July 1, 2024

Remittances – Moderate flows in May despite a favorable seasonality

- **Remittances (May): US$5,624.5 million; Banorte: US$5,896.3mn; consensus: US$5,740.5mn (range: US$5,076.8mn to US$6,100.0mn); previous: US$5,422.3mn**
- **Flows fell 0.9% y/y, a somewhat surprising considering its positive seasonality. With this, the accumulated amount in the last twelve months reached US$63,794.5 million**
- **The result was driven by a decline in the average amount per transaction, coming in at US$380.9 (-2.3% y/y), although with an increase in the number of operations, reaching 14.8 million (+1.4% y/y)**
- **Sequentially, inflows contracted 1.6%, ending a two-month streak of improvements. This would be a reflection of the marginal deterioration in employment indicators for Mexican migrants in the US, along with a more challenging base effect**
- **Even with today's results, we reaffirm our view that remittances will keep growing. Support would mainly come from US labor market dynamism, although not ruling out a push as concerns related to the electoral process in said country materialize**

Annual contraction in May. The amount came in at US$5,624.5 million, below consensus (US$5,740.5 million) and our estimate (US$5,896.3 million). The seasonal push due to the *Mother's Day* holiday did not have anticipated effect. In this context, the accumulated amount of remittances received in the last twelve months reached US$63.8 billion (+4.5% y/y). Delving deeper into US economic activity, the period was mixed. In the detail, personal spending grew 0.2% m/m, slightly weaker than expected. Meanwhile, the control group for retail sales advanced 0.4% sequentially, although not enough to offset April's decline. Industrial production surprised to the upside, with manufacturing also positive, both up 0.9%. On the negative side, in construction, both housing starts (-5.5%) and permits (-3.8%) declined, although recognizing a challenging base for the former. Finally, regarding inflationary pressures, the headline print had a null increase (0.0%), while the annual comparison continued to moderate (3.3%), which could imply greater space for sending resources back to their families.

Decline in the average amount received, but with an increase in the number of transactions. The average amount per transaction sent came in at US$380.9 (previous: US$402.55), which implies a 2.3% y/y contraction, its second fall in the year. Meanwhile, the number of operations reached 14.8 million (previous: 13.5 million), which translates into a 1.4% y/y expansion (previous: +2.8%). Today's results continue to indicate that the positive seasonality of the fifth month of the year is becoming less relevant.

Flows fell 1.6% sequentially, ending a two-month streak of improvements. On a seasonally adjusted basis, remittances fell 1.6% m/m (previous: 0.2%). The period was characterized by a slight deterioration in labor conditions for Mexican migrants in the US. For the total US population, nonfarm payrolls picked up by 272k jobs, with the unemployment rate climbing to 4.0% from 3.9%. The same metric for Hispanics and Latinos expanded to 5.0% from 4.8%. Similarly, the rate for Mexican migrants increased to 4.3% from 4.2%. Specifically, the working age population –including 'natives', 'non-native citizens', and 'non-citizens' (legal and illegal)– contracted by 27.4k, with employed persons down by 143.1k and those unemployed increasing by 19.1k.

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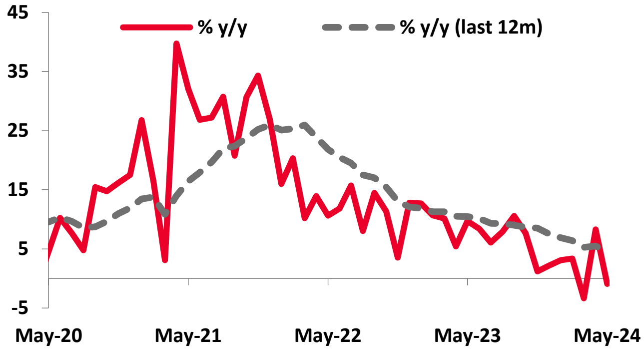
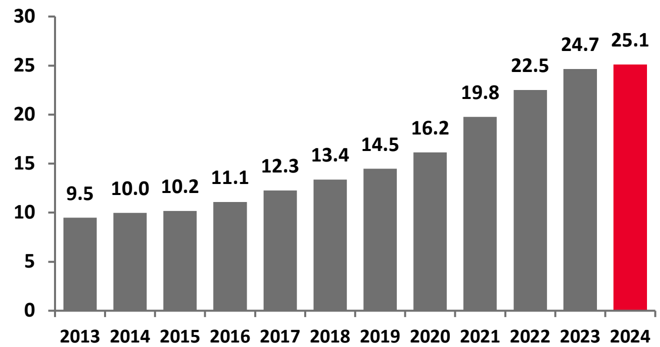
Family remittances
% y/y (nsa)



Source: Banorte with data from Banxico

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



Source: Banorte with data from Banxico

Labor market and wage growth strength in the US will continue to support remittances. Our view on the dynamism of remittances remains positive. Nevertheless, we see some factors that will impact flows throughout the second half of 2024, highlighting among them: (1) A more challenging base effect; (2) a moderation in the rate of wage growth; (3) new immigration policies approved by Biden; and (4) the electoral process in the US. In contrast, we expect continued strength of the labor market.

According to mid-year expectations for the US, the labor market will remain driven by demand for services, although projections suggest a moderation in job creation and lower rates of wage growth in some areas. Wages in real terms could be better, considering that forecasts for inflation are to the downside.

Regarding immigration policies and the electoral process, evidence from previous episodes indicates that the impact may be positive for remittances. On June 18th, President Biden announced a new policy that will give legal status and protection to around 500,000 people (which could be extended to their children). According to the US government, the program will begin this summer. The measure will give the option to those who meet the requirements –people married to US citizens, who have been living in the country for more than 10 years and do not have a criminal record– to access better jobs, social security, etc. On a more negative note, the administration rolled out a new policy that bars migrants from being granted asylum when the border is overwhelmed (+2,500 daily encounters during a 7-day period).

Regarding the electoral process, as we have mentioned in other reports, the triumph of Donald Trump in 2016 caused migrants to send more remittances back home given his threats and promises to tighten immigration policy. According to available data, in November 2016 (with Trump's victory) flows grew by 14.6% m/m (25.8% y/y) with an average of 0.7% in the previous twelve months. Should such a scenario materialize, we believe there could be a boost in inflows, although probably more moderate this time around.

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