Banking credit extends higher, albeit with a more modest improvement

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- **Today, Banxico published its banking credit report for December 2022**
- **Banking credit extended its trend of expansion at 4.9% a/a in real terms, although improving at a slower pace vs. previous months**
- **Inside, two out of the three categories increased. Consumer loans continued to be the main driver at 9.1%. Meanwhile, mortgages rose 3.6% (previous: 3.9%). Finally, corporates loans result without changes, coming in at 3.3%**
- **Non-performing loans (NPLs) were unchanged at 2.3%. In the detail, we highlight an increase in consumer loans to 2.9%. However, the other two items were flat, with mortgages at 2.6% and corporates at 2.1%**
- **We expect credit to continue its positive trend in early 2023, despite some risks, including higher interest rates. In this sense, we still see consumption as the main driver, followed by corporate loans –due to dynamism related *nearshoring*. Lastly, mortgages will likely remain more stable, but still positive**

Credit strings twenty months of improvements. Banking credit to the non-financial private sector increased 4.9% y/y in real terms in December (see Chart 1), slightly higher than our estimate of 4.8% and +10bp relative to the previous month. Thus, credit has improved since May 2021 and with positive rates since April 2022. In our opinion, dynamism is explained in part by three factors: (1) Prevailing inflationary pressures that, although at a slower pace, kept accelerating in December; (2) a labor market that continues to strengthen –even with job losses due to seasonal effects– with the unemployment rate considerably below its long-term average; and (3) households' preferences to soften end-of-year spending.

By components, consumer loans remain as the main driver at 9.1% y/y (previous: 9.0%), its highest level since November 2016. In detail, 4 of the 7 subcategories expanded, as seen in Chart 2. We highlight growth both in credit cards at +12.4% (previous: +12.3%), and in payroll loans at +8.7% (previous: +8.3%). Also to the upside, durable goods accelerated from 4.4% to 5.1%. Corporates remained at +3.3%. Inside, 7 of the 13 items improved (see Table 1). Lodging services had the largest progress at 4.5% (previous: -1.4%), followed by professional services at +2.7% (previous: -0.4%). On the contrary, sectors with a deterioration include mass media at +6.7% from +13.9% and primary activities at +3.1% (previous: +8.0%). Lastly, mortgages rose 3.3%, moderating vs the previous month (3.6%). Inside, the residential item had an increase of 4.2% (previous: 4.5%), while low-income housing declined to -9.1% from -8.7%.

Non-performing loans unchanged, representing 2.3% of the total portfolio. Inside, (Chart 3), NPLs for consumer loans increased by 9pb, to 2.9%. Meanwhile, those for mortgages and corporates were flat relative to November at 2.6% and 2.1%, respectively.

It is worth mentioning that in the last four months, total NPLs have fluctuated between 2.3% and 2.4%, in our opinion, at adequate levels. We believe that this reflects: (1) Good credit management by economic agents (including financial institutions); and (2) a banking system that remains well capitalized and with very solid bases for its operation.

Demand for credit would continue to expand throughout 2023. Considering today's result –which implies an average growth of 2.1% of loans in 2022– and the 3.0% expansion in GDP, we update our banking credit forecast model. Using these inputs, we now anticipate a slightly larger expansion at +4.5% y/y in real terms (previous: 4.4%). This would be rather positive considering prevailing headwinds for economic activity, such as higher interest rates –expecting some additional tightening by Banxico in 1Q23. However, the decline in inflation should have a positive arithmetic effect on figures, while its impact on demand could be more uncertain.

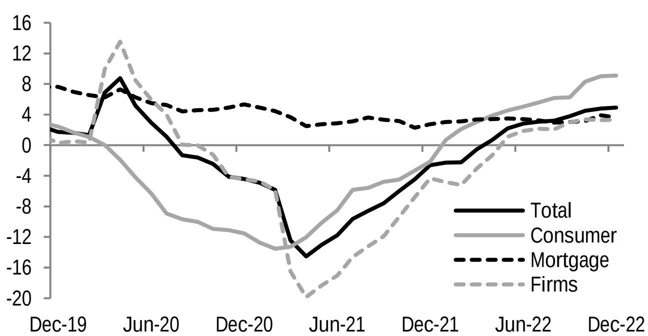
In the detail, higher financing costs could have a large impact on corporate loans –especially considering tighter spreads relative to the target rate. However, we expect that the boost provided by nearshoring efforts –targeting both construction and manufacturing– on sector-related MSMEs could offset for the latter. Consumption loans could be more uncertain, with inflation more than rates being a key driver. It will be relevant to see if wages increase sufficiently to offset for real income losses, thus resulting in a decline in demand. However, we believe that people will continue using credit to smooth out their consumption patters, boosting overall figures. Lastly, we expect the trend for mortgages to remain relatively unchanged at a national level, with natural demand growing at a steady pace. However, we cannot rule out regional changes as industrial centers could gather additional interest amid higher investment.

Banking credit
% y/y in real terms

	Dec-22	Nov-22	Dec-21	Jan-Dec'22	Jan-Dec'21
Private banking credit	4.9	4.8	-2.6	2.1	-8.6
Consumer	9.1	9.0	-2.1	5.3	-8.2
Credit cards	12.4	12.3	-2.8	6.4	-9.4
Payroll	8.7	8.3	0.8	5.7	-3.7
Personal	5.5	6.1	-4.4	3.8	-16.6
Durable goods	5.1	4.4	-4.9	0.8	-4.2
Auto loans	1.4	0.4	-7.6	-3.7	-7.7
Other durable goods	26.7	28.2	14.4	30.2	27.7
Others	12.8	13.0	7.3	18.5	-1.5
Mortgage	3.6	3.9	2.7	3.3	3.3
Low-income housing	-9.1	-8.7	-16.0	-12.5	-17.0
Medium and residential	4.2	4.5	3.8	4.1	4.6
Firms	3.3	3.3	-4.3	0.4	-12.2
Primary activities	3.1	8.0	-0.9	5.2	-6.8
Mining	4.6	1.7	2.7	-3.2	-30.4
Construction	2.4	1.8	-16.7	-7.2	-16.9
Utilities	2.3	2.8	-6.3	-1.6	-8.2
Manufacturing industry	3.2	3.7	-5.2	-1.1	-16.0
Commerce	2.6	2.2	-6.9	-1.0	-16.1
Transportation and storage	3.1	5.4	5.1	5.7	-11.8
Mass media services	2.5	13.9	-3.2	8.1	-18.7
Real estate services	4.1	1.7	-7.9	-1.1	-13.8
Professional services	2.7	-0.4	-4.5	0.7	-13.5
Lodging services	4.5	-1.4	-2.8	0.7	-5.4
Other services	2.3	3.3	-0.1	3.8	-6.2
Not sectorized	10.2	3.2	2.1	2.1	4.0
Non-banking financial intermediaries	18.9	11.7	-16.4	-0.9	-23.5

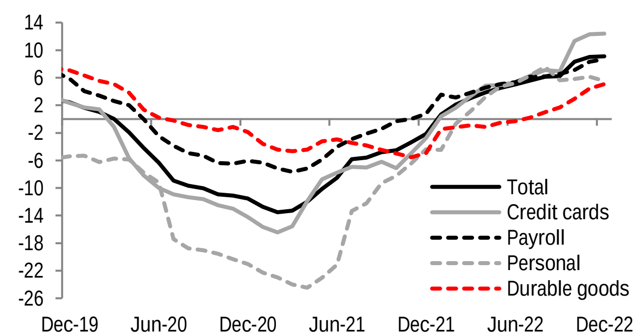
Source: Banxico

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



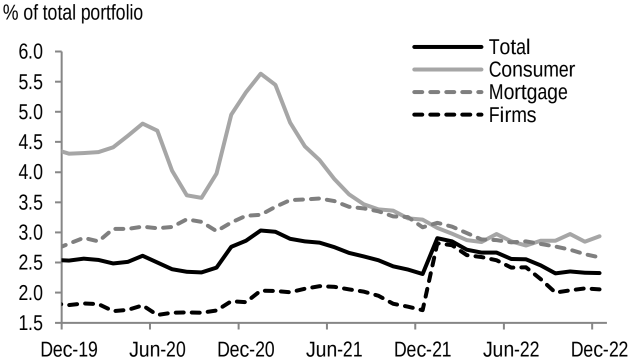
Source: Banorte with data from Banxico

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



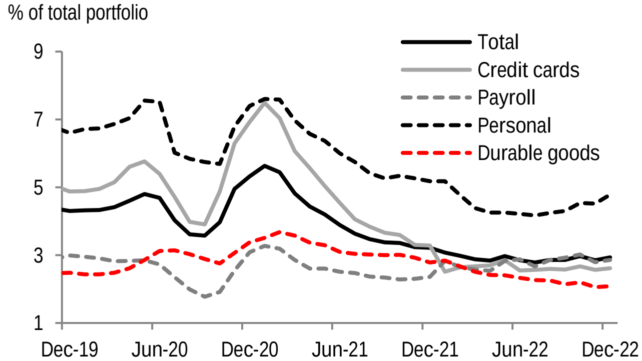
Source: Banorte with data from Banxico

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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