

## Family remittances – Favorable results extend to February

- **Remittances (February): US\$3,910.0 million; Banorte: US\$3,919.1mn; consensus: US\$3,878.5mn; (range: US\$3,766.1mn to US\$4,117.6mn) previous: US\$3,930.8mn**
- **Inflows keep growing at a double-digit pace (23.3% y/y), underpinned by economic dynamism in the US, which has in turn been reflected in constant employment gains**
- **The average amount sent was US\$374.51 (6.7% y/y). Meanwhile, the number of operations stood at 10.4 million (15.6%), affected at the margin by an adverse seasonality**
- **Seasonally adjusted, inflows declined 0.2% m/m, which is not concerning after the +0.9% seen in the previous month. Overall, we believe the longer-term trend still shows favorable dynamics**
- **Remittances will likely maintain a strong pace in the short-term as the US economy has been quite resilient to recent headwinds. Nevertheless, more caution may be granted if the Fed's hiking cycle is more aggressive than expected, which could hurt dynamism in the second half of the year**

**Remittances confirm their resiliency in February.** The amount stood at US\$3,910.0 million, virtually in line with our call, but above consensus. This was below the previous month, albeit recalling that February is typically low as it only has 28 days –except for leap years–. In this sense, inflows grew 23.3% y/y, accelerating at the margin. The evolution of COVID-19 in the US likely helped, with the Omicron wave starting to fade since mid-January, when a maximum of daily cases was reached at almost 1.3 million. Specifically, the economy has been better than expected, in turn reflected in labor market indicators (see below). US PMIs were positive, with manufacturing higher and firmly in expansion (57.3pts), while services accelerated meaningfully (to 56.5pts from 51.2pts). Meanwhile, industrial production and retail sales climbed further in sequential terms. Other figures suggest that demand stayed resilient, allowing companies to pass-on higher costs to consumers. This has fueled inflation and may well be a stronger headwind for the real economy ahead. Nonetheless, at least for now, the economy remained vigorous, keeping us confident about the outlook for inflows despite higher uncertainty.

**Volumes lower in absolute terms, but the average amount stays high.** The former reached 10.4 million, which is below January's 10.6 million, not surprising given the abovementioned seasonality. Nevertheless, they grew 15.6% y/y, favorable despite some advantage from a lower base effect. On the other hand, the average amount sent was US\$374.51 from US\$371.21 previously, positive after two consecutive months moderating. We still think that inflation may affect this measure going forward. On the other hand, wages may help compensate for this, as they are also increasing at a relatively high pace (+5.2% y/y in February and +5.6% in March). We will watch results carefully in the short-term, as we do not rule out an impact from higher gasoline prices in the US, which surged following Russia's invasion of Ukraine.

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

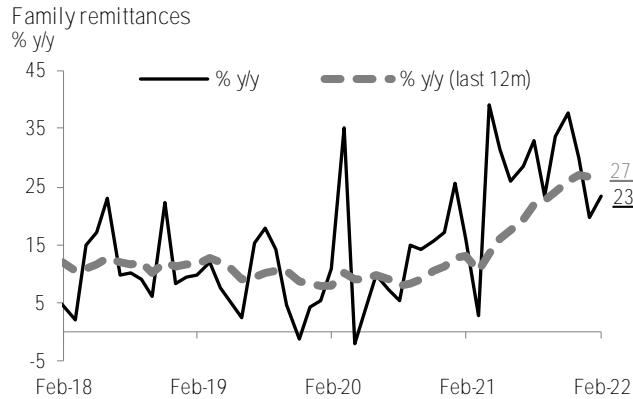
Francisco Flores  
Director of Economic Research, Mexico  
francisco.flores.serrano@banorte.com

Yazmín Pérez  
Senior Economist, Mexico  
yazmin.perez.enriquez@banorte.com

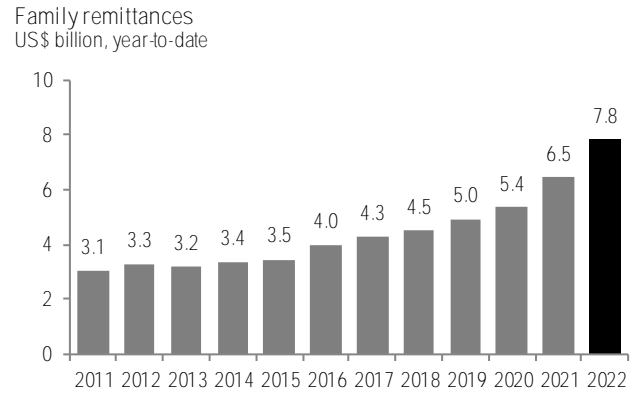
Winners of the award for best economic forecasters for Mexico in 2021, granted by *Refinitiv*



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Source: Banorte with data from Banxico



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**Inflows decelerate marginally in sequential terms.** Seasonally adjusted, remittances fell 0.2% m/m, quite modest considering the 0.9% expansion in January. In our view, this remains underpinned by economic and labor market dynamism in the US. In this sense, nonfarm payrolls showed 750k new posts in the month, with the unemployment rate dropping to 3.8% from 4.0%, a new post-pandemic low and virtually the same as two years previously. This metric fell about 50bps to 4.4% among Hispanics and Latinos. Going to working-age Mexicans –including ‘natives’, ‘non-native citizens’, and ‘non-citizens’ (legal or illegal)–, total people inched lower by 45,122. Nevertheless, jobs in this group increased by 278.4 thousand, enough for total employees to reach a new historical high of 17.4 million. According to our calculations, this meant that the unemployment rate dipped by 48bps in the period to 5.3%, suggesting that this subgroup is very close to full employment.

**We maintain our positive outlook for remittances this year.** Today’s favorable results were coupled with the release of March’s labor market data in the US, in which 431k posts were added. The unemployment rate fell again, to 3.6% from 3.8% in the previous month. For Hispanics and Latinos, this metric declined to 4.2%, a new low since October 2019. Although we still need to see the specifics about dynamics among Mexican migrants, these results suggest a further improvement in labor conditions for this subgroup. This is more positive recalling that uncertainty has picked up on the war in Ukraine, with the invasion starting on February 24<sup>th</sup>. Despite of the imposed sanctions and strong upward reaction in commodity prices since then, the US economy has likely weathered the event mostly unscathed (at least for now). In this sense, both the US PMI manufacturing and services from *S&P Global* (previously *Markit*) increased further, with the latter at its highest since July last year.

In other news, we highlight Banxico’s announcement of changes in the rules that govern the electronics payment system for domestic transactions, known as SPEI. Among other measures, the central bank stated that they will: (1) Allow the transfer of resources identifying the beneficiary only with the 10-digits of his/her mobile phone; (2) regulate the indirect participation of financial entities in the system; and (3) strengthen the processing of remittances. We do not rule out that these measures may help broaden the options available for migrants to send their resources back home.

Nevertheless, we believe its greatest benefit will likely be for final recipients, not necessarily in the total amounts sent. Either way, it is our take that these are positive news for handling and dispersing resources.

Despite of this, some issues should be considered going into the second half of the year. Among them, the possible effect of higher inflation on growth and the response from the Fed are the most relevant for the employment outlook among migrants. A very aggressive hiking cycle will likely hit aggregate demand (with some lag), which in turn would cool-off the pace of job and wage gains. Although our view remains that the pace will be lower than market expectations, risks have been decisively on the rise. Moreover, we maintain our GDP growth view in the US at 3.5% in 2022. Overall, we stay positive on remittances, although we are a little more cautious about the trend in the medium term given these potential headwinds.

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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 Enríquez, 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 Thalia Orozco Vélez, Gerardo Daniel Valle Trujillo and Isaías 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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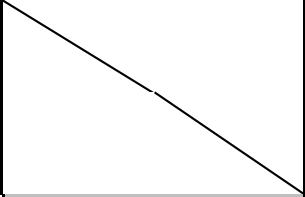
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Research and Strategy			
Alejandro Padilla Santana	Chief Economist and Head of Research	alejandro.padilla@banorte.com	(55) 1103 - 4043
Raquel Vázquez Godínez	Assistant	raquel.vazquez@banorte.com	(55) 1670 - 2967
Itzel Martínez Rojas	Analyst	itzel.martinez.rojas@banorte.com	(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
Katia Celina Goya Ostos	Director of Economic Research, Global	katia.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
Isaías Rodríguez Sobrino	Analyst, Fixed Income, FX and Commodities	isaias.rodriguez.sobrino@banorte.com	(55) 1670 - 2144
Equity Strategy			
Marissa Garza Ostos	Director of Equity Strategy	marissa.garza@banorte.com	(55) 1670 - 1719
José Itzamna Espitia Hernández	Senior Strategist, Equity	jose.espita@banorte.com	(55) 1670 - 2249
Carlos Hernández García	Senior Strategist, Equity	carlos.hernandez.garcia@banorte.com	(55) 1670 - 2250
David Alejandro Arenas Sánchez	Senior Strategist, Equity	david.arenas.sanchez@banorte.com	(55) 1103 - 4000 x 2755
Victor 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 1746
Corporate Debt			
Hugo Armando Gómez Solís	Senior Analyst, Corporate Debt	hugo.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
Daniela Olea Suárez	Senior Analyst, Quantitative Analysis	daniela.olea.suarez@banorte.com	(55) 1103 - 4000
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.cebaldos@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
Oswaldo 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
Victor Antonio Roldan Ferrer	Head of Commercial Banking	victor.roldan.ferrer@banorte.com	(55) 1670 - 1899