

Banking credit growth continues to decelerate in February

- Yesterday, Banxico published its banking credit report for February 2020
- Banking credit expanded 1.6% y/y in real terms, slightly below our 1.7% forecast and the 1.9% expansion of the previous month
- Looking at the breakdown, there was a generalized deceleration, with corporates more resilient at 0.4% (previous 0.5%), while consumer (+1.1%) and mortgages (+6.5%) fell each by 0.5%-pts relative to January
- Non-performing loans were unchanged at 2.6%, with all major components stable when compared to the previous month
- We expect credit to be impacted by the shock of the Coronavirus to the economy, although we believe the system will remain fundamentally sound and well-capitalized

Banking credit slowed down further in February. In particular, banking credit to the private sector expanded 1.6% y/y in real terms, below our 1.7% estimate. In this context, inflation in February picked up 46bps relative to January, hindering this month's performance. In coming months, we expect to see an impact from the COVID-19 outbreak, resulting in a further deceleration or even a contraction in total credit. The economic impact, along other effects from the virus, would more than compensate for an improvement in short-term inflation, which we believe could fall rapidly on lower energy prices, albeit then starting to reflect a higher pass-through effect from the exchange rate to prices.

Consumer credit expanded 1.1%, decelerating relative to the 1.6% seen in the previous month. Inside, only personal credit was in contraction (-6.2%), while durable goods remained as the most dynamic (+5.5%). We also highlight the performance in payroll credit, expanding 3.4%. Mortgages advanced 6.5% (previous: 7.0%), driven by still favorable dynamics in the residential sector (+7.7%) while low-income housing was unchanged at -7.2%, showing some relief after last month's decrease, which halted an eight-month improvement in this subsector.

Credit to corporates grew 0.4%, down from the 0.5% from the previous month, still showing some relative resiliency. Taking a look at the breakdown, only 6 out of the 13 sectors were lower relative to January, with a slowdown in professional services (-6.3%, previous: -4.4) and manufacturing (-6.6%, previous: -5.9%). On the contrary, those with the most significant acceleration were mass media (+31.0%, previous: +24.2%) and lodging (+13.0%, previous: +9.3%). Despite the overall deceleration in the sector, there were some green shoots in individual sectors. However, the economic deceleration will probably erase these recent gains.

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Non-performing loans stand at 2.6%, in line with the previous month. Inside, all three major subsectors were also stable relative to January's figures. In particular, consumer credit NPLs came in at 4.3%, while those for mortgages and corporates stood at 2.9% and 1.8%, respectively.

The economic impact from COVID-19 will probably be felt also in credit. In our opinion, the impact will come to a large extent from the shock to aggregate demand as restrictions are imposed by the Federal Government to face the epidemic, impacting economic activity. Although ample credit supply should still be available, greater uncertainty among both consumers and businesses would result in a diminished appetite for leverage. Overall and given the current environment, we do not rule out the possibility of a contraction in banking credit, especially in the second quarter. Nevertheless, and in our opinion, there is the possibility of a strong rebound if economic activity starts to normalize. Considering that in the last few years credit has grown about 2 times more than GDP, credit could decelerate on a full-year basis but still show greater strength relative to our expected decline of 3.5% y/y in output.

In addition, we believe that measures implemented by some financial institutions, including those that allow for the deferral of payments for some months, will help avoid a significant deterioration in NPLs even with a high probability of an increase in unemployment levels. In this sense, it is also positive that NPLs before the shock were at healthy levels. In addition, we consider financial authorities will continue to work to support the sector in these uncertain times, with the goal of ensuring that the financial system remains adequately capitalized, as it will be key to support an eventual economic recovery at the least possible cost.

Banking credit

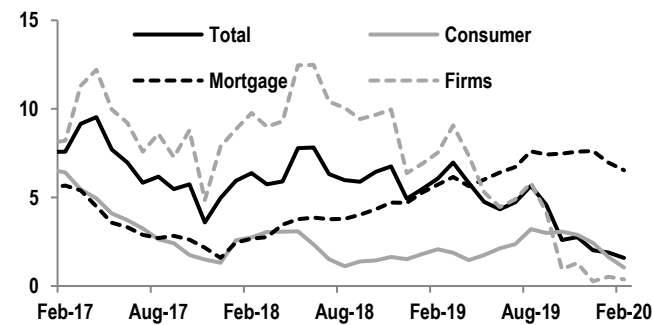
% y/y in real terms

	Feb-20	Jan-20	Feb-19	Jan-Feb '20	Jan-Feb '19
Private banking credit	1.6	1.9	6.1	1.7	5.8
Consumer	1.1	1.6	2.1	1.3	1.9
Credit cards	1.4	1.7	0.8	1.6	0.7
Payroll	3.4	4.0	3.3	3.7	3.0
Personal	-6.2	-5.3	-0.7	-5.8	-0.8
Durable goods	5.5	6.3	8.3	5.9	8.2
Auto loans	4.1	4.8	8.7	4.4	8.6
Other durable goods	22.9	23.8	4.1	23.4	3.1
Others	4.5	5.1	-0.3	4.8	0.1
Mortgage	6.5	7.0	5.7	6.7	5.5
Social interest	-7.2	-7.2	-12.4	-7.2	-12.5
Medium and residential	7.7	8.2	7.6	7.9	7.4
Firms	0.4	0.5	7.5	0.4	7.2
Primary activities	9.8	11.1	10.0	10.4	10.2
Mining	-4.9	-5.5	19.0	-5.2	17.3
Construction	-7.9	-8.6	-1.9	-8.2	-2.5
Utilities	2.7	4.2	14.3	3.5	14.3
Manufacturing industry	-6.6	-5.9	12.1	-6.2	12.3
Commerce	-3.8	-2.7	6.4	-3.2	5.1
Transportation and storage	1.3	-0.4	-2.4	0.4	-0.2
Mass media services	31.0	24.2	-0.2	27.6	-0.6
Real estate services	7.4	5.3	11.6	6.3	10.3
Professional services	-6.3	-4.4	-7.4	-5.4	-8.0
Recreational services	13.0	9.3	17.7	11.1	16.7
Other services	5.0	6.2	-7.1	5.6	-6.5
Not sectorized	-12.2	-13.0	0.3	-12.6	-0.8
Non-banking financial intermediaries	-3.0	-3.5	16.1	-3.3	13.1

Source: Banxico

Chart 1: Banking credit

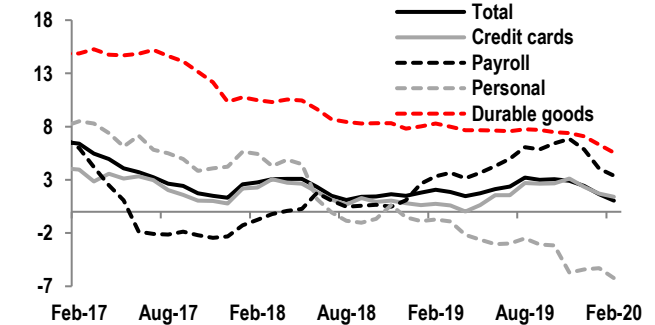
% y/y in real terms



Source: Banorte with data from Banxico

Chart 2: Consumer credit

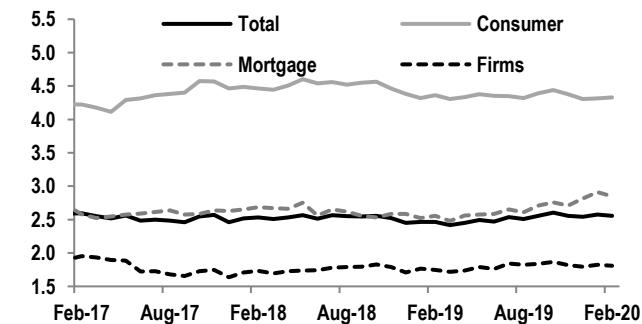
% y/y in real terms



Source: Banorte with data from Banxico

Chart 3: Non-performing loans

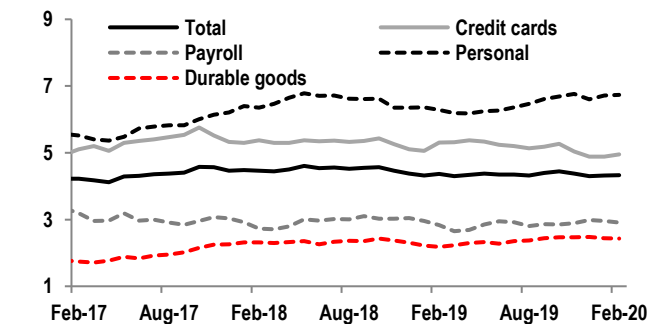
% of total portfolio



Source: Banorte with data from Banxico

Chart 4: Non-performing loans: Consumer credit

% of total portfolio



Source: Banorte with data from Banxico

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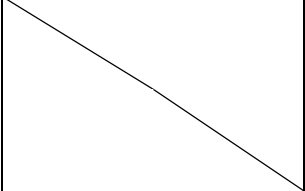
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