

Mexico Real Estate Flash

Surprising 6.8% growth in construction

- The unexpected growth was due to 8% growth in building work.
- Construction grew nearly 2 points faster than the rest of the economy.
- Despite this good result, we expect the growth rate to just exceed economic growth.

Construction industrial activity grew 6.8% in annual terms and 0.8% against the previous month.

While construction has recorded growth of over 4% year to date, growth in July nearly reached 7%. This was due to building work growth that exceeded 8%, while public works and specialized works remained at average growth levels (5.3% and 3.5% respectively in annual terms).

The construction activity index has reached record highs.

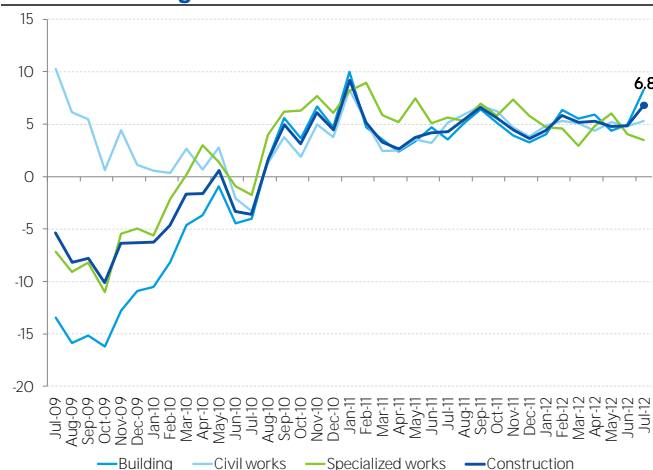
Following the gains in July, the construction industrial activity index has reached 130 points, levels never before seen in its seasonally adjusted series. In June construction outstripped the growth of the rest of the economy, based on the IGAE (Economic Activity Index), by nearly two percentage points (6.1% and 4.4% respectively in annual terms). Furthermore, construction growth also outstripped the growth of all other industrial activity, which was up just 0.5% in July.

Relevant indicators point to growth slightly in excess of GDP growth.

While the extraordinary increase in building work recorded in July (8.3% yoy) seems justified based on employment growth in the sector (8.1% yoy), it also represents an atypical figure for the latter indicator, which has shown average growth in the year of 5.7% up to June. Cement sales have now recorded 5 months of growth at an average of 4.7%, with sales growing 2.8% in June. In contrast, concrete sales shrunk by an annual 1.5% in the year to date, slipping 0.7% in June against the previous month. Meanwhile, total credit issued to construction grew 15% in July, slightly less than in previous months.

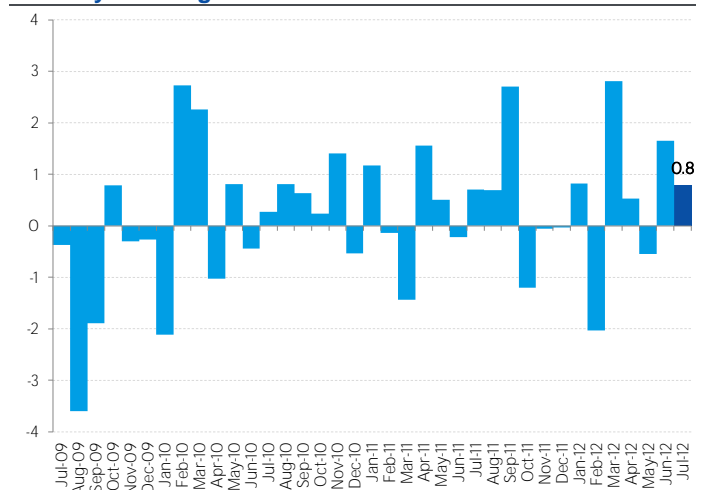
As well as relevant indicators pointing to favorable and moderate performances, the high volatility of seasonally adjusted construction figures (see chart 2) leads us to expect growth rates commensurate with the rest of the economy, despite the surprising figure posted this month. Our GDP forecast for construction in the second quarter was 4.7%, while the reported figure was 4.9%. In the third quarter we expect construction to grow by close to 4.1%.

Chart 1
Industrial Activity: Construction and its components
Annual % change



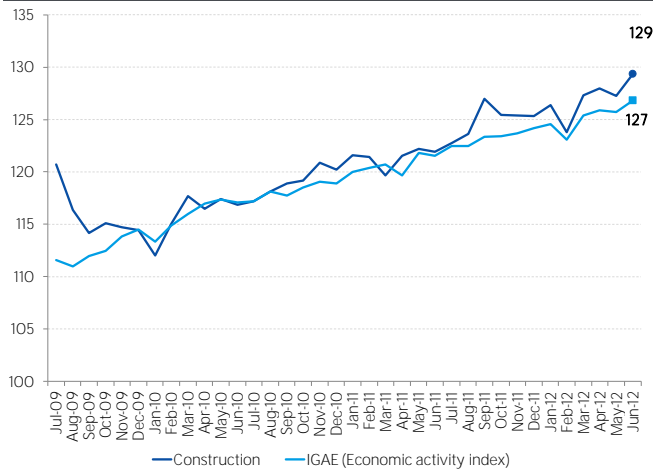
Source: BBVA Research with INEGI Industrial Activity data (original series)

Chart 2
Industrial Activity: Construction
Monthly % change



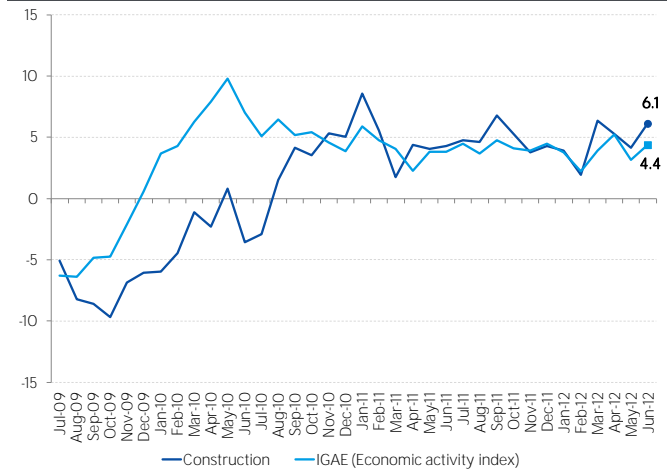
Source: BBVA Research with INEGI Industrial Activity data (seasonally-adjusted series)

Chart 3
Construction and the IGAE index
Index



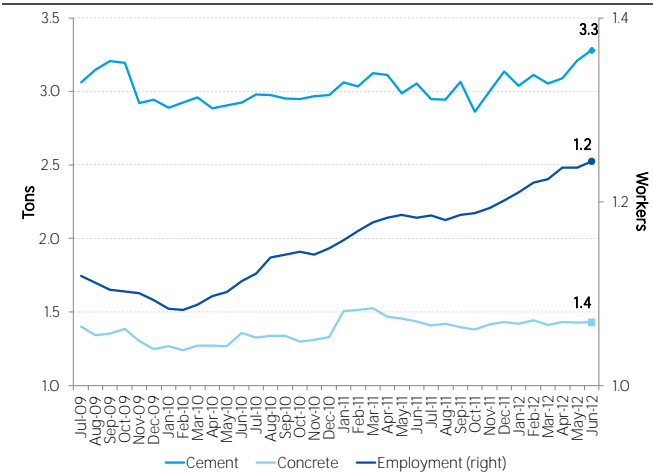
Source: BBVA Research with INEGI Industrial Activity and IGAE data (seasonally-adjusted series)

Chart 4
Construction and the IGAE index
Annual % change in the index



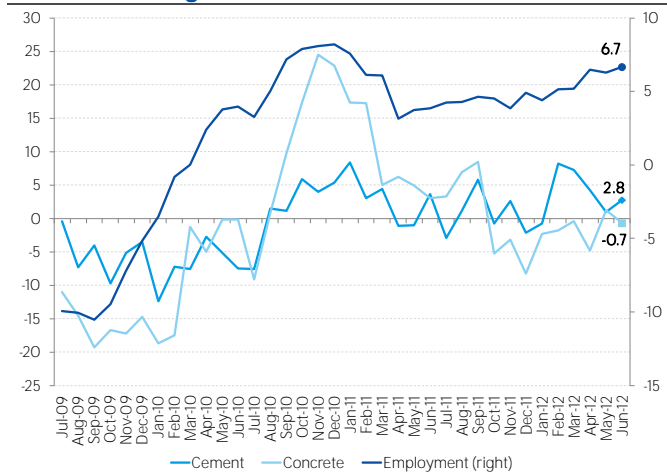
Source: BBVA Research with INEGI Industrial Activity and IGAE data (seasonally-adjusted series)

Chart 5
Timely construction indicators
Millions of tons and workers



Source: BBVA Research with IMSS and INEGI data (seasonally-adjusted series)

Chart 6
Timely construction indicators
Annual % change



Source: BBVA Research with IMSS and INEGI data (original series)

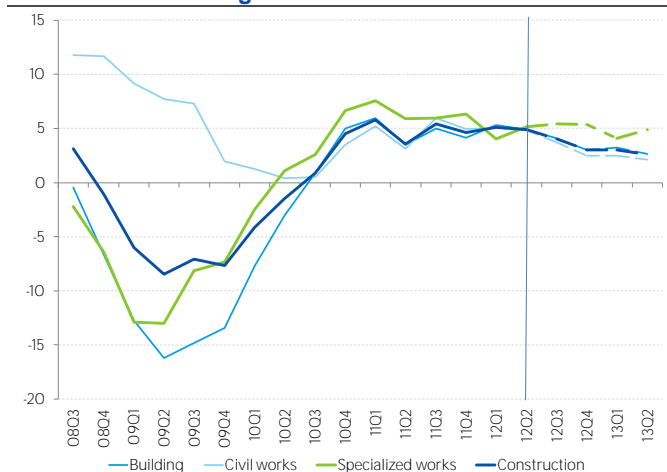
Table 1
Industrial Activity: Construction and its components
Annual % change

Period	Construction	Building	Civil works	Specialized works
2010	0.0	-1.2	1.4	2.0
2011	4.9	4.7	4.8	6.5
11Q1	5.9	6.1	5.3	7.7
11Q2	3.5	3.5	3.1	5.9
11Q3	5.4	5.0	5.9	6.0
11Q4	4.6	4.1	4.9	6.3
12Q1	5.1	5.3	5.1	4.1
12Q2	5.0	5.1	4.8	5.0
12Q3*	6.8	8.3	5.3	3.5

Note: Considers an update of the above figures from INEGI.
* Only includes July 2012

Source: BBVA Research with INEGI Industrial Activity data (original series)

Chart 7
GDP forecasts: Construction and its components
Real annual % change



Source: BBVA Research with INEGI GDP data (original series)

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