil imports declined 3.8%, not enough to reverse +4.8% seen in July. Inside, consumption goods were the weakest at -5.7%, possibly related to increased caution as COVID-19 cases reached new highs during the period. Meanwhile, intermediate goods also took a tumble at -3.7%, not ruling out an impact from recent port shutdowns in China due to virus outbreaks, along other supply pitfalls. Lastly, capital goods declined 2.5%, modest vs. the +5.0% from the previous month. However, considering accumulated declines since before the pandemic, we remain somewhat downbeat on this sector.

Risks to trade flows remain due to COVID-19, increasing uncertainty about performance ahead. In our view, the report reflects that the economy remains highly tied to the virus outlook, with 'waves' of new cases still impacting performance. While the effects seem more modest than previously –given that we have grown accustomed to living with the virus, along progress on vaccinations worldwide– they still result, in the best of cases, in a moderation of activity. At the worst, they lead to contractions. The latter is especially clear with actions taken by China, in which at the first signs of an outbreak they undertake lockdowns and other actions. In turn, these have a snowball effect, further compounding the impact on already strained supply chains. So far, analyzing flows from the Asian country to Mexico, the effect has not yet been fully reflected. However, we will remain on the look about this possibility considering recent market turmoil due to concerns over the financial situation of Evergrande, the second largest real estate company in that country.

Turning to more local issues, President López Obrador asked protestors in recent weeks to lift railway blockades in Michoacán as these are having a substantial economic impact. We should remember that this problem has been going on and off for close to two and a half years. Moreover, consultations on the rules of origin for the auto sector under USMCA continue, albeit with no relevant progress yet. Some reports also stated that the United Kingdom is looking to integrate to this trade agreement as part of the renewal of its trade policy after Brexit. On a more positive note, high level talks on economic integration were held between Mexico and the US, with a delegation of top Mexican diplomats meeting with Vice President Harris earlier in the month. The results of this summit seem to be favorable, possibly strengthening the relationship between the two countries.

Turning to the oil sector, no relevant accidents have been reported since the one detailed above. Nevertheless, we believe operational challenges for Pemex remain. These could be further stressed by hurricanes which have struck the Gulf coast, with expectations that these will extend through October and November, similar to last year.

Analyzing imports, early signals are starting to appear pointing to weakness in domestic demand, especially when looking at consumption. This is consistent with other signs of moderation, despite fundamentals seemingly gathering strength. In this sense, we are careful to see if this is responding to heightened uncertainty to the latest COVID-19 wave, or if it is a result of some other factors. In any case, it does imply some risks for GDP in 2H21.

Table 1: Trade balance
% y/y nsa

	Aug-21	Aug-20	Jan-Aug'**21**	Jan-Aug'**20**
Total exports	9.0	-7.6	24.3	-16.7
Oil	53.0	-12.2	63.0	-38.0
Crude oil	52.0	-13.1	65.3	-40.6
Others	59.6	-6.6	51.5	-20.1
Non-oil	6.9	-7.4	22.6	-15.4
Agricultural	20.4	0.0	6.5	2.5
Mining	23.6	41.7	43.8	10.1
Manufacturing	6.1	-8.3	23.0	-16.6
Vehicle and auto-parts	-11.8	-11.9	28.4	-28.0
Others	16.2	-6.1	20.6	-10.1
Total imports	43.3	-22.2	34.5	-20.8
Consumption goods	43.9	-29.4	35.2	-28.0
Oil	76.5	-42.9	39.7	-39.2
Non-oil	34.6	-24.4	33.6	-23.3
Intermediate goods	44.5	-20.4	36.0	-19.5
Oil	133.0	-35.1	85.9	-35.9
Non-oil	38.6	-19.2	32.2	-17.9
Capital goods	31.2	-27.1	20.6	-21.6

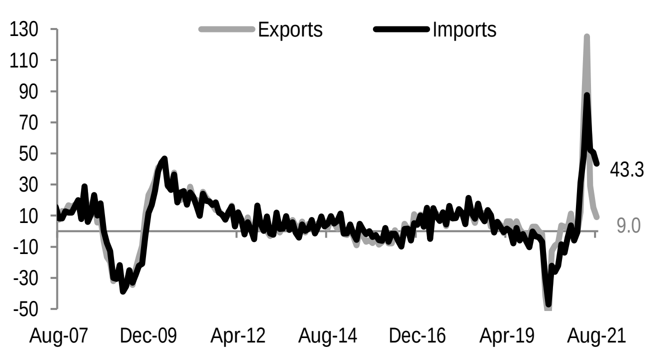
Source: INEGI

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

	% m/m			% 3m/3m	
	Aug-21	Jul-21	Jun-21	Jun-Aug'**21**	May-Jul'**21**
Total exports	-4.6	1.6	-0.3	0.3	3.3
Oil	-6.0	3.1	18.7	18.8	19.7
Crude oil	-4.5	1.3	17.4	21.2	23.2
Others	-14.4	13.8	27.4	6.8	2.3
Non-oil	-4.5	1.5	-1.4	-0.8	2.4
Agricultural	3.4	-4.2	3.4	5.1	5.3
Mining	1.6	-7.5	18.8	18.0	15.5
Manufacturing	-5.0	2.1	-2.1	-1.5	2.0
Vehicle and auto-parts	-4.7	-4.7	-8.6	-8.2	0.9
Others	-5.1	5.3	1.4	1.9	2.5
Total imports	-3.4	5.2	0.9	2.7	6.2
Consumption goods	-6.3	0.2	0.3	6.4	16.8
Oil	-8.0	3.3	1.7	17.4	39.5
Non-oil	-5.7	-0.9	-0.2	2.8	10.2
Intermediate goods	-3.0	6.0	1.6	2.7	5.3
Oil	3.9	10.5	4.4	-7.4	-6.4
Non-oil	-3.7	5.6	1.3	3.9	6.6
Capital goods	-2.5	5.0	-4.7	-2.3	0.5

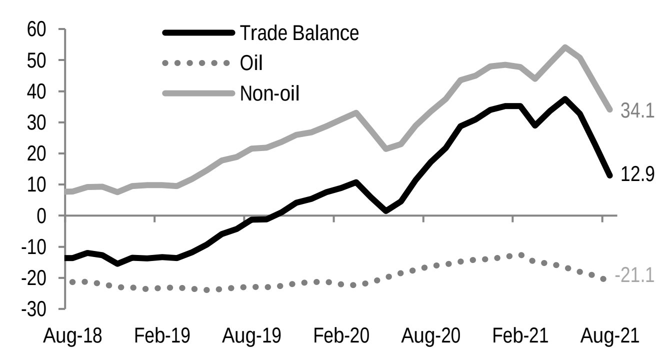
Source: INEGI

Chart 1: Exports and imports
% y/y nsa



Source: INEGI

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



Source: INEGI

Analyst Certification

We, Alejandro Padilla Santana, Delia María Paredes Mier, Juan Carlos Alderete Macal, Manuel Jiménez Zaldívar, Marissa Garza Ostos, Francisco José Flores Serrano, Katia Celina Goya Ostos, Santiago Leal Singer, José Itzamna Espitia Hernández, Alik Daniel García Alvarez, Víctor Hugo Cortes Castro, Hugo Armando Gómez Solís, Miguel Alejandro Calvo Domínguez, Luis Leopoldo López Salinas, Leslie Thalía Orozco Vélez, Gerardo Daniel Valle Trujillo and Juan Barbier Arizmendi, certify that the points of view expressed in this document are a faithful reflection of our personal opinion on the company (s) or firm (s) within this report, along with its affiliates and/or securities issued. Moreover, we also state that we have not received, nor receive, or will receive compensation other than that of Grupo Financiero Banorte S.A.B. of C.V for the provision of our services.

Relevant statements.

In accordance with current laws and internal procedures manuals, analysts are allowed to hold long or short positions in shares or securities issued by companies that are listed on the Mexican Stock Exchange and may be the subject of this report; nonetheless, equity analysts have to adhere to certain rules that regulate their participation in the market in order to prevent, among other things, the use of private information for their benefit and to avoid conflicts of interest. Analysts shall refrain from investing and holding transactions with securities or derivative instruments directly or through an intermediary person, with Securities subject to research reports, from 30 calendar days prior to the issuance date of the report in question, and up to 10 calendar days after its distribution date.

Compensation of Analysts.

Analysts' compensation is based on activities and services that are aimed at benefiting the investment clients of Casa de Bolsa Banorte and its subsidiaries. Such compensation is determined based on the general profitability of the Brokerage House and the Financial Group and on the individual performance of each analyst. However, investors should note that analysts do not receive direct payment or compensation for any specific transaction in investment banking or in other business areas.

Last-twelve-month activities of the business areas.

Grupo Financiero Banorte S.A.B. de C.V., *through its business areas, provides services that include, among others, those corresponding to investment banking and corporate banking, to a large number of companies in Mexico and abroad. It may have provided, is providing or, in the future, will provide a service such as those mentioned to the companies or firms that are the subject of this report. Casa de Bolsa Banorte or its affiliates receive compensation from such corporations in consideration of the aforementioned services.*

Over the course of the last twelve months, Grupo Financiero Banorte S.A.B. C.V., has not obtained compensation for services rendered by the investment bank or by any of its other business areas of the following companies or their subsidiaries, some of which could be analyzed within this report.

Activities of the business areas during the next three months.

Casa de Bolsa Banorte, Grupo Financiero Banorte or its subsidiaries expect to receive or intend to obtain revenue from the services provided by investment banking or any other of its business areas, by issuers or their subsidiaries, some of which could be analyzed in this report.

Securities holdings and other disclosures.

As of the end of last quarter, Grupo Financiero Banorte S.A.B. of C.V. has not held investments, directly or indirectly, in securities or derivative financial instruments, whose underlying securities are the subject of recommendations, representing 1% or more of its investment portfolio of outstanding securities or 1 % of the issuance or underlying of the securities issued.

None of the members of the Board of Grupo Financiero Banorte and Casa de Bolsa Banorte, along general managers and executives of an immediately below level, have any charges in the issuers that may be analyzed in this document.

The Analysts of Grupo Financiero Banorte S.A.B. of C.V. do not maintain direct investments or through an intermediary person, in the securities or derivative instruments object of this analysis report.

Guide for investment recommendations.

	Reference
BUY	When the share expected performance is greater than the MEXBOL estimated performance.
HOLD	When the share expected performance is similar to the MEXBOL estimated performance.
SELL	When the share expected performance is lower than the MEXBOL estimated performance.

Even though this document offers a general criterion of investment, we urge readers to seek advice from their own Consultants or Financial Advisors, in order to consider whether any of the values mentioned in this report are in line with their investment goals, risk and financial position.

Determination of Target Prices

For the calculation of estimated target prices for securities, analysts use a combination of methodologies generally accepted among financial analysts, including, but not limited to, multiples analysis, discounted cash flows, sum-of-the-parts or any other method that could be applicable in each specific case according to the current regulation. No guarantee can be given that the target prices calculated for the securities will be achieved by the analysts of Grupo Financiero Banorte S.A.B. C.V, since this depends on a large number of various endogenous and exogenous factors that affect the performance of the issuing company, the environment in which it performs, along with the influence of trends of the stock market, in which it is listed. Moreover, the investor must consider that the price of the securities or instruments can fluctuate against their interest and cause the partial and even total loss of the invested capital.

The information contained hereby has been obtained from sources that we consider to be reliable, but we make no representation as to its accuracy or completeness. The information, estimations and recommendations included in this document are valid as of the issue date, but are subject to modifications and changes without prior notice; Grupo Financiero Banorte S.A.B. of C.V. does not commit to communicate the changes and also to keep the content of this document updated. Grupo Financiero Banorte S.A.B. of C.V. takes no responsibility for any loss arising from the use of this report or its content. This document may not be photocopied, quoted, disclosed, used, or reproduced in whole or in part without prior written authorization from Grupo Financiero Banorte S.A.B. of C.V.

GRUPO FINANCIERO BANORTE S.A.B. de C.V.

Research and Strategy			
Alejandro Padilla Santana	Chief Economist and Head of Research	alejandro.padilla@banorte.com	(55) 1103 - 4043
Raquel Vázquez Godinez	Assistant	raquel.vazquez@banorte.com	(55) 1670 - 2967
Itzel Martínez Rojas	Analyst	itzel.martinez.rojas@banorte.com	(55) 1670 - 2251
Lourdes Calvo Fernández	Analyst (Edition)	lourdes.calvo@banorte.com	(55) 1103 - 4000 x 2611
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
Alik Daniel García Alvarez	Senior Strategist, Equity	alik.garcia.alvarez@banorte.com	(55) 1670 – 2250
Víctor Hugo Cortes Castro	Senior Strategist, Technical	victorh.cortes@banorte.com	(55) 1670 - 1800
Juan Barbier Arizmendi, CFA	Analyst	juan.barbier@banorte.com	(55) 1670 - 1746
Corporate Debt			
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	(55) 1670 - 1889
Alejandro Aguilar Ceballos	Head of Asset Management	alejandro.aguilar.ceballos@banorte.com	(55) 5004 - 1282
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 - 5140
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) 8173 - 9127
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) 5249 - 6423
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) 5004 - 1051
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) 1670 - 1899