Family remittances – New historical high in May prompts upward revision for 2021

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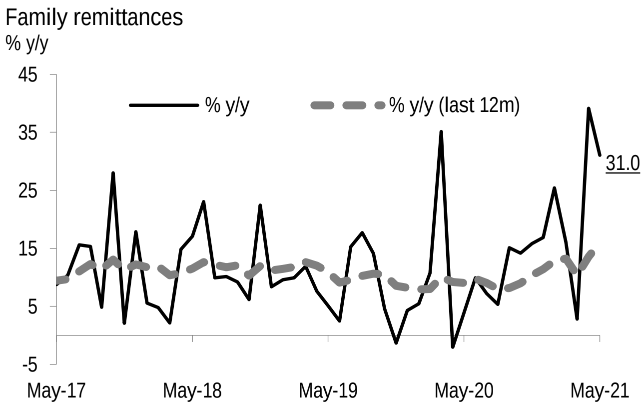
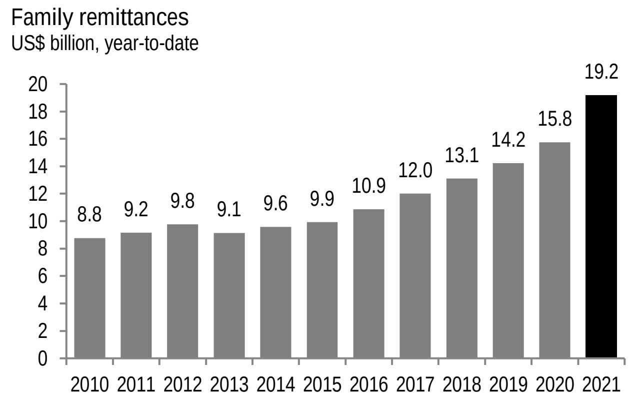
- **Remittances (May): US$4,514.6 million; Banorte: US$4,522.8mn; consensus: US$4,140.8mn; (range: US$3,933 to US$4,651mn) previous: US$4,047.6mn**
- **The period's inflow remains strong as it grew 31.0% y/y. In absolute terms, the period is historically high because of Mother's Day, standing above US$4 billion for a third consecutive month**
- **The average amount was resilient at US$366.15 (14.4% y/y vs 13.6% in April). On the other hand, the number of operations reached 12.3 million, a more modest pace due to a challenging base effect but at a new historical high**
- **We upgrade our view for remittances in full-year 2021 to a new historical high between US$48.0 to 48.5 billion, with a yearly growth rate upwards of 18.0%**

Remittances extended gains in May. The amount stood at US$4,154.6 million, again above consensus (US$4,140.8 million) but virtually at our call (US$4,522.8 million), reaching a new historical high. Inflows remain strong, up 31.0% y/y despite a more challenging base effect. In absolute terms, we recall that this period is historically the highest because of Mother's Day, standing above US$4 billion for a third consecutive month. Apart from this, we believe economic and labor market dynamism in the US, along accumulated stimulus measures, are still providing support. Specifically, employment stayed favorable, with the unemployment rate among Hispanics and Latinos declining to 7.3%, 60bps lower than in April. Working-age Mexican migrants fell a second month in row (-36.5 thousand), also likely due to seasonal patterns. Nevertheless, we saw net job creation of 105.9 thousand positions –including 'natives', 'non-native citizens', and 'non-citizens' (legal or illegal). These were centered in the first (45.2 thousand) and second groups (71.7 thousand), with the third losing 10.9 thousand positions. Moreover, the total of unemployed persons declined by 158.0 thousand. Considering this, we believe labor market gains will remain as a key favorable driver for remittances ahead.

Growth driven by a resilient average amount and more operations. The average amount sent stood at US$366.15, modestly lower in sequential terms, albeit in our view still relatively high and resilient. This was 14.4% higher than in the same period of 2020, helped by a more benign base effect, which in turn was affected by the pandemic. The number of operations stood at 12.3 million, with the boost for the period's inflows historically coming from this variable but also a new historical high. In our view, this is consistent with the effect that Mother's Day has on monthly dynamics. Moreover –and in contrast with the average amount– the number of operations moderated to 14.5% y/y after surging 22.5% in the previous month. We believe this is still related to the extraordinary efforts that migrants keep making to send resources as much as possible, with a relevant cohort likely doing so on repeated occasions during the same month since the pandemic started, resulting in a more difficult base effect.



Source: Banorte with data from Banxico



Source: Banorte with data from Banxico

We now see remittances between US$48.0 to 48.5 billion in full-year 2021. Considering recent dynamics, we revise higher our full-year estimate for inflows between US$48.0 to 48.5 billion, translating into growth upwards of 18.0% y/y. Previously, we had forecasted a 7% to 10% advance, which would have been near US$45 billion at the upper bound. This upgrade is mainly driven by the strong performance seen in the year, with new record inflows (at the time of their release) in two of the last three months. Despite of distortions to annual rates because of the pandemic –which are likely to continue– the fact is that inflows have remained stronger than what we and the market had expected. In our view, key drivers for this include: (1) The faster deployment of vaccines in said country, bringing forward the reopening (both in time and scope), boosting confidence and GDP growth prospects; and (2) the size and composition of stimulus, with favorable direct and indirect effects for migrants. In turn, these have aided migrants' employment conditions and income more forcefully, a situation we expect to prevail in coming months. In this sense, we remain very watchful of their evolution, including in tomorrow's nonfarm payrolls report for June, in which we expect an acceleration of job creation at the margin.

This should be positive for Mexico's consumption outlook, helping compensate for inflation pressures that are limiting real income growth. On the contrary, we will be watchful to a series of risks. First, the spread of more contagious COVID-19 variants worldwide (*e.g.* 'delta' and 'delta plus') which may delay reopening plans. In turn, this could affect prospects of a full recovery in some services –arguably more labor-intensive– and the pace of the recovery in employment among Mexican migrants in the US. Despite of this, we do not see a shock as severe as in the first months of the pandemic, with governments less willing to impose drastic restrictions. Nevertheless, discretionary spending in the US may trip over again if uncertainty increases, even with the personal savings rate remaining relatively high. Second, some extraordinary fiscal stimulus measures are expiring earlier, including additional unemployment benefits in some states which provided families with extra income. In our view, at least part of these also helped boost remittances. Their expiration increases the risk of a deeper slowdown in inflows, particularly if new restrictions are implemented. Third, tensions on migration have been on the rise as US detentions by foot at the southern border have skyrocketed.

Moreover, legal crossings by foot for non-essential activities remains restricted, which may be extended further given recent virus dynamics. In this respect, US Vice President, Kamala Harris, met with Mexican President, Andres Manuel López Obrador, pledging to cooperate more on migration. Although the tone remains cooperative, we cannot rule out more restrictive measures to cope with this problem, particularly as the Biden administration has been criticized heavily in this front. As a result, this could affect migration flows in and out of the US and could eventually hurt resources sent, particularly in the case of non-citizens.

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