Banking credit – Marginal improvement in May on a less challenging base effect

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- **Today, Banxico published its banking credit report for May 2021**
- **Banking credit declined 13.1% y/y in real terms, lower than our -10.4% forecast but stronger than the -14.6% of the previous month. It should be mentioned that a large part of the contraction is because of a negative base effect, albeit moderating relative to April**
- **Corporate credit posted the largest contraction at -18.2%, with the effect mentioned above most notable in this sector. Mortgages came in at +2.7% and consumer loans improved for a third in month in a row, to -10.1%**
- **Non-performing loans (NPLs) were better at 2.8% of the total portfolio (previous: 2.9%). Consumer loans corrected lower, with corporates unchanged and mortgages slightly up**
- **We expect credit to keep recovering in coming months, helped by less challenging base effects. However, it is likely that the pace is below the one seen for economic activity, with some lag prevailing**

Banking credit improves marginally in May. Commercial banking credit to the private non-financial sector contracted 13.1% y/y in real terms in the fifth month of the year (see Chart 1). This came below our expectations at -10.4% but above the -14.6% of the previous month. A large part of the performance is driven by very challenging comparison due to relatively high prints in 2020, specifically an acceleration in corporate credit in the first months of the pandemic. Nevertheless, the base effect was more favorable at the margin. In addition, there was a favorable impact from annual inflation, decreasing 19bps to 5.89%. Considering these distortions, it is quite difficult to evaluate the performance in the month. Nevertheless, we believe dynamics remain weak, still impacted by uncertainty surrounding economic activity. In this context, corporate loans fell 18.2% y/y in real terms, the most skewed by the base effect. However, this should begin to fade out in coming months. Looking at the breakdown, only 2 out of 13 sectors worsened relative to April (see Table 1). These were other services (-15.0% y/y from -14.6%) and transportation (-21.9% from -21.8%). Among those with the largest increases we saw mining (-35.7% from -48.7%), professional services (-12.3% from -17.0%), and mass media (-26.9% from -30.7%).

Mortgages improved at the margin to 2.7% from 2.5% in April. Inside, both low-income housing credit (-17.7%) and the residential sector (4.1%) were better relative to the previous month. Meanwhile, consumer credit improved to -10.1% from -12.0%. Performance within was mostly favorable (Chart 2), including credit cards (-8.7%), payroll loans (-5.9%), personal (-23.0%) and durable goods (-3.2%). On the contrary, only 'others' (-12.9%) weakened further. It should be mentioned that this sector is also benefiting from less adverse bases, with the deceleration due to the pandemic in 2020 much clearer relative to corporates. At the margin, we also think this sector presents the most tailwinds, with the outlook for consumption better than for investment.

Non-performing loans decline to 2.8% of total loans. Inside, NPLs for consumer loans fell to 4.2% from 4.4% (Chart 3), adding four months strengthening. Corporates were unchanged at 2.1%, with mortgages higher by 10bps to 3.6%. We believe figures may be supported by two factors: (1) A stabilization in credit trends, allowing for a better ratio between outstanding loans and those in trouble (non-performing); and (2) regulators' actions –such as those by the *National Banking and Securities Commission* (CNBV in Spanish), MoF and Banxico– and banks to improve conditions for past payments due and other accounting procedures to bolster the system's financial position.

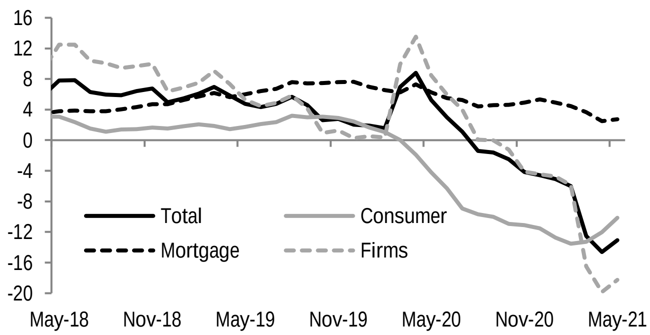
We expect banking credit to maintain a recovery trend in coming months, aided mostly by less challenging bases. Considering the challenges for an adequate reading of performance due to the strong distortions from base effects, we believe credit has not given substantial signals yet of a material recovery. This would be consistent with repeated comments by Banxico's Board in the last couple of minutes. However, we think the trend at the margin should be to the upside, helped by: (1) Less challenging base effects; (2) the gradual recovery of economic activity and the labor market; and (3) a gradual reduction in uncertainty as the vaccination campaign progresses. However, the rebound could remain lagged relative to activity, consistent to what we have seen in previous recessions. This could happen despite not having experienced major shocks to the financial system, with demand playing a key role. By sectors, we think consumption could recover more quickly, with relevant banking programs which could drive it in a backdrop of better epidemiological conditions –except for a slight deterioration in the last few weeks– and employment remaining to the upside. 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, on mortgages, we believe the trend could be stable considering the nature of this sector. The health of the financial system seems to be consolidating further, especially with NPLs normalizing further and considering timely actions by both regulators and other participants remaining in place.

Banking credit
% y/y in real terms

	May-21	Apr-21	May-20	Jan-May'**21**	Jan-May'**20**
Private banking credit	-13.1	-14.6	5.3	-10.4	4.9
Consumer	-10.1	-12.0	-4.2	-12.4	-0.7
Credit cards	-8.7	-11.9	-8.2	-13.8	-2.4
Payroll	-5.9	-7.2	0.0	-6.8	2.4
Personal	-23.0	-24.5	-7.8	-23.3	-6.2
Durable goods	-3.2	-4.4	1.4	-4.1	4.4
Auto loans	-7.5	-8.4	0.1	-7.9	3.0
Other durable goods	38.5	34.6	15.8	33.6	21.2
Others	-15.0	-12.9	5.8	-13.4	6.2
Mortgage	2.7	2.5	6.2	3.6	6.7
Social interest	-17.7	-17.9	-9.8	-16.7	-8.0
Medium and residential	4.1	3.9	7.6	5.1	7.9
Firms	-18.2	-19.8	8.5	-13.4	6.6
Primary activities	-11.0	-13.7	10.1	-10.1	13.4
Mining	-35.7	-48.7	18.5	-40.0	8.7
Construction	-18.7	-19.5	-5.8	-16.6	-7.2
Utilities	-11.5	-13.1	6.6	-6.9	6.1
Manufacturing industry	-23.7	-24.3	7.9	-17.5	4.4
Commerce	-21.1	-23.2	-2.7	-19.1	-2.6
Transportation and storage	-21.9	-21.8	10.3	-15.9	8.1
Mass media services	-26.9	-30.7	37.9	-22.7	39.6
Real estate services	-19.4	-19.7	17.6	-12.4	13.3
Professional services	-12.3	-17.0	-18.9	-18.9	-10.2
Recreational services	-13.0	-14.8	26.5	-4.5	23.4
Other services	-15.0	-14.6	22.1	-4.4	15.3
Not sectorized	0.9	-2.3	-0.4	4.7	-4.2
Non-banking financial intermediaries	-38.7	-42.1	10.9	-34.4	3.9

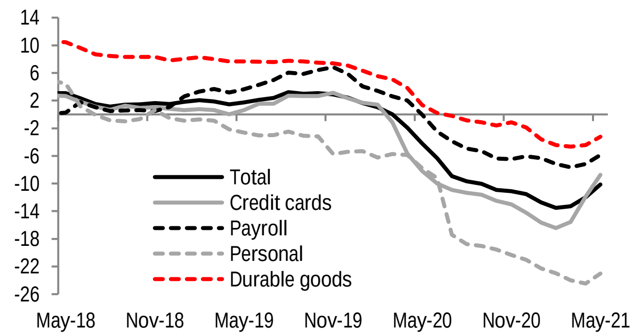
Source: Banxico

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



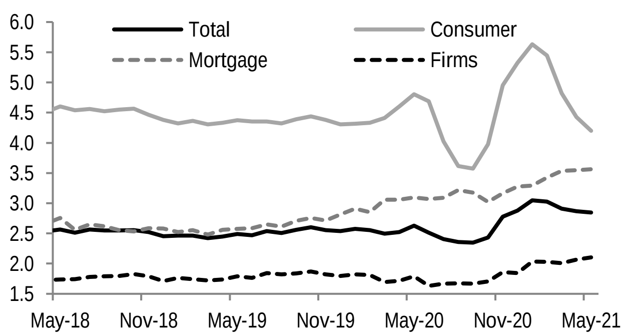
Source: Banorte with data from Banxico

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



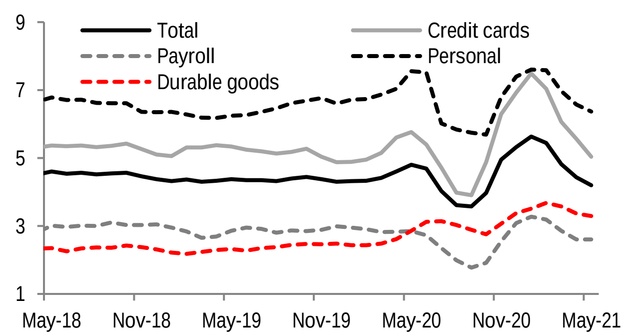
Source: Banorte with data from Banxico

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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