

The recovery of credit continues, supported by economic dynamism

- Today, Banxico published its banking credit report for June 2022
- Banking credit rose 2.9% y/y in real terms, adding three consecutive months in positive territory. Considering the situation of domestic demand, we believe that the pace of credit expansion is justified by prevailing slack and by the strength of services
- Inside, consumer loans continue to be the main driver of growth, up 5.0%. Corporate loans also improved to 1.9%, meanwhile mortgages had a marginal fall to 3.4%
- Non-performing loans (NPLs) fell to 2.6% of the total portfolio. Inside, the three items also improved. The index for consumer loans stood at 2.9%, with mortgages at 2.8%, and corporates at 2.4%
- Towards 3Q22 we expect credit to maintain its expansion. Nevertheless, we do not rule out a moderation in the pace due to some greater economic headwinds for the rest of the year

Banking credit expansion continues in June. Banking credit to the non-financial private sector increased 2.9% y/y in real terms in June (see [Chart 1](#)), close to our estimate of +2.6%. This is the third month in positive territory—and the thirteenth of the recovery cycle—. At the margin, we believe that there may be a slight moderation on the pace of progress, which could be explained by the increase in contagions due to fifth wave of COVID-19 and by the beginning of summer holidays. Analyzing economic activity figures, we find positive signs at the end of 2Q22. Specifically, implied figures within [2Q22 preliminary GDP](#) point to an extension in industry growth, with services rebounding strongly. In this sense, we believe that the behavior of credit continues to be supported by the performance of domestic demand. Regarding fundamentals, we believe that this relationship is also quite clear. On the positive side, [better employment conditions](#) in the period favored consumption. On a negative note, high levels of inflation continued—with average annual rate at 7.99% y/y, highlighting the pressures on food items—, which translates into an important limitation for household's disposable income.

By components, consumer loans remain as the main driver of banking credit, adding 17 months of improvements. In that sense, and considering price pressures, we are paying attention to its pace of expansion, which has seemingly slowed for a second month. In the period it rose to 5.0% y/y from 4.5%, with all components better ([Chart 2](#)). Personal loans had the highest expansion once again (5.4% from 5.1%), although with a similar progress to other components such as credit cards (5.4% from 4.9%) and payroll (5.4% from 5.1%). 'Other' maintained a two-digit expansion (23.6%). Lastly, despite having increased, durable goods remain in negative territory (-0.3% from -0.6%).

Corporate loans kept growing, which may be a result of the expansion in industry and services during the period. The increase was 78pb vs. the previous month, resulting in +1.9%.

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Winners of the award for best economic forecasters for Mexico in 2021, granted by *Refinitiv*



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In the detail, behavior was also skewed up (see [Table 1](#)). We highlight the advance of mining (-6.1% from -19.9%), mass media (18.7% from 15.9%) and commerce (0.9% from -0.9%), Manufacturing also continued with the recovery, accelerating by +86bp, to -0.8% Finally, mortgages decreased marginally to 3.4%, with low-income housing falling to -12.8% (previous: -12.6%), while residential dropped to 4.3% (previous: 4.4%).

Non-performing loans decreased by 10bps to 2.6% of the total portfolio. Inside, ([Chart 3](#)), mortgages had an improvement of 4bps, reaching 2.8%. Likewise, consumption fell 12bps to 2.9%. Also positive, the index on corporate loans fell 12bps, stood at 2.4%. Through the first half of the year, non-performing loans have remained stable or improved across the different sectors. We believe that this is a sign that the credit expansion remains at healthy levels and reflects a good management by the banking system and the related regulatory bodies.

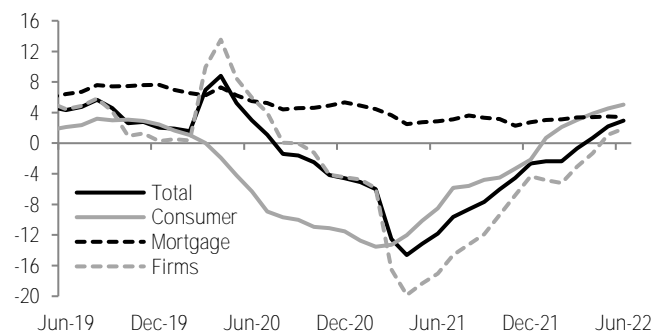
We maintain our expectation of a positive evolution of the loan portfolio, although with higher economic risks. We believe headwinds persist in the local economy that could be limit somewhat credit growth. Inflationary pressures –that according to our estimates will reach their peak in the middle of 3Q22– could affect consumption of certain types of goods, in addition to directly impacting results since these figures are expressed in real terms. Other factors that could lead to a slowdown include: (1) The fifth wave of contagions, at least in the short-term; and (2) Banxico’s restrictive cycle –with our forecast being that the reference rate will reach 10.00% by year-end–. Regarding external factors, the main risk stems from heightened concerns about a global recession. In this context, various companies have stopped new hiring and investment spending. However, we think that appetite for nearshoring projects will help to compensate for this. Despite the risks, it is our take that banking credit will maintain its recovery trend given that there is still some slack in this front, as well as our view that the Mexican economy will continue growing in 2H22.

Banking credit
% y/y in real terms

	Jun-22	May-22	Jun-21	Jan-Jun'22	Jan-Jun'21
Private banking credit	2.9	2.2	-11.8	0.0	-10.6
Consumer	5.0	4.5	-8.5	3.2	-11.7
Credit cards	5.4	4.9	-7.8	3.4	-12.8
Payroll	5.4	5.1	-4.0	4.3	-6.4
Personal	5.2	4.7	-21.1	1.6	-23.0
Durable goods	-0.3	-0.6	-2.9	-0.9	-3.9
Auto loans	-4.9	-5.0	-7.1	-5.6	-7.8
Other durable goods	29.6	28.9	37.5	30.7	34.3
Others	23.6	19.4	-4.4	20.7	-12.0
Mortgage	3.4	3.5	2.9	3.3	3.5
Low-income housing	-12.8	-12.6	-18.5	-14.6	-17.0
Medium and residential	4.3	4.4	4.3	4.3	5.0
Firms	1.9	1.1	-17.0	-1.9	-14.1
Primary activities	6.0	6.0	-8.1	3.1	-9.8
Mining	-6.1	-19.9	-29.6	-8.0	-38.4
Construction	-7.0	-8.2	-19.2	-11.5	-17.0
Utilities	-1.1	-0.9	-10.4	-4.1	-7.4
Manufacturing industry	-0.8	-1.7	-22.2	-4.6	-18.3
Commerce	0.9	-0.9	-19.5	-2.8	-19.2
Transportation and storage	9.6	10.8	-18.6	5.2	-16.3
Mass media services	18.7	15.9	-30.0	8.1	-24.3
Real estate services	0.5	-1.0	-19.7	-4.7	-13.6
Professional services	4.5	3.9	-11.9	-1.1	-18.7
Recreational services	2.4	2.8	-12.5	-1.1	-5.9
Other services	5.1	6.0	-14.1	3.0	-6.1
Not sectorized	2.3	2.1	2.9	-0.1	4.4
Non-banking financial intermediaries	6.3	-11.1	-34.7	-18.4	-34.4

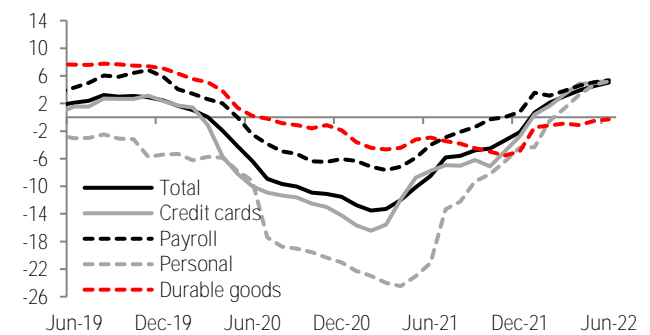
Source: Banxico

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



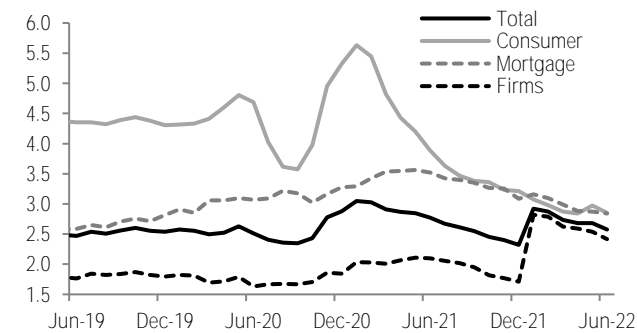
Source: Banorte with data from Banxico

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



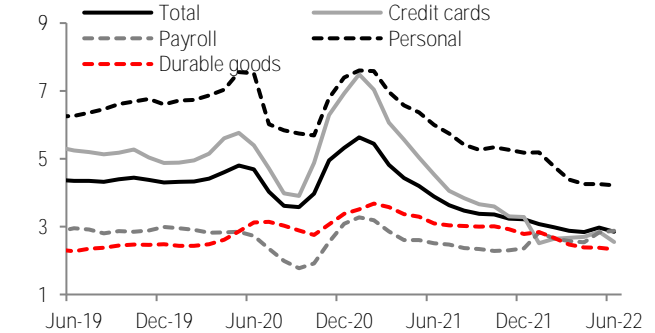
Source: Banorte with data from Banxico

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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