

Family remittances – Favorable seasonality props up flows even higher

- **Remittances (May):** US\$5,693.1 million; Banorte: US\$5,583.4mn; consensus: US\$5,425.0mn; (range: US\$5,153.0mn to US\$5,650.0mn) previous: US\$5,003.3mn
- **Inflows climbed 10.7% y/y, accelerating amid favorable conditions.** In this respect, accumulated resources in the last twelve months reached US\$60,804.7 million, a new historical high
- **Growth was helped by the average amount sent, standing at US\$391.17 (3.1%), back to positive after slowing down in April.** Meanwhile, the number of operations remained strong, coming in at 14.6 million (+7.4% y/y)
- **In sequential terms, flows grew 0.2% m/m, positive considering the +1.2% seen in the previous month.** The positive trend will likely continue, in our view supported by US economic and labor market resilience
- **We hold our call of strong remittances flows in the remainder of the year, with our view of a US deceleration –not a recession– supporting this.** However, we remain wary about the effects of a strong MXN over their purchasing power

Remittances grew further in May. The amount was US\$5,693.1 million, above the US\$5,425.0 million median forecast from analysts but closer to our estimate (US\$5,538.4 million). This print is typically high because of seasonal drivers, mainly Mother's Day. In any case, the annual print accelerated to 10.7% from 6.3% in April, with a marginally more favorable base effect. We believe the result helps clear some concerns about an upcoming deceleration, suggesting that the last month may have been more of a small bump than a trend change. In this sense, accumulated inflows in the last twelve months reached US\$60,804.7 million, a historical high once again.

In the US, the economy remained strong despite some uncertainty regarding the federal debt ceiling and a higher probability of a recession. In this context, *S&P Global's* PMIs suggested lower industrial dynamism, but an improvement in services. The latter was backed by hard data, with retail sales' control group up +0.3% m/m, while manufacturing output rose 0.1%. More favorable for migrants' employment, housing starts and building permits picked up substantially. On prices, inflation was in line with expectations (0.1% m/m), with the annual comparison moderating to 4.0%. In addition, employment remains strong, particularly for migrants (see section below), which we believe has been key for flows.

Rebound in the average amount sent. This metric increased to US\$391.17, which translates into a 3.1% y/y expansion. This is favorable considering that: (1) It returned to positive after -2.3% in April; and (2) it is the largest expansion so far in the year. Meanwhile, the number of operations stood at 14.6 million, above the 13.1 million of the previous month. The annual rate decelerated for a fourth consecutive time to 7.4%, lowest since last November.

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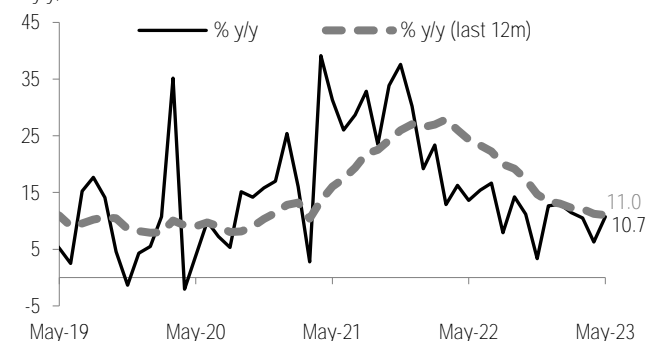


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We believe the uptick could be related to recent gains in terms of real disposable income, as inflation has declined while wages keep growing at a healthy pace. In addition, we cannot rule out a push to try and fend off recent MXN gains in a bid to preserve their purchasing power in domestic currency. However, we remain on the look to the number of operations, with its recent trend raising some flags over possible performance ahead.

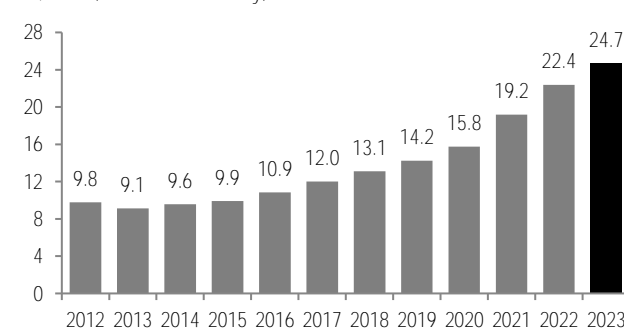
Sequential progress continues. Seasonally adjusted, remittances rose 0.2% m/m. This is favorable considering the +1.2% seen last month. In our view, the main driver continues to be US labor market conditions. In this sense, nonfarm payrolls were above expectations at 339k new jobs, even though the unemployment rate ticked up to 3.7%. More positively, the latter metric for Hispanics and Latinos fell to 3.6% from 4.0%. For Mexicans, the decline was even larger, estimated at 3.4% from 4.0%. The breakdown also suggests positive dynamics. The working age population –including ‘natives’, ‘non-native citizens’, and ‘non-citizens’ (legal or illegal)– rose by 326.6k, consistent with seasonal patterns. In addition, employed persons picked up 164.8k, reaching 18.0 million, with those unemployed down by 105.2k.

Family remittances
% y/y, nsa



Source: Banorte with data from Banxico

Family remittances
US\$ billion, accumulated to May, nsa



Source: Banorte with data from Banxico

We expect dynamism to continue in the short-term. We will watch June’s nonfarm payrolls in the US, to be released on Friday. Expectations are that job gains will continue, with a slight decline in the unemployment rate. This would validate other signals that point go strong labor market conditions, even despite increasing risks to the outlook –evidenced by rising recession expectations. Among the latter we note the recent trend in the weekly jobless claims, nonetheless, staying relatively low despite some distortions in several states (*e.g.* California, Connecticut, and New Jersey).

Looking further ahead, we hold our view that US economic activity will decelerate, with the effects of accumulated monetary tightening, along other headwinds, impacting dynamism. However, we still believe that a recession will be avoided, helping maintain stability in the labor market relative to a full-blown contraction. In turn, lower inflation –even with a slower-than-expected decline– should provide support to remittances in the remainder of the year.

Nevertheless, other factors could prove to be additional headwinds. Among them we highlight the recent introduction of a bill in the state of Florida that would impose additional restrictions to undocumented workers.

Some of the measures include penalties for companies hiring migrants and other roadblocks in terms of medical assistance. While Florida has a relatively low share of Mexican migrants –relative to other states such as California, Texas, Illinois, etc.– it is relevant because of the signal this sends, especially ahead of the 2024 elections.

Our view on flows remains favorable. Nevertheless, we are somewhat wary about the net effect of MXN strength during the last few months. When analyzing remittances in local currency, their trend looks much flatter. This could start having an impact on families' purchasing power. As such, it will be key to see if migrants send more resources back home –which we see as unlikely, but would help maintain consumption patterns steady domestically–, or the amount in local currency indeed slows down.

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