

Timely Indicator of Economic Activity – An extension of the recovery in April and May

- Today, INEGI released its *Timely Indicator of Economic Activity (IOAE, in Spanish)* for May, as well as revised estimates for April
- April’s estimate increased [relative to the preliminary figure](#), with a stronger industry (already published) and slightly weaker services. It implies +0.1% m/m (+21.6% y/y; sa), stringing two months to the upside
- For May they forecast a 24.8% y/y expansion (sa), still heavily skewed by the pandemic. Sequentially, it implies +0.3% m/m, in our view consistent with a further improvement on virus conditions, employment, and overall activity levels
- Forecasts are aligned with our call of a good performance in activity during 2Q21, driven mostly by services. On the other hand, we stay relatively more cautious about risks for industry given supply chain disruptions

Favorable outlook for 2Q21. INEGI released its *Timely Indicator of Economic Activity (IOAE in Spanish)*, pointing to a good performance in the second quarter of the year, helped by several tailwinds (*e.g.* vaccinations, stimulus from abroad, domestic optimism), especially for services. This is consistent with our call of 1.1% q/q growth in the period’s GDP. Despite of this, industry remains vulnerable, with risks stemming from a plethora of global supply-chain issues.

Upward revision for April. The institute expects +21.6% y/y (range: 20.3% to 23.0%), up 108bps vs. the preliminary estimate (sa). Industry had [already been larger-than-expected](#), despite contracting sequentially. For services, the estimate was adjusted an inch lower, albeit with a more positive performance in sequential terms. Total performance implies +0.1% m/m, in our view very positive considering the expansion of the previous month, with further momentum as the economy kept reopening. With nsa figures this translates to about 22.7% y/y, with mixed calendar effects and heavily distorted by the base due to the pandemic.

Optimism on May, with dynamism extending higher. The forecast came in at 24.8% y/y sa (range: 23.3% to 26.2%), which we estimate would result in +0.3% m/m. This would signal that activity gained further traction, in our view mostly related to a further improvement in COVID-19 conditions. Industry would stand at 36.4% y/y (range: 33.4% to 39.4%) and services at 19.8% (range: 18.3% to 21.2%). We estimate +24.6% y/y with original figures, still highly skewed up as the economy was going through its worst moment of 2020.

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
March	0.8*	0.4*	2.6*	1.7*	1.5*	0.7*	0.3*	-0.2*	3.1*
April	22.7	21.6	0.1	36.6*	35.7*	-0.2*	17.1	16.3	0.0
May	24.6	24.8	0.3	36.2	36.4	0.1	19.5	19.8	0.3

*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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We, Gabriel Casillas Olvera, Alejandro Padilla Santana, Delia María Paredes Mier, Juan Carlos Alderete Macal, Manuel Jiménez Zaldívar, Marissa Garza Ostos, Francisco José Flores Serrano, Katia Celina Goya Ostos, Santiago Leal Singer, José Itzamna Espitia Hernández, 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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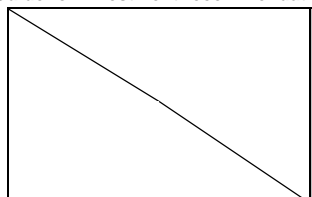
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