

## Banking credit – Further deceleration in corporate and consumer loans in October

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- Today, Banxico published its banking credit report for October 2020
- Banking credit declined 2.5% y/y in real terms, below our -1.7% forecast and the -1.6% of the previous month
- Looking at the breakdown, the contraction was due to a weaker performance in consumer (-10.9%) and corporate (-1.2%) loans. Nevertheless, mortgages were slightly better, at +4.7%
- Non-performing loans rose slightly to 2.4% of the total portfolio (previous: 2.3%), with an upward adjustment in consumer loans, partially offset by better dynamics in mortgages
- We expect credit to remain weak in the short-term, although we do not rule out a temporary boost from *El Buen Fin*. Moreover, we still see a healthy financial system, with timely actions from both financial institutions and regulators

**Banking credit to the private non-financial sector extends its decline.** In particular, it contracted 2.5% y/y in real terms in October (see [Chart 1](#)), its lowest level since April 2010. This came in below both our expectation at -1.7% and the previous figure of -1.6%. During the period, there was a slight negative impact from annual inflation, rising 7.3bps. Nevertheless, seeing overall performance, we believe dynamics were influenced by economic activity and its outlook. We believe uncertainty continued to weigh on corporate loans, down 1.2% and adding 6 months to the downside. In this respect, the lack of a clear path ahead could be inducing businesses to hold on their CAPEX decisions. This is somewhat contrary to what we saw at the beginning of the pandemic, when the hit appeared to be transitory and operations were halted. This forced companies to face the shock with the use of their available credit lines, destined for fixed costs and the improvement of their liquidity positions. Taking a look at the breakdown, 9 out of the 13 sectors worsened relative to September, highlighting mining (-13.8% from -5.5%), lodging (14.6% from 21.5%) and transportation (-0.2% from 3.6%). We should note that these sectors are among the worst hit by the pandemic, as [evidenced in GDP performance](#). On the contrary, some of the ones that improved were ‘other’ services (16.1% from 10.7%) and construction (-14.2% from -16.1%), as seen in [Table 1](#).

Mortgages picked up to 4.7% from 4.6% in September. Inside, low-income housing credit continued to speed-up its decline to -14.4%, while residential sector loans were practically unchanged at 6.1%. Meanwhile, consumer credit fell 10.9%, lowest since April 2010. Inside, all categories debilitated at the margin ([Chart 2](#)), highlighting strong decreases in credit cards (-12.5%), personal credit (-19.5%) and others (-18.0%). Meanwhile, durable goods (-1.6%) –supported by others (+23.2%)– and payroll credits (-6.4%), showed a ‘better’ performance. We believe the extension in uncertainty, clouding employment conditions –[despite an additional recovery in the month](#)– is still a relevant factor behind families’ spending decisions.

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In this sense it is likely that demand for credit remains weak going forward, a situation which might prevail until we see a substantial recovery in jobs.

**Non-performing loans increase marginally to 2.4% of total loans.** This represents an increase of only 10bps relative to September. Inside, NPLs for consumer loans rose to 4.0% from 3.6%, reversing some gains from previous months, but still below pre-pandemic levels ([Chart 3](#)). Meanwhile, corporates were unchanged at 1.7% while mortgages improved 20bps to 3.0%. We still believe figures are benefited by refinancing programs and special accounting provisions approved by the National Banking and Securities Commission (CNBV in Spanish) and other financial authorities, such as Banxico and the MoF. Even though we expect some upward adjustments in coming months, it is likely that, given the implementation of these measures, they will be quite moderate.

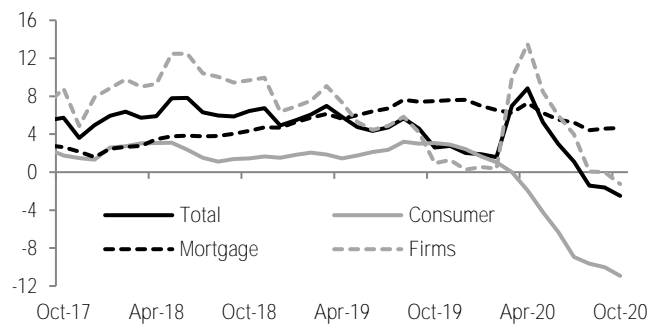
**We expect credit to remain weak in coming months, although not ruling out a brief spike from *El Buen Fin* purchases.** Despite the recovery in economic activity in the last few months, the short-term outlook is looking more challenging. This is partly explained by the uptick in COVID-19 cases already resulting in the implementation of some additional measures to try to curb them down. In addition, the overall pace of the rebound seems to be losing steam, with the lack of additional fiscal support in the US possibly dampening dynamism. In turn, this might result in additional weakness for credit, especially for corporates and consumer loans. On the contrary, we do not rule out some acceleration in the latter in November, driven by purchases from *El Buen Fin* (Mexico's Black Friday). According to preliminary reports, sales were favorable. In consequence, this could result in an improvement of credit card and durable goods loans –given the nature of these purchases–. Nevertheless, we would expect this effect to be somewhat fleeting, probably resuming the downward trend as soon as December. On corporates, and despite recent positive news over a vaccine, we expect them to further delay spending, probably waiting until a distribution plan is clear and the path towards the recovery is in sight. However, on a more medium-term basis, we could see some acceleration given the recently announced [second phase of the public-private infrastructure plan](#). Finally, we expect mortgages to remain stable, with moderate growth rates. We believe the overall health of the financial system is strong, even despite the slight uptick in NPLs seen today. With additional actions taken both by regulators and banks, we see more than adequate capital buffers to weather the storm.

Banking credit  
% y/y in real terms

	Oct-20	Sep-20	Oct-19	Jan-Oct '20	Jan-Oct '19
Private banking credit	-2.5	-1.6	2.6	2.3	5.1
Consumer	-10.9	-10.0	3.1	-5.0	2.3
Credit cards	-12.5	-11.6	2.7	-6.9	1.4
Payroll	-6.4	-5.3	6.4	-1.2	4.4
Personal	-19.5	-19.0	-3.2	-11.4	-2.2
Durable goods	-1.6	-1.1	7.5	1.8	7.8
Auto loans	-3.9	-3.2	6.3	0.2	7.4
Other durable goods	23.2	21.3	22.8	19.7	12.4
Others	-18.0	-14.3	3.1	-3.3	1.9
Mortgage	4.7	4.6	7.5	5.7	6.5
Social interest	-14.4	-14.2	-6.5	-10.5	-9.9
Medium and residential	6.1	6.1	8.7	7.1	8.1
Firms	-1.2	0.0	1.0	4.2	5.6
Primary activities	-3.5	-1.7	10.2	7.4	11.1
Mining	-13.8	-5.5	-11.6	-1.0	2.4
Construction	-14.2	-16.1	-8.1	-11.0	-6.7
Utilities	2.2	1.9	4.8	4.7	10.5
Manufacturing industry	-6.7	-3.8	0.1	1.6	6.4
Commerce	-10.5	-9.3	0.8	-5.1	5.0
Transportation and storage	-0.2	3.6	-7.3	5.5	0.1
Mass media services	0.7	1.9	2.0	22.6	5.6
Real estate services	10.5	12.9	3.7	13.8	5.7
Professional services	-22.3	-21.4	1.6	-16.1	1.1
Recreational services	14.6	21.5	12.3	22.3	18.3
Other services	16.1	10.7	0.6	15.0	1.8
Not sectorized	5.2	1.7	-18.2	-1.6	-10.3
Non-banking financial intermediaries	-10.9	-11.5	-0.8	-1.8	10.8

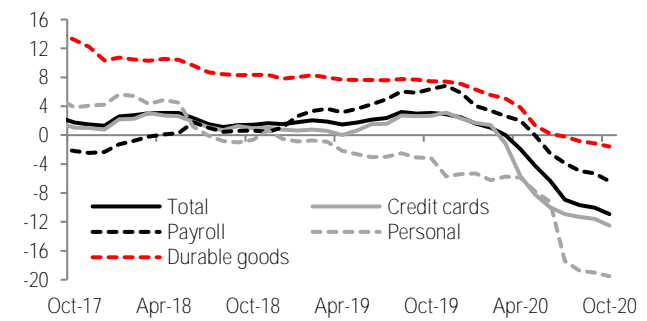
Source: Banxico

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



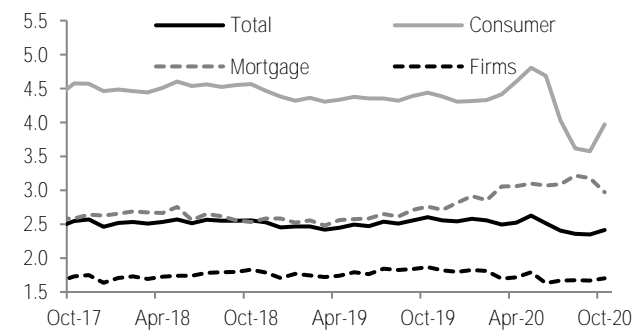
Source: Banorte with data from Banxico

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



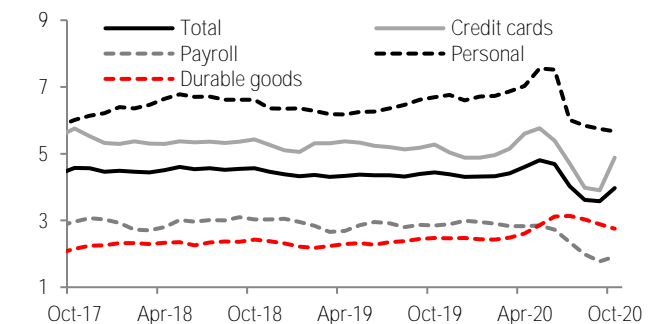
Source: Banorte with data from Banxico

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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