

Swine Flu Could Devastate British Economy

Javier Espinoza, 07.20.09, 09:30 AM EDT

GDP could shrink an additional 3% in 2009 due to swine flu, warns a prominent think tank.

LONDON -- Just as the British economy was slowly beginning to recover, a new foe has emerged. Swine flu could cause Britain's economy to shrink by a gigantic 7.5% this year and dash hopes of recovery next year.

"If the worst-case scenarios of the threat of swine flu are fully realized, gross domestic product could fall by as much as an additional 3% this year and another 1.7% in 2010," said Peter Spencer, chief economic advisor to the Ernst & Young Item Club, a London-based think tank.

"Our recovery will really only begin when world trade starts to recover, and we should see output beginning to grow next year just as long as the U.K. economy doesn't catch a severe case of H1N1," he added.

The worst-case scenario means a 50% infection rate. In this case, swine flu could leave businesses without employees, consumers spending less on goods, and transport and tourism impacted as people stay away from public places to avoid infection, according to Hetal Mehta, senior economic advisor to the Ernst & Young Item Club.

Another think tank, Oxford Economics, believes British GDP could shrink as much as 5% in total this year, thanks to the pandemic. In early July, the [International Monetary Fund](#) said it expects the economy to contract 4.2% this year but grow by 0.2% in 2010.

So far 29 deaths have been linked to swine flu and 53 patients are in intensive care, according to data from local health authorities in Britain.

"I can't help to feel [the report] is a little on the pessimistic side. But the economy is so fragile that it is particularly vulnerable to any shock," said Howard Archer, chief U.K. economist at IHS Global Insight in London. "We are expecting next year to be a bumpy ride for the economy, between modest growth and modest contractions until the second quarter of 2010, when we expect a recovery."

Separately, Goldman Sachs said in a note to investors on Monday that Britain's economy risk of a "double-dip recession" was still "significant". The note said that any pickup in demand is likely to be "extremely weak" due to high levels of unemployment and fading government stimulus packages.

<http://www.forbes.com/2009/07/20/swine-flu-uk-markets-equity-economy.html>