Banking credit – Signs of a faster rebound in October

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- **Today, Banxico published its banking credit report for October 2021**
- **Banking credit declined 6.1% y/y in real terms, better than the -7.7% of the previous month and our -6.9% forecast. This suggests higher dynamism in loans, in line with other data pointing to a pickup in economic activity**
- **Corporate credit maintained the largest contraction at -9.4%, still with a somewhat difficult base effect. Mortgages came in at +3.2% and consumer loans improved for an eighth in month in a row, to -4.5%**
- **Non-performing loans (NPLs) improved to 2.5% of the total portfolio. Consumer loans were unchanged, with mortgages and corporates correcting lower**
- **We expect banking credit to continue recovering in coming months, possibly at a faster pace as the economy seems to gather more dynamism, albeit with some risks persisting**

Banking credit continues to improve in October. Commercial banking credit to the private non-financial sector contracted 6.1% y/y in real terms in the tenth month of the year (see Chart 1). This came above our expectations at -6.9% and the -7.7% of the previous month. Although figures remain skewed, they were above what calculations suggested only because of base effects. This suggests higher dynamism for a second month in a row. Similar to September, we believe one of the main drivers were better virus conditions, in turn also with a positive knock-over effect on other indicators such as consumer confidence, employment and economic activity. The figure is even more positive when considering that the effect from annual inflation was negative, as it increased 24bps to 6.24%. In this context, corporate loans fell 9.4% y/y in real terms, back to a single-digit contraction for the first time in seven months. Looking at the breakdown, only 1 out of 13 sectors worsened relative to September (see Table 1). This was 'other services' (-9.5% from -6.9%). In addition, one was unchanged, being 'not sectorized' (+4.1%). On the contrary, the sectors with the most notable improvements included mass media (-7.7% from -16.6%), transportation (-3.7% from -9.1%) and manufacturing (-11.5% from -16.3%).

Mortgages came in at 3.2% from 3.3% in September. Inside, low-income housing credit moderated to -16.5%, with residential lower relative to the previous month, at 4.4%. Consumer loans improved to -4.5% from -4.8%. Details were mixed (Chart 2), with modest retracements in durable goods (-5.0% from -4.5%) and credit cards (-7.1% from -6.2%). With positive dynamics we noted, payroll loans (-0.3% from -1.4%), personal (-8.3% from -9.3%), and others (13.9% from 6.2%). We think the increase is broadly explained by a better epidemiological setting along the improvement of some fundamentals. Nevertheless, we believe mounting price pressures are dragging further dynamism as purchasing power is affected.

Non-performing loans improve to 2.5% of the portfolio. This represents a 10bps improvement relative to the previous month. Inside, NPLs for consumer loans were unchanged at 3.4% (Chart 3), breaking with an eight-month streak of declines. Mortgages were lower to 3.3% (previous: 3.4%), with corporates also better at 1.8% (previous: 2.0%). We believe figures could keep improving due to: (1) An improvement in credit trends, allowing for a better ratio between outstanding loans and those in trouble (non-performing), especially for consumption, but more recently for corporates; 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 a better performance in coming months, possibly at a better pace, albeit with risks prevailing. The last two prints –including this one– seem to point to a better trend in the recovery of loans, even despite some weakness in economic activity in September. Therefore, incorporating a better outlook for the economy in the next few months, we believe credit should benefit. Regarding the base effect, figures should continue improving at least for the remainder of the year and into the first couple of months of 2022. Despite of this, we believe there are some risks, including: (1) Increased price pressures, impacting both consumers and businesses; (2) uncertainty surrounding the virus, especially after the discovery of the new variant 'Omicron'; and (3) some idiosyncratic challenges. By sectors, both opportunities and difficulties are differentiated. In the very short-term, we believe consumer loans might have the most upside, especially ahead of the holiday shopping season. Nevertheless, it also represents some of the more present risks given the strong inflation uptick. On corporates, uncertainty about the pandemic could result in additional delays on investment, on top of construction and investment in machinery, which has become more expensive. On the contrary, progress on spending measures in the US, highlighting the recent approval of an infrastructure package of US$550 billion in new resources (US$1.2 trillion in total spending) could have a positive spillover effect on our country. 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

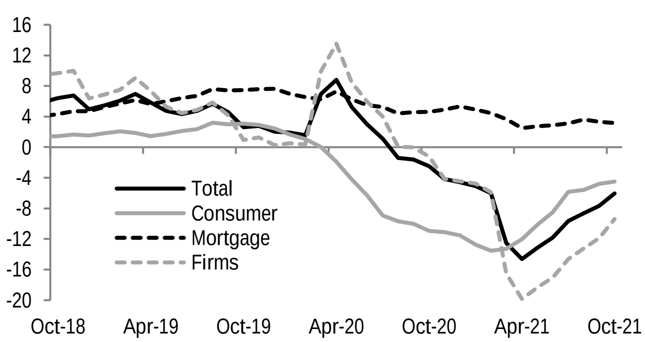
% y/y in real terms

	Oct-21	Sep-21	Oct-20	Jan-Oct'**21**	Jan-Oct'**20**
Private banking credit	-6.1	-7.7	-2.5	-9.6	2.3
Consumer	-4.5	-4.8	-10.9	-9.2	-5.0
Credit cards	-7.1	-6.2	-12.5	-10.5	-6.9
Payroll	-0.3	-1.4	-6.4	-4.5	-1.2
Personal	-8.3	-9.3	-19.5	-18.5	-11.4
Durable goods	-5.0	-4.5	-1.6	-4.0	1.8
Auto loans	-7.9	-7.7	-3.9	-7.7	0.2
Other durable goods	20.1	23.5	23.2	30.8	19.7
Others	13.9	6.2	-18.0	-3.9	-3.3
Mortgage	3.2	3.3	4.6	3.4	5.7
Social interest	-16.5	-16.1	-14.4	-17.1	-10.5
Medium and residential	4.4	4.6	6.1	4.8	7.1
Firms	-9.4	-11.9	-1.2	-13.4	4.2
Primary activities	-2.0	-4.0	-3.8	-7.8	7.3
Mining	-18.2	-21.1	-13.8	-33.5	-1.0
Construction	-16.4	-17.4	-14.3	-16.9	-10.9
Utilities	-9.9	-10.0	2.2	-8.5	4.7
Manufacturing industry	-11.5	-16.3	-6.7	-17.6	1.6
Commerce	-11.5	-14.5	-10.4	-17.5	-5.1
Transportation and storage	-3.7	-9.1	-0.1	-14.3	5.5
Mass media services	-7.7	-16.6	0.7	-20.8	22.6
Real estate services	-14.3	-16.2	10.4	-14.6	13.8
Professional services	-2.7	-3.7	-22.4	-14.2	-16.1
Recreational services	-3.6	-7.0	14.5	-6.3	22.3
Other services	-9.5	-6.9	16.2	-7.3	15.0
Not sectorized	4.1	4.1	5.2	4.0	-1.6
Non-banking financial intermediaries	-26.0	-29.7	-10.8	-32.6	-1.8

Source: Banxico

Chart 1: Banking credit

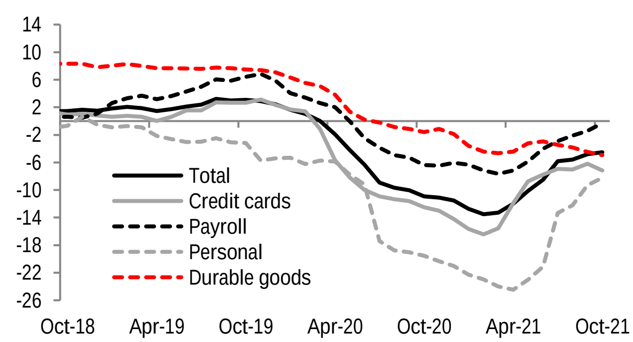
% y/y in real terms



Source: Banorte with data from Banxico

Chart 2: Consumer credit

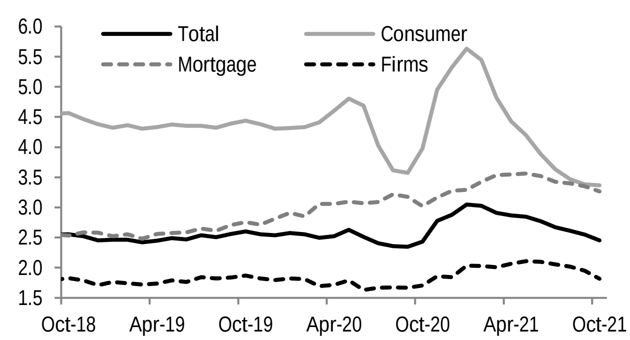
% y/y in real terms



Source: Banorte with data from Banxico

Chart 3: Non-performing loans

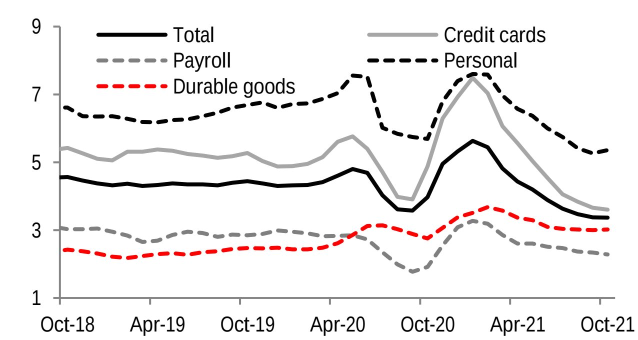
% of total portfolio



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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