

Timely Indicator of Economic Activity – Deceleration of the recovery in 3Q21

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- Today, INEGI released its *Timely Indicator of Economic Activity (IOAE, in Spanish)* for September, as well as revised estimates for August
- August's forecast improved sequentially vs. the preliminary estimate, mainly on greater strength in industry, albeit with services also better at the margin. With this, the economy would stand at 0.0% m/m (+6.2% y/y sa). We should mention that this is partly because of a more favorable base effect from July
- For September, they see +0.1% m/m (5.0% y/y sa). On the positive side, lower COVID-19 cases may have benefited services. However, industry remains quite limited, affected by persistent supply constraints
- These results suggest that the economy would have grown near 0.6% q/q in 3Q21, signaling that the recovery extended, but at a more modest pace

The recovery continues in 3Q21, albeit at a more modest pace. INEGI released its *Timely Indicator of Economic Activity (IOAE in Spanish)*. With this release, we now have a complete estimate for the third quarter. It shows that the recovery continued, with an expansion near 0.6% q/q (+6.4% y/y, implied by aggregating data), but at a slower pace. We believe this was largely explained by two factors: (1) Worsening pandemic conditions, both at a global and local level; and (2) persistent supply shocks and other issues (weather, accidents in mining) dampening industrial output. While the former has been improving lately, the latter seems to have extended further, with risks to our 6.2% whole-year estimate.

Upward revision for August. The forecast stands at +6.2% y/y (range: 5.0% to 7.4%), 56bps below the [first estimate](#) (sa). However, this would equate to 0.0% m/m, stronger than the preliminary forecast. The latter was driven by higher dynamism in [industry](#), both in construction and manufacturing. Services would have grown 0.1%. In this sense, a great deal of the revision would come from a more modest print in July. According to our calculations –based on INEGI's estimate– activity would have grown 6.7% y/y nsa.

Limited performance in September. They estimate 5.0% y/y sa (range: 3.7% to 6.2%), resulting in +0.1% m/m. Industry would contract (-0.5% m/m), consistent with persistent supply constraints impacting manufacturing, as well as other temporary issues. Services would come in at +0.1%, possibly benefited by improving COVID-19 conditions and less fear by consumers. We estimate +4.8% y/y with original data, with a more challenging base effect, albeit with the same number of working days in the annual comparison.

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
July	7.1*	7.7*	0.5*	7.3*	8.1*	1.2*	7.4*	8.4*	0.3*
August	6.7	6.2	0.0	5.5*	5.2*	0.4*	8.3	7.8	0.1
September	4.8	5.0	0.1	3.9	4.0	-0.5	5.9	6.1	0.1

*Note: Actual data: Source: INEGI and Banorte

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