Mexico Real Estate Flash

Second month of the year, second decline in construction

January and February saw falls in the output value of construction companies. Building, which is the main type of construction work, once again declined; but construction in the energy sector is strong, with the best performance. However, progress in energy construction is not enough to get the sector back on its feet.

• Output in the construction sector lags behind, while construction in energy consolidates

Despite the fact that compared to January output in February increased 0.9% in the seasonally-adjusted series, construction declined 0.5% year-on-year. This is the third month in a row with lower output and the fifth month with performance below that of the economy as a whole, when we examine the general economy activity index (IGAE). In the secondary sector, construction was slightly above the average.

As we mentioned earlier, recovery will be unlikely unless building gets ahead. We should bear in mind that this type of work contributes the most to the sector, and output in February declined 2.9% over the previous year. However, on this occasion construction in the telecommunications and transport sectors was the type of work that posted a steeper decline, 7.6% year-on-year. However, construction in the energy sector once again increased its output along with other types of work. Although this time construction work associated with the oil sector saw an increase, while the electricity sector slowed.

Total lending to construction also continued to decline in February. Lending to residential construction led the decline among the other subsectors. In previous months, growth in credit for road construction had concealed the impact of a smaller residential portfolio, but in February it followed in its footsteps and showed a slight decrease. In both cases we attribute this situation to lower origination of loans for these types of construction work, associated with the falling economic activity. However, the portfolio's quality remains stable, with an NPA ratio of less than 1% in the portfolio of credit for road construction.

• The number of workers continues to decline

The total number of workers in the construction companies surveyed once again declined in February. Even though the number of laborers fell by only 0.1%; non-dependent workers involved in production declined by more than 5%. As in other months in which we have seen falls in output, the common factor is a lower number of laborers as a whole, with fewer non-dependent staff. Despite the decline in total output and the lower number of workers, average output per worker has increased in recent months. We should focus on this point, as we could be witnessing an adjustment in the efficiency of the companies surveyed. This should eventually be reflected in greater added value.

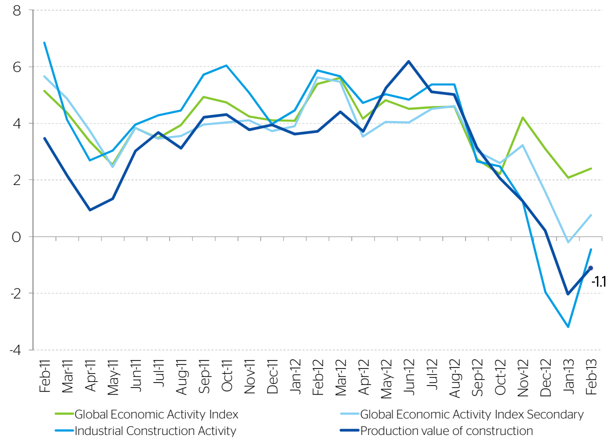
• Lower spending in physical investment could explain the lower public sector participation

The public sector is giving ground to private sector construction. In February, 52% of construction output corresponded to the private sector, and for the first time in more than two years the public sector is not the largest builder in our economy. The change is due both to lower public output and to an increase in the private sector; however, the aggregate remains below the levels seen at the end of 2012. This is due in part to the ongoing decrease in government spending that would otherwise be allocated to this activity. For example, over the three months we see declines in construction output and also negative annual rates in government spending in physical investment. We therefore consider that it will be necessary to increase public investment or make better use of the potential generated by the Public-Private Associations Act so that the output in the sector reaches higher levels.

• Results in line with a likely decline in the first quarter

In February, the scenario was quite similar to the one seen in the previous month. With the negative trend seen in the two months it will be difficult for the first quarter of 2013 to register greater output in general for construction. However, the energy sector is performing strongly and could close the quarter with exceptional growth. In addition, should the energy sector reform materialize, growth could be sustained for this type of construction work. Despite the lower output forecast for the quarter, the counterweight is the higher average output per worker, and we could be witnessing an increase in efficiency for the sector's companies.

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 February 2013)

Table 1
Overall construction sector indicators
Annual % change

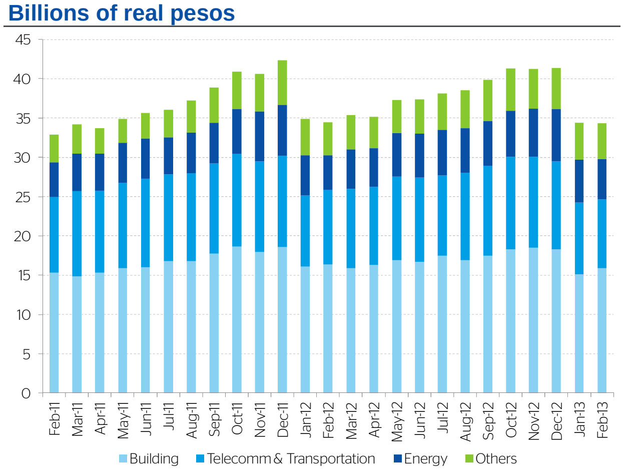
Annual % change main construction indicators						
Indicator	Sep-12	Oct-12	Nov-12	Dec-12	Jan-13	Feb-13
IGAE	1.1	4.3	3.9	1.4	3.4	0.4
IGAE Secondary	2.2	3.4	2.9	-1.1	1.7	-1.2
Industrial Construction activity	2.7	2.1	-0.4	-5.0	0.5	-2.3
Production valur of construction	2.5	1.1	1.5	-2.3	-1.4	-0.5

Annual % change in production value of construction							
Type	Share	Sep-12	Oct-12	Nov-12	Dec-12	Jan-13	Feb-13
Building	46.3	-1.6	-2.0	3.0	-1.7	-6.0	-2.9
Telecomm y Transport	25.4	0.2	-0.1	0.3	-3.1	0.5	-7.6
Energy	14.9	9.1	3.5	-3.5	2.2	7.2	14.5
Others	13.4	17.1	13.9	5.4	-8.1	1.2	8.9
Construction	100.0	2.5	1.1	1.5	-2.3	-1.4	-0.5

Annual % change in construction labor							
Labor	Share	Sep-12	Oct-12	Nov-12	Dec-12	Jan-13	Feb-13
Workers	67.7	1.7	-1.2	-0.7	-5.2	-1.0	-0.1
Employees	17.0	1.5	-0.8	4.3	3.2	-0.1	-0.2
Owners	1.3	2.9	9.5	7.0	13.3	3.5	1.2
Outsourced	13.9	8.0	9.3	6.3	-1.5	-8.3	-5.1
Total	100.0	2.6	0.5	1.3	-3.0	-1.8	-0.8

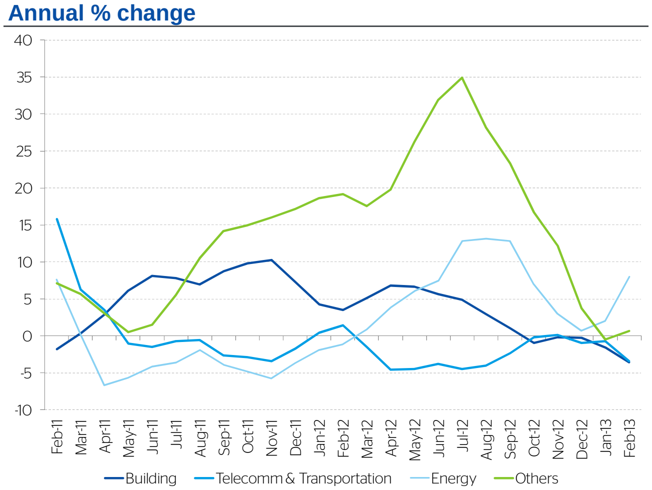
Source: BBVA Research with data from the National Construction Company Survey, INEGI.

Chart 2
Output value by work type
Billions of real pesos



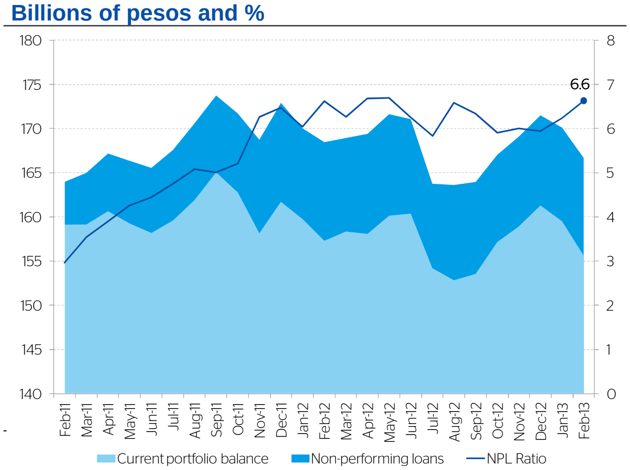
Source: BBVA Research with ENEC data, INEGI

Chart 3
Output value by work type
Annual % change



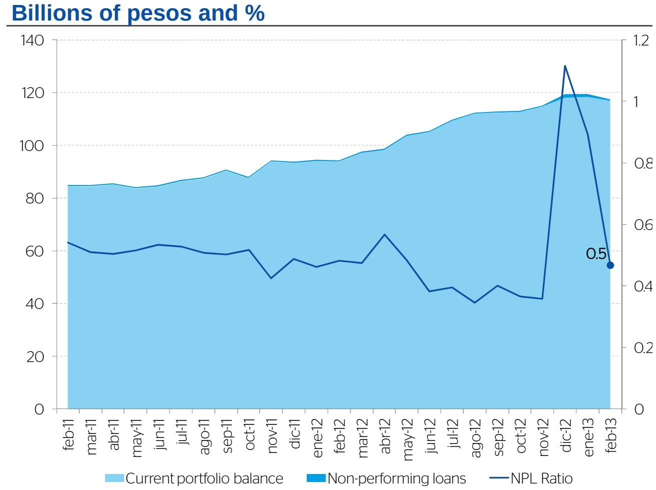
Source: BBVA Research with ENEC data, INEGI
(3-month rolling average, figures at February 2013)

Chart 4
Bank financing to building
Billions of pesos and %



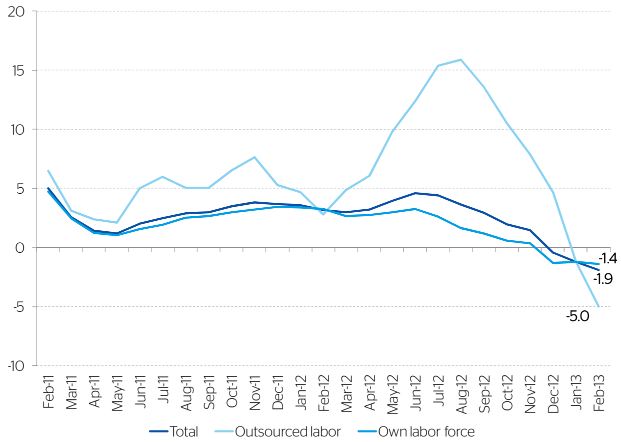
Source: BBVA Research with Bank of Mexico data
(figures at February 2013)

Chart 5
Bank financing to road construction
Billions of pesos and %



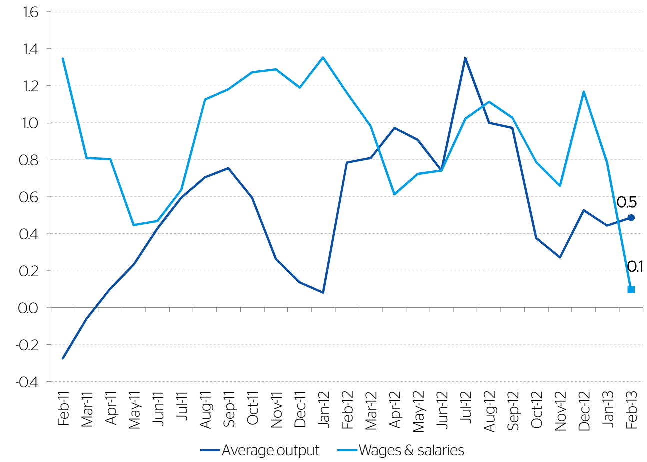
Source: BBVA Research with Bank of Mexico data
(figures at February 2013)

Chart 6
Total workforce
Annual % change



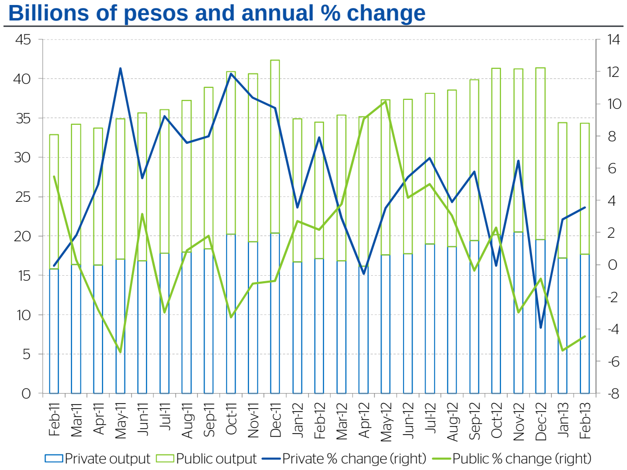
Source: BBVA Research with ENEC data, INEGI

Chart 7
Productivity and personnel income
Real annual % change



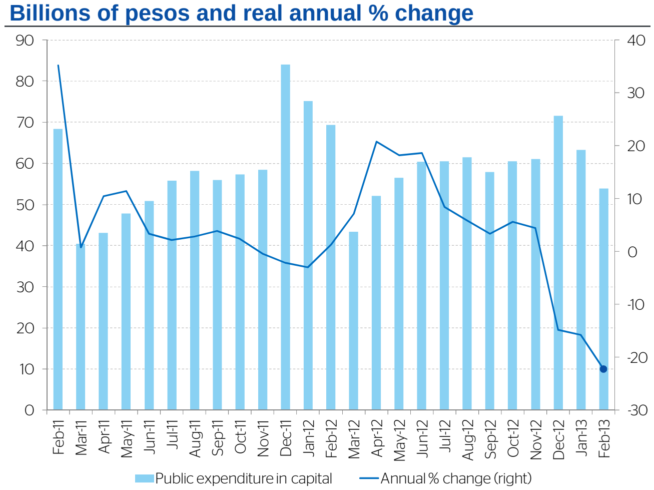
Source: BBVA Research with ENEC data, INEGI
(figures at February 2013)

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



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

Samuel Vázquez
samuel.vazquez@bbva.com

Av. Universidad 1200, Col. Xoco, México 03339 D.F. | researchmexico@bbva.bancomer.com | www.bbvaresearch.com | Follow us on Twitter