



# Migration Observatory

## Remittances could show signs of stabilizing towards the last quarter of the year

- Remittances continued on their downtrend in May (-19.9% in annual terms), but still up on the previous month (+6.8%). The swine flu effect could partly explain the decline this month, although we must wait until next month to appreciate it.
- However, the main cause is the US economic recession. Our forecast of a 15% annual fall in dollars still holds.
- The drop in dollar remittances is partly offset in household income by the devaluation of the peso.

The flow of household remittances to Mexico is still recording a downtrend. Banxico announced that in May the total was 1.9001 billion dollars, which represented a 19.9% annual fall, but at the same time this was 6.8% up on the previous month.

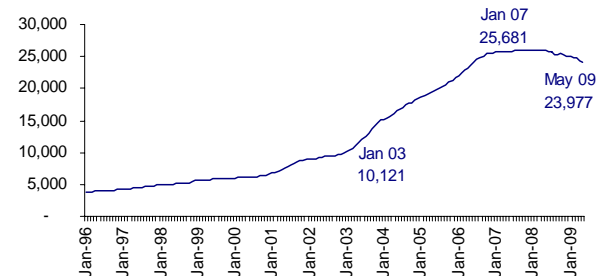
During the first 5 months of the year, remittances totaled 9.1559 billion dollars, 11.2% down on the same period the previous year. In light of this accrued performance in remittances, we are keeping our forecast for the year as a whole of a 15% reduction in dollars<sup>2</sup>.

Although the health measures in response to the AH1N1 virus in May might have contributed, the falls in remittances recorded in recent months are mainly due to the economic situation in the US, which has hit Hispanic Americans hard. In June they recorded an unemployment rate of 12.2%, higher than the domestic average of 9.5%. As regards Mexican migrants, since the crisis their unemployment levels have risen, their working hours have fallen, while their wages remain stagnant.

The greatest job losses for Mexican migrants have been in the construction sector, which directly accounts for around 20% of Mexicans in the US, and in which the annual losses for these workers were around 350 thousand in the first quarter of the year. The start of new houses in the US is closely correlated with the performance of remittances that arrive in Mexico. This indicator has started to show

Juan Luis Ordaz Díaz  
juan.ordaz@bbva.bancomer.com

12- Months Flows of Remittances in Mexico, (Million dollars)



Source: BBVA Bancomer with Banco de Mexico data

Unemployment rates in U.S. by race, 2009

	Jan	Feb	Mar	Apr	May	Jun
Total	7.6	8.1	8.5	8.9	9.4	9.5
White	6.9	7.3	7.9	8	8.6	8.7
Hispanic or Latino ethnicity	9.7	10.9	11.4	11.3	12.7	12.2
Black or African American	12.6	13.4	13.3	15	14.9	14.7

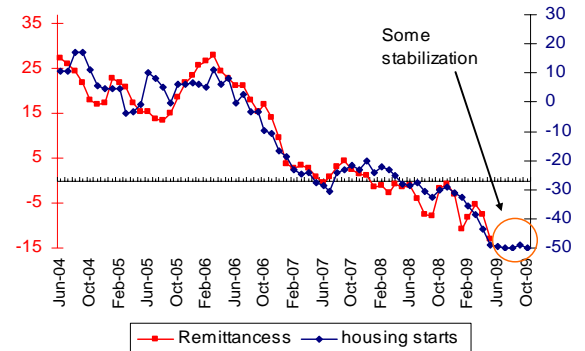
Source: U.S. Bureau of Labor Statistics

<sup>1</sup> In the June 2009 edition of "*Mexico Migration Situation*", the forecast for the fall in remittances for this year is analyzed and presented, which might be offset in household income by the devaluation of the peso.

some signs of stabilization, and so we think that remittances could recover slightly towards the last quarter of the year.

In spite of this fall in dollar remittances, however, the depreciation of the peso is partly offsetting the impact of the fall in remittances on household income. For example, an annual fall in remittances of 15% in dollars, together with an annual peso devaluation of 25%, and an average annual inflation of 5% would mean a positive change of 1.2% in remittances once converted into pesos. In other words, households who receive remittances are compensated in terms of purchasing power.

Housing Starts and Remittances to Mexico (yoy % change)



Note: 3 month moving average. U.S. housing starts lagged 4 months.  
 Source: Bank of Mexico (remittances), US Census Bureau (housing starts)