November 27, 2023

Trade balance – Moderation in flows despite a positive surprise in the auto sector

- **Trade balance (October): -US$252.5 million; Banorte: -US$1,699.3mn; consensus: -US$1,505.5mn (range: -US$1,900.0mn to -US$400.0mn); previous: -US$1,481.4mn**
- **Exports grew 5.6% y/y, rebounding sharply. Imports expanded 1.8% after four months with negative prints. At the margin, flows remain affected by price distortions, albeit with circumstantial factors also in play in this period**
- **With seasonally adjusted figures, exports fell 0.3% m/m, dragged by oil (-5.5%), with non-oil flows flat (0.0%). Surprisingly, the latter were supported by manufacturing (0.3%), with autos up 4.1%, apparently unaffected yet by the US autoworkers strike**
- **Imports declined 2.2% m/m. Weakness centered in oil-related goods (-12.7%), albeit with non-oil flows also lower at -1.2%. Within the latter, all three sectors declined, noting the -3.7% in capital goods**
- **We believe that a combination of factors will support trade flows in the remainder of the year, with figures benefiting both by nominal drivers, along with higher shipped volumes**

US$252.5 million trade deficit in October. This represents a fourth straight month with a negative balance, not entirely surprising considering prevailing conditions. The period was characterized by a moderation in oil prices, stability in freight costs despite some local disruptions, and some shocks in specific sectors, particularly the US autoworkers strike. In annual terms, exports grew 5.6% y/y, rebounding sharply. Imports expanded 1.8% after four months with negative prints (Chart 1). For more details, see Table 1. With this, the trade balance accumulated a US$9.5 billion deficit in the last twelve months, with the oil balance at -US$21.8 billion and a US$12.3 billion surplus in the non-oil component (Chart 2).

Moderation in flows, with oil prices skewing figures down. Exports fell 0.3% m/m, with relevant dynamics inside. Imports declined 2.2%, facing a more challenging base effect. Regarding oil, both exports (-5.5%) and imports (-12.7%) were hindered by a moderation in prices. However, evidence also suggests a negative impact from lower volumes. Turning to non-oil categories, we were surprised by exports (0.0%), especially manufacturing at +0.3%. Within the latter, we anticipated a more substantial impact on the auto sector given the ongoing strike in the US during the period. Nevertheless, the sector climbed 4.1%. While this is very positive, we will still be looking to other possible effects throughout November. Performance in remaining categories was more mixed, with progress in agricultural items (+1.2%) but with a notable decline in non-oil mining (-18.6%), as seen in Table 2. Turning to imports (-1.2%), weakness was widespread, in our view partly impacted by a modest MXN depreciation since August but becoming more evident through September and early October. In this context, the largest declines were seen in capital (-3.7%) and consumption goods (-3.3%) –noting a more challenging base for the latter. Lastly, intermediate goods were more stable at -0.4%, also somewhat surprising considering that we also expected some of the fallout of the auto strike to be seen here.


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More favorable circumstances could benefit trade flows in the short-term. Even though we recognize a relatively more challenging outlook in terms of external demand –with signs of a deceleration in some sectors in the US– as well as locally –with a more modest growth forecast in 4Q23–, we believe flows could maintain a positive skew, albeit mildly. Some factors are related to prices, such as the expectation that oil output restrictions are extended, along prevailing geopolitical tensions across several fronts (*e.g.* conflict in Ukraine, war between Israel and Hamas), among others. In terms of relative prices, we think that MXN strength will remain as a driver for non-oil imports in a context in which local demand remains supported by solid fundamentals. Lastly, we must remember a favorable seasonality on flows to the US given year-end purchases.

In the case for oil, uncertainty about production levels by OPEC+ has not ended, especially given the delay of the meeting in which levels for upcoming months would be defined –with attention on the virtual gathering now on November 30th. As such, WTI futures have fallen since the end of September –although maintaining high volatility. Considering this, and with the possibility of a harsher winter, our expectation is still biased to higher prices.

On the exchange rate, expectations that the Fed has concluded its monetary tightening cycle –despite a less hawkish tone from Banxico– has helped the MXN, currently close to USD/MXN 17.00. Given this, we believe that the attractiveness of foreign items will persist relative to domestic goods. However, we must recognize its negative effect on exports, considering that our goods lose competitiveness in the international market.

Turning to external demand, dynamism of household consumption in the US has been positive in recent months, being the main driver for activity in the third quarter. Strength could extend to the last quarter of the year. According to the National Retail Federation, 182 million people expressed their intention to make purchases on the Thanksgiving weekend (Black Friday and Cyber Monday). This is the highest number since said tracking began back in 2017. As such, we believe shipments abroad will at least maintain a stable trend, if not accelerating at the margin.

Lasty, we will maintain our attention to agricultural and agro-industrial exports, which continue to show signs of growth, highlighting beer. Nevertheless, the sector could face some difficulties given high drought levels and possible distortions from *El Niño*.

Table 1: Trade balance

% y/y nsa

	Oct-23	Oct-22	Jan-Oct'23	Jan-Oct'22
Total exports	**5.6**	**17.5**	**3.0**	**19.4**
Oil	14.1	3.6	-16.3	42.4
Crude oil	15.8	14.5	-15.0	38.6
Others	4.1	-33.7	-22.2	62.1
Non-oil	5.1	18.5	4.5	17.9
Agricultural	12.3	4.9	4.3	7.5
Mining	-15.1	-12.2	4.3	-6.4
Manufacturing	5.3	19.8	4.5	18.9
Vehicle and auto-parts	20.9	33.8	15.2	19.7
Others	-2.5	13.9	-0.6	18.6
Total imports	**1.8**	**14.8**	**-0.6**	**22.8**
Consumption goods	20.5	14.3	7.8	36.1
Oil	-15.4	-4.0	-25.8	65.4
Non-oil	29.5	20.0	23.0	26.0
Intermediate goods	-3.1	14.3	-4.2	21.0
Oil	-28.5	20.8	-31.0	38.9
Non-oil	-0.3	13.6	-1.0	19.1
Capital goods	19.4	21.7	21.9	20.4

Source: INEGI

Table 2: Trade balance

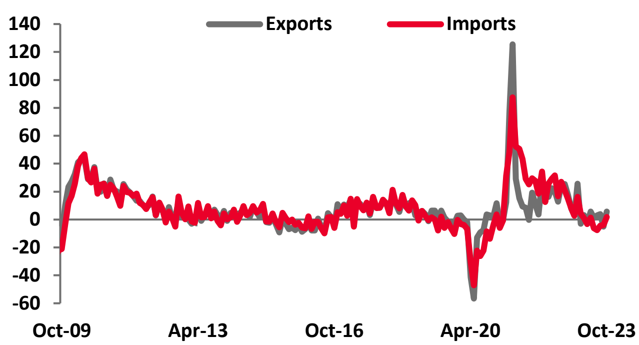
% m/m, % 3m/3m sa

	% m/m			% 3m/3m	
	Oct-23	Sep-23	Aug-23	Aug-Oct'23	Jul-Sep'23
Total exports	**-0.3**	**0.6**	**-0.6**	**1.0**	**2.8**
Oil	-5.5	14.2	14.6	21.3	13.2
Crude oil	-0.8	9.9	17.9	24.4	15.4
Others	-28.2	41.0	-2.9	5.8	2.6
Non-oil	0.0	-0.3	-1.4	-0.2	2.3
Agricultural	1.2	0.0	2.4	1.1	-1.1
Mining	-18.6	10.2	25.5	2.0	-12.3
Manufacturing	0.3	-0.5	-1.9	-0.3	2.7
Vehicle and auto-parts	4.1	1.0	-7.0	2.5	13.3
Others	-1.9	-1.3	1.3	-1.8	-2.8
Total imports	**-2.2**	**1.6**	**1.5**	**0.9**	**-0.4**
Consumption goods	-8.7	3.4	6.1	5.5	4.5
Oil	-30.1	5.5	13.6	6.5	1.5
Non-oil	-3.3	2.8	4.4	5.3	5.2
Intermediate goods	-0.7	1.0	0.8	0.0	-1.7
Oil	-3.2	7.2	7.9	15.4	3.0
Non-oil	-0.4	0.6	0.3	-1.1	-2.0
Capital goods	-3.7	3.2	0.1	1.3	2.2

Source: INEGI

Chart 1: Exports and imports

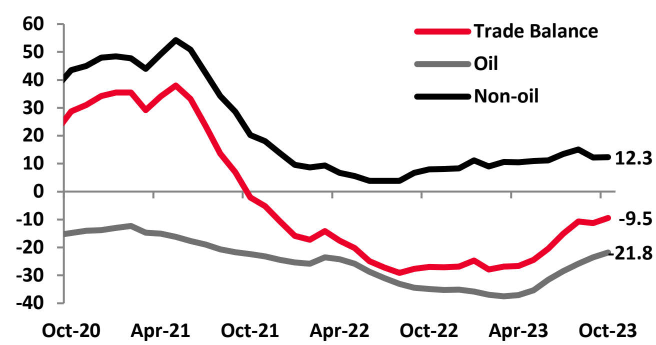
% y/y, nsa



Source: INEGI

Chart 2: Trade balance

US$ billion, 12 month rolling sum



Source: INEGI

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HOLD	When the share expected performance is similar to the MEXBOL estimated performance.
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