

Family remittances – Inflows accelerate due to an improvement in employment conditions

- **Remittances (September): US\$3,568.5 million; Banorte: US\$3,468.6mn; consensus: US\$3,447.0mn; (range: US\$3,290 to US\$3,579mn) previous: US\$3,574.2mn**
- **Inflows grew 15.1% y/y, its largest expansion since last March. In our opinion, this figure seems to be driven by an improvement in employment conditions in the US, even despite the expiration of some benefits as part of fiscal stimulus**
- **The advance was driven both by number of operations (+8.9% y/y) as well as a higher average remittance (+5.7% y/y), coming in at US\$346.38**
- **We maintain our estimate of a total inflow in 2020 of around US\$39 billion, recognizing some upward risks due to higher dynamism than expected, although with uncertainty still from the pandemic**

Remittances kept growing in August. The amount sent to our country stood at US\$3,568.5 million, higher than both consensus (US\$3,447.0 million), and our estimate (US\$3,468.6 million). This represents a 15.1% y/y advance, accelerating in an important manner and at its highest since last March. This result is very positive, supporting consumption in Mexico, especially that of some of the most vulnerable groups. We believe dynamism in the month was explained by an additional improvement in employment conditions in the US. Specifically, the unemployment rate among Hispanics and Latinos fell by 20bps to 10.3%. Focusing on working-age Mexican immigrants –including ‘natives’, ‘non-native citizens’, and ‘non-citizens’ (legal or illegal)–, total employment rose by 147.8 thousand. Inside, losses were observed in the first two groups, with the third one concentrating gains of 402.6 thousand jobs. This is relevant as we consider this cohort is more likely to send remittances to our country as they may have closer ties with their families in Mexico. Regarding other news, a judge blocked increases in immigration fees, which could have been beneficial for those looking for a citizenship as they might have freed up resources and sent back to their families. Meanwhile, we do not rule out an additional boost to flows due to the anti-immigration rhetoric from President Trump, especially the proximity to Election Day.

Nevertheless, this might have been dampened in part by the expiration of the weekly payment of US\$600 as part of expanded unemployment benefits in late July. Part of our expectation about the result of the previous month is that the effect of this was modest, with the expectation that it would eventually resume. Nevertheless, given that it remained suspended, we believe the impact in this month could have been more significant.

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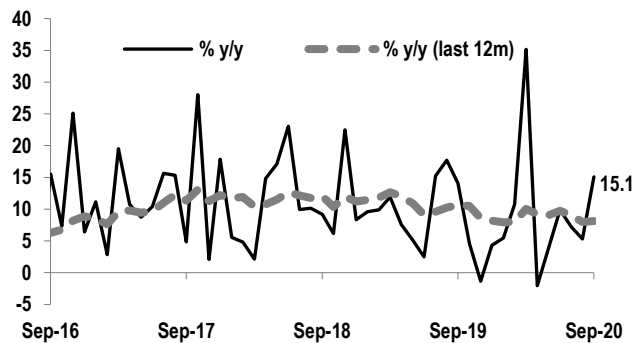
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Winners of the award for best economic forecasters for Mexico in 2019, granted by *Refinitiv*



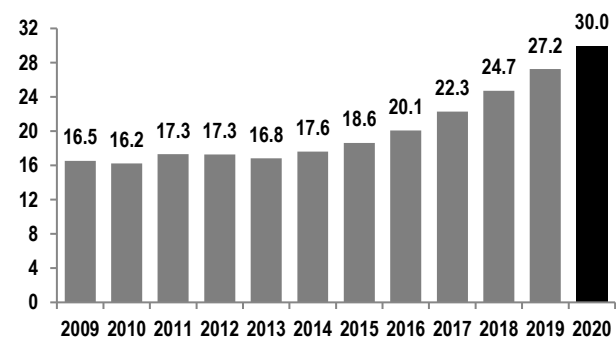
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Family remittances
% y/y



Source: Banxico

Family remittances
US\$ billion, year-to-date until September



Source: Banxico

A higher number of operations and average amount drive the annual increase. Once again, the increase in total operations was the main support behind the increase in the headline figure, nevertheless, in this occasion there was an additional boost from the average amount. Specifically, the former stood at 10.3 million, with the annual comparison in +8.9% and adding five months in positive territory. Meanwhile, the latter came in at US\$346.38, increasing both sequentially (vs. US\$343.42 in August), as well as relative to the same month of the previous year at +5.7%. It seems that some of the abovementioned factors may be resulting in the normalization of differences between the frequency of deliveries and the amount. Although this could induce some pressures regarding the timeliness of dispersions locally, we think that the advance in the total amount, not taking into account the manner, is favorable.

We continue to expect a good performance from remittances in the remainder of the year. Although we maintain our estimate of a total inflow in the year around US\$39 billion, monthly results have been mostly above our expectations, leading us to believe that risks might be tilted to the upside. In this context, the year-to-date figure so far stands at US\$30 billion. Specifically, the recovery of both the economy, as well as employment among Mexican migrants has been better than expected, being key for this to keep sending resources to their families. In addition, we believe that migrants are making an unprecedented effort to keep supporting their families back in our country, which will probably remain even if conditions become more challenging. In this sense, epidemiological indicators have shown an acceleration in daily cases, which has resulted in the implementation of social distancing measures in some cities and states. Although this could have an adverse impact once again in employment conditions, we think that measures taken will be more moderate, which might mitigate the shock. In addition, we will be looking into the result of today's election in the US, given that it will have implications over the possibility of additional fiscal stimulus and other types of support, which will undoubtedly impact remittances. In this context we still maintain that remittances have been and will continue to be key drivers for private consumption in our country, reaffirming our forecast of a 10.2% y/y contraction in this component of aggregate demand in 2020 as part of our -9.0% full year estimate for 2020.

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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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