Family remittances – Strength prevails amid mounting uncertainty

November 1, 2022

www.banorte.com
@analisis_fundam

Juan Carlos Alderete, CFA
Executive Director of Economic Research and Financial Markets Strategy
juan.alderete.macal@banorte.com

Francisco Flores
Director of Economic Research, Mexico
francisco.flores.serrano@banorte.com

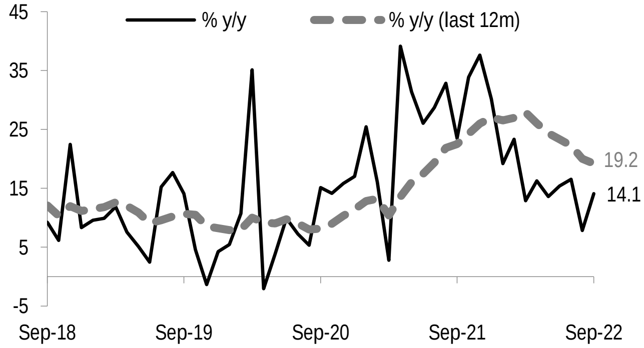
Yazmín Pérez
Senior Economist, Mexico
yazmin.perez.enriquez@banorte.com

Cintia Nava
Senior Economist, Mexico
cintia.nava.roa@banorte.com

- **Remittances (September): US$5,030.8 million; Banorte: US$4,973.0mn; consensus: US$5,000.0mn; (range: US$4,973.0mn to US$5,258.5mn) previous: US$5,121.5mn**
- **Inflows remained above the US$5 billion mark for a fifth month in a row and grew 14.1% y/y, above the 7.8% of the previous month. Hence, the 12-month sum reached a new historical high, at US$57,200.8 million**
- **The number of operations stood at 12.7 million (+10.1% y/y), lower than its historical high of 13.6 million seen last May, but once again driving the advance. The average amount reached US$394.98 (+3.7%)**
- **Inflows grew 4.2% m/m in sequential terms, not enough to make up for the -5.4% observed in August. Nevertheless, the trend remains strong, underpinned by US economic and labor market resilience**
- **Watching October's nonfarm payrolls in the US as the economy seems poised to slow down in 4Q22 and beyond. In our view, this could affect dynamism, although inflows should stay overall positive in the short- and medium-term**

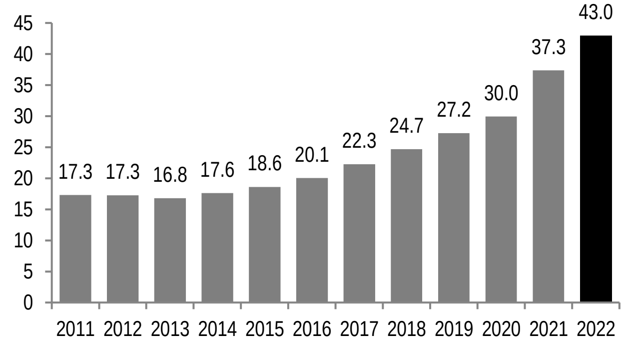
Remittances extend their favorable trend in September. The amount was US$5,030.8 million, above the US$5 billion mark for a fifth month in a row. The result is favorable considering that the period's seasonality is less positive at the margin. Moreover, growth stood at 14.1% y/y, back to a double-digit pace after August's +7.8%. In our view, this was supported by a resilient US economy. Specifically, consumption was favorable, with retail sales' control group beating expectations, stronger confidence, and personal income and spending up relative to the previous month. Industrial production was also better. On the other hand, gasoline prices kept falling, with the average retail price at US$3.72/gallon (-7.2% m/m). This might have helped lessen the burden of high inflation on households' income, despite remaining elevated in the month (headline: 0.4% m/m; core: 0.6%), especially on shelter costs. The latter keeps dampening wage growth, with average hourly earnings up 0.3% m/m (+5.0% y/y, below inflation).

Family remittances
% y/y



Source: Banorte with data from Banxico

Family remittances
US$ billion, year-to-date



Source: Banorte with data from Banxico

Growth remains driven by the number of operations, but the average amount sent improved at the margin. The former metric stood at 12.7 million (10.1% y/y). In our view, the positive trend in the number of working-age Mexican migrants (see section below) helps explain this. In addition, the average amount sent picked up to US$394.98 from US$390.23 in the previous month. As such, its growth rate accelerated to 3.7%. We still believe that the latter is most at risk of decelerating due to price dynamics, as despite migrants' efforts to adjust their consumption baskets, an effect on their disposable income is likely to be more evident here.

Sequential growth resumes. Seasonally adjusted, remittances grew 4.2% m/m. Despite of the latter, it was not enough to make up for the -5.4% observed in August. Sequential dynamics have been more volatile lately, but we think that the trend remains strong. In turn, it remains our take that US employment conditions keep underpinning flows. In this sense, non-farm payrolls in the period showed a net creation of 263k positions, moderating from 315k in August, but with the unemployment rate inching lower, to 3.5% (previous: 3.7%). The latter metric had a slightly larger improvement for Hispanics and Latinos, down to 3.8%, its lowest ever. On a similar tenor, we estimate that it declined by 116bps –to 3.5%– among Mexicans. The working age population –including 'natives', 'non-native citizens', and 'non-citizens' (legal or illegal)– increased by 147k, in line with its seasonality. Moreover, there were 378k more employees, recouping last month's losses. In our view, these results suggest that August's apparent deterioration in labor conditions could have been mostly temporary, with these improvements still key for flows.

We remain optimistic on remittances, albeit focused on US activity and employment. In our view, the report was favorable despite showing the first hints of a moderation in flows. Relatedly, timelier data for October suggests increasing headwinds that could eventually show up in the labor market. First, PMIs from *S&P Global* weakened, with manufacturing at 50.4pts from 52.0pts previously – also confirmed by the decline in regional indicators such as the *Philly Fed* and *Empire*– while services extended their move towards contraction (at 46.6pts). Moreover, the Conference Board's consumer confidence dropped to 102.5pts, its lowest since July.

Nevertheless, the weakest link is the housing sector, which is important as construction is a relevant employer of Mexican migrants. For example, the NAHB housing market index fell to 38pts from 46pts previously, indicating weakness as it reached its lowest level since May 2020, in the midst of the pandemic. Mortgage applications declined 4.5% y/y as higher financing costs hit, with the 30-year fixed rate loan at 7.2% on average nationwide, highest since 2000.

In this backdrop, we will closely analyze the details of October's nonfarm payrolls report, to be released on Friday. We anticipate a deceleration in job creation to 215,000. The unemployment rate would increase modestly, to 3.6% from 3.5% in September. Specifically, it will be important to see the sectoral composition of new jobs. Industry could weaken (*e.g.* manufacturing and construction) but gains in services could offset for this, a sector that is also an important employer of migrants.

We believe the labor market will remain strong despite a likely slowdown, at least in the short term. Hence, we reaffirm our forecast of US$59-60 billion in fully-year 2022 inflows. Nevertheless, we are more cautious about the outlook for 2023 due to the possibility of a recession that would eventually hurt employment in the US.

Analyst Certification

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, Cintia Gisela Nava Roa, Miguel Alejandro Calvo Domínguez, Daniela Olea Suárez, José De Jesús Ramírez Martínez, Gerardo Daniel Valle Trujillo, Luis Leopoldo López Salinas, Isaías Rodríguez Sobrino, Paola Soto Leal, 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.

Relevant statements.

In accordance with current laws and internal procedures manuals, analysts are allowed to hold long or short positions in shares or securities issued by companies that are listed on the Mexican Stock Exchange and may be the subject of this report; nonetheless, equity analysts have to adhere to certain rules that regulate their participation in the market in order to prevent, among other things, the use of private information for their benefit and to avoid conflicts of interest. Analysts shall refrain from investing and holding transactions with securities or derivative instruments directly or through an intermediary person, with Securities subject to research reports, from 30 calendar days prior to the issuance date of the report in question, and up to 10 calendar days after its distribution date.

Compensation of Analysts.

Analysts' compensation is based on activities and services that are aimed at benefiting the investment clients of Casa de Bolsa Banorte and its subsidiaries. Such compensation is determined based on the general profitability of the Brokerage House and the Financial Group and on the individual performance of each analyst. However, investors should note that analysts do not receive direct payment or compensation for any specific transaction in investment banking or in other business areas.

Last-twelve-month activities of the business areas.

Grupo Financiero Banorte S.A.B. de C.V., *through its business areas, provides services that include, among others, those corresponding to investment banking and corporate banking, to a large number of companies in Mexico and abroad. It may have provided, is providing or, in the future, will provide a service such as those mentioned to the companies or firms that are the subject of this report. Casa de Bolsa Banorte or its affiliates receive compensation from such corporations in consideration of the aforementioned services.*

Over the course of the last twelve months, Grupo Financiero Banorte S.A.B. C.V., has not obtained compensation for services rendered by the investment bank or by any of its other business areas of the following companies or their subsidiaries, some of which could be analyzed within this report.

Activities of the business areas during the next three months.

Casa de Bolsa Banorte, Grupo Financiero Banorte or its subsidiaries expect to receive or intend to obtain revenue from the services provided by investment banking or any other of its business areas, by issuers or their subsidiaries, some of which could be analyzed in this report.

Securities holdings and other disclosures.

As of the end of last quarter, Grupo Financiero Banorte S.A.B. of C.V. has not held investments, directly or indirectly, in securities or derivative financial instruments, whose underlying securities are the subject of recommendations, representing 1% or more of its investment portfolio of outstanding securities or 1 % of the issuance or underlying of the securities issued.

None of the members of the Board of Grupo Financiero Banorte and Casa de Bolsa Banorte, along general managers and executives of an immediately below level, have any charges in the issuers that may be analyzed in this document.

The Analysts of Grupo Financiero Banorte S.A.B. of C.V. do not maintain direct investments or through an intermediary person, in the securities or derivative instruments object of this analysis report.

Guide for investment recommendations.

	Reference
BUY	When the share expected performance is greater than the MEXBOL estimated performance.
HOLD	When the share expected performance is similar to the MEXBOL estimated performance.
SELL	When the share expected performance is lower than the MEXBOL estimated performance.

Even though this document offers a general criterion of investment, we urge readers to seek advice from their own Consultants or Financial Advisors, in order to consider whether any of the values mentioned in this report are in line with their investment goals, risk and financial position.

Determination of Target Prices

For the calculation of estimated target prices for securities, analysts use a combination of methodologies generally accepted among financial analysts, including, but not limited to, multiples analysis, discounted cash flows, sum-of-the-parts or any other method that could be applicable in each specific case according to the current regulation. No guarantee can be given that the target prices calculated for the securities will be achieved by the analysts of Grupo Financiero Banorte S.A.B. C.V, since this depends on a large number of various endogenous and exogenous factors that affect the performance of the issuing company, the environment in which it performs, along with the influence of trends of the stock market, in which it is listed. Moreover, the investor must consider that the price of the securities or instruments can fluctuate against their interest and cause the partial and even total loss of the invested capital.

GRUPO FINANCIERO BANORTE S.A.B. de C.V.

Research and Strategy			
Alejandro Padilla Santana	Chief Economist and Head of Research	alejandro.padilla@banorte.com	(55) 1103 - 4043
Raquel Vázquez Godinez	Assistant	raquel.vazquez@banorte.com	(55) 1670 - 2967
Itzel Martínez Rojas	Analyst	itzel.martinez.rojas@banorte.com	(55) 1670 - 2251
Lourdes Calvo Fernández	Analyst (Edition)	lourdes.calvo@banorte.com	(55) 1103 - 4000 x 2611
María Fernanda Vargas Santoyo	Analyst	maria.vargas.santoyo@banorte.com	(55) 1103 - 4000
Economic Research			
Juan Carlos Alderete Macal, CFA	Executive Director of Economic Research and Financial Markets Strategy	juan.alderete.macal@banorte.com	(55) 1103 - 4046
Francisco José Flores Serrano	Director of Economic Research, Mexico	francisco.flores.serrano@banorte.com	(55) 1670 - 2957
Katia Celina Goya Ostos	Director of Economic Research, Global	katia.goya@banorte.com	(55) 1670 - 1821
Yazmín Selene Pérez Enríquez	Senior Economist, Mexico	yazmin.perez.enriquez@banorte.com	(55) 5268 - 1694
Cintia Gisela Nava Roa	Senior Economist, Mexico	cintia.nava.roa@banorte.com	(55) 1103 - 4000
Luis Leopoldo López Salinas	Manager Global Economist	luis.lopez.salinas@banorte.com	(55) 1103 - 4000 x 2707
Market Strategy			
Manuel Jiménez Zaldívar	Director of Market Strategy	manuel.jimenez@banorte.com	(55) 5268 - 1671
Fixed income and FX Strategy			
Leslie Thalía Orozco Vélez	Senior Strategist, Fixed Income and FX	leslie.orozco.velez@banorte.com	(55) 5268 - 1698
Isaías Rodríguez Sobrino	Strategist, Fixed Income, FX and Commodities	isaias.rodriguez.sobrino@banorte.com	(55) 1670 - 2144
Equity Strategy			
Marissa Garza Ostos	Director of Equity Strategy	marissa.garza@banorte.com	(55) 1670 - 1719
José Itzamna Espitia Hernández	Senior Strategist, Equity	jose.espitia@banorte.com	(55) 1670 - 2249
Carlos Hernández García	Senior Strategist, Equity	carlos.hernandez.garcia@banorte.com	(55) 1670 - 2250
Víctor Hugo Cortes Castro	Senior Strategist, Technical	victorh.cortes@banorte.com	(55) 1670 - 1800
Paola Soto Leal	Analyst	paola.soto.leal@banorte.com	(55) 1103 - 4000 x 1746
Corporate Debt			
Hugo Armando Gómez Solís	Senior Analyst, Corporate Debt	hugoa.gomez@banorte.com	(55) 1670 - 2247
Gerardo Daniel Valle Trujillo	Analyst, Corporate Debt	gerardo.valle.trujillo@banorte.com	(55) 1670 - 2248
Quantitative Analysis			
Alejandro Cervantes Llamas	Executive Director of Quantitative Analysis	alejandro.cervantes@banorte.com	(55) 1670 - 2972
José Luis García Casales	Director of Quantitative Analysis	jose.garcia.casales@banorte.com	(55) 8510 - 4608
Daniela Olea Suárez	Senior Analyst, Quantitative Analysis	daniela.olea.suarez@banorte.com	55) 1103 - 4000
Miguel Alejandro Calvo Domínguez	Senior Analyst, Quantitative Analysis	miguel.calvo@banorte.com	(55) 1670 - 2220
José De Jesús Ramírez Martínez	Senior Analyst, Quantitative Analysis	jose.ramirez.martinez@banorte.com	(55) 1103 - 4000
Daniel Sebastián Sosa Aguilar	Analyst, Quantitative Analysis	daniel.sosa@banorte.com	(55) 1103 - 4000
Salvador Austria Valencia	Analyst, Quantitative Analysis	salvador.austria.valencia@banorte.com	(55) 1103 - 4000
Wholesale Banking			
Armando Rodal Espinosa	Head of Wholesale Banking	armando.rodal@banorte.com	(55) 1670 - 1889
Alejandro Aguilar Ceballos	Head of Asset Management	alejandro.aguilar.ceballos@banorte.com	(55) 5004 - 1282
Alejandro Eric Faesi Puente	Head of Global Markets and Institutional Sales	alejandro.faesi@banorte.com	(55) 5268 - 1640
Alejandro Frigolet Vázquez Vela	Head of Sólida Banorte	alejandro.frigolet.vazquezvela@banorte.com	(55) 5268 - 1656
Arturo Monroy Ballesteros	Head of Investment Banking and Structured Finance	arturo.monroy.ballesteros@banorte.com	(55) 5004 - 5140
Carlos Alberto Arciniega Navarro	Head of Treasury Services	carlos.arciniega@banorte.com	(81) 1103 - 4091
Gerardo Zamora Nanez	Head of Transactional Banking, Leasing and Factoring	gerardo.zamora@banorte.com	(81) 8173 - 9127
Jorge de la Vega Grajales	Head of Government Banking	jorge.delavega@banorte.com	(55) 5004 - 5121
Luis Pietrini Sheridan	Head of Private Banking	luis.pietrini@banorte.com	(55) 5249 - 6423
Lizza Velarde Torres	Executive Director of Wholesale Banking	lizza.velarde@banorte.com	(55) 4433 - 4676
Osvaldo Brondo Menchaca	Head of Specialized Banking Services	osvaldo.brondo@banorte.com	(55) 5004 - 1423
Raúl Alejandro Arauzo Romero	Head of Transactional Banking	alejandro.arauzo@banorte.com	(55) 5261 - 4910
René Gerardo Pimentel Ibarrola	Head of Corporate Banking	pimentelr@banorte.com	(55) 5004 - 1051
Ricardo Velázquez Rodríguez	Head of International Banking	rvelazquez@banorte.com	(55) 5004 - 5279
Víctor Antonio Roldan Ferrer	Head of Commercial Banking	victor.roldan.ferrer@banorte.com	(55) 1670 - 1899