

# Macro & Markets Radar

## China: Coronavirus will have a negative, but limited, effect on the Chinese economy

Monday 27 January 2020

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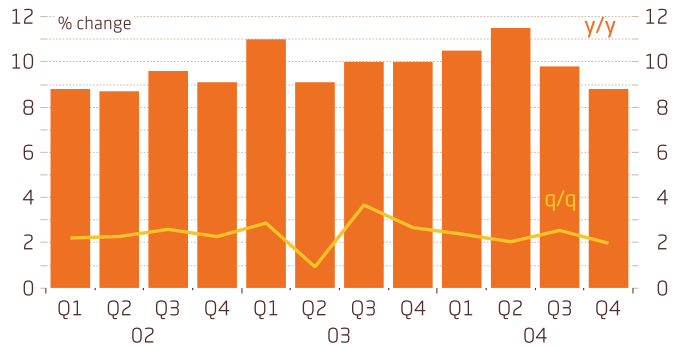
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# China: Coronavirus will have a negative, but limited, effect on the Chinese economy

## SARS caused no long-lived dent in growth...

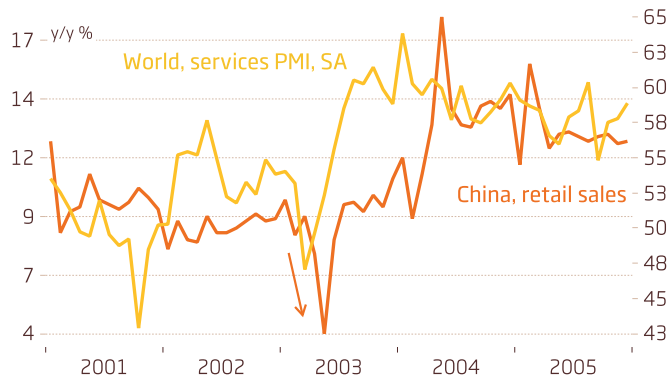
China: GDP Growth, constant prices



Sources: NBS, NDRC, Swedbank & Macrobond

## ...but it did eat on global sentiment and China's services sector...

Chinese Retail sales and world services PMI



Sources: Swedbank & Macrobond

## SARS reduced growth, but temporarily.

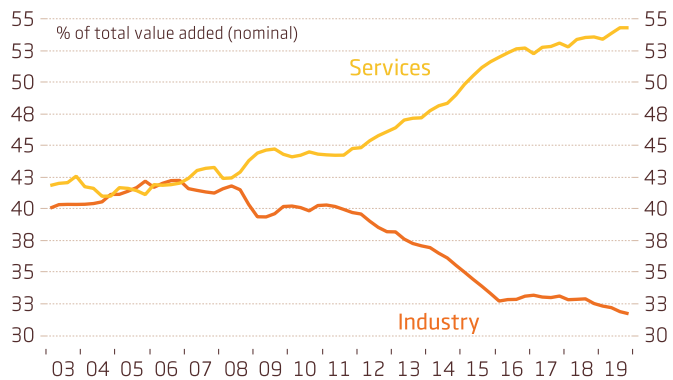
- Chinese GDP growth has been estimated to have been reduced by 1-2 percentage points in 2003 due to the SARS outbreak, while the effect on services-heavy Hong Kong was larger (Lee & McKibbin, 2004). However, the effects on growth were temporary, and the recovery was swift.
- The virus is less deadly than SARS but spreads more easily, and global risk is emphasized by the fact that the Chinese travel much more today. However, the authorities' reaction has been more effective this time around.

## The services sector will be the most affected.

- The role of the services sector in the Chinese economy has grown, which increases its vulnerability. China has suspended package travel and several amusement parks, restaurants, movie theatres etc. have closed.
- The virus is likely to have a negative effect on sentiment indicators, especially in East Asia. The biggest downside effect on growth is in the first quarter, as the annual Lunar New Year spending boost will be lower.

## ...which has become more important.

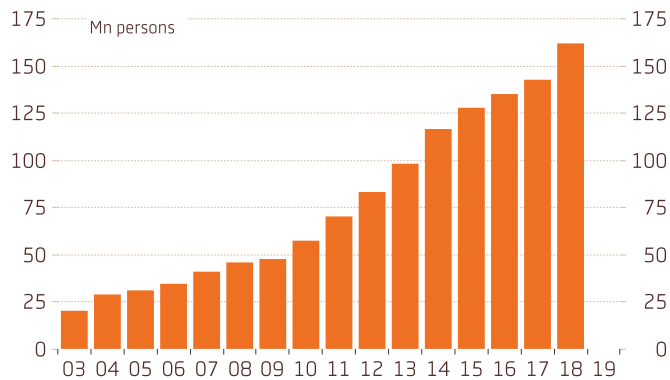
China: Value added, services and industrial sector



Sources: NBS, Swedbank & Macrobond

## While increased mobility adds to global risk.

China: Departures, Outbound, Mainland Residents



Sources: Swedbank & Macrobond

## Expect somewhat lower growth in China 2020.

- Our main scenario is a negative, but limited, effect on China's growth this year, which will again be short-lived. This means that the official growth figures will likely be below 6, but not considerably below 5 percent.
- The virus will weigh on global sentiment and sectors exposed to Chinese demand, especially tourism.
- The downside risk is if the epidemic reaches a more global scope or if the virus mutates and becomes more severe. However, a slowdown could also trigger larger stimulus, which would support China's growth in the short term.

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