

Timely Indicator of Economic Activity – Signals of a decline in February amid industry shocks

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- Today, INEGI released its *Timely Indicator of Economic Activity (IOAE, in Spanish)* for February, as well as revised estimates for January
- For January, the forecast [improved relative to the first estimate](#), both due to a better performance on industry (with actual data) and an upward revision for services. This implies +0.2% m/m in total activity, adding eight months to the upside
- Turning to February, they estimate -4.0% y/y (seasonally adjusted). This considers the shock from blackouts and lack of natural gas, dragging industry. Meanwhile, services would be more stable, aided by better epidemiological conditions. In this case, the economy terms would decline by 0.4% m/m sequentially
- These estimates are consistent with dampened dynamism at the start of the year, with the improvement in contagions wiped out by the external shock. Hence, we still expect a 0.2% q/q fall in 1Q21 GDP

Difficult start of the year for activity. INEGI released its *Timely Indicator of Economic Activity (IOAE in Spanish)*, reflecting a difficult backdrop at the start of 2021, setting the table for a sequential decline in the first quarter. Specifically, epidemiological conditions deteriorated in January and early February, only to improve sharply in the second half of the latter month. However, extreme cold weather at the Northern border –that resulted in blackouts and the undersupply of natural gas– likely impacted industry the most.

January with services somewhat depressed. The institute expects -4.0% y/y (range: -5.5% to -2.6%), with an adjustment of +37bps vs. the previous estimate (sa). This would imply an expansion of around 0.2% m/m. Services would remain lower at -4.4% (range: -5.9% to -2.9%), with a [modest sequential gain in industry](#). In the details, we see a poor performance in retail sales and other services exposed to higher social interactions, affected by additional lockdowns. On the contrary, it is likely that we could see some stability in essential sectors such as healthcare. With nsa figures, this would result in a 5.3% decline.

Activity to decline in February. The forecast came in at -4.0% y/y sa (range: -5.5% to -2.5%), resulting in a 0.4% m/m contraction, which would be its first since last May. Industry would be at -4.2% y/y (range: -6.3% to -2.2%) and services at -4.3% (range: -6.0% to -2.7%). This would be consistent with the impact stemming from energy outages in the country’s northern region, especially on manufacturing, as already evidenced in auto production. Meanwhile, ANTAD sales were better as we observed a recovery in mobility levels. Using nsa figures we obtain a 5.0% y/y decline, also impacted by the leap-year base effect.

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

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
December	-2.7*	-3.7*	0.1*	-2.1*	-3.2*	0.1*	-3.1	-4.3	0.4
January	-5.3	-4.0	0.2	-4.9*	-3.7*	0.2*	-5.8	-4.4	0.0
February	-5.0	-4.0	-0.4	-5.9	-4.2	-0.4	-5.1	-4.3	0.0

*Note: Actual data; Source: INEGI and Banorte

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