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## Mexican Construction Sector Recovering Unevenly

by LADB Staff

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The construction sector has begun to rebound from a severe slump in 1995, but the recovery has been very uneven and has tended to favor large commercial projects at the expense of housing and some essential public-works projects. According to the national construction-industry chamber (Camara Nacional de la Industria de la Construccion, CNIC), the devaluation of the peso in late 1994 and the ensuing economic crisis resulted in a contraction of 22% in the construction industry.

Recent reports from CNIC and the government statistics agency (Instituto Nacional de Estadisticas, Geografia e Informatica, INEGI) show an improved performance for the sector in 1996. For example, in the second quarter of this year, the construction industry grew by 7.8% relative to the second quarter of 1995. Still, CNIC officer Ricardo Platt Garcia acknowledged that very little of the new construction in the second quarter of the year was dedicated to housing. "At this time, we cannot honestly say there is a true recovery,"

Platt told participants at a construction industry seminar in Monterrey earlier this year. A report released in late October by INEGI showed similar trends for the construction industry. According to INEGI, the construction sector grew by 8.3% in August to about 2.12 billion pesos (US\$268 million). This was the fifth consecutive monthly improvement over a year. Beyond the sector's overall performance, however, the actual statistics contained in the INEGI report presented a different story.

The report showed that almost 40% of the new construction in August was devoted for large-scale infrastructure projects in the petroleum, petrochemical, electricity, and communications sectors. On the other hand, the broad category that measures construction of private dwellings, schools, and hospitals grew by only 1.4% in August. This sector accounted for 30% of the activity in the construction industry. According to Antonio Ramon Elizondo, president of a real estate developers organization in Nuevo Leon state (Asociacion de Bienes Raices y Desarrolladores de Vivienda), a tight housing market, high interest rates, and the reluctance of banks to provide loans are preventing millions of Mexicans from buying their own houses.

The continuing slump in construction has also spilled over to essential public works. According to the INEGI report, construction in the area of irrigation and water treatment, which accounts for 7.5% of the total activity in the construction sector, grew only 0.2% in August. Similarly, construction activity related to transportation such as highways, railroads, and subways actually declined by 0.8% in August. In an attempt to partially address this problem, President Ernesto Zedillo's administration and CNIC's urban-development council announced the allocation of 10 billion pesos (US\$1.26 billion) for use in 114 urban-infrastructure projects.

Some analysts are quick to point out that the upturn in the construction sector has translated to a recovery in employment. In its report for the second quarter of this year, CNIC said growth in

the construction sector has allowed the industry to create about 18,000 new jobs through June of this year. On the other hand, CNIC's Platt Garcia acknowledged this number represents only one-tenth of the estimated 180,000 construction-related jobs that were lost during last year's crisis. An earlier CNIC report projected that the construction industry would be able to create 205,000 new jobs annually through the year 2000 provided that Mexico is able to maintain an overall GDP growth of 6% annually.

The INEGI report also noted a 15% increase in employment in construction-related jobs in August of this year. At the same time, the report said wages for workers in the construction sector in August had declined by about 17% in real terms from the same month last year. The INEGI report also showed that growth rates for construction were uneven around the country during August. For example, states such as Queretaro, Quintana Roo, San Luis Potosi, Morelos and several others reported an increase in construction activity that month. On the other hand, states such as Michoacan, Guerrero, and Veracruz experienced a slump in construction. In a separate report, CNIC said the construction sector has especially thrived in the northern industrial states, particularly along the U.S.-Mexico border. [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on Nov. 13, reported at 7.90 pesos per US\$1.00.] (Sources: Novedades, 08/15/96; Associated Press-Dow Jones, 09/23/96; Excelsior, 09/24/96; El Universal, 10/09/96, 10/24/96; The News, 10/24/96)

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