

Getting ahead of the next stage of the coronavirus crisis

FERMA

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Alfonso Natale
Partner, Milan

Leading European Corporate Risk Service Line in the Mediterranean Complex. Leading McKinsey Risk DnA Service Line for corporates.

Leading multiple risk transformation programs across various sectors: banking, transportation, infrastructure.

Alfonso is the CRO of McKinsey Italy.



Thomas Poppensieker
Senior Partner, Munich

Member of the McKinsey global risk management leadership group and leads the German Risk Practice.

Served mainly Financial Institutions, but also Corporates across Europe, especially in the Automotive sector.

He served as a member of the Group of Experts on Banking Issues to the EU Commission and is a Member of the Executive Board for the Frankfurt Institute of Risk Management and Regulation (FIRM).



Vito Giudici
Senior Partner, Hong Kong

Leading of Asia FIG practice, actively involved in multiple COVID – 19 response and transformation programs in the region

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The global spread is accelerating with more reports of local transmission

Latest as of April 12, 2020

Impact to date

>1.91M

Reported confirmed cases

>119,500

Deaths

>212

Countries or territories with reported cases¹

>180

Countries or territories with evidence of local transmission²

70

Countries or territories with more than 1000 reported cases¹

~0.1%

China share of new reported cases
April 7 – April 13

~38%

US share of new reported cases
April 7 – April 13

~46%

Europe share of new reported cases
April 7 – April 13

3

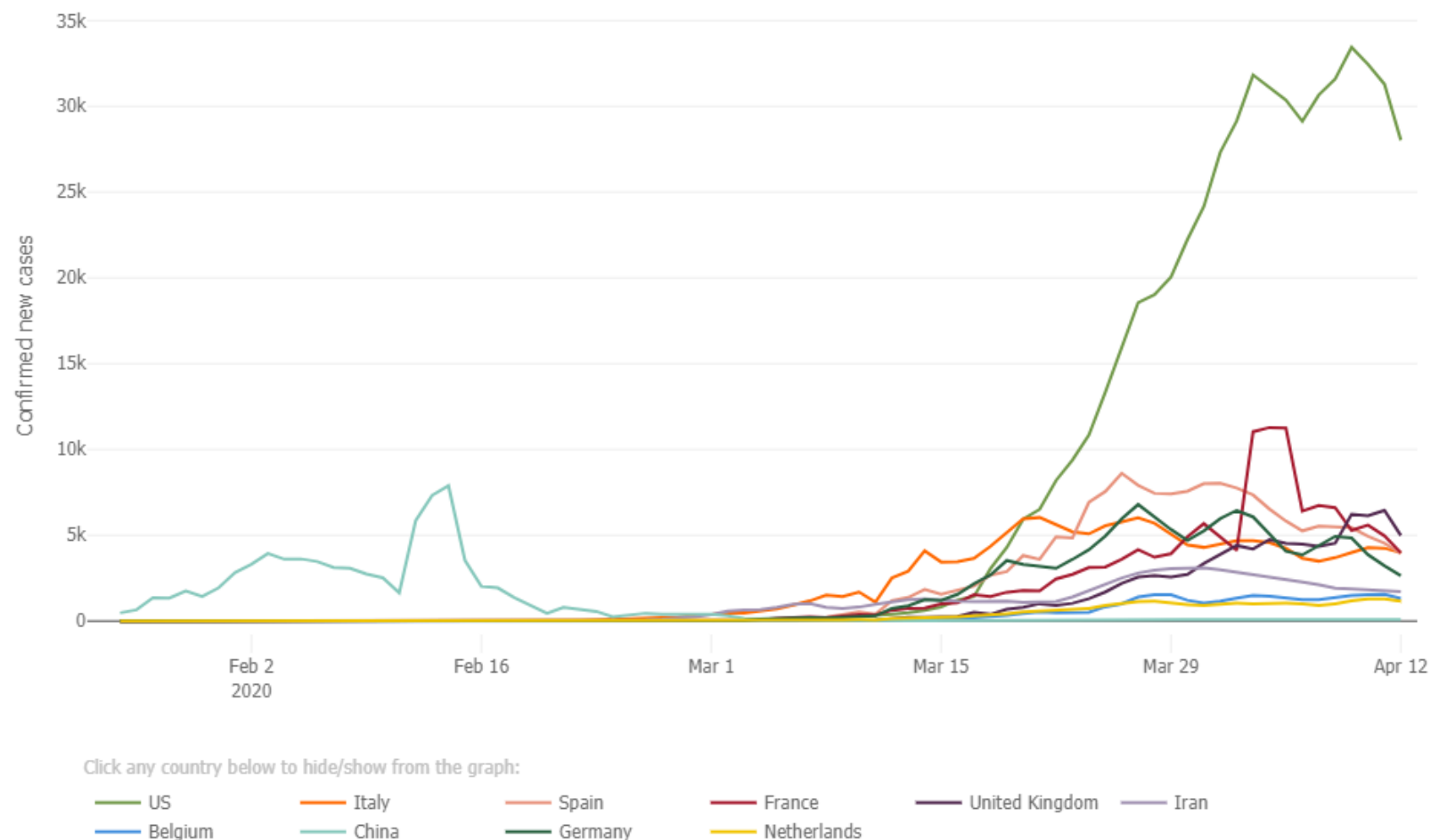
New countries or territories with cases
April 7 – April 13

1. Previously counted only countries; now aligned with WHO reports to include territories and dependencies; excluding cruise ship
2. Previously noted as community transmission in McKinsey documents; now aligned with WHO definition

The greatest share of cases come from Europe and the U.S.

Daily confirmed new cases (5-day moving average)

Outbreak evolution for the current 10 most affected countries



US

The U.S. consistently has the highest number of new cases in the world, but there is early evidence of plateauing in new infections – each of the first 12 days in April has seen between 25K and 35K new cases

Italy

On 19 March, Italy became the country with the highest number of confirmed coronavirus deaths in the world, but on 11 April it was overtaken by the United States. On the April 14th the number of new cases shows slow decline

France

As of 13 April, is making it the fifth highest country by number of confirmed cases, now overtaking China where the outbreak first began, but the curve of new infections has started to decline due to strict government measures

Spain

The growth of new coronavirus infections in Spain has fallen to a record low since the outbreak began, as Europe's worst-hit country by confirmed cases braced for the reopening of some sectors of its economy this week

Germany

Decisions about a possible stepwise lifting of the Corona restrictions will be taken this week. Mortality is still very low compared to other countries.

Scenarios for the economic impact of the COVID-19 crisis

GDP impact of COVID-19 spread, public health response, and economic policies

Virus spread and public health response

Effectiveness of the public health response in controlling the spread and human impact of COVID-19

Rapid and effective control of virus spread

Strong public health response succeeds in controlling spread in each country within 2-3 months

Effective response, but (regional) virus resurgence

Public health response initially succeeds but measures are not sufficient to prevent viral resurgence so social distancing continues (regionally) for several months

Broad failure of public health interventions

Public health response fails to control the spread of the virus for an extended period of time (e.g., until vaccines are available)

B1

Virus contained, but sector damage; lower long-term trend growth



A3

Virus contained, slow recovery

Virus Contained



A4

Virus contained; strong growth rebound



B2

Virus resurgence; slow long-term growth



A1

Virus resurgence; slow long-term growth

Muted World Recovery



A2

Virus resurgence; return to trend growth

Strong World Rebound



B3

Pandemic escalation; prolonged downturn without economic recovery



B4

Pandemic escalation; slow progression towards economic recovery



B5

Pandemic escalation; delayed but full economic recovery



Ineffective interventions

Self-reinforcing recession dynamics kick-in; widespread bankruptcies and credit defaults; potential banking crisis

Partially effective interventions

Policy responses partially offset economic damage; banking crisis is avoided; recovery levels muted

Highly effective interventions

Strong policy responses prevent structural damage; recovery to pre-crisis fundamentals and momentum

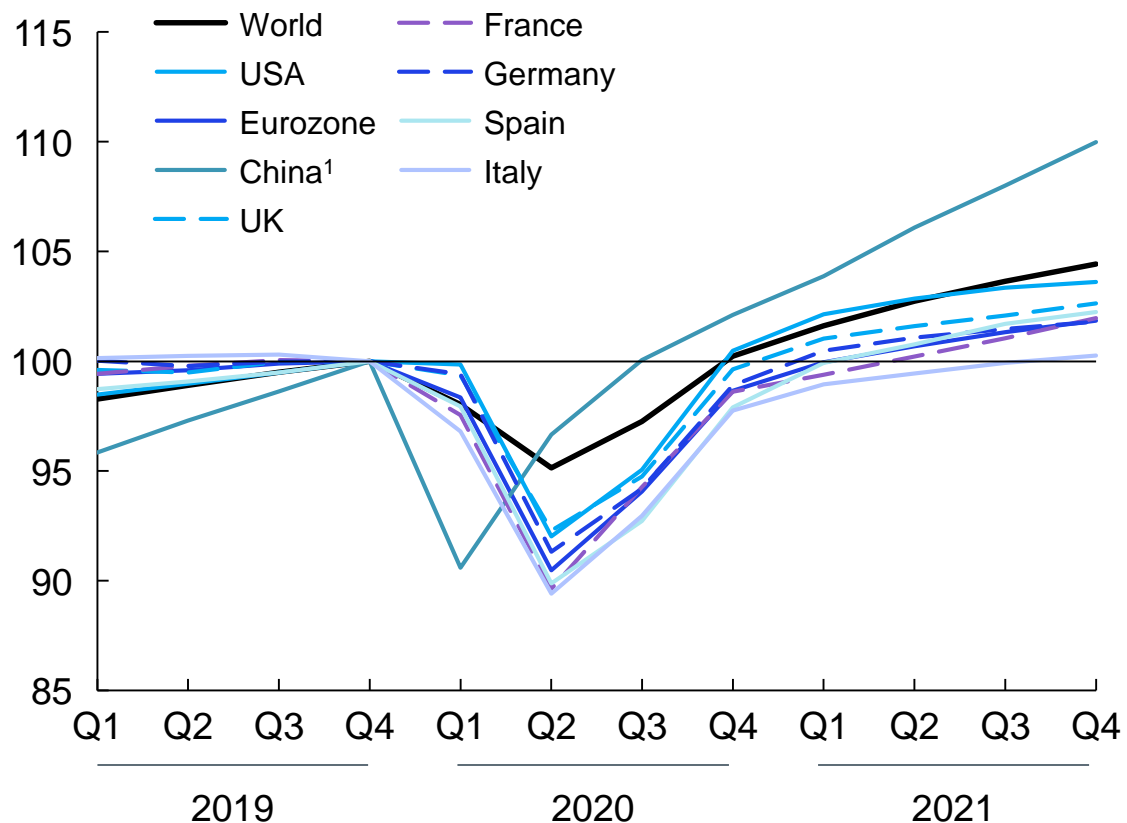
Knock-on effects and economic policy response

Speed and strength of recovery depends on whether policy moves can mitigate self-reinforcing recessionary dynamics (e.g., corporate defaults, credit crunch)

Scenario A3: Virus Contained

Real GDP growth

Local currency units indexed, 2019 Q4=100



1. Seasonally adjusted by Oxford Economics

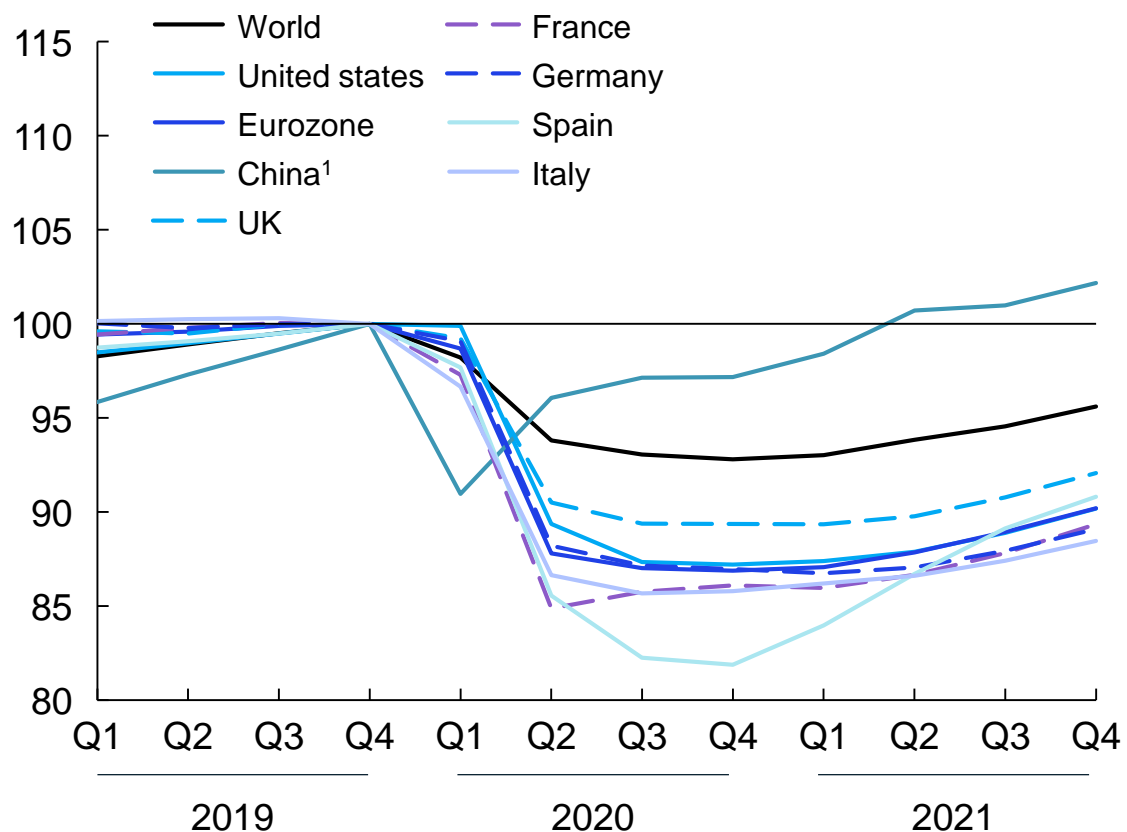
Source: McKinsey analysis, in partnership with Oxford Economics

| | Real GDP drop 2019 Q4–2020 Q2 % change | 2020 GDP growth % change | Time to return to pre-crisis Quarter |
|-----------------|--|--------------------------|--------------------------------------|
| World | -4.9% | -1.5% | 2020 Q4 |
| China | -3.3% | -0.4% | 2020 Q3 |
| USA | -8.0% | -2.4% | 2020 Q4 |
| Eurozone | -9.5% | -4.4% | 2021 Q1 |
| Germany | -8.7% | -3.9% | 2021 Q1 |
| UK | -7.7% | -3.3% | 2020 Q4 |
| Spain | -10.1% | -4.7% | 2021 Q2 |
| France | -10.4% | -4.8% | 2021 Q1 |
| Italy | -10.6% | -5.9% | 2021 Q4 |

Scenario A1: Muted World Recovery

Real GDP growth

Local currency units indexed, 2019 Q4=100



1. Seasonally adjusted by Oxford Economics

Source: McKinsey analysis, in partnership with Oxford Economics

| | Real GDP drop 2019 Q4–2020 Q2 % change | 2020 GDP growth % change | Time to return to pre-crisis Quarter |
|-----------------|--|--------------------------|--------------------------------------|
| World | -6.2% | -4.7% | 2022 Q3 |
| China | -3.9% | -2.7% | 2021 Q2 |
| USA | -10.6% | -8.4% | 2023 Q1 |
| Eurozone | -12.2% | -9.7% | 2023 Q3 |
| UK | -9.5% | -7.7% | 2023 Q4 |
| Spain | -14.5% | -12.6% | 2024 Q3 |
| France | -15.1% | -11.3% | 2024 Q3 |
| Germany | -11.8% | -9.6% | After 2024 |
| Italy | -13.3% | -11.5% | After 2024 |

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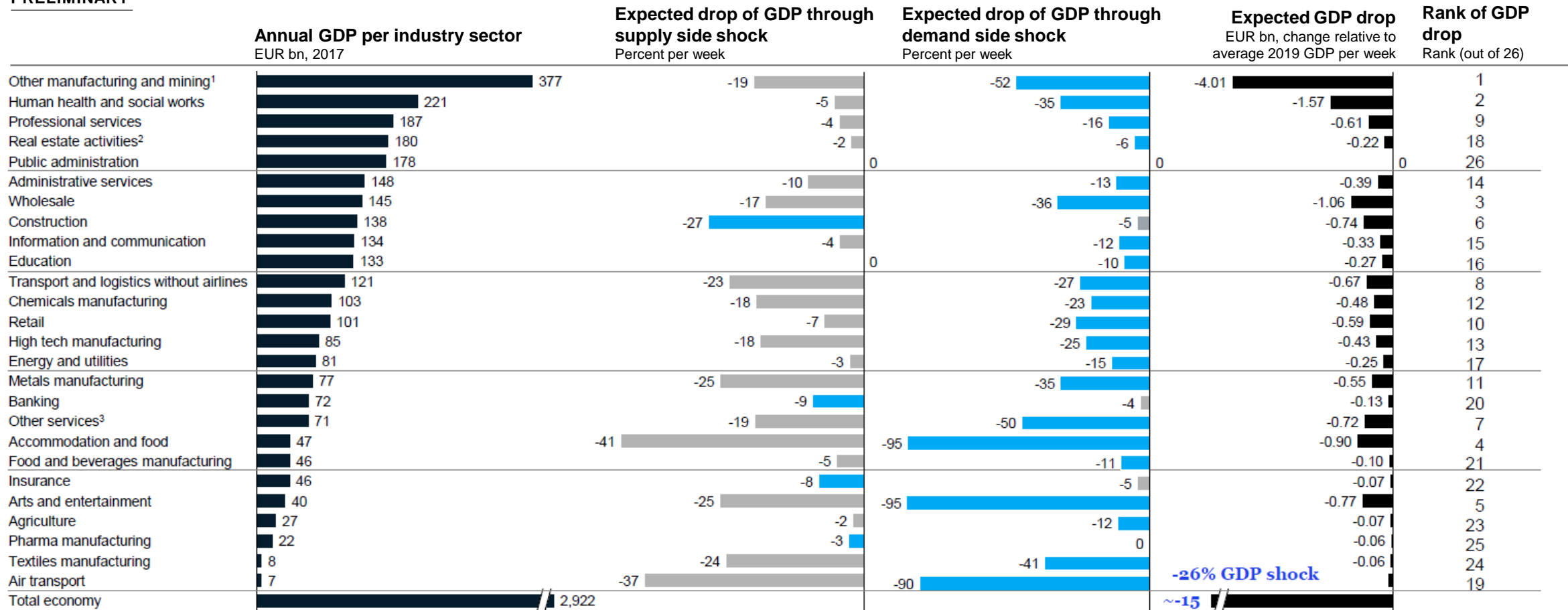
Discussion

First outlook on CW 16: the majority of German industry sectors are expected to experience a significant demand side shock

Supply and demand effect in CW 16

 Limiting factor

PRELIMINARY



1. Covers mining, retail and wholesale of motor vehicles, as well as the remaining manufacturing activities, i.e., manufacture of motor vehicles, of machinery and equipment, and other manufacturing

2. Excludes imputed rent from house owners

3. Includes activities of business, religious, political organisations, personal service activities such as washing and hairdressing as well as repair services

Supply side shocks calculated based on changes in deployed workforce due to infection rates, limitations in remote working, and physical proximity during the production process. Adjustments are made for essential sectors. Impact of non-deployed labor force on GDP calculated using industry sector's value added.

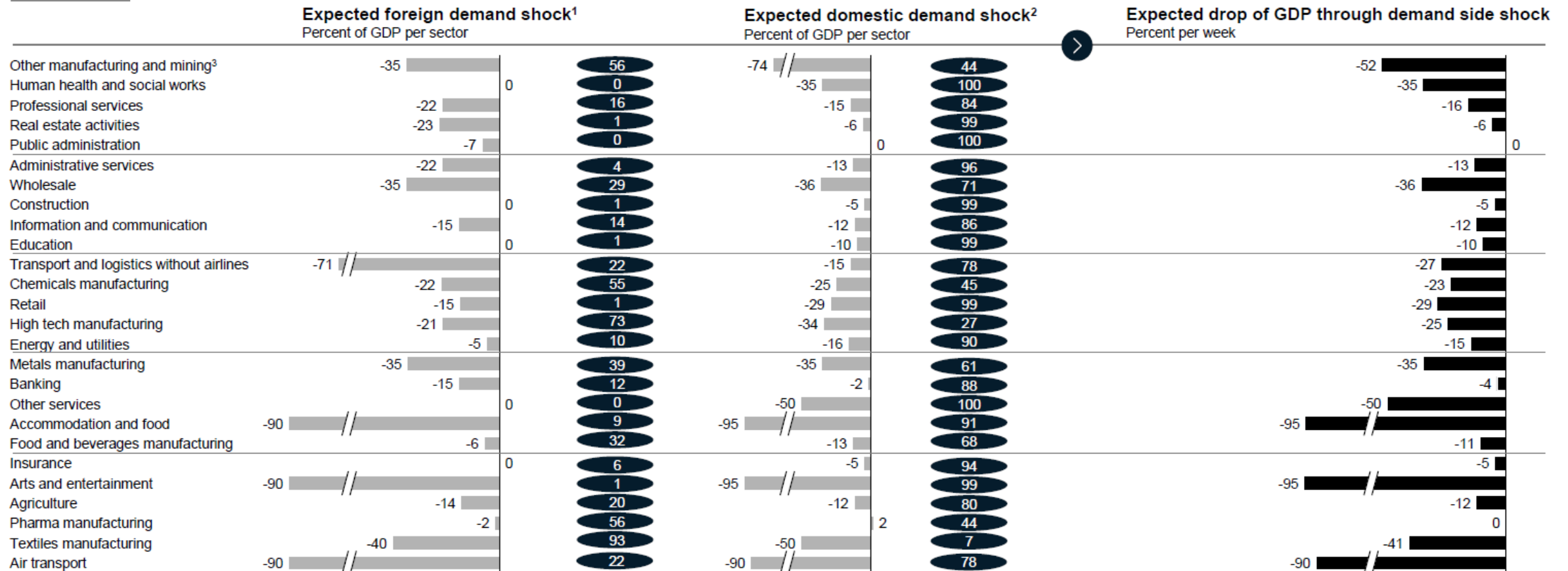
Demand side shocks calculated based on external and domestic demand drop in the 2009 crisis that has been refined by specificities of the current situation (in particular shutdown effects) and in expert McKinsey interviews.

Demand shock particularly high for sectors affected by lockdown (e.g. air transport, accommodation and food)

Demand effect in CW 16

X Share of total demand per sector (%)

PRELIMINARY



1 Exports 2 Total consumption (private and government) plus investment (gross fixed capital formation); 3 Covers Mining and quarrying as well as the remaining manufacturing activities, i.e., manufacture of motor vehicles, trailers and other transport equipment, of machinery and equipment (incl. repair), of wood, paper, printing and reproduction, of furniture as well as other manufacturing

Note: Demand shock components calculated based on decline during past financial crisis (2008-2009) from Input-Output table and Trade Statistics. The overall expected demand shock per sector represents a weighted sum of export and domestic shocks multiplied with the respective shares of total export and domestic demand sector output. Adjustments have been made to several sectors based on government measures (lockdown), non-McKinsey impact estimations (e.g. Ifo) and expert interviews for highly affected sector during this particular crisis (e.g. automotive, air transport)

Moderate lockdown scenario with ~20-25% sales volume loss under risk in CHN/EU/US automotive markets in 2020

Light vehicle sales volume 2020

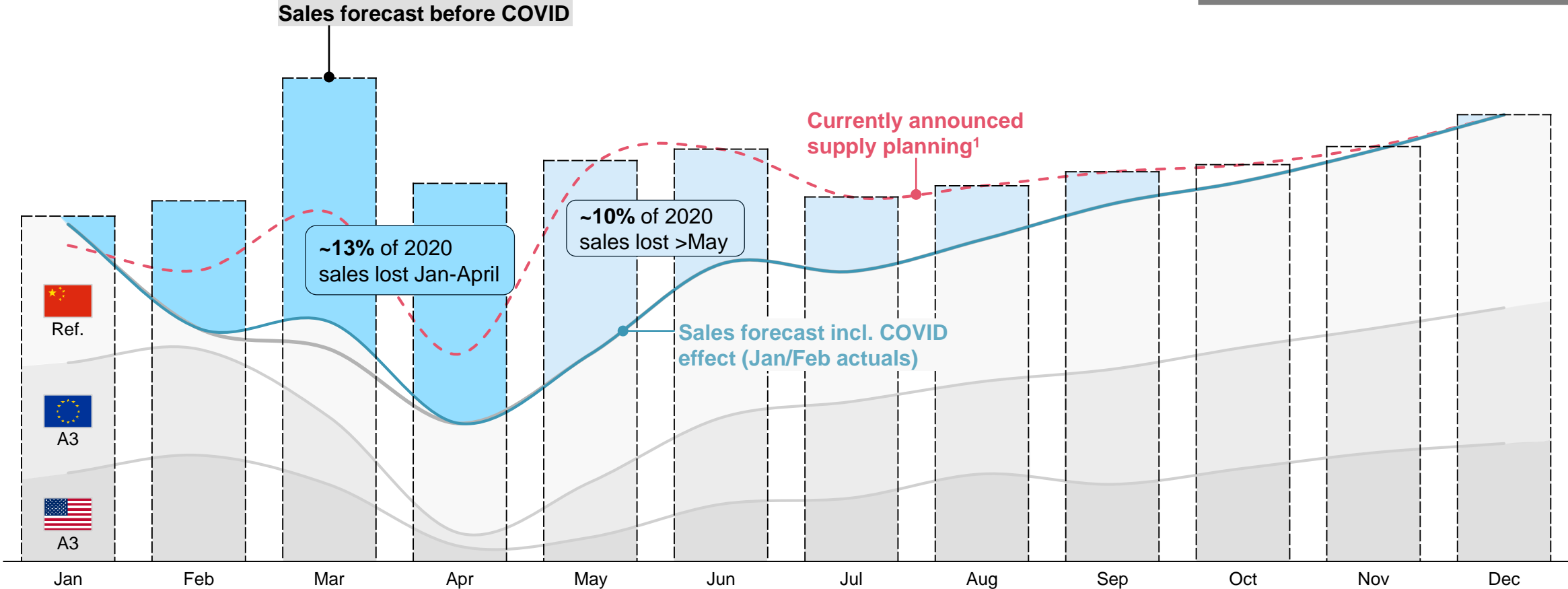
A3



Preliminary modeling – scenario A3

As of April 9

Potential positive effects of automotive specific government stimulus not included



1 Based on publicly available information on OEM plant closure plus anticipation of further closures or extensions of closure time – adaption of production to demand not considered here (esp. catch-up of lost production volumes)



Manufacturing sectors and transport and logistics are most affected by current supply chain disruptions

Supply chain effect in CW 16

PRELIMINARY

| | Structural risk factors | | | | Non-structural risk factors | | | Risk of supply chain disruption | |
|---|------------------------------|-------------------------------------|----------------------------|------------------------|-----------------------------------|----------------------------|--|---------------------------------|--|
| | Trade Intensity ¹ | Regionalization of GVC ² | Length of GVC ³ | Lifecycle ⁴ | Logistics disruption ⁵ | Inventory e2e ⁶ | Overall risk assessment Q2 ¹⁰ | | |
| | | | | | | | Low | High | |
| Other manufacturing and mining ³ | 72% | 54% | 2.0 | Medium (auto) | Moderate | 40-70 | 0.63 | | |
| Human health and social works | 1% | 77% | 1.5 | NA | Low | NA | 0.14 | | |
| Professional services | 30% | 57% | 1.5 | NA | Low | NA | 0.19 | | |
| Real estate activities | 2% | 73% | 1.3 | NA | Low | NA | 0.14 | | |
| Public administration | 1% | 68% | 1.5 | NA | Low | NA | 0.15 | | |
| Administrative services | 30% | 57% | 1.5 | NA | Low | NA | 0.19 | | |
| Wholesale | 42% | 58% | 1.5 | Short | Moderate | 20-40 ⁸ | 0.61 | | |
| Construction | 1% | 84% | 1.9 | NA | Low | NA | 0.16 | | |
| Information and communication | 27% | 62% | 1.8 | NA | Low | NA | 0.19 | | |
| Education | 8% | 82% | 1.4 | NA | Low | NA | 0.14 | | |
| Transport and logistics without airlines | 37% | 60% | 1.7 | NA | High | NA | 0.70 | | |
| Chemicals manufacturing | 94% | 34% | 1.9 | Long | Moderate | 30-60 | 0.65 | | |
| Retail | 42% | 58% | 1.5 | Short | Moderate | 20-40 ⁸ | 0.61 | | |
| High tech manufacturing | 92% | 37% | 1.8 | Short | High | 40-100 | 0.91 | | |
| Energy and utilities | 5% | 82% | 1.7 | Long | Low | NA | 0.20 | | |
| Metals manufacturing | 60% | 69% | 2.1 | Medium | Moderate | 30-60 | 0.61 | | |
| Banking | 28% | 65% | 1.5 | NA | Low | NA | 0.18 | | |
| Other services | 4% | 82% | 1.6 | NA | Low | NA | 0.15 | | |
| Accommodation and food | 45% | 89% | 1.8 | NA | Low | NA | 0.19 | | |
| Food and beverages manufacturing | 46% | 66% | 2.1 | Short | Moderate | 10-30 ⁹ | 0.64 | | |
| Insurance | 28% | 65% | 1.5 | NA | Low | NA | 0.18 | | |
| Arts and entertainment | 4% | 82% | 1.6 | NA | Low | NA | 0.15 | | |
| Agriculture | 59% | 60% | 1.7 | Medium | Low | 180 ⁷ | 0.29 | | |
| Pharma manufacturing | 94% | 64% | 1.9 | Long | High | 230-320 | 0.80 | | |
| Textiles manufacturing | 164% | 34% | 2.2 | Short | High | 70-100 | 1.00 | | |
| Air transport | 37% | 60% | 1.7 | NA | Low | NA | 0.20 | | |

1 Imports plus exports as % of Gross output; 2 EU intermediate imports as a % of total intermediate imports; 3 Number of production stages; 4 Durability of product/service lifecycle; 5 Current level of transport and logistics disruption (e.g. reduction in air cargo) 6 Days of stock 7 Highly cyclical; expect that this year is unaffected as seeds and fertilizers are usually bought in winter before the next season 8 Average inventory period used as wholesale & retail include a varied set of goods (e.g. apparel vs. food); 9 Only focuses on Food as stock for beverages can last many years (e.g. whisky); 10 Normalized index composed of structural and non-structural factors and aggregated with equal weights

Note: Heatmap based on following thresholds: low <0.2; high >0.7, with high meaning highest risk of supply chain disruption. Indicators are weighted and normalized into an index of overall risk assessment in Q2, where end-to-end inventory days as supply constraints over time combined with current logistics disruption determine whether supply chain impact is immediate.

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Demand: experience from China shows a “consumption shift” short term, with effects that appear to be lasting



Consumption shift during the peak of the crisis

- 50-70%** Reduction in consumption of **discretionary** products
- >50%** **Male shoppers at offline stores during crisis**, majority of which are 30-40 years old
- 30-40%** Of consumers have **not purchased discretionary** and impulse products
- +15-20%** Increase in online penetration

Confidence and emerging shifts after...

- +20-30%** **Lingering effects** in food as foodservice still not fully open
- ~50%** Of **Chinese** consumers indicate giving up something that they had planned on buying
- >6m** Time to full recovery not unlikely when compared to MERS and SARS (esp. in apparel & luxury)
- +3-6 p.p.** Expected **stickiness of online** penetration after the crisis

...that appear lasting

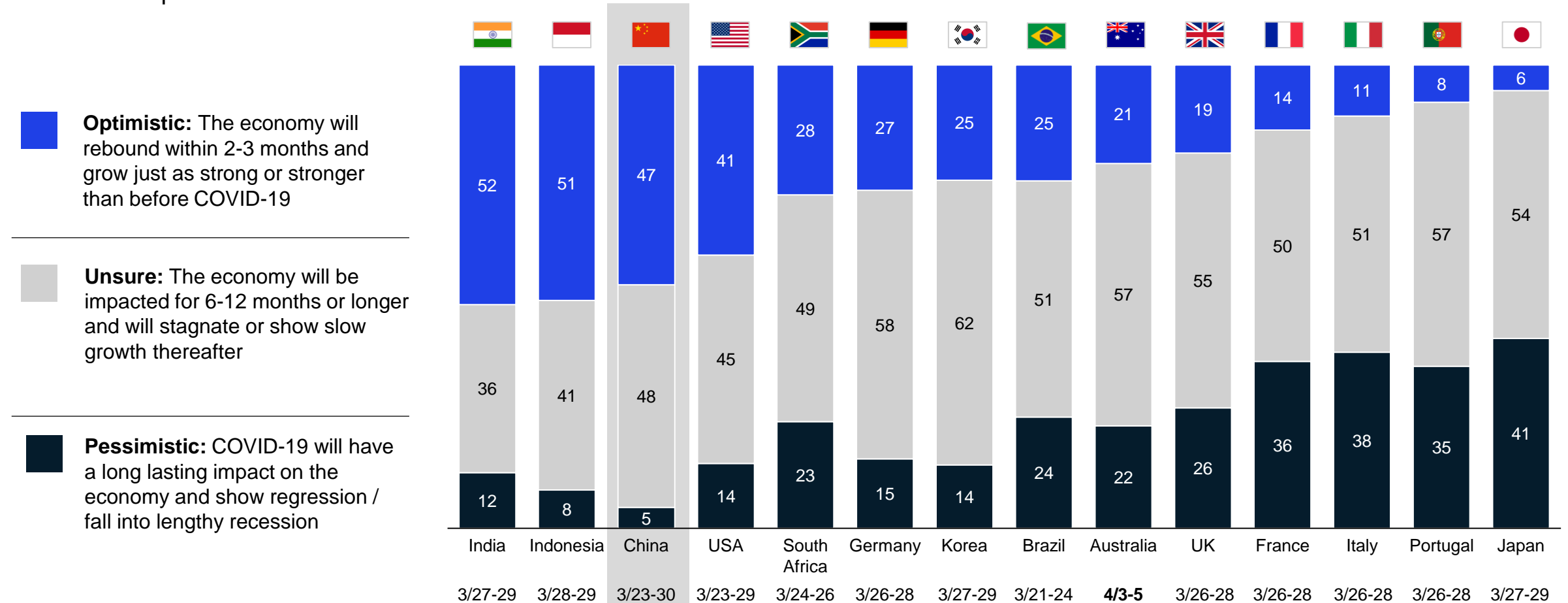
- Up to -45%** Decrease in net intent to **dine in restaurants** (after vs. before). Continued shift to home-delivery and RTE
- >55%** Of Chinese consumers are likely to permanently buy more groceries online
- >25%** Of shoppers have shifted away from **primary store**; ~50% not intending to shift back
- ~33%** have **switched brands** based on convenience and promo/display, of which 20% intends to stick

1. Skincare and make-ups section only have female samples

Demand: China is more confident about the recovery than other developed markets

Confidence in own country's economic recovery after-COVID-19 economy^{1,2}

Percent of respondents



1. Q: How is your overall confidence level on economic conditions after the COVID-19 situation? Rated from 1 very optimistic to 6 very pessimistic:

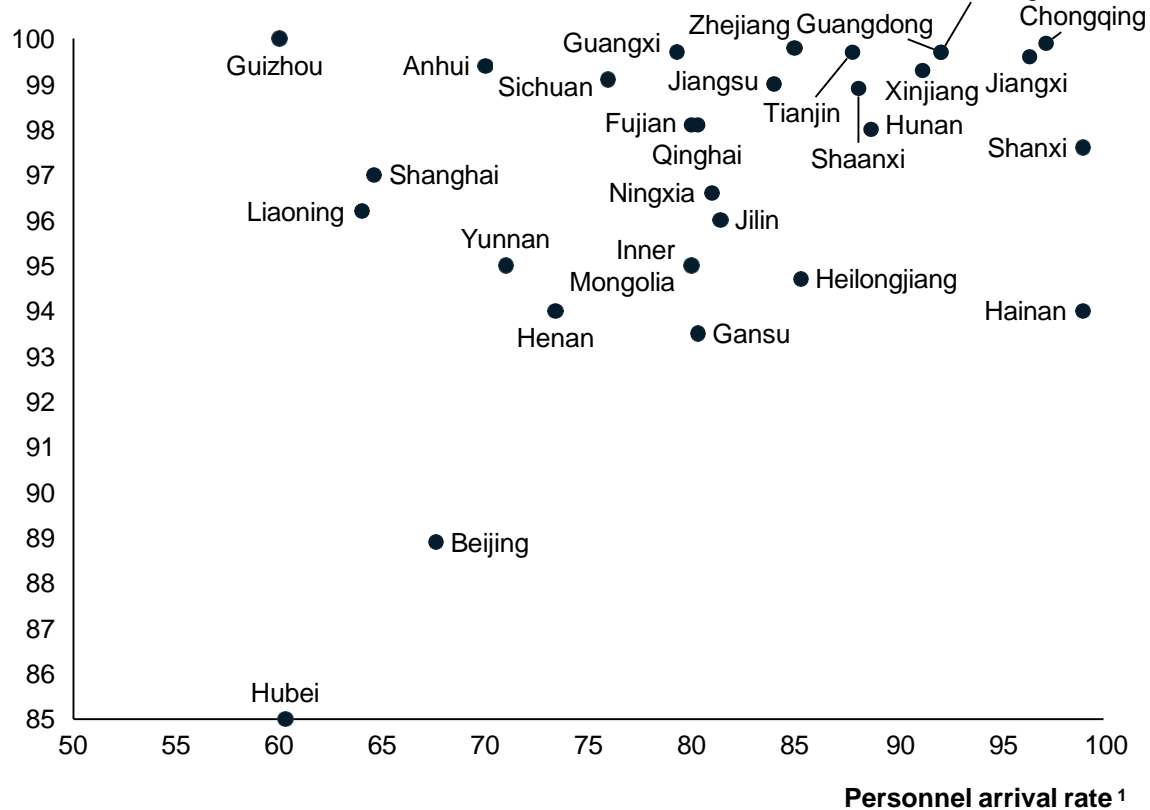
2. Consumer optimism for the weekly pulse is likely affected by both COVID expansion situation as well as recent events publicized

Supply: as of March, most of China was back to work

Economic activity restart status¹

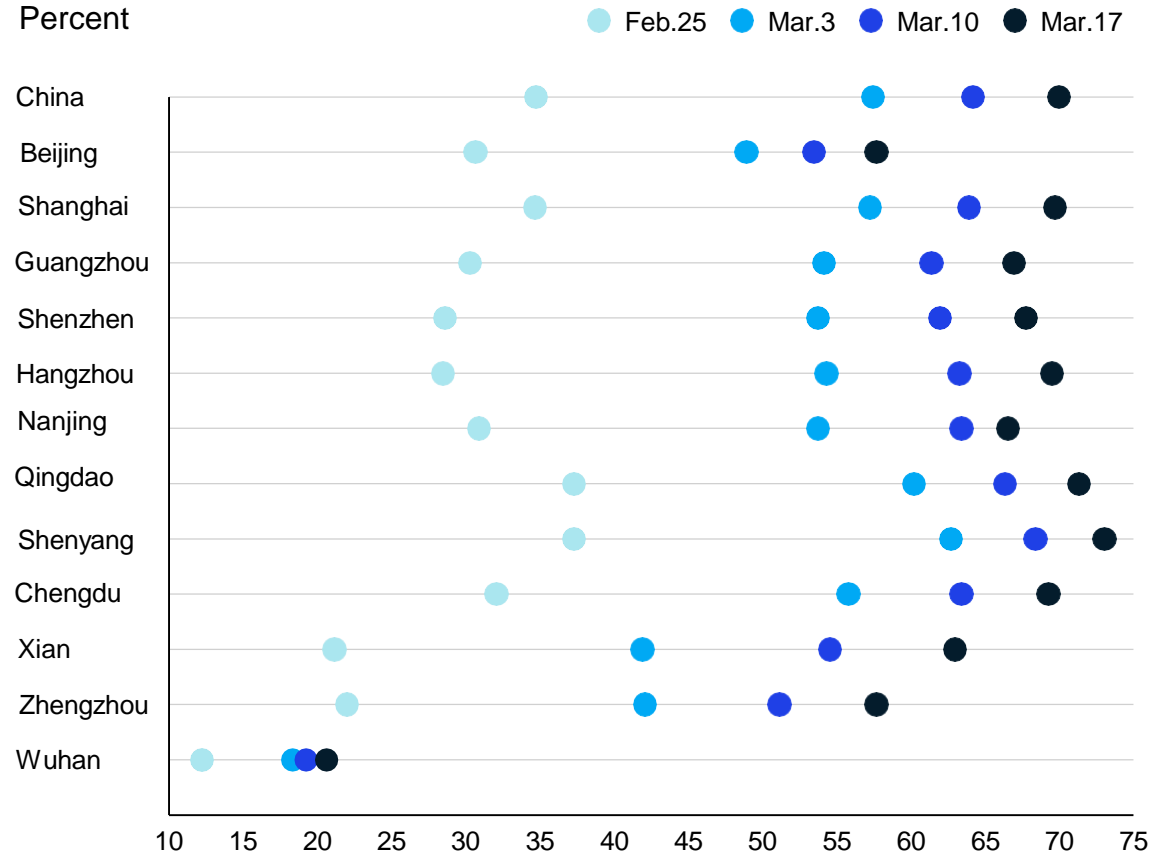
Percent

Restart ratio



Baidu restart index, major cities

Percent



1. Production recovery rate is quoted for Tianjin, Fujian, Shanxi, Hainan and Tibet province. Sichuan personnel arrival rate is for mid-small enterprises. Guizhou province production recovery rate is an estimate.

Protection: a banking example to ensure safety of customers and employees at branches



1

Placard



Placard to remind people to wear masks and the branch has been sanitized

2

Temperature Screening



Check customers' temperature before they are allowed to enter the branch

3

Crowd Control



Monitor and control number of customers in the branch

4

Branch Sanitization



Sanitize the entire branch twice a day and frequently touched surfaces every hour

5

Social Distance



Remind the customers to ensure physical distance of one meter

6

Seat Separation



Place notice every other seat to remind customers to sit separately

7

No Water Dispenser



Remove water dispenser in the public area to minimize risks of cross infection

8

Note Sterilization



All cash taken goes to centralized sterilizer – no recycle of cash at the teller

Some Asian companies have already started relevant changes in their activities¹

| Area | Relevant examples |
|--|---|
| Rethinking social contracts | <ul style="list-style-type: none">• In Australia Woolworths is working with Qantas to provide up to 20,000 new jobs for airline employees laid off as well as other retail and hospitality workers• Woolworths coordinates its supply-chain efforts with its biggest rivals, Coles and Aldi, to ensure a fair distribution of fresh food Australian consumers• In Singapore, the leading consumer bank DBS offered complimentary insurance coverage and home-loan-payment relief for employees in affected industries as well as support packages for small and midsize enterprises |
| Defining the future of work and consumption | <ul style="list-style-type: none">• In China, the adoption of Alibaba's DingTalk, WeChat Work, and Tencent Meeting to connect physically distanced teams and friends has increased rapidly• China's Ministry of Education deployed a national cloud-based classroom platform to support remote learning for 50 million students simultaneously• In South Korea, the online retailer Coupang shipped a record high 3.3 million items on January 28, and SSG.com's food-delivery sales rose by 98 percent. move, even faster than expected, to digital and e-commerce.¹³ |
| From globalization to regionalization | <ul style="list-style-type: none">• According to a 2019 AmCham survey, about 17 percent of companies have considered or actively relocated their supply chains away from China• Japan's automakers and South Korea's electronics players have indicated that they may accelerate the diversification of the manufacturing footprint beyond China• Regional collaboration is already under way in response to the spread of the coronavirus; economies in South Asia, for instance, are sharing best practices and protocols |

1. <https://www.mckinsey.com/featured-insights/asia-pacific/could-the-next-normal-emerge-from-asia>

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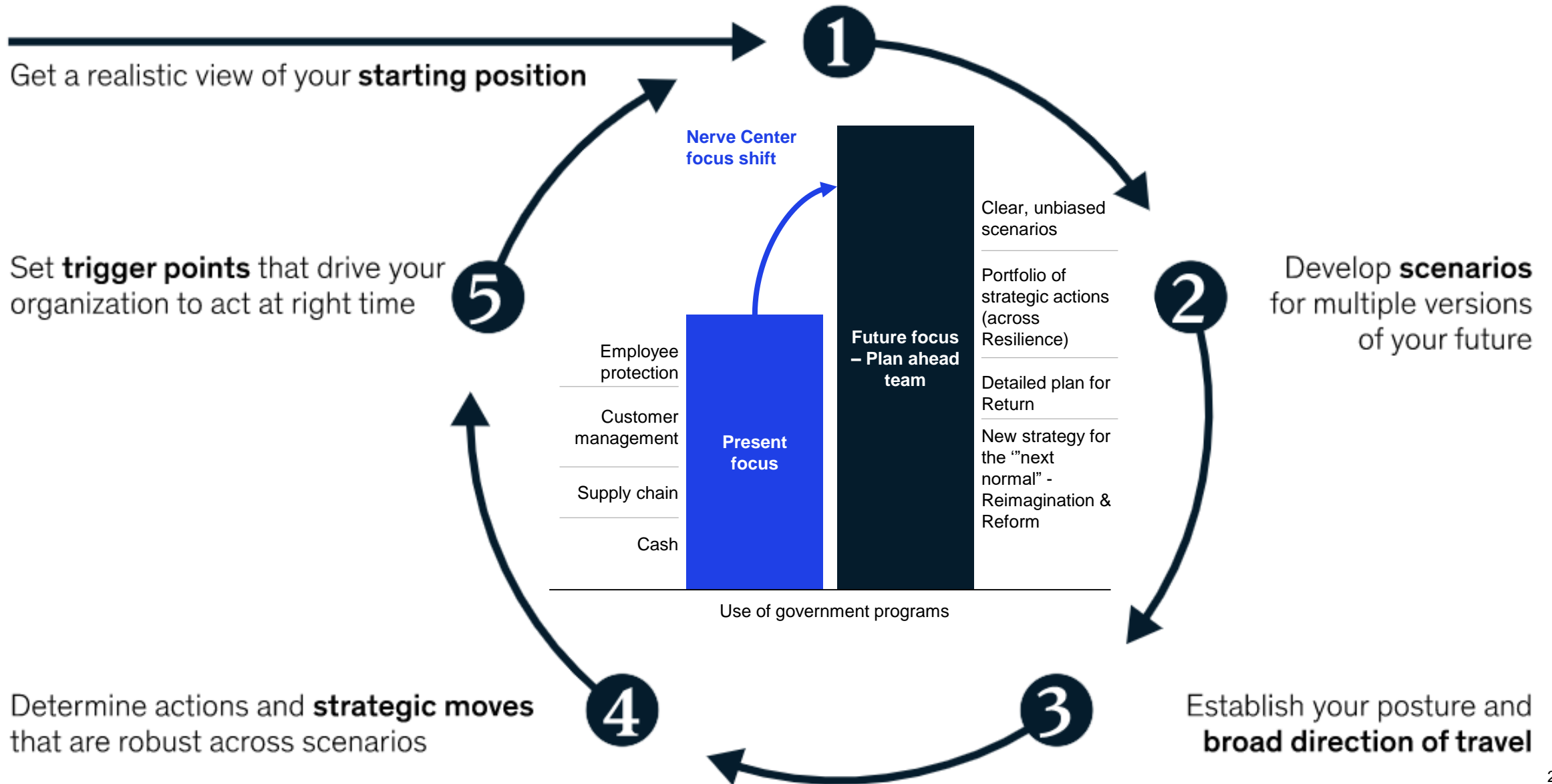
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Nerve Center needs to evolve from present focus to include plan ahead teams and adjust to rapidly changing circumstances



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