

## Banking credit – Remains in negative territory in September

- Today, Banxico published its banking credit report for September 2020
- Banking credit declined 1.6% y/y in real terms, above our -2.0% forecast but below the -1.4% of the previous month
- Looking at the breakdown, the deceleration was due to lower growth in consumer (-10.0%) and corporate (0.0%) loans. Nevertheless, mortgages were slightly stronger at +4.6%
- Non-performing loans improved to 2.3% of the total portfolio, with very marginal adjustments across all sectors contributing to the decline
- We continue expecting banking credit to remain weak in coming months. Nevertheless, the system remains fundamentally solid, with actions from regulators and financial institutions being key to bolster capitalization levels

**Banking credit remains at negative territory in the annual comparison in September.** In particular, banking credit to the private non-financial sector contracted 1.6% y/y in real terms (see [Chart 1](#)), its lowest level since May 2010. This result came in above our expectation at -2.0% but below the previous figure of -1.4%. It should be noted that there isn't a significant impact from annual inflation relative to the previous month, as it actually decreased by 3.5bps, contrasting with latest prints in which there was a negative impact. All in all, we consider the more modest pace of the decline to be somewhat favorable, despite the additional contraction. Nevertheless, we consider that the uncertainty around economic activity and its path going forward continues to weight on credit demand. Specifically, credit to corporates decelerated to 0.0% from +0.1%, now adding five months with a deceleration. We believe this performance is mainly driven by a still risky outlook, with many unknown variables clouding their decisions. Taking a look at the breakdown, only 4 out of the 13 sectors showed a worse performance relative to August, but with a relevant impact from the magnitude and relative weight of the categories. In particular we highlight the deceleration in utilities (+2.0% from +2.9%) and commerce (-9.4% from -7.0%). On the contrary, some of the most improved were mining (-1.9% from -19.4%) and construction (-14.7% from -18.5%), among others, as seen in [Table 1](#).

Mortgages actually accelerated to 4.6% from 4.4% in August. Inside, low-income housing credit continued to speed-up its decline to -14.5%, while loans for the residential sector were better at +6.1%. Meanwhile, consumer credit fell 10.0%, lowest since May 2010. Inside, all major worsened at the margin ([Chart 2](#)), highlighting strong decreases in credit cards (-11.6%), personal credit (-19.0%) and others (-14.3%). Meanwhile, durable goods (-1.1%) –driven by other durable goods (+21.3%)– and payroll credits (-5.3%), showed more resiliency. We consider that even with the recent improving in fundamentals, conditions surrounding the pandemic will keep weighing on families' spending decisions, and thus, reflected as a lower demand for credit.

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Winners of the award for best economic forecasters for Mexico in 2019, granted by *Refinitiv*



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**Non-performing loans improve marginally to 2.3% of total loans.** Inside, all sectors showed slight improvements, but not being actually reflected due to rounding effects. In particular, corporates stood at 1.7%, with mortgages at 3.2% and consumer loans at 3.6% ([Chart 3](#)). We consider that the stability in these figures is largely driven by the refinancing programs approved by the National Banking and Securities Commission (CNBV in Spanish) and other financial authorities such as Banxico and the MoF. Considering that these measures will remain in place for a while, we believe the indicator will continue to show low and stable levels in coming months.

**We expect weakness to prevail in banking credit in coming months.** Despite the improvement in economic activity in the last few months, conditions remain very challenging, which we believe will weigh on credit demand across most sectors. In addition, and unlike previous crisis, we consider that the outlook going forward is still very uncertain, as there are still many unknowns regarding a possible treatment or vaccine against the virus. While there are signs of fatigue, mainly from consumers, we think this will mainly reflect on purchases of non-durable goods and some services, also being carried out with available resources and not incurring in debt to acquire them. In this sense, and as previously mentioned, we believe that it will take some time for conditions to improve enough to instill confidence on consumers. A similar situation might happen with corporates, delaying CAPEX decisions until there is more certainty, possibly only dipping into existing credit lines to face short-term financing needs. Finally, mortgages might be more resilient, as evidenced by today's performance, with their structural nature being more beneficial.

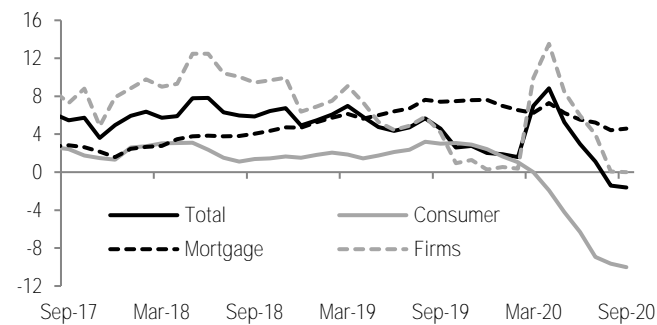
On the financial system overall, latest figures from the CNBV and those within corporate reports suggest good levels of capitalization, aided by the programs outlined above but bolstered by banks themselves. In this context, we consider that the system remains healthy, even despite the massive economic shock at a global and domestic level.

Banking credit  
% y/y in real terms

	Sep-20	Aug-20	Sep-19	Jan-Sep '20	Jan-Sep '19
Private banking credit	-1.6	-1.4	4.6	2.8	5.4
Consumer	-10.0	-9.7	3.0	-4.3	2.2
Credit cards	-11.6	-11.3	2.6	-6.2	1.2
Payroll	-5.3	-5.0	5.8	-0.6	4.2
Personal	-19.0	-18.8	-3.1	-10.6	-2.1
Durable goods	-1.1	-0.8	7.7	2.2	7.8
Auto loans	-3.1	-2.6	6.5	0.7	7.5
Other durable goods	21.3	17.9	21.6	19.3	11.2
Others	-14.3	-11.8	4.1	-1.6	1.7
Mortgage	4.6	4.4	7.4	5.9	6.3
Social interest	-14.2	-13.5	-6.8	-10.1	-10.3
Medium and residential	6.1	5.8	8.7	7.2	8.0
Firms	0.0	0.1	4.2	4.8	6.1
Primary activities	-1.6	1.7	13.5	8.6	11.2
Mining	-1.9	-19.4	-16.3	0.9	4.1
Construction	-14.7	-18.5	-9.7	-10.3	-6.5
Utilities	2.0	2.9	7.1	5.0	11.2
Manufacturing industry	-3.8	-4.4	5.8	2.5	7.2
Commerce	-9.4	-7.0	3.3	-4.5	5.4
Transportation and storage	3.1	1.0	-2.3	6.0	1.0
Mass media services	1.9	5.8	-0.1	25.2	6.0
Real estate services	12.7	12.0	6.2	14.2	5.9
Professional services	-22.8	-23.3	1.5	-15.7	1.0
Recreational services	21.9	20.7	19.6	23.3	19.0
Other services	10.6	9.9	5.3	14.8	2.0
Not sectorized	1.8	0.1	-15.5	-2.3	-9.4
Non-banking financial intermediaries	-11.5	-6.2	8.9	-0.8	12.1

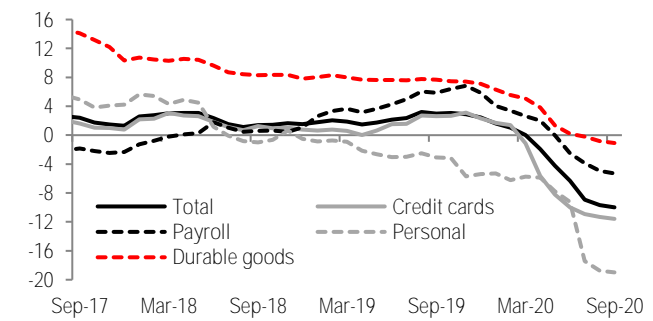
Source: Banxico

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



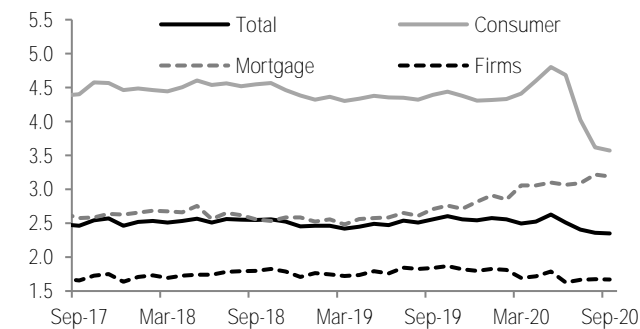
Source: Banorte with data from Banxico

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



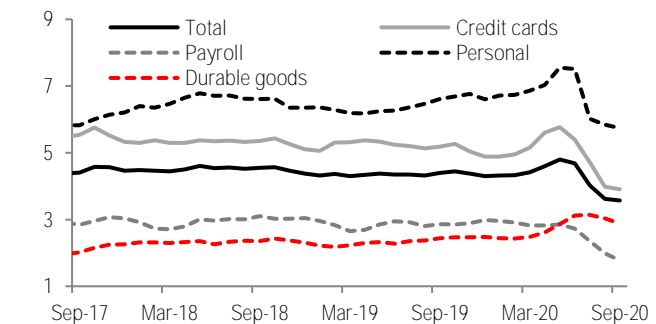
Source: Banorte with data from Banxico

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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We, Gabriel Casillas Olvera, Alejandro Padilla Santana, Delia María Paredes Mier, Juan Carlos Alderete Macal, Manuel Jiménez Zaldivar, Marissa Garza Ostos, Tania Abdul Massih Jacobo, Francisco José Flores Serrano, Katia Celina Goya Ostos, Santiago Leal Singer, José Itzamna Espitia Hernández, Valentín III Mendoza Balderas, Víctor Hugo Cortes Castro, Hugo Armando Gómez Solís, Miguel Alejandro Calvo Domínguez, Luis Leopoldo López Salinas, Leslie Thalía Orozco Vélez, Gerardo Daniel Valle Trujillo, Eridani Ruibal Ortega 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.

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