

Timely Indicator of Economic Activity – Year-end weakness as services and industry contract

- Today, INEGI released its *Timely Indicator of Economic Activity (IOAE, in Spanish)* for December, as well as revised figures for November
- Although the indicator for November improved relative to the preliminary estimate, for December it anticipates a sequential contraction for the first time since the recovery started, back in June
- For November, they estimate -4.3% y/y (seasonally adjusted), above the first estimate of -5.0%, driven again by better results in industry. Services were revised down despite the extended period of *El Buen Fin* (Mexico’s Black Friday). Sequentially, it implies a slight uptick to 0.2% m/m from 0.1% previously
- The forecast for December stands at -5.4% y/y sa (-4.6% y/y nsa). This would be consistent with a 0.9% m/m decline, in our view affected by worse epidemiological conditions globally and locally, especially impacting services (e.g. retail sales and tourism)

Expected deceleration by year-end 2020. Today, INEGI released its *Timely Indicator of Economic Activity (IOAE in Spanish)*, signaling mixed results by year-end. According to our calculations, growth extended in November (see table below). [As already known](#), industry grew 1.1% m/m, with services estimated at 0.5%, also above [the first estimate of null growth](#), although explained by a base effect. In contrast, they see a contraction of 0.9% in December, which would be its first fall since the reopening started after lockdowns in April/May.

Stronger November... The institute expects -4.3% y/y (sa) (range: -5.2% to -3.1%), 73bps above the previous estimate. This implies an expansion of around 0.2% m/m, in our view quite modest. Services are projected at -5.4% (range: -6.1% to -4.1%), also better than before and at 0.5% m/m. Retail sales will likely improve given distortions because of the extended period of *El Buen Fin*, albeit with mixed signals from vehicle and gasoline sales, among others. This would translate to a 4.8% y/y nsa decline of IGAE.

...but with a difficult December. The forecast is at -5.4% y/y (range: -6.4% to -4.4%) and down 0.9% in sequential terms. By sectors, they see industry at -4.9% y/y (range: -6.7% to -3.6%) and services at -6.6% (range: -7.6% to -5.7%). In our view, this is consistent with: (1) An increasingly more difficult base effect; and (2) worsening epidemiological conditions, with Mexico City and the State of Mexico reversing to ‘red’ in the traffic light indicator, affecting mostly services. Moreover, IMEF indicators declined, both still in contraction. We obtain a 4.6% y/y nsa decline.

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
October	-5.3*	-4.9*	1.6*	-3.4*	-3.1*	1.8*	-6.7*	-6.2*	0.7*
November	-4.8	-4.3	0.2	-3.7*	-3.3*	1.1*	-5.8	-5.4	0.5
December	-4.6	-5.4	-0.9	-4.0	-4.9	-1.3	-5.8	-6.6	-1.1

*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.

Winners of the award for best economic forecasters for Mexico in 2019, given by *Refinitiv*



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