COVID-19

Economic Scenarios and Impact Assessment

Lessons learned from China

April 2020
Topics we will cover today

1. **Introduction** – Andreas Staubli

2. **Today’s focus** – Julie Fitzgerald

3. **Economic Scenarios and Impact Assessment** – Klaus-Peter Gushurst

4. **Lessons learned from China** – Thomas W Leung

5. **Q&A** – your time to ask your experts

6. **Closing**
Economic Scenarios and Impact Assessment – Klaus-Peter Gushurst
We are regularly updating our COVID Scenarios
Get in touch with your experts to discuss the impact within your industry in more detail

Julie Fitzgerald
Partner, Leader Growth & Markets at PwC Switzerland, Member of the PwC Europe Executive Team and Swiss Management Board

Dr. Klaus-Peter Gushurst
Partner, Head of Industries and Innovation PwC Germany and Industrial Manufacturing & Automotive PwC Europe

Dr. Philipp Wackerbeck
Partner, Head of Financial Services Europe

julie.fitzgerald@ch.pwc.com
klaus-peter.gushurst@pwc.com
philipp.wackerbeck@strategyand.de.pwc.com
Lessons Learned from China
Economic impact and recovery signals in China
Key lessons to ensure a sound recovery on selected industries
PwC’s COVID-19 solutions
– Thomas W Leung
Lessons Learned from China

Main messages

• Number of new daily cases in China have started to slowdown after 50-60 days of the implementation of sanitary countermeasures (quarantine of affected cities, nationwide transportation restrictions, and closures of schools and businesses).

• Main lessons from China on how to combat the pandemic on the early stages are (a) have accurate information, (b) address public panic with a mix of announcements and policies, and (c) prepare in advance for hospital saturation.

• The impact of the sanitary measures are hard: almost two months of quarantine on Hubei have led to really sharp decreases on main activity indicators in China (90% reduction on automotive sales, 90% less hotel occupancy, 80% less travel flows, 30% less retail sales, or 16% less industrial production).

• A positive sign is that, after sanitary measures are halted, activity gradually resumes to normal. However, the degree of recovery varies within industries, and the global spread and phasing of cases escalation point out to a slower recovery overall (in terms of “quarters”, not “months”)

How is the sanitary situation evolving in China?

Number of new cases have fallen drastically after the implementation of sanitary countermeasures

Chinese government has taken measures to contain the epidemic on three areas:

1. **Isolate the source of infection:** close the city of Wuhan and other cities in the Hubei province

2. **Cut off the route of transmission:**
   - Nation wide transportation restriction
   - 14-days quarantine period for all travelers
   - shut down business representing public people gatherings (theaters, restaurants, scenic spots in the city, etc.)
   - Municipal governments issued the local policies of staying at home from 7-14 days

3. **Protect vulnerable people:** close schools and limit visitors to senior houses and welfare houses

Source: WHO
How is the sanitary situation evolving abroad?

New cases mounted overseas, signaling that the epidemic duration might be lengthier than expected.

As pandemic spread globally, the pandemic’s economic impact worsen, and the recovery duration might be lengthier.
Economic impact and recovery signals in China
As the world shuts down in an effort to slow the spread of COVID-19, the global economy is taking a much worse hit than initially expected. Prices of various assets such as stocks, bonds, gold and foreign exchange show dramatic fluctuations, raising concerns about the next round of financial crisis.

Impact on the global economy

As of 6 April, the world's major stock markets have declined from the end of 2019. Europe was the worst hit, with France, Germany and UK all down more than 20%.

USD to JPY fell below to 102 on 9 Mar and bounced back to around 109, USD to RMB once fell below 6.9 and back to 7 since mid March, while EUR is at around 1.09 against USD.

<table>
<thead>
<tr>
<th>Major stock markets YTD performance (1 Jan to 6 Apr 2020)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taiwan Weighted Index</td>
</tr>
<tr>
<td>Japan Nikkei 225</td>
</tr>
<tr>
<td>2020-…</td>
</tr>
<tr>
<td>2020-…</td>
</tr>
<tr>
<td>2020-…</td>
</tr>
</tbody>
</table>

Source: WIND
China’s macro economy suffers worst shock since 2009

- **China GDP growth rate** in Q1 2020 is expected to decrease to a **negative level at around -9%**.

- China’s total **import and export** value in the first two months of 2020 was USD 592 billion, **down 11% YoY**.

- Exports dipped 17% YoY to USD292 billion, while imports fell 4% YoY to USD300 billion.

- **China’s PMI fell to 35.7% in February**, the lowest record since the last global financial crisis when it recorded PMI of 38.8% in November 2008. **March PMI bounced back to 52.0%** with the resumption of work, a signal for recovery.

The quarantine period has eroded between 20-90% of the main sectorial indicators

Main activity indicators by sector in China – impact after 55 days of quarantine

- Severely impacted sectors
  - Traffic of passengers\(^2\) -80%
  - Retail sales\(^3\)(5) -30%
  - Real estate sales\(^3\) -35%
  - Industrial production\(^3\) -16%
  - Hotel occupancy\(^3\) -90%
  - Online channel sales\(^3\) +3%
  - Finished residential works\(^3\) -23%
  - Car sales\(^2\) -92%
  - New mobile users\(^1\) -60%
  - Drug sales\(^4\) -0.2%
  - Coal consumption\(^2\) -24%
  - Shanghai interbank rate\(^2\) -20%

- Moderately impacted sectors
  - Internet users\(^1\) +0.3%
  - Pharmaceutical production\(^3\) -12%
  - Electricity production\(^3\) -8%
  - Loans in renminbis\(^3\) -2%
  - Car sales for Q1 -45%
  - Real estate sales for Q1 -21%
  - Industrial production\(^3\) -16%
  - Car sales for Q1 -92%
  - Coal consumption\(^2\) -24%
  - Shanghai interbank rate\(^2\) -20%

- Sectoral weight in China’s GDP
  - Financial Services 8%
  - Power & utilities 7%
  - Health & pharma 6%
  - Retail 6%
  - Industry & auto 28%
  - Real Estate & Industry & auto 14%
  - Real estate sales\(^3\) 10%
  - Traffic of passengers\(^2\) 6%

(1) Data for January
(2) Data for February
(3) Data for January and February
(4) Includes traditional and western medicine
(5) Excludes automotive, food and pharmaceuticals

Sources: National Bureau of Statistics, Transportation Ministry of China, WIND, China Telecom Corporation Ltd., PBoC

With the orderly resumption of work and production, we have seen signals for recovery in March.
Daily data in China indicates a recovery of the activity though the way out of this crisis could last longer.

**Passenger flows**
- +50% since Feb

**Economy Recovery**
- ~70% of the resumed activities

**Hotel reservations**
- +50% of hotel reservations for the first 2 weeks in Mar

---

(1) Includes rail, road, water, and air transportation; (2) Based on mobility data compiled by WeBank, the digital bank of Chinese technology giant Tencent; (3) Room nights reserved index in logarithmic vertical scale of Shiji Distribution Solutions; (4) China reported a massive increase in confirmed cases as of mid-February due to a change in CountSource criteria.

Sources: China Ministry of Transportation, WeBank, Shiji DS.
Key lessons to ensure a sound recovery on selected industries
## Key industry insights on business impact and latest resumption of work

<table>
<thead>
<tr>
<th>Business impact</th>
<th>Resumption of work</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Banking</strong></td>
<td></td>
</tr>
<tr>
<td>• Top line impact to insurance industry players in Mainland China were not significant.</td>
<td>• All insurance companies in Mainland China have been working on line through out the lock down period even in Wuhan</td>
</tr>
<tr>
<td>• Sales in HK dropped significantly due to reduced interactions between insurance agents and potential customers, and no customers traveling from mainland China to Hong Kong to buy insurance products.</td>
<td>• All insurance companies in Mainland China have resumed the normal business model.</td>
</tr>
<tr>
<td><strong>Insurance</strong></td>
<td></td>
</tr>
<tr>
<td>• No liquidity shock in domestic financial markets, nor do we see significant fluctuation of asset prices.</td>
<td>• By the end of March 2020, although not 100% employees of most banks have resumed work in office, the business and operations are almost back to normal.</td>
</tr>
<tr>
<td>• The demand for bank credit will decline significantly for a certain period</td>
<td></td>
</tr>
<tr>
<td>• Growth rate of banking industry profit will decrease from 6.6% in 2019 to 3.6% in 2020.</td>
<td></td>
</tr>
<tr>
<td><strong>Consumer Markets</strong></td>
<td></td>
</tr>
<tr>
<td>• China retail sales went down by 20% in the first two months of 2020.</td>
<td>• SMEs nationwide resumed work at a rate of 76.8% as of March 29</td>
</tr>
<tr>
<td>• HK retail sales drop by 32% in the first two months of 2020.</td>
<td>• SOEs and large industrial businesses have officially resumed work at a rate of &gt;90%.</td>
</tr>
<tr>
<td>• Sales of commodities increased around 10% both in China and HK.</td>
<td>• Resumption rate of catering, accommodation, housekeeping/other enterprises reached 80%, 60% and 40% respectively.</td>
</tr>
</tbody>
</table>
# Key industry insights on business impact and latest resumption of work

<table>
<thead>
<tr>
<th>Business impact</th>
<th>Resumption of work</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Pharma and healthcare</strong></td>
<td></td>
</tr>
<tr>
<td>• Big MNC pharma were experiencing &gt;25% growth while for players outside the COVID-19 arena will be quite bad for the first quarter.</td>
<td>• Manufacturing had been hit in the provinces with the most severe issues, like Hubei.</td>
</tr>
<tr>
<td>• But due to lack of selling activities, <strong>first quarter will be quite bad for many players outside the COVID-19 arena</strong></td>
<td>• Most concern was the manufacture of active ingredients where <strong>China provides 70-80% of supply to India who then make generics for the world.</strong></td>
</tr>
<tr>
<td><strong>Auto</strong></td>
<td></td>
</tr>
<tr>
<td>• The normal operation has been challenged and affected by the epidemic, especially on consumer demand, followed closely by marketing, operation and supply chain.</td>
<td>• Many businesses have been unable to resume production on time and forced to have their production orders cancelled.</td>
</tr>
<tr>
<td>• It forced the industry to re-examine and plan for the medium-and long-term development, accelerating industry transformation and upgrade.</td>
<td>• Outbreak has the greatest impact on OEMs that located in Hubei province.</td>
</tr>
<tr>
<td><strong>Technology</strong></td>
<td></td>
</tr>
<tr>
<td>• <strong>Big internet giants</strong> – <strong>positive</strong>. More reliance on SaaS.</td>
<td>• Semiconductor, core technology and advanced manufacturing resume to work.</td>
</tr>
<tr>
<td>• <strong>Small innovation companies</strong> – <strong>positive</strong> in B2B services impacted. Solutions focuses on Digitalisation, SaaS in CRM, HR and Finance.</td>
<td>• Internet+ focus has gradually resume to work given vast majority of R&amp;D manpower coming from around China.</td>
</tr>
<tr>
<td>• <strong>Internet+ companies with the focus on services are impacted</strong> due to limitation on service consumptions, B2C companies are shifting their focus to online.</td>
<td></td>
</tr>
</tbody>
</table>
Economic Impact and lessons learned from China - Q&A

Ask your Experts now

Instructions

In this Q&A, you as the audience can get involved, so please submit your questions for Julie, Thomas and Klaus via the questions box on your left hand side.
Thank you!

One Point of Contact:
Via our crisis helpline and PwC Switzerland website (EN I DE I FR)

Your experts today:

Julie Fitzgerald
Partner, Leader Growth & Markets at PwC Switzerland, Member of the PwC Europe Executive Team and Swiss Management Board
Email

Dr. Klaus-Peter Gushurst
Partner, Head of Industries and Innovation PwC Germany and Industrial Manufacturing & Automotive PwC Europe
Email

Thomas W Leung
Partner, Leader Markets at PwC China, Managing Partner PwC Mainland China and Hong Kong
Email
Thank you