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COVID-19 pulse check

How businesses around the world are responding to the pandemic

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The COVID-19 outbreak has severely restricted economic activity around the world. From New York to New Delhi, shops, restaurants and airports are empty. Factories and offices are dark. The human and economic toll of the pandemic continues to rise, and citizens, businesses and governments are learning to respond to an unprecedented global phenomenon.

To get a clearer picture of how companies and governments are responding, KPMG's Israel Survey Team canvassed leaders of 29 member firms during the last week of March. Each firm provided assessments of the impact on business, responses by clients, and government mitigation measures in their countries. In this paper, we summarize the survey findings and highlight key insights that emerge, including:

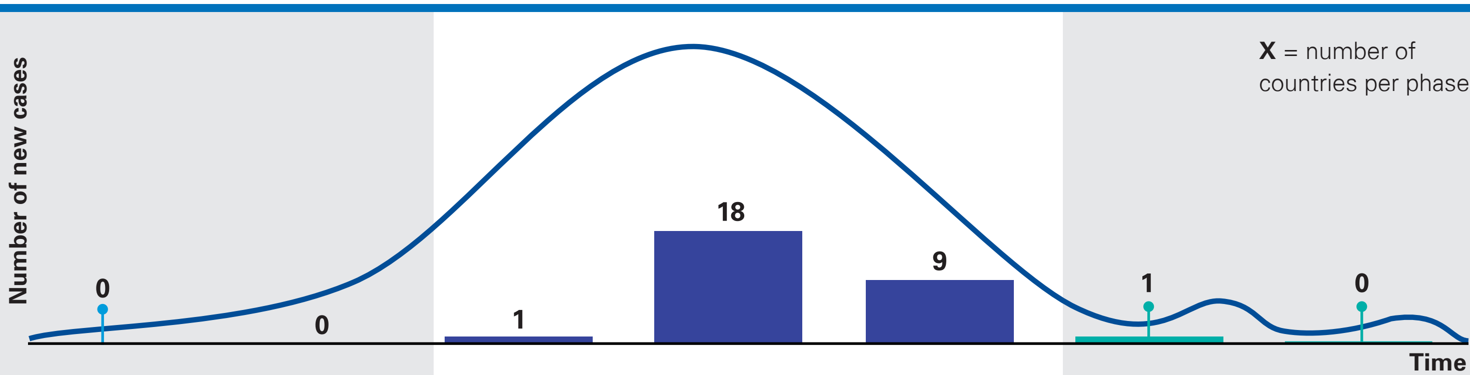
- There is great uncertainty about the duration of the lockdown period around the world; survey respondents expect some containment measures to remain in place post-lockdown to avoid renewed outbreaks.
- Most governments are clearly prioritizing health responses at this point and leaving comprehensive economic actions to later.
- Businesses expect COVID-19 containment measures to remain in place through Q2.
- Respondents say that the banking sectors in their countries remain stable.
- Countries that are able to exit the COVID-19 situation earlier will gain advantage (i.e., China could fare better than the U.S. and some European countries, where infections are still rising).

Seven phases of COVID-19 restrictions

Every country in our survey, except China, was under some degree of COVID-19 lockdown as of March 31. These measures range from school closing and "social distancing" to confining citizens to their homes, except to buy food or receive medical treatment (nine countries). Exhibit 1 shows seven phases of COVID-19 responses and where the 29 countries in our survey stand. The first phase is travel restrictions and the last is removal of restrictions.

Respondents said that they expect current restrictions to remain in force for one to three months. China, which was hit by COVID-19 first and imposed strict quarantine regulations, is now in the exit stage. After 11 weeks, it removed restrictions in mid-March. However, the exit has not brought life back to normal; factory workers, for example, are subject to health inspections and must maintain social distancing to prevent a resurgence.[1]

Exhibit 1: Seven stages of COVID-19 response



Beginning		Partial/Full closure			Exit	
1	**2**	**3**	**4**	**5**	**6**	**7**
International travel restrictions	**Event restrictions**	**School closures**	**Partial closure and reduced economic activity**	**Full lockdown**	**Partial lifting of restrictions**	**All restrictions removed**
Targeted travel restrictions Self-quarantine of returning passengers General travel restrictions and border closure	Limiting very large public events Reducing maximum gathering sizes over time	Closing schools and universities	Closure of malls, restaurants, etc. Reducing personnel at workplaces Restricting personal travel	Confining citizens to their homes (other than to buy groceries and for medical needs)	Staggered removal of some restrictions	Removal of remaining restrictions

The business impact

Across the 29 countries surveyed, the COVID-19 pandemic is impacting sectors of the economy in similar ways. Food production and retailing, delivery services, e-commerce/online retailing as well as health care and pharmaceuticals are all experiencing rising demand as a result of COVID-19 and containment efforts (Exhibit 2).

The pattern of negative effects is also similar across countries. Aviation and tourism, and entertainment and recreation businesses are experiencing near total shutdowns around the world. According to estimates by the International Air Transport Association, global passenger revenue could fall by as much as $113 billion, a 19 percent drop from 2019 levels.[2] Traditional retailing is also hurt badly by the lockdown and major retail chains have furloughed hundreds of thousands of employees. Industrial and manufacturing businesses are also suffering, as governments forbid non-essential businesses to operate and end demand dries up. Across sectors, the respondents agree, the impact is greatest on small and medium-sized enterprises.

Exhibit 2: Impact by sector

Declining Stable Growing

Country	Aviation & tourism	Entertainment & recreation	Construction	Real estate	Industrial manufacturing	Energy	Financial services	Retail (non-food/pharm)	E-commerce	Logistics & shipping	Hi-tech	Food production & retail	Delivery services	Health, medical & pharma	Online technology
Australia	Declining	Declining				Stable	Stable	Declining						Growing	
Brazil	Declining	Declining	Stable	Stable	Declining *	Stable	Stable	Declining	Growing	Stable		Growing	Growing	Growing	Growing
Canada	Declining	Declining	Stable			Declining		Declining		Stable		Stable	Growing	Growing	Growing
China	Declining	Declining	Declining	Declining			Stable	Declining	Stable		Stable	Growing	Growing	Growing	Growing
Denmark	Declining	Declining						Declining	Growing			Stable	Growing	Stable	Growing
Finland	Declining	Declining	Stable	Stable					Growing	Stable		Growing	Growing	Growing	
France	Declining	Declining	Stable		Declining *	Declining	Declining	Declining	Growing	Declining		Growing		Growing	
Germany	Declining	Declining			Declining *		Stable	Declining			Stable	Growing		Growing	Growing
Greece	Declining	Declining					Declining	Declining	Stable		Stable	Growing		Stable	
India	Declining	Declining					Declining	Declining	Declining	Declining				Growing	Growing
Ireland	Declining	Declining					Stable	Declining		Growing		Growing		Growing	
Israel	Declining	Declining		Stable	Stable		Stable	Declining				Growing	Growing	Growing	
Italy	Declining	Declining			Declining **			Declining	Growing			Growing	Growing	Growing	Growing
Japan	Declining	Declining	Declining		Declining							Growing	Growing		Growing
Luxembourg	Declining	Declining	Declining			Stable		Declining				Growing	Growing	Growing	
Malaysia	Declining	Declining	Declining			Stable	Stable	Declining				Growing		Stable	
Netherlands	Declining	Declining			Declining			Declining		Declining		Stable		Growing	Stable
New Zealand	Declining	Declining	Stable				Stable	Declining		Growing		Growing			
Panama	Declining	Declining	Declining	Declining	Declining	Stable	Declining	Declining				Growing	Growing	Growing	Growing
Russia	Declining	Declining	Declining	Declining	Stable		Stable	Declining			Stable	Growing		Growing	Growing
Saudi Arabia	Declining	Declining	Declining	Declining	Declining	Declining	Declining	Declining		Stable		Growing	Growing	Growing	
Singapore	Declining	Declining	Declining		Declining				Growing	Declining		Growing	Growing	Growing	Growing
South Korea	Declining	Declining			Declining ***		Stable		Growing	Declining			Growing		
Sweden	Declining	Declining			Declining		Stable	Declining		Stable		Growing			Growing
Switzerland	Declining	Declining			Declining		Stable	Declining	Growing			Growing	Growing	Stable	
Turkey	Declining	Declining	Declining	Declining	Declining		Stable	Declining	Growing	Stable	Stable	Growing		Growing	
UK	Declining	Declining	Declining	Declining	Stable							Growing	Growing		Growing
United States	Declining	Declining		Declining				Declining	Growing			Growing		Growing	Growing
Vietnam	Declining	Declining	Stable	Declining	Declining *****	Declining				Declining		Growing		Growing	

*Automotive **Automotive, tech & electronics, textile ***Automotive, fashion, mobile phones ****Automotive, textile *****Textiles, electronics

Source: KPMG proprietary analysis

Government response

As containment efforts spread across affected countries, the global economic picture has dimmed; in late March, the International Monetary Fund predicted a global recession in 2020 that would be comparable to the 2009 downturn following the global financial crisis.[3] KPMG forecasts that U.S. GDP will likely decline by 4.9 to 5.5 percent in 2020, with nearly 20 million job losses in the second quarter alone (by contrast, the U.S. lost 8.6 million jobs over 23 months in the 2008-09 recession).

As Exhibit 3 shows, governments across the 29 surveyed countries have introduced a wide range of emergency measures to support businesses and individuals. These include direct support for businesses such as loans and subsidies to retain employees, which are available in countries such as the United Kingdom, as well as special tax relief measures. The U.S. Congress enacted a $2.1 trillion rescue package, equivalent to about 9.8 percent of 2019 GDP. Announced government support initiatives range from 0.3 percent (Russia) to 20 percent of GDP (Germany). Twenty three out of 29 countries in the survey have committed to spend up to 10 percent of GDP on COVID-19 economic support.

Exhibit 3: Government support initiatives

Country	% of GDP	Support for businesses					Support for SMEs			Support for employees				Support for self-employed	
		Loans/loan guarantee	Direct support**	Tax deferral	Credit payment deferral	Force majeure/ other legal	Loans	Direct support	Tax deferral	Easing unemployment regulation	Loans/direct support	Mortgage/ fees relief	Legal protection	Right to unemployment	Loans/direct support
Australia	16%		■	■			■	■	■	■	■				■
Brazil	3%	■			■		■		■	■		■			■
Canada	3%	■	■	■			■		■	■	■				
China	1%		■	■			■	■	■						
Denmark	3%	■	■	■					■	■	■				■
Finland	6%	■	■	■		■			■	■		■		■	
France	2%	■	■	■	■	■			■	■					■
Germany	20%		■	■		■		■	■				■		■
Greece	5%	■		■	■	■	■		■	■	■		■		■
India	1%		■	■				■			■				
Ireland	2%	■	■				■		■	■		■		■	
Israel	5%		■	■			■		■	■		■			■
Italy	1%			■	■				■	■	■	■			■
Japan	10%*		■				■	■			■				■
Luxembourg	14%	■	■	■			■	■	■	■					■
Malaysia	15%	■	■				■		■		■	■			■
Netherlands	2%	■		■											
New Zealand	5%	■	■	■			■		■			■			■
Panama	3%			■			■		■			■			■
Russia	0.3%					■	■		■		■	■			
Saudi Arabia	3%			■		■	■	■	■		■	■			■
Singapore	10%		■								■	■			■
South Korea	5%		■				■			■	■	■			■
Sweden	6%	■	■	■					■	■					
Switzerland	4%		■				■			■	■			■	
Turkey	2%	■		■	■		■		■	■					■
UK	3%	■	■	■					■		■				■
USA	10%	■		■			■	■	■		■			■	
Vietnam	5%	■		■	■				■		■				■

*not yet approved **including wage subsidies

Source: KPMG proprietary analysis

In general, governments that spend a higher percentage of their GDP tend to rely on loans and tax deferrals and offer less direct support for businesses. All countries are targeting more assistance at small businesses, which have fewer resources than large corporations to withstand the effects of lost business. Many nations are also offering loans and other emergency supports for the self-employed.

Some common measures:

For employees/consumers.

All countries surveyed offer COVID-19 supports for employees affected by the lockdown.

— Government subsidies to retain employees (19/29 countries)

— Direct grants and/or deferred mortgage and utility payments for individuals (4/29 countries)

For small and medium-sized enterprises.

Most governments recognize that SMEs are more vulnerable than large corporations and have provided more supports.

— Government loans and/or guarantees for bank loans (17/29 countries)

— Tax deferrals in all forms (22 of 29 countries surveyed have tax deferral options for SMEs)

For self-employed.

All countries offer some support for the self-employed.

— Loans or grants

— Unemployment benefits (but only in four countries)

For large companies.

Every government surveyed except Russia has extended some form of support to large corporations, but usually less than during the 2008-09 recession.

— Rescue plans and bailouts for the aviation sector

— Tax deferrals (20 of the 29 countries surveyed)

The business response

Even as they scramble to ensure their near-term survival, companies are preparing for what will likely be several quarters of recession (depending on the economy). Companies are also preparing for the post-recession period, when business leaders assume that patterns of consumption and ways of doing business may be very different than before COVID-19.

Exhibit 4 shows some of the ways in which survey respondents say that companies in their countries are responding to the COVID-19 impact on their businesses. The top priority for many companies is ensuring liquidity to keep the business solvent in the near term. Companies are doing this by slowing payments, pausing projects, tapping lines of credit, and in some cases, divesting assets.

Companies are cutting overhead by imposing unpaid leave, reducing hours, making employees use vacation pay, and layoffs, particularly in travel and leisure. Despite such moves, cash flow remains a top concern. In a survey by the German Chamber for Industry and Trade, 41 percent of firms said they are suffering liquidity shortages. In the UK, 74 percent of business owners are reporting unpaid invoices.

Many organizations have been forced to make significant changes to continue operating. Companies are equipping employees with work-from-home tools (e.g., Zoom, Slack, Skype, etc.), learning to keep functioning without travel and face-to-face meetings, and adopting new ways to interact with customers and suppliers.

Companies are also making changes to their business models, some of which — such as accelerating the transition to online retail — may be permanent. Some companies are jumping on the opportunity to switch production to meet demand created by COVID-19. In Europe, major fashion houses are producing hospital gowns, while luxury cosmetic makers now produce sanitizing gels.

Exhibit 4: Measures businesses are taking

Cashflow	— Payments halt to suppliers — Pausing of projects — Taking loans (the cost of loans is rising) — Increase in cost of credit	— Divesting assets (in some businesses) — Deferral of taxes — Relaxing of penalties for late payments to banks/utilities
Workforce	— Transition to remote work (when possible) — Unpaid leave, reduced working hours, overtime bans, compulsory vacation	— Dismissals – mainly in the aviation, tourism and leisure industries
New business models	— Adoption of e-commerce and delivery models — Switching to remote services (e.g., entertainment)	— New remote sales and marketing capabilities — Switch production to meet COVID-19 demand (apparel)

What can your organization do?

As the COVID-19 lockdown continues, companies will need to understand new market conditions, shifting government policies, and changing customer needs. Staying close to customers, discerning between which changes are short term and long term, and maintaining the agility to quickly adjust to a new reality are imperatives.

Take care of your people: Ensure teams are safe and connected.

- Educate your employees around company changes and key health matters (personal hygiene/protection tips, social distancing, and pandemic technology).
- Use all communications channels to share information about how the company is responding and provide training on policies, tools and processes.
- Determine any compensation and benefits changes (e.g., paid leave, suspended retirement contributions, etc.).
- Equip teams with the tools necessary to work effectively from home.

Stabilize the business: Adjust priorities based on the need to stay afloat during the crisis.

- Take aggressive expense-management actions: Assess all expense categories and resize to projected revenue.
- Revenue and cash forecasting: Assess key cash metrics, improve your cash conversion cycle, and identify any liquidity concerns.
- Build transparency to understand the challenge: Conduct impact assessments and quantify demand and supply shocks on the business; build financial models based on severity and duration, including any models around new demand adjustments, working capital initiatives, and cost containment initiatives.
- Increase customer centricity: Stay close to key customers, find ways to help them through the downturn (and build loyalty for post-recession growth).
- Stabilize supply chain: Adjust global footprint/supply chain to restart and reduce risk of future disruption. Determine and respond to any risks related to demand changes.

Plan for a new reality: Develop a plan to improve organizational resiliency given the new consumer, geopolitical and operational realities.

- Rethink strategy for the recession and beyond.
- Update the operating model and invest in performance improvement in the downturn.
- Identify key markets, offerings, customers and channels for the new normal.
- Align investments with new strategy (invest to support growth; divest businesses that don't support new growth strategy).
- Adapt to new ways of doing business, such as greater use of direct-to-customer online interaction.

Conclusion

CEOs should expect lockdown conditions to remain in place through the second quarter of 2020, with substantial easing beginning in the third quarter. During this period, companies will continue to adjust finances and cost structures and prepare for the recession.

The impact of COVID-19 will differ among countries. Those that emerge first from the crisis, such as China, are expected to gain an advantage. Countries where containment takes longer will likely emerge more slowly and may have longer and deeper recessions.

While the severity and speed of the COVID-19 shock to the global economy is unprecedented, CEOs can take lessons from previous recessions. Chief among these is that companies that take action, rather than simply try to ride out the storm, will likely do better. In every recession, some companies use the downturn to rethink strategy, identify new market opportunities, adjust business portfolios, and invest in the future. These companies historically have done better during the downturn and flourish when the recovery comes.

Sources:

[1] Eva Dou, "Infrared cameras, personal towels: China factories go to extremes to fend off virus," Washington Post, April 8, 2020.

[2] IATA Updates COVID-19 Financial Impacts -Relief Measures Needed.

[3] Andrea Shalal and David Lawler, "IMF sees pandemic causing global recession in 2020, recovery in 2021," Reuters, Mar. 23, 2020.

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