

Mexico

# Economic Watch

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Economic Analysis

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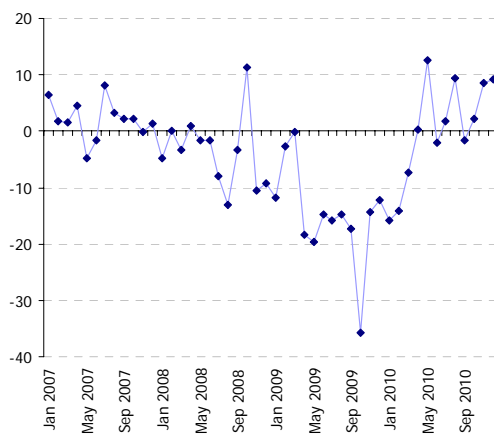
## Migration

### 2010 remittances end the year in positive territory

- Remittances recorded annual 9.1% growth in dollars in December. As a result, accumulated growth during 2010 was 0.1% in dollar terms. This is within the range forecast by BBVA Research at the end of 2009. The loss of momentum in certain variables linked to remittances from the USA –particularly the recovery in employment and the construction industry- undermined this recovery.
- Some states were affected, whilst others saw their remittance revenues increase. The most significant decreases occurred in Chiapas, Hidalgo, Veracruz and the State of Mexico; the largest increases were recorded in Sonora, Baja California Sur and Baja California.
- We expect this recovery in remittances to continue in 2011. Mexico may attract a little over 22 billion dollars, with annual growth in dollars of over 3%. However, in our base-case scenario we do not expect 2007 levels to be achieved again until 2012 or perhaps even 2013.

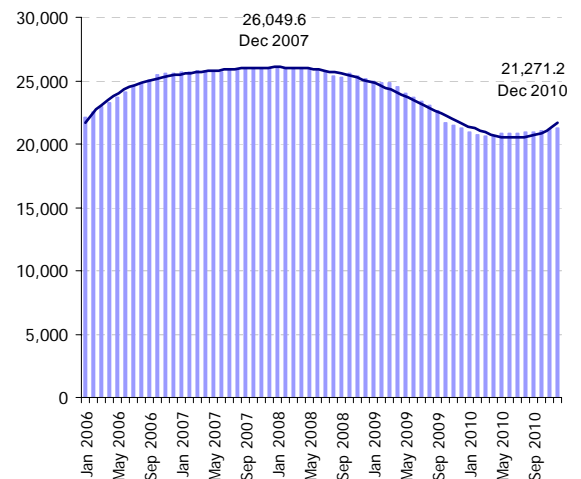
The Bank of Mexico has announced that remittances to Mexico in December 2010 amounted to 1.7066 billion dollars, an annual increase of 9.1% in dollar terms; this was the largest increase in the last month of the year since 2005. As a result, total revenue from remittances in the year amounted to 21.2712 billion dollars, 0.1% up on 2009 in dollar terms.

Chart 1  
**Family remittances to Mexico**  
 Y-o-y % change in dollars



Source: Banxico

Chart 2  
**12-Month remittance flow to Mexico**  
 Accumulated flows, 12 months  
 (Million dollars)



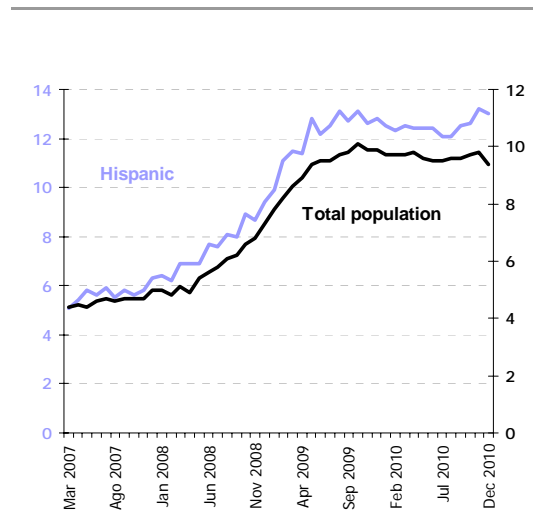
Source: Banxico

In earlier editions of *Economic Watch Migration* starting in late 2009 and early 2010 we forecast that there would be a degree of recovery in remittances in dollar terms in 2010. Whilst remittances began to recover in the second quarter of 2010 and continued this trend in subsequent quarters, expectations of growth have fallen as a result of the behavior of some US economic variables which are strongly related to remittances to Mexico, such as employment and construction.

The rate of unemployment for Hispanics in the USA fell by one percentage point from October 2009 to July 2010, which was in excess of the fall in the general unemployment rate (0.6 percentage points over the same period). However, unemployment started to increase again in the last 4 months of 2010. Furthermore, new housing starts which were positive from December 2009 to May 2010 began to run out of steam in the second half of 2010.

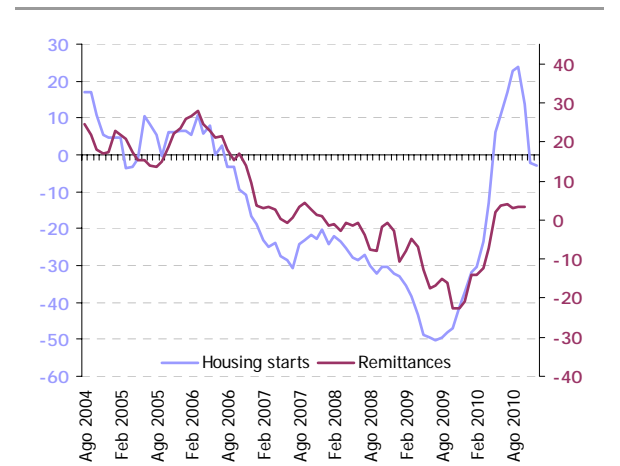
Mexican migrants have not been immune to these developments in the US labor market. The pace at which they were obtaining employment in the early months of the year has also slowed, although they have continued gaining new jobs; this resulted in remittances to Mexico in December 2010 increasing at an annual rate for the third month running. This was further supported by an increase in the average value of remittances, which increased at an annual rate of 4.3% in December to 305.5 dollars per remittance per month.

Chart 3  
**USA: Unemployment rate in total population and among Hispanics (Seasonally-adjusted figures)**



Source: BBVA Research based on US Census Bureau data

Chart 4  
**Remittances to Mexico and new home construction in USA (annual growth rate)**



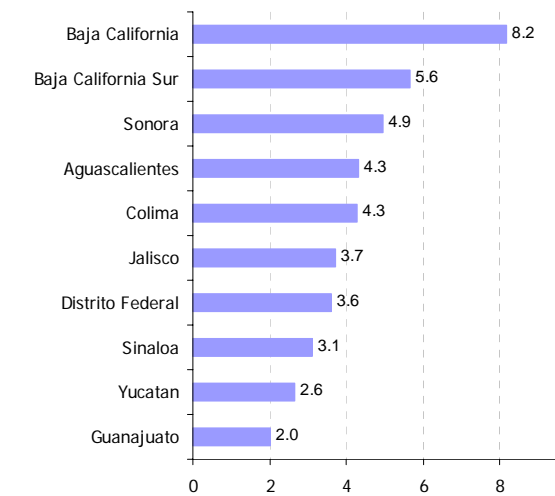
Note: 3 month moving average. U.S. housing starts lagged 4 months.

Source: BBVA Research based on Current Population Survey figures from the US Census Bureau

However, revenue from remittances decreased in some states. These included Chiapas, Hidalgo, Veracruz and State of Mexico, where remittances fell by over 3.5%. However, remittances increased by at least 5% in Sonora, Baja California Sur and Baja California.

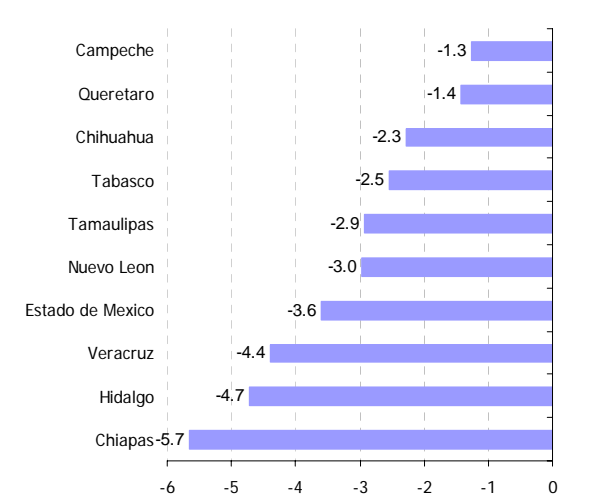
A further point which we have highlighted in the past is that the strength of the peso could affect revenue from remittances received by families. This has proven to be the case. Whilst the annual increase in remittances in dollar terms was close to zero, once we discount inflation in Mexico and convert the remittances into pesos, the real value of remittances fell by nearly 11%, representing a significant reduction in the purchasing power of such remittances.

Chart 5  
**Mexico: The 10 states with the largest increases in remittances in 2010**  
 (% Annual change in dollars)



Source: BBVA Research based on Banxico figures

Chart 6  
**Mexico: The 10 states with the largest decreases in remittances in 2010**  
 (% Annual change in dollars)



Source: BBVA Research based on Banxico figures

In 2010, remittances in dollar terms were below the levels recorded in 2005 and 2008. The economic crisis has resulted in a significant reduction in revenues from remittances, returning them to 2005 levels. However, as we have stated, remittances in dollar terms are starting to recover. Remittances will continue to increase throughout 2011. Mexico may attract a little over 22 billion dollars, an increase of over 3% in dollar terms. However, there is still a way to be before we return to the highs seen in 2007, which in our base-case scenario will not happen until 2012 or 2013.

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