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# **Economic Outlook Deteriorates due to COVID-19: Short and Long Run Implications for North American Supply Chains**

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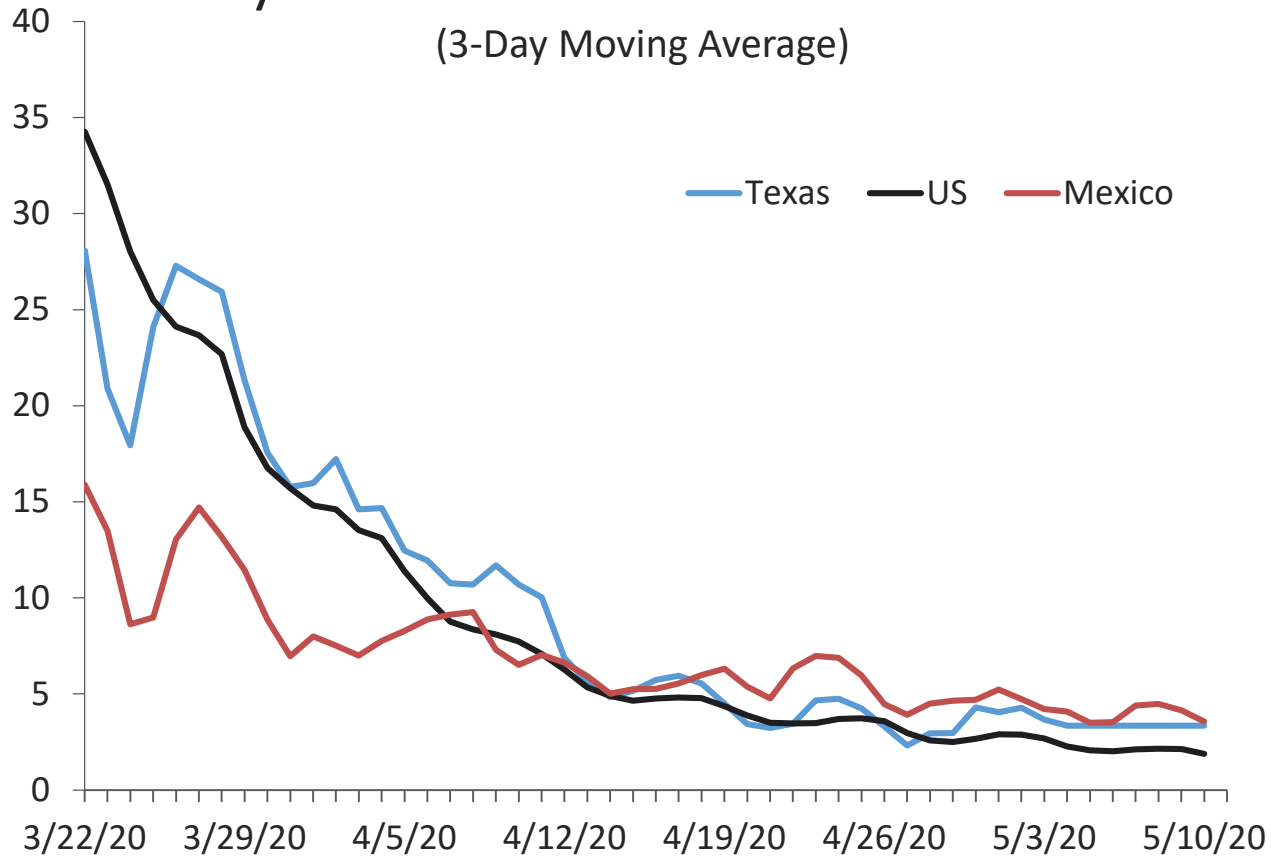
5/13/2020

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# COVID-19 Update

# US, Texas & Mexico COVID-19 cases still growing

Daily Growth Rate of Confirmed Cases  
(3-Day Moving Average)



Sources: John Hopkins, World Bank

Notes: Cases are the cumulative reported number of cases as of 10pm on May 10, 2020.

Despite lower growth rates, U.S. cases have multiplied about 3-fold in past month; Mexico cases 9-fold:

As of April 10:

- U.S. confirmed cases: 496,535
- Texas confirmed cases: 12,105
- Mexico confirmed cases: 3,844

As of May 10:

- U.S. confirmed cases: 1,329,260
  - Texas confirmed cases: 39,258
  - Mexico confirmed cases: 35,022
- New cases in U.S. May 9: 19,710

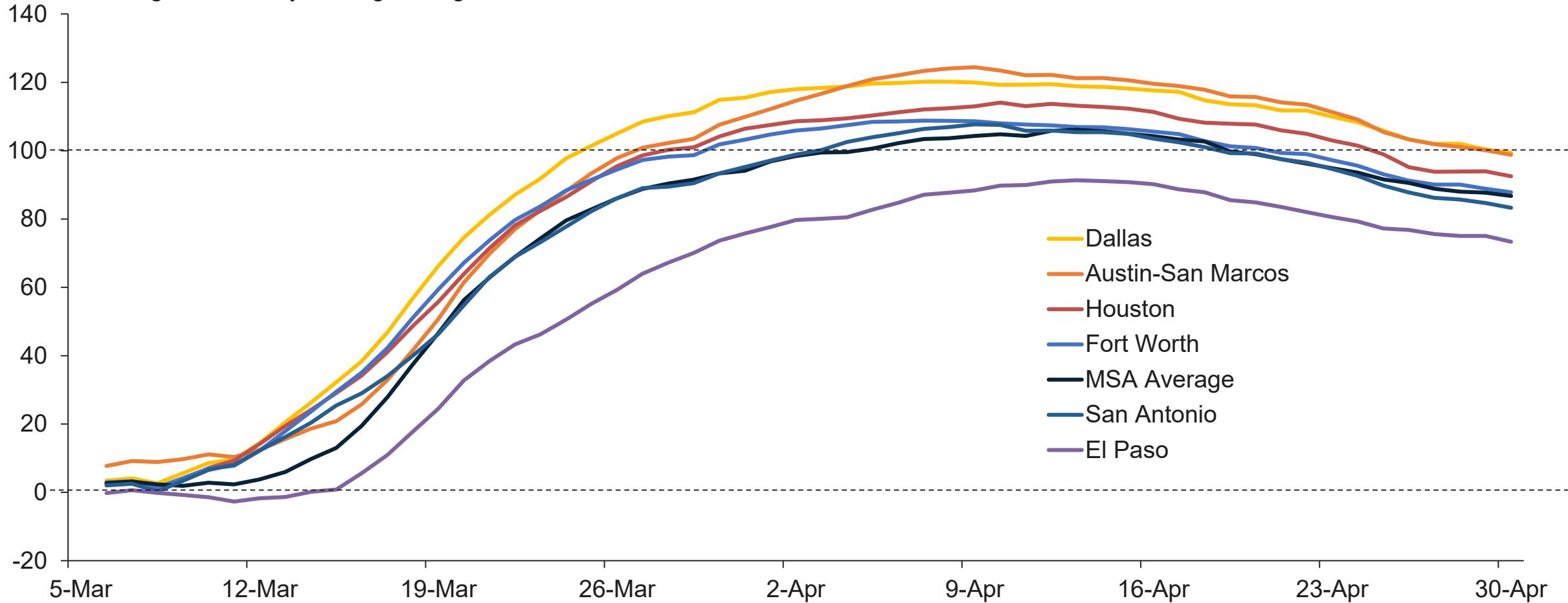
# Economic decline has followed public and private health measures

- Remote work implemented where possible
- Shelter in place and social distancing orders
- Closures of businesses, amenities; canceled events
  - Essential vs non essential businesses
  - Parks and other common areas
  - Sports events, concerts, other arts & recreation events
- Use mandated of personal protective equipment (PPE)
- COVID-19 testing & contact tracing ramped up
- Addition of medical supplies, hospital beds

# Is economic activity bottoming out?

## Social distancing in US, Texas has peaked and is declining

Social distancing index, 7-day moving average

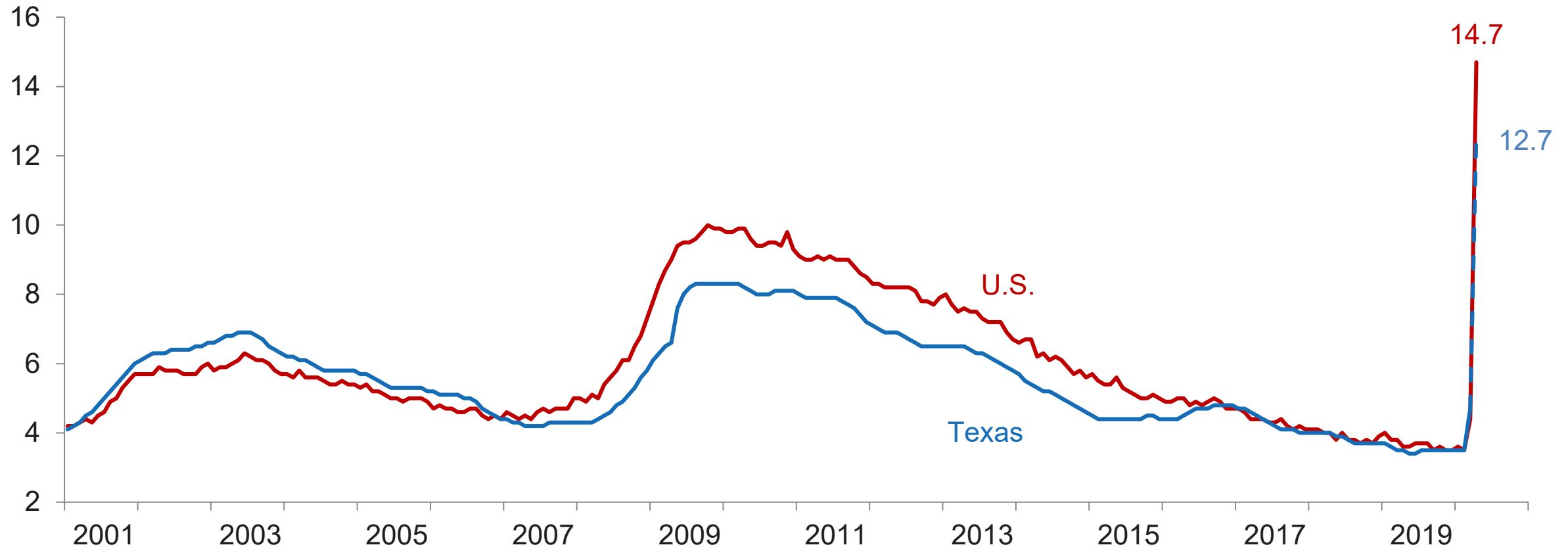


NOTE: Data through April 30, 2020.

# Economic Conditions

# After 20+ million jobs lost in April, US unemployment rate skyrockets; Texas expected to follow

Percent, SA



NOTE: Data through March 2020 for Texas and April 2020 for the U.S.. Dashed line shows estimation of April rate for Texas.  
SOURCE: Bureau of Labor Statistics.

# U.S. forecasts suggest recovery begins in 3<sup>rd</sup> quarter

	2020 GDP growth Q/Q annualized				GDP Growth Q4/Q4	UR (Q4)	Peak Quarterly UR
	Q1	Q2	Q3	Q4			
<b>Average</b>	-4.8	-35.7	18.1	10.1	-5.7	10.1	15.5 (Q2)
<b>Low</b>	-4.8	-31.8	2.0	5.6	-8.6	14.0	15.0 (Q2)
<b>High</b>	-4.8	-27.4	22.2	9.9	-1.8	14.0	12.0 (Q2)

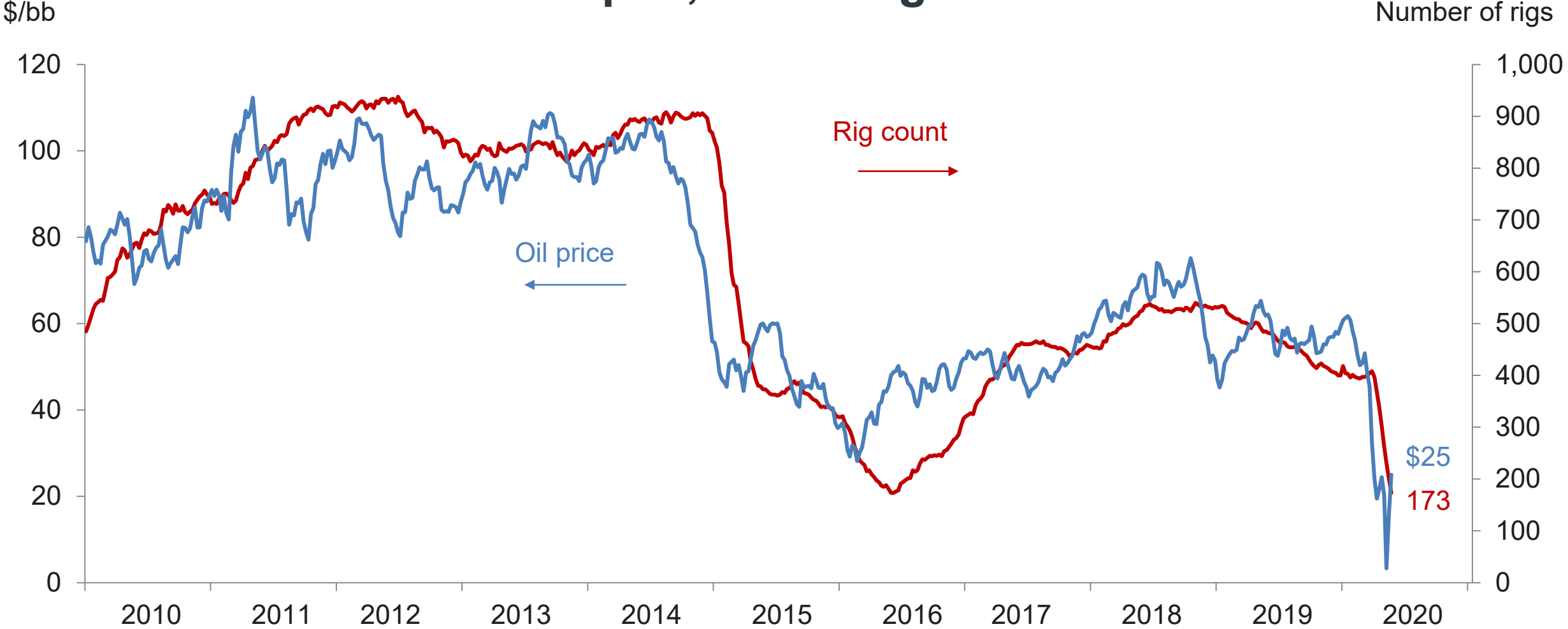
Source: Forecasts from 7 large financial institutions; low (high) refers to most pessimistic (optimistic) year/year GDP growth forecast.



# Mexico outlook more dire, economy was shrinking before COVID-19 and policy response limited

- GDP fell 6.2 percent in first quarter after stagnating in 2019
  - Far steeper decline is predicted for second quarter
  - Forecast is for a >7 percent decline for the year (2020)
- Employment in formal sector fell 8.5 percent in March
- Peso down 30 percent from February
- Moody's downgraded Mexico's credit rating, and Pemex debt cut to junk

# Oil woes in the region don't help: Prices collapse, Texas rig count follows



NOTE: Data are weekly, through the week ending May 8, 2020.  
SOURCES: EIA; Baker Hughes.

# Policy responses

# Monetary and fiscal policy response expansive in US, more limited in Mexico

## Monetary policy

- Reduced the policy rate
- Boosted liquidity
- Support lending programs to businesses

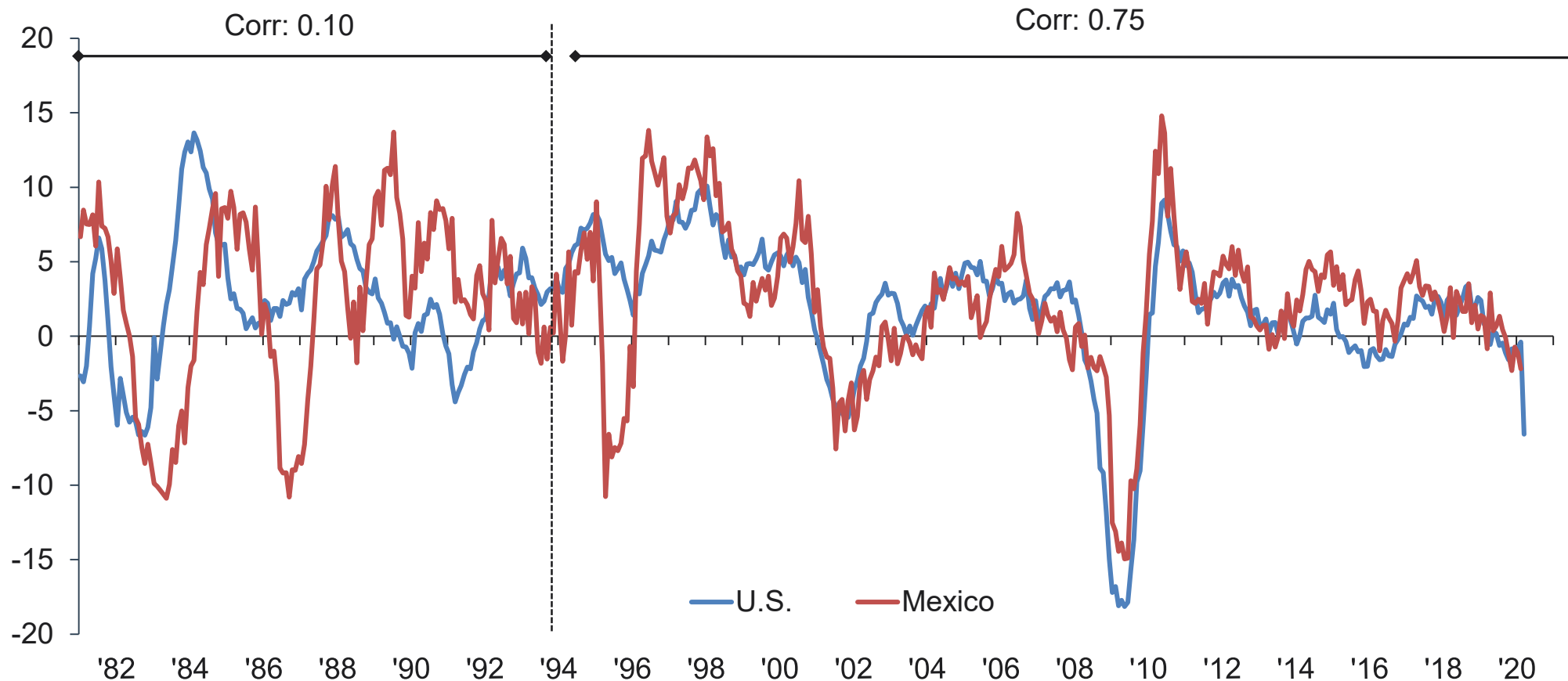
## Fiscal policy

- US & Mexico: tax payment deferrals for businesses
- US: large monetary transfers implemented to workers, families; grants and loans to businesses, state and local governments and to hospitals, health care providers

# Implications for trade

# U.S. and Mexico business cycle synchronicity reveals deeply integrated cross-border manufacturing

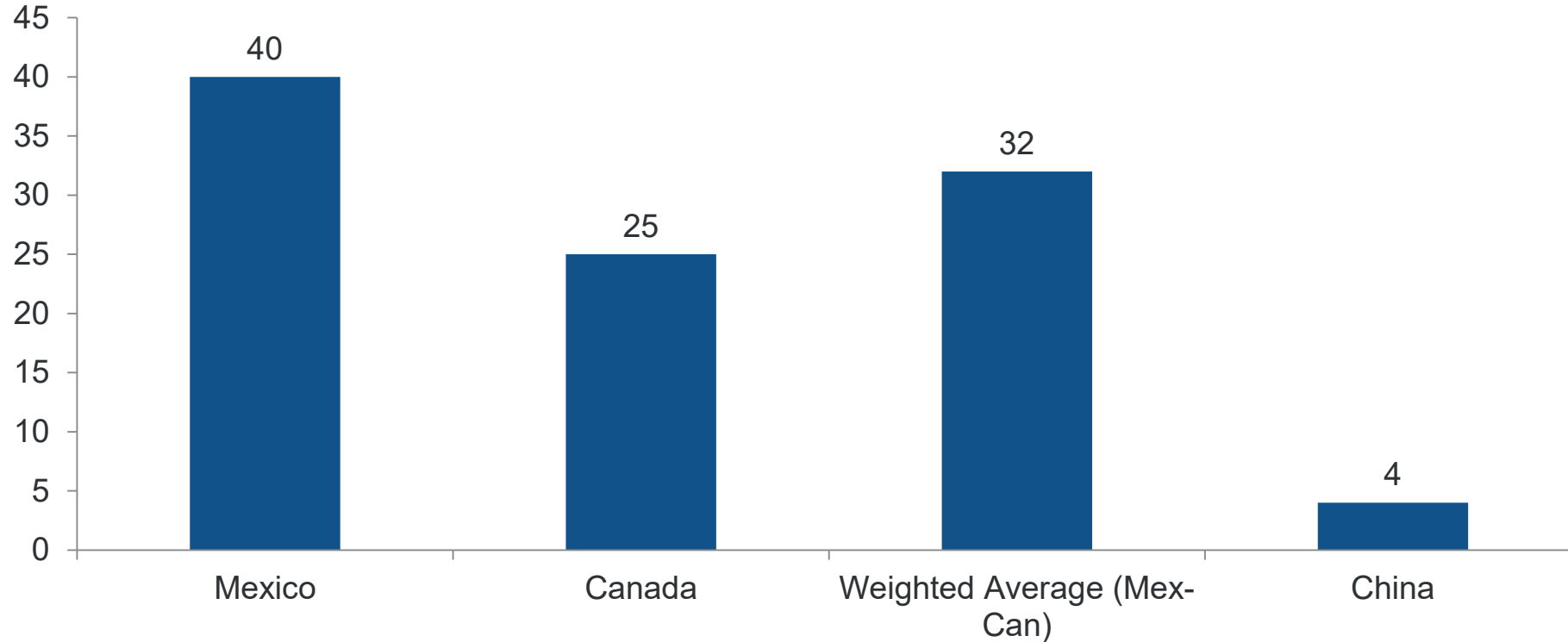
Percent, Y/Y



NOTE: Monthly changes in manufacturing component of industrial production.  
SOURCES: INEGI; Federal Reserve Board.

# US manufacturers rely on NAFTA supply chains: U.S. content highest in imports from Mexico, Canada

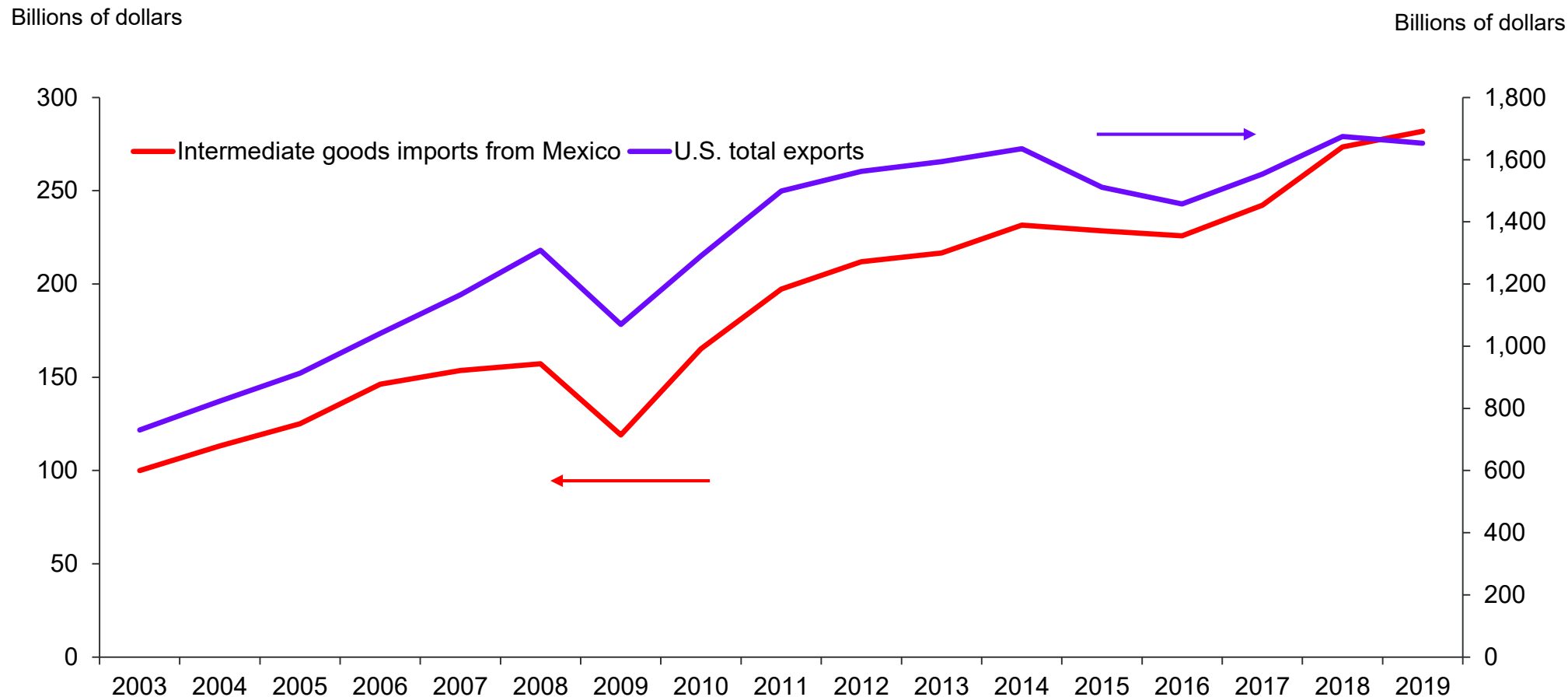
Percent



NOTE: Data is from 2004.

SOURCE: Robert Koopman, William Powers, Zhi Wang, and Shang-Jin Wei, "Give Credit Where Credit is Due," NBER Working Paper No. 16426, 2011.

# U.S. exports highly correlated with intermediate imports from Mexico



SOURCES: Bureau of Economic Analysis and Haver Analytics.



# Summary

- COVID-19, fear of infection and private and public health measures have led to a historically large and rapid economic decline across North America
- Sharp oil price declines are making matters worse in energy-producing regions, including Texas and Mexico
- Policy response will boost recovery in US, limit it in Mexico
- Trade is slowing; successful recovery depends on coordination of reopening across the supply chain
- USMCA implementation can complicate matters; introduces additional challenges, especially in motor vehicle manufacturing

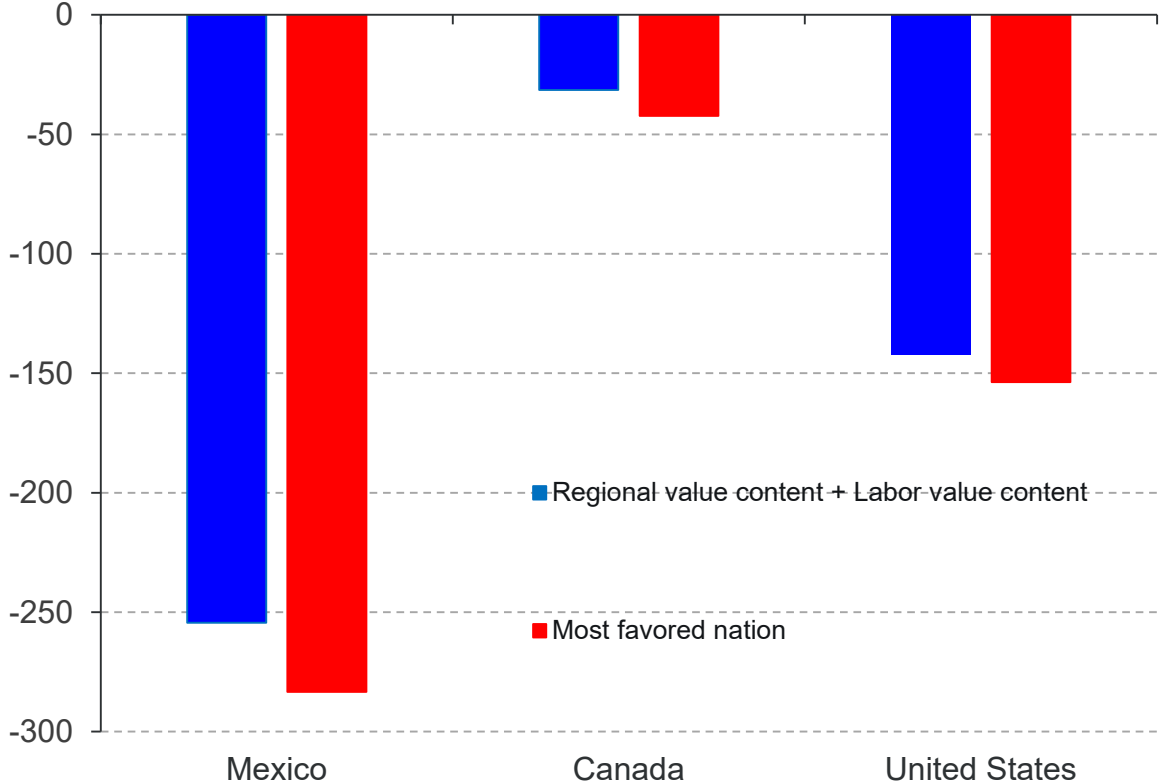
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# Long term effects of transition to USMCA trim automotive sector output

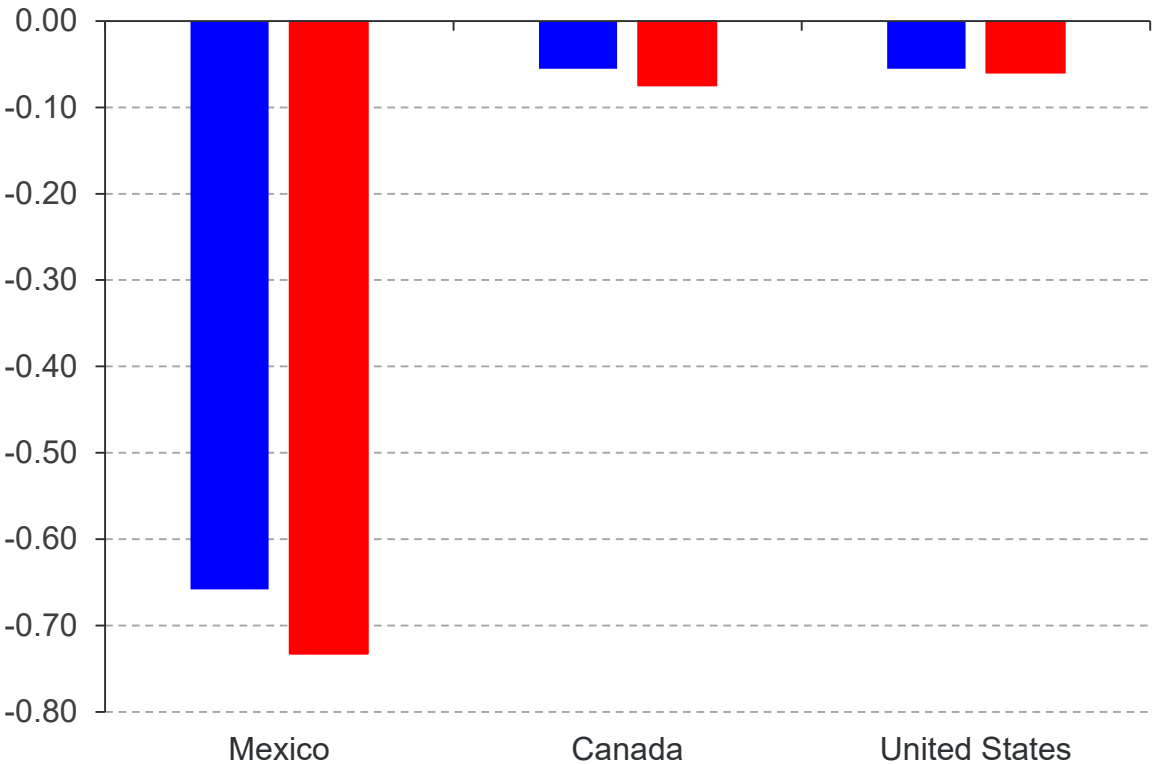
A. Effect on Light Vehicle Production

Thousands of units



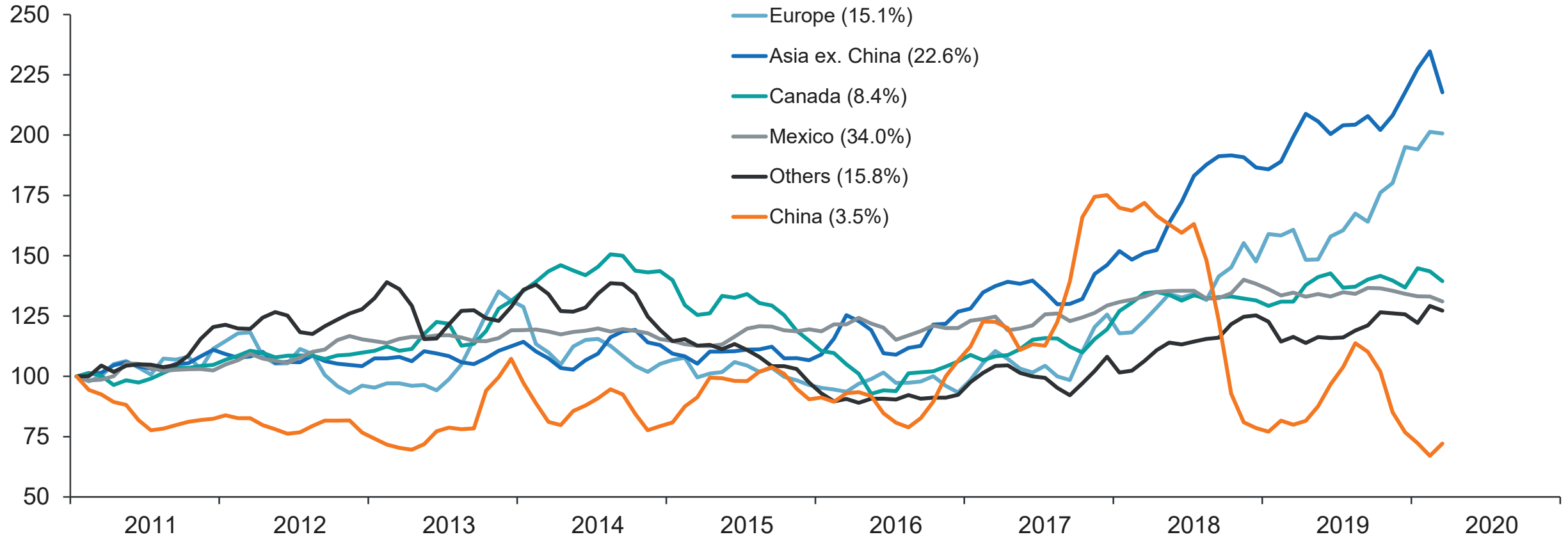
B. Effect on GDP

Percent



# Texas Exports to China Plunge after Tariffs Imposed

Index, 2011=100, 3mma, real \$, SA



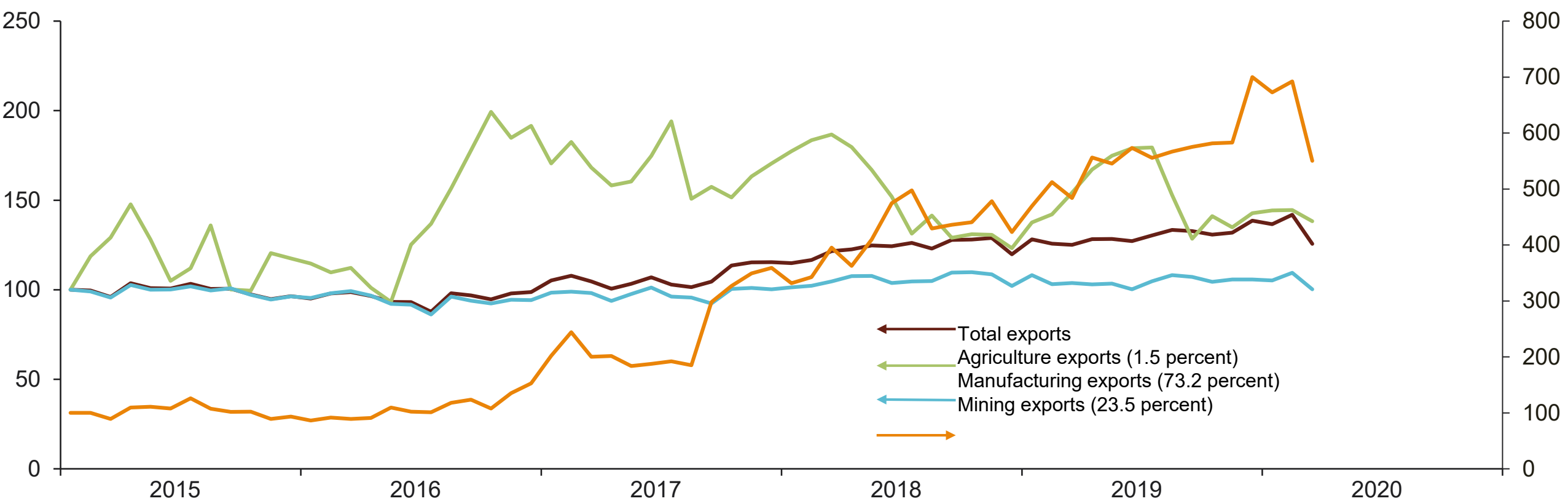
NOTE: Numbers in parentheses are share of Mar. 2020 Texas exports.

SOURCES: U.S. Census Bureau; Bureau of Labor Statistics.

# Texas Exports Drop in 2020

Index, January 2015 = 100\*

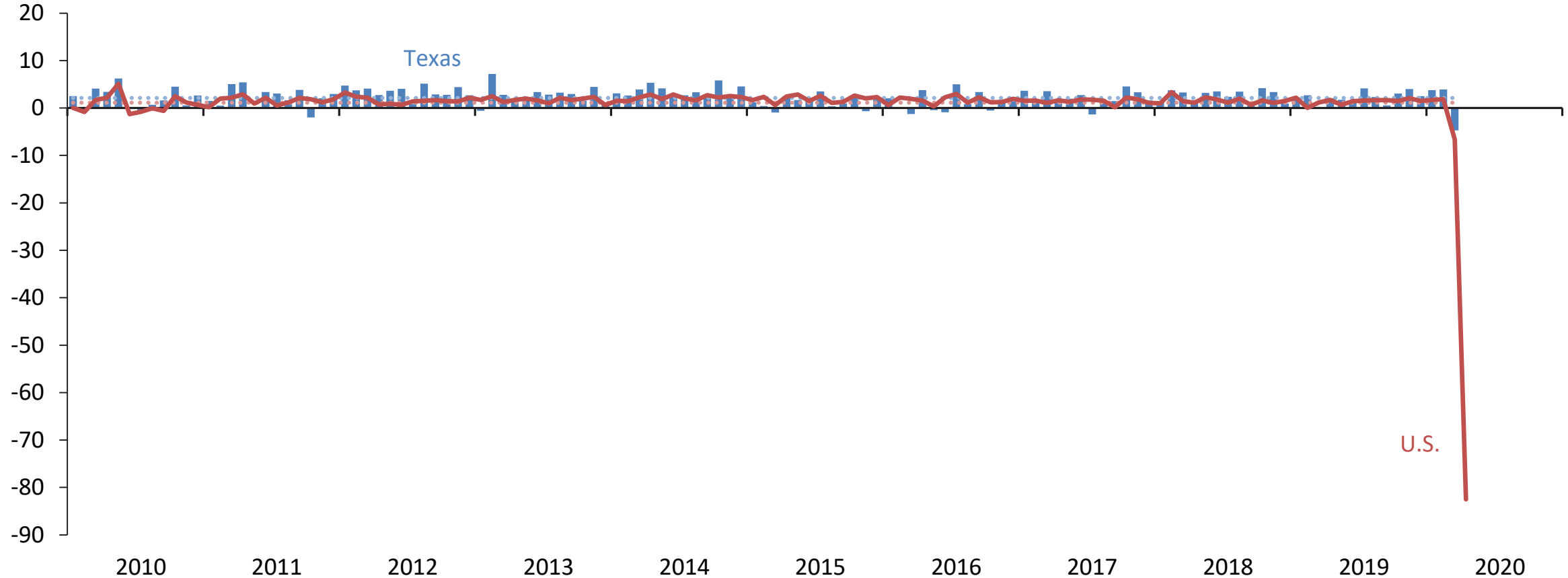
Index, January 2015 = 100\*



\*Seasonally adjusted, real dollars.  
 NOTE: Numbers in parentheses refer to share of Mar. 2020 Texas exports.  
 SOURCE: Census Bureau; Bureau of Labor Statistics.

# U.S. loses over 20 million jobs in April

Percent job growth, M/M, SAAR



NOTES: Dotted lines are long-run growth from January 1990 to December 2019: U.S. 1.1; Texas 2.1

SOURCES: BLS; Texas Workforce Commission; seasonal and other adjustments by FRB Dallas.