Banking credit – Falling to negative territory in annual terms in August

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- **Today, Banxico published its banking credit report for August 2020**
- **Banking credit declined 1.4% y/y in real terms, below both our +0.2% forecast and the +1.1% of the previous month**
- **Looking at the breakdown, the deceleration was due to lower growth across all sectors. Nevertheless, the only one in negative territory is consumer credit at -9.7%. Meanwhile, corporates stood at +0.1%, with mortgages stronger at +4.4%**
- **Non-performing loans remained at 2.4% of the total portfolio, with consumption showing an additional decrease, corporates unchanged and mortgages slightly up**
- **We continue expecting banking credit to remain weak in coming months. Nevertheless, the system remains fundamentally solid, with measures from regulators helping bolster financial institutions**

Banking credit slides into negative territory in the annual comparison. In particular, banking credit to the private non-financial sector contracted 1.4% y/y in real terms (see Chart 1), first time this happens since mid-2010. This result came in below both our expectation at +0.2% and the previous figure of 1.1%. Although this figure is impacted negatively by the 43bps increase in annual inflation in August relative to July, we believe performance is ultimately driven by the contraction in economic activity and the uncertain conditions surrounding it. Specifically, credit to corporates decelerated to +0.1% from +4.0% in the previous month and from a recent high of +13.5% in April. The latter seems to suggest that most loans by businesses during the pandemic were for short-term needs, such as ongoing costs and other more immediate needs. However, their financing needs might have decreased as the economy reopened. Taking a look at the breakdown, 12 out of the 13 sectors showed a worse performance relative to July, highlighting mining (-19.7% from -8.2%), manufacturing (-4.4% from +3.6%) and other services (+9.8% from +16.1%), among others, as seen in Table 1. Meanwhile, the only improving was mass media, at +5.8% from 3.9%.

Mortgages advanced 4.4%, below the 5.2% of the previous month and at its lowest pace in almost two years. Inside, low-income housing credit sped-up its decline to -13.5%, while those for the residential sector also were more modest at +5.8%. Meanwhile, consumer credit fell 9.7%, lowest since May 2010. Inside, all major sectors remain negative (Chart 2), highlighting strong decreases in credit cards (-11.3%), personal credit (-18.8%) and others (-11.8%). Meanwhile, durable goods (-0.8%) –driven by other durable goods (+17.9%)– and payroll credits (-5.0%), showed a marginally better performance. Despite improving fundamentals, specifically employment, the situation is still challenging. The latter, on top of a highly uncertain environment, will probably continue to weigh on purchasing decisions by consumers, especially for those in which financing is usually needed.

Non-performing loans remain at 2.4% of total loans. Inside, corporates were unchanged at 1.7%. Nevertheless, for mortgages it increased by 10bps to 3.2%. On the contrary, we saw a strong decline for a second consecutive month in consumer credit, at 3.6% from 4.0% (Chart 3), lowest since April 2006. We believe stability in these figures, with improvements in some cases has been driven by support programs implemented by authorities –National Banking and Securities Commission (CNBV in Spanish) and Banxico–, as well as several banks and other financial institutions. In this sense, we consider as very favorable the recent announcement on the extension of accounting facilities for banks by the MoF and the CNBV. Considering this, we believe the indicator will continue to show low and stable levels in coming months.

We still some weakness in banking credit. We still believe that banking credit to the private non-financial sector will remain low in coming months, not ruling out an additional deceleration. Although the economy has begun to recover, activity levels are still relatively low. Along with uncertainty regarding the pace of the rebound, as well as on the pandemic, we believe has impacted credit appetite. In addition, given that the Federal Government handed loans directly to families and businesses, could have fulfilled, at last partially some financing needs. By sectors, consumer credit will probably remain as the weakest, very impacted by caution from people that have tried to minimize non-essential spending. Therefore, we think that we will not see significant rebound in the sector until fundamentals strengthen in a significant manner, similar to the situation seen after the Great Financial Crisis in 2009. On corporates, it seems that short-term financing needs were somewhat covered, with performance going forward depending on businesses' outlook for growth and investment. Moreover, we believe uncertainty will weigh on CAPEX decisions. Finally, mortgages will probably remain as the strongest, benefited by the conditions related to it.

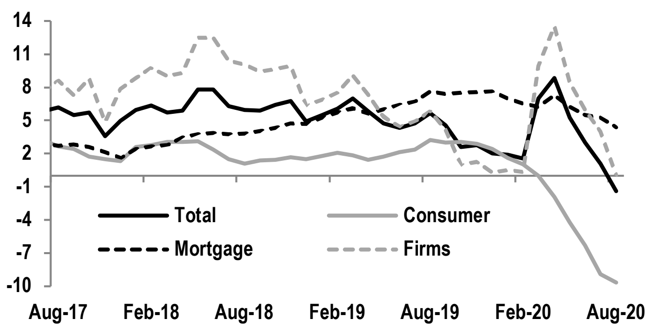
Regarding NPLs and the overall health of the banking system, as we mentioned, on September 23rd additional measures were announced to improve the position of entities in the sector. If we add the latter to actions by banks themselves to constitute extraordinary reserves, we believe risks for the sector remain relatively contained.

Banking credit
% y/y in real terms

	Aug-20	Jul-20	Aug-19	Jan-Aug '20	Jan-Aug '19
Private banking credit	**-1.4**	**1.1**	**5.7**	**3.4**	**5.5**
Consumer	**-9.7**	**-8.9**	**3.2**	**-3.6**	**2.1**
Credit cards	-11.3	-10.9	2.7	-5.6	1.1
Payroll	-5.0	-3.9	6.1	0.0	4.0
Personal	-18.8	-17.4	-2.5	-9.5	-2.0
Durable goods	-0.8	-0.2	7.8	2.6	7.8
Auto loans	-2.5	-1.6	6.8	1.2	7.6
Other durable goods	17.9	15.3	19.7	19.0	10.0
Others	-11.8	-12.5	4.4	0.1	1.4
Mortgage	**4.4**	**5.2**	**7.6**	**6.0**	**6.2**
Social interest	-13.5	-12.3	-7.5	-9.5	-10.7
Medium and residential	5.8	6.7	9.0	7.3	7.9
Firms	**0.1**	**4.0**	**5.8**	**5.4**	**6.4**
Primary activities	1.8	4.5	12.3	10.0	10.9
Mining	-19.7	-8.2	5.8	1.1	6.8
Construction	-18.5	-16.6	-5.4	-9.8	-6.1
Utilities	2.4	4.9	10.4	5.3	11.7
Manufacturing industry	-4.4	3.6	6.7	3.3	7.3
Commerce	-7.0	-5.9	4.3	-3.9	5.7
Transportation and storage	1.0	4.8	5.4	6.3	1.4
Mass media services	5.8	3.9	5.0	28.6	7.0
Real estate services	12.3	17.0	1.8	14.4	5.9
Professional services	-23.2	-21.6	1.4	-14.8	0.9
Recreational services	21.8	25.6	23.3	23.8	18.9
Other services	9.8	16.1	6.6	15.4	1.5
Not sectorized	0.1	0.6	-13.5	-2.8	-8.6
Non-banking financial intermediaries	**-6.2**	**-7.5**	**11.7**	**0.5**	**12.5**

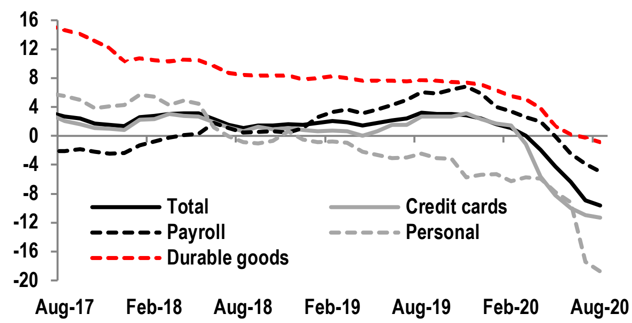
Source: Banxico

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



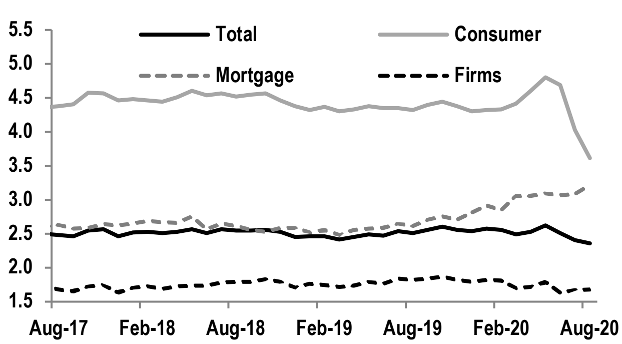
Source: Banorte with data from Banxico

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



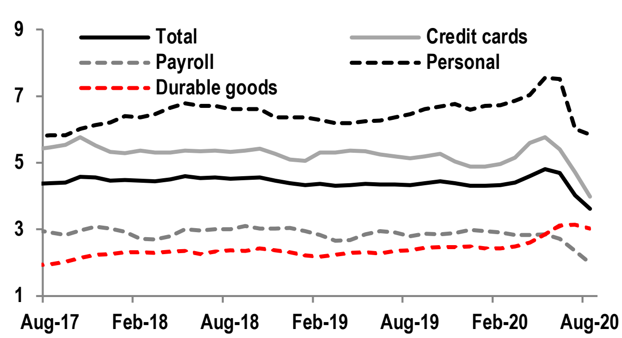
Source: Banorte with data from Banxico

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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