

AUSTRALIAN MARKETS WEEKLY

Travel ban points to a larger impact of the coronavirus on GDP



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Analysis – Travel ban points to a larger impact of the coronavirus on Australian GDP

- The government has introduced travel restrictions on arrivals from mainland China and advised Australians to avoid travelling to China because of the novel coronavirus.
- Chinese tourism and students account for about 0.9% of Australia's GDP. Assuming the travel ban lasts, say, two months, the disruptions would take 0.15% off Q1 GDP, adding to the temporary effect of the bushfires, which we initially put at 0.4%.
- Note that disruptions could extend past two months, while there could be a spillover to tourism from the rest of Asia, as was the case during the nine-month long SARS outbreak in 2003.

The week ahead – RBA on hold, Governor speech/testimony & updated outlook; coronavirus uncertainty

- **AU and NZ.** The RBA's first meeting of the year is expected to see the bank keep the cash rate at 0.75%, although the RBA is expected to downgrade its growth forecasts in its quarterly statement on Friday. Governor Lowe will outline the RBA's outlook for 2020 in a speech on Wednesday entitled "The Year Ahead". A parliamentary testimony on Friday will likely see the governor defend the bank's slow progress towards its goals. Q4 real retail sales on Thursday are expected to be unchanged after contracting in Q3. Wednesday's Q4 NZ labour data is expected to see unemployment steady at 4.2%.
- **Global.** The focus remains on the coronavirus, where more countries are restricting travel with China. In the US, the 2020 election year kicks off with the Iowa caucuses; recent polling shows Sanders pulling slightly ahead of Biden for the Democratic nomination. Key US data are scheduled for the week payrolls is expected to see steady unemployment of 3.5% and jobs to rise 148k, while the ISMs are expected to show modest improvement.

Key markets over the past week

	Last	% chg week		Last	bp/% chg week
AUD	0.6915	-0.4	RBA cash	0.75	0
AUD/CNY	4.77	-1.3	3y swap	0.81	-1
AUD/JPY	75.8	0.8	ASX 200	6,894	2.4
AUD/EUR	0.621	0.3	Iron ore	93	0.4
AUD/NZD	1.040	0.0	Brent oil	64.9	-5.8

Source: Bloomberg

Travel ban points to a larger impact of the coronavirus on Australian GDP

- The government has introduced travel restrictions on arrivals from mainland China and advised Australians to avoid travelling to China because of the novel coronavirus.
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Travel bans point to a larger impact of the coronavirus on Australian GDP

With the novel coronavirus (aka nCoV) continuing to spread, Australia introduced restrictions on travel on 1 February for public health reasons. This involves denying entry to people arriving from mainland China, with exemptions for Australian citizens, permanent residents and their immediate families. At the same time, the government has recommended that Australians not travel to China due to the risk from the virus and has required non-essential diplomatic staff to return to Australia.

This means that the impact of the virus will now be felt on both tourism and exports of education services. This represents a significant escalation from only a week ago, where the impact on the virus on travel to Australia was concentrated in group tourist bookings, which had been suspended by the Chinese government.

To update the preliminary analysis set out in last week’s weekly, the direct effect of the virus on Australia will be felt on tourism and education exports.

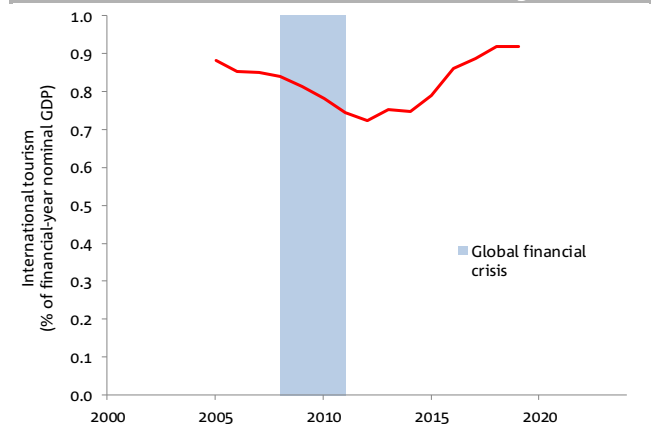
- Net international tourism was \$18 billion in 2018-19, or 0.9% of GDP, and is dominated by households. Tourism Australia estimates that China accounted for 27% of tourism spending in Australia in 2018-19. Given that Australian tourism in China is small in comparison, this suggest that Chinese tourist arrivals account for about 0.3% of GDP.
- Net trade in education services was \$35b in 2018, or 1.9% of GDP, and is dominated by higher education. China accounted for 33% of net trade, or 0.6% of GDP.

In a simple calculation, if tourism and education were both disrupted for, say, two months by the recently-imposed travel ban, this would subtract about 0.15pp off Q1 GDP. The risk is whether the disruption lasts much longer, where, for example, the SARS outbreak ran for about nine months. Also note that the impact may be magnified by the time of year, given the importance of Chinese tourism in February and the start of the university year.

This is separate to the temporary effect of the bushfires on the economy, where our preliminary analysis pointed to a 0.4pp hit to growth in Q1 and spillovers to tourism

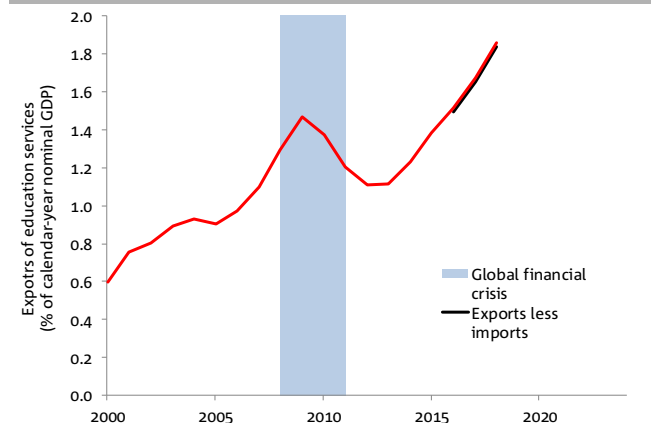
from the smoke pollution in Canberra, Melbourne and Sydney.

Chart 1: International tourism accounts for 0.9% of GDP



Source: Australian Bureau of Statistics, National Australia Bank

Chart 2: Trade in education services accounts for 1.9% of GDP

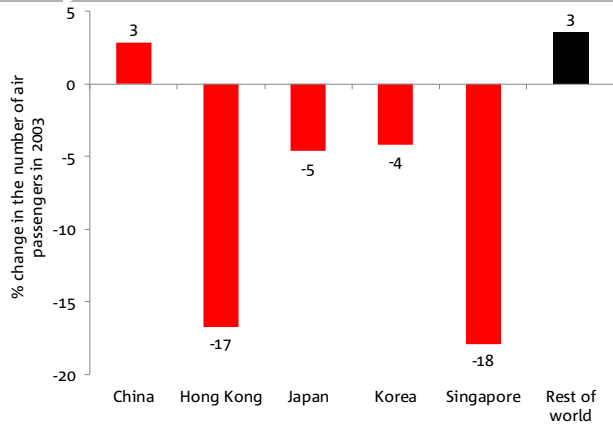


Source: Australian Bureau of Statistics, Department of Foreign Affairs and Trade, National Australia Bank

The experience of SARS suggests there could be broad weakness in Asian tourism

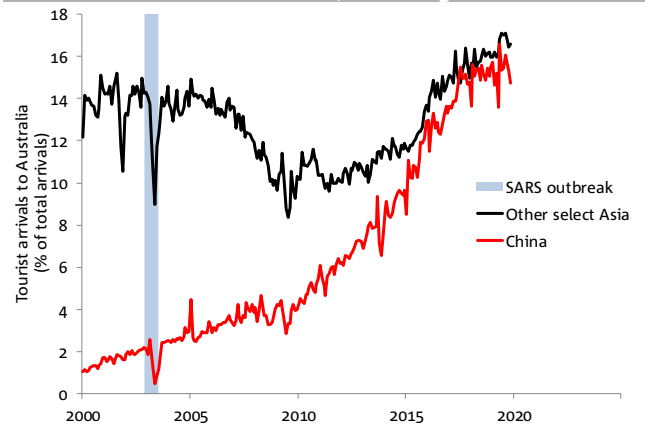
This estimate likely understates the effect of the virus on Australia in that air travel is likely to be weaker across Asia. For example, air travel fell sharply in 2003 across most of Asia during the SARS crisis. These countries accounted for 14% of tourist arrivals in Australia at that time, whereas now they account for 31% of the total, mainly due to rapid growth in China. In addition, there may be disruptions to Australian exports of commodities that point to an additional effect on GDP in the short run.

Chart 3: Air travel shrank in 2003 across most of Asia during the SARS crisis



Source: World Bank, National Australia Bank

Chart 4: Key Asian countries now account for over 30% of tourist arrivals to Australia, doubling from 2003



Note: Other select Asia = Hong Kong, Japan, Korea, and Singapore.

Source: Australian Bureau of Statistics, National Australia Bank

Further work is needed

In terms of further work, we plan to take a different approach in estimating the potential effect of a virus by exploring the impact of weaker overall growth in China on Australia. In this way, we hope to get a better sense of the risks to growth and the potential pressure on policy-makers.

CALENDAR OF ECONOMIC RELEASES

Country	Economic Indicator	Period	Forecast	Consensus	Actual	Previous	GMT	AEDT
Monday 03 February 2020								
CH	Lunar new year public holiday - extended						24 Jan to 3 Feb	
EC	Markit Eurozone Manufacturing PMI	Jan F		47.8		47.8	9.00	20.00
US	Markit US Manufacturing PMI	Jan F		51.7		51.7	14.45	1.45
US	Construction Spending MoM	Dec		0.5		0.6	15.00	2.00
US	ISM Manufacturing	Jan		48.4		47.2	15.00	2.00
Tuesday 04 February 2020								
NZ	Building Permits MoM	Dec		--		-8.5	21.45	8.45
AU	RBA Cash Rate Target	Feb 4	0.75	0.75		0.75	3.30	14.30
US	Durable Goods Orders	Dec F		2.3		2.4	15.00	2.00
US	Factory Orders	Dec		0.7		-0.7	15.00	2.00
Wednesday 05 February 2020								
NZ	QV House Prices YoY	Jan		--		4	16.00	3.00
AU	AiG Perf of Construction Index	Jan		--		38.9	21.30	8.30
NZ	Unemployment Rate	4Q	4.2	4.2		4.2	21.45	8.45
NZ	Employment Change QoQ	4Q	0.1	0.3		0.2	21.45	8.45
NZ	Average Hourly Earnings QoQ	4Q	0.7	0.6		0.6	21.45	8.45
NZ	ANZ Commodity Price	Jan		--		-2.8	0.00	11.00
AU	RBA Governor Lowe speech "The Year Ahead"			--		--	1.30	12.30
CH	Caixin China PMI Services	Jan		52		52.5	1.45	12.45
EC	Retail Sales YoY	Dec		3.4		2.2	10.00	21.00
US	ADP Employment Change	Jan		150		202	13.15	0.15
US	Trade Balance	Dec		-47.35		-43.1	13.30	0.30
US	ISM Non-Manufacturing Index	Jan		55.1		55	15.00	2.00
Thursday 06 February 2020								
AU	Retail Sales Ex Inflation QoQ	4Q	0	0.3		-0.1	0.30	11.30
AU	Retail Sales MoM	Dec	-0.3	-0.2		0.9	0.30	11.30
AU	NAB Business Confidence	4Q		--		-2	0.30	11.30
AU	Trade Balance	Dec	5200	5600		5800	0.30	11.30
GE	Factory Orders MoM	Dec		0.5		-1.3	7.00	18.00
Friday 07 February 2020								
CH	Exports YoY	Jan		--		7.6	7 Feb	
CH	Imports YoY	Jan		--		16.3	7 Feb	
AU	AiG Perf of Services Index	Jan		--		48.7	21.30	8.30
AU	RBA Governor Lowe testifies to Parliament			--		--	22.30	9.30
AU	RBA Statement on Monetary Policy	Q1		--		--	0.30	11.30
NZ	2Yr Inflation Expectation	1Q		--		1.8	2.00	13.00
GE	Industrial Production WDA YoY	Dec		-3.7		-2.6	7.00	18.00
US	Change in Nonfarm Payrolls	Jan		160		145	13.30	0.30
US	Unemployment Rate	Jan		3.5		3.5	13.30	0.30
US	Average Hourly Earnings YoY	Jan		3		2.9	13.30	0.30
CA	Net Change in Employment	Jan		--		35.2	13.30	0.30
CA	Unemployment Rate	Jan		--		5.6	13.30	0.30
CA	Hourly Wage Rate Permanent Employees YoY	Jan		--		3.8	13.30	0.30
US	Wholesale Inventories MoM	Dec F		--		-0.1	15.00	2.00
Upcoming Central Bank Interest Rate Announcements								
Australia, RBA		Feb 4	0.75	0.75		0.75		
New Zealand, RBNZ		Feb 12	1.00	1.00		1.00		
Canada, BoC		Mar 4	1.75	1.75		1.75		
Europe, ECB		Mar 12	-0.50	-0.50		-0.50		
Japan, BoJ		Mar 19	-0.10	-0.10		-0.10		
US, Federal Reserve		Mar 18	1.5/1.75	1.5/1.75		1.5/1.75		
UK, BOE		Mar 26	0.75	0.75		0.75		

GMT: Greenwich Mean Time; AEDT: Australian Eastern Daylight Time

FORECASTS

Economic Forecasts																				
	Annual % change				Quarterly % change															
	2018	2019	2020	2021	2018				2019				2020				2021			
Australia Forecasts	2018	2019	2020	2021	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Household Consumption	2.7	1.4	1.4	2.0	0.5	0.8	0.3	0.4	0.3	0.3	0.1	0.2	0.3	0.5	0.6	0.5	0.4	0.4	0.5	0.6
Underlying Business Investment	1.3	-3.0	-2.4	3.2	1.0	-1.0	-1.4	-0.4	0.9	-1.2	-2.9	-1.3	-0.1	-0.1	0.5	0.9	0.9	0.9	0.9	1.0
Residential Construction	4.7	-7.1	-7.8	-0.7	3.4	2.5	0.4	-3.0	-1.6	-3.7	-1.7	-2.4	-2.2	-2.0	-1.2	-0.4	0.4	-0.2	0.6	0.7
Underlying Public Spending	4.4	4.8	4.6	3.6	1.4	-0.5	2.0	0.7	1.0	1.7	1.7	0.8	1.1	1.1	0.9	0.9	0.9	0.9	0.8	0.8
Net Exports (a)	0.9	1.4	0.1	0.0	0.6	0.0	0.4	-0.1	0.4	0.5	0.2	0.3	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Inventories (a)	0.1	-0.3	0.1	0.0	-0.1	0.3	-0.3	0.1	-0.1	-0.4	0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic Demand (q/q %)	-	-	-	-	0.9	0.3	0.5	0.1	0.3	0.3	0.2	0.1	0.3	0.4	0.6	0.6	0.6	0.6	0.7	0.7
Dom Demand (y/y %)	2.9	1.0	1.4	2.4	3.7	3.3	2.6	1.8	1.2	1.2	0.9	0.9	1.0	1.0	1.4	2.0	2.3	2.4	2.5	2.6
Real GDP (q/q %)	-	-	-	-	0.9	0.7	0.3	0.2	0.5	0.6	0.4	0.4	0.5	0.5	0.5	0.6	0.6	0.6	0.6	0.7
Real GDP (y/y %)	2.7	1.8	2.0	2.4	3.1	3.2	2.5	2.1	1.7	1.6	1.7	2.0	1.9	1.8	1.9	2.1	2.2	2.3	2.4	2.5
CPI headline (q/q %)	-	-	-	-	0.4	0.4	0.4	0.5	0.0	0.6	0.5	0.6	0.4	0.4	0.5	0.6	0.5	0.5	0.6	0.7
CPI headline (y/y %)	1.9	1.6	2.0	2.2	1.9	2.1	1.9	1.8	1.3	1.6	1.7	1.8	2.2	1.9	1.9	1.9	2.1	2.2	2.3	2.4
CPI underlying (q/q %)	-	-	-	-	0.5	0.5	0.4	0.4	0.2	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.5	0.5	0.5	0.5
CPI underlying (y/y %)	1.8	1.4	1.6	2.0	1.9	1.8	1.8	1.8	1.5	1.4	1.4	1.4	1.6	1.6	1.7	1.7	1.8	1.9	2.0	2.1
Private wages (q/q %)	-	-	-	-	0.5	0.6	0.5	0.6	0.5	0.5	0.5	0.6	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Private wages (y/y %)	2.1	2.3	2.5	2.8	1.9	2.1	2.1	2.3	2.4	2.3	2.2	2.2	2.3	2.5	2.6	2.6	2.7	2.7	2.8	2.8
Unemployment Rate (%)	5.3	5.3	5.5	5.6	5.5	5.6	5.1	5.0	5.1	5.2	5.4	5.3	5.4	5.4	5.5	5.6	5.6	5.5	5.6	5.6
Terms of trade	1.8	5.4	-6.5	-1.8	3.3	-1.2	0.7	2.6	3.3	1.4	0.3	-4.5	-1.9	-1.9	0.0	-1.9	-0.3	0.2	0.2	0.6
Current Account (% GDP)	-2.1	0.7	-0.1	-0.5	-2.1	-2.6	-2.1	-1.3	-0.4	0.9	1.6	0.7	0.4	0.0	-0.1	-0.5	-0.6	-0.5	-0.5	-0.4

Source: NAB Group Economics; (a) Contributions to GDP growth

Exchange Rate Forecasts

	3-Feb	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Majors						
AUD/USD	0.670	0.68	0.69	0.70	0.71	0.71
NZD/USD	0.65	0.65	0.65	0.66	0.67	0.67
USD/JPY	108.5	109	109	108	110	108
EUR/USD	1.11	1.14	1.16	1.16	1.17	1.17
GBP/USD	1.32	1.35	1.35	1.35	1.33	1.36
USD/CNY	7.02	7.05	7.00	6.90	6.85	6.85
USD/CAD	1.32	1.31	1.30	1.30	1.31	1.32
USD/CHF	0.96	0.98	0.96	0.96	0.96	0.96

Australian Cross Rates

	3-Feb	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
AUD/NZD	1.04	1.05	1.06	1.06	1.06	1.06
AUD/JPY	72.7	74	75	76	78	77
AUD/EUR	0.60	0.60	0.59	0.60	0.61	0.61
AUD/GBP	0.51	0.50	0.51	0.52	0.53	0.52
AUD/CNY	4.70	4.79	4.83	4.83	4.86	4.86
AUD/CAD	0.89	0.89	0.90	0.91	0.93	0.94
AUD/CHF	0.65	0.67	0.66	0.67	0.68	0.68

Interest Rate Forecasts

	3-Feb	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Australian Rates						
RBA cash rate	0.75	0.75	0.25	0.25	0.25	0.25
3 month bill rate	0.86	0.85	0.35	0.35	0.35	0.35
3 Year Swap Rate	0.63	0.65	0.50	0.45	0.35	0.45
10 Year Swap Rate	1.10	1.15	1.02	1.02	0.92	1.02
Offshore Policy Rates						
US Fed funds	1.75	1.75	1.75	1.75	1.75	1.75
ECB deposit rate	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
BoE repo rate	0.75	0.75	0.75	0.75	0.75	0.75
BoJ excess reserves rate	-0.10	-0.20	-0.30	-0.30	-0.30	-0.30
RBNZ OCR	1.00	1.00	1.00	1.00	1.00	1.00
China 1yr lending rate	4.35	4.10	4.10	4.10	4.10	4.10
China Reserve Ratio	12.5	12.0	12.0	12.0	12.0	12.0
10-year Bond Yields						
Australia	0.93	1.00	0.90	0.90	0.80	0.90
United States	1.52	1.80	1.80	1.80	1.80	1.90
New Zealand	1.24	0.95	1.05	1.10	1.30	1.45

Sources: NAB Global Markets Research; Bloomberg; ABS

Global GDP

	2018	2019	2020	2021
Australia	2.7	1.8	2.0	2.4
United States	2.9	2.3	1.7	1.8
Eurozone	1.9	1.2	1.1	1.4
United Kingdom	1.4	1.3	1.0	1.5
Japan	0.3	1.1	0.6	0.9
China	6.6	6.1	5.9	5.8
India	7.4	5.1	6.2	7.1
New Zealand	2.8	2.2	2.2	2.0
World	3.6	3.0	3.2	3.5

Commodity prices (\$US)

	3-Feb	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Brent oil	56.4	65	66	67	68	68
Gold	1580	1490	1510	1520	1540	1550
Iron ore	na	79	76	72	68	71
Hard coking coal*	150	145	150	152	150	153
Thermal coal	70	72	70	68	70	72
Copper	5551	5700	5725	5750	5850	5900
Aus LNG**	10	11	11	11	11	11

* FOB quarterly contract prices (thermal coal is JFY contract)

** Implied Australian LNG export prices

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