

Mexico Real Estate Flash

Construction activity a step back

- In February, industrial activity in the construction sector fell by 2.3% year-on-year and was up 0.3% on January
- Construction performance lags behind that of the economy
- Paving the way for a fall in construction GDP in the first quarter of the year

Construction activity is down due its core components

The falls in construction were halted in January, but now the result for February shows further falls, albeit to a lesser degree than at the close of 2012. In February, construction activity fell 2.3% year-on-year, due to the reductions of 2.7% and 2.3% in building and public works respectively. The only increase was reported in specialized works, but its proportion was so low that its contribution was negligible. Building has now strung together three consecutive months with a negative balance, and due to having the largest proportion this puts pressure on the sector's result. Sometimes - as we saw in January - public works acts as a counterweight to have a positive effect, but on this occasion the second most important construction component was also down.

Comparing the seasonally adjusted series of industrial construction with the general economic activity index (IGAE), we observe that the sector continues to underperform the economy as a whole. The gap between the two series has narrowed, partly due to a slowdown in the general economic activity index and also due to a better monthly construction figure.

Leading indicators confirm the step back

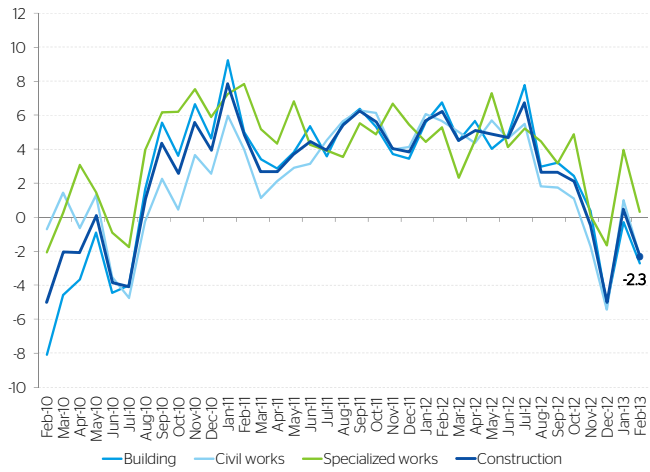
Construction investment moved out of the negative territory we spoke of in the previous month, and in January it rose 1.2% year-on-year. Although this positive result is good news, the growth is too slight to show up positively in the sector activity. Meanwhile, cement and concrete sales continue to fall at a rate of higher than 4% yoy. Demand for other inputs such as asphalt, metal structures, sand and gravel, was down.

In contrast, the number of construction workers registered with the IMSS rose again, this time 4% yoy. In the most recent months, this number has remained in the region of 1.3 million workers. In February, the lending portfolio to construction fell 5% against the end of 2012, prompted by a stabilization of lending to non-residential construction, while credit to housing developers fell. In terms of financing, this portfolio maintains its quality, by containing its NPL ratio at 3.2%.

The first quarter of the year might end with a fall of GDP in the sector

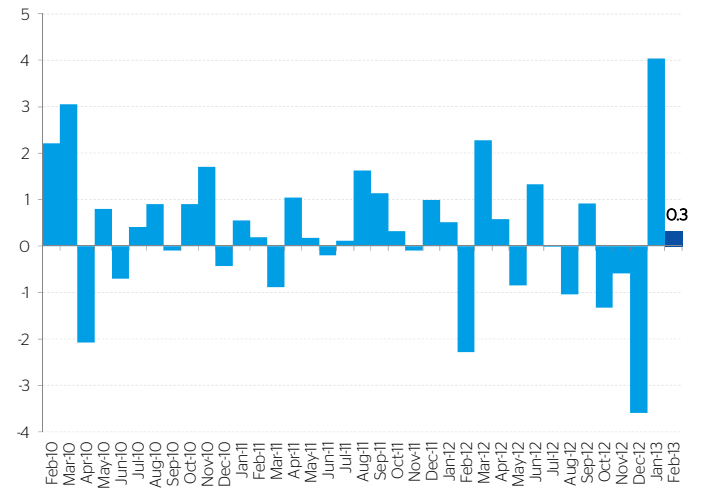
Results for the construction sector in January and February 2013 suggest a fall in GDP at the end of the first quarter. Although the January figure was adjusted upward, the February performance tips the scales towards negative territory. To avoid such a scenario, March will have to report growth of higher than 1.8%. Such a level of growth is a fairly unlikely bearing in mind that in March 2012 the activity index was the highest for that quarter. Consequently, taking into account the rest of the indicators, our short term outlook is of a slight fall in the sector. We expect that the definition of the National Development Plan and the National Infrastructure Plan will bring about a change of trend in coming quarters.

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



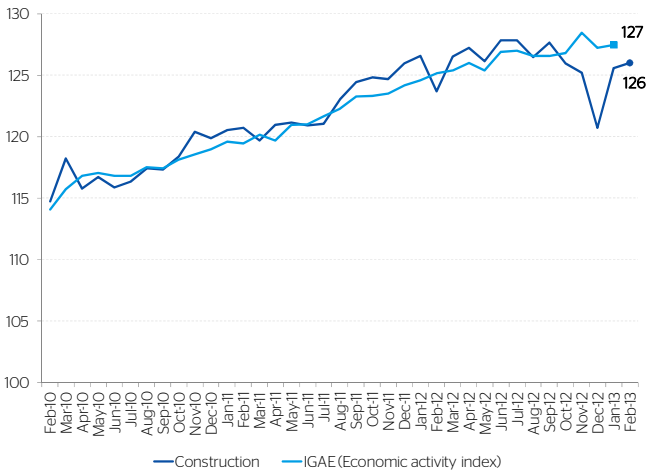
Source: BBVA Research with Industrial Activity data, INEGI (original series)

Chart 2
Industrial Activity: Construction
Monthly % change



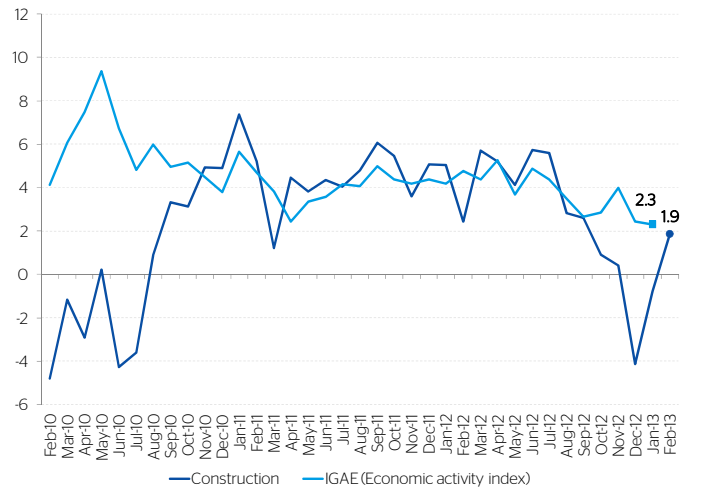
Source: BBVA Research with Industrial Activity data, INEGI (seasonally-adjusted series)

Chart 3
Construction and IGAE
2003 Index=100



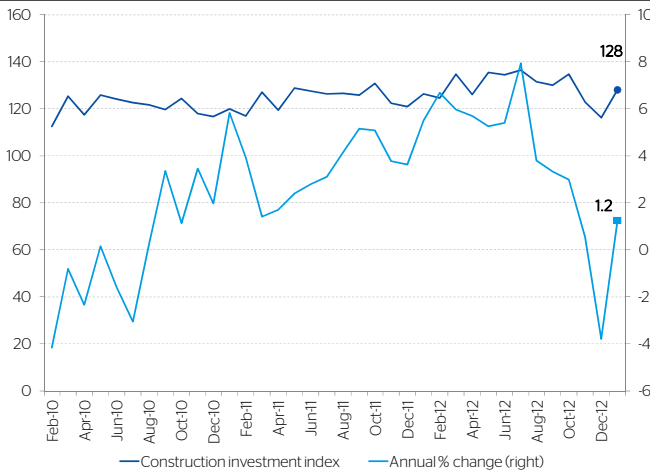
Source: BBVA Research with Industrial Activity and IGAE data, INEGI (seasonally-adjusted series)

Chart 4
Construction and IGAE
Annual % change in the index



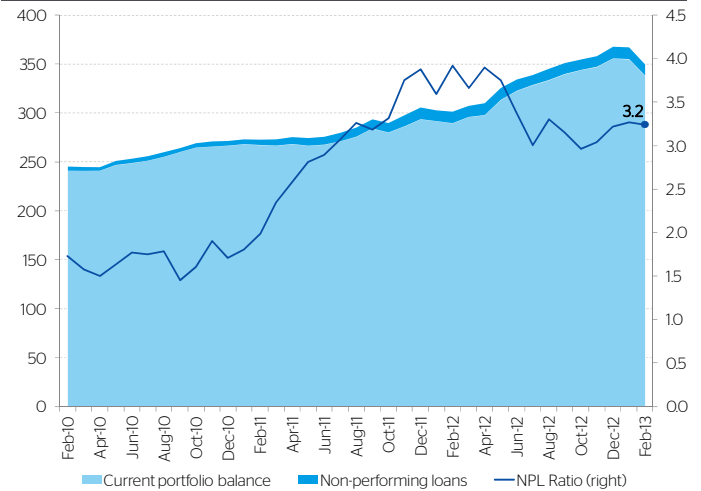
Source: BBVA Research with Industrial Activity and IGAE data, INEGI (seasonally-adjusted series)

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



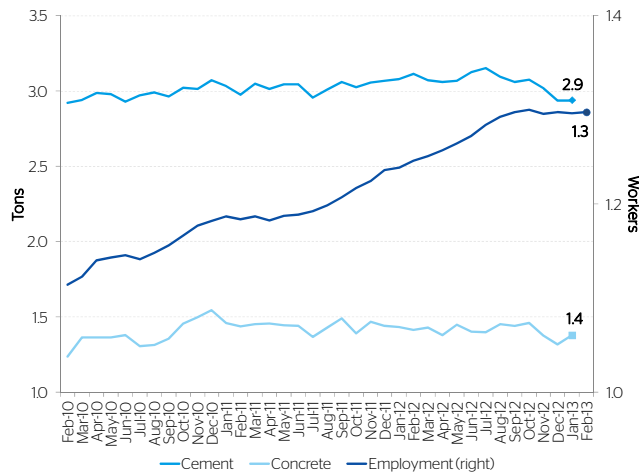
Source: BBVA Research with INEGI data (original series)

Chart 6
Bank financing to construction
Portfolio balances and NPL ratio



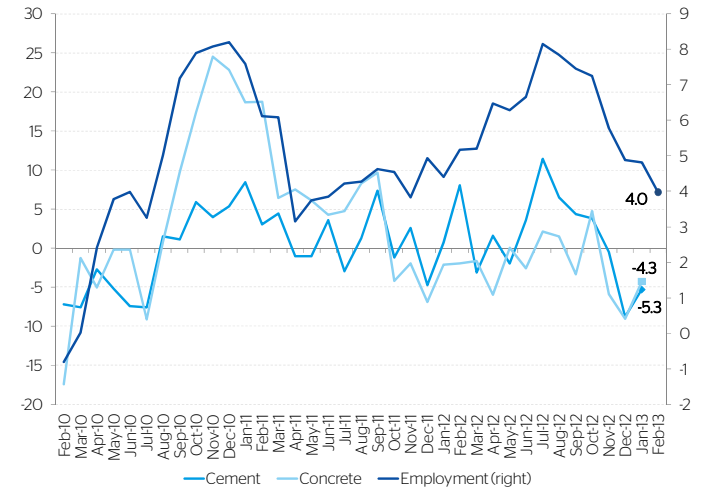
Source: BBVA Research with Bank of Mexico data (figures to October 2012)

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
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	-0.9	-1.5	-0.7	2.1

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

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

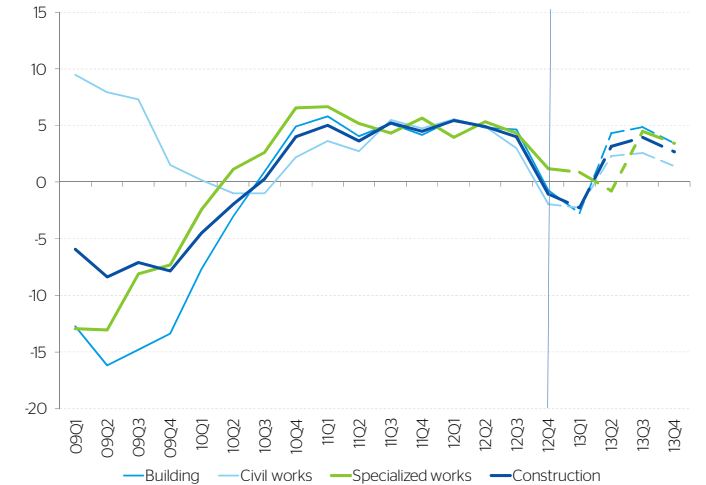
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Chart 9
GDP Forecasts: Construction and its components
Real annual % change



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