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Timely Indicator of Economic Activity – Slight moderation through the end of 3Q22

- Today, INEGI released its *Timely Indicator of Economic Activity* (IOAE, in Spanish) for September, as well as revised estimates for August
- August's estimate was revised up relative to the preliminary figure, now at 0.1% m/m, (3.2% y/y sa) on marginally stronger dynamism in industry, but with services flat
- September is expected at 0.0% m/m (3.3% y/y sa). The deceleration would be consistent with some prevailing risks –particularly for services–, albeit with some favorable signs for factory production
- Using available data along these estimates, GDP in 3Q22 would have grown around 0.6% q/q (+3.0% y/y). This is consistent with our current forecast, and would be positive considering accumulated progress in the first half of the year

Activity kept growing in 3Q22. INEGI released its *Timely Indicator of Economic Activity* (IOAE in Spanish) for August and September. Using July's <u>GDP-proxy (IGAE)</u> along these estimates, GDP in the third quarter would have expanded close to 0.6% q/q (+3.0% y/y). Although this is lower than the 1.1% and 0.9% seen in 1Q22 and 2Q22, respectively, we believe the result is favorable on: (1) The progress already accumulated in the first half of the year; and (2) more headwinds in the period, including higher inflationary pressures, an acceleration in monetary tightening, and fears over a US recession. This, in a context in which supply chain disruptions continue, despite improving at the margin. Nevertheless, we think that strength in fundamentals (*e.g.* employment and remittances) remain key to support dynamism.

Improvement in August's figures... The revised print came in at +3.2% y/y (range: 2.0% to 4.4%), 30bps higher than the previous estimate (sa). In sequential terms, this implies +0.1% m/m (previous: 0.0%). <u>Industry was unchanged</u> at 0.0% m/m, highlighting resiliency in manufacturing, while services were not revised, also at 0.0%. Therefore –and based on our calculations–, activity in the month would have grown 4.1% y/y (nsa).

...with a moderation in September. The estimate stands at +3.3% y/y (range: 2.0% to 4.6%), which translates into 0.0% m/m. Inside, industry would stay flat –in our view, likely supported by manufacturing–, while services would moderate to -0.1% –consistent with early data from other timely indicators, such as <u>IMEF's</u> non-manufacturing PMI and ANTAD sales. Therefore, we estimate +3.1% y/y in the period (nsa).

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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.

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Timely Indicator of Economic Activity
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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	1.3*	2.2*	0.4*	2.6*	3.5*	0.4*	0.8*	1.7*	0.4*
August	4.1	3.2	0.1	3.9*	3.0*	0.0*	4.0	3.1	0.0
September	3.1	3.3	0.0	3.6	4.1	0.0	3.0	3.1	-0.1

*Note: Actual data; for actual data for industrial production, figures are taken from the last report from the sector and not from the available IGAE figures Source: INEGI and Banorte



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We, Alejandro Padilla Santana, Juan Carlos Alderete Macal, Alejandro Cervantes Llamas, Manuel Jiménez Zaldívar, Marissa Garza Ostos, Katia Celina Goya Ostos, Francisco José Flores Serrano, José Luis García Casales, Víctor Hugo Cortes Castro, José Itzamna Espitia Hernández, Carlos Hernández García, Leslie Thalía Orozco Vélez, Hugo Armando Gómez Solís, Yazmín Selene Pérez Enríquez, Cintia Gisela Nava Roa, Miguel Alejandro Calvo Domínguez, Daniela Olea Suárez, José De Jesús Ramírez Martínez, Gerardo Daniel Valle Trujillo, Luis Leopoldo López Salinas, Isaías Rodríguez Sobrino, Paola Soto Leal, Daniel Sebastián Sosa Aguilar and Salvador Austria Valencia 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 Beanorte S.A.B. of C.V for the provision of our services.

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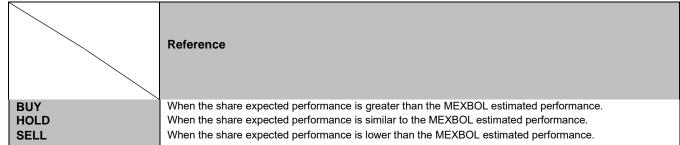
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