

Family remittances – Strength remains despite a seasonal slowdown

- **Remittances (January):** US\$4,406.1 million; Banorte: US\$4,362.2mn; consensus: US\$4,551.5mn; (range: US\$4,344.0mn to US\$5,000.0mn) previous: US\$5,353.0mn
- **We must remember that the result is skewed downward by a negative seasonality at the start of the year. As such, in annual terms inflows grew 12.5%, suggesting that dynamism prevailed**
- **In this sense, the number of operations was lower at 11.8 million (+11.1% y/y). Meanwhile, the average monthly amount sent was US\$374.49 (+1.3%)**
- **In sequential terms, inflows fell 1.5% m/m, not entirely surprising considering the outperformance in December (with a new historical high). In this context, we believe the result does not signal weakness going forward**
- **Today's results are consistent typical seasonal patterns. Therefore, we maintain our view that remittances will continue to show resilience in the short-term. However, considering possible headwinds, we will continue to pay attention to Mexican migrants' employment and inflationary pressures in the US, among other factors**

Remittances start 2023 with a double-digit annual increase. The amount was US\$4,406.1 million. Although this meant that the US\$5 billion mark was not reached, the moderation relative to December is explained by an adverse seasonal pattern, with households in the US also facing start-of-the-year pressures. As such, the annual growth rate was practically unchanged at 12.5% (previous: 12.6%), adding two consecutive months of double-digit increases.

Regarding US activity, it had mixed signals. First, industrial production came in lower than expected (0.0% m/m), but with a significant rebound in manufacturing (1.0%). In turn, *S&P Global's* PMIs continued below the 50pts threshold, although registering a marginal improvement. As such, manufacturing stood at 46.9pts with services at 46.8pts. Meanwhile, the housing market remains weak, with home starts (-4.5% m/m), permits (+0.1%), and existing home sales (-0.7%) likely suffering from the additional monetary tightening. On the contrary, consumer confidence improved significantly, rising to 64.9pts from 59.7pts, likely reflecting optimism about lower gasoline prices and less need to spend on heating this winter, which in turn possibly released budget resources of some remittance-issuing households.

Seasonal declines in the number of operations and the average amount sent. The former metric stood at 11.8 million (previous: 13.7 million), with an increase of 11.1% y/y, higher than the 8.9% expansion seen in December. Similarly, the average amount sent decreased in nominal terms to US\$374.49 (previous: US\$391.31). However, and unlike operations, in annual terms it moderated to 1.3% (previous: 3.4%). In our opinion, the resilience of these figures is supported by lower energy prices, although offset by other pressures that in fact caused inflation to accelerate in the period.

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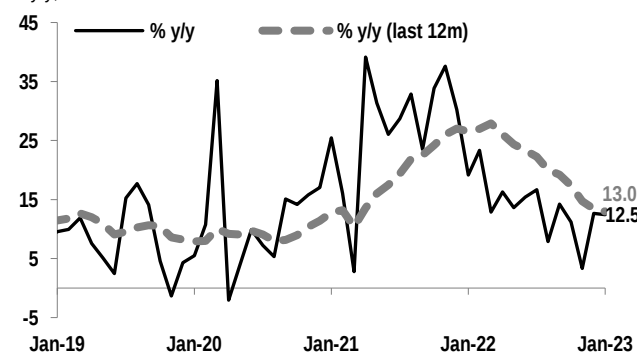
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Going forward, once the seasonality at the beginning of the year has been overcome, we do not rule out an increase in the number of operations. However, we remain attentive to the evolution of the amount since we do not rule out a deterioration in the migrant labor market.

Sequential decline, impacted by a challenging base, albeit with some headwinds in play. Seasonally adjusted, remittances fell 1.5% m/m, in our view, not entirely surprising considering the 5.3% expansion of the previous month. In addition, there were other attenuating factors, including higher inflation and a cooling off in the labor market performance for the Mexican migrants. Although, in general, employment conditions in the US continue to be favorable –with a total of 517,000 new jobs–, the unemployment rate among Hispanics and Latinos increased for a second month in a row to 4.5% from 4.3%, contrasting with the same metric nationwide, which fell to 3.4% from 3.5%. For Mexicans, we estimate that it expanded by 120bps to 5.3%. Among the latter, and consistent with the seasonal pattern, the working age population –including ‘natives’, ‘non-native citizens’, and ‘non-citizens’ (both legal and illegal)– decreased by 101.2 thousand. However, the total number of unemployed increased by 213 thousand. Considering that a deterioration was seen in the labor outlook for this group since the previous month, we remain cautious about its performance going forward.

Family remittances

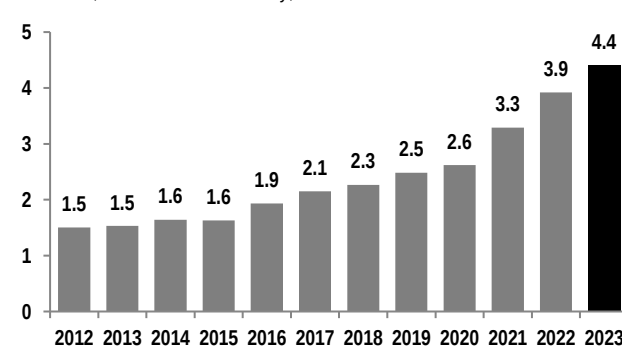
% y/y, nsa



Source: Banorte with data from Banxico

Family remittances

US\$ billion, accumulated to January, nsa



Source: Banorte with data from Banxico

We maintain a positive short-term outlook for remittances, albeit with future challenges possibly complicating their trend of growth. We believe that Mexican migrants will continue to push remittances back to Mexico in coming months, even possibly more given that their purchasing power domestically has decreased on a stronger MXN. However, we must recognize that headwinds have increased, noting: (1) Inflationary pressures that, although they continue with a downward trend, can be easily impacted –in this sense, we highlight that the PCE deflator index rose 5.4% y/y, its first acceleration since last September; (2) the Fed continues to see strength in the national labor market –contrary to the trend for Hispanics, Latinos, and Mexicans–, which gives them room to continue raising rates; and (3) construction, one of the main sectors that provides jobs to Mexican workers, has not shown signs of improvement and may continue to slow down due to the additional monetary tightening. In this context, we will be attentive to the non-farm payroll data for February, hoping that the general data will continue to be positive and that this permeates the Hispanics, Latinos and Mexicans group.

Regarding activity, timely data for February in general shows an improvement. For example, the PMI indicators showed increases for both for manufacturing and services. In this regard, within the former, companies expressed that despite continuing to face a drop in production, in February it was more moderate, although they reaffirmed that demand conditions continue to be affected by inflationary pressures. In services, it is evident that costs, specifically wages, continue to affect companies, although there are improvements in demand.

Looking further ahead, we remain cautious about remittances, as we do forecast a deterioration in the US labor market through the year. As such, we continue to believe that remittances will slow down in 2023 when compared to 2022. Nevertheless, it is not so clear if this will be enough for an outright contraction in annual terms.

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