



# The Economic Impact of SARS

## OVERVIEW

**T**he outbreak of Severe Acute Respiratory Syndrome (SARS) has resulted in significant damage to the travel and tourism industry in Canada, and especially in the Toronto area. In addition, Toronto retail sales have been adversely affected by the tendency of shoppers to stay home in order to avoid infection. The extent of the collapse in various components of Canada's travel and tourism industry has raised concerns about the overall economic impact of the SARS outbreak.

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**The outbreak of SARS in Canada is forecast to lower real GDP by approximately \$1.5 billion, or 0.15 per cent, in 2003.**

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The Conference Board of Canada's Canadian Tourism Research Institute (CTRI) has analyzed the impact of SARS on all aspects of business and leisure travel (international and domestic) for both the City of Toronto and Canada as a whole. In addition, using its economic model of the City of Toronto, the Conference Board has estimated the losses from SARS on Toronto's real gross domestic product (GDP), including induced effects.

Assuming containment of the outbreak by the end of May, the Conference Board's research suggests a loss in national economic activity in 2003 of roughly \$1.5 billion, representing 0.15 per cent of Canada's real GDP. Real GDP in the City of Toronto itself is lowered by \$950 million, or 0.5 per cent, with about \$570 million of this total concentrated in the travel and tourism sector.

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**Roughly two-thirds of this impact will be felt by the City of Toronto, lowering its real GDP by 0.5 per cent this year.**

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## ASSUMPTIONS

This analysis assumes that the SARS outbreak is contained by the end of May. Current data on the incidence of new cases suggests that this assumption may be conservative. In addition, preliminary analysis suggests the economic losses from reduced exports to Southeast Asia and from quarantined workers will be extremely small. Moreover, these losses would be partly offset by reduced imports from SARS-affected countries, and by lower imports of tourism services as fewer Canadians travel abroad. *Net losses* from these various effects are estimated to represent roughly 0.01 per cent of real GDP and are ignored in the more detailed analysis of the impact of SARS.

## THE IMPACT ANALYSIS

The economic impact analysis of the SARS outbreak on travel and tourism is split between the City of Toronto and the rest of Canada because Toronto is the only city where a reduction in retail sales is large enough to be captured at this level of the analysis.

### THE SARS IMPACT ON THE CITY OF TORONTO

The tourism sector in the City of Toronto has been severely impacted by the fallout from the SARS outbreak and the World Health Organization travel advisory. However, it is crucially important to recognize that the travel and tourism sector in Toronto had already been suffering from fears and uncertainty surrounding the war in Iraq. A careful analysis of quarterly data by CTRI on a market segment basis suggests that, in fact, the SARS impact alone on foreign travel will be a loss of roughly 12 per cent this year.

Table 1 provides the estimates of the reduction in travel to Toronto by market segment for the second quarter—the period expected to be most affected—and for 2003 as a whole. CTRI estimated these impacts based on losses currently reported in Toronto’s hospitality sector, as well as on the findings from its current

**Table 1**  
Impact of SARS on Travel to Toronto  
(percentage change in real expenditures compared with previous year)

	Q2-2003	Overall 2003
<b>Overnight travel to Toronto (by market)</b>		
Domestic	-15	-4.8
United States	-20	-9.1
Overseas	-40	-16.7
<b>Same-day travel to Toronto</b>		
All markets	-25	-11.4

Source: The Conference Board of Canada.

**Table 2**  
Impact on Economic Activity at Pearson International Airport and on the Toronto Tourism Industry Due to SARS  
(dollars millions)

	Q1-2003	Q2-2003	Q3-2003	Q4-2003	2003
Impact	-40.5	-403.7	-203.6	79.2	-568.7

Source: The Conference Board of Canada.

traveller sentiment survey and other travel surveys. It is apparent from a study of Table 1 that the overseas market is by far the most affected, but same-day travel to Toronto is also down substantially.

The SARS outbreak is forecast to reduce travel and tourism expenditures in Toronto by roughly 22 per cent in the second quarter and by 8.9 per cent for 2003 as a whole. While the losses are concentrated in the second quarter, the impact of SARS on travel and tourism started late in the first quarter and will linger on into the third quarter as travel fears take some time to dissipate. Based on recent travel behaviour, a substantial catch-up typically takes place roughly two quarters following a shock, as delayed travel is reactivated. Thus travel and tourism activity in the fourth quarter is actually forecast to be slightly higher than it would have been without the SARS outbreak.

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**Tourism receipts in Toronto are forecast to be lower by 8.9 per cent this year as a direct result of SARS, not counting a substantial drop in activity at Pearson International Airport.**

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The reduction in travel has a substantial impact on activity at Pearson International Airport. CTRI estimates a loss of \$222 million in economic activity at the airport in 2003 as a direct result of SARS.

Table 2 shows the impact of the SARS outbreak on Toronto’s travel and tourism industry on a quarterly basis, again assuming some catch-up in the fourth quarter.

Note that the loss at Pearson International Airport is a substantial 39 per cent of the total estimated annual loss. Aside from the impacts to the airport, tourism spending losses represent approximately 8.9 per cent of all tourism receipts in Toronto.

In addition to the impact on travel and tourism activity in Toronto, there has been adverse fallout on retail sales, as the outbreak has kept people out of stores and entertainment venues. The impact on retail spending will be temporary, however, as fear of contracting SARS in public places is abating. Still, The Conference Board of Canada assumes that non-tourist retail sales will be 3 per cent lower in the second quarter due to the outbreak and 1 per cent weaker in the third

quarter, with some catch-up in the fourth quarter. The Conference Board's Metropolitan Outlook Service fed the impacts on tourism activity and retail trade into the econometric model of the City of Toronto, allowing for the generation of induced effects. The final results indicate that the SARS outbreak will result in a lowering of Toronto's real GDP by \$950 million in 2003, which represents 0.5 per cent of Toronto's overall economy.

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**By far, the largest impact of SARS is felt in the travel and tourism industry, which nationally is expected to lose about \$1.1 billion in real economic activity in 2003.**

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#### **THE SARS IMPACT ON THE REST OF CANADA**

The City of Toronto is not the only location in Canada affected by the SARS outbreak. Travel to the border cities is definitely down, and Vancouver has been hurt by lower traffic to Asia. The analysis of the impact of SARS on Canada outside of Toronto focuses

entirely on the losses in travel and tourism, under the assumption that losses in retail sales outside Toronto are minimal. CTRI estimates losses in travel and tourism activity outside Toronto based on a market segment analysis similar to that undertaken for Toronto. The results suggest a loss of roughly \$500 million constant 1997 dollars in 2003 as a result of SARS, with about one-third of this coming from lower activity at airports.

#### **CONCLUSION**

There is no doubt that the travel and tourism industry in Canada will be hit hard by the SARS outbreak this year, especially in the Toronto area. However, under the assumption of a containment of the outbreak by the end of May, the impact of SARS on overall Canadian economic activity will be small. It is important to recognize that the war in Iraq, fears of terrorism, and the fallout from Canada's position on the Iraq war likely will be almost as damaging to the travel and tourism industry this year as the SARS outbreak itself.

The Economic Impact of SARS  
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