Banking credit in April stays resilient despite the pandemic

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- **Today, Banxico published its banking credit report for April 2020**
- **Banking credit expanded 8.8% y/y in real terms, practically in line with our 8.9% forecast and surpassing the 7.0% expansion of the previous month**
- **Looking at the breakdown, the rise was driven by corporates at +13.5%, which we believe is explained by higher liquidity needs. In addition, mortgages edged-up to +7.3%, while consumer credit was actually negative at -1.9%**
- **Non-performing loans remained at 2.5% of total loans, despite an increase in consumer credit, with mortgages and corporates stable**
- **Although credit has stayed resilient, we expect that it will eventually feel the impact from the pandemic on the economy. Nevertheless, the system remains fundamentally sound, aided by measures from regulators and institutions to boost the supply of credit**

Banking credit keeps climbing in April. In particular, banking credit to the private sector expanded 8.8% y/y in real terms, practically in line with our 8.9% estimate. This is the largest expansion in exactly two years. We should mention that the figure is also benefited by a 110bps decrease in inflation in April relative to March. However, and as in the previous month, we believe that the key driver behind the expansion is the increase in liquidity needs, particularly from corporates, as they continue accessing their credit lines and possibly establishing new ones to face the challenges stemming from the COVID-19 pandemic.

In this sense, credit to corporates grew 13.5%, surpassing the +9.9% seen in the previous month and at new high since December 2016. In this sense, we could see further increases in this category in the next few months, as businesses continue to expand their borrowing to pay for fixed costs, wages and other expenses amid social distancing measures due to the pandemic. Taking a look at the breakdown, 10 out of the 13 sectors were in positive territory. We highlight the 47.2% increase in mass media as well as the 38.2% expansion in lodging and restaurants. Within industry, the most notable were mining (20.2%) and manufacturing (14.7%). On the contrary, sectors still in contraction include construction (-5.9%), commerce (-0.8%) and professional services (-6.2%).

Meanwhile, mortgages advanced 7.3%, accelerating relative to the 6.2% from March. Inside, low-income housing credits accelerated their pace of decline to -7.9%, while those for the residential sector were higher to 8.5%. We believe that the increase in the latter might be influenced by larger loans in tandem with government agencies on top of homeowners starting to tap into their home wealth, favoring increased liquidity given the uncertainty. On the contrary, consumer credit fell 1.9%, first negative print since late 2010. Inside, payroll (2.0%), durable goods (3.8%), and others (6.2%) remained positive, while personal (-5.9%) and credit cards (-5.7%) remained in contraction.

In this context, and as we expected, consumer credit has been the most impacted from the pandemic. We believe that this is a result of two factors: (1) Reduced consumption from households, especially durable goods (with a bigger share purchased on credit) given higher uncertainty and social distancing measures; and probably most important (2) reduced available income to families due to job losses, strongly reducing the incentives to spend.

Non-performing loans remain at 2.5%. Inside, mortgages (3.1%) and corporates (1.7%) were unchanged relative to March. However, NPLs for consumption increased 20bps to 4.6%. In particular, we believe there has been a positive effect from programs by several large banks to allow for the deferral of payments without impacting credit scores. In this sense, we will need to carefully look into dynamics once this period ends, as we could see some relevant increases.

Relevant changes in credit dynamics due to the COVID-19 pandemic. We consider that overall credit will be impacted in coming months given the Coronavirus outbreak, albeit with considerable differences among categories and sectors. In particular, and as previously mentioned, consumer credit will probably be the hardest hit, as deteriorating employment conditions continue to influence spending decisions from families. An important fact is that direct loans from the Federal Government to people (through different programs) are not accounted for in these figures, as they only contemplate credit from private banking institutions. Regarding loans to businesses, they will probably continue to increase their borrowing as conditions remain adverse. Unlike for consumer credit, facilities implemented by the central bank should provide meaningful support and even boost growth rates. Nevertheless, if the pandemic extends and results in stronger impacts to activity, loans to businesses could probably start to fall, as overall investment needs going forward will depress even more. Considering that in the last few years credit has grown about 2 times more than GDP, credit could decelerate on a full-year basis but still show greater strength relative to our expected decline of 7.8% y/y in output. Nevertheless, there is a chance that given the particular nature of this shock, this relationship might be broken.

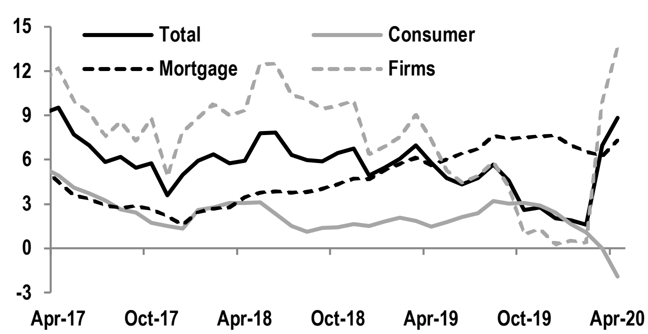
Regarding NPLs and the overall health of the banking system, we believe both regulators and financial institutions will establish measures to bolster its strength. On the first point, the deferral programs previously announced will serve as a stopgap measure in these months, with the possibility of additional measures and instruments deployed to help both customers and the bank's balances. On the second, changes to some rules announced by the CNBV and other regulators, as well as liquidity and credit measures announced by the central bank, should foster a smoother functioning of the credit channel to the real economy.

Banking credit
% y/y in real terms

	Apr-20	Mar-20	Apr-19	Jan-Apr '20	Jan-Apr '19
Private banking credit	**8.8**	**7.0**	**5.8**	**4.8**	**6.1**
Consumer	**-1.9**	**0.0**	**1.5**	**0.2**	**1.8**
Credit cards	-5.7	-1.2	0.0	-0.9	0.5
Payroll	2.0	2.6	3.2	3.0	3.2
Personal	-5.9	-5.7	-2.2	-5.8	-1.2
Durable goods	3.8	5.1	7.7	5.2	8.0
Auto loans	2.3	3.6	7.7	3.7	8.3
Other durable goods	21.4	22.1	7.7	22.6	5.0
Others	9.5	6.1	2.1	6.3	-0.5
Mortgage	**7.3**	**6.2**	**5.6**	**6.8**	**5.7**
Social interest	-7.9	-7.8	-11.9	-7.5	-12.1
Medium and residential	8.5	7.4	7.4	8.0	7.5
Firms	**13.5**	**9.9**	**7.4**	**6.2**	**7.7**
Primary activities	18.9	17.5	9.9	14.3	10.7
Mining	20.2	15.0	5.2	6.2	14.1
Construction	-5.9	-8.3	-6.6	-7.8	-3.5
Utilities	11.1	5.8	12.4	6.0	13.9
Manufacturing industry	14.7	11.3	6.5	3.4	10.7
Commerce	-0.8	-2.8	8.5	-2.5	6.6
Transportation and storage	16.1	12.0	-2.1	7.2	-0.3
Mass media services	47.2	55.7	5.7	40.0	2.5
Real estate services	20.4	15.4	10.0	12.2	10.3
Professional services	-6.2	-6.5	12.5	-5.8	-2.9
Recreational services	38.2	29.6	13.5	22.5	16.9
Other services	23.0	16.8	4.9	13.1	-0.7
Not sectorized	6.7	-1.3	-9.8	-5.2	-4.2
Non-banking financial intermediaries	**8.1**	**7.9**	**16.2**	**2.2**	**14.7**

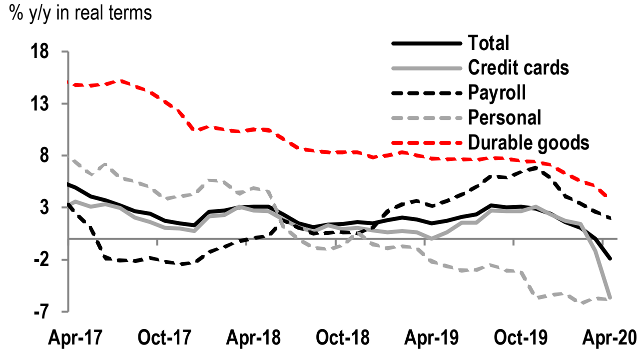
Source: Banxico

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



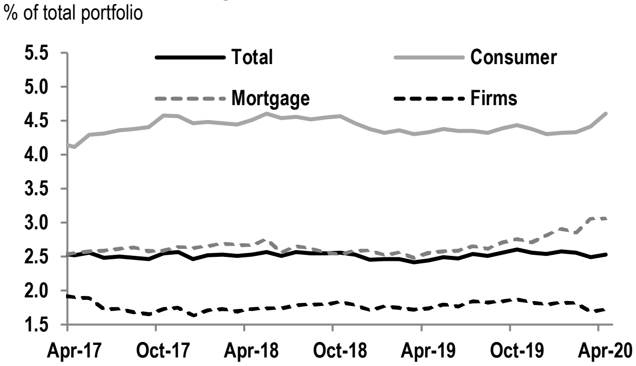
Source: Banorte with data from Banxico

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



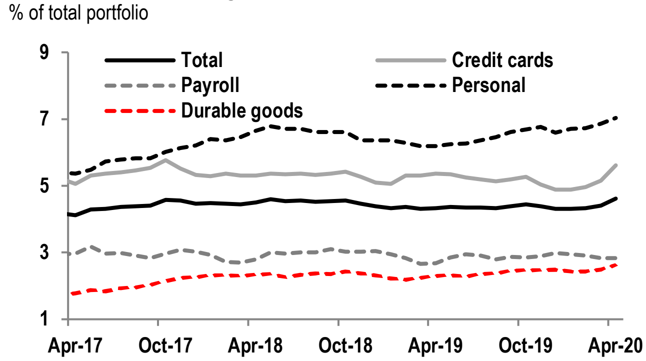
Source: Banorte with data from Banxico

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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