Banking credit – Downward trend extends at the start of 2021

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- **Today, Banxico published its banking credit report for January 2021**
- **Banking credit declined 5.1% y/y in real terms, lower than our -4.8% forecast and the -4.6% of the previous month**
- **Looking at the breakdown, the contraction was due to a weaker performance in consumer (-12.7%) and corporate (-4.7%) loans. Moreover, mortgages were slightly lower at +4.9%**
- **Non-performing loans (NPLs) rose slightly to 3.0% of the total portfolio (previous: 2.9%), with an upward adjustment in consumer and corporate loans, some stability in mortgages**
- **We expect credit to remain weak in coming months, with risks to activity increasing in the short-term. The financial system remains healthy even after the recent uptick in NPLs, with timely actions from both financial institutions and regulators**

Banking credit to the private non-financial extends its downward trend. It contracted 5.1% y/y in real terms in January (see Chart 1), lowest since March 2010. This came below our expectation at -4.8% and the previous figure of -4.6%. During the period, there was a negative impact from annual inflation, rising 39bps. However, we continue to believe that overall weakness in activity, coupled with uncertainty after the increase in COVID-19 cases and low appetite for credit –both from consumers and businesses– kept driving loans down. In this sense, corporates fell 4.7% and added nine months to the downside. In this respect, the deterioration in epidemiological conditions could have induced a more careful approach, situation that could probably extend until we are well underway in the recovery and vaccination process has made enough progress. Looking at the breakdown, only 5 out of 13 sectors worsened relative to December (see Table 1). However, some of these declines were steeper, driving the overall decrease. Among these we highlight mass media (-8.0% from 0.3%), commerce (-15.2% from -12.8%) and lodging (11.0% from 12.0%). On the contrary, some sectors that improved were mining (-31.6% from -38.0%), 'not sectorized' (12.2% from 9.2%) and manufacturing (-6.4% from -8.6%). This is somewhat consistent with the expected performance of activity in the month, seemingly declining on several challenging factors.

Mortgages decelerated slightly to 4.9% from 5.3% in December. Inside, low-income housing credit was marginally higher to -15.2%, while residential sector loans were lower at 6.4%. Meanwhile, consumer credit fell 12.7%, lowest since April 2010. Inside, all categories debilitated at the margin (Chart 2), with persistent weakness in credit cards (-15.7%), personal credit (-22.3%) and others (-13.6%). Meanwhile, durable goods (-3.5%) –supported by others (+30.7%)– and payroll credits (-6.3%), were slightly 'better'. We believe the further deterioration in epidemiological conditions, coupled with still high uncertainty, is weighing on credit demand.

Taking into account other relevant data from the financial sector, it is our take that some families are building savings up, which in our view might be related to two factors: (1) Concerns about the possibility of worsening conditions, possibly impacting employment; and (2) hopes of using those resources on socially-oriented activities. However, we remain somewhat cautious over performance going forward, as conditions remain uncertain.

Non-performing loans increase slightly, to 3.0% of total loans. This represents a 10bps expansion relative to the previous month. November. Inside, NPLs for consumer loans rose to 5.6% from 5.3% (Chart 3), at its highest level since May 2010. In addition, corporates worsened 20bps to 2.0%, with mortgages unchanged at 3.3%. However, we need to take these figures with some caution, taking into account that an arithmetic effect may be inducing the increase. This is due to the decrease in outstanding loans driving the total loan book down, with possibly relatively stable NPLs representing a larger share of credit. Apart from this, we should remember that both banks and regulators such as the *National Banking and Securities Commission* (CNBV in Spanish), the MoF, and Banxico have taken steps to avoid any significant shocks from these increases.

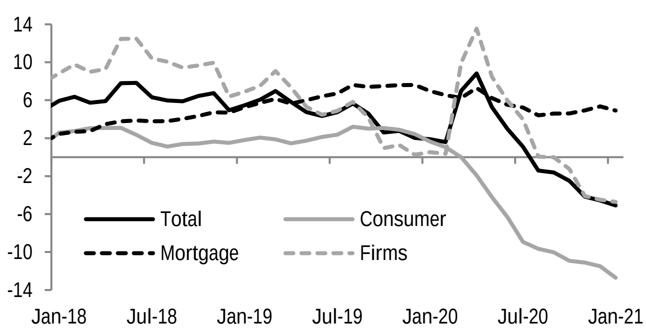
We expect credit weakness to extend in coming months. We believe banking credit will remain negative in the short-term, with increased risks for activity. Although the main driver will continue to be the evolution of the pandemic, shocks seen in February from blackouts and the lack of natural gas will probably impact the economy in a negative way in the short-term. Nevertheless, we noted some positive factors, albeit with these possibly having a greater impact in the medium-term, being: (1) Our recent revision to US GDP, resulting in a positive spill over effect in our country; and (2) the start of the vaccination process on elderly people, possibly driving consumer confidence up. In this context we will remain on the look over the evolution of corporate and consumer loans, given that we think these are the most exposed to the recovery in activity and its outlook. On the other hand, and relatively more isolated, it is likely that mortgages remain stable, with moderate growth rates in the forecast horizon. Lastly, the health of the financial system remains despite the increase in NPLs over the last few months. In this sense, we will keep looking closely at their behavior, as well as additional measures that may be taken in case risks increase further.

Banking credit
% y/y in real terms

	Jan-21	Dec-20	Jan-20	2020	2019
Private banking credit	-5.1	-4.6	1.9	1.2	4.6
Consumer	-12.7	-11.5	1.6	-6.1	2.3
Credit cards	-15.7	-14.2	1.7	-8.0	1.6
Payroll	-6.3	-6.0	4.0	-2.0	4.7
Personal	-22.3	-21.0	-5.3	-12.9	-2.8
Durable goods	-3.5	-1.9	6.3	1.2	7.7
Auto loans	-6.9	-5.2	4.8	-0.6	7.1
Other durable goods	30.7	31.1	23.8	21.7	14.5
Others	-13.6	-10.4	5.1	-4.9	2.7
Mortgage	4.9	5.3	7.0	5.6	6.6
Social interest	-15.2	-15.4	-7.2	-11.2	-9.3
Medium and residential	6.4	6.9	8.2	7.0	8.2
Firms	-4.7	-4.5	0.5	2.8	4.8
Primary activities	-6.4	-6.4	11.1	4.8	11.2
Mining	-31.6	-38.0	-5.5	-5.8	0.2
Construction	-13.9	-14.2	-8.8	-11.5	-6.9
Utilities	-0.5	-0.1	4.2	3.8	8.9
Manufacturing industry	-6.4	-8.6	-5.9	-0.1	4.9
Commerce	-15.2	-12.8	-2.7	-6.2	4.0
Transportation and storage	-7.1	-7.5	-0.5	3.7	-0.6
Mass media services	-8.0	0.3	24.2	18.6	7.9
Real estate services	-0.8	-0.9	5.2	11.7	5.8
Professional services	-21.9	-22.1	-4.1	-17.0	0.3
Recreational services	11.0	12.0	9.3	20.6	16.4
Other services	12.0	12.8	6.2	14.3	2.4
Not sectorized	12.2	9.2	-13.0	-0.2	-11.0
Non-banking financial intermediaries	-26.9	-23.2	-3.5	-4.6	8.3

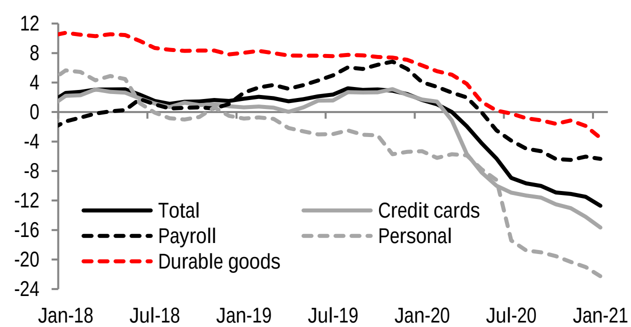
Source: Banxico

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



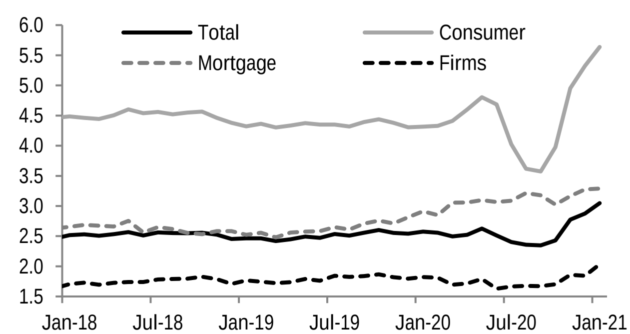
Source: Banorte with data from Banxico

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



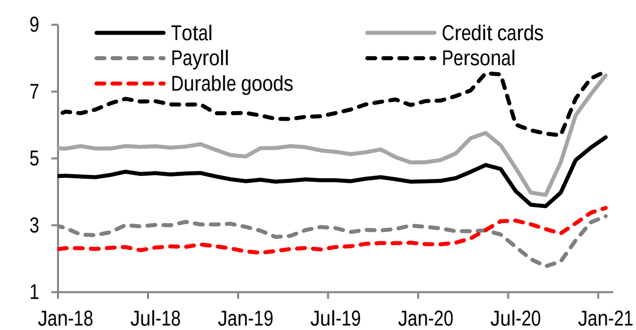
Source: Banorte with data from Banxico

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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