Banking credit accelerates in February

March 31, 2023

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- **Today, Banxico published its banking credit report for February 2023**
- **Banking credit increased 5.2% y/y in real terms, accelerating after a moderation in the previous month**
- **Inside, performance was positive. Consumer loans rose 9.6% (previous: 9.0%), still leading gains. Corporate loans accelerated to 3.3% (previous 3.2%), with mortgages also higher at 3.9% (previous: 3.6%)**
- **Non-performing loans (NPLs) declined to 2.3%. In the detail, consumption and corporates were unchanged at 3.0% and 2.1%, respectively. Mortgages decreased by 10bps to 2.5%**
- **We maintain a positive view on loans in the short-term, even benefiting by the arithmetic effect of lower annual inflation. In addition, we believe strength in consumption fundamentals and interest in investment will be relevant support factors**

Credit adds eleven months with positive annual rates. Banking credit to the non-financial private sector increased 5.2% y/y in real terms in the second month of the year (see Chart 1), accelerating once again after a moderation in the previous month and coming in above our forecast. In our opinion the result is quite favorable considering more challenging base effects. We believe loans are being supported by several factors, including: (1) Support from consumption fundamentals, particularly employment; (2) continued interest from businesses in investment, triggered mainly by nearshoring; and (3) a moderation in annual inflation, going to 7.62% in the period. Nevertheless, we do not rule out that higher rates along with the increase to the minimum wage, may have impacted demand for loans.

Consumer credit remained as the most dynamic at 9.6% y/y (previous: 9.0%). Inside, three out of the five categories showed a higher expansion rate than the one seen in the previous month, as seen in Chart 2. In the detail, categories with the largest acceleration were payroll at +9.2% (previous: +7.4%) and durable goods at +4.8% (previous: +3.7%). On the contrary, personal loans moderated to +5.8% (previous: +7.8%). Corporate credit increased to 3.3% from 3.2% in January. Looking at the breakdown, 6 of the 13 categories showed higher growth rates (Table 1). As such, those with the most substantial improvements were construction (at 172.8% from 154.9%) and mass media (at -3.0% from -12.1%). On the contrary, sectors with the largest deterioration were mining (at -8.1% from 3.3%) and lodging and restaurants (at -5.4% from 1.1%). Finally, mortgages were also higher at 3.9% (previous: 3.6%), with growth rates oscillating between 2.9% and 3.9% since January 2022. Inside, the residential component rose 4.4% (previous: 4.1%), while low-income housing remained in negative territory at -7.9% (previous: -7.4%).

Non-performing loans decline, representing 2.3% of the total portfolio. Inside (Chart 3), we highlight stability in consumptions and corporates at 3.0% and 0.7% each. For its part, mortgages NPLs decreased by 10bps, standing at 2.5%. We consider that low delinquency levels, as well as stability in them suggest a good management of loan portfolios by financial institutions. Hence, we consider that credit expansion is happening responsibly.

We expect strength in credit in coming months. Considering that today's results are impacted by more challenging bases, we believe loans remain in a favorable position, showing more stability. As such, in the short-term we expect dynamism to continue, noting: (1) A favorable arithmetic effect given the decline in annual inflation; (2) strength in consumption fundamentals, with employment being key to open credit options; and (3) interest in investment projects related to *nearshoring*, where we think that the development of MSMEs will be key for the expansion of local financing. Meanwhile, we expect that for mortgages, natural demand for housing keeps supporting the sector.

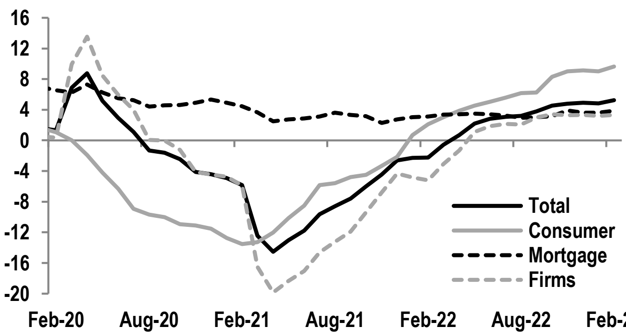
Nevertheless, we recognize some risks given several factors, including: (1) An additional monetary tightening by Banxico, increasing financing costs; (2) lower inflationary pressures which could reduce the attractiveness of credit; and (3) an increase in uncertainty given fears over the banking sector in the US and Europe have driven recession expectations. On the latter, we believe the situation will be very different locally, noting relevant regulatory differences and adequate capitalization and liquidity levels across financial institutions. As such, we do not effects on domestic loans due to this, with the possible impact coming from lower global growth expectations.

Banking credit
% y/y in real terms

	Feb-23	Jan-23	Feb-22	Jan-Feb'23	Jan-Feb'22
Private banking credit	**5.2**	**4.8**	**-2.2**	**5.0**	**-2.2**
Consumer	**9.6**	**9.0**	**2.1**	**9.3**	**1.4**
Credit cards	14.0	12.9	1.6	13.4	1.0
Payroll	9.2	7.4	3.1	8.3	3.3
Personal	5.8	7.8	-0.7	6.8	-2.6
Durable goods	4.8	3.7	-1.2	4.3	-1.3
Auto loans	4.1	2.6	-6.0	3.3	-6.3
Other durable goods	8.5	9.2	32.5	8.9	33.3
Others	8.5	11.7	29.2	10.1	23.6
Mortgage	**3.9**	**3.6**	**3.1**	**3.7**	**3.1**
Low-income housing	-7.9	-7.4	-16.6	-7.7	-16.2
Medium and residential	4.4	4.1	4.2	4.3	4.2
Firms	**3.3**	**3.2**	**-5.2**	**3.3**	**-5.0**
Primary activities	1.1	2.3	1.6	1.7	1.3
Mining	-8.1	3.3	-5.0	-2.5	-7.0
Construction	172.8	154.9	-27.5	163.5	-25.4
Utilities	0.2	-3.6	-8.2	-1.7	-7.9
Manufacturing industry	2.1	4.7	-5.5	3.4	-5.6
Commerce	5.3	3.9	-6.3	4.6	-5.9
Transportation and storage	0.1	-1.5	1.4	-0.7	2.2
Mass media services	-3.0	-12.1	-8.5	-7.7	-5.3
Real estate services	4.7	9.0	-7.5	6.9	-8.2
Professional services	13.8	15.7	-4.9	14.8	-6.3
Lodging services	-5.4	1.1	-6.7	-2.1	-5.1
Other services	12.0	8.9	1.1	10.4	0.9
Not sectorized	4.0	4.3	-1.7	4.1	-1.0
Non-banking financial intermediaries	**28.9**	**19.8**	**-20.0**	**24.3**	**-18.5**

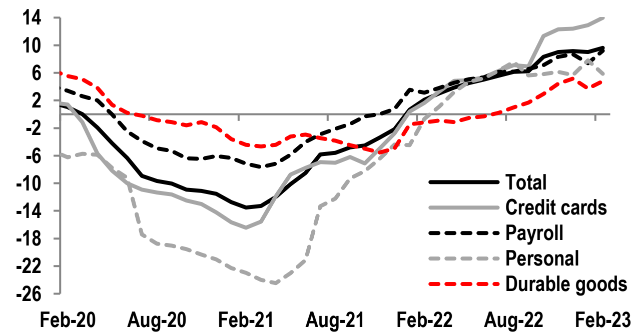
Source: Banxico

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



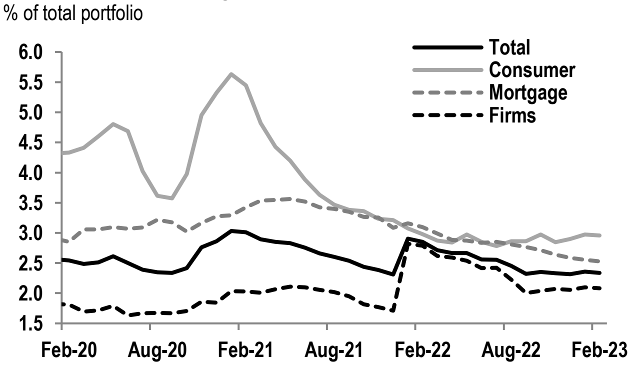
Source: Banorte with data from Banxico

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



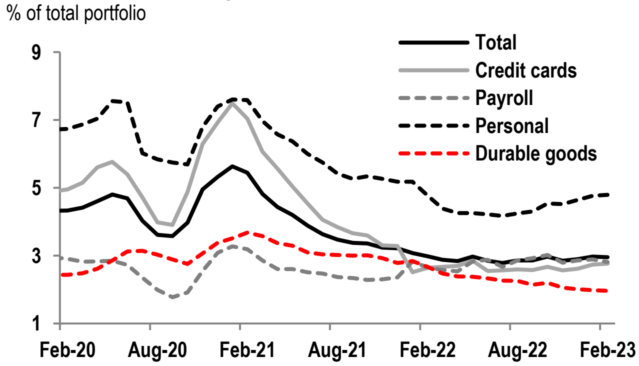
Source: Banorte with data from Banxico

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

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