International Trade

FDI received by Mexico fell by mid-2024

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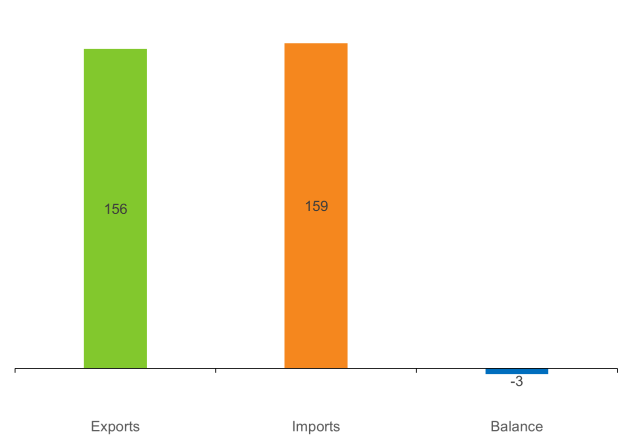
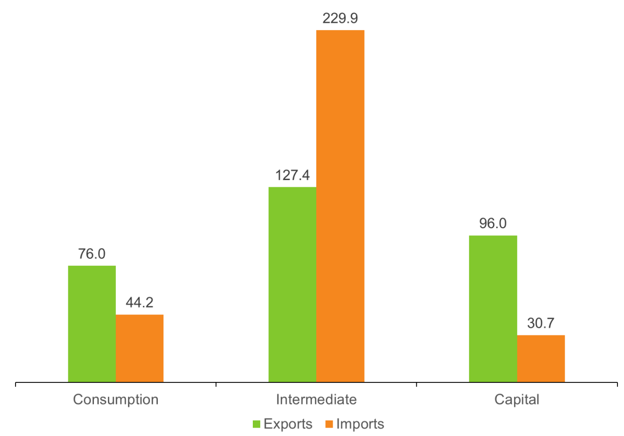
The cumulative figures through the first half of 2024 indicate that the goods trade balance was solely 5 billion dollars, a smaller deficit than that reached during the first half of the previous year by 7 billion dollars; the shorter deficit resulted from total exports of 299 billion dollars and imports of 305 billion dollars. Total exports increased by 2.6% annually, while imports showed an annual rate of 2.2%, explaining the marginal fall in the trade deficit, even though it is not certain that a trend has emerged yet. During these six months, only March and May registered a trade surplus.

Figura 1. **MEXICO TRADE IN GOODS BALANCE 2Q24** (BILLIONS USD$, CURRENT PRICES)



Source: BBVA Research with data from Inegi

Figure 2. **TRADE BALANCE: GOODS 2Q24** (BILLIONS USD$, CURRENT PRICES)



Source: BBVA Research with data from Inegi

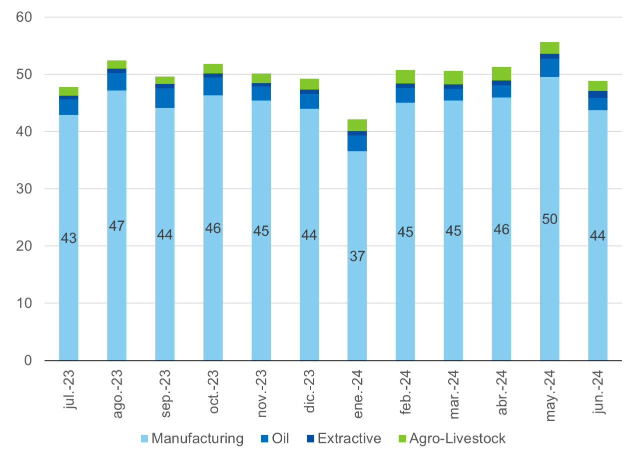
By type of goods, the trade balance is in surplus in mid-2024 for consumer and capital goods. However, the deficit in intermediate goods is so high that it exceeds the positive balance in the first two items. This imbalance in favor of importing intermediate goods proves Mexico's dependence on importing intermediate goods to produce other goods. The export of consumer goods represents 25.4% of total exports, while capital goods 32.1% and intermediate goods contributed 42.5%, with cumulative figures from January to June 2024. On the other hand, importing consumer goods partakes 14.5% of total imports and capital goods 10.1%, while intermediate goods account for 75.4%. During this semester, the export of consumer goods grew by 5.5%, followed by capital goods by 3.0%, and intermediate goods by only 0.7%, all in annual comparison. Imports of intermediate goods also show a slowdown, with a yearly rate of only 0.6%; however, in consumer goods, growth was 5.3%, and in capital goods, 10.8%. Both cases have positive results, but the rates are generally lower than in 2023.

Manufacturing exports are on an upward trajectory midway 2024

Within Mexico's export portfolio, manufactured goods totaled US$266.4 billion during the first half of 2024, representing 89.0%. This figure is 2.9% higher than the US$258.9 billion exported during the first six months of 2023. Oil exports remain in second place but continue to lose ground. This type of export totaled US$14.8 billion in this period, 5.7% less than a year earlier in current figures. According to this classification, oil is the only export that decreased since agricultural exports grew by 6.6% and extractive exports by 3.1%, totaling US$13.0 billion and US$5.1 billion, respectively. Although the difference between agricultural and oil exports has recently narrowed (they are probably converging), we should stress that the latter are more volatile according to international crude oil prices so that they could shoot up in current terms. In contrast, these exports tend to have less variance despite price variations in global agricultural product markets.

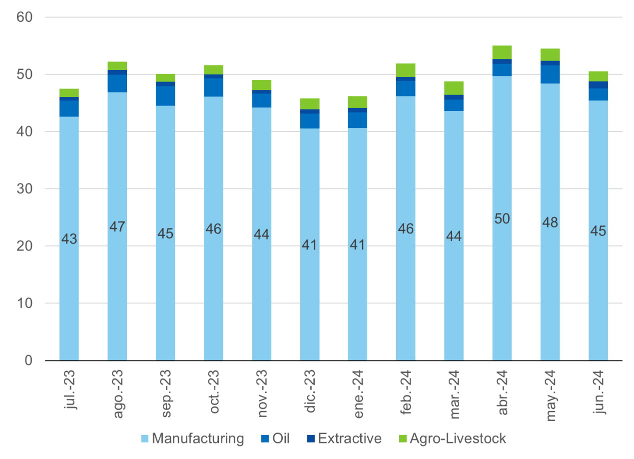
Within manufacturing exports, those of Transportation and Communications totaled 99.2 billion dollars. In comparison, those of Electrical and Electronic Equipment and Devices reached 44.7 billion dollars, followed by Machinery and Equipment for 39.6 billion dollars. The former increased by 5.8%, while the third by 3.3%, but international sales of Machinery and Equipment continue to decrease, this time by 1.1%, in all cases compared to the previous year. In the case of oil exports, crude oil sales contracted 11.4% in this period, contrary to derivatives and petrochemicals, which increased, but their participation is marginal. In the case of Agriculture, at the product level, avocados and tomatoes continue to lead exports and maintain an upward trend. Avocado exports totaled US$1.8 billion, tomato exports US$1.6 billion, followed by bell peppers with US$1.1 billion. In the first six months of 2024, international avocado sales have grown by double digits in cumulative figures. The positive trend has also been constant in the case of tomatoes, although slightly below that of avocados.

Figure 3. **MEXICO: EXPORTS OF GOODS (BILLIONS USD$, CURRENT PRICES)**



Source: BBVA Research with data from Inegi

Figure 4. **MEXICO: IMPORTS OF GOODS (BILLIONS USD$, CURRENT PRICES)**



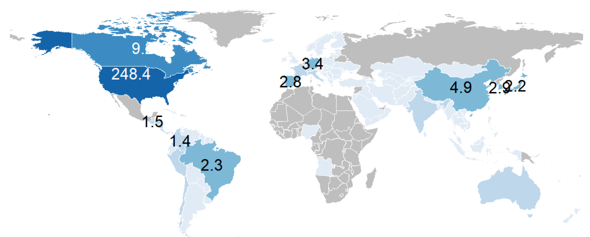
Source: BBVA Research with data from Inegi

Of the 304.9 billion dollars of imports, 273.9 billion dollars are manufactured goods, 89.8% of the total. During this first semester, manufactured imports grew by 6.3% compared to the previous year, so the specific trade balance of these goods was negative (7.5 billion dollars). A year earlier, the balance remained positive for the rest of 2023, but as of January 2024, manufactured imports exceeded exports, mainly due to intermediate goods. In the same sense as exports, oil imports decreased significantly, this time by 31.9%. Even though imports fell more than exports, the trade balance remains negative, 4.3 billion dollars. Agricultural and Extractive imports also decreased during the analysis period in both cases by 6.4% to a total of 10.3 billion dollars in the first category and 1.5 billion dollars in the second. The trade surplus generated by these last goods is insufficient to compensate for the oil and manufacturing trade deficit.

The imports of Transport and Communications, as well as Machinery and Equipment, continues to grow at double digits in cumulative figures as it has been practically throughout the year. However, the trade balance of Transport and Communications remains positive, just over 53.5 billion dollars. In the other case, the balance is in deficit by 6.4 billion dollars. Similarly, Electrical and Electronic Equipment and Apparatus present a trade deficit of 15.7 billion dollars. In the agricultural sector, the country's international purchases of Corn and Soybeans continue to be the most relevant at the product level. Even though they decreased by 12.9% and 17.1% in their annual comparison, they maintained their relevance and accumulated 2.8 billion dollars and 1.7 billion dollars, respectively. In the case of corn, the trade deficit has decreased from levels of 3.1 billion dollars to 2.7 billion dollars. Wheat imports have also reduced significantly, in cumulative figures to the first half of 2024, by 16.8%, reducing the trade deficit from 881.9 billion dollars a year ago to 713.2 billion dollars.

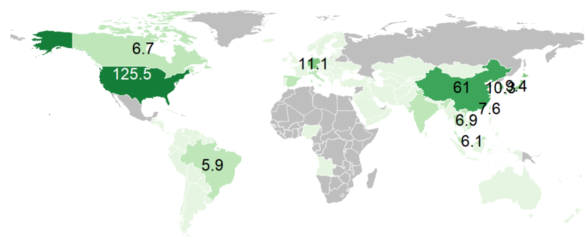
The concentration of Mexican exports is higher in North America

Mapa 1. **MEXICO: EXPORTS OF GOODS 2Q24**
(BILLIONS USD$, CURRENT PRICES)



Source: BBVA Research with data from Inegi

Mapa 2. **MEXICO: IMPORTS OF GOODS 2Q24**
(BILLIONS USD$, CURRENT PRICES)



Source: BBVA Research with data from Inegi

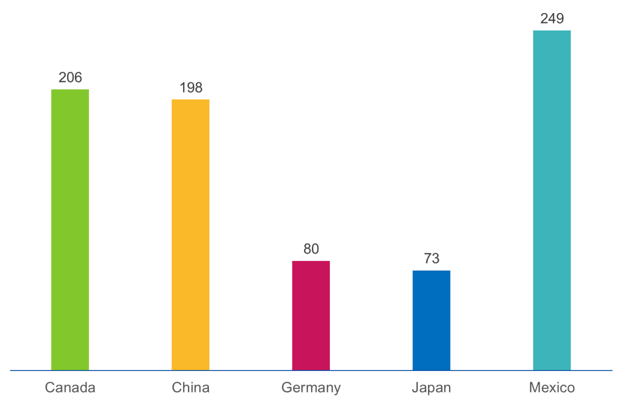
Up to 83.0% of Mexican exports went into the USA during the year's first six months. Canada is the second most important destination, followed by China, with shares of 3.1% and 1.6%. According to Inegi figures, exports worth 248.4 billion dollars were destined for the USA from January to June 2024, 3.2% more than a year earlier. Goods worth 9.2 billion dollars went into Canada, 9.5% more than the previous year, and 4.9 billion dollars to China, which represents a drop of 9.3%. On the other hand, exports to Europe fell 5.9%, totaling 14.1 billion dollars in this period, where 79.9% of the exports went into the European Union.

Imports are less concentrated than exports. However, the USA remains Mexico's main supplier of merchandise. USA imports worth 125.5 billion dollars represent 41.1% of the total, while Canada only accounts for 2.2% of the total or 6.7 billion dollars. On the other hand, China contributes 61.0 billion dollars, 20.1% of the total. Imports from the USA decreased by 3.0%, while those from Canada increased by 1.4% and, in the case of China, by 11.9%, despite some tariff restrictions.

These figures verify the trend of a greater concentration of Mexican exports in North America, particularly in the US. During the first six months of 2023, 85.4% of Mexican exports went to this region, but for the same period in 2024, this ratio increased to 86.1%. Although the difference is only 0.7%, this represents 8.5 billion dollars more, equivalent to the total exported to Canada in the first half of 2023 and almost double that to China so far in 2024.

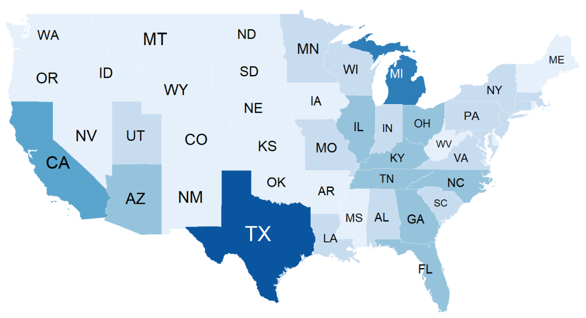
According to the foreign trade figures published by the Census, US imports from Mexico totaled 249 billion dollars during the first two quarters of 2024. In this way, it continues to maintain its dominant position as a supplier to the US. Canada and China continue to fight for second place, where Canada surpasses China by only 8 billion dollars. Germany and Japan are in the following positions but far from competing for first places. The USA imported a total of 1.6 billion dollars, 15.9%, from Mexico, with a growth of 5.5% compared to the year, a figure higher than the total of 3.1%. Both from Canada and China, the amount imported decreased by 2.2%.

Figure 5. **US IMPORTS BY COUNTRY 2Q24**
(BILLIONS USD$, CURRENT PRICES)



Fuente: BBVA Research con datos del Census

Mapa 3. **US IMPORTS FROM MEXICO 2Q24**
(BILLIONS USD$, CURRENT PRICES)

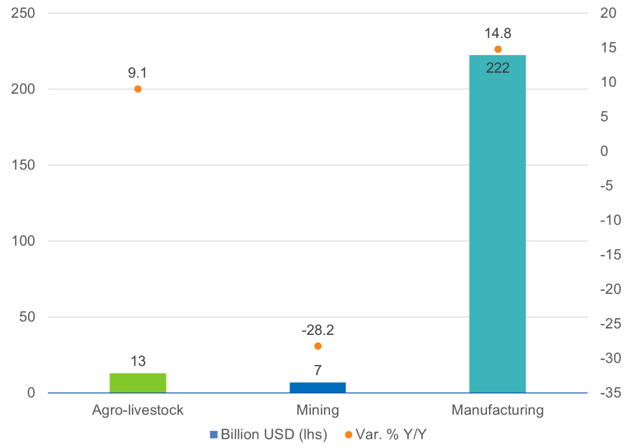


Fuente: BBVA Research con datos del Census

US demand for Mexican goods remains highly concentrated in manufactured goods. These imports totaled $222 billion during this period, 14.8% more than a year earlier. US agricultural and mining imports from Mexico only represent 8.2% of the total, at $19.8 billion. These amounts represent a 9.1% increase in the first case but a 28.2% decrease in the second.

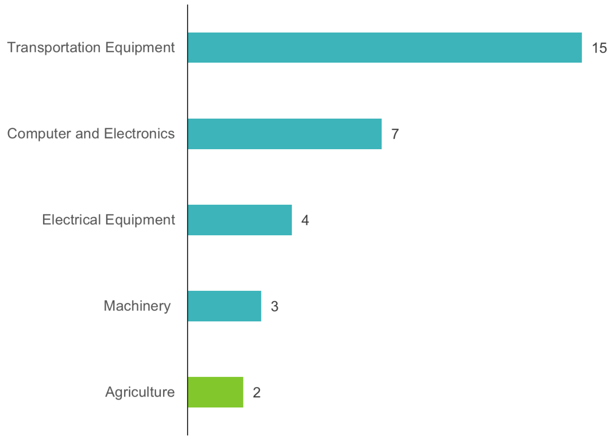
US demand for automotive products continues to improve. In the first half of this year, these imports went from $13.2 billion to $14.8 billion, an increase of 12.6%. Adding imports of Computer and Measurement equipment, Electrical and Generation, and Machinery and Equipment, we have a cumulative share of 66.9%, with each item showing an upward trend. The agricultural sector has little weight on both sides of the border but has performed well, going from 1.9 billion dollars to 2.1 billion dollars, representing an 8.0% increase. During this analysis period, oil and steel industry imports have also improved in nominal terms.

Figure 9. **US IMPORTS FROM MEXICO 2Q24 (BILLIONS USD$, CURRENT PRICES, RHS VAR. Y/Y)**



Source: BBVA Research with data from Inegi

Figure 10. **US IMPORTS FROM MEXICO 2Q24 (BILLIONS USD$, CURRENT PRICES)**



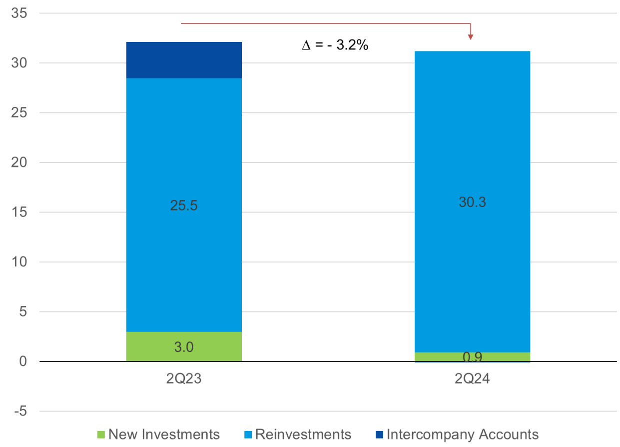
Source: BBVA Research with data from Inegi

In 2Q24, FDI inflows decrease due to fewer new investments

By mid-2024, Foreign Direct Investment (FDI) in Mexico totaled US$31.1 billion, a reduction of US$1.0 billion compared to the same period in 2023. This 3.2% drop is primarily due to lower new investments and intercompany accounts. In contrast, the reinvestment of profits continues to rise, going from US$25.5 billion to US$30.3 billion, 18.7% more annually. We don't see any significant changes from the sectoral perspective of this type of investment since Manufacturing continues to be the leading destination, followed by Financial Services. Manufacturing seized US$16.7 billion in this period, and Financial Services US$4.8 billion, accumulating two-thirds of the total FDI received by the country. The sectoral distribution of FDI reveals that the domestic market is also relevant for these investors, in addition to foreign trade, to which these amounts are usually primarily associated.

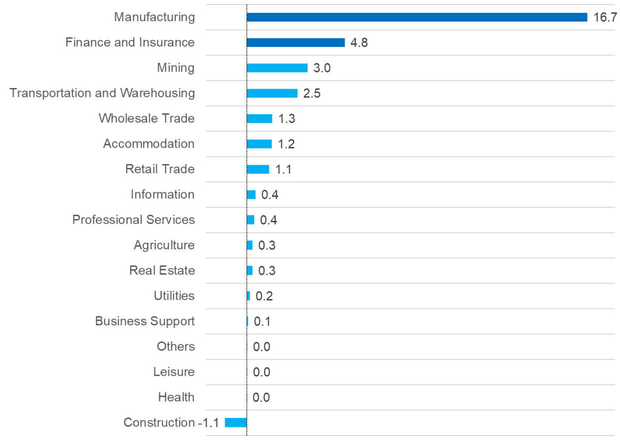
From the c. 16 billion dollars of FDI in the manufacturing sector, the Transportation Equipment (automotive) subsector lured 8.0 billion dollars, $1 billion more than observed until 2Q23. In second place is the Beverage and Tobacco industry with 4.1 billion dollars, a subsector that effectively has an export profile but is also very focused on the domestic market. Other relevant industries for foreign trade that attracted significant amounts of FDI are the Steel and Electronics industries, with 885.6 million dollars and 863.9 million dollars, respectively. In this period, the FDI attracted by the Chemical industry stands out, particularly the Pharmaceutical industry, with 972 million dollars, and the Manufacturing of Paints, Coatings, and Adhesives with 319 million dollars. In contrast, the result for the Construction sector is negative, registering a disinvestment of 1 billion dollars, particularly in Civil Engineering, since there is a higher FDI of 172 million dollars in Building. According to the Mexican Federal Expenditure Budget, this trend relates to the completion of infrastructure works and the reduced amount allocated to public works during 2024. Other subsectors registering disinvestment are manufacturing Machinery for just over 1 billion dollars, almost all during the first quarter of 2024. This FDI drop could be related to the poor performance of these exports, as mentioned above.

Figure 11. **MEXICO FDI INFLOW 2Q24**
(BILLIONS USD$, CURRENT PRICES)



Source: BBVA Research with data from Ministry of Economy (SE)

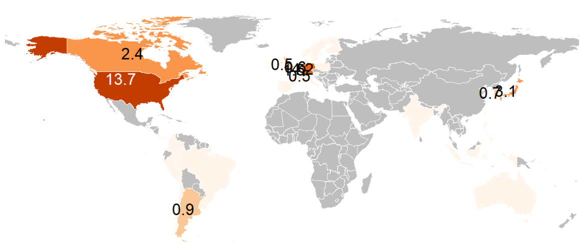
Figure 12. **MEXICO FDI INFLOW 2Q24**
(BILLIONS USD$, CURRENT PRICES)



Source: BBVA Research with data from Ministry of Economy (SE)

The US remains the leading investor in Mexico, accounting for 44.1% of the total. In 2Q24, FDI from this country amounted to US$13.7 billion. Germany, which occupies the second position, invested US$4.2 billion, representing 13.4% of the total. Thus, these two countries alone account for more than half of the total FDI in Mexico. In the case of the US, FDI is 5.7% higher than the previous year, and in the case of Germany, the increase is 63.8%. Japan received US$3.1 billion and Canada US$2.4 billion. In both cases, FDI increased by 28.2% in the first case and 51.8% in the second, at an annual rate. China's FDI doubled in this period, from US$113.2 million to US$235.1 million, but these amounts are irrelevant since they only account for 0.8% of the total. Therefore, there is no evidence of a greater flow of FDI from that country to Mexico. After Japan, the leading Asian investor in Mexico, South Korea invested US$677 million in the country, more than double that of China.

Figure 13. **MEXICO FDI INFLOW 2Q24**
(BILLIONS USD$, CURRENT PRICES)



Source: BBVA Research with data from Ministry of Economy (SE)

Figure 14. **MEXICO FDI INFLOW 2Q24**
(BILLIONS USD$, CURRENT PRICES)

Source: BBVA Research with data from Ministry of Economy (SE)

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