

Mexico Real Estate Flash

Construction in energy, ahead on its own.

The first quarter of 2013 closed with a slump in production value in the sector. At work type level, only construction in the energy sector shows progress, but on its own without support from building this is not enough to show positive results for the sector. On the demand side, the public sector has still not recovered; indeed, it will have to be reactivated soon, or give way to the private sector.

- **Third month of the year and third fall in production value.**

Production value fell again in March in year-on-year terms. That makes it the third successive month with a negative performance in 2013. Although this is partly due to a seasonal effect, given that this year March had fewer business days than in 2012. The sector is experiencing an adjustment period, as may be seen since December last year up to the most recent figure. In this period, production in the sector has fallen consistently, and so far this has been due to lower spending in physical capital, slowing in productive building, less residential building, and, in recent months, the lower construction in the transport sector.

According to our types of work classification, they all fell except for construction in the energy sector. This is the fourth month in a row in negative territory for building, and construction in telecommunications and transport fell by over 10% during the month. Construction in energy, on the other hand, reported fresh growth of over 10%, despite the fewer business days. Thermoelectric plants and extraction plants were the work subtypes which contributed most to this result. As we have said on other occasions, greater construction in the energy sector is not enough for the sector to move forward - it is also necessary for building to get back into positive ground for the sector to do the same, in other words, due to the value of its role, for the sector to grow building has to recover.

Results for this sector would also be influenced by the slowdown in other sectors. For example, the general economic activity index (IGAE) of the secondary sector has reported two months of negative variations. Similarly, total IGAE in March was down 1.8%. This lower activity in other sectors brings down demand for infrastructures and building. In terms of funding, the portfolio increased slightly in March; but it remains lower than the balance at 2012 year end, due to lower activity in residential building.

- **The employment factor continues on a downward path.**

Construction companies again reduced their demand for labor. March is the third consecutive month in which the number of workers has fallen, both blue-collar workers and non-dependent staff directly associated with production. The adjustment was sharper in non-dependent staff, down by almost 5%, while laborers fell by 3.3%, both in year-by-year terms. The number of blue-collar workers has been falling for several months now; whereas non-dependent staff began to shrink in late 2012. Previously, what we observed a substitution effect whereby laborers were replaced by non-dependent staff, meaning production did not fall; but now with both reporting falls there is a direct impact on production value. Nevertheless, average output per worker continues to rise, and in March there was a slight increase of 0.1% yoy.

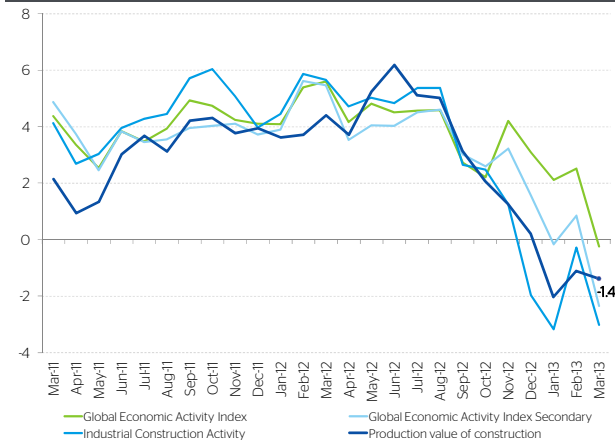
- **Spending in physical investment saw out the quarter in negative territory.**

The distribution of construction between the public and private sectors is along similar lines as in the previous month, with the private component being the main driver of the economy. This result is due to two factors: the higher production in the private sector and lower activity in the public component. As we have seen in recent months, the lower production in construction of the public sector is partly due to the lower spending in physical investment, which fell 6.9% in March, making four months with this trend. The positive note is that this negative variation is the most moderate of the year.

- **An upturn in the sector will hinge on government plans and spending.**

Results for production value and employment in March are consistent with the fall in GDP in the in the sector, which is already known. Lower demand for labor by the companies surveyed means that they are already cutting back and their short term plans are not very positive. The necessary spark to reactivate the sector will have to stem from demand; a higher number of construction and infrastructure applications will be needed for the sector to get past this dip; and government will have to play a critical role. We are not necessarily referring to a greater role being played by public spending in the sector, which has gradually fallen; what we are saying is that plans needed to be defined soon, and that existing mechanisms such as the Public Private Associations Act have to be applied. An example of measures other than spending is the Complete Strategic Association agreed with China, where one of the basic points is to step up cooperation in sectors such as mining, construction and infrastructure.

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 March 2013)

Table 1
Overall construction sector indicators
Annual % change

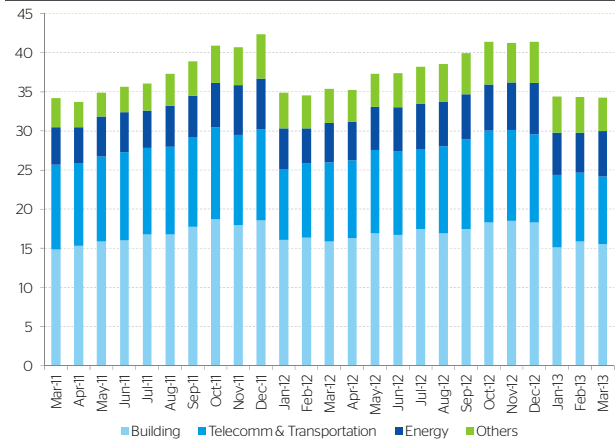
Annual % change main construction indicators						
Indicator	oct-12	nov-12	dic-12	ene-13	feb-13	Mar-13
IGAE	4.3	3.9	1.4	3.5	0.5	-1.8
IGAE Secondary	3.4	2.9	-1.1	1.8	-1.0	-4.9
Industrial Construction activity	2.1	-0.4	-5.0	0.5	-1.9	-5.2
Production value of construction	1.1	1.5	-2.3	-1.4	-0.5	-3.1

Annual % change in production value of construction							
Type	Share	Oct-12	Nov-12	Dec-12	Jan-13	Feb-13	Mar-13
Building	45.3	-2.0	3.0	-1.7	-6.0	-2.9	-2.5
Telecomm y Transport	25.2	-0.1	0.3	-3.1	1.8	-7.6	-14.5
Energy	17.1	3.5	-3.5	2.2	5.0	14.5	16.0
Others	12.5	13.9	5.4	-8.1	1.2	8.9	-1.4
Construction	100.0	1.1	1.5	-2.3	-1.4	-0.5	-3.1

Annual % change in construction labor							
Labor	Share	Oct-12	Nov-12	Dec-12	Jan-13	Feb-13	Mar-13
Workers	65.7	-1.2	-0.7	-5.2	-1.0	-0.1	-3.3
Employees	18.3	-0.8	4.3	3.2	-0.1	-0.2	-0.4
Owners	1.4	9.5	7.0	13.3	3.5	1.2	8.9
Outsourced	14.6	9.3	6.3	-1.5	-8.3	-5.1	-4.6
Total	100.0	0.5	1.3	-3.0	-1.8	-0.8	-2.9

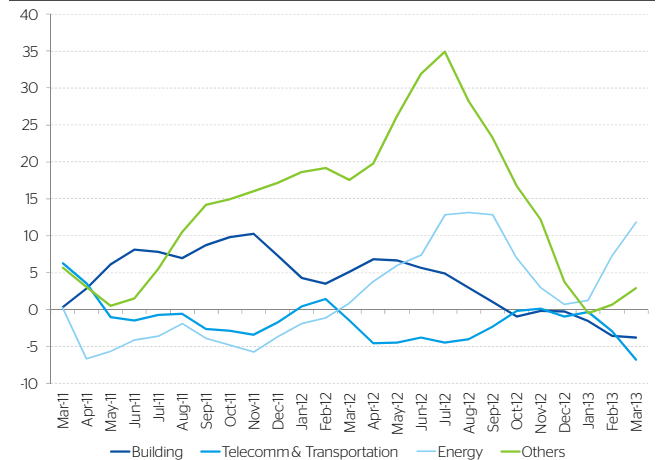
Source: BBVA Research with data from the National Construction Company Survey, INEGI.

Chart 2
Output value by work type
Billions of real pesos



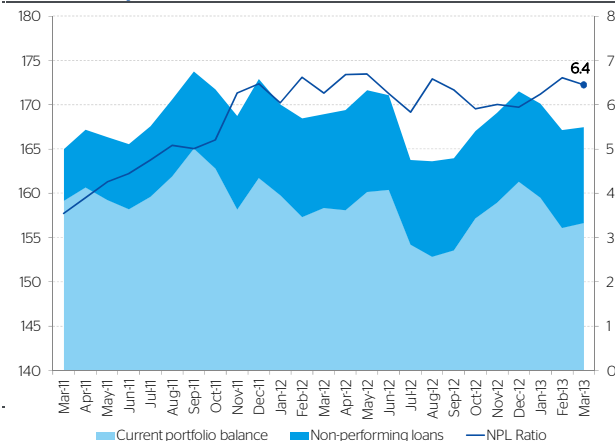
Source: BBVA Research with ENEC data, INEGI

Chart 3
Output value by work type
Annual % change



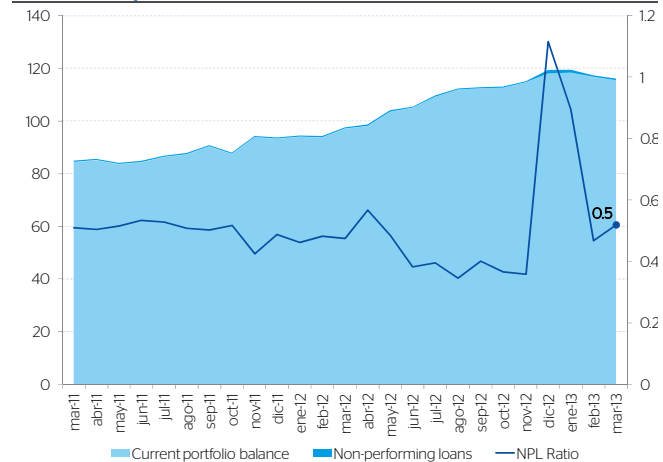
Source: BBVA Research with ENEC data, INEGI
(3-month rolling average, figures at March 2013)

Chart 4
Bank financing to building
Billions of pesos and %



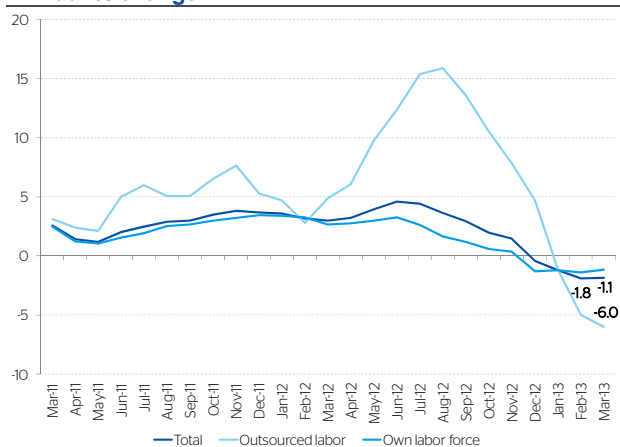
Source: BBVA Research with Bank of Mexico data
(figures as of March 2013)

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



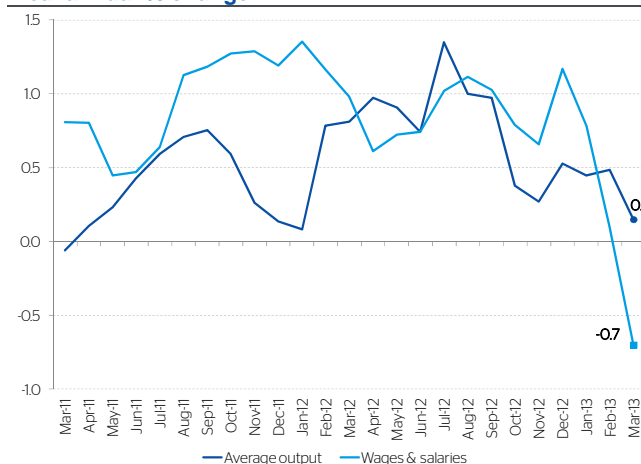
Source: BBVA Research with Bank of Mexico data
(figures as of March 2013)

Chart 6
Total workforce
Annual % change



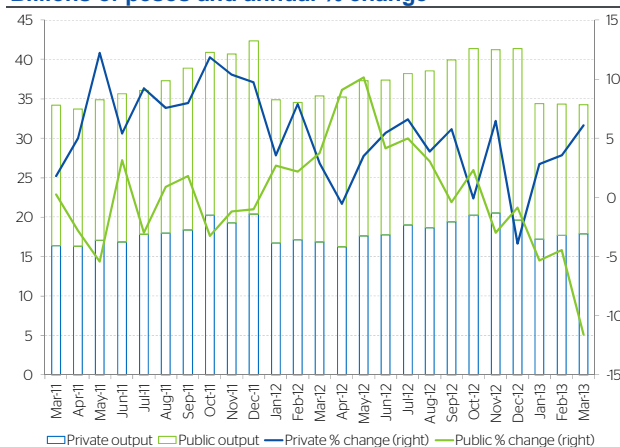
Source: BBVA Research with ENEC data, INEGI

Chart 7
Average output and personnel income
Real annual % change



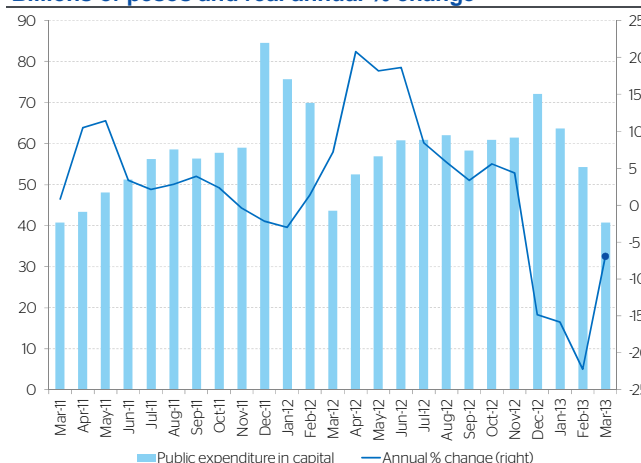
Source: BBVA Research with ENEC data, INEGI
(figures as of March 2013)

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



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

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