

## Remittances – Positive surprise in September, although lingering risks remain

- **Remittances (September):** US\$5,612.6 million; Banorte: US\$5,454.8mn; Consensus: US\$5,454.8mn (range: US\$5,160.0mn to US\$5,710.0mn); previous: US\$5,563.3mn
- **Inflows increased 11.4% y/y with a strong acceleration relative to August. As such, accumulated resources in the last twelve months reached US\$62,603.4 million**
- **The number of operations was higher, standing at 13.9 million (+9.1% y/y). On the other hand, the average amount was practically unchanged at US\$403.24 (+2.1% y/y)**
- **Sequentially, flows rose 5.4% m/m, more than compensating for August's -1.3%. A more favorable base effect and the decline of the unemployment rate for Hispanics in the US could be behind this improvement**
- **Flows in the next months will most likely remain strong, highlighting a positive seasonality. However, we cannot completely rule out a marginal moderation due to the possibility that some headwinds for the US economy could materialize**

**Remittances' strength continues.** The amount sent came in at US\$5,612.6 million, above our estimate and consensus which coincided at US\$5,454.8 million. This result is quite positive considering the period's seasonality, which is characterized by a moderation in flows relative to the previous month. In this sense, remittances would have been favored by a strong US labor market –including a lower unemployment rate for the relevant population (see section below). Thus, in the annual comparison they increased by 11.4% from 8.6% in August. In addition, the accumulated amount in the last twelve months reached US\$62,603.4 million.

Regarding US economic activity, data on services and industry were positive. On the first, retail sales' control group once again surprised to the upside, climbing 0.6% m/m. Industrial production rose 0.3%, with manufacturing up +0.4%, benefitted by the auto sector and despite the autoworkers strike that began in the middle of the month. Relevant for migrant employment, housing starts and building permits were mixed once again, in a context in which housing prices and mortgage rates remain high. On prices, inflation was slightly higher than expected, with pressures on energy and some services. Thus, the annual rate remained at 3.7%. Finally, employment was quite favorable, also seen in the equivalent metrics for migrants (see section below for details).

**Growth driven by operations, with the average amount sent relatively stable.** The former reached 13.9 million, up from 13.8 million in August. As a result, the annual print accelerated to 9.1% from 5.2%. Meanwhile, the average amount sent stood at US\$403.24 (previous: US\$403.21), climbing 2.1% y/y (previous: 3.2%). In our view, these results are consistent with strong inflows, suggesting that positive conditions remain broadly in place. However, we do recognize some risks going forward for migrant families' disposable income, which could limit the pool of resources that can be sent back.

**Sequential rebound.** Seasonally adjusted, remittances expanded 5.4% m/m, resuming the positive trend seen before August (with a 1.3% m/m decline). We noted an overall improvement in employment conditions, but more so for migrants. As a reference, nonfarm payrolls picked up by +336 thousand positions, with the unemployment rate stable at 3.8%. For Hispanics and Latinos, this indicator declined to 4.6% from 4.9%.

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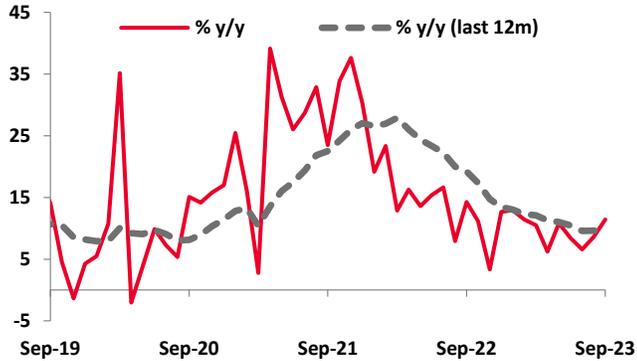


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Specifically, the rate for Mexican migrants plunged to 4.3% from 5.1%. Explaining this, the working age population –including ‘natives’, ‘non-native citizens’, and ‘non-citizens’ (legal or illegal)– rose by 226.9k. However, employed persons expanded by 357.4k, with those unemployed down by 147.3k.

**Family remittances**

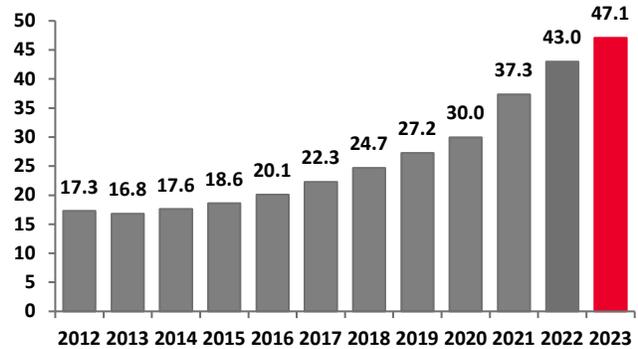
% y/y, nsa



Source: Banorte with data from Banxico

**Family remittances**

US\$ billion, accumulated to September, nsa



Source: Banorte with data from Banxico

**Favorable seasonality in coming months, albeit looking out for possible impacts from other cyclical factors.** We believe that the positive trend will continue for the remainder of the year. Thus, we adjust our forecast slightly to the upside, anticipating flows between US\$63,750 to 64,250 million. In this sense, US activity keeps showing positive signs, which is broadly encouraging for remittances’ fundamentals, highlighting migrants’ employment and wages. However, their dynamism and/or resilience could be at risk due to: (1) The lagged effects of monetary tightening, especially its impact on the labor market; and (2) the possibility of a rebound in inflationary pressures, with uncertainty about energy prices in the short-term. Another point to consider, although to a lesser extent, includes the indirect effects of the autoworkers’ strike. Although this sector is not characterized as a major employer of migrants, the impact in some cities due to lower spending from striking workers would be an additional headwind.

More relevantly, we remain focused on construction. According to research by the Dallas Fed, key variables in this sector, such as the number of jobs and wages, have a statistically significant influence in the performance of remittances sent to our country. Therefore, we cannot rule out a moderation in flows as there are important challenges in the sector (such as high interest rates and a reduction in mortgage applications). Regarding the effects of the recent MXN depreciation, we highlight that it increases local purchasing power at the margin. However, we are doubtful about the net effect on the amount sent, considering that migrants could choose to send more resources to take advantage of higher purchasing power, or in turn reduce them and leave the latter unchanged. Finally, we believe there may be a boost triggered by Hurricane Otis, considering that Guerrero is the eighth state that receives most remittances in the country (using the accumulated flow of the last twelve months).

For 2024, we will be focused on at least three factors: (1) The evolution of the US monetary cycle, its impact on activity and employment conditions; (2) the level of the Mexican peso; and (3) policy proposals on migration ahead of the US presidential election.

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We, Alejandro Padilla Santana, Juan Carlos Alderete Macal, Alejandro Cervantes Llamas, Manuel Jiménez Zaldivar, 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, Paula Lozoya Valadez, 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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