

Family remittances –Strong inflows of US\$51.6 billion in full-year 2021

- **Remittances (December):** US\$4,760.4 million; Banorte: US\$4,789.2mn; consensus: US\$4,789.2mn; (range: US\$4,429mn to US\$4,915mn) previous: US\$4,665.2mn
- **Inflows grew 30.4% y/y in the period. As a result, remittances reached US\$51,593 million in full-year 2021, up 27.1% and a new historical high. Results were favorable despite mixed data about employment conditions of Mexico migrants in the US**
- **The average amount sent was US\$381.12 (12.4% y/y), staying relatively strong. The number of operations was also favorable, at 12.5 million (16.1%), despite lower employment levels**
- **In seasonally adjusted terms, inflows declined 1.9% m/m, which is not that alarming after the strength seen in the previous two months. Overall, it is our take that dynamics remain favorable**
- **Given some risks to the downside for the economy and less fiscal impulse in the US during the year, we adjust lower our full-year 2022 forecast for remittances to US\$56.5 billion (+9.5% y/y)**

Remittances maintained a good performance in December. The amount stood at US\$4,760.4 million, virtually in line with consensus (US\$4,789.2 million), which matched our estimate. With this, full-year 2021 inflows reached a new historical high of US\$51.6 billion, growing 27.1% y/y despite pandemic challenges. In our view, dynamism remains strong, with an elevated, double-digit pace since May 2021. It is also important that virus cases in the US surged due to Omicron. Based on the 7-day MA, maximum daily cases before this wave were slightly above 251,000 in early January 2021. Nevertheless, this was constantly surpassed from December 28 onwards, reaching new highs until January 15th at almost 803 thousand. A turning point seems to have been established since then, currently at a still elevated 364,262. This has exacerbated supply constraints, including those related to labor availability –on voluntary isolation and/or absenteeism, among others–. On a more positive tone, daily deaths are well below their peaks about one year ago, albeit rising since December. Data shows this has moderated the pace of the recovery and hit consumers' confidence. Renewed efforts by the administration to provide antiviral treatments and at-home testing kits while vaccination campaigns continue, among other initiatives, likely lessened the economic impact of the current wave.

Resiliency in both the average amount and volumes. The average amount stood at US\$381.12 from US\$400.59 in the previous month, up 12.4% y/y. Despite being lower at the margin, it remains above its 12-month average of US\$373.46. In our view, this is positive but may have been affected by high inflation that has affected real incomes, despite wages also rising. Total operations were 12.5 million (16.1% y/y), somewhat affected by a difficult base effect. Nevertheless, it is also favorable considering the decline in total employed migrants (see below for details). In full-year 2021, these advanced 11.1% and 14.3% y/y, in the same order.

February 1, 2022

www.banorte.com
@analisis_fundam

Juan Carlos Alderete, CFA
Executive Director of Economic Research
and Financial Markets Strategy
juan.alderete.magal@banorte.com

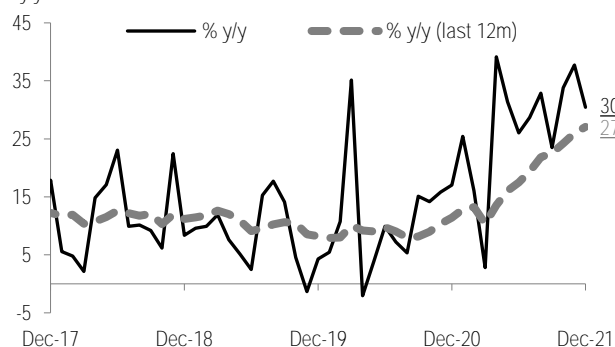
Francisco Flores
Director of Economic Research, Mexico
francisco.flores.serrano@banorte.com

Winners of the award for best economic forecasters for Mexico in 2021, granted by *Refinitiv*



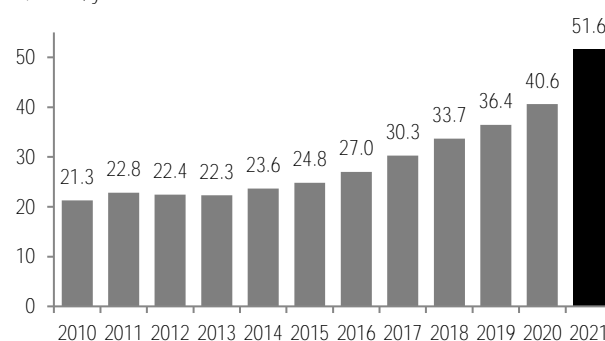
Document for distribution among the general public

Family remittances
% y/y



Source: Banorte with data from Banxico

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



Source: Banorte with data from Banxico

A modest sequential setback given recent dynamics. Using seasonally adjusted figures, remittances contracted 1.9% m/m. Although negative, we do not see it as alarming given 9.5% in accumulated gains during the last two months. In this sense, the print is mostly payback from a higher base effect. Moreover, we should say that labor market conditions in the US were mixed at best. On one hand, the unemployment rate among Hispanics fell to 4.9% from 5.2% in November, matching the decline (in basis points) for the overall population. This is a new post-pandemic low and stands only 50bps above the level in February 2020. Nevertheless, and according to our calculations, figures for working-age Mexicans –including ‘natives’, ‘non-native citizens’, and ‘non-citizens’ (legal or illegal)– were significantly weaker. Specifically, the unemployment rate surged to 7.6% from 4.9% previously. Looking at the details, unemployed people increased by 462.3 thousand, coupled with a reduction of 170 thousand in the labor force. We admit these figures are difficult to reconcile, but in our view provide some caution about the trend in inflows, especially as the pace of growth has been significantly high for several months. Overall, we judge the results as still positive.

We reduce our view for remittances in full-year 2022. Despite strong results, recent developments point to the possibility of less dynamism this year. Specifically, the US economic outlook has weakened at the margin. Among the factors, we highlight: (1) The increase in virus’ cases, affecting both consumer and business confidence; (2) price pressures that will likely extend even more than anticipated, in turn making the Fed more aggressive in its normalization process; (3) the possibility of a harsher winter, which could exacerbate supply problems; and (4) a negative fiscal impulse this year as there are not enough votes in the Senate to approve Biden’s *Build Back Better* plan.

In this backdrop, we will watch closely to the details about employment dynamics at the start of the year with the nonfarm payrolls report on Friday. Specifically, we estimate a deceleration in job creation to 175 thousand new posts (consensus: 150 thousand), with the unemployment rate falling about 10bps, to 3.8%. In addition, we believe less new jobs are likely in 1Q22 as people stay cautious about outdoor activities during the winter because of the virus.

On the second point, we still see the Fed hiking four times this year. Nevertheless, most recent central bank communications show that risks are skewed to the upside. Apart from its possible impact in consumption, a potentially relevant factor is the effect it could have on dynamism in construction (given higher rates). Related to this and going to the last point above, the probabilities of an approval of the *Build Back Better* plan have plunged. We believe this is relevant as it is currently estimated that the net effect from fiscal policy on growth will be negative this year. This is driven by what happened in 2021, which saw strong stimulus measures because of the pandemic, including direct cash transfers to households. Moreover, the plan includes relevant initiatives in infrastructure spending, which may be especially positive for workers in that sector in the US

All in all, we adjust lower our remittances forecast for FY2022, from US\$58.0 to US\$56.5 billion. If this materializes, the result would remain very positive for our country's domestic demand, with flows advancing 9.5% y/y. In turn, this is key for our call that consumption will probably keep recovering this year despite headwinds from high inflation, which we believe will prevail in coming months.

Analyst Certification

We, Alejandro Padilla Santana, Juan Carlos Alderete Macal, Alejandro Cervantes Llamas, Manuel Jiménez Zaldívar, Marissa Garza Ostos, Francisco José Flores Serrano, Katia Celina Goya Ostos, José Luis García Casales, Yazmín Selene Pérez Enriquez, José Itzamna Espitia Hernández, Carlos Hernández García, Paola Soto Leal, Víctor Hugo Cortes Castro, Hugo Armando Gómez Solís, Miguel Alejandro Calvo Domínguez, Luis Leopoldo López Salinas, Leslie Thalia Orozco Vélez and Gerardo Daniel Valle Trujillo, certify that the points of view expressed in this document are a faithful reflection of our personal opinion on the company (s) or firm (s) within this report, along with its affiliates and/or securities issued. Moreover, we also state that we have not received, nor receive, or will receive compensation other than that of Grupo Financiero Banorte S.A.B. of C.V for the provision of our services.

Relevant statements.

In accordance with current laws and internal procedures manuals, analysts are allowed to hold long or short positions in shares or securities issued by companies that are listed on the Mexican Stock Exchange and may be the subject of this report; nonetheless, equity analysts have to adhere to certain rules that regulate their participation in the market in order to prevent, among other things, the use of private information for their benefit and to avoid conflicts of interest. Analysts shall refrain from investing and holding transactions with securities or derivative instruments directly or through an intermediary person, with Securities subject to research reports, from 30 calendar days prior to the issuance date of the report in question, and up to 10 calendar days after its distribution date.

Compensation of Analysts.

Analysts' compensation is based on activities and services that are aimed at benefiting the investment clients of Casa de Bolsa Banorte and its subsidiaries. Such compensation is determined based on the general profitability of the Brokerage House and the Financial Group and on the individual performance of each analyst. However, investors should note that analysts do not receive direct payment or compensation for any specific transaction in investment banking or in other business areas.

Last-twelve-month activities of the business areas.

Grupo Financiero Banorte S.A.B. de C.V., through its business areas, provides services that include, among others, those corresponding to investment banking and corporate banking, to a large number of companies in Mexico and abroad. It may have provided, is providing or, in the future, will provide a service such as those mentioned to the companies or firms that are the subject of this report. Casa de Bolsa Banorte or its affiliates receive compensation from such corporations in consideration of the aforementioned services.

Over the course of the last twelve months, Grupo Financiero Banorte S.A.B. C.V., has not obtained compensation for services rendered by the investment bank or by any of its other business areas of the following companies or their subsidiaries, some of which could be analyzed within this report.

Activities of the business areas during the next three months.

Casa de Bolsa Banorte, Grupo Financiero Banorte or its subsidiaries expect to receive or intend to obtain revenue from the services provided by investment banking or any other of its business areas, by issuers or their subsidiaries, some of which could be analyzed in this report.

Securities holdings and other disclosures.

As of the end of last quarter, Grupo Financiero Banorte S.A.B. of C.V. has not held investments, directly or indirectly, in securities or derivative financial instruments, whose underlying securities are the subject of recommendations, representing 1% or more of its investment portfolio of outstanding securities or 1 % of the issuance or underlying of the securities issued.

None of the members of the Board of Grupo Financiero Banorte and Casa de Bolsa Banorte, along general managers and executives of an immediately below level, have any charges in the issuers that may be analyzed in this document.

The Analysts of Grupo Financiero Banorte S.A.B. of C.V. do not maintain direct investments or through an intermediary person, in the securities or derivative instruments object of this analysis report.

Guide for investment recommendations.

	Reference
BUY	When the share expected performance is greater than the MEXBOL estimated performance.
HOLD	When the share expected performance is similar to the MEXBOL estimated performance.
SELL	When the share expected performance is lower than the MEXBOL estimated performance.

Even though this document offers a general criterion of investment, we urge readers to seek advice from their own Consultants or Financial Advisors, in order to consider whether any of the values mentioned in this report are in line with their investment goals, risk and financial position.

Determination of Target Prices

For the calculation of estimated target prices for securities, analysts use a combination of methodologies generally accepted among financial analysts, including, but not limited to, multiples analysis, discounted cash flows, sum-of-the-parts or any other method that could be applicable in each specific case according to the current regulation. No guarantee can be given that the target prices calculated for the securities will be achieved by the analysts of Grupo Financiero Banorte S.A.B. C.V, since this depends on a large number of various endogenous and exogenous factors that affect the performance of the issuing company, the environment in which it performs, along with the influence of trends of the stock market, in which it is listed. Moreover, the investor must consider that the price of the securities or instruments can fluctuate against their interest and cause the partial and even total loss of the invested capital.

The information contained hereby has been obtained from sources that we consider to be reliable, but we make no representation as to its accuracy or completeness. The information, estimations and recommendations included in this document are valid as of the issue date but are subject to modifications and changes without prior notice; Grupo Financiero Banorte S.A.B. of C.V. does not commit to communicate the changes and also to keep the content of this document updated. Grupo Financiero Banorte S.A.B. of C.V. takes no responsibility for any loss arising from the use of this report or its content. This document may not be photocopied, quoted, disclosed, used, or reproduced in whole or in part without prior written authorization from Grupo Financiero Banorte S.A.B. of C.V.

Research and Strategy			
Alejandro Padilla Santana	Chief Economist and Head of Research	alejandro.padilla@banorte.com	(55) 1103 - 4043
Raquel Vázquez Godínez	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	Executive Director of Economic Research and Financial Markets Strategy	juan.alderete.macal@banorte.com	(55) 1103 - 4046
Francisco José Flores Serrano	Director of Economic Research, Mexico	francisco.flores.serrano@banorte.com	(55) 1670 - 2957
Katla Celina Goya Ostos	Director of Economic Research, Global	katla.goya@banorte.com	(55) 1670 - 1821
Yazmín Selene Pérez Enríquez	Senior Economist, Mexico	yazmin.perez.enriquez@banorte.com	(55) 5268 - 1694
Luis Leopoldo López Salinas	Economist, Global	luis.lopez.salinas@banorte.com	(55) 1103 - 4000 x 2707
Market Strategy			
Manuel Jiménez Zaldivar	Director of Market Strategy	manuel.jimenez@banorte.com	(55) 5268 - 1671
Fixed income and FX Strategy			
Leslie Thalía Orozco Vélez	Senior 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
Carlos Hernández García	Senior Strategist, Equity	carlos.hernandez.garcia@banorte.com	(55) 1670 - 2250
Víctor Hugo Cortes Castro	Senior Strategist, Technical	victorh.cortes@banorte.com	(55) 1670 - 1800
Paola Soto Leal	Analyst	paola.soto.leal@banorte.com	(55) 1103 - 4000 x 2755
Corporate Debt			
Hugo Armando Gómez Solís	Senior Analyst, Corporate Debt	hugo.a.gomez@banorte.com	(55) 1670 - 2247
Gerardo Daniel Valle Trujillo	Analyst, Corporate Debt	gerardo.valle.trujillo@banorte.com	(55) 1670 - 2248
Quantitative Analysis			
Alejandro Cervantes Llamas	Executive Director of Quantitative Analysis	alejandro.cervantes@banorte.com	(55) 1670 - 2972
José Luis García Casales	Director of Quantitative Analysis	jose.garcia.casales@banorte.com	(55) 8510 - 4608
Miguel Alejandro Calvo Domínguez	Senior Analyst, Quantitative Analysis	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.cebaltos@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.rolan.ferrer@banorte.com	(55) 1670 - 1899