

Central Bank Reports Sharp Decline In Remittances In First Four Months Of 2009; April Decline Most Pronounced

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The Mexican economy is being hit from all sides, as all its major sources of foreign exchange are experiencing declines. Because of the crisis that has gripped the global and US economies, revenues from oil exports are down, the influx of foreign tourists is lagging, and remittances sent home from expatriates in the US have dropped significantly. In its most recent report, the Banco de Mexico (central bank) said remittances declined by about 8.7% in January-April relative to the same period a year ago. More significant, remittances for April alone dropped by more than 18% from a year ago.

Remittances had been growing steadily in recent years, but the pattern began to reverse in 2008, as a slump in the US economy particularly the construction industry reduced job opportunities for Mexicans residing in the US. The central bank said remittances in January-April amounted to slightly more than US\$7.2 billion, compared with about US\$7.9 billion in the first four months of 2008. That decline of almost 9% was bad enough, but the drop was deeper in April, when expatriates only sent about US\$1.8 billion to Mexico, compared with about US\$2.2 billion a year ago. The 18% decline was the largest for any month since the Mexican government started keeping statistics on remittances in 1996. This also surpassed the previous year-on-year decline, a 13% drop recorded in August 2008.

Guillermo Ortiz, the Banco de Mexico's chief governor, tried to put a positive spin on the clearly dire statistics. Ortiz said the changes in the foreign-exchange rate relative to a year ago meant that remittance recipients have greater resources this year. "You have to consider that, given the depreciation in the exchange rate, when we change them [remittances] to pesos, it represents an important increase relative to the amounts we were receiving years ago," said Ortiz.

On April 29, 2009, the exchange rate was reported at 13.71 pesos per US\$1.00, compared with 10.46 pesos per US\$1.00 on April 16, 2008 (SourceMex, April 16, 2008 and April 21, 2009). The problem for Mexico is that remittances are the second-largest source of foreign exchange after oil exports. Oil exports in January-March were already down 60% from the same period a year ago (SourceMex, April 29, 2009).

Remittances expected to fall for second straight year in 2009

The pattern for the first four months of the year does not bode well for the influx of money from remittances in 2009. Mexicans sent home about US\$25 billion in 2008, down 3.6% from the previous year. Preliminary estimates had put remittances last year at about US\$23 billion, down only 2% from 2008 (SourceMex, January 21, 2009). While analysts are certain that remittances will drop in 2009, they are not sure how steep a decline to expect. "It's going to be down in 2009," Philip Martin, an immigration expert at the University of California Davis told The New York Times, "but the

question is how much." Analysts were at a loss to explain why the decline was so steep in April, when the same factors that have been eroding remittances in recent months were still at play, including job losses in US construction and service industries and the decline in the number of Mexicans entering the US because of tighter enforcement along the US-Mexico border.

In some cases, Mexicans who have lost higher-paying jobs in construction have taken lower-paying jobs, leaving less money to send home. This might have been reflected in the average amount that expatriates sent home during April, which the Banco de Mexico reported at US\$337.5 million, compared with US\$344.5 million a year ago. Some analysts noted that expatriates are facing the same pressures as most workers in the US, who are dipping into their savings to make ends meet. "This is the effect of the savings running out for people who lost their jobs," economist Gabriel Casillas of UBS AG in Mexico City told Bloomberg news service. "We are seeing the aggravation of all these trends," said economist Eliseo Diaz of the Colegio de la Frontera Norte in Tijuana. "With opportunities for employment in the US shutting off, we cannot continue to export labor to the US anymore. The prize for migrating no longer exists." The Banco de Mexico said Michoacan receives the most remittances of all Mexican states, followed by Guanajuato, Jalisco, Mexico state, Veracruz, Puebla, Guerrero, Oaxaca, and the Federal District.

In a recent report, the Economic Commission for Latin America and the Caribbean (ECLAC) said the drop in remittances is having a deep impact on all of Latin America (NotiSur, May 29, 2009), but Mexico, as the biggest recipient, is feeling the deepest impact. Other countries in the region whose economies rely heavily on remittances are Brazil, Colombia, Guatemala, and El Salvador. The steep decline in remittances during April occurred before Mexico was hit by the outbreak of the H1N1 virus, also known as swine flu. The outbreak brought business activity in Mexico to a near halt for several days (SourceMex, April 29, 2009 and May 06, 2009). Tourism, Mexico's third-largest source of foreign exchange, was one of the sectors that were hit hardest, although authorities have yet to quantify the damage to the industry.

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