

Clerk of the Privy Council and
Secretary to the Cabinet



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Ottawa, Canada
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SECRET

MEMORANDUM FOR THE PRIME MINISTER

FEV - 7 2020
FEB - 7 2020

ESTIMATED ECONOMIC IMPACTS OF THE CORONAVIRUS OUTBREAK

(Information Only)

SUMMARY

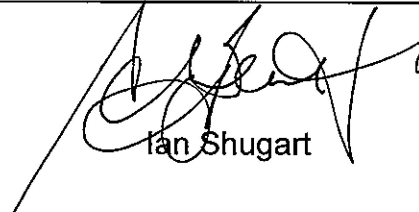
- The Department of Finance has conducted an analysis on the estimated economic impacts of the coronavirus outbreak on China's economy, where the outbreak originates, as well as on the global and Canadian economies. This analysis relies on a scenario where the number of affected cases peak sometime towards the end of the first quarter of 2020, as suggested by epidemiology models.
- So far, the direct impact of the coronavirus outbreak on Canada's economy has been minimal. However, economic impacts for China could become significant and affect global growth and commodity prices and in turn the resource sector in Canada. Based on current projections, short-term declines are expected to largely reverse through the rest of the year.

Main Findings

- Economic impacts on China are projected to be significant for the first quarter of 2020 – although estimates differ widely from a reduction of real GDP growth of between 1.2 to 6.4 percentage points. Taking into account a rebound in activity in the following quarters, Chinese growth is expected to be reduced by roughly up to 0.5 percentage point for 2020 as a whole.
- Accordingly, global growth is projected to be lower in the short term, but the impact for 2020 as a whole would remain modest with a reduction of between 0.1 and 0.2 percentage points.
- For Canada, in the event the virus begins to affect Canadian communities more heavily, the Department of Finance uses Canada's past experience with the SARS outbreak in 2003 as a basis for expectations, while accounting for China's bigger role in the global economy today (four times larger as a share of the global economy than at the time of the SARS outbreak in 2003), including its effect on commodity prices, and increased tourism.

Canada

- The Department of Finance concludes that economic impacts in Canada could be somewhat larger than in 2003, but would still be manageable and would reverse quickly.
 - Assuming the outbreak is contained by the end of March, it would take at most 0.8 percentage points off real GDP growth in Canada in the first quarter of 2020, this being an upper bound estimate contingent on a severe impact for China's economy.
 - Given the expected rebound in activity in the following quarters, the reduction in GDP growth would be limited to about 0.1 percentage points for 2020 as a whole. This would translate in to a \$5 billion reduction in nominal GDP in 2020, with a rebound in 2021.
- However, the course of the outbreak is still uncertain and the economic impacts could be more significant if the outbreak extends to the second quarter of 2020. We will keep you informed of any developments such as hard economic data points reflecting the actual impact of the virus, as well as new projections should the coronavirus outbreak prove more severe than currently expected.
- For reference, **Tab A** includes charts on market indices since the outbreak.



Ian Shugart

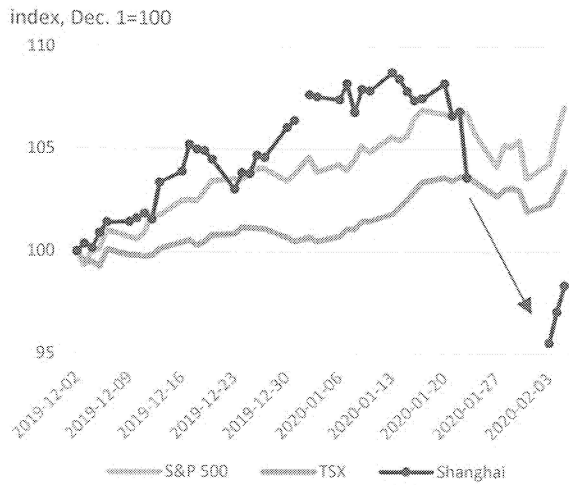
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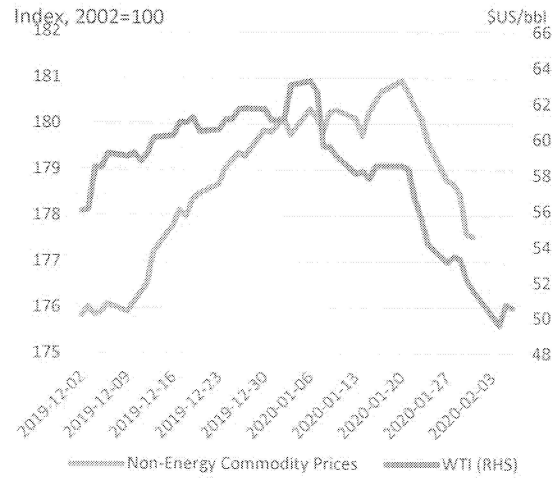
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Figure 1: Stock Prices



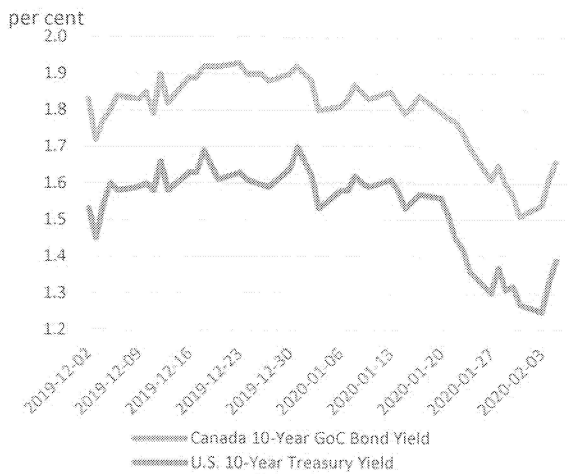
Source: Standard and Poor's, Wall Street Journal.

Figure 2: Commodity Prices



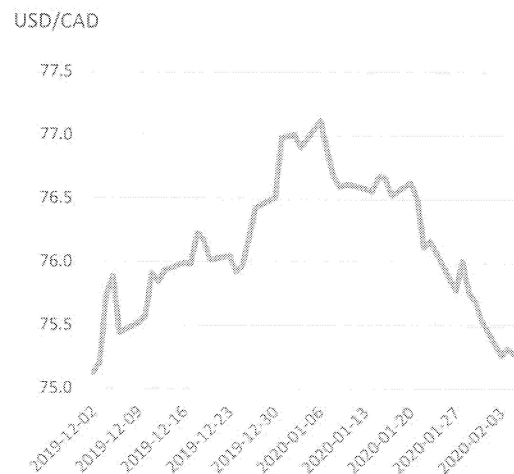
Source: CME Group, Department of Finance Ca

Figure 3: Government Bond Yields



Source: Bank of Canada, Federal Reserve Board.

Figure 4: Canadian-U.S. Exchange Rate



Source: Bank of Canada.