Family remittances – Inflows remain to the upside despite more challenging conditions

December 1, 2022

- **Remittances (October): US$5,359.8 million; Banorte: US$5,215.7mn; consensus: US$5,105.0mn; (range: US$4,884.5mn to US$5,215.7mn) previous: US$5,036.8mn**
- **Inflows remain strong despite a deceleration in the annual rate, standing at 11.2% y/y from 14.2% in the previous month. In turn, this was at least partially driven by a more challenging base effect**
- **In this respect, the number of operations was 13.9 million (+10.8% y/y), higher at the margin. The average amount reached US$385.16 (+0.4%)**
- **In sequential terms, inflows climbed 2.8% m/m. In our view, this contrasts with advanced data that suggests a weaker performance of the US economy and labor market**
- **We anticipate some stability in the last two months of the year. We reiterate our call of full-year 2022 inflows between US$59-60 billion, with relatively balanced risks**

Remittances above consensus in October. The amount was US$5,359.8 million, above US$5 billion for a sixth month in a row. Moreover, it was higher than consensus. The period's seasonality is favorable, helping explain the result at least partially. In this respect, they grew 11.2% y/y, less than the 14.2% of the previous month, in turn also affected by a more challenging base effect. Broadly speaking, we think the print is quite positive. It is our take that more modest price pressures in the US were a likely driver, both for the headline and core. Specifically, clothing, used cars, medical services, and airfares were among those with the strongest declines. Despite the 4.0% m/m rebound in gasoline prices, domestic gas contracted 4.6%, constituting a relief for consumers. With this, annual inflation fell to 7.7% from 8.2% y/y previously. Nevertheless, average hourly earnings rose 4.7% y/y, still lagging inflation.

The number of operations accelerates, with the average amount lower. The former metric stood at 13.9 million, up 10.8% from 10.2% y/y in October. The average amount sent reached US$385.16, at its lowest level since May. Moreover, the growth rate diminished to +0.4% (previous: 3.6%). In this respect, we highlight that the total number of Mexican migrants was relatively stable. Nevertheless, total employees declined (see section below), which could have had an impact in the latter. Another relevant shock could have come from inflation, especially considering that it keeps growing faster than wages.

Additional sequential improvement. Seasonally adjusted, remittances rose 2.8% m/m. This comes after 4.5% growth previously, so it is a positive outcome. This contrasts with recent dynamics on US employment conditions, which have been mixed. In this sense, non-farm payrolls have been below 300k for the last three prints and reached 261k in October, lowest since December 2020. The unemployment rate ticked up to 3.7% from 3.5% and has been hovering close to these levels since last February. For Hispanics and Latinos, the move higher was stronger at the margin, from 3.8% to 4.2%.

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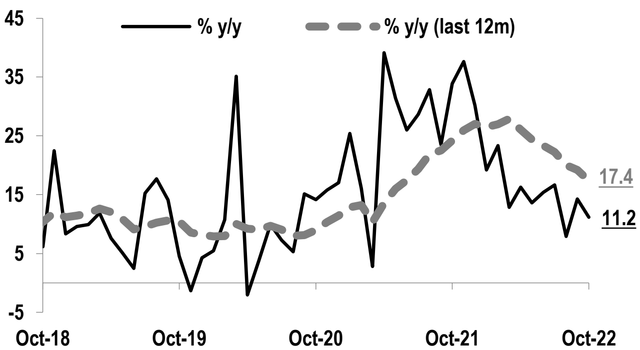
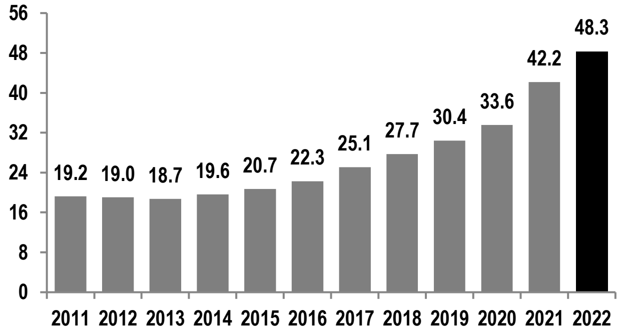
On a similar tenor, we estimate that it rose by 45bps –to 4.0%– among Mexicans. The working age population –including 'natives', 'non-native citizens', and 'non-citizens' (legal or illegal)– was broadly unchanged. Nevertheless, there were 250k fewer employees registered. In our view, these figures are not enough to state that a peak has been reached and a reversal of the trend has started. Nevertheless, we should be more cautious considering the effects of monetary tightening and heightened fears of a global recession.

Family remittances
% y/y, nsa



Source: Banorte with data from Banxico

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



Source: Banorte with data from Banxico

We expect inflows to remain healthy, but added caution is granted into 2023. Overall, the result is positive. Nevertheless, the US economy keeps signaling a potential moderation in remittances growth, as stated in recent reports. In this sense, November's PMIs in the US –both manufacturing and services– fell into contraction. Meanwhile, consumer confidence declined for a second month in a row. Given these, we believe it will be important to analyze employment, with November's payrolls slated for release tomorrow. We expect a moderation to 190k new positions, in line with consensus. Although this would still be strong, it will also be relevant to watch the sector breakdown, with construction (within industry) and services (especially retail and restaurants) with a special significance as employers of Mexican migrants. Given that the labor market and unemployment rate typically lag economic activity, more definite evidence of a slowdown in these metrics would be a clearer warning for growth dynamics going into 2023. Nevertheless, and on the contrary, October's price figures –both CPI and PPI– surprised to the downside. Although an economic slowdown is likely, it is our take that the hit to remittances would be less if it is coupled with more modest price pressures. These would be a relief for migrants' purchasing power, in turn helping them to send the highest possible amount back to their families.

Given this, we anticipate a further deceleration of the US labor market for the last two months of the year, albeit with remittances possibly more stable. We maintain our call of full-year 2022 inflows between US$59-60 billion, with broadly balance risks. For the lower bound to materialize, an average of around US$5,331.2 million per month is needed, above the US$4,812.6 million seen on average in the last twelve months. In any case, the result has already been positive and will be a new historical high for a calendar year. More importantly, these results will give us a firmer background of what to expect into 2023, with US GDP probably slowing down (Banorte: +0.8%). Therefore, we do not rule out an outright contraction in full-year 2023, which would be its first decline since 2013.

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