Family remittances – Slight deceleration on lower benefits to migrants in the US

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- **Remittances (August): US$3,574.2 million; Banorte: US$3,508.2mn; consensus: US$3,546.4mn; (range: US$3,365 to US$3,641mn) previous: US$3,531.9mn**
- **Inflows grew 5.3%, decelerating for a second consecutive month. In our view, this slowdown suggests that the expiration of some federal unemployment benefits in the US may have had some negative effects, albeit with total flow still being very favorable**
- **The advance remains driven mainly by the number of operations, which increased 5.3% y/y. The average amount sent stood at US$343.42, practically unchanged relative to both the previous month and to the same period of 2019**
- **Given today's results and dynamics observed during the more difficult phase of the pandemic for the economy, among other factors, we revise upwards our full-year 2020 forecast, to about US$39 billion from US$36 billion previously**

Remittances kept growing in August. The amount sent to our country stood at US$3,574.2 million, lower than both consensus (US$3,546.4 million), and our estimate (US$3,508.2 million). This represents a 5.3% y/y advance, decelerating for a second consecutive month. The fact that inflows keep growing is positive. On the other hand, it is our take that a considerable part of the deceleration was likely because of the end (at the end of July) of the additional US$600 weekly payment in expanded unemployment benefits under the CARES Act in the US. Although President Trump signed a temporary extension of US$300 a week on August 8th, its implementation was rocky, with some of the first states receiving resources only by the mid and even latter part of the month. Given that additional fiscal stimulus has not been approved yet, coupled with signals of a low probability that this will happen before the presidential election, we think a more meaningful slowdown in inflows may be in the making.

On the contrary, employment conditions in the US have improved further. Specifically, the unemployment rate among Hispanics and Latinos decreased to 10.5% from 12.9% in July. In addition, working-age Mexican immigrants –including 'natives', 'non-native citizens', and 'non-citizens' (legal or illegal)–, either in the labor force or not, increased by 489,547 people, nearing the levels observed before COVID-19. Employment improved for these three groups, up 668,307 in the month, with gains focused on 'natives' and 'non-citizens'. This is positive as we believe the latter group tends to send more resources back. With these, employment for the combined three groups remains 1.7 million positions lower than in February, still suggesting a complicated situation.

Considering both factors –arguably influencing the flow of resources in different directions– it is our take that migrants will manage to continue sending money to their families, although highly likely that at a more modest pace than in the 1H20.

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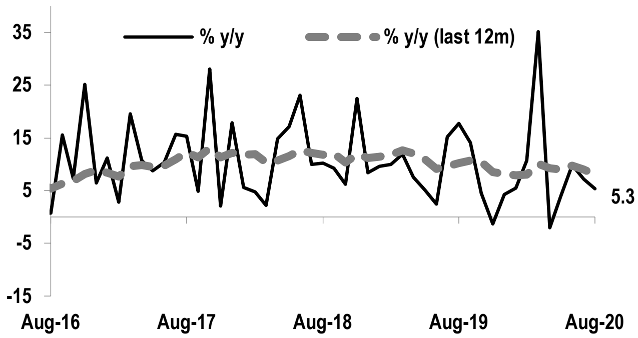
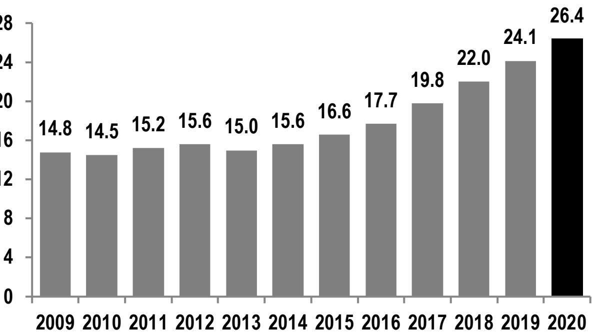
Family remittances
% y/y



Source: Banxico

Family remittances
US$ billion, year-to-date until August



Source: Banxico

Number of operations supporting inflows. As has been the case in recent months, these were behind the relative strength of the headline figure. Specifically, these stood at 10.4 million, up 5.3% y/y and with four consecutive months in positive territory. On the other hand, the average amount sent was virtually unchanged relative to both the previous month, and August 2019, at US$343.42. Considering the persistence of challenging conditions, we still believe migrants are favoring a higher frequency of deliveries, although at slightly lower amounts, therefore, possibly easing pressures on available resources domestically.

We revise upwards our full-year estimate of remittances to US$39 billion. This figure is 8.3% above our previous forecast of inflows reaching about US$36 billion, implying growth for the full period despite a sizable expected contraction for economic activity. There are several drivers behind our vision. First and foremost, performance so far in 2020 has been significantly stronger than expected, especially during the most pressing months in terms of social-distancing measures in the US (from March until May), which is the main source of these resources. Second, employment levels among Mexican migrants have also shown a steeper-than-expected recovery. Third, we believe states and the federal government in said country will not impose again restrictions as harsh as those at the start of the pandemic, which should help migrants the most given the relatively high share of workers in the services industry. Fourth, fears about deportation should remain high, without ruling out that this prompts additional efforts than those already made to send resources back, particularly as the US election approaches. Fifth, the purchasing power of these monies is likely to remain significantly higher when compared to the same period a year ago, as we estimate that the Mexican peso will not recover accumulated losses.

On the contrary, we do not see more fiscal stimulus in the US for the rest of this year, which could be a headwind for performance, particularly in 4Q20. Moreover, fears about an acceleration of infections have been rising on recent dynamics and as the winter season approaches. In this respect, our base case assumes that the widespread availability of a vaccine will not materialize at least for the remainder of 2020. Hence, new restrictions that hurt the pace of the recovery in the US –and therefore, employment– cannot be completely ruled out.

Despite of the latter, higher remittances should be positive for Mexico's consumption, which we currently estimate that will recover only gradually and with a full-year contraction of -10.4%. As detailed in other documents, we think risks to our -9.8% GDP forecast are broadly balanced, although an even stronger upside surprise than already seen in remittances would insert some risks in the same direction for overall levels of activity.

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