

Banking credit continues to decelerate in October

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www.banorte.com
@analisis_fundam

Juan Carlos Alderete, CFA
Senior Economist, Mexico
juan.alderete.macal@banorte.com

Francisco Flores
Economist, Mexico
francisco.flores.serrano@banorte.com

- **Banxico just published its banking credit report for October 2019**
- **Banking credit expanded 2.6% yoy in real terms, below both our 4.8% forecast and the 4.6% of the previous month**
- **Looking at the breakdown, although consumer (+2.8%) and mortgages (+7.5%) improved, corporate credit grew only 1.0%**
- **Non-performing loans remained at 2.6%, with slight upward adjustments in mortgages and corporates NPLs**
- **Today's print seems to confirm a difficult scenario for activity at the start of 4Q19, although the expectation of a recovery in 2020 should support credit growth going forward**

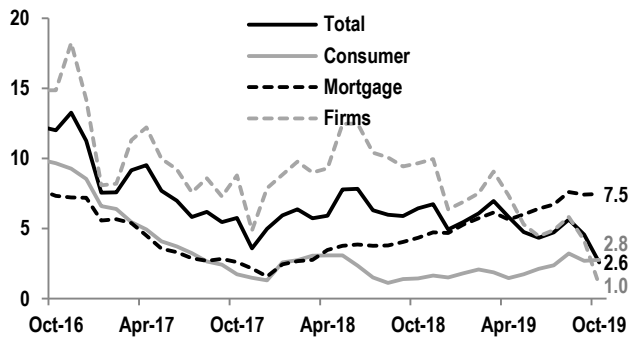
Banking credit decelerates once again in October. In particular, banking credit to the private sector expanded 2.6% yoy in real terms during the tenth month of the year, coming in below our 4.8% estimate. With today's print, credit now adds two months decelerating in the annual comparison, standing at its lowest since September 2010. In this context, inflation was relatively stable vs. last month, meaning that there was no significant impact from a change in the level of inflation.

Consumer credit expanded 2.8%, improving relative to the 2.7% of the previous month. Inside, only personal credit stands in contraction (-3.2%), while durable goods continue to be the most dynamic subsector (+7.5%). In addition, we also highlight the pickup in payroll credit, posting a 6.4% expansion. Mortgages advanced 7.5% (previous: 7.4%), driven by favorable performance of the residential sector (+8.7%) while low-income housing continues moderating its rate of decline (-6.6%), adding now six months of improvement.

On the flip-side, credit to corporates grew only 1.0%, lowest since July 2010. Taking a look at the breakdown, 11 out of 13 sectors were lower relative to September, with a considerable slowdown in lodging services (+7.1%, previous: +16.8) and transportation (-6.1%, previous: -1.0%). We believe that part of the fall could be driven by the slowdown in auto exports due to the GM strike and technical stoppage in Ford and VW plants. In this context, credit to manufacturing stood at +0.3% (previous: 5.5%), probably also impacted by this shocks. However, there were other sectors within also with a modest performance. All in all, this leads us to believe that activity at the start of 4Q19 started off on the wrong foot, partly in line with the performance shown within the trade balance report.

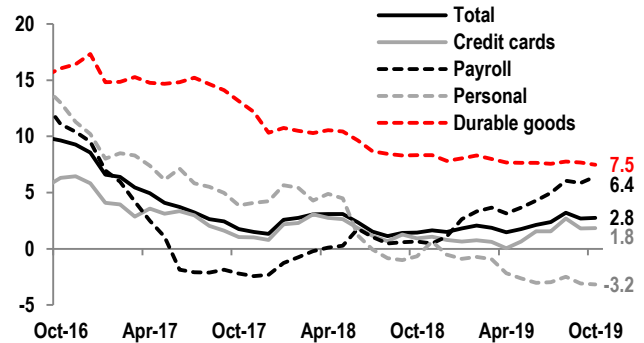
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Banking credit
% yoy in real terms



Source: Banorte with data from Banxico

Consumer credit
% yoy in real terms



Source: Banorte with data from Banxico

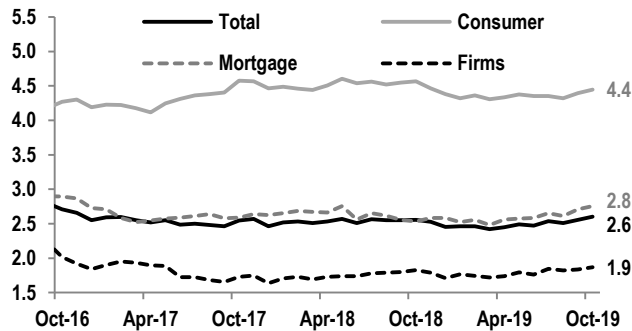
Banking credit: October 2019
% yoy in real terms

	Oct-19	Sep-19	Oct-18	Jan-Oct '19	Jan-Oct '18
Private banking credit	2.6	4.6	6.4	5.1	6.4
Consumer	2.8	2.7	1.4	2.2	2.2
Credit cards	1.8	1.8	0.9	1.2	1.9
Payroll	6.4	5.8	0.6	4.4	0.3
Personal	-3.2	-3.1	-0.7	-2.2	2.3
Durable goods	7.5	7.7	8.3	7.8	9.6
Auto loans	6.3	6.5	9.4	7.4	10.2
Other durable goods	22.8	21.6	-3.4	12.4	2.8
Others	3.1	4.1	-1.7	1.9	-7.4
Mortgage	7.5	7.4	4.3	6.5	3.5
Social interest	-6.6	-6.8	-12.6	-9.9	-11.6
Medium and residential	8.7	8.7	6.2	8.0	5.3
Firms	1.0	4.2	9.7	5.6	10.1
Primary activities	8.8	12.4	13.0	10.9	9.6
Mining	-17.7	-16.5	16.1	1.8	10.1
Construction	-6.3	-9.7	-2.2	-6.5	-3.9
Utilities	5.6	6.9	14.5	10.5	9.7
Manufacturing industry	0.3	5.5	13.6	6.4	14.6
Commerce	3.0	4.8	-1.0	5.3	2.7
Transportation and storage	-6.1	-1.0	-2.4	0.4	4.8
Mass media services	1.8	-0.3	60.7	5.5	54.2
Real estate services	2.0	5.7	10.5	5.5	14.5
Professional services	-1.4	1.9	-10.1	0.8	-14.6
Recreational services	7.1	16.8	13.0	17.4	13.1
Other services	0.5	4.9	13.4	1.8	15.0
Not sectorized	-18.4	-15.6	7.4	-10.4	9.7
Non-banking financial intermediaries	2.6	12.6	-3.7	11.5	-14.9

Source: Banxico

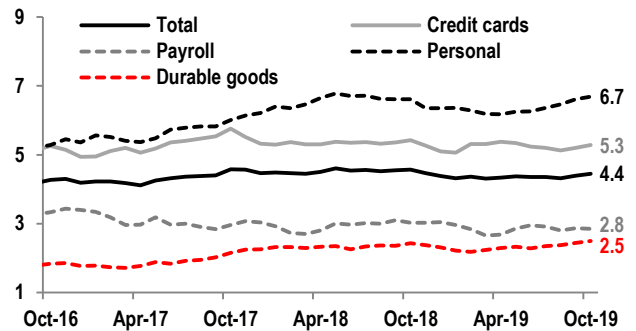
Non-performing loans remain at 2.6% of total loans. NPLs stood at 2.6%, in line with previous month's figure. Consumer credit NPLs were unchanged at 4.4%. Meanwhile, this measure for mortgages (2.8%, previous: 2.7%) and corporates (1.9%, previous: 1.8%) posted a slight increase. Nevertheless, the latter remains as the sector with the lowest percentage of non-performing loans.

Non-performing loans
% of total portfolio



Source: Banorte with data from Banxico

Non-performing loans: Consumer credit
% of total portfolio



Source: Banorte with data from Banxico

Today's print seems to confirm a difficult scenario for activity at the start of 4Q19, although the expectation of a recovery in 2020 should support credit growth. Despite the stabilization of inflation at levels close to the target in recent months, we believe the slowdown in economic activity is more than compensating for this factor. In particular, we believe the decline in October could be partly explained by adverse shocks in the manufacturing sector, which is likely to contract in the month. However, the relative acceleration in consumer and housing credit is favorable, which together with positive data in the trade balance, seems to be showing a recovery of private consumption. Going forward, we believe credit will recover, supported by: (1) A higher expectation of economic growth in 2020; (2) a stable behavior of headline inflation; and (3) a reduction in financing costs, derived from reference rate cuts by Banxico. Last but not least, we maintain our assessment that the banking sector remains healthy, as judged by low levels of non-performing loans and resilient credit growth despite the moderation in activity.

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GRUPO FINANCIERO BANORTE S.A.B. de C.V.
Research and Strategy

Gabriel Casillas Olvera	Chief Economist and Head of Research	gabriel.casillas@banorte.com	(55) 4433 - 4695
Raquel Vázquez Godínez	Assistant	raquel.vazquez@banorte.com	(55) 1670 - 2967

Economic Analysis

Delia María Paredes Mier	Executive Director of Economic Analysis	delia.paredes@banorte.com	(55) 5268 - 1694
Katia Celina Goya Ostos	Senior, Global Economist	katia.goya@banorte.com	(55) 1670 - 1821
Juan Carlos Alderete Macal, CFA	Senior Economist, Mexico	juan.alderete.macal@banorte.com	(55) 1103 - 4046
Miguel Alejandro Calvo Domínguez	Economist, Regional	miguel.calvo@banorte.com	(55) 1670 - 2220
Francisco José Flores Serrano	Economist, Mexico	francisco.flores.serrano@banorte.com	(55) 1670 - 2957
Luis Leopoldo López Salinas	Analyst, Global Economist	luis.lopez.salinas@banorte.com	(55) 1103 - 4000 x 2707
Lourdes Calvo Fernández	Analyst (Edition)	lourdes.calvo@banorte.com	(55) 1103 - 4000 x 2611

Fixed income and FX Strategy

Alejandro Padilla Santana	Head Strategist – Fixed income and FX	alejandro.padilla@banorte.com	(55) 1103 - 4043
Santiago Leal Singer	FX Senior Strategist	santiago.leal@banorte.com	(55) 1670 - 2144
Leslie Thalía Orozco Vélez	Fixed Income and FX Strategist	leslie.orozco.velez@banorte.com	(55) 5268 - 1698

Equity Strategy

Manuel Jiménez Zaldivar	Director Equity Research — Telecommunications / Media	manuel.jimenez@banorte.com	(55) 5268 - 1671
Víctor Hugo Cortes Castro	Technical Analysis	victorh.cortes@banorte.com	(55) 1670 - 1800
Marissa Garza Ostos	Equity Research – Conglomerates / Financials/ Mining / Petrochemicals	marissa.garza@banorte.com	(55) 1670 - 1719
José Itzamna Espitia Hernández	Equity Research – Airlines / Airports / Cement / Infrastructure / REITs	jose.espitia@banorte.com	(55) 1670 - 2249
Valentín III Mendoza Balderas	Equity Research – Auto Parts/ Consumer Discretionary / Real Estate / Retail	valentin.mendoza@banorte.com	(55) 1670 - 2250
Jorge Antonio Izquierdo Lobato	Analyst	jorge.izquierdo.lobato@banorte.com	(55) 1670 - 1746
Eridani Ruibal Ortega	Analyst	eridani.ruibal.ortega@banorte.com	(55) 1103 – 4000 x 2755
Itzel Martínez Rojas	Analyst	itzel.martinez.rojas@banorte.com	(55) 1670 - 2251

Corporate Debt

Tania Abdul Massih Jacobo	Director Corporate Debt	tania.abdul@banorte.com	(55) 5268 - 1672
Hugo Armando Gómez Solís	Senior, Corporate Debt	hugoa.gomez@banorte.com	(55) 1670 - 2247
Gerardo Daniel Valle Trujillo	Manager, Corporate Debt	gerardo.valle.trujillo@banorte.com	(55) 1670 - 2248

Wholesale Banking

Armando Rodal Espinosa	Head of Wholesale Banking	armando.rodal@banorte.com	(81) 8319 - 6895
Alejandro Eric Faesi Puente	Head of Global Markets and Institutional Sales	alejandro.faesi@banorte.com	(55) 5268 - 1640
Alejandro Aguilar Ceballos	Head of Asset Management	alejandro.aguilar.cebillos@banorte.com	(55) 5268 - 9996
Arturo Monroy Ballesteros	Head of Investment Banking and Structured Finance	arturo.monroy.ballesteros@banorte.com	(55) 5004 - 1002
Gerardo Zamora Nanez	Head of Transactional Banking, Leasing and Factoring	gerardo.zamora@banorte.com	(81) 8318 - 5071
Jorge de la Vega Grajales	Head of Government Banking	jorge.delavega@banorte.com	(55) 5004 - 5121
Luis Pietrini Sheridan	Head of Private Banking	luis.pietrini@banorte.com	(55) 5004 - 1453
René Gerardo Pimentel Ibarrola	Head of Corporate Banking	pimentelr@banorte.com	(55) 5268 - 9004
Ricardo Velázquez Rodríguez	Head of International Banking	rvelazquez@banorte.com	(55) 5004 - 5279
Víctor Antonio Roldan Ferrer	Head of Commercial Banking	victor.rolan.ferrer@banorte.com	(55) 5004 - 1454