

Banking credit in August maintains an upward trend

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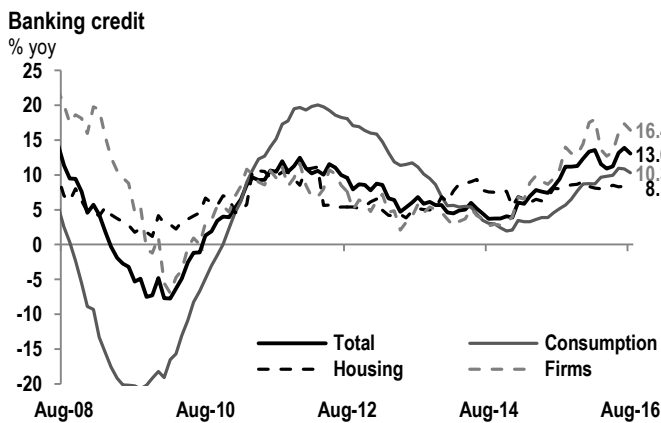
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- Banxico just published its banking credit report for August
- Banking credit expanded 13% yoy in real terms, marginally below our 13.2% forecast (previous: 14.2%)
- Year-to-date, credit to the private sector posted a 12.6% growth
- Consumption credit expanded 10.3% yoy in real terms
- Housing credit increased 8.1% yoy, while banking credit to private firms expanded 16.4%
- Non-performing loans stand at 2.7%, below the 3.3% observed in August 2015
- We believe that the better growth prospects for private credit will continue throughout the second half of the year

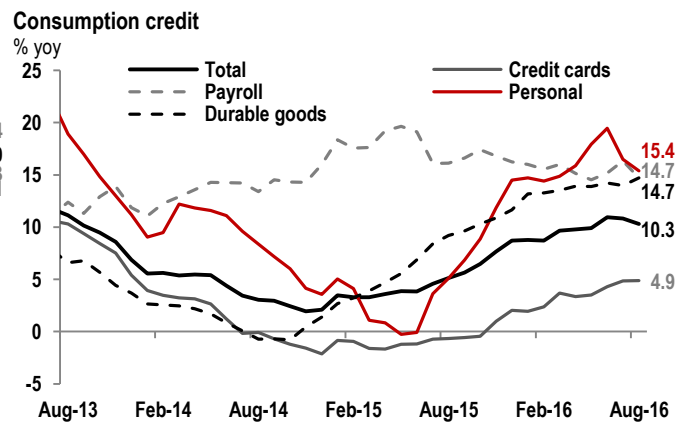
Banxico published its monthly banking credit report. August's report shows that banking credit expanded 13% yoy, marginally below our 13.2% forecast (previous: 14.2%). Taking a look at the breakdown, consumption credit edged-up 10.3% yoy. Within this component, credit cards increased 4.9% yoy, while personal and payroll credit expanded 14.7, and 15.4% yoy, respectively. Durable goods credit increased 14.7%.

Similarly, housing credit posted an 8.1% yoy expansion, as a result of the 10.2% growth in residential housing credit. Moreover, banking credit to private firms grew 16.4% in August. With these results, banking credit to the private sector posted a 12.6% growth in the first eight months of the year, compared with the 7.4% 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: August 2016

% yoy

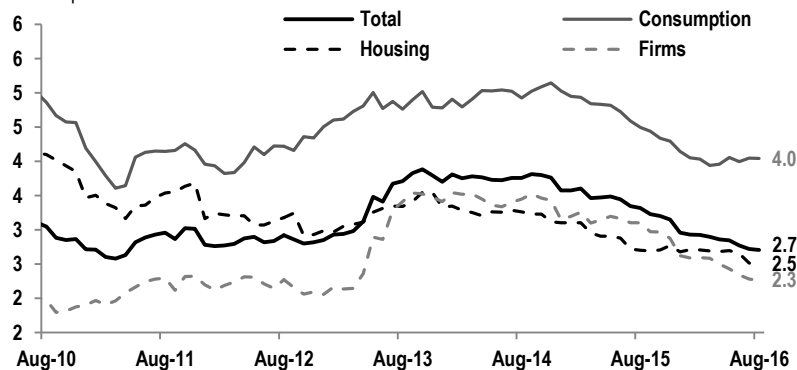
	Aug-16	Jul-16	Aug-15	Jan-Aug, '16	Jan-Aug, '15
Private banking credit	13.0	13.9	9.4	12.6	7.4
Consumption	10.3	10.8	5.1	9.9	3.9
Credit cards	4.9	4.9	-0.6	3.6	-1.1
Payroll	14.7	16.3	16.1	15.4	17.9
Personal	15.4	16.5	5.1	16.2	2.4
Durable goods	14.7	14.0	9.2	13.9	5.6
Auto loans	12.8	11.8	5.7	11.3	0.9
Other durable goods	22.1	21.5	48.2	23.0	79.2
Others	1.6	2.6	-2.5	1.0	-8.8
Housing	8.1	8.4	8.0	8.2	6.9
Social interest	-5.5	-5.1	-0.5	-4.1	-7.8
Medium and residential	10.2	10.5	9.4	10.2	9.7
Firms	16.4	17.4	10.8	15.6	8.8
Primary activities	15.7	19.0	13.8	20.2	3.9
Mining	71.6	72.5	32.1	82.9	48.1
Manufacturing industry	7.6	12.1	15.7	10.2	11.3
Construction	14.0	17.7	11.7	15.9	8.6
Services	18.3	16.4	7.8	14.3	7.9
Non-banking financial intermediaries	10.1	19.2	55.1	12.9	29.0

Source: Banxico

Non-performing loans stand at 2.7%, below the 3.3% observed in August 2015. By components, non-performing loans in the consumption segment stood at 4%. Credit card NPLs reached 5.1% of total portfolio, while NPLs in payroll, personal, and durable goods credits stand at 3.1%, 5%, and 1.6%, respectively. Moreover, non-performing loans in housing credit stood at 2.5%, while corporate credit NPL's reached 2.3% 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 second half 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 year.

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