

Timely Indicator of Economic Activity – Activity likely kept growing in 2Q23

- Today, INEGI released its *Timely Indicator of Economic Activity* (IOAE, in Spanish) for May, as well as revised estimates for April
- April's estimate was revised up relative to the preliminary figure, standing at 0.6% m/m (2.4% y/y sa), driven by services and despite a downward surprise in industry
- For May, they anticipate 0.1% m/m (2.5% y/y) despite some mixed signals. Both industry and services would climb 0.1%
- These results are consistent with our view of a moderation in the pace of growth in 2Q23, albeit still resilient in a more challenging external backdrop

Resilience in activity through 2Q23. INEGI released its *Timely Indicator of Economic Activity* (IOAE in Spanish). In our view, the results for the first two months of the second quarter of 2023 suggest that economic activity will likely post another sequential increase –adding a seventh straight period up. However, the pace will be more modest considering a challenging base along with growing headwinds from abroad, including a more modest recovery in China and increased US recession risks. However, we expect resilience in domestic conditions to keep playing a key part in driving GDP through the remainder of 2023.

Relevant rebound in April... The revised print came in at +2.4% y/y (range: 1.2% to 3.6%), 20bps lower vs the previous estimate (sa). This translates to a sequential uptick of 0.6% m/m (previous: +0.4%). We highlight [industry](#) (0.4% m/m), lower than anticipated given a contraction in construction, albeit with manufacturing relatively strong. Meanwhile, services would have advanced 0.6%, breaking with two months of declines, supported by consumption fundamentals and a moderation in inflationary pressures. Therefore, and based on our calculations, activity advanced 1.6% y/y (nsa).

...with a more modest increase in May. The estimate stands at +2.5% y/y (range: 1.3% to 3.7%), implying 0.1% m/m. Industry would also stand at 0.1% m/m, with possible resilience in manufacturing given some signs of stability in the US, not ruling out a rebound in construction. Services (0.1%) would also be more stable, noting a deterioration in ANTAD sales and lower dynamism in IMEF's non-manufacturing PMI, albeit with additional progress on [prices](#). As such, we estimate +3.6% 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.

Winners of the 2023 award for best Mexico economic forecasters, granted by *Focus Economics*



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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	2.7*	2.7*	-0.3*	1.5*	1.4*	-0.9*	3.3*	3.3*	-0.1*
April	1.6	2.4	0.6	0.7*	1.6*	0.4*	1.9	2.6	0.6
May	3.6	2.5	0.1	2.5	1.4	0.1	4.1	2.9	0.1

*Note: 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 Thalia Orozco Vélez, Hugo Armando Gómez Solís, Yazmín Selene Pérez Enríquez, Cintia Gisela Nava Roa, Miguel Alejandro Calvo Domínguez, José De Jesús Ramírez Martínez, Gerardo Daniel Valle Trujillo, Luis Leopoldo López Salinas, Isaías Rodríguez Sobrino, Paola Soto Leal, Daniel Sebastián Sosa Aguilar and Andrea Muñoz Sánchez, 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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