Family remittances – New historical high in May on seasonality and the US job market

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- **Remittances (May): US$5,172.5 million; Banorte: US$5,107.4mn; consensus: US$4,927.5mn; (range: US$4,444.2mn to US$5,200.0mn) previous: US$4,718.1mn**
- **This print represents a new historical high, recalling that May is seasonally strong as more resources are sent because of Mother's Day. Inflows grew 14.3% y/y, in our view also boosted by further job market gains in the US**
- **The number of operations surpassed 13.6 million, up 10.2% y/y and typically high in the period. The average amount sent moderated to US$379.90 (3.7%)**
- **Seasonally adjusted, inflows fell 1.5% m/m, which is modest after advancing 4.8% in April. In this respect, Mexican migrants in the US –both in terms of the working-age population and total employees– reached a new historical high**
- **Remittances remain strong, helping us reaffirm our favorable view in this front. Given increased global recession fears, we are looking closely at economic data to gauge a potential slowdown for the rest of the year**

New high in remittances in May. The amount stood at US$5,172.5 million, above consensus but closer to our forecast. Inflows grew 14.3% y/y, slightly lower than the 16.5% seen in April. Nevertheless, it is a new historical high, recalling that May is the strongest month of the year in absolute terms as more resources are sent home because of Mother's Day. Moreover, it is our take that US good economic performance and high prices –reflected also in wages, at least partially– helped further. Nevertheless, we should mention that activity has started to show signs of slowing down in said country. In our view, several factors are likely behind this. Among them, we highlight new supply chain problems (mostly China), more fiscal drag, higher inflation, and the Fed's more restrictive stance. Specifically, hard data such as retail sales and industrial production were weaker, especially the former. Consumer confidence dropped, CPI reached a 40-year high and real average earnings growth was negative. Hence, our main concern remains on this front, although labor market data so far has not shown a meaningful setback (see section below for details).

Growth led by a higher number of operations. The average amount sent stood at US$379.90 from US$391.27 in the previous month. They grew 3.7% y/y, which is more modest than in April. The deceleration is still likely driven by higher inflation, which in May picked-up to 8.6%. Meanwhile, wages seem to be lagging, with an increase of only 5.2% y/y –even moderating from the 5.5% of the previous month–. On the other hand, total transactions reached 13.6 million (+10.2% y/y), also reaching a new historical high –by nearly 1 million more– given a more favorable seasonality.

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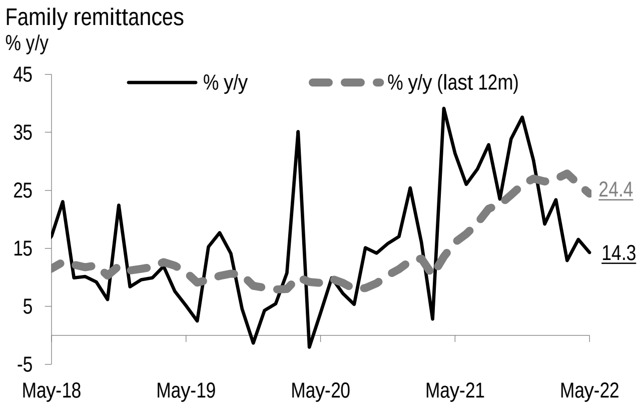

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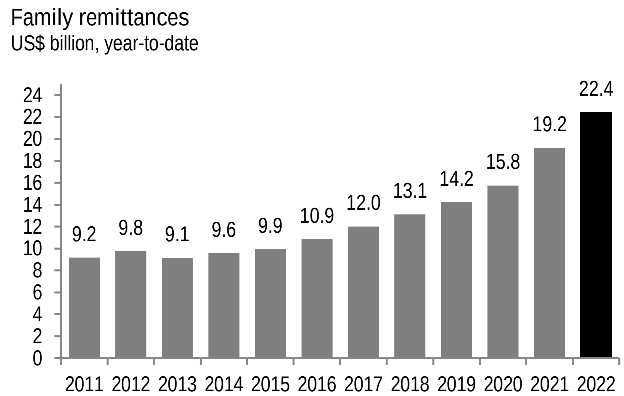

Source: Banorte with data from Banxico

Sequential decline on a more challenging base. Seasonally adjusted, remittances fell 1.5% m/m, not surprising considering the 4.8% advance seen in April. Despite the decline, it is our take that labor market dynamics in the US remain as a key support. In this respect, nonfarm payrolls stood at 390k new posts, only slightly less than the 436k of the previous month. The unemployment rate stayed virtually unchanged for a third month in a row at 3.6%. In this backdrop, the rate for Hispanics and Latinos inched up, to 4.3% from 4.1%, albeit still hovering at levels seen before the pandemic. Within, Mexicans had very outstanding results. The working-age population –including ‘natives’, ‘non-native citizens’, and ‘non-citizens’ (legal or illegal)– surged by 860.7k. Moreover, 409.8k new jobs were added, with gains in all subgroups (led by ‘natives’) and total employees surpassing 18 million. With these results, both metrics reached new historical highs. Given a more sizable increase in the labor force, the unemployment rate picked up by 27bps to 4.2%. Nevertheless, figures in absolute terms suggest a strong support for growth ahead.

Watching the US economy more closely as headwinds seem to be gathering strength. We maintain our US$56.5 billion forecast for full-year 2022. If we are right, this would imply an average monthly inflow of around US$4,869.6 million for the rest of the year. The last twelve-month average has been US$4,567.4 million. Given growth already observed in the number of employed Mexican migrants, we see this target as feasible. Despite of this, we will keep watching closely the risks that a more meaningful economic slowdown could pose on remittances dynamics. Specifically, financial market participants have been pricing-in the possibility of a more meaningful slowdown as Fed policymakers aim to combat inflation ‘unconditionally’. Last week, chairman Powell stated that the economy and labor market remain very strong, albeit warning that monetary tightening could induce a recession ahead.

In this sense, June’s flash PMI indicator in the US suggests that aggregate demand is been increasingly hit by high inflation and the tightening of financial conditions. For example, the manufacturing sector fell strongly, reaching 52.4pts from 57.0pts, weakest in almost two years. According to the report, the decline was mostly in ‘output’ and ‘new orders’, including from foreign customers. Demand weakened as the cost of living rose and falling confidence affected consumers more meaningfully.

Confidence among vendors declined as the Fed withdraw its accommodative stance more rapidly, affecting financial conditions. Despite of this, supply chain issues and a tight labor market continued to affect input prices, resulting in higher operating expenses. In services, the indicator dropped from 53.4pts in May to 51.6pts. This was the slowest expansion since January, when Omicron had a modest effect, and was driven by the decline in new orders. Managers in the sector complained about increases in supplier, material, fuel, transportation, and wage bills. Importantly, cost passthrough is still present, although some respondents said that some concessions were given to customers (signaling some fear of losing market share as demand wanes).

Given this backdrop, president López-Obrador stated recently that a recession in the US would likely impact remittances inflows. Nonetheless, he is optimistic that the latter scenario will not materialize. In this sense, he said that he will address how they can work together to respond to inflationary pressures in his upcoming meeting with President Biden (scheduled on July 12th). We will also see closely how this evolves, especially ahead of the US mid-term elections in November.

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