

Family remittances – Accelerating at the end of 2022, with a full-year total of US\$58.5 bn

- **Remittances (December): US\$5,358.8 million; Banorte: US\$5,314.1mn; consensus: US\$5,000.0mn; (range: US\$4,530.9mn to US\$5,314.1mn) previous: US\$4,801.1mn**
- **With this result, inflows in full-year 2022 reached US\$58,497.4 million, up 13.4% y/y and a new historical high. Specifically, growth accelerated in the last month of the year, up 12.8% after barely advancing 3.0% in November**
- **The month's advance was mainly on the back of the number of operations, which stood at 13.7 million (+9.1% y/y). Meanwhile, the average amount sent reached US\$391.19 (+3.4%)**
- **In sequential terms, inflows recovered 5.6% m/m, enough to make up for the previous month's loss of 2.5%**
- **In our view, remittances are likely to decelerate this year on the back of an economic slowdown in the US. Nonetheless, we believe they will stay resilient, remaining as a tailwind for Mexico's GDP**

Remittances end the year above expectations. The amount was US\$5,314.1 million, back above the US\$5 billion mark and higher than market expectations. The period's seasonality is more favorable than in November, as Thanksgiving and Black Friday sales dampened the total amount sent. As such, they grew 12.8% y/y, accelerating at the margin. In our view, this was positive considering a deceleration in the economy and job creation (for details about the latter, see below). On the former, both industrial production (-0.7% m/m; manufacturing at -1.3%) and retail sales (-1.1%) declined strongly, with the same signal sent by ISM indexes. Housing is still feeling the impact of higher interest rates, with starts (-1.4%), permits (-1.6%), and existing home sales extending their move lower. On the other hand, consumer confidence gained some ground, most likely reacting to less price pressures, albeit with forward-looking indicators mixed.

The number of operations recovered, while the average amount sent stayed elevated. The former metric stood at 13.7 million, up 9.1% y/y after advancing only 4.7% in November. This is partly because of a more favorable base effect. The average amount sent declined in nominal terms vs. the previous month at US\$391.19. However, in annual terms it expanded by 3.4% (previous: -1.6%). In our view, more benign inflation prints recently (mostly due to lower gasoline prices) helped migrants to send more resources back as pressures on real incomes waned. Going forward, we think the number of operations may be poised for a more significant slowdown as we expect a moderation in job creation.

A sequential rebound, reaffirming a positive trend. Seasonally adjusted, remittances rose 5.6% m/m. This was more than enough to offset the 2.5% contraction seen in November, suggesting that the latter month might have been driven by one-off effects. Overall, we highlight that employment conditions in the US remained strong. Nevertheless, Mexican migrants seem to have experienced a more difficult environment, limiting a more substantial uptick.

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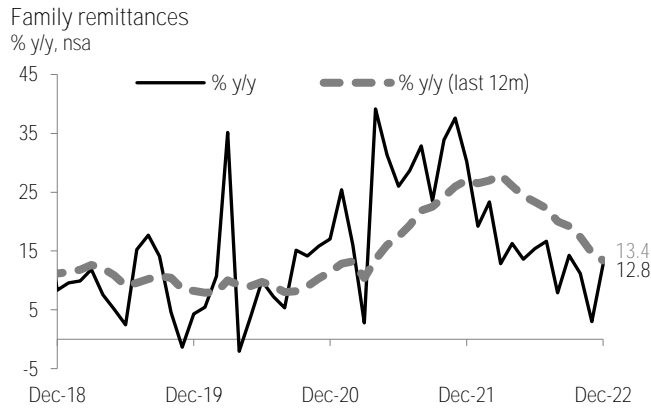
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Winners of the award for best economic forecasters for Mexico in 2021, granted by *Refinitiv*

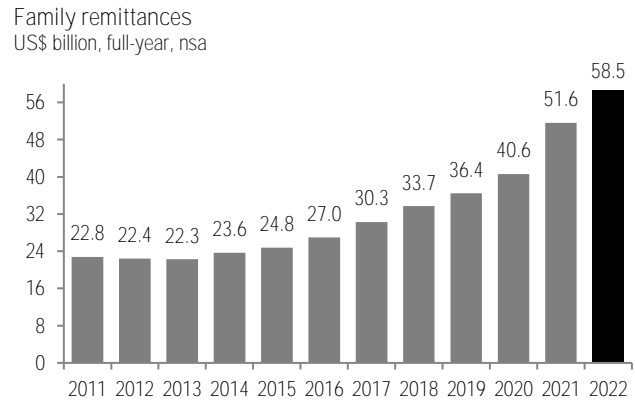


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Specifically, the unemployment rate for Hispanics and Latinos increased to 4.1% from 4.0% in November, in contrast with the same metric nationally, which fell to 3.5% from 3.7%. For Mexicans, we estimate it rose by 46bps, to 4.1%. The working age population –including ‘natives’, ‘non-native citizens’, and ‘non-citizens’ (legal or illegal)– increased by 67k. However, there were 26k fewer employees. Given recent employment dynamics for this group, it is our take that this is a red flag for the outlook. It seems plausible that recession fears amid high inflation have made companies more cautious, which affects relatively unskilled workers first.



Source: Banorte with data from Banxico



Source: Banorte with data from Banxico

Remittances will likely decelerate in 2023 on lower growth and a higher unemployment rate in the US. In our view, today’s result was positive when factoring-in the deceleration in the US at the end of last year and weak inflows in November. Hence, we think it is not enough to ensure that trend growth has fallen substantially. Therefore, we will watch closely the nonfarm payrolls report for January, which will be published on Friday. We anticipate 195k new jobs from 223k in the previous month. The unemployment rate would tick higher, from 3.5% to 3.7%. Given that the latter measure was weaker among Mexicans than nationwide in December, we think it is very important to see if these dynamics extend further as that would reinforce the signal that migrants are being impacted more heavily. Looking further ahead, we are more cautious about remittances growth in 2023 as we estimate that the unemployment rate will climb towards 4.2% throughout the year.

On the economy, available data for January has been mostly weaker. For example, PMIs were better at the margin both for manufacturing (to 46.9pts from 46.2pts previously) and services (46.6pts from 44.7pts), albeit remaining firmly in contraction. In this backdrop, companies reaffirmed that demand for their products was dampened by high inflation and its impact on spending. They also noted higher input prices after seven months moderating, highlighting vendor prices –possibly because of energy prices– and wages. Employment increased marginally because of service providers, while manufacturers shed positions. On a more favorable note: (1) Service providers continued to expand their workforce numbers, especially on skilled positions that had been vacant for some time; and (2) confidence advanced on hopes that domestic and external demand conditions will improve.

Considering this backdrop, we believe that remittances will slow down in 2023 when compared to 2022. Nevertheless, it is not so clear if this will be enough for an outright contraction. In recent history, this happened during the GFC (2008: -3.5%; 2009: -15.3%), 2012 (-1.6%), and 2013 (-0.6%). On the other hand, it did not materialize following the COVID-19 crisis (2020: +11.4%; 2021: +27.0%). This time around, some potential tailwinds include: (1) Our call that the US recession will be shallow and brief, so companies could be more hesitant in cutting their workforce if they do not experiment strong cost pressures in other categories; (2) real average hourly earnings have been recovering at the margin –at -1.7% y/y in December from -2.1% previously– and could even turn positive, a situation that would incentivize more inflows into Mexico; and (3) despite a stronger recovery of the participation rate among Hispanics and Latinos since the lows in the pandemic (from 63.3% in April 2020 to 66.3%), there is more room left (1.6pp) to reach the level seen before this shock relative to what we observe for all the working-age population.

All in all, we will evaluate US employment data closely to gauge the likely path of remittances this year. For the time being, we maintain a positive skew based on recent experience, which would be good news for Mexico's growth given their increasingly important role for domestic demand, especially private consumption.

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