Trade balance –Export growth in July driven by the auto sector

- **Trade balance (July): -US$881.2 million; Banorte: -US$1,676.9mn; consensus: -US$1,813.5mn (range: -US$4,527.1mn to -US$650.0mn); previous: US$38.2mn**
- **In annual terms, exports accelerated to 2.9%, while imports declined 7.7%, adding two months in negative territory. This occurs in a context of higher oil prices and MXN strength, among other factors**
- **With sa figures, exports increased 1.0% m/m. Oil-related goods fell 3.6% despite higher prices. Non-oil flows advanced 1.2%, with autos (13.3%) in manufacturing as the main driver**
- **Imports declined 2.0% m/m, with oil-related goods stronger (5.4%) but with no-oil somewhat weak (-2.5%). Within the latter, all categories were lower, highlighting the -2.9% in intermediate goods**
- **Going forward, we expect price dynamics and MXN strength to keep skewing flows. In terms of volumes, we believe US activity resilience and auto sector strength will continue boosting exports, while imports will remain supported by strong domestic demand**

US$881.2 million deficit in July, with price effects in play. The result was somewhat consistent with seasonality trends, albeit identifying other factors that skewed flows. Annual rates were mixed, with exports up 2.9%, while imports fell 7.7% (Chart 1). Among circumstantial drivers we note higher oil prices, a decline in domestic oil output, and a stronger MXN. For details, see Table 1. As such, the trade balance accumulated a US$15.1 billion deficit in the last twelve months, with oil at -US$28.5 billion and a US$13.4 billion surplus in non-oil (see Chart 2).

Shipments abroad keep growing sequentially, with inflows dragged by non-oil. Exports rose 1.0% m/m, adding three months to the upside. Oil-related goods declined 3.6%, with non-oil more stable at +1.2%. Meanwhile, imports fell 2.0%, despite the 5.4% boost from the oil component, with non-oil weaker at -2.5% (Table 2). Regarding oil, exports were impacted by a fire in one of PEMEX's rigs in the coast of Campeche, limiting volumes sent. On purchases abroad, the main driver were indeed higher prices, with most of the impact felt in consumer goods (+14.3%), while intermediate items were more modest (+1.4%).

Within non-oil, exports rose 1.2%, with both agricultural (-3.2%) and non-oil mining (-41.7%) negative. However, manufacturing was strong at 2.4%, fully supported by autos at +13.3%. In our view, this remains driven by improvements in supply chains and a healthy demand for vehicles. 'Others' fell 3.4%, with a difficult base and a relative stagnation in US manufacturing. Imports fell 2.5%, with a challenging base. All three sectors were lower, with intermediate goods leading to the downside at -2.9% and capital goods following closely at -2.1%. Meanwhile, consumer goods fell just 0.5%, ending with four months of increases, suggesting that the category still remains in a favorable place.

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Price effects and global demand uncertainty will likely impact flows. Several factors could become relevant ahead. In our view, those who would have the greatest to least impact include: (1) Global demand weakness –with China and the Eurozone clearly on a downward path and US manufacturing stagnated; (2) price effects, with higher pressure on some commodities –due to oil production restrictions by Saudi Arabia, more adverse weather conditions because of *El Niño* phenomenon, and new Russian attacks on grain silos in Ukrainian ports; (3) Mexican peso strength; and (4) disruptions to regional maritime trade –caused by transit restrictions through the Panama Canal that has mainly affected the transport of bulk and some gas carriers.

Although these are relevant in the short-term, we do not rule out that the first three may continue to have an effect in the remainder of the year due to their nature. Therefore, we anticipate that: (1) Even if the US economy has a 'soft landing' it is likely that strength will be centered in services instead of goods, which would keep impacting manufacturing; (2) according to weather experts, *El Niño* will continue through the winter, causing adverse conditions and affecting agricultural production; and (3) we believe that the the Mexican peso will maintain its strength in a context of divergent monetary policies between AEs and Ems.

In this context, we anticipate that the trade balance will be more skewed towards deficits during the rest of the year. As such, we remain on the look to pressures on transportation costs worldwide, as droughts probably affect more routes –with 46% of the European Union at risk of drought since July; and the Russia-Ukraine war impacting grain prices worldwide.

Table 1: Trade balance
% y/y nsa

	Jul-23	Jul-22	Jan-Jul'**23**	Jan-Jul'**22**
Total exports	2.9	12.9	3.8	18.0
Oil	-28.5	32.2	-24.2	54.8
Crude oil	-25.9	27.3	-24.6	49.3
Others	-40.9	62.7	-22.7	85.9
Non-oil	5.7	11.4	6.0	15.7
Agricultural	-6.0	11.7	3.2	9.6
Mining	-25.9	-4.8	3.9	-3.4
Manufacturing	6.8	11.8	6.2	16.5
Vehicle and auto-parts	35.7	12.5	17.0	11.6
Others	-5.2	11.4	1.2	18.9
Total imports	-7.7	16.7	0.2	23.7
Consumption goods	-9.1	37.1	5.7	38.9
Oil	-52.4	77.8	-26.2	77.8
Non-oil	18.4	19.8	21.2	25.5
Intermediate goods	-10.4	13.9	-3.0	21.9
Oil	-49.8	56.9	-29.1	40.7
Non-oil	-4.6	9.5	0.2	20.0
Capital goods	23.3	13.8	23.2	18.4

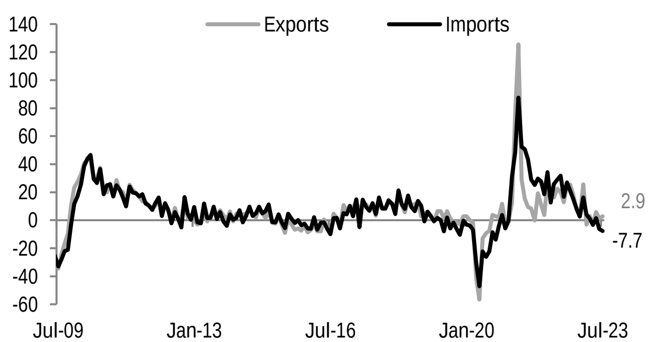
Source: INEGI

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

	% m/m			% 3m/3m	
	Jul-23	Jun-23	May-22	Jul-May'**2**3	Jun-Apr'**2**3
Total exports	1.0	0.9	2.9	3.1	0.0
Oil	-3.6	-1.3	0.4	-0.5	-2.7
Crude oil	-3.4	-0.5	0.9	1.5	0.4
Others	-4.3	-4.7	-2.0	-9.2	-15.1
Non-oil	1.2	1.0	3.0	3.3	0.1
Agricultural	-3.2	1.3	-1.1	0.0	2.5
Mining	-41.7	73.9	-32.9	-12.7	2.2
Manufacturing	2.4	0.1	3.9	3.7	0.0
Vehicle and auto-parts	13.3	-4.2	20.5	15.1	-0.7
Others	-3.4	2.5	-3.6	-1.8	0.4
Total imports	-2.0	1.8	-2.7	-0.6	0.8
Consumption goods	1.8	-4.9	-1.1	-2.0	-0.5
Oil	14.3	-26.5	-14.0	-28.3	-21.5
Non-oil	-0.5	0.8	2.9	6.8	6.7
Intermediate goods	-2.6	2.5	-3.2	-1.1	0.1
Oil	1.4	4.8	-24.7	-26.8	-26.2
Non-oil	-2.9	2.4	-1.4	1.3	2.9
Capital goods	-2.1	6.2	-1.2	5.5	8.8

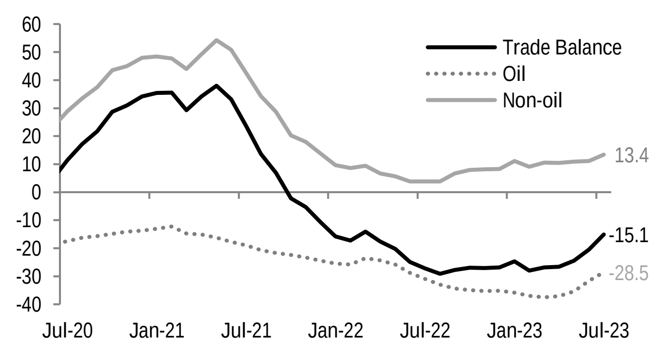
Source: INEGI

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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