



Possible Economic Implications of the Swine Flu Pandemic

On Thursday 11 June 2009, the Director-General of the World Health Organization (WHO) announced the emergence of a new pandemic - The Swine Flu. This novel Influenza A virus strain (subtype H1N1) first emerged in late April with early cases reported in Mexico, which rapidly spread to North America and Europe. Due to the increasing number of reported infections and deaths, as well as the increased probability of infection, the WHO decided to raise its pandemic alert to Phase 6 - the highest level. As at 22 June 2009, there were 52,160 confirmed infections with 231 deaths in 94 countries. The rampant spread of the disease has been mainly due to globalization and through this phenomenon, the global economy can be severely affected by this virus.

Labour Productivity

The A H1N1 virus has the potential of significantly decreasing the labour productivity in countries that have been severely affected. In order to curb the spread of the infection, it is recommended that persons exhibiting flu like symptoms remain at home. Additionally, persons may prefer to stay at home for fear of contracting the virus. Together, these factors contribute to increased levels of absenteeism in the workplace. For labor intensive jobs, output produced will be reduced, which can cause ripple effects – affecting economic growth and international trade. On a microeconomic level, reduced productivity can have a negative impact on profitability of firms. Additionally, it can create negative supply shocks, thus adversely distorting domestic prices.

International Trade

Following from the negative impact upon labor productivity, another area which can be affected by the Swine Flu pandemic is that of international trade, especially for countries producing agricultural and manufactured goods. Most Asian countries (in particular China and India) supply the world with food, and are also a source of relatively cheap labour. It is this cheap labour that propels the manufacturing sector of these countries, thus making manufactured goods a significant composition of their exports. Consequently, reductions in output would not only affect the domestic economy, but also the international economy. Many countries rely on the exports of these countries for the sustenance of their own economies. Approximately 17% of United States (U.S.) imports come from China, as such, any reductions in Chinese exports can result in direct and indirect implications for the U.S. The U.S. economy is driven by consumption; thus it needs the supply (predominantly from imports) to maintain and advance its economy. Additionally, some imports from the U.S. are manufactured and later re-exported to other countries. Thus, reductions in output from labour intensive producing countries not only affect the domestic economy and their immediate exporter, but their trading partners.

There is also the potential for increasing food prices. Reductions in the labour force and productivity can lead to increased

prices passed on by the producer. As a result, importing countries may endure a period of “imported inflation,” causing prices to spiral in the domestic economy.

Another implication on international trade is the effect of the imposition of restrictions. In an effort to curb the spread of the pandemic, some countries may impose restrictions on trade between themselves and their trading partners. This is not limited to trade in goods, but services such as tourism as well. The consequences of such actions include reductions in output through world trade and potential retaliation by importing countries.

Tourism

Another key area which can be adversely affected by the Swine Flu pandemic is that of tourism. This is of special importance to the Caribbean region, since tourism comprises a significant portion of GDP. Travel could be greatly reduced for fear of contracting the virus, causing tourist arrivals and hotel occupancy rates to dwindle. As a result, Caribbean economies (dependent on tourism) could expect contractions in economic growth. Additionally, reductions in tourist arrivals can result in possible unemployment since tourism provides employment opportunities in these countries. This can also have further social implications for these economies.

Government Spending

Governments worldwide would need to spend additional money on healthcare. This could range from research for a vaccine; to enhancing healthcare facilities. Funding in these areas is critical because it can help reduce the spread of the virus. This additional spending inherently poses two problems. Firstly, additional spending on healthcare translates to fewer funds available for allocation to other sectors of the economy. Herein lies the problem of opportunity cost. This however assumes that countries have sufficient funds to divert to healthcare.

The second problem arises if countries need to borrow in order to fund healthcare. Borrowing can be done either domestically or internationally, the latter of which places the country at greater risk to external occurrences, which is the main reason why countries try to reduce their stock of external debt. This problem also poses a great threat to poor developing countries that already have high external debt burdens. Although the IMF and/or World Bank may provide the necessary funding to these poorer, more vulnerable countries, these funds must be repaid at a future date, posing a greater strain on the borrowing country.

Financial Markets

The Swine Flu pandemic can have indirect effects on the global financial markets. Commodity prices (agricultural) may rally for a short period, if the focus is specifically on demand and supply conditions. If productivity falls, then supply would contract, and a higher clearing price would be set, with reduced quantities.

Another indirect effect on the financial markets is that of investor confidence. The world economy is still in a slump and markets have only recently begun to very slowly recover since the financial meltdown occurred. The pandemic could result in the reduction of world output and world trade, which can cause a slowdown in the global economy. Investors may be very pessimistic expecting prices to fall, and thus may go on the defensive and sell equities, flooding the market with excess supply. This can then cause prices to plummet, leading to a bear market. Furthermore, this negative investor confidence has the potential to drag the global financial markets back into a state of crisis, prolonging the current recession.

How bad can it be?

The WHO stated that the new strain of the H1N1 virus in its initial stages is of moderate severity. Most infections have been recorded in young, healthy individuals, primarily between the ages 20 to 50. This represents the prime workforce of any economy, so there may be some levels of absenteeism due to illness. In terms of fatalities, these were seen primarily in individuals with underlying chronic diseases, which were exacerbated by the onset of the virus.

The virus is currently in its early stages, and from past pandemics it usually takes 6 to 9 months to spread globally, so the full extent of the infection is unknown. Furthermore, influenza pandemics usually occur in waves. The problem herein is the possibility of the virus mutating as it spreads especially in countries entering the winter/ flu season. The concern is that the Swine Flu virus may interact with the seasonal flu virus and mutate to a more virulent strain and later circulate in a second wave. Additionally, the study of the virus is being conducted in developed nations, which may have sufficient resources to handle the infections. On the other hand, little study has been done in developing nations, which has constrained resources, poor health care systems and a prevalence of chronic illnesses.

Conclusion

The implications of the Swine Flu pandemic highlighted above are cause for concern; however the severity of it is still left to be seen. The pandemic was detected in its early stages, and greater communication media is available when compared to previous pandemics. As more funding is available for the research and development of a vaccine and better healthcare facilities are available, fatalities may be minimized in comparison to past pandemics. The potential impact of a full-blown pandemic crisis upon the global economic landscape is immense, and this can exacerbate the already weak global economy and will prolong any economic recovery. The Caribbean region particularly is very vulnerable, given the heavy dependence upon a very volatile tourism industry as well as the inherent nature of being small and very open economies. Therefore careful consideration must be given towards measures to restrain the spread of this potentially devastating virus.

FINANCIAL & ECONOMIC INDICATORS

As at 25 June, 2009

<u>Exchange Rate/US\$</u>	<u>Closing Value</u>	<u>Previous Week</u>
Yen	95.95	96.47
Euro	1.40	1.39
Jamaica	89.14	89.13
Guyana	204.20	204.90

<u>Commodity Prices</u>	<u>Closing Value</u>	<u>Previous Week</u>
Crude oil (US\$/bbl)	70.23	71.37
Natural Gas (US\$/mmbtu)	3.82	4.19
Gold (US\$/Troy Ounce)	939.25	933.06

Eurobond Indices (As at 25-June-09)

Lehman Brothers Global Aggregate Index (Return % YTD)	0.91
JP Morgan EMBI+ (Basis points)	458
JP Morgan Central America and Caribbean Index (CACI) (YTD return %)	18.69

<u>Policy Interest Rates (%)</u>	<u>Closing Value</u>	<u>Previous Week</u>
United States	0.19	0.28
Euro Zone	1.00	1.00
Japan	0.10	0.10
Brazil	9.25	9.25
Trinidad	8.00	8.00
Jamaica	17.00	17.00
Barbados	3.00	3.00

<u>Market Interest Rates (%)</u>	<u>Closing Value</u>	<u>Previous Week</u>
US 90-day T-Bill	0.16	0.16
US 10-Yr Treasury	3.54	3.83
3-month UK Libor	1.20	1.25
Japan 90-day T-Bill	0.33	0.33
Brazil 90-day T-Bill	9.21	9.28
TT 90-day T-Bill	2.60	2.60
Jamaica 90-day T-Bill	19.21	19.21
Barbados 90-day T-Bill	3.96	3.96

Sources: Bloomberg, CMMB, Central Bank of Trinidad and Tobago, Bank of Jamaica, Central Bank of Barbados, www.lehman.com

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