

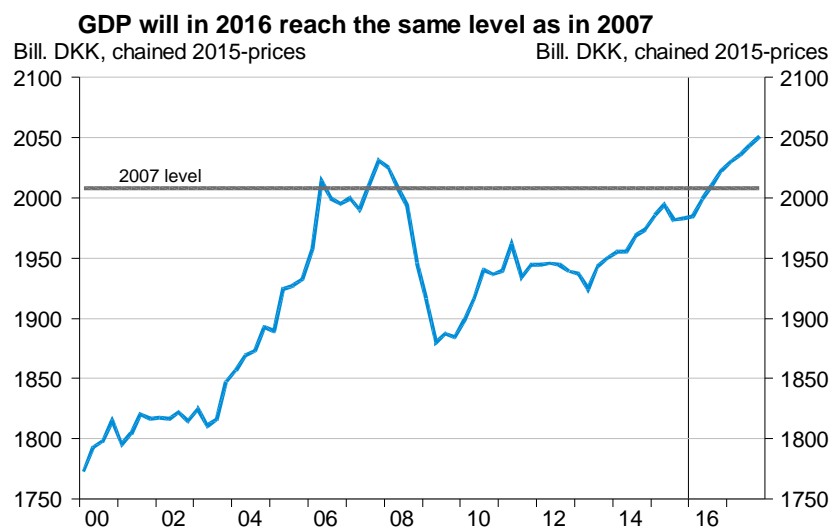


Economic Forecast May 2016: After nine years, the Danish economy will reach the level prior to the financial crisis

DI predicts a growth in GDP of 0.9 per cent in 2016 and therefore GDP is expected to finally be back at the same level as in 2007. This means that it has taken nine years to regain what was lost when the financial crisis hit Denmark and the rest of the world. Next year, DI expect a growth of 1.8 per cent. This is, however, based on the condition that productivity regains what was lost during the decline seen up until first quarter 2016. Should this not be the case, there is a risk that the potential economic recovery will be slowed by the fact that companies are unable to recruit the employees needed.

After nine years we are back at the same level of GDP as in 2007

2016 offers the prospect that GDP will finally return to the same level as in 2007, when measured in real terms. It will then have taken nine years to regain what was lost in Denmark during the financial crisis.



Source: Statistics Denmark and the Confederation of Danish Industry

In early 2015 the numbers indicated that we were about to return to the GDP level of 2007. However, the development in exports was very disappointing in the second half of 2015 and therefore it will only be well into 2016 that we will be able to return to the level of production from 2007.

DI estimates a growth in GDP of 0.9 per cent in 2016 and 1.8 per cent in 2017. This means that yet again the level of growth has been slightly reduced compared to DI's economic forecast from February 2015. If Denmark is to have a growth of 1.8 per cent next year, it is vital that growth is not hampered by a lack of qualified labour.

Significant drop in productivity in the second half of 2015

Significant drop in productivity

So far, the decline in production in the second half of 2015 is not reflected in the development in employment. The increase in employment continued in the third quarter of 2015 and grew even stronger in both the fourth quarter of 2015 and in the first quarter of 2016. This implies that productivity has dropped considerably since the second quarter of 2015.

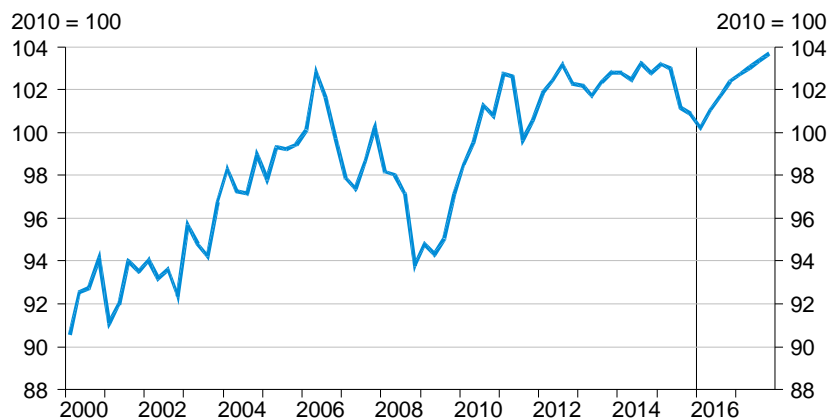
Usually we only see a large drop in productivity when the economy is hit by a major setback – which then also results in a reduction in employment. A large decline in overall productivity at the same time as we see a large increase in total employment is therefore highly surprising. A situation that for some parts of the service sector could almost be described as incomprehensible.

A recovery of productivity is expected in 2016

In this forecast, DI have assumed that Denmark should see a recovery of productivity in the coming quarters, thus ensuring that during 2017 output per working hour in industry will return to the same level as at the beginning of 2015.

Large drop in productivity from second quarter 2013 to first quarter 2016

GVA per working hour in industry, chained prices



Source: Statistics Denmark and the Confederation of Danish Industries

Developments in productivity shows that we face some challenges when it comes to productivity

Hopefully, the productivity will recover by itself, but developments in productivity during the last year underlines the fact that the Danish economy is fundamentally challenged and that Denmark can not just take it for granted that it can quickly win back what has been lost.

Productivity should increase somewhat from year to year as a result of for example new technologies being introduced. However, within the last year productivity has actually dropped quite significantly. Therefore, politicians should make significant efforts to implement many more of the recommendations from the governments' productivity commission, since a previous analysis carried out by DI shows, that a large part of these recommendations has not yet been implemented.

Should productivity be restored, it will lead to a period of slightly smaller growth in employment. However, it is our assessment that, in the coming years, growth will be high enough to ensure both an increase in productivity as well as a continued (albeit more moderate) rise in employment.

Lack of recovery in productivity will mean that the economic recovery will fizzle out due to labour shortage

Should productivity fail to be restored and instead remain at the same low level as in the beginning of 2016, it becomes necessary to recruit an additional 60,000 individuals in the private sector until the end of 2017 in order to reach the level of production in this forecast. It is highly doubtful, whether it will be possible to recruit the employees needed for the further 60,000 positions by the end of 2017. Therefore, in the absence of a recovery of productivity the recovery of the economy will fizzle out due to shortage of labour.

Loss of market shares in the second half of 2015

Signs of recovery in exports

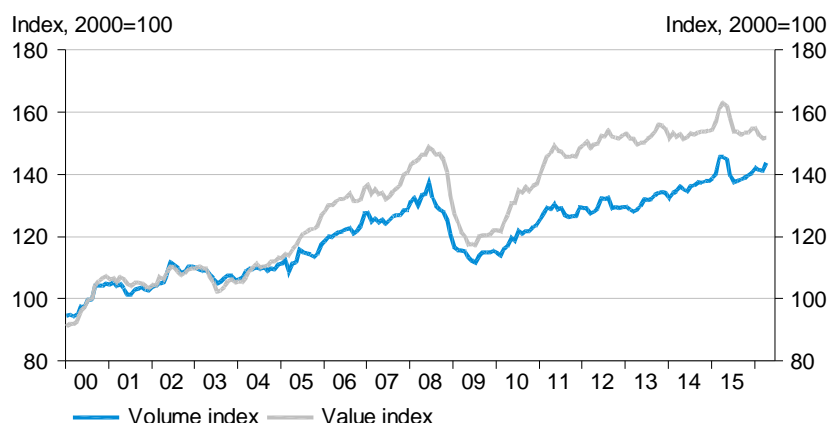
Exports rose significantly in early 2015, but unfortunately this progress was squandered in the following months due to a very disappointing development in exports leading to a fairly significant loss of export market shares in the second half of 2015.

Loss of market shares appears to have come to an end in 2016

In early 2016 there is no sign of much improvement when looking at exports of goods at current prices, but one should be aware that oil, freight rates and a wide range of industrial products have gone down in price. When adjusted for these changes in price, there are signs that the very disappointing development in exports has disappeared in the first quarter. Actually, exports of goods would indeed appear to have increased to almost the same extent as demand on our export markets when measured in quantities. Furthermore, when it comes to service exports there are signs of growth when adjusted for a very significant drop in freight rates.

Export of goods, excl. ships

Seasonal adjusted volume and value index, 3 month average



Source: Statistics Denmark and Confederations of Danish Industry

Exports are again expected to contribute to growth in the economy

Looking ahead a continued growth in exports, more or less in line with demand on foreign markets, is expected. We are not talking about anything flashy, but a growth that is sufficient enough to ensure a reasonable growth in exports. A growth that will help ensure economic prosperity. However, on an annual basis growth in exports in 2016 will turn out fairly modest, as exports in the fourth quarter of 2015 is significantly lower than the annual average for 2015.

Supply and Demand in the Danish Economy

	2015	2015	2016	2017
	Bill. DKK	Percentage volume change		
Private consumption	952	2,1	1,6	2,2
Public consumption	520	0,6	0,9	0,2
Gross fixed investments	378	1,2	3,0	4,4
Residential investments	81	-0,5	0,1	4,1
Business investments	212	5,5	4,4	5,6
Public investments	74	-1,0	-4,0	-0,0
Change in stocks	6	-0,3	-0,2	-0,0
Domestic demand	1860	1,1	1,4	2,0
Exports of goods and services	1058	-1,0	0,3	3,3
of which goods	645	1,6	0,0	3,4
Imports of goods and services	932	-1,4	1,3	3,9
of which goods	586	0,5	2,4	4,3
GDP at market prices	1986	1,2	0,9	1,8

Source: Statistics Denmark and Confederation of Danish Industry

Continued growth in private consumption in the first quarter of 2016

Continued growth in consumption

There was a satisfactory growth in private consumption in 2015, with an annual real growth of 2.1 per cent. Consumption growth has continued in the first quarter of 2016, albeit at a more modest pace than in 2015. The lower level of growth can – in part – be attributed to seasonal factors due to the early placement of Easter this year, which as a result is expected to move some growth from the first quarter to the second quarter of 2016. This

expectation is based on similar patterns seen in 2005 and 2008, also due to an early placement of Easter.

Prices

	2015	2016	2017
Consumer prices (deflator)	0,6	0,4	1,7
Import prices (goods excl. energy)	3,2	1,5	0,4
Oil price (brent)	52,4	41,3	49,7

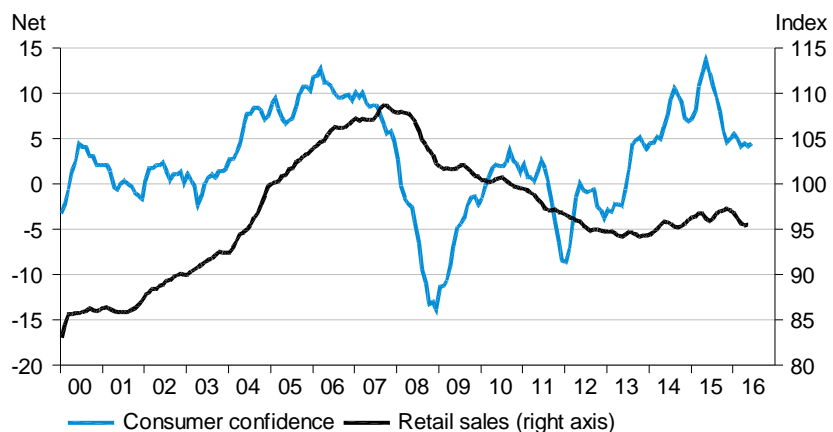
Source: Statistics Denmark and Confederation of Danish Industry

Continued belief in consumption going forward, regardless of a plunge in retail sales...

There are several indicators that give faith in consumer spending also going forward. Increase in real wages due to a continued low level of price increases and low interest rates mean that consumers have more money to spend. There is, however, a little bit of a black cloud in the beginning of 2016 due to a quite large dip in retail sales.

Still a reasonable level for the consumer confidence, but a sharp drop in retail sales

Seasonally adjusted, 3 month average

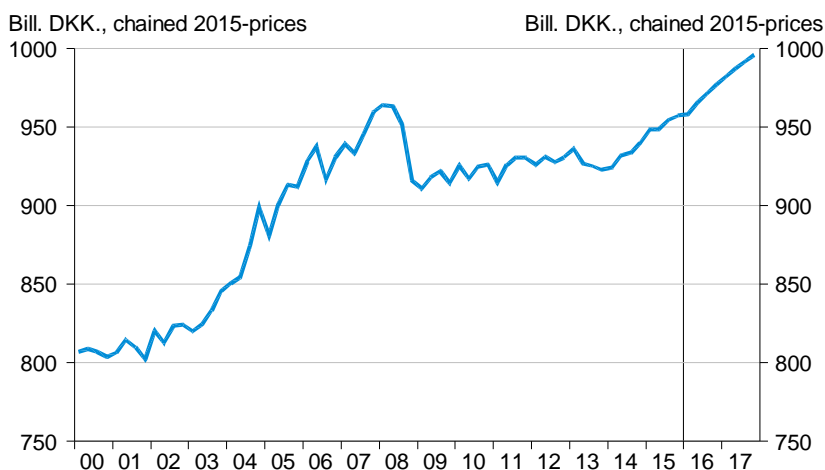


Source: Statistics Denmark and the Confederation of Danish Industry

... however, with a slight reduction in the growth rate in 2016

Overall the estimated growth in consumption is 1.6 per cent in 2016 and 2.2 per cent in 2017. The growth rate of consumption is slightly reduced compared to DI's previous forecast from February 2016. A somewhat weak development at the end of 2015 and the anticipated low growth in the first quarter of 2016 are the reasons for the reduced estimate. This makes the recovery in consumption less pronounced than in the years leading up to the financial crisis. On the other hand, it is now, unlike in the past, not a growth that has come about with borrowed money, as housing prices have increased throughout the last year without any increases in lending to households.

Private consumption



Source: Statistics Denmark and the Confederation of Danish Industry

Growth in public consumption of 0.9 per cent in 2016

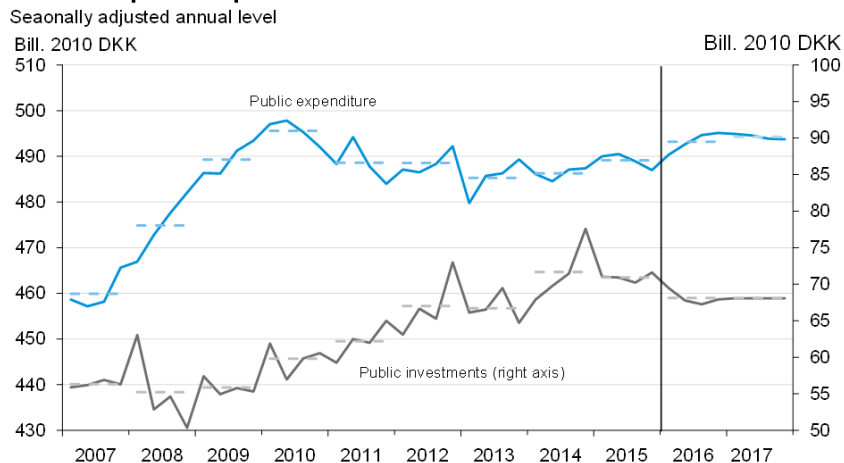
Expenses for asylum put the public expenditure balance under pressure

In 2016, an estimated growth in public consumption of 0.9 per cent is expected. This is an upgrade from the 0.8 per cent in DI's forecast from February 2016 – an upgrade which is primarily a result of a lower level of consumption in 2015 than expected. Public expenditure is expected to rise this year among other things due to further increases in additional costs for asylum seekers than budgeted. Government estimates point to 25,000 asylum seekers this year against 19,000 in 2015.

Curbing public consumption in 2017

In 2017 a modest growth in public consumption of 0.2 per cent is assumed, which means that the level of consumption in 2017 is as estimated by the government. A level that reflects the government's desire to ensure a so-called "safety margin" to the deficit limit in the budget law. The assumed curbing of growth in public consumption in 2017 is a necessity in order to achieve this goal.

Estimated public expenditure and investments



Note: The vertical dashed lines indicate the annual average.
Source: Statistics Denmark and Confederation of Danish Industry

Reduced, but still historically high level of public investments

Public investments share of GDP is at a very high level historically. For 2016 and 2017, we assume that investments are reduced to the level estimated by the government. This implies a decrease of 4 per cent in 2016 and that the level in 2017 will remain unchanged. Behind this projection lies the assumption that the government as announced will postpone planned public investments worth five billion DKK in 2017.

Public investments are subject to a significant level of uncertainty due to shifts in construction activities from one year to the next. There are often substantial discrepancies between the planned and the actual public investments.

A relatively strong growth in public consumption and a relatively low growth rate in the economy in 2016 results in an overall aggravation of public finances and a public deficit close to the maximum permitted 3 per cent.

Macro economic balance in the danish economy

	2014	2015	2016	2017
Public net spending bill. DKK	28	-41	-59	-59
- percent of GDP	1,5	-2,1	-2,9	-2,8
Balance of Payments bill. DKK	150	139	122	119
- perecnt of GDP	7,7	7,0	6,1	5,7
Gross unemployment 1000 persons	134	124	116	118
- percent of work force	4,7	4,3	4,0	4,0

Source: Statistics Denmark and Confederation of Danish Industry

Increase in business investments in 2015...

Businesses are expected to continue to invest more

Companies invested more in the second half of 2015 and in particular spent more money on machinery and other equipment aimed at production. This secured an increase in business investments of 5.5 per cent last year, when the very volatile investments in ships are excluded.

... and further increases are expected in the coming years

Business investments are expected to continue to increase in both 2016 and 2017. Capacity utilization is increasing and there are prospects of further employment, which increases businesses' need for capital and is therefore expected to lead to more investments. Moreover, interest rates remain at a low level and companies have accumulated profit, which further supports expectations for growth in investments.

Investment Expectations

	2015 Bill. DKK	2015 Percentage	2016 volume change	2017
Gross fixed investments	378	1,2	3,0	4,4
Gross fixed investments excl. ships	366	2,8	1,8	4,2
- Residential investments	81	-0,5	0,1	4,1
- Business investments excl. ships	212	5,5	4,4	5,6
- Public investments	74	-1,0	-4,0	0,0

Source: Statistics Denmark and Confederation of Danish Industry

Business investments can be divided into investments in buildings, plants, machinery, Research and Development (R&D) as well as other intellectual property rights, ships and other means of transport.

Investments in machinery and R&D supports growth...

It is in particular investments in equipment – including ICT equipment, machinery and means of transport – that are expected to contribute to growth. Moreover, expenses for R&D are included in investments in equipment. The last few years, these have grown faster than the overall economy, which is a reflection of the growing importance of R&D when it comes to the competitiveness of businesses. Investments in R&D are still expected to offer a positive contribution to investments in the coming years.

Investments in ships took a plunge in late 2015, but are expected to rebound to previous levels in early 2016. Investments in ships are very volatile and consist almost entirely of trade with existing ships and purchases of new ships from foreign shipyards. Investments in ships, therefore, do not have any significant direct effect on the Danish economy, but they are of course a prerequisite for our export revenues from shipping.

... while many vacant commercial premises dampen investments in construction

Private business investments in buildings are currently at a low level - and with many vacant commercial premises it means that they are not expected to rise to much higher levels any time soon. However, gradually, as the number of vacant commercial premises decreases as activities pick up, construction is expected to increase again. Contrary to investments in buildings, private investments in structures (which consists primarily of publicly initiated projects) are not at a low level. However, its contribution to growth in the coming years is only expected to be limited, in part due to the postponement of the Fehmarn Belt Fixed Link.

Low level of new constructions keep investments at a low level

Investments in housing underwent a slight decline in 2015. Investments in housing are currently being held back by a very low level of new constructions, while on the other hand repair work props up investments. However, an increase in the initiation of new housing constructions in early 2016 could be an indication of a turn.

Increase in house prices are expected to result in further investments in housing

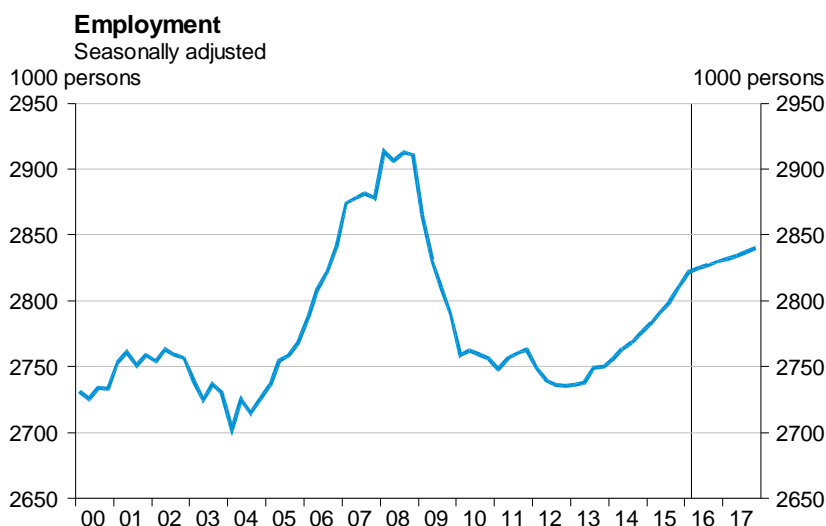
There is continued growth in house prices, although increases are not as high as seen at the beginning of 2015. The tightening of credit

demands for buyers, which have recently been implemented, may have an impact on prices. However, interest rates are still low and it is expected that house prices will continue to rise also in the coming years, however at a more moderate pace. As house prices are expected to increase, so are investments in housing.

Increase in private employment for three years

Increase in employment and in the labour force

Employment has now been growing for almost three years. Since we hit bottom in April 2013, the number of employed has increased by 95,000 individuals. When separating the development of private and public sector, it appears that there has been an increase in private employment of 100,000 individuals, while public employment has been decreased by 5,000 individuals from April 2013 to February 2016. Which means that it is only in the private sector that an increase in employment has taken place.



Source: Statistics Denmark and Confederation of Danish Industry

Unemployment in decline

In recent years the positive development in employment has been accompanied by a decline in unemployment. However, the decrease in unemployment has not been equivalent to the increase in employment so, all in all, there has also been an increase in the labour force.

Fewer individuals of Danish origin in the age groups that are strongly present on the labour market

Of course the number of people in the population as well as their distribution in age plays a big role in how many individuals there are present in the labour force. At the moment, we see a trend with fewer individuals of Danish origin in the age groups who are most strongly present on the labour market, while both the number of immigrants and descendants who are working increases.

Increase of immigrants and descendants

Since April 2013, the number of 16-64-year-old individuals of Danish origin has dropped by 30,000 individuals, while in the same period there are 63,000 more immigrants and 14,000 more descendants among the 16-64-year-olds. Against this background, it is not surprising that over half of the increase in

employment the past three years is due to higher employment for immigrants and descendants.

Increase in employment for seniors

Despite the negative demographic trend, there is also a higher number of employed among individuals of Danish origin. This being a trend that, not least, can be attributed to the retirement reform, which has resulted in a strong increase in the employment rate among people in their early 60s. In addition, there is a general tendency for people to remain longer on the labour market.

The trends of increasing employment for seniors and immigrants and their descendants is expected to continue for many years.

Increase in employment of about 29,000 individuals in 2016

In 2016 employment is expected to continue to increase, but at a slower pace than what we have seen in the last few years. On an annual basis, the expected development for an increase in employment is of approximately 30,000 individuals, which can be divided into an increase in private employment of just 31,000 and a decrease in public employment of nearly 2,000 (individuals).

Further increase of 10,000 individuals in 2017

In 2017, the trend in employment is expected to continue to be positive, but the increase will be more modest with a growth in private and public employment of respectively 9,000 and 1,000 individuals.

Increase in the labour force of 35,000 individuals in 2016 and 2017

In 2016 and 2017, unemployment is expected to undergo a further decline by a total of 5,000 individuals and employment is expected to increase by 40,000 individuals. All in all this implies an increase in the labour force of a total of 35,000 individuals.

Changes in labour force, employment and net unemployment

Annual change, in thousands	2014	2015	2016	2017
Employment	22	31	30	10
- private sector	26	32	31	9
- public sector	-3	-2	-2	1
Unemployment, net	-11	-4	-7	2
Labour force	11	27	23	12

Source: Statistics Denmark and DI

Approach

This economic forecast is based on published Danish and international statistics on national accounts, foreign trade, financial conditions, etc. We have applied the macroeconomic model MONA when carrying out this forecast. MONA has been developed by the Danish Central Bank. However, this forecast and its assessments are solely the responsibility of the Confederation of Danish Industry.