

# Mexico Real Estate Flash

## Unexpected fall in activity in the construction sector.

- In December, industrial activity in the construction sector fell by 5.0% in annual terms and 2.6% month-on-month.
- The pronounced drop can be seen in both building and public works.
- In line with our outlook, construction slowed down at year-close.

### Reduced activity shows that the slowdown in the sector is widespread.

Although the drop in construction is not surprising, its extent has been unexpected. In December, industrial activity in the construction sector declined 5.0% over the same month in 2011 and 2.6% month-on-month. A drop of this size had not been seen since February 2010, when the sector was a few months away from overcoming the 2009 crisis. This time, the result is due to the decline in its three components, with civil works and building posting the biggest fall. Civil works reported a 5.4% fall and building a 5.2% drop, both in annual terms. Although civil works had already been in negative territory, building had barely moved into this area. Infrastructure, mainly in some construction headings in the electricity sector and urban development and road works, has been responsible for the fall in civil works. Meanwhile, in the case of building, this result has been caused by reduced housing construction and a slowdown in commercial building.

Thus, activity in the construction sector showed lower performance than the economy as a whole. In November 2012, the general economic activity index grew 4.2%, while activity in the construction sector stagnated and fell 4.2% in December. Construction had been growing at the same rate as the economy, or even faster, but from September onwards it slowed down and now both are moving in different directions.

### Only financing and employment are posting steady growth.

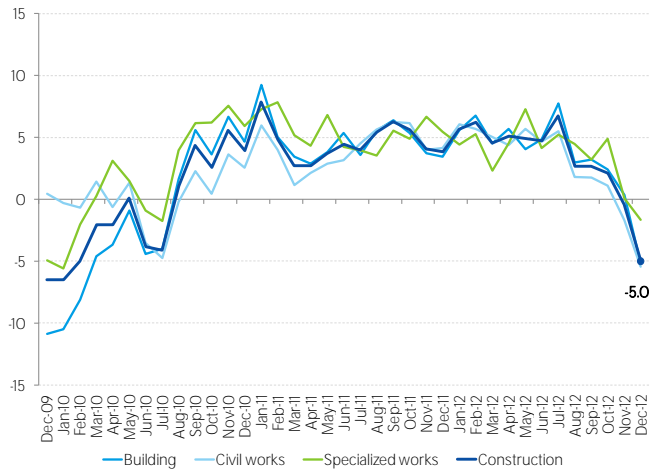
The sector's various indicators confirm the downward trend in activity. For example, INEGI explains that the results posted by the construction sector in December reflect lower demand for construction materials. This can be seen in falling sales of cement and concrete, which are two of the main materials used by construction companies. Sales of Portland cement fell by half a percentage point, while the drop in the case of concrete was 5.9%, both in annual terms. Meanwhile, gross fixed capital formation in the construction sector has also slowed down. In the first half of the year, fixed capital had been formed at rates above 6%, but in November growth was a mere 0.2%.

Although there are also positive results in other variables that influence the construction sector, they were not sufficient to cushion the fall. In sharp contrast, bank lending to the sector closed 2012 with an annual growth of 20% of the balance of the current portfolio. This figure is nearly twice the growth reported in 2011 (10.1%) in real terms. Although not as spectacular, we can also see growth in the number of construction workers joining the IMSS. The membership rate reached 8% in July 2012, but in November the annual rate is 4.9%.

### For the first time in nearly 3 years, the sector will have a fall in its GDP.

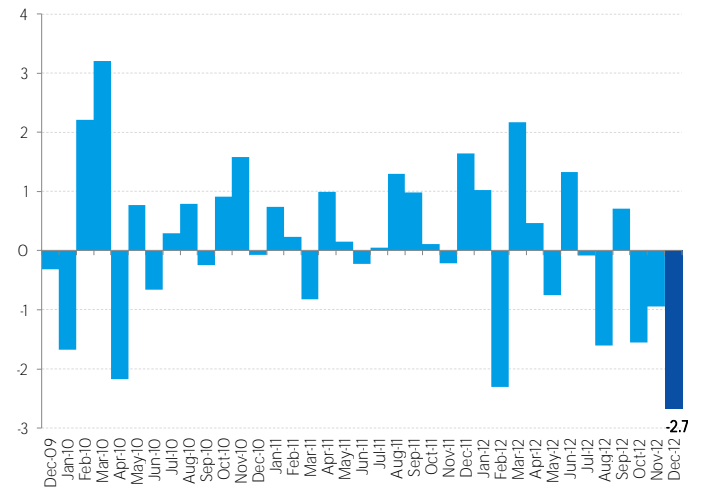
In line with our outlook, construction is already slowing down. The 5.0% decline would result in a 1.1% fall in GDP in the last quarter of 2012. Thus, the sector's GDP would close the year up 3.3% year-on-year, with construction performing below the economy as a whole. As for the future outlook, we see a temporary effect due to the adjustment arising from the change of government, awaiting publication of the National Infrastructure Plan and the National Energy Strategy, which could boost the sector. The national housing policy could also boost urban infrastructure construction, aimed at achieving the orderly and sustainable development announced today.

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



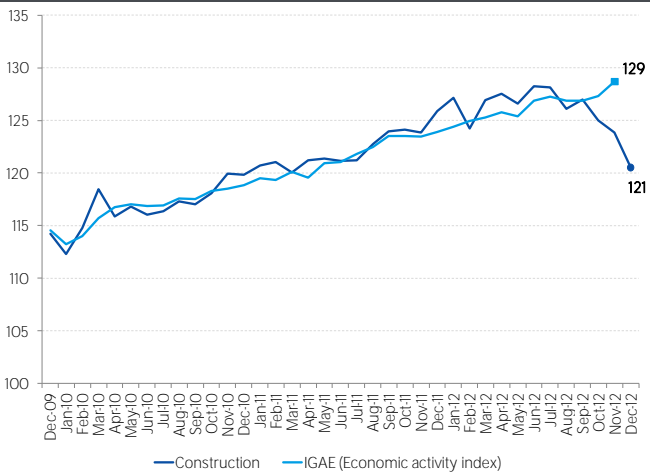
Source: BBVA Research with Industrial Activity data, INEGI (original series)

**Chart 2**  
**Industrial Activity: Construction**  
**Monthly % change**



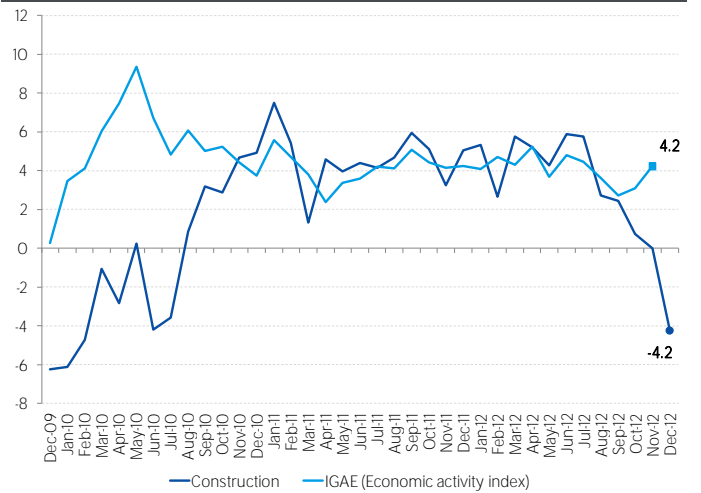
Source: BBVA Research with Industrial Activity data, INEGI (seasonally-adjusted series)

**Chart 3**  
**Construction and IGAE**  
**2003 Index=100**



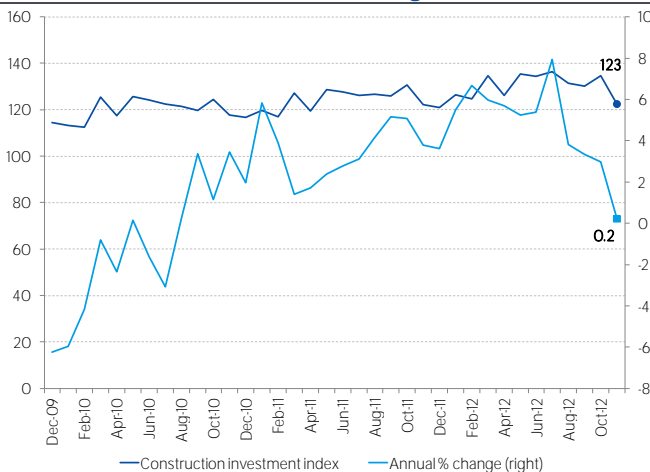
Source: BBVA Research with Industrial Activity and IGAE data, INEGI (seasonally-adjusted series)

**Chart 4**  
**Construction and IGAE**  
**Annual % change in the index**



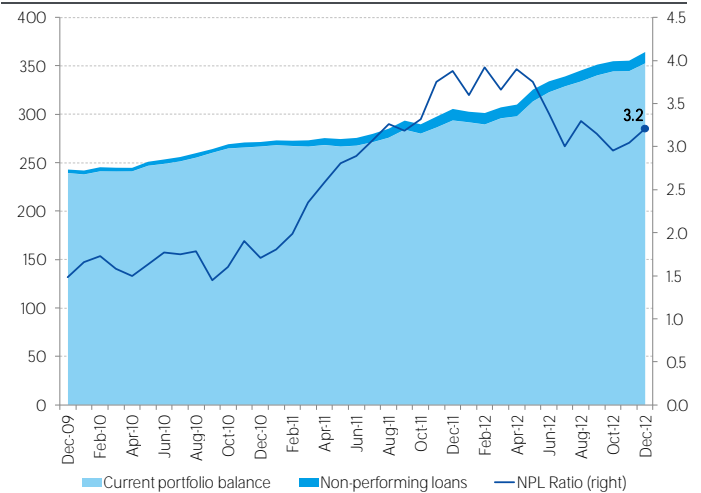
Source: BBVA Research with Industrial Activity and IGAE data, INEGI (seasonally-adjusted series)

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



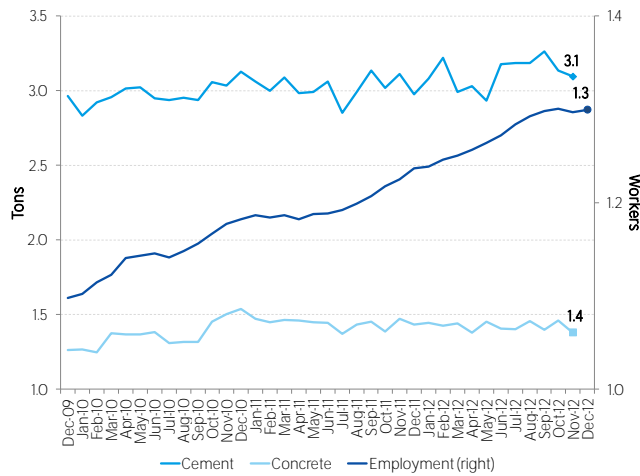
Source: BBVA Research with INEGI data (original series)

**Chart 6**  
**Bank financing to construction**  
**Portfolio balances and NPL ratio**



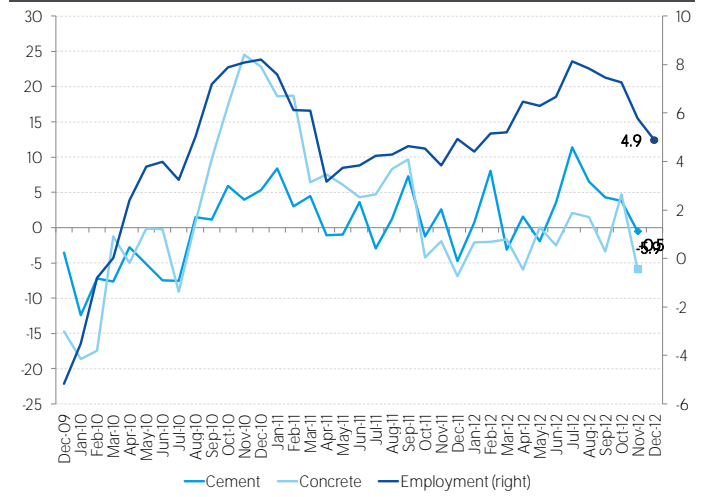
Source: BBVA Research with Bank of Mexico data (figures to October 2012)

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	-1.2	0.1	2.0
2011	4.6	4.8	4.2	5.5
11Q1	5.1	5.9	3.7	6.8
11Q2	3.6	4.0	2.7	5.1
11Q3	5.2	5.2	5.5	4.3
11Q4	4.5	4.2	4.7	5.7
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
2012	3.3	3.6	2.9	3.7

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

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

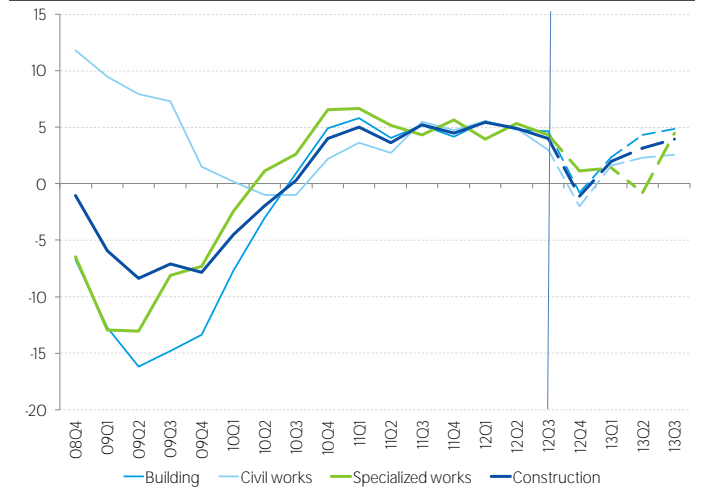
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Chart 9  
**GDP Forecasts: Construction and its components**  
 Real annual % change



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