

Economic Impact of SARS & the new Coronavirus

February 4th, 2020

For all our friends and partners the MFC team compiled a number of facts from various reliable sources enabling our readers to see through the massive overflow of partially contradicting and sometimes also alarming news. At MFC we have seen the developments during SARS in 2003 and we have strong reason to believe that there are similar mechanisms driving the present situation. Hence, below, first find some facts about the economic impact that was measured during and after SARS as well as more recent information regarding the “Wuhan-case”.

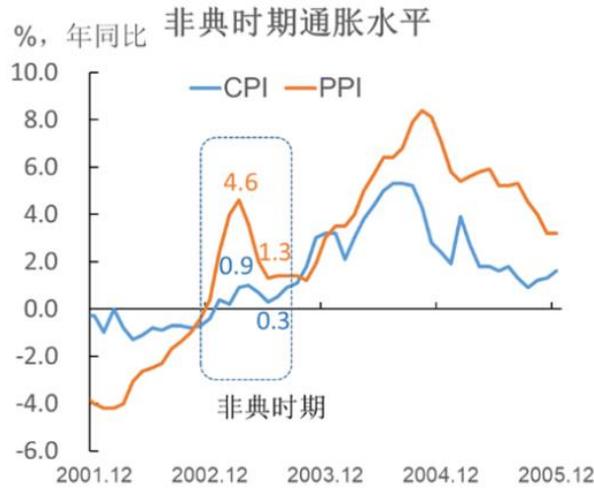
Although our team is undertaking strong efforts to select only the most reliable sources please derive your own analysis on which facts to follow and how to cast your decisions. Obviously, we at MFC believe that there will be a noticeable economic impact. Dealing with it and making smart plans based on the fact that there is an economic rebound to be expected, after the present decline, that's the task ahead. Wishing everyone a strong team and successful paths ahead!

A. SARS: raising mainly from February to May in 2003, controlled starting June 2003

Economic Impact in China

- GDP growth in 2003 was 11.1% (Q1), 9.1% (Q2), 10% (Q3) and 10% (Q4). The 2nd quarter was impacted the most.¹
- But generally, the economic growth was not disturbed from 2001 – 2005 (8.3%, 9.1%, 10%, 10.1% and 11.4%)¹
- Transportation, accommodation, catering, tourism and other industries have been hit hard because of SARS. ¹
- The increase of accommodation and catering industry was 7.4% in the 2nd quarter of 2003, which was 6.6% lower than 1st and 3rd quarter of the same year. ¹
- In the 2nd quarter, the number of inbound tourists from Mainland China decreased by 31% year-on-year, tourism foreign exchange income decreased by 59% year-on-year and domestic passenger traffic decreased by 42% year-on-year. ¹
- Industrial production was less affected and fluctuations in investment and import and export growth were not obvious. ¹

- The consumer price had a peak increase at the beginning of SARS due to panic buying and disruption of logistics. This then dropped back at later stage.⁴



资料来源：国家统计局，图胜科技

Inflation level during SARS, %, year-on-year

Source: China National Bureau of Statistics, Tusheng Technology

- In May 2003, the year-on-year growth rate of total retail sales of consumer goods fell to 4.3%. Which was significantly lower than the annual growth rate of 9.1%. Afterwards the rate quickly rose again.⁴



资料来源：国家统计局，图胜科技

Consumer goods retail growth during SARS, %, year-on-year

Source: China National Bureau of Statistics, Tusheng Technology

B. The new Coronavirus: starting January 2020

a) Current / Expected Economic Impact in China

- The benchmark Shanghai composite index fell 8.7% on Monday, February 3rd, 2020, on a wave of negative sentiment that has built up for 10 days during the long market shutdown for the lunar new year.³
- The Shenzhen composite lost 9.1% and was dangerously close to the daily maximum permitted fall of 10% after which trading is suspended. The yuan fell through the seven-to-the-US-dollar mark for the first time since December 2019.³
- The 3rd industry is supposed to take the most severe impact, as the Chinese New Year shopping season is destroyed by the virus.⁴

b) Current / Expected Economic Impact outside China

- On Monday, February 3rd, 2020, the Australian benchmark S&P/ASX200 index closed, down 1.34%. The Nikkei in Tokyo finished down 1% although the Hong Kong market was up 0.26%.³
- Hardest hit in Australia was the energy sector, with the index down 3.77% after 15 minutes of trade as the oil price continued to suffer from the prospect of a prolonged slowdown in the world's second biggest economy. Brent crude slumped 51c to \$56.11.³
- The Australian tourist and education industry are also heavily dependent on China. The travel bans on foreigners entering from China could knock 0.2% off economic growth this quarter according to AMP economist Shane Oliver.³
- China's economic growth is expected to slip this year to 5.6%, down from 6.1% last year, according to a conservative forecast from Oxford Economics that is based on the effect of the virus so far. That would, in turn, reduce global economic growth for the year by 0.2%, to an annual rate of 2.3% — the slowest pace since the global financial crisis a decade ago.⁵

c) Comments from outside China

- Mark Williams, chief Asia economist at Capital Economics²
Monday, January 27th, 2020
“Even if the coronavirus outbreak is brought under control quicker than SARS was in 2003, the economic impact now looks likely to be of at least a similar scale,” wrote, in a note on Monday, January 27th, 2020, “The very limited data available so far suggest that the current impact is not yet that severe but it could end up being similar,” Williams said. “But it is now certain that the outbreak will have a significant impact on China’s GDP this quarter.”
- Nomura, one of major financial service group in Japan²
Wednesday, January 29th, 2020
“We believe the economic impact of the coronavirus could be bigger in comparison to SARS in 2003. Based on our assumptions, real GDP growth in Q1 2020 could materially drop from the 6.0% pace achieved in Q4 2019, on a scale perhaps bigger than 2pp registered during the SARS outbreak in 2003.
“The coronavirus may prove to be only a temporary shock (both on the demand and supply sides) and may not necessarily leave a long-lasting impact.”
“The scale of the current slowdown and timing of the recovery are mainly determined by the unfolding coronavirus, which remains uncertain.”
- Goldman Sachs³
February 3rd, 2020
The virus could knock Chinese growth down to 5.5% for the year, from 6.1% in 2019, with knock on effects for the rest of the world economy.

C. Further reading

The coronavirus could cost China's economy \$60 billion this quarter

(CNN Jan. 31st, 2020)

<https://edition.cnn.com/2020/01/31/economy/china-economy-coronavirus/index.html>

The Potential Economic Impact Of The Reaction To The Coronavirus

(Forbes Feb. 2nd, 2020)

<https://www.forbes.com/sites/greatspeculations/2020/02/02/the-potential-economic-impact-of-the-reaction-to-the-coronavirus/#2c68a3ab5cd8>

SARS Stung the Global Economy. The Coronavirus Is a Greater Menace.

(Ney York Times Feb. 3rd, 2020)

<https://www.nytimes.com/2020/02/03/business/economy/SARS-coronavirus-economic-impact-china.html>

D. Sources

1. "Recalling the Impact of SARS on the Economy in 2003"

Data.cnfol.com, January 21st, 2020

<https://baijiahao.baidu.com/s?id=1656315800258099000&wfr=spider&for=pc>

2. Coronavirus cases in China overtake SARS — and the economic impact could be 'more severe'

Weizhen Tan / Wvelyn Cheng, cnbc.com, January 29th, 2020

<https://www.cnbc.com/2020/01/29/coronavirus-cases-in-china-overtake-sars-and-impact-could-be-more-severe.html>

3. Chinese shares drop nearly 9% amid fears of coronavirus impact

Martin Farrer, theguardian.com, February 3rd, 2020

<https://www.theguardian.com/business/2020/feb/03/asia-pacific-shares-plunge-stock-markets-ftse-wall-street-uk-economy-fears-coronavirus-impact-on-global-economy>

4. Comparison of new Coronavirus and SARS epidemic and its impact on China's economy

Li Wenlong, Zhang Guoli, Yicai.com, February 3rd, 2020

<https://www.yicai.com/news/100488009.html>

5. SARS stung world economy. Coronavirus is a bigger menace

Peter S. Goodman, economictimes.indiatimes.com, February 3rd, 2020

<https://economictimes.indiatimes.com/news/international/world-news/sars-stung-world-economy-coronavirus-is-a-bigger-menace/articleshow/73912365.cms>