Economic and Financial Markets Research
Economic Research, Mexico

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Trade balance – Surprising deficit in June as imports rebound and exports moderate

- **Trade balance (June): -US$1,036.9 million; Banorte: US$449.6mn; consensus: US$663.0mn (range: -US$384.0mn to US$2,984.0mn); previous: US$1,991.2mn**
- **Exports and imports returned to negative territory in the annual comparison, falling 5.7% and 3.6%, respectively. Within the main drivers, we noted a decline in oil outflows and a weaker MXN, among others**
- **With seasonally adjusted figures, exports contracted 3.4% m/m, with broad declines inside. The oil component fell 31.9% given a series of challenges. Non-oil flows backtracked 1.6%, highlighting manufacturing at -2.0% –dragged by both autos and 'others'–**
- **Imports broke with three months of declines, now at +1.9%. Oil inflows were negative at -2.3%, but non-oil climbed 2.1%. In the latter, strength centered in intermediate goods (2.9%), with consumption goods contracting further (-0.9%)**
- **Our expectation for trade flows for the rest of the year remains positive. We believe that structural factors will support the growth trend, despite of some logistical headwinds in global trade and a possible US slowdown**

Deficit of US$1,036.9 million in the sixth month of the year. In general, trade flows faced higher costs due to longer routes, lower container availability, and bottlenecks in Asia, although reports of supply chain disruptions are still limited. Locally, the most relevant drivers included: (1) A slight moderation in oil prices relative to May, with the Mexican oil mix averaging US$/bbl 73.49 in the month; (2) a depreciation of the Mexican peso; and (3) the temporary suspension of exports of some agricultural products to the US. In this context, annual rates returned to negative territory. Exports fell 5.7% y/y, with imports down 3.6%. (Chart 1). For more details, see Table 1. With these results, the trade balance accumulated a US$4.5 billion deficit in the last twelve months, with the oil balance at -US$10.5 billion and a US$6.0 billion surplus in the non-oil balance (Chart 2).

Broad declines in exports, although with a rebound in non-oil imports. Exports contracted 3.4% m/m, while imports broke with three months of declines at +1.9%. Regarding oil flows, exports fell 31.9% on a rather challenging base effect, lower prices, and volumes. On the other hand, imports fell 2.3%, with weakness centered in consumption goods (-16.4%). In non-oil, outflows were at -1.6%. Performance was unfavorable within manufacturing (-2.0%), with autos declining 1.0% –contrasting with AMIA figures– and 'others' at -2.6%. Agricultural exports fell 0.5%, impacted by the temporary ban on avocado and mango exports to the US from the state of Michoacan. However, non-oil mining climbed 17.7%. In imports (+2.1%), intermediate goods rebounded 2.9%, their largest expansion since February and even despite the depreciation of the Mexican peso in the period. In addition, capital goods climbed 0.7%. However, consumption goods declined again, now by -0.9%.

We keep expecting a relatively positive trend for flows, despite global disruptions and other challenges. Global freight costs remain on the rise –a topic we addressed in our last *View from the Top*. However, local and regional conditions lead us to maintain a positive outlook for export growth. The end of the first half of the year was favorable in terms of international trade, in a context in which Mexico has already consolidated its position as the main US trading partner. This can be largely explained by: (1) The US trade war against China; and (2) Mexico's attractiveness due to nearshoring. While there have been other temporary factors that have supported trade, these two catalysts suggest that the trend points toward a positive structural change.

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Expectations for a further deterioration in the short- and medium-term regarding US trade restrictions on Chinese companies remain on the rise. For example, new tariffs on some goods (*e.g.* electric vehicles, chips, batteries, medical equipment, among others) will be in place next week, on August 1st. Moreover, these measures could get even tougher in terms of semiconductors. President Biden's administration has stated that these may expand; while some of Trump's campaign initiatives show that he would seek to relocate production currently taking place in Taiwan. In this context, the US plans on strengthening regional supply chains and developing a local semiconductor production, both including Mexico. These strategies are seen as new areas of potential joint activity between the two countries. Thus, a recent meeting between USAID and the *US-Mexico Foundation for Science* (FUMEC in Spanish) raised the need for Mexico to accelerate investment in this industry over the next two years. Plans of these institutions seek that states such as Aguascalientes, Baja California, Chihuahua, Jalisco, Querétaro and Jalisco can develop on this front. The roadmap aims for Mexico to help reduce the dependence on semiconductors that the US imports from Asia (around US$40 billion in 2022).

On other fronts, higher volumes of traded goods will be mainly supported by the automotive and agro-industrial sectors. Regarding the former, and related to the development of semiconductors, Armando Cortés, general director of the *National Auto Parts Industry* (INA in Spanish) said in an interview that "*...there are a number of Taiwanese companies already located in Mexico* [...] *we expect that around 10 more Taiwanese companies will be looking for business meetings in Mexico...*".

Regarding trade with China, new maritime routes –which have even reduced shipping times with ports in southern China– and the current priority for shipping goods to Mexico over other Pacific destinations are signs of the current growth in the relationship between these two countries. Mexico is currently China's second largest trading partner in Latin America. However, Finance Minister Rogelio Ramírez de la O stated in recent days that the trade relationship with China needs to be reviewed, saying that "*...they sell to us and do not buy from us, that is not reciprocal trade...*", to which he added "*...we are considering making this change in the investment policy and attention to foreign investment...".*

Table 1: Trade balance

% y/y nsa

	Jun-24	Jun-23	Jan-Jun'24	Jan-Jun'23
Total exports	**-5.7**	**1.2**	**2.6**	**3.9**
Oil	-26.8	-27.9	-5.7	-23.6
Crude oil	-28.9	-26.8	-11.4	-24.5
Others	-15.4	-33.1	18.2	-19.5
Non-oil	-4.4	3.6	3.1	6.0
Agricultural	-3.8	4.0	6.6	3.2
Mining	14.6	66.0	3.1	9.1
Manufacturing	-4.9	2.7	2.9	6.1
Vehicle and auto-parts	-1.4	9.5	6.5	14.2
Others	-6.8	-0.5	1.0	2.3
Total imports	**-3.6**	**-6.2**	**2.2**	**1.6**
Consumption goods	-4.8	-11.5	5.3	8.6
Oil	-47.8	-60.6	-48.7	-19.9
Non-oil	4.7	22.1	21.8	21.7
Intermediate goods	-3.1	-8.4	0.6	-1.7
Oil	-15.5	-53.8	-22.9	-24.6
Non-oil	-2.2	-1.8	2.6	1.0
Capital goods	-5.6	28.0	10.8	23.2

Source: INEGI

Table 2: Trade balance

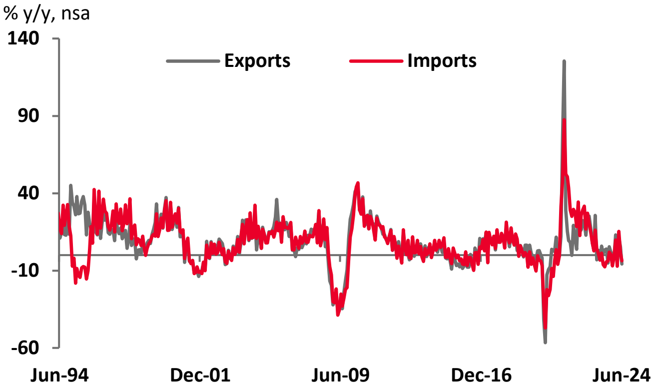
% m/m, % 3m/3m sa

	% m/m			% 3m/3m	
	Jun-24	May-24	Apr-24	Apr-Jun'24	Mar-May'24
Total exports	**-3.4**	**4.4**	**-2.4**	**0.6**	**1.6**
Oil	-31.9	42.3	-0.8	-8.1	-13.2
Crude oil	-21.2	22.3	-4.8	-14.4	-19.3
Others	-54.3	116.7	17.6	16.1	12.6
Non-oil	-1.6	2.7	-2.5	1.1	2.5
Agricultural	-0.5	-1.1	-0.4	-1.7	0.8
Mining	17.7	3.0	25.6	21.1	2.9
Manufacturing	-2.0	2.9	-3.0	0.8	2.5
Vehicle and auto-parts	-1.0	1.6	0.3	2.1	0.3
Others	-2.6	3.6	-4.7	0.2	3.8
Total imports	**1.9**	**-1.5**	**-0.6**	**0.6**	**3.2**
Consumption goods	-2.6	-3.4	-0.4	-0.5	5.0
Oil	-16.4	-3.9	-21.3	-14.2	23.5
Non-oil	-0.9	-3.4	2.9	1.3	2.9
Intermediate goods	2.9	-1.1	-0.8	0.7	2.8
Oil	2.9	-0.5	-11.0	-13.6	-9.9
Non-oil	2.9	-1.2	-0.1	1.8	3.8
Capital goods	0.7	-1.6	0.7	1.1	3.0

Source: INEGI

Chart 1: Exports and imports

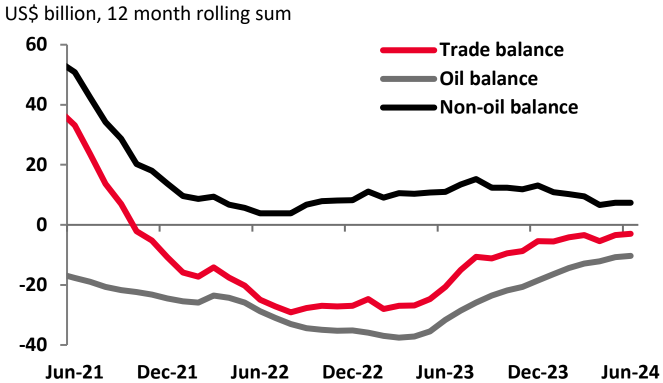
% y/y, nsa



Source: INEGI

Chart 2: Trade balance

US$ billion, 12 month rolling sum



Source: INEGI

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