

BBVA Research and BBVA Bancomer
Foundation

Migration Outlook

Mexico

Press presentation

October 25, 2010

Contents

Migration
Watch -
Mexico
Press presentation

Section I

Outlook after the recession

Section II

Migration from Mexico to the US: an economic link

Section III

Migration in Arizona and the effects of Act SB-1070

Section IV

Migration of highly qualified Mexicans: a revealing picture

The recession comes to an end, but lack of employment continues

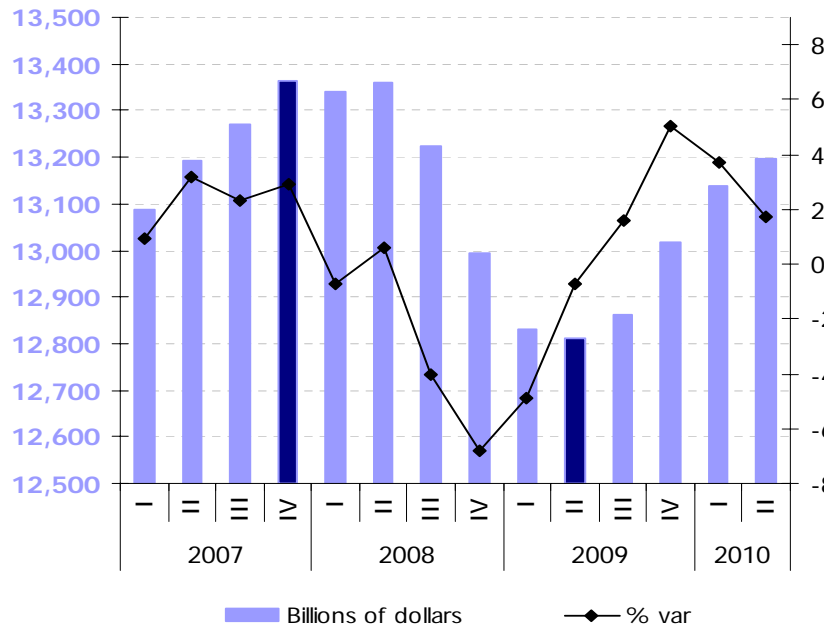
There are 14.8 million unemployed people in the US. 50% have been out of work for at least 6 months

GDP in the second quarter of 2010 was still 1.3% lower in real terms than in the fourth quarter of 2007

BBVA Research believes that the economic and employment recovery will be sluggish

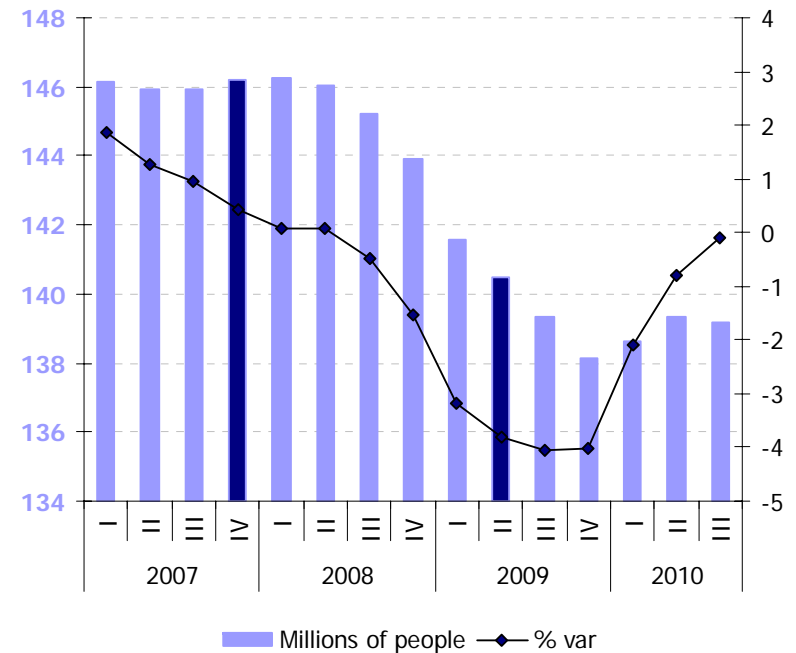
Officially, the recession ended in June 2009. Over 6 million jobs were lost. GDP contracted by 4% during the recession, and previous levels have not yet been reached.

Real GDP in the US
(Billions of dollars and annual % var.)



Source: US Department of Commerce

Employment in the United States
(Millions of people and annual % var.)



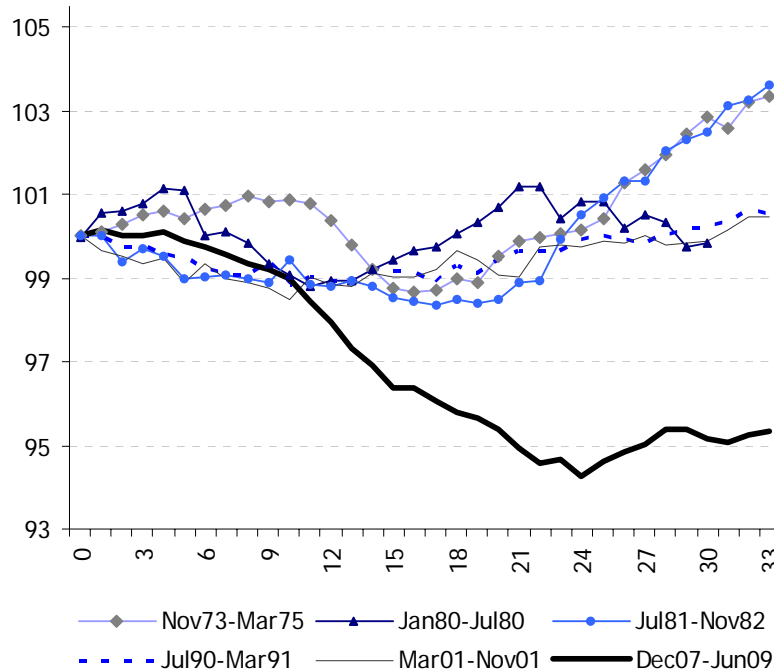
Source: BBVA Research with Current Population Survey (CPS) data

Employment is reacting very slowly to economic expansion

There are signs of employment recovery for Hispanics

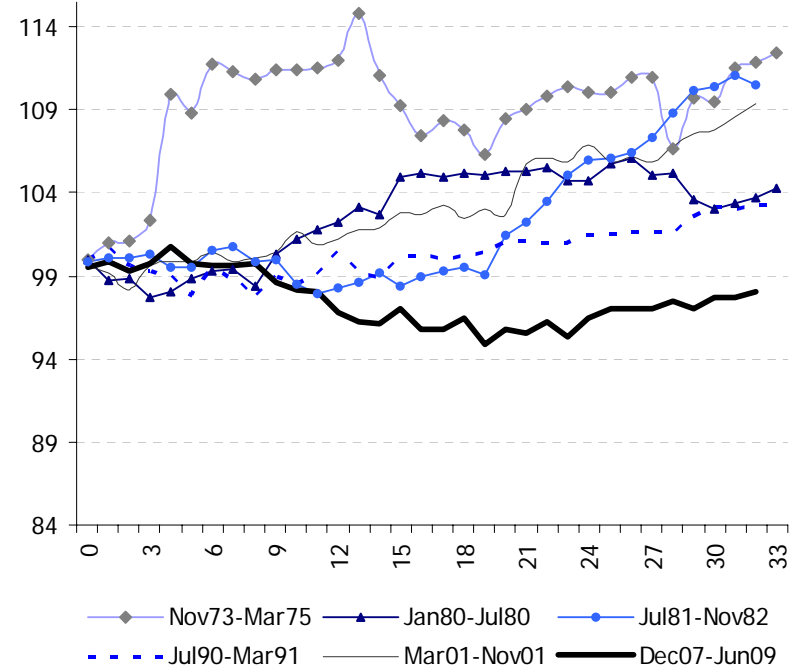
In the five previous recessions, less than 1 year after the end of the recession the employment levels were higher than when recovery began. This time the situation is different

**Total jobs in the US.
(100 = month when recession begins)**



Source: BBVA Research with US Department of Commerce data

**Jobs in the US for Hispanics.
(100 = month when recession begins)**



Source: BBVA Research with US Department of Commerce data

For Mexicans, employment has started to drop, but is still high

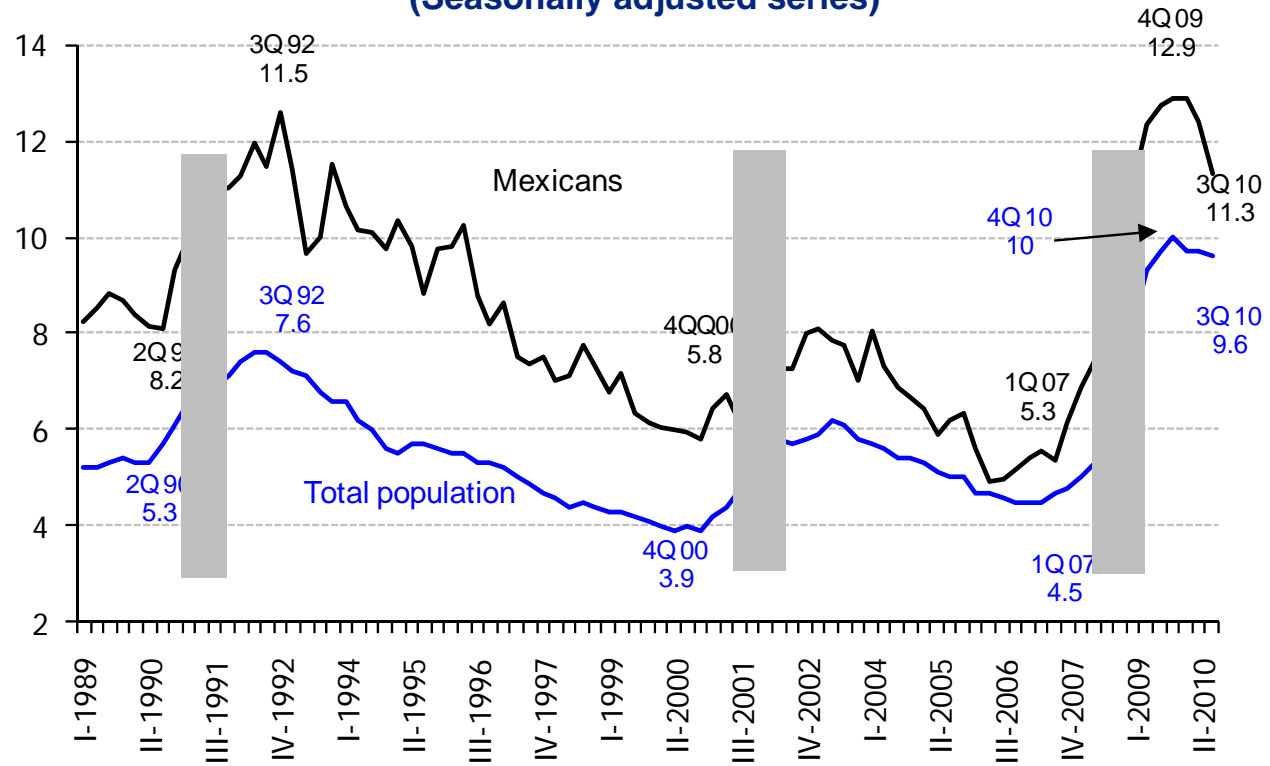
Strong effects of recession

- The highest unemployment rates ever recorded were reached (13%)
- Around 600,000 jobs were lost

Slow recovery

- Current unemployment rate around 11%.
- 1.6 million people remain unemployed (45% immigrants)

US: quarterly unemployment rate, general and for Mexicans
(Seasonally adjusted series)



Labor flexibility of immigrants as regards both industries and regions

Job gains and losses for Mexicans in the US

Gains

Thousands of jobs, 2nd quarter, figures not seasonally-adjusted

Losses

Thousands of jobs, 2nd quarter, figures not seasonally-adjusted

Compared with 2008, more than 300,000 Mexican immigrants are currently unemployed.

Labor flexibility has resulted in gains in some industries

	2008	2009	2010	Var. 09-10	Var. 08-10
Native Mexicans					
Educational and health services	1,153	1,296	1,273	-23	120
Leisure and hospitality	509	597	589	-8	80
Transportation and utilities	110	111	160	49	51
Public administration	331	345	375	31	44
Professional and business services	451	455	459	4	8
Mexicanos inmigrantes					
Leisure and hospitality	1,017	1,148	1,096	-53	78
Agriculture, forestry, fishing, and hunting	359	402	425	23	65
Educational and health services	539	529	597	68	58
Information	266	247	293	46	26
Public administration	62	50	80	30	19

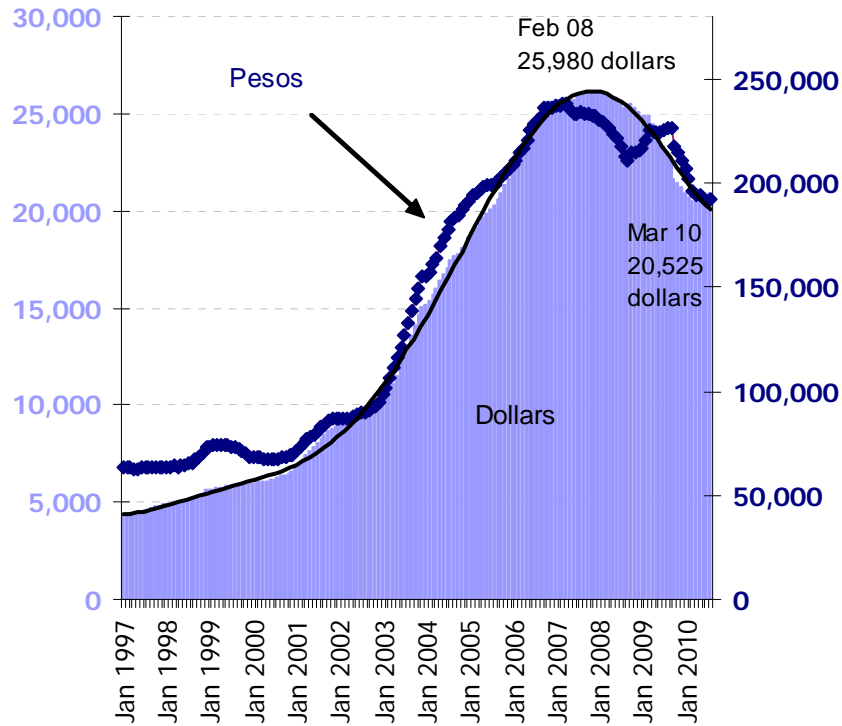
	2008	2009	2010	Var. 09-10	Var. 08-10
Native Mexicans					
Information	392	341	256	-85	-136
Manufacturing	566	460	499	39	-67
Construcción	471	477	412	-66	-60
Wholesale and retail trade	1,016	972	958	-14	-58
Other services	275	248	241	-7	-34
Mexicanos inmigrantes					
Construction	1,491	1,222	1,250	28	-241
Manufacturing	1,057	994	965	-29	-91
Wholesale and retail trade	858	809	787	-22	-72
Financial activities	200	153	145	-8	-55
Other services	476	455	431	-24	-45

Source: BBVA Research based on Current Population Survey (CPS) data

Remittances to Mexico reversed their drop in the first quarter of this year

Family remittances to Mexico

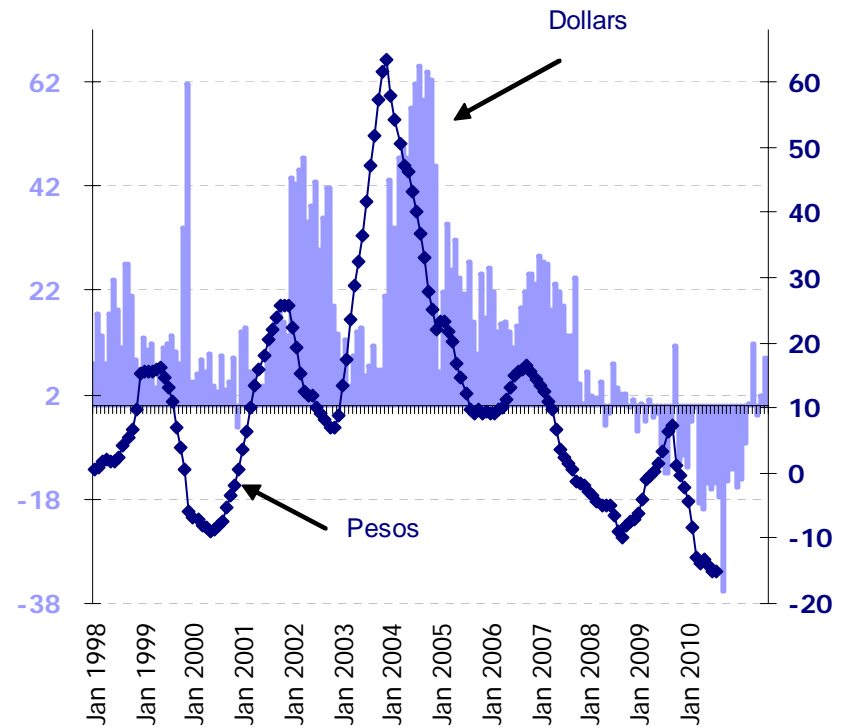
Accumulated flows, 12 months
(Millions of 2002 pesos and millions of dollars)



Source: Banxico

Family remittances to Mexico

Accumulated flows, 12 months
(Millions of 2002 pesos and millions of dollars, annual % var.)



Source: Banxico

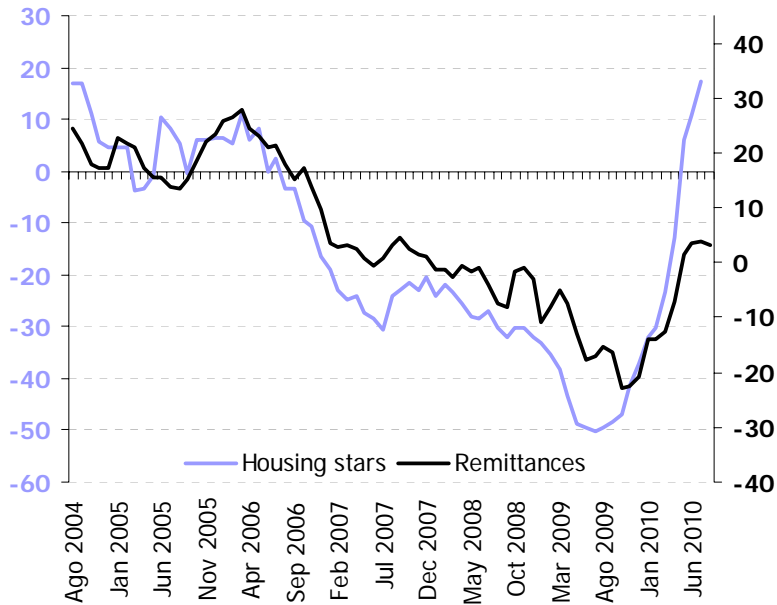
For Mexicans, the improvement in terms of employment helped to stop the drop.

- **The 12-month accumulated flow fell by 21% from its highest level in February 2008 to its minimum in March 2010**
- **As of August 2010, the 12-month accumulated flow grew by 2%.**
- **Up to August 2010, accumulated revenue from remittances in the year were 1.8% lower in dollars than over the same period in 2009.**
- **The depreciation of the peso has partially offset the fall in income of the families of immigrants**

Recovery of remittances to Mexico will be slow

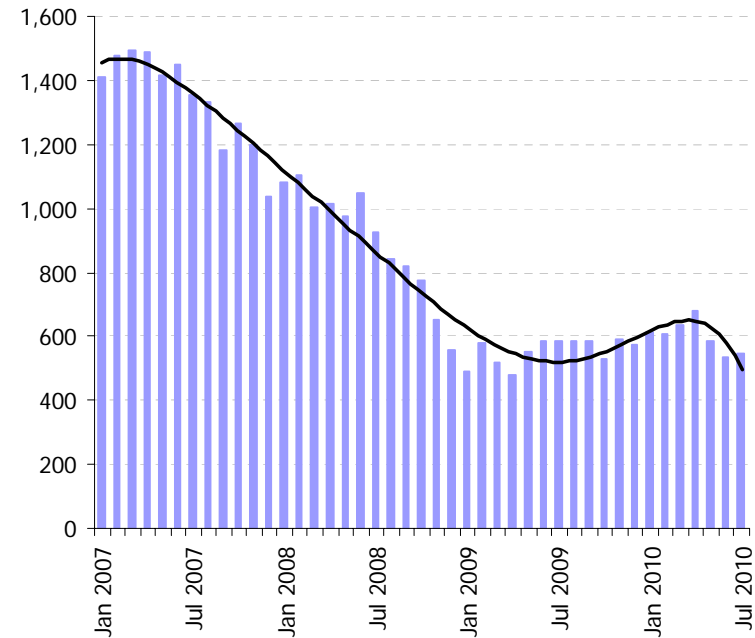
Variables related to remittances have held back their dynamism

Remittances to Mexico and new home construction (annual % var.)



Note: 3-month rolling average. Housing stars, 4 period lag

US: new home construction (Thousands)



Source: BBVA Research with US Census Bureau data

Remittance forecast at year-close

% var. (-2 and 2)

Millions of dollars (20,800 and 21,600)

Forecast 5% in 2011

Contents

Migration
Watch -
Mexico
Press presentation

Section I

Outlook after the recession

Section II

**Migration from Mexico to the US: an
economic link**

Section III

Migration in Arizona and the effects of Act SB-1070

Section IV

Migration of highly-qualified Mexicans: a revealing picture

Traditional view

Is this true?

“The lack of opportunities and unemployment in Mexico are the main cause of immigration to the US”

- The predominant view is that Mexican immigration to the United States is a response to the economic problems and lack of opportunities in Mexico. In other words, the main driving forces are to be found in the Mexican economy, which forces people to emigrate.
- Less important in terms of public perception is the fact that this immigration happens because it is the US economy that demands Mexican immigrants.

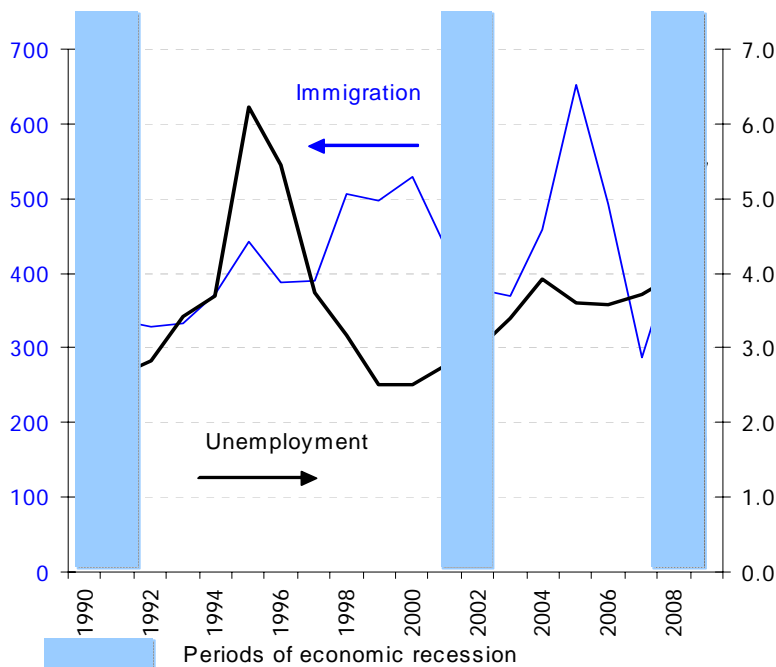
Is the lack of opportunities in Mexico the main cause of immigration to the US?

In most cases one would expect immigration to increase when unemployment grows in Mexico, and vice versa

The figures show some correlation between immigration and unemployment in Mexico, and low correlation between the differentials in Mexico and the US

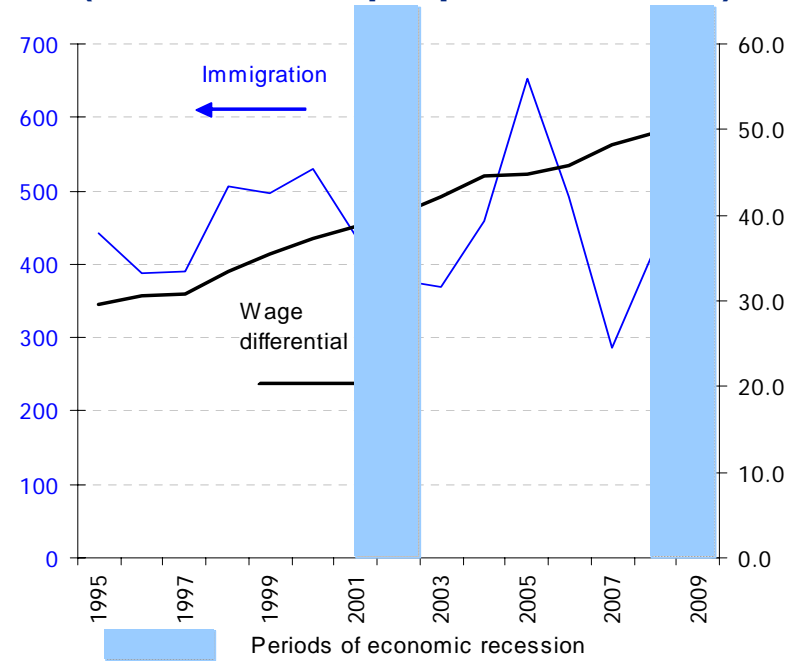
Wage differences have grown, and immigration should also grow if this variable were the main determining factor.

Mexican immigration in the US and unemployment in Mexico (Thousands and unemployment rate,)



Source: BBVA Research and data from Passel and Suro (2005), Passel (2009) and INEGI.

Mexican immigration in the US and wage differentials between the US and Mexico (Thousands of people and dollars)



Source: BBVA Research and data from Passel and Suro (2005), Passel (2009) and OEDC. (2010)

The main determining factor is not in Mexico. It is in the US

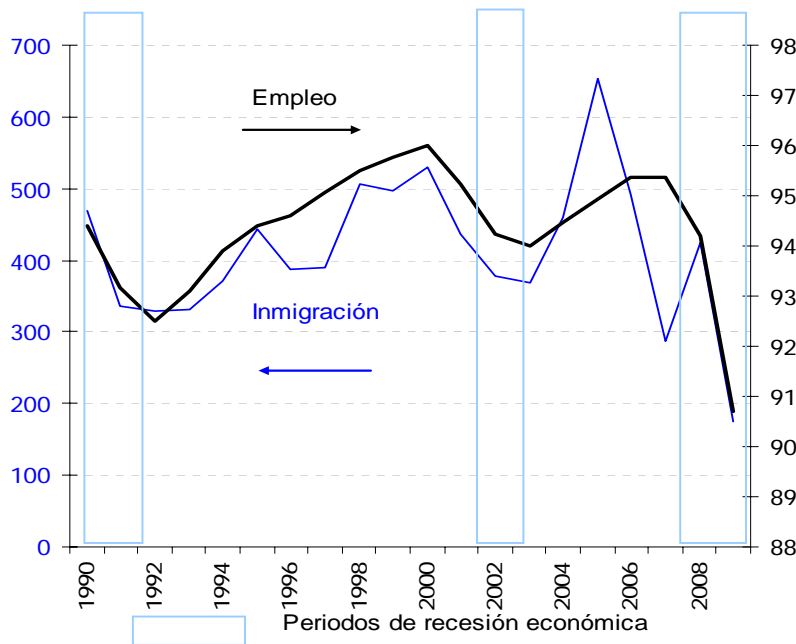
When employment rises, immigration also rises, and the opposite happens when employment falls

Mexican immigration changes with the economic cycle in the US



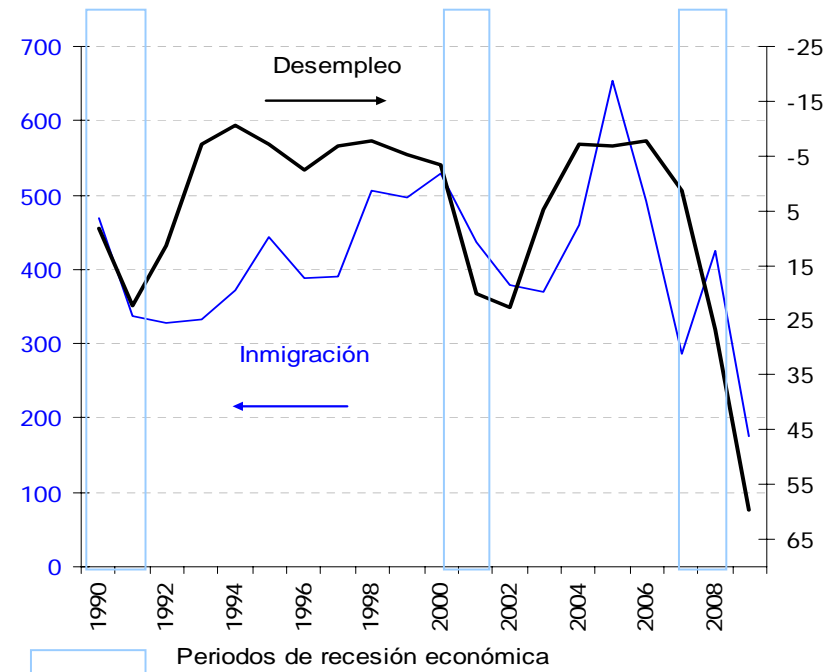
Demand for employment in the US is the main determining factor

Mexican immigration in the US and employment in the US (Thousands and employment rate)



The highest correlation of Mexican immigration to the US can be seen in the evolution of employment in that country, followed by unemployment and wage differences.

Mexican immigration in the US and unemployment in the US (Thousands and annual % var., inverted scale)



Source: BBVA Research and data from Passel and Suro (2005), Passel (2009) and Current Population Survey (US).

Source: BBVA Research and data from Passel and Suro (2005), Passel (2009) and Current Population Survey (US).

More evidence that immigration is mainly economic

Which was the main factor that slowed down the flow of Mexican immigrants to the US?

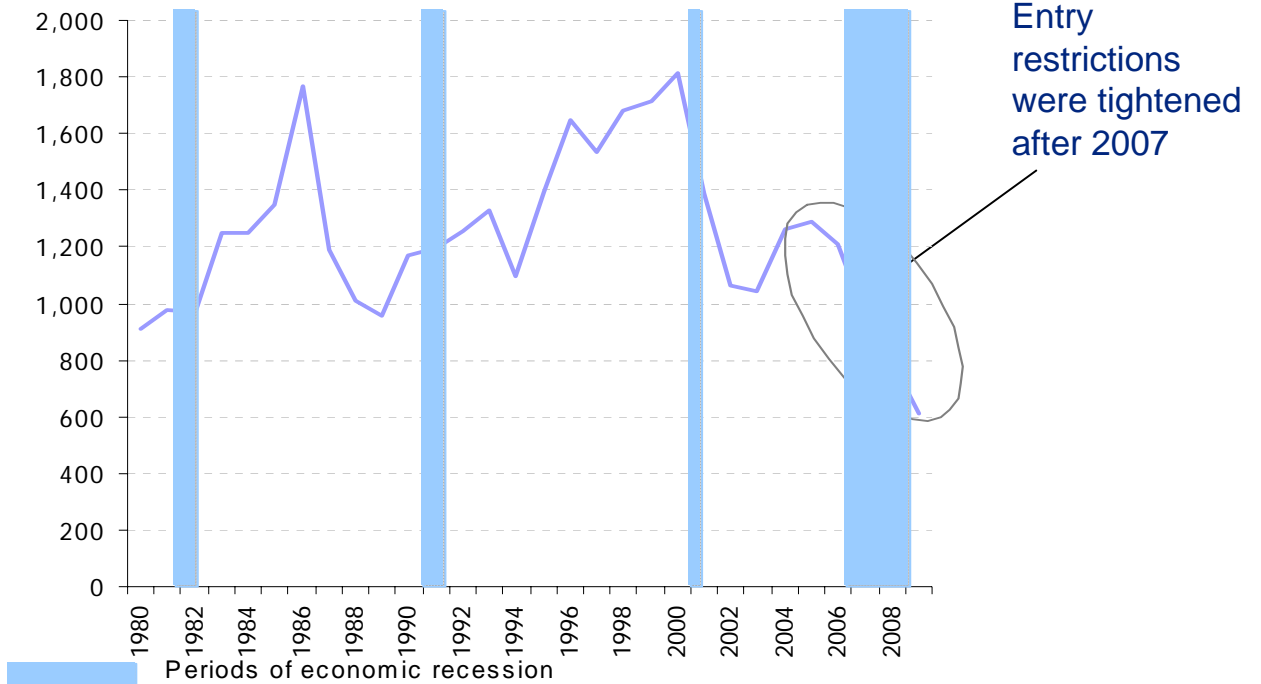


The economic crisis

- Employment growth in Mexico
- Reduction in wage differences

→ NO

US: identified deportable foreigners (Thousands)



Immigrants contribute to job creation in the US

Empirical evidence suggests that in general immigrants tend to be workers who complement the native workforce



Source: BBVA Research

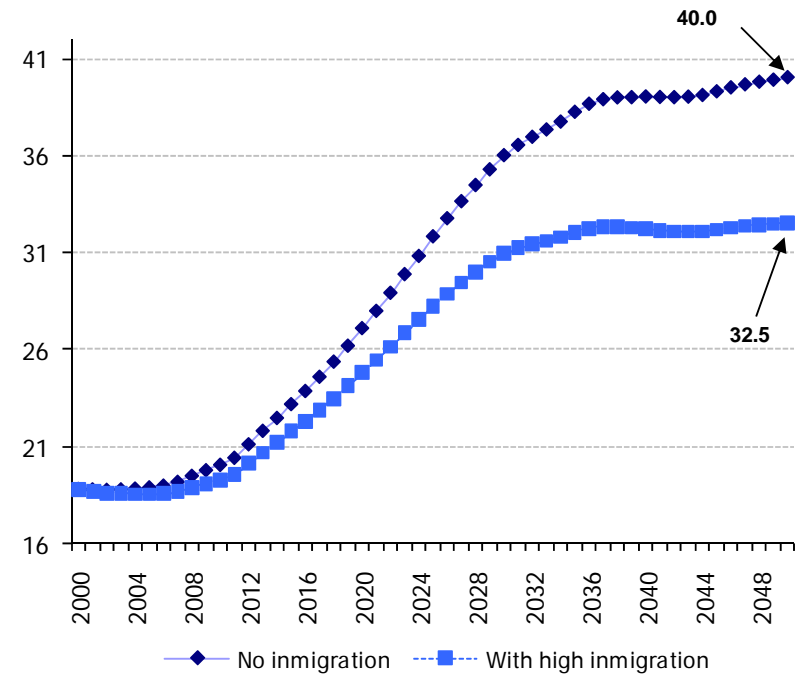
The US population is getting older

Immigrants rejuvenate the workforce in the US

- Immigrants are mostly people of working age.
- One of their effects is that they rejuvenate the workforce and reduce possible financial burdens in the pension systems
- If there were no immigration in the US, the proportion of people aged 65 or older compared to the total population aged between 15 and 64 would be 40% by 2050.

Old-age dependency ratio

(Proportion of people over 65 years of age compared to the total population aged between 16 and 64)

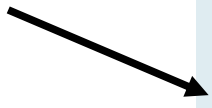


Source: BBVA Research with US Census Bureau data.

Immigration has grown in importance in the US

In 2000 there were 25.7 million native pensioners in the United States. In 2009 the figure rose to 28.8 million.

Participation of Mexicans in the labor market has also increased



Working population in the US (Thousands)

	Thousands			% change		
	2002	2007	2009	00-07	07-09	00-07
Total	135,435	145,347	139,149	7.3	-4.3	2.7
Born in the United States	116,485	122,578	115,956	5.2	-5.4	-0.5
Born abroad	18,950	22,769	23,193	20.2	1.9	22.4
Born outside Mexico	13,157	15,528	16,537	18.0	6.5	25.7
Born in Mexico	5,793	7,241	6,656	25.0	-8.1	14.9

Source: BBVA Research with CPS data, March 2000 and 2009

Contents

Migration
Watch -
Mexico
Press presentation

Section I

Outlook after the recession

Section II

Migration from Mexico to the US: an economic link

Section III

**Migration in Arizona and the effects of
Act SB-1070**

Section IV

Migration of highly-qualified Mexicans: a revealing picture

The population in Arizona, some characteristics

In Arizona, foreigners accounted for 8% of the total population in 1990, 15% in 2000 and 16% in 2009

Population growth in Arizona (thousands of people)

	1990	2000	2009	Annual average variation 1990-2000 (%)	Annual average variation 2000-2009 (%)
Native US population	3,396.6	4,478.4	5,645.4	2.8	2.6
Born abroad	268.7	652.2	892.0	9.3	3.5
Naturalized	105.4	194.9	306.1	6.3	5.1
Non-US citizens	163.3	457.3	585.9	10.8	2.8
Total	3,665.3	5,130.6	6,537.4	3.4	2.7

Source: BBVA Research with CPS data, March 2000 and 2009

Strong presence of Hispanic population in Arizona

25% of all US natives in 2009 were of Hispanic extraction. Of these, the majority were of Mexican origin (nearly 90%).

Population in Arizona by origin, 2009 (Thousands of people)

	Total	Non-Hispanic	Hispanic		
			Total	Non-Mexican	Of Mexican extraction
Native US population	5,645.4	4,221.6	1,423.8	154.3	1,269.5
Born abroad	892.0	282.0	610.0	41.6	568.4
Naturalized	306.1	155.9	150.2	15.6	134.6
Non-US citizens	585.9	126.1	459.8	26.0	433.8
Total	6,537.4	4,503.5	2,033.8	195.9	1,837.9

Source: BBVA Research with CPS data, March 2009

Arizona population as a percentage of the total US population, by heading, 2009 (%)

Native US population	2.1
Born abroad	2.4
Naturalized	2.0
Non-US citizens	2.8
Of Hispanic extraction	4.3
Of Mexican extraction	5.8
Born in Mexico	5.0

Source: BBVA Research with CPS data, March 2009

Immigration in Arizona rejuvenates the population

The average age of people of Hispanic extraction is approximately 10% less than that of non-Hispanics.

The average age of the native population has fallen with the presence of Hispanics.

Average age of the population in Arizona, by extraction, 2009 (years)

	Total	Non-Hispanic	Hispanic		
			Total	Non-Mexican	Of Mexican extraction
Native US population	34.6	38.2	23.9	29.0	23.3
Born abroad	42.0	47.6	39.3	47.5	38.7
Naturalized	50.4	52.3	48.5	56.9	47.5
Non-US citizens	37.5	41.8	36.4	41.9	36.0
Total average	35.6	38.8	28.5	32.9	28.1

Source: BBVA Research with CPS data, March 2009

Immigrants and natives tend to engage in different occupations

Immigrants, in general, do not seem to compete for jobs with the local workers.

By engaging in different activities, they tend to create major economic effects in the economy of Arizona

Employees in Arizona by type of occupation, 2009 (%)

Management, business, and financial occupations	16.2	6.7	2.4
Professional and related occupations	20.6	13.6	4.3
Services	16.5	34.2	40.2
Sales and related occupations	13.9	8.8	6.3
Administrative and support occupations	15.7	5.8	6.5
Farming, fishing and forestry occupations	0.1	2.4	3.7
Construction and extraction occupations	4.8	8.4	12.6
Installation, maintenance and repair occupations	3.9	3.8	3.9
Production occupations	3.7	5.6	7.4
Transportation and material moving occupations	4.5	10.9	12.8
Total	100.0	100.0	100.0

Source: BBVA Research with CPS data, March 2009

The economic contribution of immigrants in Arizona is significant

**12% of
Arizona's
GDP comes
from
immigration**

**Economic contribution of immigrants to the
Arizona economy, 2004**

	Naturalized	Not naturalized
Spending (dollars)	6.1 billion	4.4 billion
Approximate contribution of full-time jobs per spending	39 thousand	28 thousand
Taxes (dollars)	460 million	320 million
Approximate economic contribution		
Dollars	15 billion	29 billion
Proportion of GDP	4%	8%
Total full-time jobs	120 mil	280 mil

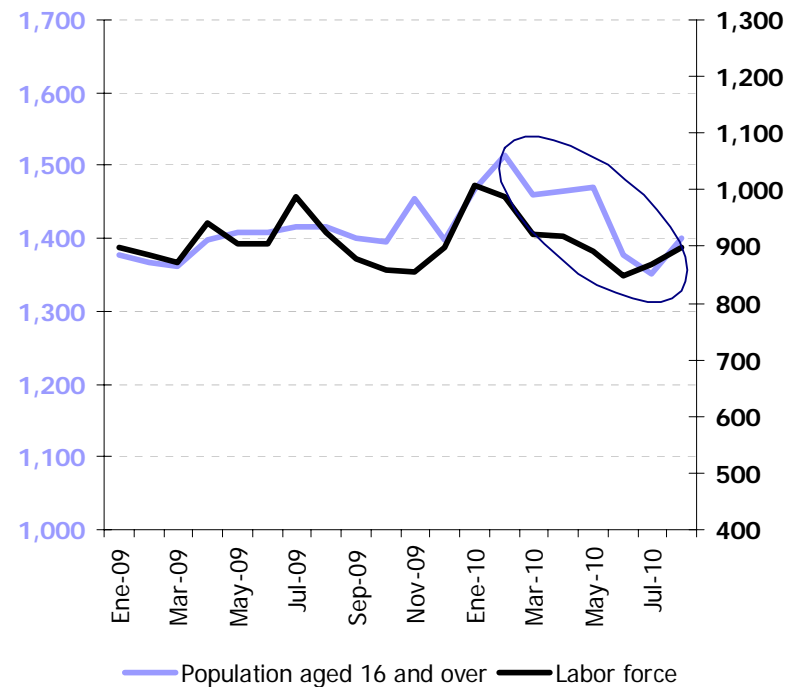
Source: Gans (2008)

Hispanics leave with the coming into force of Act SB1070

Relevant points

- We calculate that today there are 100,000 fewer Hispanics than at the start of the year.
- Most are Mexicans
- Right now it is not possible to determine the destination of the Hispanics who have left Arizona. Some have moved to other states of the Union, while others (perhaps a minority) have returned to their countries of origin.
- Between June and September 2010, approximately 23,380 Mexicans moved from Arizona to Mexico.

Hispanics in Arizona (Population aged 16 and over) (Thousands)



Source: BBVA Research with Current Population Survey data

With the departure of immigrants, Arizona could face economic losses

In the construction sector alone, a 15% reduction in the total number of immigrants could lead to a loss of nearly 7 billion dollars, about a third of what Mexico received in remittances in 2009

Arizona: estimate of the potential loss owing to a reduction in the immigrant population

Sector	Reduction in workforce	Job losses	Monetary loss (dollars)
Agriculture	15%	3300	600 million
Construction	15%	56000	6.6 billion
Manufacturing	10%	12000	3.8 million
Service industries	16%	54000	2.5 million

Source: Gans (2008)

Contents

Migration
Watch -
Mexico
Press presentation

Section I

Outlook after the recession

Section II

Migration from Mexico to the US: an economic link

Section III

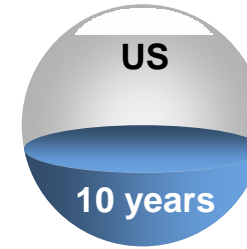
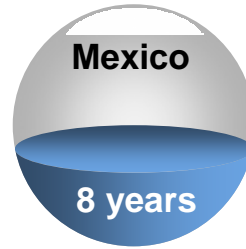
Migration in Arizona and the effects of Act SB-1070

Section IV

Migration of highly-qualified Mexicans: a revealing picture

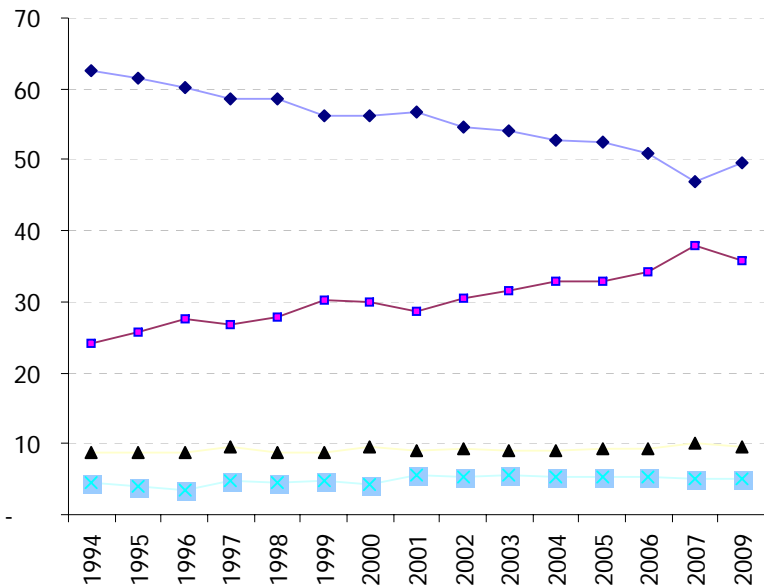
Mexican immigration has improved is labor qualification in the US

Average schooling among Mexicans:



Population born in Mexico and resident in the US, according to level of schooling

(Distribution %)



Thousands

	1994	1998	2001	2005	2009
Less than 10 grades	4,059	4,325	4,819	5,795	5,897
Specialist technician	1,556	2,064	2,434	3,630	4,243
From 10 to 12 grades	570	651	773	1,018	1,139
Professional and postgraduate	299	342	468	584	591
Total	6 485	7 382	8 494	11 027	11 869

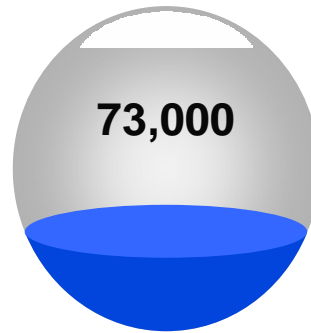
◆ Less than 10 grades ■ Specialist technician
▲ From 10 to 12 grades ■ Professional and postgraduate

Source: Conapo (National Population Council) and BBVA Research based on CPS data

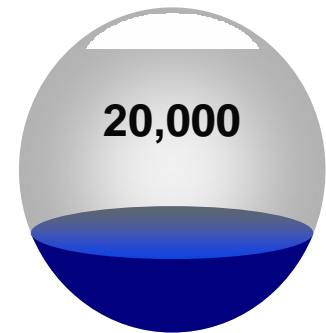
A high proportion of qualified Mexican human capital is not put to use in Mexico, but in the US

Mexicans with PhD studies

Mexico



US

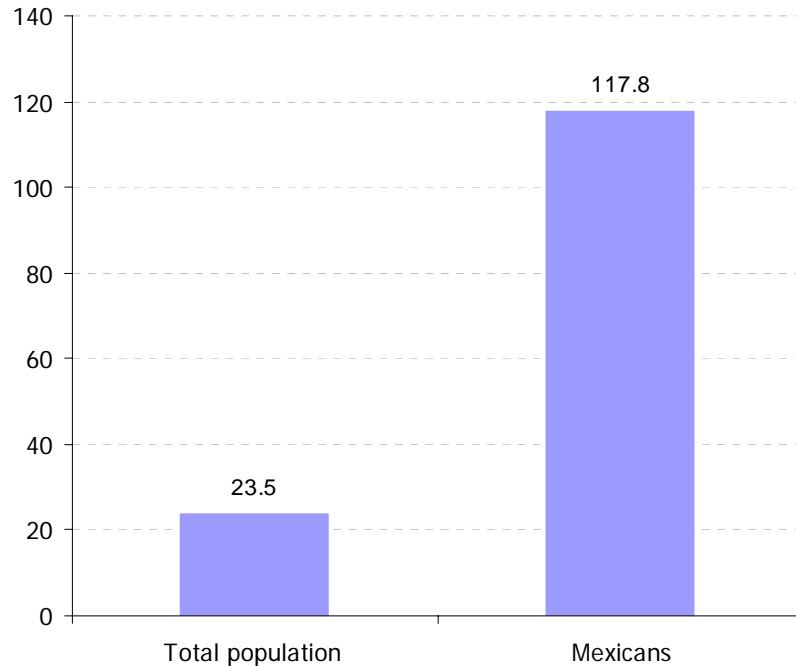


- 20% of people with PhD studies born in Mexico live in the US
- The number of Mexicans with PhD studies living in the US is greater than the number of researchers attached to Mexico's National System of Researchers (SNI) (16,000)

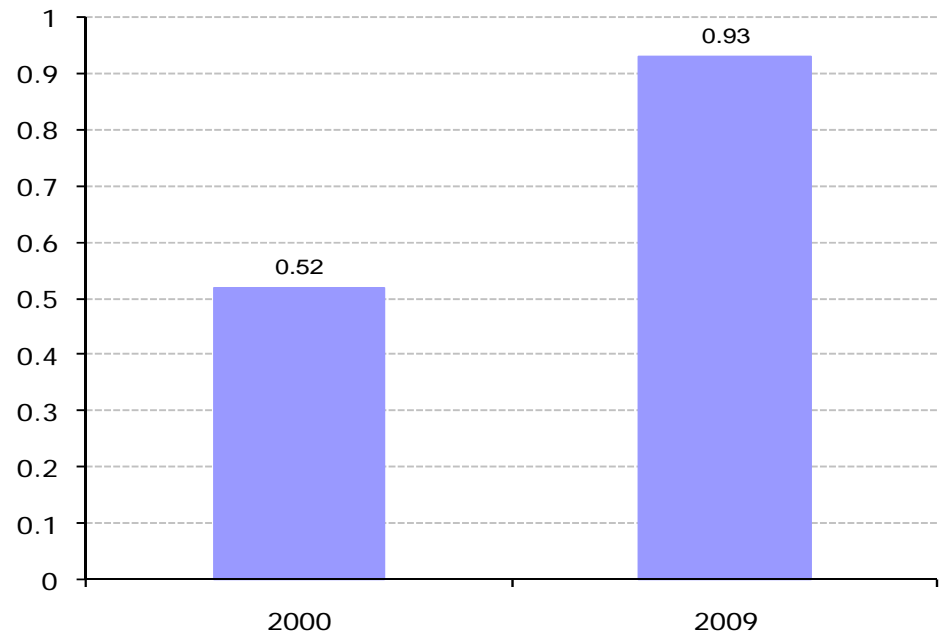
Demand for qualified Mexican immigrants has increased in the US

Demand for Mexicans with higher education grew 5 times faster than the population average.

% variation in the number of employees with higher education in the US, 2000-2009



Percentage of Mexicans with higher education in total employment, %



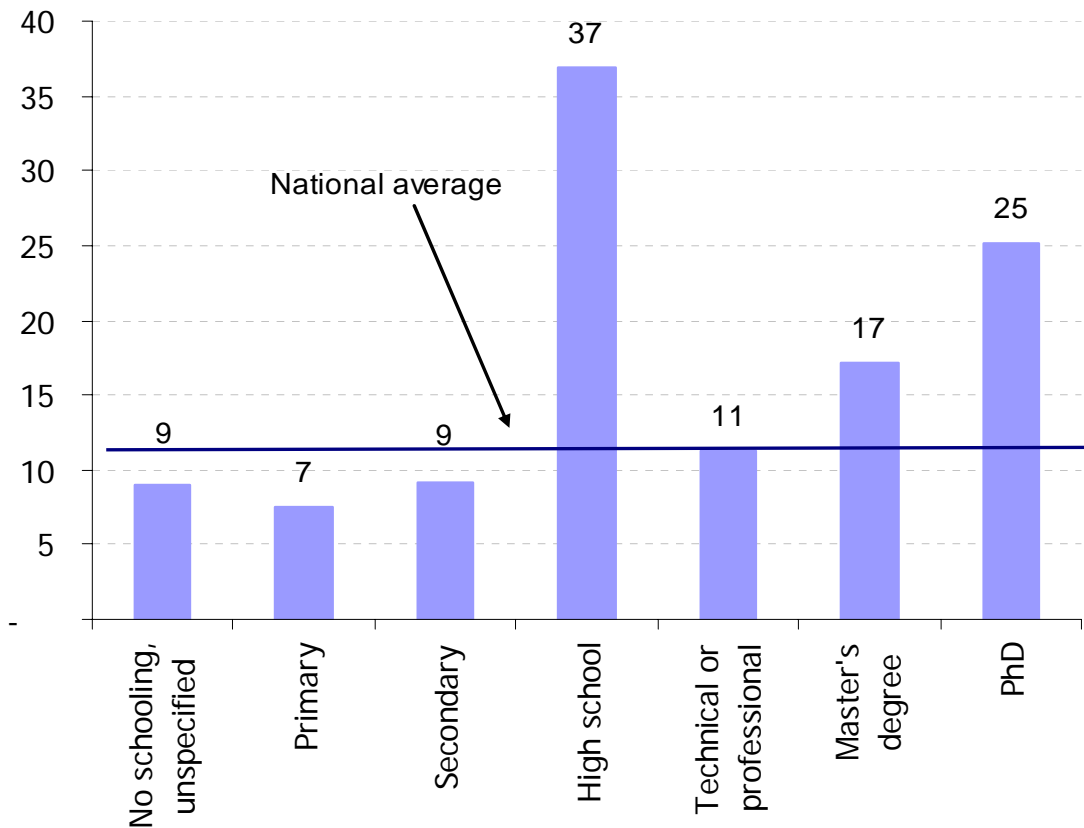
Source: BBVA Research with Current Population Survey (CPS) data, US, March 2000 and 2009

Source: BBVA Research with Current Population Survey (CPS) data, US, March 2000 and 2009

The highest immigration rates, in the highest education levels

The likelihood of a Mexican with PhD studies emigrating to the US is 4 times greater than that of a Mexican with primary education, and 3 greater than that of a Mexican with secondary education.

Percentage of Mexican immigrants in the US in relation to total population in Mexico, according to education level, 2009



Source: BBVA Research based on Current Population Survey (CPS) data, March 2009, and National Occupation and Employment Survey (ENOE), first quarter of 2009

Some characteristics of Mexicans with PhD studies

In the US, higher proportion of women in the total number of doctors.

	Mexico	US
Sex (%)		
Male	68.8	50
Female	31.2	50
Average age (years)	47.2	48.1
Age ranges (%)		
Under 40	31.9	34.1
41-50	30.3	22.4
51-60	25.2	20.7
Over 60	12.6	22.9
Hours worked per week (average)	38.1	35.1

Source: BBVA Research based on Current Population Survey (CPS) data, US, March 2009, and National Occupation and Employment Survey (ENOE), first quarter of 2009

In the US, Mexicans with PhD studies earn 3 times more than in Mexico.

Average income of Mexicans with PhD studies, depending on the country of occupation (pesos)
(Pesos)

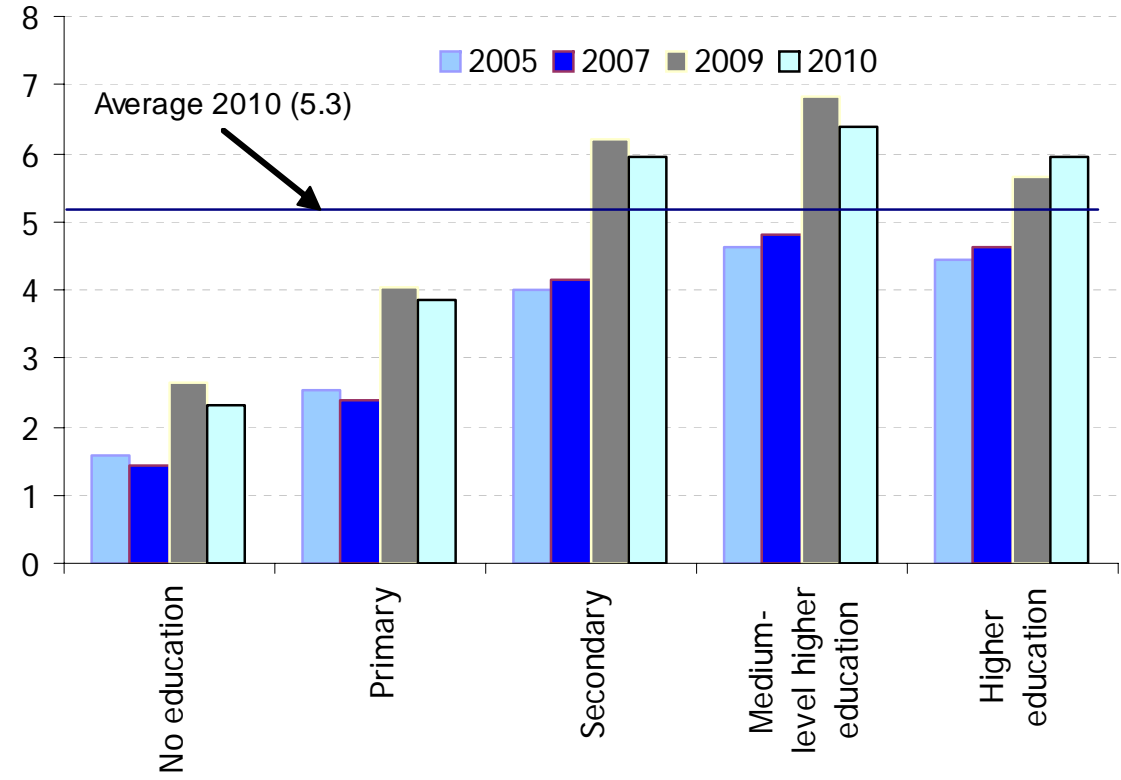
Period	Mexico	United States	B/A
	A	B	
Monthly	20,056	65,908	3.3
Per hour	111.3	376.1	3.4

Note: the 14.3 average exchange rate (peso per dollar) in the first quarter of 2009 was used

Generation of greater employment opportunities for Mexicans, an unresolved question.

In Mexico, the highest unemployment rates are found in the highest education levels

Unemployment rates in Mexico, according to education level



Source: BBVA Research based on INEGI data, National Occupation and Employment Survey
 Note: The proportion of unemployed in relation to the active population in each education level is considered. The sample used is greater than the one that considers IMSS workers only

Transfer of spending on education from Mexico to the US through immigrants

Mexico received 185 billion dollars in the period

81 billion dollars between 1994 and 2008

The US received in taxes from Mexican immigrants 2.5 times the amount obtained by Mexico from remittances

On average, nearly 6 billion dollars a year

Equivalent to more than half a percentage point of GDP year-on-year

Conclusions

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- 1. Contrary to public opinion, the most important force driving Mexican immigration is not in Mexico, but in the US, in the performance of employment in the US;** other significant factors, although less important, are unemployment in Mexico, the wage differentials between both countries and the lack of opportunities in Mexico.
- 2. The Mexican economy is not absorbing a high proportion of qualified labor.** The highest unemployment rates are found in the population with higher schooling levels (medium-level higher education and higher education). They are between 1.5 and 3 times higher than the rates among people with primary or no education. A comprehensive reform is required which considers not only elements that encourage job offers, including a possible relaxation of employment laws, Social Security, or qualification in some areas, but also factors that boost labor demand, such as improving democracy and the legal system, increasing competition in some markets and providing new incentives for generating greater investment, both public and private, which should gradually enable efficiency to increase and, thus, lead to a more attractive environment that facilitates the development of greater opportunities.
- 3. Mexico is not making full use of the best-qualified people.** 20% of people with PhD studies born in Mexico live in the US. While average schooling of Mexicans living in Mexico scarcely exceeds 8 years, in the United States the average schooling of Mexican immigrants is nearly 10 years. For every 4 people with PhD studies in Mexico, there is one Mexican immigrant in the United States with the same level of qualification.

Conclusions

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Press presentation

The likelihood of a Mexican with PhD studies emigrating to the United States is 4 times greater than that of a Mexican with primary education, and 3 times greater than that of a Mexican with secondary education.

- 4. In the period 1994 - 2008, BBVA Research estimates that Mexico transferred to the US 81 billion dollars as spending on education for Mexican immigrants in that country before emigrating.** That figure represents an average annual transfer of 6 billion dollars, equivalent to just over half a percentage point of Mexico's GDP.
- 5. The immigrant population in the US is enabling slower ageing of the working population.** This is true in the case of Mexicans, who on average are the youngest among immigrants. Most of them are aged between 30 and 45 years. If there were no immigration in the United States, the proportion of people of retirement age (65 years and over) out of the total number of people of working age (between 15 and 64), i.e., the dependency rate, would be high, 40% by 2050.
- 6. Today, there are four American pensioners for every Mexican immigrant employed in the United States.** In the coming years, the US will need more immigrants in order to mitigate this ageing process and its consequences for the economy. In addition to Social Security issues, the presence of immigrants has a positive effect for the American economy, as regards both consumption and tax payments, job creation and improved productivity.

Analysis Topics from Previous Editions

Migration Watch - Mexico

Press presentation

May 2010

- The Global Crisis and its Effects on Immigration and Remittances
- Immigration and Climate Change. The Mexican Case
- The Importance of Social Networks in Immigration
- The Impact of Social Networks on the Income of Mexicans in the US

November 2009

- Effects of the US Recession on Mexican Immigrants and Outlook for 2010
- Inter-regional and Inter-sector Mobility of Mexicans in the US
- The Economic Effects of Immigration on the Destination Country
- Recent Changes in the Conditions of Remittance-Recipient Homes
- Importance of the Global Forum on Immigration and Development

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- Factors Determining Migration
- International Immigration Flows
- Mexican Immigration to the United States: a Snapshot
- Municipal Evidence of the Deportation of Mexican Immigrants
- Has Poverty Influenced Mexican Immigration to the US? A Preliminary Answer Based on a Regional Analysis
- The Immigration Policy in the United States: a Historical Retrospective

The versions in Spanish and in English of *Migration Watch - Mexico* and other studies are available on www.bbvaresearch.com

Mexico

Migration Outlook

November 2010

Economic Analysis

- The recession in the U.S. ends, but the creation of jobs will be slow, slightly better for immigrants.
- Controls such as "The Arizona Law" could have negative effects in that state.
- A high percentage of qualified Mexican human capital is not made use of in Mexico but rather in the United States.
- The most important driving force for emigration is not in Mexico but in the U.S.



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Press presentation

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