Family remittances – Strong inflows in June in spite of contracting in annual terms

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Juan Carlos Alderete, CFA
Senior Economist, Mexico
juan.alderete.macal@banorte.com

Francisco Flores
Economist, Mexico
Francisco.flores.serrano@banorte.com

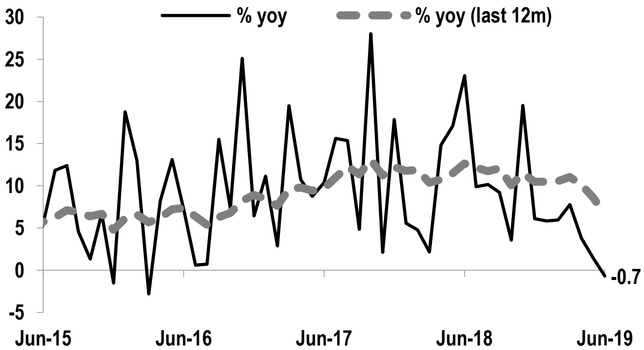
- **Remittances (June): US$3,119.0mn; Banorte: US$3,021.1mn; consensus: US$3,150mn; (range: US$3,009 to 3,297mn) previous: US$3,200.9mn**
- **In its annual comparison, remittances contracted 0.7%, first decline since March 2016 and mainly driven by a challenging base effect**
- **In this respect, the flow of remittances was dragged by the 2.3% yoy decline in the average amount sent, contracting for second consecutive month. The number of operations advanced 1.6%**
- **Year-to-date, remittances amount to US$16,845.7 million, 3.7% higher than in the same period of 2018**
- **In our view, the report confirms our view that remittances will keep growing at a more modest pace going forward, albeit remaining as a key support for domestic consumption**

Remittances fell 0.7% in June. The amount sent reached US$3,119 million, lower than consensus (US$3,150 million) but above our forecast at US$3,021.1 million. This amount remains positive when judged in absolute terms as it is only about US$ 82 million lower than its all-time monthly high, reached in the previous print. Nevertheless, it contracted 0.7% yoy, its first decline since March 2016, impacted by a challenging base effect. In particular, in June 2018 news surfaced regarding the child separation policy implemented by the US government, which triggered higher-than-average remittances (growing a whopping 23.1% yoy in that period).

The year-to-date amount stands at US$16,845.7 million, +3.7% yoy and decelerating relative to the 4.7% accumulated at the end of May (see chart below on the right). In particular, remittances advanced 1.4% in 2Q19, significantly lower than the 6.6% of the previous quarter and which, as we had mentioned in previous reports, was highly likely due to a difficult base effect and signs of a slowdown in employment among Mexican migrants in the US. On a 12-month rolling basis, remittances stood at US$34,071 million, marginally lower than the US$ 34,091 million at the end of May, which remains as its historical high. Considering the latter, overall results remain positive, a situation we continue to believe that will be supportive for domestic consumption.

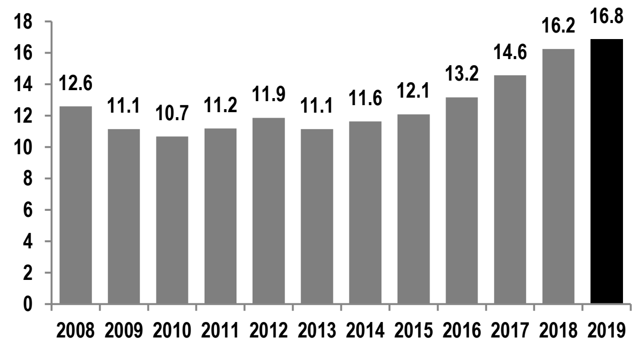
Growth dragged again by the decline in the average amount sent. This figure stood at US$335.66, slipping 2.3% yoy and adding two consecutive months in contraction territory. This figure was the most impacted by the base effect, given that it surged 38.7% in the same period of 2018 to US$ 343.44, high since September 2011. On the other hand, the number of operations grew 1.6% yoy to 9.3 million, with the annual comparison decelerating sequentially for third month in a row. This dynamic may be related to increased efforts to curb illegal immigration at the Border, resulting in a lower amount of new migrants into the country, albeit compensated by higher uncertainty about the likelihood of being deported, which could induce a higher number of operations.

Family remittances
% yoy



Source: Banxico

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



Source: Banxico

We reiterate our view of a gradual slowdown in remittances in coming months. As already mentioned previously, growth in 2Q19 indeed decelerated relative to the previous quarter, resulting in a year-to-date advance of 3.7%, significantly below the 11.6% observed in the same period of the previous year. Although acceleration is due again given that the base effect is less challenging for the rest of the year, we continue to believe that remittances will slow down gradually as a result of higher efforts to curb illegal immigration –both in Mexico and in the US– and evidence that migrants' employment in the US has been decelerating. Considering that economic activity in that country is also more vulnerable to protracted global headwinds, we reiterate our view that remittances will grow at a more modest pace when compared to the double-digit pace observed in both 2018 and 2017.

Even after taking the latter into account, remittances remain healthy in absolute terms, as observed in the positive, long-term trend in inflows on a 12-month rolling basis. Therefore, the strength and stability in remittances is likely to keep supporting consumption growth, which despite our view of a deceleration in dynamism this year, remains as the main driver of GDP. Regarding risks going forward, we believe that 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 as long as the US does not fall into recession, which is not our base-case scenario despite the escalation in global trade tensions and geopolitical concerns, among other headwinds for the global economy.

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

Research and Strategy

Gabriel Casillas Olvera	Chief Economist and Head of Research	gabriel.casillas@banorte.com	(55) 4433 - 4695
Raquel Vázquez Godinez	Assistant	raquel.vazquez@banorte.com	(55) 1670 - 2967

Economic Analysis

Delia María Paredes Mier	Executive Director of Economic Analysis	delia.paredes@banorte.com	(55) 5268 - 1694
Katia Celina Goya Ostos	Senior, Global Economist	katia.goya@banorte.com	(55) 1670 - 1821
Juan Carlos Alderete Macal, CFA	Senior Economist, Mexico	juan.alderete.macal@banorte.com	(55) 1103 - 4046
Miguel Alejandro Calvo Domínguez	Economist, Regional	miguel.calvo@banorte.com	(55) 1670 - 2220
Francisco José Flores Serrano	Economist, Mexico	francisco.flores.serrano@banorte.com	(55) 1670 - 2957
Luis Leopoldo López Salinas	Analyst, Global Economist	luis.lopez.salinas@banorte.com	(55) 1103 - 4000 x 2707
Lourdes Calvo Fernández	Analyst (Edition)	lourdes.calvo@banorte.com	(55) 1103 - 4000 x 2611

Fixed income and FX Strategy

Alejandro Padilla Santana	Head Strategist – Fixed income and FX	alejandro.padilla@banorte.com	(55) 1103 - 4043
Santiago Leal Singer	FX Senior Strategist	santiago.leal@banorte.com	(55) 1670 - 2144
Leslie Thalía Orozco Vélez	Fixed Income and FX Strategist	leslie.orozco.velez@banorte.com	(55) 5268 - 1698

Equity Strategy

Manuel Jiménez Zaldivar	Director Equity Research — Telecommunications / Media	manuel.jimenez@banorte.com	(55) 5268 - 1671
Victor Hugo Cortes Castro	Technical Analysis	victorh.cortes@banorte.com	(55) 1670 - 1800
Marissa Garza Ostos	Equity Research – Conglomerates / Financials/ Mining / Petrochemicals	marissa.garza@banorte.com	(55) 1670 - 1719
José Itzamna Espitia Hernández	Equity Research – Airlines / Airports / Cement / Infrastructure / REITs	jose.espitia@banorte.com	(55) 1670 - 2249
Valentín III Mendoza Balderas	Equity Research – Auto Parts/ Consumer Discretionary / Real Estate / Retail	valentin.mendoza@banorte.com	(55) 1670 - 2250
Jorge Antonio Izquierdo Lobato	Analyst	jorge.izquierdo.lobato@banorte.com	(55) 1670 - 1746
Itzel Martínez Rojas	Analyst	itzel.martinez.rojas@banorte.com	(55) 1670 - 2251

Corporate Debt

Tania Abdul Massih Jacobo	Director Corporate Debt	tania.abdul@banorte.com	(55) 5268 - 1672
Hugo Armando Gómez Solís	Senior, Corporate Debt	hugoa.gomez@banorte.com	(55) 1670 - 2247
Gerardo Daniel Valle Trujillo	Manager, Corporate Debt	gerardo.valle.trujillo@banorte.com	(55) 1670 - 2248

Wholesale Banking

Armando Rodal Espinosa	Head of Wholesale Banking	armando.rodal@banorte.com	(55) 1670 - 1889
Alejandro Eric Faesi Puente	Head of Global Markets and Institutional Sales	alejandro.faesi@banorte.com	(55) 5268 - 1640
Alejandro Aguilar Ceballos	Head of Asset Management	alejandro.aguilar.ceballos@banorte.com	(55) 5268 - 9996
Arturo Monroy Ballesteros	Head of Investment Banking and Structured Finance	arturo.monroy.ballesteros@banorte.com	(55) 5004 - 1002
Gerardo Zamora Nanez	Head of Transactional Banking, Leasing and Factoring	gerardo.zamora@banorte.com	(81) 8318 - 5071
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) 5004 - 1453
René Gerardo Pimentel Ibarrola	Head of Corporate Banking	pimentelr@banorte.com	(55) 5268 - 9004
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) 5004 - 1454