DI ANALYSIS

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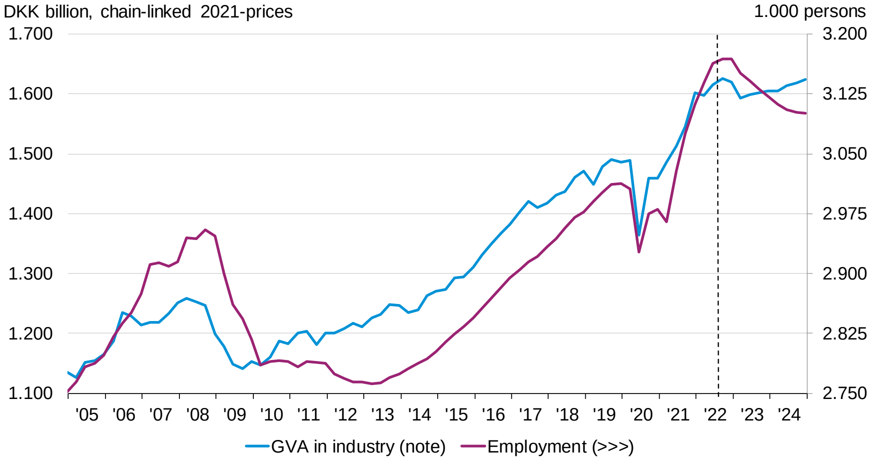
Economic Forecast: Downturn of the economy

Both production and employment have increased sharply until the third quarter of 2022. But now the trend is reversing. High prices and rising interest rates have led to widespread pessimism among consumers and have also had an impact on the optimism of businesses. Our most recent forecast shows a decline in GDP of 0.8 percent and declining employment in 2023.

High prices and a significantly higher level of interest rates have led to a dramatic decline in consumer confidence in particular, but also to a decline in the confidence of businesses. This is expected to lead

No growth and drop in employment
Seasonal adjusted, annual levels



Note: Gross value added in industry
Source: Statistics Denmark and DI

to an economic downturn at the end of 2022 and into 2023. Both private consumption and investments are expected to undergo a decline. In particular, construction activities are expected to be reduced. However, this should be seen in the light of the fact that the starting point is at a very high level.

DI estimate that the GDP will decrease by 0.8 percent in 2023, followed by an increase of 1.5 percent in 2024. A large part of the growth in GDP in 2024 is related to an expected reopening of the Tyra (Southeast) Oil and Gas Field. Employment will decrease by almost 69,000 individuals from the 4th quarter of 2022 to the 4th quarter of 2024.

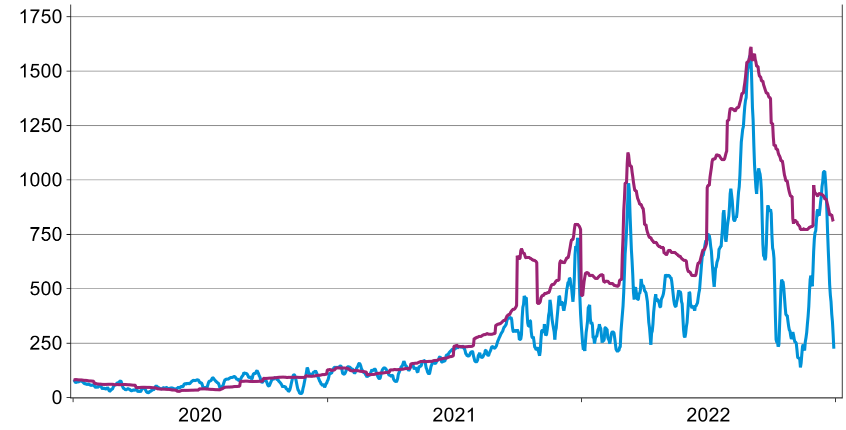
When it comes to the outlook for 2023 and 2024 – both years are characterized by extraordinary uncertainty. An uncertainty that is in particular linked to inflation. Should inflation continue to rise, it will increase the pressure to increase interest rates even more than expected which in turn will weaken growth and employment more than estimated in this forecast.

Extraordinarily high inflation, which has peaked

During 2022 inflation has risen to an extraordinarily high level.
In October, total consumer prices were 10.1 percent higher than the previous year, reaching the highest level in 40 years. The high level of inflation is, among other things, due to the fact, that prices on electricity and gas have been at an extraordinarily high level. However, full gas stocks and a very mild autumn have led to electricity and gas prices falling sharply again during the autumn. So far, this development has not materialized in the published data in the consumer price index, but it is expected to show in the data for consumer prices for November and December 2022.

This forecast assumes that prices on electricity and gas will rise slightly from the current level again during winter, but also that it will not reach the price levels of August and September. Prices on gas and electricity will remain high, but significantly lower than the level included in the consumer price index for October reflecting producer prices in the previous months. However, great uncertainty remains not least when it comes to energy prices, which can be strongly affected by wind and weather.

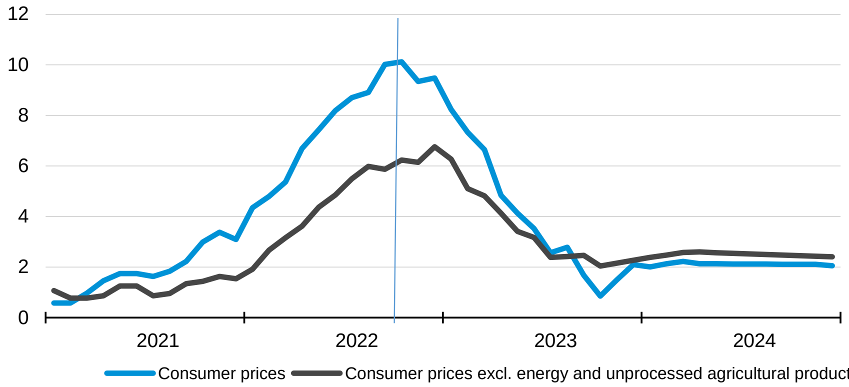
Large fluctuations in energy prices
Prices on gas and electricity
Jan. 2020 = 100



Source: Macrobond

Inflation measured by consumer prices is expected to reach 7.8 percent this year. It is expected to decrease to 3.8 percent in 2023 and to 2.1 percent in 2024.

Inflation has reached the top
DI's expectations for the developement of consumer prices
Annual groth in per cent



Source: Statistics Denmark and DI

Negative growth in 2023

The Danish economy has so far held strong through 2022 with an estimated growth of 3.2 percent in the current year. However, the good times in the Danish economy are coming to an end. A decline in the Danish economy is expected already in the 4th quarter of 2022. A decline that is expected to continue into 2023. Overall, the Danish economy is estimated to shrink by 0.8 percent in 2023 when measured on an annual basis. The decline is due to decreasing consumption and investments. Furthermore, also inventory investments have a major impact on growth.

Growth is heavily influenced by a substantial inventory build-up in 2022. As inventory investments are included in GDP these investments lead to an extraordinarily high level of GDP in 2022. As the level of inventory investments is expected to return to a lower level in both 2023 and 2024 this will cause growth in GDP to dampen again simply because the large stock piling is not repeated.

Supply and Demand in the Danish Economy

	Level 2021	2021	2022	2023	2024
	Bn DKK	Real annual growth, p.c.			
Private consumption	1142	4,1	-1,4	-0,5	1,7
Public consumption	608	4,2	0,2	-0,9	0,4
Gross fixed investments	566	6,2	5,0	-5,0	-0,1
Change in stocks	9	0,0	1,3	-0,5	-0,1
Domestic demand	2328	4,6	1,5	-2,1	0,9
Exports of goods and services	1493	8,0	5,9	1,6	2,5
of which goods	893	11,4	3,4	0,9	3,5
Imports of goods and services	1317	8,0	3,3	0,0	1,8
of which goods	815	10,5	0,3	-1,2	1,8
GDP at market prices	2505	4,9	3,2	-0,8	1,5
GVA in industry	1538	6,5	5,0	-0,9	1,0

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

Source: Statistics Denmark and Confederation of Danish Industry

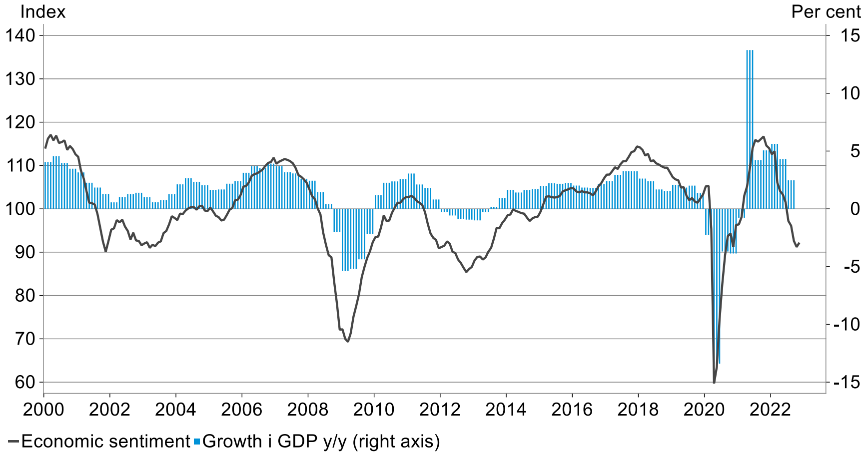
There are good prospects for renewed growth of 1.5 percent in GDP in 2024. In particular when it comes to private consumption in 2024 a renewed upswing is expected, while the decline in housing investments will continue. In 2024 the reopening of the Tyra (Southeast) Oil and Gas Field after repairs will have a positive effect on GDP. This is estimated to increase GDP by almost half a percentage point in 2024. The reopening of the Tyra gas field allows us once again to become self-sufficient in natural gas. However, we have pledged solidarity with the other EU countries, which is why there may still be a domestic shortage of gas, as private customers in other EU countries will be prioritized over Danish businesses.

Demand from abroad has weakened

The high level of inflation and sharply rising interest rates are also slowly taking the air out of the economy in both Europe and the US. In the 3rd quarter we saw progress in the economy in both the US, China and Europe. However, the European economy grew by just 0.2 percent in the 3rd quarter resulting in the lowest growth in six quarters. Economic activity is expected to slow down during winter. The weighted confidence in the European economy has undergone a sharp decline and signals negative growth. In Germany the reliable Ifo index indicates that expectations for the coming six months are strongly negative.

Economic sentiment and growth in EU

Development in real GDP and economic sentiment in EU



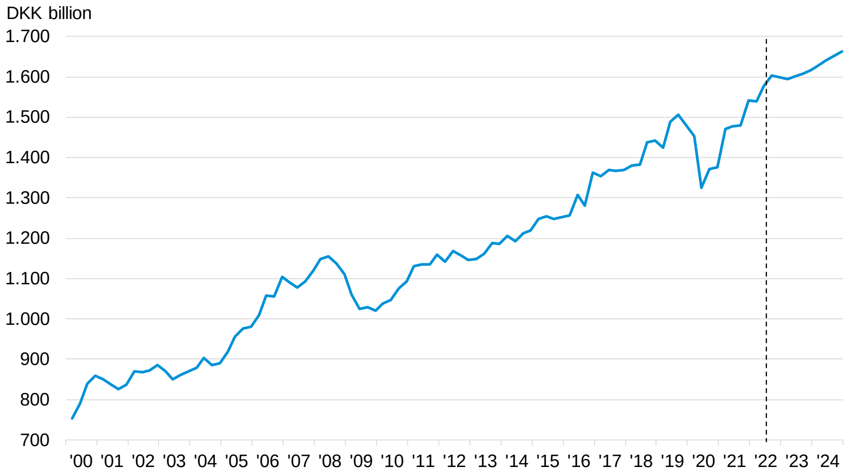
Source: Macrobond

Among all the latest international forecasts from, for example, both the IMF, Oxford Economics and the OECD, there is general consensus on world growth undergoing a sharp slowdown in 2023. In the most recent forecast from Oxford Economics, an economic decline is expected in both the US and in the Eurozone in 2023. The OECD estimates a small growth in both the US and in the Eurozone of 0.5 percent in 2023. According to the OECD, 2023 will offer a decline in both Germany, Sweden and in the UK.

The low level of growth of the world economy and especially on some of our largest export markets weakens the prospects for exports in 2023 considerably.

So far exports have done very well with nice progress in both exports of goods and services through 2022. This is particularly true for exports in current prices, as increasing prices for example on energy and freight have helped increase the value of exports. Even when adjusting for the developments in prices, there has been a nice increase in exports in 2022. However, exports fell by 3.5 percent in September, which could very well be the first warning that we are beginning to see a slowdown in demand abroad.

Export of goods and services
Seasonal adjusted, annual levels. Chain-linked 2021 prices



Source: Statistics Denmark and DI

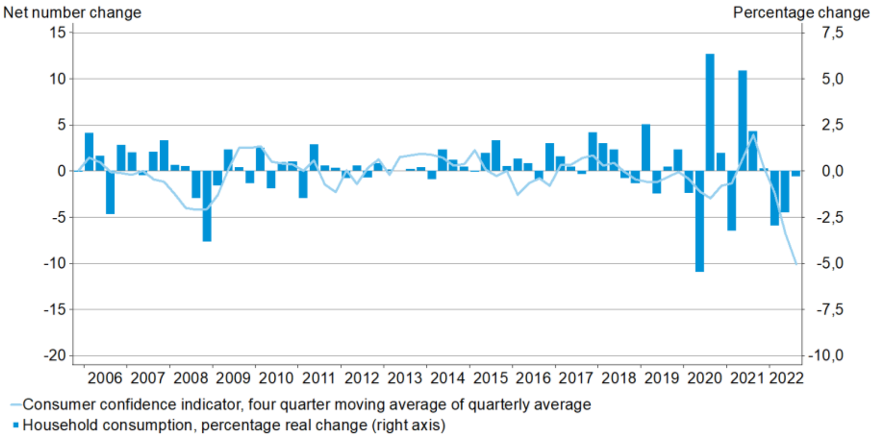
When it comes to 2022 as a whole, the exports of goods and services are expected to increase by almost 6 percent. In the coming period the progress in exports will slow down due to lower growth abroad. Exports are expected to undergo a slight decline in the first half of 2023. On an annual basis, a growth in exports of 1.6 percent is expected in 2023. Growth in exports is expected to rise to 2.5 percent in 2024.

Increasing uncertainty in households

Household consumption had a very good starting point this year due to a strong growth throughout 2021. After a major decline in the 1st quarter and an only marginal increase in the 2nd quarter, we are now faced with the prospect of a real decline in 2022 in comparison with the previous year.

DI estimates the decline in the last quarters of the year to be relatively limited, resulting in an overall real decline in private consumption in 2022 of 1.4 percent. This must, among other things, bee viewed in the light of the fact that the preliminary indicators regarding the third quarter are stable. However, the development in private consumption is associated with a high level of uncertainty, especially in light of the very low consumer confidence. The consumer confidence indicator is usually a good indicator of how private consumption will develop, and throughout 2022 it has shown a deep and increasing pessimism in households.

Quarterly changes in household consumption and consumer confidence



Source: Macrobond

The low consumer confidence must, among other things, bee seen in the light of the fact that the current increases in prices and interest rates constitute a significant financial pressure for a large proportion of households. However, employment has increased sharply over recent years, and many have had a strong private economy to begin with. The decline therefore, is expected to be somewhat smaller than what the consumer confidence indicator implies.

The high level of inflation puts pressure on the real incomes of all households. In addition, during the forecast period households with variable rate loans will experience a strong increase in expenses regarding interest rates when refinancing loans and will therefore be left with less money for consumption. In 2022 the increasing interest rates on mortgage bonds have increased the demand for up-conversion of mortgage loans among homeowners. In the short term, up-conversions lead to capital gains, however, also to increasing interest costs for households if interest rates do not fall again soon.

The development in private consumption in 2022 can partly be attributed to a sharp drop in the acquisition of vehicles at the beginning of the year, due to extended delivery times for a number of components. The number of newly registered cars dropped 60 percent in the first quarter of 2022 and has since then only regained part of what was lost. However, due to the fact of consumers having switched to larger cars in the same period and having imported an increasing number of cars from abroad the impact on consumption is somewhat smaller. It is assumed that part of the decrease in the acquisition of vehicles will be regained in 2023. The purchase of vehicles will therefore contribute positively to the development of private consumption in 2023. When disregarding the acquisition of vehicles, private consumption will display a negative growth of 1.4 percent in 2023 compared to 2022.

Expectations for private consumption including and excluding cars
Private consumption, chain-linked 2021 prices

	Bn DKK	Percentage real change			
	2021	2021	2022	2023	2024
Total private consumption	1.106	4,1	-1,4	-0,5	1,7
Private consumption net vehicle purchases	1.057	4,3	-0,9	-1,4	1,9

Changes in 2022, 2023 and 2024 are the forecasts of DI.
Source: Statistics Denmark and DI.

Overall private consumption is expected to fall by 1.4 percent in 2022 and by a further 0.5 percent in 2023. When excluding the purchase of vehicles, there is a larger drop in private consumption in 2023. As for 2024 an increase in overall private consumption of 1.7 percent is expected.

High interest rates and uncertainty lead to fewer investments

It is expected that investments in housing will drop from a very high level. In recent years the housing market has been red-hot characterized by both many new constructions as well as a high level of renovations and maintenance of the existing housing stock.

Increasing interest rates is one of the most important factors affecting the demand for housing. And since interest rates have risen sharply since the turn of the year, the higher mortgage rates will dampen the Danes' desire and ability to buy and renovate a home.

An increasing number of Danes find it difficult to obtain a bank approval to buy a home due to the high interest rates and the high level of inflation. Furthermore, housing costs have also increased as a result of increasing energy prices. At the same time house prices have started to fall as a consequence of both high interest rates and high housing costs. However, should you look at the overall development in prices in recent years homeowners are still left with a significant increase in equity. Since the corona pandemic shut down the country, house prices have increased by approximately 20 percent on a national level. Simultaneously, the level of employment is very high and the housing burden is still relatively low, despite rising interest rates and housing costs. However, it should be noted that there are large geographical differences in how the housing burden has developed. It has increased in the Capital region of

Denmark. All things considered this should also help supporting the housing market.

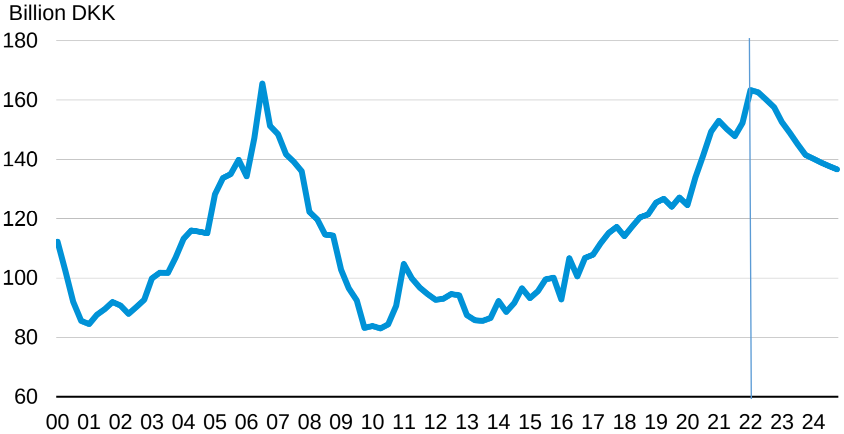
A high level of construction costs is also expected to affect investments in housing negatively during the forecast period. Likewise, falling prices and less activity in the housing market will inevitably lead to fewer investments.

The growing interest in saving energy may lead many homeowners to focus on energy renovations and change of heating source from gas and oil boilers to district heating or heat pumps. This should help keep investments in housing a foot.

Housing investments are expected to undergo an overall drop of 8.6 percent in 2023 and a further 5.9 percent in 2024.

Housing Investments are Declining from a High Level

Seasonal adjusted annual level, chained 2021-prices



Source: Statistics Denmark and DI

Businesses' investments in buildings and constructions have also increased sharply in recent years and are at a high level. However, due to rising interest rates and high prices on energy and materials, it is expected that construction will slow down in 2023 and 2024. The rolling out of district heating, green conversions of the supply area, The Fehmarn Belt Fixed Link, road maintenances as well as the infrastructure plan will, however, pull in the opposite direction and help contribute positively to investments in building and constructions in the coming years.

Overall, businesses' investments in buildings and constructions are expected to drop by 7.5 percent in 2023 followed by an increase of 3 percent in 2024.

Investment Expectations	2021	2021	2022	2023	2024
	Bill. DKK	Percentage, volume changes			
Gross fixed investments	**566**	**6.2**	**5.0**	**-5.0**	**-0.1**
Gross fixed investments excl. ships	554	5.3	6.7	-4.8	-0.1
Residential investments	151	9.9	6.7	-8.6	-5.9
Business investments excl. ships	318	4.7	9.0	-4.9	1.3
- Business investments excl. buildings, structures and ships	231	3.4	9.1	-3.9	0.7
- Business investments in buildings and stuctures	87	7.8	7.9	-7.5	3.0
Public investments	85	0.4	-1.9	3.1	4.5

Source: Statistics Denmark and the Confederation of Danish Industry

In both 2021 and the first half of 2022, businesses' investments increased and are currently at a high level. In particular, investments in machinery and equipment as well as in intellectual rights such as R&D are at high level.

However, in recent months we have seen a significant drop in business confidence, reflecting businesses' pessimism regarding future activities. In addition, there has been a slight decrease in the capacity utilization of the industry, which also points in the direction of a decreasing need for investments among companies. Although high energy prices will give rise to a number of investments in energy conversion and energy-saving measures. Higher interest rates, poorer prospects for growth and increased uncertainty are all together expected to reduce companies' investments in the coming years.

Companies' investments in machinery, means of transportation (vessels excluded) and intellectual (property) rights are estimated to drop by 3.9 percent in 2023. This would be the first time they have fallen since 2014, and the biggest fall since the financial crisis. In 2024, an increase of 0.7 percent is expected.

Despite the good starting point regarding companies' investments, the amount of capital per employee has fallen as a result of the increase in employment that we have seen since the corona crisis. However, the prospect of decreasing employment indicates a lower need for investments among companies in the coming years, in order for companies to maintain the same capital per employee.

Overall business investments (excluding vessels and animals for breeding) are estimated to drop by 4.9 percent in 2023 followed by an increase of 1.3 percent in 2024.

Public consumption and investments

According to preliminary figures from national accounts, public consumption in 2021 was DKK 608bn, corresponding to a real growth of 4.2 percent in comparison to the previous year. In 2022 real growth in public consumption is estimated to be 0.2 percent. In 2023, public consumption is expected to drop 0.9 percent followed by an increase of 0.4 percent in 2024.

The low level of real growth in 2022 should both be viewed in the light of the high level in 2021, and partly due to the fact that there is no immediate plan from the government that allows the public sector to be fully compensated for the high level of inflation.

The so-called “ceilings” for public expenditure are established nominally and usually subject to so-called “mid-term adjustments regarding changes in prices and wage levels. A system that tends to work fairly well on average, however, it is not geared to handle price increases such as the current ones.

In 2022, public investments are expected to fall by 1.9 percent. As for 2023, growth is estimated to reach 3.1 percent, which is significantly lower than previously assumed. This should be seen in light of a reprioritization of funds originally set aside for investments. Fiscal policy has changed, contributing to the decrease. Simultaneously, a number of investments have been postponed in both 2022 and 2023. In line with the framework established by the Ministry of Finance a growth of 4.5 percent is estimated in 2024.

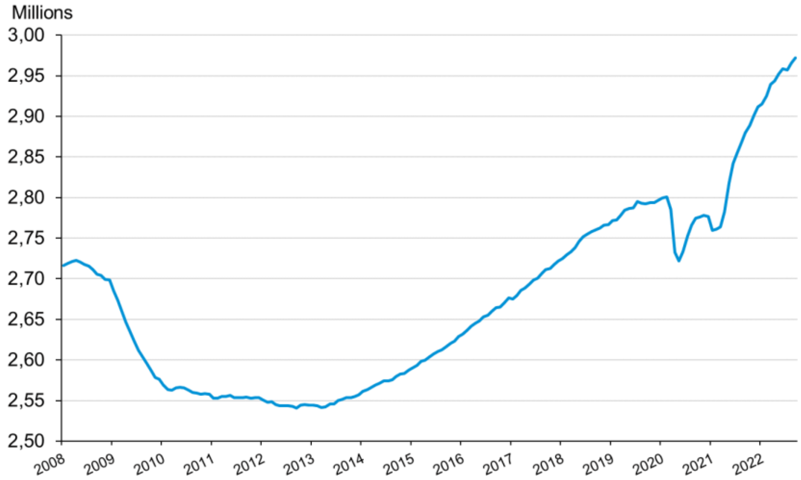
Public employment has increased sharply in both 2020 and 2021 and fell by almost 2,000 individuals in the 2nd quarter of 2022 to a level of 861,800 individuals. Public employment is expected to slowly undergo a further fall to 855,000 individuals towards the end of 2024. The decline is slow because in addition to the temporary jobs linked to the corona crisis, there is a significant underlying increase in public employment. A trend which is currently not dampened by any political plans.

The labour market remains strong, but there are signs of a slowdown

The labour market continues to look very strong with yet another record for employment, set in September. Which is now at 2,972.000 individuals and therefore only needs to increase by 28,000 individuals to reach 3 million individuals. During 2022 alone, employment increased by 60,000 individuals, of which the majority (55,000) has taken place in the private sector.

Employment has risen by 60,000 in 2022 so far

Employees, seasonally adjusted from Januar 2008 to September 2022



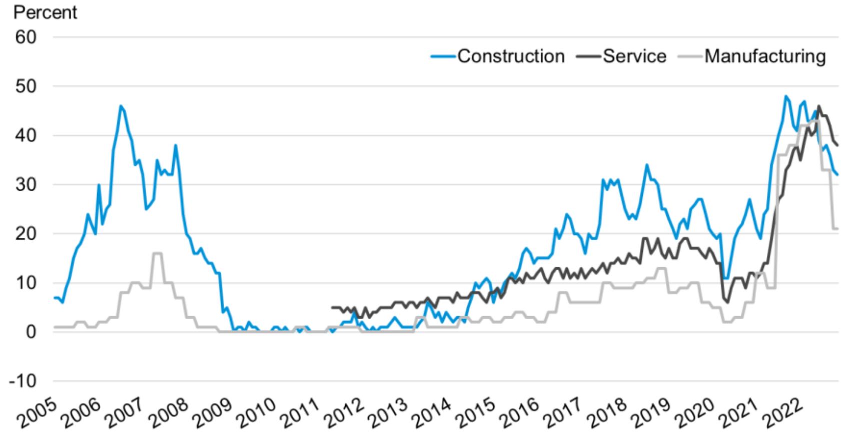
Source: Statistics Denmark

The very high level of employment is matched by a low unemployment rate, which in October was of just 75,000 individuals equivalent to 2.5 percent of the workforce. Furthermore, daily statistics of registered unemployment do not in any way indicate that the unemployment situation has worsened during November. Unemployment has by and large remained at the same level throughout all of 2022.

It may seem surprising that both employment and unemployment continue such a nice development when taking into account that we are faced with an economic reality characterized by great uncertainty, high level of inflation and rising interest rates as well as a level of consumer confidence that has never been measured lower. Part of the explanation could be that we come from a starting point with an extremely large lack of employees, and that despite a certain slowdown in the lack of employees, we remain at a high level.

In the most recent figures for the proportion of companies who face production restrictions due to a lack of labour was 32 percent in construction (November), 38 percent in the service industry (November) and 21 percent in the industry (October). A trend that has been decreasing in recent months. In industry, in particular, the decline has been large, with a drop from 43 percent in April to the current 21 percent. Despite these declines, the current levels remain high in a historical context.

Huge decline in labor shortages in manufacturing
Share of companies with limitations in production due to labor shortages - November 2022



Source: Statistics Denmark

Until now, 2022 has proven a surprisingly strong year on the labour market, but the lack of employees and the number of new job adds have slowed down. At the same time, in October this year we saw that announced large-scale dismissals reached the highest level in two years. The figures are still not alarming and may fluctuate a lot from month to month, however it may be an indication of worse times ahead in the labour market.

In DI's forecast, overall employment is expected to drop by just below 70,000 individuals from the peak in the 4th quarter of 2022 to the 4th quarter of 2024. Employment will decrease more than unemployment, as worsened economic conditions will pull many individuals out of the work force altogether. Overall, unemployment is expected to increase by 36,000 individuals from the lowest level in the 2nd quarter in 2022 to the 4th quarter in 2024.

Unemployment more or less remained at the same level throughout 2022, while employment has continued to increase. This is resulting in a significantly greater overhang in employment than in unemployment at the beginning of 2023. When looking at the annual average, employment will fall by 24,000 individuals in 2023. This is only half as much as the decline that is actually expected in employment from the end of 2022 to the end of 2023.

In total, employment is estimated to drop by 55,000 individuals from 2022 to 2024, when looking at the annual average.

Unemployment is estimated to increase by 32,000 individuals, while there is an overall decrease in the work force of 23,000 individuals.

Annual changes in employment, unemployment and labour force (thousands)

	2022	2023	2024
Employment	115	-24	-31
- private sector	107	-18	-30
- public sector	8	-6	-1
Unemployment	-31	20	12
Labour force	84	-4	-19

Source: Statistics Denmark and DI

Developments in the labour market are difficult to predict precisely. Expectations for the economic development in the coming years indicate falling employment and increasing unemployment. Should the economy develop in a better direction than expected, the same will apply to the (development in the) labour market.

Although, the development on the labour market appears to be negative, the expectations in this forecast, suggest that we will continue to have a very high level of employment, which by the end of 2024 should simply have returned to the level from the end of 2021.

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.

The forecast has been finalized on Tuesday, 29 November 2022.