Denmark

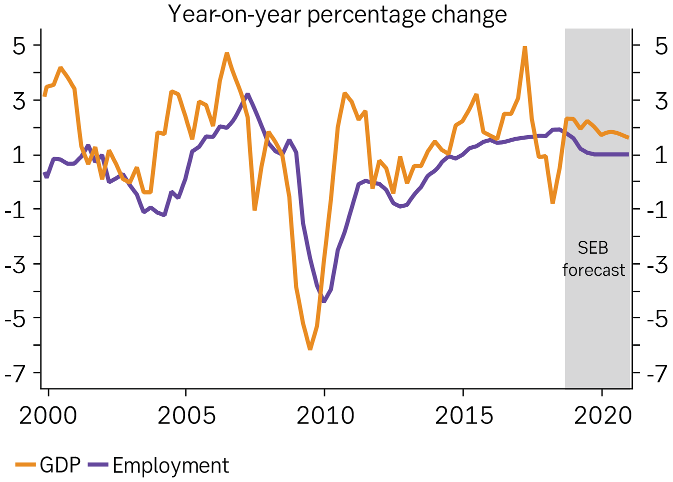
Consumers hold back

Denmark's growth slowed sharply in the first three quarters of 2018, but we think this masks a gentler underlying slowdown to the 1.5-2 per cent range. Domestic demand remains robust, but tighter credit conditions, weaker confidence and a slowing home price upturn suggest that the savings ratio will remain high. Exports face a challenge from weaker demand, but competitiveness is still strong. Euro zone demand is the key risk. DNB intervention to support the DKK is unlikely to be the start of a bigger move.

Denmark's GDP growth slowed to just above 1 per cent in 2018, less than the 1.5 per cent we estimated in November. However, this exaggerates economic weakness due to a technical shift in the growth profile. Behind this technical noise, a more gradual underlying slowdown is expected to take growth from close to 2.5 per cent 2017 to **2 per cent in 2019 and 1.7 per cent in 2020**.

Strong job growth supports GDP

Year-on-year percentage change



Source: Macrobond, SEB

Consumers and exports behind slowdown

There are two main reasons for the expected slowdown. First of all, tightening credit conditions and weaker confidence suggest that the household savings ratio will remain elevated. Second, net exports are likely to weaken as global growth slows. However, in a broader perspective, growth remains well supported by strong job growth and rising real wages. The main risk to the forecast is a sharper slowdown in external demand that could hit both exports and credit conditions.

Private consumption was strong in the first half of 2018 but appears to have slowed in the second half. The latest bank lending survey shows that lending conditions have started tightening again. This probably contributed to the decline in consumer confidence and softening home prices late in the year, along with sharp Q4 declines in financial asset prices.

The result is a further increase in the household savings ratio, thus holding consumption back. Income growth remains well supported as employment continues posting annual growth of almost 2 per cent and real wages are picking up. Rising home prices also continue to add support, even though the increase has slowed to a more manageable rate of below 5 per cent.

The savings ratio is likely to stay high, but as long as both employment and real wages are rising at their current pace, we may still get decent consumption growth. Our forecast is growth of **2 per cent in 2019 and 2.2 per cent in 2020**.

Business investment trends were obscured in 2018 by a temporary H1 boost from large ship imports, but investments appear to be growing. Capacity utilisation has levelled off and demand growth has weakened in key export markets. **Residential investments are likely to continue providing a robust growth contribution, supported by the relatively high price level.**

Low inflation and strong external balances

The labour market continues to improve. Unemployment is below 5 per cent for the first time since 2009, but **wage inflation is still lower than in export markets, and inflation is below the euro zone average** both for headline and core CPI. The current account surplus narrows to a still impressive 6 per cent of GDP, but the trade surplus has stabilised after an H1 slump.

This is an election year, which may have contributed to a slight easing of fiscal policy. Apart from that, we do not expect political events to influence the economy or markets.

Danmarks Nationalbank (DNB) intervened in December to support the krone after the EUR spot rate moved above DKK 7.465, but this does not look like a sustained outflow. Political uncertainty in the euro zone also suggests that this would be unlikely. We don't think the DNB will be forced to hike rates, but a small move is likely if DKK intervention continues in January.