

Banking credit keeps rising, driven by consumer loans

June 30, 2022

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- Today, Banxico published its banking credit report for May 2022
- Banking credit rose 2.2% y/y in real terms, adding a second month in positive territory. We believe that the increase was driven by higher dynamism in the economy, although we do not rule out an impact of price pressures
- Inside, consumer loans continued its growth trend, increasing 4.5%. Meanwhile, corporate loans managed to return to positive territory at 1.1%. Lastly, mortgages were more stable at 3.5%
- Non-performing loans (NPLs) remained unchanged, standing at 2.7% of the total portfolio. Inside, consumer loans index had a modest deterioration, rising to 3.0%. Meanwhile, corporates and mortgages remain without changes at 2.5% and 2.9%, respectively
- We expect credit to continue growing in the short-term, driven by the consumer loans. However, we remain cautious about the repercussions that inflationary pressures and higher interest rates may have on consumption and on investment

Banking credit continues with its upward trend. Banking credit to the non-financial private sector grew 2.2% y/y in real terms in May (see [Chart 1](#)), above our +1.1% estimate. This implies a significant improvement in sequential terms, which we believe is partially explained by *Hot Sale* discounts and other promotions in the month, on top of the additional recovery in the activity. In our opinion, this result is quite positive, suggesting resilience by investment and consumption. This is relevant taking into account that dynamism of some fundamentals, such as employment, which showed [a reduction in jobs](#). Meanwhile, early signs on activity also pointed to more moderate growth, highlighting the latest [INEGI's Timely Indicator of Economic Activity estimates](#). Lastly, inflationary pressures continued –especially within the core component, with 18 consecutive months to the upside (7.28% y/y)–, which could imply additional risks for household's consumption.

By components, corporate loans rose 1.1% y/y, which represents an improvement of 230bps vs. April. Looking at the breakdown, there was a general upward behavior (see [Table 1](#)). We highlight progress of mass media (16.0% from 7.9%), transportation (10.8% from 6.5%) and real estate services (-1.0% from -3.7%), with these last two stringing three months of improvements. Manufacturing continued with their recovery, even accelerating by +390bps, to -1.7%. Meanwhile, mortgages had a marginal increase to +3.5%, with the 'residential' component explaining the growth by rising to 4.4% (previous: 4.3%). However, 'low-income housing' moderated to -12.9% (previous: -11.9%).

Lastly, consumer loans increased to 4.5% from 3.9%. Inside, performance was better for most items ([Chart 2](#)). As such, personal loans once again led the increase (4.6% from 3.2%), followed by payroll loans (5.1% from 4.6%) and durable goods (-0.7% from -1.1%).

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Credit cards were more stable (unchanged at 4.9%). Lastly, ‘others’ maintained a two-digit expansion (19.4%) increasing its pace. It is worth mentioning that consumer loans achieved a sixteenth month of improvement, and five months in positive territory. Despite this, pace in this month would seem to point to the fact that price pressures may be leading households to rearrange their spending.

Non-performing loans remain stable at 2.7% of the total portfolio. Inside, ([Chart 3](#)), consumption presented a slight deterioration of 20bps, increasing to 3.0%. Corporates were flat at 2.5%. In addition, mortgages were unchanged at 2.9%. We consider that the performance of the non-performing loans is quite healthy taking into account the expansion of the banking credit portfolio, in addition to remaining at relatively low levels and with limited volatility. We believe this reflects good risk management by the banking system and regulatory bodies.

We expect a moderation in the pace of growth in following months. We think that credit dynamics could be impacted by two factors in the short-term: (1) A possible slowdown in the pace of the recovery of economic activity; and (2) the prevalence of inflationary pressures. On the first point, although some of the supply shocks that have characterized the year have diminished at the margin (*e.g.* moderation in commodities prices and more lax measures in China), concerns about the effects of more restrictive monetary policies have impacted the global growth expectations. In this sense, we believe that the outlook for investment and consumption could moderate through expectations channels. On the other hand, price pressures will probably keep rising in coming months, explaining [our recent revision for year-end inflation](#), now expected at 8.1%. Specifically, our trajectory incorporates that the high point will be seen in August, with additional gains in the annual metric up to that point. Hence, and remembering that data is measured in real terms, the arithmetic effect is negative. In addition, we must consider the possible impacts on household’s disposable income.

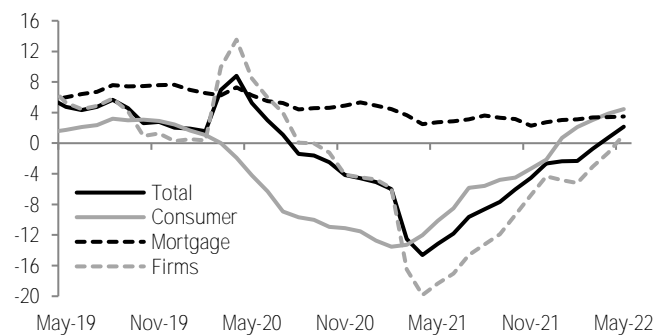
Considering this, as well as the increase in the cost of credit due to the [hikes in the reference rate by the central bank](#), the appetite for consumer and corporate loans could moderate. However, considering that mortgages tend to be less cyclical, they could be more stable at the margin.

Banking credit
% y/y in real terms

	May-22	Apr-22	May-21	Jan-May'22	Jan-May'21
Private banking credit	2.2	0.7	-13.1	-0.5	-10.4
Consumer	4.5	3.9	-10.1	2.8	-12.4
Credit cards	4.9	4.9	-8.7	3.0	-13.8
Payroll	5.1	4.6	-5.9	4.0	-6.8
Personal	4.6	3.2	-23.0	0.8	-23.3
Durable goods	-0.7	-1.1	-3.2	-1.1	-4.1
Auto loans	-5.1	-5.6	-7.5	-5.7	-7.9
Other durable goods	28.4	28.6	38.5	30.8	33.6
Others	19.4	15.2	-15.0	20.2	-13.4
Mortgage	3.5	3.4	2.7	3.3	3.6
Low-income housing	-12.9	-11.9	-17.7	-13.9	-16.7
Medium and residential	4.4	4.3	4.1	4.2	5.1
Firms	1.1	-1.2	-18.3	-2.7	-13.5
Primary activities	6.0	4.1	-11.0	2.6	-10.1
Mining	-20.2	-1.9	-35.7	-8.7	-40.0
Construction	-8.1	-9.6	-18.7	-12.3	-16.6
Utilities	-0.8	-3.0	-11.5	-4.7	-6.8
Manufacturing industry	-1.7	-5.6	-23.6	-5.3	-17.5
Commerce	-0.8	-1.1	-21.3	-3.4	-19.2
Transportation and storage	10.8	6.5	-21.7	4.4	-15.8
Mass media services	16.0	7.9	-29.0	6.3	-23.2
Real estate services	-1.0	-3.7	-18.8	-5.8	-12.3
Professional services	4.0	1.8	-15.5	-2.1	-19.9
Recreational services	2.5	0.5	-12.8	-2.1	-4.4
Other services	6.1	3.8	-14.6	2.6	-4.3
Not sectorized	2.1	-0.2	0.9	-0.5	4.7
Non-banking financial intermediaries	-10.5	-11.0	-38.7	-22.3	-34.4

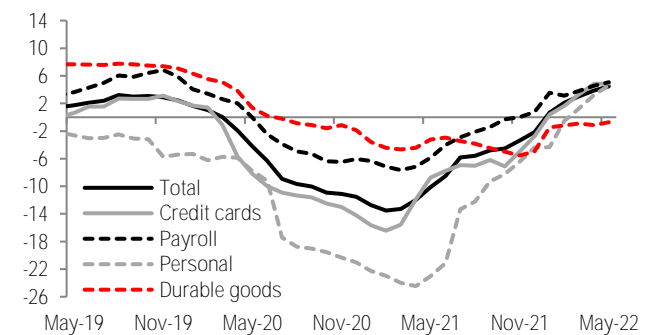
Source: Banxico

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



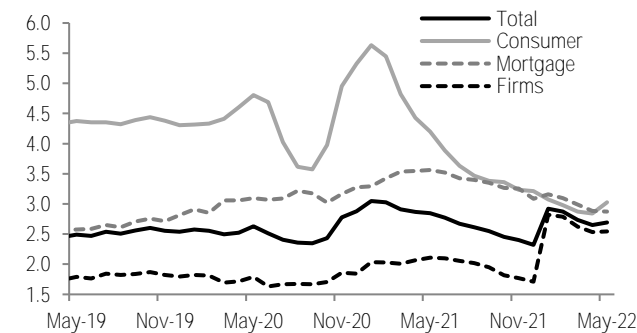
Source: Banorte with data from Banxico

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



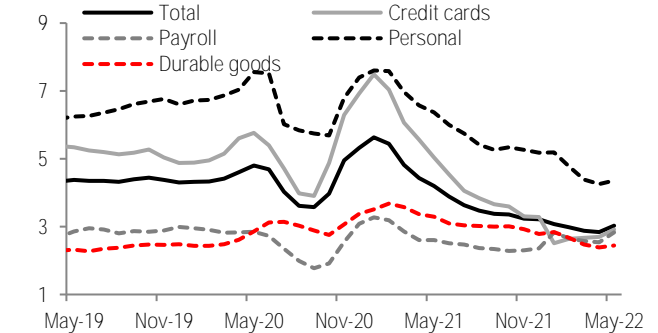
Source: Banorte with data from Banxico

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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