

Mexico Real Estate Flash

Construction production grew 3.5% in August

The 3.5% increase seen in August means construction output grew by more than 4% on average over the first eight months of the year. Compared with the average of 2.7% seen in the same period of the previous year, the jump is of more than 2 percentage points. Looking at the 3 major construction types, construction aimed at the telecomm and transport sector has lagged behind. On the other hand, construction in energy showed significant advances in recent months, with consistently rising growth rates. There was an 8.4% yoy increase in August.

Building, which makes up the lion's share of construction, also showed another good performance, although growth did slow. In August the value of buildings under construction was up 0.8% yoy, which looks low compared with the 4.8% average seen over the previous 6 months.

- **Output growth in construction is now converging to the rate of the overall economy.**

In August output growth from construction companies matched the growth rate of the whole economy, as measured by the IGAE. Production was up 3.5% in real yoy terms, the same rate at which the IGAE grew. Looking at the 3-month moving average, production in the sector outperformed the economy and showed a similar performance to industrial construction activity at annual rates.

Of the 3 major construction types, building remained the main component, making up 44.0% of the total, followed by construction in telecommunications and transport, standing at 28.7% in August, and energy construction at nearly 15%. However, construction in the energy sector recorded the best performance, up 9.6% on average over the last 6 months.

- **Both construction labor and average production continued to grow.**

Meanwhile, personnel employed by construction companies grew further. In particular, blue-collar workers, which represent just over two thirds of the whole labor force in the sector, grew by 2.3% on average in yoy terms in the last six months. In August, direct employees grew by 1.1% yoy, while indirect employee numbers grew 14.3% in the same terms. This latter group has recorded higher growth rates since the start of 2011.

Meanwhile, average productivity per employee help to sustain growth over nearly the entire year. In August productivity per employee was up 1.0% against the same month of the previous year. This productivity increase and the good performance shown by construction is reflected on the increased income for employees in real terms, which grew 2.8% on average.

- **Construction financing holds up and we expect it to continue.**

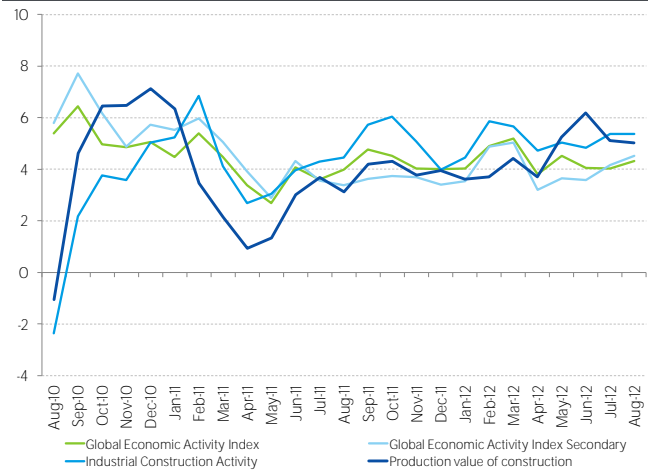
Bank lending to construction continues to rise. In August accumulated growth from bank lending stood at over 10% compared to the end of 2011. In particular funding for transport routes now exceeds 100 billion pesos, partly due to a low default rate, at less than 1% for the entire loan book. In contrast, the loan book for building has shrunk, and even with default rates holding at acceptable levels this could lead to greater prudence in loan origination. Similarly to the real economy, funding for non-residential building has increased. The decrease in funding has more to do with being less funding requirements for residential building than with a drop in activity. For example, according to figures from the Single Housing Register, housing starts dipped from over 400 thousand homes at the end of 2011 to 368 thousand by August 2012.

- **Construction in both the energy sector and building projects is set to remain on a positive trend**

This is due to the separation of production into the public and private sector components. In both cases the annual growth trend has been positive for the year to August. The role of physical public sector investment, representing close to 60% of production, has a direct impact on construction, but in recent years net governmental spending has remained stable, with even some slight growth in yoy terms. However, an adjustment can be expected as the current administration comes to an end and the new government starts takes office.

Based on the available information, we expect the strongest construction production growth over the rest of the year to come from both the energy sector and building projects. Meanwhile, building will remain driven by non-residential building, such as malls, industrial complexes and offices. The outlook for residential building is different, where we expect some stabilization and a slight downward trend. In terms of construction in the telecommunications and transport sectors, some important projects have been stopped. Therefore the opening of the market to international competition and investment will also be important.

Chart 1
Overall construction indicators and ENEC data
Annual % change



Source: BBVA Research with data from the National Construction Company Survey, INEGI.
 (3-month rolling average)

Table 1
Overall construction sector indicators
Annual % change

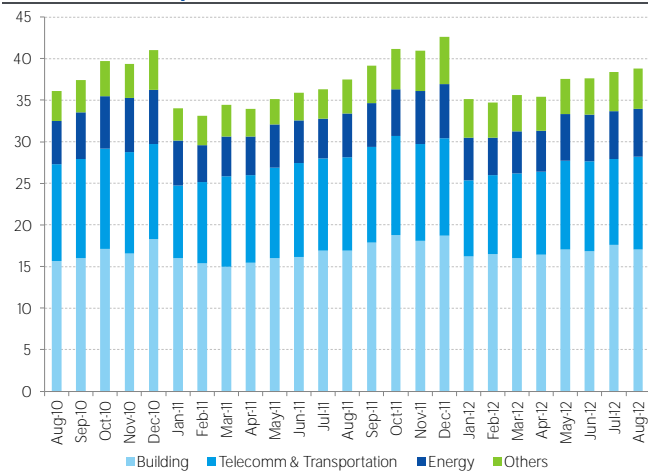
Annual % change main construction indicators						
Indicator	Mar-12	Apr-12	May-12	Jun-12	Jul-12	Aug-12
IGAE	3.4	4.7	4.2	3.7	4.7	3.5
IGAE Secondary	2.9	3.7	3.5	3.8	5.0	3.6
Industrial Construction activity	4.5	5.1	4.9	4.7	6.7	2.6
Production value of construction	3.4	4.4	6.9	4.8	5.8	3.5

Annual % change in production value of construction							
Type	Share	Mar-12	Apr-12	May-12	Jun-12	Jul-12	Aug-12
Building	44.0	7.0	6.3	6.6	4.2	3.8	0.8
Telecomm y Transport	28.7	-6.7	-4.8	-2.0	-4.7	-6.6	-0.6
Energy	14.7	5.6	4.9	7.6	9.8	21.1	8.4
Others	12.6	14.9	24.5	39.4	31.8	33.6	19.2
Construction	100.0	3.4	4.4	6.9	4.8	5.8	3.5

Annual % change in construction labor							
Labor	Share	Mar-12	Apr-12	May-12	Jun-12	Jul-12	Aug-12
Workers	67.2	2.1	2.4	4.5	3.2	0.6	1.1
Employees	16.0	3.3	4.3	2.5	2.5	2.1	1.3
Owners	1.2	-12.0	6.9	-1.9	-7.5	3.1	-3.6
Outsourced	15.6	7.1	9.5	12.7	15.0	18.4	14.3
Total	100.0	2.8	3.8	5.2	4.7	3.3	2.9

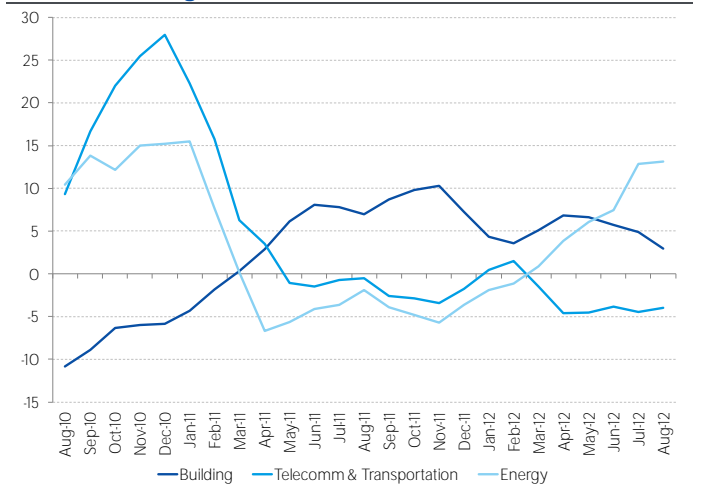
Source: BBVA Research with data from the National Construction Company Survey, INEGI.

Chart 2
Output value by work type
Billions of real pesos



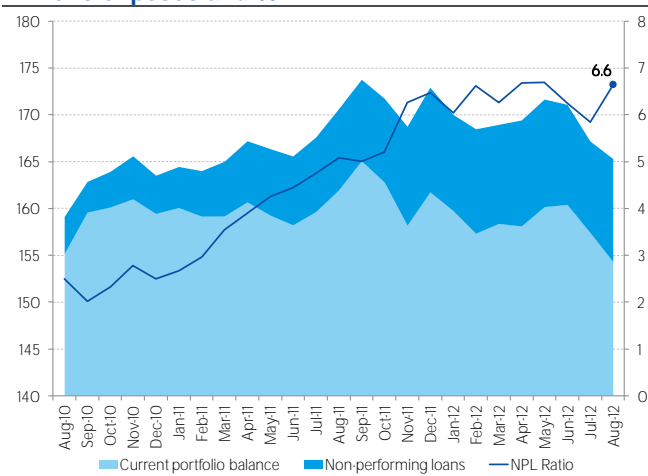
Source: BBVA Research with ENEC data, INEGI

Chart 3
Output value by work type
Annual % change



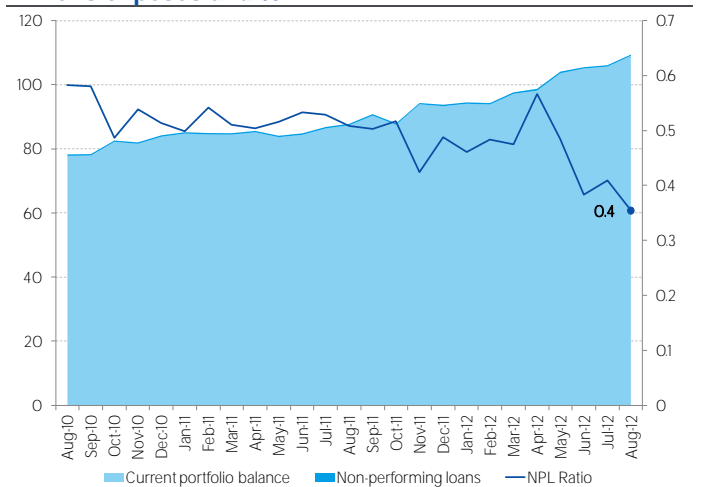
Source: BBVA Research with ENEC data, INEGI
 (3-month rolling average)

Chart 4
Bank financing to building
Billions of pesos and %



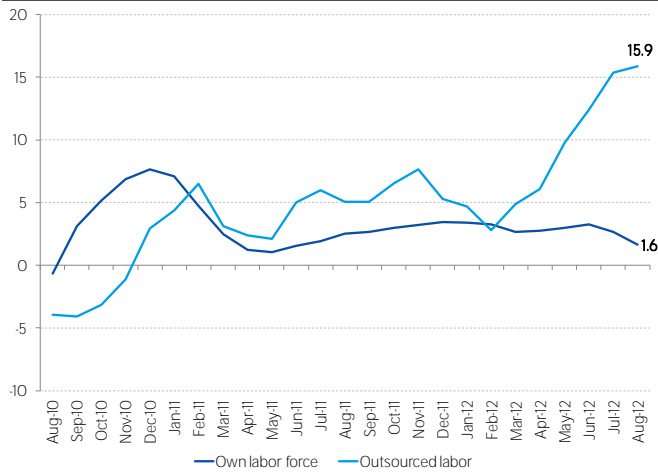
Source: BBVA Research with Bank of Mexico data
 (current month figures)

Chart 5
Bank financing to transport
Billions of pesos and %



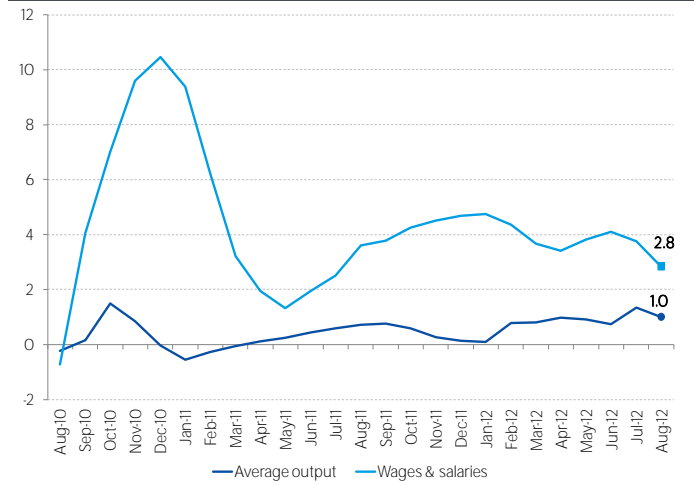
Source: BBVA Research with Bank of Mexico data
 (current month figures)

Chart 6
Total workforce
Annual % change



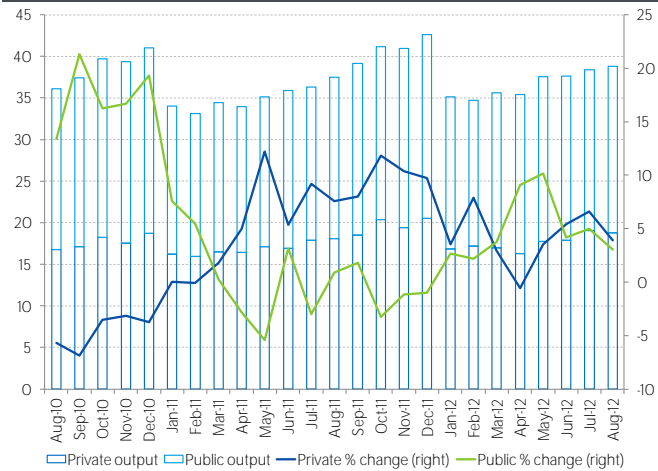
Source: BBVA Research with ENEC data, INEGI

Chart 7
Productivity and personnel income
Real annual % change



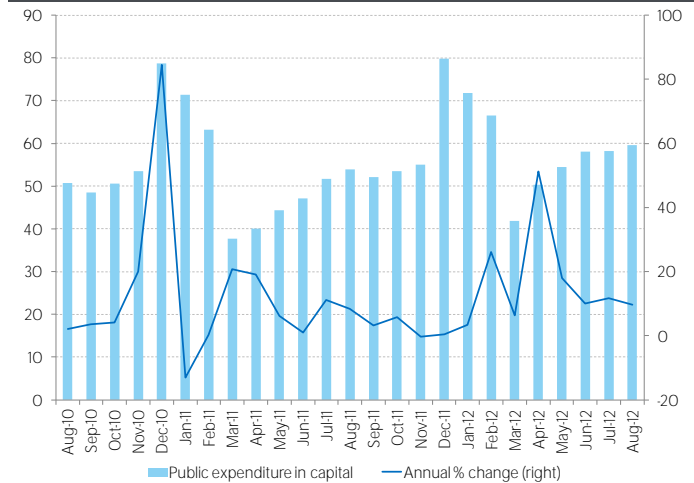
Source: BBVA Research with ENEC data, INEGI (current month figures)

Chart 8
Production value by sector
Billions of pesos and annual % change



Source: BBVA Research with ENEC data, INEGI (original series)

Chart 9
Net public expenditure in physical capital
Billions of pesos and real annual % change



Source: BBVA Research with ENEC data, INEGI (original series)

Samuel Vázquez
samuel.vazquez@bbva.com

Av. Universidad 1200, Col. Xoco, México 03339 D.F. | researchmexico@bbva.bancomer.com | www.bbva.com | Follow us on Twitter

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