May 31, 2022

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Banking credit continues strengthening despite inflationary pressures

- **Today, Banxico published its banking credit report for April 2022**
- **Banking credit rose 0.7% y/y in real terms, which is the first positive annual rate since July 2020. We believe this was driven by resilience in economic activity despite an acceleration in inflation**
- **Inside, consumer loans increased by 3.9%, significantly higher than the previous print. Meanwhile, corporate loans fell 1.2%, albeit continuing with their recovery trend. Finally, housing credit was stable at +3.4%**
- **Non-performing loans (NPLs) were unchanged at 2.7% of the total portfolio. Inside, all components fell around 10bps, with consumer loans at 2.8%, mortgages at 2.9% and businesses at 2.5%**
- **We believe that credit will maintain positive rates during the second quarter of 2022. However, inflationary pressures may limit domestic demand, on top of impacting credit figures themselves**

Banking credit maintains its recovery and achieves a positive rate. Banking credit to the non-financial private sector rose 0.7% y/y in real terms in the fourth month of 2022 (see Chart 1). The result was below our estimate of +1.6%. Considering that price pressures continued in the period (CPI: 7.68% y/y; PPI: 10.35% y/y), the recovery trend is quite positive. In this sense, we believe a seasonal effect, as well as some fundamentals, boosted credit. Highlighting: (1) Higher employment in April (mainly in the formal sector) (2) signs of resilience in economic activity, continuing the dynamism shown in 1Q22; and (3) a boost in services, coming from tourism on a seasonal effect due to the Holy Week.

By components, corporate loans fell 1.2% y/y, improving 210bps vs. the previous month. Looking at the breakdown, all sectors picked up relative to March (see Table 1). Categories with the greatest pick up were professional services (1.8%; 720bps), mass media (7.9%; 460bps), recreational (0.5%; 420bps), transportation (6.5%; 420bps) and mining (-1.9%; 390bps). On the contrary, manufacturing was had the more modest increase, of only +10bps (-5.6% from -5.7%). Mortgages remained stable at +3.4%. By items, 'low-income housing' was better at -11.9% (previous: -15.7%), while 'residential' declined to 4.3% from 4.5%.

Consumer loans increased to 3.9% from 2.7%, adding four months in positive territory. Inside, performance was mixed, (Chart 2). In that regard, personal loans (3.2% from -0.5%) led higher, followed by credit cards (4.9% from 3.3%), and payroll loans (4.6% from 3.8%). Durable goods registered a marginal decrease (-1.1 from -0.9%). Lastly, 'others' remained with a two-digit expansion (15.2%) although moderating at the margin.

In our view, local credit remains positive despite headwinds both at the local –pressures at the purchasing power– and global levels –uncertainty in production processes due to China's lockdowns and the lengthening of the war in Ukraine–, which can also limit dynamism in domestic demand.

Non-performing loans unchanged at 2.7% of the total portfolio. Inside, (Chart 3), all indices fell by 10bps. As such, consumption came in at 2.8%, with corporates at 2.5% and mortgages at 2.9%. We see the individual declines as positive, especially when compared to the levels at the beginning of the year. In this sense, we continue believing that the system remains well capitalized and with strong foundations.

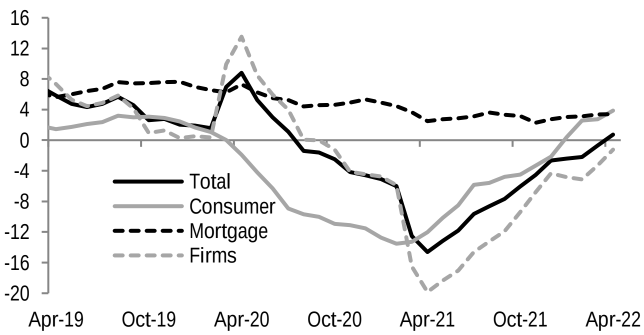
Prevailing risks could slow credit demand in 2Q22. Less concerns about the pandemic have favored the recovery of credit demand so far in 2022, through greater mobility and the return to in-person activities. In addition, timely data (*e.g.* ANTAD sales, IMEF PMIs) suggests a certain degree of resilience, which may allow an extension of the recovery trend. However, the prevalence of price pressures and higher inflation expectations remains as the main risk. In this sense, we are attentive to households' purchases and financing behavior, considering that a loss in purchasing power –caused by the current level of inflation– can make households postpone or eliminate non-essential expenses, as well as covering the gap in their spending needs with credit. On corporate loans, we believe the recovery is likely to slow down considering pressures on inputs and Banxico's tightening cycle. On a more positive note, towards the second half of the year, economic activity can boost credit in a context of lower domestic inflation and the reactivation of global trade. Finally, it is important to highlight the health of the financial system and its ample capacity to cover loan demand in the future.

Banking credit
% y/y in real terms

	Apr-22	Mar-22	Apr-21	Jan-Apr'22	Jan-Apr'21
Private banking credit	0.7	-0.7	-14.6	-1.1	-9.7
Consumer	3.9	2.7	-12.0	2.4	-12.9
Credit cards	4.9	3.3	-11.9	2.7	-14.9
Payroll	4.6	3.8	-7.2	3.8	-7.1
Personal	3.2	-0.5	-24.5	-0.9	-23.4
Durable goods	-1.1	-0.9	-4.4	-1.0	-4.3
Auto loans	-5.6	-5.5	-8.4	-5.7	-8.0
Other durable goods	28.5	30.6	34.6	31.4	32.4
Others	15.2	20.8	-12.9	20.4	-12.9
Mortgage	3.4	3.4	2.5	3.2	3.9
Low-income housing	-11.9	-15.7	-17.9	-14.1	-16.5
Medium and residential	4.3	4.5	3.9	4.2	5.4
Firms	-1.2	-3.3	-19.8	-3.6	-12.2
Primary activities	4.1	1.6	-13.7	1.7	-9.9
Mining	-1.9	-5.8	-48.7	-5.2	-41.1
Construction	-9.6	-12.2	-19.4	-13.4	-16.1
Utilities	-3.0	-5.2	-12.8	-5.7	-5.6
Manufacturing industry	-5.6	-5.7	-24.2	-6.3	-15.8
Commerce	-1.0	-3.2	-23.2	-4.2	-18.6
Transportation and storage	6.5	2.3	-21.7	2.8	-14.3
Mass media services	7.9	3.3	-30.7	4.0	-21.7
Real estate services	-3.7	-6.1	-19.7	-6.9	-10.6
Professional services	1.8	-5.3	-19.4	-3.6	-20.9
Recreational services	0.5	-3.8	-14.8	-3.2	-2.2
Other services	3.8	2.8	-14.8	1.7	-1.4
Not sectorized	-0.2	-2.5	-2.3	-0.6	5.6
Non-banking financial intermediaries	-11.1	-11.3	-42.1	-21.5	-33.3

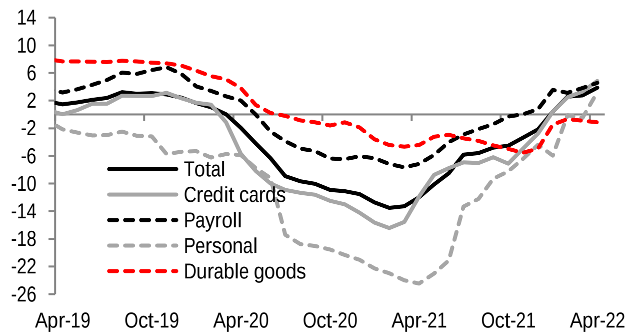
Source: Banxico

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



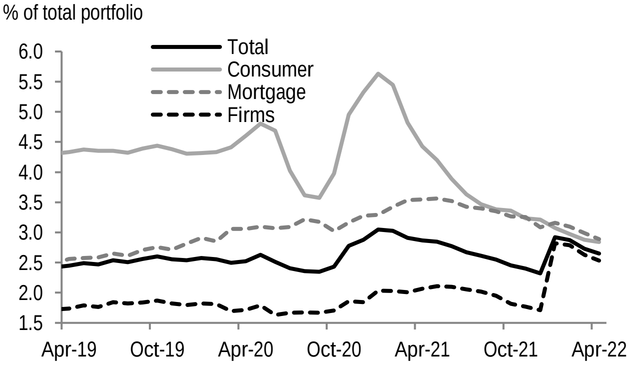
Source: Banorte with data from Banxico

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



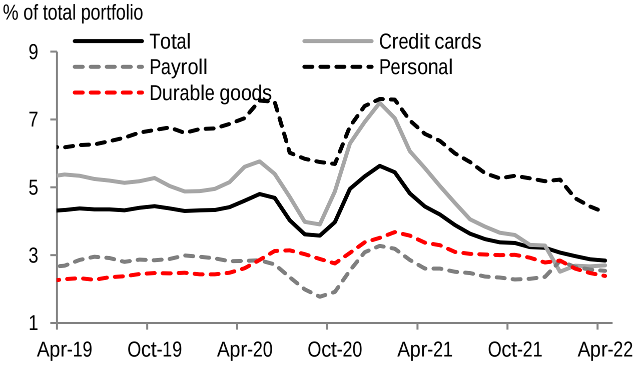
Source: Banorte with data from Banxico

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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