Banking credit kept growing at healthy rates in May

- **Today, Banxico published its banking credit report for May 2023**
- **Banking credit grew 5.1% y/y in real terms, moderating for a second month in a row. However, we believe it remains rather positive**
- **Inside, growth was focused on consumer loans (11.4%), positive for fourteen straight months. Mortgages also improved (5.1%), while corporate loans moderated again, standing at 1.6%**
- **Non-performing loans (NPLs) inched higher to 2.4%. Indices for consumption (3.0%) and corporates (2.2%) increased by 10bps, with mortgages unchanged at 2.5%**
- **We maintain a positive view on credit despite the pace moderating further. We believe growth will be justified by lower inflationary pressures, albeit still under some pressure from high rates**

Credit growth continued in May, albeit at a slower pace. Banking credit to the non-financial private sector increased 5.1% y/y in real terms (see Chart 1), slightly below our 5.4% estimate. This is the second month that credit moderates its pace of expansion. However, if we consider that it accumulates fourteen months with positive rates, the result remains quite positive. In our view, some factors behind this result were: (1) An additional moderation in inflationary pressures; (2) some resilience in employment –which allows a higher proportion of households to access the banking system; and (3) persistent appetite from households to maintain spending levels. However, we acknowledge some headwinds, especially for corporate loans. Fears of a US slowdown and a possible global recession are still present, which along high interest rates, may be encouraging industry to postpone new loan applications.

Consumer credit maintained a brisk pace at 11.4% y/y (previous: 11.2%). Inside, three out of five categories showed higher expansion rates, as seen in Chart 2. Increases in ‘others’ (at 14.6% from 8.6%) and durable goods (at 9.1% from 7.8%) stood out. However, credit cards decelerated at the margin to 14.7% (previous: 15.6%). Mortgages were also higher at 5.1% (previous: 4.8%). Inside, the residential component rose 5.5% (previous: 5.3%), while low-income housing remained in negative territory at -3.1% (previous: -5.8%). Corporate loans moderated to 1.6% (previous: 2.7%). Inside, 7 of the 13 categories showed lower growth (Table 1), highlighting mass media (at -30.7% from -23.7%) and ‘other services’ (at 16.9% from 2.1%). On the contrary, a higher pace of expansion was seen in mining (at 1.5% from -7.3%) and transportation (at 9.8% from 5.0%).

Non-performing loans higher at the margin. These now represent 2.4% of the total portfolio (previous: 2.3%). Inside (Chart 3), two of the three categories deteriorated slightly, with the other more stable. Specifically, both corporate and consumer picked up by 10bps, at 2.2% and 3.0%, respectively. On the other hand, mortgages were unchanged at 2.5%. Thus, our reading is that credit expansion is being conducted in a responsible way, reflecting good lending practices and actions from related regulatory bodies.

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Winners of the 2023 award for best Mexico economic forecasters, granted by *Focus Economics*

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Credit will likely keep growing in coming months. Although the trend of growth has moderated, there are still some bright spots. As such, we believe that there is still room for loans to expand. This is based on several factors, among them: (1) Strong consumption dynamics; (2) an additional moderation of inflationary pressures –having also a positive arithmetic effect on figures–; (3) an acceleration in nominal wages; and (4) Higher FDI that could permeate to SMEs in the medium-term.

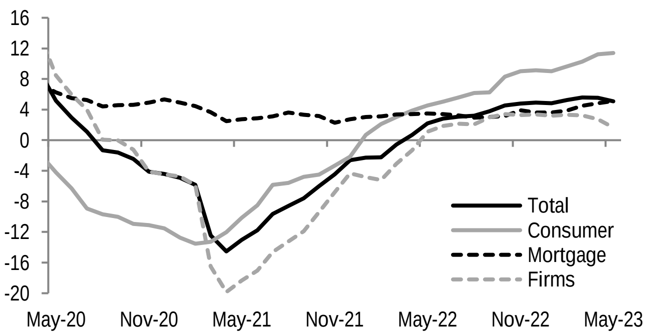
In detail, consumer loans will continue as the main driver, with households using credit to leverage their current spending. On the other hand, credit to SMEs could be better in the medium-term due to investments from big companies –on the back of nearshoring–, in turn boosting domestic demand. However, we identify more risks here from the current environment of high interest rates. Finally, we see greater mortgage financing options from both the government and private banks, a direct result from high competition in this sector.

Banking credit
% y/y in real terms

	May-23	Apr-23	Mar-22	Jan-May'**23**	Jan-May'**22**
Private banking credit	5.1	5.5	5.6	5.2	2.2
Consumer	11.4	11.2	10.3	9.6	4.5
Credit cards	14.7	15.6	14.6	14.0	4.9
Payroll	10.8	10.6	10.1	9.2	5.1
Personal	6.4	6.7	6.5	5.9	4.7
Durable goods	9.1	7.8	6.5	4.8	-0.6
Auto loans	9.6	7.8	6.1	4.1	-5.0
Other durable goods	6.8	7.8	8.1	8.5	28.9
Others	14.6	8.6	4.7	8.5	19.4
Mortgage	5.1	4.8	4.5	3.9	3.5
Low-income housing	-3.1	-5.8	-4.2	-7.9	-12.6
Medium and residential	5.5	5.3	4.9	4.4	4.4
Firms	1.6	2.7	3.3	3.3	1.1
Primary activities	-3.2	-0.6	-0.7	1.5	5.9
Mining	1.5	-7.3	-6.6	-6.2	-17.6
Construction	161.8	164.7	163.2	165.1	-27.3
Utilities	-3.0	-3.1	-1.8	0.6	-2.3
Manufacturing industry	-3.1	-0.5	3.8	3.2	4.5
Commerce	3.8	3.0	4.2	3.3	0.0
Transportation and storage	9.8	5.0	4.8	-0.9	-1.9
Mass media services	-30.7	-23.7	-29.2	-7.2	16.1
Real estate services	10.9	11.6	12.8	5.6	-4.4
Professional services	7.5	6.3	9.1	12.4	2.3
Lodging services	0.2	1.4	-0.2	0.0	-3.6
Other services	16.9	21.0	14.3	10.9	6.0
Not sectorized	7.0	6.0	5.8	4.0	2.1
Non-banking financial intermediaries	34.3	32.6	34.3	28.9	-7.3

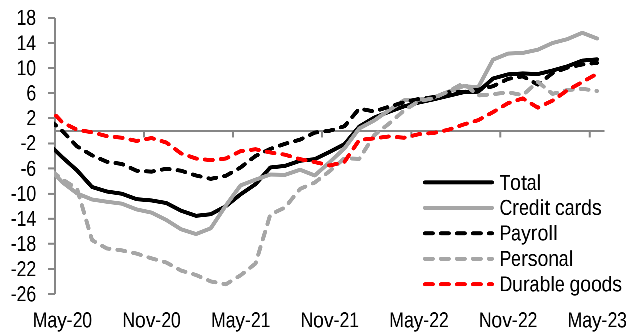
Source: Banxico

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



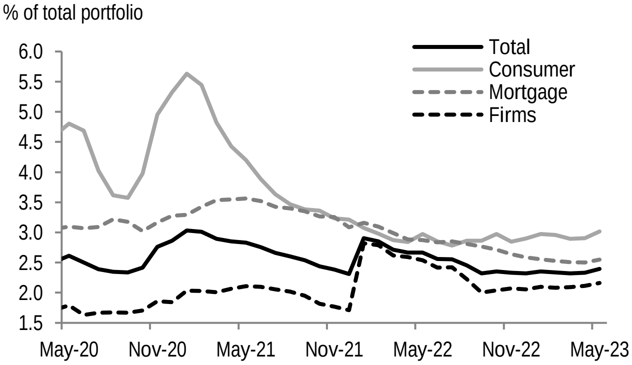
Source: Banorte with data from Banxico

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



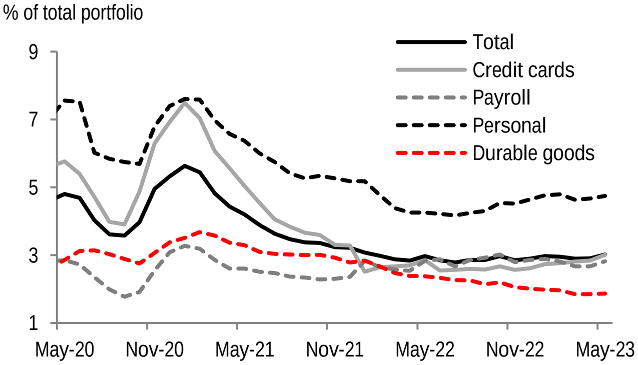
Source: Banorte with data from Banxico

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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