Going viral – The economic impact of coronavirus on New Zealand.

- Coronavirus is likely to have a bigger economic impact on New Zealand than SARS.
- Our baseline scenario is that March quarter GDP will be 0.6% lower than previously thought.
- This assumes a two month ban on travel and one month of disruption in China’s factories.
- In this scenario there would be little lasting economic damage. Late-2020 would feature high quarterly GDP growth as the economy rebounds.
- China is now much more important to the New Zealand economy than in 2003.
- Quarantine efforts this time are much more draconian than they were during SARS.

The economic impact of the novel coronavirus 2019-nCoV is wildly uncertain, but it is looking likely to be more severe than SARS or the 2009 swine flu pandemic. This bulletin outlines a scenario in which severe restrictions on travel between China and New Zealand remain in place for two months, and Chinese manufacturing remains disrupted for one month. The hit to New Zealand quarterly GDP would be around 0.65%. We have reduced our forecast of March quarter GDP growth to 0.1%, whereas without coronavirus we would have expected 0.7%.

The economic impact is likely to stem not from the illness itself but from the economic disruption of quarantine efforts (in 2009 swine flu killed 200,000 people worldwide but had no discernible impact on the economy). The crucial factor is how long the quarantine efforts last. In our scenario economic activity is disrupted for only a short time, so there would be little lasting economic damage. As the economy rebounds to normal levels of economic activity, GDP growth rates later in 2020 would be higher than otherwise. However, if efforts to contain coronavirus disrupt economic activity for longer, then there would be a greater likelihood of long-lasting economic damage.

This time is different

When thinking about the economic impact of the novel coronavirus, it is natural to start with the SARS epidemic of November 2002 to July 2003, which also broke out in China. However, we think the economic impact on New Zealand will be very different, because China is so much more important to the New Zealand economy, and because quarantine efforts both in China and abroad are much more severe.

The SARS outbreak was big news at the time. China, and lesser extent, Hong Kong and Taiwan, experienced widespread disruptions occurring across most sectors, from tourism and retail to manufacturing and construction. According to most estimates economic growth in China was knocked by about...
1%, but the rebound was very rapid. The economic impact on New Zealand stemmed mainly from lower visitor arrivals. It proved very short-lived and was vanishingly small at around 0.1% of GDP.

**China is much more important today.**

A similar-sized disruption to China’s economy would have a bigger impact on New Zealand today. China accounted for just 4% of the world economy in 2003, whereas now it is an economic powerhouse rivalling the United States at 16% of global economic activity. China’s transformation has proven to be a massive growth opportunity for New Zealand, one which we have taken with both hands. Back in 2003 mainland China took only 5% of New Zealand goods exports, with a further 2% going to Hong Kong. Today, a whopping 26% of our merchandise exports go China. Dairy products, meat, logs, fruit and seafood are the top earners.

China’s share of global economic activity

![Chart showing China's share of global economic activity](chart1)

New Zealand exports to China, % of total

![Chart showing New Zealand exports to China](chart2)

New Zealand has also targeted visitors from China, especially the newly moneyed middle classes. And it has been successful, so much so that visitor arrivals from China have risen 463% since 2004, and China has gone from 3% to 12% of total visitor arrivals. China is also the biggest source of foreign students participating in New Zealand’s large foreign education sector.

Visitor arrivals from China to New Zealand, % of total

![Chart showing visitor arrivals from China to New Zealand](chart3)

Coronavirus is disrupting economic activity more severely.

In the space of a couple of weeks the coronavirus has infected more than double the number of people than SARS ever did. It has spread further around the provinces of China and to countries abroad. Thankfully this coronavirus has a lower mortality rate than SARS, but total deaths are still highly likely to top the 774 reported overall for SARS. Consequently, efforts to contain this year’s virus via quarantine have been more draconian and much larger in scale.

In China, almost 60 million people in Hubei province are effectively under lockdown, and people elsewhere are avoiding gathering in numbers. China has suspended indefinitely all outbound travel booked through the Chinese Travel Bureau, which organises most package tourism, and many airlines have stopped flying to China. Factories have been forced to extend their Lunar New Year shutdown period, and schools in Hubei province are closed.

Impact on New Zealand likely bigger than SARS.

The biggest impact on the New Zealand economy will come via reduced travel between the two countries. On top of China’s suspension of outbound tourism, New Zealand has announced that it will deny entry to all foreigners travelling from that country. The ban is currently in force for two weeks, but we can only really see two possible outcomes – either the travel ban lasts much longer, or the coronavirus arrives in New Zealand and the authorities give up on ideas of quarantine.

Our simplistic baseline assumption is that New Zealand receives zero visitor arrivals from China for two months. Even after the travel ban is lifted the rebound in tourism activity will likely be slow, so we assume that Chinese visitor arrivals are 50% of usual for a third month. We further assume that arrivals from the rest of Asia are dented by 20%. In this plausible scenario, seasonally adjusted visitor arrivals to New Zealand would drop by 11%. That, on its own, would reduce New Zealand’s March quarter GDP by around 0.4 percentage points.
Forestry, which had just started to recover from last year’s price slump, is also likely to be heavily affected. 80% of New Zealand forestry exports go to China. As manufacturing in China has stopped, demand for wood has dried up. Furthermore, Chinese ports are less able to handle incoming logs as quarantine has affected the workforce. Consequently, log shipments out of New Zealand have suddenly been cancelled, with reports that log volumes going through the ports of Gisborne and Tauranga have dried up. As logs pile up on New Zealand wharves, the next step will be a sudden reduction in harvesting activity. Our baseline scenario is that total log exports from New Zealand drop by 50% for a month. This would shave about 0.15 percentage points off quarterly GDP.

Unlike tourism, forestry will recover very quickly once China’s factories re-open (although the sector was already under pressure, so the ex-coronavirus baseline is fairly weak). The absence of manufacturing in China will be causing shortages of finished products around the world. As retailers of end products look to rebuild their own stocks there will be a period of catch-up activity at the factories, and consequently a period of higher-than-normal demand for New Zealand wood.

The impacts of the coronavirus on food exports will differ depending on the type of food. With many people in China now effectively under house lockdown, and not able to eat out, the consumption of high-quality meat, fruit and seafood is taking a hit. We expect this will continue for some time. For dairy the impact is likely to be more transient. Much like forestry, we would expect that after an initial shock demand for dairy products will recover quickly as Chinese retailers look to restock. We expect some reduction in the volume of food exports going out of New Zealand, which will knock March quarter GDP by about 0.1 percentage point. More importantly, the price of New Zealand food exports is likely to fall quite sharply – this week’s dairy auction already registered a 6% drop in prices. Lower prices for our food products will affect incomes, with consequent impacts on the economy later in the year.

Altogether, in our baseline scenario the coronavirus will knock 0.65 percentage points of quarterly GDP in New Zealand. We have reduced our March quarter GDP forecast from 0.7% to 0.1%.

No lasting economic damage in our scenario, but…

Even in our scenario, where quarantine lasts only a couple of months, some negative economic consequences for New Zealand will rumble on through the to the middle of the year. New Zealanders’ incomes will take a hit from lower food export prices and reduced tourism and other business revenue. Some workers in the tourism and forestry industries will lose their jobs or be forced into reduced hours, which will have a knock-on effect on household spending later in the year.

However, in our scenario tourism and other export activity will be recovering through the middle of 2020. As the level of GDP returns to normal levels, quarterly growth rates will be higher than normal. Consequently, we are now forecasting quite rapid rates of GDP growth in the late part of 2020.
Of course, all of this relates to a scenario in which coronavirus is disruptive for only a couple of months. If quarantine efforts persist or the virus takes a more severe toll, the economic disruption could last much longer. This would make it much more likely that firms will run out of cash and fold. Similarly, worker layoffs would become more likely. In this case the economic damage would be more lasting and the recovery slower than we have outlined here.
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