Corona Virus Outbreak

Why in News?

There is an outbreak of a new virus in China which has sent shivers through world financial markets.

What will be impact on the global economic and financial market?

- Investors are drawing comparisons to the Severe Acute Respiratory Syndrome (SARS) outbreak in 2003 in order to assess its potential economic impact.
- **2017 Economic paper** - It estimated that the expected annual losses from pandemic risk to be about 0.6% of global income per year.
- It accounts for both lost income and the intrinsic cost of elevated mortality.
- **2016 study** - This study estimated that pandemic disease events would cost the global economy over $6 trillion in the 21st century - over $60 billion per year.
- This study was conducted by the Commission on a Global Health Risk Framework for the Future.
- Isolating the impact of a single factor on global stock indexes and the global economy is a difficult task.
- They reflect a multiplicity of simultaneously competing factors ranging from economic data, company performance, and geopolitical shifts.

What impacted on price action during SARS outbreak?

- In the middle of the SARS outbreak, the US invasion of Iraq would have exerted an equivalent if not greater impact on price action.
- However, price action in markets indicates that the impacts of such outbreaks are limited.
- After China reported the SARS outbreak to the World Health Organization (WHO) in 2003, the MSCI China index of shares decoupled from its global peers but made up the lost ground in 6 months.

What was the economic cost of SARS outbreak?

- A paper estimates the global economic loss due at SARS at $40 billion in 2003.
- A 2006 economic briefing by the International Air Transport Association

(IATA) estimated that world gross domestic product suffered a 0.1% hit due to the outbreak.

- Despite the disruption to the wider economy, virus outbreaks have tended to benefit pharmaceutical stocks, while tourism and travel-related stocks tend to get punished.
- During the SARS outbreak, retail sales figures in China showed a marked drop-off as consumer spending took a hit.
- In the recent Corona Virus outbreak, shares of long-haul flight operators retreated, as news of the contagion raised concerns over disruptions to travel during a coming Chinese holiday.

What is the mortality rate and economic impact?

- An IMF paper notes that even when the health impact of an outbreak is relatively limited, economic consequences can be quickly magnified.
- The authors cite the case of Liberia during the 2014 Ebola outbreak, which saw GDP growth decline even as the country's overall death rate fell over the same period.
- The mortality rate is what that scared people about SARS.
- People didn't take public transport, stayed away from work, stayed away from shops, restaurants, cinemas, conferences etc.
- The impact from the disease was massive on the economy, but almost all of it indirect, due to the precautionary behaviour of the population.

Source: Indian Express

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