

COVID-19

Economic Scenarios and Impact Assessment

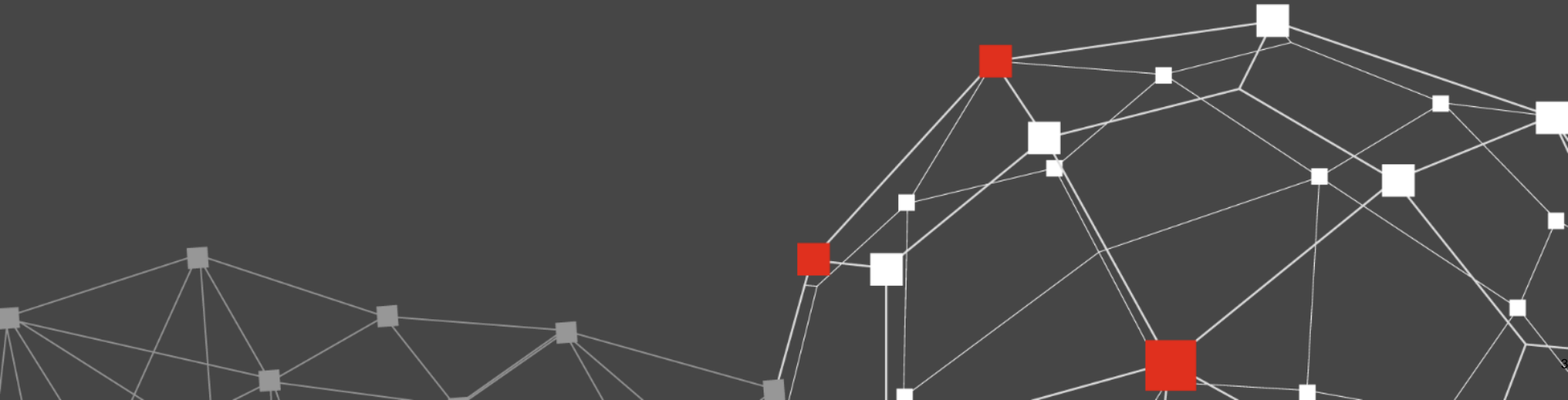
Lessons learned from China

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



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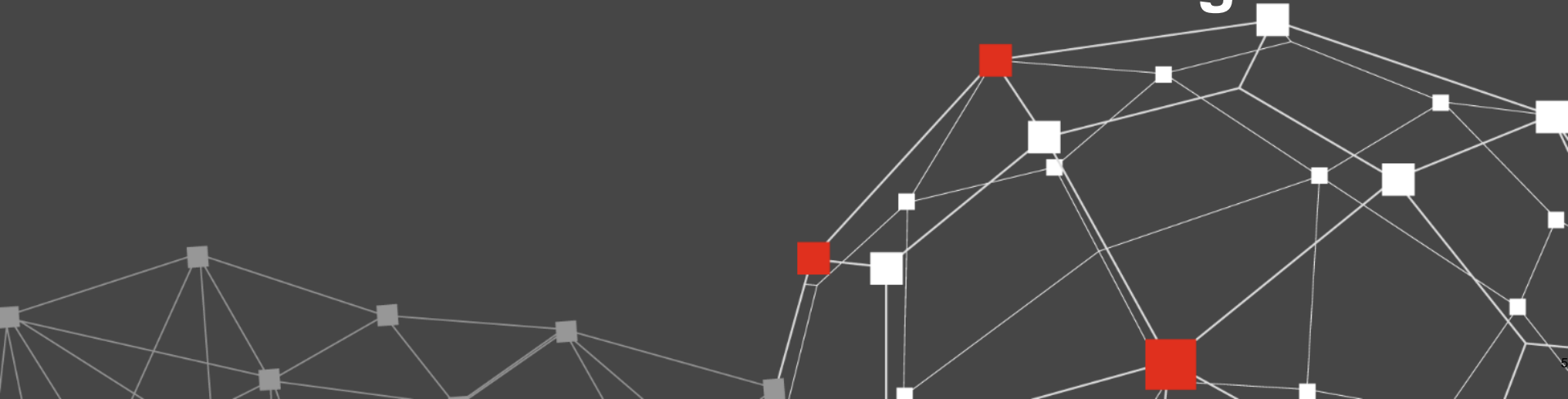
Lessons Learned from China

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

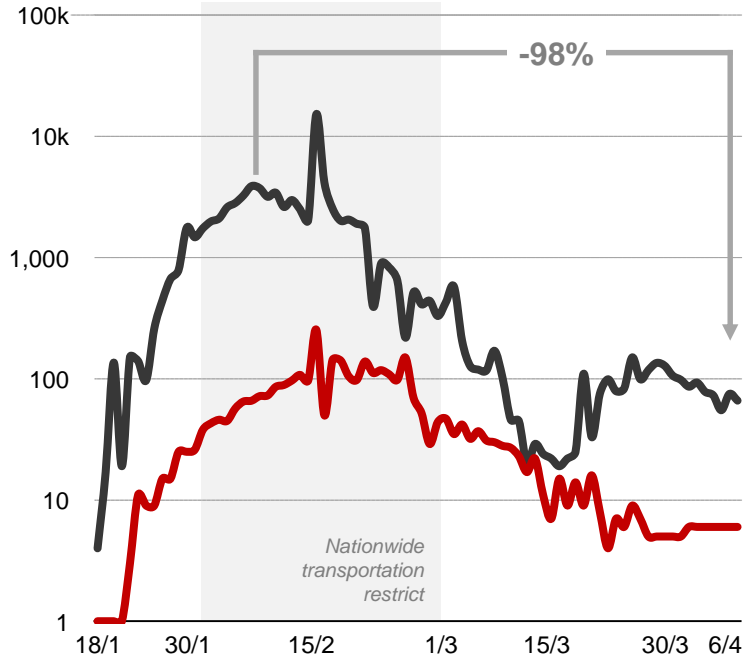
- Number of new daily cases in China have started to slowdown after 50-60 days of the implementation of sanitary countermeasures (quarantine of affected cities, nationwide transportation restrictions, and closures of schools and businesses).
- Main lessons from China on how to combat the pandemic on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

Number of **new cases** and **new deceases** in China 🇨🇳 [daily new cases – log scale]



Source: WHO

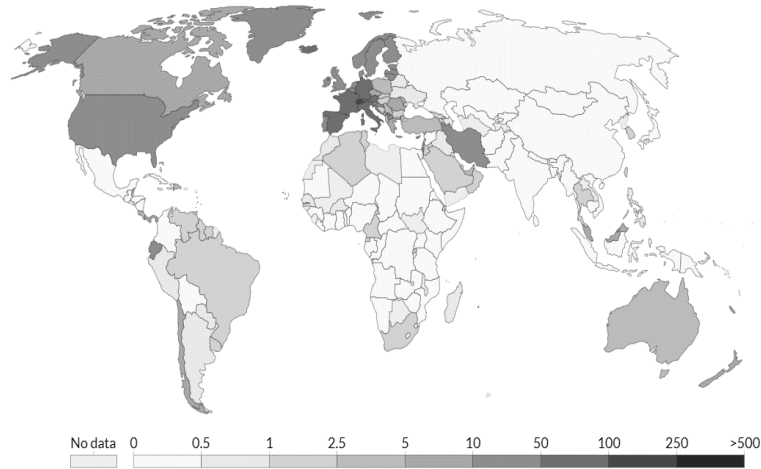
Chinese government has taken measures to contain the epidemic on three areas:

- 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

How is the sanitary situation evolving abroad?

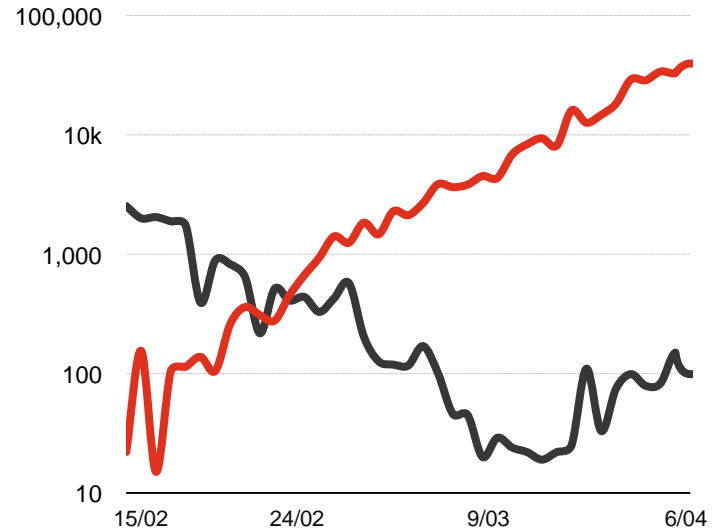
New cases mounted overseas, signaling that the epidemic duration might be lengthier than expected

Current new confirmed cases per country



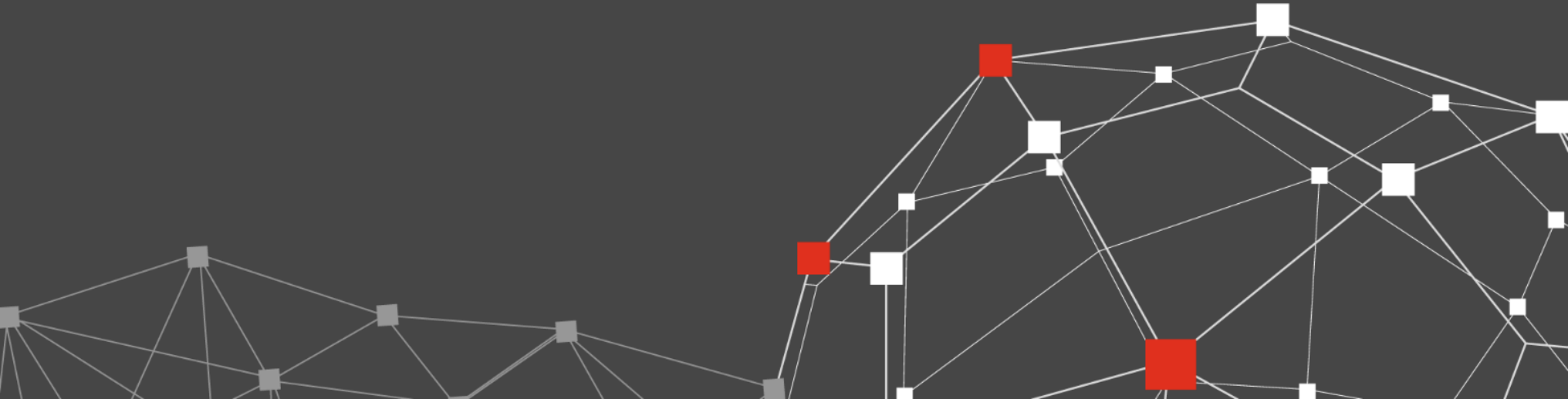
Source: WHO

New confirmed cases evolution, **China** vs **rest of the world**
['000 new cases – log scale]



As pandemic spread globally, the pandemic's economic impact worsen, and the recovery duration might be lengthier

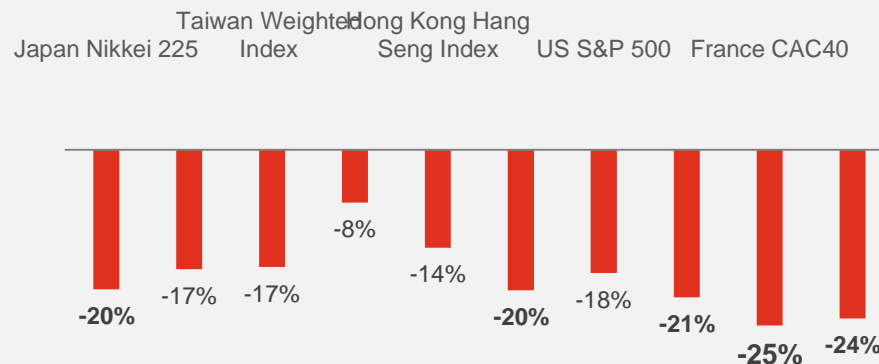
Economic impact and recovery signals in China



Impact on the global economy

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.

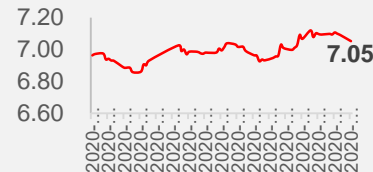
Major stock markets YTD performance (1 Jan to 6 Apr 2020)



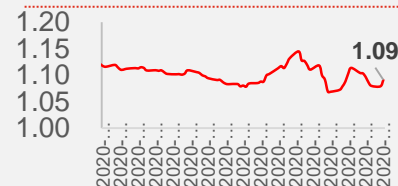
Source: WIND

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%.

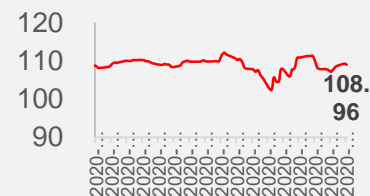
USD vs RMB



EUR vs USD



USD vs JPY



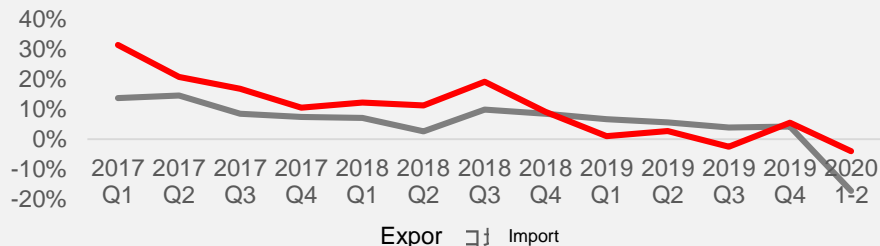
USD to JPY fell below 102 on 9 Mar and bounced back to around 109, USD to RMB once fell below 6.9 and back to 7 since mid March, while EUR is at around 1.09 against USD.

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.

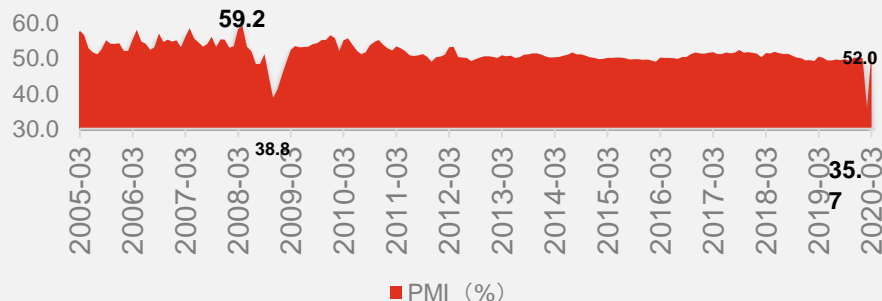
- **China's PMI fell to 35.7% in February**, the lowest record since the last global financial crisis when it recorded PMI of 38.8% in November 2008. **March PMI bounced back to 52.0%** with the resumption of work, a signal for recovery.
- The short-term impact of COVID-19 on manufacturing is worse than the global financial crisis in 2008-2009.

China's import and export growth rate fell sharply in January and February



Source: General Administration of Customs, WIND

China's manufacturing PMI index (2005-2020)



Source: WIND

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 → ← Moderately impacted sectors →

TTL **Retail** **Real Estate & construction** **Industry & auto** **Telco & media** **Health & pharma** **Power & utilities** **Financial Services**

Main activity indicators – yoy growth compared to 2019

Traffic of passengers ⁽²⁾ -80%	Retail sales ⁽³⁾⁽⁵⁾ -30%	Real estate sales ⁽³⁾ -35%	Industrial production ⁽³⁾ -16%	Internet users ⁽¹⁾ +0.3%	Pharmaceutical production ⁽³⁾ -12%	Electricity production ⁽³⁾ -8%	Loans in renminbis ⁽³⁾ -2%
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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%
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Sectoral weight in China's GDP



With the orderly resumption of work and production, we have seen signals for **recovery in March**

Real estate sales for Q1

-21%

Car sales for Q1

-45%

((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

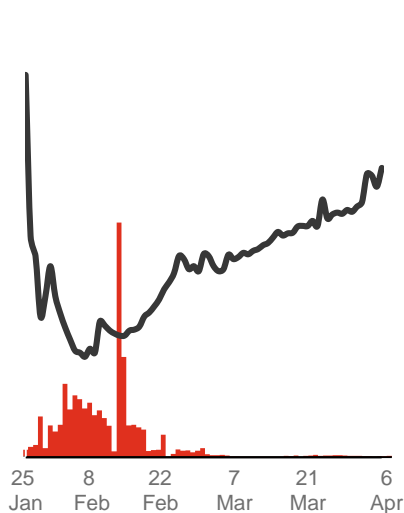
Daily data in China indicates a recovery of the activity though the way out of this crisis could last longer

Evolution of daily activity indicators in China

Passenger flows⁽¹⁾

[millions of passengers]

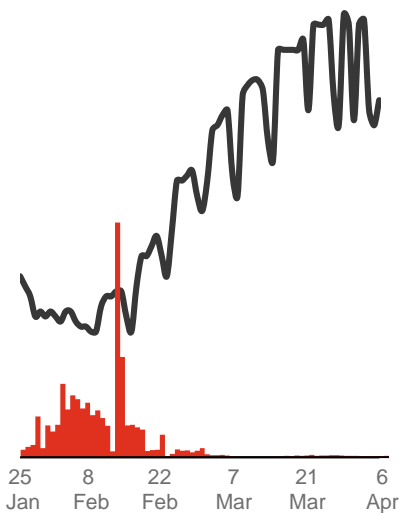
+50% since Feb



Economy Recovery⁽²⁾

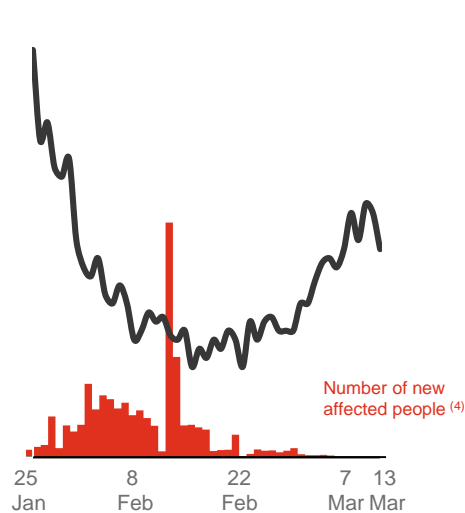
[%]

~70% of the resumed activities



Hotel reservations⁽³⁾

+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

China from outbreak to resumption of work

23 Jan
China implements **travel bans**, **Wuhan** authorities closed all transport hubs including airports, railway and bus stations.

24 Jan
9 Cities and provinces announced emergency Level 1

27 Jan
Premier Li Keqiang called for construction of the **makeshift hospital** of Huoshenshan

Start of the outbreak

31 Jan
WHO declares global emergency

1 Feb
Authorities in Hubei announced to postpone the school opening

2 Feb
China's finance authorities allocated **47 billion yuan** for the coronavirus prevention and control work

10 Feb
China's tax watchdog unveiled a guideline, involving **12 detailed items** to reduce financial pressure in key sectors to support epidemic prevention and control, supplies, donation and work resumption.

27 Feb
Qianjiang in Hubei Province to offer \$1,400 to people who self-report

2 Mar
China's daily output of face masks reached **116 million**, **12 times** the figure on 1 Feb

19 Feb
China's daily number of newly recovered infections surpassed that of newly confirmed infections for the first time

11 Feb
Zhejiang province as the first province launched "epidemic prevention and health information dynamic **QR code**"

6 Mar
The number of newly COVID-19 cases in China **dropped to double digits** for the first time since Jan 20.

During the outbreak

10 Mar
President Xi Jinping inspected Wuhan, pledging a continuous fight toward victory as prevention and control efforts have "turned the tide".

18 Mar
General office of the State Council announced the opinion on measures to stabilise employment

26 Mar
General office of the Ministry of Commerce announced the circular on accelerating the normal business order of pedestrian streets
China Banking and Insurance Regulatory Commission (CBIRC) announced a circular on strengthening the coordination of industrial chain and resumption of financial services
General office of the Ministry of industry and information technology announced a circular on strengthening and promoting the coordinated resumption of industrial chain
China tax authorities expanded the "non-contact" online tax service

Resumption of work

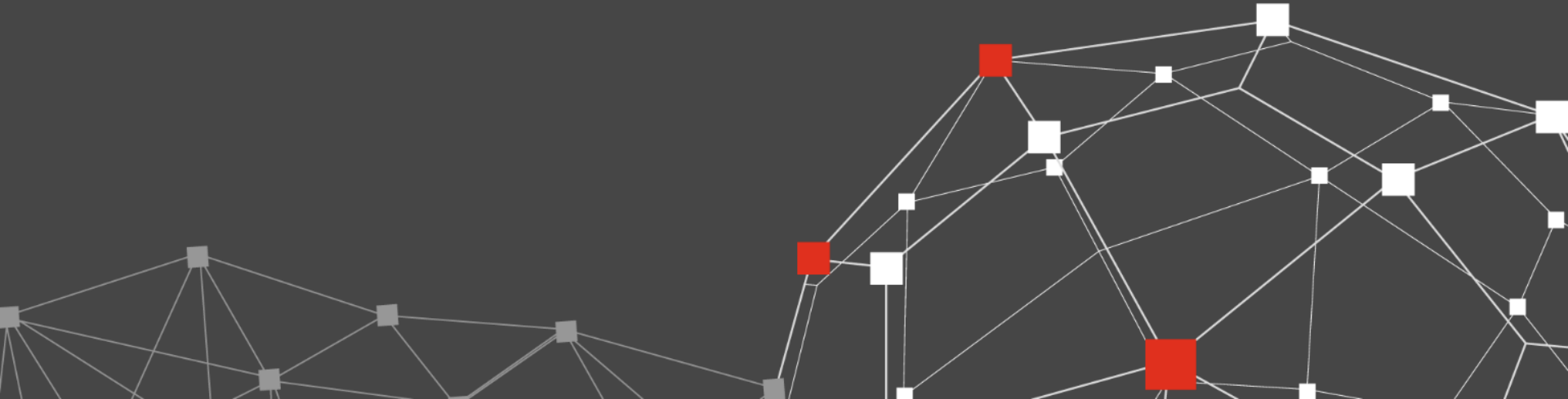
13 Mar
Ministry of transport announced a circular on orderly resumption of transportation services

19 Mar
Mainland China reported "0" increase in domestically transmitted COVID-19 cases. Wuhan, which was once worst hit by the coronavirus outbreak, reported no newly confirmed cases for the same day.

24 Mar
Shanghai and 25 provinces have lowered down the emergency level

8 Apr
Wuhan lockdown lifts

Key lessons to ensure a sound recovery on selected industries



Key industry insights on business impact and latest resumption of work

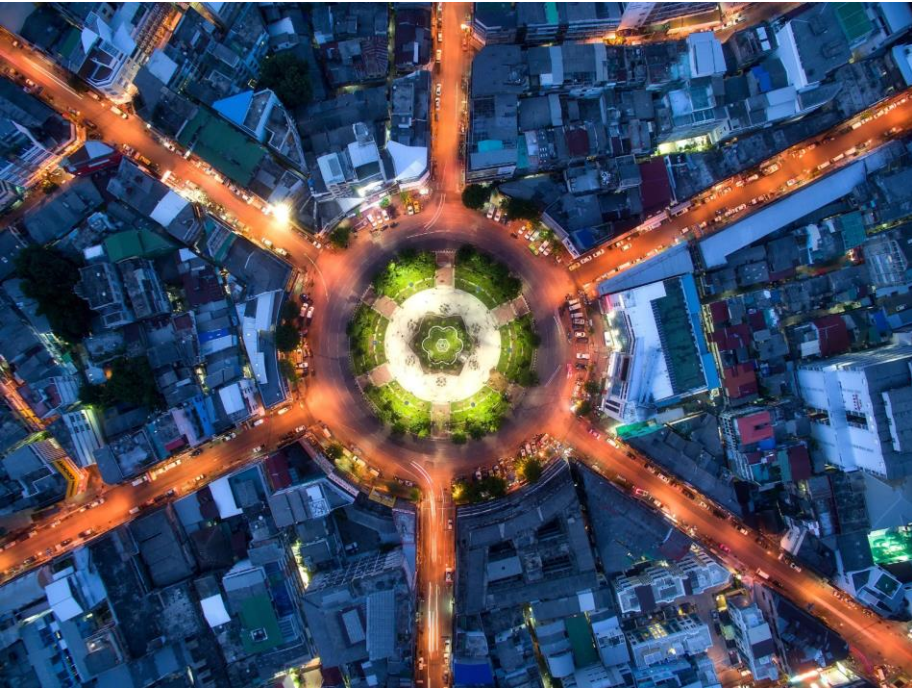
	Business impact	Resumption of work
Banking	<ul style="list-style-type: none">• Top line impact to insurance industry players in Mainland China were not significant.• Sales in HK dropped significantly due to reduced interactions between insurance agents and potential customers, and no customers traveling from mainland China to Hong Kong to buy insurance products.	<ul style="list-style-type: none">• All insurance companies in Mainland China have been working on line through out the lock down period even in Wuhan• All insurance companies in Mainland China have resumed the normal business model.
Insurance	<ul style="list-style-type: none">• No liquidity shock in domestic financial markets, nor do we see significant fluctuation of asset prices.• The demand for bank credit will decline significantly for a certain period• Growth rate of banking industry profit will decrease from 6.6% in 2019 to 3.6% in 2020.	<ul style="list-style-type: none">• 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.
Consumer Markets	<ul style="list-style-type: none">• China retail sales went down by 20% in the first two months of 2020.• HK retail sales drop by 32% in the first two months of 2020.• Sales of commodities increased around 10% both in China and HK.	<ul style="list-style-type: none">• SMEs nationwide resumed work at a rate of 76.8% as of March 29• SOEs and large industrial businesses have officially resumed work at a rate of >90%.• Resumption rate of catering, accommodation, housekeeping/other enterprises reached 80%, 60% and 40% respectively.

Key industry insights on business impact and latest resumption of work

	Business impact	Resumption of work
Pharma and healthcare	<ul style="list-style-type: none"> • Big MNC pharma were experiencing >25% growth while for players outside the COVID-19 arena will be quite bad for the first quarter. • But due to lack of selling activities, first quarter will be quite bad for many players outside the COVID-19 arena 	<ul style="list-style-type: none"> • Manufacturing had been hit in the provinces with the most severe issues, like Hubei. • Most concern was the manufacture of active ingredients where China provides 70-80% of supply to India who then make generics for the world.
Auto	<ul style="list-style-type: none"> • The normal operation has been challenged and affected by the epidemic, especially on consumer demand, followed closely by marketing, operation and supply chain. • It forced the industry to re-examine and plan for the medium-and long-term development, accelerating industry transformation and upgrade. 	<ul style="list-style-type: none"> • Many businesses have been unable to resume production on time and forced to have their production orders cancelled. • Outbreak has the greatest impact on OEMs that located in Hubei province.
Technology	<ul style="list-style-type: none"> • Big internet giants – positive. More reliance on SaaS. • Small innovation companies – positive in B2B services impacted. Solutions focuses on Digitalisation, SaaS in CRM, HR and Finance. • Internet+ companies with the focus on services are impacted due to limitation on service consumptions, B2C companies are shifting their focus to online. . 	<ul style="list-style-type: none"> • Semiconductor, core technology and advanced manufacturing resume to work. • Internet+ focus has gradually resume to work given vast majority of R&D manpower coming from around China.

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](#) | [DE](#) | [FR](#))

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Thank you

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