Banking credit – Slowdown in the pace of the recovery in August

September 30, 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 August 2021**
- **Banking credit declined 8.6% y/y in real terms, better than the -9.6% of the previous month but below our -7.1% forecast. Considering that the base effect suggested a more modest contraction, we believe performance might have been affected by the deceleration in activity**
- **Corporate credit maintained the largest contraction at -13.2%, still with the most challenging base. Mortgages came in at +3.6% and consumer loans improved for a sixth in month in a row, to -5.6%**
- **Non-performing loans (NPLs) fell to 2.6% of the total portfolio. Consumer loans and corporates corrected lower, with mortgages unchanged**
- **We expect banking credit to continue recovering in coming months, albeit with persistent risks which could limit dynamism**

Banking credit apparently takes a pause in August. Commercial banking credit to the private non-financial sector contracted 8.6% y/y in real terms in the eighth month of the year (see Chart 1). This came below our expectations at -7.1% but improved on the -9.6% of the previous month. Although figures remain skewed by a challenging base effect, the modest uptick suggests an impact from the likely deceleration in economic activity. This seems to be affected by several factors, including increased COVID-19 contagions and further shocks to supply chains. In addition, the effect of annual inflation was positive in this occasion, decreasing 21bps to 5.59%. In this context, corporate loans fell 13.2% 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 July (see Table 1). These were primary activities (-5.7% y/y from -5.5%) and commerce (-17.2% from -16.4%). On the contrary, the largest increases were in mining (-23.2% from -32.4%), other services (-7.6% from -12.1%) and professional services (-8.1% from -11.4%).

Mortgages rose to 3.6% from 3.1% in July. Inside, low-income housing credit was better at -17.4%, with residential higher at 5.0%. Meanwhile, consumer credit improved at the margin to -5.6% from -5.8%. Details were mixed (Chart 2), with modest retracements in durable goods (-3.8% from -3.4%) and others (8.6% from 11.7%). With positive dynamics we noted, payroll loans (-2.1% from -2.9%) and personal (-12.2% from -13.3%). Lastly, credit cards were basically unchanged at -7.0%. We consider that this performance might respond to increased caution among consumers due to worsening pandemic conditions. In particular, daily cases reached all-time highs in the period, albeit with mobility remaining resilient. In addition, and also negative, there were some job losses in the period.

Non-performing loans decrease 10bps to 2.6% of the portfolio. NPLs for consumer loans fell to 3.5% from 3.6% (Chart 3), adding seven months lower. Mortgages were unchanged at 3.4%, with corporates lower by 10bps to 2.0%.

We believe figures could keep 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 keep expecting improvements in banking credit, tied to the pace of the recovery. As we have mentioned previously, we expect credit to maintain an upward trend in the remainder of the year and very likely also in 2022. Although this comes in large part due to a more favorable arithmetic effect –considering the deceleration un 2H20–, performance will ultimately depend on the recovery trend of economic activity. In this context, we still anticipate an improvement in the remainder of the year, with August seemingly one of the lowest points due to the deterioration in epidemiological conditions. Nevertheless, on top of the risks for activity, credit faces its own challenges, including strong inflationary pressures. We must remember that, given that it is measured in real terms, an increase in prices impacts figures to the downside. Therefore, our 6.1% year-end forecast could be slightly skewed upwards.

At a sector level, risks and opportunities are different. For corporate loans we still think that performance will rely on prospects about how quickly and strong the subsequent expansion can be, both here and abroad. Nevertheless, given limits to investment (with lack of raw materials and disruptions to productive processes) and prevailing idiosyncratic factors, the outlook seems to be more complex. Meanwhile, consumer credit will remain tied to fundamentals such as employment, especially in the formal sector considering some requirements for elegibility. Therefore, the latest print (for August) does insert some risks, albeit probably temporary. Finally, mortgages will probably remain as the most stable, although not ruling out effects from structural changes to home office triggered by the pandemic.

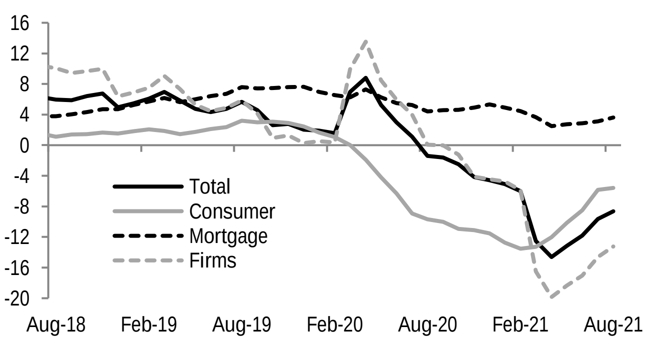
On the health of the financial system, despite some recent unfavorable news (the liquidation of a small bank), timely actions from regulators –as well as from other institutions– reinforce the commitment of maintaining solid fundamentals. In addition, the decrease in NPLs and other efforts should support this situation.

Banking credit
% y/y in real terms

	Aug-21	Jul-21	Aug-20	Jan-Aug'**21**	Jan-Aug'**20**
Private banking credit	-8.6	-9.6	-1.4	-10.3	3.4
Consumer	-5.6	-5.8	-9.7	-10.3	-3.6
Credit cards	-7.0	-7.0	-11.3	-11.4	-5.6
Payroll	-2.1	-2.9	-5.0	-5.4	0.0
Personal	-12.2	-13.3	-18.8	-20.7	-9.5
Durable goods	-3.8	-3.4	-0.8	-3.8	2.6
Auto loans	-7.4	-7.4	-2.6	-7.7	1.2
Other durable goods	28.1	33.4	17.9	33.4	19.0
Others	8.6	11.7	-11.8	-7.0	0.1
Mortgage	3.6	3.1	4.4	3.5	6.0
Social interest	-17.4	-18.5	-13.5	-17.2	-9.5
Medium and residential	5.0	4.6	5.8	4.9	7.3
Firms	-13.2	-14.6	0.1	-14.0	5.4
Primary activities	-5.7	-5.5	1.7	-8.8	10.0
Mining	-23.2	-32.4	-22.1	-36.2	0.8
Construction	-15.0	-17.0	-20.0	-16.8	-10.0
Utilities	-9.1	-10.1	2.8	-8.0	5.3
Manufacturing industry	-17.4	-19.4	-4.4	-18.3	3.2
Commerce	-17.2	-16.4	-6.9	-18.6	-3.9
Transportation and storage	-14.9	-16.8	1.3	-16.2	6.4
Mass media services	-15.8	-18.5	5.8	-22.6	28.6
Real estate services	-17.9	-17.9	12.2	-14.7	14.4
Professional services	-8.1	-11.4	-22.0	-16.7	-14.6
Recreational services	-8.6	-8.6	20.4	-6.6	23.5
Other services	-7.6	-12.1	9.9	-7.1	15.4
Not sectorized	3.2	2.7	0.1	4.0	-2.8
Non-banking financial intermediaries	-31.0	-31.0	-6.2	-33.7	0.5

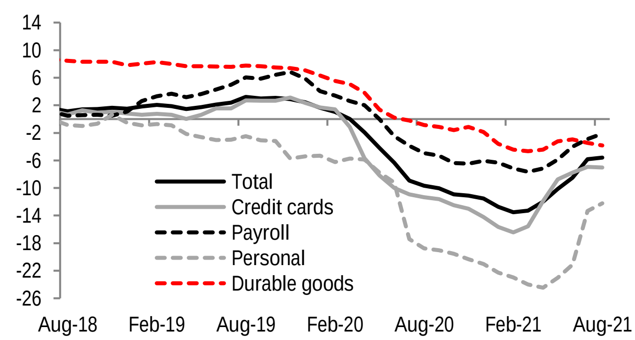
Source: Banxico

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



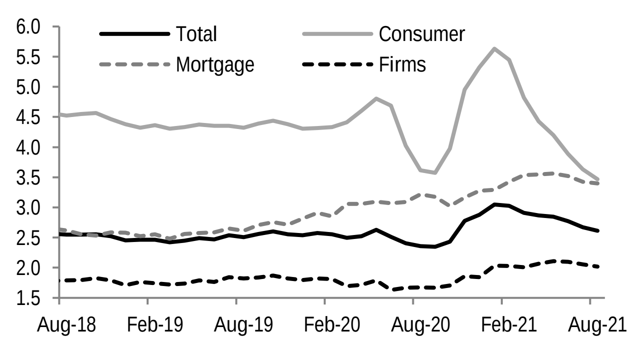
Source: Banorte with data from Banxico

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



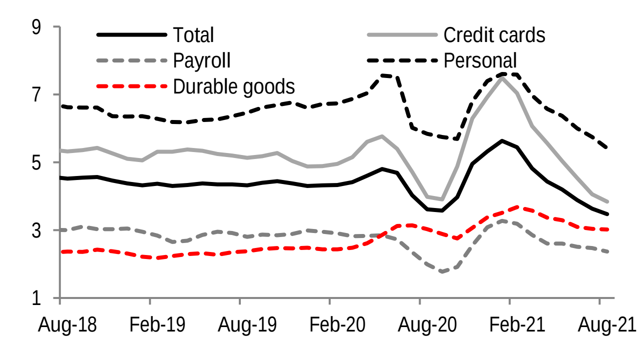
Source: Banorte with data from Banxico

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, 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, Alik Daniel García Alvarez, Víctor Hugo Cortes Castro, Hugo Armando Gómez Solís, Miguel Alejandro Calvo Domínguez, Luis Leopoldo López Salinas, Leslie Thalía Orozco Vélez, Gerardo Daniel Valle Trujillo 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			
Alejandro Padilla Santana	Chief Economist and Head of Research	alejandro.padilla@banorte.com	(55) 1103 - 4043
Raquel Vázquez Godinez	Assistant	raquel.vazquez@banorte.com	(55) 1670 - 2967
Itzel Martínez Rojas	Analyst	itzel.martinez.rojas@banorte.com	(55) 1670 - 2251
Lourdes Calvo Fernández	Analyst (Edition)	lourdes.calvo@banorte.com	(55) 1103 - 4000 x 2611
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
Alik Daniel García Alvarez	Senior Strategist, Equity	alik.garcia.alvarez@banorte.com	(55) 1670 – 2250
Víctor Hugo Cortes Castro	Senior Strategist, Technical	victorh.cortes@banorte.com	(55) 1670 - 1800
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	(55) 1670 - 1889
Alejandro Aguilar Ceballos	Head of Asset Management	alejandro.aguilar.ceballos@banorte.com	(55) 5004 - 1282
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 - 5140
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) 8173 - 9127
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) 5249 - 6423
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) 5004 - 1051
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) 1670 - 1899