

Mexico Real Estate Flash

Construction output grew 2.5% in September

Although it is too early to assert that there is a slowdown in the sector, September is the second month in which growth in construction output has been below the average for the last 6 months. With this 2.5%, the average production in the sector stands at 4.4%, still above the average of 2.9% for the same period last year. This means that despite this lower positive progress, the performance is still good and indeed better than last year. Indicators of higher employment and greater output per worker, and increased construction financing suggest that construction will continue to grow, albeit not in all types of works.

- **Construction grows in energy and other works, and already converges with the economy**

In previous months, we saw that the construction sector outperformed the economy overall. If we compare IGAE and the construction production value, we see that the growth in the two series is beginning to converge. IGAE for secondary activities and industrial output in construction reported growths of 2.4% and 2.7%, so that the 2.5% increase in construction production lies between the two of them in a narrow margin. Although it is too early to confirm slowdown, the fall in building - which is the core component for construction - could slightly heighten this trend. Building production fell 1.6% in annual terms. Non-residential construction, on the other hand, continues to grow and has become the stalwart of the sector. For example, works in the energy sector grew by 9.1%, above the figure for the previous month and close to its half yearly average of 10.2%. Production of other works, such as hydroelectric and complementary works, has also grown in excess of the rate for total construction, with growth of slightly over 17%. Taking into account the above, the types of energy and hydroelectric works, which account for slightly over 27% of total construction, reported the best performance in the month. Meanwhile, construction in telecommunications and transport has reversed the previous reduction shown, by posting 0.2% growth year-on-year. Despite this improvement, in the short term it will be difficult to reverse the average performance of -3.1% for the last 6 months.

Production in the private sector continues to grow, and in September it was over 5% year-on-year. In the opposite direction, construction production in the public sector fell 0.4% yoy this month, and is now in negative territory. These figures are in keeping with the decreasing rates of public spending in physical investment. By calculating the growths in this spending using a 3-month moving average, we see that from July onward growth every month is less, falling from the line of 5% a year. Nonetheless, we expect them to keep in positive territory in the short term.

- **Slowdown in average output per worker and financing to building**

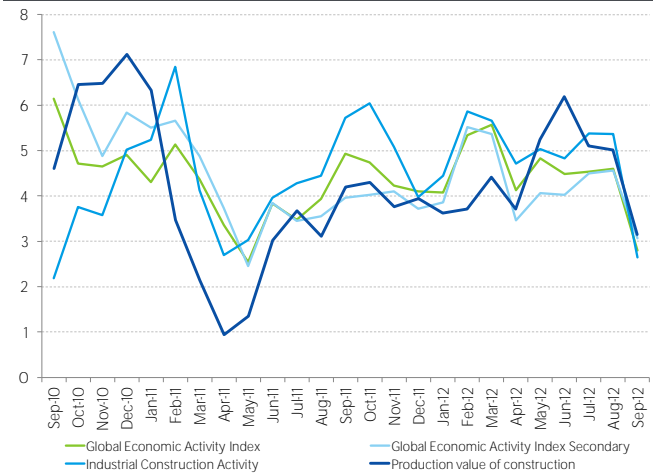
Personnel employed by construction companies also increased this month, and, as in the preceding month, indirect employees were at the forefront with an annual rate of 8.0%. Consequently, the trend of greater growth in external employment than in own employees has continued. The recent trend in number of workers and employees has continued, with annual growth of 1.7% and 1.5% respectively. The figure which stands out is the growth in the number of proprietary workers, which grew 2.9%, in contrast with the average virtually negligible growth between April and September. Growth in average slowed this month to 1.0%. However, it has remained in positive territory, as it has been since 2011, suggesting that construction companies might continue to demand workers and so increase their output in the short term. In September, average workers' wages also grew 1% in real terms against the same month of the previous year. There is a higher correspondence between the increase in average output and the increase in average workers' wages.

There was a slight increase in building lending from August to September, while the NPA ratio fell. The total balance went from 165 to 167 billion pesos. The increase in the current portfolio and a slight decrease in the delinquent portfolio meant that the NPA ratio fell from 6.6% to 6.3% in September. Practically the entire increase in the current portfolio occurred in the non-residential building portfolio, reflecting the more conservative stance being taken in granting credit to residential construction companies and the more positive outlook for productive building (offices, shopping malls and industrial). Growth in financing for construction of transport continues to grow, and now stands at over 110 billion pesos, with no increase in the NPA ratio.

- **September results point to slowdown in construction**

The results of the National Construction Company Survey in September are in keeping with our outlook of slowing growth in the output of the construction sector. The increasingly lower growth in building, which is the core component of construction, allows this trend to continue. Construction production in the energy sector is set to continue the positive trend. Although we expect employment to continue to rise in the sector, average output per employee is expected to keep at current levels or slightly below. In the mid-term, however, the new administration's plans for infrastructure investment, and the private sector's willingness to invest more heavily in construction, could point to a new favorable scenario for the sector.

Chart 1
Overall indicators and ENEC data
Annual % change



Source: BBVA Research with data from the National Construction Company Survey, Inegi.
 (3-month rolling average, figures to September 2012)

Table 1
Overall construction sector indicators
Annual % change

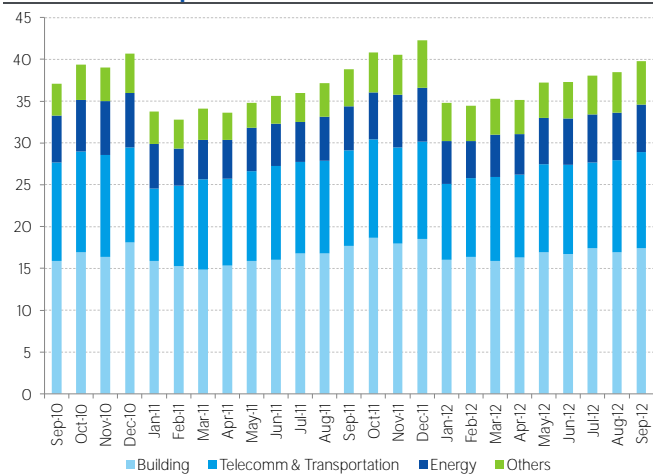
Annual % change main construction indicators						
Indicator	abr-12	may-12	jun-12	jul-12	ago-12	Sep-12
IGAE	4.9	4.6	4.2	5.1	3.5	1.3
IGAE Secondary	4.1	3.9	4.2	5.1	3.4	2.4
Industrial Construction activity	5.1	4.9	4.7	6.7	2.6	2.7
Production value of construction	4.4	6.9	4.8	5.8	3.5	2.5

Annual % change in production value of construction							
Type	Share	Apr-12	May-12	Jun-12	Jul-12	Aug-12	Sep-12
Building	43.8	6.3	6.6	4.2	3.8	0.8	-1.6
Telecomm y Transport	28.8	-4.8	-2.0	-4.7	-6.6	-0.6	0.2
Energy	14.3	4.9	7.6	9.8	21.1	8.4	9.1
Others	13.1	24.5	39.4	31.8	33.6	19.2	17.1
Construction	100.0	4.4	6.9	4.8	5.8	3.5	2.5

Annual % change in construction labor							
Labor	Share	Apr-12	May-12	Jun-12	Jul-12	Aug-12	Sep-12
Workers	67.3	2.4	4.5	3.2	0.6	1.1	1.7
Employees	16.3	4.3	2.5	2.5	2.1	1.3	1.5
Owners	1.2	6.9	-1.9	-7.5	3.1	-3.6	2.9
Outsourced	15.1	9.5	12.7	15.0	18.4	14.3	8.0
Total	100.0	3.8	5.2	4.7	3.3	2.9	2.6

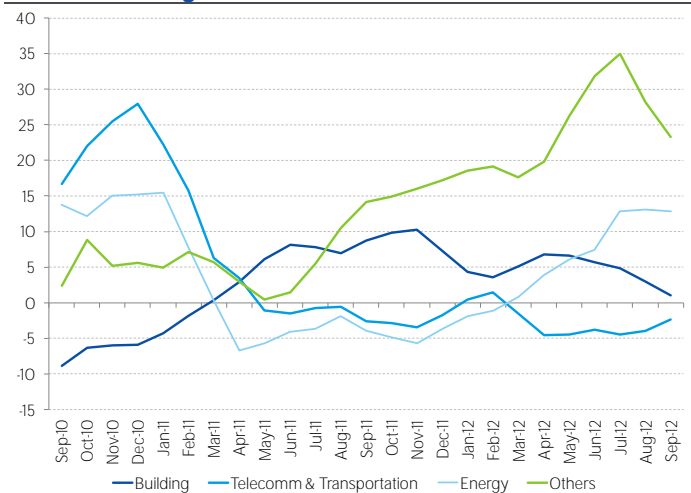
Source: BBVA Research with data from the National Construction Company Survey, Inegi.

Chart 2
Output value by work type
Billions of real pesos



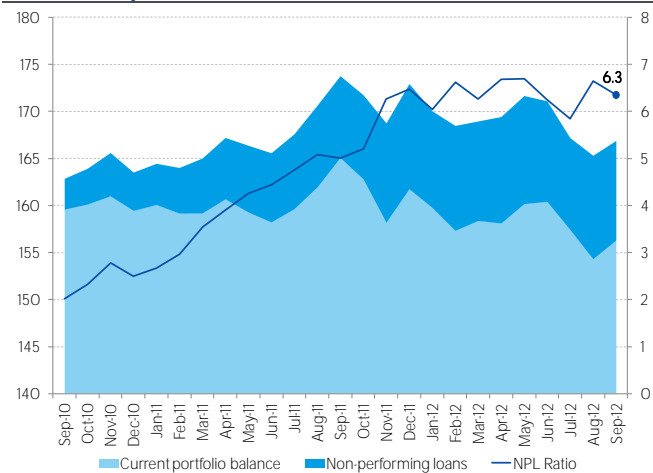
Source: BBVA Research with ENEC data, Inegi

Chart 3
Output value by work type
Annual % change



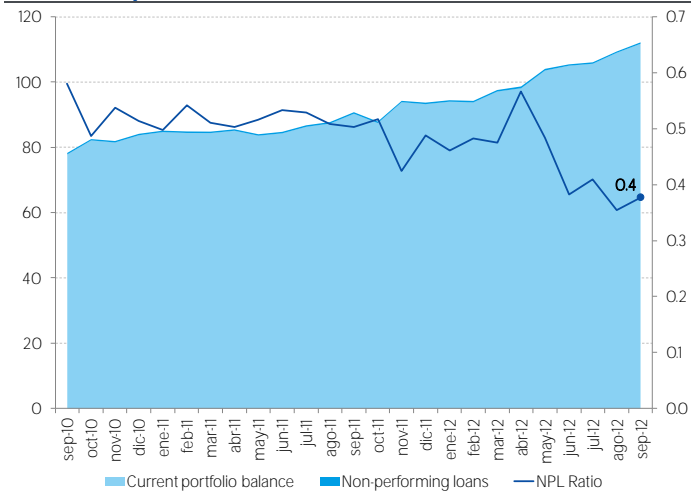
Source: BBVA Research with ENEC data, Inegi
 (3-month rolling average, figures to September 2012)

Chart 4
Bank financing to building
Billions of pesos and %



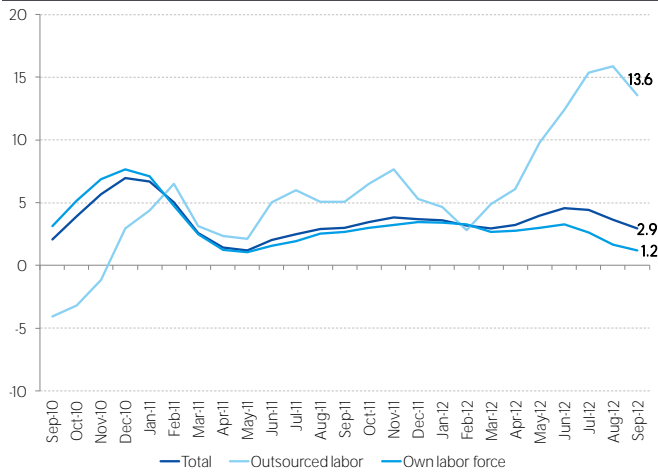
Source: BBVA Research with Bank of Mexico data
 (figures at September 2012)

Chart 5
Bank financing to transport
Billions of pesos and %



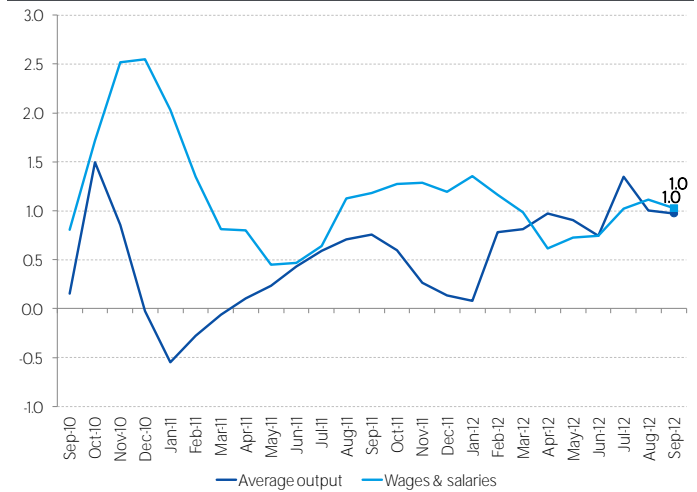
Source: BBVA Research with Bank of Mexico data
 (figures at September 2012)

Chart 6
Total workforce
Annual % change



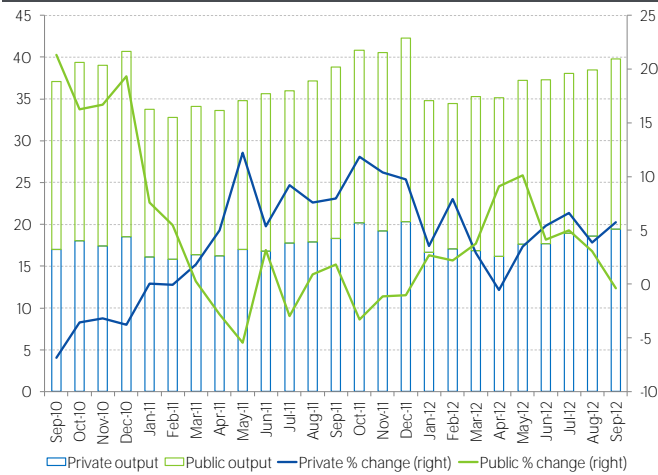
Source: BBVA Research with ENEC data, Inegi

Chart 7
Productivity and personnel income
Real annual % change



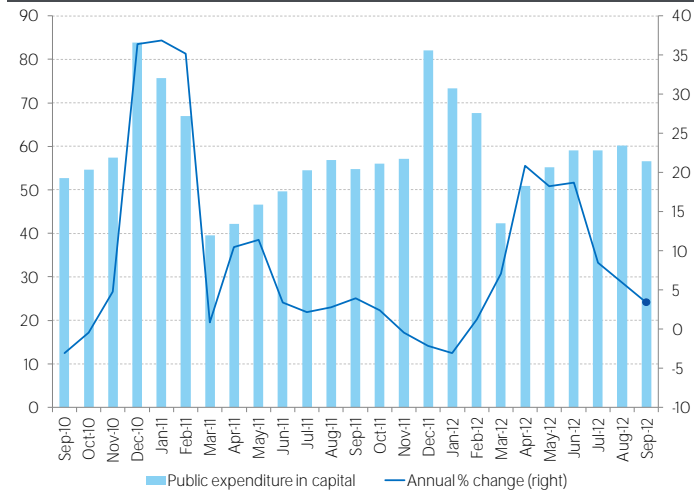
Source: BBVA Research with ENEC data, Inegi (figures at September 2012)

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



Source: BBVA Research with ENEC data, Inegi (original series, figures at September 2012)

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



Source: BBVA Research with ENEC data, Inegi (3-month rolling average, figures to September 2012)

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