

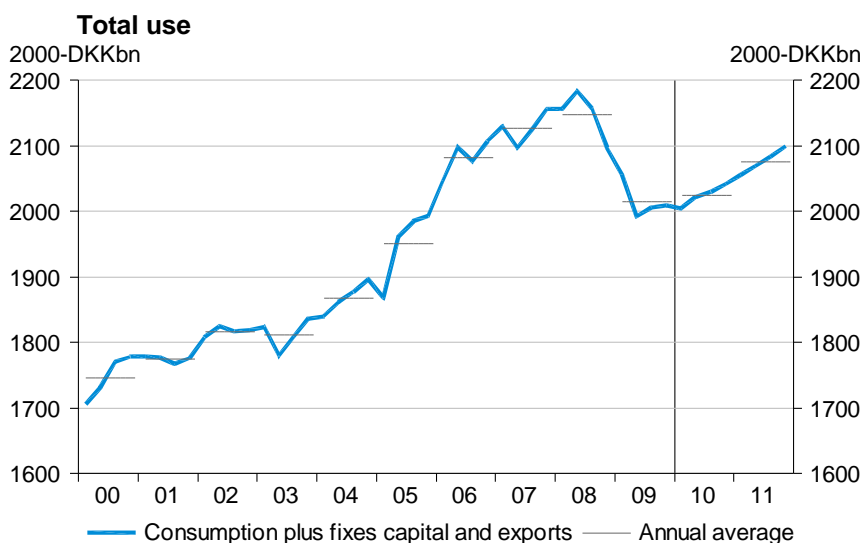
## Exports only show weak progress

By Chief Economist Klaus Rasmussen, [kr@di.dk](mailto:kr@di.dk) and Labour Market Adviser Claus Andersen, [cla@di.dk](mailto:cla@di.dk)

**Growth in the Danish economy has increased to a moderate level and seems set to continue at this level. With moderate growth, however, it will take long before the lost ground has been regained, according to DI's economic forecast. The international recovery is relatively strong, but Europe, in general, and Denmark in particular, will only enjoy a small share of this recovery due to significant problems with public debt in Europe and weak Danish competitiveness.**

### Growth in demand has increased

During this year, growth has increased to a moderate level. The growth in private consumption and exports has increased. This, along with greater optimism in industry, is expected to lead to a halt in the decrease in investment and stocks. Stocks are down at a record low level and this has contributed significantly to the decrease in the economy in 2009, but on the other hand also contributes to increasing growth again.



Source: Statistics Denmark and the Confederation of Danish Industry

## Major decline in inventories

If inventories are exempted, there is nearly no real growth in sight on average for 2010 since the increase in overall demand during 2010 is not expected to be much larger than the decrease during 2009. However, it is not likely that the level prior to the crisis in the middle of 2008 can be reached in the forecast period. We will not reach the pre crisis level until 2012 or 2013.

### Supply and Demand in the Danish Economy

	2009	2009	2010	2011
	Bill. DKK	Percentage	volume	change
Private consumption	817	-4,6	2,0	2,8
Public consumption	492	2,5	1,0	0,0
Gross fixed investments	312	-11,9	-9,8	3,1
Residential investments	85	-16,8	-9,0	1,3
Business investments excl. ships	171	-19,6	-12,4	8,4
Public investments	36	20,1	13,5	-4,7
Change in stocks	-19	-1,9	1,5	0,3
Domestic demand	1.603	-6,3	1,0	2,2
Exports of goods and services	784	-10,4	1,7	3,4
of which goods	487	-10,6	2,8	1,2
Imports of goods and services	727	-13,2	0,0	5,0
of which goods	460	-15,0	-0,3	3,8
GDP at market prices	1.660	-4,9	1,8	1,5
GDP at market prices excluding inventories	1679	-3,0	0,3	1,2

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

Source: Statistics Denmark and the Confederation of Danish Industry

## Need for slowdown of public consumption

According to national accounts, public consumption expenditure rose far more than planned in 2009<sup>1</sup>. There are, however, signs that this increase has slowed down in 2010, and this is entirely necessary if the local councils are to keep to their agreements with the government for a 1 percent increase in consumption in 2010. Even if it remains unchanged at the level of the fourth quarter of 2009, public consumption expenditure will rise by 1 per cent in 2010. In order to comply with the agreements with the government, a genuinely unchanged level of 2010 public consumption is required, and higher expenditure in one area accordingly requires corresponding savings in other areas.

The forecast assumes that local councils comply with the agreements for 2010 and that total public consumption remains unchanged in 2011. At the same time, the public investment level is extraordinarily high in 2010 and must be expected to drop back towards a more normal level during 2011 and the following years. If, as planned, investments were brought forward, the investments should drop to a lower level

<sup>1</sup> With the latest statistics from the municipal and regional accounts for 2009 it appears that the growth in public consumption reached 3.5% in 2009. The local administrations overran their budgets by as much as DKK 5.1 billion.

than normal, but that is not likely to happen during the forecast period.

**Difficult to control public investment**

In 2009 and 2010, public investment increased less than planned. This phenomenon has been seen several times in the past when the government has tried to stimulate the economy by advancing public projects. It takes time to initiate increased investments and most public investment projects stretch over several years. This means that that government investment is not particularly suitable for stimulating the economy in the short term. Finally it should be noted that, according to Statistics Denmark reports, the funds that the government allocated to stimulate municipal construction activities were used to buy new IT systems or the suchlike. This may be due to faulty bookkeeping. But if the funds were in reality used for equipment, then the advanced investments in 2009 had basically no appreciable effect on industrial activities in Denmark since most equipment is imported (foreign activity). Deficient control of local use of government grants can thus lead to a very small activity effect of increased public investments, which were meant to promote the economy.

**Growth in private demand increases in 2010**

Public consumption and investment contribute extensively and positively to growth in 2010. On the basis of the assumptions above, however, this will be reversed to a negative contribution in 2011. This is the reason why lower GDP growth can be expected in 2011. Private sector growth is clearly on the increase next year and it is expected that the decline in private sector employment will be reversed and turn into increase in 2011. With zero growth in public consumption expenditure, the number of employees in the public sector will be retained.

**Weak exports**

**Increasing international growth...**

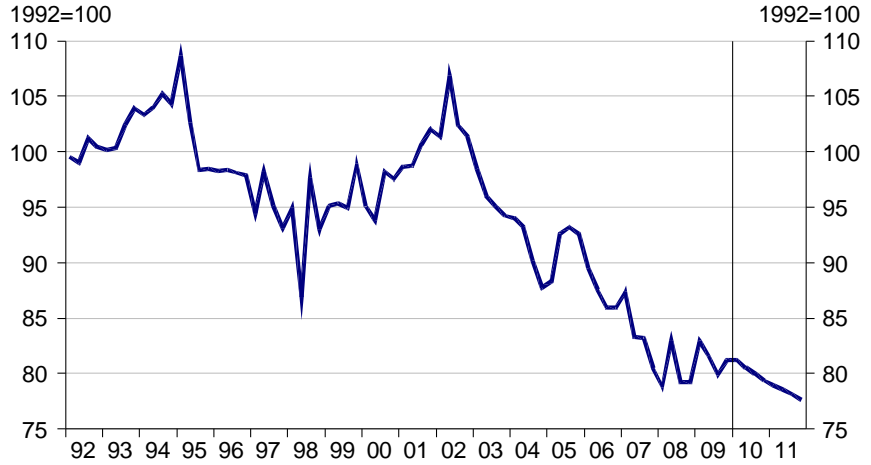
The international recovery continues to increase but Danish exports are affected by the relatively modest growth in Europe and the fact that we are also losing market shares on the export markets. The crisis has meant that businesses have become more cost conscious. This has an impact on Danish sales since Danish products and services have become relatively more expensive due to high growth in Danish costs in the years leading up to the downturn.

**... but Danish exports are losing market share on a large scale**

With new collective agreements it is likely that the increase in the Danish cost level will wane. The growth in costs, however, has also waned abroad which means that there is hardly any prospect of sizeable improvement of competitiveness apart from the improvement that resulted from the weakening of the euro. However, the deterioration of competitiveness before the beginning of the crisis was so major that it is likely that the loss of market shares will continue in coming years. This reduces the increase in exports. For this reason we expect an ex-

port growth of close to 2 per cent this year and slightly more than 3 per cent in 2011.

**Export Market Shares**  
Manufacturing products, fixed prices



Source: Statistics Denmark and Confederation of Danish Industry

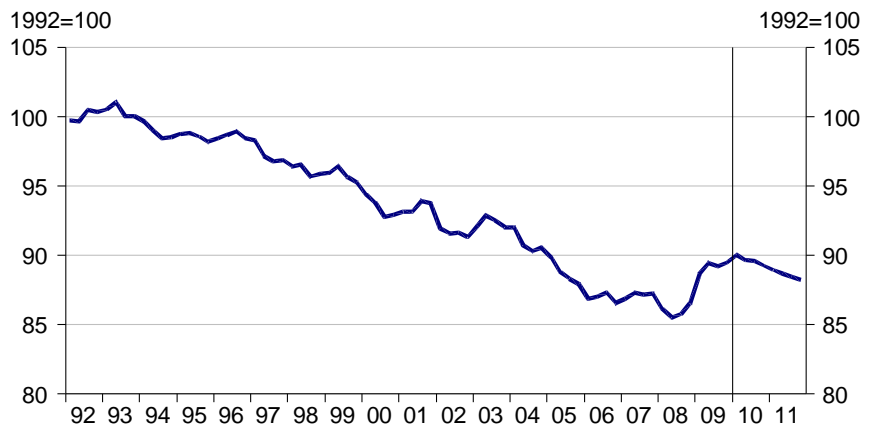
**Major fall in import quota during recession**

Import developments have been characterised by the fact that the import quota before the recession was pushed up to a very high level due to labour shortage. When the recession caused the shortage of labour to cease, the import quota returned to a more normal level. As a result, imports fell strongly in 2009.

**Increased import quota expected**

It is expected that the adaptation of the import quota is completed and that we will again see an increasing share of Danish demand being met by imports.

**Domestic Market Shares**  
Fixed prices



Note: Domestic market share is calculated as non-exported Danish production as a percentage of total domestic demand.  
Source: Statistics Denmark and Confederation of Danish Industry

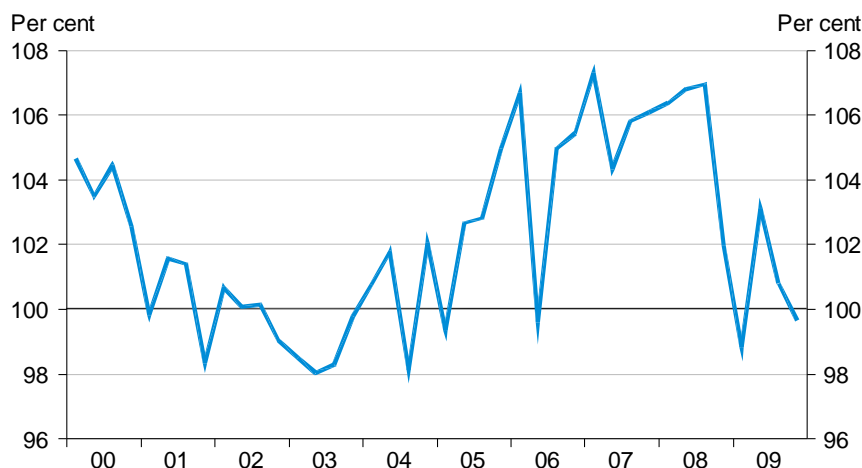
**Private consumption on the increase**

**Consumer quota has been significantly reduced**

Danes had reduced their consumption to basically match their disposable income already in the first quarter of 2009. Consi-

dering that the consumers spent about 7 per cent more than their disposable net income in the first half of 2008, this adjustment was very rapid.

**Household consumption ratio**  
Share of disposable income used for consumption



Source: Statistics Denmark

**Indications that increasing disposable incomes are now being converted into increased consumption**

Since the first half of 2009, consumption has basically developed in line with disposable incomes. There seems to be a tendency that consumers increased their savings in the beginning of 2010 when real disposable incomes increased strongly as a result of declining interest rates and a tax reorganisation which is underfinanced in 2010 and 2011. In recent months, however, there are clear indications that consumers have begun to convert their increasing disposable incomes into increased consumption. This trend is expected to continue so that consumption is expected to rise by 2 per cent this year and close to 3 per cent in 2011.

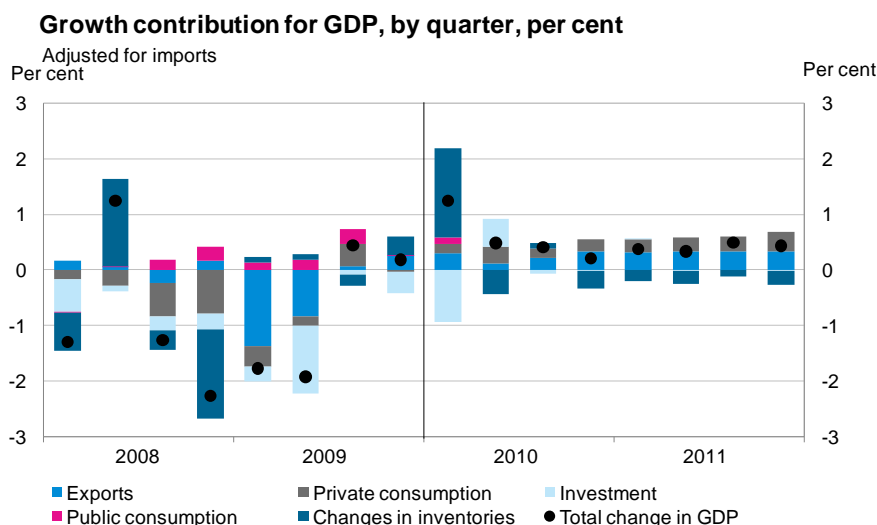
**Growth contribution should be adjusted for imports**

### 1. Growth contributions

When we calculate growth contributions for various demand components, it is important to consider how much import these demand components have generated. Traditionally, growth contributions are generated for consumption, investment and exports and this leaves a major (most often negative) contribution for total imports. Imports are, however, derived from the demand and should, if at all possible, be subtracted from the individual demand components. This is done in the following.

The downturn started seriously in the 3rd quarter of 2008 when consumption fell and inventories began to decrease. This continued in the 4<sup>th</sup> quarter with a very large, negative contribution from inventories.

The economic slowdown continued in the first half of 2009, but was now caused by major falls in exports and declining investment.



In the second half of 2009, the negative contributions from consumption and exports turned into small positive contributions. As from the 2<sup>nd</sup> quarter of 2010, it is likely that the recovery will be more broadly founded with modest, positive contributions from both consumption and exports.

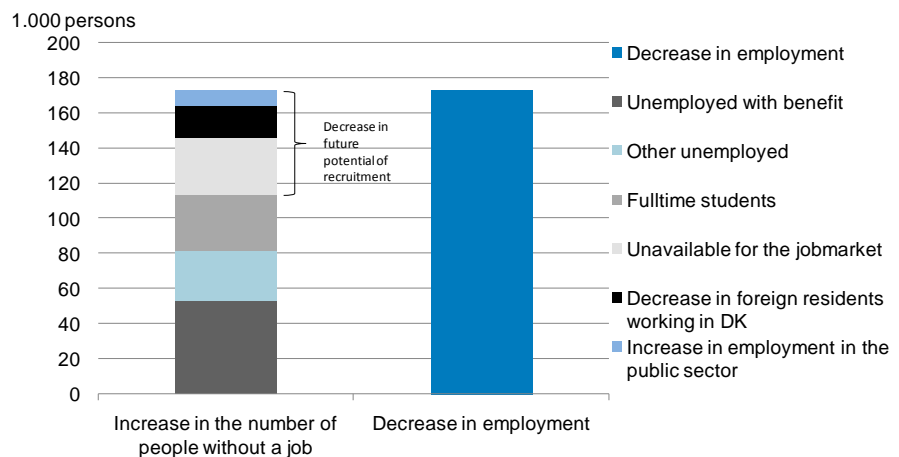
## 2. Many have left the private labour market

### Nearly 60,000 have permanently left the private labour market

As many as 173,000 jobs disappeared from the private sector in 2009. The registered unemployment only rose by slightly more than 60,000 people. In addition to the rise in the number of registered unemployed, the number of unemployed who are not entitled to unemployment benefits or social security has also increased. This means that overall unemployment grew by about 82,000 people. In addition, still more people are enrolled in education.

From this, however, it can be concluded that nearly 60,000 people have chosen to leave the private labour market in Denmark. The vast majority of these will not be available for recruitment by private companies once the need to increase employment arises again.

Explanation in the decrease in employment from 4. qrf. 2008 to 4. qrf. 2009



Source: Statistics Denmark and the Confederation of Danish Industry

**Number of foreign commuters fallen by 18,000 during recession**

During the recession the number of foreign commuters and people working in Denmark for a shorter period has declined by nearly 18,000. Once the need for more labour increases again, some of these people will hopefully return. Considering, however, that our neighbouring countries will also be short of labour in the future, it might be difficult to recruit the commuters again. So far, though, the recession has not led to a major fall in the number of foreign workers residing in Denmark.

**Public employment has risen by 9,000**

A great deal of the private sector employees have found employment in the public sector which has grown by 9,000 employed during the recession. These people are not likely to be available once the private sector needs labour again, since it can also be expected that the public sector will grow in the long term unless the politicians adopt new and different priorities.

**33,000 Danes have left the labour market**

Although the statistics show that many of those who lost their job during the recession are available and looking for a job, there is still a group of 33,000 who, for some reason or other, have left the labour market and are not likely to return.

**Labour shortage in coming years**

According to this forecast, the recession is also expected to have negative consequences for employment, labour force and unemployment in the period to come.

The labour force is expected to be reduced in 2010. This is partly due to demographic developments and partly due to the fact that many have left the labour market or become fulltime students. In 2011, the labour force is expected to increase again because some of those who left the labour market are returning. Employment will also continue to fall from 2009 to 2010 due to the low level as we approached early 2010. In 2011, employment will increase slightly.

Unemployment is expected to peak at the beginning of 2011 with 132,000 unemployed and then start to go down.

### Labour market

1000 persons	2007	2008	2009	2010
<i>Contributions to change in labour force:</i>				
Demography	-6	-6	-4	-3
Early retirement frequency	2	2	-4	0
Educational activation schemes	5	3	-7	-10
Employment stimulating initiatives	3	3	7	1
Foreign labour	18	8	-13	-7
<b>Other (incl. Business cycle trends)</b>	<b>21</b>	<b>-12</b>	<b>-10</b>	<b>-5</b>
<i>Annual change:</i>				
Labour force	43	-2	-31	-24
Employment	75	24	-72	-88
- private	79	33	-79	-89
- public	-4	-9	7	1
<b>Unemployment</b>	<b>-32</b>	<b>-26</b>	<b>41</b>	<b>64</b>

1 During booms the labor force tend to increase due to ex. students entering.

Source: Statistics Denmark and Confederation of Danish Industry