

Mexico Real Estate Flash

Slowdown in construction in August

- The surprising growth in the previous month is even higher after INEGI adjustment.
- Construction slows in August bringing growth to only 2%
- This adjustment confirms our outlook of moderate growth.

Industrial construction activity rose 2.7% y-o-y and fell -1.9% against the previous month.

Industrial construction figures for July and August were unusual. The former due to the increase of over 7%, when the average for the previous 6 months had been 5.0% in y-o-y terms, while in August the ratio fell to 2.7%. During this same period, building reported an average y-o-y growth of 5.2%. In July, however, it had reached 8.4%, only to fall to 3.2% in the next month. It was a similar picture in civil works, which had reported y-o-y growth of 4.9%: July saw growth of 5.7%, 4 percentage points up on the 1.7% figure for August.

During most of the year, industrial construction activity had shown higher growth than that of the economy compared with the IGAE index. In August, however, construction reported 3.1% growth in its seasonally-adjusted series, below the IGAE index average up to July 2012.

Leading indicators continue to show growth, especially employment

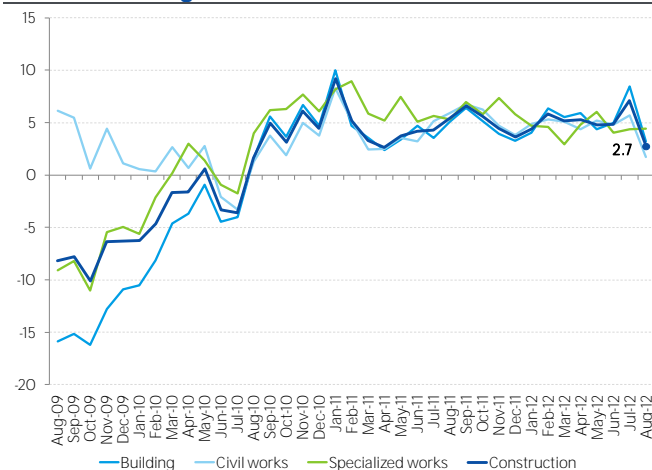
The considerable rise in construction in July can be attributed to the extraordinary growth of leading indicators such as employment, and cement and concrete sales. In July, employment in construction was over 8%, while cement sales rose to over 10% and concrete sales regained its vigor with a y-o-y rate of 3.5%. The hefty increases in cement and concrete in July, however, seem to have been due to comparisons against the previous year (unusually low figures in July 2011).

Construction investment figures for July were relatively high (7.5% y-o-y vs. 5.7% in the January-June period). The only leading indicator figure up to August is employment, which still shows healthy growth (7.8% y-o-y).

Despite the unusual variations, the results are in line with our scenario

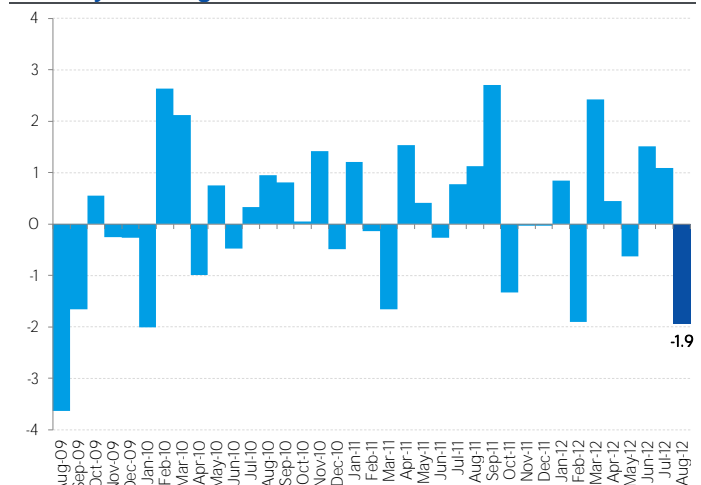
The considerable increase in July and the slowdown in August could prompt adjustment in the 3Q growth in Construction GDP. As we have said, year-on-year growth rates from July to August fell in both building and civil works (with negative monthly variations in both cases, in the seasonally-adjusted series). However, the trend towards slowing growth had already been anticipated, and it is in keeping with the outlook for a soft landing in building and civil works once the election period has come to an end.

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



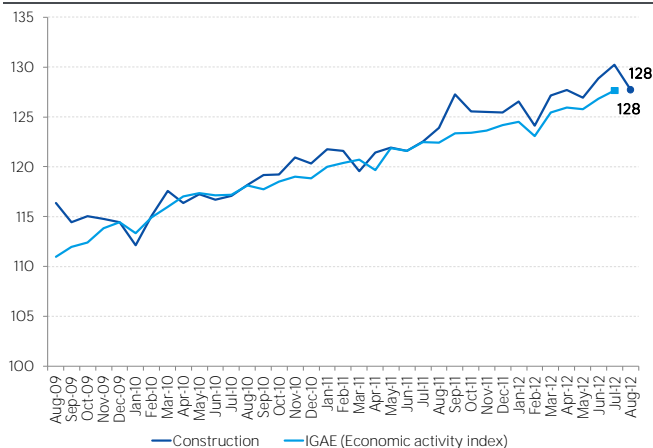
Source: BBVA Research with INEGI Industrial Activity data. (original series)

Chart 2
Industrial Activity: Construction
Monthly % change



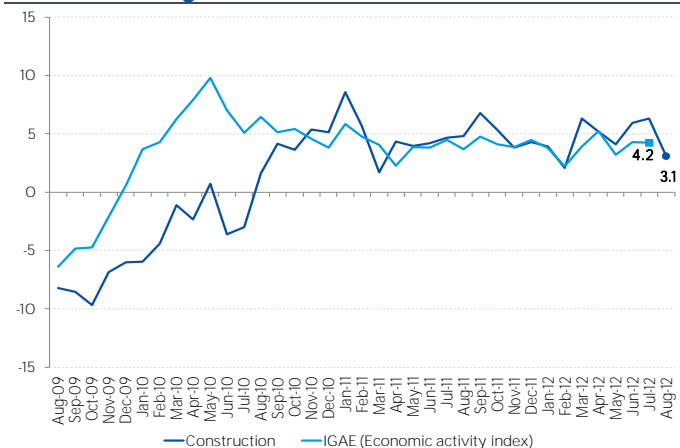
Source: BBVA Research with INEGI Industrial Activity data (seasonally-adjusted series)

Chart 3
Construction and IGAE Index



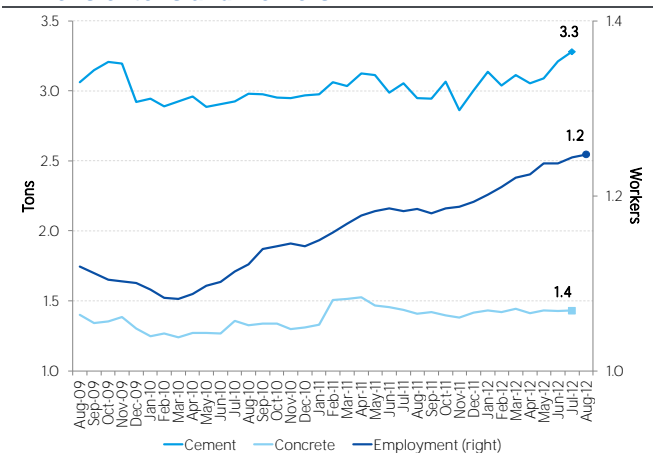
Source: BBVA Research with INEGI Industrial Activity data and IGAE (seasonally-adjusted series)

Chart 4
Construction and IGAE Annual % change in the index



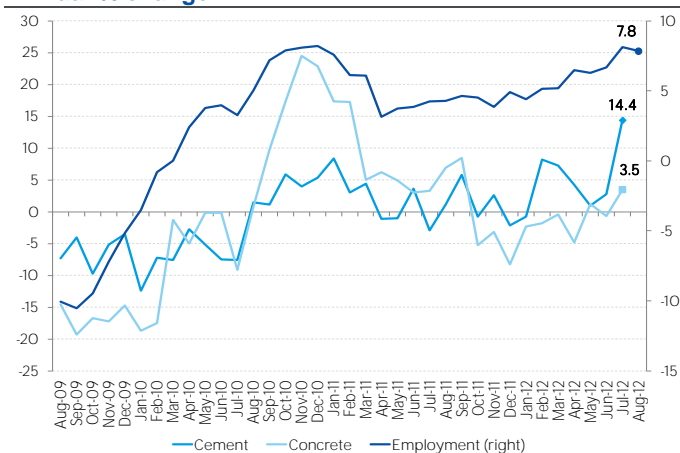
Source: BBVA Research with INEGI Industrial Activity data and IGAE (seasonally-adjusted series)

Chart 5
Construction leading indicators Millions of tons and workers



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

Chart 6
Construction leading indicators Annual % change



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

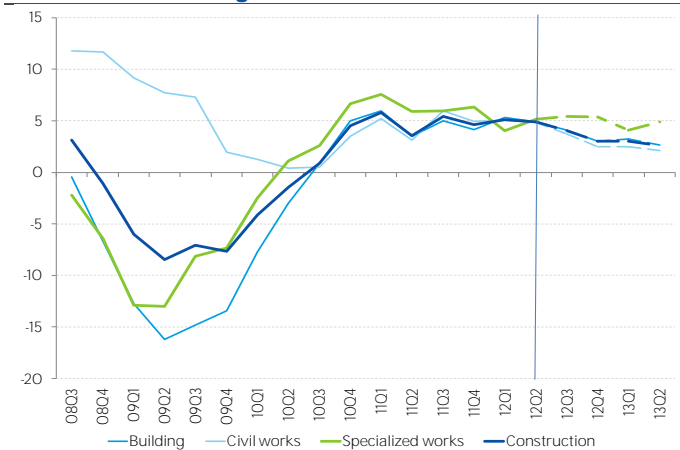
Table 1:
Industrial activity: Construction and its components Annual % change

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*	4.9	5.8	3.7	4.4

Note: Considers the update of the previous figures by INEGI.
* Includes only July and August 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 GDP and INEGI data (original series)

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