

Banking credit – The deceleration continued in February

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- Today, Banxico published its banking credit report for February 2021
- Banking credit declined 6.0% y/y in real terms, lower than our -5.3% forecast and the -5.1% of the previous month
- Looking at the breakdown, the contraction was due to a deceleration in all sectors, with weakness centered in corporate (-5.9%) and consumer loans (-13.6%). Nevertheless, mortgages declined marginally to +4.5%
- Non-performing loans (NPLs) were unchanged at 3.0% of the total portfolio. Inside, consumer loans corrected lower, with corporates unchanged and mortgages climbing slightly
- We expect weakness in credit to persist in the next months, despite a relatively more favorable outlook for activity. The financial system remains healthy, with timely actions from both financial institutions and regulators

Banking credit to the private non-financial continues to decline. It contracted 6.0% y/y in real terms in February (see [Chart 1](#)), lowest since March 2010. This came below our expectation at -5.3% and the previous figure of -5.1%. During the period, there was a negative impact from annual inflation, rising 22bps. However, prevailing weakness in activity –exacerbated by shocks from blackouts and lack of natural gas– in a still uncertain environment probably continued to weigh on credit demand. In this sense, corporates fell 4.9% and added ten months to the downside. We think credit will remain low in the next months, dragged by a more challenging base effect in the short-term, possibly gaining some dynamism once the recovery gains traction. Looking at the breakdown, 9 out of 13 sectors worsened relative to January (see [Table 1](#)). Among these we highlight real estate (-5.8% from -1.3%), mass media (-11.3% from -8.1%), and lodging (7.8% from 11.0%). On the contrary, sectors that improved were primary activities (-6.3% from -6.5%), commerce (-15.1% from -15.2%) and professional services (-21.6% from -21.8%).

Mortgages decelerated slightly, to 4.5% from 4.9% in January. Inside, low-income housing credit was lower at -16.2%, while the residential sector loans were also weaker at 6.0%. Meanwhile, consumer credit fell 13.6%, lowest since March 2010. Inside, all major categories debilitated ([Chart 2](#)), with persistent weakness in credit cards (-16.4%), personal loans (-23.0%) and others (-16.9%). Meanwhile, durable goods (-4.4%) –supported by others (+31.4%)– and payroll credits (-7.1%), were slightly ‘better’. Despite improving conditions in the outlook for the virus in the month, credit in this sector extended further down. Specifically, we believe this could be a result of two factors: (1) Uncertainty weighing on purchasing decisions, especially on expensive goods; and (2) the possibility that savings built up during the pandemic that were not required are now being used for the acquisition of some items, negating the need for credit. In this context, we will be looking closely to the future performance of this sector along consumption figures, trying to have a better pulse on the situation.

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Non-performing loans remain at 3.0% of total loans. Inside, NPLs for consumer loans fell to 5.4% from 5.6% ([Chart 3](#)), breaking an upward trend for the last four months. Corporates were unchanged at 2.0%, with mortgages higher by 10bps to 3.4%. Although we recognize an upward bias in these figures due to the contraction in outstanding loans, we consider that stability in this print was favorable. Apart from this, we should remember that both banks and regulators –such as the *National Banking and Securities Commission* (CNBV in Spanish), the MoF, and Banxico– have taken steps to avoid any significant shocks from these increases.

We expect weakness in credit to persist in the next few months. We believe that credit will remain in negative territory in the short-term, with several headwinds. Firstly, we highlight a negative base effect from March to July, mainly driven by a strong expansion in corporate loans. In addition, and similar to what we have seen in previous recessions, the recovery in the sector could lag, with the need of clearer signs of a rebound needed to trigger higher demand. Nevertheless, we note a better outlook for activity, expecting higher dynamism from external demand. We also do not rule out that progress in the vaccination process could result in higher confidence, making some of the most impacted sectors to gather strength. Lastly, the health of the financial system remains despite higher NPLs over the last few months. In this sense, we will keep looking closely at their behavior, as well as additional measures that may be taken in case risks increase further.

Banking credit

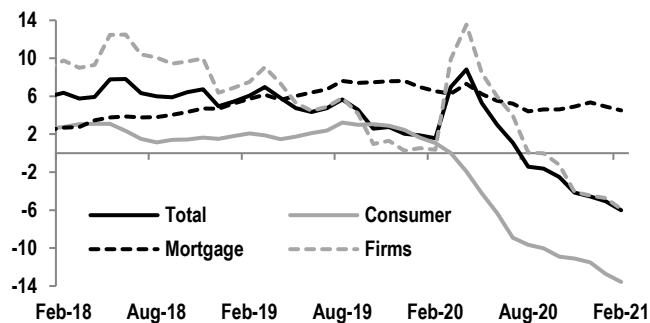
% y/y in real terms

	Feb-21	Jan-21	Feb-20	Jan-Feb'21	Jan-Feb'20
Private banking credit	-6.0	-5.1	1.6	-5.5	1.7
Consumer	-13.6	-12.7	1.1	-13.1	1.3
Credit cards	-16.4	-15.7	1.4	-16.1	1.6
Payroll	-7.1	-6.3	3.4	-6.7	3.7
Personal	-23.0	-22.3	-6.2	-22.6	-5.8
Durable goods	-4.4	-3.6	5.5	-4.0	5.9
Auto loans	-8.0	-7.0	4.1	-7.5	4.4
Other durable goods	31.4	30.7	22.9	31.1	23.4
Others	-16.9	-13.6	4.5	-15.2	4.8
Mortgage	4.5	4.9	6.5	4.7	6.7
Social interest	-16.2	-15.2	-7.2	-15.7	-7.2
Medium and residential	6.0	6.4	7.7	6.2	7.9
Firms	-5.9	-4.7	0.4	-5.3	0.4
Primary activities	-6.3	-6.5	9.8	-6.4	10.4
Mining	-33.9	-31.6	-4.9	-32.8	-5.2
Construction	-14.9	-13.9	-8.1	-14.4	-8.5
Utilities	-0.8	-0.2	2.7	-0.5	3.4
Manufacturing industry	-7.5	-6.4	-6.6	-7.0	-6.2
Commerce	-15.1	-15.2	-3.9	-15.1	-3.3
Transportation and storage	-7.9	-6.9	1.3	-7.4	0.4
Mass media services	-11.3	-8.1	31.0	-9.7	27.6
Real estate services	-5.8	-1.3	7.4	-3.6	6.3
Professional services	-21.6	-21.8	-6.3	-21.7	-5.2
Recreational services	7.8	11.0	13.0	9.4	11.1
Other services	11.7	12.1	5.0	11.9	5.6
Not sectorized	12.0	11.6	-12.2	11.8	-12.6
Non-banking financial intermediaries	-27.1	-25.5	-3.0	-26.3	-3.3

Source: Banxico

Chart 1: Banking credit

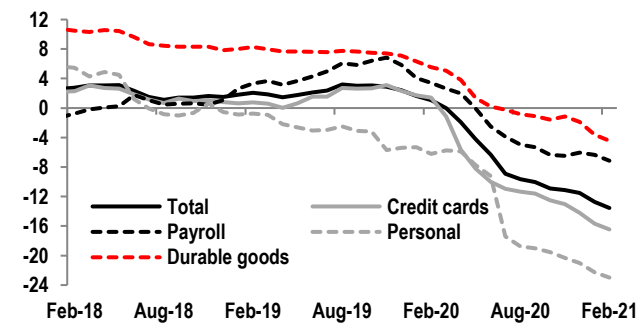
% y/y in real terms



Source: Banorte with data from Banxico

Chart 2: Consumer credit

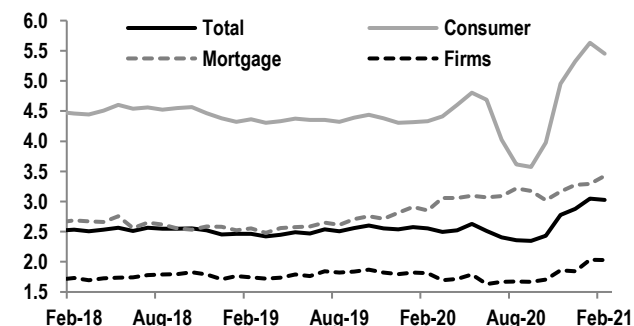
% y/y in real terms



Source: Banorte with data from Banxico

Chart 3: Non-performing loans

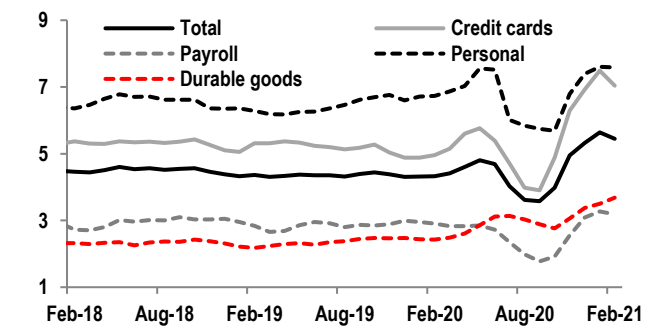
% of total portfolio



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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