Banking credit remains strong in April, driven by consumer loans

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- **Today, Banxico published its banking credit report for April 2023**
- **Banking credit increased 5.5% y/y in real terms, practically in line with the previous month's print at 5.6%**
- **Performance was mostly positive. Consumer loans rose 11.2% (previous: 10.3%), leading gains. Mortgages accelerated to 4.8% (previous 4.5%), with corporate loans moderating to 2.7% (previous: 3.3%)**
- **Non-performing loans (NPLs) remained at 2.3%. All three sectors were unchanged, with corporates (2.1%) and mortgages (2.5%) being the lowest. Meanwhile, NPLs for consumption stood at 2.9%**
- **We maintain a positive view on loans in the short-term, supported by solid fundamentals, lower inflation, and favorable trends in the medium-term**

Strength in credit prevails in April. Banking credit to the non-financial private sector increased 5.5% y/y in real terms in the fourth month of the year (see Chart 1), in line with our forecast. Despite the slight moderation vs. the previous month's figure (at 5.6%), we continue to believe that the result is favorable. Thus, we believe the reasons behind the strength include: (1) An additional consolidation in consumption fundamentals, particularly employment as this is usually the key for people to access loans; (2) a further moderation in annual inflation –down to 6.25%–, having a positive arithmetic effect on the figures; and (3) some momentum stemming from nearshoring-related investment. However, we believe that the effect of high interest rates and increased expectations of a global recession could be limiting a greater recovery of corporate credit.

Consumer credit kept climbing, up 11.2% y/y (previous: 10.3%). Inside, the five categories showed a higher expansion rate than in the previous month, as seen in Chart 2. Categories with the largest acceleration included durable goods at +7.8% (previous: 6.4%), credit cards at 15.6% (previous: 14.6%) and payrolls at 10.6% (previous: 9.2%). Mortgages were also higher at 4.8% (previous: 4.8%). Inside, the residential component rose 5.3% (previous: 4.9%), while low-income housing remained in negative territory at -5.8% (previous: -4.2%). Corporate loans moderated to 2.7% (previous: 3.3%). Looking at the breakdown, 7 of 13 categories showed lower growth rates (Table 1). As such, those with the largest deterioration were manufacturing (at -0.3% from 3.9%) and professional services (at 15.4% from 17.4%). On the contrary, sectors with a better performance include mass media (at -23.9% from -29.4%) and lodging (at 1.2% from -0.3%).

Non-performing loans unchanged, representing 2.3% of the aggregate portfolio. Inside (Chart 3), we highlight stability in all three sectors. Specifically, corporates came in as the lowest at 2.1%, followed by mortgages at 2.5%. Meanwhile NPLs for consumption remained at 2.9%.

We consider that low delinquencies, as well as their stability, suggest a proactive and cautious management of loan portfolios by financial institutions. Hence, we consider that credit expansion is happening responsibly.

Credit will remain positive in the short-term. In our view, the results are favorable, consistent with a good performance of the Mexican economy. Considering certain timely signals, we cannot entirely rule out higher volatility in the figures or even a slight slowdown, recognizing greater challenges on the external front. On the global backdrop, recession expectations in the US have increased in recent weeks, possibly dampening the investment appetite of some companies. We believe this is particularly relevant in a context of very high interest rates, which could also be impacting demand for financing. However, we expect support to continue to come from: (1) The strength of consumer fundamentals, including some evidence of increased leverage by households to extend their purchases –with a bias towards services more recently; (2) the positive arithmetic effect of an additional decline in annual inflation; and (3) continued interest in nearshoring-related projects, evidenced by the strong expansion in key sectors for this such as construction (+165.1% y/y). Meanwhile, housing has also shown signs of an acceleration in recent reports, which could be associated to the fact that some mortgage rates have not adjusted and are even below the central bank's benchmark rate.

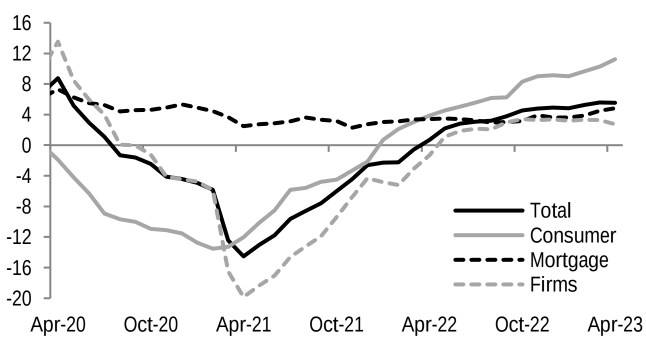
Finally, we believe that the actions of banking institutions and regulators will continue to be aimed at maintaining a very healthy system, with adequate capitalization and liquidity levels well above regulatory minimums. Therefore, we continue to believe that the risk of contagion of higher volatility in the sector in the US and Europe to our country is very low.

Banking credit
% y/y in real terms

	Apr-23	Mar-23	Apr-22	Jan-Apr'**23**	Jan-Apr'**22**
Private banking credit	5.5	5.6	0.7	5.3	-1.1
Consumer	11.2	10.3	3.9	10.0	2.4
Credit cards	15.6	14.6	4.9	14.3	2.5
Payroll	10.6	10.1	4.6	9.3	3.8
Personal	6.7	6.5	3.2	6.7	-0.2
Durable goods	7.8	6.4	-1.1	5.7	-1.2
Auto loans	7.8	6.1	-5.6	5.1	-5.9
Other durable goods	7.8	8.1	28.6	8.4	31.4
Others	8.6	4.7	15.2	8.3	20.8
Mortgage	4.8	4.5	3.4	4.2	3.2
Low-income housing	-5.8	-4.2	-14.8	-6.4	-15.5
Medium and residential	5.3	4.9	4.4	4.7	4.3
Firms	2.7	3.3	-1.3	3.1	-3.6
Primary activities	-1.5	-1.4	4.9	0.0	2.6
Mining	-8.1	-7.4	8.4	-5.3	-0.9
Construction	165.1	163.6	-26.3	161.7	-26.1
Utilities	-1.7	-0.4	-3.5	-0.4	-6.3
Manufacturing industry	-0.3	3.9	-2.1	2.6	-4.3
Commerce	1.6	3.4	0.5	2.9	-3.3
Transportation and storage	4.9	4.7	-2.4	1.5	-0.5
Mass media services	-23.9	-29.4	2.8	-19.0	-0.2
Real estate services	11.6	12.7	-7.6	9.5	-8.0
Professional services	15.4	17.4	0.8	15.0	-4.7
Lodging services	1.2	-0.3	-5.2	0.2	-5.5
Other services	18.6	11.1	5.7	12.3	3.0
Not sectorized	6.0	5.8	-0.2	5.0	-1.2
Non-banking financial intermediaries	32.6	34.3	-6.4	28.9	-14.1

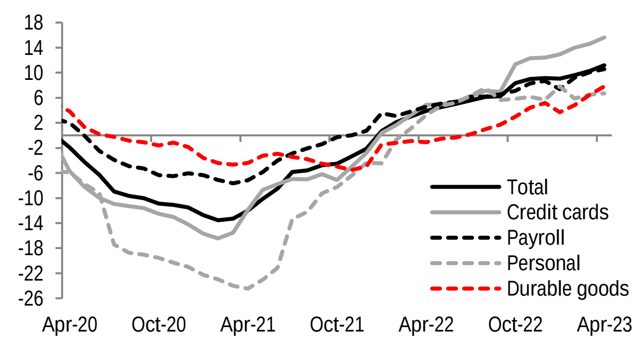
Source: Banxico

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



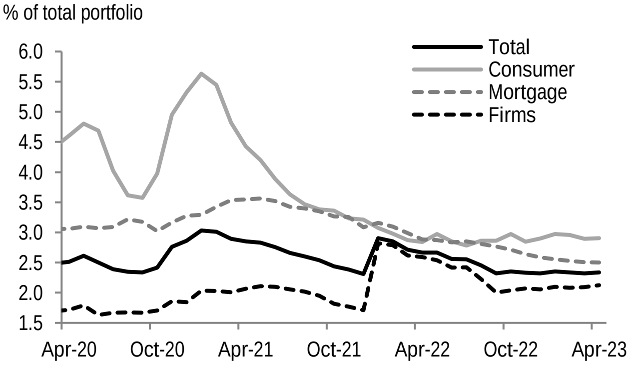
Source: Banorte with data from Banxico

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



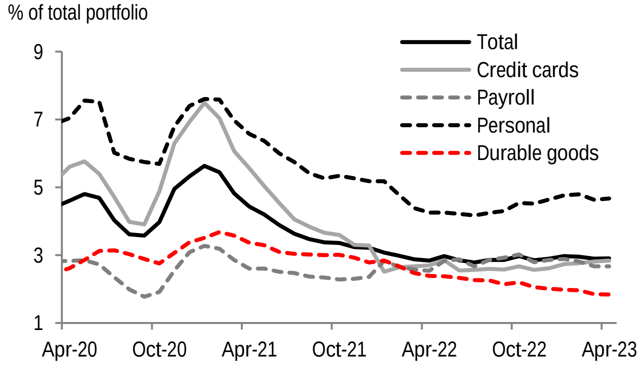
Source: Banorte with data from Banxico

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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