Banking credit – Further decline in April as the base effect becomes more challenging

May 31, 2021

www.banorte.com
@analisis_fundam

Juan Carlos Alderete, CFA
Director of Economic Research
juan.alderete.macal@banorte.com

Francisco Flores
Senior Economist, Mexico
francisco.flores.serrano@banorte.com

- **Today, Banxico published its banking credit report for April 2021**
- **Banking credit declined 14.6% y/y in real terms, lower than our -11.8% forecast and the -12.5% of the previous month. While performance is still impacted by the pandemic and its effects, there is also a negative base effect skewing the figures**
- **Specifically, corporate credit was most deteriorated at -19.8%, with the previously mentioned effect having the most significant impact on this sector. Moreover, mortgages decelerated to +2.5%, while consumer loans improved for a second in month in a row to -12.0%**
- **Non-performing loans (NPLs) were unchanged at 2.9% of the total portfolio. Inside, consumer loans corrected lower, with mortgages unchanged and corporates climbing slightly**
- **We expect credit to improve in coming months. However, overall dynamism will probably lag relative to the recovery of economic activity. The financial system remains healthy, with improvements in NPLs suggesting a more favorable outlook**

Banking credit declines further in April. Commercial banking credit to the private non-financial sector contracted 14.6% y/y in real terms in the fourth month of the year (see Chart 1), lowest since March 2000. This came below our expectations at -11.8% and the previous figure of -12.5%. While performance continues to be largely determined by the pandemic and its effects, the result is was heavily skewed by a negative base effect. The latter is driven by a considerable acceleration in corporate loans in the first few months of the pandemic –reaching its high in April 2020–, with businesses resorting to their credit lines to cope with the shock. However, these resources were quickly returned, resulting in a deceleration for the remainder of the year. In addition, there is a negative impact from annual inflation, rising 142bps in April to 6.08% y/y. In this context, corporate loans fell 19.8% y/y in real terms, highly skewed by the abovementioned factors. However, in coming months the effect should gradually fade out, becoming less challenging and even relatively positive by the second half of the year. Looking at the breakdown, 11 out of 13 sectors worsened relative to March (see Table 1). The only ones that improved were mass media (-30.8% y/y from -31.1%) and professional services (-17.0% from -20.8%). Among those with the largest setbacks were utilities (-12.4% from -6.5%), lodging (-14.4% from -8.5%) and real estate (-19.6% from -14.4%).

Mortgages decelerated again, to 2.5% from 3.7% in March. Inside, both low-income housing credit (-17.9%) and the residential sector (3.9%) declined relative to the previous month. Meanwhile, consumer credit improved to -12.0% from -13.3%. Inside, performance was mostly positive (Chart 2), with improvements in credit cards (-11.9%), payroll loans (-7.2%) and durable goods (-4.4%) –supported by others (+34.6%)–. On the contrary, personal (-24.5%) and 'other' loans (-12.9%) weakened further.

It should be mentioned that, unlike corporate loans, this sector is already starting to be benefited by a less challenging base, as uncertainty and the lack of places to shop –due to lockdowns– limited spending at the height of the pandemic. Also positive, some signals suggest renewed dynamism in domestic demand, which could translate into some boost for credit. Among these, we highlight: (1) Improvement in epidemiological conditions –allowing for a more significant reopening–; (2) further gains in the labor market, with employment recovering at a faster than expected pace; and (3) support from extraordinary remittances flows.

Non-performing loans unchanged at 2.9% of total loans. Inside, NPLs for consumer loans fell to 4.4% from 4.8% (Chart 3), adding three months of improvements. Mortgages were unchanged at 3.5%, with corporates higher by 10bps to 2.1%. We believe figures may be improving on two factors: (1) A stabilization in the credit trends, allowing for a better ratio between outstanding loans and those in trouble (non-performing); and (2) actions from regulators –such as the *National Banking and Securities Commission* (CNBV in Spanish), the MoF, and Banxico– and banks to improve conditions for past payments due and other accounting procedures to bolster the financial position of the system. In addition, banks have kept pushing for precautionary actions, maintaining high capital reserves.

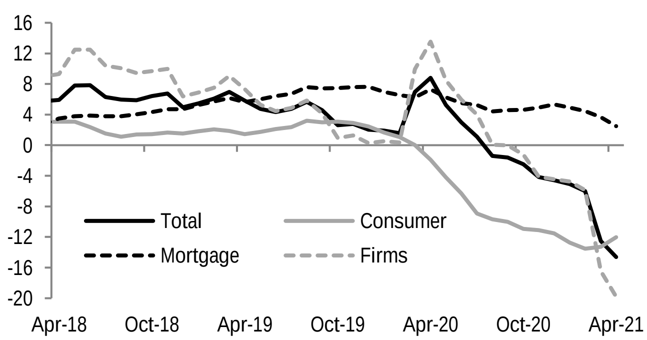
We expect banking credit to improve in coming months. Consistent with the additional deceleration in today's report, Banxico's Board expressed some concerns about the sector's performance in the last minutes. In this context, we believe this print might be the weakest in the year, improving in coming months. Although annual figures will probably remain in contraction for some time, the base effect becomes less challenging. In this context, performance will probably remain quite tied to the evolution of economic activity and the labor market. Nevertheless, and despite substantial progress in both, the rebound in credit will probably lag somewhat. Despite no major shocks to the financial system –unlike past recessions– it is still likely that some time will pass for loans to regain strength, with a possibility of markedly surpassing activity in the medium term. By sectors, we think consumer loans will be the first to establish a clear path up, with several facilities from banks popping up along several supporting factors. On corporates, some idiosyncratic drivers might be weighing on dynamism, albeit probably compensated somewhat by expectations of a faster recovery in the US and prevailing tensions between that country and China. Lastly, and slightly worrying, we will be looking closely into mortgages, especially given its most recent performance. However, even if a decline continues, it will probably be relatively modest due to the nature of the sector. The health of the financial system seems to be consolidating further, especially as NPLs continue to normalize and timely actions from both regulators and other participants remain in place.

Banking credit
% y/y in real terms

	Apr-21	Mar-21	Apr-20	Jan-Apr'**21**	Jan-Apr'**20**
Private banking credit	-14.6	-12.5	8.8	-9.7	4.8
Consumer	-12.0	-13.3	-1.9	-12.9	0.2
Credit cards	-11.9	-15.5	-5.7	-14.9	-0.9
Payroll	-7.2	-7.7	2.0	-7.1	3.0
Personal	-24.5	-24.0	-5.9	-23.4	-5.8
Durable goods	-4.4	-4.7	3.8	-4.3	5.2
Auto loans	-8.4	-8.5	2.3	-8.0	3.7
Other durable goods	34.6	33.0	21.4	32.4	22.6
Others	-12.9	-9.5	9.5	-12.9	6.3
Mortgage	2.5	3.7	7.3	3.9	6.8
Social interest	-17.9	-16.7	-7.9	-16.5	-7.5
Medium and residential	3.9	5.1	8.5	5.4	8.0
Firms	-19.8	-16.5	13.5	-12.2	6.2
Primary activities	-13.7	-12.5	18.9	-9.9	14.3
Mining	-48.7	-47.0	20.2	-41.1	6.2
Construction	-19.5	-16.2	-4.8	-16.1	-7.5
Utilities	-12.4	-6.5	11.3	-5.4	6.0
Manufacturing industry	-24.2	-22.2	15.0	-15.9	3.5
Commerce	-23.3	-20.5	-0.9	-18.6	-2.6
Transportation and storage	-22.0	-19.3	17.2	-14.5	7.5
Mass media services	-30.8	-31.1	47.3	-21.7	40.0
Real estate services	-19.6	-14.4	20.6	-10.5	12.3
Professional services	-17.0	-20.8	-14.7	-20.3	-7.9
Recreational services	-14.4	-8.5	38.3	-1.9	22.5
Other services	-16.0	-9.6	24.7	-1.9	13.5
Not sectorized	-2.3	2.6	6.7	5.6	-5.2
Non-banking financial intermediaries	-42.8	-38.4	8.1	-33.6	2.2

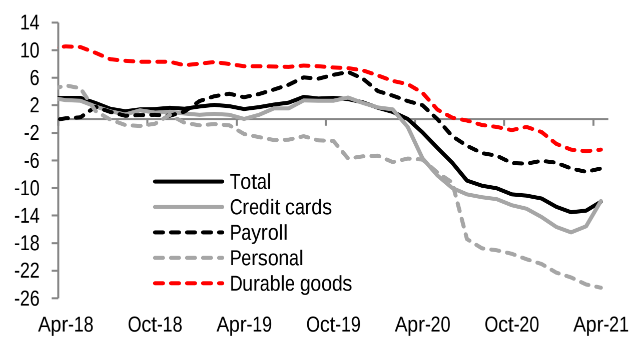
Source: Banxico

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



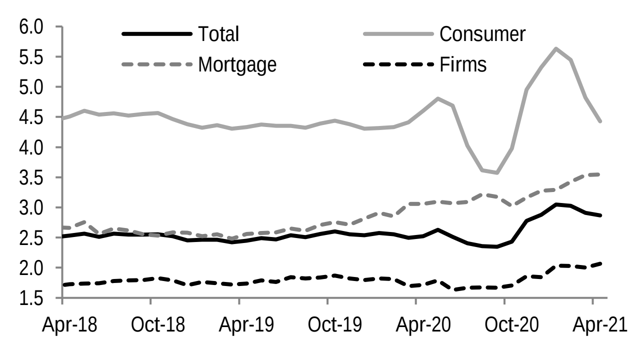
Source: Banorte with data from Banxico

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



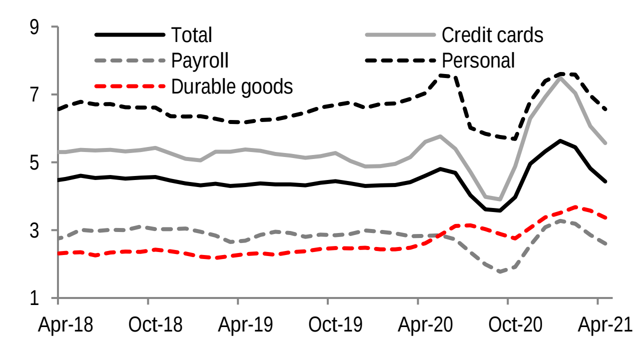
Source: Banorte with data from Banxico

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

Analyst Certification

We, Gabriel Casillas Olvera, Alejandro Padilla Santana, Delia María Paredes Mier, Juan Carlos Alderete Macal, Manuel Jiménez Zaldívar, Marissa Garza Ostos, Francisco José Flores Serrano, Katia Celina Goya Ostos, Santiago Leal Singer, José Itzamna Espitia Hernández, Víctor Hugo Cortes Castro, Hugo Armando Gómez Solís, Miguel Alejandro Calvo Domínguez, Luis Leopoldo López Salinas, Leslie Thalía Orozco Vélez, Gerardo Daniel Valle Trujillo, Eridani Ruibal Ortega and Juan Barbier Arizmendi, certify that the points of view expressed in this document are a faithful reflection of our personal opinion on the company (s) or firm (s) within this report, along with its affiliates and/or securities issued. Moreover, we also state that we have not received, nor receive, or will receive compensation other than that of Grupo Financiero Banorte S.A.B. of C.V for the provision of our services.

Relevant statements.

In accordance with current laws and internal procedures manuals, analysts are allowed to hold long or short positions in shares or securities issued by companies that are listed on the Mexican Stock Exchange and may be the subject of this report; nonetheless, equity analysts have to adhere to certain rules that regulate their participation in the market in order to prevent, among other things, the use of private information for their benefit and to avoid conflicts of interest. Analysts shall refrain from investing and holding transactions with securities or derivative instruments directly or through an intermediary person, with Securities subject to research reports, from 30 calendar days prior to the issuance date of the report in question, and up to 10 calendar days after its distribution date.

Compensation of Analysts.

Analysts' compensation is based on activities and services that are aimed at benefiting the investment clients of Casa de Bolsa Banorte and its subsidiaries. Such compensation is determined based on the general profitability of the Brokerage House and the Financial Group and on the individual performance of each analyst. However, investors should note that analysts do not receive direct payment or compensation for any specific transaction in investment banking or in other business areas.

Last-twelve-month activities of the business areas.

Grupo Financiero Banorte S.A.B. de C.V., *through its business areas, provides services that include, among others, those corresponding to investment banking and corporate banking, to a large number of companies in Mexico and abroad. It may have provided, is providing or, in the future, will provide a service such as those mentioned to the companies or firms that are the subject of this report. Casa de Bolsa Banorte or its affiliates receive compensation from such corporations in consideration of the aforementioned services.*

Over the course of the last twelve months, Grupo Financiero Banorte S.A.B. C.V., has not obtained compensation for services rendered by the investment bank or by any of its other business areas of the following companies or their subsidiaries, some of which could be analyzed within this report.

Activities of the business areas during the next three months.

Casa de Bolsa Banorte, Grupo Financiero Banorte or its subsidiaries expect to receive or intend to obtain revenue from the services provided by investment banking or any other of its business areas, by issuers or their subsidiaries, some of which could be analyzed in this report.

Securities holdings and other disclosures.

As of the end of last quarter, Grupo Financiero Banorte S.A.B. of C.V. has not held investments, directly or indirectly, in securities or derivative financial instruments, whose underlying securities are the subject of recommendations, representing 1% or more of its investment portfolio of outstanding securities or 1 % of the issuance or underlying of the securities issued.

None of the members of the Board of Grupo Financiero Banorte and Casa de Bolsa Banorte, along general managers and executives of an immediately below level, have any charges in the issuers that may be analyzed in this document.

The Analysts of Grupo Financiero Banorte S.A.B. of C.V. do not maintain direct investments or through an intermediary person, in the securities or derivative instruments object of this analysis report.

Guide for investment recommendations.

	Reference
BUY	When the share expected performance is greater than the MEXBOL estimated performance.
HOLD	When the share expected performance is similar to the MEXBOL estimated performance.
SELL	When the share expected performance is lower than the MEXBOL estimated performance.

Even though this document offers a general criterion of investment, we urge readers to seek advice from their own Consultants or Financial Advisors, in order to consider whether any of the values mentioned in this report are in line with their investment goals, risk and financial position.

Determination of Target Prices

For the calculation of estimated target prices for securities, analysts use a combination of methodologies generally accepted among financial analysts, including, but not limited to, multiples analysis, discounted cash flows, sum-of-the-parts or any other method that could be applicable in each specific case according to the current regulation. No guarantee can be given that the target prices calculated for the securities will be achieved by the analysts of Grupo Financiero Banorte S.A.B. C.V, since this depends on a large number of various endogenous and exogenous factors that affect the performance of the issuing company, the environment in which it performs, along with the influence of trends of the stock market, in which it is listed. Moreover, the investor must consider that the price of the securities or instruments can fluctuate against their interest and cause the partial and even total loss of the invested capital.

GRUPO FINANCIERO BANORTE S.A.B. de C.V.

Research and Strategy

Gabriel Casillas Olvera	IRO and Chief Economist	gabriel.casillas@banorte.com	(55) 4433 - 4695
Raquel Vázquez Godinez	Assistant	raquel.vazquez@banorte.com	(55) 1670 - 2967
Lourdes Calvo Fernández	Analyst (Edition)	lourdes.calvo@banorte.com	(55) 1103 - 4000 x 2611

Economic Research and Financial Market Strategy

Alejandro Padilla Santana	Executive Director of Economic Research and Financial Markets Strategy	alejandro.padilla@banorte.com	(55) 1103 - 4043
Itzel Martínez Rojas	Analyst	itzel.martinez.rojas@banorte.com	(55) 1670 - 2251

Economic Research

Juan Carlos Alderete Macal, CFA	Director of Economic Research	juan.alderete.macal@banorte.com	(55) 1103 - 4046
Francisco José Flores Serrano	Senior Economist, Mexico	francisco.flores.serrano@banorte.com	(55) 1670 - 2957
Katia Celina Goya Ostos	Senior Economist, Global	katia.goya@banorte.com	(55) 1670 - 1821
Luis Leopoldo López Salinas	Economist, Global	luis.lopez.salinas@banorte.com	(55) 1103 - 4000 x 2707

Market Strategy

Manuel Jiménez Zaldívar	Director of Market Strategy	manuel.jimenez@banorte.com	(55) 5268 - 1671

Fixed income and FX Strategy

Santiago Leal Singer	Senior Strategist, Fixed Income and FX	santiago.leal@banorte.com	(55) 1670 - 2144
Leslie Thalía Orozco Vélez	Strategist, Fixed Income and FX	leslie.orozco.velez@banorte.com	(55) 5268 - 1698

Equity Strategy

Marissa Garza Ostos	Director of Equity Strategy	marissa.garza@banorte.com	(55) 1670 - 1719
José Itzamna Espitia Hernández	Senior Strategist, Equity	jose.espitia@banorte.com	(55) 1670 - 2249
Víctor Hugo Cortes Castro	Senior Strategist, Technical	victorh.cortes@banorte.com	(55) 1670 - 1800
Eridani Ruibal Ortega	Analyst	eridani.ruibal.ortega@banorte.com	(55) 1103 - 4000 x 2755
Juan Barbier Arizmendi, CFA	Analyst	juan.barbier@banorte.com	(55) 1670 - 1746

Corporate Debt

Hugo Armando Gómez Solís	Senior Analyst, Corporate Debt	hugoa.gomez@banorte.com	(55) 1670 - 2247
Gerardo Daniel Valle Trujillo	Analyst, Corporate Debt	gerardo.valle.trujillo@banorte.com	(55) 1670 - 2248

Economic Studies

Delia María Paredes Mier	Executive Director of Economic Studies	delia.paredes@banorte.com	(55) 5268 - 1694
Miguel Alejandro Calvo Domínguez	Senior Analyst, Economic Studies	miguel.calvo@banorte.com	(55) 1670 - 2220

Wholesale Banking

Armando Rodal Espinosa	Head of Wholesale Banking	armando.rodal@banorte.com	(81) 8319 - 6895
Alejandro Aguilar Ceballos	Head of Asset Management	alejandro.aguilar.ceballos@banorte.com	(55) 5268 - 9996
Alejandro Eric Faesi Puente	Head of Global Markets and Institutional Sales	alejandro.faesi@banorte.com	(55) 5268 - 1640
Alejandro Frigolet Vázquez Vela	Head of Sólida Banorte	alejandro.frigolet.vazquezvela@banorte.com	(55) 5268 - 1656
Arturo Monroy Ballesteros	Head of Investment Banking and Structured Finance	arturo.monroy.ballesteros@banorte.com	(55) 5004 - 1002
Carlos Alberto Arciniega Navarro	Head of Treasury Services	carlos.arciniega@banorte.com	(81) 1103 - 4091
Gerardo Zamora Nanez	Head of Transactional Banking, Leasing and Factoring	gerardo.zamora@banorte.com	(81) 8318 - 5071
Jorge de la Vega Grajales	Head of Government Banking	jorge.delavega@banorte.com	(55) 5004 - 5121
Luis Pietrini Sheridan	Head of Private Banking	luis.pietrini@banorte.com	(55) 5004 - 1453
Lizza Velarde Torres	Executive Director of Wholesale Banking	lizza.velarde@banorte.com	(55) 4433 - 4676
Osvaldo Brondo Menchaca	Head of Specialized Banking Services	osvaldo.brondo@banorte.com	(55) 5004 - 1423
Raúl Alejandro Arauzo Romero	Head of Transactional Banking	alejandro.arauzo@banorte.com	(55) 5261 - 4910
René Gerardo Pimentel Ibarrola	Head of Corporate Banking	pimentelr@banorte.com	(55) 5268 - 9004
Ricardo Velázquez Rodríguez	Head of International Banking	rvelazquez@banorte.com	(55) 5004 - 5279
Víctor Antonio Roldan Ferrer	Head of Commercial Banking	victor.roldan.ferrer@banorte.com	(55) 5004 - 1454