

Family remittances –New historical high as employment picks up in the US

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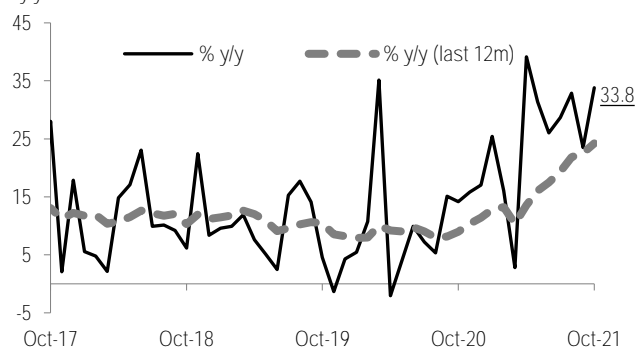
- **Remittances (October):** US\$4,818.6 million; Banorte: US\$4,698.6mn; consensus: US\$4,577.8mn; (range: US\$4,322.0mn to US\$4,800.0mn) previous: US\$4,408.9mn
- **Growth remains vigorous at 33.8% y/y in the month and 25.6%% year-to-date, in a very solid path to a new historical high. Growth went hand in hand with a substantial improvement in Mexican migrants' employment conditions in the US**
- **The average amount sent was US\$384.13 (12.5% y/y). The number of operations reached 12.5 million (18.9%), a new maximum. Both growth rates have remained at a double-digit pace at least during the last four consecutive months**
- **In seasonally adjusted terms, inflows rebounded 7.7% m/m after falling 1.6% in the previous month, reaffirming quite strong dynamics despite short-term data volatility**
- **We maintain our full-year 2021 remittances forecast at US\$49.5-50.5 billion, with risks skewed towards the high end of the range. Inflows should remain strong in 2022, close to US\$58 billion (14.5% y/y)**

Remittances' strength remains in place in October. The amount stood at US\$4,818.6 million, above consensus (US\$4,577.8 million) and to our estimate of US\$4,698.6 million. We note that it is a new historical high, surpassing last August's US\$4.7 billion. In percentage terms, growth was at 33.8% y/y with a double-digit pace since April. As a result, the year-to-date increase is at 25.6%, in a very solid path to comfortably surpass its historical high in 2020. In our view, inflows remain very favorable because of economic dynamism in the US. The expiration of some fiscal support measures in recent months and the rebound in COVID-19 due to 'delta' –which affected the pace of the recovery in 3Q21– pointed to a possible moderation. Nevertheless, signals in this regard have been scarce. On the virus, the latest wave of contagion peaked around mid-September, with the relative improvement possibly helping services the most. News about the authorization of vaccine booster shots and new antiviral treatments likely helped consumer confidence, at least temporarily. Overall, we believe marginal developments in this front have been favorable, a situation that was likely reflected in inflows.

Strong pace in the average amount sent and volume of operations. The average amount stood at US\$384.13 from US\$381.38 in the previous month, up 12.5% y/y. This is higher than its 12-month average of US\$365.55. Meanwhile, the number of operations was 12.5 million a new historical high, growing 18.4% y/y, and boosted further by a less challenging base effect. In our view, the reopening of the economy and recent wage pressures are some of the factors that have helped migrants to keep sending as much as possible to their families at home, with a renewed dynamism after tentative signs of a slowdown in the previous month.

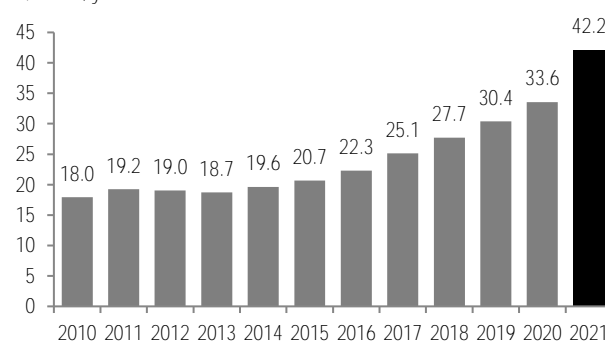
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Family remittances
% y/y



Source: Banorte with data from Banxico

Family remittances
US\$ billion, year-to-date



Source: Banorte with data from Banxico

Inflows back to sequential growth. Using seasonally adjusted figures, remittances picked up 7.7% m/m, returning strongly to positive territory after the previous month's -1.6%. Broadly speaking, the trend is very favorable despite short-term data volatility. We believe the main catalyst was the recovery in migrants' employment in the US. Specifically, the unemployment rate among Hispanics and Latinos in the US fell by about 40bps in the period, from 6.3% in September to 5.9% in October. According to our calculations, the same metric for working-age Mexicans declined to 5.6% from 5.8% in the period, reaching its lowest since February 2020, before the pandemic hit. In absolute terms, migrants surged by 329.7 thousand people, with employees up by 306.4k –including 'natives', 'non-native citizens', and 'non-citizens' (legal or illegal)– while those catalogued as unemployed fell by 29k. In our view, measures such as the expiration of additional unemployment benefits and the return to in-person classes in September may have helped some families to search –and find– a new job.

In our view, the environment remains favorable for remittances. We think remittances' dynamics have stayed strong, showing more resilience than anticipated to the reduction in unemployment benefits and to the 'third wave' of COVID-19. Given this, we reiterate our estimate for full-year 2021 at US\$49.5-50.5 billion, probably closer to the high of the range.

For 2022, we believe strength will continue, seeing growth close to 14.5% y/y towards US\$58.0 billion. We expect economic growth and the recovery of the labor market in the US to continue. Nevertheless, it will possibly be at a more modest pace given the absence of fiscal stimulus as vigorous as in this year. In addition to GDP growth, we highlight as favorable: (1) The reopening of land border crossings between the US and Mexico since November 8th, boosting economies in the region; (2) the approval of a new infrastructure package proposed by the Biden administration for close to US\$1.2 trillion (US\$550 billion in new resources), which could support workers in the construction sector; and (3) recent meetings –with the resumption of the North American Leaders' Summit, among other initiatives– to tackle common challenges, reducing the likelihood of adverse and unilateral measures in migration despite underlying tensions.

In our view, there are three main risks for next year. First is the pandemic's evolution, including new variants. For example, we have limited information so far about the 'Omicron' variant, so we will watch carefully to its potential impact on activity. Second, higher inflation which affects migrants' purchasing power if these pressures remain significant and/or persistent, as well as if they are not reflected in wage hikes. Third, mid-term elections in the US and pressures on the Biden administration regarding migration. We cannot rule out that electoral issues lead to harsher policies despite more positive signals when compared to the stance of President Trump. In this sense, the full 435 seats of the House of Representatives and 34 in the Senate are up for grabs in 2022. The president has been criticized harshly because of the incoming waves of migrants from the Southern Border, affecting his approval ratings. Also, in this front, press reports state that the 'Stay in Mexico' policy will be reinstated as soon as this week. This is because of the Supreme Court decision that the program –established during the Trump administration– should continue. Although there is no strong evidence that these measures affect inflow dynamics in the short term, they could well have an effect in the longer-term if they lead to lower growth of Mexican migrants in said country.

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