May 2, 2024

Remittances – Downward surprise in March despite a favorable backdrop in the US

- **Remittances (March): US$5,020.7 million; Banorte: US$5,345.7mn; consensus: US$5,300.0mn (range: US$4,570.0mn to US$5,449.3mn); previous: US$4,510.1mn**
- **Flows fell 3.3% y/y, its first drop since April 2020 despite standing just above the US5,000 million level once again. With this, the accumulated amount in the last twelve months reached US$63,452.7 million**
- **The result was mainly driven by a contraction in the average amount per transaction, coming in at US382.39 (-3.0%). The number of operations also moderated in annual terms (-0.3%), standing at 13.1 million**
- **Nonetheless, inflows climbed 1.6% sequentially, supported by a more favorable base effect as well as a relevant improvement in employment indicators for Mexican migrants in the US**
- **Despite the result, We reiterate our view of favorable dynamics for remittances this year despite the result, supported by US economic strength. However, challenges remain in terms of the local purchasing power of these flows**

Remittances again exceed US$5 billion, although negative in the annual comparison. The amount sent came in at US$5,020.7 million, below our estimate (US$5,345.7 million) and consensus (US$5,300.0 million). The seasonal effect is favorable, leaving behind some of the weakness that characterizes the beginning of the year. Nevertheless, the rate of progress continues to show signs of moderation. In this sense, the annual comparison stood at -3.3 from +3.7% in February, its first decline since April 2020. This is somewhat surprising considering positive trends in the US. For example, households' consumption extended to March, with a better-than-expected performance and notable dynamism in 'restaurants and bars' within services, a component that is characterized by employing a significant number of migrants. Thus, our reading was that strength in these sectors would continue to boost employment and, therefore, inflows. In this context, the cumulative amount of remittances received in the last twelve months reached US$63,452.7 million (+5.3% y/y).

Delving deeper into US economic activity, the period was mixed, with the preliminary figure for 1Q24 GDP at 1.6% q/q saar despite resilient consumption at 2.5%. Focusing on other prints, industrial production surprised to the upside (0.4% m/m), with strength in manufacturing. In addition, retail sales (control group) rebounded 1.1%. On the contrary, in construction, both building permits and housing starts declined, by -4.3% and -14.7%, respectively. On the price front, inflation accelerated in annual terms to 3.5%, still with pressures in services, including housing.

Decline in both the average amount sent and number of operations. The average amount per transaction sent was US$382.39 (previous: US$383.96), which implies a 3.0% y/y decline, its first negative print since November. Meanwhile, the number of operations climbed to 13.1 million (previous 11.7 million) on a positive seasonal effect, albeit translating into -0.3% y/y. We believe part of this could be related to inflationary pressures in the US, impacting households' disposable income, which also limits the possibility of higher flows.

Sequential progress, helped by improvements in the labor market. On a seasonally adjusted basis, remittances picked up 1.6% m/m (previous: -0.8%). We believe this was driven by a more positive base effect and improvements in employment.


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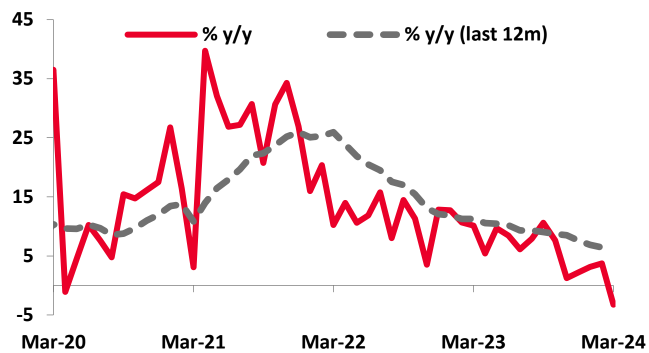
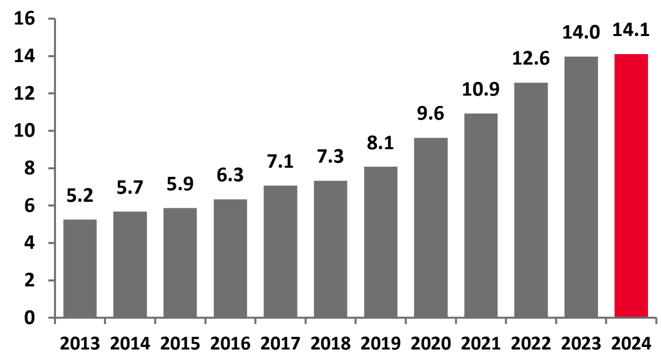
For the total US population, nonfarm payrolls resulted in +303k jobs, with the unemployment rate declining slightly to 3.8% from 3.9%. The same metric for Hispanics and Latinos fell to 4.5% from 5.0%. Similarly, the rate for Mexican migrants diminished to 4.7% from 5.4%. Specifically, the working age population –including 'natives', 'non-native citizens', and 'non-citizens' (legal and illegal)– increased by 438.3k, with employed persons up by 586.6k and those unemployed falling by 116.2k.

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

Remittances will continue to be supported by US economic activity, which is key to sustaining the labor market in said country. Our call on flows for the remainder of the year remains positive, maintaining our forecast between US$66 and US$67 billion. At the beginning of the year, the view of a 'soft landing' was still heavily questioned due to several headwinds. However, the data so far points to this scenario as the most likely to materialize. In this regard, the labor market continues to show strength, both in terms of job openings and wages, which is undoubtedly positive for migrants. However, some divergences are beginning to emerge between sectors. Positive trends continue in commerce, logistics, transportation, and restaurants. On the other hand, technology has shown higher layoff rates. At the margin, greater dynamism in the former should be an important catalyst for migrants. Considering this, as well as other positives that we have mentioned in previous publications, such as construction, we believe there is still some room for the unemployment rate of Hispanics, and Mexican migrants in particular, to extend its decline.

Another factor that we will keep an eye on is the presidential race, with candidates already defined by both parties –Joe Biden and Donald Trump–. Both are already in the campaign trail, with the latter showing a more confrontational discourse against our country, including on immigration. So far it is not entirely clear to us if the effect could be similar to the one seen during 2016 and 2017, when flows increased. Or if migrants will take a more cautious stance. Finally, we remain attentive to headwinds, mainly those that prevailing for months now. On these, we highlight inflationary pressures in our northern neighbor-still concentrated in services. In addition, the Mexican peso strength –even in the face of recent episodes of risk aversion– continues to pose a challenge to their purchasing power in local-currency terms.

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