

## Family remittances – Strong inflows in August despite some setbacks in key indicators

- Remittances (August): US\$5,563.3 million; Banorte: US\$5,563.2mn; previous: US\$5,651.5 mn
- Inflows climbed 8.6% y/y despite a challenging base effect. As such, accumulated resources in the last twelve months reached US\$62,027.7 million
- The number of operations was lower, standing at 13.8 million (+5.2% y/y). However, the average amount accelerated to US\$403.21 (+3.2% y/y)
- Sequentially, flows declined 1.8% m/m, although after gains in the previous four months. We believe that part of this was explained by the slight deterioration in US employment indicators for migrants
- We remain optimistic on remittances for the remainder of the year, with migrants continuing their efforts to send resources back home, despite some headwinds that are starting to materialize for the US economy

**Remittances remained strong in August.** The amount came in at US\$5,563.3 million, practically matching our forecast (US\$5,563.2 million). We believe the result remains supported by US labor market strength –with activity still resilient–, even despite a slight deterioration in monthly dynamics for Mexican migrants (see section below). In this context, we consider that this month's figures are quite positive. As such, the annual comparison increased to 8.6% from 6.6% despite a challenging base effect. In addition, the accumulated amount in the last twelve months reached US\$62,027.7 million, once again a historical high.

Regarding US economic activity, figures were mostly favorable. On hard data, retail sales' control group added a fifth month higher at 0.1% m/m. Meanwhile, industrial production climbed 0.4%, with manufacturing up 0.1%, building up on the previous month's gains. Relevant for migrant employment, housing starts and building permits were mixed, with possible base effects skewing figures as signs still suggest resilient demand, even when mortgage rates kept climbing. On prices, inflation came in line with expectations, albeit with the annual rate accelerating to 3.7% and with pressures across energy items as global supply is constrained. Lastly, aggregate employment remains resilient, despite a slight deterioration in indicators for migrants (see section below for details).

**Growth driven by both operations and the average amount sent.** The former metric came in at 13.8 million, an inch lower relative to July. As a result, the annual print moderated to 5.2% from 5.9%. The average amount sent came in at US\$403.21 (previous: US\$408.82), which implies +3.2% y/y, highest in three months. In our view, these results are consistent with strong inflows, suggesting that positive conditions remain broadly in place. However, we recognize increased risks going forward, with rising energy prices eating away some of the migrant families' disposable income, limiting the pool of resources which can be sent back.

**Sequential decline after four months of increases.** Seasonally adjusted, remittances fell 1.8% m/m. This is relatively favorable considering the accumulated expansion of the previous four months. On top of the more challenging base, migrant employment indicators posted a slight deterioration. As a reference, total nonfarm payrolls ticked up by 187k positions, with the unemployment rate climbing 30bps to 3.8%. For Hispanics and Latinos, the latter metric rose to 4.9% from 4.4%.

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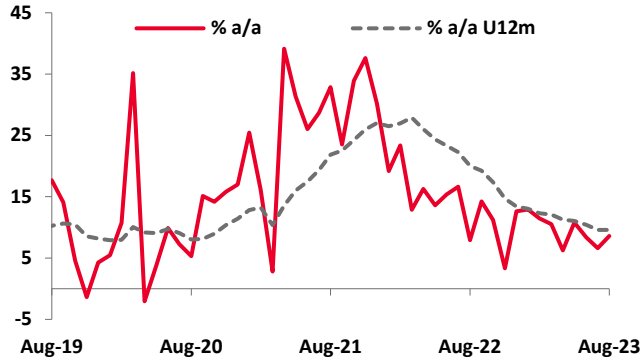


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On a more negative note, the rate for Mexican migrants rocketed to 5.1% from 4.3%. Explaining this, the working age population –including ‘natives’, ‘non-native citizens’, and ‘non-citizens’ (legal or illegal)– rose by 157.1k. However, employed persons declined by 155.6k, with those unemployed up by 145.9k.

#### Family remittances

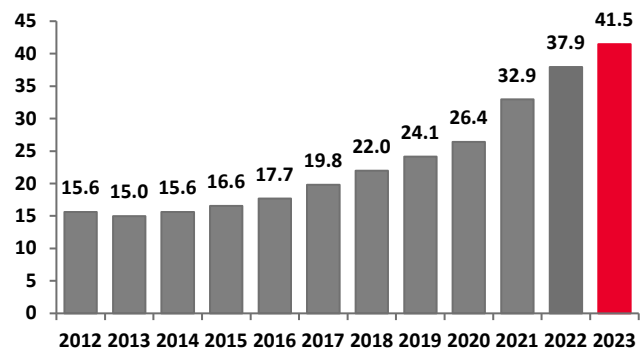
% y/y, nsa



Source: Banorte with data from Banxico

#### Family remittances

US\$ billion, accumulated to July, nsa



Source: Banorte with data from Banxico

**We maintain our optimism about remittances despite increasing headwinds.** Considering today’s results, we believe flows could total between US\$63,000 – 63,500 million for full-year 2023. Fundamentals behind remittances will likely stay resilient, chief among them employment. On short-term dynamics, we will look to September’s employment report –which will be released on Friday after a government shutdown was averted this weekend. We expect nonfarm payrolls to climb by 150k, with the unemployment rate moderating back down to 3.7%. Wages will likely keep climbing.

Nevertheless, we believe risks are climbing for the medium term. The skew for inflation is tilted to the upside, especially regarding energy, with signs of stickiness at the core. The latter, on top of higher mortgage rates –which are impacting household’s available income– represent relevant headwinds. In addition, we cannot rule out negative spillover effects from the auto sector strike, especially as it becomes more prolonged.

On more structural items, flows could start to be influenced in coming months by the US electoral season, especially as the 2024 presidential election comes into the spotlight. If preferences keep showing an advantage for Trump against other Republican candidates, we could see something similar to 2016, in which flows picked-up significantly as migrants became more risk averse.

All in all, we expect remittances to remain a key support for private consumption in Mexico. However, we are cautious about some headwinds that are becoming more relevant going into 2024.

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We, Alejandro Padilla Santana, Juan Carlos Alderete Macal, Alejandro Cervantes Llamas, Manuel Jiménez Zaldívar, Marissa Garza Ostos, Katia Celina Goya Ostos, Francisco José Flores Serrano, José Luis García Casales, Víctor Hugo Cortes Castro, José Itzamna Espitia Hernández, Carlos Hernández García, Leslie Thalia Orozco Vélez, Hugo Armando Gómez Solís, Yazmín Selene Pérez Enríquez, Cintia Gisela Nava Roa, Miguel Alejandro Calvo Domínguez, José De Jesús Ramírez Martínez, Gerardo Daniel Valle Trujillo, Luis Leopoldo López Salinas, Isaías Rodríguez Sobrino, Juan Carlos Mercado Garduño, Daniel Sebastián Sosa Aguilar, Jazmin Daniela Cuautencos Mora and Andrea Muñoz Sánchez, certify that the points of view expressed in this document are a faithful reflection of our personal opinion on the company (s) or firm (s) within this report, along with its affiliates and/or securities issued. Moreover, we also state that we have not received, nor receive, or will receive compensation other than that of Grupo Financiero Banorte S.A.B. of C.V for the provision of our services.

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