

February 2007

## SHORT TERM FORECAST, DENMARK SUMMARY

In 2006 GDP growth (3 per cent) was somewhat above trend growth. In 2007 growth is expected to slow down a bit to a rate around 2,4 per cent. In 2008 and 2009 growth is expected around trend growth which is approximately 1¾ per cent.

Table 1 shows the key figures of the forecast.

Table 1. Key figures for the Danish economy, 2005 to 2009.

	2005	2006*	2007**	2008**	2009**
	Real growth per cent (2000-price indices <sup>1)</sup> )				
<b>Gross domestic product</b>	<b>3,2</b>	<b>3,0</b>	<b>2,4</b>	<b>1,7</b>	<b>1,7</b>
Private consumption	4,2	3,2	2,0	1,7	1,7
Gross fixed capital formation <sup>1)</sup>	9,4	13,1	5,1	1,9	1,6
Government consumption expenditure	1,1	0,8	1,3	1,0	1,0
<b>Domestic demand</b>	<b>4,5</b>	<b>4,9</b>	<b>2,6</b>	<b>1,6</b>	<b>1,5</b>
Exports	7,5	10,0	5,8	3,9	3,5
Imports	10,7	13,6	6,1	3,8	3,3
Consumer price inflation <sup>2)</sup>	2,1	1,8	1,9	1,8	1,8
	----- Per cent of labour force -----				
Unemployment rate <sup>3)</sup>	5,5	4,3	3,4	3,3	3,3

\* National Account statistics besides Current account and Public budget balance.

\* All Forecast.

1) incl. stock building.

2) Private consumption deflator.

3) National def.

Source: Statistics Denmark and ECLM (AERådet).

The gearing down of the Danish economy takes place due to the increasing interest rates and the slowdown of the housing market. In addition, the increase in private consumption and investment in equipment are expected to drop. This also means that the import growth is expected to slow down. After a considerable negative growth contribution from international trade this year, a more neutral contribution is expected in the years ahead.

The last couple of years there has been a debate of overheating in the Danish economy and the possible government intervention. We don't see the supply side (and the labour market) as a limit to growth in the short run. Despite an extraordinary positive development on the labour market - unemployment falling to a historical low level, increasing labour force and

more working hours – we haven't seen signs of overheating worth mentioning.

The probability of a hard landing of the Danish economy is higher than the probability of continued high growth and overheating. By making a fiscal contraction now you risk initiating an economic downturn.

The development on the labour market has shown much more flexibility than anybody has ever dreamt off. Pressure on capacity is expected to remain high in the forecast period but we see more channels from where growth can come.

The economic upturn has boosted the public budget balance since 2003. Also tax revenues, from savings on pensions and oil taxes from energy production, have put an upward pressure on the public budget. Public budget surplus is expected to remain high though falling a bit from the high level in 2005/2006.

The surplus on current account has fallen somewhat from 2005 to 2006 in the light of the high growth in private consumption and investments. Also the pressed capacity situation could be behind the falling surplus from 2005 to 2006. The downward pressure is expected to stop in 2007 and the coming years when domestic demand is gearing down.