# Differential Impact of Covid-19 on Global Trade

## EXECUTIVE SUMMARY

We examine contemporaneous, daily global trade data to observe the impact of the dramatic changes in supply, demand, operations, and logistics brought about by Covid-19. Using trade receivables information, we can see large and varied effects as the economy reacts to this major disruption.

Covid-19 led to rapid and significant changes in the economy as the need for social distancing, personal protection equipment, and deep cleaning suddenly became operational imperatives in both the workplace and the household. The economic effects have been swift and dramatic, but they have not affected industries uniformly as some businesses were shut down entirely, while others have been able to adapt with varying degrees of success, while still others have found increased opportunity in the new requirements. Most visibly, businesses that necessarily put people in close contact with each other, such as travel, sports and entertainment events, and personal services have been hardest hit. Many small, local businesses have shut down entirely, so we examine daily global trade data and observe how businesses are reacting to the unfolding crisis on a day-by-day basis and to gain visibility in any relationship between business size and ongoing performance during Covid-19.

## FINACITY TRADE RECEIVABLES DATA

Finacity houses one of the world's largest repositories of global trade receivables data, including detailed information on 32 million annual transactions, updated daily from numerous sources covering 4 million buyers and sellers in 175 countries, representing over $100 billion in annual trade in 58 different currencies. These daily updates are as close to real-time as possible. In most cases, if a trade happens at any point during the day, information is in Finacity's databases that night, often even before an invoice has been generated. This allows near real-time observation and analysis of the global economy and to pinpoint disruptions in specific countries, currencies, or industries.

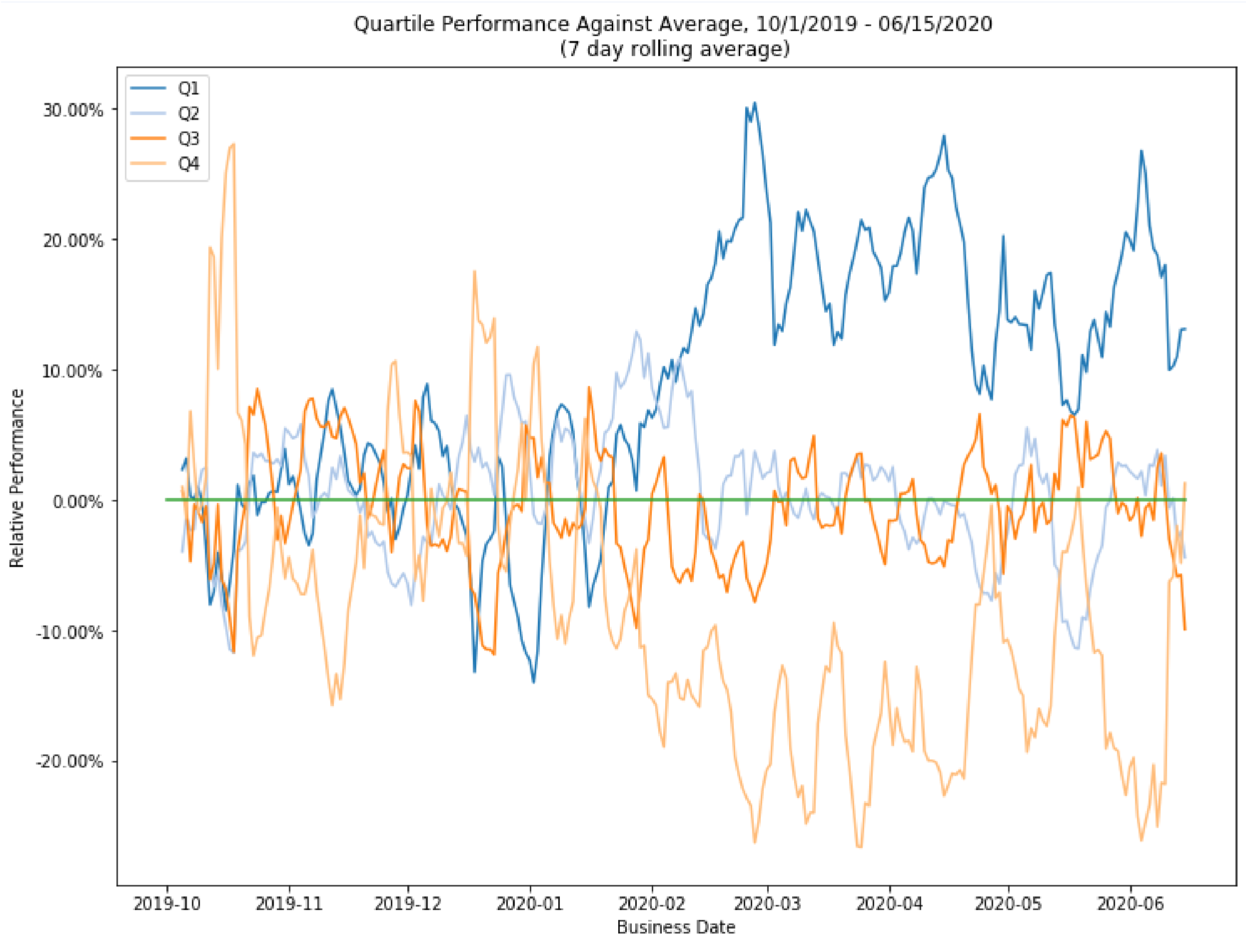
## EFFECTS OF COVID-19 ON GLOBAL TRADE

We divided a large pool of 30,505 businesses into four groups (quartiles, Q1 through Q4) based on receivables activity, aggregated across multiple datasets, over the months leading up to the Covid-19 crisis. Each group represented an equal portion of sales, with Q4 representing a small number of businesses producing a large volume of receivables, and Q1 representing a far greater number of businesses generating comparatively little receivables volume.

We used seven-day averages to reduce the effects of outliers and billing schedules. We normalized the results to produce a receivables-based performance measure using a common scale. In order to see how Covid-19 was affecting the quartiles differently, we then divided each quartile's performance by the performance for the entire pool.

This effectively controls for changes in business activity overall and lets us see clearly any different behavior among the quartiles. This produced a graph showing, on each day, the percentage by which each quartile over- or under-performed the average for that day.

The result shows stark differences in behavior among the quartiles before Covid-19 compared to during the crisis. Before the crisis, each quartile outperformed or underperformed relative to the average at one time or another, without significant or consistent differentiation between quartiles. However, starting in February, as the crisis began to clearly affect the economy, the quartiles' behavior shifted markedly. Q1, the quartile having many small businesses, began consistently outperforming the average, while Q4, the quartile having a small number of large businesses, began to consistently underperform.




This indicates that as a group, the larger businesses represented by Q4 are struggling to adapt. There may be exceptions, of course, as some notable large businesses, such as Walmart and Amazon, are benefiting from the crisis. But as a group, these large companies have been hurt by the crisis as falling demand and a challenging manufacturing environment are affecting these businesses more than the others. It is a difficult time for the entire automobile industry, for example.

Conversely, some of the businesses in Q1 are doing comparatively well. These businesses may include those able to sell or deliver items such as food, beverages, and tobacco directly to households. Consumer staples continue to be in high demand, even if the supply chain has been challenged, as consumers are taking far more meals at home than at restaurants, and finding what entertainment they can at home as well. Meanwhile Q2 and Q3 seem to be showing no great signs of differentiation. The effect appears to be specific: Smaller businesses are adapting better than average, while larger businesses are worse.

One important consideration when interpreting results from analyzing trade receivables data is that not all of the economy is directly reflected in trade receivables. While Q1 represents smaller businesses, Finacity doesn't typically capture consumer transactions or transactions not on credit terms. Thus, some of the hardest-hit businesses may not show up in any of the quartiles at all.

## SUMMARY: TRADE RECEIVABLES DATA TRACK THE ECONOMY IN REAL-TIME

Trade receivables information is of great interest to credit or equity decision-makers. We showed that the crisis is affecting different parts of the economy differently. Some of these effects are remarkable as this crisis is unusual and the economy is acting differently compared to other recessions. Thus, trade receivable information, which tracks the actual economy in real time, is invaluable.

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