



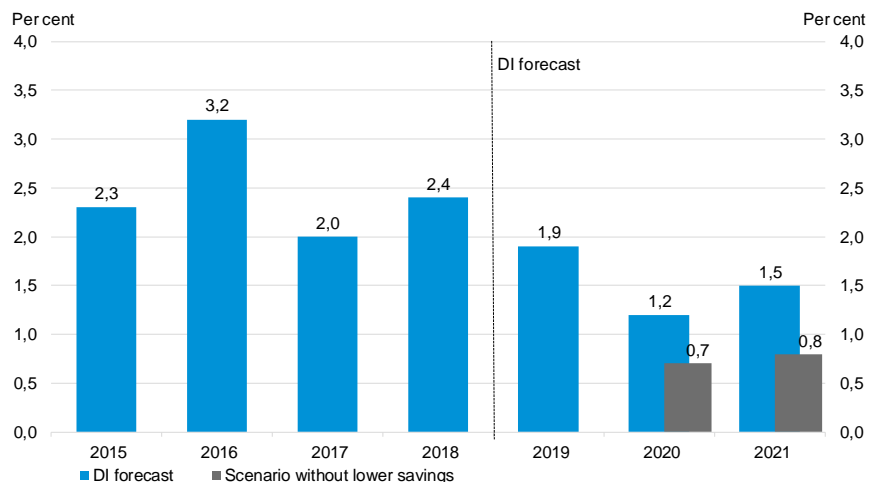
Economic Forecast from DI: Slower growth is now also affecting Denmark

Growth abroad – not least in Germany – has undergone a sharp decline. Danish exports, however, have so far been able to defy this and have even shown a nice increase. However, now there is evidence of Denmark being affected by a weakened economy as well. In the past four years, growth amounted to at least two percent, but will decrease to 1.2 percent in 2020 and to 1.5 percent in 2021.

2019 was off to a surprisingly good start, but confidence indicators suggest lower growth in the coming period

During 2019 there has been a surprisingly positive development in Danish exports. Consequently, Danish economy has by and large remained unaffected by the otherwise rather significant slowdown in international growth, which has not least affected Germany, Sweden and the UK. However, there are now signs to suggest that the Danish economy will also be hit by lower growth.

DI forecast: Weaker growth in sight - especially with restrained consumers and businesses
DI's forecast for real growth in GDP (baseline and scenario)



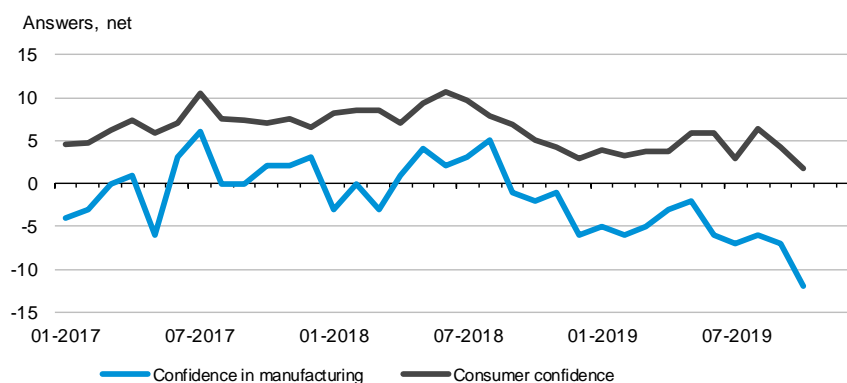
Source: Statistics Denmark and DI

In any case, there has been a significant weakening of the confidence indicators – not least in manufacturing. Since it has by

and large been manufacturing exports that have defied the sluggish development abroad, the weakening of confidence is taken as a sign that we must prepare ourselves for a weaker growth in manufacturing exports.

Weakened Confidence in the Danish Economy

Business and Consumer Confidence, Seasonal Adjusted



Source: StatisticsDenmark

Weaker growth in exports

A weaker growth in exports will lead to a distinct weakening of growth in the economy. Which is why we estimate that GDP growth will decline to 1.2 percent by 2020 in this forecast. There is hope that in 2021 we will see a slightly better development in the world economy and not least in the economies of our neighboring countries. Thus, there is hope that growth will increase somewhat, however uncertainty prevails as we have yet to see a final clarification on both Brexit and on the ongoing trade war.

Slowdown in employment growth leading to slightly higher level of unemployment

Employment growth is expected to continue, albeit at a slightly slower pace than before. Employment is estimated to increase by a total of 30,000 individuals in 2020 and 2021. The lower growth in employment leads to a largely unchanged level of unemployment, as the labour force during the forecast period expands at almost the same rate as the growth in employment.

Supply and Demand in the Danish Economy

	Level	2019	2020	2021
	2018			
	Bill. DKK	Real annual growth, p.c.		
Private consumption	1.048	1,6	2,0	2,1
Public consumption	547	0,2	1,3	0,6
Gross fixed investments	495	-2,3	0,8	1,6
Change in stocks	21	-0,2	-0,2	0,1
Domestic demand	2.110	-0,3	1,3	1,8
Exports of goods and services	1.250	3,6	1,9	2,2
of which goods	755	8,1	1,7	2,4
Imports of goods and services	1.114	0,4	2,1	2,8
of which goods	682	1,5	1,8	3,1
GDP at market prices	2.246	1,9	1,2	1,5
GVA in industry	1.354	2,0	1,4	1,9

Note: Changes in stocks as a percent of GDP in the previous year

Source: Statistics Denmark and Confederation of Danish Industry

This forecast is based on the latest international forecasts, which all assume that growth in our neighboring countries will slowly pick up again. In such a scenario, it can be assumed that despite global uncertainties both households and businesses will once again start consuming and investing an increasing part of their income – see the more detailed description of private consumption and private investments below.

Continued low level of consumption and investment ratios will weaken growth noticeable

However, in the light of developments in the world around us it is impossible to deny that consumers and businesses confidence in the economy has weakened to such an extent that they may remain reluctant to spend money and instead continue to increase their savings. If we do not soon see some more positive signs in our neighboring countries, the confidence of consumers and businesses is likely to weaken even further. In a situation where exports are weakened due to low foreign growth, a weakening of consumption and investments will remove most of the growth in the economy. Without an increase in both the propensity to consume as well as an increase in the investment ratio for investments in equipment, we will see a further weakening of growth resulting in a GDP growth of only 0.7 percent in 2020 and of 0.8 percent in 2021, see the box below.

Scenario without lower savings in households and firms				
In the base scenario we see a rise in the households propensity to consume and in firms investment rate for materials (machinery, transport equipment and intellectual property rights). In the scenario with an unchanged savings rate the saving rate of households is kept constant and firms uses an unchanged part of gross income for investments. This leads to lower GDP growth and less employment.				
Base Scenario and alternative scenario, annual change				
	Base scenario		Unchanged savings rate	
	2020	2021	2020	2021
GDP, p.c.	1,2	1,5	0,7	0,8
Private consumption, p.c.	2,0	2,1	1,3	0,8
Investments in materials, p.c.	4,0	4,0	0,3	1,2
Employment, thousands	15,0	15,0	7	1
Unemployment, thousands	1,0	1,0	9	15

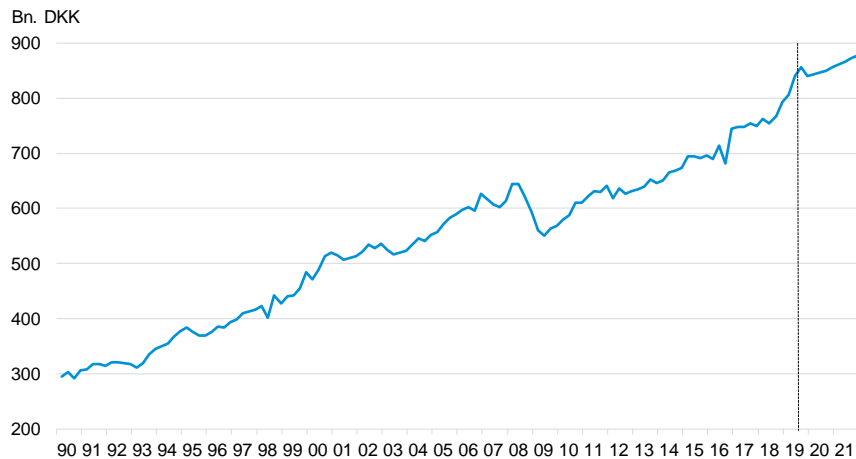
Source: DI-calculations

Nice growth in exports in a time of weak demand

So far exports have managed to defy global headwinds

Danish exports have done surprisingly well over the past year. In a situation with incredibly weak growth in several of our major export markets, exports have managed to increase quite significantly. Total exports of goods have increased by just over eight percent in the first half of 2019 compared to the first half of 2018, and the latest export figures indicate that this progress has continued into the third quarter.

Danish goods export defies global headwinds
Export of goods, chained-linked volumes (2018-prices)

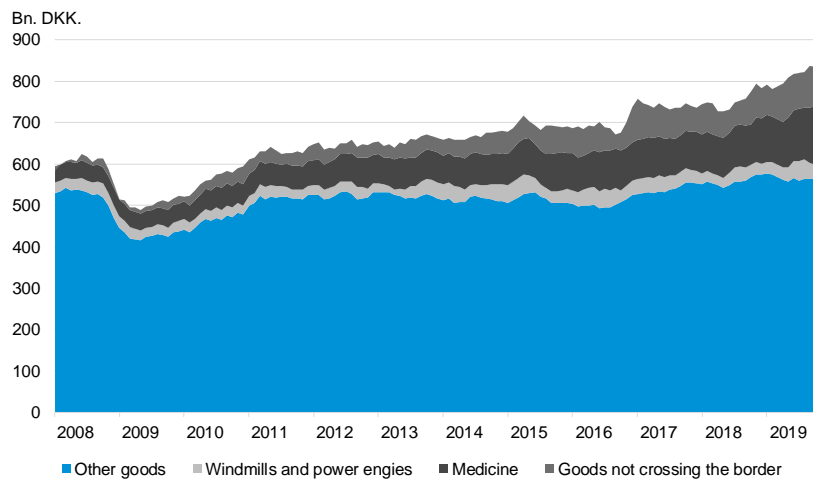


Source: Statistics Denmark and DI

Medicine and wind turbines provide solid headwinds in difficult markets

In the past year, the increase in exports has been driven by medicine, wind turbines and sales of goods not crossing the border (these goods have never been in Denmark – goods which to a considerable extent includes pharmaceuticals). These products benefit from a growing demand for health and climate friendly products, and at the same time a large part of this export is traded in distant markets. Markets which are not affected by the same slowdown in growth as in Europe. Whereas the export of other goods has suffered a slight decline since the turn of the year.

Danish exports are lifted by medicine, wind turbines and goods not crossing the border
Export of goods at current prices, seasonally adjusted annual level



Source: Statistics Denmark and DI

Declining order intake in export markets

The latest indicators on economic fluctuations from Statistics Denmark show a substantial decline in export orders in manufacturing, which is especially evident in mechanical engineering. Which is why, part of the recent increase in exports is estimated to be of a temporary nature and it is therefore assumed that in the coming years exports will grow more in line with growth in our export markets.

Lowest level of growth in the world economy since the financial crisis

According to the latest economic forecasts from both the OECD and the IMF, growth in the world economy in 2019 has plunged to the lowest level since the financial crisis. A marginal improvement in growth is expected in the coming years, but it will remain weak. Especially our neighboring markets in Europe are currently experiencing low growth – this is not least true for Germany, Italy and the UK.

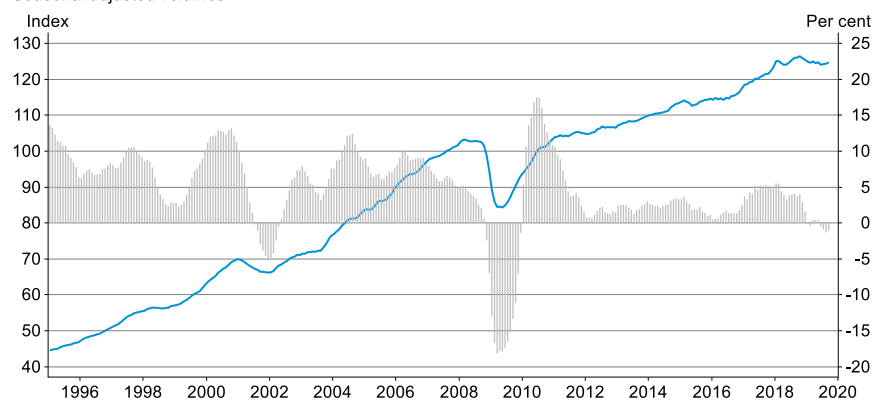
Still considerable uncertainty

Considerable uncertainty regarding growth of the world economy still prevails. Negotiations on Brexit continue to drag on, the US and China have not yet come up with a solution to the ongoing trade war and last, but not least, the US has also imposed tariffs on a number of European products. Fortunately, Brexit and the trade war have moved a little in the right direction over the past few weeks, but we have yet to see some definitive solutions to the challenges.

The vast uncertainty has meant that companies and consumers are hesitant to invest in machines and large consumer goods, which are very important to world trade. World trade has been in decline since last fall. A decline on annual basis has previously only been seen in the wake of the financial crisis and the burst of the dot-com bubble. The decline thus clearly emphasizes that global demand is weakened at present.

World Trade

Seasonal adjusted volumes



■ Momentum (last three months compared to one year ago) (right axis) — Volumes index

Source: Macrobond

Exports are estimated to increase by approximately 3.5 percent in 2019, which in particular can be attributed to a significant increase in exports of medicine, wind turbines and goods produced abroad. However, growth in exports is expected to slow down to approximately two percent a year in 2020 and 2021.

Wave of loan conversions helps support private consumption

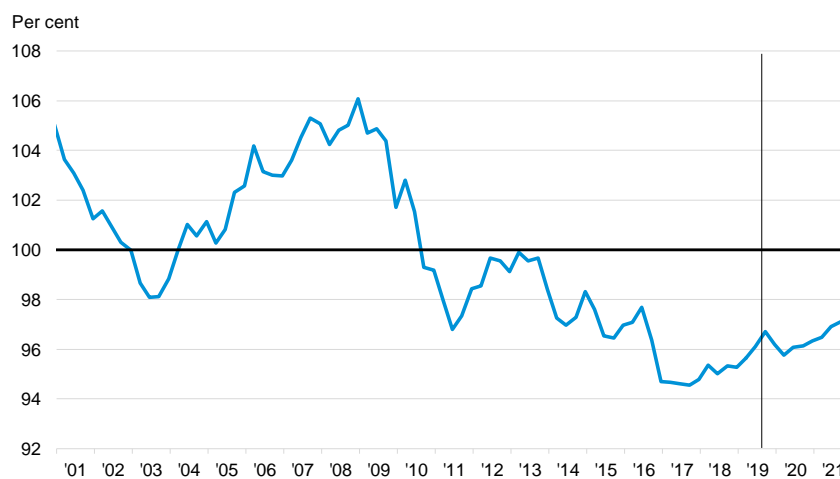
Private consumption will increase in the coming years

The development in private consumption has been relatively modest at the beginning of 2019 and a growth level of 1.6 percent is expected for 2019. In light of the current conversion

wave¹, DI expects households to increase consumption in the coming years and expects private consumption growth to arrive at approximately two percent in 2020 and 2021. Thus, the consumption ratio is expected to increase slightly during the forecast period and that it, by the end of 2021, will reach a level of just below 98 percent. As mentioned in the scenario described earlier, an increasing propensity to consume is essential for growth in the coming years. Increased international turmoil may risk putting a damper on the expected progress.

Households Propensity to Consume

The proportion of disposable income that is consumed



Source: Statistics Denmark and DI

Continued increase in employment and real wages help increase households' disposable incomes

Progress in the labour market continues to increase households' disposable incomes. However, in the beginning of 2019 disposable incomes have stagnated due to an increase in tax payments. The tailwind from employment has been declining over the summer, while real wages continue to grow somewhat.

Temporary increase in disposable incomes, when the repayment of housing taxes is carried out from the second half of 2020 to 2022.

From the second half of 2020 to the end of 2022, the income in many households will receive a temporary boost due to the repayment of an overpayment of housing taxes since 2011. The Ministry of Taxation estimates that about 800,000 homeowners will receive a total of DKK 14bn. In addition, the Ministry of Taxation expects approximately 400,000 homeowners to be entitled to a lower level of taxation from 2021 due to a new system of property assessment evaluations. For homeowners in question the lower level of taxation will amount to approximately DKK 1,900 per year.

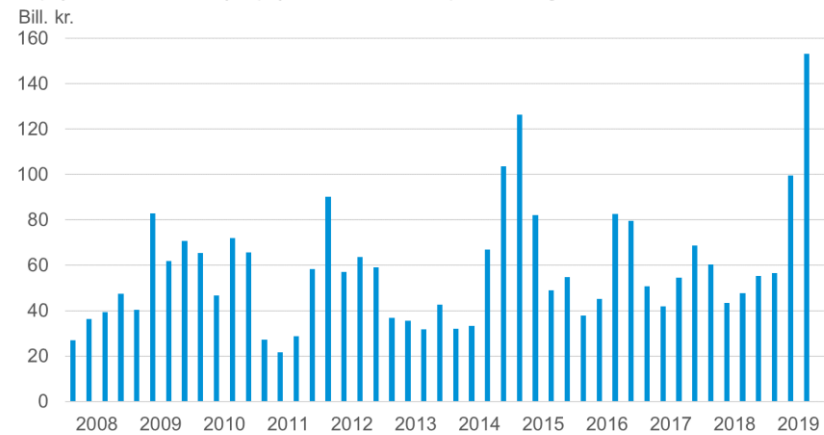
Declining interest rates have led to a new wave of conversions of loans

Consumers are also favored by the historically low interest rate. Rates just below 100 for 30-year fixed rate mortgage bonds with an interest rate of one percent has led to a significant wave of conversions of loans.

¹ Danish mortgage bonds have an option to be prepaid at face value. So Danish real estate owners convert into bonds with lower interest rates, when interest rates are falling sufficiently.

Lower interest rates has led to a significant mortgage conversion wave

Prepayments and ordinary repayments, owner occupied dwellings



Note: If change of property category, then prepayments and ordinary repayments are registered in new property category.
Source: Finance Denmark.

Conversion wave is already showing as decline in interest expenses

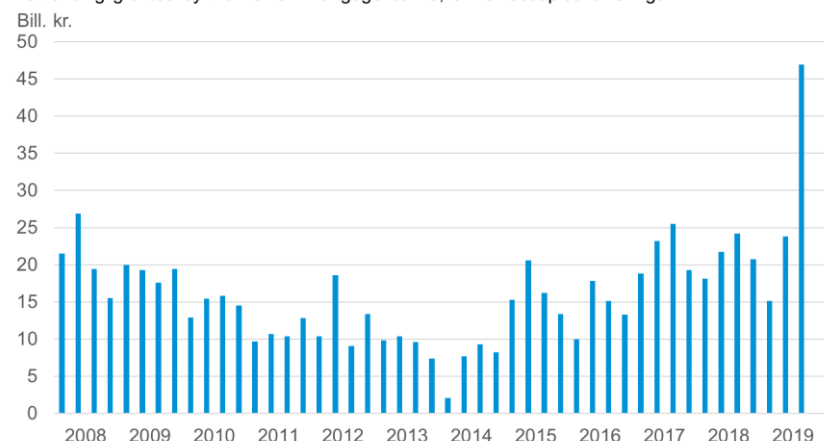
According to figures from Finance Denmark, owners of homes and holiday homes have transferred or extraordinarily repaid mortgage loans worth DKK 99,7bn in the second quarter of 2019 and DKK 153,1bn in the third quarter of 2019. This conversion wave is beginning to show in households' interest expenses. In the period from April to September, households' expenses for interests and contributions declined by just over DKK 1bn compared to expenses in the previous six months. This is the biggest decline in interest expenses over six months since mid-2015.

Increased lending simultaneously with conversion

At the same time, many homeowners have chosen to increase their mortgage loans when converting. This is reflected in the high numbers of (net) lending from the mortgage institutions in the third quarter of 2019.

Alongside mortgage conversion, owners have mortgaged home equity

Net lending granted by the Danish mortgage banks, owner occupied dwellings



Anm.: Net lending shows gross lending less prepayments and ordinary repayments.
Source: Finance Denmark.

In previous conversion waves, additional mortgages have been used for an increase in consumption

According to figures from Finance Denmark, new (net) loans in the third quarter of 2019 amounts to a total of DKK 46.9bn. In a recent analysis, the Danish central bank has demonstrated that excess mortgages in connection with previous conversion

waves have mainly been used to increase consumption, while savings and repayments of more expensive bank debt have been given less priority. It therefore supports the main scenario of our forecast with a gradually higher rate of consumption.

However, a low level of consumer confidence, fewer new job openings and a high level of international uncertainty are factors that can result in making consumers more cautious about converting additional mortgages to consumer growth to the same extent as before.

Prices

	2019	2020	2021
Consumer prices (deflator)	0,9	1,2	1,4
Import prices (goods excl. energy)	1,1	1,1	0,1
Oil price (brent)	64,3	60,0	60,0

Source: Statistics Denmark and Confederation of Danish Industry

High level of growth in public consumption in 2020

Real growth in public consumption amounted to 9.4 percent in 2018. In the first two quarters of 2019, growth has been rather limited. Annual growth in 2019, is therefore expected to reach 0.2 percent. In 2020 and 2021, we estimate in line with the Ministry of Finance that real growth will reach respectively 1.3 percent and 0.6 per cent.

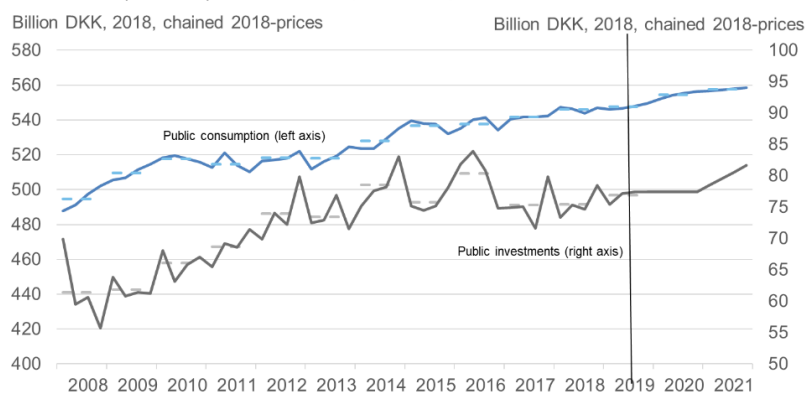
Municipalities' level of service expenditure close to the agreed level

The Budget Act has proved successful. The municipal accounts for 2018 show that the level of service expenditure landed very close to what was agreed with the government. Meaning that we expect municipalities to spend the agreed funds in the future.

With the draft for the Finance Act, the government is proposing a real growth in public consumption of 1.3 percent in 2020, which is a quite considerable increase compared to previous years. In 2021 the Ministry of Finance expects growth in public consumption to be somewhat more moderate.

Public consumption is rising

Public consumption and public investments, 2008-2021, billion DKK



Remark: The figure is based on the quarterly national accounts, which does not contain the most recent revision of the annual national accounts.
Source: Statistic Denmark and DI

Following a significant increase in public employment from 2017 to 2018, it amounts to 828,400 individuals in the second quarter of 2019. By 2020 public employment is expected to increase by 5,000 individuals and by a further 1,000 individuals in 2021.

The municipalities have exceeded the agreed budget for investments

Public investments are expected to increase by 0.7 percent in 2020. The Ministry of Finance reach their estimate based on the assumption of full utilization of the budgeted investments for 2020. However, as in previous years, we expect the municipalities to exceed this planned frame, as violations in this area are not subjected to sanctions. For 2021 our growth estimate is identical to the one estimated by the Ministry of Finance.

Further investments in equipment, but slowdown in construction investments

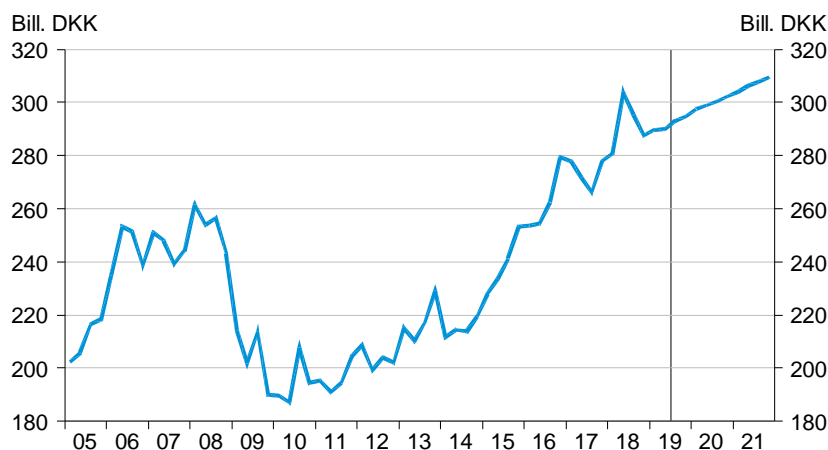
Extraordinarily high level of business investments slows down annual growth in 2019

Business investments (vessels excluded) is expected to amount to more or less the same level in 2019 as in the previous year. The lack of growth is due to the fact that investments in equipment being at an exceptionally high level in the first half of 2018.

However, growth in business investments (vessels excluded) is expected to rise again by 2.8 percent and by 2.4 percent in 2020 and 2021, respectively.

Private investments excluding vessels

Seasonal adjusted annual level, chained 2018-prices



Source: Statistics Denmark and CDI

Progress in investments in equipment continues...

Companies' investments in equipment (vessels excluded) are expected to drive the progress in business investments in the coming years. In addition to the general growth in the economy, automation, digital conversion and increase in research and development (R&D) are expected to contribute positively to corporate investments. Companies' investments in equipment (vessels excluded) are expected to grow by approximately four percent in both 2020 and 2021.

... while investments in construction activities are slowing down

By contrast, investments in construction are expected to decrease by 0.2 percent in 2020 and by 1.5 percent in 2021. The reason being the exceptionally high level of construction activities this year. In recent quarters there has been a decline in the initiation of construction activities, especially in the larger cities. At the same time, several major civil engineering constructions, including the Metro City Ring and several so called “Super-hospitals”, are being completed within the current and the coming years.

Investment Expectations

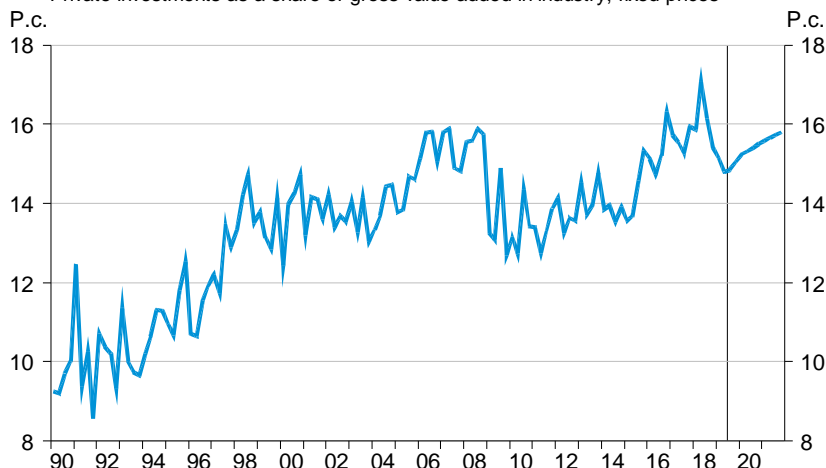
	2018	2019	2020	2021
	Bill. DKK	Percentage volume change		
Gross fixed investments	495	-2,3	0,8	1,6
Gross fixed investments excl. ships	471	0,7	1,3	1,7
Residential investments	110	1,7	-1,9	-1,6
Business investments excl. ships	285	0,0	2,7	2,4
- Business investments in materials excl. Ships	203	-3,7	4,0	4,0
- Business investments in buildings and structures	82	10,1	-0,2	-1,4
Public investments	75	1,9	0,7	3,4

Source: Statistics Denmark and Confederation of Danish Industry

Recent years’ growth in the economy has been accompanied by further investments in companies, especially in equipment. As a result, the investment ratio, defined by investments in equipment measured as a share of gross value added, has risen to a high level. We estimate that the significant dive in the investment quota during the past year was due to increasing uncertainty, but that it will rise again in the coming years without a further increase in uncertainty. However, a great deal of uncertainty remains regarding developments in the world economy that could make companies reluctant to undertake new investments. Thus, the uncertainty has the potential to dampen the appetite for investments and hence the growth of the Danish economy (cf. the scenario outlined in the box above).

Investment rate excl. investment in structures and vessels

Private investments as a share of gross value added in industry, fixed prices



Source: Statistics Denmark and Confederation of Danish Industry

Potential for more private investments

Investments have risen more than employment, which has meant that the amount of capital per employee has increased in recent years. However, there are big differences in the level of investment in Danish companies. Small and medium-sized enterprises (SMEs) in particular, are lagging behind. On average their investments per employee represent less than half of what large companies invest for.

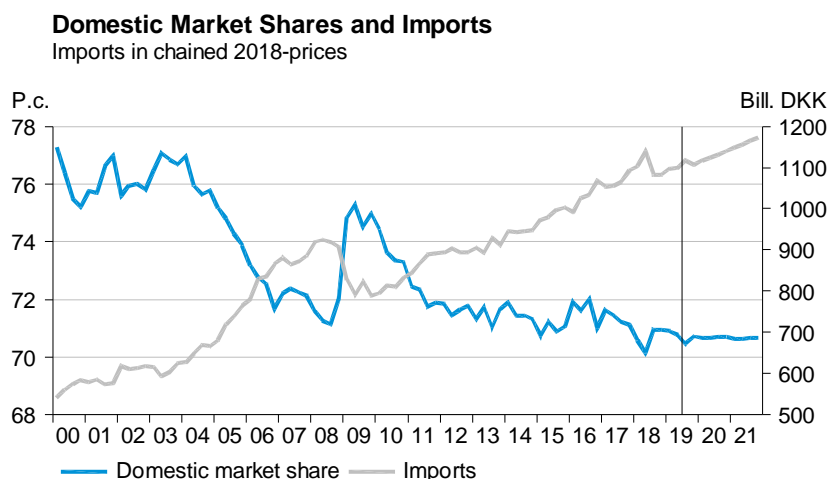
Slowdown in the housing market

Following some years with very high activity in the housing market, a slight decline in investments in housing is anticipated. It has been the construction of new buildings that, up until now, has driven the progress which is now expected to decline. It is, in particular, the construction of apartment buildings that is expected to decline. This is a consequence of the fact, that the supply of housing has increased significantly and thereby has contributed to the declining price increases in the condominium market, in particular. A trend that we see in most major cities in Denmark.

Imports and balance of payments

Increasing import quota

An increasing part of what we use in Denmark, stems from imports. As a consequence, the domestic market share has declined over the past 20 years. The decline in the domestic market share has slowed down somewhat since 2011. However, the recovery of recent years has once again led to declining domestic market shares and thus to an increasing import quota. With the prospect of lower growth in the coming years, only moderate losses of domestic market shares are anticipated.



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

In 2018, imports increased significantly more than exports. The large increase in imports was mainly due to the purchases of vessels in the first half of 2018. Vessel imports have fallen to a more normal level at the end of 2018 and in 2019 so far. Exports

have increased significantly more than imports in recent quarters, which indicates a better balance of payments through 2019.

Macro economic balance in the Danish economy

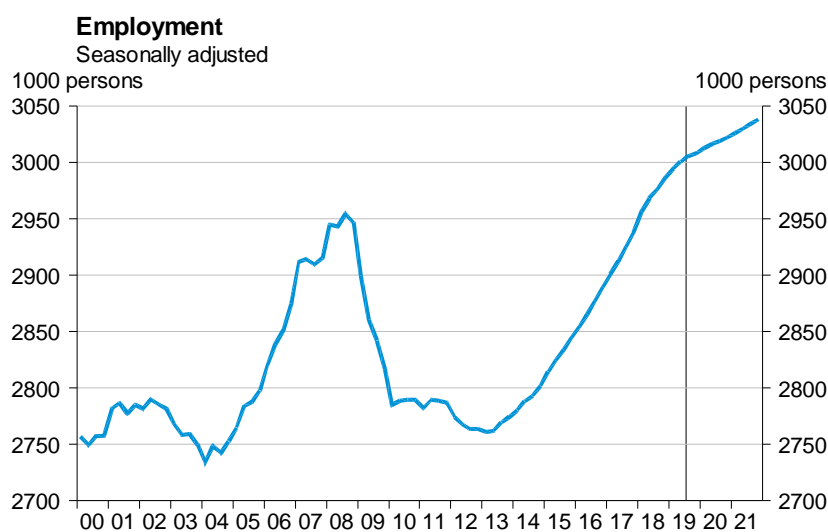
	2018	2019	2020	2021
Surplus on public finances, bn. DKK	12	32	8	14
- percent of GDP	0,6	1,4	0,3	0,6
Balance of payments, bn. DKK	158	201	219	222
- percent of GDP	7,1	8,7	9,2	9,1
Gross unemployment, thousands	108	104	105	107
- percent of work force	3,5	3,4	3,4	3,4

Source: Statistics Denmark and Confederation of Danish Industry

The labour market

244,000 more private sector employees since April 2013

Employment continues to increase, but growth has slowed down slightly in comparison with recent years. In the private sector, employment has been increasing since April 2013. In the period from April 2013 to September 2019, there is a total of 244,000 more private sector employees, while public employment currently is 5,000 individuals more than in April 2013. In the past year – from September 2018 to September 2019 – private employment increased by 30,000 individuals.

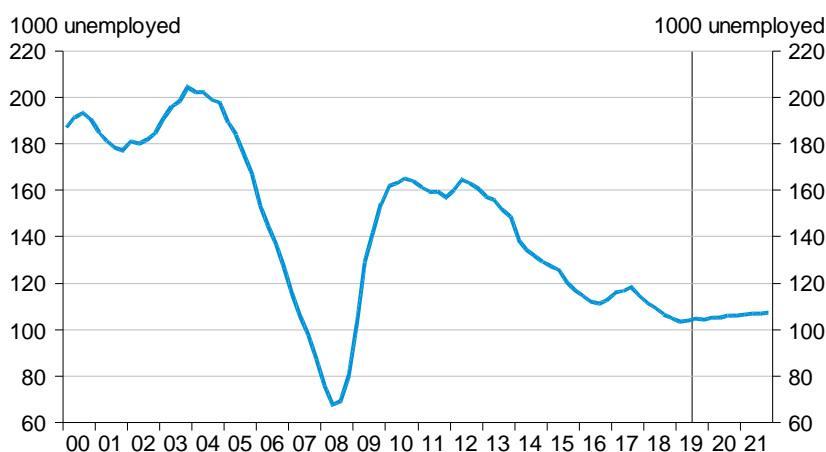


Kilde: Statistics Denmark and Confederation of Danish Industry

Expected employment growth of 30,000 individuals in both 2020 and 2021

The increase in employment is expected to continue in the coming years. In 2019 total employment will be 30,000 individuals higher than in 2018, according to DI's economic forecast. In both 2020 and 2021, employment growth of 15,000 individuals is anticipated.

Gross Unemployment Seasonal adjusted



Source: Statistics Denmark and Confederation of Danish Industry

Unemployment expected to start rising next year

During the past year (from September 2018 to September 2019) unemployment decreased by 18,000 full-time employees. The current level of 104,100 gross unemployed equals 3.7 percent of the workforce. In DI's economic forecast the unemployment level is expected to remain largely unchanged until 2021. From 2018 to 2019, unemployment is expected to decline by 1,000 individuals. However, employment growth looks to be reduced in 2020 and 2021, which is why gross unemployment is expected to increase slightly by 1,000 individuals in 2020 and by another 1,000 individuals in 2021.

A total of 33,000 individuals more in the workforce in 2020 and 2021

For 2019 an increase in the workforce of 29,000 individuals is expected. In 2020 and 2021, a further expansion of the workforce consisting of a total of 33,000 individuals is expected. This development is largely driven by later withdrawal from the labour market, as a result of increases in the retirement age in connection with early retirement and old age pension, as well as by an increase in the number of foreign workers.

Forecast for changes in the workforce, employment and unemployment (net)

Annual change 1,000 persons	2019	2020	2021
Employment	30	15	15
-private sector	28	11	14
-public sector	2	5	1
Unemployment (net)	-1	2	1
Work force	29	17	16

Source: Statistics Denmark and Confederation of Danish Industry

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.