Trade balance – Adjusting lower our 3Q21 GDP forecast after September's data

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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

- **Trade balance (September): -US$2,398.4 million; Banorte: -US$3,028.8mn; consensus: -US$2,822.0mn (range: -US$8,000mn to -US$1,200mn); previous: -US$3,902.2mn**
- **The balance showed a deficit again, in our view mostly related to the effects of supply chain problems. In annual terms, exports grew 8.1% and imports 29.1%, with base effects still playing an important role**
- **With seasonally adjusted figures, exports picked up 3.0% m/m. Specifically, oil-related goods remained weak at -1.4% with non-oil at +3.3%. In the latter, the auto sector rebounded (6.0%) after three months of steep declines**
- **Imports stringed a second sequential decline (-0.5%). Oil was the driver for this, down 7.5%. In non-oil (0.4%), we highlight the rebound of 1.1% in capital goods although with marginal increases in consumption (+0.4%) and intermediate (+0.3%) which could be a tentative sign of a recovery in domestic dynamism in the period**
- **August's IGAE and today's results suggest a more meaningful slowdown of GDP in the third quarter. Hence, we adjust lower our 3Q21 GDP forecast to 0.1% q/q (5.4% y/y) from a previous estimate of 0.6%**

US$2,398.4 million deficit in September. This was more modest than consensus (-US$2,822.0mn) and our -US$3,028.8 million estimate. Moreover, it is a third consecutive deficit, in our view mostly related to the effects of supply chain disruptions. In annual terms, exports (8.1%) are still growing less than imports (29.1%) as seen in Chart 1. In turn, this remains influenced by base effects. On the former, oil exports accelerated at the margin to 64.2% y/y, still helped by higher Mexican oil mix prices (+79.8%). This helped compensate for signals of stability in volumes. Non-oil keeps showing rose 5.9% after the 6.9% of the previous month given a more challenging base. Agricultural (3.3%) and mining (2.7%), with manufacturing more stable (6.0%). Inside the latter, the auto sector remained weak (-10.0%), with 'others' (14.9%) pushing the sector. In imports, oil stayed high (83.8%). Non-oil grew 24.7%. In these, the three categories were lower at the margin. Details are presented in Table 1. The trade balance accumulated a US$6.1 billion surplus in the last twelve months, with a US$22.3bn deficit in oil and a US$28.5bn surplus in non-oil (see Chart 2).

Modest sequential rebound as supply issues persist. Total exports grew by 3.0% m/m, with imports lower at the margin at -0.5%. Despite of this, flows remain limited due to COVID-19 and related challenges in supply chains, including the lack of key inputs, high transportation costs and other bottlenecks. To this we must add that these figures are in nominal terms, so they are likely skewed to the upside due to the increase in global inflationary pressures.

In the oil sector, shipments abroad declined 1.4%, despite a favorable base effect in both categories recalling the production problems following a fire at the *Ku-Maloob-Zaap* oil platform by the end of August. On the other hand, we do not rule out some impact related to weather conditions, especially because of tropical storms and hurricanes. Imports stood at -7.5% (see Table 2), breaking with four consecutive months in positive territory. Specifically, intermediate goods fell more (-9.7%), which could be related also to supply chain issues. Meanwhile, consumption declined 2.1%, which is consistent with reports of higher refinery output by Pemex.

Non-oil exports grew 3.3%. This came after a 4.5% contraction in the previous month. In this respect, manufacturing picked up 4.1%, with increases in both components. Autos rebounded 6.0%, albeit only after strong losses in the previous three months. Overall, performance suggests that output remains limited, which is in line with AMIA data, which contracted 24.2% y/y in shipments. The lack of semiconductors remains an important issue, with companies such as Audi, GM, Nissan and several of their suppliers announcing new technical stoppages. These difficulties were also clear for the sector in the US. Meanwhile, 'others' grew 3.3%, also benefitted by a base effect and at the margin showing greater resiliency. Agricultural goods grew 3.2%, possibly aided by prices which remain as a support despite signs of an impact to production. Meanwhile, non-oil mining backtracked 28.4%, showing high volatility in the last few months. In imports, intermediate goods also improved at the margin (0.3%), following the performance in manufacturing. We also see this in consumption (0.4%), while capital goods stood at 1.1%. In our view, the latter two still suggest more modest domestic demand.

Uncertainty about trade remains elevated, dampening Mexico's growth outlook. We think the report was favorable at the margin, especially in terms of strength in external demand. However, we should mention that sequential growth was distorted by base effects. In this sense, we remain cautious despite still seeing an improvement in 4Q21. In the US, the PMI manufacturing for October stood at 59.2pts, decelerating for a third consecutive month albeit still firmly in expansion. The report keeps stating that there was a new record in backlogs, with firms struggling to meet strong demand. Problems include supply issues, labor shortages, logistical issues and higher commodity prices, all pressuring input costs. Although production is still growing, it did so at the softest rate since July 2020. Given these problems, we highlight two recent –and potentially positive– developments: (1) The Biden administration announced on October 13th that the port of Los Angeles would move to 24/7 operations, following the example of Long Beach after reaching a new record high in terms of backlogs; and (2) the US will reopen its land borders with Mexico and Canada for nonessential travel to fully vaccinated people on November 8th, with these restrictions in place since March 2020. In our view, the latter may help reduce labor shortages. On the other hand, China has maintained strict lockdown policies when higher COVID-19 cases are identified, recently announcing restrictions in northern China as the 'delta' variant spreads. Given these harsh policies, further problems in trade are likely. This also comes on top of an energy crunch that has affected factories and operations in key ports, such as Guangdong.

Due to the high complexity of global supply chains, experts say that these problems will probably take time to be resolved and bottlenecks will persist at least until next year.

Considering this backdrop, we believe a key test will be the dynamism of trade as soon as October, when companies start preparing for higher sales during the holiday season. In Mexico, manufacturing exports and non-oil consumption goods imports are typically highest (in absolute terms) during this period. Currently, global concerns have been on the rise that demand from the Christmas season demand may not be fully satisfied because of supply problems, which in turn may result in limited growth in volumes but even higher prices.

Apart from this, we also flag that higher commodity prices (especially energy) may lift growth rates in the trade balance but would not translate into real GDP. In terms of exports, this includes the Mexican oil mix which reached 79.22 US$/bbl yesterday, a new high since September 2014. Nevertheless, in terms of imports, the prices of gasoline and gas, among other key products, have also increased strongly. As a result, the net effect in the oil trade balance may be more limited, albeit with higher noise in terms of the signal provided for growth and dynamism in volumes ahead.

We adjust lower our 3Q21 GDP forecast to 0.1% q/q (5.4% y/y) from a previous estimate of 0.6%. Broadly speaking, we are careful into reading too much to these figures in terms of their implications for growth, especially as they are distorted by price pressures. Nevertheless, after August's IGAE and this report, we move our call for the third quarter. Specifically, we now anticipate a more meaningful slowdown of GDP, to 0.1% q/q (5.4% y/y). Our previous call was at 0.6% q/q and 6.4%y/y. Moreover, this situation and other headwinds –both locally and abroad– suggest that risks to the downside for full-year 2021 growth have risen again. Therefore, we will watch the preliminary GDP that will be released on Friday carefully to assess its potential implications for growth and the outlook into next year.

Table 1: Trade balance
% y/y nsa

	Sep-21	Sep-20	Jan-Sep'**21**	Jan-Sep'**20**
Total exports	8.1	3.7	22.2	-14.5
Oil	64.2	-21.7	63.2	-36.5
Crude oil	68.0	-28.5	65.6	-39.5
Others	50.0	22.4	51.3	-15.8
Non-oil	5.9	5.0	20.4	-13.2
Agricultural	3.3	19.4	6.2	3.8
Mining	2.7	25.4	39.0	11.7
Manufacturing	6.0	4.3	20.7	-14.3
Vehicle and auto-parts	-10.0	0.1	22.7	-24.8
Others	14.9	6.8	19.8	-8.3
Total imports	29.1	-8.5	33.8	-19.4
Consumption goods	35.9	-19.0	35.3	-27.0
Oil	73.3	-29.2	43.2	-38.3
Non-oil	26.3	-15.8	32.7	-22.4
Intermediate goods	28.5	-5.9	35.0	-18.0
Oil	88.8	-26.5	86.3	-35.0
Non-oil	24.5	-4.1	31.3	-16.4
Capital goods	24.6	-16.0	21.1	-21.0

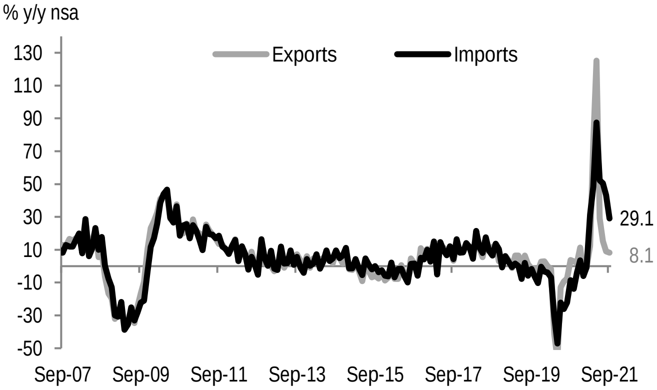
Source: INEGI

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

	% m/m			% 3m/3m	
	Sep-21	Aug-21	Jul-21	Jul-Sep'**21**	Jun-Aug21
Total exports	3.0	-4.6	1.6	-0.2	0.2
Oil	-1.4	-6.4	3.0	9.4	18.2
Crude oil	-5.1	-5.0	1.1	7.5	20.2
Others	20.7	-14.0	14.7	20.5	8.3
Non-oil	3.3	-4.5	1.5	-0.8	-0.9
Agricultural	3.2	3.4	-3.8	3.9	5.5
Mining	-28.4	1.4	-7.8	-0.3	17.0
Manufacturing	4.1	-5.0	2.0	-1.0	-1.5
Vehicle and auto-parts	6.0	-4.9	-4.9	-10.4	-8.4
Others	3.3	-5.0	5.3	3.7	1.9
Total imports	-0.5	-3.5	5.2	4.4	2.6
Consumption goods	-0.3	-5.8	0.3	0.7	6.6
Oil	-2.1	-7.3	3.5	4.8	18.2
Non-oil	0.4	-5.3	-0.9	-0.7	2.8
Intermediate goods	-0.7	-3.2	6.0	5.3	2.5
Oil	-9.7	3.7	9.7	16.5	-8.0
Non-oil	0.3	-3.9	5.7	4.2	3.7
Capital goods	1.1	-2.5	5.1	1.3	-2.2

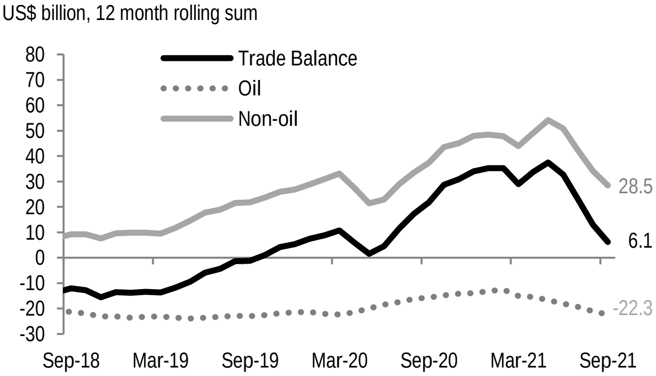
Source: INEGI

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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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