Banking credit – Deceleration continues in July

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- **Today, Banxico published its banking credit report for July 2020**
- **Banking credit expanded 1.1% y/y in real terms, below both our 2.7% forecast and the 3.0% of the previous month**
- **Looking at the breakdown, the deceleration was due to lower growth across all sectors. Corporates came in at +4.0%, while mortgages edged down to +5.2%. Meanwhile, consumer credit furthered its decline to -8.9%**
- **Non-performing loans decreased to 2.4% of the total portfolio, with consumption showing a strong decline, mortgages unchanged and corporates slightly up**
- **While we continue expecting banking credit to slow down in coming months, or at least rather weak, the system remains fundamentally solid, with measures from regulators helping bolster financial institutions**

Banking credit decelerated for a third month in row in July. In particular, banking credit to the private sector expanded 1.1% y/y in real terms, below both our 2.7% estimate and the 3.0% of the previous month. We should mention that this figure was dragged by the 29bps increase in inflation in July relative to June. After the strong increase in financing to businesses in March and April we have seen a moderating since May, which extended through to July. We do not rule out that part of the decrease in recent months could be related to the slight recovery in economic activity, resulting in marginally less pressures for corporates. Specifically, credit to businesses increased 4.0%, lower than the +6.0% in June, although still above pre-pandemic levels (see Chart 1). Taking a look at the breakdown, although 9 out of the 13 sectors were still in positive territory, only three of them accelerated relative to June, being utilities (+5.0%; previous: +4.3%), professional services (-19.8%; previous: -21.4%) and those not sectorized (+0.6%; previous: -1.6%).On the contrary, the steepest deceleration was in mining, to -8.3% from +15.4% in June. Other relevant changes were in mass media (+3.8%; previous: 32.5%), construction (-16.5%; previous: -6.2%) and other services (+15.8%; previous: 20.1%), as seen in Table 1.

Mortgages advanced 5.2%, below the 5.5% of the previous month and at its lowest pace in almost a year and a half. Inside, low-income housing credit accelerated its decline to -12.3%, while those for the residential sector also were more modest, to +6.6%. Meanwhile, consumer credit fell 8.9%, lowest since May 2010. Inside, all sectors are now negative (Chart 2), highlighting strong decreases in credit cards (-10.9%), personal credit (-17.4%) and others (-12.6%). Meanwhile, durable goods (-0.2%) and payroll credits (-3.9%), showed a marginally better performance. In our view, this is related to the deterioration in employment conditions as well as to increased caution by consumers, opting to delay purchases of expensive items until uncertainty decreases.

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Non-performing loans decrease to 2.4%. Inside, mortgages were unchanged at 3.1%. Nevertheless, for corporates it increased by 10bps to 1.7%. On the contrary, we saw a strong decline in consumer credit, at 4.0% from 4.7% (Chart 3), lowest since April 2016. We continue to think this measure has been benefited by programs implemented by several large banks to allow for the deferral of payments without impacting credit scores. In this sense, we will need to carefully watch their dynamics once this period ends, with the period in which these stayed in place ending relatively soon.

We still expect credit to moderate, or at the very least remain relatively weak. We maintain our view that credit will continue to decelerate in coming months, still impacted by the economic effects of the pandemic. On consumer credit, although we have already seen a slight recovery in June's employment, in absolute terms the situation is still weaker, with close to 7.4 million jobs lost relative to the end of March. In addition, and using employment data from IMSS, there are signs of lower wages –considering that employment losses continued in this category–. We still believe that it will take some time to see a recovery in fundamentals, so weakness is likely to persist at least in the short-term. On corporates, considering their recent performance, we still think that with financing needs covered after the initial impact, performance will depend on several factors, highlighting: (1) The speed of the economic recovery; and (2) prevailing uncertainty about the virus. We believe this will be key for investment prospects, which are an essential part to trigger a substantial recovery of credit in this sector. Nevertheless, and considering our outlook for these factors, it could also take some time. Finally, on mortgages, although these have shown some resiliency –consistent with their relative historical stability–, these will probably continue decelerating, albeit more slowly, benefiting from refinancing programs and people tapping into their home equity.

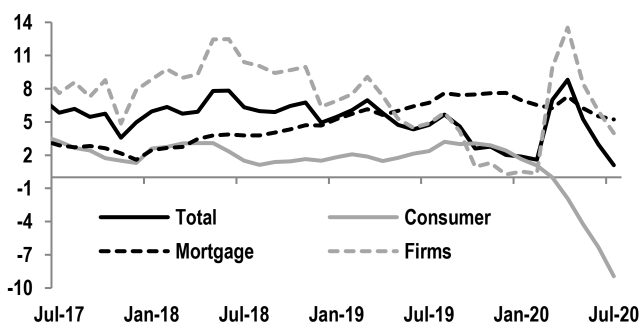
Regarding NPLs and the overall health of the banking system, regulators and financial institutions have established measures to bolster it. On the first point, the deferral programs previously announced has served as a stopgap measure, with the possibility of additional initiatives and instruments to help customers and bank's balance sheets. On the second, changes to some rules announced by CNBV and other regulators, as well as measures by the central bank, in tandem with provisions made by banks and other financial institutions, should limit overall risks for the sector.

Banking credit
% y/y in real terms

	Jul-20	Jun-20	Jul-19	Jan-Jul '20	Jan-Jul '19
Private banking credit	**1.1**	**3.0**	**4.7**	**4.1**	**5.4**
Consumer	**-8.9**	**-6.3**	**2.4**	**-2.7**	**1.9**
Credit cards	-10.9	-10.0	1.6	-4.7	0.8
Payroll	-3.9	-2.5	5.0	0.8	3.7
Personal	-17.4	-9.2	-3.0	-8.2	-1.9
Durable goods	-0.2	0.2	7.6	3.1	7.8
Auto loans	-1.6	-1.0	6.8	1.7	7.8
Other durable goods	15.3	13.8	16.8	19.2	8.6
Others	-12.6	-4.8	3.9	1.9	1.0
Mortgage	**5.2**	**5.5**	**6.7**	**6.3**	**6.0**
Social interest	-12.3	-10.6	-8.5	-9.0	-11.1
Medium and residential	6.6	6.8	8.2	7.5	7.7
Firms	**4.0**	**6.0**	**4.9**	**6.2**	**6.5**
Primary activities	4.3	6.7	10.9	11.1	10.7
Mining	-8.2	-5.2	3.3	4.3	7.0
Construction	-16.5	-6.2	-9.1	-8.4	-6.2
Utilities	5.0	4.3	9.4	5.7	11.9
Manufacturing industry	3.5	5.3	1.2	4.4	7.4
Commerce	-5.8	-5.3	5.1	-3.4	5.9
Transportation and storage	4.3	4.4	7.1	7.0	0.8
Mass media services	3.8	32.5	25.6	32.4	7.3
Real estate services	16.9	18.9	0.1	14.6	6.5
Professional services	-19.8	-21.4	2.3	-13.2	0.9
Recreational services	26.1	26.4	21.6	24.2	18.3
Other services	15.8	20.1	5.3	16.1	0.8
Not sectorized	0.6	-1.6	-14.4	-3.2	-7.9
Non-banking financial intermediaries	**-7.5**	**-2.4**	**10.1**	**1.4**	**12.7**

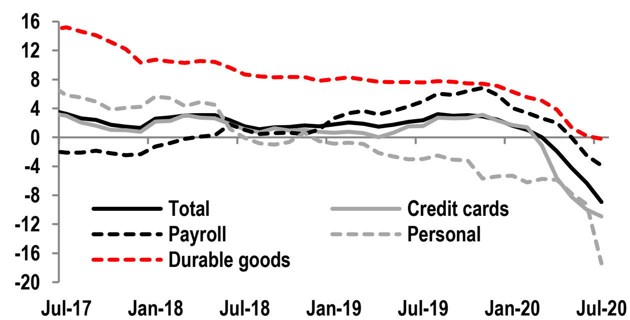
Source: Banxico

Chart 1: Banking credit
% y/y in real terms



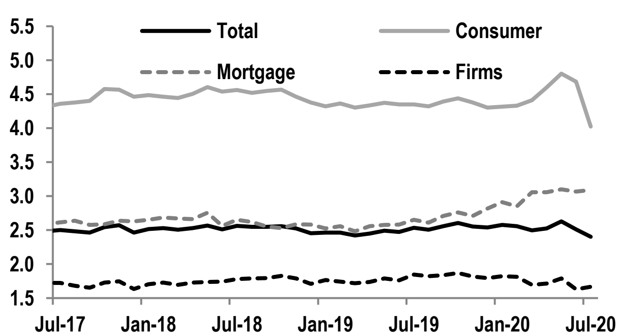
Source: Banorte with data from Banxico

Chart 2: Consumer credit
% y/y in real terms



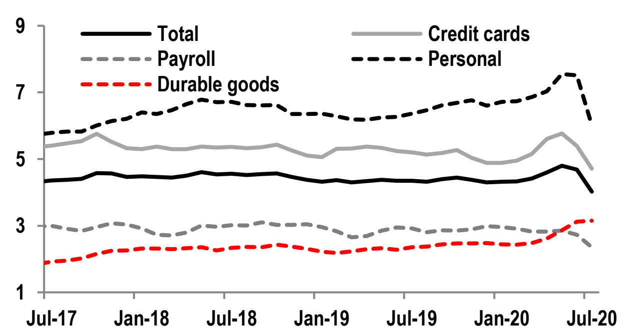
Source: Banorte with data from Banxico

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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