

COVID-19 Sector Updates 24th February 2020

Agriculture, Food & Drink

Most distributors are back to work this week, although still working remotely from home. Bonded warehouses and logistics are gradually resuming operations as well. It appears that importers and distributors are slowly recovering from the impact of COVID-19.

Some importers CBBC has talked to are willing to get in touch with new brands. While others are still waiting until the outbreak passes before they are willing to make new deals.

It appears that distributors that focus mainly on offline distributions have suffered the most. By contrast, distributors relying mainly on e-commerce channels are relatively less affected.

Some UK brands we have talked to are willing to provide greater marketing support to their distributors to help them cope with the current difficulties.

We have also consulted CCIC Shanghai, a company specialised in logistics, registration, and compliance. According to them, custom clearance at the moment is still prioritising medical supplies and therefore causing delays for other cargoes.

Advanced Engineering, Manufacturing & Transport

Companies are gradually resuming production. On 13th Feb 2020, the China Association of Automobile Manufacturers (CAAM) reported that COVID-19 has caused massive short term disruptions to output and sales in Q1. Although a spurt of consumption is expected once outbreak subsides, the full-year outlook still remains bleak.

-  Hubei, Zhejiang and Guangdong are the leading auto manufacturing and consumption regions in China, and are also the provinces most affected by COVID-19
-  China's auto sales volume in January 2020 fell to 1.94 million, dropping 18% compared with the same period last year
-  China's auto production was 1.78 million in January, falling 24.6% YoY
-  New Energy Vehicle (NEV) production and sales fell 55.4% and 54.4% YoY in January, to 40,000 and 44,000 respectively
-  About one third of China's 183 vehicle manufacturing facilities have resumed production in February but haven't reached normal production capacity yet
-  China Automobile Dealers Association (CADA) reports that 8.54% of the 4,222 full-service dealerships surveyed have reopened by 13 February 2020

Some manufacturers have requested that the authorities to introduce favorable policies such as reduced vehicle sales tax to boost sales. However, as of this date, no policies have been introduced.



Creative Industries & Sports

Some companies have started to resume work. Local governments have promulgated policies to help creative & cultural enterprises to alleviate the negative impact of COVID-19.

Online entertainment

Demand for online content platforms has surged sharply during the coronavirus outbreak.

Publishing, museums and live streaming

Some brick-and-mortar book stores have expanded their live streaming business. Kuaishou - a Chinese video sharing and live-streaming app with 400 million users - provided its platform for the British Museum to livestream in real-time for Chinese viewers.

Film

Film associations and investors have appealed to the government to provide additional funding or other relief measures to film studios and distributors.

The State Administration of Radio, Film and Television (SARFT) has updated its production process for key network TV series. The new regulations require a letter of commitment in terms of a completed script when submitting a TV project.

Sports

The General Administration of Sports of China issued a notice to promote physical education. Some online work-out courses and live streaming courses are booming amid the coronavirus outbreak.

Music

The Music Industry Promotion Committee of China Audio Visual and Digital Publishing Association released the top ten development trends of China's music industry in 2020.

Promoters and organisers of live events have shifted to cloud-based online shows.

Gaming

Gaming in China is on the rise: total game downloads on Apple's app store in China increased 27.5% YoY and revenue rose by 12.1%. ByteDance has created its own gaming division, intensifying rivalry with Tencent

2019 Data

According to 2019 data released by National Bureau of Statistics on cultural and related industries, all nine industries achieved positive growth last year.



Education & Training

Main consequences of COVID-19 on higher education institutions:

- 英中 Marketing activities for student recruitment are likely to be significantly impacted as the spring fairs and exhibitions in March are mostly cancelled
- 英中 TNE programme delivery may be affected by travel restrictions. Institutions need to make alternative arrangements, potentially via online classes and meetings
- 英中 Partner visits and exchanges may have to be postponed and extra resources required for further arrangements

Summer school and short-term student exchange programmes

It is possible that many summer schools will be affected as that period will probably be used for extra classes to recover the time lost in February and March.

Chinese agents and organisers will also have suffered losses and will need a lot of support to help them to recover as much as they can.

China campuses of British and international school

Online recruitment fairs such as the IEIC fair on from 29 February to 1 March (www.ieicexpo.com) can be an alternative for student recruitment and marketing. There might be issues for foreign teachers travelling to China.

Online-learning providers

The whole country is experiencing a high demand for quality online learning and there is a huge market to explore in the future. But it is still too early to gauge the opportunities for international providers as there is a considerable regulatory risk due to frequent changes by the Ministry of Education China.

Energy, Environment & Infrastructure

While most of the provinces have issued directives calling for a step-by-step resumption of business operations, three key questions remain:

-  **Short term:** When are workers able to return to work?
-  **Mid-term:** What is the impact on companies' own supply-chains?
-  **Long-term:** What is the impact on cash flows and operations

Oil & gas

The low demand of the China market has caused the global LFG price to drop in early February. EIA has also lowered its forecast of LFG demand for 2020¹:

"On Monday, February 10, the near-month natural gas futures price at the New York Mercantile Exchange (NYMEX) closed at \$1.77 per million British thermal units (MMBtu). This price was the lowest February closing price for the near-month contract since at least 2001, in real terms, and the lowest near-month futures price in any month since March 8, 2016."

Renewable energy

With most solar and offshore wind resources being located in the coastal regions, Q1 is usually a quiet season for both manufacturers and EPCs.

If the situation returns to normal in Q2, private operators and construction companies might still meet deadlines.

Both solar and wind energy is facing an oversupply as many companies rushed to complete works ahead of the deadline for national tariffs set by NEA back in May 2019. There were already voices from the industry asking for an extension to the deadline but whether the NEA will take any action is still a question mark, especially as the national renewable energy tariff pool was struggling with funding shortages.

Environmental consulting services

The COVID19 crisis had led to the postponement of new project bidding in the British environmental construction industry. This means that exploring new project pipelines has become challenging. For ongoing projects, the delay will cause problems with payment collection and for those already facing cash flow problems, 2020 might be a tough year.

Construction

Architecture design and master planning projects are on hold. In the meantime, UK firms suffer from the flat Chinese real estate market.

Environmental

In the short-term, COVID-19 has mainly disrupted logistics/transport across the country. In addition, visits to the UK and business meetings in the sector/sub-sectors have either been postponed or cancelled.

¹ <https://www.eia.gov/todayinenergy/detail.php?id=42835>

Financial and Professional Services

The People's Bank of China has injected over RMB 2 trillion into the financial system in the last two weeks. Jointly with other relevant authorities, the PBoC has also rolled out 30 special financial measures to support epidemic prevention and control measures and has set up a RMB300 billion special lending fund.

To improve the efficiency and the accuracy of the fund, the PBoC will improve management on six fronts:

-  The special PBoC lending will be issued to nine major national banks and locally incorporated banks in ten key provinces and municipalities
-  A list of key enterprises in epidemic control areas has been compiled to ensure that the special central bank lending goes only to the right borrowers
-  The use of special lending funds shall be tightly regulated to make sure that they only help with manufacturing and operation activities of key enterprises for epidemic relief
-  Special central bank lending shall be issued at favorable rates, and banks shall also grant loans at favorable rates
-  Special central bank lending will be issued as a reimbursement
-  Branch offices of the PBoC are required to strengthen supervision and management².

Furthermore, on 17 February, the PBoC cut the interest rate on its medium term lending from 3.25% to 3.15%. The country's benchmark loan prime rate (LPR) has also been reduced.³

Shanghai

The Opinions on Further Accelerating the Development of Shanghai as an International Financial Center and Providing Financial Support for the Integrated Development of the Yangtze River Delta Region (Yinfa No. 46 [2020]) was officially published on February 14, 2020. The Opinions lays out 30 specific measures with regard to proactively promoting financial pilot programs in the Lin-gang Special Area, expediting the opening-up of financial sector in Shanghai and providing financial support for the integrated development of the Yangtze River Delta region.⁴

Policy from China Banking and Insurance Regulatory Commission

The China Banking and Insurance Regulatory Commission published the Notice on Further Effectively Performing Disease Prevention and Control Financial Services on 17 February⁵. The notice includes 12 measures, of which the following are particularly important:

-  Provide financing for enterprises in epidemic prevention and control areas to increase capacity;
-  Support enterprises in resuming operation;

² <http://www.pbc.gov.cn/en/3688110/3688172/3970776/index.html>

³ <http://www.pbc.gov.cn/en/3688110/3688181/3971901/index.html>

⁴ <http://www.pbc.gov.cn/en/3688110/3688172/3972683/index.html>

⁵ <http://www.cbirc.gov.cn/cn/view/pages/ItemDetail.html?docId=890657&itemId=915>



- 英中 Actively help and support micro-and-small enterprises and individual industrial and commercial registrants that meet with difficulty;
- 英中 Increase efficiency of online financial services.

Fiscal Policy

On 16 February, Chinese Finance Minister Liu Kun published an article explaining China's fiscal policy amid the COVID-19 outbreak. He wrote that China will remain an active fiscal policy in 2020. But the focus will shift from tax reduction to structural optimisation. The fight against COVID-19 is the top priority. As of 13 February, RMB 41 billion out of the earmarked RMB 81.5 billion emergency fund has been utilized.⁶

Impact on CBBC FPS members

The most heavily affected sectors are catering, travel, tourism, entertainment and manufacturing. It is still early to predict how the outbreak will evolve and when it will end. Economists at global banks have cut China's growth forecast for 2020 by 1% from 5.9% to 5.8%⁷. If the outbreak drags on for months, the risk of SME defaults will increase significantly and banks will come under pressure.

FPS member companies are experiencing common difficulties. At an operational level, all members CBBC spoke to have adopted flexible working hours, despite concerns over efficiency loss due to remote working.

A big challenge is lack of manpower both at the front office and the back office. Offices are staffed only with essential personnel to minimize the risk of infection. Banks have shut down most branches. Some accounting firms have moved auditing work online.

At the business level, most members are very pessimistic about the negative short-term impact on Q1 and Q2. Some are concerned about their long term business as FDI will be affected by the outbreak.

⁶ <https://baijiahao.baidu.com/s?id=1658686141086836822&wfr=spider&for=pc>

⁷ <https://www.bloomberg.com/news/articles/2020-02-04/economists-cut-china-s-growth-forecast-on-coronavirus-impact>

Health Care and Life Science

In the UK, the Secretary of State for Health and Social Care, Matt Hancock, has announced additional measures to bolster public health protections against COVID-19⁸. The regulations have been put in place to reduce the risk of further human-to-human transmission. As of 17th February, a total of 4,501 people had been tested in the UK, of which 4,492 were confirmed negative and 9 positive.

The UK Chief Medical Officers raised the risk to the public from low to moderate. But the risk to individuals remains low. Health professionals are working to contact anyone who has been in close contact with people who have COVID-19.

In China, the National Health Commission and National Administration of Traditional Chinese Medicine announced a new mechanism to facilitate cooperation between practitioners of Chinese medicine and Western medicine to fight the virus.

Several measures have been adopted to support supply of medical materials:

-  State Taxation Administration introduced a series of preferential taxation policies for medical suppliers and medical logistics companies
-  Accelerated approval of registration and production license for medical protective clothing
-  Ministry of Industry and Information Technology published a list of important medical materials to receive additional investment
<http://www.miit.gov.cn/n1146290/n1146402/c7678100/content.html>
-  National Development and Reform Commission is planning to issue a RMB 230 million fund to support the construction of mobile field hospitals in Hubei Province. As of 12 February, the number mobile field hospital has increased from three to eleven hospitals with more than 9,000 beds

Impact on Enterprise Operation

Resumption of Work Conditions are:

-  Enterprises in the field that is highly related to national interest and people's livelihood should return to work at once while the others can postpone the resumption of work. Enterprise in provinces and cities which are in severe epidemic can postpone the resumption of work as well.
-  Enterprises resuming operation should prepare disinfectants and temperature detectors and should purchase and allocate personal protective equipment for employees.
-  Status as of 11th February 2020: 76% of mask production factories and 77% of protective clothing factories, in 22 provinces were approved to work.

⁸ <https://www.gov.uk/government/news/health-secretary-announces-strengthened-legal-powers-to-bolster-public-health-protections-against-coronavirus>

Tech & Digital

According to the report by the International Data Corporation, the overall ICT market will decline by about 10% in Q1 of 2020, which will be the first quarterly decline in China's ICT market. PC and smartphone sales in the Q1 will also fall by about 30% year-on-year. Servers, networks, and storage will also decline by about 15%. Although artificial intelligence and big data have been affected, they still show positive growth. Emerging technologies such as Internet of Things and IT security have seen lower growth in the first quarter.⁹

COVID-19 Impact on ICT Market Growth:

| Product and services | 2020 Q1 Impact | 2020 FY Impact |
|------------------------|----------------|----------------|
| Smart phones | ❌❌❌❌❌ | ❌❌ |
| PC | ❌❌❌❌❌ | ❌❌ |
| Tablet | ❌❌❌❌❌ | ❌❌ |
| Storage | ❌❌❌❌ | ❌ |
| Internet | ❌❌❌❌ | ❌ |
| Server | ❌❌❌❌ | ❌ |
| IoT | ❌❌❌ | ❌ |
| Big data | ❌❌ | ❌ |
| Security | ❌❌❌ | ❌ |
| IT services | ❌❌❌ | ❌ |
| Smart home | ❌❌ | ❌ |
| Unified Communications | ✅✅ | ✅✅✅ |
| Software | ❌❌ | ❌ |
| AI | ❌❌ | ❌ |
| Wearables | ❌ | ❌ |
| VR/AR | ❌ | ❌ |
| Cloud services | ✅ | ✅✅ |
| Overall | ❌❌❌ | ❌ |

❌ Negative impact

✅ Positive impact

Source: IDC, 2020

LCD Market

China makes roughly half of the world's LCD panels for TVs, laptops, and computer monitors. There

⁹[Chinese]

https://www.idc.com/getdoc.jsp?containerId=prCHC46047720&utm_medium=rss_feed&utm_source=Alert&utm_campaign=rss_syndication

are five LCD factories located in the city of Wuhan, the epicenter of the COVID-19 outbreak. Operations at those factories were disrupted after Chinese authorities placed the entire city under quarantine last month.

LG Electronics decided to sell its Beijing Twin Tower property, a 31-story building, for RMB 8.05 billion in February to secure liquidity in preparation for global economic uncertainty.

Specific problems from CBBC members:

-  They have suspended all offline marketing activities, all scheduled travels have been cancelled including for sales team. This will affect revenue, but no detailed data available yet. Businesses are looking for new ways to promote and sell online.
-  Budget cut-down: many UK tech companies provide 2B services, which are in low demand right now.

Policy related:

-  Recently uptick in cybersecurity related incidents. MIIT released cybersecurity notice related to COVID-19 epidemic¹⁰.
-  Surging occurrences of data theft e.g. travel data. Cybersecurity department of Ministry of Public Security released six reminders on how to protect personal information¹¹.

¹⁰ [Chinese] <https://mp.weixin.qq.com/s/ovRNQbyPptOFry5W5G3kgA>

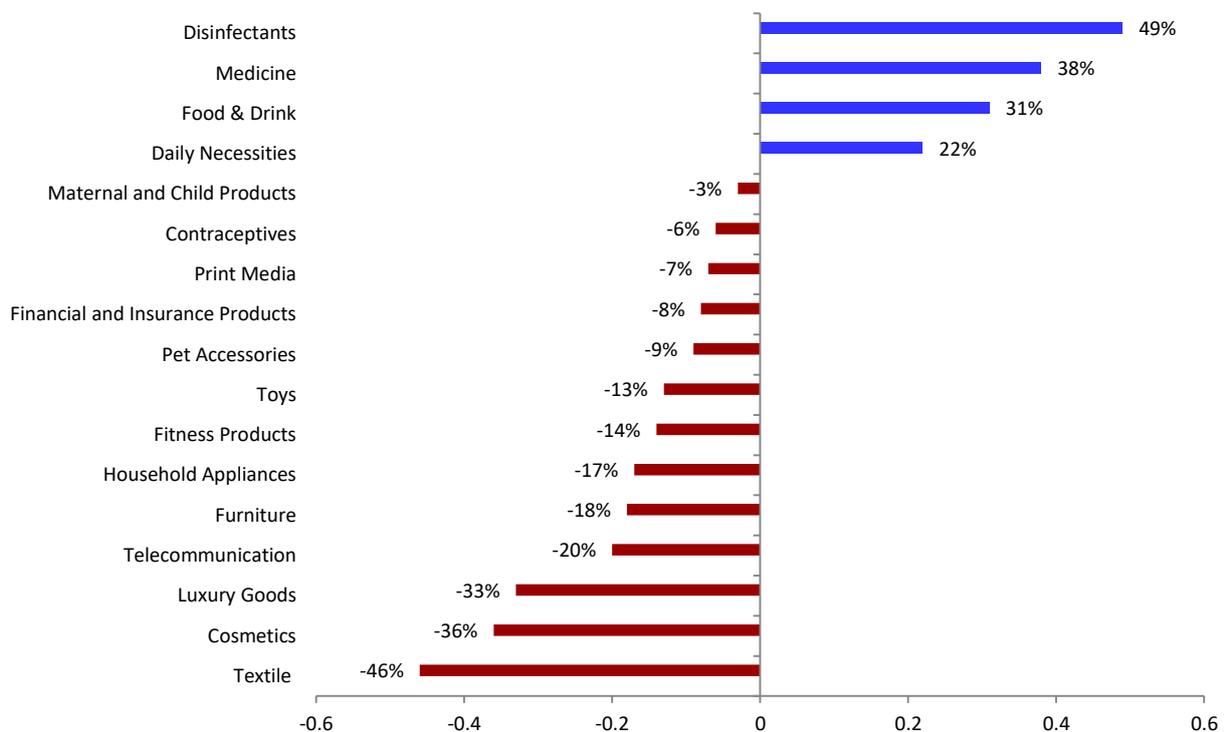
¹¹ [Chinese] <https://mp.weixin.qq.com/s/GQES8Gc6yq8FT39Vvu5hxA>

Retail

Investment bank Jefferies has forecasted a 35% decline in Chinese luxury spending in the first quarter of 2020. It is estimated that the turnover of footfall of luxury shopping malls and flagship stores dropped by 80% in Wuhan, Shenzhen, Guangzhou, Shanghai and Beijing. Burberry temporarily closed more than a third of its stores (24/64) in China. Kering has temporarily closed down half of the stores in China as well as shortened business hours at existing stores and postponed all new store opening and marketing campaigns.

Some global apparel retailers are reportedly looking seriously at moving their supply chain base to Turkey, Sri Lanka or Bangladesh, if Chinese factories and warehouses continue to remain closed for the next couple of weeks.

COVID-19 Impact on Demand for Consumer Goods



Source: Data100 ©CBBC

Household cleaning and disinfectant products, medical supplies, food & drink and daily necessities have seen an increase while demand for clothes, cosmetics, and luxury goods have declined by 46%, 36% and 33% respectively, according to a consumer survey of 4000 participants¹².

Times of crisis can be an opportunity for many brands. Retailers are moving quickly to online channels:

 COVID-19 has pushed more offline retail channels to adopt a multi-channel sales strategy. Wangfujing Group, Bailian Group, and Intime Group have developed their own APPs and/or mini programmes and provide home delivery service

 Emerging power of community marketing - Private traffic consumer pool:

¹² [Chinese] <https://mp.weixin.qq.com/s/ZnGjfew23K3Rv1b5kLI9eA>

- 元 Douyin (Tik Tok): content creators are doing a daily/regular live-streaming to develop a private traffic pool of loyal /active followers who are interested in paid content or products with discounted offers (beauty products/sports products/online training courses/books, etc)
 - 元 Sales representatives (mostly from luxury retailers/high-end skincare salons) have also sent out invitations to their frequent customers to join a Wechat Group or live-streaming flash sale promotions so as to maintain a close relationship with their customers and explore additional sales channels
-  Leading e-commerce platforms Tmall, JD.com and Pinduoduo have offered policies to support their e-vendors during COVID-19 such as reducing or waiving monthly technical service fee, and providing financial and logistics support¹³.

¹³ <https://baijiahao.baidu.com/s?id=1658400653459329359&wfr=spider&for=pc>