Family remittances –Inflows surge on negative news over migration policies in the US

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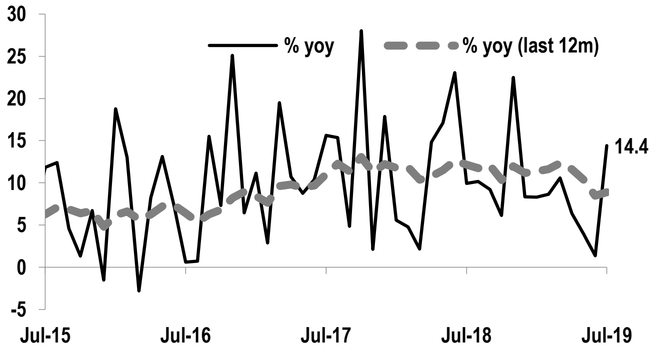
- **Remittances (July): US$3,270.3mn; Banorte: US$3,011.2mn; consensus: US$3,017.1mn; (range: US$2,930 to 3,117mn) previous: US$3,183.5mn**
- **In its annual comparison, remittances surged 14.4%, its strongest advance since November 2018 and with three consecutive months above the US$3 billion mark**
- **The flow of remittances was driven by both the advance in the number of operations (9.1%) and a higher average amount sent (4.8%)**
- **Year-to-date, remittances amount to US$20,524.9 million, 7.4% higher than in the same period of 2018**
- **We still believe that remittances' growth will be more modest when compared to recent years, albeit still positive and as a key support factor for domestic demand**

Remittances surged 14.4% in July. The amount sent reached US$3,270.3 million, above both consensus (US$3,017.1 million) and our forecast of US$3,011.2 million. This dynamic was very favorable as monthly flows picked-up 14.4% yoy, in deep contrast with the 1.4% advance of the previous month – which despite being revised significantly higher was impacted by a challenging base effect related to uncertainty over US migration policies. In our view, this keeps explaining a relevant size of the relatively strong monthly flow. In this respect, among the news during this particular period was the announcement of widespread raids targeting immigrant families in the US. Subsequent reports showed that detentions did not pick-up significantly after the announcement. Nevertheless, we believe that just the increased possibility of detention was enough to spur higher flows.

The year-to-date amount stands at US$20,524.9 million, +7.4% yoy and improving relative to the 6.2% reached at the end of June (see chart below on the right). It should also be mentioned that the last three months have surpassed the US$3 billion mark, suggesting continuous support from remittances for boosting private consumption, which has decelerated as economic activity moderates and uncertainty stays elevated, among other factors. In this respect and on a 12-month rolling basis, remittances stood at US$35,099.6 million, a new historical high and above the US$ 34,071 million at the end of June.

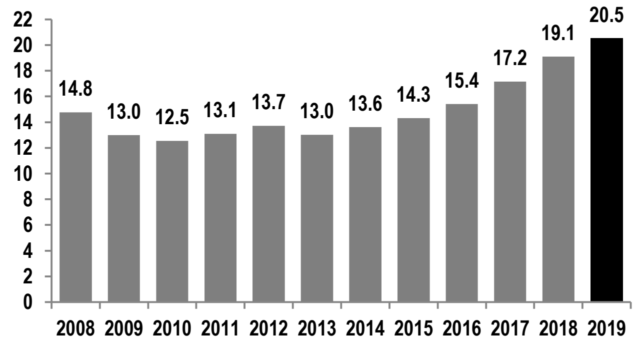
Growth supported by both the number of operations and average amount sent. The former reached 9.6 million transactions, advancing 9.1% which is the strongest pace of growth in the annual comparison since last November. On the other hand, the average amount sent stood at US$339.85 (4.8% yoy) and with a fourth consecutive month improving. Overall, these dynamics suggest renewed efforts by migrants to increase support to their families south of the border despite the moderation in activity at both US and Mexico. In our view, this remains influenced by the uncertainty related to a potential deportation, particularly for illegal workers.

Family remittances
% yoy



Source: Banxico

Family remittances
US$ billion, accumulated in the year up to July



Source: Banxico

We maintain our view of a slowdown in remittances, albeit with risks skewed to the upside. We continue believing that remittances will slow down gradually, as a result of higher efforts to curb illegal immigration –both in Mexico and in the US– and the deceleration of migrants' employment in the US on the back of more modest economic activity. In this respect, we reiterate our view that remittances will grow less than the double-digit pace observed in both 2017 and 2018. Nevertheless, monthly dynamics in the last three periods seem to show a stronger performance than we had anticipated, inserting some upside risks to our current estimate in terms of the possible magnitude of the slowdown. In this respect, remittances remain healthy in absolute terms, as observed in the positive, long-term trend in inflows on a 12-month rolling basis. Therefore, strength and stability in remittances is likely to keep supporting consumption growth, which remains as the main driver of GDP. Regarding downside risks going forward, we believe the possibility of greater enforcement and even new measures to curb migration in the US can't be discarded, particularly as we get closer to the US election in 2020. Moreover, we still do not foresee an outright contraction in inflows as we do not anticipate the US to fall into recession, although the probability of this scenario has increased significantly mainly due to the escalation in trade tensions and geopolitical risks, which are among the main headwinds for the global economy.

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