

## DI Economic Forecast, September 2009

### It will take years to regain what has been lost

The Danish economy has been through a period of sharp decline. Now we finally see the prospects of a slow return of growth, but there is a long way to go before what is lost will be regained. It is probable that it will be well into 2013 before production is back at the same level as it was in the first half of 2008.

### Exports plummeted by 22 per cent

From the 2<sup>nd</sup> quarter of 2008 to the 2<sup>nd</sup> quarter of 2009, Danish exports were reduced by 22 per cent. The sharp decline in exports is in no way a special Danish phenomenon. During the same period international trade plummeted by as much as 33 per cent.

### Supply and Demand in the Danish Economy

	2008	2008	2009	2010
	Bill. DKK	Percentage	volume	change
Private consumption	851	-0,2	-4,5	3,3
Public consumption	463	1,5	1,6	1
Gross fixed investments	366	-5	-9,5	-4,4
Residential investments	108	-9,8	-12,1	-6,4
Business investments excl. ships	215	-4,7	-12,3	-6,5
Public investments	31	4,5	10,2	11,6
Change in stocks	13	0,2	-1,3	0,8
Domestic demand	1.694	-0,7	-5,3	2,3
Exports of goods and services	951	2,2	-8	0,1
of which goods	580	-0,5	-11,3	0
Imports of goods and services	911	3,4	-11,2	4,3
of which goods	599	0,8	-14,3	7,5
GDP at market prices	1.734	-1,2	-3,7	0,3

Note: Change in stocks is measured as percentage of GDP in the previous year

Source: Statistics Denmark and the Confederation of Danish Industry

### World trade improvement

World trade is now improving, especially in Asia. But it will be years before world trade has returned to the same level as before the crisis took off.

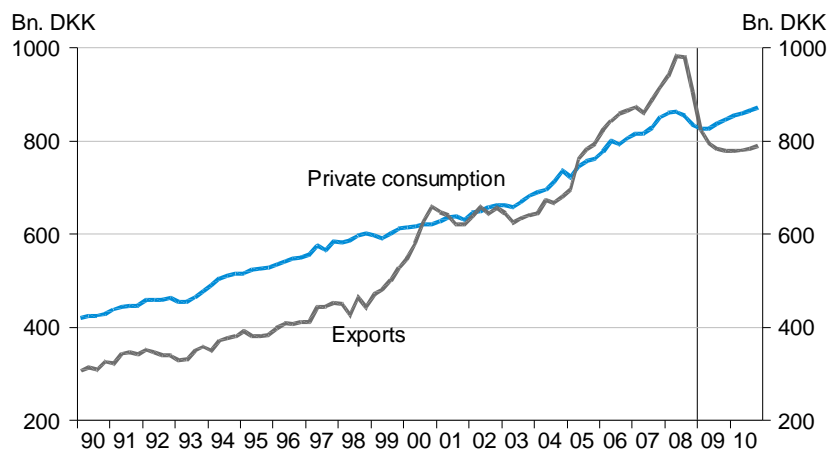
**Increase of exports in July**

Also Denmark has seen small signs of improvement of the economic situation. There was a slight increase in exports in July and the expectations of the service and industry sectors have become much less negative in recent months.

**It will take years to regain what is lost**

The economic decline, however, has been so significant that it will at least be the 2<sup>nd</sup> quarter 2010 before there is any prospect of a quarter where sales are generally higher than in the corresponding period the year before. And it will be significantly longer before we reach the same level of production as in the 2<sup>nd</sup> quarter of 2008. By the end of 2010 GDP in real terms is expected to be 3.7 per cent lower than in the 2<sup>nd</sup> quarter of 2008. It is, therefore, likely that we will have to enter 2012 or even 2013 before regaining what has been lost.

**Exports and private consumption**



Source: statistics Denmark and DI

**Poor competitiveness weakens pick up**

The improvement of world trade is only to some extent expected to lead to an increase in Danish exports. The financial crisis led to a substantial devaluation of the exchange rates in a number of neighboring countries. Furthermore, despite a diminished increase in Danish wages, the slowing down of wage growth has been less than abroad. Danish competitiveness is, therefore, substantially weakened and as a result the growth in exports will be relatively slow.

**Strong decline in investments**

**Significant reduction in inventories**

The development in inventories has contributed to the recession both in Denmark and abroad. Inventories have been reduced significantly in 2009 and as a result production has been reduced more than final sales. The possibilities for inventory reductions, however, are now just about depleted. A normalization of the inventory situation will, therefore, lead to an increase in production.

**Low level of construction activities**

Investments in private housing and commercial buildings have been reduced substantially and there is no prospect of a rapid improvement of the situation. Many of the buildings for private housing or commercial purposes which have been built are vacant which curbs the construction activity. In addition, the financial sector is probably quite reluctant to finance new construction projects. However in these years, public investments in construction work are increasing more than in any other period since the 1960's which on the other hand help reduce the ongoing decline in construction.

**Idle capacity leads to decrease in investments**

The setback has obviously led to a smaller need for investments in equipment which as a result has suffered a heavy decline. Adjustments to lower production levels are, however, most likely not finished yet. Investments often have a somewhat long planning horizon. Equipment is often ordered long before its actual installation. Hence numerous investments are currently being carried out solely due to orders placed when the economic situation was more favourable – and now the orders cannot be canceled. This scenario is not least seen in relation to investments in vessels.

**Significant decline in employment**

**Loss of 190,000 positions in the private labour market**

Employment has declined since the 1<sup>st</sup> quarter of last year and this trend is expected to continue throughout the remainder of 2009 and 2010. The decline in employment is only expected to occur in the private sector. In the public sector a slight increase in employment is expected. During 2009 and 2010 a loss of approximately 190,000 jobs in the private sector is expected. Towards the end of 2010 the decline is expected to level off somewhat.

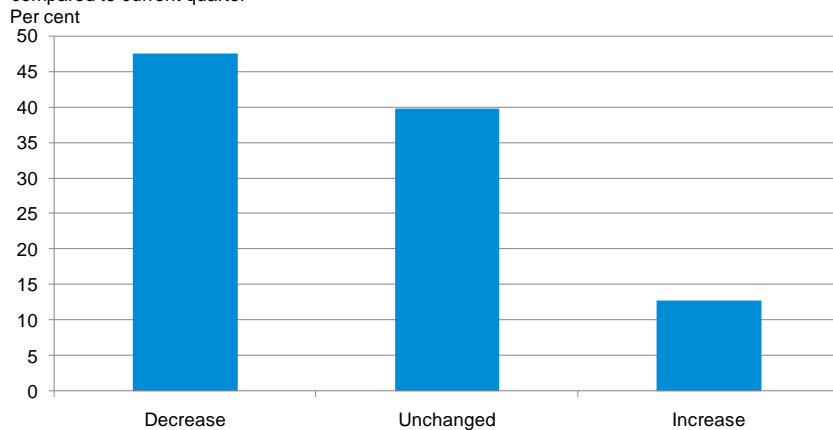
**DI Survey on the labour market**

**Employment indicators**

A survey performed by DI (“DI’s Arbejdsmarkedsbarometer”) in September 2009 indicates a significant decline in employment. Nearly half of the companies participating in the survey expect a decline in employment in the 4<sup>th</sup> quarter of 2009.

### Companies expect a decrease in employment in 4th quarter of 2009

Expectations to the development in employment in the company in Denmark in the 4th quarter compared to current quarter



Pls. note: Answers have been weighted by the number of employees in the companies

Source: DI's surveyed member companies. Survey among 515 member companies. Completed in early September 2009.

#### **Export companies expect reduction in the number of employees**

The survey indicates a significant decline in employment in the 4<sup>th</sup> quarter of 2009. This applies especially to exporting companies. Half of the companies with exports expect to reduce the number of employees whereas fewer than 10 per cent plan to increase the number of employees. Non-exporting companies do on average not anticipate changes in the number of employees.

The companies' expectations with regards to employment in the 4<sup>th</sup> quarter are slightly less pessimistic compared to both the 2<sup>nd</sup> and 3<sup>rd</sup> quarter of 2009.

#### **Fewer dismissals**

The DI survey on the labour market situation indicates that fewer redundancies are expected in the 4<sup>th</sup> quarter. A trend which is also consistent with the fact that there has been a decrease in the number of large scale dismissals since January 2009. Expectations remain low when it comes to recruiting new staff.

#### **Demand for labour remains low**

Demand for labour has decreased in recent years and there are no signs of improvement for 2009. According to a Danish jobindex the number of job ads posted on the internet has been in decline since 2007.

### Lowest level of job advertisement on the internet since 2004

Total job advertisements on the internet



Pls. note: Every advertisement contains an average of appr. 1,5 positions  
Source: Danish Jobindex, september 14. 2009

In June 2009 there were about 14,500 job ads on the internet which corresponds to the level of 2004.

#### Most unemployed return to employment

It should be noted, however, that a decreasing number of job vacancies does not necessarily mean that it is not possible to obtain employment when out of a job. An analysis performed by DI shows that 70 per cent of those who were unemployed in September 2008 already had a new job by the end of March 2009.

#### Decline in employment and labour force, rise in unemployment

#### Rise in unemployment

Unemployment has increased since June 2008 where it was at a record low of 1.6 per cent. The increase in unemployment really took off during 4<sup>th</sup> quarter of 2008 and this trend is expected to continue in the future. Unemployment is expected to increase from its current level of 3.7 per cent to well over 6 per cent by the end of 2009, equivalent to 5.8 per cent on average in 2009.

By the end of 2010 the rate of increase in unemployment is expected to level off.

#### Decrease in labour force of historic dimensions

The labour force is expected to decrease 1 per cent in 2009 and by an additional 1.2 per cent in 2010. This is a historically significant decline in the labour force which can have a substantial negative effect on Denmark's opportunities in terms of economic growth and prosperity.

The decrease in the labour force over the coming years is, among other things, due to a decline in the number of foreigners working in Denmark as well as an increase in the number of unemployed who follow courses and education in active labour market schemes. Furthermore, a demographic development

with fewer people in the working ages is contributing to a decrease in the labour force.

**Economic downturn also reduces the labour force**

In addition, a negative contribution to the labour force in 2009 is expected due to the economic downturn in general and due to the fact that the prospect of less good job offers in itself encourages more people to take an education or to postpone the completion of their education. Furthermore, in times of recession, we will see fewer students combining education with professional work and this also reduces the labour force.

The decline in the labour force will, to a somewhat limited extent, be countered by various measurements implemented by the government on the labour market.

	2008	2009	2010
Annual change, 1.000 persons			
Demography	-6	-4	-3
Early retirement frequency	2	-4	0
Educational activation schemes	-2	-5	-6
Employment stimulating initiatives	3	7	1
Foreign labour	8	-11	-9
Other (incl. Business cycle trends)	-13	-15	-16
<b>Labour force</b>	<b>-8</b>	<b>-28</b>	<b>-33</b>
<b>Employment</b>	<b>19</b>	<b>-86</b>	<b>-90</b>
- private	28	-99	-95
- public	-9	13	5
<b>Unemployment</b>	<b>-27</b>	<b>57</b>	<b>57</b>

Source: Statistics Denmark and the Confederation of Danish Industry

**Considerable uncertainty with regard to private consumption**

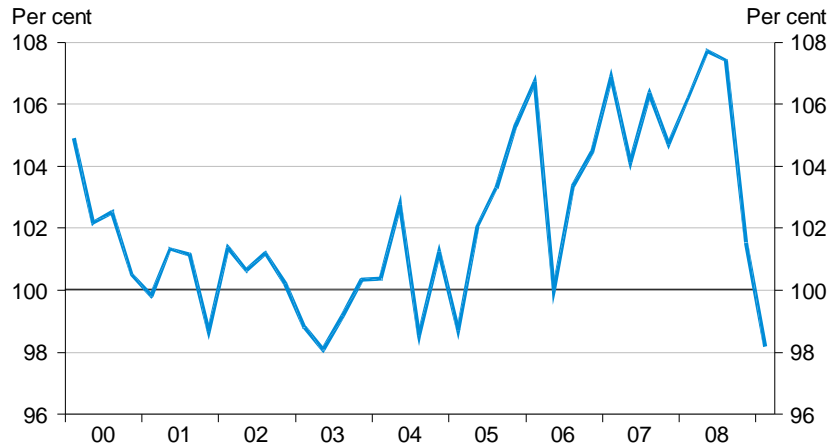
**Considerable drop in private consumption**

Also, private consumption has been reduced markedly. The decline is somewhat smaller than for exports, but it is nevertheless a decline of historic dimensions. From the 1<sup>st</sup> quarter of 2008 to the 1<sup>st</sup> quarter of 2009 private consumption has dropped by 7 per cent.

This decline occurred at a time where the Danes have experienced a significant growth in real wages. Danes were initially spending considerably more than they earned, but this situation has come to an end rapidly. Now, we are looking at rather considerable savings instead. It is unclear whether this change is entirely voluntary or whether it is due to the fact that creditors by and large have tightened their credit policy. But, in any case, the adjustment of savings has come rapidly.

### Household consumption ratio

Share of disposable income used for consumption



Source: Statistics Denmark

### Considerable growth in real income

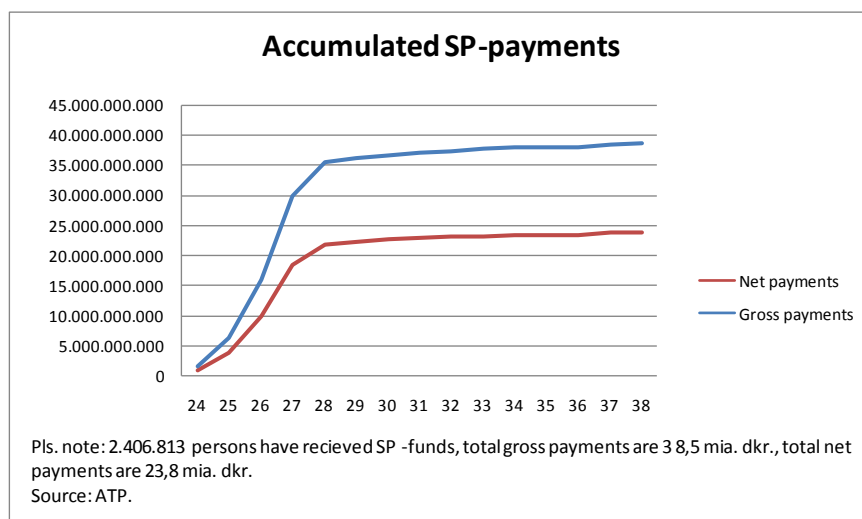
Households are expected to continue their focus on debt reduction due to heavy decline in home-equity and an increasing risk of unemployment. The consumption ratio, therefore, is expected to remain at a low level. Private consumption, therefore, is expected only to rise concurrently with disposable incomes – apart from the temporary stimulus stemming from the one off release of the special pension savings, SP-savings. However, rise in disposable income makes room for a considerable growth in consumption not least because of the tax cuts which become effective in January 2010.

Consumer confidence indicates that the plummet in expectations regarding consumer's own economy as well as the economy in general is over. Figures for retail and vehicle sales suggest a stabilization, however, at a very low level.

At June 1 this year the Danes had the opportunity to withdraw their special pension savings, SP-savings. Their interest in withdrawing these savings have exceeded all expectations.

### Considerable interest in withdrawing special pension savings

DKK 23.8 billion net have been paid out by ATP in the course of summer, 2.4 million citizens or 85 per cent of the potential beneficiaries of SP-funds have currently chosen to withdraw their SP-savings. 90 per cent of the funds have now been paid out and only DKK 6 billion are now left in the ATP fund.

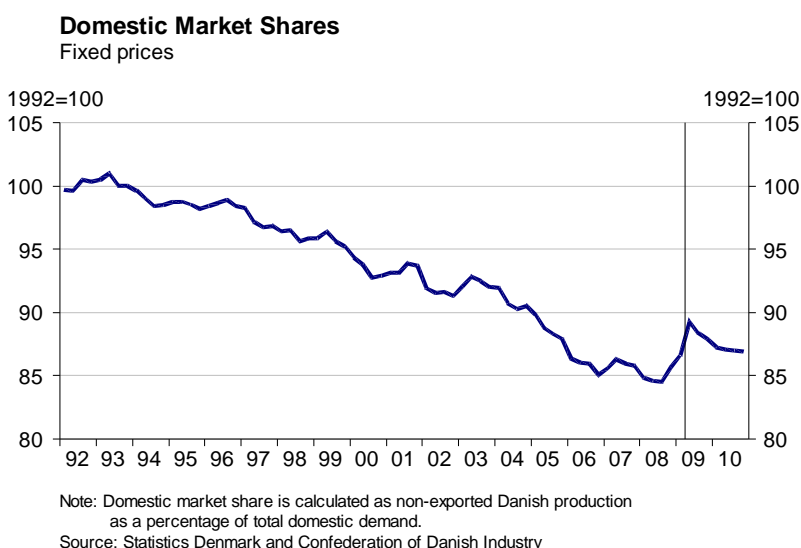


**The effect of the withdrawals of SP-savings remains uncertain**

The effect of the withdrawals still remains to be seen and is therefore highly uncertain. Many will probably choose to save the SP-funds by reducing expensive loans, but the release of the SP-savings provides a potential for a considerable increase in private consumption in the second half of 2009.

**Favourable development of imports**

In previous years, labour shortage has limited Danish production. This resulted in extraordinary increases in imports. These limitations of capacity are almost non-existing any more. This has, not only, led to a cessation of the extraordinary rise in imports, but has also meant a recapture of market shares on the domestic market so imports has decreased dramatically.



**Surprisingly large drop in imports**

The considerable decline in imports has meant that the balance of payments has not deteriorated despite the dramatic drop in exports. However, a similar favourable development in imports cannot be expected in the future. A deterioration of the competitive-

ness is expected to lead to a reduction in the surplus of the balance of payments.

### **Dramatic deterioration of public finances**

Danish public finances are extremely sensitive to fluctuations in the economy as the so-called automatic stabilizers are more substantial than in most other countries. The social security system is more comprehensive in Denmark and the high marginal tax rates mean that revenue is highly dependent on the development in income.

At the same time as public finances have undergone a deterioration due to fluctuations in the economy, we see a significantly expansive fiscal policy in both 2009 and 2010. Therefore, the considerable surplus in recent years has turned into a similarly large deficit. The deficit in public finances is estimated to be around 5 per cent of GDP in 2010.