# Family remittances – Gathering pace in February, albeit before the COVID-19 shock

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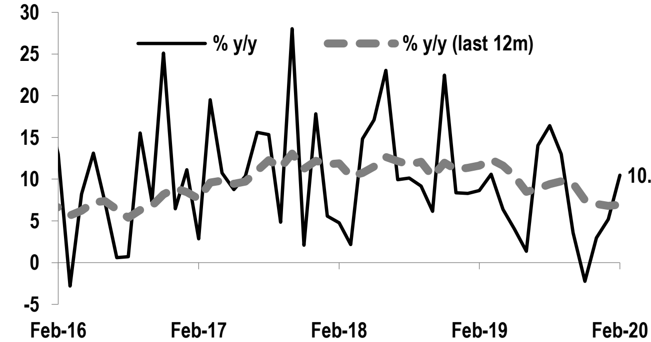
- **Remittances (February): US$2,694.2mn; Banorte: US$2,636.1mn; consensus: US$2,683.8mn; (range: US$2,636 to US$2,758mn) previous: US$2,582.8mn**
- **Remittances advanced 10.5% y/y, gathering pace when compared to the previous month, at 5.2% and strongest since September 2019**
- **This was mainly driven by the 7.2% y/y uptick in the number of operations, with the average amount sent broadly unchanged at US$ 320.55 (3.0% y/y)**
- **The outlook for remittances has worsened as employment conditions in the US have deteriorated markedly, signaling a likely hit to inflows in coming months. We believe risks are skewed to the downside, and are ultimately dependent on the evolution of the Coronavirus along policy measures implemented to address them**

**Remittances stayed resilient in February.** The amount sent to our country stood at US$2,694.2 million, higher than our forecast at US$2,636.1 million. The annual growth rate accelerated relative to the previous month, standing at 10.5%, which is positive as it signals resiliency in inflows. This performance came even with a similar base-of-comparison effect relative to January. It is worth remembering that the absolute amount during the month is seasonally weak, typically gathering pace more markedly in March. Nevertheless, employment and economic conditions in the US, country from which most of the inflows come from, have deteriorated strongly due to the COVID-19 outbreak. In this respect, initial jobless claims surged to a record high of 3.28 million for the week ending March 21 as the economy grind to a halt to fight the epidemic. This would come on top of other signals that suggested a relatively weak backdrop already. Specifically, employment for non-native migrants 'with citizenship' and 'without citizenship' has contracted, hovering near multi-year lows. On the contrary 'natives' improved.

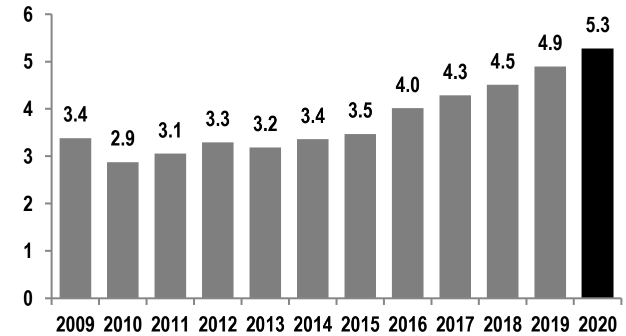


**Family remittances**
% y/y




Source: Banxico

**Family remittances**
US$ billion, year-to-date until February




Source: Banxico

**The acceleration in inflows was driven by a higher number of operations.** Specifically, these increased to 8.4 million, gathering pace to a 7.2% y/y advance, highest since September. This strength is positive taking into account that employment conditions of non-native migrants in the US have deteriorated, as stated above. On the other hand, the average amount sent was broadly unchanged relative to January, standing at US$320.55 (+3.0% y/y vs. 2.9% in the previous month). Results for the month would be consistent with average wages broadly stable, helped by still positive gains in terms of total employment levels, most likely on the back of 'natives' as these cohort is not affected by more stringent migratory measures by the US administration.

**Risks for a decline in remittances have increased meaningfully.** Today's report suggests that inflows were quite resilient at the start of the year, growing despite the deterioration of labor market conditions among some groups of Mexican migrants in the US. Nevertheless, the US economy (and the world) has been hit hard by the COVID-19 outbreak, a situation that is likely to affect even more those vulnerable groups, which have less benefits in terms of employment conditions (*e.g.* work suspension without pay). In this respect, it should be mentioned also that the US agreed with Mexico restrictions on non-essential travel by foot across the border. These measures, which started on March 21st, will be in place at least until April 20th. On a more positive note and according to the US embassy in Mexico, workers such as those in the agricultural sector, can still travel. Despite of the latter, it is our take that the impact will be sizable and will likely start to show in data as soon as next month.

This is relevant as remittances have historically been an important support for consumption growth in Mexico, particularly for families in the low end of the income distribution. This comes on top of high uncertainty about the impact that more stringent social distancing measures in our country will have on domestic employment, including for those in the informal sector, along with higher health-care risks. Overall, this suggests a very challenging outlook for consumption, which had already weakened significantly in 2019. This is only one among several reasons why we expect a contraction of 3.5% in GDP this year, with domestic conditions deteriorating rapidly in a very difficult global context, along risks that remain skewed to the downside and ultimately dependent on the evolution of the virus and policy measures implemented to address them.

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