YEAR 2020 | VOL. 19 | MONTERREY, MÉXICO.

The Company Newsletter for Supply Chain Finance.

E FACTOR NETWORK NEWSLETTER

eFactor network · eFactorDiez S.A.P.I. de C.V. Sociedad Financiera Objeto Múltiple E.N.R.

Company News and Highlights

Supply Chain Finance Solutions for Cash Requirement.

Fintech products and market development based on Fundamentals of Economic Theory and Financial Risk.

UNITED STATES ECONOMY SIGNALS OF FULL-BLOWN RECOVERY.

Written by Edgardo A. Ayala G.

Synthesis.

After analyzing the important and short-term of the United States indicators, among them the industrial production and manufacturing indexes, the retail establishment's surveys, and the Weekly Economic Index (WEI), we conclude that:

1. Even though the American economy collapsed between March and May, it shows signs of a strong recovery.

2. In June the industrial production and manufacturing represent 90% of Pre-COVID 19 level and the retail sales the 99%. The WEI indicates a subsequent recovery for mid-July.

3. As a consequence of the above mentioned, the Mexican exportations are running up to 90% almost recover the Pre-COVID-19 level in June.

Contact Info:
E FACTOR NETWORK
info@efactornetwork.com
www.efactornetwork.com
01 800 801 3322

Analysis.

It's difficult to not get depressed in the presence of a recent expansion of COVID-19, especially in America, and the size of the economic crisis as a result of the fight against the pandemic. At the beginning of March, we were warned about the quick spread of these diseases in this Newsletter. Back in those days the numbers exceeded 100 thousand confirmed cases, nowadays in just 5 months the numbers exceed 16.3 million. In the last month the press highlights, the rebound of new contagions as a consequence of the reopening in our country, as the states of Texas, California and, Florida in the United States of America. Meanwhile, the analysts compete among them in the review of the downward of economic growth in Mexico and the world.

Is there any reason to be optimistic against this? In our opinion, yes. The last economic information available in the United States shows a full-blown recovery; this means that these countries will recover to the same level of economic activity that they had before the pandemic at the end of the year. Let's see why.

Chart number 1, shows the index of industrial production, the manufacturers and the retails sales updated to June of the present year. Expressed in indexes form with a basis in 100 in the month of February 2020, which is considered as the previous month of the pandemic. As it was expected, in March and April the indexes collapsed. In April hitting bottom with a loss of 16%, 20%, and 21% in industrial production, manufacturing, and retail sales respectively. The following months, the industrial production grew 7% in May and June, meanwhile, the manufacturing and retail sales grew 11% and 27% at the same time.

In June, the industrial production and manufacturing are up to 90% of economic activity before Covid-19 and the retail sales practically recover to the level that they had. Daniel Lewis, Karel Mertens, and James Stock, economists of the New York and Dallas Federal Reserve respectively and a professor of Harvard University and one of the most prominent econometricians of our time, developed a weekly index of economic activity for the United States based on the high production and employment indicators, named Weekly Economic Index (WEI)[1], which predicts with precision the industrial production index. According to this indicator, the industrial activity in July could be located approximately 92% to the level we had in February.

The fact that timely indicators of economic activity are between 90% and 100% of the pre-COVID level at mid-year, is a good sign that the economy will emerge relatively quickly from the downturn created by this pandemic. If this dynamic continues, the level will surely recover by the last quarter of this year. This is a trajectory, if not exactly like a type V, it is like the Nike mark. In other words, a sharp and quick drop in two months, but with a full and slow recovery in eight months.

Certainly, the recovery does not mean that the North American economy is exactly the same as it was before COVID-19. Will be exactly the same level, but the losses still as the containment arrive. For example, imagine that you have a business that sells a million of Mexican pesos in products, one day you are asked to close for two months. In the third one, you recover the usual sales level, but at the end of the year the annual sales were 10 million against 12million that you would have if you did not close. So you suffer a loss of 2 million.

Finally, not all sectors are recovering at the same time. For example, even though the retail sales reached the pre-COVID-19 level in just two months, there are segments that are relatively far from doing. For example, in June the restaurants and bars sales were at 77%, and gasoline sales at 81% of February's level.

As long as a treatments or vaccines for COVID-19 are not in the market, these industries along with air transport, hotels, cinemas, concerts, sports, and every other activities, are unlikely to go back to normal.

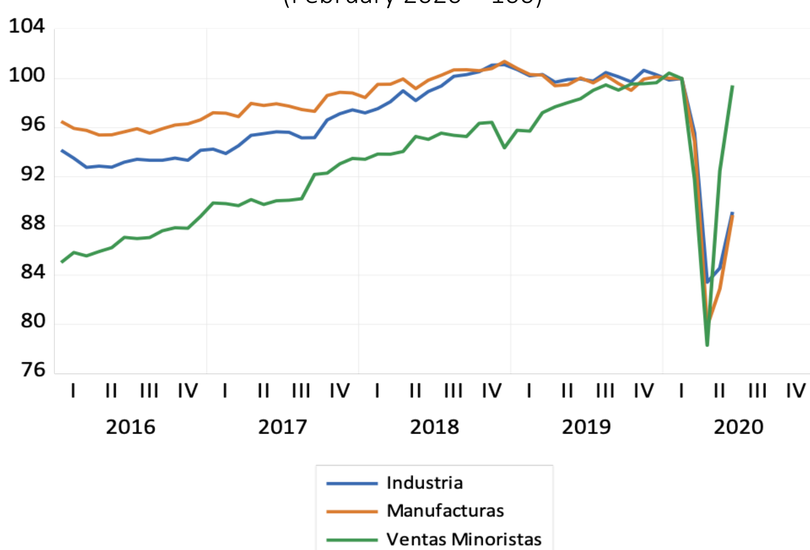
The recovery of the North American economy is especially important in Mexico, the demand for Mexican products have been so big, that in June the total exportations reach 33 billion dollars, and only 5 billion dollars under the February records or 90% of that level. In order to get a perspective, in only one month, in June, the Mexican exportations grew 83%, boosted by the growth of 93% of manufacturing exportations and 564% of the automotive industry.

The health emergency is far to be resolved, but it could be contained without the necessity of a general enclosure as it happened in March and May. If the treatment list increase and the release of new vaccines by the end of the year, we believe the recovery of the American economy will be consolidated and surely the next year will grow quickly.

Chart 1.

Evolution of industrial production, manufacturing and retail sales indices in the United States, seasonally adjusted figures

(February 2020 = 100)



Source: Prepared by the author with information from the Federal Reserve of St Louis

Fintech Industry Implications. The vigorous recovery of the U.S. economy is triggering the expansion of Mexico's export companies, mainly metalworking. This means an increased demand from Mexico's main production chains and working capital credit. In addition, with the recovery, the need to keep social distance and the rationing in physical spaces of the offline financial sector, offers an important opportunity for the development of the Fintech Industry in the country.