

Mexico Real Estate Flash

Some oxygen for the construction sector.

- Partly due to a seasonal effect, construction grows again in April.
- The favorable progress of the sector is based on building and civil works.
- The result will be temporary if the two pillars of the sector are not consolidated.

More working days in April helps construction activity.

After a nosedive the previous month, in April construction activity has returned to the upward path. Although in March activity was impacted negatively by fewer working days, now April has benefited from the lack of an Easter Week. The industrial activity index for construction increased at a rate of 1.2% in April, the biggest annual growth rate so far this year. However, in the seasonally adjusted series the index fell back 3.1% on the previous month. The increase is based on a greater demand for raw materials such as iron and steel products, concrete, sand and gravel; as well as finishing products.

The index of construction activity is again moving out of step with the general index of economic activity (IGAE). Comparing the seasonally adjusted series in both cases, the IGAE grew by 2.2%, while construction fell 4.3% in annual terms. In the first four months of 2013, the construction index has been below the IGAE and this gap has widened, indicating a lower than average performance.

For the first time this year, the most important components are growing at the same time.

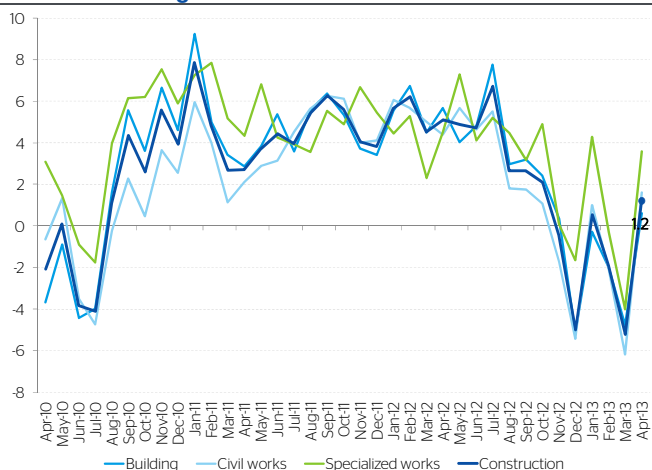
The progress shown by construction this month is due to the positive effect of all its components. Unlike the case in the first quarter, this time both building and civil works closed the month with increased activity. Building was up 0.6% and civil works 1.6%, both in annual terms. These figures compare with falls of over 4% the previous month. The growth of these sub-sectors, as we mentioned earlier, is mainly due to a seasonal effect, which still does not manage to offset the negative growth of the previous month.

Meanwhile, the index of investment in construction continues to fall. In March (the latest published data) the index fell by 5% in annual terms. This is far from the levels of over 3% with which it closed 2012. Credit continues to slow, with the total portfolio balance unchanged from December 2012 to April 2013. Despite a slight increase in the past-due portfolio, the non-performing rate remains under 5%. Other indicators such as employment remain slow, as even though the number of workers in the sector who are part of the IMSS system increased, the total in construction has fallen slightly, clearly associated with sagging activity. Similarly, sales of cement and concrete have fallen in the seasonally adjusted series, but in the original series demand for concrete posted a slight upturn.

The seasonal effect may have provided some oxygen, but a lasting effect requires more building and civil works.

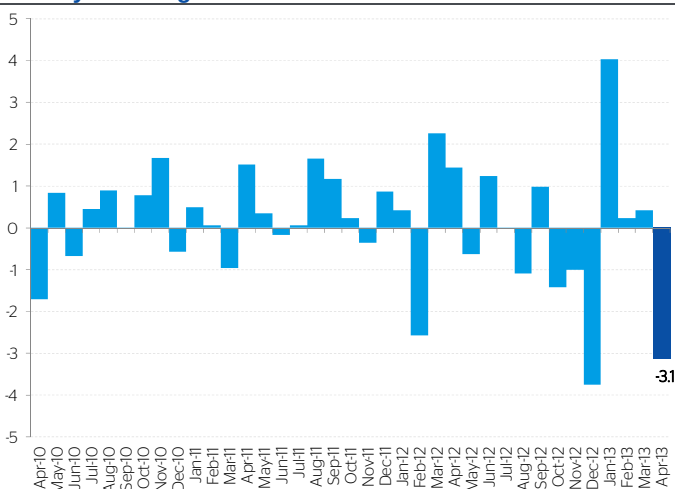
In the previous month the fall in activity was influenced by a seasonal effect, and this same effect is now helping construction to grow. However, the improvement is not enough to offset the previous month's figures and leading indicators suggest that our outlook should continue to be one of little chance of growth in the second quarter of the year. The National Infrastructure Plan will be released in the next few weeks, and this could provide a boost for civil works. Building will have more opportunities in its commercial rather than residential component, where investment will play a key role. The recovery of both sub-sectors is necessary if there is to be a positive and lasting effect.

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



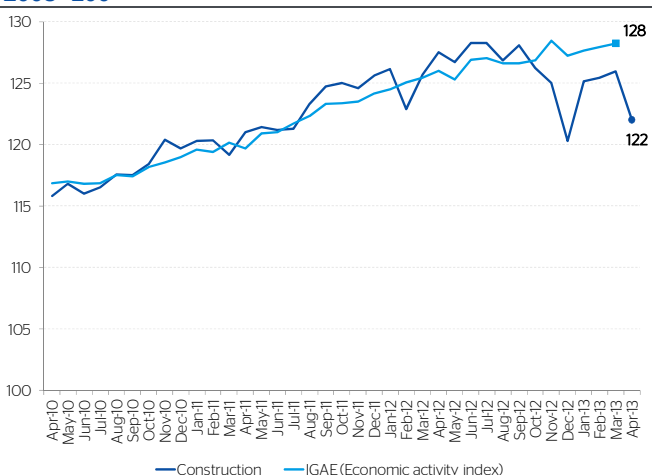
Source: BBVA Research with Industrial Activity data, INEGI (original series)

Chart 2
Industrial Activity: Construction
Monthly % change



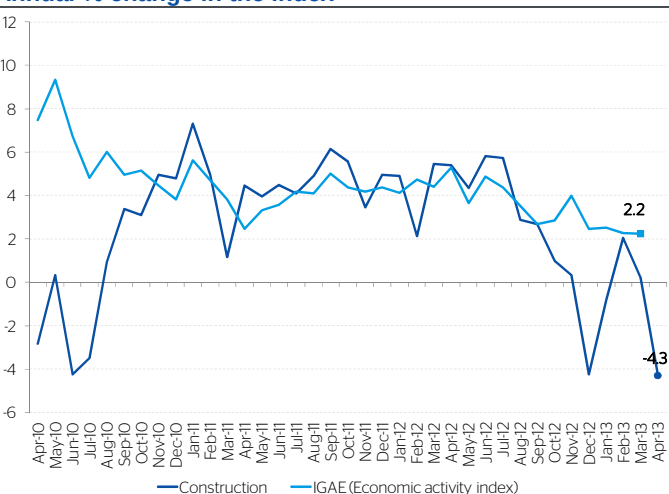
Source: BBVA Research with Industrial Activity data, INEGI (seasonally adjusted series)

Chart 3
Construction and IGAE
2003=100



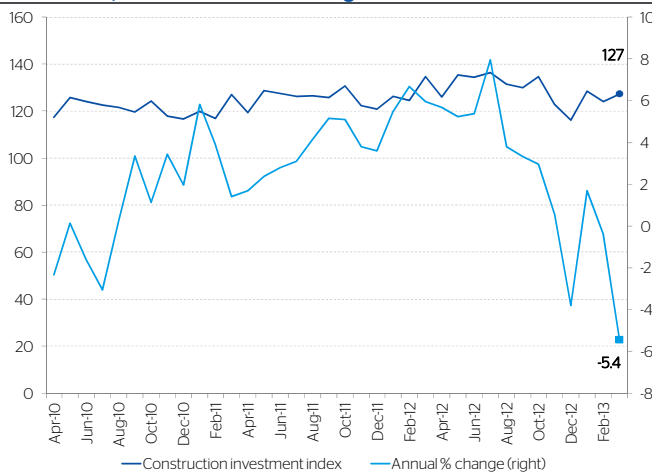
Source: BBVA Research with Industrial Activity and IGAE data, INEGI (seasonally adjusted series)

Chart 4
Construction and IGAE
Annual % change in the index



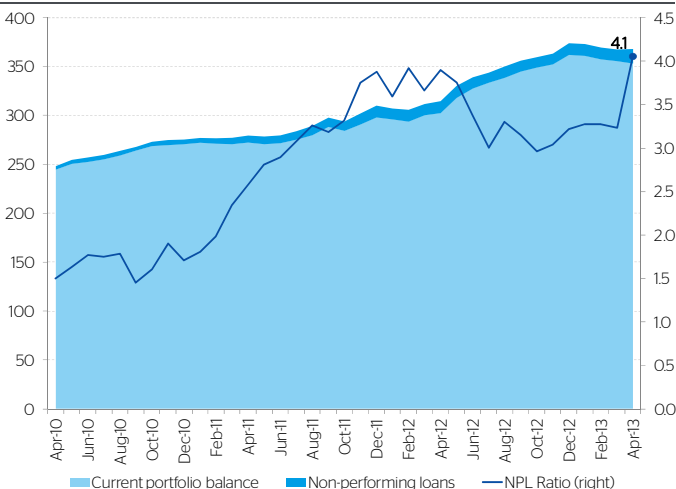
Source: BBVA Research with Industrial Activity and IGAE data, INEGI (seasonally adjusted series)

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



Source: BBVA Research with INEGI data (original series)

Chart 6
Bank financing for construction
Portfolio balances and NPL ratio



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

Chart 7

Leading indicators of construction Millions of tons and workers

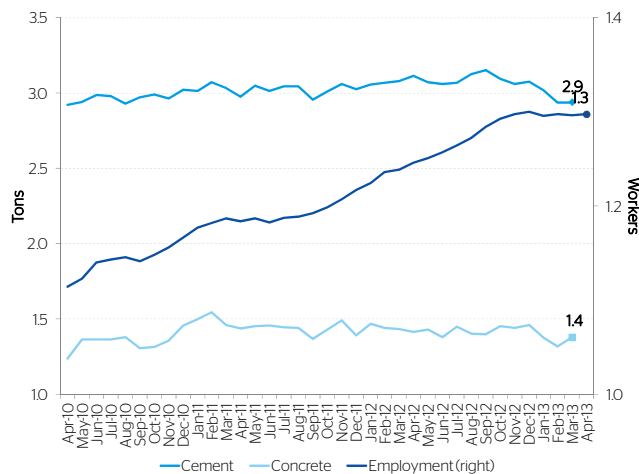


Chart 8

Leading indicators of construction Real annual % change

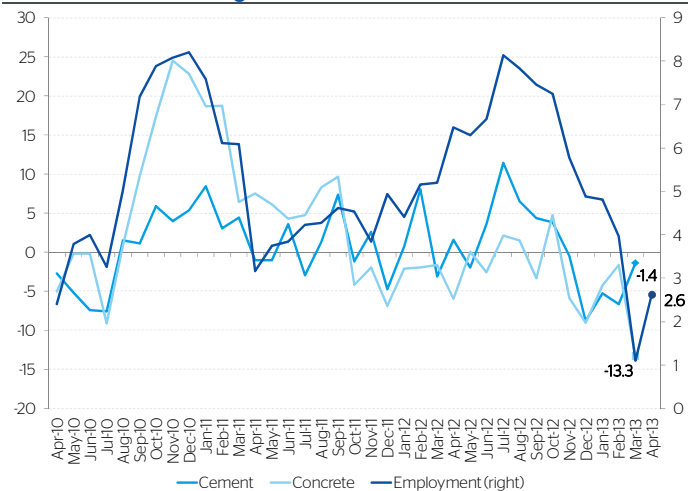


Table 1

Industrial activity: Construction and its components Annual % change

Period	Construction	Building	Civil works	Specialized works
2010	-0.5	-1.2	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	-2.3	-2.4	0.0
13Q2*	1.2	0.6	1.6	3.6

Note: Takes into account the update of the previous figures by INEGI.

* April

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

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Chart 9

GDP forecasts: Construction and its components Real annual % change

