Banking credit – The recovery trend continues in June

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- **Today, Banxico published its banking credit report for June 2021**
- **Banking credit declined 11.8% y/y in real terms, better than our -12.1% forecast and the -13.1% 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 and May**
- **Corporate credit posted the largest contraction at -16.9%, with the effect mentioned above most notable here. Mortgages came in at +2.9% and consumer loans improved for a fourth in month in a row, to -8.5%**
- **Non-performing loans (NPLs) were unchanged at 2.8% of the total portfolio. Consumer loans and mortgages corrected lower, with corporates unchanged**
- **We expect credit to keep recovering in coming months, helped by less challenging base effects. However, considering the complex backdrop for activity, risks remain**

Banking credit keeps recovering. Commercial banking credit to the private non-financial sector contracted 11.8% y/y in real terms in the sixth month of the year (see Chart 1). This came below our expectations at -12.1%, as well as the -13.1% of the previous month. A large part of this is driven by a 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 this occasion, the effect of annual inflation is quite modest, decreasing 2bps to 5.88%. Considering these distortions, it is difficult to evaluate performance. However, we think some dynamism might be back despite adverse signals for activity at the margin. In this context, corporate loans fell 16.9% y/y in real terms, the most skewed by the base effect. However, this should keep fading out in coming months. Looking at the breakdown, only 4 out of 13 sectors worsened relative to May (see Table 1). Among these we highlight lodging (-14.6% y/y from -12.8%) and mass media (-27.8% from -26.9%). On the contrary, the largest increases were in professional services (-8.8% from -15.5%), transportation (-19.7% from -21.9%) and commerce (-19.2% from -21.1%).

Mortgages improved at the margin, to 2.9% from 2.7% in May. Inside, low-income housing credit deteriorated further (-18.5%), albeit with the residential sector better (4.3%). Meanwhile, consumer credit improved to -8.5% from -10.1%. Details were favorable (Chart 2), with an uptick in all sectors, noting credit cards (-7.8%), payroll loans (-4.0%), personal (-21.1%), durable goods (-2.9%) and 'others' (-4.4%). It should be mentioned that the sector is also benefiting from a less adverse comparison from last year. However, considering a recent deterioration on the outlook for the virus, we are slightly concerned over performance ahead, as activity in this sector has shown a relevant correlation with the 'traffic light' indicator.

Non-performing loans remain at 2.8% of the portfolio. NPLs for consumer loans fell to 3.9% from 4.2% (Chart 3), adding five months strengthening. Corporates were unchanged at 2.1%, with mortgages lower by 10bps to 3.5%. We believe figures could continue improving due to: (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 payments due and other accounting procedures to bolster the system's financial position.

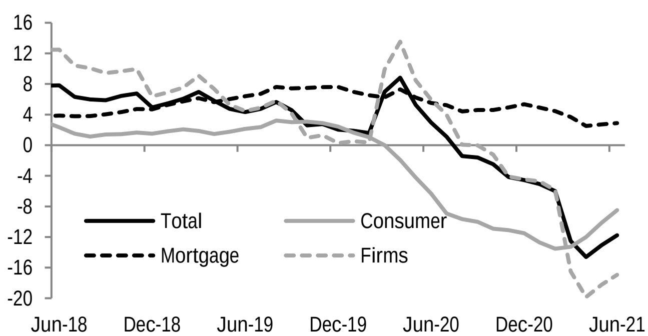
We expect banking credit to keep recovering, albeit with some risks ahead. As detailed in previous publications, we expect credit to take an upward trend in the remainder of the year after reaching a low-point in April. While arithmetic effects are positive, we remain wary about the overall impact that inflation can have, considering that it remains high and will likely trend upwards towards the end of the year, with our forecast at 6.1%. In turn, this could lead to lower dynamism. However, and ultimately more important, we will remain focused on underlying factors for performance, which seemed to be improving on the back of the economic recovery. Given the deterioration in cases and the imposition of some distancing measures again, we see some risks for a brisker acceleration. While this could have a different effect across sectors, we think the most affected could be consumption, tied to retail and other categories. Meanwhile, corporates could still benefit from a positive outlook about US activity, likely boosting some investment projects. However, these remain under some pressure due to prevailing idiosyncratic risks. Lastly, we will keep analyzing mortgages, as shifts towards home-office schemes and other disruptions tied to the pandemic continue. The health of the financial system seems to be consolidating further, especially with NPLs normalizing and because of timely actions by both regulators and other market participants.

Banking credit
% y/y in real terms

	Jun-21	May-21	Jun-20	Jan-Jun'**21**	Jan-Jun'**20**
Private banking credit	-11.8	-13.1	3.0	-10.6	4.6
Consumer	-8.5	-10.1	-6.3	-11.7	-1.6
Credit cards	-7.8	-8.7	-10.0	-12.8	-3.7
Payroll	-4.0	-5.9	-2.5	-6.4	1.6
Personal	-21.1	-23.0	-9.2	-23.0	-6.7
Durable goods	-2.9	-3.2	0.2	-3.9	3.7
Auto loans	-7.1	-7.5	-1.0	-7.8	2.3
Other durable goods	37.5	38.5	13.8	34.3	19.9
Others	-4.4	-15.0	-4.8	-12.0	4.3
Mortgage	2.9	2.7	5.5	3.5	6.5
Social interest	-18.5	-17.7	-10.6	-17.0	-8.4
Medium and residential	4.3	4.1	6.8	5.0	7.7
Firms	-16.9	-18.2	6.0	-14.0	6.5
Primary activities	-8.1	-11.0	6.8	-9.8	12.3
Mining	-28.3	-35.7	-5.2	-38.3	6.4
Construction	-19.2	-18.7	-6.3	-17.1	-7.0
Utilities	-10.2	-11.1	4.2	-7.3	5.8
Manufacturing industry	-22.2	-23.5	5.2	-18.3	4.5
Commerce	-19.2	-21.1	-5.3	-19.1	-3.0
Transportation and storage	-19.7	-21.9	4.9	-16.5	7.5
Mass media services	-27.8	-26.9	32.6	-23.6	38.4
Real estate services	-19.4	-19.4	19.2	-13.6	14.3
Professional services	-8.8	-15.5	-23.1	-18.3	-12.3
Recreational services	-14.6	-12.8	26.4	-6.2	23.9
Other services	-15.0	-15.1	20.5	-6.4	16.2
Not sectorized	2.9	0.9	-1.6	4.4	-3.8
Non-banking financial intermediaries	-34.7	-38.7	-2.4	-34.4	2.8

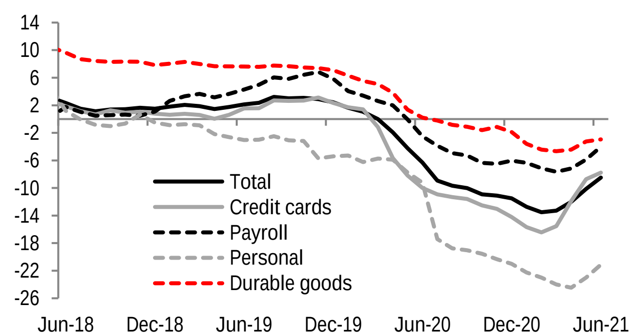
Source: Banxico

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



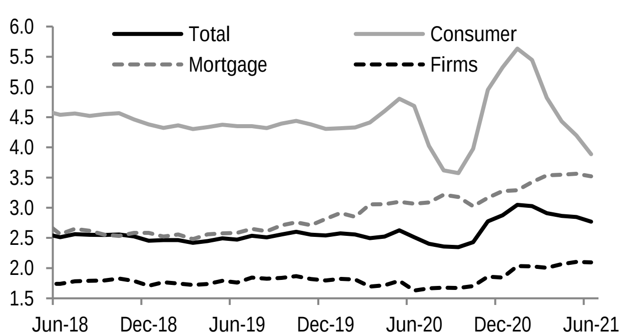
Source: Banorte with data from Banxico

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



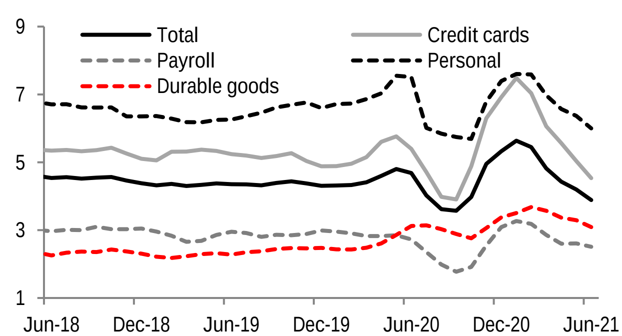
Source: Banorte with data from Banxico

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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