

The Swine Flu Outbreak and its Global Economic Impact

Warwick J. McKibbin published on Monday, May 4, 2009

Read the following interview below to uncover this issue.

The swine flu, caused by a strain of the influenza virus common in pigs and having symptoms similar to that of influenza, continues to grow in the U.S. and globally. Fearing this outbreak may lead to a pandemic, stock markets have declined, and tourism, food and transportation industries are suffering from a lack of public confidence. Warwick McKibbin, the non-resident senior fellow, compares the global response to the early stage of swine flu outbreak to other infectious disease outbreaks in recent history—including SARS and avian flu—and analyzes the impact on the global economy.

Q: With the world in an economic recession, how have global reactions differed in response to the swine flu from other infectious disease outbreaks in recent history?

Global reactions have been consistent with previous flu outbreaks. Stock market values of industries that are likely to be affected have declined. People have started to change their behaviour and spending patterns. Policy responses have been better as earlier outbreaks have demonstrated that early response is critical.

Q: How have past disease outbreaks strengthened the global health system?

Earlier outbreaks have caused authorities in many countries to develop pandemic response plans, which have recently been activities by the WHO listing the current outbreak at level 5. These plans have been informed by past experience. The one lesson that has not been learnt is the most important: that the major source of the pandemic potential is the levels of poverty in developing countries and the quality of health care systems in these economies. This aspect of the global health care system reform is badly lacking critical investment.

Q: For both investors and consumers, what lessons can be learned from past outbreaks?

It is not the deaths or the periods away from employment that causes economic activity to decline during a pandemic. It is the disruption to markets caused by a loss of confidence and a change in spending patterns driven by fear. Secondly, the shock, although it can be significant, is over relatively quickly.

Q: How have the U.S. and global economies been affected by the early stage of the swine flu outbreak?

In our study from 2006, we explored four different scenarios: mild, moderate, severe, and ultra. The differences are driven by the epidemiological assumptions about attack rates and the case fatality rates. Currently, there is not enough information to know which scenario is evolving but the mild scenario appears the most likely given current information. The initial economic adjustment occurs through falls in equity markets especially for the most affected industries such

as tourism, travel and sectors with a high reliance on human contact. Travel plans are already changing, and airline bookings are being affected.

Q: How can this outbreak lead to further economic decline?

The next few weeks are critical. If the disease is declared a pandemic and the case fatality rate worsens and mild panic begins to appear then the real economy will start to bear the brunt of the disease outbreak. We estimated in our study that a mild scenario would cost the global economy about \$360 billion and an ultra-scenario up to \$4 trillion within the year of the outbreak. This is not good news for a global economy trying to emerge from a severe economic contraction caused by the global financial crisis.

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