Family remittances – Slowdown in April on a negative base-effect

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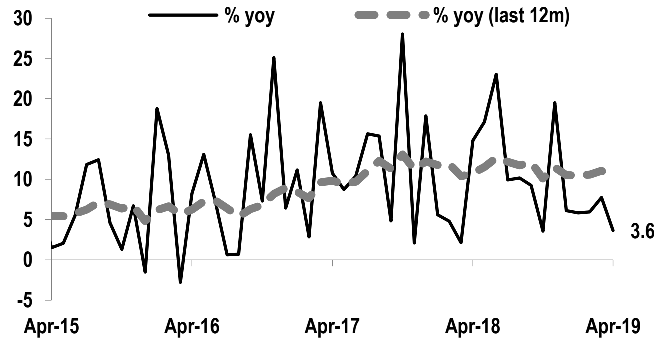
- **Remittances (April): US$2,861.1mn; Banorte: US$2,803.8mn; consensus: US$2,798.9mn; (range: US$2,640 to 2,900mn) previous: US$2,882.3mn**
- **In its annual comparison, remittances advanced 3.6%, considerably lower than the 14.8% observed in the same month of the previous year**
- **The flow of remittances was mostly driven by a higher number of operations (+3.6% yoy), with the average amount only edging-up 0.5%**
- **Year-to-date, remittances amount to US$10,521.2 million, 5.8% higher than the same period of 2018**
- **We believe that dynamism in remittances will be limited by US economic activity but should remain positive for consumption**

Remittances grew 3.6% in April. The amount sent reached US$2,861.1 million, higher than both consensus at US$2,798.9 million and our forecast (US$2,803.8 million). Remittances grew 3.6% yoy, its slowest pace since last October and impacted by a challenging base effect, as they grew by a strong 14.8% pace during the same month of the previous year. As a result, the year-to-date amount stands at US$10,521.2 million, +5.8% and decelerating relative to the 6.6% accumulated at the end of March. It should be mentioned that a similar situation is likely to impact yearly growth rates at least during the rest of 2Q19.

Despite of the latter, remittances are expected to continue showing a net positive performance during the year. One additional headwind that we believe is likely to limit an acceleration in growth is the evidence that migrants' employment in the US is slowing. On a 12-month rolling basis, remittances stood at US$34,043.8 million from US$ 33,943.6 million in the previous month, which is still favorable in spite of the latter situation.

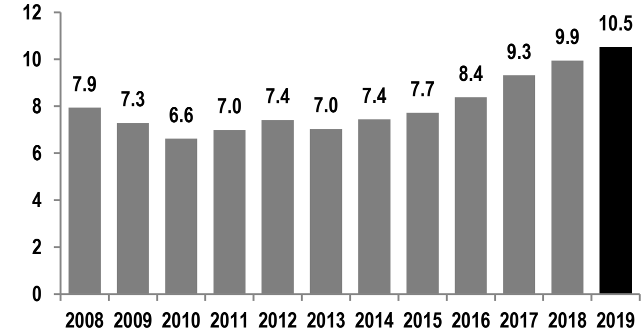
Growth driven by a higher number of operations. In particular, these advanced to 8.9 million, growing 3.1% yoy from 5.2% in March, which was the highest figure since November 2018. In contrast, the average amount sent stood at US$ 321.2, growing only 0.5% which is its slowest pace since the 1.7% contraction observed in March of the previous year. In our view, this dynamic could be at least partially explained by higher uncertainty among migrants about the likelihood of being deported coupled with a slowdown in employment. In this respect and as previously mentioned in other publications, we believe that anti-immigrant rhetoric in the US –which seems to have worsened during the month as additional border controls were implemented– continues supporting the flow of remittances to our country.

Family remittances
% yoy



Source: Banxico

Family remittances
US$ billion, year-to-date



Source: Banxico

We believe that dynamism in remittances will be limited by US economic activity but should remain positive for consumption. In particular, growth in 2Q19 is likely to decelerate meaningfully from the 6.6% yoy observed in the previous quarter First, the pace of growth is very likely to come down if only by a negative base effect, as remittances grew at 18.4% in the second quarter last year against 4% in 1Q18. Second, the possibility of tariffs to Mexican exports to the US (which are slated to start in June 10th) and as a result of concerns on immigration could have at least two effects: (1) Currently employed migrants may try to send more of their disposable income to Mexico, which would be positive; but (2) the impact on economic activity in their communities, given the high interdependence of supply chains, could impact employment conditions even more. This would reduce their possibility of keep sending resources. In our view, the net effect is very uncertain to gauge but it would be increasingly negative the higher the tariff imposed, which could reach up to 25% by October. Third, even if we did not took into account this latter issue, global economic activity has been decelerating, particularly in industry as suggested by the US ISM manufacturing report released today, which stood at 52.1pts, lowest since in a little more than two-and-a-half years. All in all, although higher uncertainty among migrants could induce higher inflows, it is our take that this will not be enough to result in higher growth in remittances when compared to the previous year as economic activity would eventually impact on employment levels. On a more positive note, we do not foresee an outright contraction as long as the US does not fall into recession, which is not our base-case scenario despite a higher probability given the escalation in trade tensions and the accumulated effect of tighter global financial conditions.

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