

Real Estate Flash Mexico

Construction GDP grew by more than 4%, in line with our forecast

- Seven quarters of construction GDP growth.
- In April, construction industrial activity was up 4.8%.
- Our forecast for the sector is short-term growth at this pace.

In the first quarter of the year, construction GDP grew 4.9% in annual terms.

In line with our forecast set out in the previous edition of this *Real Estate Flash*, construction GDP grew by more than 4%, although it fell short of 5%. Once again, this performance was driven by building and public works, which posted annual growing rates of 5.1% and 4.9%, respectively. In particular, building recorded its third quarter in a row growing above 4% in annual terms. According to data released by the National Construction Company Survey, non-residential building, primarily associated with the construction of office buildings, industry and businesses, grew at a faster rate (see the current edition of the *Real Estate Flash* on building).

Construction GDP reached 588 billion pesos in real terms during the first quarter of 2012, attaining the level seen in the same period of 2008. This pace must be maintained if construction GDP is to reach the maximum level seen in 2008, which amounted to 618 billion pesos. Based on the above, in view of the growth rates and the absolute levels reached, it appears that the construction economic cycle is closing.

Construction industrial activity grew by 4.8% in annual terms and 0.2% m/m.

April saw 21 consecutive months of positive performance for the construction sector as a whole and for each of its three components. Building grew at an annual rate of 5.4%, while public works grew by 4.2% in annual terms; both figures are very similar to those seen in the previous month. A more moderate improvement was seen in specialized works, with an annual growing rate of 3.9%. In contrast, in monthly terms and based on the seasonally-adjusted series, specialized works performed better (1.9%) than building (0.3%) and public works (0.0%), with the construction sector growing 0.2% compared to the previous month.

The construction sector grew at a faster pace than the economy.

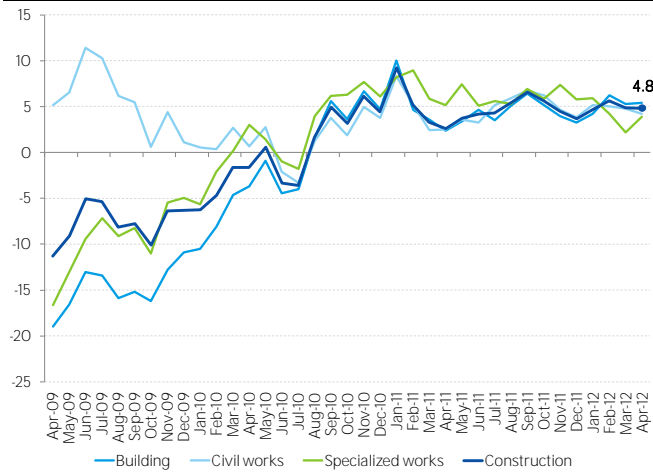
Construction GDP has posted positive growth rates since the third quarter of 2010, and beginning on the fourth quarter of that year it has grown at a faster rate than the domestic GDP. Similarly, construction industrial activity performed in line with the general economic activity index. In particular, in seven of the last twelve months, construction has performed better than the economy in general based on this monthly indicator. Thus, the sector is in the upper part of the economic cycle.

Construction performance and its indicators suggest sustained growth.

In the previous edition we mentioned that the cement sales data was atypical, but sales growth continued in March, this time with a 7.3% rate similar to the one seen in the previous month. However, concrete sales have remained negative, although their decline has been lower. The above is due in part to the fact that 2010 and 2011 saw the largest increase in concrete sales, even with two-digit rates; however, these sales tend to stabilize.

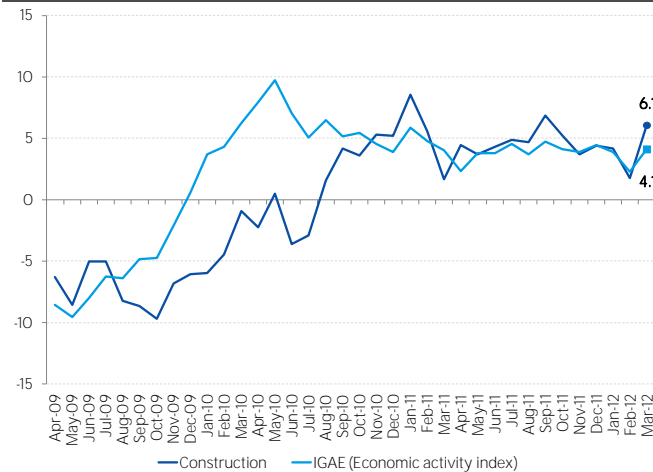
On the other hand, employment in the construction sector continues to grow. 18,000 jobs were created in March and nearly 9,000 in April in the construction sector, an annual growth of 5.2% and 6.5%, respectively. Also in March, investment in construction grew 5.6% in annual terms, and similarly to construction industrial activity, investment has posted 20 consecutive months of growth. Based on the above, our forecast for the construction sector points to moderate growth in 2012.

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



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

Chart 3
Construction and the IGAE index
Annual % change



Source: BBVA Research with IMSS and INEGI data (seasonally adjusted series)

Table 1
Industrial Activity: Construction and its components
Annual % change

Period	Construction	Building	Civil works	Specialized works
2010	0.0	-1.2	1.4	2.0
2011	4.9	4.7	4.8	6.5
11Q1	5.9	6.1	5.3	7.7
11Q2	3.5	3.5	3.1	5.9
11Q3	5.4	5.0	5.9	6.0
11Q4	4.6	4.1	4.9	6.3
12Q1*	5.1	5.2	5.0	4.1

* Only April

Note: Considers an update of the above figures by INEGI.

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

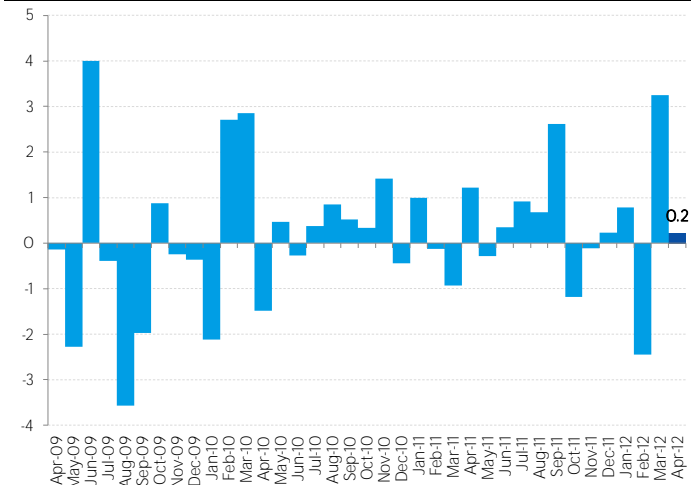
Samuel Vázquez
samuel.vazquez@bbva.com

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

Legal Notice

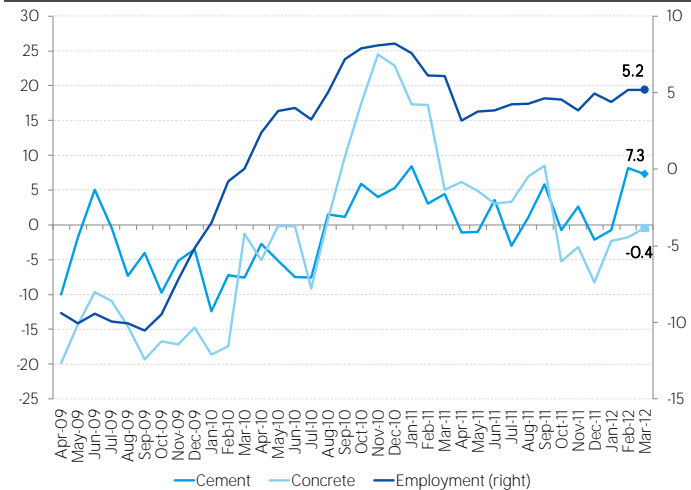
This document has been prepared by Banco Bilbao Vizcaya Argentaria's BBVA Research Department (BBVA) and by BBVA Bancomer, S.A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer, on its own behalf and is provided for information purposes only. The opinions, estimates, predictions, and recommendations appearing in this document are for the date that appears herein, and therefore may change as a result of market fluctuations. The opinions, estimates, forecasts and recommendations included herein are based on information obtained from reliable sources; however, BBVA gives no guarantee, whether express or implicit, about the accuracy, completeness or correctness of such information. This document is not an offer, an invitation, or an incitement to subscribe or buy shares.

Chart 2
Industrial Activity: Construction
Monthly % change



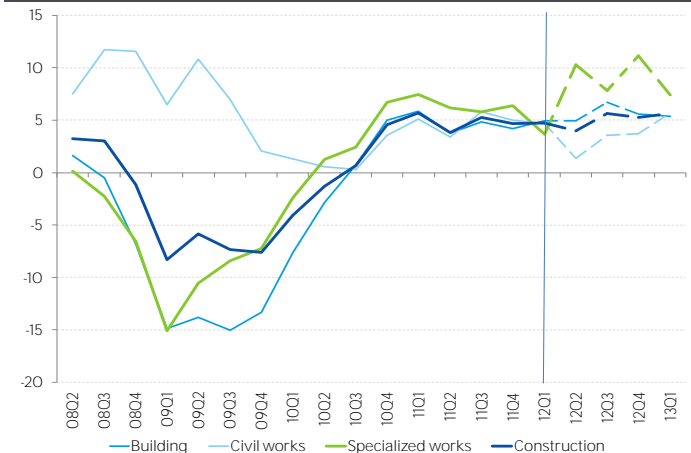
Source: BBVA Research with IGAE and INEGI Industrial Activity data (seasonally-adjusted series)

Chart 4
Timely construction indicators
Annual % change



Source: BBVA Research with IMSS and INEGI data (original series)

Chart 5
GDP forecasts: Construction and its components
Real annual % change



Source: BBVA Research with INEGI GDP data (seasonally-adjusted series)