

Mexico Real Estate Flash

Slowdown in construction production continues.

The results of the National Construction Company Survey in for November 2012 are in keeping with a scenario of slowdown in construction production. In November it grew by only 1.5% year-on-year and 0.14% compared to the previous month, seasonally adjusted. The sector has thus posted slower growth than the economy overall for the second consecutive month.

- **Second month in which construction has grown more slowly than the economy**

During the first nine months of the year, the output of construction companies grew at a rate which is similar and even higher the economy, measured using the general economic activity index (IGAE). Recently, however, growth has been below the IGAE and has also lagged behind the secondary sector. In November, the IGAE grew 4.1% yoy, but construction output did so by 1.5%. A difference of this size had not been registered since the first quarter of 2011.

This slowdown is consistent at the level of types of works. Construction of hydroelectric, sewage and other works which have posted growth rates of above 10% had a more discreet performance in November and grew by 5.4%. Telecommunications and transport works show hardly no growth, with a rate of 0.3%. Construction in energy fell 3.5% this month. The most interesting figure is the 3.0% annual growth in building, putting it back in positive territory, albeit not enough to offset the impact of the other types of works.

- **Greater demand for work, though less strongly; lending continues to grow.**

The total workforce in the sector rose 1.3%, lower than the figures registered in preceding months. This increase was largely due to the amount of owners and non-dependent staff. It is a different picture in terms of the number of workers, which is down 0.7%. Fewer workers engaged in production per se could partly explain the slowdown in the sector, and probably this trend could continue. In contrast, there is ample credit for transport, and it remains stable for building. In the former, the current portfolio amounted to 115 billion pesos, 24% higher than the balance at 2011 year end. In building, the current balance at November stands at 155 billion pesos, 4% lower than the figure at the end of the previous year; however, if we compare it with the level reached in the second half of 2012, the balance remains stable. An increasing lending to non-residential building permits this steady balance.

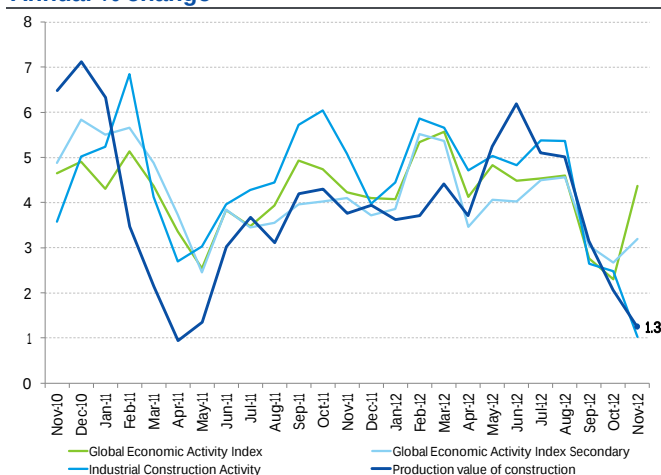
- **Public construction is lower, despite higher expenditure on physical capital.**

The public sector has a lower share in the value of construction production, because of a diminishing own production as well as an increasing private construction. In November, we see the same story: with its output down 3.0% year-on-year, public construction now accounts for 50% of the total. Meanwhile, construction in the private sector was up 6.5% in the same period. Lower production in the public sector, which usually contributes most to the sector, is consistent with the slowdown scenario. This result is not surprising, because, as we have said on previous occasions, public activity decreases during the end of the election period and the transition to a new government. The lower construction by the public sector could partly be due to lower rates of growth in expenditure on physical capital. In November, investment in physical capital increased 4.4% year-on-year, below the rates of over 10% registered in the first half of the year.

- **Slowing growth in the sector; it will be necessary to wait for new projects to be defined.**

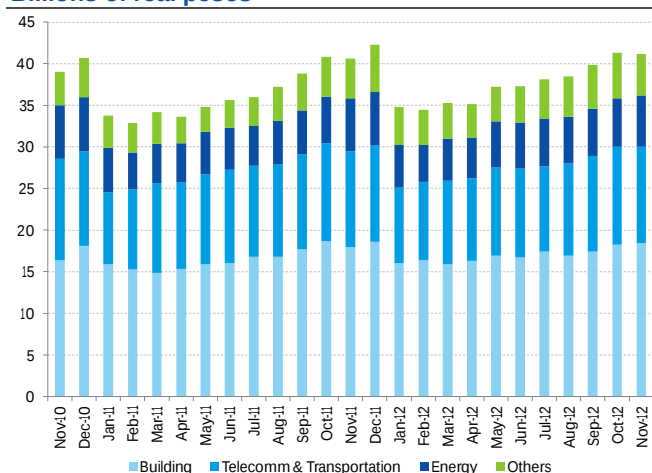
Construction production has registered growth for the last two years, but November is the second month in which this growth has been below 2%. This slow growth is also evident in the main types of works. Other indicators fit in with this point of view; growth in total workforce is also lower, and, in particular, the number of workers fell. A similar performance is observed in public spending on physical capital, prompting lower output in the sector which is usually the largest constructor. Growth is only maintained in lending, though not in all the types of works. Our outlook for a more discreet performance is therefore maintained. An increase might be observed with new infrastructure projects, regardless of whether they are constructed by the public sector or by the private sector making use of the new laws.

Chart 1
Overall indicators and ENEC data
Annual % change



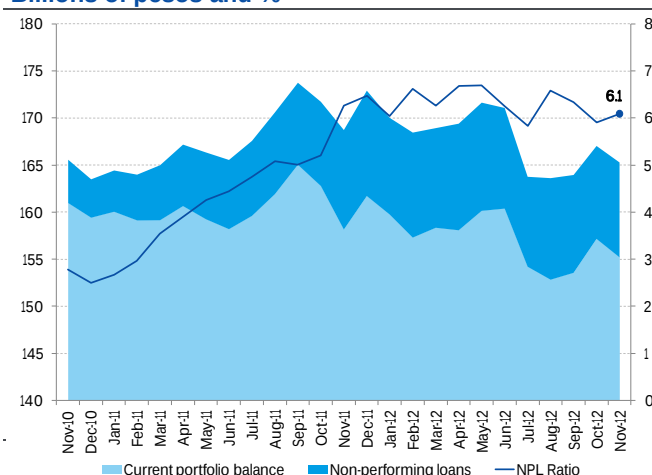
Source: BBVA Research with data from the National Construction Company Survey, Inegi.
(3-month rolling average, figures to November 2012)

Chart 2
Output value by work type
Billions of real pesos



Source: BBVA Research with ENEC data, Inegi

Chart 4
Bank financing to building
Billions of pesos and %



Source: BBVA Research with Bank of Mexico data
(figures as of November 2012)

Table 1
Overall construction sector indicators
Annual % change

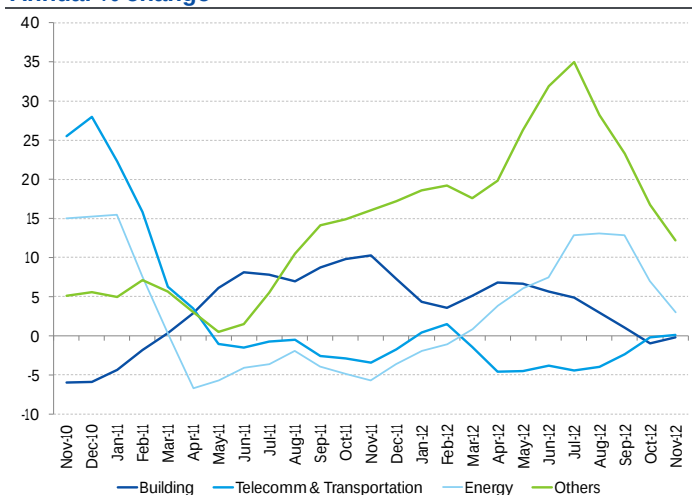
Annual % change main construction indicators						
Indicator	Jun-12	Jul-12	ago-12	sep-12	oct-12	Nov-12
IGAE	4.2	5.1	3.5	1.2	4.5	4.1
IGAE Secondary	4.2	5.1	3.4	2.3	3.4	2.8
Industrial Construction activity	4.7	6.7	2.6	2.7	2.1	-1.1
Production value of construction	4.8	5.8	3.5	2.5	1.1	1.5

Annual % change in production value of construction							
Type	Share	Jun-12	Jul-12	Aug-12	Sep-12	Oct-12	Nov-12
Building	44.9	4.2	3.8	0.8	-1.6	-2.0	3.0
Telecomm y Transport	28.0	-4.7	-6.6	-0.6	0.2	-0.1	0.3
Energy	14.9	9.8	21.1	8.4	9.1	3.5	-3.5
Others	12.2	31.8	33.6	19.2	17.1	13.9	5.4
Construction	100.0	4.8	5.8	3.5	2.5	1.1	1.5

Annual % change in construction labor							
Labor	Share	Jun-12	Jul-12	Aug-12	Sep-12	Oct-12	Nov-12
Workers	66.3	3.2	0.6	1.1	1.7	-1.2	-0.7
Employees	17.1	2.5	2.1	1.3	1.5	-0.8	4.3
Owners	1.3	-7.5	3.1	-3.6	2.9	9.5	7.0
Outsourced	15.3	15.0	18.4	14.3	8.0	9.3	6.3
Total	100.0	4.7	3.3	2.9	2.6	0.5	1.3

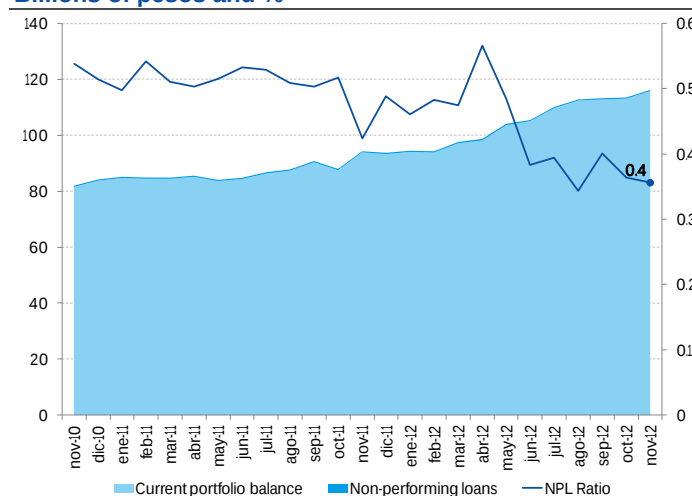
Source: BBVA Research with data from the National Construction Company Survey, Inegi.

Chart 3
Output value by work type
Annual % change



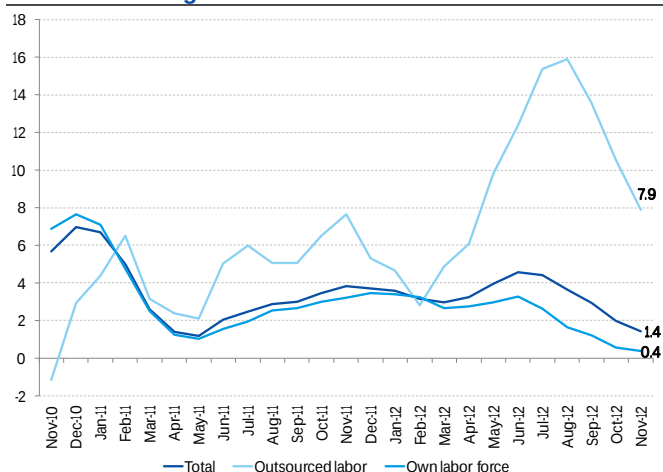
Source: BBVA Research with ENEC data, Inegi
(3-month rolling average, figures to November 2012)

Chart 5
Bank financing to transport
Billions of pesos and %



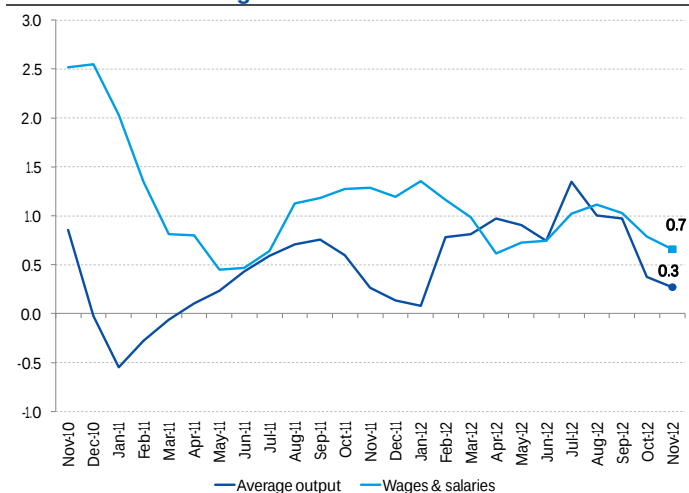
Source: BBVA Research with Bank of Mexico data
(figures as of November 2012)

Chart 6
Total workforce
Annual % change



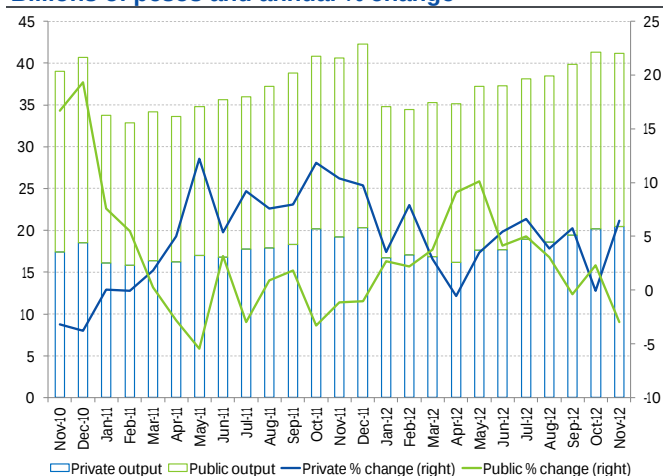
Source: BBVA Research with ENEC data, Inegi

Chart 7
Productivity and personnel income
Real annual % change



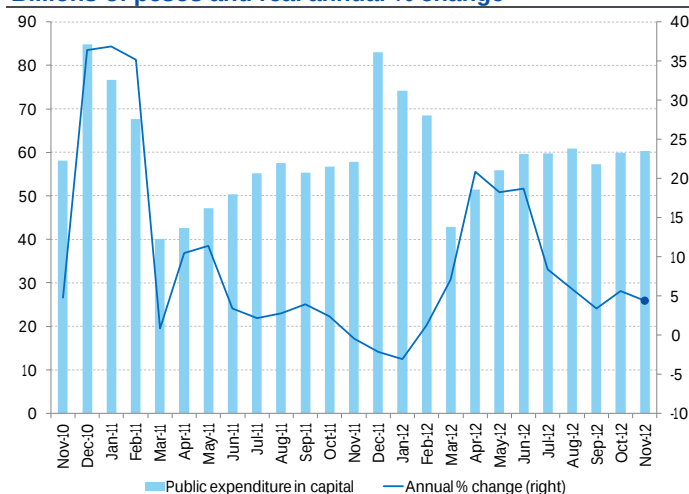
Source: BBVA Research with ENEC data, Inegi
(figures as of November 2012)

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



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

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