Banking credit – Additional improvement in September

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- **Today, Banxico published its banking credit report for September 2021**
- **Banking credit declined 7.7% y/y in real terms, better than the -8.6% of the previous month and our -8.4% forecast. Considering that the base effect suggested a deeper contraction, this figure points to higher dynamism in loans**
- **Corporate credit maintained the largest contraction at -11.9%, still with the most challenging base. Mortgages came in at +3.3% and consumer loans improved for a seventh in month in a row, to -4.8%**
- **Non-performing loans (NPLs) remained at 2.6% of the total portfolio. Consumer loans corrected lower, with mortgages and corporates unchanged**
- **We expect banking credit to continue recovering in coming months**

Banking credit seems to regain dynamism in September. Commercial banking credit to the private non-financial sector contracted 7.7% y/y in real terms in the ninth month of the year (see Chart 1). This came above our expectations at -8.4% and the -8.6% of the previous month. Although figures remain skewed by a challenging base effect, they were above expectations. This suggests higher dynamism after August's deceleration. This seems to be aided by several factors, mainly an improvement on pandemic conditions, helping consumer and business confidence. In addition, the effect of annual inflation was negative in this occasion, increasing by 41bps to 6.00%. In this context, corporate loans fell 11.9% y/y in real terms, still the most skewed by the base effect. However, it should keep fading out in coming months. Looking at the breakdown, only 3 out of 13 sectors worsened relative to August (see Table 1). These were construction (-17.4% from -16.1%), utilities (-9.9% from -9.6%), and mass media (-16.3% from -15.8%). On the contrary, the largest increases were in transport (-9.4% from -14.6%), professional services (-4.3% from -8.5%) and primary activities (-2.9% from -5.7%).

Mortgages decelerated to 3.3% from 3.6% in August. Inside, low-income housing credit was better at -16.1%, with residential lower at 4.6%. Meanwhile, consumer credit improved to -4.8% from -5.6%. Details were mixed (Chart 2), with modest retracements in durable goods (-4.5% from -3.8%) and others (6.2% from 8.6%). With positive dynamics we noted, payroll loans (-1.4% from -2.1%), personal (-9.3% from -12.2%), and credit cards (-6.2% from -7.0%). We think that the acceleration might be related to an improvement surrounding the pandemic, with confidence improving gradually and supporting greater consumption. Nevertheless, it remains limited by challenges in the labor market and overall economic dynamism.

Non-performing loans stand at 2.6% of the portfolio. NPLs for consumer loans fell to 3.4% from 3.5% (Chart 3), adding seven months lower. Mortgages were unchanged at 3.4%, with corporates also stable at 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 still anticipate an improvement in credit, with dynamics tied to the economic recovery. The trend in credit in the last few months has been somewhat uncertain, such as for economic activity. Therefore, we believe performance will be dictated by the behavior of the latter, on top of expectations for it. Although we revised our growth forecast for 2021 to 5.7% from 6.2% after the decline in 3Q21, we expect an acceleration in the last quarter of the year. Regarding the path, considering that the base effect will be progressively more positive in the remainder of the year and even in the first couple of months of 2022, figures should continue improving because of this. On the contrary, part of this will be diluted by recent inflationary pressures.

At a sector level, both risks and opportunities differ. In the short-term, consumer loans maintain the best outlook, likely rising due to: (1) An additional improvement in virus conditions; (2) greater optimism ahead of the holiday period; and (3) strength in remittances. Nevertheless, a driving factor will be employment dynamics. On corporate loans, performance will be mostly linked to the outlook on the recovery, especially on the pace ahead. In a positive manner, the legislative gridlock in the US seems to be improving, resulting in a rather expansive fiscal budget, which could benefit activity. Despite of this, we consider there are relevant risks associated to uncertainty over the shocks on supply chains and other idiosyncratic factors. Lastly, mortgages will likely remain more stable, awaiting further information about its medium- and long-term drivers.

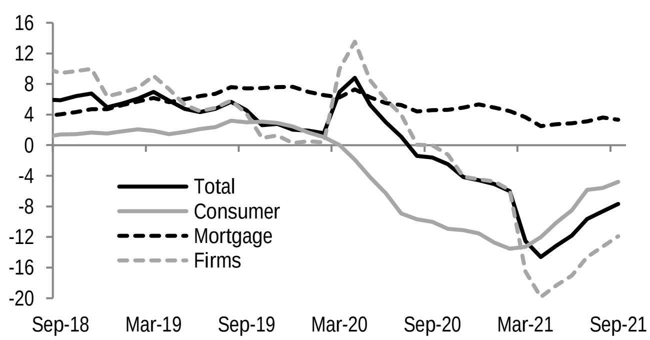
On the health of the financial system, timely actions from regulators –as well as of other public and private institutions– reinforce the commitment of maintaining solid fundamentals. In addition, the decrease in NPLs and other capitalization efforts should support this situation.

Banking credit
% y/y in real terms

	Sep-21	Aug-21	Sep-20	Jan-Sep'**21**	Jan-Sep'**20**
Private banking credit	-7.7	-8.6	-1.6	-10.0	2.8
Consumer	-4.8	-5.6	-10.0	-9.7	-4.3
Credit cards	-6.2	-7.0	-11.6	-10.9	-6.2
Payroll	-1.4	-2.1	-5.3	-5.0	-0.6
Personal	-9.3	-12.2	-19.0	-19.6	-10.6
Durable goods	-4.5	-3.8	-1.1	-3.9	2.2
Auto loans	-7.7	-7.4	-3.2	-7.7	0.7
Other durable goods	23.5	28.1	21.3	32.2	19.3
Others	6.2	8.6	-14.3	-5.6	-1.6
Mortgage	3.3	3.6	4.6	3.5	5.9
Social interest	-16.1	-17.4	-14.2	-17.1	-10.1
Medium and residential	4.6	5.0	6.1	4.9	7.2
Firms	-11.9	-13.2	0.0	-13.8	4.8
Primary activities	-2.9	-5.7	-1.8	-8.2	8.6
Mining	-21.1	-23.2	-5.5	-34.9	0.2
Construction	-17.4	-16.1	-14.7	-17.0	-10.5
Utilities	-9.9	-9.6	1.9	-8.3	4.9
Manufacturing industry	-15.6	-17.2	-3.8	-18.0	2.5
Commerce	-15.5	-17.3	-9.3	-18.3	-4.5
Transportation and storage	-9.4	-14.6	3.6	-15.4	6.1
Mass media services	-16.3	-15.8	1.9	-22.0	25.2
Real estate services	-16.2	-16.9	12.8	-14.6	14.2
Professional services	-4.3	-8.5	-21.5	-15.5	-15.4
Recreational services	-7.3	-8.9	21.5	-6.7	23.3
Other services	-7.2	-7.6	10.7	-7.2	14.8
Not sectorized	4.1	3.2	1.7	4.0	-2.3
Non-banking financial intermediaries	-29.7	-31.0	-11.5	-33.3	-0.8

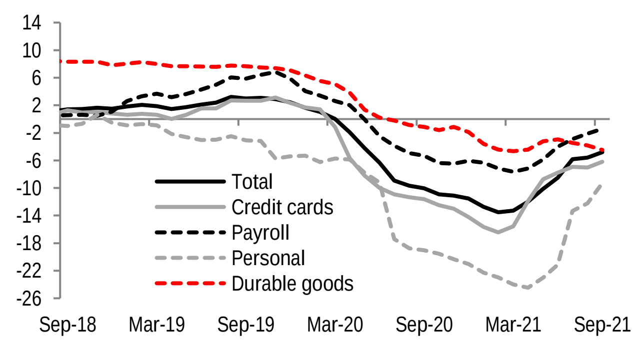
Source: Banxico

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



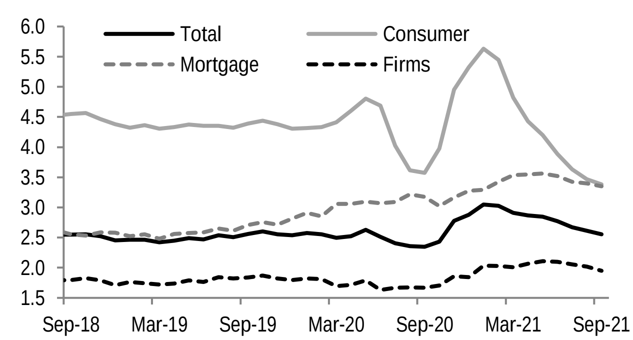
Source: Banorte with data from Banxico

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



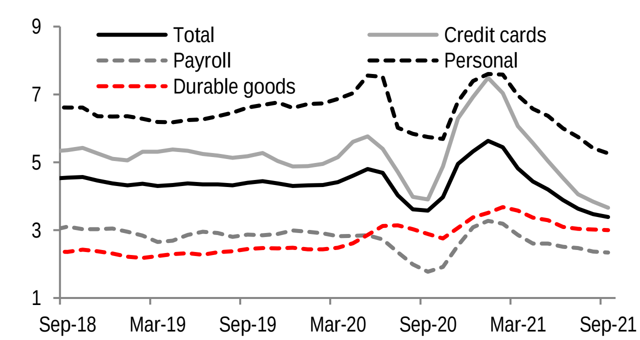
Source: Banorte with data from Banxico

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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