

Mexico Real Estate Flash

Negative growth for the first time in two years.

- In November, construction was down -1.1% yoy and -1.0% in monthly terms.
- All three components of construction turned negative.
- These figures are in line with the expected slowdown in the sector.

November is the first month with a negative rate since July 2010.

Until October 2012, industrial activity had accumulated 27 months with positive annual rates. In November 2012, sector activity fell 1.1%, largely due to the lower public works. In its seasonally adjusted series, construction also fell against the previous month by a little less than 1.0%. Although the highest fall was seen in public works (-2.2% yoy), there was no growth in the other components either. Building was down 0.5% in its annual comparison, and specialized works by 0.1% in the same terms. As we have said, the end of the elections prompted the fall in public works, which had already begun to fall away from the other construction components.

These results are in keeping with the slowdown scenario which we have outlined in previous reports. October is the second month in which construction has underperformed the rest of the economy. Although the difference in the annualized rate was minimal in the previous month (2.6% against 2.4% in favor of IGAE), in October this difference widened by almost two points (2.8 against 1.0).

The sector is expected to continue growing despite some data are in a slowdown.

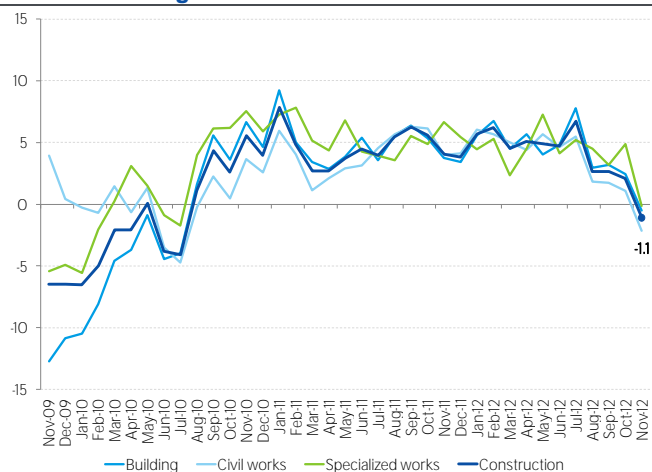
The lower pace in the sector is also evident in gross capital formation. In October, the annual rate was 3.2%, making an average of 3.4% for the last three months; when the average for the first half of the year was 5.7%. In November, the balance of the current portfolio has grown 16% since the end of 2011, but its annualized rate went from 22% in October to 19% in November. However, the NPL ratio remains fairly stable at 3.1%, maintaining the quality of the portfolio.

Social security registration by sector workers is also slowing. In November, growth in construction workers registered with the IMSS was 5.8%, the lowest rate for the last 8 months. Cement and concrete sales, however, increased in their seasonally adjusted series. Cement was up 4.7% and concrete by 3.8% year-on-year.

Slowdown in the construction sector confirmed.

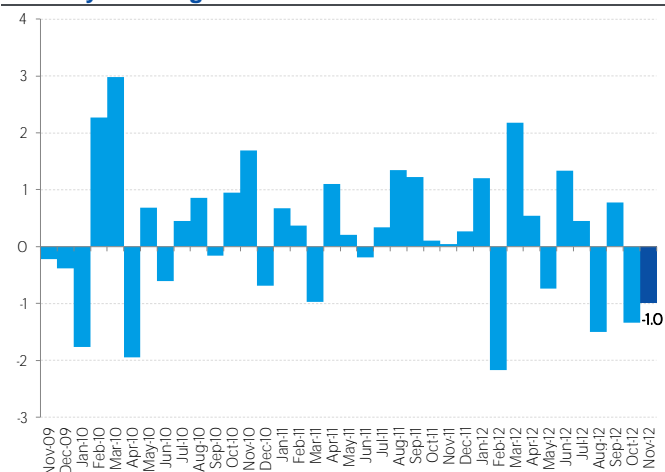
Recent results in industrial activity reveal a slowing in the sector, and in an extreme scenario growth in the sector might lag behind the economy overall. The fall in public works has been higher than expected; though it might be caused by an adjustment due to the transition from one government to another; in which case the application of the new budget for 2013 could offset its impact. Nevertheless, certain indicators in the sector remain firm, such as gross capital formation, financing and cement and concrete sales.

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



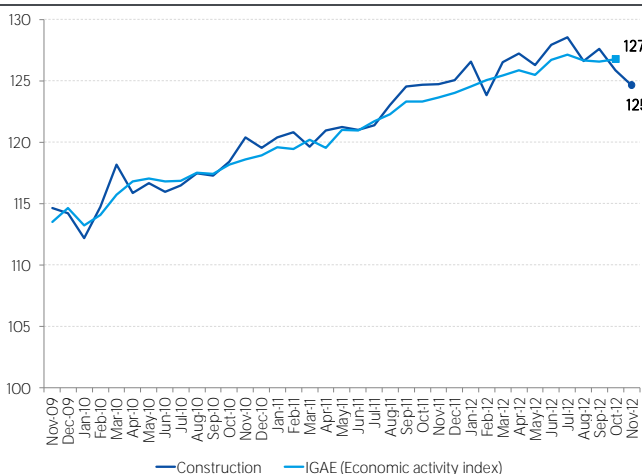
Source: BBVA Research with Inegi Industrial Activity data (original series)

Chart 2
Industrial Activity: Construction
Monthly % change



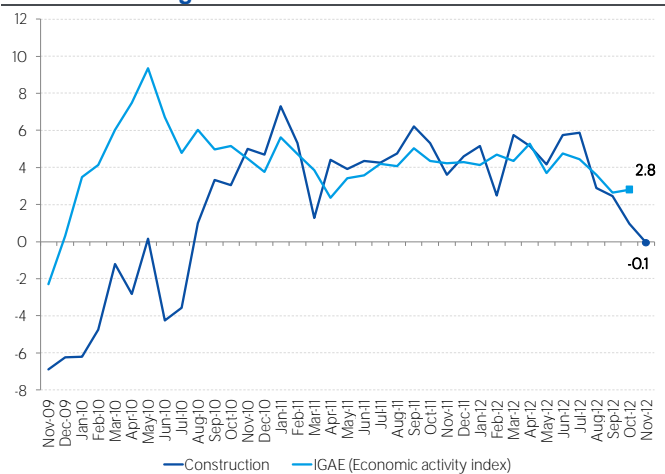
Source: BBVA Research with Inegi Industrial Activity data (seasonally-adjusted series)

Chart 3
Construction and IGAE
Index 2003=100



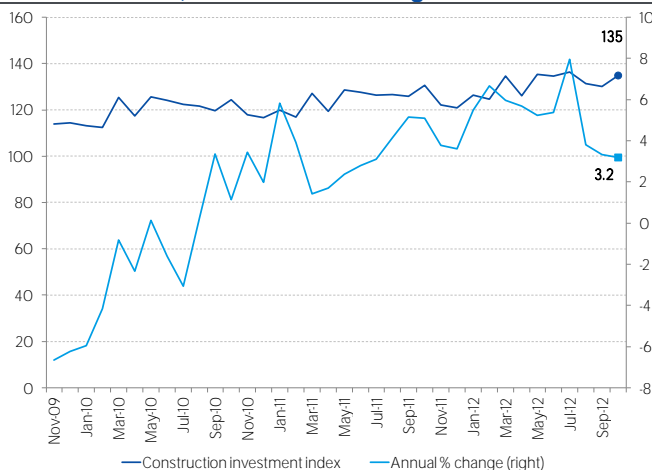
Source: BBVA Research with Inegi Industrial Activity data and IGAE (seasonally-adjusted series)

Chart 4
Construction and IGAE
Annual % change in the index



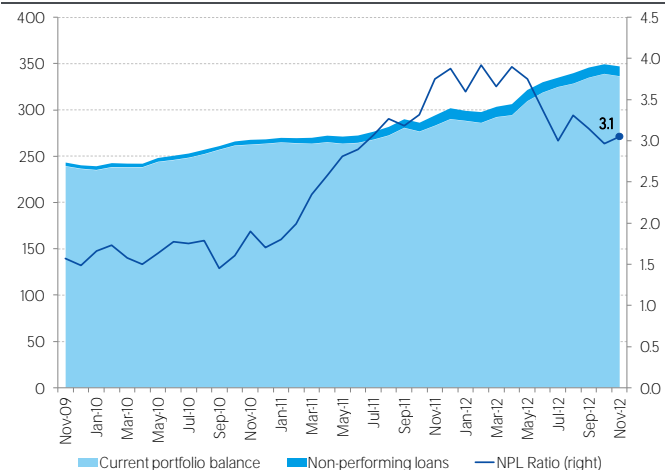
Source: BBVA Research with Inegi Industrial Activity data and IGAE (seasonally-adjusted series)

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



Source: BBVA Research with Inegi data (original series)

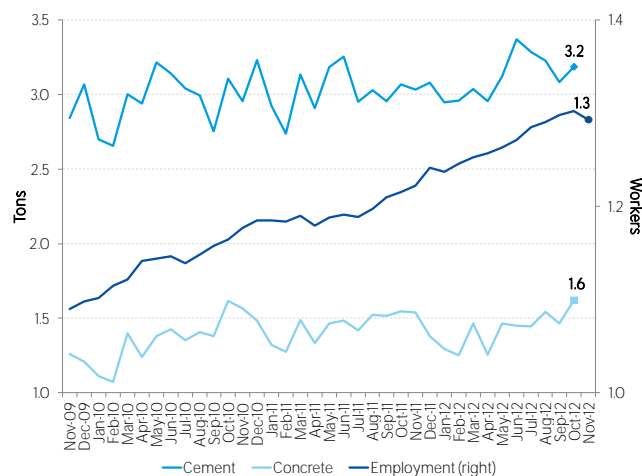
Chart 6
Bank financing to construction
Portfolio balances and NPL ratio



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

Chart 7

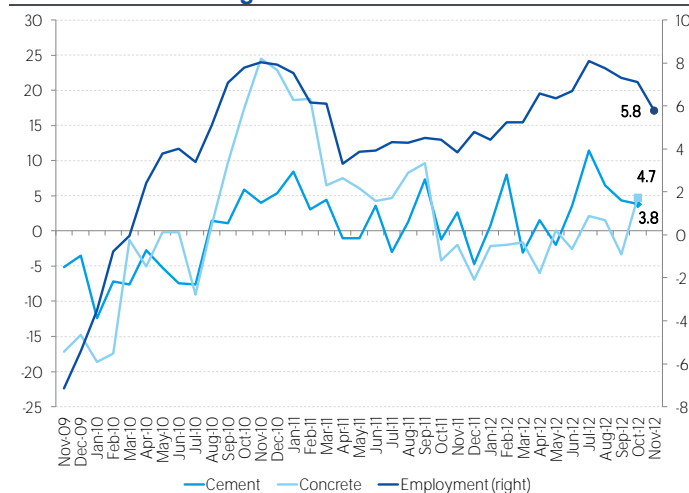
Construction leading indicators Millions of tons and workers



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*	0.5	1.0	-0.5	2.4

Note: Considers the update of the previous figures by Inegi.

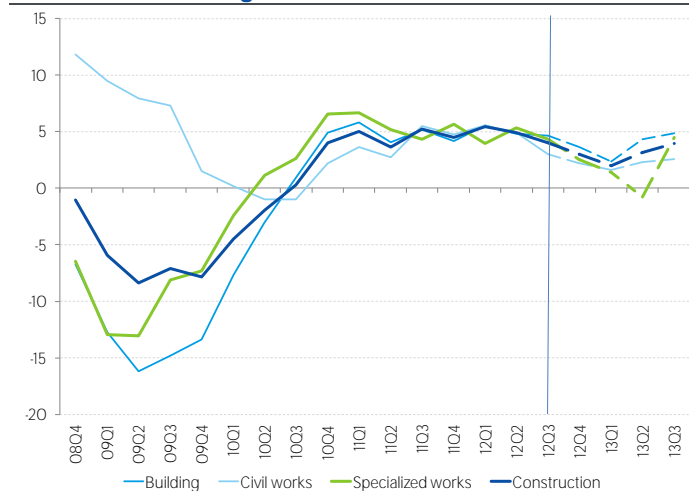
*Figures to November

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

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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)

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