

Deloitte Economics' Coronavirus impact monitor

What are the impacts of COVID-19 on the Greenlandic fishing industry?

Special edition, Greenland, 27 May 2020

Real economic impact

The price to prevent or delay COVID-19 to spread in the population has been high

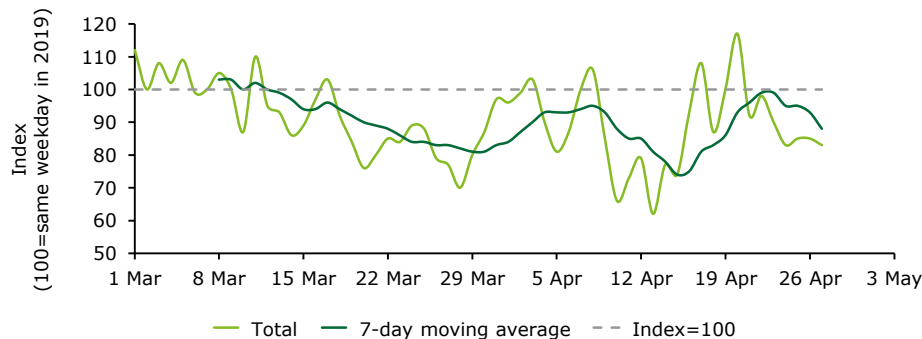
- Between 20 January 2020 and 25 May 2020, the number of global confirmed COVID-19 cases has risen from seven to about 5.4m. In Greenland, the number of confirmed cases was on 26 May 2020 12 cases out of 1,938 people tested.
- The health crisis has pushed the global and Greenlandic economies into uncharted territory. Supply chain disruptions and negative demand shocks have had severe consequences for most sectors that is expected to last throughout 2020 and well into 2021.
- The lockdown of societies and economies all over the World to prevent a situation where the capacity of the healthcare system is breached has had extremely high economic costs.
- To help the Greenlandic economy through the crisis the Government of Greenland – like most governments - has introduced an aid package including: Postponement of tax payments, compensation to employee retention, compensation for reduced turnover and state-guaranteed loans.
- As we enter the recover-phase small positive signs of a rebound of economic activity is observed, for instance private spending figures.

Greenland statistics

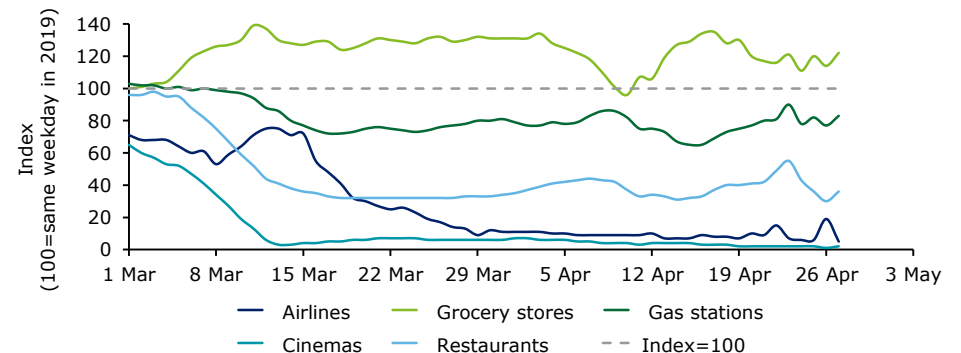
Number of people tested	1,938
Number of cases	12
Number people recovered	11

Dramatic changes in consumer spending patterns in Denmark¹

Private spending in Denmark (2020 versus 2019)



Private spending on select sectors (2020 versus 2019)

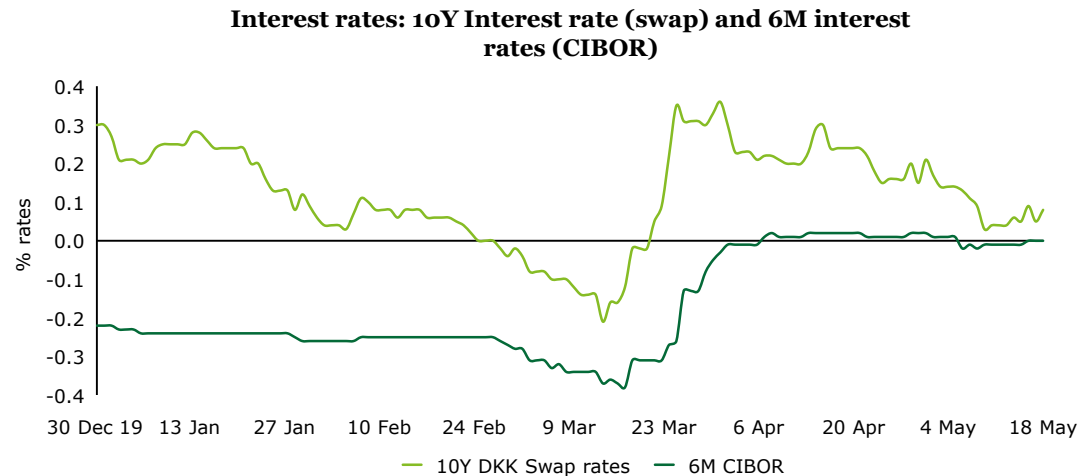
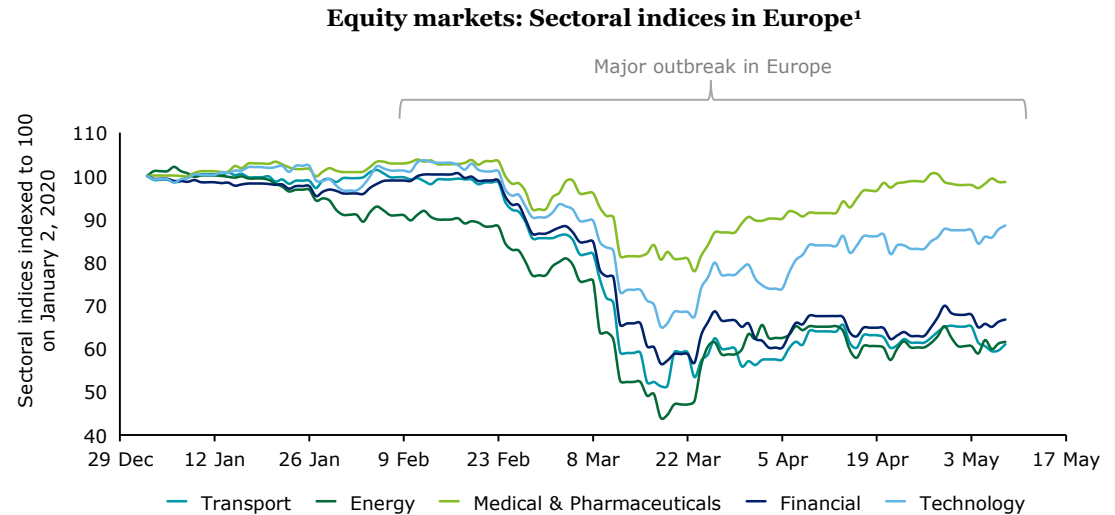


Notes: 1) Spending data is based on transactions, both domestically and abroad, with cards and MobilePay in stores for around 1m Danske Bank Danish personal customers. Excludes cash payments and bank transfers. The charts show spending in 2020 compared with the same days in 2019 to correct for different spending patterns across the week. Source: Danske Bank

Impact on financial markets

COVID-19 impact on equity markets has been most severe on the transport and energy sectors, while medical and pharmaceutical stocks have largely recovered

- The outlook for increased public expenditure and central bank interventions to ease liquidity strains has supported markets.
- European equity indices suffered material losses following the COVID-19 outbreak in Europe, but have to some extent recovered from the bottom reached in mid-March 2020.
- The Transport industry in particular, including airlines, continues to be severely affected by the virus and related travel restrictions. The Refinitiv Europe Transport Price Index has been down by some 39% since the end of January 2020, driven by a material decline in volumes.
- The European energy sector, including oil and gas companies, has lost more than 32% since the end of January 2020. Declining energy prices have applied downward pressure on energy equities.
- Financials, including banks, have also experienced value destruction. Market concerns about increased credit losses and funding squeezes are likely drivers.
- Danish short-term rates have risen to ~0% on the outlook for increased central bank interventions. After a sharp increase in March 2020, longer-term rates have fallen back.



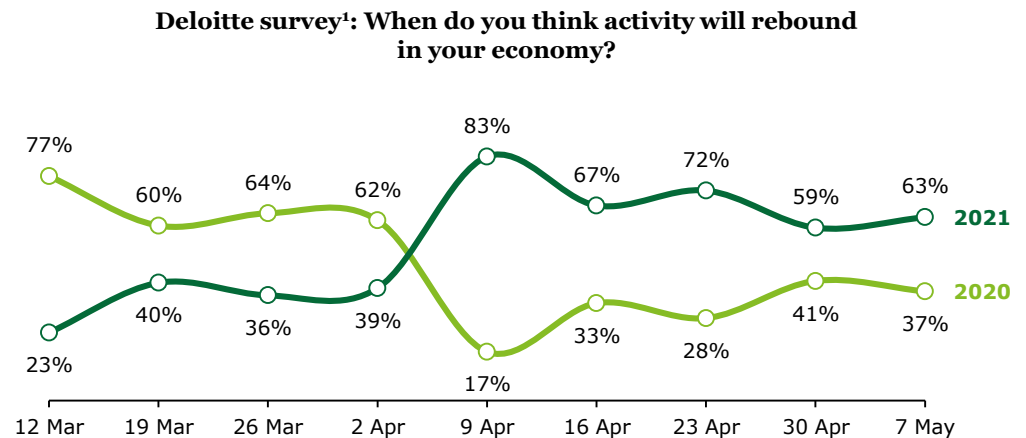
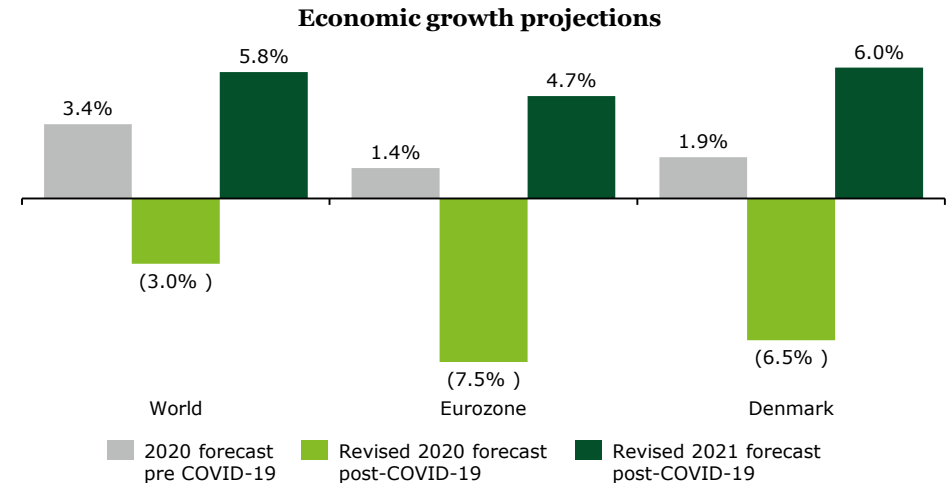
Note: 1) Refinitiv European sectoral price indices measured by Refinitiv (Thomson Reuters)

Source: Thomson Reuters Eikon

Coronavirus impact monitor - 27 May 2020

Q1 GDP contracted sharply across Europe and US

- The “sudden stop” in the global economy, caused by the COVID-19 pandemic, has translated into significant downward revisions of economic growth projections worldwide. According to IMF’s latest predictions:
 - The global economy is expected to contract by 3.0% in 2020 instead of the initially estimated 3.4% growth. This 3.0% contraction in global GDP is much worse than the 0.1% contraction experienced during the 2009 financial crisis, ref. page 23 in the appendix.
 - Danish GDP is projected to contract by 6.5% in 2020 compared to the pre-COVID-19 growth estimate of 1.9%. GDP in Denmark shrank by 4.9% in 2009. The median forecast of Danish 2020 GDP growth is -4.7% according to our survey of professional forecasters, ref. page 24 in the appendix.
- Consistent with this, the eurozone economy contracted by 3.8% in Q1 according to preliminary estimates from Eurostat. The French and Spanish economies shrank by 5.8% and 5.2%, respectively, in Q1, a sign of the extensive havoc caused by measures imposed to curb the coronavirus’ spread. In the United States, GDP shrank at an annualised rate of 4.8% in Q1.
- Deloitte’s latest survey among ~ 2,000 colleagues and clients from all over the world on 7 May 2020 reveals that the majority of participants continues to expect an economic rebound first in 2021. This appears to be aligned with IMF’s expectations of a 2021 rebound.

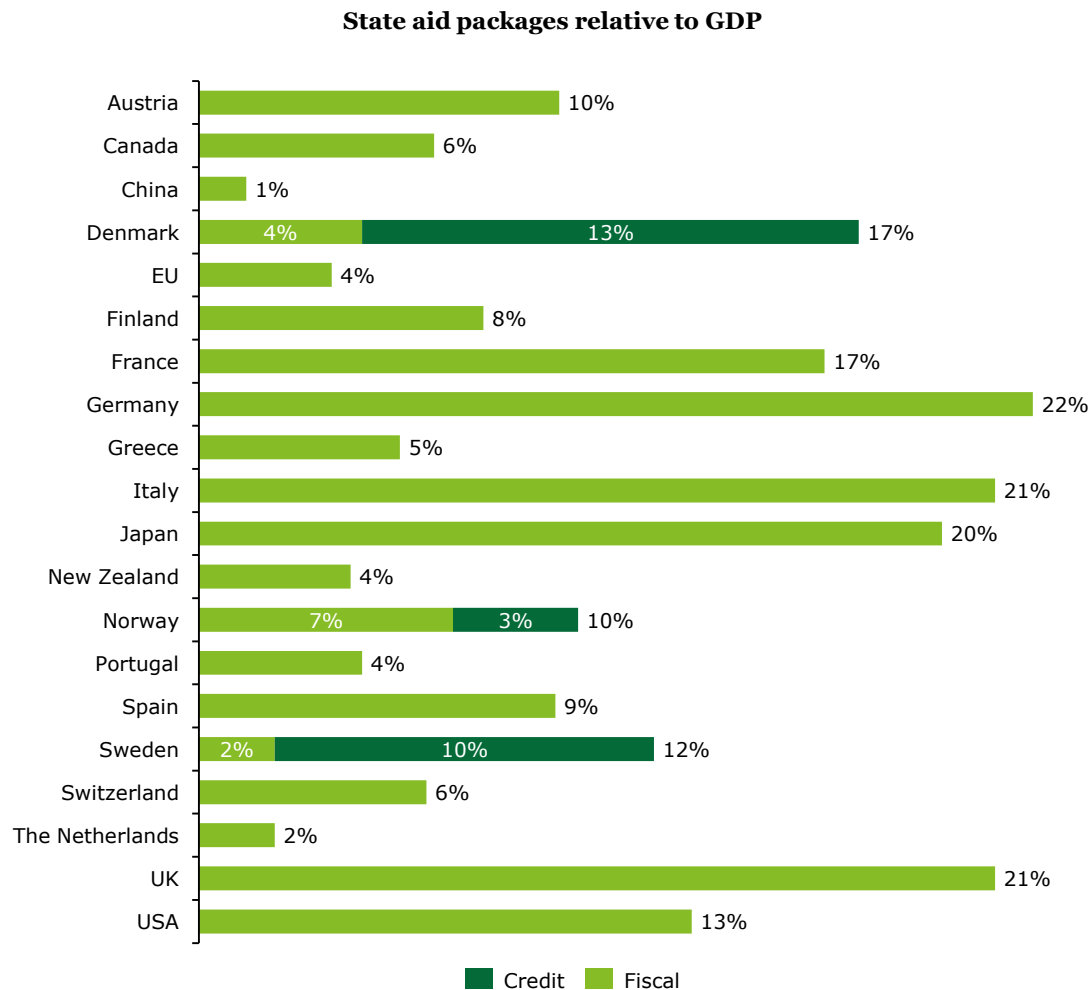


Note: 1) Deloitte surveys conducted on 12, 19, 26 March, 2, 9, 16, 23, 30 April and 7 May 2020, involving about 2,000 colleagues and clients.

Source: Deloitte surveys, IMF World Economic outlook (October 2019) for pre-COVID-19 figures; IMF World Economic Outlook (April 2020) for revised forecasts
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Massive state aid packages are launched to counter economic fallout from COVID-19











- The various lock-down measures in response to COVID-19 have halted economic activity in certain sectors and harshly disrupted others. The resulting job losses and bankruptcies are likely to create major economic strains for millions in Europe and worldwide.
- Gigantic state aid packages have been launched across the world to counter the impact of the economic crisis.
- EU finance ministers agreed on a EUR540bn (3.5% of EU GDP) emergency support package for countries hit by the coronavirus. The measures aim to provide safety nets for workers, businesses and sovereigns.
- As these state aid packages are launched, governments sharply increase debts to finance the increased spending levels. On this background, the questions about the following issues have started to emerge:
 - the sustainability of government debt funding, and
 - impact on inflation from sharp increases in government spending.



Note: In some countries, including Denmark, the aid packages also include credit measures like state-guaranteed loans.

Aid packages

Nordic governments have introduced aid packages to help their economics, however there are variations in the type and magnitude of the aid

	 Greenland	 Denmark	 Sweden	 Norway	 Finland	 Iceland	 Faroe Islands
Size of aid (as % of GDP)	~1%	~17%	~10%	~12%	~8%	~8%	~1%
Details of government support	<p> Greenland</p> <p>Aid packages targeting both businesses and employees.</p> <p>Business aid is targeting the hotel and restaurant industry in particular, as well as other large Greenlandic sectors, such as fishing, building & construction and transportation.</p> <p>Business aid includes: postponement of tax payments, compensation for reduced turnover and state-guaranteed loans.</p> <p>Employees are supported through wage compensation schemes.</p> <p>Budget of around DKK 250m.</p>	<p> Denmark</p> <p>Compensation for salary to employees on sick leave due to COVID-19 from day 1.</p> <p>Salary compensation for companies facing layoffs of more than 30% of or 50 employees. Maximum payment of DKK 23,000 per month per employee (DKK 26,000 for hourly workers).</p> <p>Compensation for lost revenue for business owners in SMEs. Maximum of DKK 23,000 per month.</p> <p>Compensation for fixed costs related to irrevocable contracts (i.e., rent, leasing).</p> <p>Compensation for cancellation of large events.</p> <p>Postponed payment of VAT, labour market contributions and payroll tax.</p> <p>Government-guaranteed loans.</p>	<p> Iceland</p> <p>The Icelandic Government will take on up to 75% of salaries.</p> <p>State-backed bridging loans for companies.</p> <p>Deferral of tax payments. Hotel taxes will be abolished until the end of 2021.</p> <p>Financial support for the tourism industry.</p> <p>One-off child benefit payment.</p> <p>Access to third-pillar pension savings (private pension savings).</p> <p>Refund of VAT for construction projects.</p> <p>Public projects accelerated – investment in technical infrastructure.</p> <p>Actions specific to the city of Reykjavik include a marketing campaign launched to raise awareness of Iceland and Reykjavik as a holiday destination.</p>				

COVID-19 and the lock-down have had a severe impact on several sectors (1/2)

- Nuuk has been locked down to contain the contagion and to shield the already limited healthcare sector in Greenland.
- Some of the major sectors in Greenland are set to experience decreased revenue. The primary sources of risk are 1) decreased activity level due to forced lock-down, 2) ability to get the necessary work force to Greenland and 3) delivery of goods. Research for minerals could be set back due to situation on the financial markets.
- As per 20 March 2020, all passenger transport by air and sea in and out of Greenland, as well as domestically, has been suspended until April 30rd 2020. Goods transportation by air and sea will continue to ensure supplies, along with transportation, which is critical to society. It is estimated that flight departures will decrease more than 75% as a consequence of the lock-down₁.
- Fishery is the largest and most important sector in Greenland. Although transportation of goods in Europe is still open, demand for especially shrimps might decrease for a longer period due to the global crisis. The industrial buyers and factories might be forced to close down impacting the activity negatively. There is granted a special permit to secure the staffing onboard the trawlers.
- The raw material sector in Greenland is impacted as the exploration activities could decrease as a consequence of lower investment levels within the sector. The sector is furthermore impacted as foreign specialists and employees are unable to travel to Greenland decreasing the mineral and metal mines activities as well as the exploration activities.
- Specifically, the ban on gathering and travel will impact the leisure sector. The high season has not yet started in Greenland. However, if the conditions persist over the summer, the sector will be significantly impacted due to lower activity. The sector has already been forced to close as a consequence of the lock-down.
- The construction industry is primarily threatened in terms of replacement of the work force as the construction workers cannot travel to Greenland. Until now this has not caused larger challenges.

	Risk profiles of major sectors and activities	Activity level	Work force	Delivery of goods
Fishery	Trawlers at sea	Yellow	Yellow	Green
	Near shore fishing	Green	Green	Green
	Industrial buyers/factories	Green	Green	Green
	Farming/agriculture	Green	Green	Green
Raw material	Mining activities	Green	Yellow	Green
	Ice/water	Green	Green	Green
	Exploration activities	Red	Red	Green
	Site operators/facilities	Red	Green	Green
Leisure	Aviation / Airports	Red	Green	Green
	Hotels	Red	Green	Green
	Restaurants and café 's	Red	Green	Green
	Tours and tourists events	Red	Green	Green
	Bus/taxies (road/water)	Red	Green	Green
Construction	Architects / Engineers	Green	Green	Green
	Entrepreneurs	Green	Yellow	Green
	Building material providers	Yellow	Green	Green
	Facility and security services	Green	Green	Green

Note: 1) Deloitte analysis

COVID-19 and the lock-down have had a severe impact on several sectors (2/2)

- The retail industry is impacted by the lock-down in term of the physical stores being forced to close. The grocery stores, including food and non-food products, will remain open.
- The telco industry is not expected to be significantly impacted other than operators and consultants with the industry being unable to facilitate meetings in person.
- The liberal industry includes financial organisations, advisers and personal care facilities. The financial organisations and advisors are not expected to be impacted significantly except for the inability to facilitate meetings in person. The personal care facilities as e.g. hairdressers are impacted as these are forced to close due to the lock-down.
- The entertainment industry, including among others theatres, music performances and fitness centres are significantly impacted as the lock-down has forced these to close as well.
- The city development projects as well as other commercial development projects might be impacted due to higher level of uncertainty causing investors to hesitate directly impacting the external financing opportunities.
- All sectors faces the risk of a slowdown due to lack of employees if the breakout spreads
- Technical areas faces the risk of a machinery breakdown, which can't be repaired due to lack of spareparts and specialist to repair them.
- Many sectors faces a risk due to chain-reactions. If i.e. fishing factories are locked down, there will be no places to sell the fish for near coast vessels

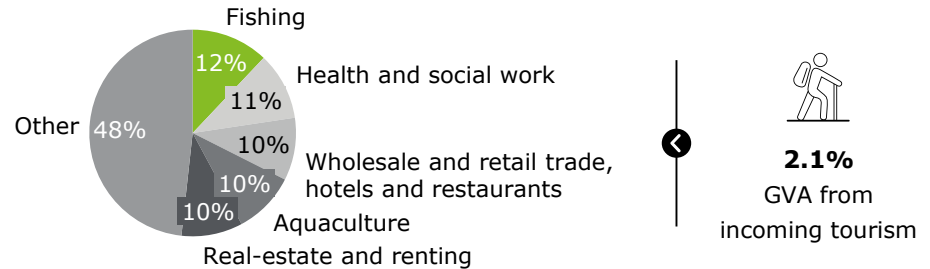
Note; the analysis are not to be considered a complete list – and the risk profile can change rapidly due to changes in the covid-19 situation.

	Risk profiles of major sectors and activities	Activity level	Work force	Delivery of goods
Retail	Groceries (food and non-food)	Green	Green	Green
	Clothes, fashion and self-care	Green	Green	Green
	Long-term consumer goods	Green	Green	Green
	Personal transport vehicles	Green	Green	Green
Telco	Tele infrastructure	Green	Green	Green
	Operators / consultants	Yellow	Green	Green
	Developers / platforms	Green	Green	Green
Liberal industry	Financial organisations	Yellow	Green	Green
	Advisers	Yellow	Green	Green
	Personal care providers	Yellow	Green	Green
Entertainment	Theatres, festival and culture	Red	Green	Green
	Music and performances	Red	Green	Green
	Fitness and sport facilities	Red	Green	Green
	Sport event organisers	Red	Green	Green

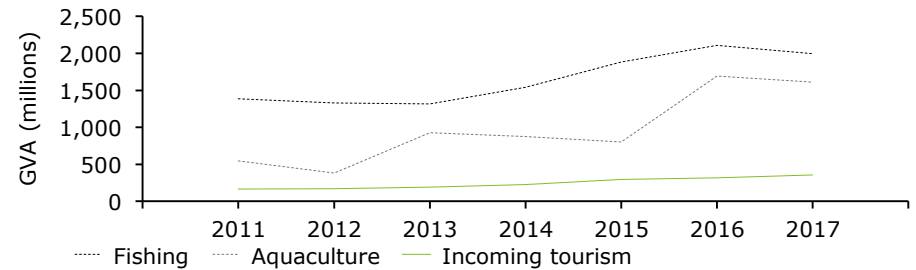
The impact of tourism extends far beyond the industry itself

- The Faroese fishing industry is the country's largest with 12% of total GVA and has grown by 44% since 2011.
- While smaller (2.1% of total GVA in 2017), incoming tourism has shown high growth, with GVA increasing from DKK 165m in 2011 to DKK 356m in 2017.
- Employment in hotels and restaurants has expanded quickly in recent years, underlining tourism's growing importance as a source of job creation in the Faroe Islands.
- Even if the tourism industry, in GVA terms constitutes a relatively small part of the economy a sharp drop in activity will have ramifications far beyond the industry itself. The reason is that tourism is closely linked to other industries, such as hotels and restaurants; a sharp drop in tourism would therefore inevitably translate into a sharp drop in revenue at restaurants and cafes
- However, the tourism industry is also an important catalyst for branding and supporting the export potential of Faroese arts, fashion, and food abroad. Another positive spill over from the recent growth in inbound tourism is that the Faroese people have experienced wider access to flying due to an increase in international flight options.
- With the strong growth in tourism, concerns have also been raised about preservation of the Faroese nature. These concerns appear to have been addressed in the recent sustainable tourism development strategy.

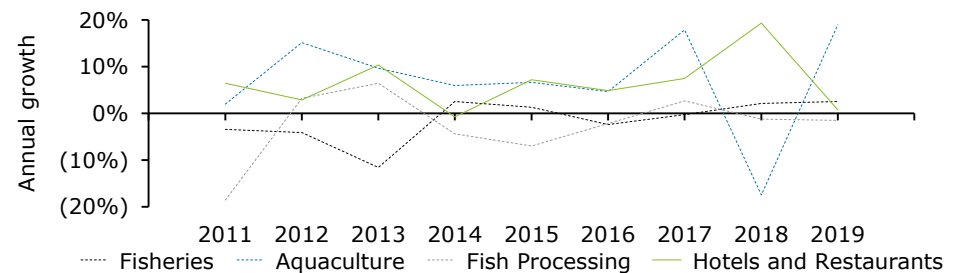
Gross value added (GVA), 2017



GVA development



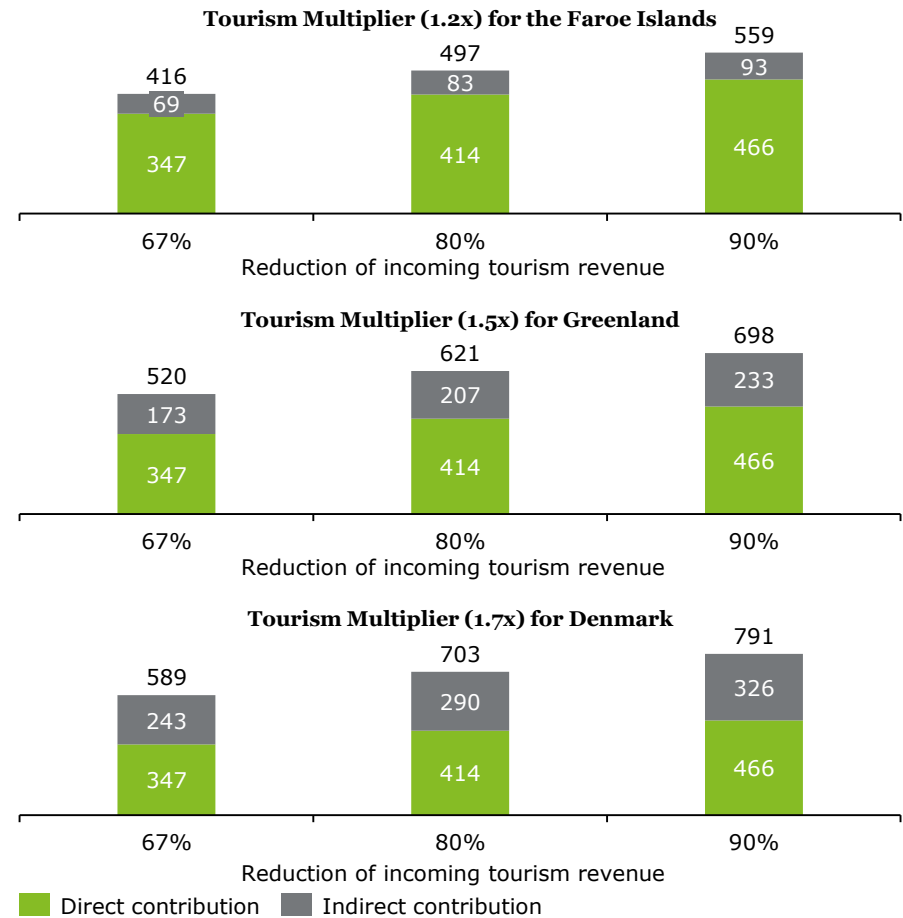
July employment development, export industries



Faroese GDP hit of ~DKK 400m-800m due to the impact of a sharp fall in tourism activity

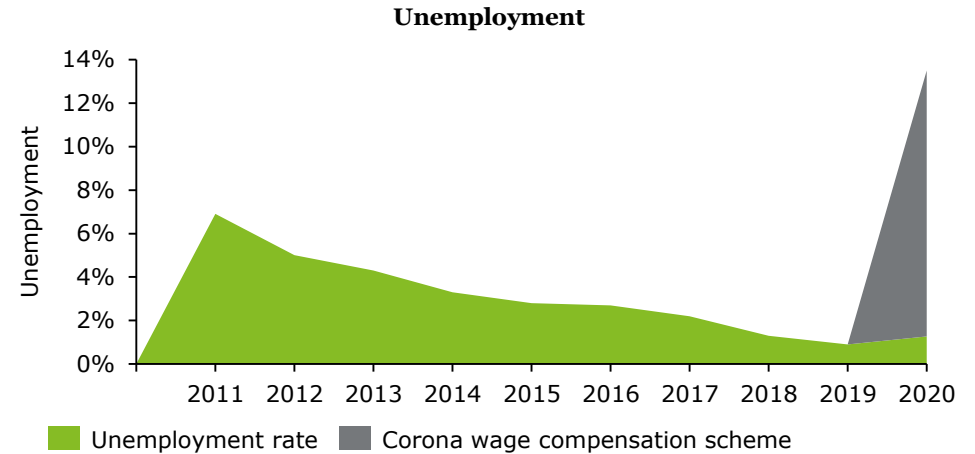
- We have estimated the extent to which slower activity in the tourism industry spills translates to reduced GDP as measured by the so-called *Tourism Multiplier*. Overall, we estimate that the sharp deterioration in tourism activity (tourism revenue) will reduce GDP by DKK 416m-559m in 2020.
- Based on simulations from Statistics Faroe Islands, we have conservatively estimated the Tourism multiplier at 1.2x. This compares with 1.5x for Greenland and 1.7x for Denmark.
- According to intelligence from the tourism industry, a reduction in activity (incoming tourism revenue) of 67%-90% is expected in 2020.
- The left-hand column in the upper chart shows that based on a 67% reduction in tourism activity and based on a Tourism Multiplier of 1.2x, we estimate that Faroese GDP will be reduced by DKK 416m.
- The direct impact accounts for DKK 347m. The indirect impact, measuring the impact of spill overs to other industries, accounts for a further DKK 69m.
- Of course, in reality, some of this decline in GDP will be mitigated by the aid packages. However, the point is that a sharp fall in tourism activity will have a material economy-wide impact on the Faroe Islands.

Value creation on the Faroe Islands lost due to COVID-19 (DKKm)

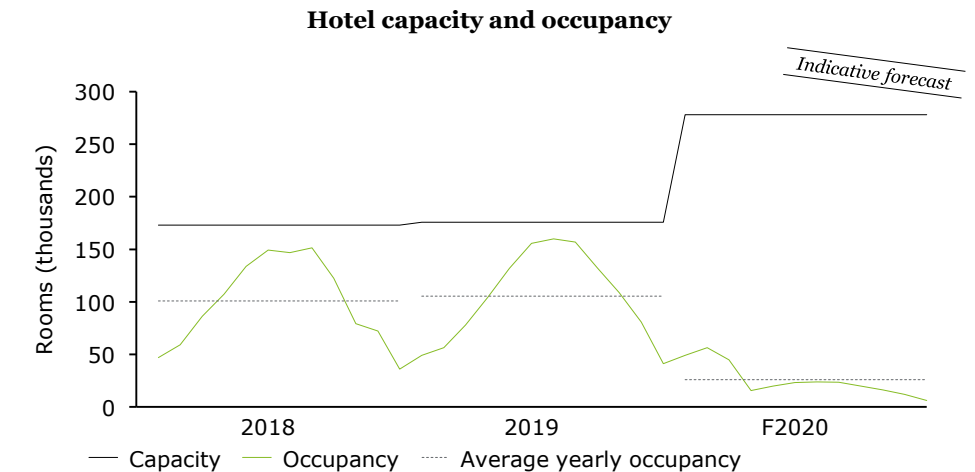


Faroese tourism industry to suffer from extremely high levels of spare capacity

- The COVID-19 pandemic and the resulting protection measures have materially affected the global economy across a wide range of industries, see [Deloitte Economics' Coronavirus Impact Monitor](#).
- While the Faroese unemployment rate has been trending lower over the past decade, reduced economic activity due to the pandemic has seen the unemployment rate increase, as some employees enter the wage compensation scheme.
- The tourism industry in particular has been hard hit on the Faroe Islands and abroad. For instance, 45% of Danish hotels see some/significant risk that they have to close down or default within the next three months¹.
- The Faroese tourism industry is projected to suffer from material spare capacity in 2020, where utilisation may fall by some 80%-90% during the rest of the year. Very low activity levels are also expected in 2021.
- Combined with a significant expansion of hotel capacity this year, corresponding to investments of ~DKK 461m², this will lead to a sharp reduction in activity and value creation. Large-scale layoffs are expected.
- As Atlantic Airways is 100% Faroe Islands Government owned, public finances will carry a heavy burden from the collapse in air traffic volumes.



Sources: Statistics Faroe Islands and ALS (unemployment benefit services)



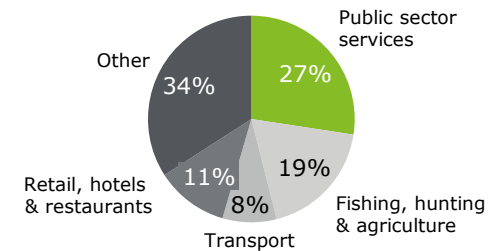
Sources: Visit Faroe Island and Deloitte Economics research

Note: 1) <https://finans.dk/erhverv/ECE12104119/45-procent-af-landets-hoteller-foeler-sig-truet-paa-livet/?ctxref=ext> 2) Hotel Føroyar, Hotel Brandan, Hotel Hilton

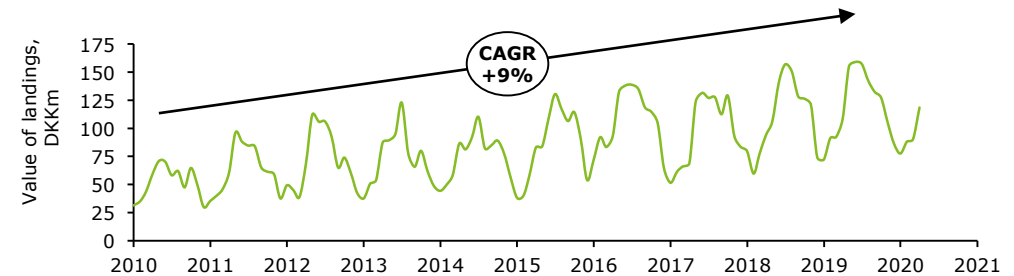
The fishing industry belongs to the most important private sectors in Greenland

- The public sector accounts for over a quarter of Greenlandic Gross Value Added (GVA). Fishing, hunting and agriculture is the largest private sector in the country and accounts for around a fifth of total national output, half of which is attributable to offshore fisheries.
- The value of catches is seasonal for various reasons and peaks in the summer and is lowest in the winter months. Since 2010, the value of annual catches has increased by 9% p.a., reaching DKK 1.4bn in 2019.
- The number of employees in the fishing industry in 2018 was 4,332. In fact, the fishing industry has been the largest growing sector in terms of employments between 2010 and 2018, growing at 3% p.a.
- The fishing industry is a major contributor to the Greenlandic society. The fishing charges (e.g.. on shrimps and other species) is about 400 million DKK a year and companies, self-employed and employees pay taxes to the government.
- Also, the multiplier effects are expected to be significant as the fishing industry buy a large part of their goods and services from other sectors in Greenland.
- The industry is generally sound and some of the largest corporations, including Royal Greenland and Polar Seafood, have made clear that they do not want to make use of the aid packages, even though they might be entitled. Likewise they do not expect additional capital from the owners, reflecting a belief in a relatively short economic crisis.

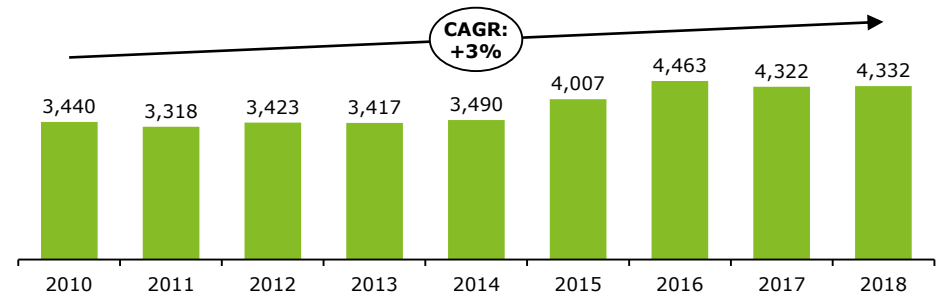
Gross value added (GVA), 2018



Monthly landings of fish and shellfish



Fishing & related industry employment



The severe impacts of COVID-19 on the fishing industry is expected to last throughout 2020, but a limited optimism is observed among representatives from the industry

Immediate impacts

- COVID-19 has had severe consequences for the fishing industry, globally and in Greenland, due to two factors: 1) disrupted supply chains and 2) declining markets.
- Fish and fish products that are highly dependent on international trade suffered early in the development of the pandemic from the restrictions and closures of global markets.
- Fresh fish and shellfish supply chains were severely impacted by the closure of the food service sectors (e.g. hotels, restaurants and catering facilities, including school and work canteens).
- The processing sector also faced closures due to reduced/lost consumer demand. An increase in retail sales has been reported in some cases due to the closure of the food service industry. Canned and other preserved seafood products with a longer shelf life have profited from panic buying at the beginning of the crisis.

Subsequent impacts

- The drop in demand has led to significant price drops.
- Suppliers have developed ways to provide direct supplies to consumers (e.g. online sale) to replace lost fresh fish sales from established retailers.
- Decreases in crew salaries, but so far major adjustments in crew and employees on land facilities has been avoided in Greenland.
- The direct and indirect state revenue from the fishing industry is affected.
- Agreement in the sector that the crisis will last throughout 2020, but as the economies are slowly begin to reopen the optimism is increasing.
- The Litmus Test being the high season in China in the Autumn.



↓ ~30 %



↓ ~60 %

Key messages

The global economic slowdown has hit the Greenlandic economy, but signs of economic rebound slowly begins to show

- In Greenland, as of the 26. May 2020, the total number of confirmed cases was 12 out of 1,938 people tested. 11 of those testing positive have recovered. To date, none have needed intensive care.
- The COVID-19 crisis has caused dramatic supply and demand shocks in the world economy, and these shocks are inevitably causing major disruptions to trade. Global trade volumes are depressed, and the transport sector is facing significant uncertainty.
- Q1 GDP contracted sharply across Europe and US and the unemployment rates have sky-rocketed. More than 30 million Americans have claimed unemployment insurance since mid-March 2020 pushing unemployment to levels not observed since the Great Depression. Projections of GDP growth rates reveals a significant contraction of the world economy in 2020.
- Governments all over the world have introduced major aid packages, which, including credit measures, amount to two-digit percentages of GDP. The aid packages in Greenland are based on the Danish model with a budget of around DKK 250m. In addition, delayed tax payments have been introduced.
- According to a policy brief from the Economic Council of Greenland there is a threat of a fall in GDP at minus 3 percent in best case and minus 7,4 percent in worst case. If the GDP is estimated to 20 billion d.kr., that means a loss in values between 0,6 and 1,5 billion d.kr.. That must be expected to have significant effect on tax income.
- In Greenland, the most important industry, Fishing, Hunting and Agriculture, is challenged by disrupted supply chains and declining markets. The lost demand has led to major price drops. The crisis in the fishing industry is expected to last throughout 2020 and will also have indirect impacts on the Greenlandic society due to lost state revenue. So far major layoffs in the industry has been avoided, but depending on the development in the coming months this could change. That said, there is a limited optimism in the industry as the economies and societies slowly begins to reopen.
- Deloitte Economics will continue monitoring the impact of the coronavirus in Denmark and globally. Find our updates [here](#)

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Recorded webinar

Hvordan bliver livet efter corona?

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