

# Mexico Real Estate Flash

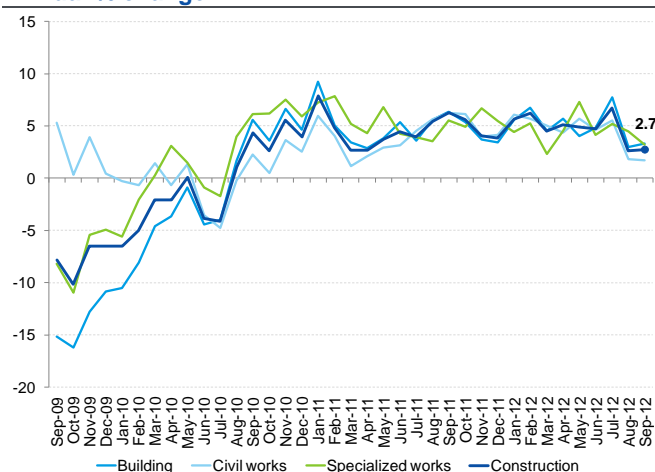
## Slowdown in construction continues in September

- In September, construction grew 2.7% year-on-year and 1.1% monthly.
- Investment and bank financing to the sector above 3.0%.
- Current figures are in line with our scenario of slowing growth towards the end of the year.

The trend of growth in construction continues, albeit more slowly.

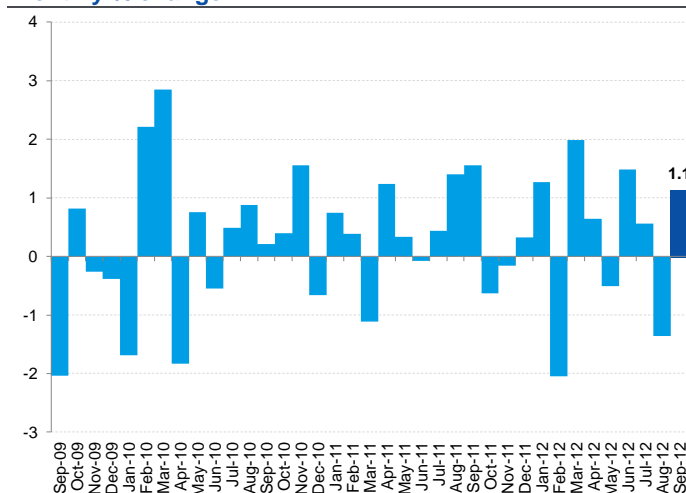
In September, industrial construction grew by 2.7% y-o-y and 1.1% monthly in its seasonally adjusted series. Building and public works are responsible for this more sluggish growth, as was the case last month. Building grew by 3.3%, almost 2 points below the average of 5.2% for the first half of the year. It is a similar story with public works, which this month saw growth of 1.7%, in contrast with its average, also of 5.2%, for the first half of 2012. As we were expecting, growth in public works would slow from the second half of 2012 onwards. This is in keeping with its monthly comparison of the seasonally adjusted series, given that construction averaged 0.1% monthly growth in the last quarter, while the monthly average was 0.5% in the second quarter.

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

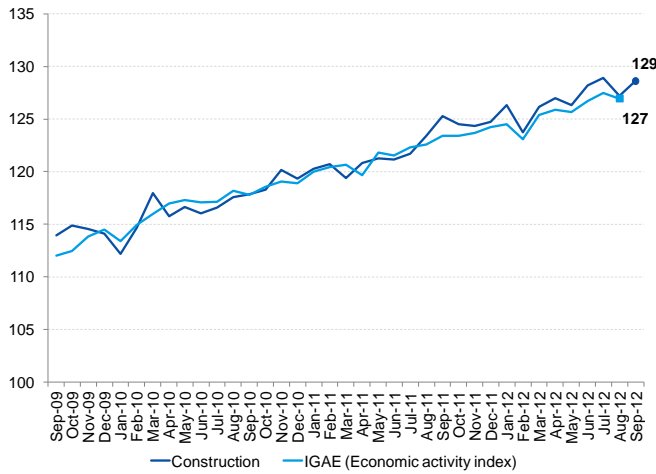


Source: BBVA Research with INEGI Industrial Activity data (seasonally-adjusted series)

## Construction performance is increasingly in line with the rest of the economy.

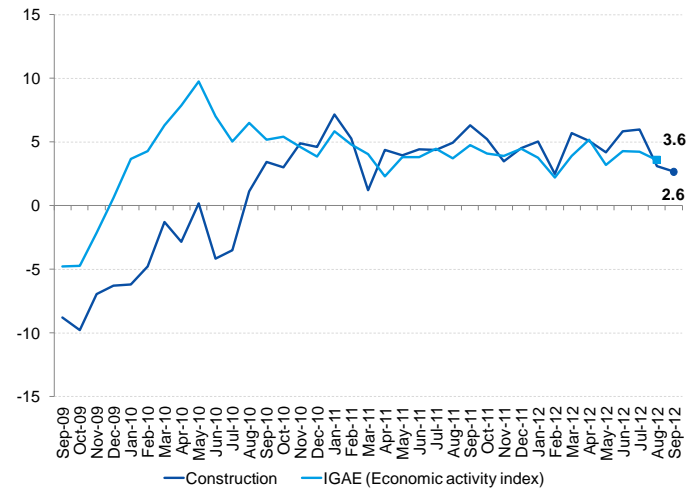
Comparing the seasonally adjusted series of industrial construction with the general economic activity index, we can confirm that in August construction reported less growth than the economy for the first time in 2012 so far. In September, the modest growth in the sector could suggest that this result might be repeated once the updated IGAE figure for the same month is published. This can also be confirmed by comparing the domestic GDP and construction GDP figures, which have more similar performances. The difference between the two indicators is now less than one percentage point: domestic GDP stands at 4.1% and construction GDP at 4.9%. This situation is in keeping with the construction cycle, which is at its highest level in these quarters.

Chart 3  
**Construction and IGAE**  
**Index 2003=100**



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

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



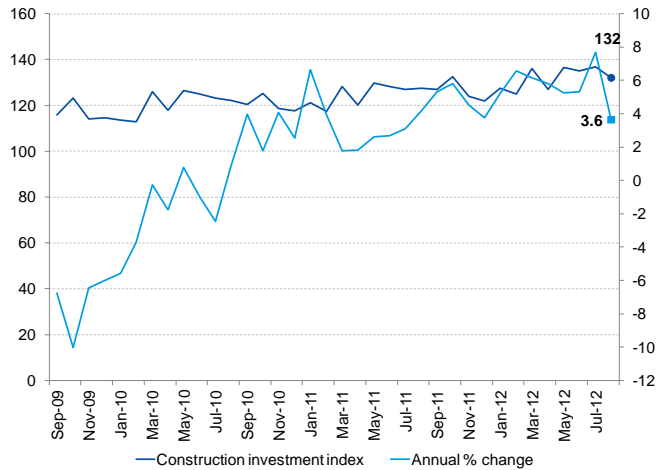
Source: BBVA Research with INEGI Industrial Activity data and IGAE (seasonally-adjusted series)

### Favorable results in leading indicators, albeit with modest growth.

Gross fixed capital formation continues to grow, though in August growth slowed compared with the year so far. During the first half of the year, gross fixed capital formation reported average annual growth of 5.7%, while in August it grew by only 3.6%. News is also favorable in terms of the sector financing, given that in addition to growth of 15% during the year so far, the NPL ratio has fallen to 3.0%. It is thus evident that the sector is in a healthy financial position, and we can expect that resources to the sector will be maintained for sustainable projects.

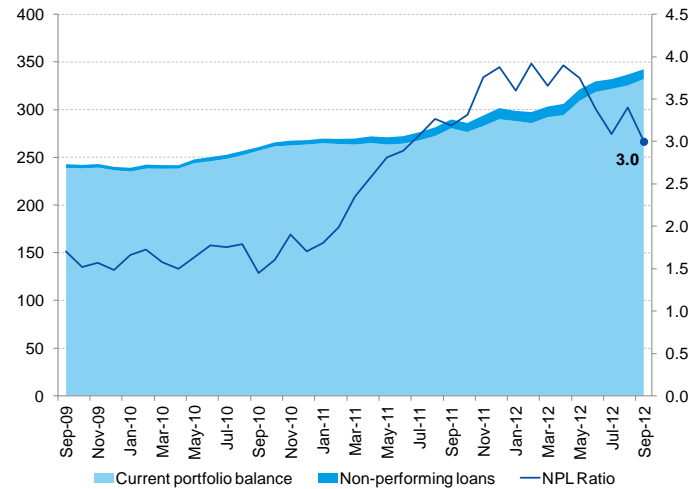
The number of IMSS-registered construction workers is consolidated at over 1.3 million. In annual terms, employment increased by 7.5% in September, above the 5.7% average reported for the first 6 months of the year, though slightly lower than the average for the last 3 months. Cement sales are up for the third successive month, and concrete sales have increased for the second month in a row. In August, tons of cement sold grew by 6.5% and concrete sales by 1.5%, both in year-on-year terms.

Chart 5  
**Construction: gross fixed capital formation**  
**Index 2003=100, & annual % change**



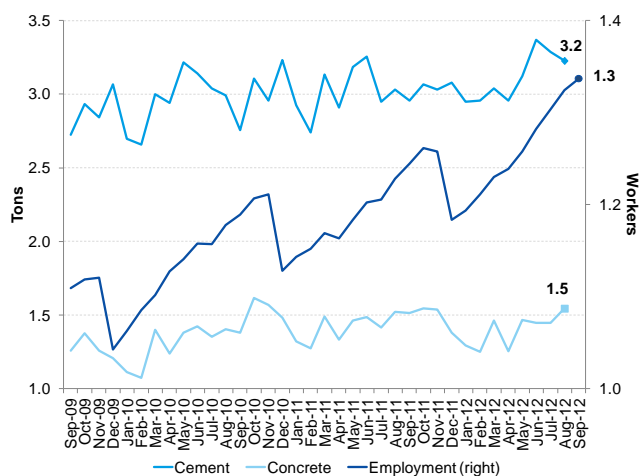
Source: BBVA Research with INEGI data (original series)

Chart 6  
**Bank financing to construction**  
**Portfolio balances & NPL ratio**



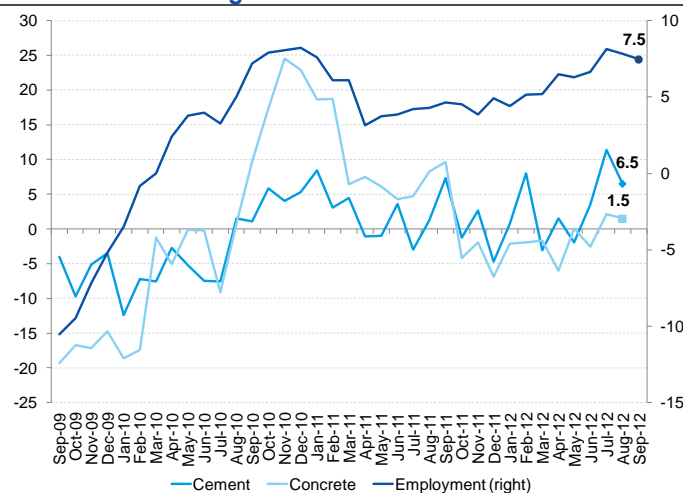
Source: BBVA Research with Bank of Mexico data (figures at September 2012)

Chart 7  
**Construction leading indicators**  
**Millions of tons and workers**



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

Chart 8  
**Construction leading indicators**  
**Real annual % change**



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

Growth in construction is expected to continue, at the same pace that the economy as a whole.

Our outlook for the construction sector is of significant growth in the coming quarters, but with a similar performance to the rest of the economy. Industrial activity figures continue to report growth in this sector. Physical investment and financing are favorable, and the outlook is for this situation to continue at least in the short term, given the low level of NPLs in this portfolio. Likewise, sales of raw materials such as cement and concrete continue to grow, and though in small steps, there is a clear increase in demand for these products by the construction sector. Formal construction employment continues to rise sharply, suggesting that there is a continued need for workers by construction companies to carry out their projects. Taking all these factors into account, we expect the construction GDP around of 3.8% to be published on 16 November.

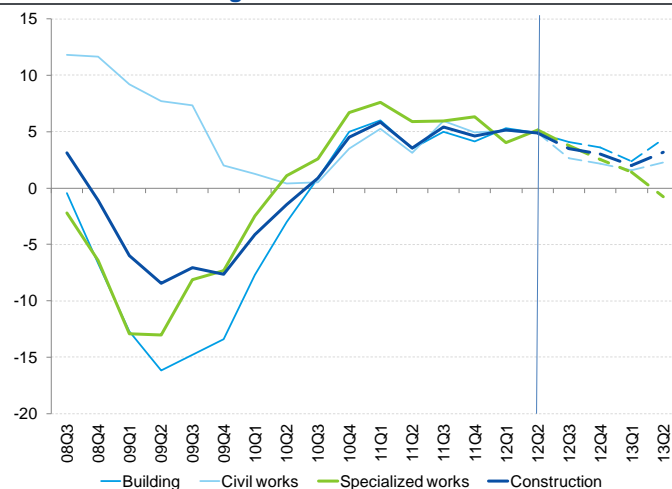
Table 1  
**Industrial activity: Construction and its components**  
**Annual % change**

| Period | Construction | Building | Civil works | Specialized works |
|--------|--------------|----------|-------------|-------------------|
| 2010   | -0.5         | -1.2     | 0.1         | 2.0               |
| 2011   | 4.6          | 4.8      | 4.2         | 5.5               |
| 11Q1   | 5.1          | 5.9      | 3.7         | 6.8               |
| 11Q2   | 3.6          | 4.0      | 2.7         | 5.1               |
| 11Q3   | 5.2          | 5.2      | 5.5         | 4.3               |
| 11Q4   | 4.5          | 4.2      | 4.7         | 5.7               |
| 12Q1   | 5.5          | 5.6      | 5.6         | 4.0               |
| 12Q2   | 4.9          | 4.8      | 4.9         | 5.3               |
| 12Q3   | 4.0          | 4.7      | 3.0         | 4.3               |

Note: Considers an update of the above figures from INEGI.

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

Chart 9  
**GDP Forecasts: Construction and its components**  
**Real annual % change**



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

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