April 1, 2024

Remittances – Annual growth continues on the back of further gains in the US labor market

- **Remittances (February): US$4,510.1 million; Banorte: US$4,582.3mn; consensus: US$4,550.0mn (range: US$4,500.0mn to US$4,668.3mn); previous: US$4,574.6mn**
- **Flows grew 3.7% y/y, accelerating at the margin vs January. We must remember that an additional day in the month due to the leap year also represents a boost. With this, the accumulated amount in the last twelve months reached US$63,621.8 million**
- **The increase was mainly driven by the average amount per transaction, coming in at US$383.96 (+2.4%). The number of operations stood at 11.7 million (1.3% y/y)**
- **Sequentially, inflows fell 0.9% m/m despite a more favorable base effect and other positive developments in the US, especially regarding the labor market**
- **Signs of resilience in several sectors in the US support our positive view for remittances. Nevertheless, we recognize that inflation's persistence to the upside –both in the US and Mexico– and MXN strength have limited the purchasing power of these resources**

Slight acceleration in annual terms, although still below US$5,000 million. The amount sent reached US$4,510.1 million, below our estimate (US$4,582.3 million) and consensus (US$4,550.0 million). We acknowledge that theis figure faced two relevant calendar and/or seasonal effects. One is positive –the leap year, which added a day to the month, and the other negative –the usual trend of modest inflows at the start of the year. With this, the annual comparison came in at 3.7% from 3.1% in January. More circumstantially, we recognize an improvement in the US labor market for Mexican migrants (as detailed later in the document), in addition to dynamism in key sectors of activity. With this, accumulated remittances received in the last twelve months reached US$63,621.8 million (+6.4% y/y).

On US economic activity, data for the period had a slight upward bias. On the positive side, industrial production rebounded at the margin (0.1% m/m), albeit with the sector still constrained. In construction, both building permits and housing starts increased, by +1.9% and 10.7% m/m, respectively. On a more negative note, retail sales (control group) stagnated at 0.0%. On prices, inflation came in line with expectations at 0.4% m/m (3.2% y/y), although with services –especially housing– still under pressure.

Dynamism in the average amount sent, with some progress in operations. The average amount per transaction came in at US$383.96 (previous: US$388.84). which implies a 2.4% increase in annual terms. Meanwhile, 11.7 million operations were carried out (previous: 11.8 million), which translates into a 1.3% y/y expansion, with the latter reflecting the additional day in the month. We believe the former could be answering to migrants' efforts to try to compensate for the loss of purchasing power of flows in local currency, seeking to leave the amount received in pesos by their relatives as stable as possible.

Sequential decline despite a more favorable base effect. With seasonally adjusted figures, remittances fell 0.9% m/m (previous: -1.9%), even with a more favorable base effect and the improvement in labor market conditions. For the total US population, nonfarm payrolls resulted in +275k jobs, with the unemployment rate increasing to 3.9% from 3.7%. The same metric for Hispanics and Latinos was unchanged at 5.0%. Nevertheless, the rate for Mexican migrants fell to 5.4% from 5.7%. Specifically, the working age population –including 'natives', 'non-native citizens', and 'non-citizens' (legal and illegal)– increased by 295.1k, with employed persons decreasing by 45.8k and those unemployed falling by 74.5k.

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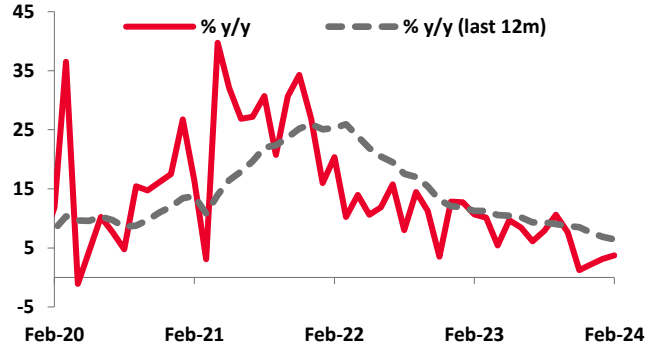
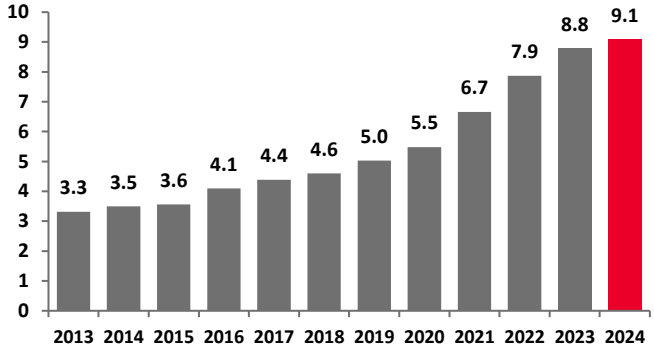
BANORTE

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

Favorable outlook for remittances in the short-term, with positive signals from the US. Both our view and that of the market continues to incorporate a 'soft landing' for the US, which we believe will help remittance flows to keep growing throughout 2024. In addition and at the margin, other factors could induce further dynamism, most notably: (1) A favorable outlook for construction –as we have detailed in other publications; (2) consumption patterns that maintain a skew towards services –with a positive spillover to migrant employment; and (3) an inflation forecast with a downward trajectory for the remainder of the year, which could lessen the impact on real incomes if nominal wages keep growing. In the labor market, while expectations remain for a moderation in the pace of job growth, numbers so far suggest that the pace could be slower than we anticipated at the beginning of the year.

On the other hand, we will keep a close eye on the evolution of the electoral process in that country, with both leading candidates having already achieved enough support to secure their party's nomination. Both Donald Trump and Joe Biden have acknowledged that immigration is key to their campaigns. We believe Trump's rhetoric will remain quite aggressive –which could drive flows, as it did in 2016– especially considering his party's efforts in states like Florida where they have stiffened penalties against crimes committed by illegal migrants (*e.g.* doubling or tripling the usual sentence time vs. legal citizens). On the other hand, Biden has taken a more conciliatory tone, proposing expedited cases for political asylum, increased emergency funding, and work permits, among other measures. As for risks, we continue to believe that they remain focused on new episodes of inflationary pressures –especially given distortions in global trade– as well as the adverse effects of a strong MXN.

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