

# SpotLight

## Remittances to Mexico

# Cross-Border Money Flows Slowed by U.S. Slump

**M**exicans living in the U.S. are sending less money home. In 2009, remittances to Mexico totaled \$21.5 billion, a 15 percent decline from 2008. With the exception of October 2008, remittances have been decreasing since mid-2007 (*Chart 1*).

Remittances represent significant income for Mexico's economy. In 2008, inflows of \$25.3 billion equaled roughly 3 percent of Mexico's GDP and nearly 60 percent of oil-export revenues, and they exceeded foreign direct investment by 30 percent.

The money from abroad is important for many families in poorer regions of Mexico, such as the south and west. Remittances increase consumption and reduce poverty, and they have been found to spur entrepreneurship and schooling among recipients.<sup>1</sup>

Most research identifies migrants' income as the main driver behind remittances, suggesting a positive correlation with economic conditions in the sending country. So it shouldn't be surprising that remittances began to fall with the downturn in the U.S. economy as measured by the coincident index, which peaked in late 2007 (*Chart 2*).

The timing coincides closely with the nationwide housing bust and fall in construction employment. A 2007 Banco de México survey found that nearly a fifth of migrants who sent

money home worked in the U.S. construction sector. Remittances kept rising in the 2001 recession, which didn't see a housing bust.

The size of the Mexican migrant population in the U.S. also influences total remittances.<sup>2</sup> A recent study by the Pew Hispanic Center didn't find Mexican immigrants returning home in large numbers; however, it did confirm a significant decline in the flow of new migrants to the U.S. in the past few years, likely a response to dwindling employment opportunities.<sup>3</sup> Mexican demographic data also indicate that net emigration fell 61 percent from its 2006 peak to 2009.<sup>4</sup>

Two factors that impact remittances probably haven't contributed to recent declines. The cost of transferring money to Mexico fell in the first half of this decade and remains low, so remittance fees can't explain a decline in migrants' transfers since 2007.

In fall 2008, the dollar appreciated against the peso amid the financial crisis. A cheaper peso should provide incentives for migrants to send more money home, where a dollar can buy more. However, exchange rate changes weren't large enough to reverse the downward trend in remittances.

Recent data suggest the U.S. economy is starting to recover, and the U.S. housing market may be bottoming out. Job growth has yet

to revive, but forecasters anticipate real GDP growth of 3 percent in 2010 and 3.1 percent in 2011. Renewed growth will likely encourage migration, restoring remittances. However, commercial construction is still declining, suggesting the rebound in remittances might be slow.

—Roberto Coronado and Jesus Cañas

### Notes

<sup>1</sup> See "Remittances and Poverty in Mexico: A Propensity Score Matching Approach," by Gerardo Esquivel and Alejandra Huerta-Pineda, *Integration and Trade Journal*, no. 27, 2007, pp. 45–71; "Globalization, Migration and Development: The Role of Mexican Migrant Remittances," by J. Ernesto López-Córdova, *Economía*, vol. 6, no. 1, 2005, pp. 217–56; and "Migration Networks and Microenterprises in Mexico," by Christopher Woodruff and Rene Zenteno, *Journal of Development Economics*, vol. 82, no. 2, 2007, pp. 509–28.

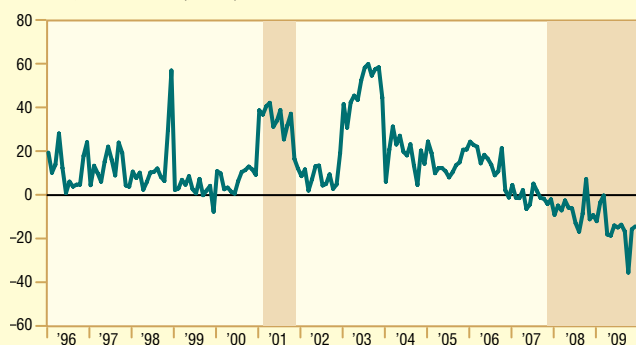
<sup>2</sup> See "Explaining the Increase in Remittances to Mexico," by Jesus Cañas, Roberto Coronado and Pia Orrenius, Federal Reserve Bank of Dallas *Southwest Economy*, no. 4, 2007. Economic conditions in Mexico also matter, but research provides inconclusive results regarding the direction of the impact on remittances.

<sup>3</sup> See "Mexican Immigrants: How Many Come? How Many Leave?" by Jeffrey S. Passel and D'Vera Cohn, Pew Hispanic Center, Washington, D.C., July 2009.

<sup>4</sup> Estimates based on second-quarter data from Encuesta Nacional de Ocupación y Empleo, Instituto Nacional de Estadística y Geografía.

**Chart 1**  
**Mexico's Remittances Show Rare Decline**

Year-over-year growth rate (percent)



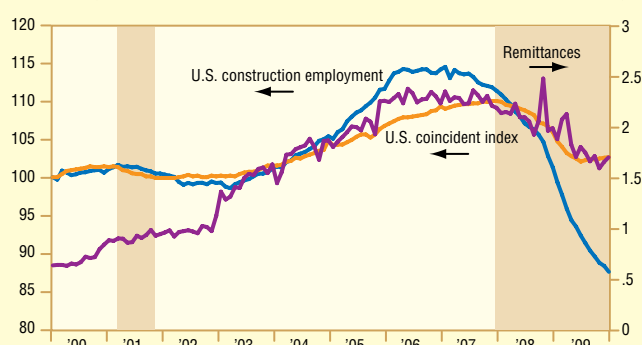
NOTES: Remittances have been adjusted for inflation and seasonal factors. Shaded areas represent U.S. recessions.

SOURCES: Banco de México; authors' calculations.

**Chart 2**  
**Remittances Track U.S. Business Cycle**

Index, January 2000 = 100

Billions of dollars monthly



NOTES: Remittances have been adjusted for inflation and seasonal factors. Shaded areas represent U.S. recessions.

SOURCES: Banco de México; Conference Board; Bureau of Labor Statistics; authors' calculations.