

Family remittances – Below expectations in February, but still strong

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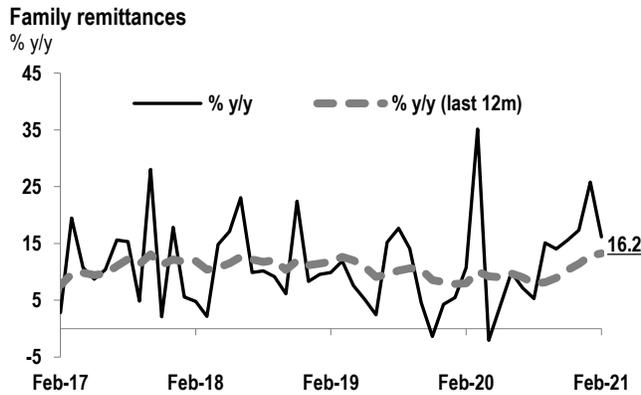
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- **Remittances (February): US\$3,173.5 million; Banorte: US\$3,375.3mn; consensus: US\$3,375.3mn; (range: US\$3,280 to US\$3,440mn) previous: US\$3,297.9mn**
- **Inflows remain strong as they grew 16.2%y/y, with a double-digit pace of advance since September 2020. In our view, dynamics continue to be benefitted by the recovery of the labor market and fiscal stimulus in the US, among other factors**
- **The number of operations slowed down to 6.3% y/y and the average amount sent stood at US\$350.92 (+9.3% y/y), higher sequentially for a second month in a row**
- **Remittances' growth could moderate in March, although underlying dynamics remain positive and add upside risks to our call of 7-10% growth for full-year 2021**

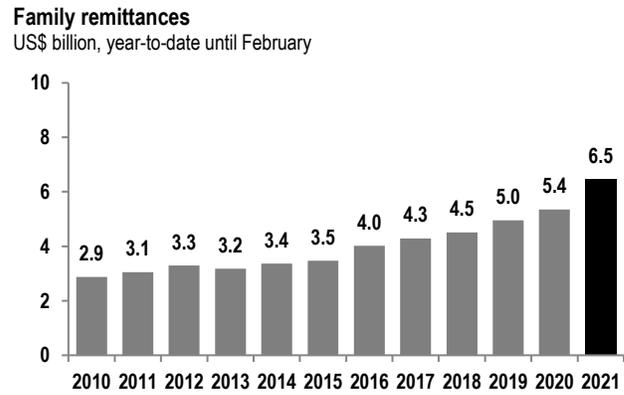
Remittances remained favorable in February. The amount sent to our country stood at US\$3,173.5 million, lower than consensus (US\$3,375.3 million), which matched our estimate. Inflows grew 16.2% y/y, lower than January's 25.8% although the base effect was more challenging as 2020 was a leap year. Despite of the latter, they remain strong as they have shown a double-digit pace of advance since September 2020. In our view, this has been helped by the recovery of the US labor market, in turn boosted by: (1) The acceleration in vaccinations (also reflected in higher mobility levels, as shown in indices such as the one developed by the Dallas Fed); and (2) strong fiscal stimulus, remembering that a package of around US\$900 billion was approved in December and another one of US\$1.9 trillion in March. Nevertheless, the effect of the latter may have waned somewhat. In this context, the unemployment rate among Hispanics and Latinos declined modestly, to 8.5% from 8.6%, albeit with a relevant increase in the participation rate. The working-age population of Mexican migrants rose by 59.4 thousand but there was a net job creation of 208.4 thousand –including 'natives', 'non-native citizens', and 'non-citizens' (legal or illegal)–. Gains were centered in the first (+287.5 thousand) and third groups (+89.0 thousand), with a net loss of 168.1 thousand in the second one. We believe it is relevant that 'non-citizens' regained some positions, as in our view these are the most likely to send back remittances.

Number of operations decelerate, but average amount remains strong. Contrary to recent months, the total number of operations lagged as the main driver of growth, standing at 9.0 million. This may be related to some extent with the fact that the period has less days. In turn, the pace of advance moderated to 6.3%, albeit also influenced by the leap year effect mentioned above. On the other hand, the average amount sent reached US\$350.92, up sequentially for a second month in a row and its highest in little less than a year, expanding 9.3% y/y (previous: 6.5%). In our view, the results remain favorable, with good dynamics likely lifted primarily by the recovery in employment and economic activity in the US, benefitted by a gradual improvement in mobility.

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Source: Banorte with data from Banxico



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We maintain a positive view on remittances, despite a likely increase in their short-term volatility. In our view, today’s results and broader dynamics are still positive news for Mexico’s economy. Nevertheless, we warn that annual rates in coming months are likely to show higher volatility, remembering that the impact from the pandemic in the US and Mexico started to be more noticeable since March 2020. Specifically, migrants made further extraordinary efforts to send resources back to their families since that period, as evidenced by the 35.1% y/y increase in said month and the -2.0% in April (with a moderate advance in May, due to strict lockdowns). These pandemic distortions will also show in 2021 due to their impact in terms of the base effect, so it will be important to analyze the data even more closely to evaluate their dynamics adequately.

Despite of the latter, we believe the trend remains very favorable. One key factor that could compensate for a potential deceleration in annual terms is the approval of the new US\$1.9 trillion stimulus package in the US by legislators on March 10th, with resources starting to flow since that month. Moreover, some measures in the initiative are more favorable for migrants when compared to other rounds (e.g. citizens married with undocumented migrants are eligible for direct transfers). Moreover, it is also very positive that the vaccination campaign in that country has accelerated. In this respect, the administration applied 100 million doses before its first 100 days, so president Biden announced that they will double their original goal (among other measures to expand inoculations to more groups). As a result, we revised again our US GDP forecast for 2021 to 6.1% from 5.4%, improving also our call for the unemployment rate. Although Hispanics and Latinos have lagged the recovery, higher activity and mobility should also benefit them.

On the contrary, we identify two main risks. First, the CDC is warning of the possibility of a “fourth wave” of COVID-19 infections. This could happen because of new and more contagious variants of the virus and the relaxation of distancing measures. The progress on vaccinations should help reduce contagion and fatality rates, but the reality is that its evolution could complicate again –as in Europe– and affect the economy. Second, tensions between the US and Mexico because of migration flows are on the rise given the recent acceleration in the influx of undocumented people. This theme was the focus of Biden’s first press conference two weeks ago and the call between him and President López-Obrador at the beginning of March.

Although we still think the current administration's policies will be more favorable than those enforced by Trump, its importance has increased enough for Biden to designate this issue directly to Vice-President Kamala Harris. In Mexico, press reports state the government is preparing to reinforce measures to stop illegal migrants at the border with Guatemala.

Given this backdrop, we maintain our forecast of 7% to 10% growth in full-year 2021. Nevertheless, we believe the balance of risks is skewed to the upside. For now, we reiterate this estimate waiting for more information about inflows in the short-term. We are cautious given the higher volatility that we are likely to see on the current environment, as well as the abovementioned base effects.

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