

# The COVID-19 effect on US businesses: A regional snapshot

# Introduction

*The COVID-19 pandemic has had a transformative effect on businesses, the global economy and currency markets. Following a detailed study of the impacts for businesses across the globe, undertaken in Summer 2020, AFEX outlines its findings for the U.S.*

Since the onset of the COVID-19 early this year, the U.S. has been among the hardest hit regions. Stay-at-home orders forced many small businesses to close and in the week ending March 21, a record 3.28 million Americans filed for unemployment benefits as layoffs surged. More than 1 million Americans have applied for unemployment assistance each week since, though the number seems to be declining.

In the months since the virus appeared in the country, the U.S. has confirmed more than 6 million cases of COVID-19. The GDP contracted by an estimated 9.5% in Q2, a drop of 32.9% vs Q1. As did many central banks, the Federal Reserve cut interest rates to near zero, increased lending and resumed quantitative easing at an unprecedented rate. Stimulus measures included the Paycheck Protection Program for SMEs, economic injury disaster loans, and debt relief available through the Small Business Administration (SBA).

While recent figures indicated an uptick in employment, businesses continue to face challenges that would have been unimaginable a year ago, including keeping their workforces safe, a precipitous drop in customer spending, disruptions in supply chains and unforeseen cashflow pressures.

While lockdowns in some states have started to lift, other states have seen surges and have slowed their plans for reopening. Nonetheless, many U.S. businesses are looking toward the future and considering ways to adapt their businesses to the new environment. The key question is when our clients expect to be back to “business as usual.”

Our survey respondents included 76 different U.S. businesses across a range of categories. Nearly 41% of U.S. respondents are in the travel, tourism and hospitality sector, an industry especially hard hit by the pandemic.

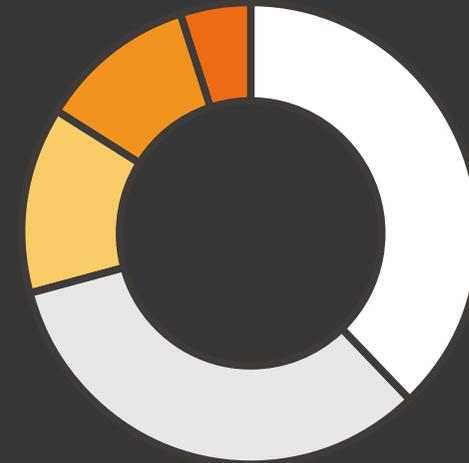
## THE PANDEMIC EFFECT: How has COVID-19 affected your business?

Our findings show the majority of surveyed U.S. businesses were impacted by COVID-19, with 46% reporting a slowdown in business. A further 38% came to a complete standstill. This is significantly higher than the global average of 16%, but has more to do with the makeup of the businesses responding to our survey.

Of the respondents who reported their businesses had ground to a halt, 83% were in the travel, tourism and hospitality industry. Other industries reporting a significant slowdown included professional, scientific and technical services and arts, entertainment and recreation.

Brian Marshall, AFEX's East Coast Regional Manager, attributed the significant slowdown to a lack of trade as indicated by the most recent GDP numbers. "It's simple economics. We are producing less as a country and selling less to other countries. Less business, less overseas trade, less output equals less revenue," he added.

However, the research also found that despite the pandemic, 11% of businesses had reported no real effect. Some 5% of companies said business had increased, which is lower than the global average of 12%. Of those who saw an uptick in business, half (50%) were in the manufacturing sector.



### How has COVID-19 affected your business?

**38%** Complete standstill

**33%** Significant slowdown

**13%** Slight slowdown

**11%** No real effect

**05%** Business has increased

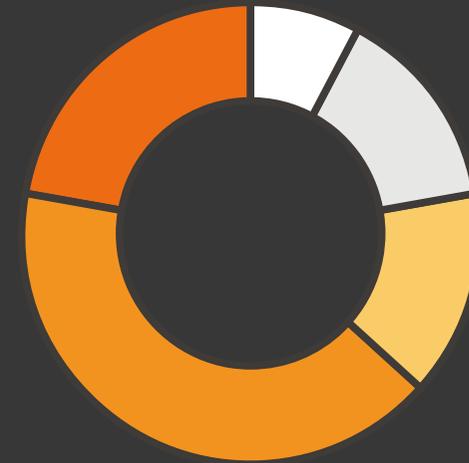
## THE TIMELINE: When do you expect to be back to 'business as usual'?

When asked about the timeframe for returning to 'business as usual', the majority of surveyed U.S. businesses (67%) expect a recovery time of six months or longer. This is higher than the global average of 45%.

Brian Marshall said, "We need to adapt our habits as a country to expedite recovery. We've learned that corporate America can work from home, but workers in factories, distribution, and essential services cannot."

Businesses that were not affected (7%) or that expect a shorter recovery of under six months (26%) are fairly evenly split between the manufacturing; wholesale trade; arts, entertainment and recreation and professional, scientific and technology services sectors.

On a positive note, despite the impact of COVID-19 on the sector, more than half (53%) of travel, tourism and hospitality businesses surveyed expect to be back to 'business as usual' within six months.



## When do you expect to be back to 'business as usual'?



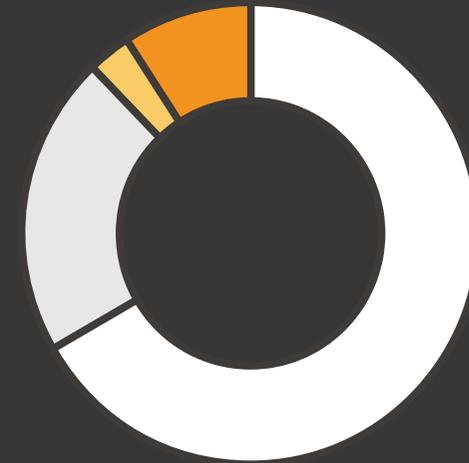
## HEDGING: If you have a hedging policy in place, do you expect that you will need to make changes?

While currency market volatility has increased as a result of COVID-19, 20% of U.S. AFEX clients said they were happy with their current foreign exchange hedging strategy.

A further 12% are planning to either build more flexibility into their currency market strategy or review their strategy entirely. Seven in 10 (70%) of these businesses operate in the travel, tourism and hospitality sector.

Two thirds (68%) of those surveyed choose not to hedge but rather pay invoices when they become due. This is significantly higher than the global average of 45%, and again, due in part to the nature of the respondents' businesses.

Brian Marshall commented: "Some companies in the U.S. look at hedging as 'gambling,' when it's really the opposite. I expect we will see an increase in hedging with the weakening U.S. dollar. We've been having substantive conversations with current and new clients about hedging. Many companies are becoming a bit more rate sensitive since overall profits are down."



### If you have a hedging policy in place, do you expect that you will need to make changes?

**68%** We don't hedge - we pay invoices as they come due

**20%** Our current strategy is fine

**03%** I need to build in more flexibility for my business

**09%** I'm planning to review everything

## THE FUTURE: What are you doing to prepare for business after COVID-19?

In our last survey question, we asked clients about what measures they were considering to prepare their businesses for the future. Many of the U.S. respondents are using a blend of tactics to prepare their businesses for the future.

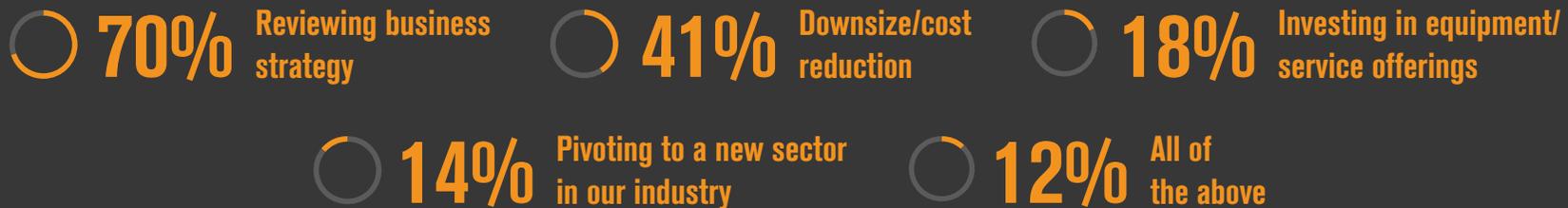
The majority (70%) of companies we surveyed are reviewed their business strategy. In addition, 41% have been looking for ways to downsize or reduce costs as part of that review.

Fourteen percent of respondents are expanding their opportunity set by pivoting to a new sector in their industry. Sectors most commonly employing this strategy include arts, entertainment and recreation; manufacturing; and travel, tourism and hospitality.

Encouragingly some businesses have increased their expenditure during the global pandemic, with 18% investing in new equipment and service offerings.

A further 12% of respondents are using all four strategies to get their businesses back on track.

### What are you doing to prepare for business after COVID-19?



Note: Respondents were asked to select all tactics that reflected their plans.

## Summary

Despite the continuing spread of COVID-19 across the U.S., respondents are getting down to business, reviewing their operations and, taking steps to position themselves for the future.

AFEX recommends that clients have an open conversation about what could work or not work for their businesses in a post-COVID world.

“An FX strategy is part of overall business planning. The focus should be on developing a real, tangible strategy that’s in line with the business’ risk appetite,” Marshall said. “Some industries, like travel, for example, might not see a return to ‘normal’ until 2021. Many of our clients are hoping for the best, but preparing for the worst, and are putting multiple backup plans in place.”

AFEX Americas Managing Director Christian Spaltenstein, said, “The ability of our clients to pivot and to invest in new services or offerings indicates a high level of optimism and resilience, which is encouraging. We will be here to support them through this transition and beyond.”



## Report methodology

In the summer of 2020, AFEX conducted a survey of 410 global clients in regions including the United States, Canada, the United Kingdom, Ireland, Singapore and Australia.

These businesses operate in sectors including advertising and PR; agriculture, forestry and natural resources; arts, entertainment and recreation; construction; finance and insurance; manufacturing; medical equipment; nonprofit; pharmaceutical; professional, scientific and technology services; retail trade; transportation and warehousing; travel, tourism and hospitality; and wholesale trade.

This report is a breakdown of the findings from the U.S. The 76 survey respondents represent a wide range of industries, including many industrial manufacturers and wholesalers. More than 40% of respondents are in the travel business and several are in fine arts and other creative businesses—all sectors hit hard by the shutdowns across the world.

### U.S. respondents by business sector



**For businesses in international trade, it is more important than ever to have the right foreign exchange strategy in place to navigate a changing marketplace and volatile market conditions. If you would like to review your strategy, please speak to your AFEX representative.**



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