Family remittances – Sequential deceleration in March, but still with a favorable trend

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- **Remittances (March): US$4,680.6 million; Banorte: US$4,737.4mn; consensus: US$4,738.0mn; (range: US$3,435mn to US$5,060mn) previous: US$3,910.0mn**
- **Inflows grew 12.6% y/y, below last month's 23.3%. To some extent, this is influenced by a relative normalization in base effects after two years into the pandemic. Overall, we believe that underlying dynamism and the longer-term trend remain strong**
- **The average amount sent remains elevated at US$393.30 (6.0% y/y). The number of operations stood at 11.9 million (6.2%), picking up to its highest so far this year on a better seasonality**
- **Seasonally adjusted, inflows dropped 2.1% m/m, surprising to the downside. Nevertheless, it is our take that a strong economy and labor market in the US will keep supporting inflows**
- **We maintain our positive view for remittances. Nevertheless, risks remain that dynamism moderates because of high inflation and the Fed's hiking cycle. We are also watching closely developments on immigration**

Remittances above US$ 4 billion in March. The amount stood at US$4,680.6 million, close to our call and consensus expectations. Inflows grew 12.6% y/y, lower at the margin. In our view, this was influenced to some extent by a relative normalization in base effects after two years into the pandemic. The accumulated amount during the quarter was US$12,521.4 million, a new historical high for the period and 18.0% y/y, which we see as positive. In our view, the evolution of the pandemic in the US keeps helping, albeit more modestly. Demand remain high, with the economy resilient –despite 1Q22 GDP at -1.4% q/q saar, which in our view was better than it seems at first sight– and a "hot" labor market. Regarding the latter, employment indicators within PMI's keep mentioning widespread shortages, while the participation rate stands at 62.4%, still below pre-pandemic levels. Overall, we remain confident about the positive outlook for inflows.

Volumes and the average amount grew at similar rates. The former reached 11.9 million, much higher than in the two previous months, although likely related to seasonal factors. In annual terms they grew 6.2% from 15.6% in February. On the other hand, the average amount sent was US$393.30 from US$374.51 previously, up 6.0%. As we have mentioned before, this figure is likely skewed higher by inflation, with wages also adjusting to this situation. In this respect, average hourly earnings for all private employees in the US have been rising above 5% y/y every month –except for December 2021, at 4.9%– since October last year. Despite of this, we should also consider that the USD/MXN exchange rate shot higher during the first half of the month because of the war in Ukraine. When translated to local currency, this should help alleviate part of the negative impact that higher domestic inflation has had on the purchasing power of these resources for Mexican families.

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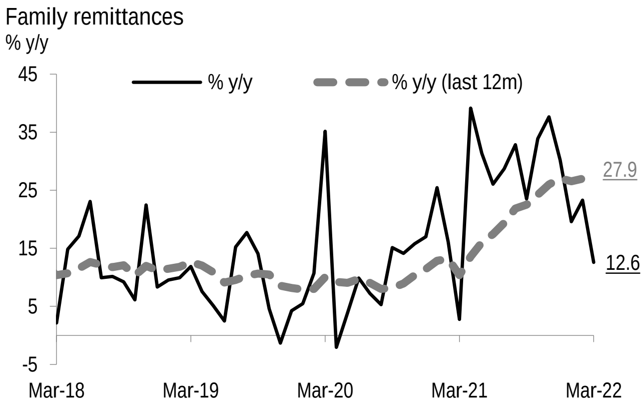
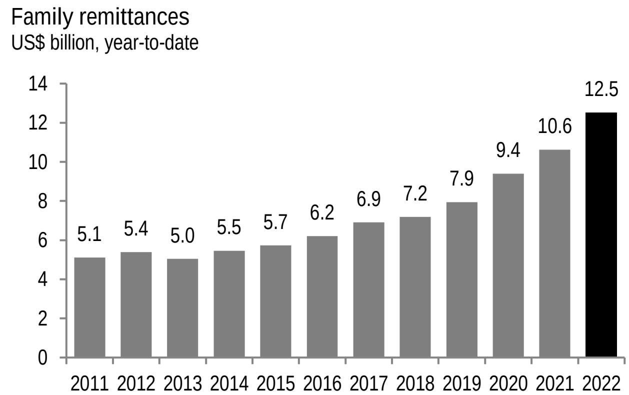


Source: Banorte with data from Banxico



Source: Banorte with data from Banxico

A surprising sequential setback. Seasonally adjusted, remittances were down by 2.1% m/m, disappointing when considering modest growth in the previous two months. In our view, seasonal factors were mostly at play, believing that sequential performance will remain underpinned by economic and labor market strength in the US. In this sense, nonfarm payrolls in the period shoed 471k new posts, with the unemployment rate declining 20bps to 3.6%. This is virtually at the level seen in the first two months of 2020 of 3.5%, before the pandemic. For Hispanics and Latinos, this rate fell by about the same, to 4.2%. In the case of working-age Mexicans –including 'natives', 'non-native citizens', and 'non-citizens' (legal or illegal)–, the total number of people declined for a second consecutive month, down by around 162k. Nevertheless, and as seen in February, total employees picked up, reaching a new historical high of almost 17.5 million. Coupled with less unemployed workers, the unemployment rate dropped by 96bps to 4.32%, according to our calculations. This matched the level in year-end 2019 and suggests a "hot" market.

We reiterate our full-year estimate of US$56.5 billion, watching closely upcoming developments on migration. It is our take that inflows have been affected only modestly so far because of rising price pressures. Nevertheless, it is worth watching closely as headline CPI in the US is running at higher rates than average hourly earnings. If this extends for a prolonged time or exacerbates further, it may well have a more meaningful impact on the resources available for Mexican migrants to send to their families (as the cost of living rises). This is even more important considering that gasoline prices reached new highs by the end of April. On the other hand, it could also be compensated by further employment gains as the economy remains strong. Overall, we believe inflows remain firmly on the path to reach new historical highs this year. In this respect, another relevant risk is the impact that Fed rate hikes may have on the economy, especially in housing –which is very important for employees in construction–, among other sectors.

We also want to note that tensions on immigration have been rising in the US. Although we do not see any significant impact in short-term flows, we believe this remains a key factor for the outlook.

This issue has been grabbing headlines since president Biden announced plans to terminate the policy known as 'Remain in Mexico' implemented under 'Title 42' at the start of the pandemic. According to the administration, this will end on May 23rd.

In response, Texas Governor Greg Abbott (R) announced harsh inspection measures for trucks crossing the border, arguing that they are needed to stop illegal immigrants. Although the rule was in place only for the ten days ended on April 15th, it caused massive delays, worker protests and an important economic impact. If this measure is reinstated or others are unveiled, the effect on the economy could eventually hit the labor market and remittances.

Although our visibility on how this can evolve is limited, it is likely to be an increasingly hot topic ahead of the US mid-term elections in November. Politics or not, detained persons by land in the Southern Border remain elevated, with March seeing a new historical high of 221,303 persons and all months since last October above 150k. Although seasonality could help explain some of this, we are also looking closely for any potential agreement between the US and Mexico in this regard. Last Friday, presidents Biden and López-Obrador met virtually to address this and other issues. Specifically, the White House informed that migration was an important topic, in which they agreed to enhance their collaboration to reduce illegal flows. They also reiterated the need to build stronger tools for managing regional migration surges. The White House Press Secretary, Jen Psaki, stated that the dialogue was constructive. In either case, we believe tensions are likely to rise in this front in coming months.

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