

Mexico Real Estate Flash

Construction returns to negative terrain

- Construction fell in May due to lower output in building and public works
- The sector continues to lag in comparison to the wider economy
- The second quarter could close without any GDP growth for construction

Less building and fewer civil works lead to a drop in construction output

Construction output in May expanded 2.5% in comparison to April in the seasonally adjusted series. Nonetheless, on an annual basis, construction fell back 2.2%. This result is based on a 2.2% and 2.8% drop in building and public works respectively at annual rates. In this half of the year, both components saw a discreet to negative performance. On the building side, residential construction explains lower output, while practically only works linked to the energy sector growth on the public sector side.

Construction shows a lower-than-average performance compared to other sectors

The construction output index remains below the General Economic Activity Index (IGAE), as has been the case since the end of 2012. The construction index came in 6 points below the IGAE's 127 in April and barely hit 124 points in May. Although the sector saw a recovery in the seasonally adjusted series, performance continues to be more discreet than for the rest of the economy as a whole. This result has continued for several months despite a decline in the IGAE, which remains in positive terrain albeit at ever lower levels.

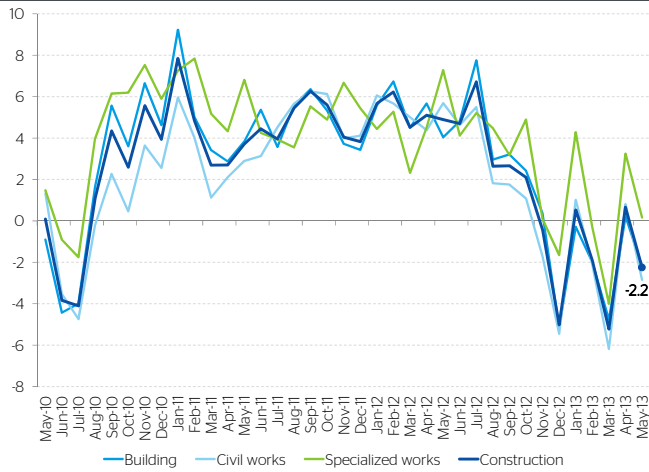
Relevant indicators are in line with these results. Investment in construction continues to hover around zero growth. It only moved up half a percent in April at an annual rate. From the financing outlook, the bank loan balance for construction decreased slightly in May 2013 in comparison to the end of 2012. This is mainly due to lower output in residential construction meaning credit to the sector also fell back in line with fewer projects. An increase in the size of the delinquent portfolio has been seen of late, although the NPL index remains at an acceptable 6%. The deterioration can be seen in the house builders portfolio. Nevertheless, the portfolio maintains its credit quality for the other types of work.

Formal private employment expanded at an annual rate in May as well as in the seasonally adjusted series. Nevertheless, the progress is ever smaller, in line with lower output. In turn, cement and concrete sales increased in April which was seen in the output growth for the previous month. However INEGI reports that the decline in demand for goods such as asphalt, metal structures, iron and steel products, as well as concrete, are behind the decline.

The second quarter could close negatively for construction unless there is an upswing in June

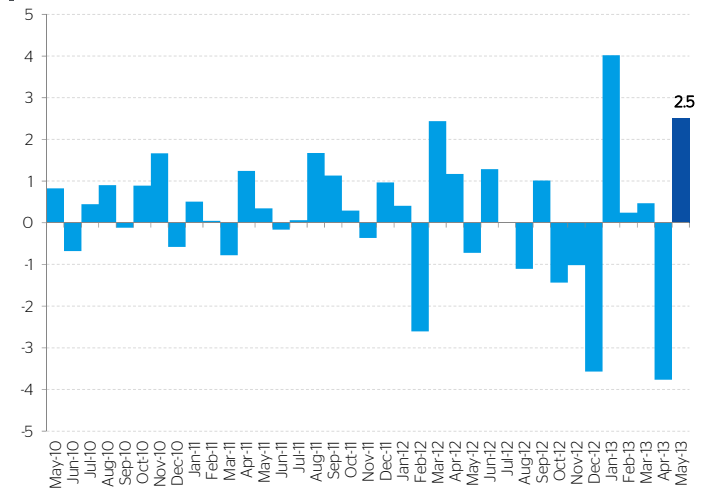
As stated, without a positive performance from building and civil works, the construction sector will be unable to maintain forward momentum. Both components fell back this month due to residential construction in the first instance and fewer public works in the second. April and May saw an average 0.8% annual decline meaning growth of around 1.8% will be needed in June for construction GDP not to fall in the second quarter of the year. Relevant indicators provide no sign that this is likely. The window of opportunity will come on the release of new rules for housing subsidies and the National Infrastructure Plan. Their effects will be seen at the end of 2013 and next year.

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



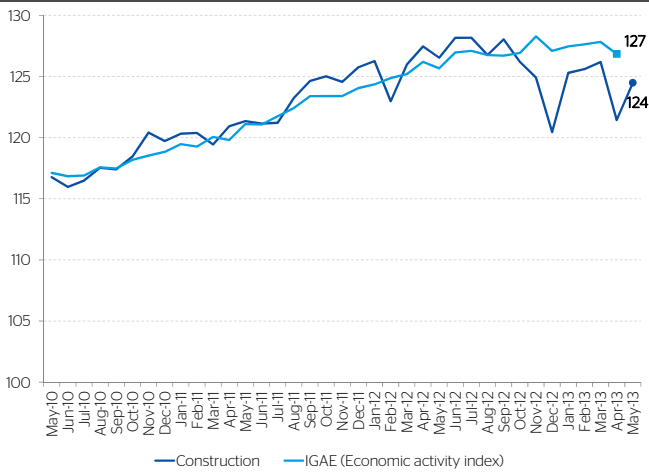
Source: BBVA Research with Industrial Activity data, INEGI (original series)

Chart 2
Industrial Activity: Construction
Monthly % change



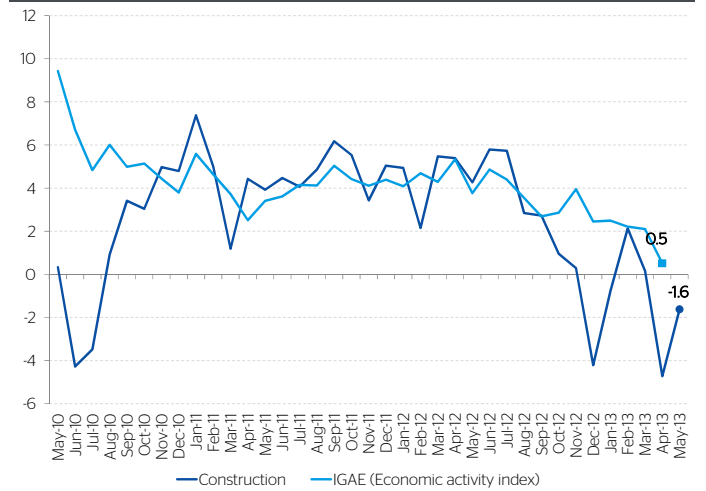
Source: BBVA Research with Industrial Activity data, INEGI (seasonally adjusted series)

Chart 3
Construction and IGAE
2003=100



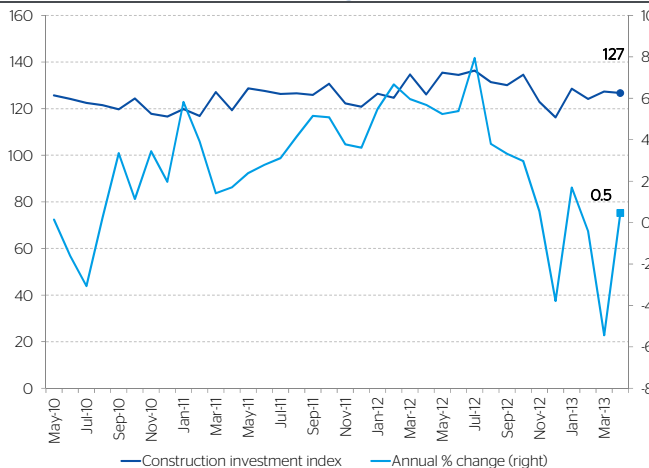
Source: BBVA Research with Industrial Activity and IGAE data, INEGI (seasonally adjusted series)

Chart 4
Construction and IGAE
Annual % change in the index



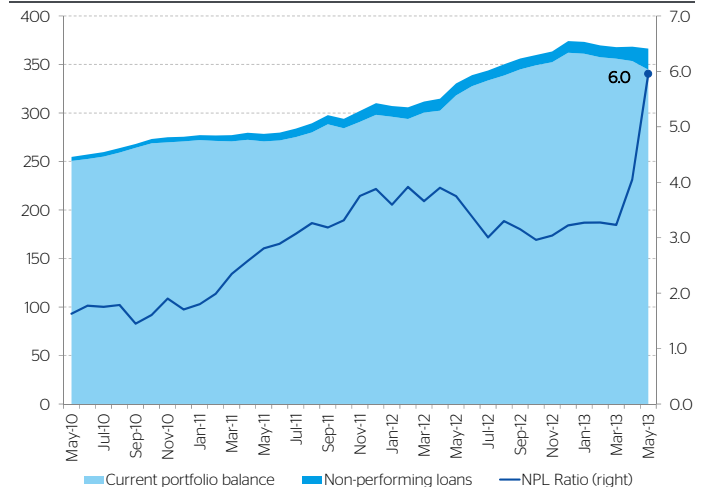
Source: BBVA Research with Industrial Activity and IGAE data, INEGI (seasonally adjusted series)

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



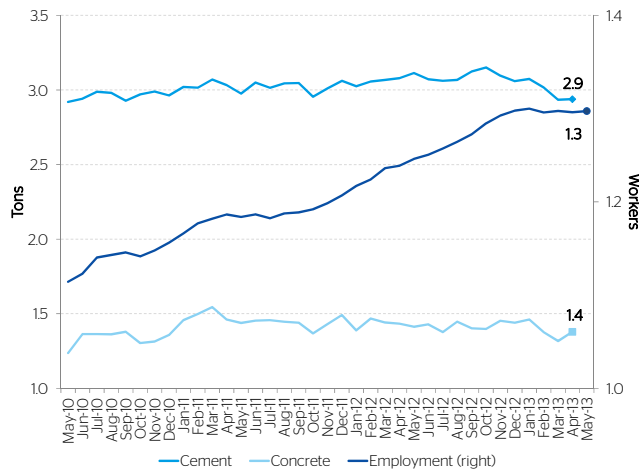
Source: BBVA Research with INEGI data (original series)

Chart 6
Bank financing for construction
Portfolio balances (billion pesos 2013) and NPL ratio (%)



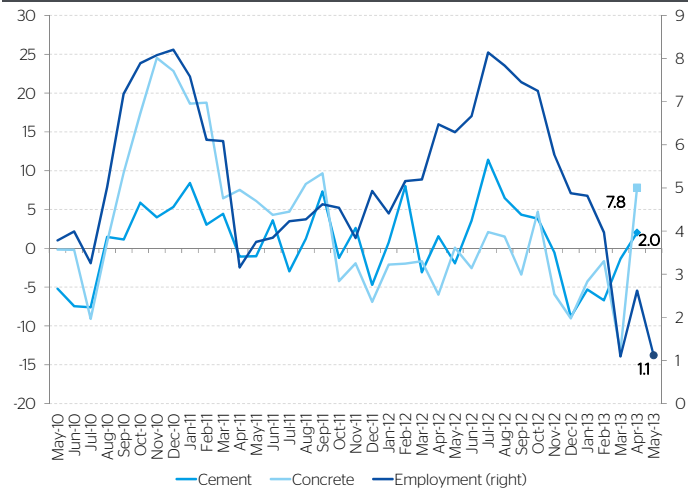
Source: BBVA Research with Bank of Mexico data (figures as of May 2013)

Chart 7
Leading indicators of construction
Millions of tons and workers



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

Chart 8
Leading indicators of construction
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	-2.2	-2.3	-2.4	0.0
13Q2	-0.8	-1.0	-1.0	1.7

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

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

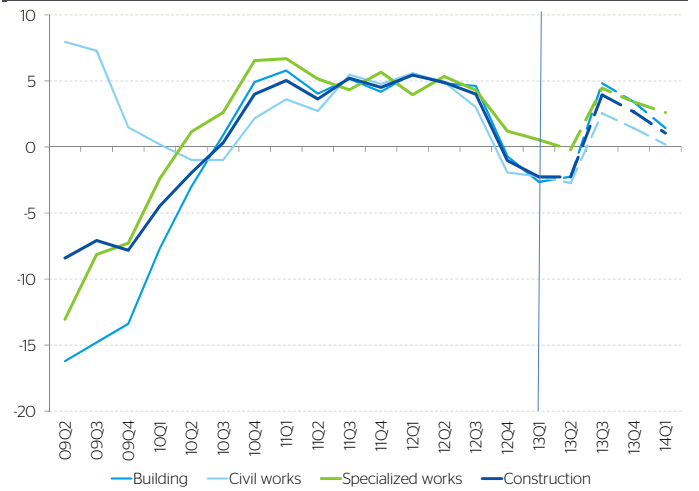
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Chart 9
GDP forecasts: Construction and its components
Real annual % change



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