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US-Mexico trade: A few facts about the trade relationship and the risks to the MXN

- Most of Mexico's trade with the US is concentrated in relatively few states. In this document, we provide a snapshot of the top 5 US states with most trading activity with Mexico.

- Nearly 65% of all exports to Mexico and 67% of all imports come from five states. The nature of these products suggests that many of them are demanded by the manufacturing industry and other shared production chains. Our main conclusions are that the states taking the brunt would be those with manufacturing industries oriented to transportation and electric and electronic equipment. Those states providing Mexico with agricultural products will be less affected. Finally, US states providing oil refined products will suffer the least because it is unlikely that Mexico will be able to increase refining and storage capacity in the near term, and so trade will continue but under different terms and conditions.

- Breaking up NAFTA will reduce the region's productivity, leading to a persistently weaker MXN, whose fundamental value would shift, according to our estimates, from USDMXN18.0 to USDMXN20.0.

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Most of Mexico's trade with the US concentrates in relatively few states. In this document we provide a snapshot of the top 5 US states that export, import and have surpluses or deficits with Mexico. This analysis provides insights on which would be the most affected if NAFTA is rejected. Our main conclusions are that the states taking the brunt would be those with manufacturing industries oriented to transportation and electric and electronic equipment, because of their supply chain integration with Mexico. Those states providing Mexico with agricultural products will be less affected, but countries such as Brazil and Argentina would gain market share within Mexico's agricultural imports. Finally, US states providing oil refined products will suffer the least because it is unlikely that Mexico will be able to increase refining and storage capacity in the near term, and so trade will continue but under different terms and conditions. Despite the diverging degree of potential state-level shocks, breaking up NAFTA would reduce the region's productivity, leading to a persistently weaker MXN whose fundamental value would shift, according to our estimates, from MXNUSD18.0 to MXNUSD20.0.

According to the US Census Bureau, in 2016, total trade between Mexico and the US was nearly USD523bn. Mexico accounts for 11% of total US trade and nearly 66% of it takes place with five states (see Figure 1).

Exports from the US to Mexico were nearly USD229bn, about 10% of total US exports. Nearly 65% of all exports to Mexico come from five states, predominantly Texas with 41% of the total (Figure 2). The main products that these states export to Mexico are computers, electronic products, electrical equipment, transportation equipment, chemicals and machinery, which represent on average 57% of total exports to Mexico. The nature of these products suggests that many of them are demanded by the manufacturing industry and other shared production chains. In fact, intermediate and capital goods account for 76.2% and 10.4%, respectively. In the case of Texas, petroleum and coal products rank second in the list of products exported to Mexico, while in Arizona, minerals and ores are the main exports.

In 2016, imports from Mexico were nearly USD294bn, about 11% of total US imports. As in the case of exports and total trade, nearly 67% of all imports from Mexico were demanded by five states (Figure 2), four of which are also the top exporters. The main products that these states import from Mexico are motor vehicles, motor vehicle parts, electrical equipment, audio and video equipment, and communications equipment, again signaling the relevance of supply chains in bilateral trade.

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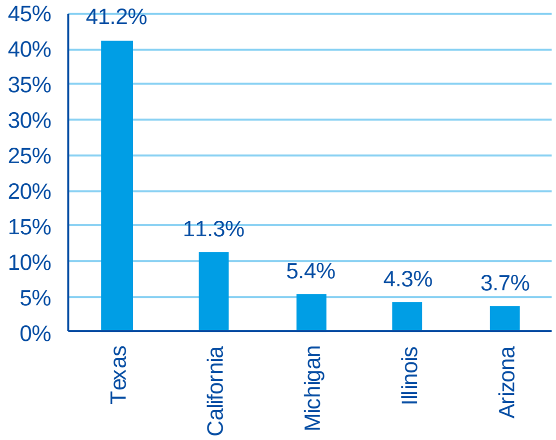
Figure 1

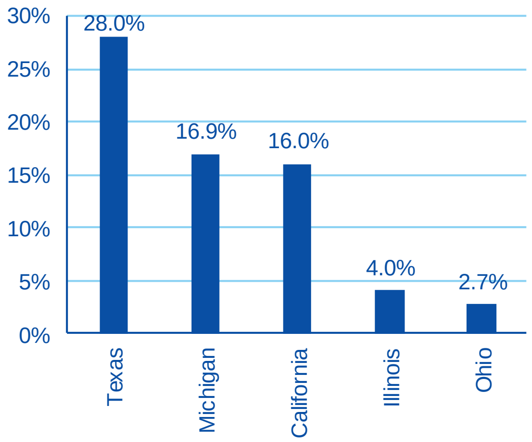
Top five US states exporting to Mexico (% of total exports to Mexico in 2016)



Source: US Census Bureau and BBVA GMR

Figure 2

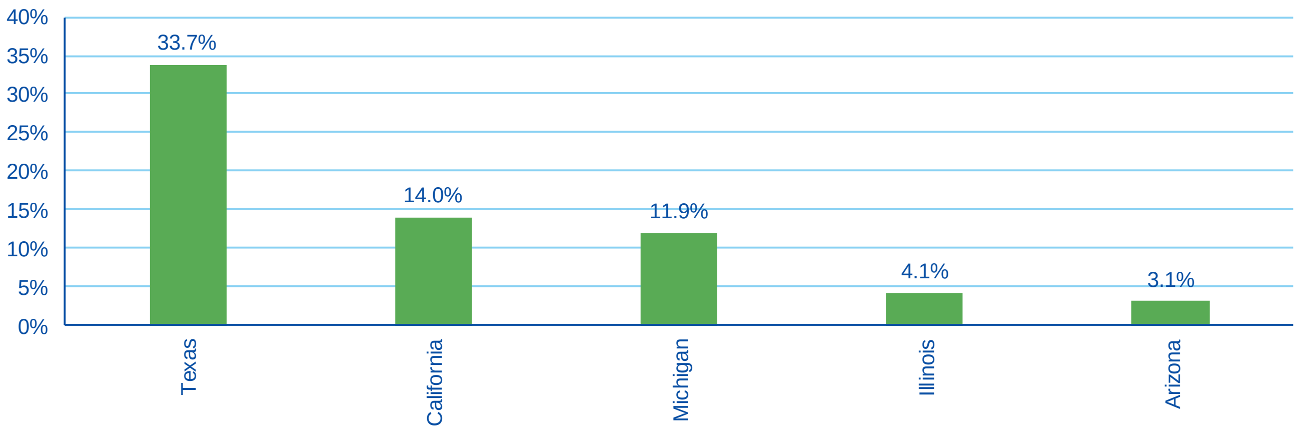
Top five US states importing from Mexico (% of total imports from Mexico in 2016)



Source: US Census Bureau and BBVA GMR

Figure 3

Top 5 US states trading with Mexico (% of total US trade with Mexico in 2016)



Source: US Census Bureau and BBVA GMR

Many of the products that these states exchange with Mexico are from industries where both countries have comparative advantages (see Table 3 and 4), mainly electric and electronic components and transport equipment. For more insights on the sectors where Mexico and the US have comparative advantages, please see our note from last year ***"Trading NAFTA: A snapshot of the complexities underlying bilateral trade"**, February 10, 2017.* The fact that both countries share comparative advantages in these sectors suggests that moving away from a free trade framework would dent the region's productivity. As we argued in our note ***"The end of NAFTA? No business as usual for local assets, but not a return to a barter economy either"**, October 20, 2017*, where we simulated such a shock, the reduction in Mexico's productivity and the deterioration of its current account would lead the MXN to a higher fundamental value. If NAFTA prevails, MXN's fundamental value should be around 18.0, but in the risk scenario, it should be around 20.0. Obviously, the scope for an overshooting above the new fundamental value, when and if the agreement ends, would be significant.

In 2016, the US trade deficit with Mexico was nearly USD64bn, which accounts for 12% of the total US trade deficit. The top 5 US net exporting states totaled a surplus of nearly USD18bn, with a weight of 12.4% in GDP. Texas had a trade surplus with Mexico of USD10bn, which represents almost 55% of the top 5 states with a positive balance.

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If the refining capacity and oil output do not increase in Mexico, Texas' net exports to Mexico will keep growing. Texas is the only net exporter, but also a top exporter, which suggests that its supply chain integration with Mexico is significant, even though the oil industry leads trade with Mexico. The other top net exporters are mainly agricultural producers, with the exception of Louisiana, which mostly exports refined oil products.

In contrast, the top 5 net importers total a deficit of nearly USD66bn, 77% of which is accounted for by Michigan and California. Michigan imports from Mexico mostly motor vehicles and motor vehicle parts, which represent 83% of the total. In California, motor vehicles, audio equipment, video equipment, fruits and tree nuts account for 42%. California and Michigan are also top exporters to Mexico, due to the integration of supply chains in the transport machinery industry and the electric and electronic device manufacturing.

Table 1

Top 5 US states that are net exporters to Mexico

State	2016 Trade Balance (USD Millions)	State share of US GDP in 2016 (%)
Texas	10,739	8.7%
Louisiana	4,385	1.3%
Nebraska	1,213	0.6%
Iow a	1,127	1.0%
Kansas	1,072	0.8%
Total	18,536	12.4%

Source: US Census Bureau, Bureau of Economic Analysis and BBVA GMR

Table 2

Top 5 US states that are net importers from Mexico

State	2016 Trade Balance (USD Millions)	State share of US GDP in 2016 (%)
Georgia	-2,943	2.9%
Florida	-2,954	5.0%
Kentucky	-2,971	1.1%
California	-21,083	14.3%
Michigan	-37,031	2.7%
Total	-66,982	26.0%

Source: US Census Bureau, Bureau of Economic Analysis and BBVA GMR

The trade partnerships described above provide good hints of which US states would be more adversely affected by a NAFTA breakup. The worst effects will probably be felt in California, Michigan and Kentucky, whose manufacturing industries have supply lines that are very integrated to Mexico. Iowa, Kansas and Nebraska, that export agricultural products to Mexico, would not fully lose their comparative advantages, but other countries —such as Brazil and Argentina— could gain market share within Mexico's agricultural. Finally, Texas and Louisiana, that provide Mexico with refined oil products, would suffer less in the near term given the difficulty to expand refining and storage capacity in the near term. Breaking up NAFTA would reduce the region's productivity, leading to a persistently weaker MXN, whose fundamental value would shift, according to our estimates, from USDMXN18.0 to USDMXN20.0.

Table 3

Top exporting industries (% of total exports of each State to Mexico)

Texas		California		Michigan		Ilinois		Arizona	
Industry	%	Industry	%	Industry	%	Industry	%	Industry	%
Computer and electronic products	28	Computer and electronic products	22	Transportation equipment	39	Transportation equipment	18	Minerals and ores	21
Petroleum and coal products	13	Transportation equipment	12	Machinery	14	Computer and electronic products	14	Computer and electronic products	18
Transportation equipment	11	Machinery	8	Electrical products	9	Machinery	11	Electrical equipment	13
Chemicals	9	Chemicals	7	Electrical equipment	9	Chemicals	11	Transportation equipment	9
Electrical equipment	8	Electrical equipment	7	Meat products	8	Electrical equipment	10	Plastics and rubber products	6
Total	69	Total	56	Total	79	Total	64	Total	67

Source: US Census Bureau and BBVA GMR

Table 4

Top importing industries (% of total imports of each State from Mexico))

Texas		Michigan		California		Ilinois		Ohio	
Industry	%	Industry	%	Industry	%	Industry	%	Industry	%
Computer equipment	16	Motor vehicles	52	Motor vehicles	27	Beverages	21	Motor vehicle parts	36
Motor vehicle parts	14	Motor vehicle parts	31	Audio and video equipment	9	Motor vehicle parts	12	Navegational instruments	10
Communications equipment	10	Electrcial equipment	3	Friuts an tree nuts	6	Audio and video equipment	11	Machinery	9
Oil and gas	7	Control instruments	2	Computer equipment	5	Electrcial equipment	7	Medical equipment	6
Motor Vehicles	5	Other	12	Medical equipmnet	5	Communications equipment	5	Electrical equipment	4
Total	52	Total	100	Total	52	Total	56	Total	65

Source: US Census Bureau and BBVA GMR

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