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Swine flu threatens to kick economies when they are down

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In the midst of the longest and perhaps deepest global recession in the postwar period, the last thing we need is rising protectionism, travel advisories and reduced business and consumer activity.

This is certainly not a confidence builder and runs the risk of at least temporarily mitigating the recent rise in consumer confidence and other early signs that the US economy has bottomed.

Certainly, financial markets have shown clear signs of improvement as credit spreads have narrowed and stock markets have just posted their best two-month performance in decades. Barring a severe pandemic, the likelihood of which no one knows, I am forecasting at least a moderate rebound in economic growth later this year.

Public health experts have long predicted flu pandemic. We experienced pandemic scares in the 2003 SARS episode and the 2006 avian-flu scare, the economic impact of which turned out to be quite modest and temporary. The good thing about those scares is that they gave us a bit of a trial run. Preparedness planning at the government and business level is far more advanced, and the World Health Organization (WHO) and the US Center for Disease Control (CDC) appear to be handling this episode very well.

The new strain of swine flu, formally called influenza A H1N1, appears to be a hybrid of pig, bird and human flu bugs that is transmissible from human-to-human with infection spanning a wide area. So far, it appears to be quite mild outside of Mexico. The WHO has made no determination of the virulence of the A H1N1 influenza. It will be some time before we know.

The new virus is treatable with antiviral medicines, and stockpiles of these are now moving into communities in affected areas in Mexico and the US.

According to the CDC, America has purchased more than 13m additional courses of antiviral drugs to replenish its stockpiles and is shipping 400,000 courses to Mexico. Most G20 countries have stockpiled these drugs and the WHO is ready to help the developing world.

A couple of big pharmaceutical companies and vaccine producers are among the few who will profit from the latest scare. Switzerland-based Roche, the producer of Tamiflu, and GlaxoSmithKline Plc, British manufacturer of Relenza, are responding to increased global demand, and the stock prices of these companies have increased since Monday. Vaccine production is in its early stages, but it will take four to six months before a new vaccine is developed and tested.

Mexico's economy has been very hard hit. Tourism and all-but-essential services have come to a standstill. Travel and transport are immediate losers in a pandemic scare. The pork industry is also an early loser as people mistakenly think they can contract the flu by eating pork. Virginia-based Smithfield Foods, a major producer of pork products and 50pc owner of the pig farm near the suspected first flu victims, has seen its share price plunge in the past week. Hog futures also fell.

The hospitality, entertainment and professional sports businesses are also early losers as people refrain from unnecessary gatherings.

Life and health insurers are typically hard hit by severe pandemics, especially if the death rate of young adults rises. So far, the incidence of disease has been relatively high among young adults, with the average age of incidence in the US at around 22, although the age range has been from one to 81.

The 1918 influenza pandemic killed 50m people. In contrast, the mild pandemic in 1968 caused 1m deaths. Putting this into perspective, seasonal flu kills 500,000 people each year.

During pandemics, supplies of many goods dry up, especially essentials such as bottled water, non-perishable food, hand sanitizers and medical supplies, equipment and drugs. Quarantined people can find themselves without sufficient prescription drugs, and disrupted supply chains can empty drugstore shelves very quickly. We have already seen instances of a run on bottled water and masks in New York.

Since last Monday, Texas-based Prestige Ameritech, with a workforce of 80 people, has been running nonstop to pump out more than 1m surgical masks per day. This tiny company is the only surgical mask manufacturer in the US. Most are made in Mexico and China. Prestige makes masks for major distributors, like 3M, which sells the masks to hospitals and doctors. Hospital beds and healthcare workers could also be inadequate to meet growing demand. Schools and hotels could be taken over to provide auxiliary triage and healthcare facilities.

Absenteeism could run at about 30pc, a real challenge for many businesses. Some would be forced to shut down, at least temporarily, leaving employees without income. Insufficient numbers of skilled technicians and disruption in supply chains could cause prolonged disruptions in government services. Deficient waste management, clean water

and fuel might exacerbate the effects of pandemic. Compounding all of this could be inadequate death-management and insufficient morgue and crematory facilities, which became a huge problem in 1918.

While for some products and services there would be excess demand, for others there would be excess supply. Voluntary social distancing could ravage the earnings of many restaurants, hairdressers, retail stores and wholesale distributors. These businesses have already been hurt badly by the financial crisis.

The rise in spending by government, health facilities and non-governmental organisations would be more than offset by the slowdown in spending by consumers and business. Trade flows would diminish even further as well.

Many have attempted to forecast the economic effects of a pandemic. The range of estimates is unsurprisingly wide and varies from nearly inconsequential and brief to large and prolonged. Published estimates range from a reduction in the annual growth rate of a few basis points to five or six percentage points. These growth effects would vary from country to country, with the hardest hit likely to be Mexico. There is no way of knowing what the current pandemic scare will bring.

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<http://www.telegraph.co.uk/finance/comment/5262128/Swine-flu-threatens-to-kick-economies-when-they-are-down.html>

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