

Family remittances – Strength continued in August

- **Remittances (August):** US\$5,121.5 million; Banorte: US\$5,324.7mn; consensus: US\$4,982.5mn; (range: US\$5,040mn to US\$5,324.7mn) previous: US\$5,296.8mn
- **Inflows grew 7.8% y/y, decelerating and breaking with 16 months of double-digit expansions.** However, the 12-month sum reached US\$56,578.9 million, a new historical high
- **The number of operations stood at 13.1 million (+6.9% y/y) once again driving strength in the period.** Meanwhile, the average amount sent moderated to US\$390.23 (+0.9%)
- **Seasonally adjusted, inflows fell by 5.8% m/m, with a very challenging base effect considering the accumulated 6.9% advance of the previous two months.** As such, we believe this figure is not as negative as it seems at first glance
- **We expect dynamism in remittances to continue, with Mexican migrants still pushing to send additional flows back home. Risks are still tied to the performance of the US labor market. In this context, we now expect full-year flows between \$59-\$60 billion**

Remittances remain strong in August. The amount was US\$5,121.5 million, higher than consensus, but lower than our call. Growth reached 7.8% y/y, decelerating on a more difficult base effect, and breaking with 16 straight months of double-digit increases. As such, it is the fourth consecutive month with the absolute amount surpassing US\$5 billion. Moreover, the 12-month sum reached US\$56,578.9 million, a new maximum in the series. Hence, we believe results continue to be positive, especially in a still complex situation in the US. Regarding inflation, the headline figure was modest (+0.1% m/m), helped by an additional decline in energy. Nevertheless, pressures at the core (+0.6%) were quite relevant, noting an increase in ‘shelter’. As such, the annual headline moderated for a second consecutive month to 8.3%. Considering this, wages seem to have been left somewhat behind, hovering around 5% for a fourth month in a row. On activity, industrial production (+0.2% m/m) maintained some dynamism, while the ‘control group’ for retail sales was unchanged (0.0%). Construction data was more mixed, noting a relevant uptick in ‘housing starts’, but with a slight deceleration in ‘building permits’.

Growth mostly supported by the number of operations. This metric stood at 13.1 million, improving relative to the previous month, with the annual metric at 6.9%, impacted by a more challenging base. The average amount sent moderated to US\$390.23 from US\$406.13 in the previous month. In addition, it also implies a deceleration in the annual rate to just +0.9%, lowest since March 2021. We believe the latter might be influenced by price dynamics, which despite efforts from migrants to adjust their consumption baskets, an effect on their disposable income might be becoming more evident.

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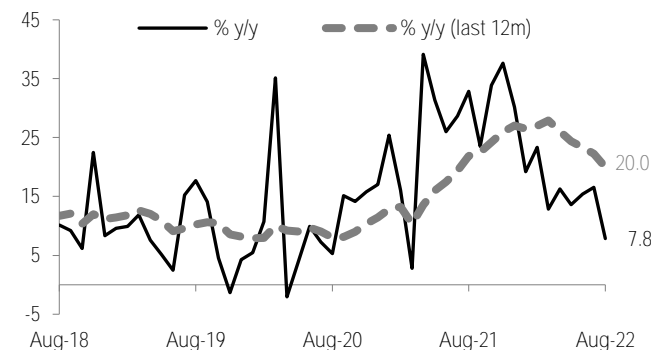
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Winners of the award for best economic forecasters for Mexico in 2021, granted by *Refinitiv*



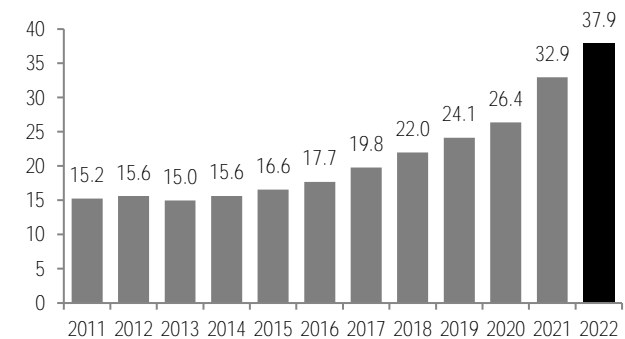
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Family remittances
% y/y



Source: Banorte with data from Banxico

Family remittances
US\$ billion, year-to-date



Source: Banorte with data from Banxico

Notable sequential decrease. Seasonally adjusted, remittances fell 5.8% m/m after an accumulated expansion of 6.9% in the previous two months. As such, we believe the decline is not as negative as it seems, with the amount still higher than in May. Consistent with this, the US labor market showed a slight moderation. Non-farm payrolls showed a net creation of 315k positions, moderating from 526k in July, with the unemployment rate an inch higher to 3.7% (previous: 3.6%). The latter had a slightly larger increase for Hispanics and Latinos, up to 4.5%, highest since January. On a similar tenor, we estimate that it increased by 87bps –to 4.7%– among Mexicans. The working age population –including ‘natives’, ‘non-native citizens’, and ‘non-citizens’ (legal or illegal)– fell by 504k, which is surprising as it tends to pick up in the period. Moreover, there were 378k less employees. Although these results reversed the gains of the previous month, it is our take that it is not enough evidence to judge that the labor market has deteriorated.

Dynamism will likely continue, albeit with more attention on US activity and employment. Timely data for September in the US seems better at the margin, at least based on *S&P Global’s* PMIs, which rebounded for both manufacturing and non-manufacturing –albeit with the latter still in contraction. Within the composite report, the situation is said to have improved due to progress in ‘new orders’ and ‘employment’, which could be favorable at the margin for flows. Looking for additional information on the latter, our attention will center on the month’s employment report –due on Friday–, with *Bloomberg’s* consensus estimating a net creation of 265k positions and an unemployment rate remaining at 3.7%. Although this would suggest a deceleration, the result is still consistent with strong employment, a situation supported by other indicators (*e.g.* job openings, weekly jobless claims, etc.).

Regarding migration, in mid-September, several members of the US cabinet –led by Secretary of State, Anthony Blinken– visited Mexico City and met with President López Obrador and other ministers. Blinken stated that “...we addressed the root causes of migration, something that Mexico and the United States are collaborating on in ways that we’ve not seen before...”. While this could have a positive effect going forward, the situation currently remains challenging.

Land encounters by the US Customs and Border protection patrol hit 2 million in the first eleven months of the 2022 fiscal-year (since October 2021). In August, there was an acceleration due to a high number of repeat crossers, which were expelled previously under Title 42 procedures.

In addition, and for the first time, migrants from outside Mexico and the ‘Northern Triangle’ (Guatemala, Honduras, and El Salvador) exceeded those from these countries, quoting a relevant uptick from Venezuela. In our view, these facts suggest two things: (1) Migrants that have been expelled will try to return; and (2) new migrants still consider that the situation is better in the US than in their countries of origin. These factors support our view that the migrant population will continue to grow, which is a positive factor for remittances going forward.

All in all, considering prevailing strength which is driven by extraordinary efforts from migrants to keep sending resources to their families back home, we now expect full-year remittances between US\$59 billion to US\$60 billion (previous: US\$56.5 billion).

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