

Timely Indicator of Economic Activity – A pause in the recovery at the start of 2021

- Today, INEGI released its *Timely Indicator of Economic Activity (IOAE, in Spanish)* for January, as well as revised estimates for December
- For December, the forecast [improved relative to the first estimate](#), mainly on much better industrial performance. Services were also revised higher. Despite of this, it implies a sequential decline of 0.7% m/m (previous: -0.9%)
- They estimate -4.4% y/y in January (seasonally adjusted). Services would be again the weakest sector, in our view affected by worse global and domestic COVID-19 dynamics. In this case, total activity would barely grow, at around 0.2% m/m
- These forecasts suggest a loss in economic momentum at the start of 2021, consistent with our view of a 0.3% q/q decline in the first quarter, albeit with heightened risks to the downside

A bump in the recovery. INEGI released its *Timely Indicator of Economic Activity (IOAE in Spanish)*, signaling greater challenges to economic dynamism. We think this is mainly driven by higher restrictions due to COVID-19 given the deterioration in the ‘traffic light’ indicator. According to our calculations, for December and January they anticipate -0.7% and +0.2% m/m, respectively. If this is the case, the recovery that started in June 2020 would stall, with 1Q21 poised to face renewed headwinds.

December, with distortions in services. The institute expects -4.2% y/y (sa) (range: -5.3% to -3.2%), +125bps from the previous estimate. This would imply around -0.7% m/m. Weakness would be centered on services, at -5.0% (range: -5.9% to -3.9%), with [modest sequential growth in industry](#). We believe details will show bad results in retail sales, with consumers bringing forward holiday purchases to November –taking advantage of *El Buen Fin* (Mexico’s Black Friday)– along the closure of shopping malls in some states. This would translate to a -3.2% y/y nsa decline of IGAE.

With a marginal uptick in January. The forecast is at -4.4% y/y sa (range: -5.4% to -3.5%), resulting in a 0.2% m/m advance. Industry would be at -4.1% y/y (range: -5.3% to -3.4%) and services at -5.4% (range: -6.4% to -4.4%). In line with this, we see a lingering impact from new lockdowns and other idiosyncratic factors. This was also seen in mobility indicators and a [divergent performance in IMEF PMIs](#). We calculate a 5.6% 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
November	-3.9*	-3.5*	0.9*	-3.8*	-3.4*	1.0*	-4.8*	-4.5*	1.1*
December	-3.2	-4.2	-0.7	-2.1*	-3.2*	0.1*	-4.0	-5.0	-0.6
January	-5.6	-4.4	0.2	-5.5	-4.1	0.0	-6.9	-5.4	-0.2

*Note: Actual data
Source: INEGI and Banorte

February 19, 2021

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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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We, Gabriel Casillas Olvera, Alejandro Padilla Santana, Delia María Paredes Mier, Juan Carlos Alderete Macal, Manuel Jiménez Zaldívar, Marissa Garza Ostos, Tania Abdul Massih Jacobo, Francisco José Flores Serrano, Katia Celina Goya Ostos, Santiago Leal Singer, José Itzamna Espitia Hernández, Valentín III Mendoza Balderas, Víctor Hugo Cortes Castro, Hugo Armando Gómez Solís, Miguel Alejandro Calvo Domínguez, Luis Leopoldo López Salinas, Leslie Thalía Orozco Vélez, Gerardo Daniel Valle Trujillo, Eridani Ruibal Ortega 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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