Banking credit expansion continues in August, driven by consumer loans

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- **Today, Banxico published its banking credit report for August 2022**
- **Banking credit continued its expansion trend, increasing 3.4% y/y in real terms. This happens in a context of strong consumer fundamentals and high inflation**
- **Inside, we highlight the acceleration of consumer loans, at 6.2% from 5.6%. Corporate loans rose 2.1%, lower at the margin by 10bps. Finally, mortgages slowed down to 2.9% (previous: 3.3%)**
- **Non-performing loans (NPLs) improved slightly, standing at 2.5% of the total portfolio (previous: 2.6%). Inside, both mortgages and corporates were better, standing at 2.8% and 2.2%, respectively. On the contrary, consumer loans increased by 10bps to 2.9%**
- **We reiterate our view of a favorable trend for banking credit for the rest of the year, even though risks tied to inflationary pressures and greater monetary policy tightening have increased**

Banking credit keeps climbing, highlighting an acceleration in consumer loans. Banking credit to the non-financial private sector increased 3.4% y/y in real terms in August (see Chart 1), matching our estimate. This is the fifth consecutive month of positive rates. As in previous periods, growth was led by consumer loans. This is in line with our view about a positive performance of domestic consumption –and domestic demand in general– during the second half of the year. Likewise, we see a boost from the strength in fundamentals, such as employment. In addition, better conditions related to COVID-19 have led to stable mobility –with people having adapted to handling the rise and fall of contagions. The latter is consistent with positive rates in sales –in real terms, ANTAD figures grew 2.5% y/y in same-stores and 4.9% in total stores–, as well as +4.1% y/y in autos (AMIA data). On the downside, we believe activity keeps facing headwinds. According INEGI's *Timely Indicator of Economic Activity*, industry fell marginally in August, while services would be flat. Another relevant factor is price pressures, which continued to rise in the period.

By components, consumer loans kept expanding, up 6.2% y/y (previous: +5.6%), as seen in Chart 2. Inside, personal loans maintain the lead at +7.6% from +6.3%. Other relevant increases were in credit cards (+7.1% from +6.3%) and durable goods at +1.0% (previous: +0.2%). 'Others' moderated, although maintaining a double-digit expansion (+13.2% from +15.4%). Finally, payroll loans were unchanged at +6.2%.

Corporate loans slowed down at the margin, to +2.1% from +2.2%. Behavior inside was mostly skewed downwards, as seen in Table 1. The most relevant were in mass media with -320bps (+5.0% from +8.2%) and professional services with -250bps (+1.7% from +4.2%). On the contrary, manufacturing and construction had the largest advances at +1.7% (previous: +0.1) and -5.5% (previous: -6.9%), respectively.

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Finally, mortgages decelerated for a fourth month in a row to +2.9% (previous: 3.3%), with both subsectors lower. Low-income housing fell to -11.1% (previous: -10.7%), while residential stood at +3.7% (previous: +4.3%).

Non-performing loans represent 2.5% of the total portfolio. Inside, NPLs for corporate loans decreased by 20bp, to 2.2% from 2.4% (Chart 3). Mortgages also improved, standing at 2.8% from 2.9%, recovering from the uptick of the previous month. Finally, consumer loans NPLs were the only ones higher, climbing 10bps to 2.9%. Our reading of non-performing loans continues to be positive, highlighting their stability amid a more challenging backdrop.

Credit will likely maintain an upward trend, albeit with risks from inflation and interest rates. The upward trend in inflation persists and, in our opinion, is the main risk for households' purchasing power. In this sense, last week we revised upwards our estimates for the end of 2022 and 2023, placing them at 9.0% and 5.4%, respectively. Banxico also adjusted its quarterly inflation path, with higher numbers across the forecast horizon. Another aspect that may impact credit demand, although to a lesser extent, is the current restrictive cycle of monetary policy. Since June 2021 –the beginning of the tightening process– the reference rate has increased +525bps. Yesterday, we revised our call for future moves, anticipating that the terminal rate will reach its maximum point of 11% in 1Q23, with the easing cycle starting until 3Q23.

Considering these two factors, we will continue to pay attention to household consumption, without ruling out possible changes that prioritize the purchase of basic goods relative to durables, or that the acquisition of the latter will be made with shorter-term financing given the higher interest rates. An example of this is the sale of autos. According to the Association of Mexican Banks, currently 6 out of 10 autos sold in the country are purchased through a commercial bank loan. The Mexican Association of Automotive Dealers indicates that this type of loans continues to expand, up 2.7% y/y (from January to July 2022) and that shorter-term loans have increased significantly. As such, the sector maintains a relevant exposure to the factors outlined previously. On corporate loans, we believe that higher rates –which get passed through faster than to consumers– could dampen some of the optimism. Nevertheless, nearshoring efforts could provide some support for auxiliary business, which could turn to domestic financing to carry out some projects.

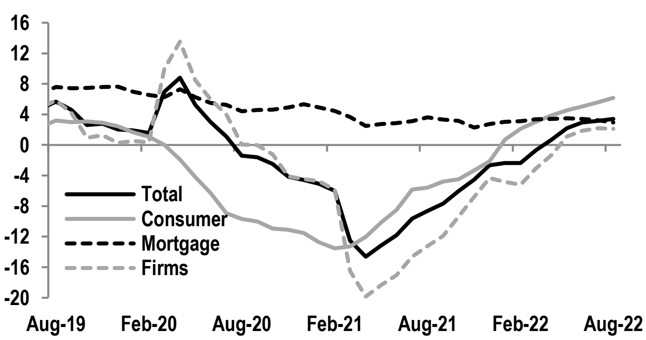
All in all, we expect dynamism to prevail in banking credit. Risks for activity have increased, which could result in a negative spillover for the sector. Despite of this, we think the banking sector remains strong, with sufficient capital adequacy levels and a solid regulatory framework.

Banking credit
% y/y in real terms

	Aug-22	Jul-22	Aug-21	Jan-Aug'22	Jan-Aug'21
Private banking credit	**3.4**	**3.2**	**-8.6**	**0.8**	**-10.3**
Consumer	**6.2**	**5.6**	**-5.6**	**3.9**	**-10.3**
Credit cards	7.1	6.3	-7.0	4.2	-11.4
Payroll	6.2	6.2	-2.1	4.7	-5.4
Personal	7.6	6.3	-12.2	2.8	-20.7
Durable goods	1.0	0.2	-3.8	-0.6	-3.8
Auto loans	-3.7	-4.3	-7.4	-5.2	-7.7
Other durable goods	31.7	29.9	28.1	30.7	33.4
Others	13.2	15.4	8.6	19.3	-7.0
Mortgage	**2.9**	**3.3**	**3.6**	**3.2**	**3.5**
Low-income housing	-11.1	-10.7	-17.4	-13.7	-17.2
Medium and residential	3.7	4.0	5.0	4.2	4.9
Firms	**2.1**	**2.2**	**-13.2**	**-0.9**	**-14.0**
Primary activities	9.3	7.3	-6.3	4.4	-8.9
Mining	0.4	1.9	-23.2	-5.8	-36.2
Construction	-5.5	-6.9	-16.1	-10.2	-16.9
Utilities	-0.6	-0.4	-9.7	-3.2	-8.1
Manufacturing industry	1.7	0.1	-18.0	-3.2	-18.4
Commerce	-0.4	-0.6	-16.3	-2.3	-18.5
Transportation and storage	6.5	8.0	-14.4	5.7	-16.1
Mass media services	5.0	8.2	-16.1	7.7	-22.6
Real estate services	3.1	2.4	-17.0	-2.9	-14.5
Professional services	1.7	4.2	-8.1	-0.1	-16.7
Recreational services	4.4	5.6	-8.7	0.4	-6.6
Other services	4.5	6.4	-7.3	3.6	-7.1
Not sectorized	2.2	4.0	3.2	0.7	4.0
Non-banking financial intermediaries	**22.8**	**3.1**	**-31.0**	**-11.1**	**-33.7**

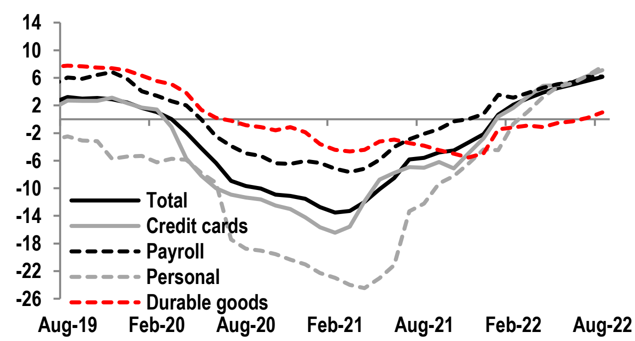
Source: Banxico

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



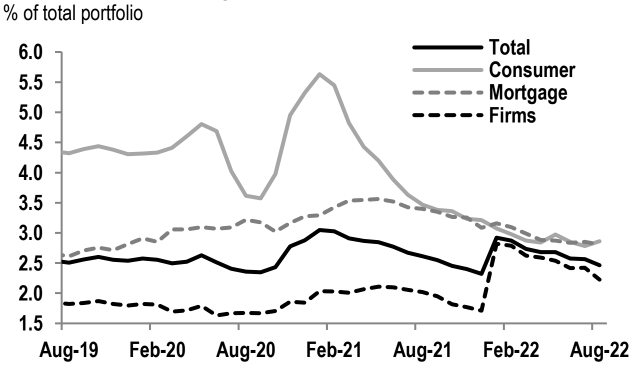
Source: Banorte with data from Banxico

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



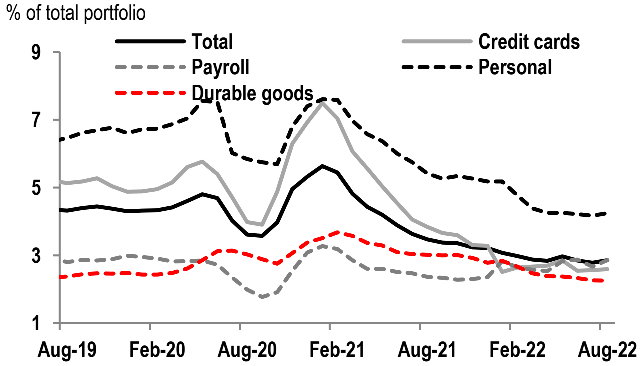
Source: Banorte with data from Banxico

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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