

Mainland GDP could fall 0–4%

The measures to curb the spread of coronavirus have already affected economic activity and will most likely lead to a recession both home and abroad. The Ministry of Finance has estimated a decline in mainland GDP of 1% in 2020. However, we have made some simple calculations that indicate a decline in the range 0.3% to 4% depending on how long the measures last.

The measures to contain the spread of the virus will have different effects on different sectors. In some sectors, activity may be completely shut down, while others will operate at full capacity. We have made some rough calculations. By assuming various degrees of shutdown for a range of sectors, we have calculated the overall effect on mainland GDP depending on how long the measures last. The assumed effect for the specific sector is based on judgement, and can easily be changed. It is also important to remember that the calculations show the effect on value added. Hence, even if the value added falls to zero in a sector, production may still be positive. The calculation is shown in the table below.

Overall, these calculations show that mainland GDP for 2020 could fall by 2% for each month the measures last. It should also be noted that if mainland business GDP goes to zero for one month, mainland GDP would be reduced by 5.75%. In 2009, mainland GDP fell by 1.8%. In the recession of 1987/1988, mainland GDP fell by a total of 2.7%.

On Friday 20 March, the Ministry of Finance released details about its fiscal policy measures and assumptions regarding the economic trends. While the measures to contain the spread of coronavirus reduce economic activity, the economic measures will improve liquidity for households and businesses. The targets for the economic measures are to curb negative spirals in activity and to prevent a solvency crisis.

The Ministry of Finance has projected mainland GDP to decline by 1% in 2020, compared to +2.5% estimated in the national budget for 2020 released in October last year. Adjusted for a rise in the number of working days, the underlying growth may be estimated at -1.5% in 2020. The ministry says the measures to curb virus contagion may contribute to mainland GDP falling by 2¾–3%-points, but that the projections are highly uncertain. It has assumed the measures will technically last for two months, before being gradually removed.

The Ministry of Finance has issued the following estimates relating to the economic measures. The total increase in budget outlays from the economic measures is estimated to exceed NOK65bn. This includes a loss provision of NOK10bn for the new loan scheme in private banks with a state guarantee, and NOK6bn for the aviation guarantee scheme. In addition, the budget is weakened by more than NOK45bn on reduced tax revenues due to lower economic activity and higher expenses from a sharp increase in the number of registered unemployed and sick-pay recipients (automatic stabilisers). Overall, the oil-adjusted budget balance is weakened by more than NOK110bn.

Furthermore: "Liquidity in companies and households will improve by NOK230bn. In addition, the loan guarantee scheme for loans to small and medium-sized companies of NOK50bn will improve the liquidity of the companies. In total, this will be NOK 280bn. In comparison, the quarterly value creation in the mainland companies before the outbreak of the virus was around NOK500bn".

Kyrre Aamdal, DNB Markets

Possible effects for Norwegian GDP from the curbing measures

	Assumption	Drop in annual value added, %-points		
	Restricted activity in % of normal value added	Number of moth with low activity		
		1	2	3
Total industry	79	1.7	3.4	5.1
Manufacturing	38	5.2	10.3	15.5
Construction	80	1.7	3.3	5.0
Wholesale and retail trade, repair of motor vehicles	50	4.2	8.3	12.5
Transport via pipelines	100	0.0	0.0	0.0
Ocean transport	70	2.5	5.0	7.5
Transport activities excl. ocean transport	0	8.3	16.7	25.0
Postal and courier activities	100	0.0	0.0	0.0
Accommodation and food service activities	0	8.3	16.7	25.0
Information and communcation	100	0.0	0.0	0.0
Financial and insurance activities	80	1.7	3.3	5.0
Real estate activities	70	2.5	5.0	7.5
Imputed rents of owner-occupied dwellings	100	0.0	0.0	0.0
Professional, scientific and and technical activities	80	1.7	3.3	5.0
Administrative and support service activities	80	1.7	3.3	5.0
Public administration and defence	100	0.0	0.0	0.0
Education	95	0.4	0.8	1.3
Health and social work	100	0.0	0.0	0.0
Arts, entertainment and other service activities	0	8.3	16.7	25.0
Mainland Norway	76	2.0	4.0	6.0
General government	100	0.0	0.0	0.0
Mainland business	65	2.9	5.8	8.8
Growth in Mainland GDP for 2020 based on 1.7% growth before Coronavirus		-0.3	-2.3	-4.3

Source: DNB Markets

DNB Markets Macro Analysis

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