DENMARK

THE END OF AN IMPRESSIVE RUN?

Up until now the Danish economy has continued to impress, with a strong post-Covid rebound which has propelled its GDP well above its pre-crisis level, but the future now looks a lot less bright. If inflation had not yet been able to fully undermine household purchasing power due to significant job creation and a level of over-saving which helped to mitigate the impact, these one-off shock absorbers are coming to an end and real household income is expected to fall over the coming quarters. The government is remaining relatively impassive in the face of this brutal shock and the fiscal response remains very limited, with public accounts that are in surplus and likely to remain so. Public debt should converge towards only 32% of GDP by 2024..

The impressive post-Covid growth in Danish GDP continued (+0.5% q/q) in the 3rd quarter of 2022 after +0.9% q/q in the 2nd quarter. GDP is now 6.4% above its level at the end of 2019. As has been the case since the post-Covid rebound, growth was buoyed by investment (+0.8% q/q), which was around 17% above its level at the end of 2019. On the other hand, private consumption stalled in the 3rd quarter under the weight of an increase in consumer prices, which reached 10.1% in October over one year, although retail sales showed a degree of solidity in the consumption of goods at the beginning of the 4th quarter. This resistance could surprise as the increase in nominal salaries (+4.9% year-on-year in Q3 2022) is much lower than inflation. Rather, the explanation lies with the labour market, which is particularly vigorous. In the 3rd quarter employment rose by 4.4% year-on-year, and the Danish unemployment rate stood at only 2.3% according to the International Labour Office definition (see figure 2). This level of job creation has therefore enabled purchasing power to be maintained on an aggregate basis, without having positive growth in real wages. The over-savings accumulated over the past two years have probably also helped to support consumption. Furthermore, the significant rise in energy prices does not seem to be affecting manufacturing production, which continues to perform remarkably well. Over the course of one year to September, Danish manufacturing production recorded a staggering growth rate of 23%. The specialisation of Danish industry in strategic sectors[1] which are expanding strongly continues to be a winning strategy.

However, this strong momentum in the Danish economy is expected to stall in 2023. The labour market is expected to stabilise, and purchasing power will be eroded because of inflation. Exports are expected to weaken as global demand falls. And investment, particularly in construction, could fall with the rise in interest rates on home loans. For all these reasons, after a strong growth year in 2022 (+3%), the European Commission expects GDP in 2023 to be stagnant (+0%), followed by a gradual recovery in 2024 (+1.3%) (see chart 1).

Despite the decline in purchasing power, the Danish government is opting for less support for households and businesses, allowing it to keep the public finances in the black with an expected budget surplus of 1.8% of GDP in 2022. The government should continue to benefit from revenues that are higher than their expenditure in 2023 and 2024. This will result in rapid deleveraging, since public debt, which stood at 36.6% of GDP in 2021, should converge towards 32% of GDP by 2024.

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GROWTH & INFLATION

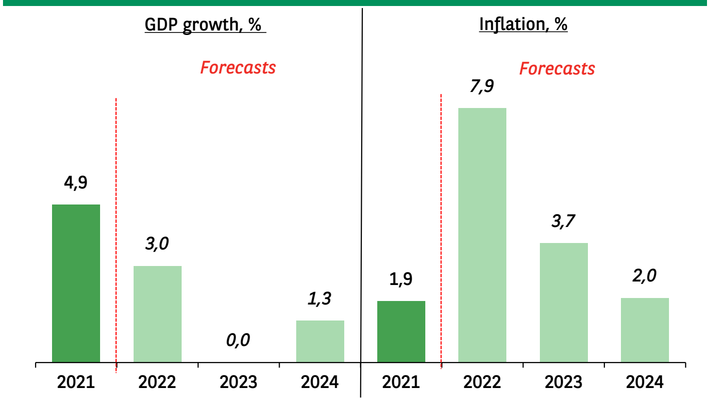

CHART 1 SOURCE: EUROPEAN COMMISSION, BNP PARIBAS

DENMARK: LABOUR MARKET

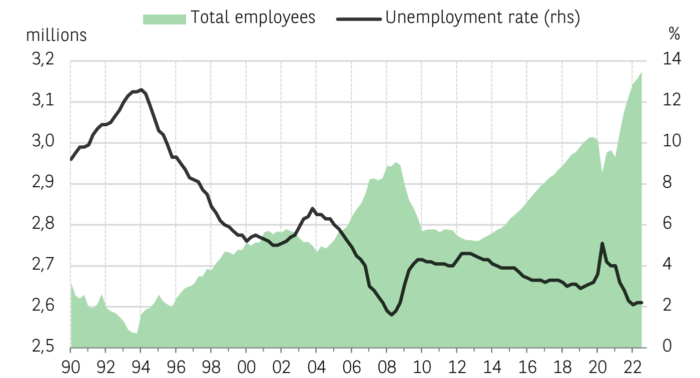

CHART 2 SOURCE: MACROBOND, STATISTICS DENMARK, BNP PARIBAS

1 We discussed this in the Q3 2022 EcoPerspective