

DENMARK

GDP growth has slowed, but the positive output gap remains large with labour and capacity shortages evident. The inflow of workers from abroad has allowed employment to rise strongly. Nevertheless, wage growth is now gaining momentum, and loss of competitiveness is expected to weigh down on growth in the coming years.

Monetary conditions are no longer stimulating aggregate demand, but fiscal policy is set to do so in 2008 with rising public consumption and tax cuts that are not financed in the short run. This stimulus and additional municipal and regional overspending should be avoided or offset by savings elsewhere. Measures to boost labour supply should be pursued in ways that help long-run fiscal sustainability.

Capacity pressures remain despite a slowdown in growth

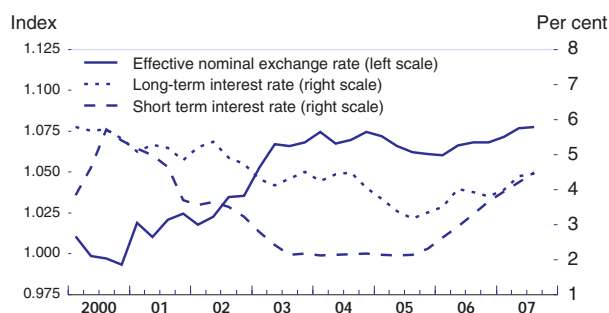
Following years of rapid expansion, GDP growth has eased to about its potential rate since mid-2006. The housing boom has come to an end and, with higher interest rates, mortgages weigh heavily on disposable income. Private consumption has weakened, while residential construction remained at a high level to meet a backlog of demand. Consumer confidence has taken a step down, but remains above its historical average. Export demand has been strong with orders coming in at a rising rate but, with intensifying capacity utilisation and labour shortages, actual export volumes have grown at a moderate pace recently. For some professions – public as well as private – the number of vacancies exceeds the number of unemployed. Consumer price inflation dipped below 2% in mid-2007, but domestically generated inflation is on the rise and wage growth has picked up.

Employment has surged with foreign workers and wider inclusion

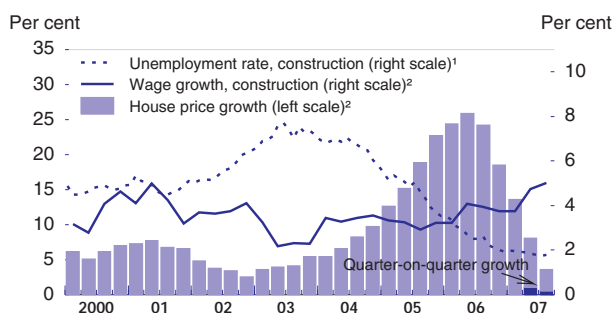
While GDP slowed, employment surged by almost 3% during the year to mid-2007. Less than half of the increase can be attributed to lower unemployment: registered unemployment has fallen steadily by about one percentage point annually. The net flow into employment from social assistance and labour-market training programmes has been equal to almost 1% of the workforce during the year to mid-2007. Immigrants

Denmark

Monetary conditions are back to neutral



Construction wages react to housing boom



1. Among persons with unemployment insurance. This tends to be higher than the Labour Force Survey concept used for the aggregate economy

2. Year-on-year percentage change.

Source: Statistics Denmark, Association of Danish Mortgage Banks and OECD Analytical database.

Denmark: Demand, output and prices


	2004	2005	2006	2007	2008	2009
	Current prices DKK billion	Percentage changes, volume (2000 prices)				
Private consumption	708.5	4.2	3.1	1.9	1.7	1.5
Government consumption	388.5	1.1	1.5	1.9	2.2	1.4
Gross fixed capital formation	283.5	9.6	12.9	5.0	2.3	1.1
Final domestic demand	1 380.4	4.4	4.8	2.6	2.0	1.4
Stockbuilding ¹	7.0	-0.1	0.4	0.2	0.0	0.0
Total domestic demand	1 387.4	4.3	5.2	2.8	2.0	1.4
Exports of goods and services	667.3	7.2	10.1	3.2	4.7	3.9
Imports of goods and services	595.4	10.7	14.4	4.7	5.4	5.1
Net exports ¹	72.0	-1.0	-1.4	-0.6	-0.3	-0.5
GDP at market prices	1 459.4	3.1	3.5	2.0	1.7	0.8
GDP deflator	—	3.2	2.2	2.0	3.0	2.9
<i>Memorandum items</i>						
Consumer price index	—	1.8	1.9	1.6	2.4	2.7
Private consumption deflator	—	2.2	2.1	1.8	2.2	2.7
Unemployment rate ²	—	4.8	3.9	3.5	3.4	3.6
Household saving ratio ³	—	-2.5	-0.2	3.2	3.9	4.4
General government financial balance ⁴	—	4.6	4.7	4.8	3.8	3.0
Current account balance ⁴	—	3.8	2.4	1.2	1.0	0.7

Note: National accounts are based on official chain-linked data. This introduces a discrepancy in the identity between real demand components and GDP. For further details see *OECD Economic Outlook Sources and Methods*, (<http://www.oecd.org/eco/sources-and-methods>).

Based on information available up until 20 November, before the third quarter 2007 and revised historical data were released.

- Contributions to changes in real GDP (percentage of real GDP in previous year), actual amount in the first column.
- Based on the Labour Force Survey, differing by +/- ½ a percentage point from the registered unemployment rate.
- As a percentage of disposable income, net of household consumption of fixed capital.
- As a percentage of GDP.

Source: OECD Economic Outlook 82 database.

StatLink  <http://dx.doi.org/10.1787/160433325530>

coming to work in Denmark and cross-border workers appear to have added much more to labour supply than in previous cycles, although precise statistics are not available. Meanwhile, with employment growing much faster than output, productivity has fallen. Unit labour costs have grown much more than in other countries, making Danish exports less competitive. Public-sector wage agreements are due for renewal in early 2008. If the very high demands currently aired are met, they could well fuel local wage growth and further loss of competitiveness in the private sector where collective agreements recently signed otherwise imply hourly wage increases of 4 to 4½ per cent.

**The housing boom
is ending, but not
in a bust so far**

National average house prices were constant in nominal terms from the second to third quarter of 2007, thereby putting an end to the spectacular boom where annual price increases peaked at 26% in spring 2006. However, the adjustment that often follows such episodes has, so far, not materialised. Forced sales have become more frequent since the beginning of 2007 but remain at merely a tenth of what they were in the downturn of the late 1980s. Apparently, banks have

maintained more cautious lending standards during the current boom. The recent financial turmoil has had only limited implications as mortgage banks keep loans on their books, financing them with bonds having the same coupon and maturity as the loans, implying no need to refinance via the interbank market. Nevertheless, with the level of prices being well above what interest rates and other fundamental factors would justify, risks remain.

**GDP growth slows while
cost pressures rise**

After having been ahead of other countries in the European recovery, growth is now expected to stay below that in the euro area throughout the forecast horizon. In 2009, growth would be particularly slow as residential construction is expected to fall and business investment to weaken. Rising cost pressures weigh on exports, but the relative strength of demand in Denmark's main export markets and the weakness of domestic demand limit the negative contribution from net exports. The fiscal surplus remains high, partly due to revenues from North Sea oil and gas production.

**How strong will
the overheating become?**

The economy has come to a turning point. If the growing inflationary pressures evolve into a genuine wage and price spiral, with a further loss of competitiveness and rising unemployment, it could trigger a house-price correction and lead to a prolonged recession. Much would then depend on how the foreign labour supply reacts: either staying on or moving to other countries, thereby cushioning the rise in unemployment.

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Conventional signs

\$	US dollar	.	Decimal point
¥	Japanese yen	I, II	Calendar half-years
£	Pound sterling	Q1, Q4	Calendar quarters
€	Euro	Billion	Thousand million
mb/d	Million barrels per day	Trillion	Thousand billion
..	Data not available	s.a.a.r.	Seasonally adjusted at annual rates
0	Nil or negligible	n.s.a.	Not seasonally adjusted
–	Irrelevant		

Summary of projections

	2007	2008	2009	2007	2008	2009								Fourth quarter		
				Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2007	2008	2009	
Per cent																
Real GDP growth																
United States	2.2	2.0	2.2	1.3	1.1	1.5	1.8	1.9	2.2	2.5	2.7	2.8	2.6	1.6	2.5	
Japan	1.9	1.6	1.8	1.7	1.5	1.6	1.7	1.8	1.8	1.9	1.9	1.9	1.3	1.7	1.9	
Euro area	2.6	1.9	2.0	1.7	1.8	1.9	2.0	2.0	2.0	2.0	2.0	2.0	2.2	1.9	2.0	
Total OECD	2.7	2.3	2.4	2.0	1.9	2.0	2.2	2.3	2.5	2.6	2.7	2.7	2.6	2.1	2.6	
Inflation																
United States	2.6	2.1	2.0	2.4	2.5	2.0	1.9	1.9	2.1	1.9	1.9	2.0	2.5	2.1	2.0	
Japan	-0.5	-0.3	0.3	-1.0	-0.2	0.1	0.1	0.3	0.3	0.4	0.5	0.5	-0.8	0.1	0.4	
Euro area	2.2	2.2	2.3	2.3	2.3	2.2	2.2	2.2	2.3	2.3	2.3	2.3	2.4	2.2	2.3	
Total OECD	2.3	2.1	2.1	2.3	2.3	2.1	2.1	2.0	2.1	2.0	2.0	2.1	2.4	2.1	2.1	
Unemployment rate ¹																
United States	4.6	5.0	5.0	4.8	4.8	4.9	5.0	5.1	5.1	5.0	5.0	4.9	4.8	5.1	4.9	
Japan	3.8	3.7	3.6	3.8	3.8	3.8	3.7	3.7	3.7	3.6	3.5	3.5	3.8	3.7	3.5	
Euro area	6.8	6.4	6.4	6.5	6.5	6.5	6.4	6.4	6.4	6.4	6.4	6.4	6.5	6.4	6.4	
Total OECD	5.4	5.4	5.3	5.4	5.4	5.4	5.3	5.3	5.3	5.3	5.3	5.2	5.4	5.3	5.2	
World trade growth																
	7.0	8.1	8.1	8.2	8.0	8.0	8.0	8.0	8.1	8.2	8.2	8.2	7.7	8.0	8.2	
Current account balance ²																
United States	-5.6	-5.4	-5.3													
Japan	4.7	4.8	5.2													
Euro area	0.2	-0.1	-0.2													
Total OECD	-1.4	-1.4	-1.4													
Cyclically-adjusted fiscal balance ³																
United States	-3.0	-3.4	-3.4													
Japan	-3.4	-3.9	-3.6													
Euro area	-0.6	-0.6	-0.4													
Total OECD	-2.0	-2.2	-2.1													
Short-term interest rate																
United States	5.3	4.6	4.7	5.0	4.8	4.6	4.6	4.6	4.6	4.6	4.7	4.8				
Japan	0.7	0.6	0.9	0.8	0.7	0.6	0.6	0.6	0.7	0.8	0.9	1.2				
Euro area	4.3	4.2	4.1	4.7	4.4	4.2	4.1	4.1	4.1	4.1	4.1	4.1				

Note Real GDP growth, inflation (measured by the increase in the GDP deflator) and world trade growth (the arithmetic average of world merchandise import and export volumes) are seasonally and working-day-adjusted annual rates. The "fourth quarter" columns are expressed in year-on-year growth rates where appropriate and in levels otherwise. Interest rates are for the United States: 3-month eurodollar deposit; Japan: 3-month certificate of deposits; euro area: 3-month interbank rate.

Assumptions underlying the projections include:

- no change in actual and announced fiscal policies;
- unchanged exchange rates as from 12 November 2007; in particular 1\$ = 109.38 yen and 0.69 euros;

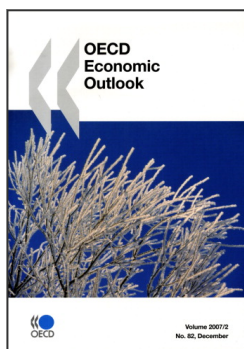
The cut-off date for other information used in the compilation of the projections is 20 November 2007.

1. Per cent of the labour force.

2. Per cent of GDP.

3. Per cent of potential GDP.

Source: OECD Economic Outlook 82 database.



From:
OECD Economic Outlook, Volume 2007 Issue 2

Access the complete publication at:
https://doi.org/10.1787/eco_outlook-v2007-2-en

Please cite this chapter as:

OECD (2007), "Denmark", in *OECD Economic Outlook, Volume 2007 Issue 2*, OECD Publishing, Paris.

DOI: https://doi.org/10.1787/eco_outlook-v2007-2-16-en

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