IGAE – Notable sequential contraction as conditions worsened in August

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- ***Global Economic Activity Indicator* (August): 4.3% y/y; Banorte: 6.5%; consensus: 6.4% (range: 4.4% to 7.5%); previous: 7.1%**
- **With seasonally adjusted figures it grew 3.8% y/y, below INEGI's *Timely Indicator of Economic Activity***
- **By sectors, industry stood at 5.5% y/y, with services lower at 3.8%, despite a more favorable base at the margin. Primary activities came in at 0.5%**
- **In monthly terms, the economy plunged 1.6%, consistent with a more complex backdrop. Performance inside was mixed, with industry (+0.4%) higher, albeit with services and agriculture declining 2.5% and 2.4%, respectively**
- **In our opinion, figures suggest that there was an impact from the 'third wave' of COVID-19 on activity, albeit being more modest relative to the first outbreak**
- **This result inserts relevant downward risks to our 3Q21 GDP forecast at +0.6% q/q (6.4% y/y), which will be published on Friday**

Economic activity rose 4.3% y/y in August. This was lower than both consensus (6.4%) and our 6.5% forecast. As in the previous months, the annual rate was lower given that the base effect is less favorable. In addition, there is a positive calendar effect due to one more working day in the annual comparison. Correcting for this, with seasonally adjusted figures it grew 3.8%, also below INEGI's *Timely Indicator of Economic Activity*. Back to original figures, industry grew 5.5% y/y, with services at 3.8%, as seen in Chart 2. Within both, strong differences across sectors persist, result of an uneven reopening in 2020 (Table 1). Turning our attention to services –given that we already knew results for industry–, important increases persist in non-essential categories such as lodging (63.9%) and transportation (15.5%). Meanwhile, essential were more stable, such as education and healthcare (0.7%), government (0.4%) and financial services (2.1%). Finally, the primary sector came in at 0.5%.

Relevant sequential decline amid a more challenging environment. The economy fell 1.6% m/m, nearly erasing accumulated gains for the last five months. This suggests that as epidemiological conditions reached their worst levels –at least in terms of daily COVID-19 cases– the toll on the economy grew. The impact was not as strong as in the 'first wave' as restrictions were not as severe and mobility was relatively resilient. However, it does compare unfavorably to the second outbreak, in which activity only fell 0.7% in February 2021. With these results, activity stands close to levels seen in early 2016, 3.4% below February 2020 –before the pandemic struck– and -5.2% vs. the historical high seen in August 2018 (Chart 4).

Overall, sector performance is consistent with the shock, as services were more affected than industry, despite relevant shocks on the latter from other factors (*e.g.* supply disruptions). For the former, we also do not rule out an impact from recent price pressures, impacting consumers' purchasing power.

In this sense, services fell 2.5% m/m, with six out of nine subsectors lower (Table 2). There was a steep 31.4% decline in professional services, followed by other notable contractions in wholesales (-6.5%) and recreational activities (-2.9%). Contrasting with the latter, lodging services increased 1.3%. In our view, the difference might be related to the type of purchases, with consumers usually buying the latter weeks or months in advance, making cancellations more difficult despite worse virus conditions. Retail sales edged-up 0.3%, positive considering an expansion in the previous month, and even higher than the performance in the stand-alone report. Education and healthcare fell 0.3%, surprising in our view given the return to in-person classes in the former, and more COVID-19 cases regarding the latter. Lastly, government services were more stable at -0.1%.

In addition, and as already known, industry expanded 0.4% (Chart 3). The breakdown showed a rebound in construction (1.9%) and manufacturing (0.2%), with an additional decline in mining (-0.1%). This was rather positive considering that risks seem to be more palpable in this sector. Lastly, primary activities plummeted 2.4% m/m, not ruling out impacts from several hurricanes in the period, highlighting *Nora* and *Grace*.

Downside risks to our +0.6% q/q forecast for 3Q21 GDP. Today's report was much more negative than we anticipated, with timelier data suggesting that the impact from the latest COVID-19 outbreak had been more modest. This was not the case though, with services taking a big hit, with increased cases likely driving more caution among consumers. Considering that we penciled in a mild 0.1% m/m expansion, this result implies a notable downward risk to our +0.6% q/q (6.4% y/y) forecast for 3Q21 GDP. Nevertheless, it is not entirely out of the realm of possibilities, as pent-up demand may have been released considering a notable improvement in epidemiological conditions through the last month of the quarter.

We still expect better results in September, with several timely signals suggesting more dynamism. These include mobility indicators, consumer and business confidence, and ANTAD sales, among others. In contrast, there were other data suggesting weakness, like IMEF's PMIs and employment losses, just to name a few. Hence, we are unsure if they would be enough to compensate for today's decline. Looking further ahead, signs so far in October and through the remainder of the year seem more favorable, at least for services, with the 'traffic light' indicator reaching some of its best levels. This should boost confidence among consumers further, just in time for the holiday season, which could result in increased sales of both goods and services, especially as key fundamentals –such as remittances– remain quite strong.

On the other hand, our main concern remains the possible impact of rising price pressures, which could dampen some of this optimism as available income is directed towards more essential categories –which tend to have less of an impact on value added–. This comes on top of additional warning signals for industry, with further reports that shortages will likely extend at least until 1H22, especially on semiconductors. For example, Intel's CEO, Pat Gelsinger, stated that we are experiencing the worst part of the shock, albeit with ripples probably lasting until 2023.

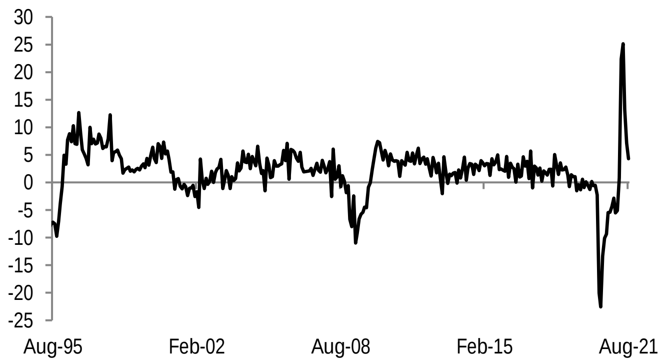
All in all, risks to our 6.2% full-year forecast are tilting further to the downside. However, we believe more data is still necessary to prompt a revision to our estimate, especially as the preliminary GDP print for 3Q21 will be released this Friday.

Table 1: Global economic activity indicator
% y/y nsa, % y/y sa

	y/y nsa				y/y sa	
	Aug-21	Aug-20	Jan-Aug'21	Jan-Aug'20	Aug-21	Aug-20
Total	4.3	-9.4	6.9	-9.9	3.8	-8.3
Agriculture	0.5	2.5	3.3	-0.8	0.8	3.3
Industrial production	5.5	-8.9	9.4	-12.9	5.2	-8.1
Mining	1.9	-3.9	1.8	0.3	1.7	-4.1
Utilities	-4.8	-3.4	-0.8	-6.1	-4.9	-3.5
Construction	8.7	-13.1	10.0	-19.4	7.6	-13.7
Manufacturing	6.6	-9.3	12.8	-14.3	6.1	-7.3
Services	3.8	-10.1	5.9	-8.9	3.4	-8.7
Wholesale	7.7	-11.0	13.4	-12.9	5.5	-7.7
Retail	14.3	-12.3	13.5	-13.9	12.0	-9.8
Transport	15.5	-21.8	9.8	-16.1	15.3	-20.8
Financial services	2.1	-1.1	0.9	-0.6	2.1	-1.1
Professional services	-39.7	-2.7	-2.8	-3.6	-39.5	-1.3
Education and healthcare services	0.7	0.3	2.6	-1.8	0.4	0.9
Recreational services	10.6	-22.1	2.3	-18.2	10.3	-22.3
Lodging services	63.9	-53.4	27.9	-45.2	64.0	-53.4
Government services	0.4	2.4	-0.6	3.6	0.4	2.3

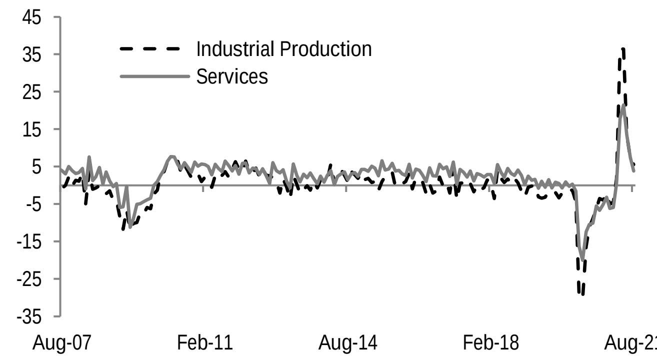
Source: INEGI

Chart 1: Global economic activity indicator
% y/y nsa



Source: INEGI

Chart 2: Global economic indicator by component
% y/y nsa



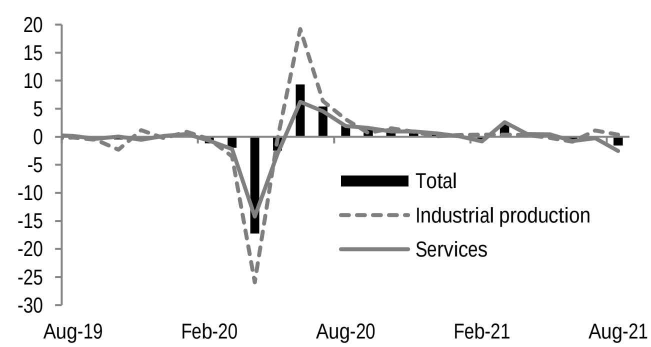
Source: INEGI

Table 2: Global economic activity indicator
% m/m sa, % 3m/3m sa

	% m/m, sa			% 3m/3m sa	
	Aug-21	Jul-21	Jun-21	Jun-Aug'21	May-Jul'21
Total	-1.6	0.1	-1.0	-1.1	0.6
Agriculture	-2.4	1.9	-4.4	-0.3	3.3
Industrial production	0.4	1.2	-0.9	0.0	0.0
Services	-2.5	-0.2	-0.7	-1.3	1.1

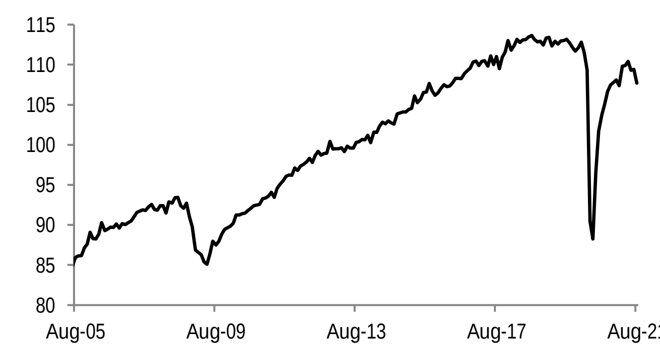
Source: INEGI

Chart 3: Global economic activity indicator
% m/m sa



Source: INEGI

Chart 4: Global economic activity indicator
Index sa



Source: INEGI

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