

Family remittances – A new historical high in inflows during 2020

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- **Remittances (December): US\$3,661.0 million; Banorte: US\$3,561.3mn; consensus: US\$3,590.0mn; (range: US\$3,380 to US\$3,677mn) previous: US\$3,381.2mn**
- **As a result, inflows reached US\$40,606.6 million in full-year 2020, up 11.4% y/y and a new historical high, which is very positive considering the challenging economic backdrop due to the pandemic**
- **In the month, remittances kept growing at a double-digit pace (17.4% y/y). This was observed despite a more difficult base effect, showing that migrants have kept their extraordinary efforts even in a context of higher restrictions that affected the US labor market**
- **Moreover, the number of operations increased 13.2% y/y while the average amount sent stood at US\$338.86, which remains positive (+3.7% y/y)**
- **We expect remittances to keep growing at a healthy pace in 2021, helped by a strong recovery in the US, in turn supported by additional stimulus measures**

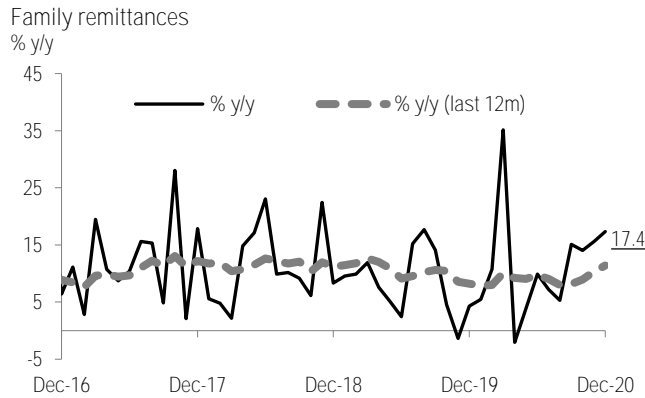
Remittances stay resilient, reaching a new yearly historical high. The amount sent to our country in December stood at US\$3,661.0 million, higher than consensus (US\$3,590 million) which was virtually in line with our estimate (US\$3,561.3 million). As a result, inflows reached US\$40,606.6 million in full-year 2020, up 11.4% y/y and a new historical high (see chart below, right). In our view, this is very positive considering the challenging global economic backdrop because of the pandemic. Specifically, the US economy contracted 3.5% in the year, with the national unemployment rate increasing from 3.6% to 6.7%. Moreover, remittances in December grew at a double-digit pace for a 4th consecutive month, up 17.4% y/y and accelerating further. This is even more relevant considering the deterioration in employment conditions in the US, with several states implementing stricter lockdowns due to the strong rise of COVID-19 cases. In this sense, the unemployment rate among Hispanics and Latinos climbed to 9.3%, 0.9%-pts higher than the previous month. The population of working-age Mexican migrants rose by 292.9 thousand, with a net job loss of 88.0 thousand –including ‘natives’, ‘non-native citizens’, and ‘non-citizens’ (legal or illegal)–. Losses were centered in the first group (-162.0 thousand), with the second (+44.0 thousand) and third (+30.1 thousand) posting modest gains.

Number of operations keep driving most of the growth in inflows. As has been the case since May (when full lockdowns were still in place), the total number of operations stayed as the main driver of growth (13.2%), strengthening relative to November and its strongest advance since March. These stood at 10.8 million, new maximum since the series is available. As mentioned before, we believe this may be related to employment gains in the US despite last month’s setback, along the increase in the number of working-age Mexican migrants in said country, which allows for the possibility of more people sending money. On the other hand, the average amount reached US\$338.86, decelerating at the margin (3.7% vs 5.8% in November), albeit still positive in the annual comparison.

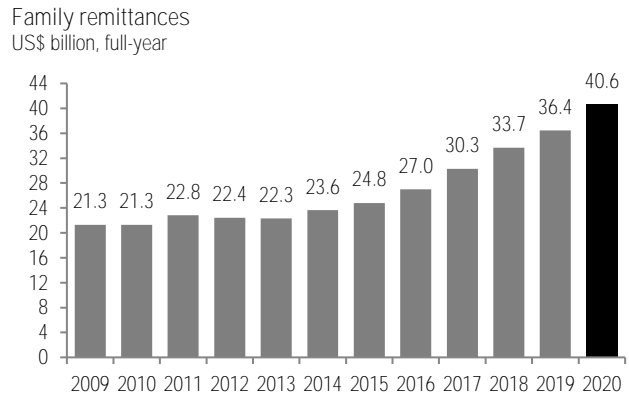
Winners of the award for best economic forecasters for Mexico in 2019, granted by *Refinitiv*



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Source: Banorte with data from Banxico



Source: Banorte with data from Banxico

We expect remittances to keep growing at a healthy pace in 2021. Overall, the report keeps showing favorable dynamics in terms of inflows, surprising to the upside since the pandemic broke in the Western Hemisphere, between April and May. This is even more positive considering that several stimulus programs in the US had already expired by December, with negotiations stalled even after the results of the election. In this sense, the full-year result was slightly above our US\$40.4 million forecast.

More importantly, we expect remittances to maintain a strong pace this year. This would mainly be supported by our call of additional economic strength in the US, with GDP expected at +3.9% with some upside risks, fully reversing the hit due to the pandemic in just one year. In turn, this should provide further support to the labor market, estimating that the nationwide unemployment rate could decline towards 6.0% from 6.7% in December. The improvement in labor market conditions for Mexican migrants could be even stronger, because of: (1) A big share of employees working in services –apart from agriculture–, which have been among the most affected businesses due to lockdowns; and (2) vaccinations at a relatively faster pace with the incoming US administration, which could also help mobility levels more broadly. Regarding the latter, we also think the ‘Blue Wave’ has increased the odds for a more sizable fiscal stimulus package, which in our view also helped remittances to our country last year (both directly and indirectly). Specifically, the Biden administration has proposed measures worth US\$1.9 trillion. Although some Republicans at the Senate do not agree, and the party is pushing for a more modest plan (US\$618 billion), there is the possibility that most measures are passed through a simple majority with the ‘budget reconciliation process’.

Lastly, President Biden issued a series of executive orders that reverse some harsh measures on immigration, highlighting: (1) Stop construction of the border between the US and Mexico; and (2) to “preserve and fortify” DACA, a program for immigrants without legal status to avoid deportation and for which around 700,000 persons have benefitted (most of them of Mexican origin) since its inception, in 2012. We see these changes as mixed for remittances in the short-term, but clearly positive in the medium-term. Regarding the former, it is our take that heightened fears about deportation during the Trump administration may have increased incentives to send as much money as possible.

Given Biden's more pro-immigration stance, these fears may decline at the margin. In the latter, we think these changes may help undocumented migrants to achieve legal status, in turn boosting their eligibility for government programs –such as stimulus transfers–. Therefore, the longer-term trend of remittances' inflows may be better going forward.

All in all, we believe remittances could grow at a rate close to 7%-10% in 2021. Migrants will maintain their extraordinary efforts to send resources to their families, more so given a still difficult economic backdrop. Nevertheless, uncertainty about this year's dynamics remains very high due to the pandemic, despite a very pleasant surprise in 2020.

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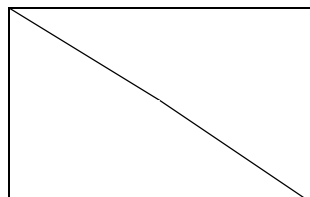
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