

Mexico Real Estate Flash

Sluggish growth in construction in October

- This month construction grew by only 2.2% in annual terms and -1.2% m/m
- The performance in construction is increasingly in line with the rest of the economy
- There has been a slowdown in recent months, which could continue

Modest growth in construction in October

Growth in the construction industry continues to slow. This month, the annual growth rate was only 2.2%, the lowest rate for the last two years. The seasonally adjusted series indicates a fall of 1.2% in October compared with September. Construction components are also beginning to differ in their performances. Building, which is the core component of construction, reported growth of 2.6%, while civil works saw only 1.4% growth, both in annual terms. This difference between the two components shows that over the last three months, the slowdown in the sector is largely due to civil works; both have slowed, but building has done so to a lesser degree. As we have said before, this kind of situation was foreseeable once the elections were over.

Construction is now growing at a rate similar to the economy as a whole

Based on industrial activity, we see that the positive performance in the sector has indeed continued. Construction is growing and its performance is similar to the rest of the economy. While there has been a slowdown, in October the industrial activity index stood at the same level as the IGAE in September, using seasonally adjusted series. Using the same seasonally adjusted series for comparison, in September - the most recent IGAE figure - construction rose by 2.5%, while the IGAE grew by 2.8%, both figures in annual terms.

Construction investment and financing continue to grow

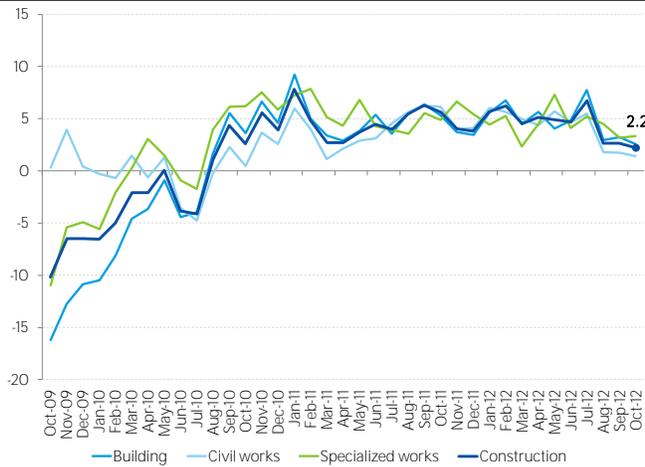
The slowdown in construction is also evident in other variables. Gross fixed capital formation grew by 3.4% y/y in September. Although investment is growing at a higher rate than the economy, the October figure was modest compared with the average of 5.5% during the year. This is offset by the financing in the sector, which continues to report substantial and healthy growth. In the current month, the NPL ratio fell to 3% and the current portfolio stood at 340 billion pesos. During the first six months of 2012, the portfolio grew by almost 30 billion pesos; while from June to October, it rose by 21 billion pesos. The latter figures suggest that construction will have financial resources to invest in profitable projects.

According to IMSS data, there are over 1.35 million construction workers. In annual terms, growth was 7.3%, higher than the average of 6.5% from January to October 2012. Concrete sales were once again negative, at -3.4%; but cement sales continued to raise, by 4.3% in September, both figures in annual terms. Concrete is usually required for larger-scale construction projects and by companies with higher investment, while cement is demanded by smaller-sized construction companies for specialized projects. In particular, self-building, mainly of importance for housing, demands more cement than concrete, possibly indicating that its importance continues to prevail.

The outlook for growth in construction is in line with the economy

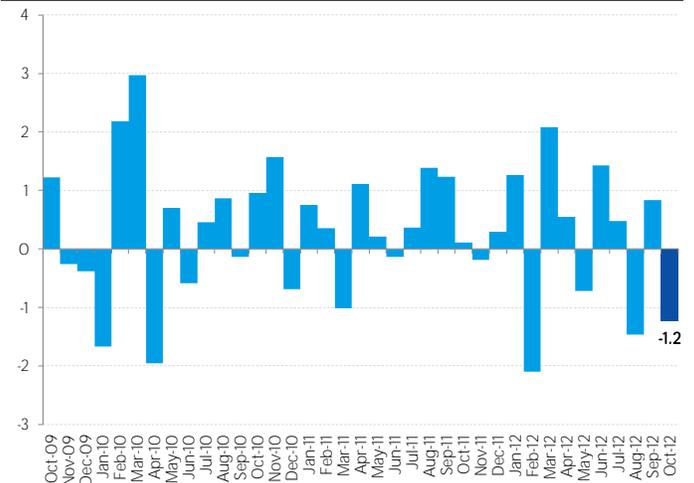
With the latest information, we maintain our outlook of the construction sector growing at a pace to converge with the rest of the economy in coming quarters. Investment, financing and employment figures continue to rise, indicating a positive performance, and we expect this to continue at least over the next few months. The conditions are already set for the rest of the year. Nonetheless, the possibility of larger infrastructure projects with the new administration, and the plans set out by the private sector, with the framework of the new Public-Private Associations Act, could give the sector renewed strength.

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



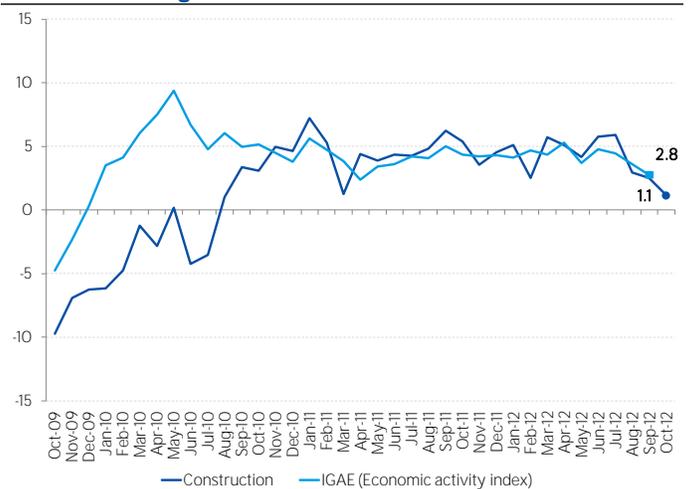
Source: BBVA Research with INEGI Industrial Activity data (seasonally-adjusted series)

Chart 3
Construction and IGAE
Index 2003=100



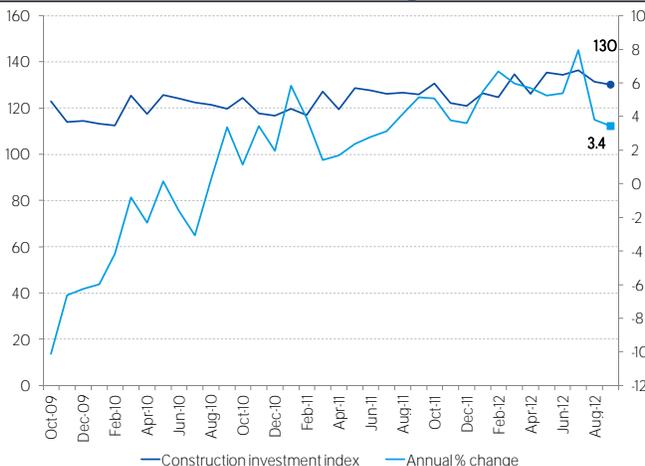
Source: BBVA Research with INEGI Industrial Activity data and IGAE (seasonally-adjusted series)

Chart 4
Construction and IGAE
Annual % change in the index



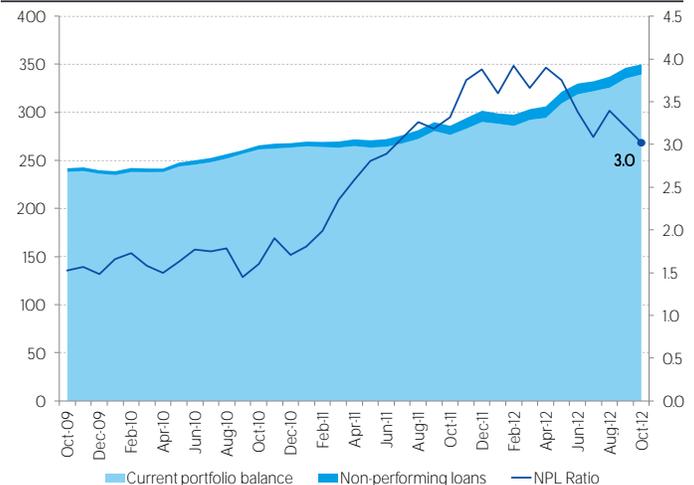
Source: BBVA Research with INEGI Industrial Activity data and IGAE (seasonally-adjusted series)

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



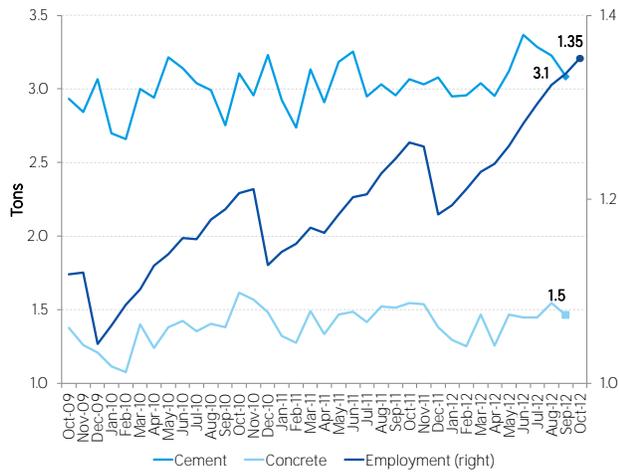
Source: BBVA Research with INEGI data (original series)

Chart 6
Bank financing to construction
Portfolio balances and NPL ratio



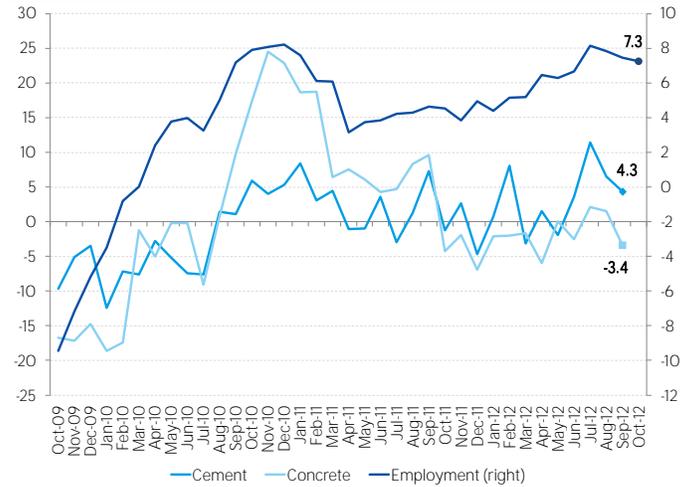
Source: BBVA Research with Bank of Mexico data (figures to October 2012)

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)

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	4.6	3.0	4.3
12Q4*	2.2	2.6	1.4	3.3

Note: Considers the update of the previous figures by INEGI.
 *Figures to October

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

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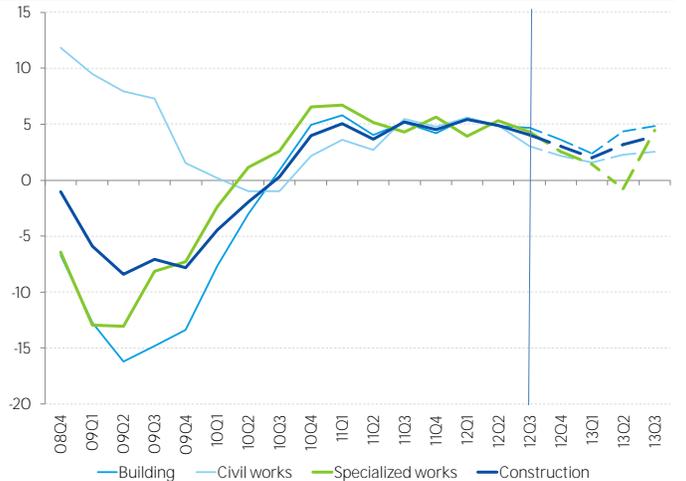
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Chart 9
GDP Forecasts: Construction and its components
Real annual % change



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