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TREASURY MINISTERIAL SUBMISSION

30 January 2020

PDR No. MS20-000200

Treasurer

ECONOMIC IMPACTS – SEVERE ACUTE RESPIRATORY SYNDROME (SARS)

Timing: Your office requested briefing by 30 January 2020.

KEY POINTS

- In MS20-000183, *Economic Impacts – Novel Coronavirus*, we noted that while it was too early to quantify the economic impacts of the virus, we drew a comparison to the SARS outbreak in 2003 as a guide. You have now asked for further information about SARS.
 - An overview of the economic impact of SARS is at **Attachment A**.
 - **Attachment B** outlines the exposure of the Australian economy to China, then and now.
 - **Attachment C** examines how economic activity rebounded once SARS was contained.
- This analysis draws from various data covering the SARS outbreak and the subsequent containment. While the data includes the impact of SARS, it would be wrong to attribute all data movements to the direct impacts of SARS alone. Saying that, it is also difficult to extract from the data the impact of uncertainty on economic activity at the time.
- The coronavirus has been less lethal than SARS so far, but the number of infections in China now exceed SARS. News reports as at 11.30am, 30 January 2020, have indicated there have been 7,809 confirmed infections internationally, and 170 deaths.
- The Chinese economy is nearly four times larger than it was in 2003, and hence any flow impacts to the world economy from a China disruption will be larger than in 2003. However, China is also better placed to deal with a disease event, with current government measures exceeding those taken during SARS, and which are unprecedented globally in their severity.
 - Closure of public facilities and cancellation of public events took place during SARS, but in general, restrictions are greater today. There are currently restrictions on travel and transport, instructions on the closure of non-essential business activities, closure of schools, and encouraged and self-imposed restrictions to human interactions.
 - In China, the memory of SARS is causing people to be very risk averse this time around, with people staying inside and avoiding contact as much as possible.
- The timing of the coronavirus coincides with the Chinese New Year – the peak travel period in China, while for SARS the most significant restrictions came post Chinese New Year. The domestic and international transport capacity of China is now much larger than in 2003.



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THE ECONOMIC IMPACT OF SARS

- SARS was a viral respiratory illness recognised as a global threat in March 2003. The outbreak peaked in May 2003. SARS first appeared in Southern China in November 2002. According to the World Health Organisation (WHO), around 8,000 people worldwide became sick with severe SARS. Of those, 774 died.
- SARS represented a temporary economic shock that directly impacted consumption and tourism in China and Hong Kong. The temporary impacts flowed through to trading partners, and to some extent, global growth.
- The World Economic Forum estimated that SARS may have impacted the global economy as much as USD50 billion, or 0.1 per cent of world GDP.
- The IMF's September 2004 World Economic Outlook (WEO) highlighted negligible effects of SARS on growth globally, and in China in 2003. The WEO mentioned some lagged effects on consumption and investment due to SARS, particularly on tourist arrivals and retail sales.
- The SARS epidemic came at a time where there were already significant global headwinds, including the Iraq war, high oil prices, the stalling in technology exports, and overall weak economic growth in major industrialised economies.

China

- At the peak of the SARS outbreak in the June quarter of 2003, Chinese GDP growth fell by 2 percentage points to 9.1 per cent through the year, down from 11.1 per cent through the year in the March quarter of 2003.
- The effect of the SARS outbreak on the Chinese economy was most apparent in consumption and tourism data, where relatively large changes in growth occurred.
 - In May 2003, Chinese retail sales growth fell 5 percentage points to 4.3 per cent through the year, down from 9.3 per cent in March 2003 before the outbreak. This was the lowest retail sales growth on record.
 - The number of foreign tourists in China fell 15.2 per cent in 2003. The number of domestic tourists fell 1 per cent in 2003.
- In other indicators, such as industrial production, fixed asset investment, and trade, the effect of the SARS outbreak was more muted.
 - Industrial production growth declined by around 3 percentage points from 5.4 per cent through the year to March 2003, before the outbreak, to 2.5 per cent through the year to April 2003, before declining further to 0.8 per cent through the year to May 2003.
 - Both import and export growth in China declined slightly between March 2003 and April 2003.
 - Fixed asset investment growth fell slightly from 31.6 per cent through the year (year to date) in March 2003 to 30.5 per cent through the year in April 2003.

Hong Kong

- The Hong Kong economy was also affected by the SARS outbreak, having the largest number of infections and deaths relative to its population.
 - The effect of the outbreak was evident in Hong Kong's GDP growth, with through the year growth falling from 3.9 per cent in the March quarter to -0.6 per cent in the June quarter at the peak of the outbreak.
 - As noted in Treasury's 2003 study of the impact on SARS, financial markets reacted to the outbreak, in particular, Hong Kong and Singapore stock markets hit their lowest levels since the Asian financial crisis in the late 1990s.

Australia

- At the peak of the SARS outbreak, Australian real GDP grew 0.3 per cent in the June quarter of 2003. This followed relatively weak growth of 0.1 per cent in the March quarter.
 - Taking the direct effect of the fall in services exports on GDP, SARS appears to have reduced real GDP growth in Australia by around 0.2 percentage points in the June quarter 2003.
- The economic impacts of SARS on Australia fell mainly on the tourism sector. In 2002-03, around one-third of tourism export revenue was from Asia, with 11 per cent from Japan and 3 per cent from China. In March 2003, WHO declared an emergency travel advisory in response to the global threat of SARS which contributed to a sharp fall in short-term overseas arrivals and departures.
 - From March 2003 to August 2003, short-term visitor arrivals fell by around 9 per cent compared to the same period the previous year. This represented a fall of 211 thousand visitors over six months – 2.4 million visitors in March 2003, down to 2.2 million visitors in August 2003.
 - For Asian markets, the slowdown was even more pronounced, with short-term visitor arrivals from China falling by 35 per cent (32 thousand visitors), and arrivals from Japan down by 27 per cent (97 thousand visitors).
- Exports volumes fell by 4.4 per cent in the June quarter 2003. Goods exports fell by 4.5 per cent – noting that farm production was seriously affected by drought between March 2002 and March 2004 – and services exports fell by 4.1 per cent.
 - Australian trade volumes growth was relatively flat before the SARS pandemic began.
 - The value of goods exports to China slowed slightly in the June quarter 2003, but were still 3.7 per cent higher than the same period in the previous year. Export volumes growth recovered over the next two quarters.

EXPOSURE OF THE AUSTRALIAN ECONOMY TO CHINA, THEN AND NOW

- In 2003, trade with China accounted for 8 per cent of Australia's total trade. In 2018, China was Australia's largest trading partner, accounting for 25 per cent of our total trade.
- China's nominal foreign investment in Australia has grown 20 fold from AUD3 billion in 2003. In 2018, it was AUD64 billion or 1.8 per cent of total foreign investment in Australia.
- China's share of short-term visitor arrivals to Australia has increased by 4 fold since 2003. In 2003, China accounted for about 4 per cent of total short-term arrivals. In China was our largest source of short-term visitors, with around 1.4 million short-term arrivals, accounting for about 16 per cent of all short-term arrivals.
- China's share of Australia's tourism export value has increased by nearly 7 fold since 2002-03. In 2002-03, China accounted for around 3 per cent of Australian tourism export value. In 2018-19, China accounted for \$4.3 billion worth of Australia's tourism export value, which is 19 per cent of total Australian tourism exports by value.
- China's share of Australia's international education export value has almost doubled since 2002-03. In 2002-03, China accounted for around 16 per cent of Australian international education export value. In 2018-19, China accounted for \$12.1 billion worth of Australia's international education export value, which is 32 per cent of total Australian international education exports by value.
- China's share of Australia's agricultural export value has increased by over 3 fold since 2002-03. In 2002-03, China accounted for around 9 per cent of Australian agricultural exports. In 2018-19, China accounted for \$12.3 billion of Australia's services export value or 28 per cent of Australia's total agricultural exports.
- China's share of Australia's mining export value has increased by around 6 fold since 2002-03. In 2002-03, China accounted for around 7 per cent of Australian mining exports (excluding Uranium and LNG). In 2018-19 China accounted for around 40 per cent of mining export values.
 - In 2002-03, China accounted for 32 per cent of Australia's iron ore export value. In 2018-19 China accounted for 82 per cent of iron ore export values.
 - In 2002-03, China accounted for less than 1 per cent of Australia's metallurgical coal export value. In 2018-19 China accounted for 23 per cent of metallurgical coal export values.
 - In 2002-03, China accounted for 4 per cent of Australia's thermal coal export value. In 2018-19 China accounted for 16 per cent of thermal coal export values.

ECONOMIC REBOUND AFTER SARS

- In September 2002, the IMF's World Economic Outlook (WEO) forecasted world growth at 2.8 percent for 2002 and 3.7 per cent for 2003. The September 2004 WEO reported actual global growth of 3.0 per cent and 3.9 percent for 2002 and 2003, above the 2002 forecasts for both years.

China

- In the September quarter of 2003 after SARS was contained, GDP growth rose to 10 per cent through the year. In the June quarter of 2003, Chinese GDP growth was 9.1 per cent through the year.
- The September 2002 WEO China forecast was for 7.5 per cent and 7.2 per cent in 2002 and 2003 respectively. China came in well above these forecasts, growing at 8.3 per cent in 2002 and 9.1 per cent in 2003.
- Consumption and tourism, as well as other indicators, also bounced back before returning to growth rates near trend. This may indicate that consumption was postponed during the outbreak before being spent after containment.
 - Retail sales growth rebounded to 8.3 per cent through the year to June 2003, increasing further to 9.8 per cent through the year to July 2003. In May 2003, retail sales growth was 4.3 per cent through the year.
 - Growth in foreign tourism rebounded in 2004, growing by 48.5 per cent. Domestic tourism also pick up significantly, growing 26.7 per cent in 2004. The number of foreign tourists in China fell by 15.2 per cent in 2003. The number of domestic tourists fell by 1 per cent in 2003.
 - Industrial production growth rebounded to 4.0 per cent through the year to June 2003. In May 2003, industrial production growth was 0.8 per cent through the year.

Hong Kong

- In the September quarter of 2003, Hong Kong's GDP growth rebounded to 4.0 per cent through the year. In the June quarter of 2003, Hong Kong's GDP was -0.6 per cent through the year.
- Treasury's 2003 study on SARS notes that financial markets also recovered from falls following containment of the virus.

Australia

- Real GDP grew by 1.7 per cent in the September quarter 2003. Real GDP growth in the June quarter was 0.3 per cent.
- International travel began to recover following the WHO's declaration that the international outbreak of SARS was over at the end of July 2003. Visitor numbers rebounded in late 2003, with short-term visitor arrivals higher (up 6 per cent) in the December quarter 2003. From March 2003 to August 2003, short-term visitor arrivals fell by around 9 per cent compared to the same period the previous year.

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- Export volumes growth recovered over the September quarter 2003, growing by 1.2 per cent. Exports volumes fell by 4.4 per cent in the June quarter 2003.