

Economic Watch

Mexico

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Economic Analysis

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Construction Monthly Situation Report

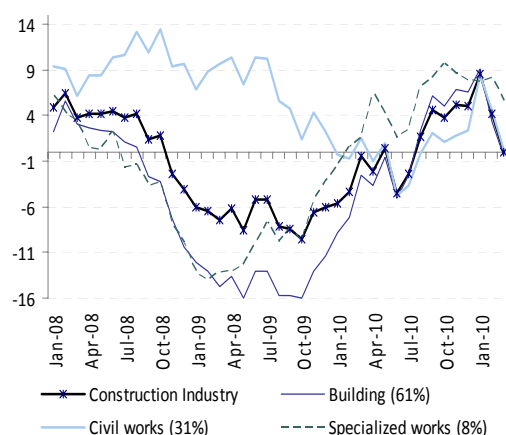
- According to industrial output figures, construction grew by an annual 4.2% in the first quarter.
- Exceptionally, in March annual growth was 0.0%, with the slowdown reflected in both building and civil works.
- Timely indicators such as employment in the industry, suggest a possible moderation in the rate of growth in the second quarter.

Despite the slowdown in March, the first quarter recorded the highest growth rate since the start of the crisis. In all, despite the March result, growth in the construction industry in the first quarter of 2011 was the highest since 2008. With the GDP figures being released within a few days, this suggests that our forecast for construction GDP in the first quarter (an annual 4.5%) could be slightly under that observed.

It is also worth noting that unlike what happened in 2009 and 2010, when building and civil works registered widely varying rates of growth, this time the rates are approaching something of a convergence (building 4.0%, civil works 4.5%), or general growth.

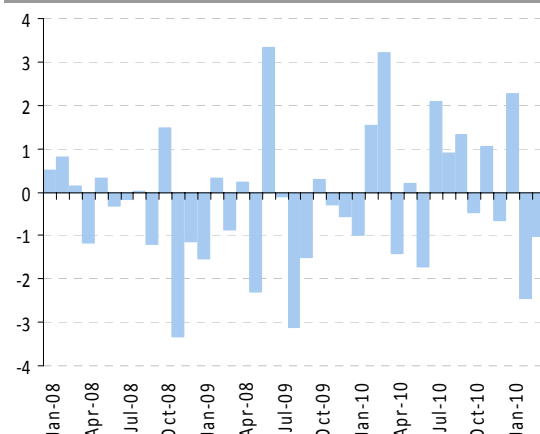
Employment slows. In part due to statistical effects (exceptionally high growth in April 2010) and in part due to exhaustion of the boom that started at the end of 2009, employment in construction suggests a slowdown in the industry in the second quarter, with the annual rate of increase falling from 6% in March to 3.1% in April. However, we maintain our outlook that for the year as a whole construction growth will outperform the rest of the economy, given the presence of oil surpluses and improvements in housing.

Chart 1
**Construction industry and its components,
Annual % change, SA**



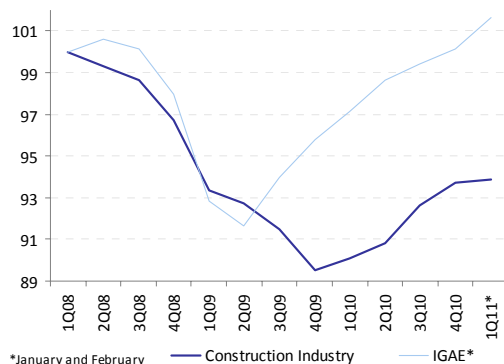
NB: number in brackets shows relative share.
SA= seasonally adjusted series
Source: BBVA Research with INEGI data

Chart 2
**Construction industry
Monthly % change, SA**



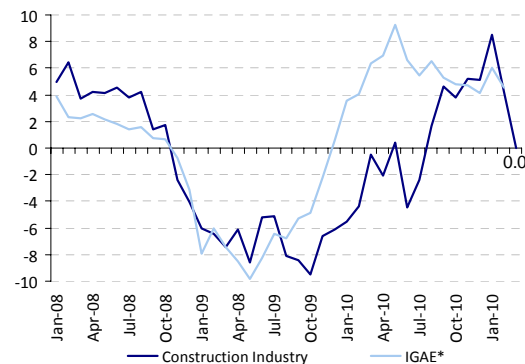
SA= seasonally adjusted series
Source: BBVA Research with INEGI data

Chart 3
Construction vs. IGAE (Economic activity index) Jan-08 index=100, SA



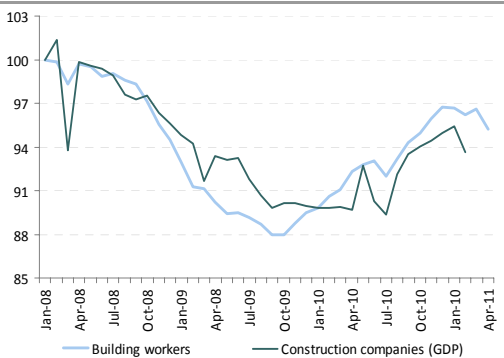
Source: BBVA Research with INEGI data

Chart 4
Construction vs. IGAE Annual % change, SA



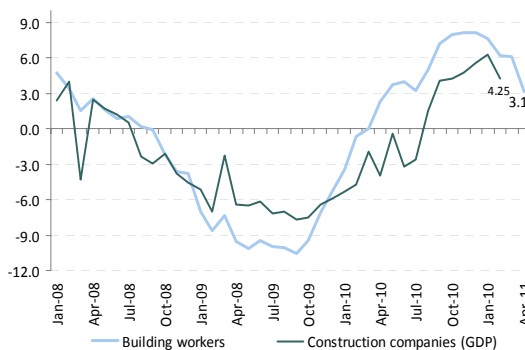
Source: BBVA Research with INEGI data

Chart 5
Timely construction indicators, 1Q08 index=100, SA



Source: BBVA Research with INEGI data

Chart 6
Timely construction indicators Annual % change, SA



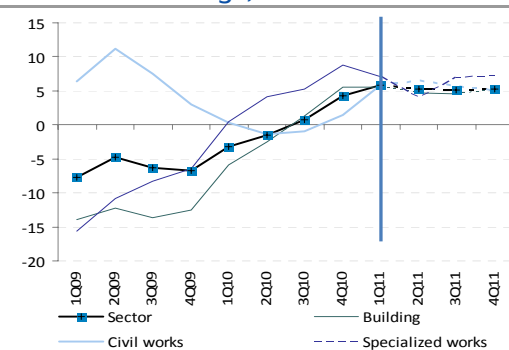
Source: BBVA Research with INEGI data

Table 1
Index of construction volume and its components, Real annual % change, SA

| | Sector | Building | Civil works | Specialized works |
|---------|--------|----------|-------------|-------------------|
| 2008 | 2.7 | -0.3 | 9.9 | -0.9 |
| 2009 | -7.0 | -13.9 | 6.8 | -10.0 |
| 2010 | 0.1 | -0.3 | -0.1 | 4.7 |
| 1Q10 | -3.5 | -6.2 | 0.2 | 0.2 |
| 2Q10 | -2.0 | -3.1 | -1.6 | 4.1 |
| 3Q10 | 1.3 | 2.0 | -0.6 | 5.9 |
| 4Q10 | 4.7 | 6.2 | 1.8 | 8.7 |
| 1Q11 | 4.2 | 4.0 | 4.5 | 7.1 |
| 2011* p | 5.4 | 5.0 | 5.7 | 6.3 |

*Construction GDP forecasts

Chart 7
Construction GDP forecasts Real annual % change, SA



Source: BBVA Research with INEGI data

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