Banking credit loses dynamism once again in June

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- **Today, Banxico published its banking credit report for June 2020**
- **Banking credit expanded 3.0% y/y in real terms, below both our 4.7% forecast and the 5.3% of the previous month**
- **Looking at the breakdown, the deceleration was due to lower growth across all sectors. Corporates came in at +6.0%, while mortgages edged down to +5.5%. Meanwhile, consumer credit furthered its decline to -6.3%**
- **Non-performing loans decreased to 2.5% of total loans, with corporates showing a slight decline while consumer and mortgages were unchanged**
- **We maintain our view that credit will continue slowing down, feeling 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 decelerated for a second month in row in June. In particular, banking credit to the private sector expanded 3.0% y/y in real terms, below both our 4.7% estimate and the 5.3% of the previous month. We should mention that this figure was dragged by the 50bps increase in inflation in June relative to May. Data suggests that, despite the extension in the lockdown for some activities, corporates slowed down their demand for credit lines to boost liquidity after doing so in the last three months. Specifically, credit to corporates grew 6.0%, lower than the +8.5% seen in May, although still above pre-pandemic levels (see Chart 1). Taking a look at the breakdown, although 8 out of the 13 sectors were still in positive territory, only one of them accelerated relative to May, being real estate services at +18.6% (previous: +17.2%). On the contrary, the steepest deceleration was in mining, from +15.4% in the previous month to -8.3%. Other relevant adjustments were seen in transportation (+5.3%; previous: +11.3%), mass media (+32.5%; previous: 37.9%), and primary activities (+6.9%; previous: 10.3%), among others, as seen in Table 1.

Meanwhile, mortgages advanced 5.5%, below the 6.2% from May and at its lowest in almost a year and a half. Inside, low-income housing credit accelerated its pace of decline to -10.7%, while those for the residential sector also decelerated to +6.8%. Meanwhile, consumer credit fell 6.3%, lowest since July 2010. Inside, only durable goods remain positive, but just barely so at +0.2% (Chart 2). Credit cards (-10.0%) and personal credit (-9.4%) led losses, while payroll credits are also weak (-2.5%). In particular, we believe this is related to the deterioration in employment conditions as well as to increased caution by consumers, opting to delay purchases of expensive items until uncertainty decreases.

Non-performing loans decrease to 2.5%. Inside, mortgages and consumption were unchanged at 3.1% and 4.8%, respectively. Nevertheless, this metric for corporates decreased by 20bps to 1.6%, its lowest since December 2017 (Chart 3). Overall, we continue to think this measure has been benefited by programs implemented 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, with a couple of months remaining, as we could see some relevant increases.

We still expect credit to keep moderating in coming months. We maintain our expectation that credit will continue to decelerate in the next couple of months, impacted by the economic effects of the pandemic. As expected, the weakest sector so far has been consumption, expected to continue until we see a substantial recovery in employment which then results in the strengthening of consumption fundamentals. On corporate loans, as mentioned previously, signals already point to a deceleration, situation which could extend into coming months. This would be driven by businesses that may have already tapped into the resources they believed necessary to improve their financial position, even exhausting them in some cases. Another factor that supports this hypothesis is that investment possibilities will be limited by high uncertainty levels. Meanwhile, it is also possible that mortgages decelerate, despite benefiting from refinancing programs and the possibility of people tapping into their home equity.

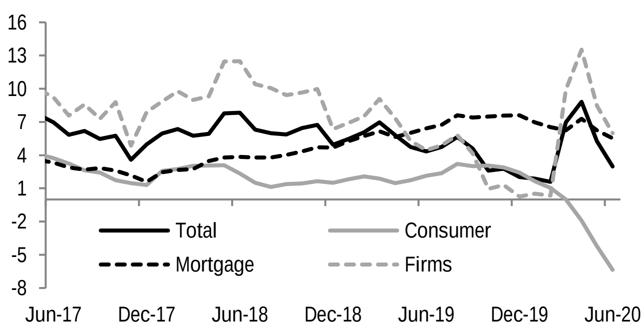
Regarding NPLs and the overall health of the banking system, regulators and financial institutions have established measures to bolster its strength. On the first point, the deferral programs previously announced have served as a stopgap measure, with the possibility of additional measures and instruments to help both customers and bank's balance sheets. On the second, changes to some rules announced by CNBV and other regulators, as well as measures announced by the central bank, in tandem with provisions made by banks and other financial institutions, should limit risks for the sector.

Banking credit
% y/y in real terms

	Jun-20	May-20	Jun-19	Jan-Jun **'20**	Jan-Jun **'19**
Private banking credit	3.0	5.3	4.3	4.6	5.5
Consumer	-6.3	-4.2	2.1	-1.7	1.8
Credit cards	-10.0	-8.2	1.5	-3.7	0.7
Payroll	-2.5	0.0	4.3	1.6	3.5
Personal	-9.4	-7.7	-3.0	-6.7	-1.7
Durable goods	0.2	1.4	7.6	3.7	7.9
Auto loans	-1.0	0.1	7.1	2.3	7.9
Other durable goods	13.7	15.8	13.5	19.9	7.3
Others	-4.8	5.8	2.2	4.3	0.5
Mortgage	5.5	6.2	6.4	6.5	5.9
Social interest	-10.7	-9.8	-9.9	-8.4	-11.5
Medium and residential	6.8	7.6	8.0	7.7	7.6
Firms	6.0	8.5	4.5	6.5	6.7
Primary activities	6.9	10.3	11.0	12.3	10.7
Mining	-8.3	15.4	-3.2	5.3	7.6
Construction	-6.2	-5.8	-10.4	-7.0	-5.7
Utilities	4.3	6.6	8.4	5.8	12.3
Manufacturing industry	5.2	7.8	4.6	4.5	8.6
Commerce	-5.3	-2.7	3.0	-3.1	6.1
Transportation and storage	5.3	11.3	0.8	7.8	-0.2
Mass media services	32.5	37.9	13.2	38.4	4.1
Real estate services	18.6	17.2	0.1	14.2	7.7
Professional services	-20.0	-17.6	6.5	-11.6	0.7
Recreational services	26.2	26.3	23.6	23.8	17.8
Other services	20.1	22.1	3.9	16.2	0.1
Not sectorized	-1.6	-0.4	-12.6	-3.8	-6.8
Non-banking financial intermediaries	-2.4	10.9	7.0	2.8	13.1

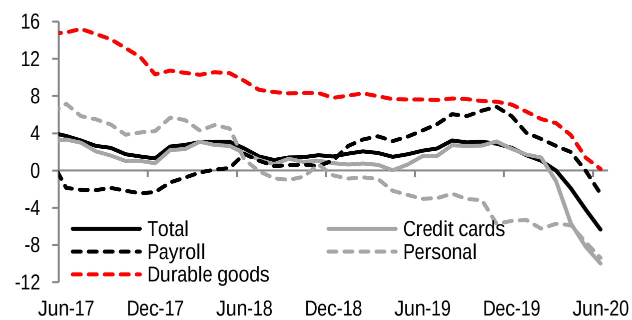
Source: Banxico

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



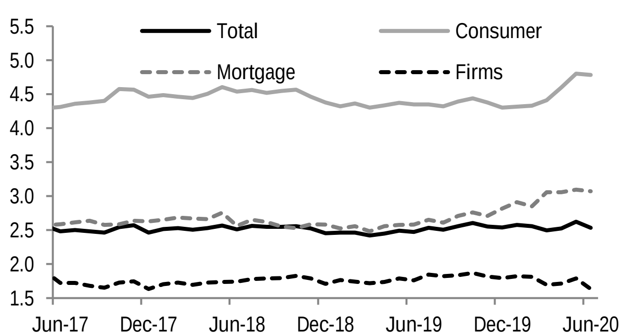
Source: Banorte with data from Banxico

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



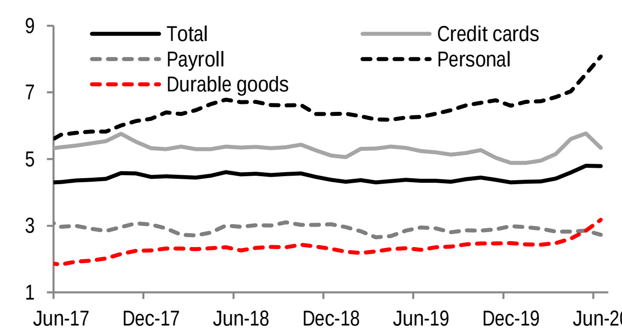
Source: Banorte with data from Banxico

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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