Economic and Financial Markets Research
Economic Research, Mexico

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Trade balance – Surprising surplus in May on exports' outperformance

- **Trade balance (May): US$1,991.2 million; Banorte: -US$1,981.3mn; consensus: -US$2,089.5mn (range: -US$2,700.0mn to US$163.0mn); previous: -US$3,746.2mn**
- **Exports and imports remained positive in the annual comparison at 5.4% and 1.4%, respectively. Flows were defined by MXN strength, resilience in external demand, and the boost from domestic spending, among other factors**
- **With seasonally adjusted figures, exports grew 4.4% m/m, offsetting the -2.4% from the previous month. The oil component was positive at 38.3% –breaking with two consecutive declines. Non-oil came in at +2.9%, highlighting manufacturing at +3.0%**
- **Imports declined for a third time in a row at -1.6%. Both oil (-1.3%) and non-oil (-1.6%) contracted. All categories in the latter were lower, noting consumption (-3.1%) and capital goods (-1.6%)**
- **Going forward, we believe dynamism in sectors such as autos and agroindustry will support trade flows. However, we will look closely at oil price dynamics in the short-term, as well as possible disruptions from China –due to a lack of containers–, and in Northern Mexico –due to tropical storm *Alberto*–**

Surplus of US$1,991.2 million in May, surprising higher. Trade flows benefited from fewer disruptions both globally and regionally, favoring commerce. Moreover, conditions in our country were similar to those in previous months, although with seasonal factors left behind. Thus, we highlight several specifics during the period, such as: (1) A slight moderation in oil prices vs April, but still relatively high compared to the previous year, with the Mexican oil mix averaging US$/bbl 74.11 in May; (2) continued MXN strength; and (3) a marginal improvement in US industrial production; (4) prevailing droughts in much of the country. In this backdrop, annual rates remained in positive territory, with exports rising 5.4% y/y and with imports at +1.4% (Chart 1). For more details, see Table 1. With these results, the trade balance accumulated a US$7.3 billion deficit in the last twelve months, with the oil balance at -US$11.7 billion and a US$4.3 billion surplus in the non-oil balance (Chart 2).

Mixed sequential performance. Exports rebounded 4.4% m/m, while imports marked a third straight month down at -1.6%. In oil, exports climbed significantly at 38.3% –driven by 'other' (124.2%). This happened despite a drop in prices, signaling higher volumes. Imports, on the other hand, came in at -1.3%, with weakness in both consumer (-3.5%) and intermediate goods (-0.4%). Non-oil outflows came in at 2.9%. Performance was positive within manufacturing (3.0%), with 'others' up 3.8% and autos advancing 1.6% –consistent with AMIA figures, although contrasting with ANPACT data. In imports (-1.6%), consumption dropped 3.1%, with intermediate goods down by 1.3%. Capital goods fell 1.6%, not that negative considering sustained gains in the last six months.

Trade flows will likely be more resilient than we anticipated, especially auto exports and agribusiness. Mexico's sales abroad have been better than expected so far. Thus, we believe that the trend could be better at the margin for the remainder of the year, although risks remain. In this context, the most resilient sectors have been autos and agribusiness, which we expect to continue in the short-term.

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In detail, global dynamism in autos is reflected in the demand for finished cars and auto parts from our country. In a previous *View from the Top*, we referred to growth estimates from various sector participants, partly supported by positive expectations for this market in the US. According to *S&P Global's Mobility Forecasts*, a 2% y/y expansion in sales is anticipated in said country. On imports, growth in vehicle-related cargo from China to Mexican ports is a trend that will continue, according to trade specialists, with expectations that it will extend to other sectors within manufacturing. Observed and expected dynamism is already signaling a reconfiguration in both logistics and cargo capacity at the country's ports, as well as in shipping costs on the Asia-Mexico route. On the latter, the EAX index of *Eternity Group Mexico* reported a 56% m/m increase (71.9% y/y) in maritime freight prices on this route. According to the firm, this is due to increased use by Chinese manufacturers for shipping EVs. In logistics, MSC announced last week a new transport service for its China-Mexico route (adding to the current five) starting in August, linking southern China with Lázaro Cárdenas and Manzanillo. In addition, *COSCO Shipping Lines* added a new route that will connect southern China and Japan with three national ports (Ensenada, Manzanillo, and Lázaro Cárdenas) on a weekly basis. Regarding ports and their usage, we highlight two trends: (1) Redistribution to other Pacific ports, for example with *Ford* initiating a pilot program replacing the port of Lázaro Cárdenas with Guaymas for vehicle exports, specifying cost savings for logistics of around 30%; and (2) port expansion projects, such as Lázaro Cárdenas. On the latter, *SSA Marine Mexico* will invest $197 million in the construction of storage yards, while the state government mentioned that it will seek the construction of a second auto-specialized terminal for Chinese companies setting up plants in the state, indicating that at least 3 companies are interested.

In agribusiness, exported volumes could continue to be driven by the interest of Asian and European markets in products such as avocado, tomato, strawberries, and raspberries, as well as processed products like beer, tequila, and mezcal. Some companies (like Bachoco) and agricultural product exporters (*e.g.* grape, walnut, cherry, avocado, and lemon) would benefit from the new maritime routes mentioned above, reducing transit times for their trade with Asia. On imports, the *Plan Against Inflation* (PACIC in Spanish) will remain in force until December 2024 –not ruling out a possible extension–, so we believe that livestock imports, among others, will maintain positive rates.

Finally, on trade disruptions at the end of the first half of the year, we will be looking into: (1) The rise in freight prices from Asia due to container shortages in China; (2) the effects of Tropical Storm *Alberto*, affecting the Saltillo-Monterrey and Nuevo Laredo-Monterrey highways; and (3) the 9-day interruption in avocado and mango exports from Michoacán to the US.

Table 1: Trade balance

% y/y nsa

	May-24	May-23	Jan-May'24	Jan-May'23
Total exports	**5.4**	**5.7**	**4.4**	**4.5**
Oil	15.7	-27.9	-0.9	-22.5
Crude oil	-5.9	-28.3	-7.2	-23.9
Others	123.0	-25.7	24.0	-16.6
Non-oil	4.8	8.5	4.7	6.6
Agricultural	-0.6	3.3	8.4	3.0
Mining	50.5	-29.8	0.0	-0.2
Manufacturing	4.5	9.4	4.6	6.9
Vehicle and auto-parts	1.1	26.3	8.2	15.2
Others	6.5	1.5	2.7	3.0
Total imports	**1.4**	**1.4**	**3.4**	**3.4**
Consumption goods	2.7	13.5	7.4	13.8
Oil	-44.8	-20.6	-48.8	-5.2
Non-oil	15.7	28.5	25.5	21.6
Intermediate goods	0.3	-2.8	1.4	-0.2
Oil	-8.9	-48.2	-24.1	-15.9
Non-oil	1.0	3.3	3.7	1.6
Capital goods	8.0	24.1	14.6	22.2

Source: INEGI

Table 2: Trade balance

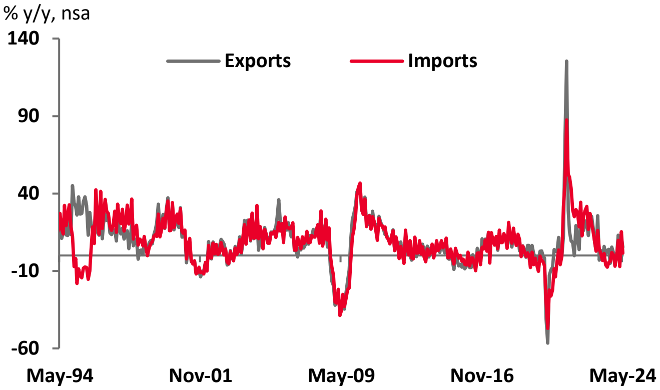
% m/m, % 3m/3m sa

	% m/m			% 3m/3m	
	May-24	Apr-24	Mar-24	Mar-May'24	Feb-Apr'24
Total exports	**4.4**	**-2.4**	**0.1**	**1.8**	**2.1**
Oil	38.3	-0.4	-24.5	-13.3	-11.2
Crude oil	16.6	-3.0	-18.7	-18.9	-14.7
Others	124.2	11.8	-43.0	9.7	5.3
Non-oil	2.9	-2.5	1.6	2.7	2.9
Agricultural	-1.1	-0.4	-4.4	0.9	7.3
Mining	2.7	23.6	-9.4	1.0	0.9
Manufacturing	3.0	-2.9	2.0	2.8	2.8
Vehicle and auto-parts	1.6	0.4	-1.7	0.6	1.3
Others	3.8	-4.7	4.1	4.0	3.6
Total imports	**-1.6**	**-0.6**	**-0.8**	**3.1**	**6.3**
Consumption goods	-3.1	-0.4	2.6	5.5	7.6
Oil	-3.5	-20.5	15.2	24.3	25.0
Non-oil	-3.1	2.9	0.8	3.3	5.5
Intermediate goods	-1.2	-0.9	-1.7	2.7	6.2
Oil	-0.4	-10.6	-3.7	-9.8	-5.2
Non-oil	-1.3	-0.2	-1.6	3.6	7.1
Capital goods	-1.6	0.8	1.2	3.2	4.8

Source: INEGI

Chart 1: Exports and imports

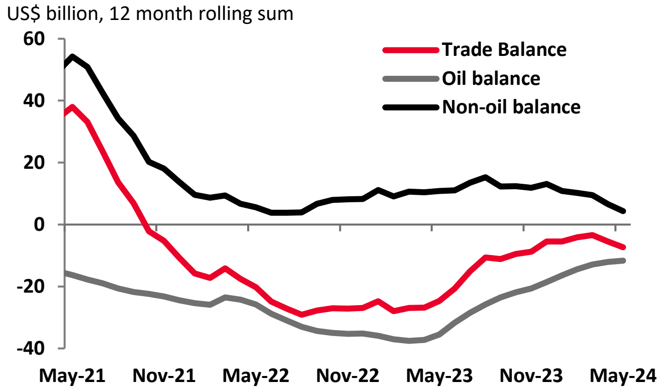
% y/y, nsa



Source: INEGI

Chart 2: Trade balance

US$ billion, 12 month rolling sum



Source: INEGI

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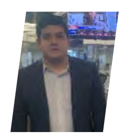

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