Banking credit – Strong decrease in March on a more challenging base effect

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- **Today, Banxico published its banking credit report for March 2021**
- **Banking credit declined 12.5% y/y in real terms, lower than our -9.9% forecast and the -6.0% of the previous month. It should be mentioned that the deceleration is explained in large part due to the strong increase in corporate loans in 2020**
- **Inside, corporate credit was most deteriorated at -16.5%, with the previously mentioned effect skewing the figure. Meanwhile, mortgages (3.7%) and consumer loans (-13.3%) were more stable at the margin**
- **Non-performing loans (NPLs) were better at 2.9% of the total portfolio. Inside, consumer loans corrected lower, with corporates unchanged and mortgages climbing slightly**
- **We expect credit to remain in contraction in the next few months, with an adverse base effect outweighing for a better outlook for activity. The financial system remains healthy, with timely actions from both financial institutions and regulators**

Banking credit to the private non-financial declines on a negative base effect. It contracted 12.5% y/y in real terms in March (see Chart 1), lowest since May 2000. This came below our expectation at -9.9% and the previous figure of -6.0%. It should be mentioned that despite weakness persists, the result is largely skewed down due to a negative base effect, remembering that in 2020 at the start of the pandemic, corporate loans shot up. In addition, during the period, there was a negative impact from annual inflation, rising 91bps. In this context, corporates fell 16.5% and added six months in contraction. We think credit will remain low in coming months, with the effect from the previously mentioned effect prevailing at least until July, possibly gathering momentum once the recovery gathers more momentum. Looking at the breakdown, 12 out of 13 sectors worsened relative to February (see Table 1). The only one with a better performance was professional services, going from -21.5% to -20.7%. Meanwhile, some with the most relevant declines were mass media (-31.1% from -11.3%), lodging (-8.6% from 8.0%) and manufacturing (-22.2% from -7.5%).

Mortgages decelerated once again, to 3.7% from 4.5% in February. Inside, both low-income housing credit (-16.7%) and the residential sector (5.1%) declined relative to the previous month. Meanwhile, consumer credit improved to 13.3% from 13.6%. Inside, performance was mixed to negative (Chart 2), with improvements in credit cards (-15.5%), and others (-9.5%). Meanwhile, personal loans (-24.0%), payroll credits (-7.7%) and durable goods (-4.7%) –supported by others (+33.0%)–, were lower. It should be mentioned that, unlike corporate loans, this sector starts to benefit from a more favorable base, remembering that people limited their spending at the start of the pandemic to cover only the most basic needs.

Moreover, we believe that conditions might be improving, possibly triggering a more significant expansion, considering: (1) A mostly favorable outlook regarding the virus, improving opportunities for the purchase of goods; (2) advances in the labor market, with favorable data on new jobs; and (3) possible savings made previously being used given lower uncertainty. In this context, we will be looking into confirming if the positive trend extends to coming months.

Non-performing loans improve 0.1%-pts to 2.9% of total loans. Inside, NPLs for consumer loans fell to 4.8% from 5.4% (Chart 3), adding two months of improvements. Corporates were unchanged at 2.0%, with mortgages higher by 10bps to 3.5%. Although we believe that figures are still skewed up due to the strong declines in outstanding loans for consumers and corporates, we could see more marked improvements once the recovery gets further underway. In addition, the banking sector should remain supported by actions from regulators –such as the *National Banking and Securities Commission* (CNBV in Spanish), the MoF, and Banxico– as well as own actions from banks, increasing capital reserves and promoting payment programs.

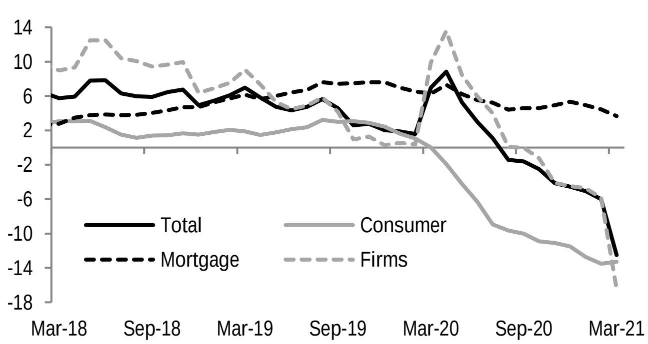
We expect weakness in credit to extend to coming months. Considering that the negative base effect for corporate loans will prevail at least until July, we think that overall credit figures will be skewed down in the short-term. This is explained due to this category being the largest, representing around 56% of total outstanding loans. We think that once this period passes, dynamics will improve, probably matching up with a more vigorous performance of the economy. Nevertheless, we recognize that some risks prevail, both stemming from global (*e.g.* shocks to supply chains) and domestic factors. For consumption, figures seem to be more favorable, which we believe could translate into a faster acceleration, still tied to labor market conditions and the performance of the virus. In this context, we believe the speed of the vaccination program will be key to improve confidence among the population. In addition, we expect mortgages to remain stable, remaining as the strongest sector in the next few months. We are also aware of other patterns that could influence performance, remembering that credit tends to recover with some lag relative to activity. Lastly, the health of the financial system remains despite higher 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

	Mar-21	Feb-21	Mar-20	Jan-Mar'**21**	Jan-Mar'**20**
Private banking credit	-12.5	-6.0	7.0	-8.0	3.5
Consumer	-13.3	-13.5	0.0	-13.2	0.9
Credit cards	-15.5	-16.4	-1.2	-15.9	0.7
Payroll	-7.7	-7.1	2.6	-7.0	3.4
Personal	-24.0	-23.0	-5.7	-23.1	-5.8
Durable goods	-4.7	-4.4	5.1	-4.2	5.6
Auto loans	-8.5	-8.0	3.6	-7.8	4.2
Other durable goods	33.0	31.4	22.1	31.7	23.0
Others	-9.5	-15.8	6.1	-13.0	5.3
Mortgage	3.7	4.5	6.2	4.3	6.6
Social interest	-16.7	-16.2	-7.8	-16.0	-7.4
Medium and residential	5.1	6.0	7.4	5.8	7.8
Firms	-16.5	-5.9	9.9	-9.3	3.6
Primary activities	-12.5	-6.3	17.4	-8.5	12.8
Mining	-47.0	-33.9	15.0	-38.2	1.6
Construction	-16.2	-14.9	-8.3	-15.0	-8.4
Utilities	-6.5	-1.4	5.8	-2.9	4.2
Manufacturing industry	-22.2	-7.5	11.3	-12.6	-0.4
Commerce	-20.5	-15.1	-2.8	-17.0	-3.1
Transportation and storage	-19.3	-7.9	12.0	-11.7	4.3
Mass media services	-31.1	-11.3	55.8	-18.2	37.4
Real estate services	-14.4	-5.1	15.5	-7.1	9.4
Professional services	-20.7	-21.5	-6.4	-21.3	-5.6
Recreational services	-8.6	8.0	29.6	2.9	17.3
Other services	-9.7	11.7	16.8	3.8	9.6
Not sectorized	2.6	12.0	-1.3	8.5	-8.9
Non-banking financial intermediaries	-38.4	-27.1	7.9	-30.4	0.3

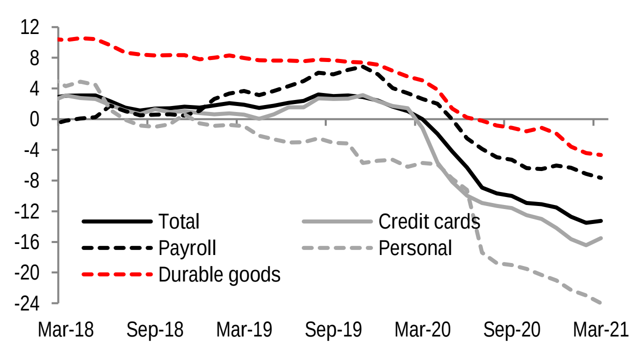
Source: Banxico

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



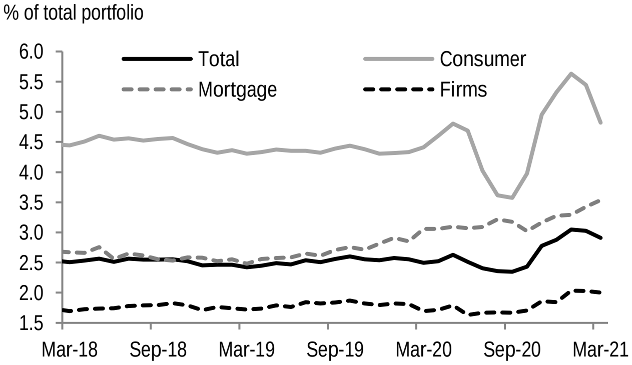
Source: Banorte with data from Banxico

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



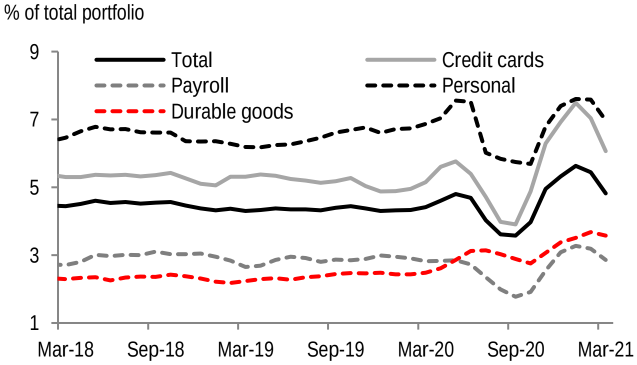
Source: Banorte with data from Banxico

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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