Family remittances –Inflows moderate in September, with less benefits in the US

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Juan Carlos Alderete, CFA
Director of Economic Research
juan.alderete.macal@banorte.com

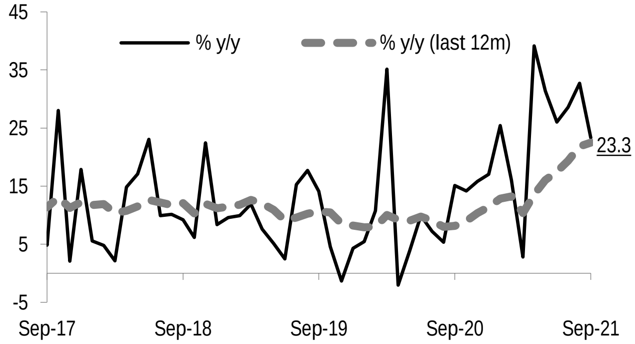
Francisco Flores
Senior Economist, Mexico
francisco.flores.serrano@banorte.com

- **Remittances (Sep): US$4,403.0 million; Banorte: US$4,509.1mn; consensus: US$4,475.0mn; (range: US$4,356.4mn to US$4,648.0mn) previous: US$4,743.6mn**
- **Growth stood at 23.3% y/y from 32.7% in August, with seven months in a row above the US$4 billion mark. In our view, the pace remains strong despite more modest prospects for economic growth and the nationwide expiration of additional unemployment benefits in the US**
- **The average amount sent was US$381.38 (10.0% y/y). Meanwhile, the number of operations reached 11.5 million (12.1%). Both growth rates were lower than in the previous month, partially driven by base effects**
- **In seasonally adjusted terms, inflows declined 1.7% m/m, reflecting a more adverse base effect after gains in recent months and consistent with signs of additional challenges**
- **We expect remittances to keep climbing during the rest of the year and in 2022 despite some potential headwinds for US GDP. We adjust our full-year forecast range higher, to US$49.5-50.5 billion**

Remittances stay dynamic in September. The amount stood at US$4,403.0 million, slightly below consensus (US$4,475.0 million) and our estimate (US$4,509.1 million). This still translates to growth at a double-digit pace (23.3% y/y) as well as being above the US$4 billion mark for a seventh consecutive month. Base effects remain increasingly difficult, helping explain part of the deceleration relative to August. Nevertheless, in our view flows remain favorable considering: (1) A deeper-than- expected moderation of US growth in 3Q21; and (2) the expiration of additional unemployment benefits in said country at the beginning of September at the national level. On the former, activity grew 2.0% q/q saar according to the advance report last week, noting an important slowdown in consumption. On the latter, we recall that some states had already eliminated them –such as Texas, which has a large share of the country's Mexicans–, but about 25 more were added in the period. Specifically, we highlight California in the latter group, which is the state with the largest Mexican population. In our view, today's results suggest that this factor had a limited effect on overall remittances dynamics.

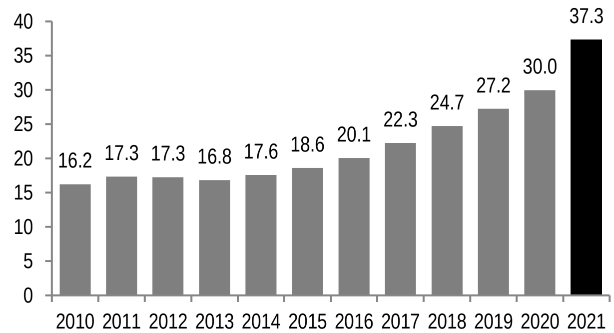
Moderation in the average amount sent and the volume of operations. The average amount stood at US$381.38 from US$386.87 in the previous month, up 10.0% y/y. Nevertheless, it is still high considering the expiration of benefits mentioned above. Meanwhile, the number of operations stood at 11.5 million from 12.3 million in August, growing 12.1% y/y, also lower than in the previous month due to a more challenging base effect. In our view, stability in employment and extraordinary efforts by migrants to keep sending as much as possible to their families at home remain as key drivers, despite some signs of a deceleration.

Family remittances
% y/y



Source: Banorte with data from Banxico

Family remittances
US$ billion, year-to-date



Source: Banorte with data from Banxico

Seasonally adjusted, inflows contracted 1.7% m/m. Using seasonally adjusted figures, remittances declined by 1.7% m/m, breaking with two consecutive months of increases. This is consistent with the factors mentioned above, albeit limited by a further improvement in labor market conditions in the US. In our previous report, we argued that nonfarm payrolls in September would be very important, which ultimately surprised to the downside. Nevertheless, the report was mixed, with a stronger than anticipated decline in the unemployment rate. The latter was also seen for Hispanics and Latinos, with the rate falling from 6.4% in August to 6.3% in September. Specifically, working-age Mexican migrants declined 169.9 thousand, although there were 73.0 thousand new jobs –including 'natives', 'non-native citizens', and 'non-citizens' (legal or illegal)–. In addition, those classified as unemployed fell by 9.3 thousand. As a result, we calculate that the unemployment rate in this specific group fell 10bps from the previous month, reaching a new post-pandemic low of 5.8%. Overall, the improvement was more modest than we originally thought, although still favorable.

Remittances still resilient, at least in the short term. Given today's results and no clear signs of a very meaningful slowdown in monthly flows despite the factors mentioned above, we increase our full-year forecast to a range between US$49.5-50.5 billion. To reach the lower bound, an average of US$4,055 million a month would be needed in 4Q21, which we see as feasible (last 12-month average: US$ 3,998 million).

For 2022, we believe healthy growth will remain in place as the recovery extends further. Nevertheless, most recent developments provide some warning signs about the likely pace. First, GDP growth expectations for the US have been revised lower as the recovery seems to have lost more steam than expected after the most recent wave of COVID-19. We also flag that the budget for fiscal year 2022 is poised to be much lower than originally envisioned, with Democrats settling in the last few days for a plan worth US$1.75 trillion, instead of the US$3.5 trillion pursued by president Biden. In addition to job market gains, we are increasingly focused on potential wage pressures that could help compensate for purchasing power losses due to higher inflation. If these are not enough, migrants could be more strained in the available resources that can be sent after discounting for living expenses. All of these suggest that headwinds are on the rise, although so far results have continued surprising to the upside.

In other fronts, we are also following closely the evolution of unresolved migration issues. Recent news has also been mostly unfavorable, with an important rise in deportations (both of Mexicans as well as from other countries) under the so-called "Title 42" provision from the Trump administration. In addition, tensions on the border remain because of migrant crossings (*e.g.* caravans from Central America). As we get closer to US mid-term elections next year, we cannot rule out more forceful actions from the Biden administration despite signals of a more flexible approach than under Trump. In this sense, he has been criticized for his policies in this front. More positively, the US government announced that the land border with Mexico and Canada will be opened on November 8th, which in our view could help ease some labor shortages in said country and help lift economic dynamism at both sides of the border.

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BANORTE

GRUPO FINANCIERO BANORTE S.A.B. de C.V.

Research and Strategy			
Alejandro Padilla Santana	Chief Economist and Head of Research	alejandro.padilla@banorte.com	(55) 1103 - 4043
Raquel Vázquez Godinez	Assistant	raquel.vazquez@banorte.com	(55) 1670 - 2967
Itzel Martínez Rojas	Analyst	itzel.martinez.rojas@banorte.com	(55) 1670 - 2251
Lourdes Calvo Fernández	Analyst (Edition)	lourdes.calvo@banorte.com	(55) 1103 - 4000 x 2611
Economic Research			
Juan Carlos Alderete Macal, CFA	Director of Economic Research	juan.alderete.macal@banorte.com	(55) 1103 - 4046
Francisco José Flores Serrano	Senior Economist, Mexico	francisco.flores.serrano@banorte.com	(55) 1670 - 2957
Katia Celina Goya Ostos	Senior Economist, Global	katia.goya@banorte.com	(55) 1670 - 1821
Luis Leopoldo López Salinas	Economist, Global	luis.lopez.salinas@banorte.com	(55) 1103 - 4000 x 2707
Market Strategy			
Manuel Jiménez Zaldívar	Director of Market Strategy	manuel.jimenez@banorte.com	(55) 5268 - 1671
Fixed income and FX Strategy			
Santiago Leal Singer	Senior Strategist, Fixed Income and FX	santiago.leal@banorte.com	(55) 1670 - 2144
Leslie Thalía Orozco Vélez	Strategist, Fixed Income and FX	leslie.orozco.velez@banorte.com	(55) 5268 - 1698
Equity Strategy			
Marissa Garza Ostos	Director of Equity Strategy	marissa.garza@banorte.com	(55) 1670 - 1719
José Itzamna Espitia Hernández	Senior Strategist, Equity	jose.espitia@banorte.com	(55) 1670 - 2249
Alik Daniel García Alvarez	Senior Strategist, Equity	alik.garcia.alvarez@banorte.com	(55) 1670 – 2250
Víctor Hugo Cortes Castro	Senior Strategist, Technical	victorh.cortes@banorte.com	(55) 1670 - 1800
Juan Barbier Arizmendi, CFA	Analyst	juan.barbier@banorte.com	(55) 1670 - 1746
Corporate Debt			
Hugo Armando Gómez Solís	Senior Analyst, Corporate Debt	hugoa.gomez@banorte.com	(55) 1670 - 2247
Gerardo Daniel Valle Trujillo	Analyst, Corporate Debt	gerardo.valle.trujillo@banorte.com	(55) 1670 - 2248
Economic Studies			
Miguel Alejandro Calvo Domínguez	Senior Analyst, Economic Studies	miguel.calvo@banorte.com	(55) 1670 - 2220
Wholesale Banking			
Armando Rodal Espinosa	Head of Wholesale Banking	armando.rodal@banorte.com	(55) 1670 - 1889
Alejandro Aguilar Ceballos	Head of Asset Management	alejandro.aguilar.ceballos@banorte.com	(55) 5004 - 1282
Alejandro Eric Faesi Puente	Head of Global Markets and Institutional Sales	alejandro.faesi@banorte.com	(55) 5268 - 1640
Alejandro Frigolet Vázquez Vela	Head of Sólida Banorte	alejandro.frigolet.vazquezvela@banorte.com	(55) 5268 - 1656
Arturo Monroy Ballesteros	Head of Investment Banking and Structured Finance	arturo.monroy.ballesteros@banorte.com	(55) 5004 - 5140
Carlos Alberto Arciniega Navarro	Head of Treasury Services	carlos.arciniega@banorte.com	(81) 1103 - 4091
Gerardo Zamora Nanez	Head of Transactional Banking, Leasing and Factoring	gerardo.zamora@banorte.com	(81) 8173 - 9127
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) 5249 - 6423
Lizza Velarde Torres	Executive Director of Wholesale Banking	lizza.velarde@banorte.com	(55) 4433 - 4676
Osvaldo Brondo Menchaca	Head of Specialized Banking Services	osvaldo.brondo@banorte.com	(55) 5004 - 1423
Raúl Alejandro Arauzo Romero	Head of Transactional Banking	alejandro.arauzo@banorte.com	(55) 5261 - 4910
René Gerardo Pimentel Ibarrola	Head of Corporate Banking	pimentelr@banorte.com	(55) 5004 - 1051
Ricardo Velázquez Rodríguez	Head of International Banking	rvelazquez@banorte.com	(55) 5004 - 5279
Víctor Antonio Roldan Ferrer	Head of Commercial Banking	victor.roldan.ferrer@banorte.com	(55) 1670 - 1899