Trade balance – Lower exports in February suggest some caution

March 27, 2023

www.banorte.com
@analisis_fundam

Juan Carlos Alderete Macal, CFA
Executive Director of Economic Research and Financial Markets Strategy
juan.alderete.macal@banorte.com

Francisco José Flores Serrano
Director of Economic Research, Mexico
francisco.flores.serrano@banorte.com

Yazmín Selene Pérez Enríquez
Senior Economist, Mexico
yazmin.perez.enriquez@banorte.com

Cintia Gisela Nava Roa
Senior Economist, Mexico
cintia.nava.roa@banorte.com

- **Trade balance (February): -US$1,844.4 million; Banorte: US$1,520.3 mn; consensus: US$1,094.5mn (range: -US$3,900.0mn to US$2,121.0mn); previous: -US$4,125.1mn**
- **Annual growth rates moderated for both exports and imports, with the former negative for the first time in 15 months. While this is partly due to more normalized base effects and a moderation in prices, we believe it could also be reflecting slightly lower dynamism**
- **With seasonally adjusted figures, exports fell 5.8% m/m. Oil-related goods decreased 12.6%, with non-oil down 5.4%. In the latter, we highlight manufacturing at -6.0%, dragged by autos**
- **Imports declined 0.2% m/m after gains in the previous two months. Oil-related goods fell 6.1%, with non-oil at +0.6%. Inside the latter, both intermediate (0.7%) and capital goods (6.5%) were stronger**
- **We expect trade to remain resilient in coming months, with signs of external demand strength. Nevertheless, we stay relatively cautious as the reversal of distortions from the normalization in prices could keep skewing figures lower**

US$1,844.4 million deficit in February. This was significantly lower than both consensus and our estimate, with both seeing a surplus. This contrasts with the period's seasonality, with the usual slowdown in imports indeed in play –due to the *Lunar New Year* impacting Chinese activity–, but with exports surprising lower. Annual rates decelerated, with exports and imports at -2.8% and 4.1%, respectively (Chart 1). In our view, difficult base effects and the normalization in prices played a role on this. Nevertheless, it likely reflected also slightly lower dynamism. For details, see Table 1. As a result, the trade balance accumulated a US$27.4 billion deficit in the last twelve months, with oil at -US$36.7 billion and a US$9.3 billion surplus in non-oil (see Chart 2).

Moderation in flows warrants some caution, albeit with price disruptions skewing figures down. Exports fell 5.8% m/m, erasing the 4.6% gain of the previous month. Both sectors were weaker, with oil down 12.6% and non-oil at -5.4%. Imports were more modest at -0.2%, dragged by oil (-6.1%), but with non-oil leaning positive at +0.6% (Table 2). In broad terms, we think these results suggest some caution, particularly exports. Nevertheless, we should consider that figures are expressed in nominal terms, so price disruptions –now to the downside– continue affecting flows.

In the oil sector, the price of the Mexican oil mix edged down, with volumes also likely lower. On imports, we believe demand remains relatively resilient, as reflected in consumption goods (+1.6%). However, prices were also lower across the board –in gasolines and LP & natural gas–, evidenced by intermediate items (-9.7%).

Within non-oil, exports fell -5.4%, with weakness centered in manufacturing (-6.0%). Inside the latter, autos plunged 16.0%, contrasting with favorable data from AMIA exports. 'Others' declined 0.5%, in our view with some support from US industrial production resilience. Meanwhile, both agriculture (5.6%) and non-oil mining (2.8%) increased, albeit only after relevant contractions in January. For imports (-0.2%), the MXN appreciated further in the period, which may have helped flows. Nevertheless, we remain wary about distortions stemming from the *Lunar New Year* in China, as well as additional price adjustments. Looking at the breakdown, we saw strength in capital goods at 6.5%, likely supported by ongoing nearshoring efforts, while intermediate goods edged up 0.7%, helping ease some concerns. On the contrary, consumption goods declined 5.2%, albeit after surging 19.3% in the previous month.

Resilience to prevail in coming months, albeit with caution given the likely reversal of previous distortions. We believe the outlook for trade has become more uncertain, with higher financial market volatility due to US and European banking sector jitters. Nevertheless, some resilience could prevail on the back of a ramp-up in Chinese output after the *Lunar New Year* and the end of the COVID-zero policy late last year. In this context, we saw a notable improvement in the New York Fed's *Global Supply Chain Pressure Index* in February, moving below its long-term average –which would indicate no pressures– for the first time since the pandemic started. However, it might be too soon to call for victory as shipping costs picked up again in March according to several indicators, a situation that may well pressure this index once again.

On US timely data, *S&P Global's* PMIs strengthened in the third month of the year. Gains centered in services (up to 53.8pts), but manufacturing also improved (to 49.3pts). We expect this to have had a positive spillover domestically. In our country, fundamentals have kept giving good signals that we believe impacted consumption positively. In addition, nearshoring will likely remain as a driver for capital goods imports, with projects close to being completed likely the main recipients of these flows.

On the medium-term, the situation surrounding the banking sector abroad has pushed recession expectations higher. Coupled with additional tightening by global central banks, this implies additional hurdles for activity. The latter, along with uncertainty on price dynamics could keep affecting global supply chains. Another possible headwind is MXN. Although positive for imports –cheapening them in local currency–, it does subtract some of the competitive edge for exports. Nevertheless, with a significant share of export-oriented companies trading exclusively in USD, the effect is more limited.

All in all, we keep seeing external demand as positive for GDP in 2023, albeit likely not the main driver considering risks ahead. Nevertheless, we maintain a rather favorable outlook for the medium-term as nearshoring results in higher dividends in terms of export performance.

Table 1: Trade balance
% y/y nsa

	Feb-23	Feb-22	Jan-**Feb'23**	Jan-**Feb'22**
Total exports	-2.8	27.7	9.2	16.3
Oil	-19.2	51.2	-6.0	43.9
Crude oil	-17.3	39.6	-7.6	33.5
Others	-26.8	127.6	0.8	113.5
Non-oil	-1.8	26.4	10.3	14.7
Agricultural	11.5	4.5	10.7	7.9
Mining	-11.6	24.6	-3.2	5.9
Manufacturing	-2.2	27.7	10.6	15.3
Vehicle and auto-parts	-7.9	31.8	18.8	6.2
Others	1.0	25.6	6.6	20.2
Total imports	4.1	34.2	9.8	26.3
Consumption goods	15.8	39.9	23.0	36.0
Oil	22.8	65.5	21.9	68.4
Non-oil	13.5	33.1	23.4	27.2
Intermediate goods	0.1	35.8	6.3	26.2
Oil	8.5	40.8	14.5	44.4
Non-oil	-0.6	35.3	5.5	24.6
Capital goods	28.4	12.6	24.0	14.5

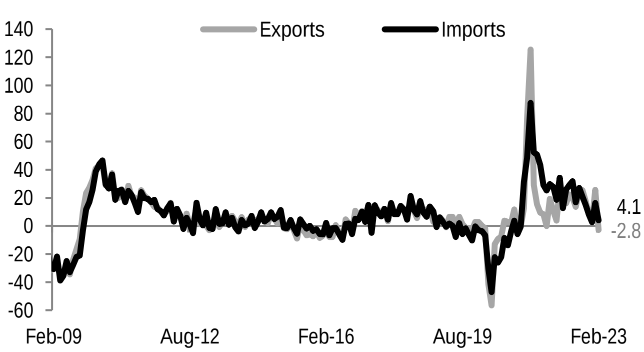
Source: INEGI

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

	% m/m			% 3m/3m	
	Feb-23	Jan-23	Dec-22	**Dec'22**-Feb'**2**3	**Nov'22**-Jan'**2**3
Total exports	-5.8	4.6	-0.5	-2.5	-2.4
Oil	-12.6	1.9	11.8	-5.5	-11.3
Crude oil	-8.4	11.2	-9.1	-14.0	-14.4
Others	-27.4	-21.4	162.5	39.9	2.1
Non-oil	-5.4	4.7	-1.1	-2.3	-1.9
Agricultural	5.6	-5.4	6.6	7.3	1.6
Mining	2.8	-7.8	8.3	9.2	14.2
Manufacturing	-6.0	5.4	-1.6	-2.9	-2.2
Vehicle and auto-parts	-16.0	11.2	-1.6	-3.0	-0.8
Others	-0.5	2.5	-1.6	-2.8	-3.0
Total imports	-0.2	2.6	2.6	0.3	-3.9
Consumption goods	-3.4	20.4	5.3	8.6	-4.5
Oil	1.6	23.6	21.3	13.9	-16.6
Non-oil	-5.2	19.3	0.8	6.9	0.2
Intermediate goods	-0.3	0.1	2.0	-1.5	-4.2
Oil	-9.7	8.4	7.3	-5.6	-14.7
Non-oil	0.7	-0.8	1.5	-1.1	-2.9
Capital goods	6.5	0.0	4.6	4.8	0.4

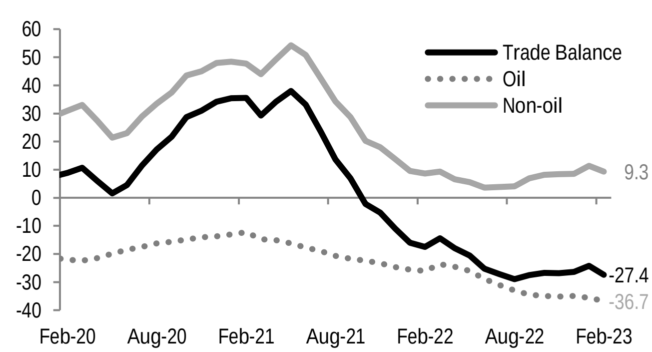
Source: INEGI

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, Juan Carlos Alderete Macal, Alejandro Cervantes Llamas, Manuel Jiménez Zaldívar, Marissa Garza Ostos, Katia Celina Goya Ostos, Francisco José Flores Serrano, José Luis García Casales, Víctor Hugo Cortes Castro, José Itzamna Espitia Hernández, Carlos Hernández García, Leslie Thalía Orozco Vélez, Hugo Armando Gómez Solís, Yazmín Selene Pérez Enríquez, Cintia Gisela Nava Roa, Miguel Alejandro Calvo Domínguez, José De Jesús Ramírez Martínez, Gerardo Daniel Valle Trujillo, Luis Leopoldo López Salinas, Isaías Rodríguez Sobrino, Paola Soto Leal, Daniel Sebastián Sosa Aguilar and Andrea Muñoz Sánchez, 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.

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
María Fernanda Vargas Santoyo	Analyst	maria.vargas.santoyo@banorte.com	(55) 1103 - 4000
Economic Research			
Juan Carlos Alderete Macal, CFA	Executive Director of Economic Research and Financial Markets Strategy	juan.alderete.macal@banorte.com	(55) 1103 - 4046
Francisco José Flores Serrano	Director of Economic Research, Mexico	francisco.flores.serrano@banorte.com	(55) 1670 - 2957
Katia Celina Goya Ostos	Director of Economic Research, Global	katia.goya@banorte.com	(55) 1670 - 1821
Yazmín Selene Pérez Enríquez	Senior Economist, Mexico	yazmin.perez.enriquez@banorte.com	(55) 5268 - 1694
Cintia Gisela Nava Roa	Senior Economist, Mexico	cintia.nava.roa@banorte.com	(55) 1103 - 4000
Luis Leopoldo López Salinas	Manager Global Economist	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			
Leslie Thalía Orozco Vélez	Senior Strategist, Fixed Income and FX	leslie.orozco.velez@banorte.com	(55) 5268 - 1698
Isaías Rodríguez Sobrino	Strategist, Fixed Income, FX and Commodities	isaias.rodriguez.sobrino@banorte.com	(55) 1670 - 2144
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
Carlos Hernández García	Senior Strategist, Equity	carlos.hernandez.garcia@banorte.com	(55) 1670 - 2250
Víctor Hugo Cortes Castro	Senior Strategist, Technical	victorh.cortes@banorte.com	(55) 1670 - 1800
Paola Soto Leal	Strategist, Equity	paola.soto.leal@banorte.com	(55) 1103 - 4000 x 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
Quantitative Analysis			
Alejandro Cervantes Llamas	Executive Director of Quantitative Analysis	alejandro.cervantes@banorte.com	(55) 1670 - 2972
José Luis García Casales	Director of Quantitative Analysis	jose.garcia.casales@banorte.com	(55) 8510 - 4608
Miguel Alejandro Calvo Domínguez	Senior Analyst, Quantitative Analysis	miguel.calvo@banorte.com	(55) 1670 - 2220
José De Jesús Ramírez Martínez	Senior Analyst, Quantitative Analysis	jose.ramirez.martinez@banorte.com	(55) 1103 - 4000
Daniel Sebastián Sosa Aguilar	Analyst, Quantitative Analysis	daniel.sosa@banorte.com	(55) 1103 - 4000
Andrea Muñoz Sánchez	Analyst, Quantitative Analysis	andrea.munoz.sanchez@banorte.com	(55) 1103 - 4000
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