

Family remittances still strong in October in spite of a modest annual growth rate

December 3, 2018

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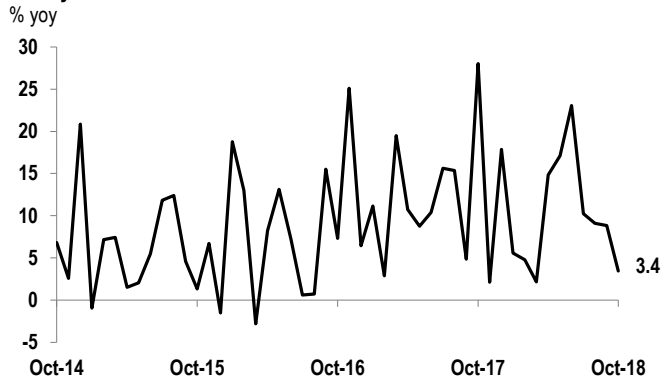
- **Remittances (October): US\$2,940.1mn; Banorte: US\$2,906.9mn; consensus: US\$2,906.9mn; (range: US\$2,800.0 to 3,070.0mn) previous: US\$2,709.3mn**
- **Family remittances increased 3.4% yoy, below the 8.8% of the previous month and the year-to-date increase of 10.0%**
- **Nevertheless, it is worth noting that the moderation is mainly due to a challenging base effect, as the flow of remittances in October 2017 was unusually high as migrants sent more resources in the aftermath of the natural disasters in September**
- **The flow of remittances was limited by relatively low growth of both the number of operations (1.1% yoy from 5.0% in September) and the average amount sent (2.3% vs. 3.6%)**
- **We expect remittances to remain strong given the anti-immigration rhetoric of the US administration, the recent depreciation of the Mexican peso, and the healthy dynamics of the US labor market**

Remittances grow 3.4% yoy in October. According to Banxico, the flow of remittances sent during the tenth month of 2018 reached US\$2,940.1 million, above our US\$2,906.9 million forecast. This implies a 3.4% yoy expansion, below the 8.8% figure observed in the previous month and the year-to-date increase of 10.0%. Nevertheless, and as noted in our preview, this figure was impacted by a negative base effect as a result of a surge in remittances during October 2017 as migrants sent more resources in the aftermath of the natural disasters observed in September last year, as the flow of remittances reached US\$ 2,842.5 million, a new historical high at the time.

Overall, remittances remain strong. In particular, despite the challenging base effect, both the number of operations and the average amount sent observed a positive rate of growth. Regarding the former, the number of operations stood at 9.1 million vs. 8.5 million in the previous month, while the average amount sent picked up from US\$316.8 to 323.5 during the same period. Contrary to September, the recovery in the average amount sent could have been supported by the relative weakness of the Mexican peso, particularly during the second half of the month, averaging 19.16 per dollar. It is worth remembering that FX depreciation encourages migrants to send more remittances, considering that they have a higher purchasing power when translated to local currency. On the other hand, the job market in the US has stayed strong, benefitting Mexican-born employees in that country (both with and without citizenship), which increased by 129.2 thousand, in positive territory for the third straight month and the highest so far this year.

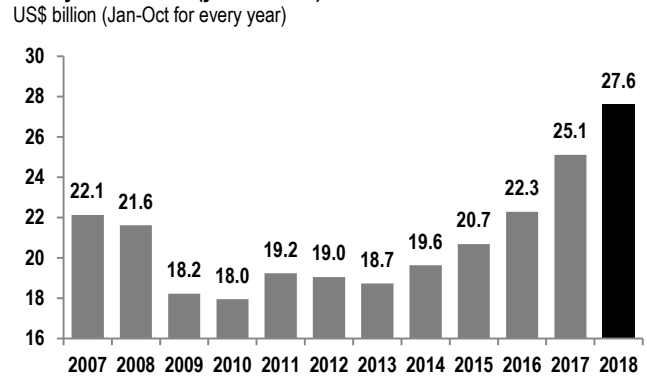
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Family remittances



Source: Banxico

Family remittances (year-to-date)



Source: Banxico

In our view, remittances growth is likely to rebound to a trend-like 10% annual rate by the end of the year. Support for remittances is likely to stay in place as fundamentals remain strong. As we have mentioned in recent publications, the US labor market has kept adding opportunities (with the unemployment rate at multi-year lows and the pace of job creation above the one needed to keep with growth in the labor force). In spite of the more modest annual growth rate this month, we expect the dynamics in terms of remittances’ flows to remain, with anti-immigration rhetoric by the US administration (which is also the main risk, but just in case definite measures are taken), the recent weakening of the peso and employment of Mexican migrants in the US providing support. In this respect, the YTD flow of remittances has reached US\$ 27,617 million. In case of maintaining the same pace through the end of the year, the absolute amount of remittances in 2018 would amount to 33.3 billion, breaching the US\$ 30 billion mark for the second year in a row. Going into 2019, we believe that a deceleration is likely, mostly due to the expectation of more modest economic growth in the US (we forecast GDP at 2.5% vs. 2.8% in 2018, with risks skewed to the downside), and even with the possibility of higher wages as the labor market is basically at full-employment.

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