



Inter-American Development Bank
Multilateral Investment Fund



THE CHANGING PATTERN OF REMITTANCES

2008 SURVEY OF
REMITTANCES FROM THE
UNITED STATES
TO LATIN AMERICA

WASHINGTON, DC

APRIL 2008

INTRODUCTION

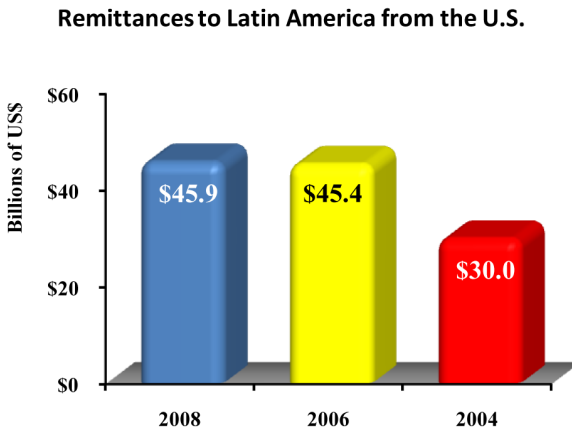
The phenomenal growth of remittances to Latin America in recent years slowed to single digits during 2007, raising the question of whether the change represents a bend in the road or a new direction for remittances to the region. This report takes the first step towards providing an answer to that question by presenting the results of a comprehensive survey of 5,000 Latin American adults currently living in the United States. The survey strongly indicates that the growth of remittances to Latin America from the U.S. has slowed considerably.¹

In real terms, remittances, which were flat for much of 2007, may even begin to fall during the course of 2008. Indeed, while the total of remittances from the U.S. to Latin America will probably reach overall levels comparable to the past two years, the number of remittance senders to Latin America may fall by up to 25% during 2008 compared to 2006. Inevitably, such a slowdown would negatively impact the standards of living of millions of families in the region who depend on the remittances migrants send home.

The current survey goes beyond simply tallying remittance totals and starts to probe the reasons behind the shift in remittance flows. The results suggest that two principal forces are affecting the lives of Latin American immigrants and the flow of money they send home.

The first is the effect of the U.S. economic downturn on the sectors employing large numbers of Latin American immigrants. Impacting the incomes of workers directly, the downturn is clearly reducing the capacity of immigrants to support their families back home.

The second, and perhaps more significant force, is the effect of the immigration climate which has been emerging over the past two years and is changing the dynamics of remittances to Latin America.



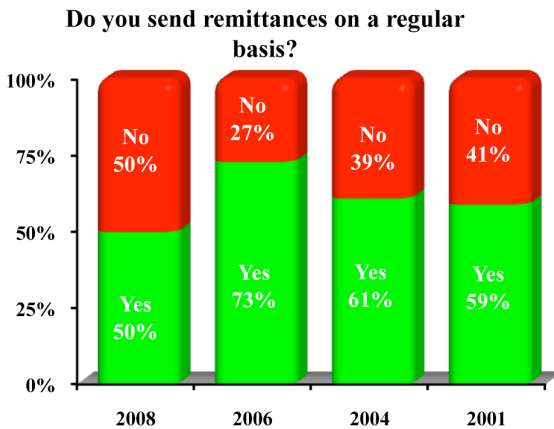
1. Remittances from the United States to Latin America increased just over 1% since August of 2006.

REMITTANCES RISE, BUT BARELY

Over the course of three surveys between 2001 and 2006, a clear pattern emerged as higher percentages of Latin American immigrants were sending more money home, more often. Over the past several months, however, that pattern has stopped.

Although immigrants from Latin America have continued to come to the United States to fill job opportunities during the past two years, this survey estimates that the percentage of people now sending money home has dropped significantly from 73% in 2006 to 50% in 2008. The survey also indicates that this drop in the percentage of Latin American migrant workers remitting is evident across the entire country, as compared to the results of an earlier survey conducted last year which suggested that the slowdown in remittances might be limited to a relatively few states.

If this trend is confirmed during the remainder of 2008, the number of immigrants sending money from the U.S. to Latin America would drop from an estimated 12.6 million to 9.4 million over the last two years. Unless reversed, there would be two short-term negative effects: first, at least two million Latin American families, mostly in Mexico, would be driven below the poverty line, which, in turn, could drive even more migrants to leave home.



While the survey indicates a significant decrease in almost all states in the percentage of Latin American immigrants who are sending remittances, the overall effect in many states is offset by those who do remit.

Those immigrants who have continued to send are sending in higher amounts and are sending more often, which is compensating for the drop in the number of immigrants sending. As a result, the total amount of remittances sent to Latin America from the U.S. is projected to reach \$45.9 billion in 2008, essentially matching the amounts sent in 2006 and 2007.²

CHANGES IN REMITTANCES SENT HOME FOR SELECTED STATES

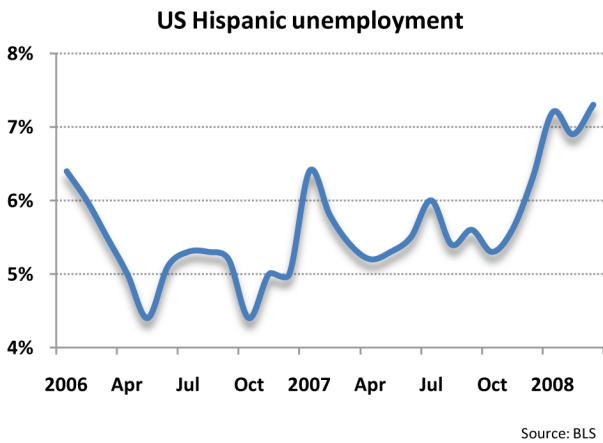
States	2008 total (millions of US\$)	2006 total	Δ %
Pennsylvania	370	517	-28%
Texas	4,299	5,222	-18%
Georgia	1,443	1,736	-17%
Maryland	818	921	-11%
Virginia	1,023	1,110	-8%
Arizona	1,357	1,378	-2%
Florida	3,071	3,083	0%
North Carolina	1,243	1,221	2%
New Jersey	1,943	1,869	4%
New York	3,933	3,714	6%
Illinois	2,813	2,583	9%
California	14,599	13,191	11%
Massachusetts	654	579	13%
Washington	572	504	13%
Colorado	764	646	18%
Nevada	768	618	24%

Note: States sending home more than \$500 million in 2006, sorted by smallest to largest increase.

CHALLENGES FOR MIGRANT WORKERS SENDING MONEY HOME

Of the two major problems identified in the survey, a myriad of factors influence the economic ability of migrants to send money home. The general economic downturn has placed pressure on wages and contributed to increased unemployment among Hispanics from 5.2% in 2006 to 7.1% in the first quarter of 2008. Together with negative effects on the housing market, and, even more significantly, the increasing costs of food and fuel, migrant workers must be flexible and work even harder in order to continue to provide for their families back home.

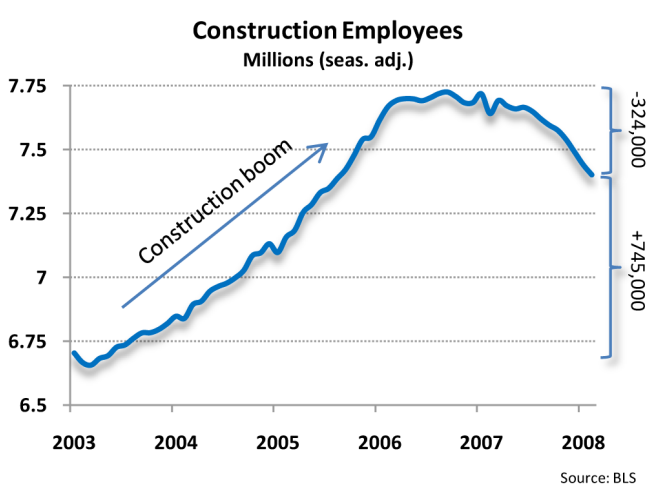
2. The current survey covers Latin America, including the Dominican Republic. It does not cover the countries of the English-speaking Caribbean or Haiti.



ECONOMIC PRESSURES AND CHANGING ATTITUDES: IT'S MORE THAN JUST CONSTRUCTION

It has been widely reported that the downturn in U.S. economy, particularly in the construction sector, is the principle cause of the slowdown in remittance growth. The survey results suggest that this overestimates the importance of that sector and indeed the overall slowdown of the U.S. economy to date.

The construction boom that began in 2003 reached its apex in 2006 and offered the prospect of employment to hundreds of thousands of low-skilled Latin American workers. According to the survey, construction currently employs 17% of Latin American immigrants. While construction is clearly suffering, that sector has retained two-thirds of the jobs added since 2003.



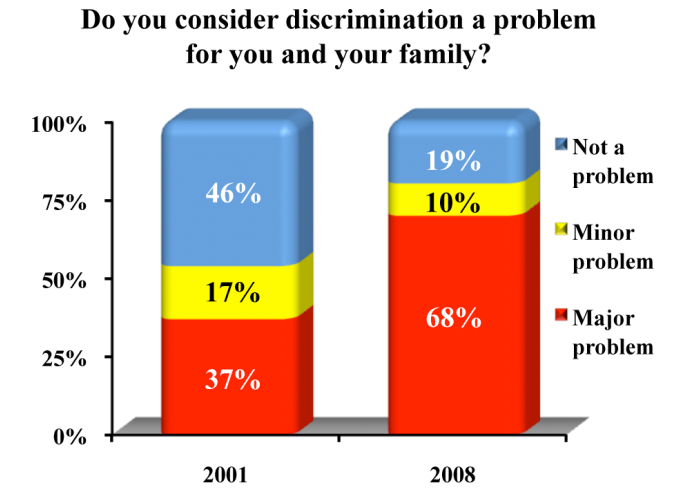
The manufacturing sector, which has seen a steady decline in the number of jobs it provides over the last decade, together with textile workers employs approximately 12% of Latin Americans who remit.

In fact, 36% of remittance senders are employed in the service sector; it is this sector which has proved the most robust in the face of the economic slowdown and is absorbing workers from other sectors. Focus group interviews conducted in preparation for this survey suggest that immigrants are flexible and perseverant, adapting to the loss of a job by changing sectors, and coping with the higher cost of living due to food and fuel price increases by changing their spending patterns, working longer hours and/or taking multiple jobs. Even so, there are limits to their resourcefulness in the face of increasing economic difficulty and a perceived increase in discrimination. While there is no question that the economic downturn is having an impact, there is clearly more going on.

To get an accurate picture of the effect of the changes in both the economic situation and attitudes towards immigration, respondents were asked a series of questions about how difficult it is to find employment and to what degree discrimination is seen as a problem for themselves and their families.

81% of the migrant workers interviewed believe that it is more difficult to find a good-paying job in 2008 than in previous years (10% believe it is easier).

68% believe that discrimination constitutes a major problem for them and their families. This is in stark contrast to the results when the same question was asked in our first survey in 2001. At that time only 37% believed discrimination to be a major problem, with 46% believing that discrimination was not a problem at all (now dropping to 19%)



It is the overwhelming perception of those interviewed that there has been a marked worsening of the position of Latin American immigrants, both in terms of economic opportunity and discrimination. This fact leads to the question of how this change in climate has affected the ability of immigrants to send money home.

A majority of respondents (51%) believes that the anti-immigrant sentiment in the U.S. is making it more difficult to send money to their families; only 33% disagrees with that statement.

To assess whether the changing climate has impacted the earning capacity of those sending, respondents were asked whether they were making more, the same or less money than they had earned in 2007. Almost 40% of respondents indicated that they were earning less, 33% reported earning about the same while only 25% reported earning more. Given the rising cost of living, these figures constitute declining real incomes for about three out of four Latin American migrant workers living in the United States.

LABOR MARKET'S CONTINUE TO DRIVE MIGRATION TRENDS

Despite the economic slowdown, the U.S. labor market continues to need younger workers and is still attracting Latin Americans to the United States.

According to this survey, 56% of migrants were not employed in a full-time job before coming to the United States, with respondents earning the equivalent of only \$160 per month (\$1,920 per year) in their country of origin.

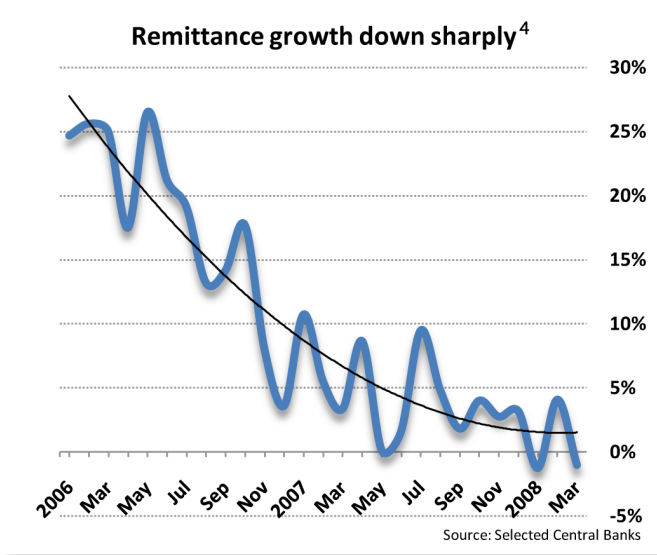
The survey indicates that, having come to the United States, Latin American workers need only 1 month on average to find employment, 39% find a job within 2 weeks!

At their first job in the U.S., most migrants earned \$900 per month (\$10,800 per year), which implies that by simply crossing the border, the value of their labor increased by 5½ times.

But, harder times may be ahead as increasingly negative attitudes towards immigration are coupled with a slowing economy, leading to uncertainty about future prospects in the United States and uncertainty for families back home.

THE CHALLENGES FACING FAMILIES BACK HOME

The most important question regarding the flow of remittances in 2008 is not whether there will be a marginal increase or decrease in the total number of dollars sent home, but rather whether the millions of families that depend on these transfers will be able to cover their essential daily expenses, and leverage their remittances to lift themselves out of poverty.



Latin America's economies have been growing steadily in recent years, increasingly holding out the prospect of gainful employment at home for those considering moving abroad. As one of the region's most vibrant economies, Brazil was the first country in Latin America to experience an actual decline in remittances. Although a drop in remittances is often seen as profoundly negative for remittance recipients, the Brazilian situation actually represents a success story. Remittances to Brazil have declined largely as a result of Brazilians returning home because of improving prospects at home, while opportunities and the atmosphere surrounding immigration has become less attractive in the United States.

Projections for Latin American economic growth in 2008, however, currently suggest that this growth will decline to 4.4% in 2008 and further in 2009, largely due to the close economic relationship with the United States. At the same time, the same rising inflation (especially with regard to the price of food and fuel), that has decreased the ability of migrant workers in the United States to send, has also significantly increased the cost of living for remittance receiving families.

3. IMF.

4. Weighted change in monthly remittance flows over the previous year to selected countries.

DEMOGRAPHIC REALITY

Immigration to the United States is more than just the result of differences in employment opportunities north of the Mexican border. As immigrant labor helped the construction sector cope with the rising demand for housing between 2003 and 2006, there is new and far more significant demand on the horizon, this time due to long-term demographics rather than shorter-term economic development.

The population of the United States is ageing. As the Baby Boom generation moves into retirement, the size of the elderly population is expected to double by 2050 according to the Pew Research Center.

According to current fertility rates, the average white non-Hispanic woman in the United States will have 1.8 children over the course of her lifetime. That level is well below the replacement rate of 2.1, the number of children required to maintain the population.

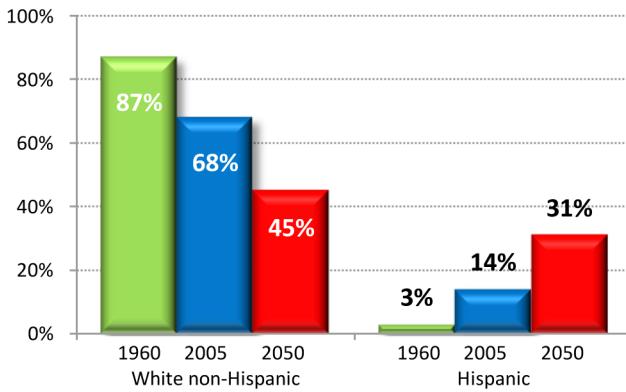
This trend translates to an increasingly narrow demographic base to support the Baby Boom generation which is now reaching retirement age. As the share of the elderly increases, so do the demands placed on the social security and healthcare systems and the demand for labor will shift increasingly towards sectors catering to retirees. The dependency ratio, the ratio of elderly and children to adults in the labor force, is expected to rise by 60% given current trends.⁵

Immigrants from Latin America play a significant role in helping the nation adjust to these momentous changes. The Hispanic population as a whole is significantly younger and Hispanic immigrants and their U.S. born children fill the demographic vacuum left behind the Baby Boom generation, providing the labor essential to keeping the economy growing.

The effect of this difference in demographics is clear: while the share of the white non-Hispanic working-age population in the United States is expected to fall 23% between 2005 and 2050, the share of Hispanics active in the labor force is projected to rise 17%.

5. From 59 children and elderly people per 100 working-age adults in 2005 to 72 dependents per 100 working age adults in 2050.

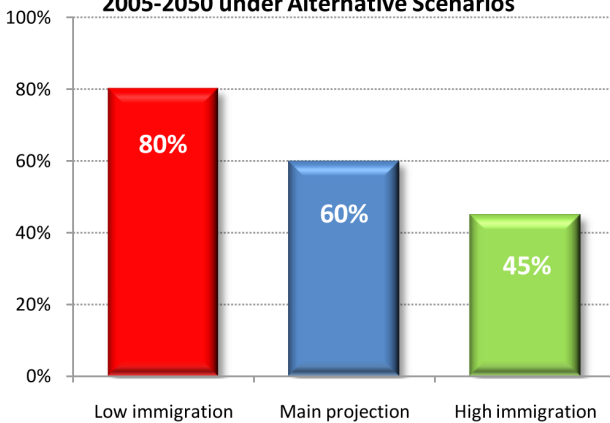
**Working-Age Population
Actual and Projected: 1960, 2005 and 2050
(% share of population ages 18 to 64)**



Source: PEW research Center

These examinations are based on trends identified in 2006. As the immigration debate has intensified, measures at both the national and often at the local level have become more restrictive, especially towards the undocumented.

**Rise in Elderly Dependency Ratio
2005-2050 under Alternative Scenarios**



Source: PEW research Center

Like much of the developed world, the United States is experiencing a demographic change of huge proportions. Some countries, such as Italy, France and Japan, face an immediate problem, while others, such as Spain, have taken important steps to align their immigration policies to reflect the immediate needs of their economies as well as the longer-term solvency of their social security systems. Balancing these needs with the political reality of immigration has always been challenging.

But, given the demographic realities, if you are pro-economic growth for the United States, in the long run, you have to be pro-immigration.

THE FUNDAMENTALS

This survey provides a snapshot of Latin American remittance senders in the first months of 2008 in which an economic downturn is being exacerbated by a worsening atmosphere for Latin American immigrants in the United States. Nevertheless, immigration is --and will continue to be-- as essential to the economies of the developed world as to the well-being of the families receiving remittances. As long as the demographic gap in the United States is matched by an opportunity gap in Latin America, migrants will continue to seek a better life north of the border, or further afield.

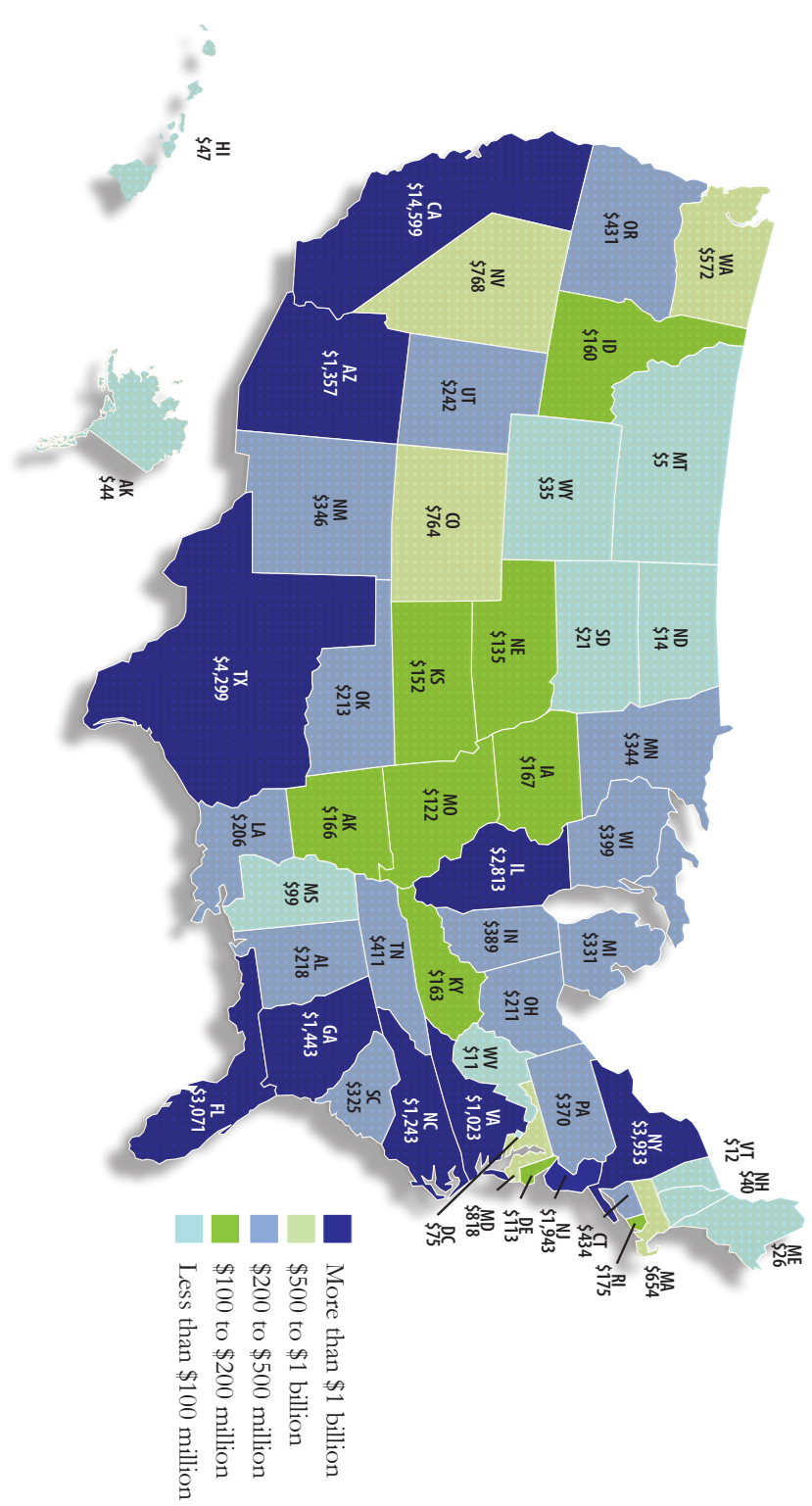
As the euro has risen in value against the dollar and immigration policies in some European countries have been more open to Andean immigrants in particular, Latin America has seen a greater share of remittances coming from that continent. More immigrants from South America, as well as the Dominican Republic, seem to be making the choice for Western Europe, particularly Spain, as a result. The numbers are relatively small as of yet, but will be watched closely in the year to come. During 2008, for the first time, some countries of the Andean region (e.g. Bolivia and Ecuador), are likely to receive more remittances from Europe than from the United States.

Despite the fact that almost 40% of immigrants report experiencing a drop in their income, as well as the detrimental impact of discrimination, these workers remain steadfast in their optimism. When asked whether they would qualify their financial situation as excellent, good, bad or very bad, the overwhelming majority of Latin American immigrants feel that their financial situation was either good (63%) or excellent (6%), compared to their prospects back home. That attitude may say more than anything about the important role that Latin American immigrants will continue to play over the long run, contributing to both the U.S. economy and society, as well as to their families and communities back home.

REMITTANCES 2008: U.S. TO LATIN AMERICA

(estimated \$ in millions)

State	LAC-Born Adults (2008, in thousands)	% That Send Regularly 2006	% That Send Regularly 2008	Total Remittances 2006	Total Remittances 2008	Contribution to US Economy
California	5,759	63%	52%	13,191	14,599	160,354
Texas	2,799	47%	30%	5,222	4,299	47,220
New York	1,427	77%	53%	3,714	3,933	43,200
Florida	1,354	70%	48%	3,083	3,071	33,732
Illinois	924	73%	58%	2,583	2,813	30,898
New Jersey	704	79%	56%	1,869	1,943	21,342
Georgia	460	85%	53%	1,736	1,443	15,850
Arizona	694	57%	39%	1,378	1,357	14,905
North Carolina	371	84%	59%	1,221	1,243	13,653
Virginia	314	88%	59%	1,110	1,023	11,237
Maryland	261	88%	55%	921	818	8,985
Nevada	311	57%	49%	618	768	8,436
Colorado	325	57%	49%	646	764	8,392
Massachusetts	303	74%	45%	579	654	7,183
Washington	231	70%	44%	504	572	6,283
Connecticut	158	74%	52%	301	434	4,767
Oregon	175	70%	55%	383	431	4,734
Tennessee	139	78%	58%	407	411	4,514
Wisconsin	124	71%	44%	335	399	4,383
Indiana	146	68%	49%	386	389	4,273
Pennsylvania	146	88%	44%	517	370	4,064
New Mexico	186	57%	31%	370	346	3,800
Minnesota	107	71%	58%	292	344	3,778
Michigan	124	71%	49%	337	331	3,636
South Carolina	110	78%	58%	322	325	3,570
Utah	130	57%	31%	258	242	2,658
Alabama	75	78%	57%	219	218	2,394
Oklahoma	114	57%	36%	226	213	2,340
Ohio	79	71%	49%	214	211	2,318
Louisiana	71	78%	57%	208	206	2,263
Rhode Island	68	74%	52%	130	175	1,922
Iowa	52	68%	58%	138	167	1,834
Arkansas	86	78%	46%	253	166	1,823
Kentucky	55	78%	58%	161	163	1,790
Idaho	65	70%	55%	142	160	1,757
Kansas	81	68%	36%	215	152	1,670
Nebraska	58	68%	51%	154	135	1,483
Missouri	63	68%	46%	166	122	1,340
Delaware	44	88%	52%	105	113	1,241
Mississippi	34	78%	57%	100	99	1,087
DC	29	88%	52%	154	75	824
Hawaii	16	70%	49%	34	47	516
Alaska	15	70%	49%	33	44	483
New Hampshire	17	74%	41%	32	40	439
Wyoming	15	70%	51%	33	35	384
Maine	11	74%	41%	22	6	66
South Dakota	9	68%	51%	23	21	231
North Dakota	6	68%	51%	15	14	154
Vermont	5	74%	41%	9	12	132
West Virginia	4	n/a	49%	n/a	11	121
Montana	2	n/a	51%	n/a	5	55
Total 50 States and DC	18,856	73%	50%	45,276	45,932	504,513





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MULTILATERAL INVESTMENT FUND

1300 NEW YORK AVE, N.W.
WASHINGTON, D.C. 20577
UNITED STATES

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