

## Family remittances – Maintaining a strong pace at the start of 2022

- **Remittances (January): US\$3,930.8 million; Banorte: US\$3,984.8mn; consensus: US\$4,342.2mn; (range: US\$3,682.0mn to US\$4,650.0mn) previous: US\$4,752.2mn**
- **Inflows grew 19.6% y/y, which is positive considering a difficult base effect. This was likely supported by stronger employment conditions of Mexican migrants in the US, with more resiliency despite the rise in Omicron cases**
- **The average amount sent was US\$371.21 (8.3% y/y). Meanwhile, the number of operations remains elevated, standing at 10.6 million (10.4%), albeit lower at the margin**
- **Seasonally adjusted, inflows rebounded 1.3% m/m, reversing part of the 1.9% decline of the previous month. Overall, we believe the longer-term trend maintains favorable dynamics**
- **We reiterate our optimism about remittances for the rest of the year, with our full-year estimate at US\$56.5 billion. The US economic recovery looks robust despite risks from high inflation, fiscal gridlock and a less accommodative monetary policy ahead**

**Remittances still growing at a double-digit pace in January.** The amount stood at US\$3,930.8 million, virtually in line with our call, but lower than consensus. Despite being below the US\$4 billion threshold for the first time in almost a year, we should mention that this is likely because of an adverse seasonality, with the year usually starting slow after the holiday season and difficult weather conditions in the US. In this sense, inflows grew 19.6% y/y, even with a difficult base effect from 2021. In addition, pandemic conditions in the US were very challenging, with the maximum in daily cases reached by January 10<sup>th</sup> at almost 1.3 million. Since then, a downward trend has been established, currently at about 10 thousand cases. The economy seems to have decelerated at the margin, as flagged by the slowdown in ISM indicators relative to December. Nevertheless, the impact of the virus was likely more modest than initially anticipated, as signaled by upward surprises in hard data such as retail sales and industrial production. In turn, this was reflected in a positive evolution of the labor market (see below). Overall, it is our take that today's result was favorable.

**Volumes maintained stronger growth than the amount sent, but with both favorable.** The average amount sent stood at US\$371.21 from US\$378.47 in the previous month, up 8.3% y/y. This was lower at the margin for a third consecutive month. In our view, the latter may be affected by an increasingly negative effect from high US inflation, which reached 7.5% y/y in the month. This may well be countered by higher wage gains, at least partially. Nevertheless, pressures remain elevated. On the other hand, total operations reached 10.6 million (10.4% y/y), with higher relative growth related to the recovery in the number of Mexican migrants in the US.

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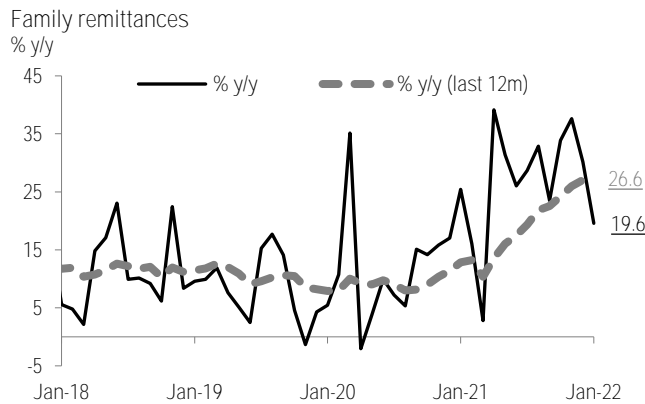
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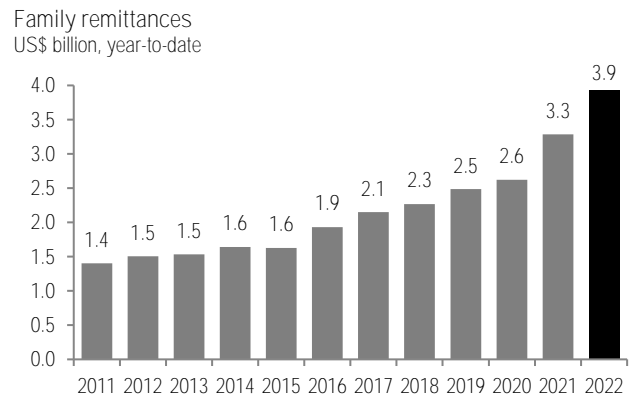
Winners of the award for best economic forecasters for Mexico in 2021, granted by *Refinitiv*



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Source: Banorte with data from Banxico



Source: Banorte with data from Banxico

**Back to sequential growth, maintaining a favorable longer-term trend.**

Seasonally adjusted, remittances grew 1.3% m/m, partially reversing the 1.9% drop seen in December. Broadly speaking, this is congruent with the improvement in US labor market conditions during the period. Specifically, nonfarm payrolls showed 467k new posts, with the unemployment rate an inch higher, to 4.0% from 3.9%, although driven by a higher participation rate. Among Hispanics and Latinos, the latter metric stayed unchanged at 4.9%. Meanwhile, the number of working-age Mexicans –including ‘natives’, ‘non-native citizens’, and ‘non-citizens’ (legal or illegal)– surged by 765,426 persons to a new historical high of 27.5 million. Moreover, total employees increased by 988 thousand, led by non-citizens and more than compensating for the decline of 836 thousand in December. In response, the unemployment rate for Mexicans plunged to 5.7% from 7.6% previously, according to our calculations, with a total of 17.2 million employed, about 10k less than its historical high.

**We stay optimistic about remittances despite economic risks.** We reiterate our favorable view on inflows, estimating a 9.5% y/y advance in 2022, close to US\$56.5 billion. In our view, the report suggests that underlying dynamics remain favorable and resilient. Moreover, data already released shows that economic dynamism picked up in February as a result of lower Omicron cases. This has allowed several states to reduce restrictions, in turn possibly also lowering fears among the population. Nevertheless, consumer confidence indicators (*e.g.* U. of Michigan and Conference Board) declined in February. Although labor market strength probably limited a major impact from the virus, it was not enough to compensate for higher inflation. To the latter we must add the recent increase in gasoline prices related to Russian invasion of Ukraine. Both will likely be a headwind, while it is also important to consider that: (1) The effect of previous fiscal stimulus measures has probably faded out, while Congress has failed to pass new targeted budget measures, as far as we know; and (2) weather conditions were also a problem for activity in some states. As a result, economic risks remain as a potential source of weakness for remittances ahead, especially price pressures as they affect real disposable incomes. Nevertheless, they have shown remarkable strength despite this backdrop and other important and negative events, the most recent one being the start of the pandemic.

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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, Daniela Olea Suárez, Miguel Alejandro Calvo Domínguez, Luis Leopoldo López Salinas, Leslie Thalía Orozco Vélez, Gerardo Daniel Valle Trujillo and Isaias Rodríguez Sobrino, 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.

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