

# Timely Indicator of Economic Activity – Building signs of a deceleration in 3Q21

- Today, INEGI released its *Timely Indicator of Economic Activity* (IOAE, in Spanish) for August, as well as revised estimates for July
- July's forecast improved sequentially vs. the preliminary estimate, stronger both in industry and services. With this, the economy would rise 1.0% m/m (+8.7% y/y sa). Nevertheless, the base effect from June helps explain a great deal of this revision
- For August, they see -0.2% m/m (6.8% y/y sa). On the positive side, we note some resiliency in services despite the strong rebound in COVID-19 cases due to the 'delta' variant in the period
- In our view, the report suggests a more difficult environment for activity in 3Q21, albeit still consistent with sequential growth

**A more difficult backdrop for 3Q21.** INEGI released its *Timely Indicator of Economic Activity* (IOAE in Spanish), which points to some caution about the recovery [after the 1.5% q/q in the second quarter](#). In our view, the rebound of 'delta' cases and its effect on business and consumer confidence, as well as other disruptions, help explain a great deal of this likely moderation. Nevertheless, it is still consistent with sequential growth in 3Q21, albeit at a much lower pace. More positively, they anticipate services unchanged in August, alluding to the possibility of a more modest economic impact from the pandemic than in previous waves.

**Rebound in July.** The forecast stands at +8.7% y/y (range: 7.4% to 10.0%), 120bps lower than [the preliminary estimate](#) (sa). Sequentially, the economy would rise 1.0% m/m, above the preliminary estimate. This is driven by [better industrial performance](#), especially due to the rebound in manufacturing and construction. Services would have expanded 0.9%. Despite of this, we suggest caution as June was much worse than anticipated, so the base effect has an upward influence. According to our calculations –based on INEGI's estimate– activity would have grown 8.2% y/y nsa.

**Limitations will persist in August.** They estimate 6.8% y/y sa (range: 5.4% to 8.1%), resulting in -0.2% m/m. Industry is expected to decline (-0.5% m/m), signaling that supply and COVID-19 issues continued. Services would stand unchanged (0.0%), which would be favorable considering several new highs of daily cases during the period. We estimate +7.2 y/y with original data, with the base effect increasingly more challenging and one more working day in the annual comparison.

## Timely Indicator of Economic Activity

Seasonally adjusted figures unless stated otherwise

	IGAE (GDP-proxy)			Industrial production			Services		
	% y/y (nsa)	% y/y	% m/m	% y/y (nsa)	% y/y	% m/m	% y/y (nsa)	% y/y	% m/m
June	13.3*	13.4*	-0.9*	13.5*	13.6*	-0.5*	13.6*	13.6*	-0.7*
July	8.2	8.7	1.0	7.3*	8.0*	1.1*	8.4	9.3	0.9
August	7.2	6.8	-0.2	4.4	4.1	-0.5	9.0	8.3	0.0

\*Note: Actual data; Source: INEGI and Banorte

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This indicator is an effort by INEGI to forecast the monthly GDP-proxy IGAE five weeks in advance, which is very valuable. It is constructed through *nowcasting* methods, based on econometric models –which in turn rely on forward-looking high-frequency data to anticipate economic activity. By construction, INEGI publishes confidence intervals for these estimates; nevertheless, we focus only in the midpoint of these ranges.

Document for distribution among the general public

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We, Gabriel Casillas Olvera, Alejandro Padilla Santana, Delia María Paredes Mier, Juan Carlos Alderete Macal, Manuel Jiménez Zaldívar, Marissa Garza Ostos, Francisco José Flores Serrano, Katia Celina Goya Ostos, Santiago Leal Singer, José Itzamna Espitia Hernández, Alik Daniel García Álvarez, Víctor Hugo Cortes Castro, Hugo Armando Gómez Solís, Miguel Alejandro Calvo Domínguez, Luis Leopoldo López Salinas, Leslie Thalía Orozco Vélez, Gerardo Daniel Valle Trujillo and Juan Barbier Arizmendi, certify that the points of view expressed in this document are a faithful reflection of our personal opinion on the company (s) or firm (s) within this report, along with its affiliates and/or securities issued. Moreover, we also state that we have not received, nor receive, or will receive compensation other than that of Grupo Financiero Banorte S.A.B. of C.V for the provision of our services.

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