

Coronavirus will have long-term effects on the Danish economy

The protective measures against the coronavirus epidemic now result in a steep decline in the activity level of the Danish economy. The uncertainty about the economic consequences is enormous. Our main scenario for the first half of the year points to a decline in GDP by about 10%, and the level of unemployment will rise by about 40,000 people. When Denmark reopens again, a steep upturn is expected. However, even at that point, the level of unemployment may be 30,000 persons higher than at the beginning of the year.

The coronavirus epidemic and the Danish and foreign authorities' measures to contain and delay the spread of the virus have in a short period of time changed the outlook for the Danish economy fundamentally. The impact of the coronavirus on the economy is the predominant theme in this issue of our quarterly economic trends assessment. Our main messages are:

- The main scenario is that of a V turn beginning in May.
- The level of activity may be 20% during the shutdown.
- Maybe an increase by more than 30,000 unemployed after the reopening.
- Denmark can afford even larger rescue packages.

The main scenario of a V turn beginning in May

We are facing a historically sudden shutdown of production and demand in Denmark. The extent of the decrease is most uncertain. In addition, we do not know for how long the economy will have to operate at the lower activity level.

Once the economy opens up again, we will of course see drastic increase in the activity level. However, some companies and jobs will during the shutdown be lost for good. Such losses will increase the longer the shutdown lasts. Hence the impact from the coronavirus on the economy will be of a long-lasting nature.

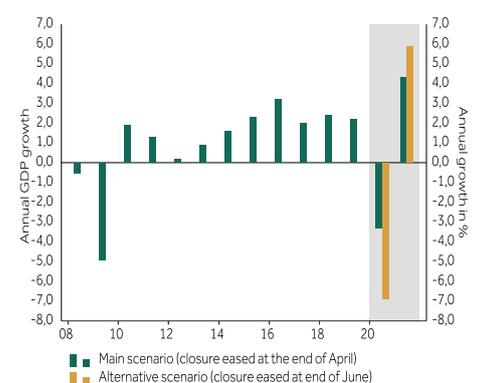
In this forecast, we have defined a main scenario where the extent of the shutdown will be reduced as of end of April in both Denmark and in Europe generally. This can be seen as a 'V scenario'. An alternative scenario points to the measures not being eased until the end of June. We see this as a 'U scenario'. Under both scenarios, it should be assumed that the 'V' and the 'U' will end at a lower level than their starting points.

Under the V scenario, GDP will fall by 3.3% in 2020 and grow by 4.3% in 2021. Under the U scenario, the decline will be stronger in 2020, and more production will be permanently lost. Under this scenario, GDP will fall by 7% in 2020 and increase by about 6% in 2021. See chart 1. By comparison, GDP fell by 4.9% in 2009 in connection with the financial crisis.

The level of activity may be 20% during the shutdown.

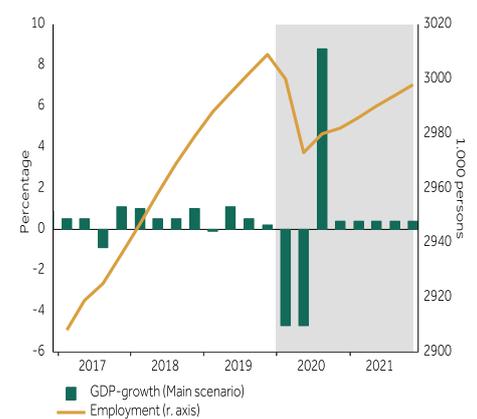
We point out that our estimates are extremely uncertain. Normally our estimates are calculated with decimal places when assessing GDP growth. But decimal places are of no significance in this context. And the development in the labour market is also very difficult to predict. We have to expect that, as a result of the government's rescue package to wage earners and businesses, the employment rate will not fall by nearly as much as indicated by the decline in GDP. But to which extent the rescue package can reduce the

Chart 1:
GDP growth under two scenarios



Kilde: Refinitiv Datastream og Jyske Bank

Chart 2:
Extensive downturn in H1



Kilde: Refinitiv Datastream og Jyske Bank

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increase in lay-offs is an open question. Needless to say, generally we have no previous experience from similar situations.

To assess the decline in activity during the shutdown, we have attempted to assess the consequences at industry level. For instance, the economic value creation of hotels and restaurants amounts to about 1.5% of the total value creation, and for this industry we assess a 90% decline in the activity level.

Applying a similar approach to the other industries, we assess that, during the current shutdown where most companies are open, GDP will be close to a level 20% below the normal. Our main scenario, pointing to the shutdown measures being eased at the end of April, will result in a GDP decline of about 5% in both the first and the second quarter. See chart 2.

First and foremost, the service sector is affected. Specifically, retail trade, cultural services, hairdressers, hotels and restaurants and, of course, schools and childcare. Many industrial companies are probably not affected to the same degree, but they may face challenge inasmuch as many employees have to stay at home to look after their children. Presumably, construction and agriculture are facing the smallest challenges.

Maybe an increase by more than 30,000 unemployed after the reopening.

Once the economy opens again, we will naturally see a strong increase in activities. Hence, the sudden slowdown will be replaced by a recovery which we anticipate to continue into 2021. However, a large number of jobs will be permanently lost during the shutdown.

Figures from the Danish Ministry of Employment show that over the period 9 to 24 March new registrations of unemployed persons on the Danish Jobnet was at almost 43,000 compared to 13,500 for the same period in 2019. See chart 3. Also, the outflow from unemployment is probably lower than usual. On that basis, we assess that until now the shutdown has resulted in an increase in unemployment by about 30,000-35,000 persons.

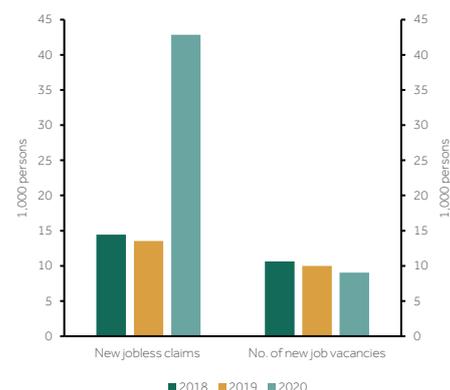
Our main scenario assesses that, on the whole, unemployment will increase by about 50,000 people during the shutdown until and including the month of April. If we presume that 1% of all jobs will be permanently lost during the period, 30,000 will remain unemployed immediately after the reopening of the economy. If the shutdown continues until and including June, this figure will become even bigger. Again, we point out that our assessments are very uncertain. By comparison, the level of employment fell by about 175,000 people in just over a year during the financial crisis.

So far, we have only seen very few economic indicators for the period when the Danish economy has been subject to the shutdown. In respect of consumer confidence, we have seen a steep decline for March when only looking at the replies to Statistics Denmark over the period from 12 March until the end of the survey on 17 March. The sub-indicators for the Danes' assessment of the economy in a year are at the same level as they were at the time during the financial crisis when they were at the lowest level. See chart 4.

Denmark can afford even larger rescue packages.

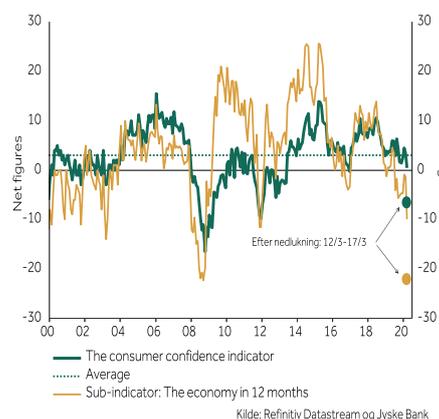
The Danish authorities have - like authorities in many other countries - decided to offer massive public subsidies to the economy during the shutdown. There have been allocated for direct payouts corresponding to over 2% of GDP and government guarantees

Chart 3:
New jobless claims and job vacancies, 9 - 24 March



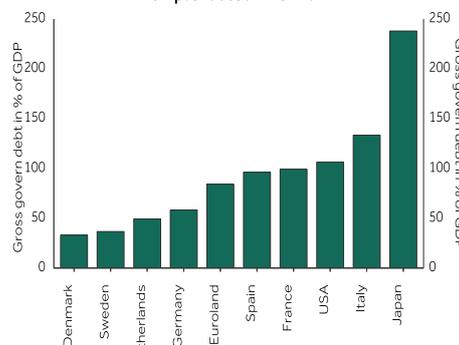
Source: Danish Ministry of Employment

Chart 4:
Steep decline in consumer confidence



Kilde: Refinitiv Datastream og Jyske Bank

Chart 5:
Low public debt in Denmark



Kilde: Refinitiv Datastream og Jyske Bank

amounting to more than 7% of GDP. Many of the measures have a term covering the first half of the year.

Whether the measures will suffice to limit the increase in unemployment to a moderate level as we assess in our main scenario, only time will tell. Given the low public debt in Denmark of about 30% of GDP, the government can afford to increase the support. See chart 4. Of course, this will take place at the expense of other future measures. That is a matter of political priorities. We assess that the deficit of the public sector will amount to 3.5% of GDP this year, given the current initiatives.

Danmarks Nationalbank, the central bank of Denmark, has independent of the ECB announced an interest-rate hike of 0.15 percentage point in March in reaction to the pressure towards a weaker rate of the Danish krone against the Euro. Our main scenario is that we will not see any further hikes. Danmarks Nationalbank pursues a fixed exchange rate policy and has not introduced a bond purchase programme as has, for instance the ECB. Danish mortgage rates have increased since February, and now the coupon on fixed-rate loans is at 2% after having been as low as 0.5%. At the same time the short-term rates are just above 0%. On that basis, we anticipate unchanged housing prices in 2020 compared to the previously expected increase of almost 2%. Of course, the housing market is also subject to risk if the shutdown turns out to be of a long-lasting nature.

| Danish economy 2017-2021 | DKK bn | Real growth (%) | | | | |
|--|--------|-----------------|-------|-------|-------|-------|
| | | 2019 | 2017 | 2018 | 2019 | 2020 |
| Consumer spending | 1077 | 1.7 | 2.8 | 1.9 | -2.8 | 4.5 |
| Public spending | 557 | 1.0 | 0.4 | 0.6 | -7.8 | 7.1 |
| Fixed gross investment | 514 | 3.0 | 5.4 | 2.9 | -3.9 | 4.0 |
| Inventory investment* | 11 | -0.1 | 0.3 | -0.4 | 0.0 | 0.0 |
| Exports | 1301 | 4.6 | 2.4 | 1.9 | -2.9 | 4.2 |
| Imports | 1142 | 4.3 | 3.6 | 0.2 | -4.8 | 5.5 |
| Gross domestic product (GDP) | 2319 | 2.0 | 2.4 | 2.2 | -3.3 | 4.3 |
| Balance of payments | | | | | | |
| - DKK bn | | 169 | 158 | 182 | 182 | 174 |
| - percentage of GDP | | 7.8 | 7.0 | 7.9 | 8.1 | 7.4 |
| Public budget balance | | | | | | |
| - DKK bn | | 32 | 10 | 68 | -79 | -16 |
| - percentage of GDP | | 1.5 | 0.4 | 2.9 | -3.5 | -0.7 |
| Unemployment | | | | | | |
| - Gross unemployment, average (thousands) | | 116 | 108 | 104 | 135 | 141 |
| - Percentage of workforce | | 3.8 | 3.5 | 3.4 | 4.3 | 4.5 |
| Employment, avg. (thousands) | | 2922 | 2963 | 2998 | 2984 | 2992 |
| Inflation (%) | | 1.1 | 0.8 | 0.8 | 0.6 | 1.3 |
| Wage index (Private, %) | | 1.7 | 2.2 | 2.0 | 1.8 | 2.1 |
| House prices (nominal prices, %) | | 4.0 | 3.8 | 2.9 | -0.3 | 2.4 |
| Danmarks Nationalbank's lending rate, year-end (%) | | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 |
| Danmarks Nationalbank's deposit rate, year-end (%) | | -0.75 | -0.65 | -0.75 | -0.60 | -0.60 |

* Contribution to growth as a percentage of the preceding year's GDP

Source: Statistics Denmark and Jyske Bank's 2020 and 2021 forecast.

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