Remittances – Moderation in July after surging in the previous month

- **Remittances (July): US$5,613.6 million; Banorte: US$5,927.2mn; consensus: US$5,992.7mn (range: US$5,650.0mn to US$6,100.0mn); previous: US$6,206.9mn**

- **Flows contracted 1.0% y/y, a strong deceleration relative to the 11.1% upward surprise in the previous month. Considering this, accumulated inflows in the last twelve months reached US$64,352.8 million**

- **The result was explained by a slowdown in the number of operations to 14.0 million (+0.8% y/y), as well as a decline in the average amount per transaction, at US$402.15 (-1.7% y/y)**

- **Sequentially, inflows contracted 11.9%, recognizing a quite challenging base effect. This happens in a context in which employment conditions for Mexican migrants in the US were somewhat mixed**

- **We believe that remittances will maintain some resilience in the remainder of the year, helped by the recent performance of the Mexican peso. However, challenges for employment conditions and activity in the US are rising**

Moderation in inflows in July. The amount received came in at US$5,613.6 million, below consensus (US$5,992.7 million) and our estimate (US$5,927.2 million). The month is not characterized by a negative seasonal impact, with flows usually similar to those in June. Nevertheless, given the strong upside surprise in said period, we believe the moderation is not at all unexpected and isn't that negative. With this, accumulated remittances in the last twelve months stood at US$64.4 billion (+4.2% y/y). Regarding the US economy, figures were mixed, albeit with a negative bias. Personal spending expanded 0.5% m/m, in line with expectations. The control group for retail sales surprised to the upside at 0.3%, with the total up 1.0%. Meanwhile, industrial production fell 0.6% after three months of gains, with manufacturing at -0.3%. In construction, both housing starts (-6.8%) and building permits (-4.0%) reverted down after gains in June. On prices, headline inflation climbed 0.2% m/m, although resulting in a 10bps moderation in the annual print to 2.9%.

Lower number of transactions and average amount sent. The number of operations came in at 14.0 million (previous: 14.8 million), which translates into +0.8% y/y (previous: +8.0%). Meanwhile, the average amount per transaction stood at US$402.15 (previous: US$418.67), which implies -1.7% y/y (previous: +2.9%). We believe migrants may have depleted some of their savings last month to take advantage of a weaker MXN. This exchange rate adjustment likely impacted flows this month. Despite FX levels that remain attractive, the amount received slowed down. It is also relevant to note that this occurred in a mixed backdrop for both activity and employment, as detailed below.

Relevant sequential decline on a very challenging base effect. With seasonally adjusted figures, remittances fell 11.9% m/m. The direction was not at all surprising considering the 13.5% growth seen in June. This happened in a backdrop in which labor conditions for Mexican migrants in the US posted a mixed performance. For the total US working-age population, nonfarm payrolls picked up by 114 thousand jobs, surprising lower, with the unemployment rate up by 20bps to 4.3%. The same metric for Hispanics and Latinos increased to 5.3% from 4.9%. The rate for Mexican migrants was more limited, to 5.3% from 5.1%. Specifically, the working age population in the latter group –including 'natives', 'non-native citizens', and 'non-citizens' (legal and illegal)– expanded by 400.9k, with employed persons increasing by 240.2k and with those unemployed expanding by 41.4k.

Juan Carlos Alderete Macal, CFA
Executive Director of Economic Research and Market Strategy
juan.alderete.macal@banorte.com

Francisco José Flores Serrano
Director of Economic Research, Mexico
francisco.flores.serrano@banorte.com

Yazmín Selene Pérez Enríquez
Senior Economist, Mexico
yazmin.perez.enriquez@banorte.com

Cintia Gisela Nava Roa
Senior Economist, Mexico
cintia.nava.roa@banorte.com

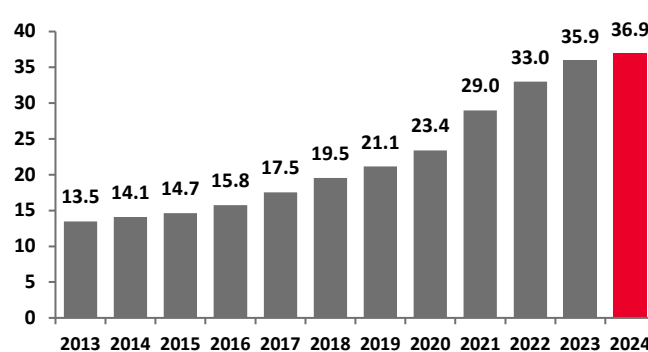**BANORTE**

Family remittances
% y/y (nsa)
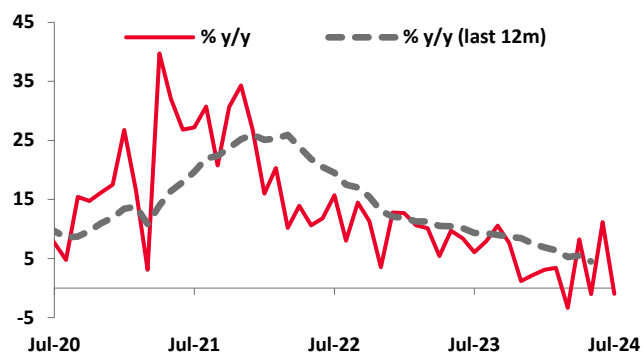
Source: Banorte with data from Banxico

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

Source: Banorte with data from Banxico

The outlook for remittances remains challenging, although flows are likely to stay resilient. The results of the last two months have introduced some big adjustments to flows, which looked more difficult at the beginning of the year when weakness prevailed. In our view, one of the main drivers recently has been the Mexican peso. After several months of strength, it has depreciated more sizably, which has positive implications for the purchasing power of recipient families when translated into local currency. Another factor that we think has helped to boost flows is the moderation of US inflation as it may have a positive impact on migrants' disposable income.

Nonetheless, we believe risks for the remainder of the year persist or have even increased. Among them we highlight the US election, with very fluid preferences. The likelihood of a Donald Trump victory has diminished, with Kamala Harris already leading in both polls and betting markets. In our view, this could subtract some momentum to flows as the Democrats' immigration stance is considerably less aggressive than that of the Republicans. In turn, this could reduce fears about potential changes, also diminishing incentives to send their savings abroad due to a higher probability of being deported. Regardless, we will be watching key events in the coming weeks and months to see how the process unfolds. In this respect, changes could still materialize. In addition, the polarization in some states (*e.g.* Florida and Texas) suggests that the implementation of laws and measures impacting migrant employment will continue.

On the other hand, signs of a US economic slowdown in the US have broadened according to the most recent data. This is even already observed in some employment figures –we will be watching closely August's nonfarm payroll report, due this Friday– to see if the downward trend is corroborated. In addition, wage growth has also moderated, which could in turn limit remittances further.

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We, Alejandro Padilla Santana, Juan Carlos Alderete Macal, Alejandro Cervantes Llamas, Marissa Garza Ostos, Katia Celina Goya Ostos, Francisco José Flores Serrano, José Luis García Casales, Santiago Leal Singer, Víctor Hugo Cortes Castro, Leslie Thalía Orozco Vélez, Hugo Armando Gómez Solís, Carlos Hernández García, Yazmín Selene Pérez Enríquez, Cintia Gisela Nava Roa, Miguel Alejandro Calvo Domínguez, José De Jesús Ramírez Martínez, Daniel Sebastián Sosa Aguilar, Gerardo Daniel Valle Trujillo, Luis Leopoldo López Salinas, Marcos Saúl García Hernandez, Juan Carlos Mercado Garduño, Ana Gabriela Martínez Mosqueda, Jazmin Daniela Cuautencos Mora, Andrea Muñoz Sánchez and Paula Lozoya Valadez, certify that the points of view expressed in this document are a faithful reflection of our personal opinion on the company (s) or firm (s) within this report, along with its affiliates and/or securities issued. Moreover, we also state that we have not received, nor receive, or will receive compensation other than that of Grupo Financiero Banorte S.A.B. of C.V for the provision of our services.

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Directory
Research and Strategy

Alejandro Padilla Santana
Chief Economist and Head of Research
alejandro.padilla@banorte.com
(55) 1103 - 4043

Raquel Vázquez Godinez
Assistant
raquel.vazquez@banorte.com
(55) 1670 – 2967

Itzel Martínez Rojas
Analyst
itzel.martinez.rojas@banorte.com
(55) 1670 - 2251

Lourdes Calvo Fernández
Analyst (Edition)
lourdes.calvo@banorte.com
(55) 1103 - 4000 x 2611

María Fernanda Vargas Santoyo
Analyst
maria.vargas.santoyo@banorte.com
(55) 1103 - 4000 x 2586

Economic Research

Juan Carlos Alderete Macal, CFA
Executive Director of Economic Research and Market Strategy
juan.alderete.macal@banorte.com
(55) 1103 - 4046

Francisco José Flores Serrano
Director of Economic Research, Mexico
francisco.flores.serrano@banorte.com
(55) 1670 - 2957

Katia Celina Goya Ostos
Director of Economic Research, Global
katia.goya@banorte.com
(55) 1670 - 1821

Yazmín Selene Pérez Enríquez
Senior Economist, Mexico
yazmin.perez.enriquez@banorte.com
(55) 5268 - 1694

Cintia Gisela Nava Roa
Senior Economist, Mexico
cintia.nava.roa@banorte.com
(55) 1105 - 1438

Luis Leopoldo López Salinas
Economist, Global
luis.lopez.salinas@banorte.com
(55) 1103 - 4000 x 2707

Market Strategy

Santiago Leal Singer
Director of Market Strategy
santiago.leal@banorte.com
(55) 1670 - 1751

Marissa Garza Ostos
Director of Equity Strategy
marissa.garza@banorte.com
(55) 1670 - 1719

Víctor Hugo Cortes Castro
Senior Strategist, Technical
victorh.cortes@banorte.com
(55) 1670 - 1800

Carlos Hernández García
Senior Strategist, Equity
carlos.hernandez.garcia@banorte.com
(55) 1670 – 2250

Hugo Armando Gómez Solís
Senior Strategist, Equity
hugoa.gomez@banorte.com
(55) 1670 - 2247

Leslie Thalía Orozco Vélez
Senior Strategist, Fixed Income and FX
leslie.orozco.velez@banorte.com
(55) 5268 - 1698

Marcos Saúl García Hernandez
Analyst, Fixed Income, FX and Commodities
marcos.garcia.hernandez@banorte.com
(55) 1670 - 2296

Gerardo Daniel Valle Trujillo
Senior Analyst, Corporate Debt
gerardo.valle.trujillo@banorte.com
(55) 1670 - 2248

Juan Carlos Mercado Garduño
Strategist, Equity
juan.mercado.garduno@banorte.com
(55) 1103 - 4000 x 1746

Ana Gabriela Martínez Mosqueda
Strategist, Equity
ana.martinez.mosqueda@banorte.com
(55) 5261 - 4882

Paula Lozoya Valadez
Analyst, Equity
paula.lozoya.valadez@banorte.com
(55) 1103 - 4000 x 2060

Quantitative Analysis

Alejandro Cervantes Llamas
Executive Director of Quantitative Analysis
alejandro.cervantes@banorte.com
(55) 1670 - 2972

José Luis García Casales
Director of Quantitative Analysis
jose.garcia.casales@banorte.com
(55) 8510 - 4608

Miguel Alejandro Calvo Domínguez
Senior Analyst, Quantitative Analysis
miguel.calvo@banorte.com
(55) 1670 - 2220

José De Jesús Ramírez Martínez
Senior Analyst, Quantitative Analysis
jose.ramirez.martinez@banorte.com
(55) 1103 - 4000

Daniel Sebastián Sosa Aguilar
Senior Analyst, Quantitative Analysis
daniel.sosa@banorte.com
(55) 1103 - 4000 x 2124

Jazmin Daniela Cuautencos Mora
Strategist, Quantitative Analysis
jazmin.cuautencos.mora@banorte.com
(55) 1670 - 2904

Andrea Muñoz Sánchez
Strategist, Quantitative Analysis
andrea.muñoz.sanchez@banorte.com
(55) 1105 - 1430

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