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Economics Group

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Lessons for U.S. Consumer Spending from the SARS Outbreak

During the 2003 SARS outbreak, U.S. consumer confidence cratered, durable goods spending fell and spending on air-travel posted what was its biggest decline since 9/11, but it was short-lived as spending rebounded.

Comparing the Wuhan Coronavirus to SARS Outbreak

The recent outbreak of the Wuhan coronavirus has financial markets and media outlets all over the world consumed with how the virus could spread and what the various implications will be.

In 2002-2003 the SARS outbreak (also a coronavirus that originated in China) resulted in more than 700 deaths worldwide. It is too early to know the degree to which the Wuhan coronavirus will spread, but in the absence of a better alternative, the SARS episode is the closest thing we have to a comparable period. The primary concern at times like these is always the lives of those effected by the awful virus, but in this short report we consider the potential impact to the U.S economy via weaker consumer spending.

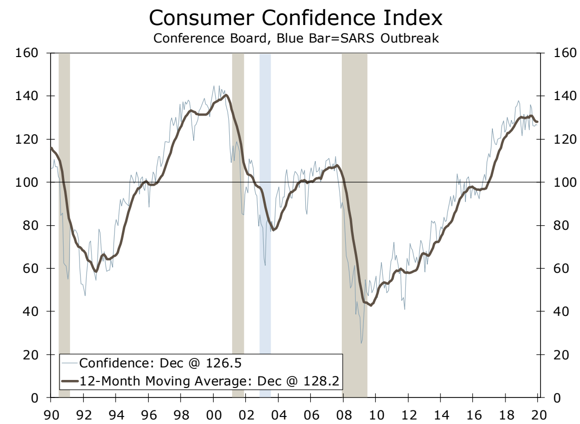
The SARS outbreak is a less-than-perfect comparison as that period also marked the beginning of the war in Iraq and we make no attempt here to untangle which was a bigger driving factor. The important take-away from that period is that consumer spending was not materially impacted.

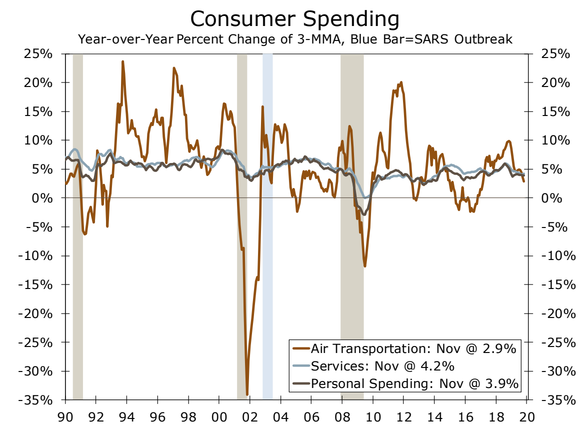
Confidence May Be Shaken, But Spending Continues

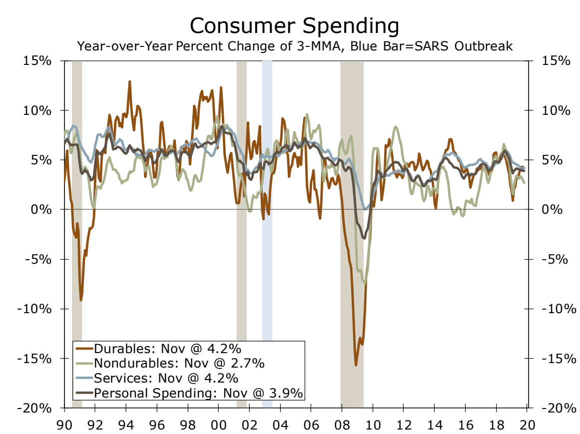
That is not to say that consumers were unfazed. Consumer confidence certainly took a hit in that period as is clearly evident in the top chart, where the SARS outbreak is designated by the blue bar. There were also some categories of spending that were particularly weak. Take, for example, consumer outlays on air travel. Obviously the biggest one-off event that ever impacted air travel was 9/11. But there was an observable drop in air-travel spending during the 2003 SARS outbreak as well (middle chart). In fact, on April 1 the U.S. government issued a travel advisory urging U.S. travelers to avoid travel to the region. Though, even with the SARS outbreak still uncontained, and with a war going on, it was not long before U.S. travelers returned to the sky and resumed travel.

Other areas of spending were also impacted. As we have written previously, non-discretionary consumer spending is remarkably resilient even in the midst of uncertainty, but discretionary spending can be more vulnerable to unexpected negative developments. These retrenchments in spending, however, are short-lived as consumers eventually get frugal fatigue exhibited by the V shape nature of the series during uncertain times.

The bottom chart looks at U.S. consumer expenditures broken out by spending on long-lasting durable goods, more consumable shorter-lived nondurable goods and finally service-related spending. The point here is that durable good outlays slipped into negative territory briefly during the SARS outbreak but rebounded sharply. Spending in all other categories was virtually unaffected. Service consumption is by far the least volatile spending component and represents two-thirds of overall spending. It takes a U.S. recession to weigh on services, and thereby overall spending. U.S. consumer spending will likely not be materially affected, assuming that the current episode does not become more widespread than the SARS outbreak.







Source: The Conference Board, U.S. Department of Commerce and Wells Fargo Securities

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