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# Loans remain strong, underpinned by an improvement in corporates

- **Today, Banxico published its banking credit report for October 2023. Credit grew 6.2% y/y in real terms**
- **Inside, two of the three components decelerated. Consumer loans came in at 13.4% (previous: 13.5%) –its eighth month with double-digit rates–, while mortgages expanded 5.0%, (previous: 5.2%). Corporates loans accelerated to 3.2% (previous: 3.0%), adding four months of improvements**
- **Non-performing loans (NPLs) were unchanged at 2.4%. The index for consumer loans rose to 3.3% (+10bps); with mortgages and corporates more stable at 2.6% and 2.1%, respectively**
- **We maintain our expectation of further growth in credit in the short-term, especially our view on consumption at the end of the year. However, as rates remain high, we cannot rule out a slight moderation in corporates and/or mortgages**

**Credit continues to grow in October.** Banking credit to the non-financial private sector grew 6.2% y/y in real terms (see Chart 1), in line with the figure seen in the previous month. As such, credit year-to-date has expanded 5.6%. The period was characterized by mixed signs on activity, albeit also identifying some seasonal patterns that probably limited dynamism to some extent. Within the former we note: (1) Support from consumption fundamentals, with favorable data regarding job creation and further progress in wages; (2) increased market volatility –with pressures on interest rates– which supported an increase in risk aversion; and (3) uncertainty about the impact of the US auto workers' strike in our country, among others. In the season front, we believe households opted to defer some purchases to November to take advantage of discount programs. Lastly, annual inflation kept declining, situation which has a positive arithmetic effect on these figures.

By components, consumer loans once again led the expansion, despite moderating at the margin to 13.4% (previous: 13.5%). However, three of the five items inside showed a higher expansion rate vs the previous month, as seen in Chart 2. These were durable goods at +14.6% (previous: +13.4%), personal loans at +9.3% (previous: +8.4%), and 'other' at +20.8% (previous: +17.8%). Corporate loans accelerated to 3.2% (from 3.0%), with seven of the thirteen sectors showing a better performance. The items with the largest improvements were primary activities at -2.5% (previous: -5.1%), construction at +2.8% (previous: +1.5%), and professional services at +19.8% (previous: +18.7%). On the contrary, categories with a deterioration include mining at +31.5% (previous: +39.4%) and 'other services' at +14.8% (previous: +16.3%). Lastly, mortgages moderated for a fourth consecutive month, standing at +5.0% (previous: +5.2%). The deceleration is explained by low-income housing, falling to -6.0% from -2.7%. The residential item was more stable at +5.5% (previously: +5.6%). For more details see Table 1.

**Non-performing loans stand at 2.4% of the total portfolio.** As such, this level has remained unchanged for the past six months (Chart 3). Looking at the breakdown, the index for consumer loans increased by 10bps, to 3.3%. Meanwhile, mortgages and corporates were stable at 2.6% and 2.1%, respectively. It is important to note that the headline figure has remained below 2.5% since September 2022. In our view this is particularly relevant considering a challenging backdrop of higher interest rates and sticky inflation.

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**We expect high rates of growth in consumption loans to keep driving the sector at the end of 2023 and into 2024.** Considering today's results as well as the recent trend in the figures, we believe that figures are quite positive, especially considering more challenging comparison bases. As such, we expect a full-year expansion of credit of around 5.4% –rather close to the YTD number of 5.6%.

We do not anticipate a major change in trends, with consumer loans still in the drivers' seat. Factors are diverse, but positive, including: (1) Further improvements in employment and wages, supported by positive economic factors along other idiosyncratic points; and (2) an increase in household spending due to seasonal discounts such as *El Buen Fin* (Mexico's Black Friday), especially as interest-free deferral payments and other payment options are offered.

Mortgages will likely remain more stable, although we do not rule out a moderation in the pace of growth considering both a more challenging base and a reduction in the supply of housing as edification in the residential sector has declined. An additional factor in this category –of which we remain focused– are Infonavit's plans to promote urban and housing development plans in municipalities where nearshoring would have a positive impact. For now, the Institute has identified 50 municipalities with high potential. The plan includes bidding for private companies and letters of intent from local authorities with the commitment to provide construction permits facilities or fiscal incentives. If this materializes, private banks could see a positive spillover effect on loans.

Finally, corporates loans we identify three factors that will continue to be relevant: (1) Additional time before Banxico starts cutting interest rates; and (2) estimates of a moderation in economic activity both in the US and Mexico that could impact companies' investment decisions; and (3) a strong Mexican peso that, on the contrary, could boost purchases of machinery and equipment through financing options.

**Banking credit**

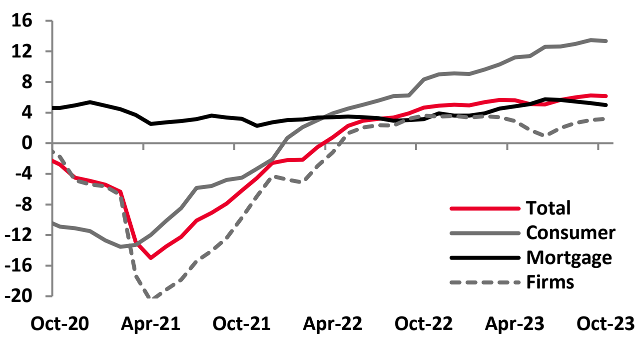
% y/y in real terms

| | Oct-23 | Sep-23 | Oct-22 | Jan-Oct'23 | Jan-Oct'22 |
|---|---|---|---|---|---|
| **Private banking credit** | **6.2** | **6.2** | **4.7** | **5.6** | **1.6** |
| **Consumer** | **13.4** | **13.5** | **8.3** | **11.7** | **4.6** |
| Credit cards | 16.0 | 17.3 | 11.3 | 15.7 | 5.2 |
| Payroll | 10.2 | 10.6 | 7.1 | 10.1 | 5.2 |
| Personal | 9.3 | 8.4 | 5.8 | 7.4 | 3.4 |
| Durable goods | 14.6 | 13.4 | 3.0 | 9.4 | 0.0 |
| Auto loans | 17.0 | 15.5 | -1.4 | 10.1 | -4.6 |
| Other durable goods | 3.4 | 3.4 | 31.4 | 6.3 | 30.8 |
| Others | 20.8 | 17.8 | 22.4 | 12.6 | 19.7 |
| **Mortgage** | **5.0** | **5.2** | **3.2** | **4.9** | **3.2** |
| Low-income housing | -6.0 | -2.7 | -11.2 | -4.9 | -13.1 |
| Medium and residential | 5.5 | 5.6 | 3.9 | 5.3 | 4.1 |
| **Firms** | **3.2** | **3.0** | **3.6** | **2.7** | **0.0** |
| Primary activities | -2.5 | -5.1 | 1.6 | -2.4 | 3.4 |
| Mining | 31.5 | 39.4 | -7.2 | 6.2 | -2.9 |
| Construction | 2.8 | 1.5 | -2.5 | -0.7 | -3.9 |
| Utilities | -6.3 | -6.4 | 131.8 | 70.8 | 17.6 |
| Manufacturing industry | -4.1 | -4.7 | 6.7 | -1.1 | 1.4 |
| Commerce | 6.0 | 7.0 | 4.1 | 4.7 | -0.4 |
| Transportation and storage | 8.2 | 8.9 | -8.5 | 3.9 | -2.9 |
| Mass media services | -22.2 | -23.3 | 18.2 | -21.2 | 7.7 |
| Real estate services | 11.9 | 11.8 | 3.5 | 10.0 | -2.7 |
| Professional services | 19.8 | 18.7 | 4.3 | 13.7 | -0.3 |
| Lodging services | -2.5 | -3.2 | -8.7 | -2.1 | -5.3 |
| Other services | 14.8 | 16.3 | 13.9 | 15.8 | 8.2 |
| Not sectorized | 6.6 | 7.6 | 3.8 | 6.5 | 1.1 |
| **Non-banking financial intermediaries** | **21.5** | **26.2** | **11.7** | **29.0** | **-4.0** |

Source: Banxico

**Chart 1: Banking credit**

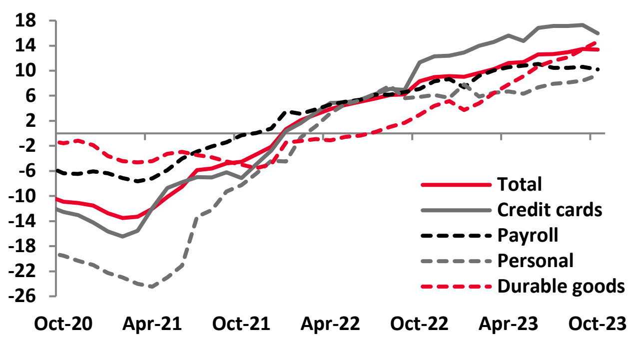
% y/y in real terms




Source: Banorte with data from Banxico

**Chart 2: Consumer credit**

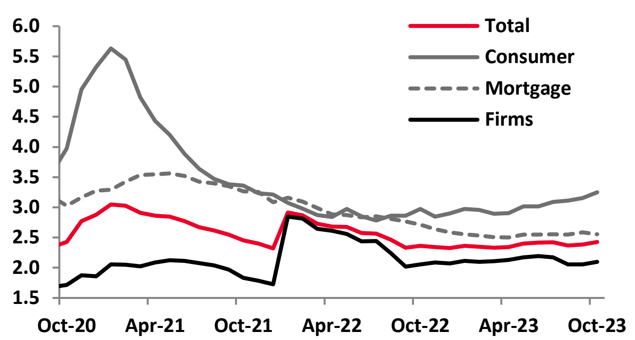
% y/y in real terms




Source: Banorte with data from Banxico

**Chart 3: Non-performing loans**

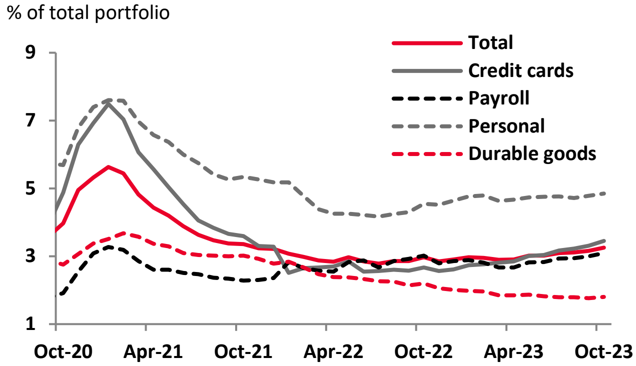
% of total portfolio




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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|---|---|
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