

Timely Indicator of Economic Activity – Timid signs of a moderation ahead

- Today, INEGI released its *Timely Indicator of Economic Activity (IOAE, in Spanish)* for August, as well as revised estimates for July
- July’s estimate was revised upwards relative to the preliminary figure, now at 0.4% m/m, (1.8% y/y sa). This was driven by additional strength in both industry and services
- August is expected at 0.0% m/m (2.9% y/y sa). This is consistent with timelier data suggesting a moderation, especially for industry, but also for services
- These results are in line with our call of a growth slowdown in 3Q22 GDP, with greater risks in the horizon. Nevertheless, some bright spots remain, especially for domestic consumption

Likely deceleration in 3Q22 growth. INEGI released its *Timely Indicator of Economic Activity (IOAE in Spanish)*, pointing to a slowdown in the recovery trend, in line with our view for GDP in the third quarter. This responds to an increasingly challenging backdrop, with inflationary pressures still rising –also resulting in more monetary tightening by global central banks– and persistent supply chain disruptions. On top of this, signs from the US suggest a decline in some sectors, including industry, which could have a negative spillover effect on Mexico. However, some positive factors remain present and will be key to support dynamism in the short-term. Most of them are related to fundamentals for consumption, highlighting remittances –with remarkable strength in the last couple of prints– and employment, to name a few.

Modest expansion in July... The revised figure came in at +1.8% y/y (range: 0.7% to 3.0%), 35bps higher relative to the previous estimate (sa). In sequential terms, this implies +0.4% m/m (previous: -0.1%). [Industry surprised to the upside](#) at +0.4% m/m, driven by manufacturing. Services are also expected higher, at 0.2%. Therefore –and based on our calculations–, activity in the month would have grown 1.1% y/y (nsa).

...with a moderation in August. The estimate stands at +2.9% y/y (range: 0.8% to 4.9%), which translates to 0.0% m/m. Inside, industry would be the weakest at -0.1% m/m, consistent with weak signals from manufacturing and housing in the US, while services would be slightly better at 0.0% –relatively in line with early data from other indicators. Therefore, we estimate +3.9% y/y in the period (nsa).

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	1.6*	1.6*	-0.3*	3.8*	3.8*	0.1*	0.8*	0.8*	0.0*
July	1.1	1.8	0.4	2.6*	3.5*	0.4*	0.3	1.1	0.2
August	3.9	2.9	0.0	3.7	3.1	-0.1	3.5	2.6	0.0

*Note: Actual data: for actual data for industrial production, figures are taken from the last report from the sector and not from the available IGAE figures
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.

Winners of the award for best economic forecasters for Mexico in 2021, granted by *Refinitiv*



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