March 1, 2024

Remittances – Below US$5 billion in January on an adverse seasonality

- **Remittances (January): US$4,574.6 million; Banorte: US$4,621.4mn; consensus: US$4,722.3mn (range: US$4,421.5mn to US$5,100.0mn); previous: US$5,496.9mn**
- **Flows grew 3.1% y/y, accelerating relative to the pace in December (2.2%). With this, the amount accumulated in the last 12 months reached US$63,459.0 million**
- **The number of operations came in at 11.8 million (-0.7% y/y), in line with the seasonal patterns. The average amount per transaction was US$388.84 (3.8%), more stable at the margin**
- **Sequentially, flows fell 1.8% m/m, facing a challenging base effect. Nevertheless, factors such as the increase in the unemployment rate for Mexican migrants in the US could also help explain the decline**
- **We remain positive on remittances inflows on the back of US activity resilience, with job creation in key sectors such as construction and some services continuing. Nevertheless, we recognize that the pace this year will likely be more modest than in 2023**

Remittances start the year below US$5 billion, in line with its more adverse seasonality. The amount sent came in at US$4,574.6 million, closer to our estimate (US$4,621.4 million) than consensus (US$4,722.3 million). The result is explained in large part by an adverse seasonal pattern, although probably some factors impacted available income in households that send remittances to Mexico, noting: (1) A deterioration in the US labor market for migrants; and (2) a slight acceleration in prices in monthly terms –with pressures centered in services, especially rents and transportation. With this, remittances grew 3.1% y/y, accelerating at the margin (previous: 2.2%). As a result, the amount accumulated in the last 12 months reached US$63,459.9 million.

Regarding US economic activity, signs were mixed. First, industrial production fell 0.1% m/m, highlighting manufacturing (-0.5%). Meanwhile, the PMI manufacturing from *S&P Global* remained in contraction despite improving 2.0pts (49.1pts). In other timely figures, both housing permits and starts declined. On the other hand, retail sales (control group) dropped 0.4% –with weakness concentrated in building materials and autos. Finally, employment recovered, albeit with the unemployment rate among Mexican migrants higher (see section below for more details).

Lower number of operations, with the average amount sent more stable. 11.8 million operations were made, coming in below the 14.1 million seen in December, in line with its seasonal pattern. This implies -0.7% y/y (previous: 2.2%). Meanwhile, the average amount per transaction came in at US$388.84 (previous: US$390.14), more stable at the margin. As such, the annual comparison came in at 3.8% (previous: 0.0%). In addition to the usual downward skew, we believe some circumstantial factors contributed to a more moderate performance (particularly employment). In this sense, we recognize risks remain, such as higher inflation, that could impact disposable income –and thus inflows. However, we do not think this will be the prevailing trend for the year, expecting more dynamism in coming months.


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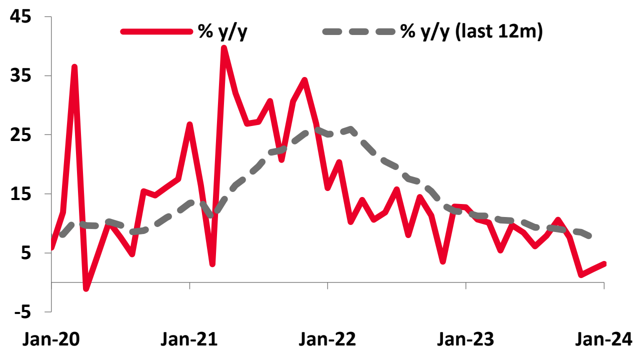
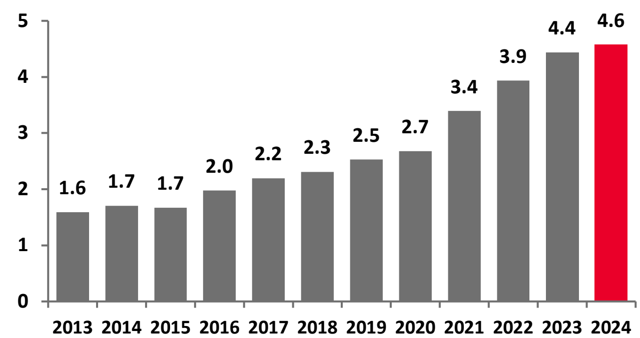
Sequential decline, facing a more challenging base and other headwinds. With seasonally adjusted figures, remittances fell 1.8% m/m (previous: 4.9%). This is consistent with the increase in the unemployment rate for Mexican migrants, despite the overall labor market was still with signs of strength. For the total US population, nonfarm payrolls increased by 353k jobs, with the unemployment rate down to 3.7% from 3.8%. Meanwhile, the same metric for Hispanics and Latinos, was unchanged at 5.0%. Nevertheless, the rate for Mexican migrants rose to 5.7% from 4.8%. Specifically, the working age population –including 'natives', 'non-native citizens', and 'non-citizens' (legal or illegal)– declined by 15.8k, employed persons were up by 50.8k, but those unemployed increased by 181.8k.

Family remittances
% y/y (nsa)



Source: Banorte with data from Banxico

Family remittances
US$ billion, accumulated in the year (nsa)



Source: Banorte with data from Banxico

We remain positive on remittances, albeit recognizing some headwinds that could materialize. As we have mentioned in previous reports, our call on remittances is favorable, anticipating full year flows between US$66 and 67 billion (+4.2% and +5.8% y/y). Much of the momentum would come from strength in US economic activity –anticipating +2.2% in GDP this year. Specifically, we see some key sectors, such as construction and some services such as dining away from home that tend to employ a significant number of migrants, that could achieve a solid performance. Moreover, labor market strength and rising wages will remain as an important driver of consumption in that country, with benefits in terms of flows.

Nevertheless, downside risks remain. In the short-term, we remain cautious about price pressures. Latest results suggest further work to be done in several sectors, in turn delaying interest rate cut expectations by the Fed –also with some negative implications for activity. Another latent risk is industrial production in said economy, specifically manufacturing –excluding autos. The baseline scenario contemplates that sluggishness could continue throughout the year. On the other hand, we remain attentive to the US electoral process, particularly regarding comments in campaigns on immigration policy. We recognize that the debate may generate uncertainty, especially in remittance-sending households, possibly prompting them to send greater resources. This was observed in 2016. Finally, on a more positive note, the US Citizenship and Immigration Services (USCIS) established a temporary rule with the target of doubling the number of visas for temporary non-agricultural workers (H-2B) in 2024. Thus, local companies can start hiring migrants with work permits for a maximum of 3 years, trying to mitigate labor shortages in those industries and possibly boosting resources sent to our country.

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