

Family remittances – New historical high in July on a strong US labor market

- **Remittances (July): US\$5,296.8 million; Banorte: US\$5,131.8mn; consensus: US\$5,118.6mn; (range: US\$4,853.1mn to US\$5,310.0mn) previous: US\$5,144.0mn**
- **Inflows grew 16.5% y/y, accelerating at the margin and maintaining a double-digit pace. As such, they reached a new high both for a single month flow, as well as the 12-month sum at US\$56,206.1 million**
- **The number of operations was 13.0 million (12.1% y/y) driving strength in the period, with the average amount sent standing at US\$406.13 (4.0%)**
- **Seasonally adjusted, inflows increased 4.4% m/m despite a more difficult base effect after growing 2.1% in the previous month. As such, this figure also reached a new historical high**
- **We will watch the US nonfarm payrolls report carefully tomorrow given signs of an economic deceleration. Nevertheless, we remain optimistic about remittances ahead**

Remittances surprise higher again in July. The amount was US\$5,296.8 million, higher than consensus and our call, reaching a new historical high. Growth reached 16.5% y/y, accelerating at the margin despite a more difficult base effect. As such, it is the third consecutive month with the absolute amount surpassing US\$5 billion. Moreover, the 12-month sum reached US\$56,206.1 million, which is also new maximum in the series. Hence, we believe results are very positive. This is more relevant when factoring-in that US activity and price data for July were mixed. On the positive side, industrial production (+0.6% m/m) and the ‘control group’ within retail sales (0.8%) surprised to the upside. Nevertheless, housing decelerated sharply –among them housing starts, building permits, existing and new home sales. This is likely due to higher interest rates that have affected builders’ financing costs and mortgage rates. This is especially relevant as construction is among the key employers of Mexican migrants. Regarding CPI, developments were better at the margin (0.0% m/m), with some relief from lower energy prices (particularly gasoline). Although the annual rate remained very high at 8.5%, this helped lessen the impact on real average hourly earnings (at -3.0% y/y from -3.4% in June). On the contrary, other key items such as shelter (+0.5% m/m) and food (1.1%) kept rising at a relatively fast pace.

Growth mostly supported by the number of operations. This metric stood at 13.0 million, improving relative to the previous month, with the annual metric at 12.1%, which is a new high since February. Meanwhile, the average amount sent was quite stable at US\$406.13 from US\$406.94 in the previous month. Although lower at the margin, it grew at an annual rate of 4.0%. As we have mentioned recently, this is very good in the current inflationary backdrop. Wages have also picked up, but real average hourly earnings are down. In this sense, the result suggests that migrants have been able to adjust their consumption baskets at least partially to lessen the impact of price changes.

September 1, 2022

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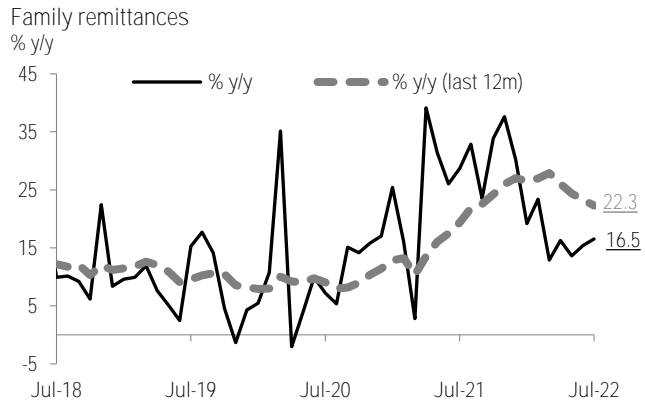
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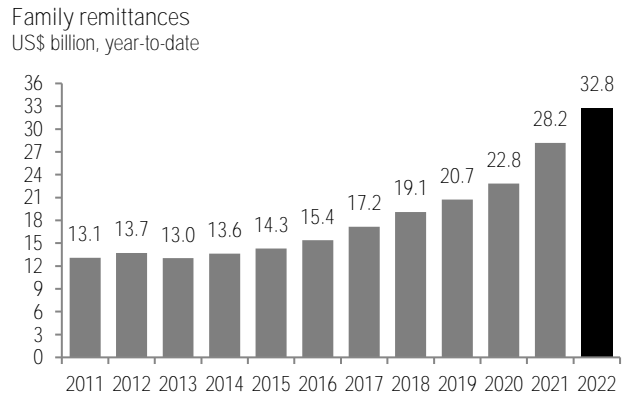
Winners of the award for best economic forecasters for Mexico in 2021, granted by *Refinitiv*



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Source: Banorte with data from Banxico



Source: Banorte with data from Banxico

Relevant sequential increase. Seasonally adjusted, remittances grew 4.4% m/m. This is even more favorable considering that it came after the +2.1% of the previous month. The new amount is also a new historical high. In this sense, the trend remains quite strong. Moreover, the labor market backdrop in the US still points to enough resiliency. Specifically, July’s nonfarm payrolls surprised positively with a net creation of 528k positions, and the unemployment rate an inch lower, to 3.5%. The latter metric was even better for Hispanics and Latinos, dropping to an historical low of 3.9% from 4.3%, with the series available since 1975. In this backdrop, we calculate that, among Mexicans, it declined by 72bps, also reaching 3.5%. The working age population –including ‘natives’, ‘non-native citizens’, and ‘non-citizens’ (legal or illegal)– increased by slightly more than 200k, returning to the 28.0 million level observed in May. In turn, there were 125k more employees. Although these results were not enough to reverse the losses of the previous month, it is our take that it is enough evidence to judge that the labor market remained healthy.

Attention on August’s nonfarm payrolls. The report will be released tomorrow, with analysts’ consensus according to *Bloomberg* at 298k new jobs (range: 75k to 452k) and the unemployment rate at 3.5%. We are estimating a slightly higher net job creation of 350k. Despite of this, in both cases it would be the lowest since April 2021. This could suggest some deceleration, albeit so far it has not been reflected in labor market dynamics despite of what we have already mentioned about available signs in economic activity. Therefore, the report will be important to assess if risks for remittances inflows have indeed increased, as we have been anticipating.

Regarding this, some advanced data also point in the same direction. Among them, PMIs for August in the US were below expectations and lower than in the previous month. Manufacturing reached 51.5pts from 52.2pts previously, while services fell deeper, standing at 44.1pts from 47.3pts –lowest since the initial pandemic shock in 2020. We saw lower ‘production’ in both sectors, with demand impacted by higher interest rates and elevated inflation, among other factors. Nevertheless, wages kept growing and the ‘employment’ subindices stayed in expansion. Focusing again on the labor market, initial jobless claims in August averaged 241.5 thousand a week, which is better the 247.5 thousand seen in the four previous weeks.

On the other hand, migration challenges in the US-Mexico border are still very complicated. Practically in all months since March, land encounters by the US Customs and Border Protection patrol have surpassed 200,000 a month. According to press reports, an additional problem has been that more people of other nationalities –apart from Mexico and those from the “Northern Triangle” (Guatemala, Honduras, and El Salvador)– have been encountered. Nevertheless, most are still from our country. In this backdrop, we are still following closely what happens in this front. The US Secretary of State, Antony Blinken, could visit Mexico by the middle of next month and even raise this issue again. Nevertheless, press reports say that the focus will be on the consultation process that is currently developing because of differences about Mexico’s energy sector under the USMCA framework. We also believe that migration will be very important ahead of US mid-term elections in November. Notwithstanding this, our base case assumes that the number of Mexican migrants in the US will keep growing at a relatively fast pace, which in turn could keep supporting remittances’ growth.

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