

Mexico Real Estate Flash

New drop in construction production

Lower construction production was seen in January. Building fell once again, as did the number of workers hired by the sector's companies. Construction in the energy sector acted once again as a counterweight, with a significant improvement. The increase in private production was not enough to counteract the fall in the public sector. A rebound is unlikely unless building and public sector construction recover.

- **Construction performed below than the economy as a whole**

The value of production fell once again in January 2013. In terms of its annual comparison, production in the construction industry was down 1.4% (2.0% compared to the previous month, seasonally-adjusted). With this result, the economy as a whole once again outperformed the construction industry when we compare the general economic activity index (IGAE) against the value of production in the sector. This lower performance can also be seen against the economic activity in the secondary sector to which construction belongs.

This month, the decrease is due to a 6% fall in building, something which had not happened since January 2011. This result is based on lower housing production. Since building is the main type of work in construction, its decrease is reflected in the entire sector, despite the fact that the rest of the types of work showed positive performance. In contrast, construction in the energy sector showed the greatest increase. In January, production in energy construction work was up 7.2% in terms of its annual comparison, with extraction plant construction boosting growth. Construction in the telecommunications and transport sectors, as well as in other types of construction, was up moderately to 0.5% and 1.2% year-on-year, respectively.

- **Labor demand is also down**

Labor demand by construction companies continued to decline, although not as much as in the previous month. In January, the number of people employed by the companies surveyed was down 1.8%, with non-dependent workers being the most hardly hit. The number of workers fell once again, although less than in December. This could affect production, due to fewer workers engaged in construction work. Although it is true that the total number of people employed by construction companies has only declined in the two most recent months (January and December), the number of workers has remained in negative territory from October 2012 to January 2013. However, during the first two months this was not reflected in the value of production due to a possible replacement with non-dependent workers, but the combination of fewer workers and fewer non-dependent employees does have an effect on production.

- **Credit stabilizes and public spending on physical capital continues to decline**

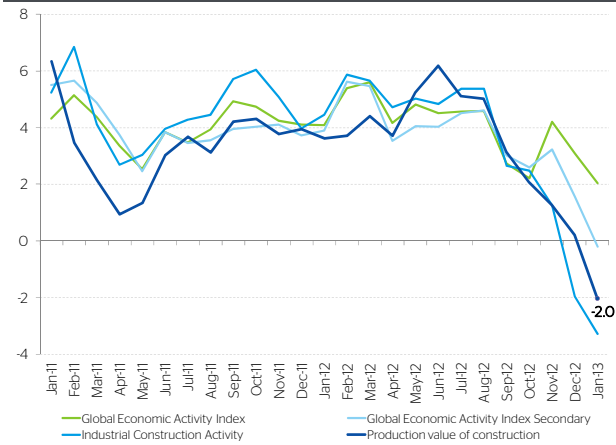
The balance of credit for building has remained stable, similarly to lending for road construction. In January, the construction loan portfolio barely fell by one thousand million, with the greatest effect seen in its current part. However, the portfolio quality has been maintained, with an NPA ratio of around 6%. Total bank lending for road construction also remained stable and unchanged from December 2012. This portfolio's NPA ratio remains below 1%, thanks to a slight decrease in the overdue portfolio.

The decline in the sector's production can be seen in its public component. Year-on-year, public production fell by 5.3%, while private production was up 2.8%. With these results, the share in the sector is balanced between both sectors. This reveals the declining importance of the public sector in construction, due possibly to a drop of nearly 16% in spending on physical capital in January 2013.

- **The outlook for a start of the year with lower production materializes**

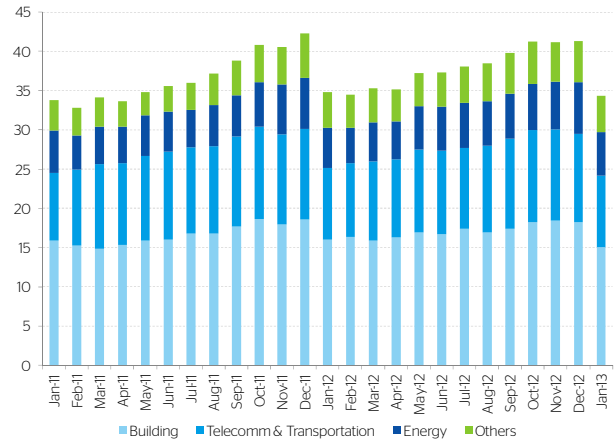
As in the previous month, construction in the energy sector was once again the sector's spearhead. In building, which is the main type of work, performance was exceptionally negative, at levels not seen in the last two years. This, together with lower demand for workers and non-dependent staff, suggests that construction will face a difficult year. The declining share of the public sector, which had been the main builder, will maintain the negative effect. Growth in the sector is unlikely unless building and public sector construction recover. However, the upcoming application of the Public-Private Partnerships Act could help private production offset the decrease seen in the public sector. The lack of progress in construction could continue throughout the first quarter of 2013, while awaiting the presentation of the National Development Plan and the National Infrastructures Plan.

Chart 1
Overall indicators and ENEC data
Annual % change



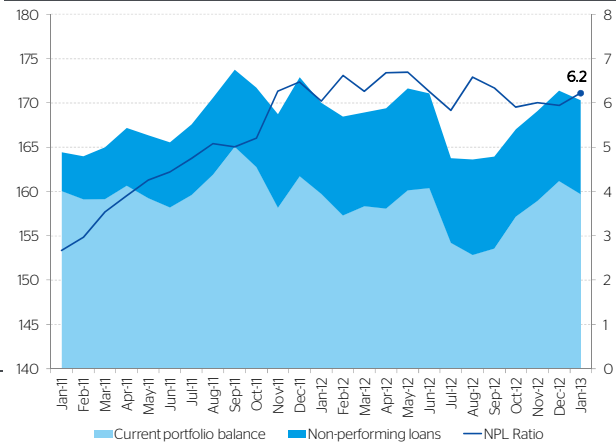
Source: BBVA Research with data from the National Construction Company Survey, INEGI.
(3-month rolling average, figures at January 2013)

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
(January 2013 figures)

Table 1
Overall construction sector indicators
Annual % change

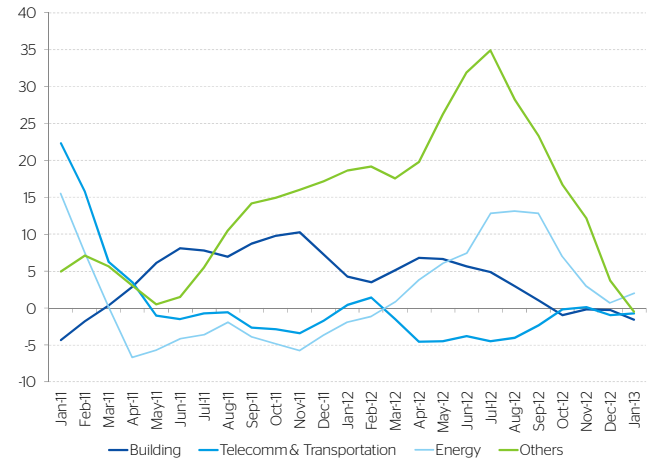
Annual % change main construction indicators						
Indicator	ago-12	sep-12	oct-12	nov-12	dic-12	Jan-13
IGAE	3.5	1.1	4.3	3.9	1.4	3.2
IGAE Secondary	3.4	2.2	3.4	2.9	-1.1	1.7
Industrial Construction activity	2.6	2.7	2.1	-0.4	-5.0	0.1
Production value of construction	3.5	2.5	1.1	1.5	-2.3	-1.4

Annual % change in production value of construction							
Type	Share	Aug-12	Sep-12	Oct-12	Nov-12	Dec-12	Jan-13
Building	43.9	0.8	-1.6	-2.0	3.0	-1.7	-6.0
Telecomm y Transport	26.6	-0.6	0.2	-0.1	0.3	-3.1	0.5
Energy	16.0	8.4	9.1	3.5	-3.5	2.2	7.2
Others	13.5	19.2	17.1	13.9	5.4	-8.1	1.2
Construction	100.0	3.5	2.5	1.1	1.5	-2.3	-1.4

Annual % change in construction labor							
Labor	Share	Aug-12	Sep-12	Oct-12	Nov-12	Dec-12	Jan-13
Workers	68.6	1.1	1.7	-1.2	-0.7	-5.2	-1.0
Employees	17.1	1.3	1.5	-0.8	4.3	3.2	-0.1
Owners	1.3	-3.6	2.9	9.5	7.0	13.3	3.5
Outsourced	13.0	14.3	8.0	9.3	6.3	-1.5	-8.3
Total	100.0	2.9	2.6	0.5	1.3	-3.0	-1.8

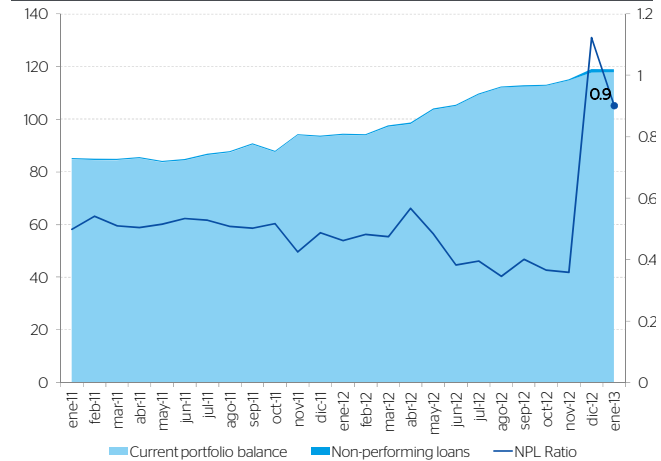
Source: BBVA Research with data from the National Construction Company Survey, INEGI.

Chart 3
Output value by work type
Annual % change



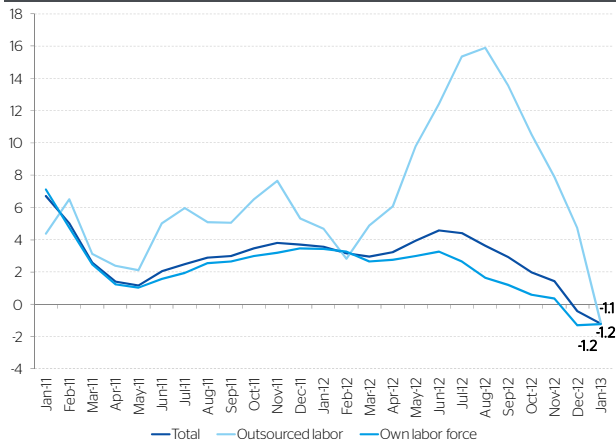
Source: BBVA Research with ENEC data, INEGI
(3-month rolling average, figures at January 2013)

Chart 5
Bank financing to transport
Billions of pesos and %



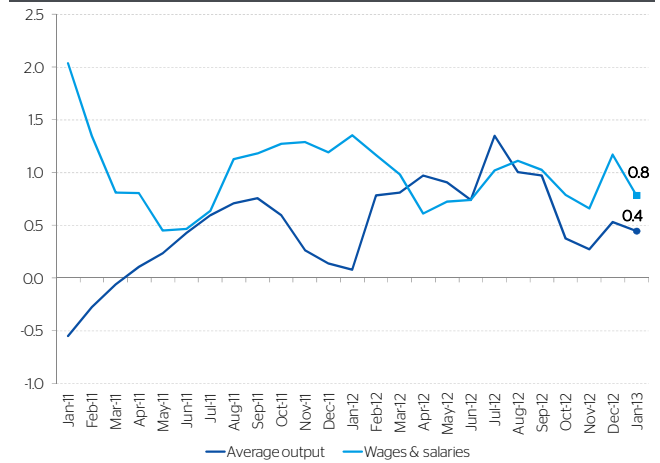
Source: BBVA Research with Bank of Mexico data
(January 2013 figures)

Chart 6
Total workforce
Annual % change



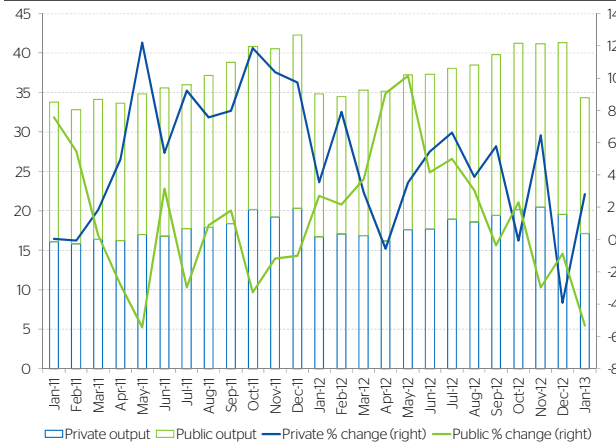
Source: BBVA Research with ENEC data, INEGI

Chart 7
Productivity and personnel income
Real annual % change



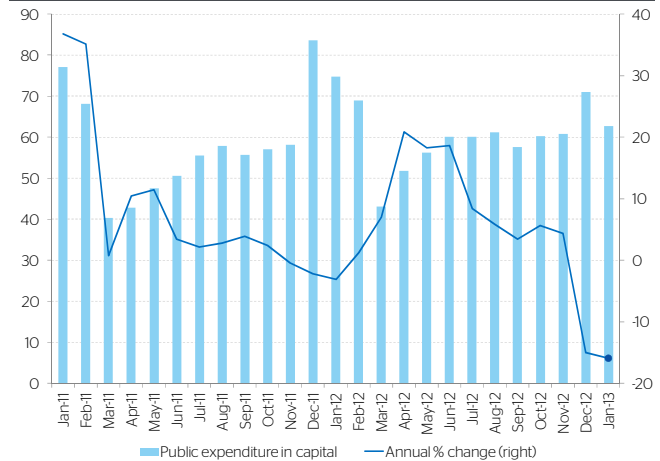
Source: BBVA Research with ENEC data, INEGI
(January 2013 figures)

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



Source: BBVA Research with ENEC data, INEGI
(original series, figures at January 2013)

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 January 2013)

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