Trade balance – Exports bounce back in May, driven by the auto sector

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- **Trade balance (May): -US$74.1 million; Banorte: -US$1,028.4mn; consensus: -US$1,100.0mn (range: -US$2,200.0mn to -US$640.0mn); previous: -US$1,508.5mn**
- **Both exports and imports were positive in annual terms. However, the result is still affected by price volatility, especially in energy**
- **With seasonally adjusted figures, exports climbed 2.8% m/m, almost erasing April's decline. Oil-related goods rose 0.7%. Non-oil increased 2.9%, helped by manufacturing (3.8%), especially autos**
- **Imports declined 2.6% m/m, dragged by oil-related goods at -20.3%, but with non-oil also lower at -0.7%. Among the latter, only consumer goods were higher (2.6%), with capital (-1.1%) and intermediate goods (-1.2%) backtracking**
- **Going forward we anticipate a downward skew in trade figures. Energy prices, the MXN, and uncertainty about external demand will likely contribute in this direction. In addition, we expect a bias towards higher deficits in coming months on domestic demand strength**

US$74.1 million deficit in May, with two consecutive months with a negative balance. This was more modest than expected due to stronger shipments abroad. Annual rates returned to positive territory, with exports and imports at 5.8% and 1.4%, respectively (Chart 1). In our view, mixed base effects and some volatility across prices –especially in energy– continued to impact flows. For details, see Table 1. As a result, the trade balance accumulated a US$24.4 billion deficit in the last twelve months, with oil at -US$35.4 billion and a US$10.9 billion surplus in the non-oil sector (see Chart 2).

Mixed in sequential terms, with base effects at play across both categories. Exports climbed 2.8% m/m, almost reversing April's -2.9%. Oil increased marginally (0.7%), with non-oil gathering pace at 2.9%, driven by manufacturing (3.8%). On the other hand, imports fell 2.6%, dragged down by oil (-20.3%), but with non-oil also lower at -0.7% (Table 2). We must consider that figures are in nominal terms, so price disruptions –now mostly to the downside– keep affecting flows.

In the oil sector, the price of the Mexican oil mix fell significantly, albeit with volumes apparently compensating for this. As such, crude outflows rose 1.2%. In imports, consumer and intermediate goods continued to reflect lower prices as they dropped 12.7% and 24.6%, respectively.

Within non-oil, exports climbed 2.9%, led by manufacturing (3.8%). Autos surged 19.7%. On the contrary, 'others' fell 3.4%, noting a challenging base and more modest support from US demand. Meanwhile, both non-oil mining (-32.6%) and agriculture (-1.1%) contracted, likely because of lower commodity prices. For imports (-0.7%), consumer goods remained strong at 2.6%, adding three months on the upside and corroborating signs of resilient domestic demand.

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On the contrary, capital goods fell 1.1% and intermediate -1.2%, both with difficult base effects after expanding in the previous month.

We expect trade flows to skew towards higher deficits, with some headwinds strengthening. Global trade remains impacted by a moderation in global activity. In addition, lower commodity prices are also being reflected, driving flows further down. Moreover, we must consider that: (1) The Chinese economy has not gained much pace in the second quarter, with stimulus already being implemented; (2) expectations that monetary policy in the US and other advanced economies could be even more restrictive for the remained of 2023; and (3) manufacturing output in the Eurozone has been weak. This supports our view that absolute trade data will likely maintain a downward trend, both in value and volume.

Regarding more domestic factors, we see as relevant to consider: (1) The strength of the Mexican peso; and (2) signs of a moderation in US manufacturing–with *S&P Global's* PMI for the sector contracting more than expected (46.3pts), possibly anticipating that demand for Mexican manufacturing could fall in the short-term. Despite of this, we believe the auto sector remains relatively isolated, with output more related to input availability (especially semiconductors) and with automakers trying to fill-in demand accumulated during the past three years.

Looking further ahead, we believe that trade should keep growing. On prices, we warn about risks to the upside for grains and energy. We think that some pressures for food items may arise as a direct consequence of the *El Niño* phenomenon. According to the World Meteorological Organization, it is possible that episodes of high temperatures and droughts will be present in the northern hemisphere, with heavy rains in the southern hemisphere. In addition, a rise in energy prices may come from increased cooling needs and even additional agreements by OPEC+ to reduce its production.

Table 1: Trade balance
% y/y nsa

	May-23	May-22	Jan-May'23	Jan-May'22
Total exports	5.8	22.3	4.6	18.6
Oil	-28.2	62.5	-22.1	61.5
Crude oil	-28.6	54.7	-23.4	55.3
Others	-25.7	119.6	-16.6	95.3
Non-oil	8.6	19.9	6.6	16.2
Agricultural	4.9	15.4	4.1	9.9
Mining	-29.8	9.5	-0.2	5.0
Manufacturing	9.5	20.3	6.9	16.7
Vehicle and auto-parts	26.3	10.7	15.2	9.5
Others	1.5	25.5	3.0	20.5
Total imports	1.4	29.1	3.4	23.5
Consumption goods	13.5	34.4	13.8	37.0
Oil	-20.6	53.0	-5.2	69.6
Non-oil	28.5	27.6	21.6	26.8
Intermediate goods	-2.8	28.5	-0.2	22.1
Oil	-48.2	87.7	-15.9	27.1
Non-oil	3.3	23.2	1.6	21.6
Capital goods	24.1	26.6	22.2	18.3

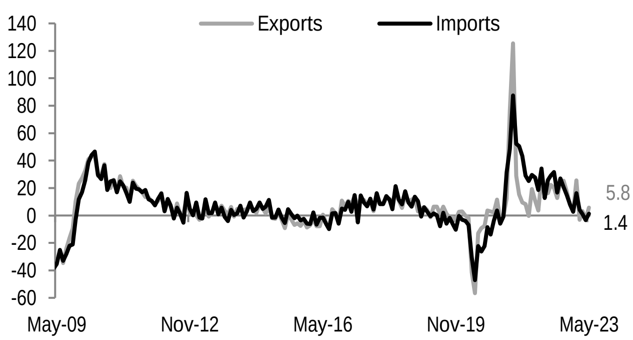
Source: INEGI

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

	% m/m			% 3m/3m	
	May-23	Apr-23	Mar-22	Mar-May'23	Apr-Feb'23
Total exports	2.8	-2.9	4.0	0.8	-0.9
Oil	0.7	1.0	2.2	-4.8	-6.0
Crude oil	1.2	4.2	-1.0	0.3	-3.4
Others	-1.6	-11.1	16.9	-22.0	-16.0
Non-oil	2.9	-3.1	4.1	1.1	-0.6
Agricultural	-1.1	2.5	-1.0	0.6	1.8
Mining	-32.6	-0.1	7.7	-5.3	4.5
Manufacturing	3.8	-3.4	4.2	1.2	-0.8
Vehicle and auto-parts	19.7	-12.6	11.1	0.6	-6.3
Others	-3.4	1.5	1.0	1.5	2.1
Total imports	-2.6	3.4	-2.3	-0.2	2.0
Consumption goods	-1.0	2.7	2.0	7.0	12.8
Oil	-12.7	0.8	-5.8	-4.4	14.3
Non-oil	2.6	3.3	4.8	10.9	12.3
Intermediate goods	-3.1	3.3	-3.2	-2.3	-0.7
Oil	-24.6	-7.2	-3.8	-19.6	-8.3
Non-oil	-1.2	4.3	-3.2	-0.5	0.1
Capital goods	-1.1	5.1	-1.1	7.1	10.4

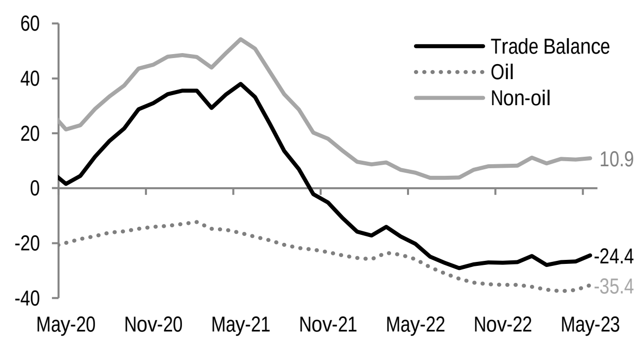
Source: INEGI

Chart 1: Exports and imports
% y/y nsa



Source: INEGI

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



Source: INEGI

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