Family remittances – Slowing down despite a still strong US labor market

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- **Remittances (April): US$5,003.3 million; Banorte: US$5,114.3mn; consensus: US$5,150.0mn; (range: US$4,970mn to US$5,352mn) previous: US$5,186.1mn**
- **Inflows picked up 6.3% y/y, moderating their pace at the margin, although still strong in the broader picture. In this respect, accumulated resources in the last twelve months reached US$60,253.5 million, a new historical high**
- **Growth remains driven by the number of operations, standing at 13.1 million (+8.8% y/y). In contrast, the average amount sent was at US$381.75 (-2.3%), its first contraction since last November**
- **On a more favorable note, they grew 1.2% m/m, partly reversing March's 1.4% decline. We still believe that a better-than-expected performance of the US labor market and economy will be key supports for growth in coming months**
- **We reiterate our view of healthy remittances' dynamics this year. Despite a tight US labor market, recent trends in inflows suggest the possibility of increasing headwinds ahead**

Remittances short of expectations in April. The amount was US$5,003.3 million, below the US$5,150 million median forecast from analysts. Typically, this print is lower than in the previous month on seasonal drivers, a situation that materialized again. Moreover, we observed a lower annual rate of 6.3% from 10.5% in March, in part because of a more challenging base effect. Nevertheless, it broke with its double-digit pace, suggesting more clearly the possibility of a more persistent slowdown ahead. Notwithstanding, accumulated inflows in the last twelve months reached US$60,253.5 million, a new historical high.

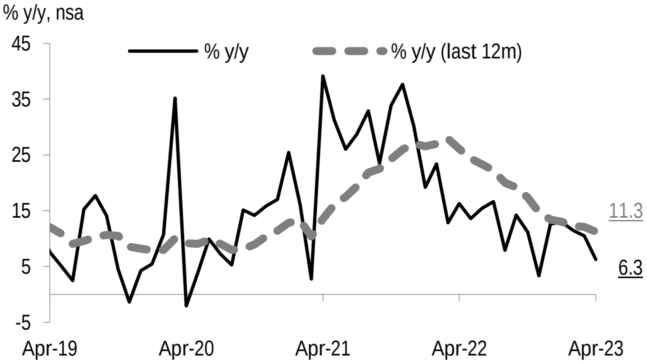
The US economy has maintained its strength despite some adverse shocks, highlighting the bankruptcy of some banking institutions at the beginning of March that have impacted credit conditions. The manufacturing sector seems to have had a breather, with relevant growth in industrial production (0.5%) m/m, especially manufacturing (1.0%), along with durable goods orders (1.1%). In services, retail sales accelerated at the margin (0.4%; control group: +0.7%), in turn helped by stronger dynamism in income (+0.4%) and real personal spending (+0.8%). This is consistent with ISM indicators, which ticked upwards in the period. On the contrary, inflation has not declined as fast as expected, limiting sequential growth in real earnings. In this backdrop, employment remains strong (see section below) despite the Fed's push to 'cool down' the labor market. In our view, this will remain as the key indicator to keep watching to gauge the possible dynamics of remittances in coming months.

Relative deceleration in the number of operations. This metric stood at 13.1 million, slightly below the 13.2 million seen in March. In this sense, the annual rate decelerated to 8.8%, lowest since last November. On the other hand, the average amount sent reached US$381.75 (-2.3%), explaining total inflows' lower dynamism.

Both results were influenced by base effects. Moreover, we believe the latter metric could have increasing difficulties to accelerate ahead as inflation has grown faster than nominal earnings. Nevertheless, and on the other direction, fears of a recession could induce more efforts from migrants to send resources back home.

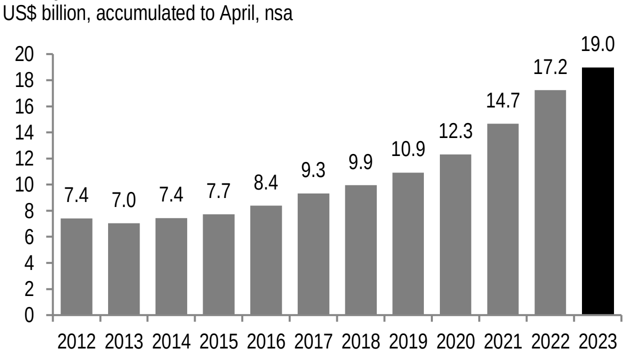
Partial sequential rebound. Seasonally adjusted, remittances went up by 1.2% m/m, which was not enough to reverse the 1.4% decline of the previous month. The adjusted amount did not surpass the historical high observed last December. As we warned recently, these figures suggest a relative stabilization in growth after rebounding strongly following the pandemic. This does not mean that they won't keep growing, especially as the US labor market has stayed very healthy. In this respect, nonfarm payrolls in the period were slightly above expectations with 253k new jobs, while the unemployment rate ticked down to 3.4%. More positively, the latter metric for Hispanics and Latinos fell to 4.4% from 4.6%. For Mexicans, the decline was larger, estimated at 4.0% from 5.2%. The breakdown also suggests positive dynamics. The working age population –including 'natives', 'non-native citizens', and 'non-citizens' (legal or illegal)– rose by 171.9k, consistent with seasonal patterns. In addition, employed persons picked up 265.5k to 17.8 million, with those unemployed down by 212.0k.

Family remittances
% y/y, nsa



Source: Banorte with data from Banxico

Family remittances
US$ billion, accumulated to April, nsa



Source: Banorte with data from Banxico

The US labor market has not yet shown a strong slowdown. We will evaluate closely May's nonfarm payrolls report in said country, which is slated for release tomorrow. We estimate 175 thousand new jobs, below last month's 253 thousand. Moreover, the unemployment rate could inch up, to 3.5% from 3.4%.

The result will be important, but other complementary indicators suggest that the Fed's intended slowdown of the labor market has been less than the one desired to impact aggregate demand and inflation. Among them, we highlight job openings (JOLTS) in April at 10.1 million, with data from previous months also revised higher. In this backdrop, 'jobs per unemployed person' inched higher to 1.79 from 1.67 previously; if this indicator increases, it points to a condition in which demand for employees tends to be higher than supply, which could push wages to the upside (and eventually, prices). These figures are relatively lagged, but they are seen as important to assess employment conditions.

On the contrary, the 'quits rate' reached 2.4%, lowest since February 2021. In addition, and on a broader sense consistent with some cool down, the Labor Market Conditions Index (LMCI) from the Kansas City Fed, released on May 9th, estimates that momentum in April fell and has been in negative territory during the last six months, adding up to the evidence that a moderation is in the cards.

Lastly, we note May's PMI indicators in the US. For manufacturing, they stated that employment growth remains solid, picking up at their fastest pace since July 2022. A greater ability to hire and candidate availability supported job creation. Hence, the expected moderation of the labor market may take more time to be manifest, with companies seizing the opportunity opened by better supply conditions. Services were similar, with the pace of job creation at a 10-month high.

To conclude, signals about employment and inflation in the US have been mixed, in turn influencing on Mexican migrants' capacity to send resources back home. Nevertheless, the balance of available indicators so far is skewed positively. Therefore, it is our take that remittances will remain strong at least in the short-term despite lingering uncertainty about a potential slowdown towards the second half of the year.

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