

Migration

Remittances to Mexico could fall by 17% in 2020 and recover between 2023 and 2028 due to the Covid-19 economic crisis

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- **Due to the uncertainty of the duration of the Covid-19 pandemic, it is difficult to estimate the impact that it will have on remittance flows to Mexico. This article provides an estimate on what will happen to remittance flows based on the effects of the previous global financial recession of 2008/2009.**
- **Scenario one: It is estimated that remittances to Mexico could fall by more than 21% between 2020 and 2021, and not recover for around 10 years, until 2028. Remittances could decline by 17% in 2020, bringing the amount close to \$29.9 billion.**
- **Scenario two: If various factors are considered such as; 1) the construction sector in the US, which may be less affected than the services sector; 2) the smaller proportion of undocumented Mexican migrants in the country; and 3) the greater dynamism of remittances observed in recent years, it is estimated that by 2024, the amount of remittances could exceed that recorded in 2019.**
- **Scenario three: In addition to the factors considered in scenario two, although the effects of the Covid-19 crisis are more acute, if economic recovery is faster, remittances could return to their record high by the end of 2023.**
- **The states most affected by the decrease in remittances would be Michoacán, Oaxaca, and Zacatecas, as remittances equate to 10% or more of their state GDP.**

The global Covid-19 pandemic will have a worldwide economic impact that could exceed those observed during the last financial recession of 2008/2009. As of March 31, the United States was the country with the most confirmed cases of Covid-19 in the world—almost 180,000 people—and had registered nearly 3,700 deaths from this disease (The New York Times, 2020). This crisis will generate significant impacts on the US economy, without clear indication of when it will start to recover (BBVA Research, 2020).

In several US states, the population has been told to stay at home and to avoid crowded places, suspending economic activities and non-essential jobs. Many schools, movie theaters, theaters, restaurants, retail stores and sporting and cultural events remain closed or have been suspended indefinitely (Ortiz, 2020). The number of unemployed people is going to increase significantly, and we can predict that US unemployment rates will reach levels similar to those seen during the 2008/2009 financial recession.

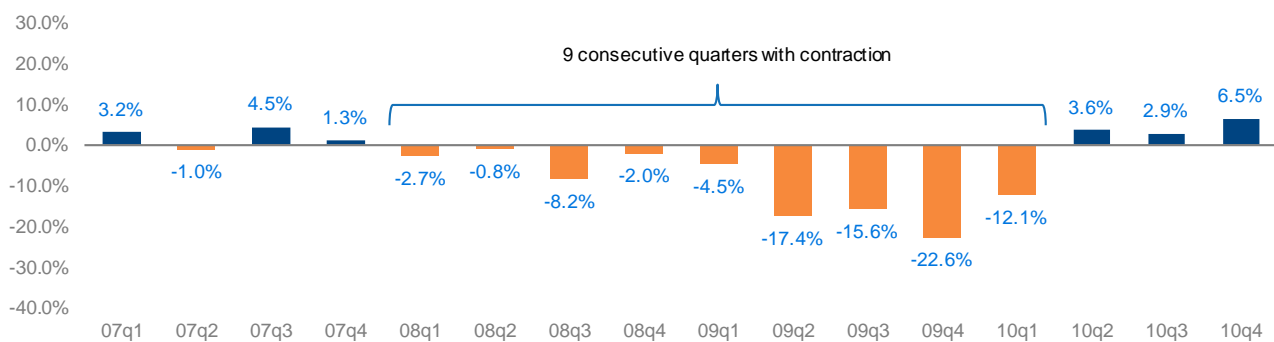
Without a doubt, the Mexican population residing in the United States will be affected, which in turn will affect the remittances they send to their friends and family in Mexico. The following is an analysis of the effect the current Covid-19 crisis could have on remittance flows to Mexico.

1. Remittances could fall by more than 21% and not recover for 10 years

Currently, there is a lot of uncertainty about the behavior and effects of the Covid-19 crisis, particularly regarding its duration, its effect on economic activity and employment in the US, its impact on Mexicans residing in the US and the flow of remittances to Mexico. The current scenario outlines that the economic effect of the crisis will be greater than that observed in the global financial recession of 2008/2009. Therefore, a scenario has been presented where the impact of remittances is similar or even greater than that of the previous recession.

Due to the 2008/2009 financial recession in the US, the recorded flow of remittances to Mexico registered nine consecutive quarters with annual declines, from the first quarter of 2008 to the first quarter of 2010. During this period, the cumulative 12-month remittance flow showed a contraction of 20.8%, from \$26,059 million in December 2007 to \$20,640 million in March 2010, when the remittance flow to Mexico began to recover. It was not until 2016, ten years after the decline had begun, that remittances to Mexico managed to exceed the recorded amount in 2007.

Figure 1. **Quarterly flow of family remittances to Mexico, 2007q1–2010q4**
(% annual variation)

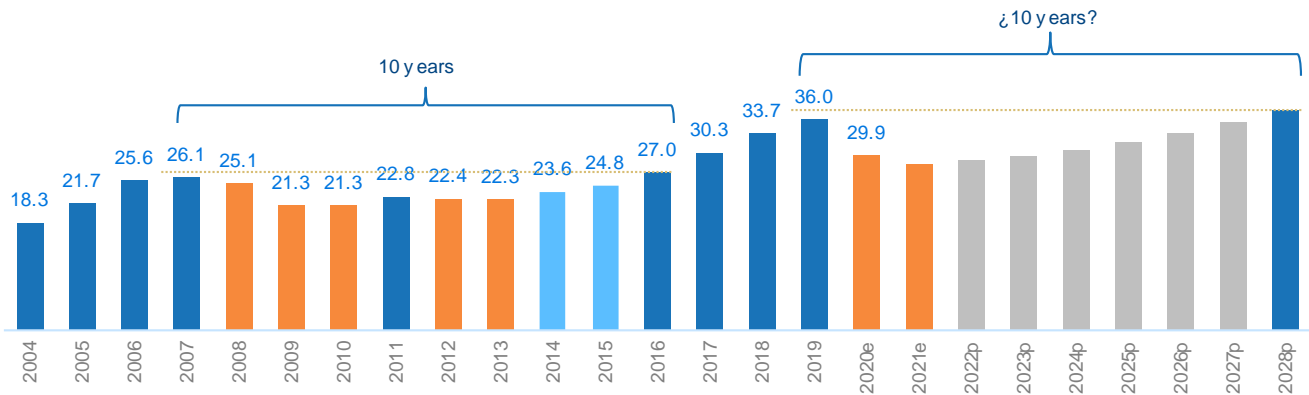


Source: BBVA Research based on data from the Bank of Mexico

In 2019, the flow of remittances to Mexico was \$36,046 million. Considering the scenario in which the economic impact in the US caused by the Covid-19 crisis was greater than the effects of the 2008/2009 financial recession, it is possible that:

- Remittances to Mexico could record **a cumulative fall of more than 21% in 2020 and 2021**.
- Remittances could **decline by 17% in 2020**, bringing the amount close to **\$29.9 billion**.
- The flow of remittances could take **more than 10 years** to reach the amount recorded in 2019, so, it will probably take until **2028 to recover** an annual flow of more than \$36 billion.

Figure 2. **Annual flow of family remittances to Mexico, 2004–2028p**
(Billions of dollars)



e: BBVA Research Estimate. p: Theoretical projection.
Source: BBVA Research based on data from the Bank of Mexico

2. Will it take 10 years for remittances to exceed the recorded 2019 flow? Possibly less

Based on the current available information, it is difficult to make an accurate analysis of how long it will take remittances to reach the amount recorded in 2019, which was \$36 billion. There are various factors that could accelerate the recovery of remittances in fewer years:

- **The construction sector in the US could be relatively less affected than other economic activities such as the services sector.** The 2008/2009 financial recession was caused by a subprime mortgage bond crisis, which directly affected the US real estate and construction sectors. In the previous year, a quarter of the Mexican migrant population in the US, both documented and undocumented, worked in these sectors, which were among the most affected. Many Mexican migrants were left unemployed, others had to accept part-time and/or low-paid jobs, and those who could not withstand the recession returned to Mexico.

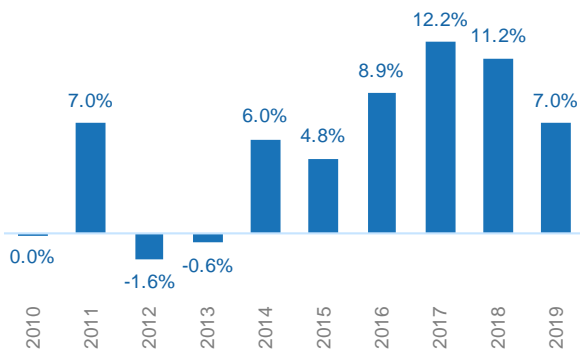
Although it is estimated that the Covid-19 crisis could be more acute, it is unclear what effect it will have on the economic sector, specifically the construction sector, where 19.8% of Mexican migrants worked in 2019. The services sector may be most affected by the current Covid-19 crisis, in a greater proportion than other sectors such as the construction or agriculture sectors.

- **The proportion of undocumented Mexican migrants has been declining in the last decade.** In 2008, there were an estimated 6.3 million undocumented Mexicans in the US, representing more than 50% of the Mexican migrant population. According to the most recent information, it is estimated that in 2017 there were 4.9 million undocumented Mexicans, which was around 41% of the total number of migrants. This meant that the remaining 59% of migrants had citizenship, residence or some other type of documentation to reside in the US. This means, that a large proportion of Mexicans residing in the US have higher-quality and higher-paid jobs.
- **Remittances to Mexico have become more dynamic in recent years.** In the last three years, from 2017 to 2019, the flow of remittances to Mexico has grown at an average rate of about 10%. If US economic

activity and employment levels achieve a similar dynamic between 2022 and 2024, as that observed between 2017 and 2019, it is possible that remittances may well reach their record high by 2024, so in just 5 years.

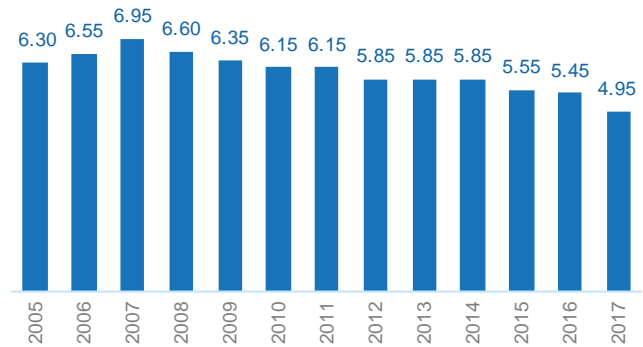
- **The Covid-19 crisis may be more acute, but faster to recover.** The short-term economic impact of the Covid-19 crisis may be more acute than the financial recession of 2008/2009, but the recovery rate may be much faster. If this happens, remittances could again reach their record high within about four years, so by 2023.

Figure 3. **Family remittances to Mexico, (% annual variation)**



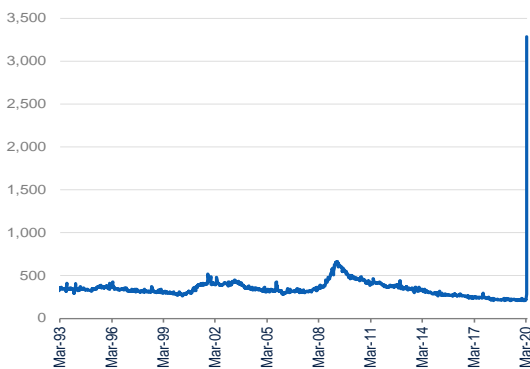
Source: BBVA Research based on data from the Bank of Mexico

Figure 4. **Estimate of the unauthorized Mexican migrant population in the United States (Millions)**



Source: BBVA Research based on data from Pew Research Center, 2019.

Figure 5. **US: Initial unemployment claims (Thousands of people)**



Source: BBVA Research based on data from Bloomberg

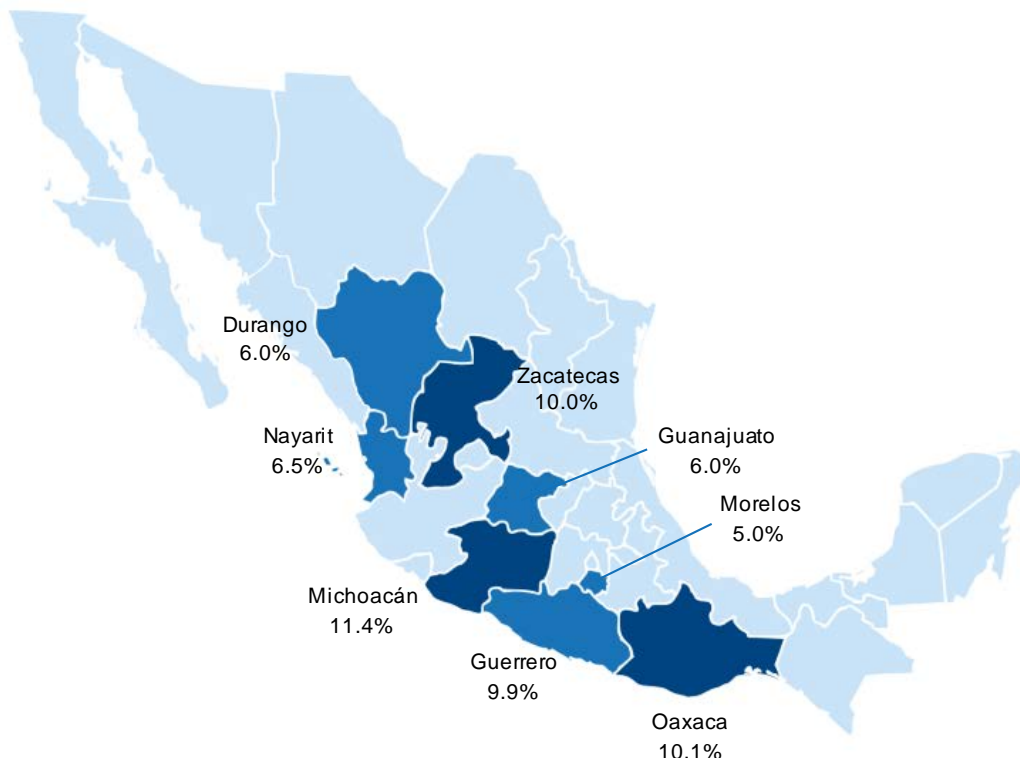
3. Which states would be the most effected?

The states that receive the largest total amount of remittances are: Michoacán (\$3,584 million in 2019), Jalisco (\$3,499 million) and Guanajuato (\$3,286 million). Followed in descending order by the State of Mexico, Oaxaca, Puebla, Guerrero and Mexico City. These eight states could experience the highest decrease in the amount of remittances.

However, the states that would be most affected by a decline in the flow of remittances, would be those where remittances account for a greater proportion of the state's Gross domestic Product (GDP). According to the Yearbook of Migration and Remittances Mexico, the three states with the greatest dependence on remittances in 2018 were Michoacán, Oaxaca and Zacatecas. In each of these states, remittances accounted for more than 10% of their GDP. There are five states where remittances are between 5% and 10% of their GDP, which are: Guerrero (9.9%), Nayarit (6.5%), Durango (6.0%), Guanajuato (6.0%) and Morelos (5.0%).

These eight states could be most affected by a decline in remittances due to the current Covid-19 crisis in the US.

Map 1. **States most reliant on remittances, 2018e**
(Remittances as % of GDP)



Note e: BBVA Research Estimate.
Source: BBVA Research based on data from the Yearbook of Migration and Remittances Mexico 2019.

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