

DANMARKS NATIONALBANK

15 MARCH 2017 — NO. 3

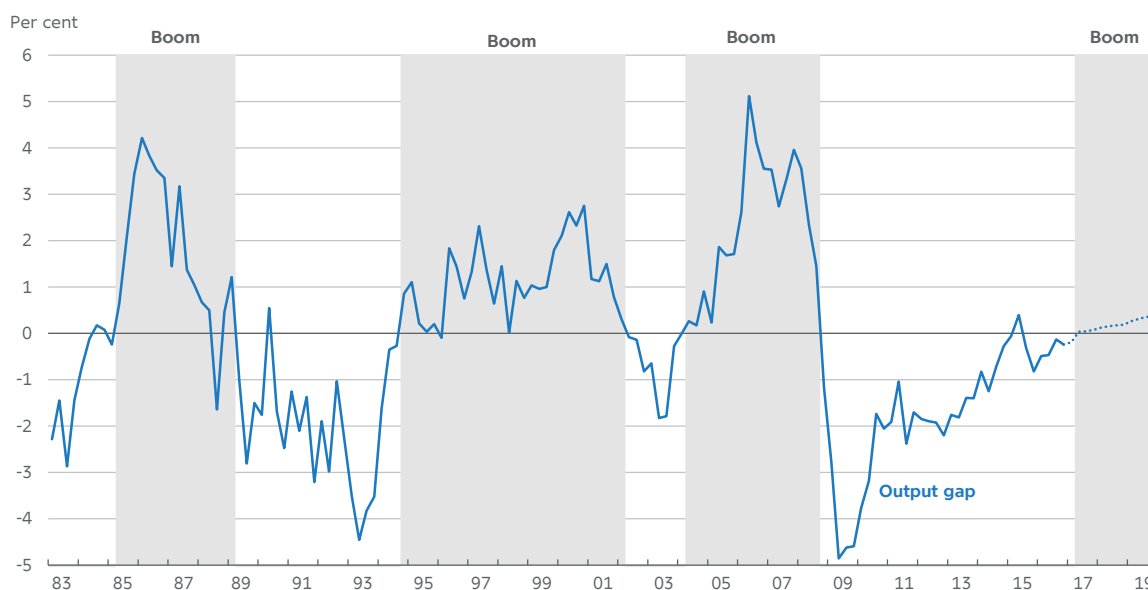
Prospects of continued balanced growth in the Danish economy

The Danish economy is heading towards a moderate boom with gradually intensifying labour market pressure. This is Danmarks Nationalbank's conclusion in an analysis of the Danish economy, forecasting an increase in growth in the gross domestic product (GDP) from 1.1 per cent in 2016 to 1.6 per cent in 2017. Annual growth of 1.6 per cent is also expected in 2018 and 2019.

The Danish economy is now in a neutral cyclical position with a more limited growth potential than previously, as structural factors may dampen stronger dynamics. One factor with a potential impact on the growth outlook is the increasing share of elderly people in the population, which reduces the labour force. Reforms to increase the supply of labour

The Danish economy is heading towards a boom

Chart 1



overall have an offsetting effect, however. Moreover, productivity growth has weakened.

The Danish economy has been in an upswing since late 2012, with steady, balanced growth in GDP and employment. The number of people in employment has increased by 135,000 since the beginning of 2013. In 2016 alone, employment rose by around 50,000 persons to almost 2.9 million. The labour force has been expanded during the upswing, and the increase in employment has been greater than the fall in unemployment. Without an influx of labour to meet the growing demand, the momentum of the economy would already have slowed down.

There are increasingly clear signs of labour shortages, especially in the cyclically sensitive building and construction sector.

Prospects of higher employment

The number of people in employment is also expected to rise in the coming years, although at a slower pace than so far during the upswing. Danmarks Nationalbank thus expects employment to rise by a further 60,000 by the end of 2019.

Currently, there are only few spare resources in the labour market. Unemployment, consisting primarily of short-term unemployed workers, is at its cyclically neutral level of around 120,000 persons, and if the expected increase in employment is to be sustainable, more labour must be attracted to the labour force.

The 2006 welfare reform, which indexed the retirement age to average life expectancy, and the 2011

retirement reform are expected to contribute to an increase in the supply of labour by approximately 100,000 persons from 2013 to 2020. To all appearances, this will more than offset the contraction in the labour force due to the rising average life expectancy of the Danish population.

Several factors are poised to have an upward or downward impact on the outcome of the projection. The consumption ratio is currently low, but higher spending by Danish households, together with higher house prices, especially in the Copenhagen area, could contribute to higher growth. The most important possible downside factor is uncertainty about the economic policies of a number of other countries.

Global growth gives a good starting point

The growth outlook in countries that are important to the Danish economy has not changed overall in recent months, meaning that the point of departure for economic development in Denmark also remains favourable.

However, the international economy entails considerable uncertainties. For example, if US fiscal policy becomes very expansionary, this may strengthen Danish exports in the short term. But if this leads to overheating of the US economy, it may trigger sudden interest rate increases that could impact the rest of the world. This could affect Danish exports to other countries and dampen domestic demand.



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