

Risks posed by a prolonged outbreak of the new coronavirus

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Infection of the novel coronavirus that originated in Wuhan, Hubei province is spreading. According to news reports, the total number of infected was 7,806 globally as of 30th January (of which 7,711 are in China) and the number of deaths was 170 (all in China): a sharp rise in the space of a week. Meanwhile, in order to prevent the spread of infection, the Chinese government has taken unprecedented, extreme measures. It has stopped all aeroplane, rail and bus services leaving Wuhan, has forbidden group and package holidays and has extended the Lunar New Year holiday, resulting in a suspension of business activities.

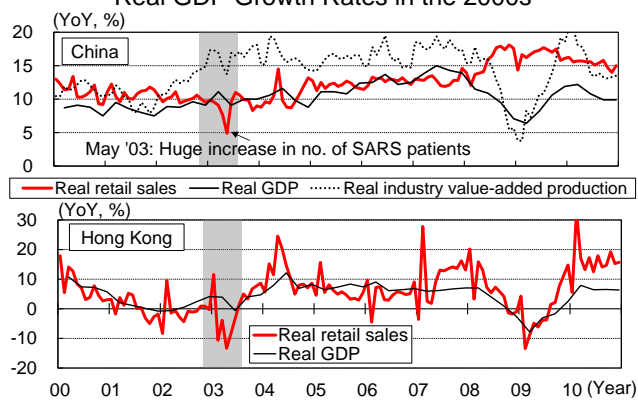
Looking at the SARS (Severe Acute Respiratory Syndrome) outbreak from 2002 to 2003 as a similar incident in the past, there was a sharp drop in the growth of real retail sales in China to 4.9% YoY in May 2003 – a month when there was a dramatic rise in the number of patients. Nevertheless, the number of patients abated in June of the same year and growth of real retail sales recovered to 9.6% YoY. It appears there was a similar trend in Hong Kong, which is a hub of infection. In April 2003, retail sales fell by 13.4 YoY but then returned to positive territory in July 2003 (Chart 1). In addition, the deceleration of statistics, such as productivity and the real GDP growth rate, was limited. Although a direct comparison to the situation at the time of the SARS outbreak is difficult, in the case this coronavirus incident winds down in a short period of time, it is thought the Chinese economy will avoid a sharp slowdown, despite a large disruption to statistics for a short while.

That being said, it is difficult to forecast the scale of the spread of the virus and the fatality rate at this time. In contrast with 2003, it is thought the Chinese economy's resilience to external shocks is lower now than it was previously due to the fact it is now in a period of gradual deceleration as its growth stabilises and the country is wrapped up in friction with the US. In addition, the situation is severe this time with a wide region virtually blockaded including Wuhan, which is located in a key area in terms of transport. If it becomes necessary to prolong the blockade or to widen the target area, this will lead to stagnant distribution of goods, a standstill in production and subdued consumption, and the downward pressure on the Chinese economy will increase dramatically.

The impact on the global economy is also different from the SARS case. China's GDP per capita has increased around seven fold from 2003 to 2018 (Chart 2) and its influence has expanded due to the fact it now holds an essential role in the global supply chain of a

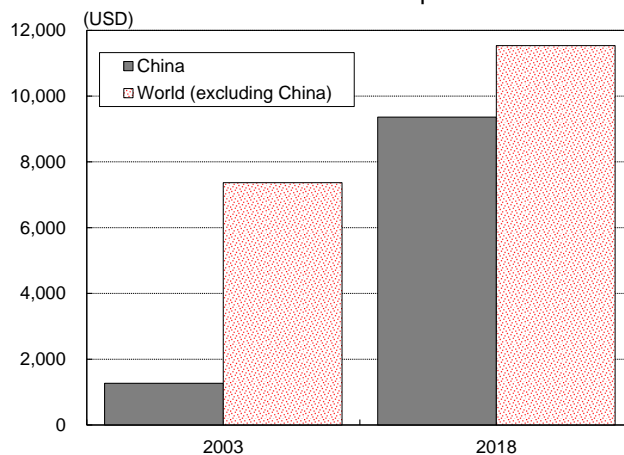
considerable number of industries. It is important to keep an eye on the possibility that any prolonged stagnation of production activities in China could act as a weight on the whole global economy.

Chart 1: China and Hong Kong's Real Retail Sales and Real GDP Growth Rates in the 2000s



Note: Shaded areas denote period of SARS outbreak
 Source: National Bureau of Statistics of China, Census and Statistics Department (Hong Kong), MUFG Bank Economic Research Office

Chart 2: GDP Per Capita



Source: IMF, United Nations, MUFG Bank Economic Research Office

(Translated by Elizabeth Foster)

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