Banking credit – Faster recovery in December

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- **Today, Banxico published its banking credit report for December 2021**
- **Banking credit declined 2.7% y/y in real terms, better than the -4.6% of the previous month and our -3.7% forecast. This suggests a larger recovery in loans, even in a still complex backdrop**
- **Corporate credit maintained the largest contraction at -4.3%, with the base effect diluting progressively. Mortgages came in at +2.7% and consumer loans improved for a tenth in month in a row, to -2.1%**
- **Non-performing loans (NPLs) improved to 2.3% of the total portfolio. Consumer loans were unchanged, with mortgages and corporates lower**
- **We expect banking credit to extend its recovery in the short-term, although not ruling out a moderation as risks have increased further**

Banking credit extends its recovery in December. Commercial banking credit to the private non-financial sector contracted 2.7% y/y in real terms in the last month of 2021 (see Chart 1). This came above our expectations at -3.7% and the -4.6% of the previous month. Although figures remain under pressure from base effects, the improvement is better than the one suggested exclusively by the latter. As such, we believe a more vigorous recovery has extended through the last four months, partly fostered by virus conditions and better fundamentals, despite a challenging backdrop for the economy and price dynamics. At the margin, the effect from annual inflation is practically non-existent, with a decrease of just 1bp to 7.36%. In this context, corporate loans fell 4.3% y/y in real terms, extending the recovery. Looking at the breakdown, only 3 out of 13 sectors worsened relative to November (see Table 1). These were lodging and restaurants (-2.7% from 0.9%), professional services (-4.5% from -2.5%) and not sectorized (2.1% from 5.2%). On the contrary, the most notable improvements were in mining (2.7% from -15.8%), mass media (-3.2% from -11.1%) and transportation (5.1% from -0.2%).

Mortgages came in at 2.7% from 2.3% in November. Inside, low-income housing credit improved to -16.0% (previous: -16.8%), with residential higher also at 3.8% (previous: 3.4%). Consumer loans stood at -2.1% from -3.3%. Details were positive (Chart 2) in all but one category, being this 'others' (7.3% from 15.5%). With favorable dynamics we noted credit cards (-2.8% from -5.0%), payroll loans (0.8% from 0.0%), personal (-4.4% from -6.4%), and durable goods (-4.9% from -5.5%). We think the uptick was mostly driven by better fundamentals (specifically employment, stringing three months with more jobs), although not ruling out an additional boost from the holiday season. However, we remain wary about the effect of price pressures in consumption, given that it could outright dampen it, or boost an additional demand for credit to purchase some goods. We will continue monitoring dynamics in coming months to analyze which may be the dominant effect.

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Non-performing loans improve to 2.3% of the portfolio. This represents a 10bps improvement relative to the previous month. Inside, NPLs for consumer loans were unchanged at 3.2% (Chart 3). Mortgages were lower to 3.1% (previous: 3.3%), with corporates also better at 1.7% (previous: 1.8%). 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, as well as corporates more recently; 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.

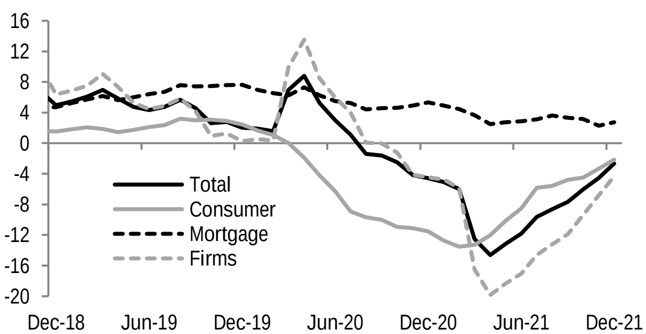
We expect credit to continue improving, although not ruling out a moderation on mounting risks. The past four months have shown a faster-than-expected recovery, suggesting that loans might be gathering momentum. This would be favorable as the economic backdrop has remained challenging, even despite some key improvements in different sectors. As such, it is our take that the trend ahead might remain favorable, boosted by a resilient labor market and the hike to the minimum wage that came into effect in January. However, risks remain, including: (1) Prevailing price pressures, dampening real incomes; (2) the possible impact on activity from the 'Omicron' variant; and (3) some idiosyncratic challenges. By sectors, we believe both consumer and corporate loans remain as the most exposed to changing winds but are also the ones that stand the make up the most when the recovery gathers additional pace, especially considering accumulated losses since 2020. Mortgages will likely remain more stable, influenced by longer-term drivers (*e.g.* supply, demographics, etc.). 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

	Dec-21	Nov-21	Dec-20	Jan-Dec'**21**	Jan-Dec'**20**
Private banking credit	-2.7	-4.6	-4.6	-8.7	1.2
Consumer	-2.1	-3.3	-11.5	-8.2	-6.1
Credit cards	-2.8	-5.0	-14.2	-9.4	-8.0
Payroll	0.8	0.0	-6.0	-3.7	-2.0
Personal	-4.4	-6.4	-21.0	-16.6	-12.9
Durable goods	-4.9	-5.5	-1.9	-4.2	1.2
Auto loans	-7.6	-8.4	-5.2	-7.7	-0.6
Other durable goods	14.4	15.6	31.1	27.7	21.7
Others	7.3	15.5	-10.4	-1.5	-4.9
Mortgage	2.7	2.3	5.3	3.3	5.6
Social interest	-16.0	-16.8	-15.4	-17.0	-11.2
Medium and residential	3.8	3.4	6.9	4.6	7.0
Firms	-4.3	-6.8	-4.5	-12.2	2.8
Primary activities	-0.9	-2.6	-6.5	-6.8	4.8
Mining	2.7	-15.8	-38.0	-30.4	-5.8
Construction	-16.9	-17.5	-14.2	-17.0	-11.5
Utilities	-6.7	-7.7	0.2	-8.3	3.9
Manufacturing industry	-5.2	-7.8	-8.6	-16.0	-0.1
Commerce	-6.9	-9.8	-12.8	-16.1	-6.2
Transportation and storage	5.1	-0.2	-7.3	-11.8	3.7
Mass media services	-3.2	-11.1	0.3	-18.7	18.6
Real estate services	-7.0	-11.5	-1.4	-13.8	11.7
Professional services	-4.5	-2.5	-22.1	-13.5	-17.0
Recreational services	-2.7	0.9	12.0	-5.4	20.6
Other services	-0.6	-3.5	12.8	-6.2	14.3
Not sectorized	2.1	5.2	9.2	4.0	-0.2
Non-banking financial intermediaries	-22.7	-29.9	-23.2	-31.7	-4.6

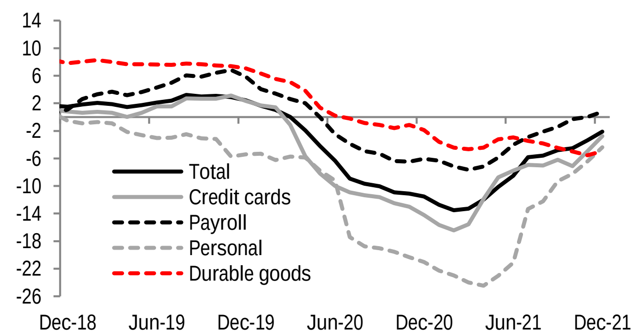
Source: Banxico

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



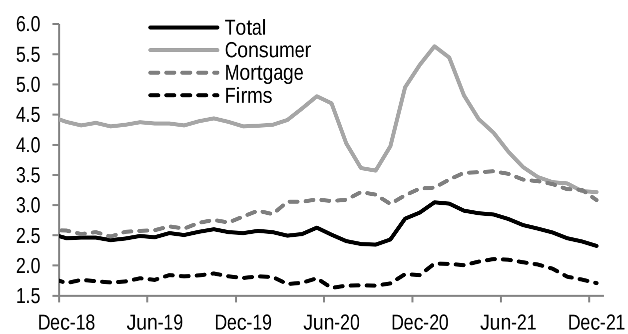
Source: Banorte with data from Banxico

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



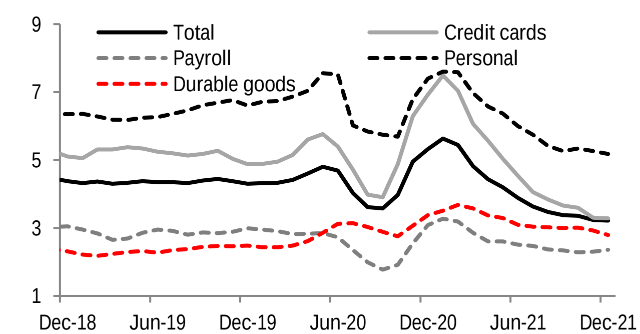
Source: Banorte with data from Banxico

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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