

Family remittances – Slight contraction on worsening employment conditions in the US

- **Remittances (April): US\$2,861.4mn; Banorte: US\$3,139.7mn; consensus: US\$2,620.5mn; (range: US\$2,043 to US\$3,246mn) previous: US\$4,007.0mn**
- **Inflows fell 2.6% y/y after the strong 35.5% expansion in March. In our view, this was likely payback from recent strength along worsening employment conditions in the US. Nevertheless, we believe the result was still positive**
- **This contraction was mainly driven by the number of operations, down 4.7% y/y. Nevertheless, they were partially offset by a higher average amount sent, up 2.2% to US\$329.28. In our view, this may have been supported by the positive impact from fiscal stimulus in the US**
- **We continue expecting remittances to be pressured in coming months on the impact of the pandemic in economic activity, particularly in the US. Nevertheless, recent data suggests upward risks to our estimate of a decline of around 20% in full-year 2020, which would be positive for the consumption outlook**

Remittances decelerate in April. The amount sent to our country stood at US\$2,861.4 million, lower than our estimate of US\$3,193.7 million, which was above consensus at US\$2,620.5 million. In annual terms, inflows fell 2.6% y/y (see chart below, left) after surging 35.5% in the previous month, with a new historical high in absolute terms. Therefore, the decline is not very surprising, in our view partly influenced by migrants' renewed efforts to send additional resources to their families to cope with the impact from the pandemic. However, and possibly having a greater impact, we note that employment conditions have deteriorated in the US, likely having also a direct effect on incomes. Specifically, Mexican migrants lost almost 3 million jobs in the month. Among them, 'natives' –people with Mexican parents born in the US– saw a decline of 1.8 million, 'non-native citizens' fell by 202k and 'non-citizens' –where illegal migrants are accounted for– saw a decline of 911k.

On the contrary, we believe the result was not as worse as some market participants expected due to strong fiscal stimulus in the US, particularly supporting the average amount sent (see below). It is worth remembering that one-time direct transfers to permanent residents with an annual income below US\$75,000 started to reach families in mid-April. In our view, these may have helped some of the abovementioned groups, particularly among 'natives'. Moreover, some support could have come from the strong depreciation of the MXN in the period, trading at 24.27 per dollar on average in the month, as their purchasing power increases in local currency terms. Lastly, we do not rule out migrants to have maintained their extraordinary efforts to save more and help their families, even after discounting for more difficult conditions worldwide and in the US, although data on this potential driver is not available.

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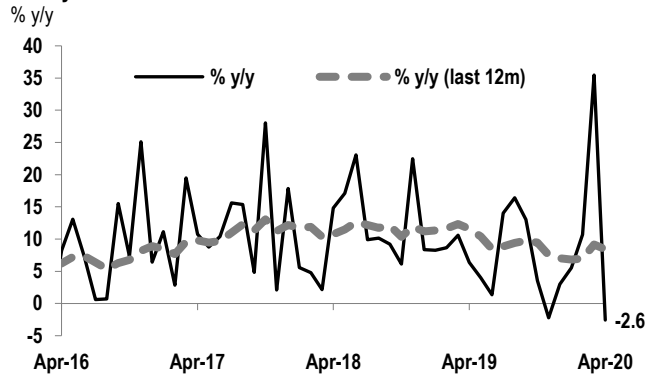
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Winners of the award for best economic forecasters for Mexico in 2019, granted by *Refinitiv*



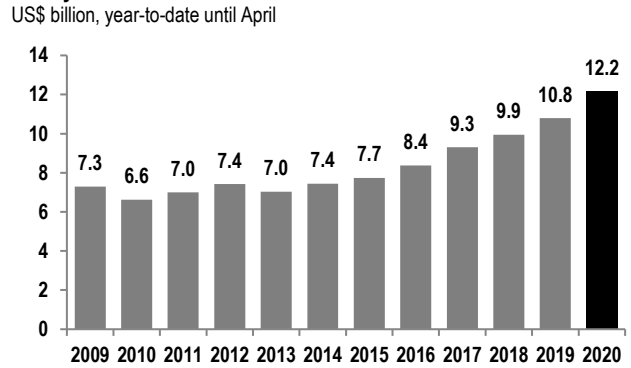
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Family remittances



Source: Banxico

Family remittances



Source: Banxico

A decrease in the number of operations with a slight pick-up in the average amount sent. Specifically, the former stood at 8.7 million, which represents a decline both relative to the previous month (at 10.6 million operations), and to the previous year (-4.7%). We believe this is more related to employment data, as there were fewer people with a job during the period. Nevertheless, it was partially compensated by the yearly increase in the average amount sent, picking up 2.2% to US\$329.28. While this was also a decrease relative to the US\$377.46 from March, we think relative resiliency was explained by government transfers, as explained above. Overall, worse employment conditions on top of efforts made during the previous month to boost flows probably resulted in the month-over-month deceleration.

Positive report that increases upside risks to our full-year estimate. Despite the moderation observed today and that the flow of remittances was below our forecast, results so far have been better than expected, specifically in March and April. In this context, it is our take that upside risks to our forecast of a 20% y/y contraction in full-year 2020 have increased, which would be positive for domestic consumption in Mexico. Nevertheless, we still believe an outright contraction is in store and will be clearer in coming months, as the effect of lower employment among migrants in the US builds up. In this respect, we will analyze closely May's nonfarm payrolls report, to be released next Friday, and in which we anticipate with a loss of 10 million jobs (consensus: -8 million) and the unemployment rate increasing to 18.5%. In particular, we will see the number of losses among the Hispanic population, which was among the most affected last month as a result of the pandemic and that we believe will remain the case. In our view, this will have a stronger impact in coming months, also taking into account that the economy is likely to recover only gradually given high levels of uncertainty, a situation that has probably increased the desire to save by consumers, also affecting aggregate demand in that country.

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We, Gabriel Casillas Olvera, Alejandro Padilla Santana, Delia María Paredes Mier, Juan Carlos Alderete Macal, Manuel Jiménez Zaldívar, Marissa Garza Ostos, Tania Abdul Massih Jacobo, Francisco José Flores Serrano, Katia Celina Goya Ostos, Santiago Leal Singer, José Itzamna Espitia Hernández, Valentín III Mendoza Balderas, Víctor Hugo Cortes Castro, Hugo Armando Gómez Solís, Miguel Alejandro Calvo Domínguez, Luis Leopoldo López Salinas, Leslie Thalía Orozco Vélez, Gerardo Daniel Valle Trujillo and Eridani Ruibal Ortega, 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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