

Scenarios: Economic impact of Icelandic volcano

22 Apr 2010, 0824 hrs IST, REUTERS

[Air travel](#)

in Europe was returning to normal on Wednesday after being disrupted for six days by volcanic ash from Iceland. About 75 percent of normal flights in Europe were due to operate on the day.

Although it could take days or even weeks to clear the backlog of flights, and any plane crash or rise in ash concentrations could cause fresh disruption, scientists and manufacturers have downgraded the risk of flying in areas of relatively low concentrations.

So it appears unlikely that any future disruptions will be as serious.

NO FURTHER MAJOR DISRUPTION

This would mean the disaster causes no significant loss of total economic output. Although several industries such as [airlines](#) were hit hard, they could now recoup part of their losses, for example by staging extra flights.

During the disruption, some economic activity simply moved from one sector to another; road and rail transport in many areas increased at the expense of air travel.

To the extent that the disruption exposed weaknesses in companies' distribution systems and fall-back plans, it could now prompt fresh investment, which might actually be positive for [economic growth](#).

Travel and tourism, including transport, lodgings and related investment, comprise about 4 percent of West European gross domestic product, according to the World Travel and Tourism Council. But while [hotels](#) received fewer incoming tourists, some were able to raise their prices to take advantage of stranded tourists.

In Britain, it would take 10 to 16 days of inactivity in the aviation industry to trigger a 0.1 percent fall in gross domestic product, estimated Schroders. The sector accounts for only 0.53 percent of GDP in Britain, it said.

Manufacturing is expected quickly to fill isolated supply shortages such as the component delivery gap that caused BMW to halt production of 7,000 cars this week. Much or all of such lost production may be recouped in coming months.

Airlines' accumulated losses totaled \$1.7 billion by Tuesday, the International Air Transport Association (IATA) estimated. But that figure is for revenues; lost profits are likely to be smaller. The share price of Lufthansa fell 11 percent from peak to trough during the disruption but had recovered nearly half that distance by Wednesday afternoon.

Spain's tourist industry lost 252 million euros over the six days of disruption, not counting airline income losses, industry body Exceltur said.

DISRUPTION FOR A FURTHER WEEK

If the disruption resumes soon and there is a near-total stoppage of flights over Europe for another week, the loss of total economic output would probably remain marginal, though individual industries would be hit much harder.

PricewaterhouseCoopers estimates a week of disruption would destroy around 0.025-0.05 percent of annual British GDP; the same would probably be true of other European countries.

Many stranded travelers would have returned home without being replaced by new visitors, leaving hotels facing lower occupancy.

Airline stocks would resume sliding; airlines would increase pressure on governments to obtain some kind of [financial aid](#).

Some emerging market currencies could come under fresh pressure, such as the Kenyan shilling, sensitive to air-freighted flower exports, and the Turkish lira, sensitive to tourism revenues.

More firms, including pharmaceutical companies and supermarkets, would begin to suffer from lack of supplies. But this would partly be mitigated by efforts to make supply chains more flexible; for example, some European supermarkets have started flying in perishable goods from Africa to Spain, then trucking them to destinations under the ash cloud.