

Family remittances – Inflows kept on surprising positively in May

- **Remittances (May): US\$3,379.4 million; Banorte: US\$2,902.9mn; consensus: US\$3,000.0mn; (range: US\$2,600 to US\$3,508mn) previous: US\$2,861.4mn**
- **This figure is significantly higher than the previous month, remembering that it is benefitted by a seasonal-effect due to *Mother's Day* as well as some temporary work programs for immigrants in the US**
- **Moreover, today's print surprised us on the upside. Specifically, the annual comparison was positive at 3.0%, higher than the -2.6% of the previous month. This was observed despite a weak US labor market, with underlying data suggesting a more challenging scenario**
- **This advance was mainly driven by the number of operations, up 4.0% y/y. On the other hand, this was partially offset by the decline of 1.0% in the average amount sent, to US\$319.13, lowest in little over a year**
- **We still think remittances will moderate on deteriorated labor conditions for Mexican migrants in the US, along higher risks of a second wave of contagion**
- **Nevertheless, and based on recent surprises, we increase our full-year estimate to US\$ 35.5 to 36.5 billion, broadly flat relative to 2019 instead of an expected contraction close to 20% y/y previously**

Remittances remained resilient in May. The amount sent to our country stood at US\$3,379.4 million, significantly above our estimate of US\$2,902.9 million, which was below consensus at US\$3,000.0 million. It should be noted that this period is seasonally very favorable, remembering that there is a boost both by the *Mother's Day* holiday, as well as from temporary employment programs in the US. Nevertheless, and even accounting for this, flows were quite positive also in annual terms as they grew 3.0% (chart below, left) after the 2.6% contraction of the previous month. The result was also contrary to our expectations of a decline, which was supported by the fact that employment conditions in the US remained very weak. In this respect, we highlight that the unemployment rate for the Hispanic or Latino population in the US –according to the household survey conducted by the *BLS*– stood at 17.6%, only below the 18.9% of previous month. Specifically, the total number of both direct and indirect Mexican migrants (included or not in the labor force) fell by 372,828 people in the period, extending the loss of 466,491 observed in April. As a result, this group's total population reached 25.8 million, minimum since June'18. Although total employees –including 'natives', 'non-native citizens' and 'non-citizens'– picked up sequentially, we note the last group extended net losses. This is important as we believe this subgroup is the most likely to send remittances. Therefore, and in hindsight, there was still some support from stimulus programs in the US, including one-time direct transfer payments to permanent residents earning up to US\$75,000 a year, as well as expanded unemployment benefits. Finally, the exchange rate remained high at USD/MXN23.42 on average, although below the 24.27 of April. Nevertheless, and as we have mentioned previously, we believe that, given the circumstances, the effect from the latter is marginal.

July 1, 2020

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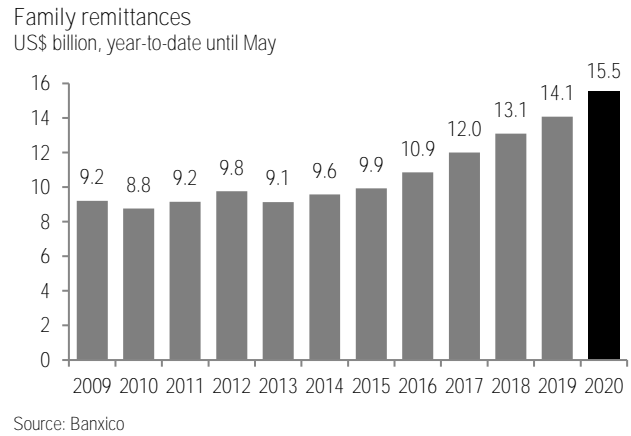
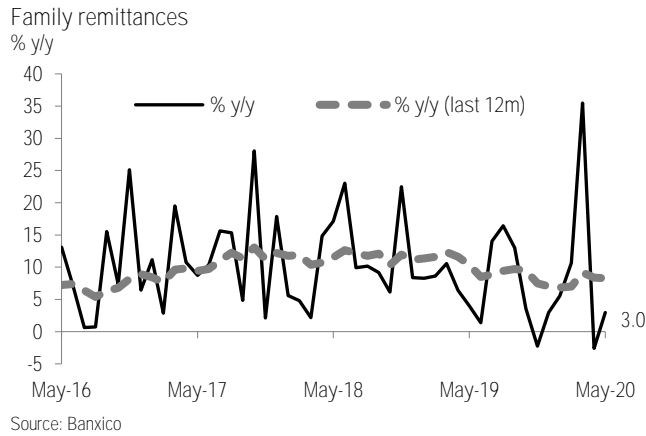
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Winners of the award for best economic forecasters for Mexico in 2019, granted by *Refinitiv*



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Higher number of operations drive remittances higher. Specifically, these stood at 10.6 million, accelerating relative to the 8.7 million observed in April and up 4.0% y/y. We should mention that the latter contrasts with data mentioned above that the total number of Mexican migrants has fallen in recent months and total employment has contracted heavily in the annual comparison. In this sense, we think one possibility is that, given more challenging economic conditions, migrants still in the US are sending money with higher frequency but in a lower amount per operation. This would be consistent also with a lower average amount sent, which declined 1.0% y/y at US\$319.13. We should mention that the latter is the lowest since February 2019 in nominal terms.

We modify our full-year remittances forecast higher. Considering not only today's results, but also those from the previous two months, we increase our full-year estimate for remittances. Specifically, we now expect inflows in 2020 basically flat to slightly negative when compared to 2019 (previous: -20.0% y/y), reaching about US\$35.5 to 36.5 billion. This would be positive for consumption –boosted further in local currency terms due to the depreciation in the Mexican peso so far– and an important support for total household incomes. We warn that, despite their resiliency so far, we continue gathering evidence that suggests that a meaningful deceleration is more likely in coming months. First, employment conditions in the US have deteriorated substantially despite improving at the margin in May and with the possibility of an additional uptick in the NFP report in June (to be published tomorrow, Banorte: +4.0 million, consensus: +3.1 million). Second, concerns about a possible second wave of contagion in the US have increased, with additional states backtracking on reopening measures, possibly dampening a more significant recovery in employment. In this sense, we believe a substantial rebound might not be observed until uncertainty starts to fall more clearly. On the contrary, one factor that we may have been underestimating is the magnitude of the efforts made by migrants to continue supporting their families, possibly jeopardizing themselves to keep sending dollars back home.

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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, Eridani Ruibal Ortega and Juan Barbier Arizmendi, 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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