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Will the chickens come home to roost?

Frank Moon looks at the potential consequences of a bird flu epidemic on the global economy.

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News about the bird flu and its potential consequences in case of a major outbreak has been circulating in the international press over recent weeks. The issue of bird flu is not new. According to the World Health Organisation (WHO) at some time prior to 1997, the highly pathogenic H5N1 strain of avian influenza began circulating in the poultry population of Asia.

The virus first erupted in 1997 in Hong Kong, but then did not appear again for several years. Towards the end of 2003, H5N1 suddenly became much more widely visible across Asia. It has already led to the destruction of 150 million chickens and also infected some 117 people worldwide over the past two years leading to 60 deaths; a mortality rate of over 50%.

So far there is no evidence that the virus can spread from human to human. It is clear that the US $10 billion in lost trade already attributable to the disease would be dwarfed should the virus gain the ability to spread between people. The economic impact of such a bird flu outbreak on the global economy will depend on several factors, which will not be fully known until such time as it strikes. An influenza pandemic is a rare but recurrent event. Three pandemics occurred in the previous century: "Spanish influenza" in 1918, "Asian influenza" in 1957 and "Hong Kong influenza" in 1968.

Global spread

Once a fully contagious virus emerges, its global spread is considered inevitable. Countries might, through measures such as border closures and travel restrictions, delay arrival of the virus, but cannot stop it. Given the speed and volume of international air travel today, the virus could spread rapidly.

Supplies of vaccines and antiviral drugs – the two most important medical interventions for reducing illness and deaths during a pandemic – will be inadequate in all countries at the start of a pandemic and for many months thereafter.

Historically, the number of deaths during a pandemic has varied greatly. The 1918 pandemic killed an estimated 40-50 million people worldwide. Subsequent pandemics were much milder, with an estimated 2 million deaths in 1957 and 1 million deaths in 1968.

All estimates of the number of potential deaths are purely speculative. An outbreak of the new disease may kill as many as 7.4 million, the World Health Organisation estimates. The actual financial consequences of the pandemic will be entirely determined by the properties of the virus, which simply cannot be known in advance. Hence like any "event risk" all forecasts are highly speculative and almost meaningless.

Disruption

However, high rates of illness and worker absenteeism are expected, and these will contribute to social and economic disruption. Social disruption may be greatest when rates of absenteeism impair essential services, such as power, transportation and communications.

There would be a sizable loss of potential world output. Estimates of economic losses have exceeded US $550 billion. The Asian Development Bank reckons a bird flu pandemic would also shave between 2.6 and 6.8 percentage points off Asian Gross Domestic Product growth – a cost of up to US $300 billion for Asia alone.

Whilst it maybe a little premature to panic, investors should consider which sectors are likely to be impacted should a global pandemic break out. The obvious target is the airline sector as people stop travelling either through fear or enforced restrictions.

On this basis one should also consider the impact on hotel companies, car hire operators and airport businesses such as BAA. As aircraft stop flying the demand for jet fuel will plunge, this could have implications for oil prices. Longer term as airlines lose profitability their suppliers will suffer, affecting companies such as Boeing and in turn their suppliers.

The insurance industry will also be impacted, people dying in large numbers will not be good news to life assurers nor will the disruption in economic activity please those insurance companies who have written business disruption policies. Ill people tend not to go shopping. What effect will this have on an already depressed retail sector?

The implications and knock-on effects are only limited by the extent or otherwise of any pandemic. Investors should have these thoughts in the back of their minds when making investment decisions and seek good advice!

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