Family remittances – Sequential acceleration in April supports a favorable trend

- **Remittances (April): US$4,718.1 million; Banorte: US$4,543.8mn; consensus: US$4,450.0mn; (range: US$4,106.3mn to US$4,810.0mn) previous: US$4,692.5mn**
- **Inflows keep growing at a double-digit pace (16.5% y/y). In our view, this remains favorable even after discounting for high inflation. We keep seeing US economic resiliency underpinning dynamism**
- **The average amount sent decelerated at the margin, standing at US$391.27 (4.3% y/y). The number of operations reached 12.1 million (11.7%), stronger despite a relatively weak seasonality**
- **Seasonally adjusted, inflows rebounded 4.9% m/m, more than making up for the -1.7% of the previous month. In this respect, total Mexican migrant employees reached a new historical high**
- **We remain constructive on remittances. Nevertheless, we are looking closely at US labor market dynamics given a potential moderation in economic activity amid high inflation**

Remittances gain momentum in April. The amount stood at US$4,718.1 million, higher than consensus. Inflows grew 16.5% y/y, maintaining a double-digit pace since the same period last year. Although base effects still play a role, it is our take that these will keep normalizing and their impact is increasingly more modest. US economic performance stayed resilient in the period, with hard data such as retail sales and industrial production up sequentially and surpassing market expectations. Nevertheless, soft data, such as PMIs and confidence indicators, were weaker. On the pandemic, restrictions remained lax even though cases have been rising in recent weeks. In this sense, we believe their impact on domestic consumer and business behavior remained more limited. Nevertheless, trade disruptions because of Chinese lockdowns, as well as inflation pressures, accelerated in the month. We cannot rule out that these may prove to be a stronger headwind, at least for the rest of the second quarter.

Growth led by a higher number of operations. The average amount sent stood at US$391.27 from US$393.46 in the previous month. They grew 4.3% y/y, which is more modest than in March. The deceleration could be driven by higher inflation, as migrants need to spend additional resources to maintain their purchasing power and living standard. In this respect, average hourly earnings for all US private employees were up 5.5% y/y (seasonally adjusted) in April, barely unchanged from the 5.6% of the previous month and sequentially up in all periods since August 2020, when the reopening of the economy gathered pace. Nevertheless, it is more modest than headline CPI (8.3% y/y), which in our view may be a more meaningful headwind ahead. On the other hand, total transactions reached 12.1 million (+11.7% y/y), quite positive considering that the period typically shows a relatively weak seasonal pattern.

June 1, 2022

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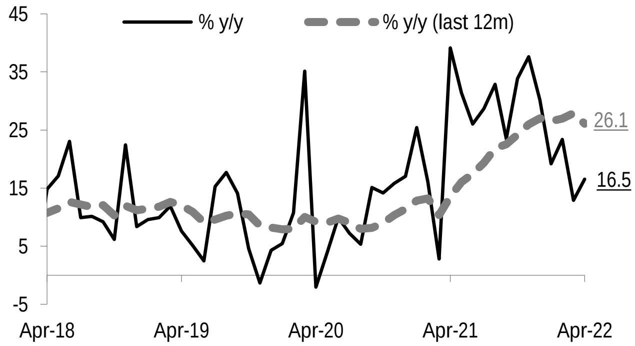
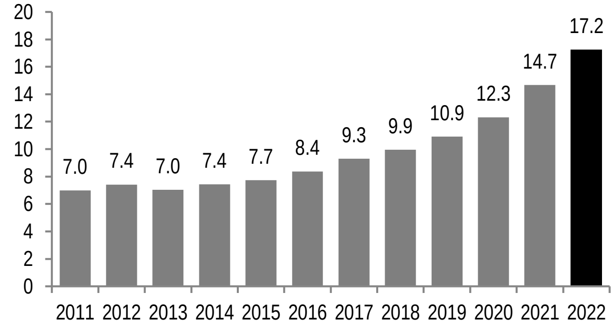
STARMINE AWARDS FOR REUTERS POLLS FROM REFINITIV

Family remittances
% y/y



Source: Banorte with data from Banxico

Family remittances
US$ billion, year-to-date



Source: Banorte with data from Banxico

A healthy sequential rebound. Seasonally adjusted, remittances grew 4.9% m/m, which is positive as it made up for the 1.7% contraction seen in the previous month. Despite intra-month volatility, US labor market dynamics keep pointing to a favorable trend going forward. In this sense, April's nonfarm payrolls were up by 428k new posts for a second month in a row, with the unemployment rate stable at 3.6%. Nevertheless, the rate for Hispanics and Latinos kept moving lower, to 4.1% from 4.2%, past its low before the pandemic. More importantly, our calculations suggest that employment among working-age Mexicans –including 'natives', 'non-native citizens', and 'non-citizens' (legal or illegal)– outperformed. The total number of people rose by 163.9 thousand in the month, more than reversing its previous decline. Moreover, 169 thousand more were employed. As a result, total employees reached 17.659 million, a new historical high. In this respect, the unemployment rate plunged to 3.92% (-41bps relative to the previous month), a new low since September 2019. The participation rate stayed at 66.9%, still with some room to recover, albeit likely helped by less restrictions because of the pandemic.

Looking ahead for May's US labor market report. On Friday, US nonfarm payrolls will be released. We expect 325 thousand new positions, with the unemployment rate unchanged at 3.6%. This is practically in line with consensus, with new jobs added expected below those in March. Specifically, we will watch closely at job creation among Mexican migrants, not ruling out some losses considering the low level of the unemployment rate, as well as seasonal factors. In construction we have started to see a more sizable deceleration in activity, in part on the back of interest rate hikes due to the Fed's more restrictive policy. In our view, this is important as this sector is a significant employer of Mexican migrants in the country.

On the other hand, the ISM manufacturing for May was released in the same country, accelerating by 0.7pts to 56.1pts. However, the employment component moderated by 1.3pts to 49.6pts, signaling more caution at the margin. Moreover, consumer confidence fell to 106.4pts. Regarding the latter, we believe higher prices are affecting the outlook. The average price of regular gasoline at the pump resumed its upward trend and reached US$4.59 per gallon by May 23rd, a new high at least since 1990 –first available data in the series–. Coupled with higher food prices and additional disruptions to global trade, these factors have affected real incomes and probably help explain the latest survey results.

The outlook for remittances remains key for our country's consumption. According to a recent study by CONEVAL, remittances in the last two years (measured in pesos, in real terms) have grown six times more than total payrolls (including formal and informal workers) in our country. As a result, remittances went from representing about 60% of total labor income in the first quarter of 2020, to 70% by 1Q22. In this backdrop, a very important support for our call of relatively resilient consumption in Mexico is that remittances will maintain a strong dynamism. Nevertheless, signals of a deceleration due to changes in economic policies in the US (highlighting more restrictive fiscal and monetary policies), as well as the impact of diverse and global supply shocks, could mean a stronger headwind for our country's GDP growth.

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We, Alejandro Padilla Santana, Juan Carlos Alderete Macal, Alejandro Cervantes Llamas, Manuel Jiménez Zaldívar, Marissa Garza Ostos, Katia Celina Goya Ostos, Francisco José Flores Serrano, José Luis García Casales, Víctor Hugo Cortes Castro, José Itzamna Espitia Hernández, Carlos Hernández García, Leslie Thalía Orozco Vélez, Hugo Armando Gómez Solís, Yazmín Selene Pérez Enríquez, Miguel Alejandro Calvo Domínguez, Daniela Olea Suárez, Gerardo Daniel Valle Trujillo, Luis Leopoldo López Salinas, Isaías Rodríguez Sobrino, Paola Soto Leal, Oscar Rodolfo Olivos Ortiz, Daniel Sebastián Sosa Aguilar and Salvador Austria Valencia 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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