

Banking credit maintains an accelerated growth in September

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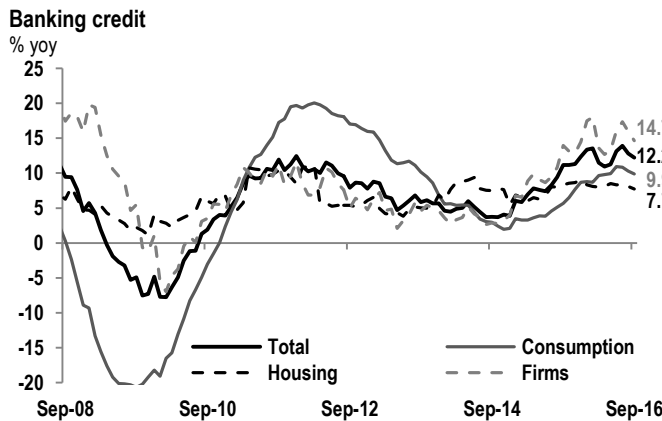
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- Banxico just published its banking credit report for September
- Banking credit expanded 12.2% yoy in real terms, marginally below our 12% forecast (previous: 12.8%)
- Year-to-date, credit to the private sector posted a 12.5% growth
- Consumption credit expanded 9.9% yoy in real terms
- Housing credit increased 7.7% yoy, while banking credit to private firms expanded 14.7%
- Non-performing loans stand at 2.7%, below the 3.2% observed in September 2015
- We believe that the better growth prospects for private credit will continue throughout the last quarter of the year

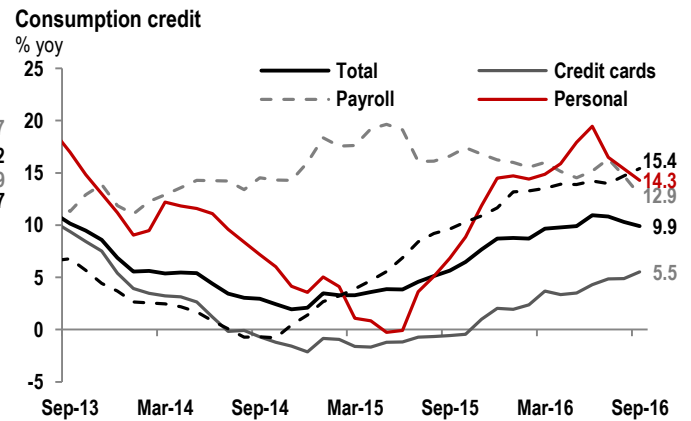
Banxico published its monthly banking credit report. September's report shows that banking credit expanded 12.2% yoy, marginally below our 12% forecast (previous: 12.8%). Taking a look at the breakdown, consumption credit edged-up 9.9% yoy. Within this component, credit cards increased 5.5% yoy, while personal and payroll credit expanded 12.9% and 14.3% yoy, respectively. In addition, durable goods credit increased 15.4%.

Similarly, housing credit posted an 7.7% yoy expansion, as a result of the 9.8% growth in residential housing credit. Moreover, banking credit to private firms grew 14.7% in September. With these results, banking credit to the private sector posted a 12.5% growth in the first nine months of the year, compared with the 7.9% increase observed in the same period of 2015 (refer to the table on the next page).

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Source: Banorte-Ixe with data from Banxico



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Banking credit: September 2016

% yoy

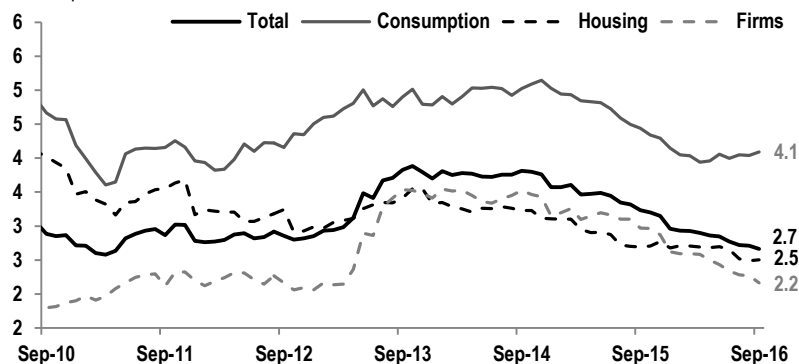
	Sep-16	Aug-16	Sep-15	Jan-Sep, '16	Jan-Sep, '15
Private banking credit	12.2	12.8	11.2	12.5	7.9
Consumption	9.9	10.3	5.7	9.9	4.1
Credit cards	5.5	4.9	-0.6	3.8	-1.0
Payroll	12.9	14.7	16.6	15.1	17.8
Personal	14.3	15.4	6.9	15.9	2.9
Durable goods	15.4	14.7	9.6	14.0	6.0
Auto loans	14.9	14.1	7.6	13.3	2.8
Other durable goods	22.2	22.1	44.0	22.9	74.2
Others	-0.5	1.7	-3.3	0.9	-8.2
Housing	7.7	8.1	8.3	8.2	7.0
Social interest	-6.2	-5.5	-0.8	-4.3	-7.1
Medium and residential	9.8	10.2	9.9	10.2	9.7
Firms	14.7	16.0	14.0	15.4	9.4
Primary activities	10.6	15.5	17.1	19.0	5.3
Mining	80.4	73.6	25.1	83.1	45.0
Manufacturing industry	4.0	7.6	17.7	9.4	12.0
Construction	12.0	14.0	14.6	15.5	9.2
Services	17.4	17.5	11.9	14.6	8.3
Non-banking financial intermediaries	22.2	10.1	52.0	13.9	31.4

Source: Banxico

Non-performing loans stand at 2.7%, below the 3.2% observed in September 2015. By components, non-performing loans in the consumption segment stood at 4.1%. Credit card NPLs reached 5.1% of total portfolio, while NPLs in payroll, personal, and durable goods credits stood at 3.2%, 4.9%, and 1.6%, respectively. Moreover, non-performing loans in housing credit stood at 2.5%, while corporate credit NPL's reached 2.2% of total portfolio.

Non-performing loans

% of total portfolio



Source: Banorte-Ixe with data from Banxico

We believe the better growth prospects for private credit will continue throughout the last quarter of the year. We have observed a significant surge in private banking credit, given the more visible recovery of Mexico's domestic demand, which has resulted in an increased credit demand by the private sector and greater credit supply by private banks.

Moreover, the upward trend in payroll and durable goods credit displays the better growth dynamics in the Mexican formal labor market, partially derived from the *Labor Reform* approved in 2014. Additionally, credit cards have maintained an upward trend in the third quarter of 2016, after 16 months in contraction. On the other hand, lower levels in NPLs will have a positive impact on the private credit growth dynamics. In this context, we believe that the upward trend in private loans will remain throughout the last quarter of the year.

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