November 1, 2024

Remittances – Downward surprise in September, extending the streak of volatility

- **Remittances (September): US$5,358.7 million; Banorte: US$5,872.6mn; consensus: US$5,950.0mn (range: US$5,200.0mn to US$6,493.0mn); previous: US$6,087.3mn**
- **Flows contracted 4.6% y/y, moderating strongly vs. the previous month. Considering this, the accumulated amount in the last 12 months reached US$64,614.0 million**
- **The decline was explained by a reduction in the number of operations, now at 13.8 million (-0.9% y/y), along with a moderation in the average amount per transaction to US$388.31 (-3.8% y/y)**
- **Sequentially, inflows fell 7.5%, facing a challenging base effect, but consistent with increased volatility that has characterized performance in recent months. Overall, employment conditions of Mexican migrants in the US improved after mostly negative moves in July and August**
- **Remittances will likely continue to be driven by the resilience of the US labor market in the remainder of the year, with election results being a key catalyst for subsequent months**

Remittances back to negative territory in the year-over-year comparison in September. The amount received reached US$5,358.7 million, well below consensus (US$5,950.0 million) and our estimate (US$5,872.6 million). The seasonal pattern in the period is somewhat mixed, which we believe is partly due to differences between the start of school cycles in Mexico and in the US. With this result, accumulated remittances in the last twelve months reached US$64.6 billion (+3.0% y/y). It is worth noting that the US economy showed mixed signs during the month. Industrial production fell 0.3% m/m, with manufacturing down 0.4%, albeit with both facing challenging comparisons. In construction, housing starts (-0.5%) and building permits (-2.9%) retreated after strong gains. On consumption, personal spending rose 0.5%, with the control group for retail sales at +0.7%, surprising to the upside. Finally, headline inflation grew 0.2% m/m, slightly higher than anticipated, but with the annual comparison lower, to 2.4%.

Contractions in operations and a moderation in the average amount sent. The number of transactions came in at 13.8 million (previous: 15.0 million), a decline of 0.9% y/y (previous: +8.2%). On the other hand, the average amount per transaction was US$388.31 (previous: US$407.06), which implies -3.8% y/y, back in contraction after the previous month's advance (+1.0%). The results are quite surprising given that we expected some support from the level of the Mexican peso, although since it did not show a variation as substantial as in August, the push was probably more limited.

Contraction in the sequential comparison, with increased volatility. Using seasonally adjusted figures, remittances fell 7.5% m/m after a 12.1% expansion in the previous month. We highlight increased volatility in the last four months. It should be noted that this materialized despite more favorable labor market conditions for Mexican migrants in the US. For the total working-age population in said country, non-farm payrolls picked up +223 thousand, improving at the margin, with the unemployment rate down by 10bps to 4.1%. The same metric for Hispanics and Latinos fell to 5.1% from 5.5%. The move in the rate for Mexican migrants was larger, to 4.9% from 5.7%. Specifically, the working age population in the latter group –including 'natives', 'non-native citizens', and 'non-citizens' (legal and illegal)– expanded by 11.6k, with employed persons increasing by 171.2k and those unemployed declining by 160.7k.


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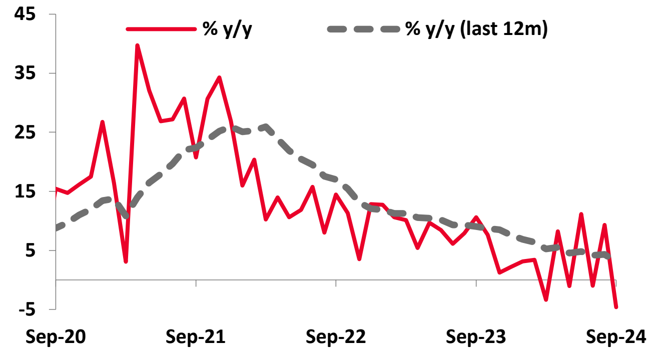
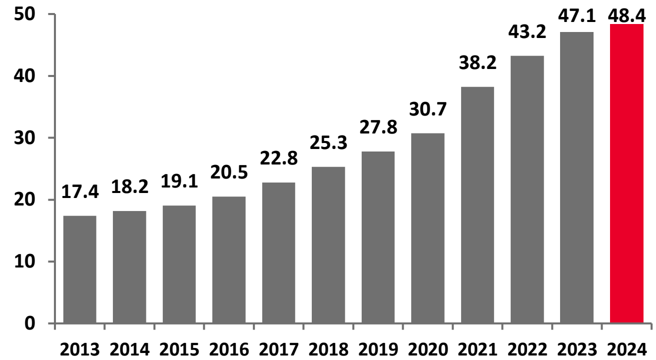
Family remittances
% y/y (nsa)



Source: Banorte with data from Banxico

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



Source: Banorte with data from Banxico

Dynamism will continue for the rest of the year, with the outcome of next week's elections key to performance going forward. The results of today's US employment report –with job creation at 12 thousand (with a notable distortion from hurricanes in the period) and the unemployment rate at 4.1%– are consistent with a slowdown in activity, albeit quite moderate. Considering this, our call remains positive for the next months. In addition, we will be watching the start of monetary easing and if it begins to have a positive impact on key sectors, such as construction. On the other hand, the Mexican peso has remained weak vs. the USD in recent months, which could continue encouraging migrants to send more resources as it represents greater purchasing power in Mexico.

In addition, we will be keeping a close eye on remittances in the run-up to, but especially after, the US election. The outcome will likely be a watershed for their trend. Specifically, we believe that flows could accelerate strongly if Trump wins considering his proposals, such as: (1) Declaring certain countries as 'unfriendly' or hostile to deport their citizens in an expeditious manner; (2) using the military in immigration actions; and (3) eliminating the status of 'sanctuary cities', just to name a few. In the event of a Kamala Harris victory, we think the results could be like in recent history, much more tied to the economic situation of the country.

In this regard, we maintain our full-year estimate range between US$66.5 and US$67.5 billion, albeit with the risk of being higher in a Trump victory. By 2025 growth will continue, albeit with the annual pace of growth likely more moderate if Harris wins given our call of a slowdown in the pace of expansion of US GDP, but also with an upward bias if Trump does.

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