

Family remittances – Likely to surpass US\$40 billion in full-year 2020

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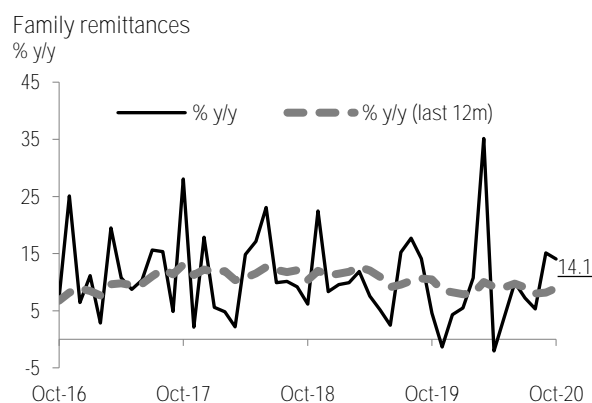
- **Remittances (October): US\$3,598.3 million; Banorte: US\$3,797.6mn; consensus: US\$3,510.0mn; (range: US\$3,312 to US\$3,798mn) previous: US\$3,568.5mn**
- **Inflows grew at a double-digit pace for a second consecutive month, at 14.1% y/y. Although this was explained partially by a more benign base effect, we believe the print is broadly positive, supported by an additional improvement in employment conditions in the US**
- **In this respect, the number of operations increased 7.6% y/y while the average remittance remains healthy (+6.0% y/y), albeit declining at the margin, to US\$340.97**
- **We adjust our full-year estimate higher again, to around US\$ 40.4 from 39.0 billion previously, even after considering some risks ahead**

Remittances remain on high gear in October. The amount sent to our country stood at US\$3,598.3 million, relatively close to consensus (US\$3,510.0 million) but below our estimate of US\$3,797.6 million. Despite of the latter and a more benign base effect when compared to September, the figure grew at a double-digit pace for a second consecutive time, at 14.1% y/y. In this respect, we keep seeing remittances outperform, which is positive for the outlook of consumption in our country. As has been the case in recent months, we believe this strength was mainly supported by better employment conditions in the US, with the unemployment rate among Hispanics and Latinos at 8.8%, 1.5%-pts below September. Among working-age Mexican migrants, population rose by 174.8 thousand, with a net job creation of 546.2 thousand –including ‘natives’, ‘non-native citizens’, and ‘non-citizens’ (legal or illegal)–. Gains were centered in the first (+427.8 thousand) and third groups (+201.6 thousand), with a slight decrease in the second (-83.1 thousand). In addition, we do not rule out that inflows benefitted from uncertainty related to the US presidential election, although likely modest. On the contrary, they may have been somewhat dissuaded by the slight appreciation of the Mexican peso against the US dollar, from USD/MXN 21.68 to 21.27. Nevertheless, and as mentioned previously this year, this factor is likely less relevant in their decision-making process, given the current backdrop.

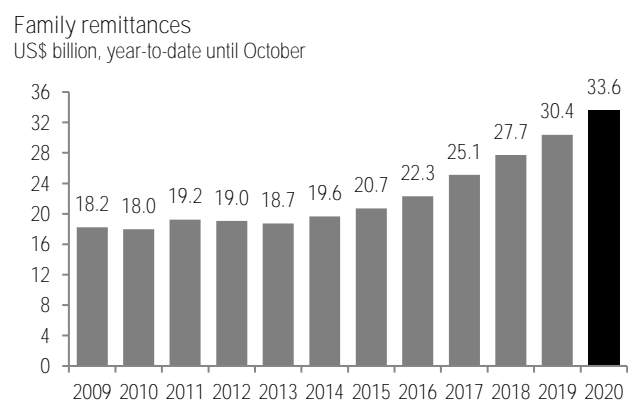
Winners of the award for best economic forecasters for Mexico in 2019, granted by *Refinitiv*



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Source: Banxico



Source: Banxico

Number of operations stays more dynamic than the average amount sent. As has been the case since last June, total operations (7.6% y/y) were the main driver of growth. These reached 10.5 million, closer to the historical high of 10.7 million transactions observed in May. In our view, this could mainly be related to employment gains in the US, as mentioned above, with more individuals having the possibility of sending money. On the other hand, the average amount reached US\$340.97, declining in absolute terms although remaining stable and also with a favorable result (6.0%). We think that recent stability in this metric suggests migrants maintain their extraordinary efforts to send as much resources as they can, in a still complicated environment because of the pandemic.

We adjust our full-year estimate higher again given recent performance, albeit labor market dynamics in the US will be key. Today's report keeps showing good results for remittances despite printing below our call. In this respect, we adjust our full-year estimate higher again, with a total estimated flow of around US\$40.4 from 39.0 billion previously. This new forecast implies that remittances during the last two months of the year would need to grow at least 13.1% y/y, slightly higher than the 10.4% accumulated so far this year. This would be quite positive as it would market the first time that the US\$ 40 billion barrier is breached, growing 10.9% in 2020 despite the pandemic.

In this backdrop, a key signal will likely be labor market dynamics in the US in November, with the report to be released on Friday. Specifically, it will be important to see if there is an impact from: (1) The recent and pronounced pickup in COVID-19 cases in that country; (2) renewed restrictions to activity; and (3) the announcement of some big companies that job cuts would be made in 4Q20. For nonfarm payrolls, we expect a net creation of 500,000 jobs, below 638,000 in the previous month. If we are right, this would be the slowest pace since the recovery started. Nevertheless, the unemployment rate could extend its decline, although at a more modest pace, estimated to reach 6.5% (previous: 6.9%).

On the other hand, there are relevant risks on the horizon that could exacerbate in coming months. Among them, we highlight that a new fiscal stimulus has not been agreed, while it is very unlikely that it will happen in the rest of 2020 given the expected change of administration. Moreover, a series of additional fiscal support programs will expire by the end of December, including one aimed at self-employed individuals that do not qualify for regular unemployment compensation. On the contrary and in a positive note, migrants have kept their extraordinary efforts to send further resources to their families. In this respect, we should say that monthly flows have grown in every month of the year so far except for April, when the more stringent lockdowns and restrictions to mobility were in place –including the prohibition of non-essential border crossings by foot, which have stayed since then–. Therefore, remittances could remain relatively supported if mobility restrictions are not as tough as they were that time, which is our base case at least for the remainder of 2020.

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