

Mexico Real Estate Flash

Activity in the construction sector declined in the first quarter

- Construction fell in March; although there were fewer working days, there are other causes
- The leading indicators continue to show a negative trend
- Construction GDP declined in the first quarter of the year

The severe fall in construction in March is not due only to fewer working days

In March, industrial activity in the construction sector saw its greatest decline so far this year. This was due partly to the number of working days in March, which was lower than in the same period last year. However, the extent of the change is considerable, and other factors must have had a greater weight. Year-on-year, the activity index in the construction sector declined 5.2%, while activity was up 0.8% from February to March based on its seasonally-adjusted series. When analyzing this series on a 3-month rolling average, the negative trend in recent months is confirmed, averaging a negative change of 2.0%. At component level, even though all three declined, building and public works showed the greatest fall, 5.5% in both cases.

Investment and supplies consistent with lower economic activity

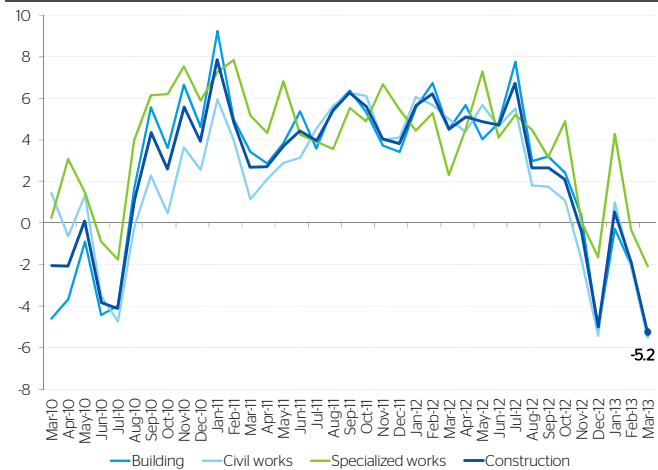
Investment in construction seemed to recover in January, at least moderately; however, it once again declined in February. Gross fixed investment in the sector was unable to maintain the high rates seen in the first half of 2012, with a modest increase in the second half. In recent months it seems to be having trouble remaining in positive territory. On the financing side, total lending to construction once again declined in March. The change is minimal, with the NPA ratio remaining at just above 3% despite a smaller current portfolio.

Activity is measured largely by the demand for construction supplies. Therefore, any changes in demand usually explain the increases or declines. In March, as we have seen since the end of 2012, lower demand for cement and concrete, as well as their by-products, has depressed the sector. Lower demand for asphalt could once again explain this situation, combined with lower public sector participation. Although the number of construction workers registered with the IMSS has increased 1% this month compared with March 2012, the total figure is below the 1.3 million level seen in the second half of the previous year. The annual rate is the lowest registered over the last three years.

Construction GDP will close the first quarter of 2013 in negative territory

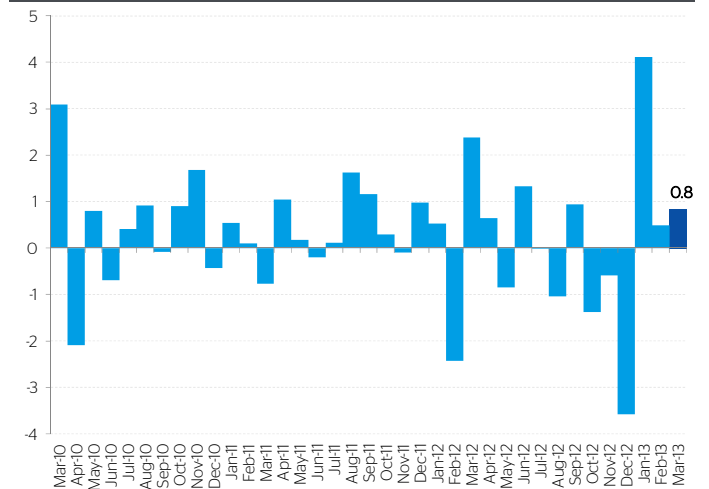
As we pointed out in our previous issue, growth of around 2% in economic activity in March would have been necessary to prevent the decline in construction GDP. With a decline of more than 5%, the sector's GDP will fall nearly 2.2% year-on-year. The main indicators for the sector are consistent with this outlook, having either declined or posted very modest gains. In addition, both building and public works are declining, and there is no counterweight. In the past, the decrease in residential building had been offset by the high rates of growth in industrial and commercial building, but this has started to slow down, mainly in commercial building. Public works seem to be waiting for the new administration's infrastructure plans to start in earnest.

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



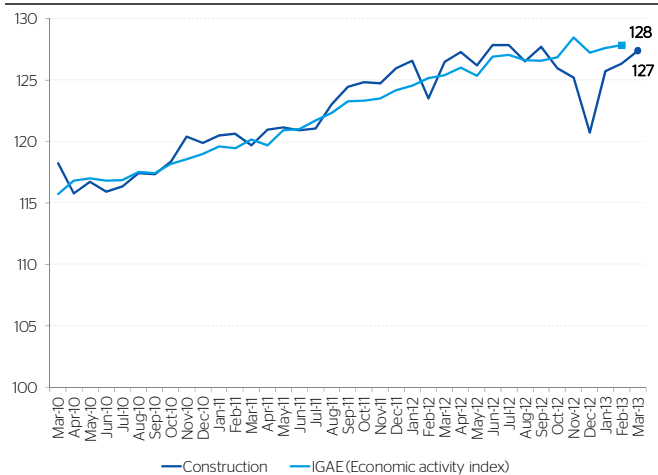
Source: BBVA Research with Industrial Activity data, INEGI (original series)

Chart 2
Industrial Activity: Construction
Monthly % change



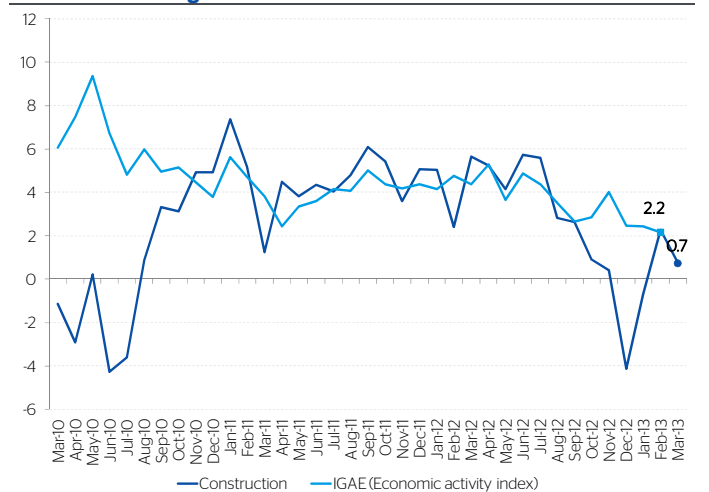
Source: BBVA Research with Industrial Activity data, INEGI (seasonally-adjusted series)

Chart 3
Construction and IGAE
2003 Index=100



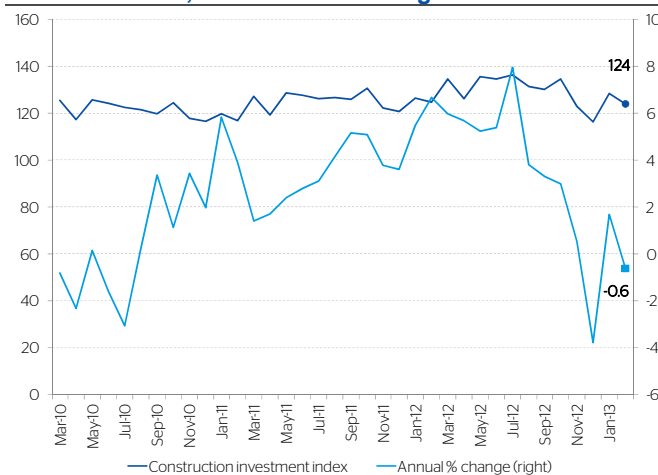
Source: BBVA Research with Industrial Activity and IGAE data, INEGI (seasonally-adjusted series)

Chart 4
Construction and IGAE
Annual % change in the index



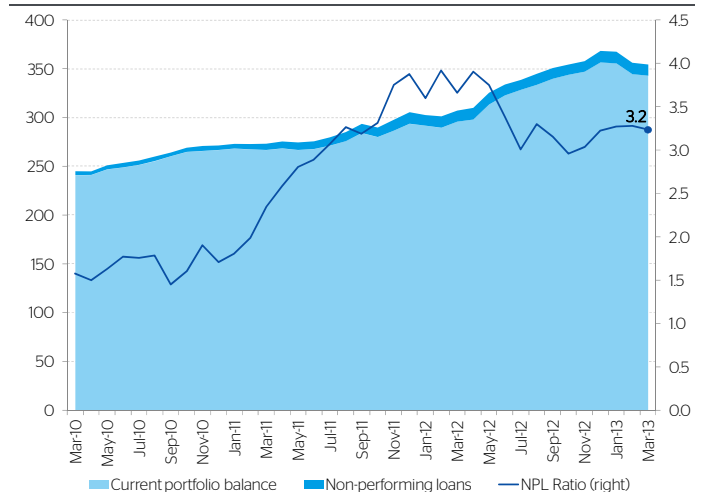
Source: BBVA Research with Industrial Activity and IGAE data, INEGI (seasonally-adjusted series)

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



Source: BBVA Research with INEGI data (original series)

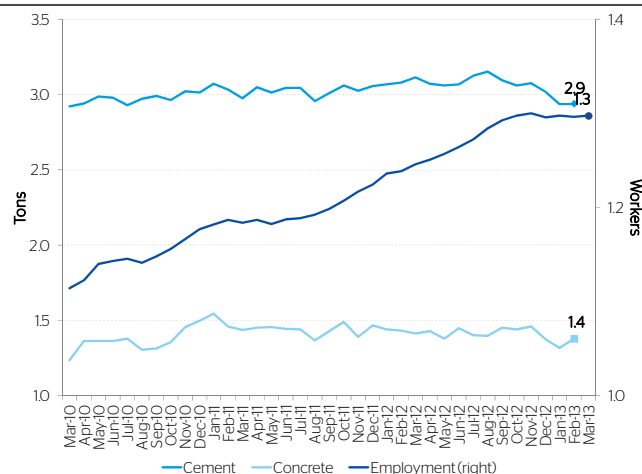
Chart 6
Bank financing to construction
Portfolio balances and NPL ratio



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

Chart 7

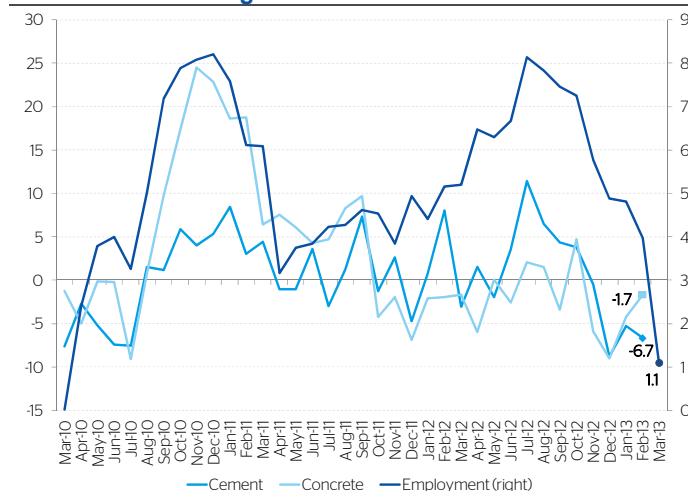
Construction leading indicators Millions of tons and workers



Source: BBVA Research with data from INEGI and IMSS (seasonally-adjusted 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	-12	0.1	2.0
2011	4.6	4.8	4.2	5.5
2012	3.3	3.6	2.9	3.7
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	-1.1	-0.8	-2.0	1.1
13Q1	-2.2	-2.6	-2.2	0.6

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

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

Samuel Vázquez
samuel.vazquez@bbva.com

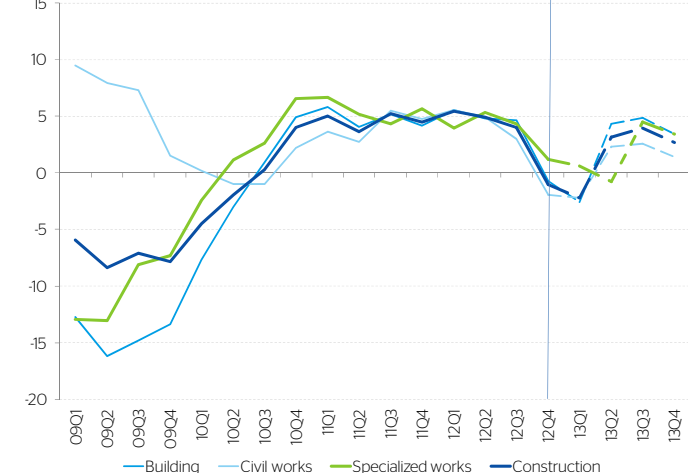
Av. Universidad 1200, Col. Xoco, México 03339 D.F. | researchmexico@bbva.bancomer.com | www.bbva.com | Follow us on Twitter

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Chart 9

GDP forecasts: Construction and its components Real annual % change



Source: BBVA Research with GDP data, INEGI (original series)