

Family remittances – Additional strength in flows in July

- **Remittances (July): US\$5,651.5 million; Banorte: US\$5,676.8mn; consensus: US\$5,561.5mn; (range: US\$5,530.0mn to US\$5,676.8mn) previous: US\$5,575.2 mn**
- **Inflows climbed 6.6% y/y, moderating once again on a more challenging base effect. As such, accumulated resources in the last twelve months reached US\$61,588.2 million**
- **Growth was supported by the number of operations, standing at 13.8 million (5.9% y/y). However, the average amount sent also provided some boost at US\$408.82 (0.6% y/y)**
- **In sequential terms, flows grew 1.5% m/m, adding four months higher. This further supports our positive view, with inflows backed by resilient job market conditions in the US**
- **We expect flows in the remainder of the year to remain strong on a more constructive view for the US economy. However, we will still remain on the look to the overall effects on consumption as MXN strength has dampened purchasing power domestically**

Remittances strengthened in July. The amount was US\$5,651.5 million, above the US\$5,561.5 million median forecast from analysts but closer to our estimate (US\$5,676.8 million). In our view, this is quite favorable considering that: (1) The figure tends to be relatively stable vs the previous month on similar seasonal patterns; and (2) it marks the second highest print ever in the historical series. Despite of this, the annual comparison fell to 6.6% from 8.4% in the previous month, noting a considerably more challenging base. As such, the result continues to support our view that flows are not just strong, but keep improving, remaining as a key driver for domestic consumption. In this sense, accumulated inflows in the last twelve months reached US\$61,588.2 million, a new high once again.

Regarding US economic activity, figures were encouraging. On hard data, retail sales' control group added a fourth month of expansion at 1.0% m/m –its second largest uptick in the year. Meanwhile, industrial production climbed 1.0%, with manufacturing up 0.5%, rather positive considering signs of stagnation in the sector. Relevant for migrant employment, housing starts and building permits rebounded, signaling that demand in the sector prevails, which could translate into additional job hirings. On prices, inflation came in line with expectations, albeit with the annual comparison accelerating to 3.2% as base effects start to become more challenging. Lastly, employment remains relatively strong, although with some volatility remaining across figures (see section below for details).

Operations remain as the key growth driver. This metric came in at 13.8 million, higher than the 13.7 million from June. As a result, the annual print moderated to 5.9% from 8.4%, still driving the expansion. The average amount sent came in at US\$408.82 (previous: US\$406.90), which implies an expansion of 0.6% y/y, back in positive territory and providing some additional boost.

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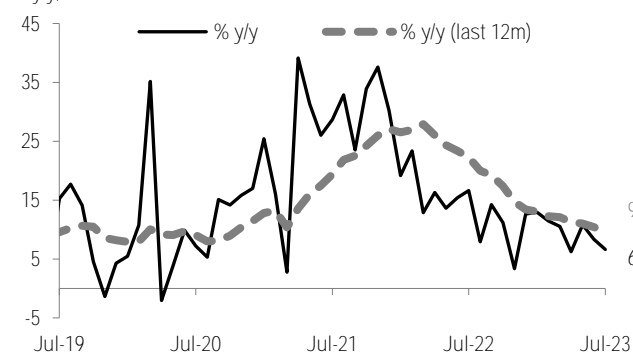


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In our view, these results further strengthen our view on flows, suggesting that positive conditions remain in place to drive gains ahead. In addition, we seem to be having more evidence that recent MXN gains may be pushing migrants to send more resources to their families back home. This, in order to fight back some of the losses in purchasing power when translated to local currency.

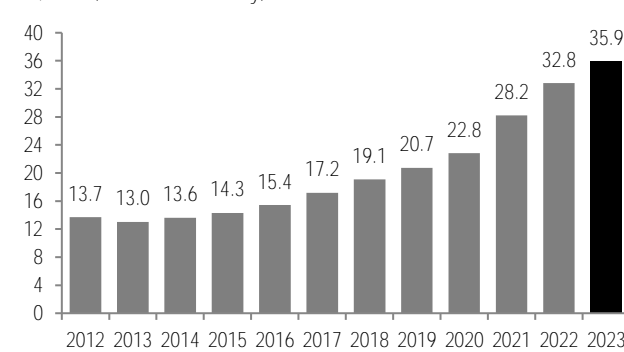
Sequential progress continues. Seasonally adjusted, remittances rose 1.5% m/m. This is favorable considering the accumulated expansion of the previous three months. In our view, stability in employment conditions keeps fostering flows. Nonfarm payrolls came in at 157k new jobs, with the unemployment rate ticking down to 3.5%. Regarding the relevant demographic group, the latter metric for Hispanics and Latinos climbed to 4.4% from 4.3%. Similar to the headline, for Mexicans it is estimated at 4.3% from 4.4%. In absolute terms, signs are also better. The working age population –including ‘natives’, ‘non-native citizens’, and ‘non-citizens’ (legal or illegal)– rose by 129.8k. In addition, employed persons picked up by 100.3k, with those unemployed up by just 2.9k.

Family remittances
% y/y, nsa



Source: Banorte with data from Banxico

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



Source: Banorte with data from Banxico

We expect remittances’ strength to continue, bolstered by a constructive view on the US economy. Going forward, we believe that flows will very likely maintain high dynamism, with favorable employment conditions in our northern neighbor being key. This is important in a backdrop in which expectations regarding a possible US recession have been delayed, with the scenario of a ‘soft landing’ gathering momentum. This optimism could translate into more stability regarding hirings and layoffs from companies, possibly opting to not cut jobs or, even better, extend their labor pool.

In this sense, today’s US employment report for August showed job gains of +187k, slightly better than expected, albeit with the unemployment climbing to 3.8% given an expansion in the participation rate. In addition, wages kept improving, which should also prove favorable for flows. We believe overall conditions remain rather favorable, even when other complementary indicators do suggest some labor market softening (e.g. JOLTS, jobless claims, etc.), especially considering the accumulated monetary tightening from the Fed in the last 17 months.

On more structural matters, we identify some factors that could be explaining the notable acceleration in flows in the last few years. Firstly, according to a report from *Goldman Sachs*, gains in the labor force after the pandemic have concentrated in migrant employment, with native workers growing only marginally. Moreover, we note recent efforts from the Department of Labor that try to improve migrant workers' knowledge regarding fair compensation and standard working conditions. On the latter, if these efforts have started to pay off, wages from this group could be growing at higher rates, improving their disposable income.

All in all, we believe remittances will remain as a key support for private consumption in Mexico. However, we are still cautious about the effect from MXN appreciation on disposable income, even when flows have kept growing.

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