

Mexico Real Estate Flash

Construction output down a notch

Construction company output fell in December, the first fall since July 2010, when the sector began to emerge from the depression caused by the 2009 crisis. The decline affected nearly all types of construction work, with the exception of energy construction. In addition, companies are hiring less, also pointing to lower output. However, we should not forget that output at the end of 2011 was very high, partly due to the electoral cycle, and therefore we may be witnessing a statistical effect. Confirmation of the trend should be delayed until we have figures for the first quarter of 2013.

- **The first month with negative construction growth**

Production growth is in negative territory for the first time in a little over two years. Construction fell 2.3% year-on-year and 1.1% month-on-month on a seasonally-adjusted basis. This ends 28 consecutive months of growth. Whilst the overall economy is also slowing down, the decline in construction was more pronounced throughout the fourth quarter of 2012: in 4Q 2012, the average IGAE index for economic activity was 3.2% year-on-year, whilst for construction it was only 0.1%.

Construction companies report lower output for most types of construction work, with the exception of energy construction. Building, the main form of construction, seemed to be recovering during the previous month, but it has now fallen again due to a slowdown in construction of single-family homes. Telecommunications and transport construction fell by over 3%, due mainly to less work on subways and light railways. Hydroelectric, sewage and other works had been performing well, but whilst it was always to be expected that growth rates in excess of 10% would turn out to be unsustainable, a fall of 8% is surprising. The only sector to grow in the quarter was energy construction (up 2.2% year-on-year), due to higher oil well production; however, there was no growth in electricity.

- **Construction companies have less demand for labor**

December's results may in part be explained by construction companies employing fewer workers. The total number of people employed in the sector was down 3%; but the number of casual laborers fell by over 5%. As mentioned above, lower demand for labor by these companies is reflected in production levels, but it may also be an indicator of employer's adjusting their production plans based on their short-term expectations.

In line with the real sector, construction financing ended the year with the current portfolio balance 3% down. The good news is that the deterioration in the portfolio has been stabilized, keeping the proportion of non-performing loans at around 6% of the total. Drilling into the detail, the transport construction lending portfolio ended the year up 27%, at 120 billion pesos. Although its non-performing loans rate increased from 0.5% to 1.1%, the quality of this portfolio is still excellent.

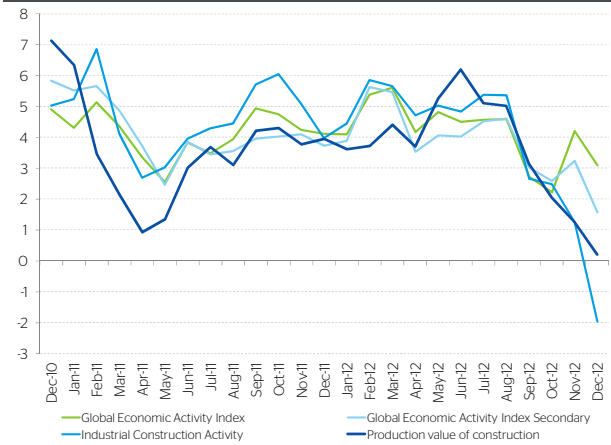
- **Lower public spending on physical capital, with lower private production**

Public and private sector contributions to construction output tell a similar story. In December, private production fell 3.9%, a fall not seen since late-2010; the public sector also contracted, but not as substantially. This may be explained by lower public spending on physical capital. Government spending in this area fell sharply in December 2012. However, we should note that such spending was extraordinarily high in December 2011, perhaps due to the electoral cycle.

- **The value of production falls on a number of fronts: could there be a reaction?**

With the exception of the energy sector, construction output was down across the board. Moreover, lower labor demand from construction companies indicates a probable change in their short-term expectations. However, it is also true that the basis for the comparison -December 2011- was exceptionally high, and we may therefore just be witnessing a statistical effect. Despite these negative figures being consistent with falling construction GDP, we recommend waiting until we have first-quarter figures before confirming the trend. A favorable reaction from the sector will largely be dependent on the government promptly defining its action plans.

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 at December 2012)

Table 1
Overall construction sector indicators
Annual % change

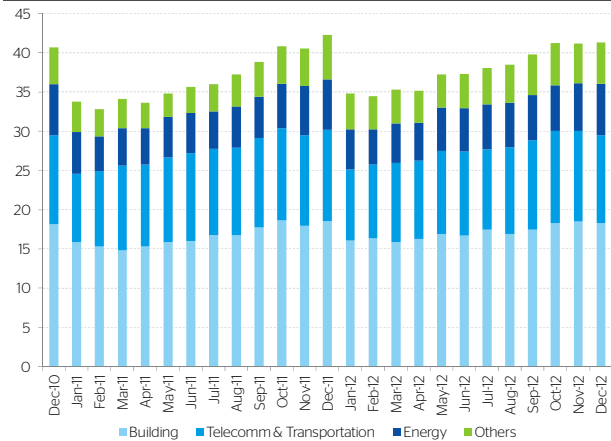
Annual % change main construction indicators						
Indicator	Jul-12	ago-12	sep-12	oct-12	nov-12	Dec-12
IGAE	5.1	3.5	1.1	4.3	3.9	1.4
IGAE Secondary	5.2	3.4	2.2	3.4	2.9	-1.1
Industrial Construction activity	6.7	2.6	2.7	2.1	-0.4	-5.0
Production value of construction	5.8	3.5	2.5	1.1	1.5	-2.3

Annual % change in production value of construction							
Type	Share	Jul-12	Aug-12	Sep-12	Oct-12	Nov-12	Dec-12
Building	44.2	3.8	0.8	-1.6	-2.0	3.0	-1.7
Telecomm y Transport	27.2	-6.6	-0.6	0.2	-0.1	0.3	-3.1
Energy	16.0	21.1	8.4	9.1	3.5	-3.5	2.2
Others	12.6	33.6	19.2	17.1	13.9	5.4	-8.1
Construction	100.0	5.8	3.5	2.5	1.1	1.5	-2.3

Annual % change in construction labor							
Labor	Share	Jul-12	Aug-12	Sep-12	Oct-12	Nov-12	Dec-12
Workers	66.0	0.6	1.1	1.7	-1.2	-0.7	-5.2
Employees	17.3	2.1	1.3	1.5	-0.8	4.3	3.2
Owners	1.4	3.1	-3.6	2.9	9.5	7.0	13.3
Outsourced	15.4	18.4	14.3	8.0	9.3	6.3	-1.5
Total	100.0	3.3	2.9	2.6	0.5	1.3	-3.0

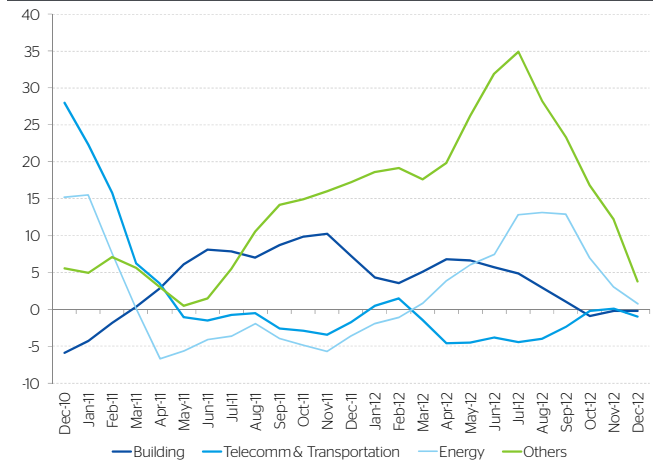
Source: BBVA Research with data from the National Construction Company Survey, INEGI.

Chart 2
Output value by work type
Billions of real pesos



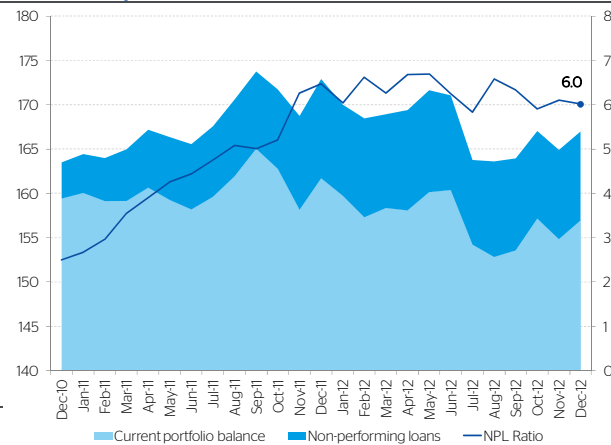
Source: BBVA Research with ENEC data, INEGI

Chart 3
Output value by work type
Annual % change



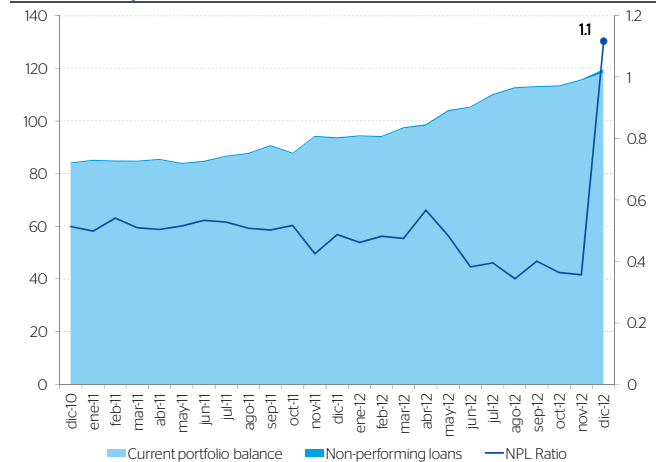
Source: BBVA Research with ENEC data, INEGI
(3-month rolling average, figures at December 2012)

Chart 4
Bank financing to building
Billions of pesos and %



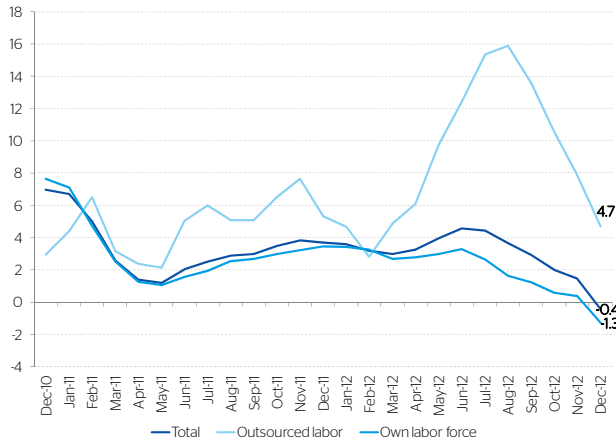
Source: BBVA Research with Bank of Mexico data
(at December 2012)

Chart 5
Bank financing to transport
Billions of pesos and %



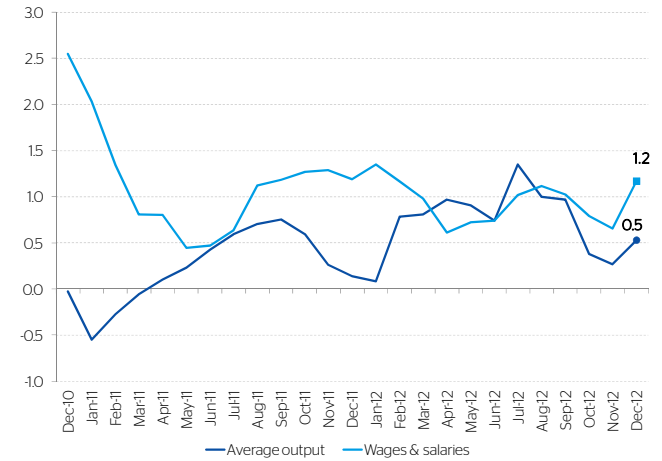
Source: BBVA Research with Bank of Mexico data
(at December 2012)

Chart 6
Total workforce
Annual % change



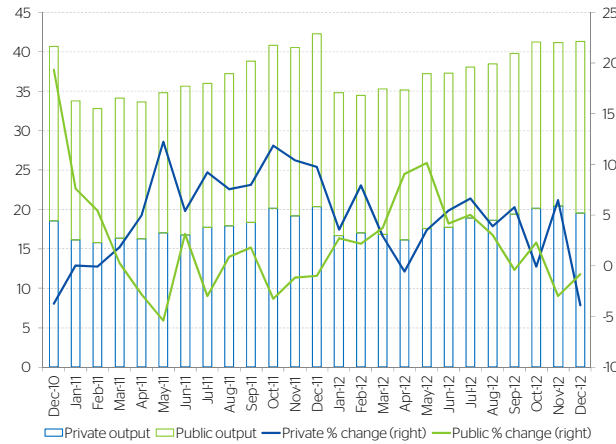
Source: BBVA Research with ENEC data, INEGI

Chart 7
Productivity and personnel income
Real annual % change



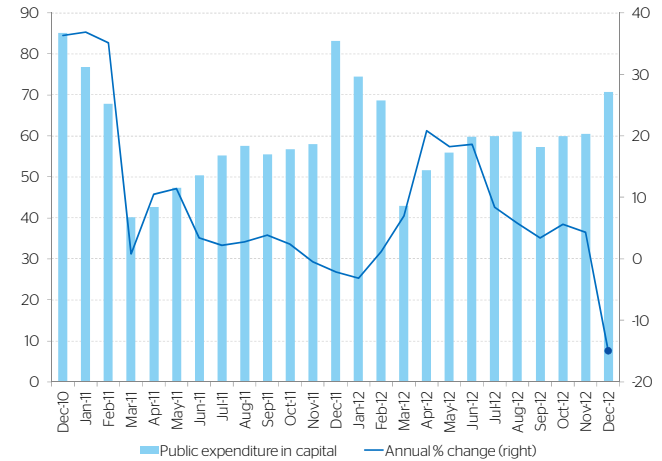
Source: BBVA Research with ENEC data, INEGI (at December 2012)

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



Source: BBVA Research with ENEC data, INEGI (original series, figures at December 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 at December 2012)

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