

## Banking credit – Greater signs of a recovery in July

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@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 July 2021
- **Banking credit declined 9.7% y/y in real terms, better than our -10.8% forecast and the -11.8% of the previous month. Although figures are still partly skewed by a difficult base effect, we believe that the shock to economic activity remains as the main factor behind the contraction**
- **Corporate credit posted the largest contraction at -14.7%, with the effect mentioned above most notable here. Mortgages came in at +3.1% and consumer loans improved for a fifth in month in a row, to -5.8%**
- **Non-performing loans (NPLs) fell to 2.7% of the total portfolio. Consumer loans and mortgages corrected lower, with corporates unchanged**
- **We expect banking credit to maintain a recovery trend in coming months. Nevertheless, we do not rule out some volatility in the figures given some risks for activity**

**Banking credit extends its recovery.** Commercial banking credit to the private non-financial sector contracted 9.7% y/y in real terms in the seventh month of the year (see [Chart 1](#)). This came above our expectations at -10.8%, as well as the -11.8% of the previous month. Although figures remain skewed by a challenging base effect, persistently low rates suggest that figures remain affected by the shock to economic activity and high levels of uncertainty. In addition, the effect of annual inflation was quite modest in this occasion, decreasing 7bps to 5.81%. Although annual figures complicate performance evaluation, we believe some dynamism is being recovered, albeit at a slower rate relative to other economic indicators. In this context, corporate loans fell 14.7% y/y in real terms, the most skewed by the base effect. However, it should keep fading out in coming months. Looking at the breakdown, only 2 out of 13 sectors worsened relative to June (see [Table 1](#)). These were mining (-32.4% y/y from -29.5%) and ‘not sectorized’ (2.7% from 2.9%). On the contrary, the largest increases were in mass media (-18.5% from -30.0%), lodging (-10.2% from -14.3%) and commerce (-16.4% from -19.4%).

Mortgages improved at the margin, to 3.1% from 2.9% in June. Inside, low-income housing credit was unchanged at -18.5%, albeit with the residential sector better at 4.6%. Meanwhile, consumer credit improved to -5.8% from -8.5%. Details were favorable ([Chart 2](#)), with an uptick in practically all sectors, except for durable goods (-3.4%), which were the only ones deteriorating. With improvements we noted credit cards (-7.0%), payroll loans (-2.9%), personal (-13.3%), and ‘others’ (11.7%). We consider these signals to be positive in a context in which the epidemiological outlook worsened, with some restrictions back into place. Nevertheless, the result is consistent with strong gains in the employment report for the same period, suggesting that the recovery, at least in this front, might continue.

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**Non-performing loans decrease 10bps to 2.7% of the portfolio.** NPLs for consumer loans fell to 3.6% from 3.9% ([Chart 3](#)), adding six months lower. Corporates were unchanged at 2.1%, with mortgages lower by 10bps to 3.4%. 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), especially for consumption; 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 maintain a recovery trend in coming months.**

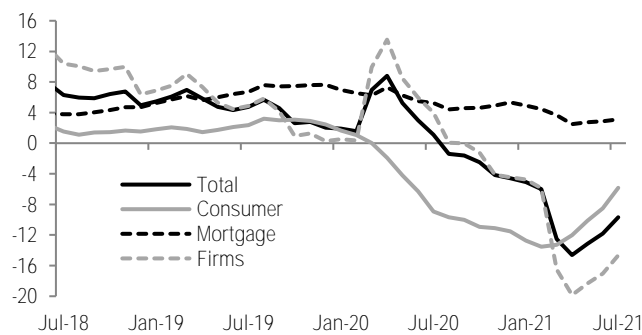
As detailed in previous publications, we expect credit to take an upward trend in the remainder of the year after reaching a low point in April. While arithmetic effects are overall positive, we remain wary about the impact that inflation can have, considering that it remains high and will likely trend 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 a mostly broad economic recovery. Nevertheless, we remain concerned about the risk associated with the increase in COVID-19 cases in August, possibly impacting some of the sectors most exposed to social interactions. On corporates, given an extension of supply disruptions, businesses could decide to delay some CAPEX, also skewed by some idiosyncratic factors. Nevertheless, strength in demand, especially from abroad, along prevailing tensions in the US-China relation, could benefit our country. 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

	Jul-21	Jun-21	Jul-20	Jan-Jul'21	Jan-Jul'20
Private banking credit	-9.7	-11.8	1.1	-10.5	4.1
Consumer	-5.8	-8.5	-8.9	-10.9	-2.7
Credit cards	-7.0	-7.8	-10.9	-12.0	-4.7
Payroll	-2.9	-4.0	-3.9	-5.9	0.8
Personal	-13.3	-21.1	-17.4	-21.8	-8.2
Durable goods	-3.4	-2.9	-0.2	-3.8	3.1
Auto loans	-7.4	-7.1	-1.6	-7.7	1.7
Other durable goods	33.4	37.5	15.3	34.2	19.2
Others	11.7	-4.4	-12.5	-9.0	1.9
Mortgage	3.1	2.9	5.2	3.5	6.3
Social interest	-18.5	-18.5	-12.3	-17.2	-9.0
Medium and residential	4.6	4.3	6.7	4.9	7.5
Firms	-14.7	-17.0	4.0	-14.1	6.1
Primary activities	-5.4	-8.1	4.5	-9.2	11.2
Mining	-32.4	-29.5	-7.9	-37.7	4.3
Construction	-17.0	-19.2	-16.6	-17.1	-8.5
Utilities	-10.4	-10.7	5.2	-7.9	5.7
Manufacturing industry	-19.5	-22.2	3.6	-18.5	4.4
Commerce	-16.4	-19.4	-5.9	-18.8	-3.4
Transportation and storage	-16.9	-18.7	4.8	-16.4	7.1
Mass media services	-18.5	-30.0	3.8	-23.5	32.4
Real estate services	-17.2	-18.5	17.0	-13.9	14.7
Professional services	-9.2	-10.0	-21.3	-17.3	-13.6
Recreational services	-10.5	-14.3	24.4	-6.8	24.0
Other services	-12.6	-14.6	16.0	-7.1	16.2
Not sectorized	2.7	2.9	0.6	4.1	-3.2
Non-banking financial intermediaries	-31.0	-34.7	-7.5	-34.0	1.4

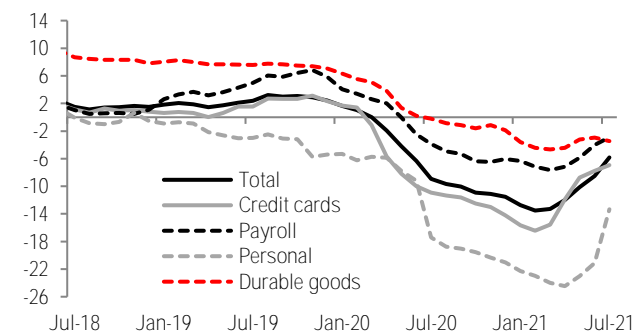
Source: Banxico

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



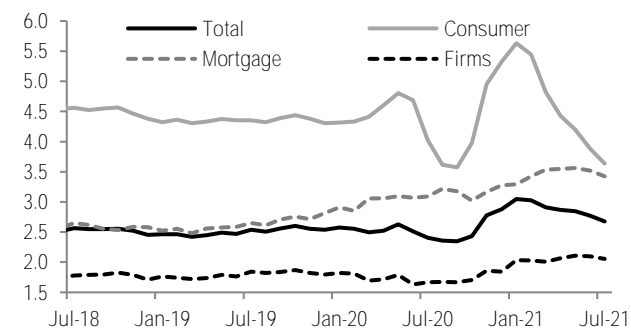
Source: Banorte with data from Banxico

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



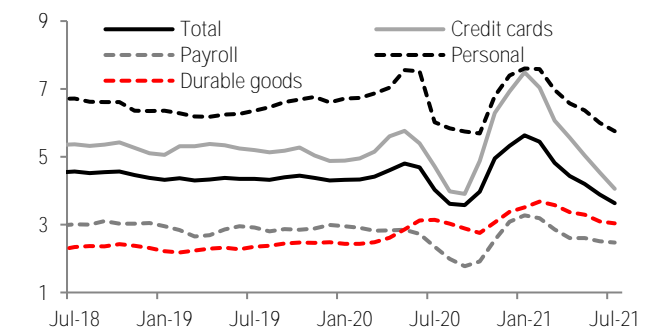
Source: Banorte with data from Banxico

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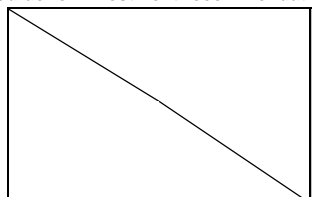
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**GRUPO FINANCIERO BANORTE S.A.B. de C.V.**

<b>Research and Strategy</b>			
Gabriel Casillas Olvera	IRO and Chief Economist	<a href="mailto:gabriel.casillas@banorte.com">gabriel.casillas@banorte.com</a>	(55) 4433 - 4695
Raquel Vázquez Godínez	Assistant	<a href="mailto:raquel.vazquez@banorte.com">raquel.vazquez@banorte.com</a>	(55) 1670 - 2967
Lourdes Calvo Fernández	Analyst (Edition)	<a href="mailto:lourdes.calvo@banorte.com">lourdes.calvo@banorte.com</a>	(55) 1103 - 4000 x 2611
<b>Economic Research and Financial Market Strategy</b>			
Alejandro Padilla Santana	Executive Director of Economic Research and Financial Markets Strategy	<a href="mailto:alejandro.padilla@banorte.com">alejandro.padilla@banorte.com</a>	(55) 1103 - 4043
Itzel Martínez Rojas	Analyst	<a href="mailto:itzel.martinez.rojas@banorte.com">itzel.martinez.rojas@banorte.com</a>	(55) 1670 - 2251
<b>Economic Research</b>			
Juan Carlos Alderete Macal, CFA	Director of Economic Research	<a href="mailto:juan.alderete.macal@banorte.com">juan.alderete.macal@banorte.com</a>	(55) 1103 - 4046
Francisco José Flores Serrano	Senior Economist, Mexico	<a href="mailto:francisco.flores.serrano@banorte.com">francisco.flores.serrano@banorte.com</a>	(55) 1670 - 2957
Katía Celina Goya Ostos	Senior Economist, Global	<a href="mailto:katia.goya@banorte.com">katia.goya@banorte.com</a>	(55) 1670 - 1821
Luis Leopoldo López Salinas	Economist, Global	<a href="mailto:luis.lopez.salinas@banorte.com">luis.lopez.salinas@banorte.com</a>	(55) 1103 - 4000 x 2707
<b>Market Strategy</b>			
Manuel Jiménez Zaldivar	Director of Market Strategy	<a href="mailto:manuel.jimenez@banorte.com">manuel.jimenez@banorte.com</a>	(55) 5268 - 1671
<b>Fixed income and FX Strategy</b>			
Santiago Leal Singer	Senior Strategist, Fixed Income and FX	<a href="mailto:santiago.leal@banorte.com">santiago.leal@banorte.com</a>	(55) 1670 - 2144
Leslie Thalia Orozco Vélez	Strategist, Fixed Income and FX	<a href="mailto:leslie.orozco.velez@banorte.com">leslie.orozco.velez@banorte.com</a>	(55) 5268 - 1698
<b>Equity Strategy</b>			
Marissa Garza Ostos	Director of Equity Strategy	<a href="mailto:marissa.garza@banorte.com">marissa.garza@banorte.com</a>	(55) 1670 - 1719
José Itzamna Espitia Hernández	Senior Strategist, Equity	<a href="mailto:jose.espitia@banorte.com">jose.espitia@banorte.com</a>	(55) 1670 - 2249
Alik Daniel García Álvarez	Senior Strategist, Equity	<a href="mailto:alik.garcia.alvarez@banorte.com">alik.garcia.alvarez@banorte.com</a>	(55) 1670 - 2250
Víctor Hugo Cortes Castro	Senior Strategist, Technical	<a href="mailto:victorh.cortes@banorte.com">victorh.cortes@banorte.com</a>	(55) 1670 - 1800
Juan Barbier Arizmendi, CFA	Analyst	<a href="mailto:juan.barbier@banorte.com">juan.barbier@banorte.com</a>	(55) 1670 - 1746
<b>Corporate Debt</b>			
Hugo Armando Gómez Solís	Senior Analyst, Corporate Debt	<a href="mailto:hugo.gomez@banorte.com">hugo.gomez@banorte.com</a>	(55) 1670 - 2247
Gerardo Daniel Valle Trujillo	Analyst, Corporate Debt	<a href="mailto:gerardo.valle.trujillo@banorte.com">gerardo.valle.trujillo@banorte.com</a>	(55) 1670 - 2248
<b>Economic Studies</b>			
Delia María Paredes Mier	Executive Director of Economic Studies	<a href="mailto:delia.paredes@banorte.com">delia.paredes@banorte.com</a>	(55) 5268 - 1694
Miguel Alejandro Calvo Domínguez	Senior Analyst, Economic Studies	<a href="mailto:miguel.calvo@banorte.com">miguel.calvo@banorte.com</a>	(55) 1670 - 2220
<b>Wholesale Banking</b>			
Armando Rodal Espinosa	Head of Wholesale Banking	<a href="mailto:armando.rodal@banorte.com">armando.rodal@banorte.com</a>	(81) 8319 - 6895
Alejandro Aguilar Ceballos	Head of Asset Management	<a href="mailto:alejandro.aguilar.cebillos@banorte.com">alejandro.aguilar.cebillos@banorte.com</a>	(55) 5268 - 9996
Alejandro Eric Faesi Puente	Head of Global Markets and Institutional Sales	<a href="mailto:alejandro.faesi@banorte.com">alejandro.faesi@banorte.com</a>	(55) 5268 - 1640
Alejandro Frigolet Vázquez Vela	Head of Sólida Banorte	<a href="mailto:alejandro.frigolet.vazquezvela@banorte.com">alejandro.frigolet.vazquezvela@banorte.com</a>	(55) 5268 - 1656
Arturo Monroy Ballesteros	Head of Investment Banking and Structured Finance	<a href="mailto:arturo.monroy.ballesteros@banorte.com">arturo.monroy.ballesteros@banorte.com</a>	(55) 5004 - 1002
Carlos Alberto Arciniega Navarro	Head of Treasury Services	<a href="mailto:carlos.arciniega@banorte.com">carlos.arciniega@banorte.com</a>	(81) 1103 - 4091
Gerardo Zamora Nanez	Head of Transactional Banking, Leasing and Factoring	<a href="mailto:gerardo.zamora@banorte.com">gerardo.zamora@banorte.com</a>	(81) 8318 - 5071
Jorge de la Vega Grajales	Head of Government Banking	<a href="mailto:jorge.delavega@banorte.com">jorge.delavega@banorte.com</a>	(55) 5004 - 5121
Luis Pietrini Sheridan	Head of Private Banking	<a href="mailto:luis.pietrini@banorte.com">luis.pietrini@banorte.com</a>	(55) 5004 - 1453
Lizza Velarde Torres	Executive Director of Wholesale Banking	<a href="mailto:lizza.velarde@banorte.com">lizza.velarde@banorte.com</a>	(55) 4433 - 4676
Oswaldo Brondo Menchaca	Head of Specialized Banking Services	<a href="mailto:oswaldo.brondo@banorte.com">oswaldo.brondo@banorte.com</a>	(55) 5004 - 1423
Raúl Alejandro Arauzo Romero	Head of Transactional Banking	<a href="mailto:alejandro.arauzo@banorte.com">alejandro.arauzo@banorte.com</a>	(55) 5261 - 4910
René Gerardo Pimentel Ibarrola	Head of Corporate Banking	<a href="mailto:pimentelr@banorte.com">pimentelr@banorte.com</a>	(55) 5268 - 9004
Ricardo Velázquez Rodríguez	Head of International Banking	<a href="mailto:rvelazquez@banorte.com">rvelazquez@banorte.com</a>	(55) 5004 - 5279
Víctor Antonio Roldan Ferrer	Head of Commercial Banking	<a href="mailto:victor.roldan.ferrer@banorte.com">victor.roldan.ferrer@banorte.com</a>	(55) 5004 - 1454