Euler Hermes Economic Research

Country Report

Denmark

Growth rebound in line with the eurozone cycle

General Information

GDP	USD301.308bn (World Ranking 34, World Bank 2015)
Population	5.68Million (World Ranking 112, World Bank 2015)
Form of state	Constitutional Monarchy
Head of government	Lars Løkke Rasmussen
Next elections	2019, legislative

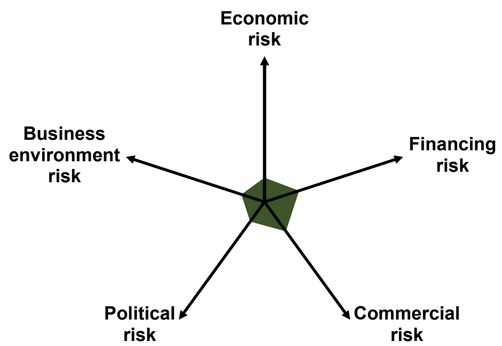
Strengths

- Strong banking sector
- Strong business environment
- Diversified export sector
- Healthy public finances
- High institutional effectiveness
- Modest government debt burden

Weaknesses

- Excessive household debt
- Small and open economy
- Loss of competitiveness, namely due to high tax burden

Country Rating to update AA1



Source: Euler Hermes

Trade Structure

By destination/origin (% of total)

Exports		Rank		Imports
Germany	15%	1	23%	Germany
Miscellaneous	14%	2	13%	Sweden
Sweden	11%	3	8%	Netherlands
United States	7%	4	6%	China
United Kingdom	6%	5	5%	Norway

By product (% of total)

Exports		Rank		Imports
Pharmaceuticals	15%	1	5%	Cars And Cycles
Meat	5%	2	5%	Pharmaceuticals
Electrical Equipment	5%	3	4%	Plastic Articles
Engines	4%	4	4%	Refined Petroleum Products
Fats	3%	5	3%	Electrical Apparatus

Source: Chelem (2015)

Economic Overview

Highest GDP growth since 2010

Q1 GDP growth was in line with the average of the past 5 quarters (+0.6% q/q). We expect GDP growth to reach +1.8% in 2017, the highest level since 2010. Decent consumer spending growth is expected (+1.9%) as unemployment rate reached 5.7% in April 2017, its lowest level since in eight years. Moreover, strong nominal wage growth (above 3%) is coupled with a modest rise in inflation and a recovery in consumer confidence. In addition, wage growth should accelerate going forward thanks to the recent wage settlement and the progressive rise in the minimum hourly wages by 2019.

Growth momentum is following the eurozone trend. Exports will be the main driver as they are expected to expand by +3.4%, the highest pace since 2014. Competitiveness might be supported by the Central Bank's continued intervention in the foreign exchange market to counter renewed DKK appreciation.

Investment growth should remain strong, driven by exports' acceleration and solid growth in the construction sector. Capacity utilization rate is back to above average level, at 80.1% in Q2 2017. Economic sentiment reached its highest level since 2015.

However, non-financial corporations still need to deal with the high debt burden (112% of GDP) and deteriorating profitability (39% of value added, lowest since mid-2010).

The good news comes from turnover growth which recovered to its highest level since 2013 (+3.6% annual growth in Q1 2017, see Figure 2). The rise in inflation (+1.2% in 2017 and +1.6% in 2018), driven by commodity prices, employment, and wage growth, should support firms' pricing power.

House prices to continue to increase, albeit at a slower pace

House prices' in Denmark have been on an upward trajectory for more than 4 consecutive years. This has been driven by (i) cheap financing costs, (ii) strong employment and wage growth and (iii) a lackluster house supply.

A four-year long rise in residential building starts cannot offset this process. However, the gap between the nominal GDP growth and the rise in residential property prices is lower compared to the other Nordic countries (see Figure 3).

In the short-term, we expect an increasing appetite in the housing market as the number of house and apartment sales is rising while supply is limited. Yet price increases should moderate on the medium-term as new home starts are set to accelerate while macro-prudential rules should intensify. Tightening equity requirements for home buyers could be on the cards. Currently, potential buyers can borrow up to 95% of an asset's cost.

In addition, new governmental measures could target deductible interest charges. Along with cuts in property taxes, these measure my push up financing costs. Controlling house prices is critical as Danish household debt is one of the highest among developed countries, and the highest among Nordic countries (above 250% of gross disposable income).

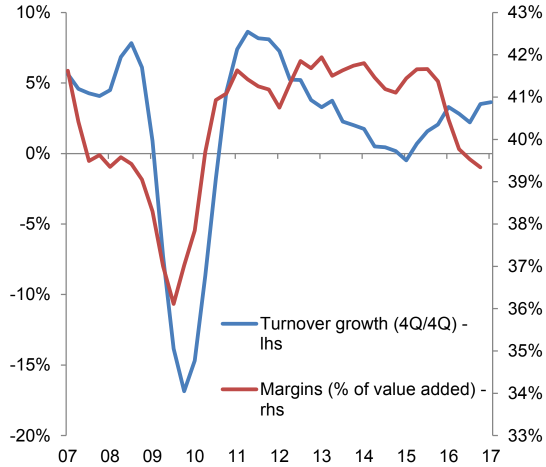
Figure 1 - Economic forecasts

Denmark		share	2015	2016	2017	2018
GDP		100%	1.6	1.3	1.8	1.7
Consumer Spending		45%	2.2	1.9	1.9	2.1
Public Spending		27%	0.6	-0.1	0.3	0.3
Investment		19%	2.5	5.2	4.1	5.6
Stocks	*	2%	-0.4	-0.4	0.1	0.1
Exports		56%	1.8	1.7	3.4	2.8
Imports		48%	1.3	2.4	4.0	4.3
Net exports	*	7%	0.4	-0.2	0.0	-0.6
Current account	**		169	174	174	173
Current account (% of GDP)			*8.3*	*8.4*	*8.2*	*7.9*
Employment			1.5	2.5	2.3	2.1
Unemployment rate			6.3	6.3	5.7	5.5
Wages			2.7	3.4	3.5	4.0
Inflation			0.5	0.2	1.2	1.6
General government balance	**		-26	-19	-33	-34
General government balance (% of GDP)			*-1.3*	*-0.9*	*-1.2*	*-1.0*
Public debt (% of GDP)			*39.6*	*37.8*	*36.0*	*34.8*
Nominal GDP	**		2 027	2 061	2 132	2 205

Change over the period, unless otherwise indicated:
*contribution to GDP growth
**DKK bn

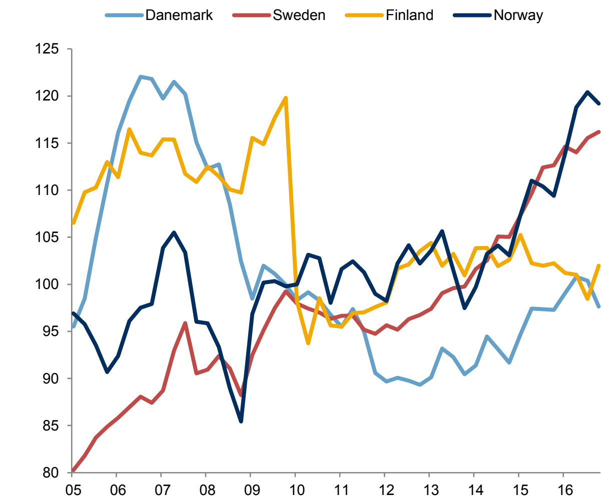
Sources: National sources, Euler Hermes forecasts

Figure 2 – Turnover and profitability (non-financial corporations)



Sources: Eurostat, Euler Hermes

Figure 3 – Residential Property Prices / Nominal GDP Index (base 100= 2010)



Sources: BIS, IHS, Euler Hermes

Stable Days Sales Outstanding (DSO)

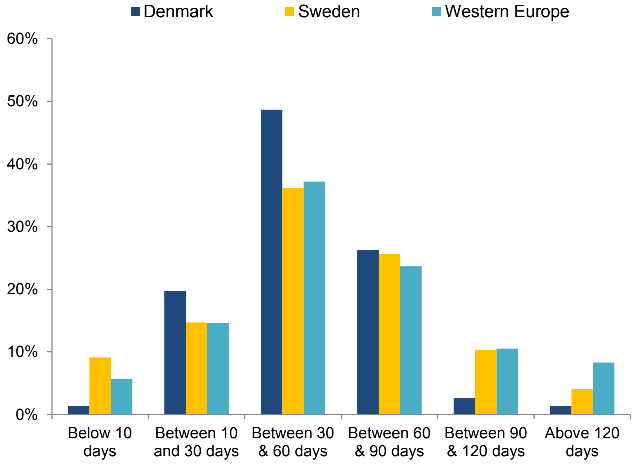
DSOs stood at a stable 48 on average in 2016. This is the third lowest level in Western Europe after Austria and the Netherlands, while the regional average stands at 61 days.

Looking at the distribution of DSOs, 50% of Danish companies are paid between 30 and 60 days, a positive situation compared with the rest of the region. Around 25% are paid between 60 and 90 days and very few (less than 5%) above 90 days (see Figure 4).

Declining business insolvencies

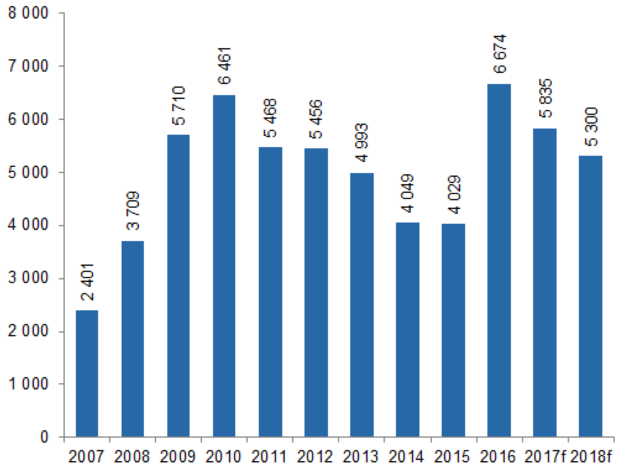
With legislation changes completed, business insolvencies are on a positive trend once more. Euler Hermes expects bankruptcies to fall in both 2017 and 2018, respectively by -13% and -9%. There is still a long way to go before getting back to 2007 levels as business insolvencies are more than double pre-crisis levels (see Figure 5).

Figure 4 – Distribution of Days Sales Outstanding (listed companies)



Sources: Bloomberg, Euler Hermes

Figure 5 – Business insolvencies, number of cases



Sources: National sources, Euler Hermes

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