

Timely Indicator of Economic Activity – Hints of strength at the end of 1Q21

- Today, INEGI released its *Timely Indicator of Economic Activity (IOAE, in Spanish)* for March, as well as revised estimates for February
- For February, the forecast [improved relative to the first estimate](#) due to a better performance on industry (with actual data), albeit with services broadly unchanged. However, it implies a contraction of 0.3% m/m in total activity, breaking with eight months to the upside
- In March they estimate -2.1% y/y (seasonally adjusted). This incorporates an overall more positive outlook both for industry and services. Nevertheless, it also starts showing distortions from the pandemic in the annual comparison. In this case, the economy would rise 0.3% m/m
- These estimates signal a more vigorous than expected economic performance, lowering the possibility of a sequential contraction in 1Q21 GDP

Better-than-expected start of the year for activity. INEGI released its *Timely Indicator of Economic Activity (IOAE in Spanish)*, which showed that, despite a deceleration of the economy in a more complex environment at the start of the year –both due to worsening epidemiological conditions along shocks on the energy market–, it managed to show some resiliency. Given these estimates, the possibility of a sequential GDP decline of the economy in the quarter has fallen considerably, awaiting this release next week (April 23rd).

February remains in contraction despite upward revisions. The institute expects -3.9% y/y (range: -5.3% to -2.5%), with an adjustment of +7bps vs. the previous estimate (sa). Services would remain lower in absolute terms at -4.3% (range: -5.8% to -2.8%), with a [strong positive surprise in industry](#). This would imply a contraction of close to 0.3% m/m despite increases in both subsectors. In services, we expect positive results in retail sales, albeit with some deceleration in tourism-related categories. With nsa figures, this would result in a 4.9% y/y decline, slightly skewed down due to the leap year.

Higher dynamism, albeit mixed, in March. The forecast came in at -2.1% y/y sa (range: -3.6% to -0.6%), resulting in a sequential expansion of 0.3% m/m. Industry would stand at -0.9% y/y (range: -3.3% to 1.4%) and services at -3.1% (range: -4.8% to -1.4%). This would be consistent with better virus dynamics, along the fading of shocks in the previous month. Moreover, it could be reflecting an additional boost from the approval of the latest stimulus package in the US. Using nsa figures we obtain a 1.9% y/y decline, benefitted by an additional working day in the annual comparison.

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
January	-5.4*	-4.2*	0.1*	-5.0*	-3.7*	0.2*	-6.1*	-4.6*	-0.1*
February	-4.9	-3.9	-0.3	-4.5*	-3.1*	0.4*	-5.1	-4.3	0.1
March	-1.9	-2.1	0.3	-0.8	-0.9	-0.2	-2.8	-3.1	0.0

*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.

Document for distribution among the general public

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