

Japan: In case of emergency

Japan only has about 45 cases of coronavirus, but if this is just the start of a bigger outbreak, it could see GDP growth slow sharply



thermometer

Source: Shutterstock

How a virus can bring down an economy

We have historical first-hand experience of how a virus can bring down an economy with SARS back in 2003. And while there are many differences between that epidemic and what is happening now, the principal mechanism remains the same.

Where many economic simulations are actually just a form of actuarial arithmetic, for example, the costs of crime, the costs of obesity on the economy and so on, that sort of approach fails with an epidemic like the coronavirus. It may well be that the numbers infected and the total death toll will look insignificant compared to a regular flu outbreak. Such flu epidemics annually affect tens if not hundreds of thousands, and the global death tolls can be very substantial. Yet apart from some of us getting a flu jab, they don't affect our behaviour much.

It may not be proportionate to the individual risk, but the fear generated by an epidemic like the coronavirus, coupled with the official response - quarantines, curfews, lockdowns and travel bans, can have a very substantial impact on economic behaviour, and most of it, negative.

Service sector the hardest hit

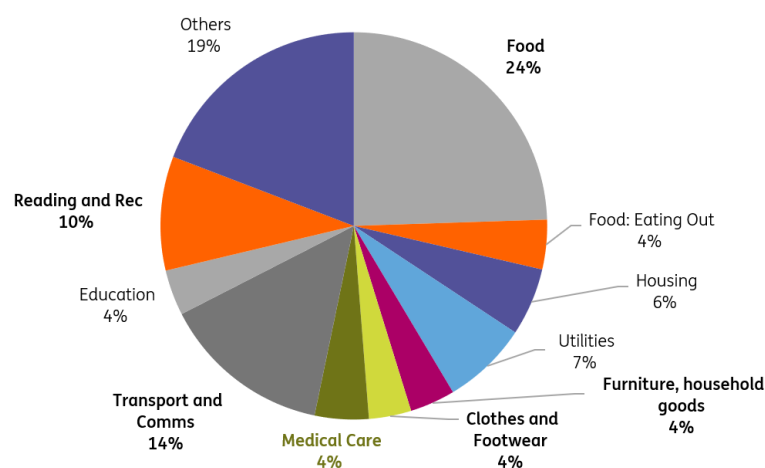
When the fear of infection leads to economic retrenchment, by households, certain types of activity are typically shunned. The following, using Japan's household spending and income survey is not an exhaustive list, but shows the sorts of activities curtailed:

- Eating out (part of the food category - accounts for an average annual expenditure of about JPY152,000, out of the average total household spending of JPY3.3m);
- Recreational activities things like movies, theatre (part of the reading & recreation category - accounts for about two-thirds of the JPY350,000 annual spending of this category);
- Transport and communications - in particular, public transport, which accounts for about one-eighth of the total transport and comms JPY523,000 annual spending.
- Retail sectors such as clothes and footwear and furniture/household goods - together amount to about JPY270,000 annually. Online shopping may make up for some of these losses.

Of course, some other things get a boost. Medical care and medical products: Maybe in such environments, households are quicker to seek professional medical help in the event of sickness even if unrelated to the epidemic. Spending on preventative medicines, vitamins, disinfectant wipes and surgical masks, all may soar if stocks have not run out.

The average annual household spending on medical goods and services in the latest twelve months summed to JPY165,000.

How Japanese households spend their incomes (latest 12M JPY3.5m)



Source: CEIC

Evaluating an epidemic

It is thus a simple job to "shock" the consumer spending part of our GDP forecasts by cutting spending on the consumer services likely to be affected and providing an offsetting boost to medical care spending. In terms of the profile of the "shock", we are in February now, so if there is going to be a sizeable increase in Japanese coronavirus infection, it will probably take most of this

month to emerge.

The onset of the warmer, drier northern hemisphere spring and summer typically makes it harder for such infections to persist. So an April peak followed by some moderation would seem a reasonable scenario

We can only guess the timing of any peak in infection and thereby the most intense impact on household spending, but the onset of the warmer, drier northern hemisphere spring and summer typically makes it harder for such infections to persist. So an April peak followed by some moderation would seem like a reasonable scenario. This leaves both 1Q20 and 2Q20 hit with progressively weaker spending in these areas before the recovery sets in.

But the recovery is unlikely to be "V-shaped", as sometimes is the case in the event of some other natural disasters, like an earthquake. Given the types of expenditure avoided, mainly services, there is unlikely to be much in the way of "pent-up" demand. For example, you don't take two bus journey's in May because you didn't take one in April. So the return to normality might be a relatively subdued one. Put another way, some of the expenditure lost, is lost forever.

Outcome of the "shock"

As we said at the outset, only about 45 cases of coronavirus are confirmed in Japan, and most of them were Chinese visitors. What we do not know now, and won't know for some weeks, is whether the virus is now established in the local Japanese population. If it is, it should begin to emerge (individuals will become symptomatic) through "community infection". If that happens, then the sorts of economic impacts we have noted above, plus others, for example, production slowdowns due to logistics interruptions (already affecting some car plants in South Korea), could add considerably to the damage.

If we see numbers of infections in Japan rise to thousands, then this would almost certainly push Japan to negative growth for the year as a whole, and a full-blown recession of two consecutive quarters of negative growth would be hard to avoid

Hitting our sensitive spending areas with a 10% decline in 1Q and a further 5% decline in 2Q, but allowing for some greater spending on medical categories, then allowing for a return to pre-epidemic spending levels in 3Q and later, is enough to strip off about 1 percentage point from consumer spending. So relative to the previous forecast for 2020, it knocks off about a half to two-thirds of a percentage point from GDP growth. The effect would have been larger, but the aftermath of the consumption tax had already left household spending

depressed so pushing it lower still is somewhat harder than if it had been quite buoyant.

This isn't a "worst-case" scenario but represents a "first-step" forecast given the uncertainty of what may emerge from this corona epidemic, but on the assumption that what we are seeing now is not the peak in infections either for China or for Japan. If we see numbers of infections in Japan rise to thousands, mirroring what is happening in China, then this would almost certainly push Japan to negative growth for the year as a whole, and a full-blown recession of two consecutive quarters of negative growth would be hard to avoid, especially with both monetary and fiscal policy already maxed out.

Author

Amrita Naik Nimbalkar

Junior Economist, Global Macro

amrita.naik.nimbalkar@ing.com

Mateusz Sutowicz

Senior Economist, Poland

mateusz.sutowicz@ing.pl

Alissa Lefebvre

Economist

alissa.lefebvre@ing.com

Deepali Bhargava

Regional Head of Research, Asia-Pacific

Deepali.Bhargava@ing.com

Ruben Dewitte

Economist

+32495364780

ruben.dewitte@ing.com

Kinga Havasi

Economic research trainee

kinga.havasi@ing.com

Marten van Garderen

Consumer Economist, Netherlands

marten.van.garderen@ing.com

David Havrlant

Chief Economist, Czech Republic

420 770 321 486

david.havrlant@ing.com

Sander Burgers

Senior Economist, Dutch Housing

sander.burgers@ing.com

Lynn Song

Chief Economist, Greater China

lynn.song@asia.ing.com

Michiel Tukker

Senior European Rates Strategist

michiel.tukker@ing.com

Michal Rubaszek

Senior Economist, Poland

michal.rubaszek@ing.pl

This is a test author

Stefan Posea

Economist, Romania

tiberiu-stefan.posea@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Jesse Norcross

Senior Sector Strategist, Real Estate

jesse.norcross@ing.com

Teise Stellema

Research Assistant, Energy Transition

teise.stellema@ing.com

Diederik Stadig

Sector Economist, TMT & Healthcare

diederik.stadig@ing.com

Diogo Gouveia

Sector Economist

diogo.duarte.vieira.de.gouveia@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Ewa Manthey

Commodities Strategist
ewa.manthey@ing.com

ING Analysts

James Wilson
EM Sovereign Strategist
James.wilson@ing.com

Sophie Smith
Digital Editor
sophie.smith@ing.com

Frantisek Taborsky
EMEA FX & FI Strategist
frantisek.taborsky@ing.com

Adam Antoniak
Senior Economist, Poland
adam.antoniak@ing.pl

Min Joo Kang
Senior Economist, South Korea and Japan
min.joo.kang@asia.ing.com

Coco Zhang
ESG Research
coco.zhang@ing.com

Jan Frederik Slijkerman
Senior Sector Strategist, TMT
jan.frederik.slijkerman@ing.com

Katinka Jongkind
Senior Economist, Services and Leisure
Katinka.Jongkind@ing.com

Marina Le Blanc
Sector Strategist, Financials
Marina.Le.Blanc@ing.com

Samuel Abettan
Junior Economist
samuel.abettan@ing.com

Franziska Biehl
Senior Economist, Germany

Franziska.Marie.Biehl@ing.de

Rebecca Byrne

Senior Editor and Supervisory Analyst

rebecca.byrne@ing.com

Mirjam Bani

Sector Economist, Commercial Real Estate & Public Sector (Netherlands)

mirjam.bani@ing.com

Timothy Rahill

Credit Strategist

timothy.rahill@ing.com

Leszek Kasek

Senior Economist, Poland

leszek.kasek@ing.pl

Oleksiy Soroka, CFA

Senior High Yield Credit Strategist

oleksiy.soroka@ing.com

Antoine Bouvet

Head of European Rates Strategy

antoine.bouvet@ing.com

Jeroen van den Broek

Global Head of Sector Research

jeroen.van.den.broek@ing.com

Edse Dantuma

Senior Sector Economist, Industry and Healthcare

edse.dantuma@ing.com

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

Rico Luman

Senior Sector Economist, Transport and Logistics

Rico.Luman@ing.com

Jurjen Witteveen

Sector Economist

jurjen.witteveen@ing.com

Dmitry Dolgin

Chief Economist, CIS

dmitry.dolgin@ing.de

Nicholas Mapa

Senior Economist, Philippines

nicholas.antonio.mapa@asia.ing.com

Egor Fedorov

Senior Credit Analyst

egor.fedorov@ing.com

Sebastian Franke

Consumer Economist

sebastian.franke@ing.de

Gerben Hieminga

Senior Sector Economist, Energy

gerben.hieminga@ing.com

Nadège Tillier

Head of Corporates Sector Strategy

nadege.tillier@ing.com

Charlotte de Montpellier

Senior Economist, France and Switzerland

charlotte.de.montpellier@ing.com

Laura Straeter

Behavioural Scientist

+31(0)611172684

laura.Straeter@ing.com

Valentin Tataru

Chief Economist, Romania

valentin.tataru@ing.com

James Smith

Developed Markets Economist, UK

james.smith@ing.com

Suvi Platerink Kosonen

Senior Sector Strategist, Financials

suvi.platerink-kosonen@ing.com

Thijs Geijer

Senior Sector Economist, Food & Agri

thijs.geijer@ing.com

Maurice van Sante

Senior Economist Construction & Team Lead Sectors
maurice.van.sante@ing.com

Marcel Klok
Senior Economist, Netherlands
marcel.klok@ing.com

Piotr Poplawski
Senior Economist, Poland
piotr.poplawski@ing.pl

Paolo Pizzoli
Senior Economist, Italy, Greece
paolo.pizzoli@ing.com

Marieke Blom
Chief Economist and Global Head of Research
marieke.blom@ing.com

Raoul Leering
Senior Macro Economist
raoul.leering@ing.com

Maarten Leen
Head of Global IFRS9 ME Scenarios
maarten.leen@ing.com

Maureen Schuller
Head of Financials Sector Strategy
Maureen.Schuller@ing.com

Warren Patterson
Head of Commodities Strategy
Warren.Patterson@asia.ing.com

Rafal Benecki
Chief Economist, Poland
rafal.benecki@ing.pl

Philippe Ledent
Senior Economist, Belgium, Luxembourg
philippe.ledent@ing.com

Peter Virovacz
Senior Economist, Hungary
peter.virovacz@ing.com

Inga Fechner

Senior Economist, Germany, Global Trade
inga.fechner@ing.de

Dimitry Fleming
Senior Data Analyst, Netherlands
Dimitry.Fleming@ing.com

Ciprian Dascalu
Chief Economist, Romania
+40 31 406 8990
ciprian.dascalu@ing.com

Muhammet Mercan
Chief Economist, Turkey
muhammet.mercan@ingbank.com.tr

Iris Pang
Chief Economist, Greater China
iris.pang@asia.ing.com

Sophie Freeman
Writer, Group Research
+44 20 7767 6209
Sophie.Freeman@uk.ing.com

Padhraic Garvey, CFA
Regional Head of Research, Americas
padhraic.garvey@ing.com

James Knightley
Chief International Economist, US
james.knightley@ing.com

Tim Condon
Asia Chief Economist
+65 6232-6020

Martin van Vliet
Senior Interest Rate Strategist
+31 20 563 8801
martin.van.vliet@ing.com

Karol Pogorzelski
Senior Economist, Poland
Karol.Pogorzelski@ing.pl

Carsten Brzeski
Global Head of Macro

carsten.brzeski@ing.de

Viraj Patel

Foreign Exchange Strategist

+44 20 7767 6405

viraj.patel@ing.com

Owen Thomas

Global Head of Editorial Content

+44 (0) 207 767 5331

owen.thomas@ing.com

Bert Colijn

Chief Economist, Netherlands

bert.colijn@ing.com

Peter Vanden Houte

Chief Economist, Belgium, Luxembourg, Eurozone

peter.vandenhoute@ing.com

Benjamin Schroeder

Senior Rates Strategist

benjamin.schroeder@ing.com

Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE

chris.turner@ing.com

Gustavo Rangel

Chief Economist, LATAM

+1 646 424 6464

gustavo.rangel@ing.com

Carlo Cocuzzo

Economist, Digital Finance

+44 20 7767 5306

carlo.cocuzzo@ing.com