



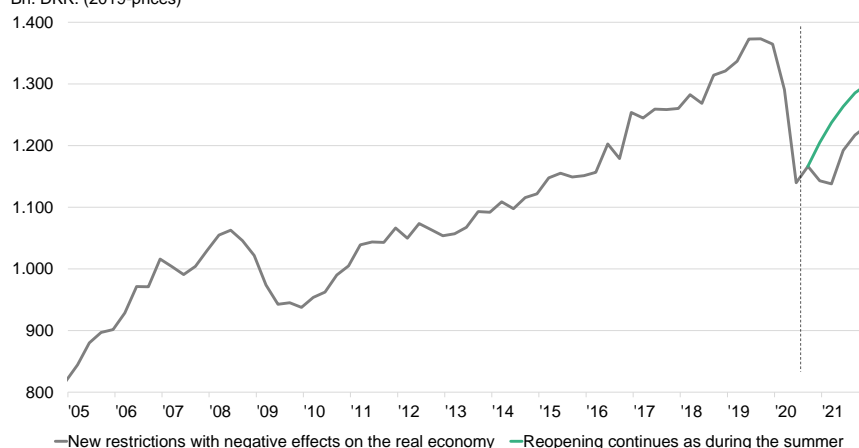
## DI Economic forecast - New lockdowns in Europe place exports under great pressure

Rising infection rates and new lockdowns all across Europe threaten to undermine the economic recovery. Therefore, DI fears that the development of Danish exports will result in the much discussed “W-shape”. The GDP of Denmark is estimated to decrease by 3.5 per cent in 2020 – and increase by just 1.4 per cent in 2021. Should Europe manage to get the infection rates under control again rather quickly and if Danish exports do not weaken significantly, we could be able to obtain a growth of 2.8 per cent in 2021, which is our positive scenario.

Increasing infection rates and new lockdowns have unfortunately become part of our everyday lives again. We fear that a real second

**Export of goods and services will be hit by second wave of corona**  
Annual levels, seasonal adjusted

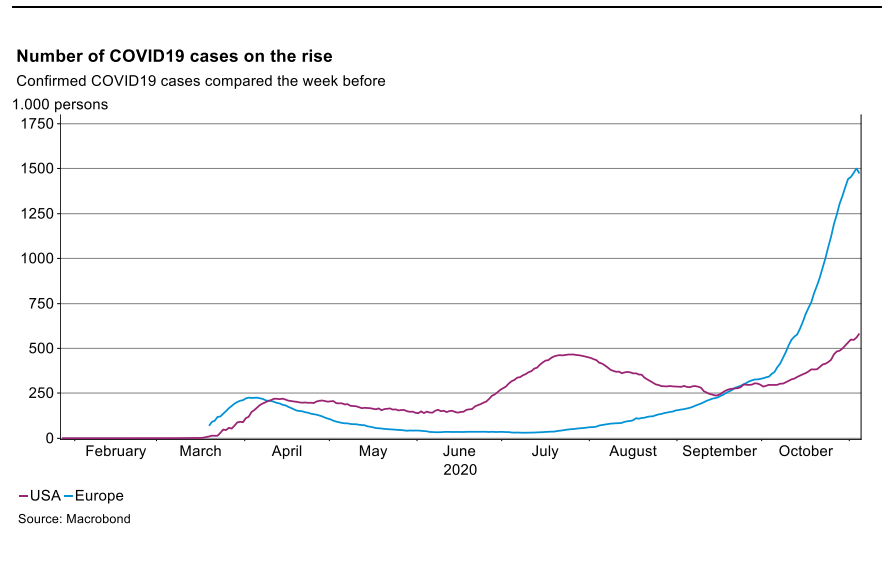
Bn. DKK. (2019-prices)



Source: Statistics Denmark and DI

wave of corona leading to significant lockdowns abroad, will hit exports before having managed to really pick up again. This means that we could end up in a situation where exports will develop into the much discussed “W-shape”.

During October, the number of newly confirmed cases of Covid 19 has risen sharply worldwide. In particular Europe has seen a significant escalation in infection rates. Recent weeks have therefore entailed the reintroduction of restrictions, which in particular aim to limit the size of assemblies, increase requirements regarding the use of face masks and to introduce closing times among restaurants and bars, etc. Some countries and regions have introduced even stricter restrictions. Unless the situation gets under control quickly, we will enter the winter period with the risk of further restrictions, which in turn may affect the economy. New estimates from the European procurement managers, show signs of a decline in activity during the winter months – particularly in the service industries.



A winter with significant restrictions abroad and increased uncertainty is likely to weaken exports and investments in equipment. The newly introduced restrictions with the possibility of even further restriction may affect the turnover in a number of industries. This in turn may weaken the recovery of the economy that has otherwise been underway since summer. After the sharp decline in companies’ turnover, especially in March and April – and with the largest quarterly decline in GDP ever – there was in fact already in May and June an increase in many key indicators. An increase that continued during summer and into fall.

Based on the development in the economic ratios and an assumed second wave of Corona virus with significant lockdowns, we estimate a fall in GDP of 3.5 per cent in 2020 followed by a growth of merely 1.4 per cent in 2021.

It is the assumption that the restrictions in connection with the second wave will not hit Danish economy as hard as in the spring, e.g. because it is assumed that neither educational institutions nor companies will be shut down by restrictions to the same extent as in March. On that basis, private consumption is estimated to be affected to a lesser extent (albeit with possible shifts between types of goods and services) in line with developments so far and helped along by the early payment of holiday allowances put into action by the parliament in order to sustain the Danish economy. A number of industries have already been hit hard and may therefore not experience the same level of decline as in the spring. Many companies have learned from the crisis in the spring. They have taken action and are therefore better prepared for new shutdowns, e.g. by building up stocks, using a larger number of suppliers, positive experience with working from home plus investments in IT and new technology. And finally, the authorities in most countries are trying to a wide extent to keep businesses exempt from restrictions.

It is therefore possible that growth in the economy may weaken further. For example, if consumers, as a result of the restrictions should lose heart and therefore start keeping their wallets in their pockets – or if the restrictions in Denmark become as intrusive as in the spring.

However, it is also possible that we are successful in getting the virus reproduction number under control without very extensive restrictions on businesses and thus on growth. In a positive scenario, it is assumed that the recovery will lose momentum at the end of 2020 and the beginning of 2021, but also that the newly imposed and stricter restrictions both in Denmark and abroad will not derail the recovery of the economy. In this case, we will see a substantial catch up regarding the decline in activity in exports and investments over the next year. However, it is still exports which will take the longest time to recover, since our export markets will be hit harder than Denmark. In the positive scenario, GDP will increase by almost three per cent in 2021 and by the end of 2021 Danish economy will be by and large back at the same level as prior to the Corona crisis.

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| Danish economy: Supply and demand                         |              |             |  |            |  |            |
|---|--------------|-------------|--|------------|--|------------|
|   | 2019         |             | New restrictions with negative effects on the real economy |            | Reopening continues as during the summer |            |
|   | Bn. DKK      | Real growth | 2020   | 2021       | 2020                                     | 2021       |
|   |              |             | Real growth  |            | Real growth                              |            |
| Private consumption                                       | 1.076        | 1,4         | -3,0   | 3,5        | -3,0                                     | 4,1        |
| Public consumption  | 557          | 1,2         | 1,8  | 1,4        | 1,8                                      | 1,4        |
| Fixed investments   | 513          | 2,8         | -0,4   | 0,6        | -0,3                                     | 3,5        |
| - Private investments in equipment (ex. ships and energy) | 216          | 4,5         | -5,0   | -1,0       | -4,8                                     | 5,3        |
| Change in stocks  | 18           | -0,4        | -0,3   | 0,4        | -0,3                                     | 0,4        |
| Domestic demand   | 2.163        | 1,3         | -1,3   | 2,1        | -1,3                                     | 3,4        |
| Export of goods and services                              | 1.362        | 5,0         | -13,0  | 0,8        | -11,9                                    | 5,9        |
| - of which goods  | 805          | 6,9         | -4,3   | 0,4        | -3,6                                     | 2,9        |
| Import of goods and services                              | 1.190        | 2,4         | -10,3  | 2,1        | -9,2                                     | 7,5        |
| - of which goods  | 701          | 1,5         | -5,8   | 1,3        | -5,3                                     | 4,4        |
| <b>GDP at market prices</b>                               | <b>2.335</b> | <b>2,8</b>  | <b>-3,5</b>  | <b>1,4</b> | <b>-3,5</b>                              | <b>2,8</b> |
| GVA in industry   | 1.423        | 3,3         | -4,2   | 1,6        | -4,2                                     | 3,6        |

Note: Changes in stocks as a percent of GDP in the previous year  
Source: Statistics Denmark and Confederation of Danish Industry

The economic downturn led to a significant decline in companies' need for employees during the spring. When the crisis peaked, there were about 200,000 fewer full-time employees than before the crisis. This corresponds to a reduction in the need for employees by about 10 per cent. However, employment did not decrease nearly as much. The need for employees has increased significantly over the summer in connection with the gradual reopening. It is therefore possible, that the loss will be limited to 20–25,000 jobs in 2020 compared to the year before, which corresponds to less than one per cent. This is primarily due to the implementation of a number of aid packages of which the wage compensation scheme in particular has helped sustain several thousand jobs. The wage compensation scheme has not covered all expenses for the companies, but the companies have demonstrated community spirit and has helped ensure the continued employment of the employees. The aid packages have also made a significant contribution in curbing the increase in unemployment. Next year, an increase in employment of 6,000 individuals is estimated, but should we succeed in getting the virus under control, there may be a prospect of an increase of as much as 24,000 individuals.

The uncertainty of this forecast is extraordinarily high. In the following part of the forecast, real economic consequences of the new restrictions are assumed. However, the decline will not be as significant as in the spring. It may well worsen. However, it is also still possible that we will not see seriously negative consequences for the economy from the second wave, resulting in the forecast below turning out to be too pessimistic.

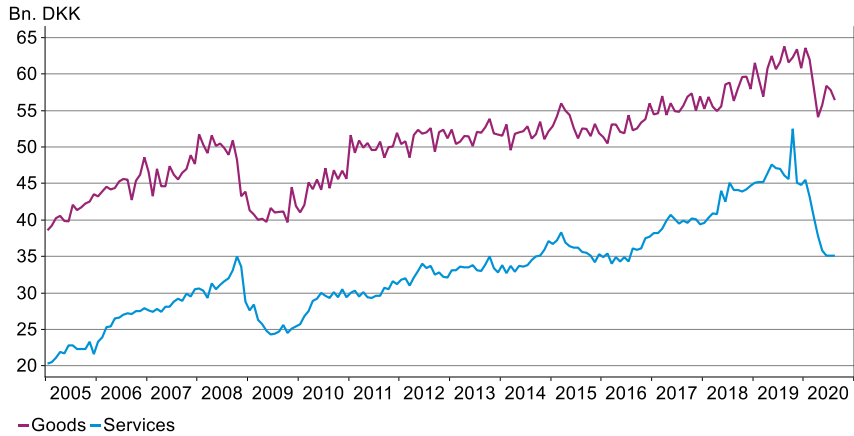
### Historic downturn for Danish exports

World economy is experiencing the biggest setback since World War II. The corona crisis has caused major economic losses in the European economy. Weak demand from abroad and travel restrictions

have weakened Danish exports, which now face the biggest downturn in Danish history.

**Danish exports of goods and services**

Export in current prices, seasonal adjusted



Source: Macrobond

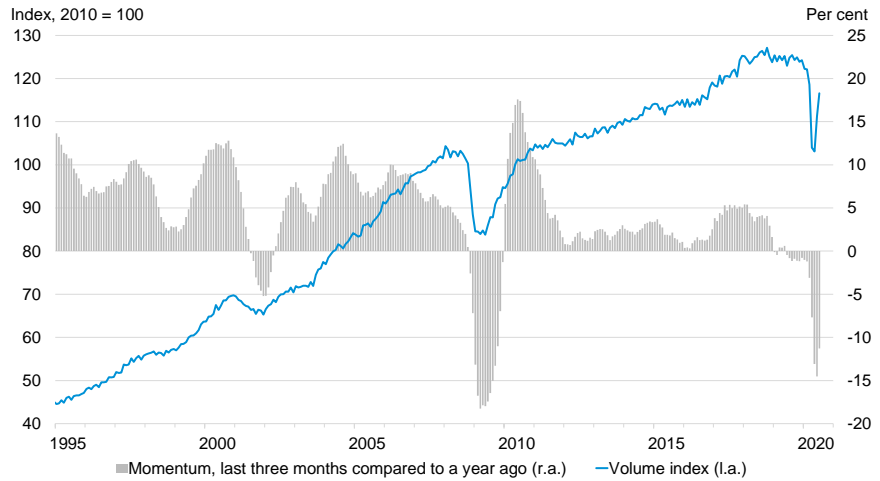
Exports of goods dropped by nine per cent in the second quarter. A decline that would have been even bigger if exports of medicines and food had not increased during the past year thus helping to sustain total exports. Preliminary figures for exports of goods suggest an increase in the third quarter.

In contrast, exports of services have been hit hard. Exports of services had a steep decline in both first and second quarter and is therefore, in the first half of the year as much as 22 per cent below the level of last year. In particular air transportation and tourism have suffered significantly. The latest figures for the balance of payments show signs of a further decline in the service exports in the third quarter.

The international key figures with regards to, for example, business confidence, industrial production and world trade have since summer indicated that the world economy was past the worst and that recovery was underway.

**Development in world trade**

Traded volumes, seasonal adjusted



Source: CPB World Trade Monitor

The latest forecast from the IMF (International Monetary Fund) shows that the world economy as a whole will regain what was lost during 2021. However, the group of wealthy countries which account for the majority of Danish exports will still not be at the same level as before the crisis in 2021. The IMF, however, emphasizes the presence of significant negative risk factors and states that in a negative scenario where it is not possible to contain the spread of the virus, growth in the world economy will weaken by four percentage points in 2021. Unfortunately, recent developments in the spread of the virus is indicative of the negative scenario materializing.

Based on the latest development, a decline in exports of almost 13 per cent in 2020 is expected – which will then be the largest export decline ever seen since the introduction of the national accounts in 1966.

Exports are not expected to grow until the spring. This means that exports will only grow by approximately one per cent in 2021. By the end of 2021, exports will therefore still be far from the level prior to the corona crisis. In particular air transportation and revenues from travel are expected to have a long way back to past levels.

If the recovery of the world economy continues over the winter, we may see a more favorable development in exports, but even in this scenario exports will still have a long way to go by the end of 2021 before having recovered what was lost.

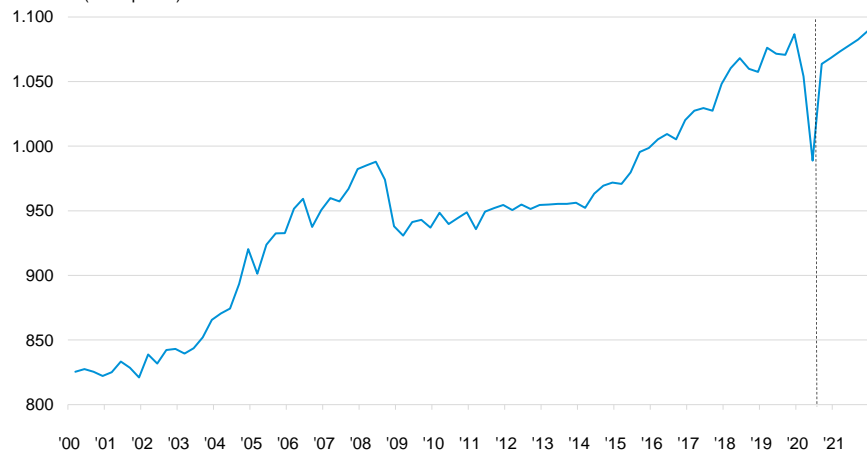
### Private consumption

Private consumption dropped dramatically during the lockdown in March and April, where by and large only grocery shops were open. The turnover of those shops rose sharply, as restaurants and bars were shut down temporarily and people stayed at home. However, the absence of tourist purchases of consumer goods had the opposite effect on retail trade.

Hand in hand with the reopening, private consumption has by and large returned to previous levels. Credit card purchases have actually been higher in recent months than during the same months last year. However, it should be remembered that Danes also have consumption that is not paid for by card. In connection with the crisis the use of cash seems to have been reduced significantly, which could then also explain the high turnover from cards. Increased online purchases has been an important factor in driving this development.

**Private consumption catches up**  
Annual levels, seasonal adjusted

Bn. DKK. (2019-prices)



Source: Statistics Denmark and DI

It is also important to remember that companies targeting private consumption get a large share of their revenues from tourists. This applies not least to hotels and restaurants, especially in the capital. Holiday homes outside the capital have to a greater extent than usual been rented out to Danes rather than to tourists. Tourist revenues will remain greatly reduced in the time to come.

Overall private consumption is estimated to decrease by three per cent in 2020. However, in 2021 we expect the recovery of even more than what was lost as consumption is expected to increase by 3.6 per

cent. The Danes had a robust private economy when the crisis hit. Several years of increase in real wages, interest rates at a record low and employment having reached new heights. Fortunately, this favorable starting point has not been decisively changed during the crisis, and together with the early release of the holiday pay, it should help restore private consumption quickly.

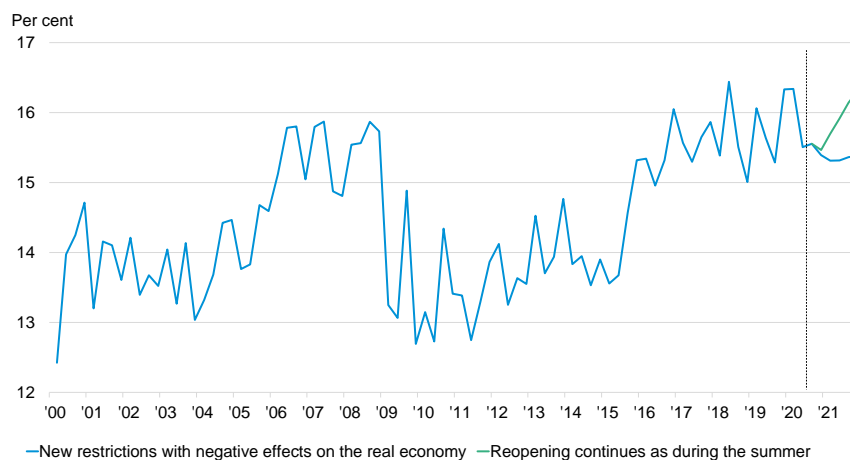
In the case of stricter restrictions being introduced in Denmark, consumption growth may be lower than estimated in the forecast. If on the other hand, the recovery of the economy is faster than expected, the increased growth and employment will give rise to higher level of consumption growth.

### Private investments

Total business investments (ships and energy excluded) are expected to drop by 3.6 per cent in 2020. In 2021 a slight decline in business investments of 0.3 per cent (ships and energy excluded) is expected.

It is the companies' lacking investments in equipment (ships and energy excluded) that are the reason for the decline in business investments in 2020. Increased uncertainty and the prospect of continued low level of growth abroad means that part of the deferred investments in equipment is not expected to be carried out in 2021, causing investments relative to value added to decrease slightly. If, on the other hand we are successful in keeping the summer's economic recovery on track, the deferred investments in equipment may still be completed as early as in 2021.

**Investments in equipment are postponed due to low growth and uncertainty**  
Commercial equipment investments (ex ships and energy) as a percentage of private value added



Source: Statistics Denmark and DI



In particular, the procurement of means of transportation, including trucks, which fell by as much as 35 per cent in the second quarter, contributed to drag down investments. However, imports of means of transportation are increasing and were almost back to pre-corona levels already in July.

Investments in equipment are at a low level and are only expected to start increasing again as the economy recovers. This applies, in particular, to investments in equipment and in means of transportation, which are both typically very sensitive to fluctuations in the economy. Companies' investments in the digital transformation as well as in research and development (R&D) seem to have been strengthened during the corona crisis, as digital forms of work and meetings have been in demand. There has also been an increased demand for online sales channels. Companies' investments in equipment (ships and energy excluded) are expected to drop by 5.0 per cent in 2020 and followed by a further decline of 1.0 per cent in 2021.

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#### Investment expectations

|  | 2019    | 2019              | 2020 | 2021 |
|--|---------|-------------------|------|------|
|  | Bn. DKK | Growth in volumes |      |      |
| Gross fixed investments                                    | 513     | 2,8               | -0,4 | 0,6  |
| Residential investments                                    | 115     | 6,2               | 4,9  | 4,9  |
| Business investments, excl. ships and energy               | 309     | 3,8               | -3,6 | -0,3 |
| - Business investments in equipment excl. ships and energy | 216     | 5,0               | -5,0 | -1,0 |
| - Business investments in buildings and structures         | 92      | 11,9              | 3,8  | 2,0  |
| Public investments   | 77      | 0,3               | 7,7  | 3,1  |

Source: Statistics Denmark and DI

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On the other hand, investments in buildings and constructions are expected to increase by 3.8 per cent and by 2.0 per cent in respectively 2020 and 2021. The increase in 2021 is, among other things, due to more investments in constructions within utilities such as water and wastewater, energy and digital infrastructure. When it comes to traffic, there has been a downward trend, but in 2021 the work to build the Femern Belt connection will be initiated. An event that is expected to contribute to an increase of investments in buildings and constructions in coming years. Furthermore, the suspension of the budget limit for constructions for municipalities and regions in 2020 as well as the introduction of a higher level of construction in 2021 is also expected to offer a positive contribution to public investments in buildings and constructions.

On the other hand, investments in non-public constructions, are expected to be at a moderate level in 2020 and to undergo a slight decline in 2021. The activities that were initiated prior to the corona crisis will be completed, but next year we will begin to see the effect

of the fact that not very many new construction projects were initiated while the corona crisis was at its highest.

Usually housing investments are characterized by a high sensitivity to fluctuations in the economy, resulting in a steep increase in periods of economic growth and a significant decrease in periods of decline. But so far, the housing market has done much better than expected during the corona crisis. The robust starting point is the primary reason for the relatively good development in the housing market so far, despite of the corona crisis having hit the economy hard. This goes to show that homeowners are generally well prepared to endure economic hardship.

Housing market activity is at historically high levels and has led to increased prices in 2020. The positive development in prices leads to higher levels of equity which together with the early release of the holiday pay will provide favorable circumstances allowing homeowners to finance major improvements in their home, including e.g. energy improvements.

With the Agreement on Housing 2020, “Grøn Boligaftale”, DKK 30bn from Landsbyggefonden, The National Building Foundation, were set aside for the renovation of non-profit housing in the period 2020-2026. It is estimated that the agreement will result in additional investments of DKK 3.6bn in 2020 and DKK 9.4bn in 2021.

On the other hand, it is expected that investments in new housing, which have otherwise been the driver of growth until the crisis, will decrease slightly over the coming years. It is the assumption that investments in multi-story housing is likely to have peaked. However, the construction of new buildings will remain at a relatively high level. Investments in housing are expected to increase by 4.9 per cent in both 2020 and 2021.

### **Public consumption is affected by corona**

There was a decrease in real public consumption in the first half of 2020. This must be seen in the light of public employees being sent home from work without being able to work from home. The Ministry of Finance estimates that this alone reduce real public consumption by DKK 5bn in 2020.

By the end of the second quarter of 2020 public employment amounted to 822,600 individuals, which is a decrease of approximately 10,000 individuals since the end of the third quarter of 2019. We expect public employment to recover to a level of around 835,000 individuals towards the end of 2020 and into 2021. This implies approximately 1,000 additional public employees in 2020 compared to 2019 and an increase of approximately 6,500 individuals from 2020 to 2021.

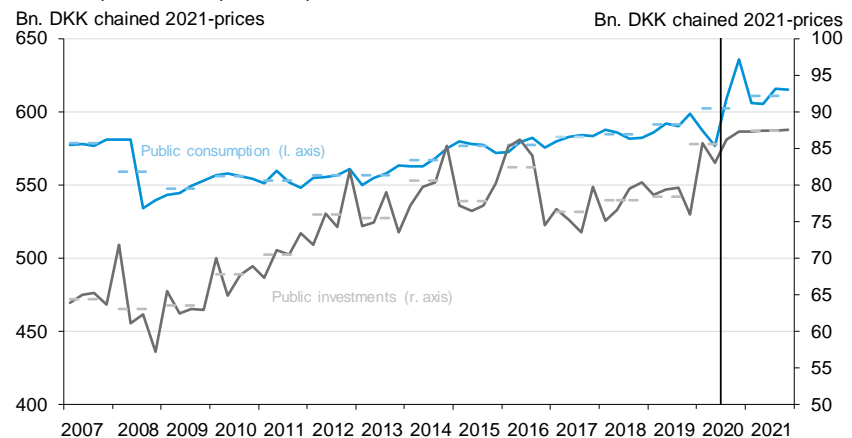
It is our assessment that the increase in public employment will occur in 2021 rather than in 2020, due to employees being sent home from work in March, April and May. As a result, we estimate a greater impact on public consumption. It is our assessment that the fact that employees have been sent home, will by itself reduce real public consumption in 2020 by DKK 9bn.

Although employees having been sent home from work will significantly reduce public consumption in 2020, we estimate a relatively high real growth of 1.8 per cent. The assessment must be seen in the light of the fact that very significant public procurements are being planned in order for society to be able to handle the COVID-19 epidemic. There is some uncertainty about the timing of the procurement of these goods, and part of the estimated real growth in 2020 may quite possibly be postponed to 2021.

For 2021 we estimate a real growth in public consumption of 1.4 per cent, which is 0.8 percentage points higher than what the Ministry of Finance expects based on the Finance Bill for 2021. Our higher estimate regarding growth must be seen in light of our lower estimates for 2020, and because we have assumed that DKK 2bn will be spent by the government’s so-called “krigskasse” (recovery reserve) for public consumption.

**Growth in public consumption and public investments**

Estimated public consumption and public investments, 2007-2021, Bn. DKK.



Note: The horizontal dotted lines show the yearly averages.  
Source: Statistics Denmark and CDI.

The recovery reserve amounts to a total of DKK 9.2bn, of which we have assumed DKK 1.5bn for public investments, DKK 2bn for public consumption, and the remaining DKK 5.7bn for subsidies.

Public investments are estimated to increase by 7.9 per cent in 2020. The high growth must among other things be seen in light of the fact that municipalities and regions have been offered free rein to carry out construction projects in 2020. Our estimate is identical to the estimate of the Ministry of Finance. For 2021 we estimate a growth of 3.4 per cent.

### **The labour market**

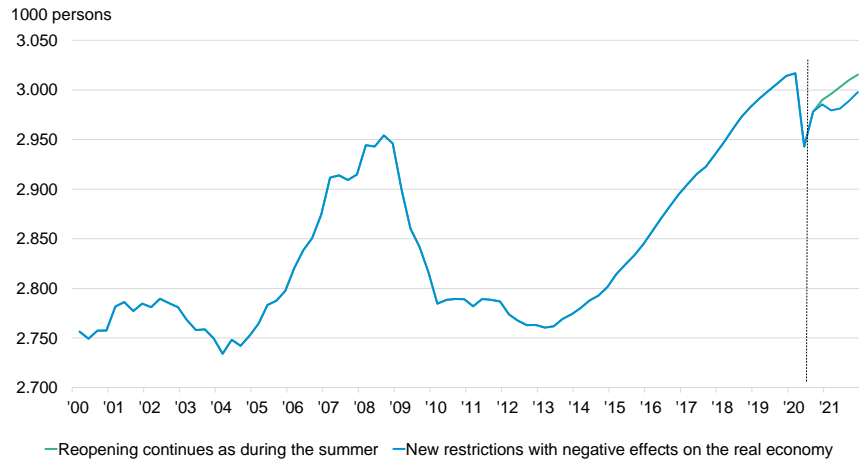
In February 2020, 2,802,000 individuals were registered as employed employees, which is the largest number ever. The significant employment growth of more than 260,000 jobs since the spring of 2013 came to a very abrupt halt in March. In March, April and May employment dropped by a total of 79,000 individuals.

The figures for June, July and August subsequently showed an increase in employment among employees of 41,000 individuals, which has brought the total decline in employment since February down to 38,000 individuals. The positive development in employment over the summer must be seen in the light of the gradual reopening of the activities in society.

However, the impact on the labour market of the corona crisis has been more significant than the figures for the employment development would seem to suggest, since as much as 280,000 individuals have received wage compensation benefits during the crisis. Recipients of wage compensation are considered employees, as they receive wages from their employer in the same way as usual.

In 2020 employment will be 22,000 lower than in 2019, according to the this forecast. In 2021, an increase in employment of merely 6,000 individuals is expected. Private employment in 2021 is expected to be at the same level as in 2020.

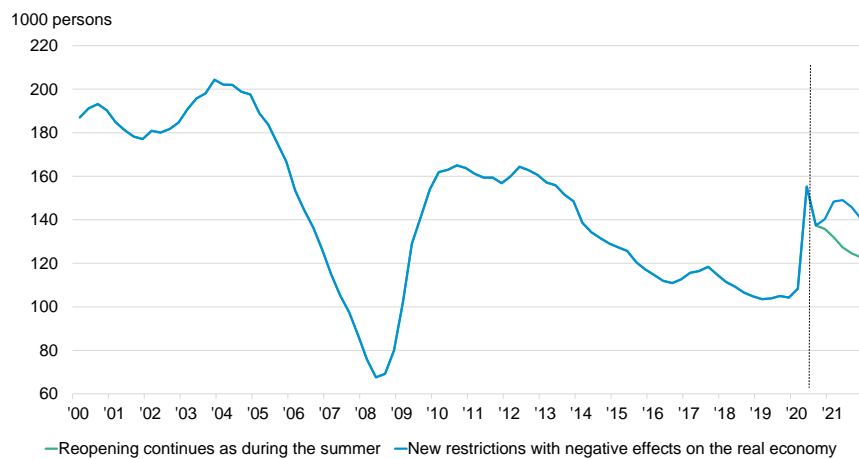
**Employment**  
Seasonally adjusted



Source: Statistics Denmark and DI

The corona crisis has also led to an increase in unemployment from 3.7 per cent in February to 5.6 per cent in May only to drop again to 4.9 per cent in August, which is the most recent month for which official unemployment figures are available. The development from 3.7 per cent to 4.9 per cent corresponds to an increase of 34,000 individuals (measured in full-time employees).

**Gross unemployment**  
Seasonally adjusted



Source: Statistics Denmark and DI

In addition to the official unemployment figures from Statistics Denmark, the Ministry of Employment has published daily figures for how many unemployed people are registered throughout the corona crisis. These figures provide a much more current picture of the development showing a generally declining unemployment rate also in September. On October 22, unemployment was 23,000 individuals higher than calculated on 9 March 2020.

DI expects that unemployment for 2020 as a whole will be 35,000 above the level for 2019. In 2021 unemployment is expected to increase by a further 3,000 individuals. The second wave of corona infection spread is slowing down labour market recovery.

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

|                    | 2018 | 2019 | 2020 | 2021 |
|--------------------|------|------|------|------|
| Private employment | 40   | 32   | -23  | 0    |
| Public employment  | 6    | 5    | 1    | 6    |
| Unemployment (net) | -5   | -1   | 35   | 3    |
| Work force         | 41   | 36   | 13   | 9    |

Source: Statistics Denmark and DI

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An expansion of the workforce of 13,000 individuals is expected in 2020 and a further expansion of the workforce of 9,000 individuals is expected in 2021. The positive development is due to later retirement as a result of age increases in the early retirement age and old-age pension schemes as well as increased use of foreign labour. But there is another trend that pulls the development in another direction, namely the temporary effect of the corona crisis on structural unemployment and on the influx of foreign labour. Furthermore, the demographic development is also a contributing factor in reducing the workforce in 2020.

According to plan, the recently concluded political agreement on the right to early retirement is not expected to have an impact on the labour market until 2022, where the agreement is expected to result in a reduction in the workforce.

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### **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 industries.

The estimates applied regarding developments abroad are based on the assumption of more extensive shutdowns being implemented due to the corona virus, but that the situation in the spring of 2021 will be normalized allowing restrictions to be removed. Shutdowns are not expected to be as extensive as in the spring. The assumption being that increases in the so-called reproduction number will be handled with more regional and more targeted restrictions and that a vaccine will be introduced sometime in 2021. It is assumed that shutdowns in Denmark will not have any significant effect on private consumption, public consumption or construction activity.

DI has based this forecast on data from Statistics Denmark on employment rather than data stemming from national accounts because there is an incredible discrepancy.

The forecast has been finalized on Monday, 26 October 2020.

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