DANMARKS NATIONALBANK

ANALYSIS | Outlook for the Danish economy
25 September 2024 | No. 15

The outlook is for a stable price development in the Danish economy

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Time to read

59 pages

Employment in Denmark has continued to rise, but with no signs that the pressure on the labour market has increased further over the past year. In the coming years, wage increases are expected to slow down due to less pressure on the labour market and significantly lower inflation compared to a few years ago. Lower wage increases will help ensure stable price development. However, there is still some pressure on the labour market and it is crucial that wage increases come down from the current high levels as they are not compatible with low, stable inflation in the long term. In the current situation with continued high wage increases and some pressure on the labour market, including low unemployment, it is not a good time to ease fiscal policy to the extent proposed in the government's proposal for the 2025 budget.

Modest growth and rising employment in the Danish economy

There are signs of modest growth in several parts of the Danish economy, fuelled by global growth and real wage increases. Employment has continued to rise and there is still some pressure on the labour market. Inflation has fallen over the summer and is currently low, but is expected to rise slightly in the coming period.

Prospects for balanced growth trajectory and stable price development

The outlook is for a balanced growth path, where the pressure in the Danish economy is expected to be in line with stable price development, but with some pressure on the labour market. Wage increases are expected to come down after a few years of high increases. Given that wage increases come down, inflation is expected to stabilise around 2 per cent.

It is not a good time to ease fiscal policy to the extent proposed by the government

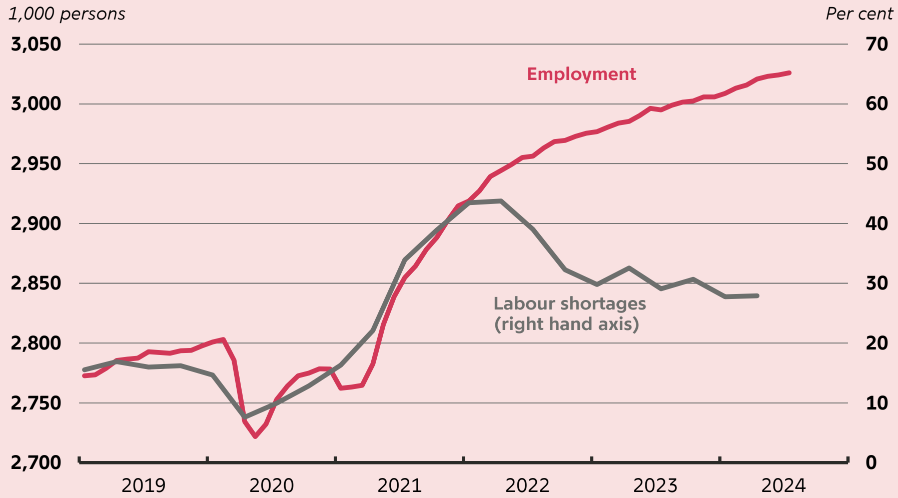
In the current situation with continued high wage increases and some pressure on the labour market, including low unemployment, it is not a good time to ease fiscal policy to the extent proposed in the government's proposal for the 2025 budget.

Why is it important?

Danmarks Nationalbank continuously oversees the Danish economy to meet our objective of ensuring price stability. To this end, we prepare assessments of economic trends and macroeconomic projections to have the best possible foundation for assessing whether economic imbalances are building, such as the recent spike in inflation. As Danmarks Nationalbank's interest rates are reserved for managing the exchange rate of the krone, it is important that other aspects of economic policy are aimed at ensuring a stable economy. Therefore, we make, for example, fiscal policy recommendations.

This analysis is also supplemented by a thematic analysis that goes into the latest developments in the housing market in-depth.

Main chart: Employment is rising with no signs of increasing pressure on the labour market



Note: Payroll employment. *Labour shortages* are weighted by a weighted average of the proportions in manufacturing, construction and services. The weights correspond to the industry sectors' proportion of employment.
Source: Statistics Denmark and own calculations.

Keywords

Outlook for the Danish economy
Danish economy
Economic policy
Economic activity
Inflation and price developments
Labour market

01
Highlights

Modest growth in the Danish economy
Domestic demand has been weak in recent years, but there are signs that activity in several parts of the Danish economy is picking up slightly. Overall growth continues to be fuelled by the pharmaceutical industry.

Increase in employment without increased pressure
The labour market has continued to improve but without increasing pressure over the past year. However, there is still some pressure on the labour market. Employment growth is expected to continue at a slower pace, more in line with activity in the domestic part of the economy.

The Danish economy is expected to be in a broadly neutral cyclical position in the coming years
Moderate global growth and real wage growth provide the basis for a balanced growth path. The capacity pressure in the Danish economy is estimated to be in line with stable price development in the coming years.

Prospect of lower wage increases
Wage increases are currently high, but in line with the wage increases that were agreed in the wake of a period of high inflation and widespread labour market pressures. Based on the current pressure on the labour market and low inflation, lower wage increases are likely in the coming years.

Inflation around 2 per cent.
Inflation in the Danish economy has slowed significantly. Given that the rate of wage growth comes down, the outlook is for stable price development with inflation around 2 per cent in the coming years. Inflation is currently driven by domestic factors.

Risk picture characterised by geopolitics and high wage increases in particular
The balance of risk is balanced. Geopolitical unrest and weaker global growth may derail the recovery of the Danish economy. Labour market pressures may flare up again and result in wage increases not coming down.

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The Danish economy is expected to be in a broadly neutral cyclical position throughout the projection

Key economic variables

Growth relative to the previous year, per cent	2023	2024*	2025*	2026*
GDP (real)	2.5	2.1	2.3	1.5
Employment, 1,000 people	3,202	3,235	3,248	3,256
Gross unemployment, 1,000 people	83	87	88	89
Current account balance, per cent of GDP	9.8	10.0	9.7	9.2
Government budget balance, per cent of GDP	3.3	3.0	2.0	1.6
House prices[1]	-2.6	3.3	3.2	3.2
Consumer prices	3.4	1.3	2.1	1.8
Core inflation	5.9	1.5	2.1	1.8
Hourly wages[2] (manufacturing)	4.2	5.7	3.9	3.4

[1] Nominal prices of single-family houses.
[2] Confederation of Danish Employers' (DA) pay statistics for profits including inconvenience supplements for manufacturing.

Note: * indicates projection.
Source: Statistics Denmark and own calculations.

02
Overview and recommendations for economic policy

Growth in the global economy is moderate, with restrictive monetary policy in the US and Europe dampening demand on the one hand, while rising real wages, robust labour markets and a strong service sector support the economy on the other. Tight monetary policy has contributed to global inflation falling and inflation rates in Denmark, the euro area and the US are now approaching a level of around 2 per cent again.

The Danish economy continues to be characterised by a dichotomy, where high growth driven by production abroad under Danish ownership has increased gross domestic product, GDP, while the rest of the economy has experienced a period of modest growth. Since the turn of the year, Danish GDP has remained roughly unchanged, while value added excluding production abroad under Danish ownership is estimated to have fallen slightly.

Large quarterly fluctuations in GDP in recent years have made it difficult to interpret short-term activity trends. Looking at a wider range of indicators, there are signs that the underlying growth in the Danish economy has picked up slightly. This is reflected in an increase in retail sales, industrial production and business investments, as well as a general improvement in business confidence, which has increased throughout the year. On the other hand, high interest rates continue to dampen overall household consumption, which, despite significant gains in purchasing power over the past six months, has been weak.

However, the conditions are in place for household consumption to increase. At the same time, the overall international economic outlook points to further growth in Danish export markets in the coming years and market participants expect monetary policy to gradually ease[1].

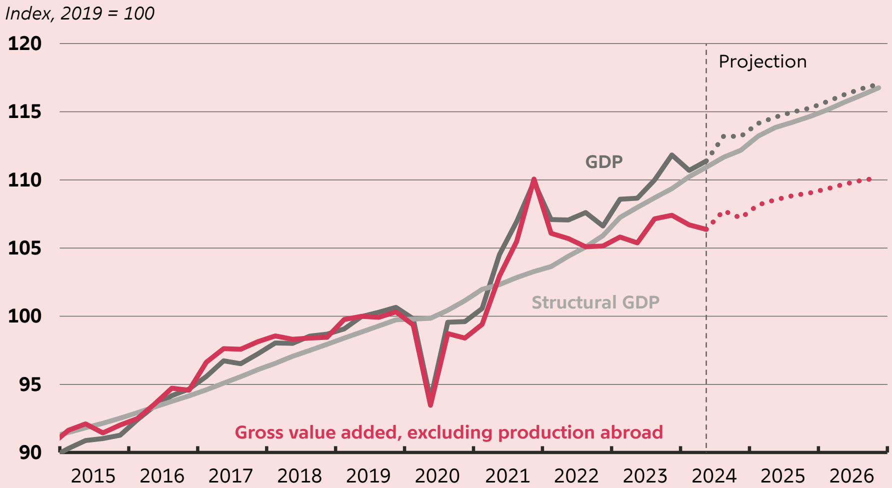
Growth in the Danish export markets and gradually less restrictive financial conditions lead us to expect growth in the Danish economy to increase throughout the projection, see chart 1. Growth is sustained by continued high growth in the pharmaceutical industry, which is largely expected to take place through Danish-owned production abroad. Production abroad under Danish ownership is expected to boost GDP growth by 1.7 percentage points this year and 0.8 percentage points next year. Furthermore, the reopening of the Tyra gas and oil field will boost Danish GDP growth by a total of 0.5 percentage points over the projection period.[2] Neither pharmaceutical production abroad nor the reopening of the Tyra field is expected to contribute significantly to increasing capacity pressure in the Danish economy. In 2024, Danish GDP growth is forecast to be 2.1 per cent, rising to 2.3 per cent in 2025 and 1.5 per cent in 2026.

[1] See Danmarks Nationalbank, Policy rates have been lowered, but monetary policy remains restrictive, *Danmarks Nationalbank Analysis (Monetary and Financial Trends)*, no. 13, September 2024.
[2] The exact time for full commissioning of the Tyra field is unknown. The projection assumes that the entire effect on GDP from the reopening of the Tyra field will occur in 2025.

It is considered that there are currently no signs of any significant macroeconomic imbalances building up in the Danish economy that could amplify a potential recession in the event of unforeseen shocks to the global economy.

CHART 1

The Danish economy is expected to be in a broadly neutral cyclical position



Note: *Structural GDP* is the long-term level of sustainable real output in the economy without creating inflationary pressures.
Source: Statistics Denmark and own calculations.

Employment has continued to rise, but without increasing pressure on the labour market over the past year

Employment has continued to increase, although growth in domestic activity has been modest. This has happened without any signs that the pressure on the labour market has increased over the past year, but there is still some pressure on the labour market, which is estimated to be higher than in the years leading up to the Covid pandemic. The fact that the pressure has not increased is also reflected in the fact that local wage negotiations in the private labour market have resulted in roughly the same wage increases as agreed in the collective agreements, and should be seen in light of a significant increase in structural employment.[3]

Employment is expected to grow at a slower pace than in recent years. In the short term, the lower employment growth reflects, among other things, a slightly lower demand for labour as a result of labour becoming relatively more expensive again compared to companies' product prices and other product inputs. Throughout the projection, the labour market is expected to grow more in line with the increase in activity in the domestic part of the economy.

The current pressure on the labour market and low inflation are expected to result in lower wage increases in the coming years. The high wage increases in recent years would not be compatible with low, stable inflation in the long term,

[3] See Andersen, Bonin, Borgensgaard, Dahl-Sørensen, Darougheh, Grenestam, Hansen, Hviid, Jensen, The pressure on the labour market has eased after a job-intensive expansion, *Danmarks Nationalbank Analysis*, no. 4, March 2024.

but were agreed after a period of very high inflation and widespread labour market pressures. Wage growth is expected to remain at a higher level in the coming years compared to the pre-pandemic period and to be generally in line with developments in the euro area. The slightly higher wage growth rate than then is expected to help keep inflation close to 2 per cent throughout the projection compared to the 2010s, when inflation averaged around 1 per cent.

The economic situation in Denmark does not differ significantly from the euro area

The underlying growth picture in Denmark is expected to be in line with the euro area. The Danish economy is set for stable price development in the coming years and Danmarks Nationalbank's projection for Danish inflation is close to the European Central Bank's (ECB) projection for the euro area. However, this assumes that the current high wage increases will slow down as expected in the coming years.

Capacity pressures in the Danish economy are compatible with stable price developments in the coming years and are similar to the ECB's assessment of the situation in the euro area. In recent years, capacity pressures in Denmark and the euro area have generally – with the exception of a few periods – not deviated significantly from each other. This can be seen in indicators such as labour shortages and capacity utilisation in industry.

It is not a good time to ease fiscal policy to the extent proposed in the government's proposal for the 2025 budget

Interest rates have fallen and monetary policy is starting to ease. Specifically, the projection assumes that short-term market rates in Denmark will fall to around 2 per cent by the end of 2026, see appendix. This is a result of a significant reduction in inflation in Denmark and in the euro area and inflation expectations remaining well anchored. However, there is still some pressure on the labour market and current wage increases are high. Therefore, there is still a need for monetary and fiscal policy to contribute to an appropriate development in the business cycle in Denmark, which will support stable price development. Monetary policy in Denmark and the euro area is currently helping to curb inflation and it is likely that monetary policy will continue to help curb inflation for some time to come.

Wage increases are currently high both in Denmark and many other countries and this will lift inflation over the next year. The impact of domestic factors such as wages on price development is typically more persistent than the impact of raw materials and freight costs. Therefore, it typically requires a more persistently tight economic policy to ensure that domestic conditions do not influence price developments.

The fixed exchange rate policy means that Danish monetary policy is conducted with the aim of keeping the krone exchange rate fixed against the euro. In practice, this means that Danmarks Nationalbank's interest rates closely follow the interest rates set by the ECB for the euro area. In the long run, this will ensure uniform inflation in Denmark and the euro area. The fixed exchange rate policy means that monetary policy in Denmark cannot be used to stabilize the business cycle in Denmark. Instead, it is up to Danish fiscal policy to deal with any deviations in the economic situation between Denmark and the euro area.[4] At present, there are no significant differences in capacity pressures or wage and consumer price increases between Denmark and the euro area.

[4] See Morten Spange, Monetary and fiscal policy in Denmark, *Danmarks Nationalbank Analysis*, No. 12, October 2022.

Market participants' expectations for Danmarks Nationalbank's monetary policy interest rates imply that monetary policy in Denmark will gradually approach a more neutral level over the coming year. At the same time, according to the Ministry of Finance, fiscal policy in Denmark is expected to be eased next year, especially due to strong growth in public consumption.

In the current situation with continued high wage increases and some pressure on the labour market, including low unemployment, it is not a good time to ease fiscal policy to the extent proposed in the government's proposal for the 2025 budget.

In recent years, a number of agreements have been reached that significantly increase defence spending. How much impact the increased defence spending will have on the Danish and European economy depends on how the funds are spent. If the implementation of the Danish defence spending results in a greater impact on activity than previously assumed, this should be countered by measures that dampen activity elsewhere in the economy.

Danmarks Nationalbank's recommendations for economic policy

Danmarks Nationalbank believes that in the current situation with continued high wage increases and some pressure on the labour market, including low unemployment, it is not a good time to ease fiscal policy to the extent proposed in the government's proposal for the 2025 budget.

If the implementation of defence spending results in a greater impact on activity than previously assumed, this should be countered by measures that dampen activity elsewhere in the economy.

03
Growth in the Danish economy with some pressure on the labour market

Capacity pressures in the Danish economy have eased significantly in recent years, but there is still some pressure on the labour market. However, the current pressure on the labour market has reduced significantly compared to two years ago. The growth of the Danish economy in recent years has been largely driven by the pharmaceutical industry, but growth in Danish export markets and in households' purchasing power has resulted in signs of modest activity growth in many parts of the economy.

Throughout the first half of 2024, employment has continued to rise, but with no signs of the pressure on the labour market picking up again. This is linked to an increase in structural employment, driven by later retirement and an influx of foreign labour.

Growth in the Danish economy is expected to be stable in the coming years, and capacity pressures in the Danish economy are expected to be in line with stable price development. Employment growth is expected to slow slightly and be more closely aligned with developments in domestic activity, implying a stronger correlation between domestic output and employment over the projection than seen in recent years.

Signs of modest growth in many parts of the Danish economy

In recent years, the Danish economy has been characterised by a dichotomy. On the one hand, domestic activity in most parts of the economy has been going through a growth pause. On the other hand, the growth in the Danish economy has largely been driven by production abroad under Danish ownership, so-called '*merchanting & processing*', prompted by growth in the pharmaceutical industry. The slowdown in domestic growth has meant that the pressure on the economy as a whole has eased significantly over the past two years, and the Danish economy is currently considered to be in a broadly neutral cyclical position. The pressure in the Danish economy does not differ significantly from the pressure in the euro area, which according to international organisations is in a mild recession[5].

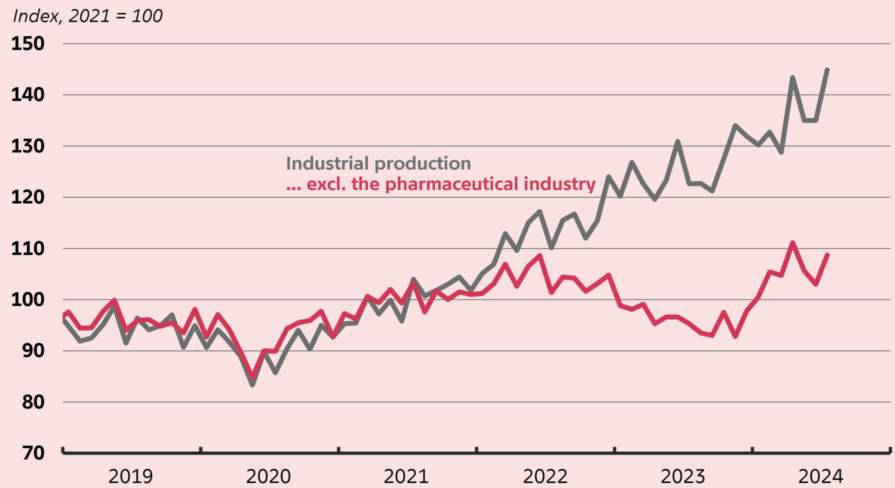
The Danish economy has been at a standstill since the turn of the year in terms of GDP, which in Q2 2024 was roughly unchanged compared to Q4 2023. However, excluding production abroad under Danish ownership, domestic activity is estimated to have fallen by around 1 per cent since the turn of the year.

Large fluctuations in the calculation of GDP in recent years have made it more difficult to assess the development of economic activity in the very short term. There are signs that growth in many parts of the economy has picked up slightly over the past six months, despite flat GDP growth. For example, growth in Danish export markets has contributed to industrial production excluding the pharmaceutical industry increasing by more than 8 per cent over the course of this year, see chart 2, and business confidence has increased over the past 18 months.

Danish GDP increased by 0.6 per cent in Q2 2024.

CHART 2

Industrial production growth in 2024 takes place outside the pharmaceutical industry



Source: Statistics Denmark.

However, growth in the pharmaceutical industry has been more modest throughout the first half of 2024, with the pharmaceutical industry production

[5] Measured by the output gap and based on estimates from the IMF, OECD and European Commission. Also see chapter 7.

index in Q2 3.1 per cent lower than in Q4 2023. The recent increase in overall industrial production is reflected in total Danish goods exports, which so far this year have been driven by goods produced both in and outside Denmark. The recovery in the manufacturing sector has fuelled investment appetite and business investment has begun to pick up again, although it is still expected to be dampened by higher interest rates. However, Danish GDP growth is still being held back by a sharp downturn in service exports and weak development in total private consumption, even though household purchasing power has improved significantly throughout the year. The weak overall private consumption should be seen in light of the fact that high interest rates are still considered to dampen consumption.

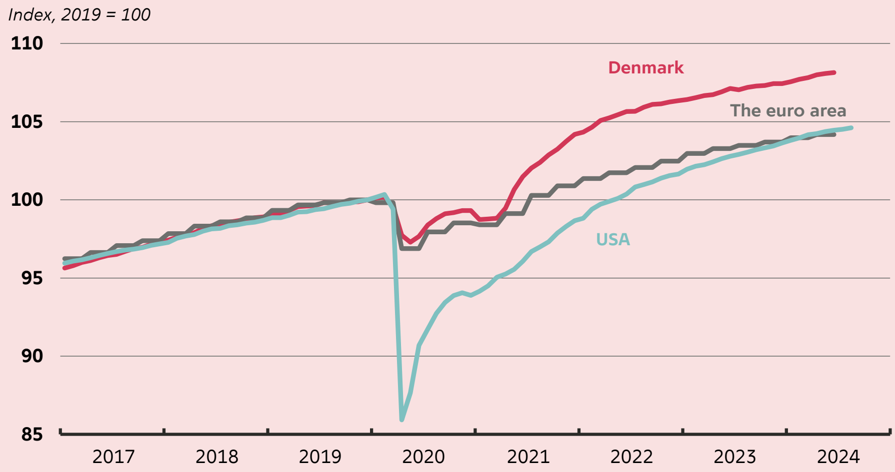
The labour market continues to improve

Despite a weak development in activity, the labour market recovery has continued into 2024. Payroll employment has increased by around 20,000[6] people since the turn of the year, see chart 3. The increase reflects relatively high increases at the beginning of the year, while the pace has slowed slightly in recent months. At the same time, unemployment has only increased slightly over the past year from a very low level.

It is not only in Denmark that employment is still increasing. In the euro area, labour markets also remain strong, while growth in overall activity has been weak in recent years, as in Denmark. Overall, employment growth has been more subdued in the euro area and the US than in Denmark since 2019. However, employment in the US is currently growing slightly faster than in Denmark, which should be seen in light of the fact that overall demand in the US economy has been significantly stronger than in Denmark over the past year. At the same time, the labour markets in the euro area and the US are both characterised by low unemployment.

CHART 3

Employment continues to rise



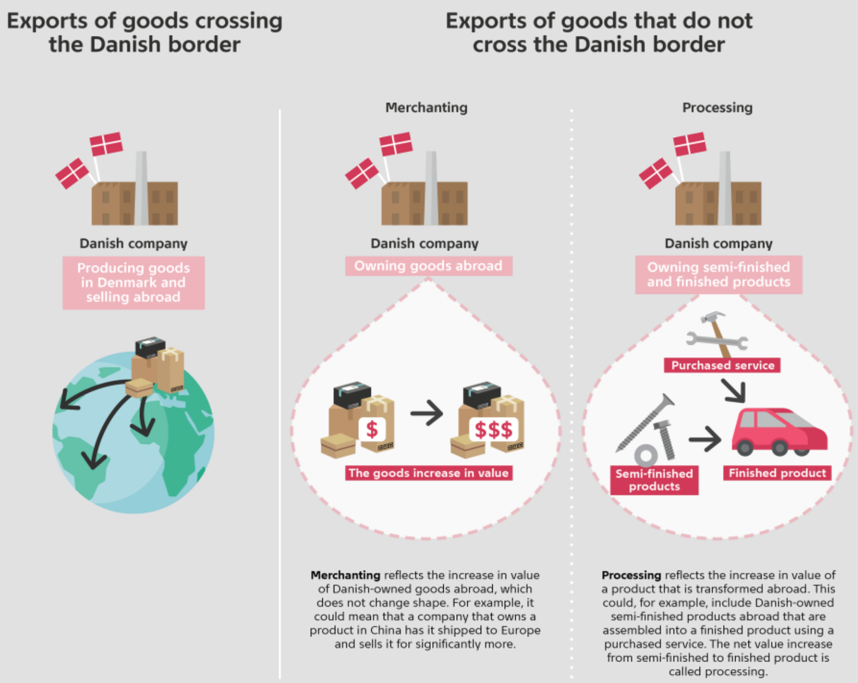
Note: For Denmark and the US, salaried employment is shown, and for the euro area, total employment is shown.
Source: Statistics Denmark, Eurostat and U.S. Bureau of Labor Statistics.

[6] Payroll employment up until July 2024.

The modest growth in the Danish economy has meant that the development in the relationship between employment and production has been weak when one disregards the part of the gross value added, GVA, that comes from production abroad under Danish ownership and the direct costs associated with this. The calculation of GVA excluding production abroad under Danish ownership is not a more accurate statement of value creation in Denmark, but the calculation is deemed to be more closely related to the development of employment in Denmark, see box 1.

BOX 1

Exports that do not cross the Danish border make up an increasing share of the Danish economy



In recent years, there has been a sharp increase in Danish exports of goods that do not cross the Danish border. Since 2010, it has increased from around 2 per cent of Danish GDP net to over 7 per cent in 2023, see chart A.[1] It is difficult to determine how the Danish trend compares to those of our neighbouring countries, as very few countries provide adequate data for exports that do not cross the border. Furthermore, the data is not yet harmonised between countries, which means care should be taken when comparing levels directly.

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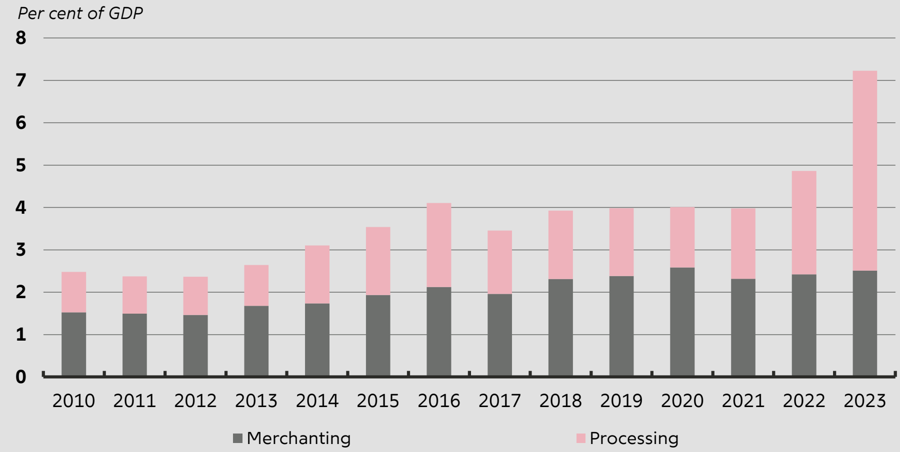
CHART

Danish exports not crossing the Danish border increased significantly in 2023



Note: The numbers in the chart are net figures.
Source: Statistics Denmark and own calculations.

Exports that do not cross the Danish border are usually subdivided into the categories merchanting and processing. Both merchanting and processing, M&P, reflect increases in the value of goods abroad that are owned by Danish companies. The increase in value abroad is recognised as exports in the Danish national accounts.

A high share of merchanting and processing makes it difficult to measure productivity in Denmark

As Danish GDP increasingly reflects activity abroad, it becomes more difficult to create good measures of productivity on Danish soil. M&P is included in most productivity measures, where production including M&P is divided by the number of full-time employees or hours worked in the Danish economy. The result is an indication of how much value Danish employees create per hour or person. When value creation abroad is counted in the numerator of the fraction without counting labour in the denominator, it can lead to an overestimation of productivity.

An additional challenge with the increasing share of M&P is that the GDP-measure will depend on a specific type of production for Danish companies abroad. Danish companies could choose to continue exactly the same production but transfer ownership of goods abroad to subsidiaries. In that case, the income from the activity would no longer be M&P but rather primary income. In 2023, this would mean 7 per cent lower Danish GDP and productivity without producing less than usual.

There is no obvious way to deal with the challenges of M&P. At first glance, removing M&P completely from GDP would solve both above problems, but it would also ignore a significant and growing part of the Danish economy. When a country has an increasing share of M&P, it may indicate that the country is producing more knowledge that is used for production in other countries. In this way, M&P can reflect the return on, for example, research and development, R&D, in Denmark. Ignoring M&P therefore risks underestimating the value of Danish knowledge work. Presumably, part of the return from Danish R&D is already categorised as primary income, which means it is underestimated in standard GDP-based productivity measures.

Another way to tackle the challenges of M&P is to use Gross National Income, GNI, instead of GDP. GNI measures income rather than output and is broadly equivalent to GDP plus capital income minus net remuneration of foreign labour. The measure will therefore not be vulnerable to how companies choose to produce. However, a clear disadvantage of a GNI-based productivity measure is that pension returns and other capital income from foreign assets will be included in Danish productivity. This can lead to large fluctuations from year to year, reflecting savings and rate of return more than, for example, hourly productivity.

When measuring Danish productivity, it makes sense to show time series both including and excluding M&P given the challenges described here. Without a deeper analysis of what one wants a productivity-measure to measure, it is difficult to know what proportion of M&P should be counted as Danish.

[1]Corresponding to an increase from just under 8 per cent to approximately 18 per cent of Danish goods exports.

However, foreign production under Danish ownership may currently have had an effect on the demand for labour in the Danish labour market, and may therefore also have contributed to some extent to the continued growth in employment. For example, this can happen in a case where rapid growth in companies with production abroad has a short-term need for Danish labour to manage and expand production facilities outside the country's borders. The pharmaceutical industry in particular increased its activities abroad throughout 2022 and 2023, when growth in the industry increased significantly. According to Statistics Denmark, there has also been a significant increase in employment in the pharmaceutical industry, which accounted for around one fifth of the total increase in hours worked during the period. It is therefore likely that some of the employment growth in the pharmaceutical industry can be attributed to the industry's need to increase production capacity – also abroad.

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The pressure on the labour market has not increased over the past year, despite the fact that employment has continued to rise

It is therefore not clear how great the impact of Danish-owned production abroad has been on employment, and thus the strong growth in foreign production in recent years probably clouds the interpretation of trends in employment in relation to production.[7] Trends in hourly productivity, i.e. GVA in relation to hours worked, in the private sector have fallen by up to 4.4 per cent since the beginning of 2022, excluding Danish-owned production abroad. If we look instead at the hourly productivity of total value added in the private sector, including production abroad, it has increased by 1.9 per cent since the beginning of 2022.[8]

Based on the extraordinarily strong growth in the pharmaceutical industry in 2022 and 2023, it is estimated that the employment pull from Danish-owned production abroad has been higher in recent years than previously.

There is still some pressure on the labour market

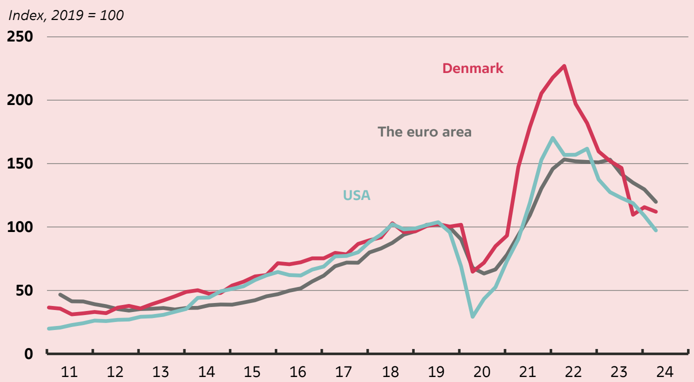
Although employment in Denmark has continued to rise, a number of indicators suggest that the pressure on the labour market has not increased over the past year. For example, the number of new job vacancies per unemployed person and companies' reported labour shortages indicate that the demand for labour has remained largely unchanged over the past year, see charts 4 and 5. The Danish Agency for Labour Market and Recruitment's latest recruitment survey[9], which covers data from the latter part of 2023 and the beginning of 2024, also indicates that companies are not experiencing recruitment challenges to the same extent as before. At the same time, local wage negotiations at companies in the private labour market have resulted in approximately the same wage increases as agreed in the collective agreements. This supports the assessment that the pressure on the labour market has not increased compared to the level at which the agreements were made.

[7] Also see Andersen, Bonin, Borgensgaard, Dahl-Sørensen, Darougheh, Grenestam, Hansen, Hviid, Jensen, The pressure on the labour market has eased after a job-intensive expansion, *Danmarks Nationalbank Analysis*, no. 4, March 2024.
[8] In comparison, hourly productivity in the euro area, measured as total GDP per hour worked, decreased by 1.1 per cent in Q1 2022 – Q1 2024. In the US, hourly productivity measured as GDP per hour worked in non-farm business increased by 2.6 per cent in Q1 2022 – Q1 2024.
[9] See the Danish Agency for Labour Market and Recruitment (STAR), *Survey*, June 2024.

CHART 4

Pressure on the labour market remains slightly higher than before the pandemic

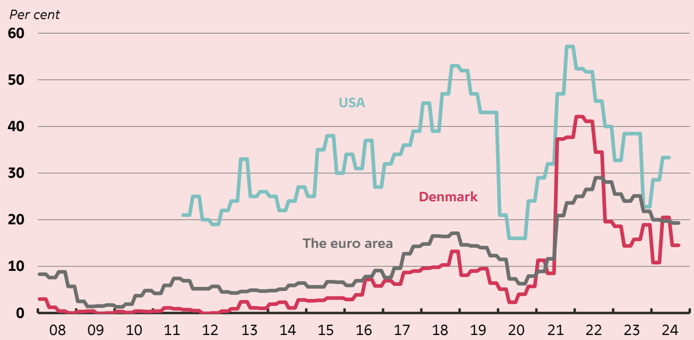
Vacancies per unemployed



Note: For the euro area, a weighted series of job vacancies per unemployed person is shown for France, Spain, Germany and the Netherlands. The weighting is based on the countries' share of total employment in the countries.
Source: Jobindex, Eurostat, U.S. Bureau of Labour Statistics and own calculations.

CHART 5

Labour shortages are at similar levels in Denmark and the euro area



Note: The chart shows the percentage of surveyed companies that state that labour shortage is a production constraint. In Denmark and the euro area, the series is for industry, and in the US the series is for the whole economy.
Source: Statistics Denmark, European Commission and National Association for Business Economics.

There are also no signs that companies are holding on to labour to the same extent as a few years ago, and the *labour hoarding* indicator[10] has remained stable at a relatively low level over the past year, see chart 6. Labour hoarding can occur in situations where there is a shortage of (skilled) labour, where companies, as a precautionary measure, maintain employment that is higher than necessary for the current situation.

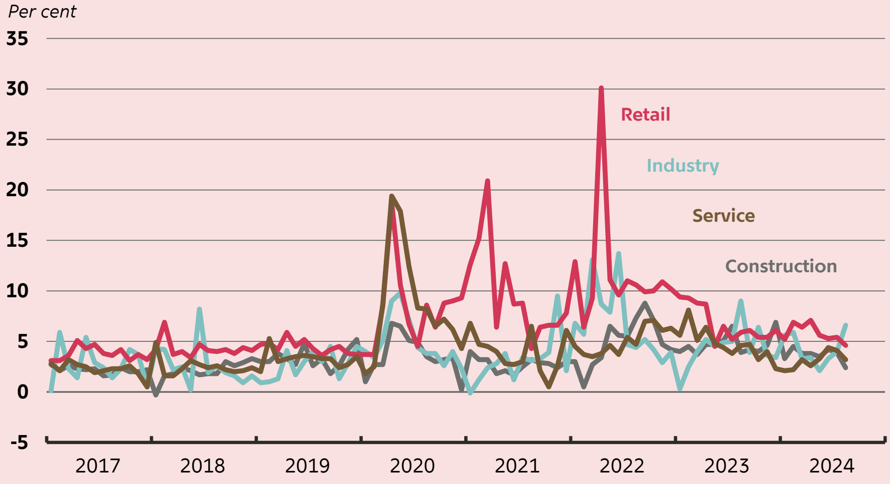
Several indicators point to the fact that the pressure on the labour market has not increased over the past year, despite the fact that employment has continued to rise. The pressure on the labour market is still significantly lower compared to the level in 2022, but there is still some pressure on the labour market. The pressure on the labour market is currently estimated to be higher than in the years leading up to the pandemic, when the Danish economy was characterised by weak consumer price development and moderate wage growth.

The pressure on the labour markets in the euro area and the US has fallen slightly more sharply than in Denmark over the past year. In both the euro area and the US, the number of job vacancies per unemployed person decreased throughout 2023 and the first half of 2024. While the number of companies reporting labour shortages has picked up slightly in the US, the indicator is now around the same level in Denmark and the euro area. Thus, there are currently no signs of significant deviations in the pressure on the labour market in Denmark compared to the euro area as a whole.

[10] Labour hoarding refers to a situation where companies hold on to their employees even though the need for labour is decreasing, in the expectation that the economy will turn around soon. See, for example, Andersen, Bonin, Borgensgaard, Dahl-Sørensen, Darougheh, Grenestam, Hansen, Hviid and Jensen, The pressure on the labour market has eased after a job-intensive expansion, *Danmarks Nationalbank Analysis, no.* 4, March 2024.

CHART 6

Labour hoarding has not become more prevalent



Note: The percentage of Danish companies across industries that report that they expect a decline in production but an unchanged or increasing number of employees over the next three months.
Source: European Commission and own calculations.

Increases in structural employment have supported growth in the labour market

Employment has continued to rise over the past year without increasing pressure on the labour market. This is because *structural employment*[11] has also increased. In Denmark, more older people in particular have stayed in the labour market as the retirement age has gradually increased and agreements aimed at increasing the labour supply among older people have come into force. Over the past year, the employment rate for people over 60 has increased by 1.7 per cent, while the employment rate for people aged between 30 and 59 has remained roughly unchanged. Furthermore, the rise in employment has been made possible by a large inflow of foreign labour, which historically could be considered a labour reserve. However, the inflow of foreign labour slowed in late 2023 and early 2024 from the high levels in previous years.

The employment rate for people over 60 has increased by 1.7 per cent in the last year

As in Denmark, employment growth in both the euro area and the US has been supported by a large inflow of foreign labour. The fact that the labour force has increased relatively more in Denmark is due to the fact that the labour supply among older people has not increased in the same way in the euro area and the US.

Prospects for slightly stronger growth in many parts of the Danish economy

While the labour market has improved in recent years despite weak growth in the underlying economy, the economy as a whole is set for slightly stronger growth in the coming years. A still robust Danish labour market and further growth in real wages are expected to raise household incomes, which is why private consumption will contribute more to overall demand in the Danish economy throughout the projection. According to international economic forecasts, the Danish export markets will continue to grow in the coming years, creating the foundation for further growth in Danish exports. The growth in

[11] *Structural employment* is the supply-driven level of employment in the economy and the level of employment that is compatible with stable price and wage trends in the medium term.

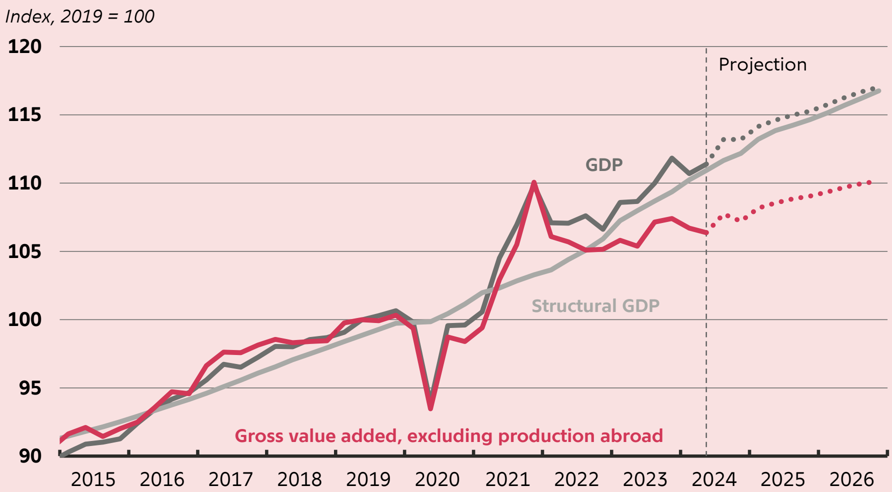
industrial exports is assumed to be driven by general growth among Danish export companies in line with developments in the export markets. Industrial exports are expected to be further boosted by expectations of continued high growth in the pharmaceutical industry in the coming years, and it is assumed that especially the domestically produced part of pharmaceutical exports will spill over to activity in the rest of the economy.[12] In the short term, growth in business investment is dampened by high interest rates,[13] but moderate growth in Danish export markets and the prospect of gradually loosening monetary policy will cause growth in business investment to pick up again from next year.

Danish GDP is projected to grow by 2.1 per cent this year

The growth in aggregate demand is further supported by both strong growth in public demand and the reopening of the Tyra field, which is expected to boost GDP growth by 0.5 percentage points next year.[14] Total demand is expected to increase by 2.1 and 3.0 per cent this year and next year. Rising imports are expected to cover part of the increase in demand, and as a result, GDP is expected to increase by 2.1 per cent in 2024, rising to 2.3 per cent and 1.5 per cent in 2025 and 2026, see chart 7.

CHART 7

Danish economy expected to be in a broadly neutral cyclical position



Note: *Structural GDP* is the long-term level of sustainable real output in the economy without creating inflationary pressures.
Source: Statistics Denmark and own calculations.

The relatively high GDP growth rates mask an economy that in the coming years will continue to be characterised by a dichotomy. Strong growth in the pharmaceutical industry and the reopening of the Tyra field will make quite a

[12] Model calculations from Danmarks Nationalbank show that an increase in exports of medicines produced in Denmark of 1 per cent of GDP could increase total Danish GDP by around 2 per cent in the short term. A large part of the increase in pharmaceutical exports in the projection is expected to be Danish-owned production abroad, which is why the effect of growth in pharmaceutical exports on Danish GDP is expected to be lower than the model calculations indicate. See Nikolaj Mose, Dreisig Hansen and Mia Jørgensen, *Increasing demand for pharmaceutical exports have both aggregate and geographical distributional effects*, *Danmarks Nationalbank Economic Memo*, no. 9, August 2024.
[13] See Bonin, Cucic, Kuchler and Otte, The corporate investment channel of monetary policy in Denmark, *Danmarks Nationalbank Economic Memo*, no. 4, June 2024.
[14] The exact date for full commissioning of the Tyra field is unclear. The projection assumes that the full effect of the reopening of the Tyra field will occur in 2025.

strong contribution to GDP growth this year and next, while the rest of the economy will grow at a more moderate pace. The expectation that the pharmaceutical industry will continue to contribute significantly to GDP growth is based on equity analysts' expectations for revenue in the largest Danish pharmaceutical companies and an assumption that a large part of medicine production is carried out in factories abroad under Danish ownership. These assumptions imply that production abroad under Danish ownership is expected to continue to make a relatively strong contribution to GDP growth in the coming years with 1.7, 0.8 and 0.3 percentage points in 2024, 2025 and 2026. Excluding the direct contributions from production abroad under Danish ownership and the reopening of the Tyra field, growth in Denmark is expected to be 0.4 per cent in 2024 and 1.0 per cent in 2025, which is a little weaker than what the OECD forecast for the euro area.

However, production abroad under Danish ownership and the reopening of the Tyra field are only expected to have a limited impact on capacity pressure. That is reflected by, the potential production level that grows by more than 2 per cent in 2024 and 2025 due to production abroad and the Tyra field. The high growth in potential output means that the capacity pressure measured by the output gap[15] will not increase over the projection despite the large GDP growth rates. GDP growth is thus estimated to be roughly in line with the structural growth of the economy. It is therefore expected that the Danish economy will remain in a broadly neutral cyclical position in the coming years.

Employment growth is expected to slow down

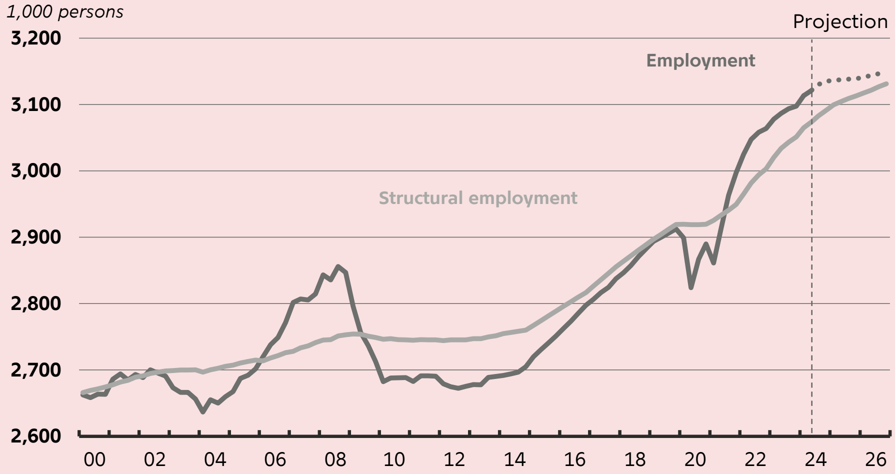
With the prospect of moderate growth in most of the Danish economy, employment growth is expected to slow down, but no overall downturn in employment is expected, see chart 8. In the short term, this assessment should be seen in light of the fact that the cost of labour has risen over the past year, both in relation to companies' product prices and other production inputs, including energy and capital costs. The relative price of labour is forecast to continue to rise a little further, supported by high wage increases, and this is expected to help companies gradually adjust their demand for labour. Developments in employment is expected to be more in line with growth in domestic activity going forward.

Towards the end of the projection, employment is expected to increase slightly faster as companies adjust their labour supply and the relative price between labour and other production inputs stabilises again. However, structural employment growth is expected to be weaker compared to recent years as the increase in the working age population[16] slows, and the positive contributions from labour market reforms are also expected to slow overall. Employment is forecast to increase by around 29,000 people by the end of 2026 and structural employment is expected to increase by slightly more. The pressure on the labour market as measured by the employment gap[17] is therefore expected to decrease slightly throughout the projection and generally be in line with stable price trends.

[15] The output gap is the difference between actual GDP and structural GDP.
[16] 15-74 years. Based on Statistics Denmark's population projection.
[17] The employment gap is the difference between actual employment and structural employment.

CHART 8

Employment is forecast to grow slightly slower than the structural level



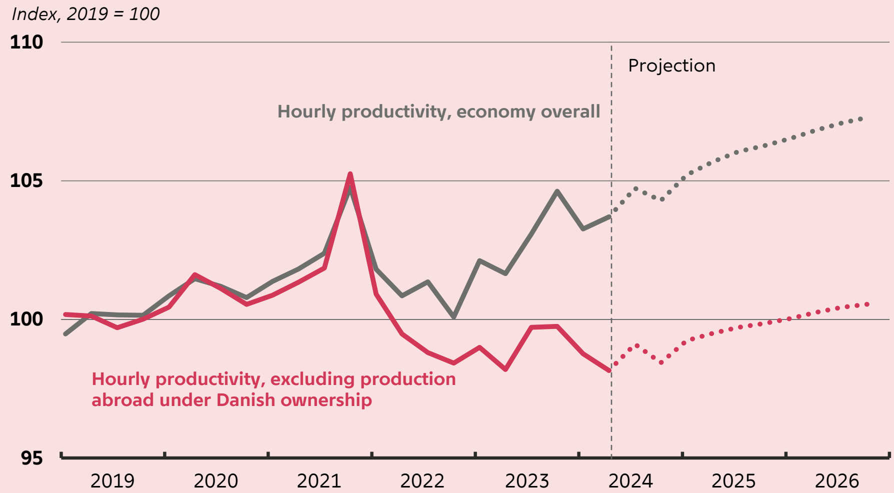
Note: *Employment* excludes activated unemployment benefit recipients. *Structural employment* is the estimated potential level that is compatible with a stable wage and price development in the medium term.
Source: Statistics Denmark and own calculations.

This development implies a correlation between production and employment that continues to reflect a certain employment pull from Danish-owned production abroad, but to a lesser extent than seen in recent years. Hourly productivity, measured as GVA excluding production abroad under Danish ownership in relation to hours worked, is expected to increase by a total of 2.5 per cent throughout the projection and is forecast to be in line with the 2019 level at the end of the projection period, see chart 9.

Employment is expected to increase by around 29,000 by the end of 2026

CHART 9

Hourly productivity in the domestic economy is forecast to gradually increase



Note: *Hourly productivity* is calculated as GVA per hour worked for employees and GVA excluding merchanting and processing per hour worked for employees. This means that the denominator is the same for the two series.
Source: Statistics Denmark and own calculations.

Fiscal policy will be eased next year

According to the Ministry of Finance, fiscal policy in Denmark is expected to be eased this year and next year. Measured by the one-year fiscal effect, fiscal policy increases the output gap by 0.1 and 0.5 percentage points in 2024 and 2025 respectively. This comes after a couple of years where fiscal policy has been tightened significantly, and the overall effect of fiscal policy since 2019, measured by the multi-year fiscal effect, is estimated to be fairly neutral next year at -0.2 percentage points according to the Ministry of Finance.

Following Russia's attack on Ukraine in 2022, both Denmark and many European countries have significantly increased their defence spending, and in Denmark, the Defence Agreement calls for the defence budget to reach 2.5 per cent of GDP by 2025, see box 2. How much impact the increased defence spending will have on the Danish and European economy depends on how the funds are spent. If a large part of the funds are spent on purchasing equipment abroad or transfers to Ukraine, for example, the impact on activity in Denmark is expected to be more modest than if a large part of the budget is spent on more defence personnel, for example. In Denmark, the Ministry of Finance expects some impact on activity as a result of the increased defence budgets.

Despite high defence spending, a healthy surplus is still expected on the public balance. This should especially be seen in light of a continued strong labour market, where employment and therefore income tax revenues are high, while relatively few people are unemployed and therefore on benefits. The government surplus is expected to end this year at 3.0 per cent of GDP, which is a slight decrease compared to 2023. In the following years, the government surplus is expected to gradually decrease further to 2.0 per cent of GDP next year and 1.6 per cent of GDP in 2026. The slightly lower surplus on the public balance this year and in the coming years is mainly due to higher public spending. This is a result of higher public sector wage increases as part of the public sector collective agreement, as well as increases in benefit rates due to automatic indexation. At the same time, based on the planned fiscal policy, public consumption and investments are also expected to increase relatively strongly, partly as a result of increased defence spending.

BOX 2

European rearmament will have limited impact on the Danish economy

Following Russia's attack on Ukraine in 2022, a number of European countries decided to significantly increase their defence spending. For example, the Danish Defence Agreement proposes an expansion of defence that will bring the defence budget up to 2.5 per cent of GDP by 2025. This comes after a long period of largely decreasing defence budgets, see chart A. The decisions have two main purposes: The first is to increase military capability and thus deter hostile powers. The second is to stimulate the defence industry so that it can support a larger rearmament in the future if necessary.

There is widespread agreement in the economic literature that rearmament on the scale we are currently seeing in Europe could increase capacity pressure and lead to a general increase in price pressure. Exactly how much capacity pressure is increased by a rearmament depends on the implementation, financing of the rearmament and whether the country itself produces weapons.

Implementation
The implementation of additional costs in Danish defence has not yet been decided, but it is likely to be a relatively broad rearmament with increases in weapons purchases, facilities and employing more people.

Danish defence spending can be broadly divided into wages, intermediate consumption, investments and transfers abroad. Expenditure on equipment purchases is divided into 'intermediate consumption' and 'investments'. 'Intermediate consumption' includes smaller arms and ammunition, which are immediately written off when purchased. 'Investments' include major weapon purchases, such as vehicles and aircraft, which are written down over several years. Chart B shows how Danish defence spending has been distributed since 1998.

An increase in the number of employees due to the upcoming rearmament could put pressure on the labour market. It has not been determined how many full-time employees the Danish Defence will need to increase by, but the expansion of conscription alone will likely require over 5,000 people or approximately 0.2 per cent of the total Danish workforce. With fewer people in the workforce for other employment, competition to attract labour will become fiercer, which could lead to wage and subsequent price increases.

An increase in Danish and European military procurement will probably have relatively little impact on the Danish economy, as Denmark's defence industry is very small to begin with. However, several of Denmark's main trading partners have relatively large defence industries, such as Sweden, Germany, the UK and the US. In countries that produce weapons, the increase in demand may increase capacity pressure as production needs to be expanded with more capital and labour.

Transfers abroad have almost no direct effect on the Danish economy. They will either worsen the government's current deficit or lower equipment inventory levels. The impact on capacity pressure can therefore reasonably be assumed to be close to zero.

Larger construction projects, on the other hand, could increase capacity pressure. There has been discussion about setting up a shipyard in Denmark as part of the rearmament programme. The construction project alone is expected to cost billions, which could create further capacity and price pressure on the economy.

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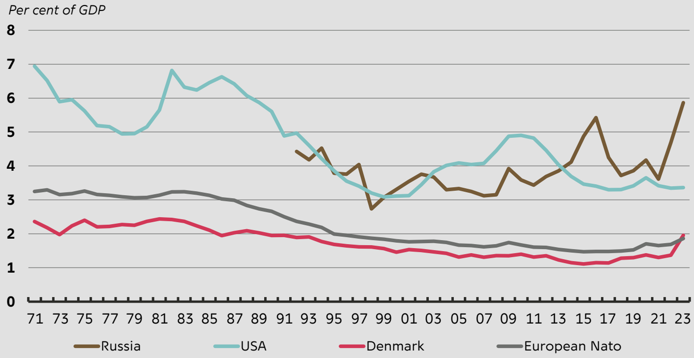
CHART A

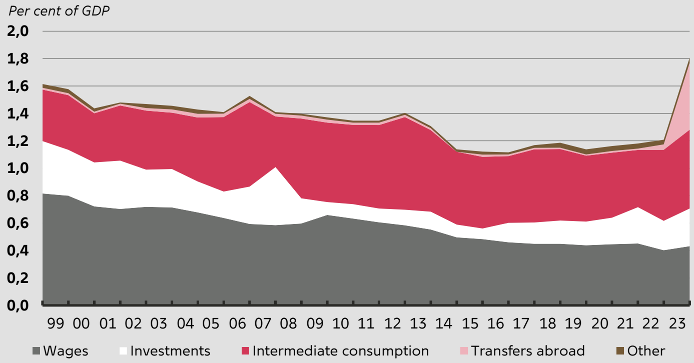
Military spending has started to increase in recent years after years of decline



Note: *European NATO* includes ex-Soviet countries that joined NATO in 1993. In addition, Sweden and Finland are included for the entire period since.
Source: Stockholm International Peace Research Institute, SIPRI.

CHART B

Danish military spending as a share of GDP increased sharply in 2023



Note: The military expenditure above is calculated differently than at SIPRI, which is the data source for the previous chart. This is partly because donations of equipment, pension costs and impairment charges are treated differently.
Source: Statistics Denmark OFF25.

... continued

Financing
The pressure created by rearmament could be fully or partially offset by financing in the form of taxes or cuts in other public spending. As it stands, however, this is not the plan in Denmark. The same goes for rearmament in most of Europe.

European military industry
It is a goal in and of itself for the EU to become more independent of imports from external partners. In the spring of 2024, the European Commission presented a plan that includes the goal that at least 50 per cent of member states' military procurement should come from other EU countries by 2030. No figures have been published on how far the EU countries are in relation to the goal, but an analysis from the think tank Bruegel indicates that the 50 per cent goal for arms purchases from the EU has already been reached in several major countries.[1] This is partly due to a strong home bias.

However, an analysis from Breugel also shows that the share of imports from other EU countries has decreased in some countries since 2018. For example, Germany had a 48 per cent share of imports from the EU in 2018, dropping to 35 per cent in 2023. This may be because production capacity has not been able to adapt quickly enough to meet the surge in demand after 2022. If a larger share of EU countries' arms purchases are to come from the EU in the future, it could increase activity as the arms industry grows to meet demand.

[1] See the analysis *What role do imports play in European defence?* (link).

04
Prospect of lower wage increases

Wage increases in the Danish labour market have picked up over the past year in line with the increases agreed in the collective agreements from spring 2023. Industrial wage increases in Q2 2024 were 6.9 per cent, reflecting a simultaneous adjustment of both the opt-in scheme and pension contributions in that quarter. The high wage increases, together with a sharp drop in inflation, have resulted in real wages in large parts of the economy returning to 2021 levels before inflation picked up.

Significantly lower inflation combined with the fact that labour market pressures have not increased over the past year, suggests that wage increases in the private labour market will be lower from next year. The high wage increases in recent years would not be compatible with low, stable inflation in the long term, but were agreed after a period of high inflation and widespread labour market pressures.

High wage increases in the past year

Wage increases in the private labour market picked up after the collective agreement in early 2023, which came on the back of a period of significant pressure in the labour market and widespread demands for compensation for real wage losses among employees in the face of high price increases. In general, wage developments have followed the course agreed in the collective bargaining from spring 2023, which is also usually the case in Denmark, see chart 10. This applies even in Q2, where a simultaneous adjustment of both the opt-in scheme and pension contributions meant that there was a strong, but expected, wage increase of 6.9 per cent in the industrial sector, calculated by the Confederation of Danish Employers' wage index[18], which will lapse again in Q3.[19]

The wage increases agreed in collective bargaining set the standards for subsequent decentralised negotiations in companies, where the majority of wage developments are determined in the private labour market. Local wage negotiations at companies provide an opportunity to adapt wage developments to economic trends within a collective agreement period. Currently, there is not considered to be any major upward pressure on wages beyond what has been agreed in collective bargaining.

Wage growth rates are expected to remain high throughout the rest of the collective agreement period, which runs until Q1 2025, compared to pre-Covid levels.

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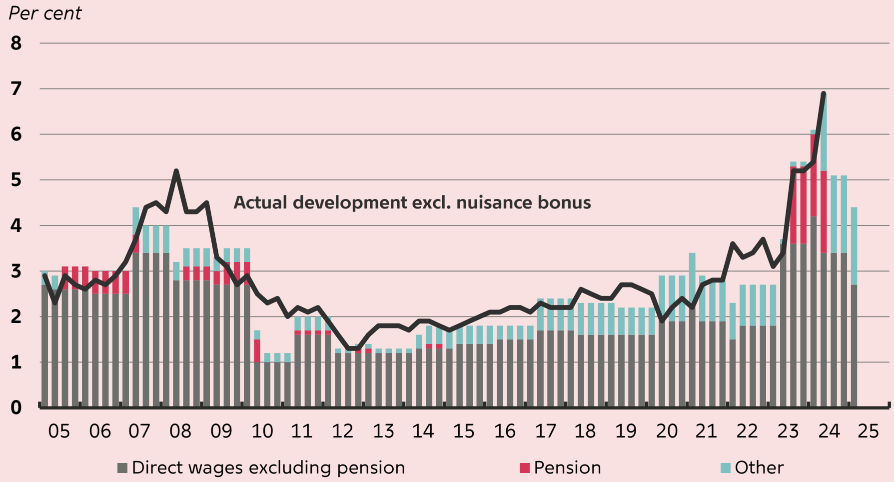
Wage developments have followed the agreed course from the collective bargaining negotiations in spring 2023

CHART 10

Wage increase rates in the Confederation of Danish Employers area broadly follow the agreed rates



Note: *Actual development excluding nuisance bonus* for the manufacturing industry. *Direct wage excluding pension* is an average of the agreed rates in both the minimum wage and normal wage area (reference course), i.e. the rates agreed in the Industrial Workers' Collective Agreement, the Building and Construction Collective Agreement, the Retail Collective Agreement, the Joint Collective Agreement and the Transport and Logistics Collective Agreement.
Source: Confederation of Danish Employers, Ministry of Economic Affairs and own calculations.

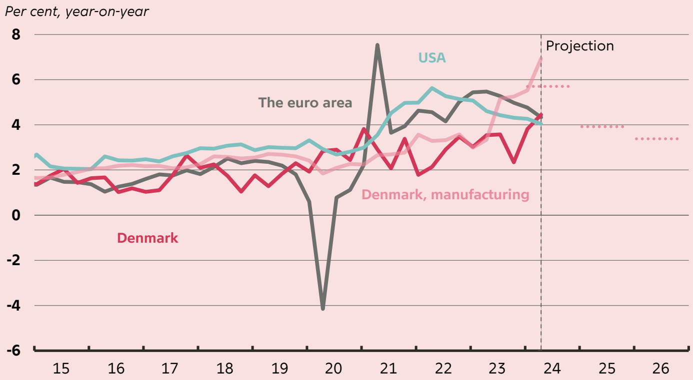
[18] Wages excluding nuisance bonus.
[19] The significant increase in the annual rate of increase of 6.9 per cent in Q2 is expected and is due to the regulation of the opt-in scheme (+2 per cent) coming into effect, while the increase in employers' pension contribution still appears in the annual rate of increase (but will lapse in Q3 2024).

Excluding the temporary double adjustment in Q2, wage increases in Denmark over the past year have been lower than in the euro area, where the rate of increase had already risen significantly during 2023, see chart 11. Part of the explanation is the timing of the collective bargaining, which is staggered throughout the year across countries. Agreed wage increases in, for example, Germany, which negotiates earlier than Denmark, therefore have an earlier impact on actual wages in the euro area. In the US, wage increases were already picking up strongly in 2021 due to strong pressure on the labour market. Since then, the rate of wage growth in the US has levelled off at around 4 per cent and is currently lower than in both Denmark and the euro area.

The significantly lower inflation and high nominal wage increases resulted in real wages starting to rise again in Denmark and the euro area in early 2023, see chart 12. Real wages reflect how much consumption wages can be converted into, and measured by the Confederation of Danish Employers' wage index for the manufacturing industry, real wages in Denmark at the beginning of this year were back at the level of 2021, when inflation picked up. However, real wages measured as total payroll per person employed, which is comparable to the euro area and the US, shows that real wages are still below the 2021 level, but that growth has been broadly similar across the countries over the past 18 months. Differences in the development between the two measures of Danish real wages are partly because payroll per employee covers the entire economy and not just the private sector, and partly because the measure does not take into account composition effects such as more older people staying in the labour market. This measure of real wages is also expected to increase in the coming period.

CHART 11

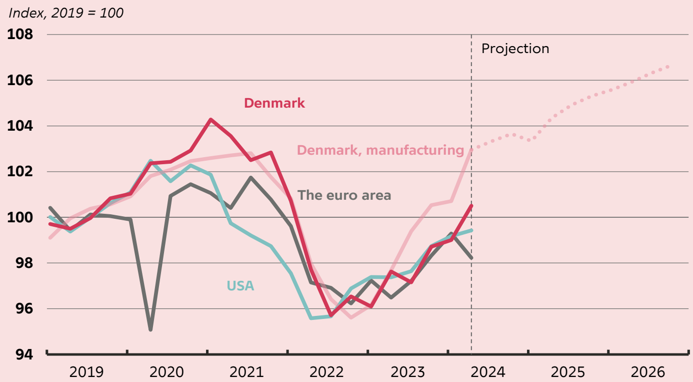
Wage increases in Denmark and abroad have been high



Note: The series for Denmark and the euro area shows payroll per employee for the whole economy, and the series for the US shows the employment cost index for the whole economy. The pink line shows wages in the manufacturing industry measured by the Confederation of Danish Employers' wage index, which is the wage concept used by Danmarks Nationalbank. The dotted line is Danmarks Nationalbank's projection.
Source: Confederation of Danish Employers, ECB and US Bureau of Labor Statistics.

CHART 12

Real wages have increased significantly



Note: Real wages are calculated as nominal payroll per employee/HICP index for Denmark and the euro area. For the USA, the *employment cost index* is used as the wage concept. The pink line shows real wages in the manufacturing industry, which is the wage concept used by Danmarks Nationalbank. The dotted line is Danmarks Nationalbank's projection.
Source: Eurostat, US Bureau of Labor Statistics and own calculations.

Abroad, there are signs that wage increases will slow down from next year, which is also the main scenario in the ECB's September projection[20]. For

[20] See ECB, *Eurosystem staff macroeconomic projections for the euro area*, September 2024.

example, the first wage demands in the run-up to collective bargaining in Germany indicate that wage increases in the upcoming agreements may be lower than in previous agreements. If this happens, it will likely affect wage development in Denmark in many export-oriented industries such as manufacturing, which typically set the tone for the private labour market in Denmark as a whole.

Wages in the private labour market are expected to increase by 3.9 per cent next year

In Denmark, wage increases are expected to remain high this year at 5.7 per cent, while next year, wage increases in the private labour market are expected to fall to a more moderate level. This is mainly due to the fact that inflation has come down significantly, and in addition, the pressure on the labour market is not considered to have increased over the past year, which puts less upward pressure on wage increases. Wage increases in the industrial sector are expected to be 3.9 per cent in 2025 and they are deducted for the full year from the agreed increases from the latest collective agreements, which are effective until the first part of 2025. By 2026, the tariffs are forecast to drop to 3.4 per cent, which is still higher than in the years leading up to the pandemic. A stable price development in the Danish economy in the coming years is dependent on the rate of wage growth coming down from the high levels in recent years, as they will not be compatible with low, stable inflation in the long term.

Danish wage increases are broadly in line with wage increases in the euro area and the ECB expects wage increases to be 4.5 per cent in 2024, 3.6 in 2025 and 3.2 per cent in 2026. The US Congressional Budget Office expects wage increases in the US to gradually slow to 4.1 per cent in 2024 and 3.7 per cent in 2025.

The projection implies a continued increase in real wages throughout the period. Thus, the path of real wages is expected to broadly follow the modelling of a temporary contractionary supply-side shock, where real wages are briefly weakened as the economy is hit by rising energy prices and disruptions to global supply chains, but then gradually recover, see box 3.

BOX 3

High energy prices and disruptions to global supply chains have temporarily weakened real wages

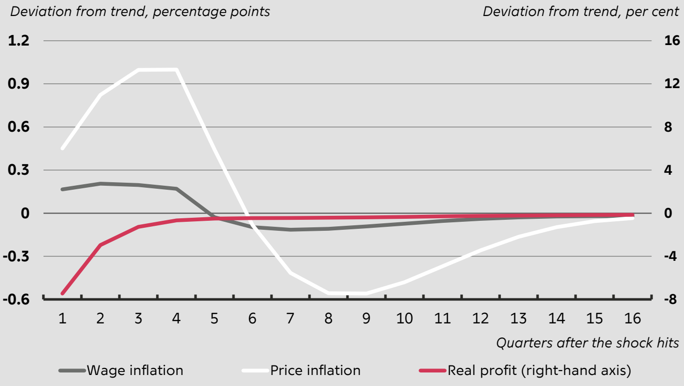
In the euro area and Denmark, the significant increase in inflation since 2021 has been driven mainly by contractionary supply shocks in the form of higher energy prices and disruptions to global supply chains.[1] In isolation, this results in a temporary weakening of real wages, which is reflected in inflation rising more than wage growth for a period. This is in line with the real wage development throughout 2022 for Denmark, see the first four quarters in chart A. Subsequently, inflation is overtaken by wage growth as the shock fades and real wages recover, which was also the case throughout 2023.

The dynamics described above are illustrated in this box using a dynamic stochastic general equilibrium (DSGE) model for the Danish economy.[2] DSGE models are characterised by the inclusion of structural shocks such as shocks to productivity and households' preferences. This makes the model a suitable framework for analysing the effects of different types of shocks. Both price and wage inflation are determined by New Keynesian Phillips curve relationships, where rigidities in price and wage setting cause prices and wages to adjust gradually when the economy is hit by shocks. Forward-looking behaviour also means that price and wage setting are based on companies' and households' expectations of future economic development.

Chart A shows the model's prediction of how price and wage inflation react to a supply shock that temporarily lowers companies' productivity.[3] As the shock only

CHART A

Supply shocks boost prices and wages, but temporarily weaken real wages ...



Note: The response of wage and price inflation is shown as percentage point deviations in the annual rate of increase from trend, where the shock did not occur (trend).
Source: Own calculations based on Danmarks Nationalbank's DSGE model.

Continues ...

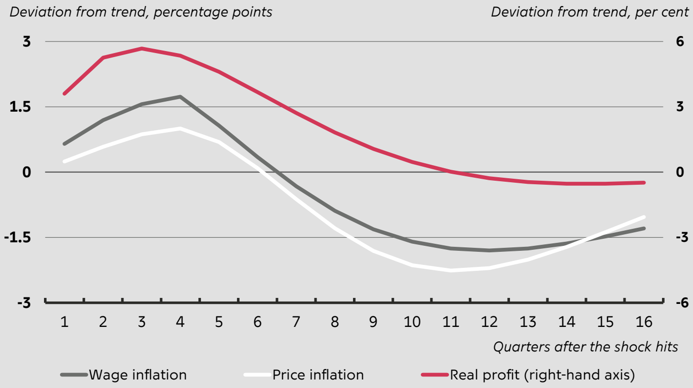
... continued

gradually translates into higher prices, it lowers companies' profits.[4] Companies also reduce their demand for labour and capital, putting downward pressure on real wages and the return on capital. Both prices and nominal wages therefore rise, but households experience a drop in real wages immediately after the shock. In Denmark, inflation rose significantly throughout 2022, but wages remained relatively unchanged. This is partly due to the timing of collective bargaining, which occurred in the beginning of 2023. Collective bargaining is not modelled in the DSGE model, which implies that the actual development in wage increases is delayed compared to the model. In the shock scenario, the fall in real wages is smaller than the fall in productivity, as the inflation rate exceeds wage growth according to the model estimates. Because the shock only has a temporary effect, real wages recover afterwards. Nominal wage inflation is therefore above price inflation for a period, which dips below its starting point as the supply shock disappears. This corresponds to the actual development of nominal wages, which have increased significantly over the past year, while inflation has come down.

Expansionary demand shocks have also played a role in increasing inflation, but these counteract the fall in real wages from the supply shock.[5] After an expansionary demand shock, prices and nominal wages also increase, see chart B.[6] However, unlike a supply shock, households do not experience a fall in real wages when the demand shock hits. This is because companies are increasing both prices and the demand for labour to accommodate the higher demand for their goods. Both prices and nominal wages increase but with a higher growth rate for wages immediately after the shock hits. Company profits also increase, as wage rigidities are sufficiently strong such that the increase in real wages does not reduce profits according to the model estimates.[7]

CHART B

...while demand shocks increase real wages



Note: The response of wage and price inflation is shown as percentage point deviations in the annual rate of increase from trend, where the shock did not occur (trend).
Source: Own calculations based on Danmarks Nationalbank's DSGE model.

[1] See, for example, Danmarks Nationalbank, Declining but still high inflation, *Danmarks Nationalbank Analysis (Outlook for the Danish economy), no.* 4, March 2023, Guido Ascari, Paolo Bonomolo, Marco Hoeberichts and Riccardo Trezzi, The Euro Area Great Inflation Surge, *De Nederlansche Bank Analysis Series*, February 2023, Óscar Arce, Matteo Ciccarelli, Antoine Kornprobst and Carlos Montes-Galdón, What caused the euro area post-pandemic inflation?, *ECB Occasional Paper Series*, no. 343, February 2024, and Christoffer Jessen Weissert, Trends and cycles in the Danish economy, *Danmarks Nationalbank Economic Memo*, no. 3, May 2024.
[2] The model is a new version of Danmarks Nationalbank's DSGE model that has been estimated based on data from 1995 up to and including 2019. For a description of the model, see Jesper Pedersen and Søren Hove Ravn, What Drives the Business Cycle in a Small Open Economy? Evidence from an estimated DSGE Model of the Danish Economy, *Danmarks Nationalbank Working Paper*, no. 88, December 2013.
[3] Energy goods are not included in the model. Therefore, a productivity shock is used, which affects companies by lowering their output for a given amount of capital and labour. The shock is scaled such that inflation increases by 1 percentage point over time.
[4] Profit in the box is defined as real revenue less real labour costs, which is close to the concept of gross residual income in the national accounts (see Morten Spange and Christoffer Jessen Weissert, Corporate profits and inflation, *Danmarks Nationalbank Analysis*, no. 10, September 2023). The concept of profit is therefore not equal to pure economic profits.
[5] In particular, Domenico Giannone and Giorgio E. Primiceri, The drivers of post-pandemic inflation, *ECB Forum on Central Banking*, July 2024, highlight the role of demand shocks since 2021.
[6] The demand shock takes the form of a so-called risk premium shock, which lowers household demand for safe and liquid assets. The decrease in savings translates into higher consumption by households. The size of the shock is scaled to give an increase in inflation of 1 percentage point.
[7] See, for example, Florin O. Bilbiie and Diego R. Känzig, Greed? Profits, Inflation, and Aggregate Demand, *NBER Working Paper Series, no. 31618*, October 2023, for a thorough analysis of the role of profits in the transmission of demand shocks in DSGE models.

05
Inflation stabilises around 2 per cent

Since the beginning of 2024, inflation in Denmark has risen slightly again after falling sharply throughout 2023. This is mainly due to the fact that energy prices are no longer falling, which means that the negative contributions to inflation from energy has disappeared. Inflation is currently being fuelled by price increases for services, which are rising moderately in light of the high wage increases in recent years. The development of import prices in Denmark has slowed down, partly due to a better balance between the supply and demand side of the global economy. This is partly due to the tight monetary policy in the US and Europe. Monetary policy interest rates remain at a relatively high level, which in isolation continues to dampen inflation both in Denmark and abroad.

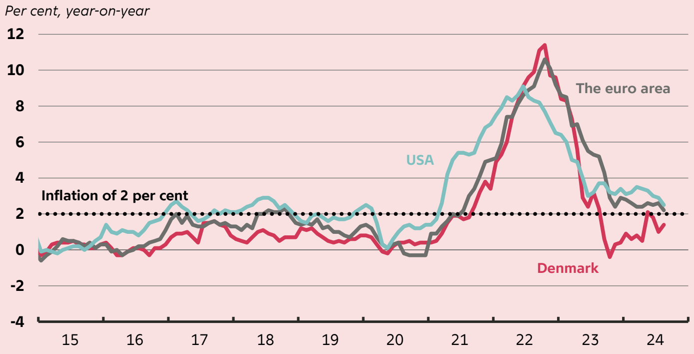
Inflation is expected to stabilise at around 2 per cent during the projection period, assuming wage growth slows down as expected in the coming years. The main contribution to inflation in the projection comes from domestic conditions. In the short term, the pass-though from the high wage increases in recent years is still expected to partly find its way into consumer prices – especially in the prices of services. Inflation expectations remain well anchored and overall price developments in the Danish economy are estimated to be in line with the aim of stable prices.

Inflation has increased slightly in 2024

After falling sharply in 2023, inflation in Denmark rose slightly in 2024 and stood at 1.4 per cent in August, see chart 13. The increase is mainly due to the fact that energy prices are no longer falling and the large negative contributions to inflation from energy have now disappeared, see chart 14. Currently, prices of services are making the largest contribution to inflation, which should be seen in light of the high wage increases in recent years. The large drop in inflation back in 2023 was mainly due to lower inflationary pressure from global conditions, with falling energy prices in particular dragging inflation down significantly.

CHART 13

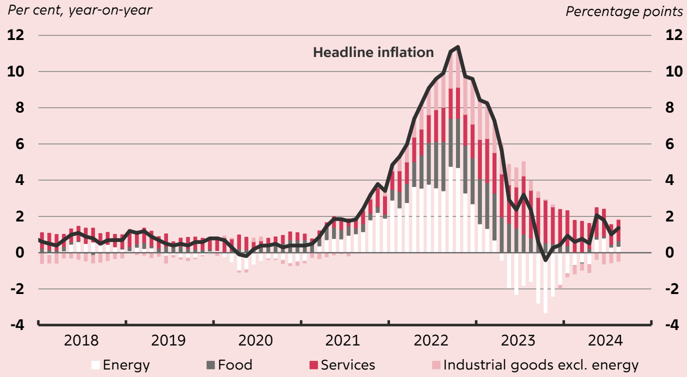
Inflation has slightly increased again in 2024



Note: HICP inflation for Denmark and the euro area and CPI inflation for the USA. The latest observation is August 2024.
Source: Macrobond.

CHART 14

Prices of services are currently driving the inflation



Note: Decomposition of HICP inflation for Denmark. Contributions to inflation are shown on the right-hand axis. The latest observation is August 2024.
Source: Macrobond.

In the euro area, inflation has been roughly flat in 2024 after a large drop throughout 2023. However, the decline in 2023 was greater in Denmark than in the euro area. This is partly because consumer energy prices fell faster and more sharply in Denmark than in the euro area.[21]

Overall, inflationary pressure in the Danish economy has eased significantly. Core inflation, i.e. consumer price increases excluding energy and unprocessed food, has fallen sharply since its peak in 2023, and core inflation in August was 1.0 per cent, see chart 15. Although core inflation is calculated excluding energy, the indirect effects of energy have been the main driver of core inflation in recent years, see chart 16.[22]

"

Overall, inflationary pressure in the Danish economy has eased significantly

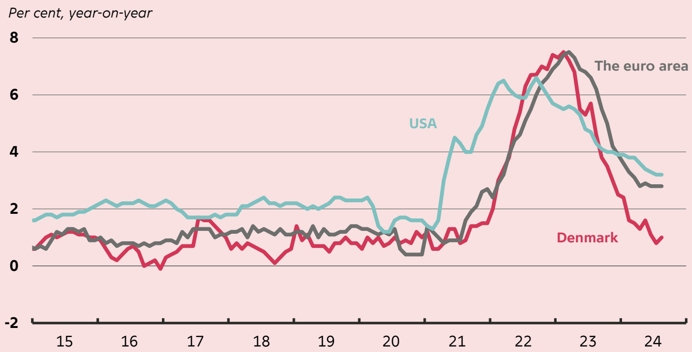
Core inflation remains higher in the euro area and the US than in Denmark. This should be seen in light of the fact that the contribution from indirect energy effects in core inflation has faded faster in Denmark compared to the euro area.[23] At the same time, wage growth has until recently been slightly stronger in the euro area than in Denmark, which has contributed to higher services inflation in the euro area. Finally, inflation on consumer durables – including cars – has fallen

[21] See Chapter 4, "Inflation is on the way down", in Danmarks Nationalbank, Declining but still high inflation, *Danmarks Nationalbank Analysis (Outlook for the Danish economy)*, no. 4, March 2023.
[22] Indirect energy effects in core inflation refer to the fact that rising energy prices indirectly affect prices across the economy, as energy is an important input cost in many industries.
[23] Although core inflation is calculated excluding direct effects from energy and food, energy prices affect companies' production costs for other goods and services, and thus core inflation is indirectly affected by changes in energy prices.

more sharply in Denmark than in the euro area. This does not necessarily mean that the driving forces behind the price developments are weaker in the Danish economy, but can also reflect temporary local market fluctuations.

CHART 15

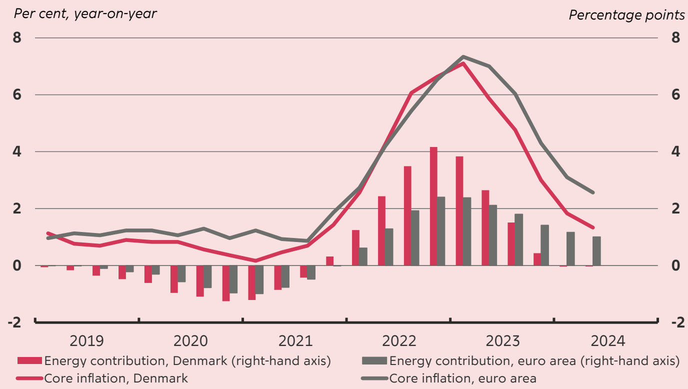
Core inflation in Denmark has fallen sharply and remains somewhat below the euro area



Note: HICP core inflation, i.e. inflation excluding energy and unprocessed food, for Denmark and the euro area. For the USA, core CPI inflation is shown. The most recent observations are from August 2024.
Source: Macrobond.

CHART 16

Contribution to core inflation from indirect effects of high energy prices has faded faster in Denmark



Note: For a more detailed description of the model, see Chapter 4, "Inflation is on the way down", in Danmarks Nationalbank, Falling but still high inflation, *Danmarks Nationalbank Analysis (Outlook for the Danish economy)*, no. 4, March 2023.
Source: Eurostat and own calculations.

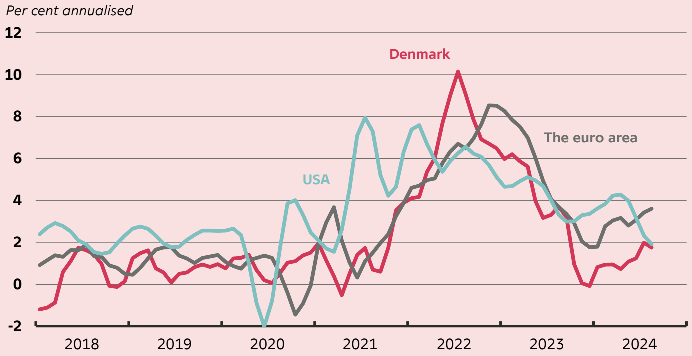
Domestic factors have driven Danish inflation in 2024

Throughout 2024, inflation in the Danish economy has mainly been driven by domestic factors. In 2024, there has been an increase in the so-called core inflation momentum, which indicates what the annual inflation rate would be if price increases over the past three months continue unchanged, see chart 17. This development is largely driven by the price developments of services and should be seen in light of the high wage increases in recent years.[24] The increasing momentum may indicate that core inflation, as measured by the annual rate of increase, will trend upwards again. A similar trend in momentum is seen in the euro area, whereas momentum in the US continues to slow down. Prices of services are a key component of core inflation and the momentum in Danish prices of services has also increased relatively strongly over the summer and stood at 4.4 per cent in August, see chart 18.

[24] See Rasmus Mose Jensen and Nikolaj Mose Dreisig Hansen, Wage increases prolong period of high core inflation, *Danmarks Nationalbank Analysis,* no. 11, September 2023.

CHART 17

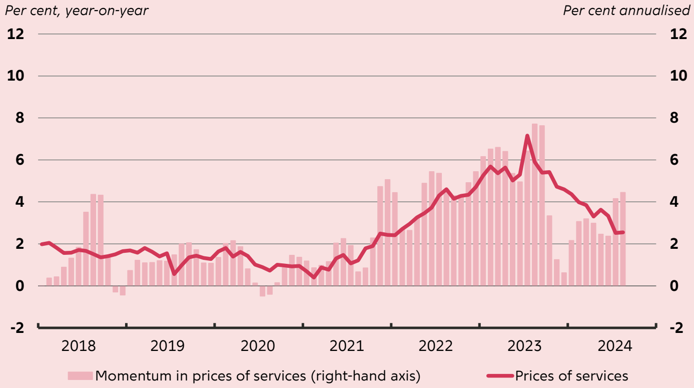
Core inflation momentum has picked up in 2024...



Note: *Momentum* indicatesseasonally adjusted three-month growth rates. For a deeper understanding of momentum, also see box 1 in Danmarks Nationalbank, Persistently high inflationary pressures call for tight economic policy, *Danmarks Nationalbank Analysis (Outlook for the Danish economy)*, no. 13, September 2023. The most recent observations are from August 2024.
Source: Eurostat and own calculations.

CHART 18

...which is largely driven by prices of services



Note: *Momentum* indicatesseasonally adjusted three-month growth rates. For a deeper understanding of momentum, also see box 1 in Danmarks Nationalbank, Persistently high inflationary pressures call for tight economic policy, *Danmarks Nationalbank Analysis (Outlook for the Danish economy)*, no. 13, September 2023. The most recent observations are from August 2024.
Source: Eurostat and own calculations.

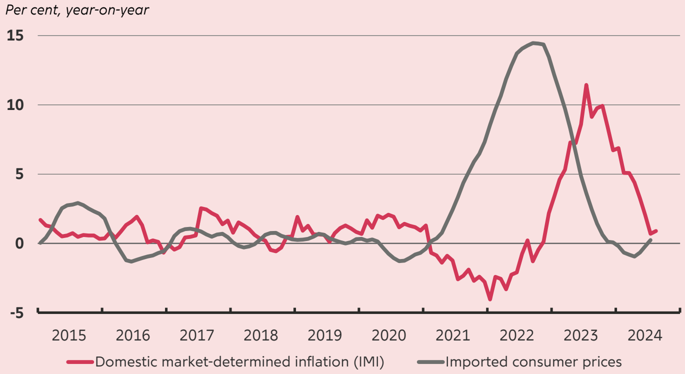
Prices of services are also included in so-called domestic market based inflation.[25] Among other things, domestic market based inflation excludes direct and indirect price increases on energy and imported goods and services to highlight the purely domestic price developments. The annual rate of increase in domestic market based inflation has been higher than that of imported consumer prices throughout 2024, indicating that inflation has been driven by domestic factors, see chart 19. At the same time, however, domestic market based inflation has fallen throughout most of 2024 and stood at 1.0 per cent in August.

The pass-through from wage increases to consumer prices is crucial for the development of inflation. A decomposition of companies' sales prices shows that the contribution of unit labour costs, i.e. labour costs per unit produced, to Danish companies' sales prices increased in 2023 and they have been the main driver in 2024, see chart 20. In 2023, profits made a larger contribution to sales prices than wages where, among other things, falling material prices gave way to increasing unit profits. This year, the contribution from unit profits, i.e. companies' profits per unit produced, has so far been fairly neutral. When material prices no longer fall as they did in 2023, it will be harder for companies to absorb rising labour costs without increasing prices or reducing profits.

[25] *Domestic market based inflation* excludes direct and indirect price increases on energy and imported goods, as well as price increases on unprocessed food, rent and administered prices excluding taxes. For a deeper understanding of domestic market based inflation, also see box 4 in Danmarks Nationalbank, Falling but still high inflation, *Danmarks Nationalbank Analysis (Outlook for the Danish economy),* no. 4, 15 March 2023.

CHART 19

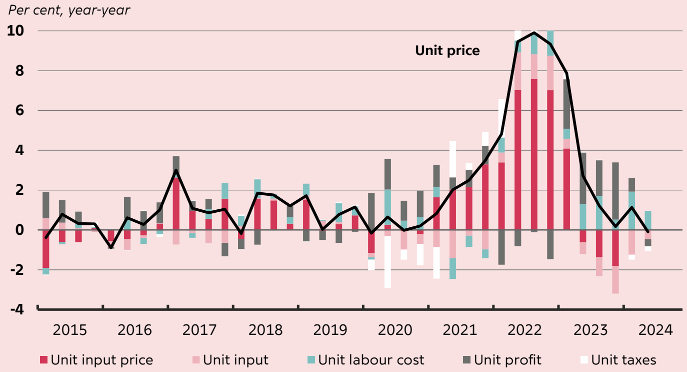
Imported consumer price inflation has been below domestic inflation since mid-2023



Note: *Domestic market based inflation* excludes direct and indirect price increases on energy and imported goods, as well as price increases on unprocessed food, rent and administered prices excluding taxes. The most recent observations are from August 2024.
Source: Statistics Denmark and own calculations.

CHART 20

Wage increases drive Danish companies' sales prices upwards



Note: Decomposition of the deflator for production value in private non-agricultural industries excl. utilities and transport. This excludes agriculture, mining, utilities and transport, where price formation is characterised by reflecting domestic factors only to a modest extent, as well as the public sector, where the calculated price development is largely imputed and does not reflect market price formation.
Source: Confederation of Danish Industry, Confederation of Danish Employers and own calculations.

Inflation is expected to rise slightly in the coming year and then stabilise at around 2 per cent as wage growth slows

In the coming years, domestic factors will also contribute consumer prices, while the contribution from global conditions is expected to remain subdued. Overall, the price development in the Danish economy over the coming years is expected to be subdued and in line with the aim of stable prices. However, this is assuming that the current high wage growth slow down as expected in the coming years. If, on the other hand, wage growth does not slow down to the extent expected, this could lead to more persistent inflation in the Danish economy than assumed in the projection, especially in the prices of services.

In the projection, inflation is forecast to rise towards 2.5 per cent by mid-2025. This is mainly due to an expectation that the high wage increases in recent years will to some extent continue to find their way into consumer prices in the coming year – especially the prices of services. As wage increases are expected to slow down in 2025, inflation is expected to gradually fall back to around 2 per cent in 2026, see chart 21. Overall, inflation is forecast to be 1.3 per cent in 2024, 2.1 per cent in 2025 and 1.8 per cent in 2026. Overall, core inflation is expected to remain at approximately the same level as headline inflation over the projection period.

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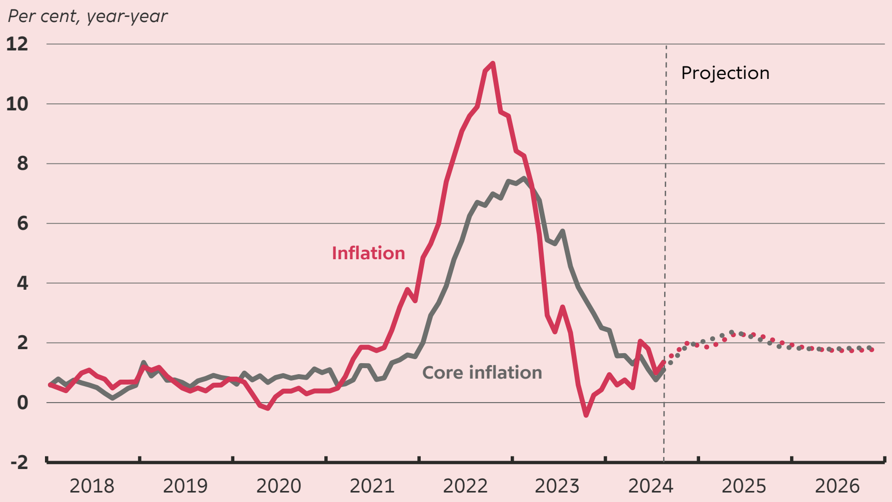
Inflation is expected to stabilise around 2 per cent.

CHART 21

Inflation is expected to be relatively stable in the coming years



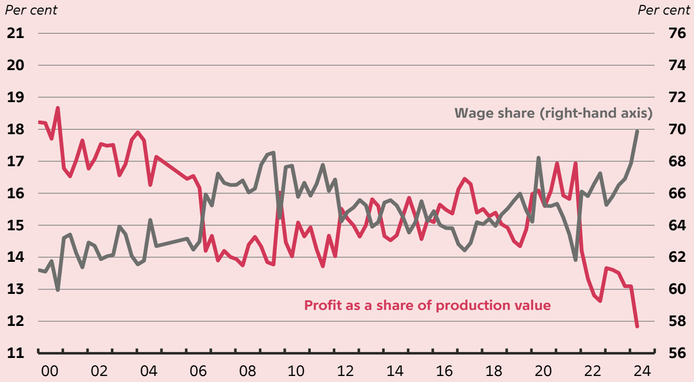
Note: The latest actual figures are from August 2024.
Source: Statistics Denmark and own calculations.

The projection for inflation is based on an assessment that companies will to some extent pass on increasing labour costs to their sales prices. This is because companies' profits as a share of production value are already very low in a historical context when looking at companies excluding production abroad under Danish ownership, see chart 22. All things being equal, this makes it harder for companies to absorb wage increases into profits. At the same time, a moderate improvement in demand in the economy is also expected, allowing companies to better sustain sales at higher prices. Conversely, the higher unit profits in 2023 may also have cushioned companies, which can now partially absorb the rising labour costs. If production abroad under Danish ownership is included, the companies' profits as a share of production value are at a relatively high level, see chart 23. To the extent that profits from production abroad are used to pay wages in Denmark, this can reduce the need for companies to increase sales prices. However, production abroad under Danish ownership is largely driven by a few large companies, and overall, wage increases in the Danish labour market are therefore expected to be reflected to some extent in Danish sales prices and find their way into consumer prices.

Danmarks Nationalbank's estimate for inflation in Denmark in the coming years is roughly in line with the ECB's expectation for inflation in the euro area. The ECB's September projection for the euro area shows consumer prices increasing by 2.2 per cent in 2025 and 1.9 per cent in 2026. Thus, there are no significant differences in inflation between Denmark and the euro area in the projection horizon.

CHART 22

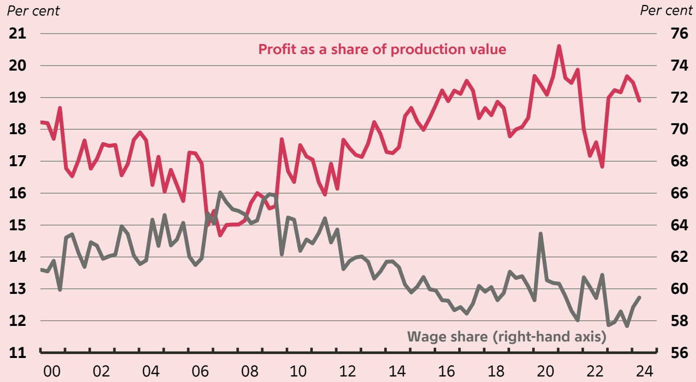
Companies' profits excluding production abroad under Danish ownership are historically low...



Note: Private non-agricultural industries excl. utilities, transport and production abroad under Danish ownership.
Source: Statistics Denmark and own calculations.

CHART 23

... while profits are high, including production abroad under Danish ownership



Note: Private non-agricultural industries excl. utilities and transport.
Source: Statistics Denmark and own calculations.

Monetary policy remains tight despite interest rate cuts

Lower inflation prompted the ECB and the US Federal Reserve, to ease monetary policy. The ECB cut interest rates by 0.5 percentage points over the summer and Danmarks Nationalbank followed suit with similar rate cuts. More recently, the US Federal Reserve lowered the interest rate by 0.5 percentage points in September. Market participants expect that by the end of 2024, the ECB and the Fed will have lowered interest rates further from their current levels and monetary policy is expected to gradually become more neutral over the coming year.

Although monetary policy interest rates have been lowered, monetary policy and financial conditions are expected to remain tight and to dampen inflation and activity in the Danish economy.[26] The price of new financing remains high and external financing take-up is subdued, despite interest rates on new loans falling in 2024. Model estimates show that most of the expected pass-through from the monetary policy rate hikes in 2022-2023 to the cost of new debt financing for Danish households and companies has now occurred.

[26] See Danmarks Nationalbank, Policy rates have been lowered, but monetary policy remains restrictive, *Danmarks Nationalbank Analysis, Monetary and Financial Trends*, no. 13, September 2024

06
Increase in household purchasing power will support consumption growth in the coming years

The increase in household purchasing power has not yet been reflected in total private consumption, which is still being held back by the interest rate hikes in recent years, among other things.

Expectations of a robust labour market and decent wage increases contributes to further rises in household income over the coming years. Less restrictive financial conditions are expected to boost growth in private consumption and house prices going forward.

Consumption remains subdued

Household consumption remains subdued and total private consumption has fallen by 0.8 per cent this year, see chart 24. The decline should be seen in light of the relatively strong increase in private consumption at the end of 2023, which can be attributed to large fluctuations in car consumption, where a large part of the consumption was brought forward before the turn of the year due to the introduction of higher registration tax on certain types of electric cars. However, the decrease also reflects downturns in a number of other consumption groups. Conversely, there is an increase in consumption of restaurants and home use, among other things, while there has also been a slight increase in retail sales.

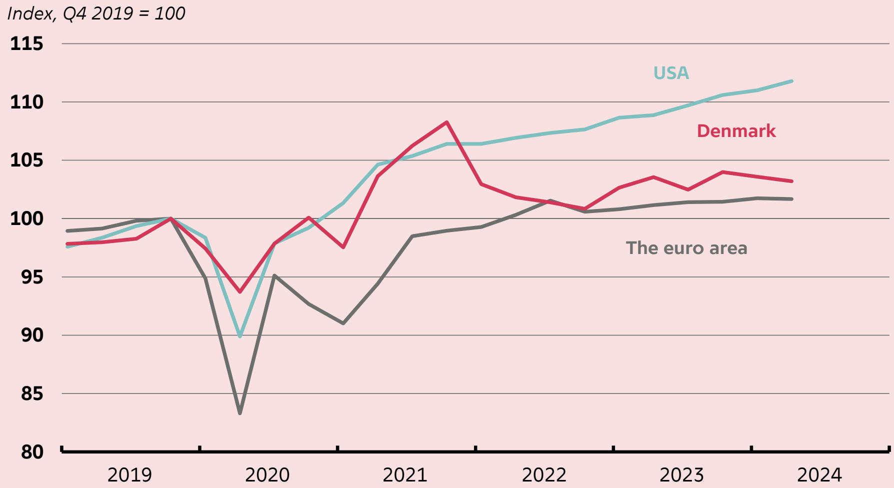
The weak development in overall consumption contrasts with the continued improvement in the labour market and the significant recovery in real wages. At the same time, recent low inflation is contributing to a significant increase in households' real disposable incomes. Consumer restraint is also reflected in consumer confidence, which indicates that consumers' expectations of their own and the Danish economy are still pessimistic. Household restraint is partly due to the fact that many households' budgets are still affected by high net interest expenses as a result of continued tight monetary policy. All else being equal, this reduces spending options, especially for cash-strapped households. Therefore, in isolation, it is estimated that the pass-through from the tight monetary policy is still having a dampening effect on consumption.[27]

However, household consumption has been sustained by high net wealth, which supports some levelling out of consumption. Even households that have experienced the largest increases in interest expenses have, to some extent, been able to counteract the higher costs by reducing their current savings, which has reduced the effect on consumption due to the rising net interest rates, see box 4.

Private consumption continues to be dampened by high interest rates

CHART 24

Households are still holding back on spending



Note: The chart shows real private consumption.
Source: Eurostat, Bureau of Economic Analysis and own calculations.

[27] See Andersen, Jørgensen, Kuchler, Larsen, Læssøe, Otte, Spange and Weissert, Effects of increases in monetary policy rates, *Danmarks Nationalbank Analysis*, no. 5, March 2024.

Although consumption in Denmark has been weak, Danish private consumption has still been stronger than in the euro area, where labour market developments have been more subdued. In the US, private consumption has risen more strongly than in Denmark in recent years, which can be attributed mainly to a drawdown in savings that Americans built up during the pandemic, combined with high nominal wage increases and a more relaxed economic policy than in the euro area in the wake of the pandemic.[28]

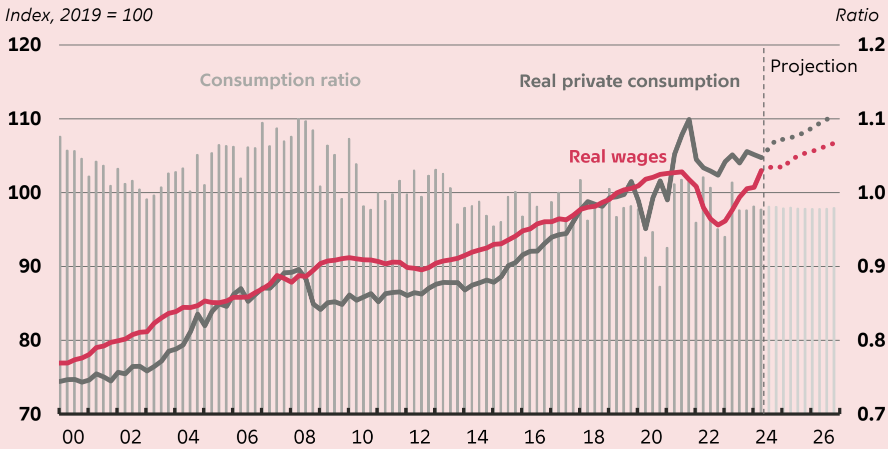
Higher consumption growth will be supported by rising incomes

Household consumption is expected to increase at a slow pace for the rest of the year. On the one hand, the increase in households' real disposable incomes is expected to translate into higher consumption, while on the other hand, tight monetary policy is expected to have a dampening effect.[29] Private consumption is expected to increase by 1 per cent this year, see chart 25.

As financial conditions gradually become less restrictive, consumption growth is expected to pick up. Consumption is expected to follow the growth in incomes again and the consumption ratio, i.e. the ratio of consumption to disposable income, is forecast to remain more or less unchanged throughout the projection. Private consumption is expected to increase by 1.8 per cent in 2025 and 2026.

CHART 25

Consumption is expected to follow income growth in the coming years



Note: Consumption ratio is calculated as private consumption as a percentage of disposable income.
Source: Statistics Denmark and own calculations.

[28] See, for example, IMF, *World Economic Outlook*, April 2024.
[29] See Danmarks Nationalbank, Policy rates have been lowered, but monetary policy remains restrictive, *Danmarks Nationalbank Analysis, Monetary and Financial Trends*, No. 13, September 2024

BOX 4

High deposits have supported some levelling out of consumption

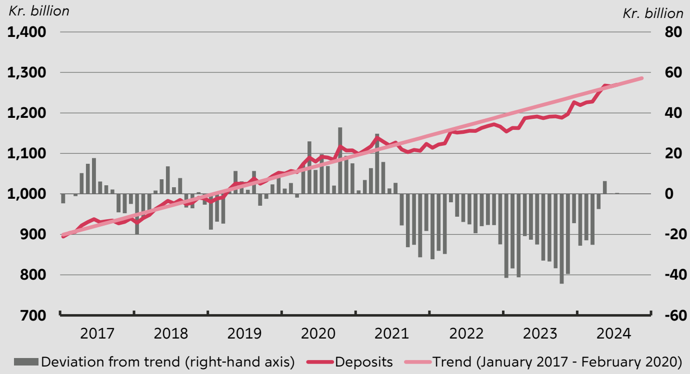
Danish households have large financial savings, part of which consists of deposits in banks. In July 2024, households' total deposits were kr. 1,270 billion, which is slightly less than their total disposable income in the whole of 2023. Large deposits were built up further during the pandemic, where the combination of high income growth and one-off payments, along with low consumption, may have led households to save more than usual. Furthermore, there have been significant increases in the value of household wealth in securities over the same period.[1]

However, since mid-2021 and until the beginning of 2024, households have been saving less than the historical trend, see chart A. This covers a period of interest rate hikes, which have also increasingly impacted household budgets. There may be several reasons for the development in household deposits, which may reflect that households are investing wealth in other ways, such as in securities. However, given that consumption has remained largely unchanged over the same period as interest expenses have grown in many households, this suggests that households have also drawn on deposits because they have had an increased need to level out consumption as net interest expenses have increased.

Households have been affected to varying degrees by rising interest rates. For most homeowners with mortgages, interest payments make up a significant portion of their budget, and for some it may have been necessary to draw on cash savings to maintain spending at a desired level. Chart B shows changes in households' bank deposits scaled to their incomes, with households divided into two groups based on whether their interest expenses are below or above the median in a given calendar year. In this way, households are in a simple way categorised according to whether they have been more or less exposed to interest rate hikes. The annual change in bank deposits has been broadly similar during the period 2017-21, regardless of whether households had high or low interest expenses. During 2020, both groups of households increased their deposits significantly, as also shown in chart A, while both types of households also subsequently reduced their deposits in 2021 as inflation picked up and consumer spending increased significantly. However, in 2022, the bank deposits of the two groups developed differently. Households that were more exposed to rising interest rates saved less in the form of bank deposits than households that did not experience rising interest payments to the same extent. Reducing bank deposits may thus reflect that households with relatively high interest expenses have to some extent been able to offset the decline in consumption that rising interest rates could have caused by reducing their savings.

CHART A

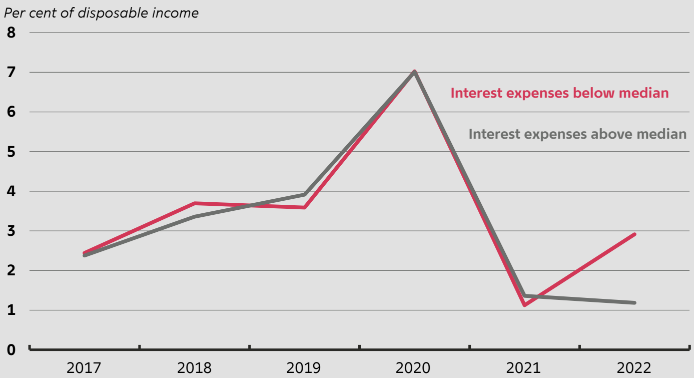
Bank deposits were slightly above trend in 2020 but have been below in subsequent years



Source: Danmarks Nationalbank.

CHART B

Households with high interest expenses saved less in 2022



Note: The chart shows the annual change in bank deposits as a percentage of the previous year's disposable income. Households are divided into two groups based on whether their net interest expenses relative to the previous year's disposable income in each calendar year were above or below the median. Only households with positive net interest expenses are included in the chart.
Source: Own calculations based on register data from Statistics Denmark.

[1] See box 1 in Danmarks Nationalbank, Inflation is on track, but some inflationary pressure persists, *Danmarks Nationalbank Analysis (Outlook for the Danish Economy)*, no. 2, March 2024.

House prices will rise moderately in the coming years

Growth in the housing market has been subdued in the first half of 2024 compared to the second half of 2023. In Q1, single-family house prices fell by 0.1 per cent nationwide, while preliminary figures from Q2 point to an increase of 1 per cent. This comes after significant price increases in the second half of 2023 of 3,4 pct., when prices rose due to falling inflation, increasing real wages, increasing employment and a slight decrease in long-term interest rates.

House prices fell significantly in 2022 on the back of high inflation and consequently rising interest rates, see chart 26. This eroded the purchasing power of home buyers and made it more expensive to finance a home, so housing demand fell. During 2022, single-family house prices fell by 6.5 per cent. Danmarks Nationalbank's modelling indicates that it takes about two years for interest rate fluctuations to be fully reflected in house prices, so the effect of the recent interest rate hikes on house prices is estimated to largely have occurred.[30] In early 2022, inflation helped pull down house prices, but in the long run, inflation will lead to nominal house price increases compared to the baseline if wages keep up. Wage increases picked up in 2023, while inflation dropped significantly, so inflation is not expected to contribute further to falls in house prices.

House prices are expected to rise by 3.3 per cent this year

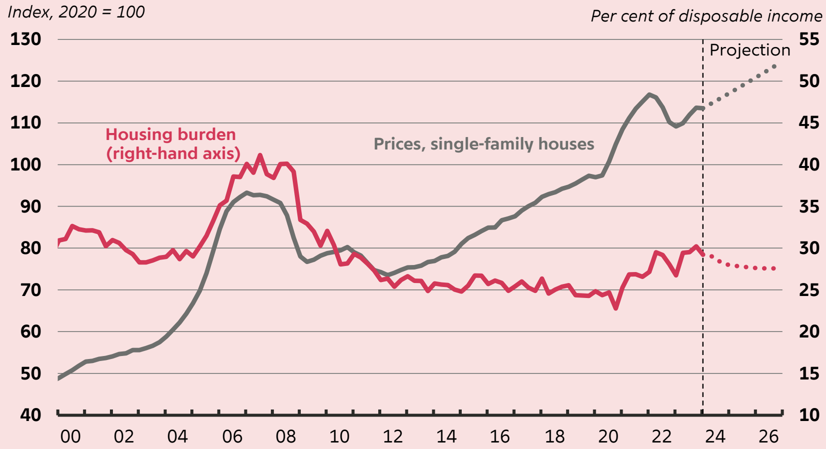
The housing market has also been characterised by structural changes in recent years, including new regulations; the Covid pandemic, which led to an increase in homeworking; and the introduction of the new housing tax system in early 2024. These changes are not expected to cause further fluctuations in house prices but will lead to a more stable price development in the future. The driving forces behind the housing market in recent years are discussed in a thematic analysis of the housing market.[31]

The downward price pressure from both higher interest rates and inflation is considered to be largely over. In the coming years, house prices are expected to be dictated by growth in household disposable income due to rising wages and continued high employment, as well as market expectations of falling interest rates. This will lead to moderate price increases. The housing burden, which shows how much of a homebuyer's income is spent on housing, has increased in recent years, making it relatively more expensive to buy a house today than in the previous 10 years, see chart 26. Partly because of this, house prices are not expected to fully follow the development of income and interest rates, which means that the housing burden is expected to decrease slightly during the projection period. Over the coming years, house prices are expected to increase by 3.3 per cent in 2024, 3.2 per cent in 2025 and 3.2 per cent in 2026.

[30] See box 2 in Abildgren, Hviid, Klein, Krause, Kuchler, von Rüden and Zhuang, Large shocks to the economy have driven house prices , *Danmarks Nationalbank Analysis*, no. 14, September 2024.
[31] See Abildgren, Hviid, Klein, Krause, Kuchler, von Rüden and Zhuang, Large shocks to the economy have driven house prices, *Danmarks Nationalbank Analysis*, no. 14, September 2024.

CHART 26

House prices are expected to rise in the coming years



Note: Nominal, seasonally adjusted prices of single-family houses nationwide. The projection is based on Statistics Denmark's price statistics, where the latest observation is Q1 2024.
Source: Statistics Denmark and own calculations.

07
Exports boosted by moderate growth in the global economy

There is still moderate global growth close to potential despite tight monetary policy and geopolitical tensions. The global economy is expected to continue to grow at a steady pace in the coming years, partly because higher real wages are fuelling a consumption-driven recovery in Europe, while growth is slowing in the US and China.

With the prospect of moderate growth in Danish export markets, higher exports are expected to boost activity in the Danish economy in the future. This has a knock-on effect on companies' need for more machinery to meet demand, for example, and thus increases business investment, which is less affected by interest rate hikes than before.

The balance of payments surplus remains high during the projection period, supported in particular by strong growth in exports of goods produced abroad under Danish ownership.

The global economy showed signs of moderate growth over the summer

The robust activity in the global economy continued over the summer, with business confidence measured by the PMI index up to August pointing to moderate growth close to the historical average over the past ten years, see chart 27. Increasing real wages, robust labour markets and a relatively strong service sector are currently driving growth. On the other hand, activity is being dampened by tight monetary policy, a reversal of previous fiscal easing, a slowdown in European manufacturing and structural factors such as demographic ageing and weak productivity growth, both of which are holding back potential growth in several advanced economies. In addition, geopolitical tensions related to Russia's invasion of Ukraine, the war in the Middle East and the trade conflict between the US and China remain a key factor that has increased the threat to the global economy.

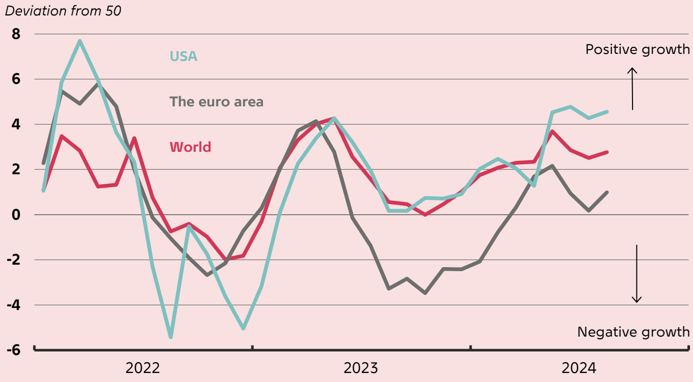
"

The global PMI index stood at 52.8 in August, pointing to moderate growth in the world economy

The global growth picture hides large regional differences, with the US economy in particular growing somewhat faster than the euro area in recent years, partly because Europe, unlike the US, was hit by a negative terms of trade shock following Russia's invasion of Ukraine, see Chart 28.

CHART 27

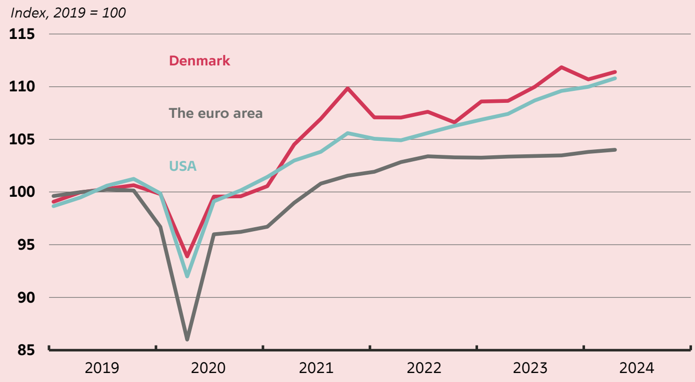
Business confidence points to moderate global growth over the summer



Note: The chart shows the PMI index for the whole economy.
Source: Macrobond.

CHART 28

GDP has grown faster in the US than in the euro area



Note: The chart shows GDP in real terms.
Source: Macrobond.

The euro area is currently in a mild recession with an output gap of -0.6 per cent of potential GDP in 2024 according to estimates from international organisations[32]. Private consumption and investment in particular have been weak during the recovery, while demand is being sustained by higher public consumption and exports despite market share losses in some major euro countries. Rising exports have also supported activity through the first half of the year, with GDP growth of 0.2 per cent in Q2 2024, slightly below potential after a five-quarter period of stagnation in 2022-23. Euro area business confidence, as measured by the PMI index, still points to a two-speed economy over the summer, with growth in services but weakness in manufacturing.

In the US, supply and demand conditions have become better balanced and the economy is now in a moderate boom with an output gap of 0.5 per cent of

[32] The output gap is an average of estimates from the IMF, OECD and European Commission.

potential GDP in 2024 according to estimates from international organisations[33]. GDP growth increased to 0.7 per cent in Q2 2024 after a slight slowdown at the beginning of the year, with the economy mainly supported by growth in investment and consumption, driven by a low household savings rate and a positive spiral between private consumption, a robust labour market and higher wages.

The global economy is expected to grow 3.2 per cent in 2024

Prospects for moderate global growth and consumption-driven recovery in Europe

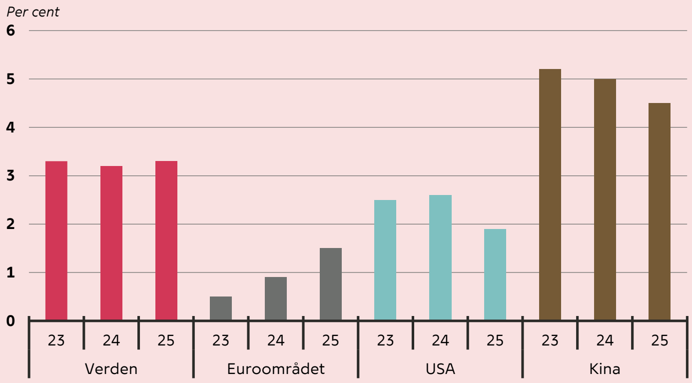
In the coming years, the main scenario from international organisations is that the global economy will face a soft landing with declining inflation and moderate growth. For example, the International Monetary Fund (IMF) forecasts that global GDP will grow by just over 3 per cent in 2024-25, which is close to potential and the average growth over the past ten years, see chart 29.

In the euro area, higher real wages are expected to support a consumption-driven recovery with rising GDP growth in 2024-25, while growth in the US is expected to slow towards 2025, partly because fiscal tightening and easing labour market pressures are dampening demand. Across advanced economies, past monetary tightening is still hampering growth, although global financial conditions have eased and will be less of a drag on activity going forward. In China, growth is predicted to slow towards 2025, partly due to continued weakness in the property sector and declining potential growth driven by demographic headwinds and slower productivity growth.

International trade is showing signs of stabilising again after a slowdown around the turn of the year, but is still hampered by declining new export orders in manufacturing, see chart 30. Looking ahead, the IMF expects global trade to grow by around 3 per cent in 2024-25 after a weak 2023, and the international backdrop for the Danish economy thus provides the basis for higher exports in the coming years.

CHART 29

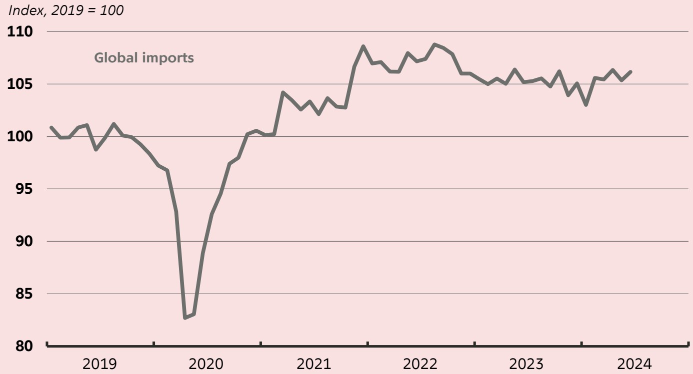
A consumption-driven recovery in the euro area is on the horizon, while GDP growth slows in the US and China in 2024-25



Note: The chart shows GDP growth in real terms.
Source: IMF.

CHART 30

International trade has developed weakly over the past few years



Note: The chart shows the global import of goods in volumes.
Source: Macrobond and CPB Netherlands Bureau for Economic Policy Analysis.

[33] The output gap is an average of estimates from the IMF, OECD and European Commission.

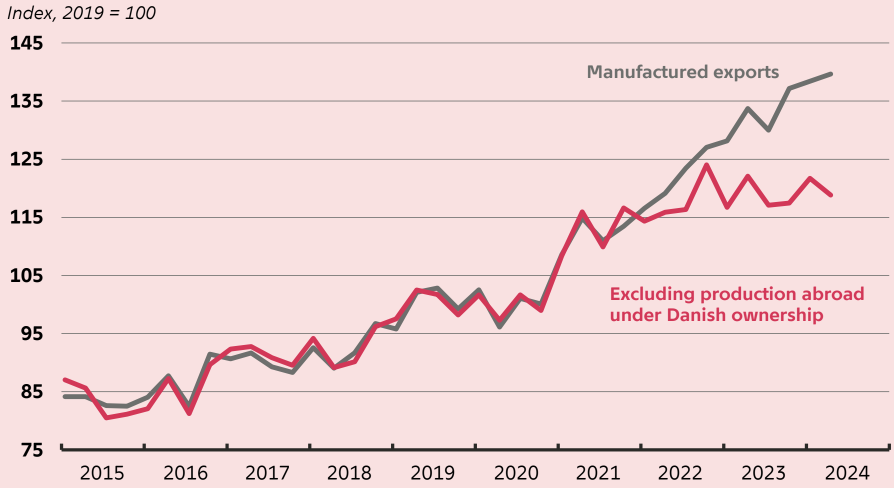
Growth in goods exports

An improving global economy in the first half of 2024 has given a renewed tailwind to many Danish export companies. Danish industrial exports have increased by 1.8 per cent since the turn of the year, which covers both growth in industrial exports excluding production abroad under Danish ownership and production in Denmark, see chart 31. This is in contrast to the last few years, where the growth in total industrial exports has largely been due to exports of Danish-owned goods produced abroad, including pharmaceuticals. In contrast to the recent rise in industrial exports in Denmark, industrial exports in several major euro countries, including Germany, have fallen significantly, mainly driven by the energy-intensive parts of German industry.

Much of the recent growth in exports of Danish-owned goods produced abroad is due to sales to the US. Since the beginning of 2021, the US has been Denmark's largest export market and currently accounts for almost a fifth of total Danish goods exports. This development is largely driven by Danish pharmaceutical production in the US and should be seen in the context of Novo Nordisk's growth in sales of diabetes and weight loss medication in recent years.

CHART 31

Growth in Danish industrial exports – also excluding production abroad under Danish ownership



Source: Statistics Denmark and own calculations.

Moderate global growth provides a good starting point for Danish export companies

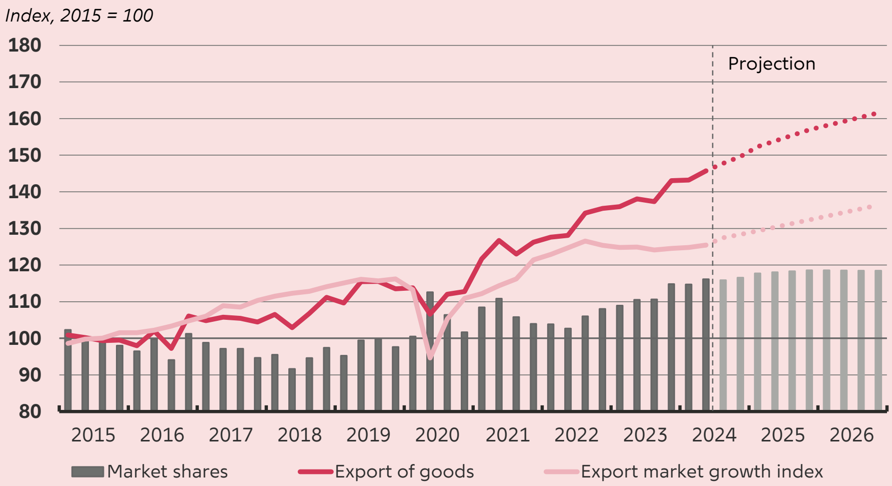
With the prospect of moderate growth in Danish export markets, the growth in Danish goods exports is expected to continue in the coming years. Overall, Danish goods exports are expected to increase by 5.8 per cent this year and 5.7 per cent next year, which is roughly in line with 2023, see chart 32.

However, the growth in total Danish goods exports is expected to be stronger than the combined growth in the Danish export markets. The increase in Danish market share should be seen in light of expectations of continued strong growth in the pharmaceutical industry. Based on stock analyst expectations, the progress in the pharmaceutical industry is expected to continue to be a driver of growth in the Danish economy. As in recent years, a significant part of the growth in exported pharmaceuticals is expected to come from production abroad under Danish ownership.

Other parts of the export-oriented industries are also set to grow. Excluding pharmaceutical exports, other industrial exports are expected to grow at approximately the same pace as growth in Danish export markets over the projection period.

CHART 32

Exports are expected to grow in line with export markets



Note: *The export market growth index* is a weighted estimate of Danish trading partners' imports.
Source: Statistics Denmark and own calculations.

The reopening of the Tyra field is also expected to boost Danish net energy exports. Since reopening in the second quarter of this year, the plant has been affected by technical issues, which means that the plant has been running at reduced production capacity. The ramp-up to full production is expected to take place during the autumn and be completed by the end of 2024. The overall effect of the reopening is estimated to increase GDP growth by a total of 0.5 percentage points, which is technically included in the projection from the beginning of 2025.

Exports of services are expected to increase by 1.9 per cent this year. The increase is largely driven by strong growth at the end of last year, whereas total service exports have fallen significantly in the first half of 2024. The decrease in total service exports through the first half of 2024 is primarily a result of a sharp decline in maritime transport. However, anticipated growth in the global economy is expected to support service exports and maritime transport in the coming years, with Maersk, among others, reporting increasing demand. This projection assumes that total service exports will grow at approximately the same pace as the rest of the global economy throughout the projection period. Service exports are expected to increase by 2.3 per cent in 2025 and 2.6 per cent in 2026.

Overall, exports are forecast to increase by 4.0 per cent in 2024, 4.4 per cent in 2025 and 3.0 per cent in 2026.

Moderate global growth and lower interest rates are fuelling higher investments in Danish industrial companies

The slowdown in growth in large parts of the Danish and international economy in recent years, combined with higher interest rates, has reduced overall business investment. Business investment in Denmark fell by 5.5 per cent last year, and investment is still expected to be held down by the higher interest rates, as the full effect of this is not expected to be fully phased in for two to three years.[34] Higher interest rates affect investments with a certain delay, partly because companies often have a longer decision-making horizon and because it can take some time from decision to implementation of the investment.

Despite the fact that interest rates are still considered to dampen investment appetite, overall business investment has started to rise again since the turn of the year, increasing by 1.9 per cent in Q2 2024. The increase is mainly driven by construction and construction investments increasing by 5.6 per cent in Q2. However, the recovery comes after significant declines in construction investment, which has fallen by around 9 per cent since the beginning of 2023. However, the volume of construction investment is still at a higher level than the pre-pandemic period and construction investment relative to total private sector value creation, i.e. the construction investment ratio, is still at a high level by historical standards.

As the effect of higher interest rates gradually fades, business investment growth will also gradually pick up slightly. Growth in Danish export markets is rubbing off on Danish industrial companies, which is expected to affect investment needs in the future. However, the growth in investment can be further fuelled by large one-off company investments. Novo Nordisk, for example, has announced investment plans for kr. 42 billion over the next five years in Denmark.

Business investments are forecast to fall by 3.4 per cent this year, but will start to rise as early as next year. Danmarks Nationalbank expects business investments to grow by 1.3 per cent in 2025 and 1.6 per cent in 2026.

Large balance of payments surplus in the coming years

The current balance of payments surplus is expected to be around 10 per cent of GDP this year and next year, falling to about 9 per cent of GDP in 2026, see chart 33. This is somewhat higher than in the years before the pandemic. The surplus on the balance of trade in goods has increased significantly in recent years as a result of strong growth in pharmaceutical sales abroad. The increase in the balance of trade in goods has more than offset the decrease in the balance of trade in services.

Over the past six months, spot freight rate prices have risen sharply again as a result of unrest in the Red Sea and higher demand as growth in the global economy has picked up. The recent increase in rates has not resulted in an increase in the balance of trade in services surplus as it did in 2022, when bottlenecks in global supply chains caused freight rates to rise.

In the coming years, the surplus on the balance of trade in goods is expected to be relatively stable. Further growth in the pharmaceutical industry, including production abroad under Danish ownership, and the reopening of the Tyra field are expected to contribute to maintaining the surplus on the balance of trade in goods. The balance of trade in services is expected to be approximately zero throughout the projection period.

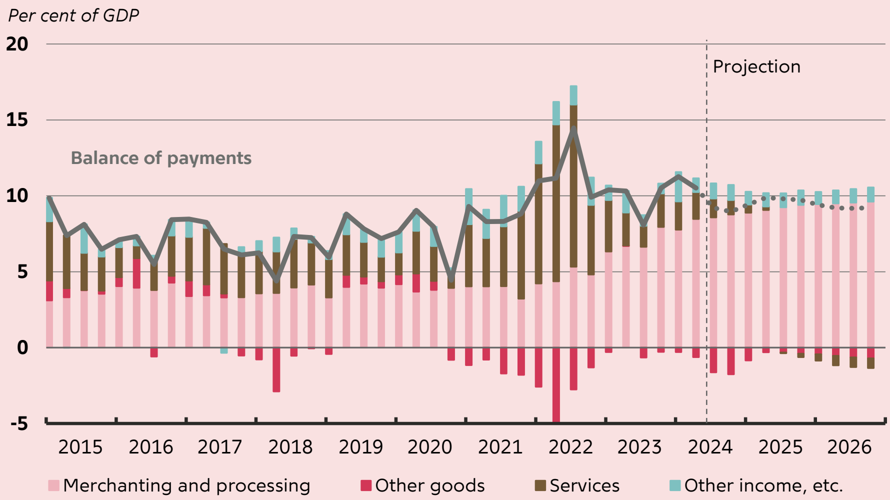
"

The current balance of payments surplus is expected to be around 10 per cent of GDP this year and next year

[34] See Bonin, Cucic, Kuchler and Otte, The corporate investment channel of monetary policy in Denmark, *Danmarks Nationalbank Economic Memo, no*. 4, June 2024.

CHART 33

Sales of goods produced abroad support the balance of payments



Note: *Services* are calculated excluding processing services included in production abroad under Danish ownership.
Source: Statistics Denmark and own calculations.

08
The risk picture is linked to geopolitics and sustained high wage increases

Risks to the economic outlook in the Danish economy are overall balanced. Even though inflation is on track and the Danish economy is generally on the rise, protectionism and heightened geopolitical tensions are currently adding to the risk picture. The expected recovery in the euro area may also fail to materialise and dampen Danish export opportunities, while current expectations for interest rate cuts abroad may prove too optimistic if high wage increases lead to more sustained global inflation.

In Denmark, the conditions are in place for even stronger growth in the pharmaceutical industry than assumed in the projection. It is also possible that widespread labour shortages could re-emerge if demand rises quickly and sharply, for example, in the event of rising consumer confidence. Additionally, , there is a risk that Danish wage increases will not come down from the current high levels, which is not compatible with stable and low inflation in the long term. Conversely, there is also a risk that the trend towards lower inflation in Denmark relative to the euro area continues as there have been lower Danish price increases on goods, energy, and food for a long time.

Danmarks Nationalbank believes that there are currently no significant macroeconomic imbalances building up in the Danish economy that could amplify a possible recession in the event of unforeseen shocks to the global economy. This provides a solid foundation to withstand unexpected economic headwinds in the coming years.

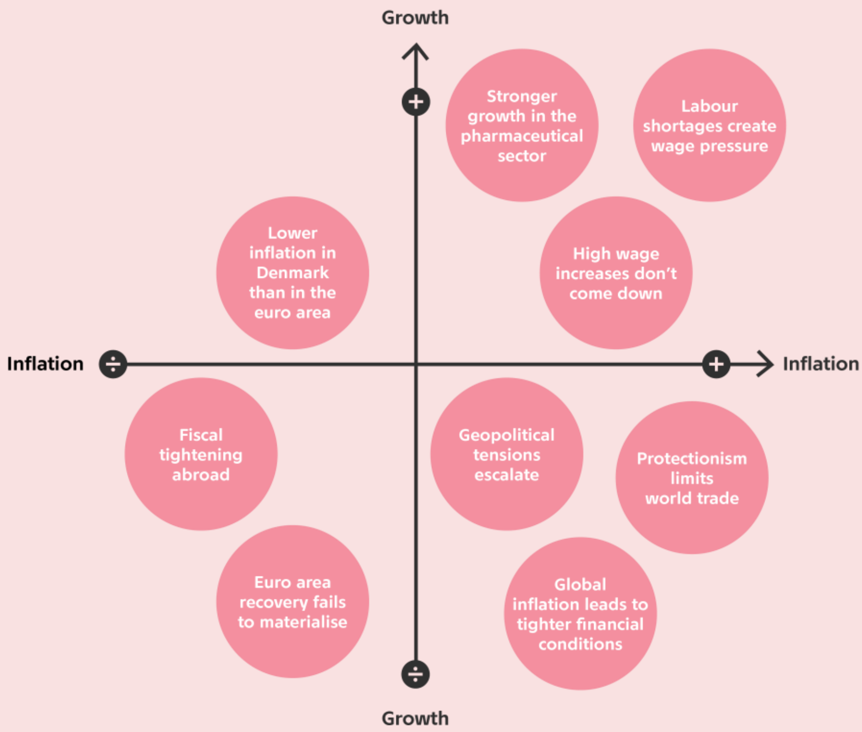
Geopolitical tensions can cause sudden shocks to the global economy

There are several global uncertainties related to the growth outlook that may make the economic cycle more uneven than assumed in the main scenario for the Danish economy, see illustration of the risk picture in chart 34. In particular, heightened geopolitical tensions associated with Russia's invasion of Ukraine, the conflict in the Middle East and increasing rivalry between the superpowers USA and China have heightened the threat picture for the international and Danish economy.

CHART 34

Risks for the Danish economy are mainly related to the global economy and sustained high wage increases in Denmark

Risk picture for the Danish economy



Note: A plus indicates that a risk factor can lead to a greater effect on GDP growth and inflation than expected in Danmarks Nationalbank's main scenario, while a minus indicates a lesser effect. However, this is not a ranking within each quadrant.
Source: Own illustration.

Initially, Russia's invasion of Ukraine and the conflict in the Middle East are not expected to have a sufficiently negative impact on economic activity in Denmark to derail the expected recovery. However, a further spread of the war in Ukraine to other parts of the European continent poses a particular risk of sudden adjustments to the economies in Europe and at home, for example, if it leads to significant increases in energy and food prices, refugee flows, increased uncertainty, supply difficulties or a need for increased military rearmament. Predicting how the economy will behave in such a scenario is fraught with extraordinary uncertainty, but it is likely to lead to higher inflation and lower growth than forecast in this projection. An escalation of the conflict in the Middle East, one of the world's largest oil-producing regions, may also cause sudden increases in energy prices, which subsequently dampen growth and increase inflation more than expected.

As a small, open economy, Denmark has benefited from free trade, globalisation and rules-based multilateral cooperation. Before the summer, the US government announced that the US will raise tariffs on a small portion of its imports from China in 2024, and in July, the EU imposed tariffs on electric cars from China in response to Chinese subsidies. The measures are generally considered to have only a modest macroeconomic impact as long as they do not lead to a further escalation of trade tensions between the US, China and the EU. However, if a scenario of increased protectionism were to materialise in the run-up to or after the US presidential election in November, for example, it could slow the growth in international trade and push up consumer prices over the coming years. In the slightly longer term, an actual rollback of globalisation could mean significant losses of wealth in the Danish economy, for example, if increasing superpower rivalry between the US and China dampens the opportunities for an effective international division of labour.

Lower global demand may dampen export opportunities

The global economy has been remarkably resilient in recent years to extraordinary headwinds in the form of high inflation and severe monetary tightening. Although inflation is expected to gradually fall back towards 2 per cent in the US and euro area over the coming years, it is possible that tight labour markets with high wage increases will give rise to more persistent inflation than assumed in international projections. This implies a risk of an abrupt and growth-dampening tightening of financial conditions, especially if current market expectations for future interest rate cuts by the Federal Reserve and ECB turn out to be too optimistic.

Another assumption that may change is fiscal policy abroad, which may become both more and less restrictive than currently expected. High public debt ratios in the US and Europe, on the one hand, may necessitate greater fiscal tightening to bring debt back on a sustainable path with associated negative effects on growth. On the other hand, there is also the possibility of short-term fiscal stimulus in the run-up to the US election. This may first push up demand in a situation with labour shortages and later amplify a possible global economic downturn if it creates economic imbalances that subsequently need to be corrected.

The development of the Danish economy is usually closely linked to activity in the euro area, and Danmarks Nationalbank's projection therefore assumes that the expected recovery in the euro area in 2024-26 will translate into better export opportunities for Danish companies. However, it is possible that recovery in the euro area will be weaker than forecast in the main scenario, for example, if weak business confidence in manufacturing spreads to other parts of the economy or if structural challenges in the German economy throw European growth off course.

High wage increases in Denmark may not come down as expected

A key assumption behind the stable inflation in the projection's main scenario is that Danish wage increases over the coming years will come down from the current high levels. This is based on an assessment that the high Danish wage growth in 2023/24 mainly reflects a gradual recovery of real wages after the extraordinarily strong increases in consumer prices in 2022/23. If, on the other hand, wage increases do not slow down to the extent expected, it will probably lead to more persistent inflation in the Danish economy than expected, especially in the prices of services. Furthermore, companies' profit margins and rising productivity are both forecast to absorb some of the current wage increases. However, there is considerable uncertainty about the exact extent of the pass-through from higher wages to inflation, which may turn out to be greater than assumed in the projection. This could be the case, for example, if stronger demand allows companies to raise prices or if weaker productivity growth increases unit labour costs.

There is a risk of capacity pressures developing more strongly in Denmark than in the euro area, while inflation could be lower

Several of the global risk factors mentioned above do not directly affect the economic situation differently in Denmark than in the euro area and therefore do not give rise to an independent adjustment of fiscal policy in Denmark. However, Danmarks Nationalbank believes that there are more upside risks associated with the economic outlook for the Danish economy than for the euro area, while Danish consumer prices may rise less.

The risk of capacity pressure becoming more pronounced in Denmark is particularly related to a return of widespread labour shortages in Denmark or the expected recovery in the euro area failing to materialise. For example, the pressure on the labour market could flare up again because demand increases rapidly and strongly. This may be triggered, among other things, by the expected increase in real wages translating into stronger consumer confidence, which leads to a sudden increase in the consumption ratio from its current relatively low level. If this were to happen, the stronger demand is likely to quickly lead to a shortage of available labour, followed by higher wage increases. Regarding the Danish capacity pressure relative to the euro area, it is especially a potential independent increase in demand in Denmark that poses a risk to the Danish economy, as any synchronous fluctuations in demand are likely to be stabilised by economic policy in the euro area. Since the beginning of 2023, the household savings rate has decreased in Denmark, while it has increased in the euro area, dampening private consumption despite the increase in real wages. If this divergence in savings behaviour continues, it is a possible driver of stronger capacity pressure in Denmark than in the euro area over the projection period. Even though increased demand will not create a labour shortage in Denmark, pressure on the labour market could still arise in the event that foreign workers leave the country and reduce the available workforce.

The pharmaceutical sector has grown rapidly in recent years and is a significant domestic risk for the Danish economy. Based on market analysts' expectations, Danmarks Nationalbank's projection assumes that growth in the pharmaceutical sector will continue in the coming years and thus support the Danish economy as a whole. However, there is potential for even stronger growth in the pharmaceutical sector than assumed in the main scenario if the production of diabetes and weight loss drugs can be rapidly expanded to meet the strong global demand. This can boost growth both directly and indirectly through higher activity levels among the industry's subcontractors. For example, model calculations from Danmarks Nationalbank indicate that an increase in pharmaceutical exports equivalent to 1 per cent of GDP could boost Danish GDP by up to 2 per cent.[35]

In both Danmarks Nationalbank's and the ECB's projections for Denmark and the euro area, inflation is expected to approach 2 per cent by 2026. This means that the current large inflation differential will gradually narrow in the coming years. However, inflation in Denmark has been somewhat lower than in the euro area over a longer period of time, for example, Danish consumer prices measured by

[35] See Nikolaj Mose Dreisig Hansen and Mia Jørgensen, Increasing demand for pharmaceutical exports have both aggregate and geographical distributional effects, *Danmarks Nationalbank Economic Memo,* no. 9, August 2024.

the HICP index have fallen overall by almost 6 per cent relative to the euro area since 2013. The lower price increases in Denmark than in the euro area reflect, among other things, smaller price increases for goods, energy and food, while the prices of services have increased slightly more in Denmark. It is possible that the trend of lower inflation in Denmark relative to the euro area will continue in the future, as the Danish price level for consumer goods is still around 36 per cent higher than in the euro area. Thus, continued price convergence between Denmark and the euro countries could lead to structurally lower price increases in Denmark for a period of time. This could lead to lower inflation than forecast in the projection's main scenario, followed by stronger growth in real wages and economic activity.

The Danish economy is well equipped to withstand global headwinds

It is assessed that there are currently no significant macroeconomic imbalances building up in the Danish economy that could amplify a potential recession in the event of unforeseen shocks to the global economy. On the contrary, there is a large balance of payments surplus, healthy public finances and no clear signs of unsustainable credit growth. Household debt ratios have also fallen significantly since the financial crisis and Danish companies have gained market shares in recent years. Overall, this provides a solid foundation for economic development during the projection period, even in the event of an unexpected global slowdown.

Key economic variables

TABLE 2

					2023	2024	
Real growth relative to the previous period, per cent	**2023**	**2024***	**2025***	**2026***	**Q4**	**Q1**	**Q2**
GDP	2.5	2.1	2.3	1.5	1.7	-1.0	0.6
Private consumption [1]	1.4	1.0	1.8	1.8	1.5	-0.4	-0.4
Public consumption	0.2	3.3	2.5	0.6	-0.8	1.7	0.2
Residential investments	-12.4	-5.1	0.2	1.1	1.8	-4.6	-1.0
Public investments	-1.2	5.9	6.1	5.4	-7.6	6.0	-2.7
Corporate investments	-5.5	-3.4	1.3	1.6	-14.4	4.2	1.9
Inventory investments etc.[2]	-1.7	0.0	0.0	0.0	5.2	5.5	6.9
Exports	10.4	4.0	4.4	3.0	6.4	-4.4	1.8
Manufactured exports	8.8	6.3	5.0	3.7	5.5	0.9	0.9
Imports	3.7	2.0	4.0	3.4	-1.1	-1.0	0.2
Employment, 1,000 persons	3,202	3,235	3,248	3,256	3,210	3,225	3,231
Gross unemployment, 1,000 persons	83	87	88	89	86	87	87
Balance of payments on current account, per cent of GDP	9.8	10.0	9.7	9.2	10.5	11.3	10.5
Government budget balance, per cent of GDP	3.3	3.0	2.0	1.6	1.9	3.3	3.3
House prices[3], per cent year-on-year	-2.6	3.3	3.2	3.2	3.2	4.0	4.1
Consumer prices (HICP), per cent year-on-year	3.4	1.3	2.1	1.8	0.1	0.8	1.5
Core inflation, per cent year-on-year	5.9	1.5	2.1	1.8	3.0	1.8	1.3
Hourly wages[4] (manufacturing), per cent year-on-year	4.2	5.7	3.9	3.4	5.2	5.5	6.9

1. Includes both households and non-profit institutions serving households (NPISH).
2. Contribution to GDP growth (this item comprises inventory investments, valuables and statistical discrepancy).
3. Nominal prices of single-family houses.
4. Confederation of Danish Employers' (DA) pay statistics for profits including inconvenience supplements for manufacturing.

Note: * indicates projection. Government balance and house prices in 2023 are also estimates.

Source: Statistics Denmark and own calculations.

09

Appendix: Assumptions in and changes of projection for the Danish economy

The projection is prepared using Danmarks Nationalbank's macroeconomic model, MONA, and is based on available economic statistics, including Statistics Denmark's quarterly national accounts for Q2 2024. The projection is based on published statistics up to 10 September 2024. However, the revised balance of payments for September 2024 is not included as it is not possible to ensure consistency with the national accounts' international net lending position. The projection also includes a number of assumptions concerning the international economy, financial conditions, labour force developments and fiscal policy.

International economy

Export market growth is assumed to be 1.8 per cent in 2024, 3.2 per cent in 2025 and 3.1 per cent in 2026, see Table A1. Wage increases abroad are assumed to gradually decrease from 3.3 per cent in 2024 to 3.2 per cent in 2026. Price increases for imported goods and services are assumed to stabilise at just below 2 per cent. The assumptions are based on the latest OECD projection from May 2024, which includes explicit assumptions about Denmark's export market growth, competitor prices abroad and adjustments based on other international organisations' forecasts and economic data since then.

Interest rates, currency and energy prices

Developments in short-term and long-term interest rates in the projection are based on the expectations of future developments that can be derived from the yield curve in the financial markets. The money market interest rate, measured by the DESTR, is therefore assumed to fall towards the end of 2026 to 1,8 per cent.

The projection assumes that the effective krone rate and the USD rate will remain approximately constant at the current level.

Energy prices are generally expected to follow the development in oil prices, which are assumed to follow futures prices during the projection period. The oil price in the projection is based on an average of futures prices in September prior to the finalisation of the data. Oil prices were around USD 73per barrel in the first third of September and are predicted to fall gradually to just under USD 70per barrel by the end of 2026.

Given the special developments in gas and electricity prices in recent years, this projection also takes into account gas and electricity price developments, as in Danmarks Nationalbank's previous projections. As with oil prices, gas prices are assumed to follow the futures price going forward and are assumed to rise for the rest of 2024 to around kr. 297 per MWh from the current level of around kr. 282 per MWh and then end at around kr. 251 per MWh by the end of 2026. Electricity prices are assumed to follow the futures price for the first four months, but due to few contracts being traded with delivery further ahead and significant seasonal fluctuations in futures prices, electricity prices are then assumed to follow gas futures prices. On this basis, the price of electricity is assumed to rise to around kr. 618 per MWh by the end of 2024 from a level of kr. 577 per MWh in August, after which development will follow the decline from gas futures.

Fiscal policy assumptions

The projection is based on preliminary national accounts data on public-sector consumption and investment as well as the Finance Bill in *Economic Survey, August 2024* and the medium-term scenario in *Updated 2030 development, August 2024*. Against this background, real public consumption is assumed to increase by 3.3 per cent in 2024, 2.5 per cent in 2025 and 0.6 per cent in 2026. Public investments are assumed to increase by 5.9 per cent in 2024, 6.1 per cent in 2025 and 5.4 per cent in 2026.

Revisions in relation to the previous projection

The GDP growth forecast is revised downwards by 0.3 percentage points in 2024 and upwards by 0.9 in 2025 and 0.2 percentage points in 2026, see table A2. Changed estimates for export market growth and foreign prices and wages contribute to dampening growth this year, while export market growth boosts growth in 2025 and 2026. The downward revision in 2024 and the upward revision in 2025 mainly reflect other factors, including the fact that the contribution to GDP growth from the reopening of the Tyra field has been technically moved from 2024 to 2025.

The forecast for the rate of increase in consumer prices, HICP, is revised downwards by 0.9 and 0.5 percentage points in 2024 and 2025, but upwards by 0.1 percentage points in 2026. Changed assumptions about foreign wages and prices contribute to a downward revision of the inflation forecast in all years. The positive contribution from other factors in 2026 partly reflects assumptions of higher electricity and gas prices. Other factors also come into play, as electricity and gas prices have developed more than the normal oil price pass-through suggests.

TABLE A1

Overview of projection assumptions

	2023	2024	2025	2026
International economy				
Export market growth, per cent, year-on-year	-0.2	1.8	3.2	3.1
Foreign price, per cent, year-on-year[1]	-1.8	0.6	1.9	1.8
Foreign hourly wage, per cent, year-on-year	5.5	3.3	3.3	3.2
Financial conditions etc.				
Money market interest rate, per cent, p.a.	2.9	3.3	2.0	1.8
Average bond yield, per cent, p.a.	3.5	3.2	2.7	2.8
Effective krone rate, 1980 = 100	104.7	105.2	105.4	105.4
Dollar exchange rate, DKK per USD	6.9	6.9	6.8	6.8
Oil price, brent, USD per barrel	82.0	79.3	71.2	70.0
Fiscal policy				
Public consumption, per cent year-on-year	0.2	3.3	2.5	0.6
Public investments, per cent, year-on-year	-1.2	5.9	6.1	5.4
Public-sector employment, 1,000 persons	873	879	884	885

1 Weighted import price for all countries to which Denmark has exports. The projection assumes the same growth rates for the weighted export prices in the countries from which Denmark receives imports.

TABLE A2

Changes in the projection

	GDP			Consumer prices, HICP		
Per cent, year-on-year	**2024**	**2025**	**2026**	**2024**	**2025**	**2026**
Projection from March	2.4	1.4	1.3	2.2	2.6	1.7
Contribution to revised forecast from:						
Export market growth	-0.3	0.1	0.1	0.0	-0.1	-0.1
Renter	0.0	0.1	0.1	0.0	0.0	0.0
Exchange rates	0.0	-0.2	0.0	0.0	0.0	-0.1
Oil prices	0.0	0.0	0.0	0.0	-0.1	0.0
Foreign prices and wages	-0.4	-0.2	0.0	-0.2	-0.2	-0.2
Other factors	0.4	1.1	0.0	-0.7	-0.1	0.4
This projection	2.1	2.3	1.5	1.3	2.1	1.8

Note: The transition from the previous projection to this projection may not add up due to rounding.

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The analysis consists of a Danish and an English version. In case of doubt as to the correctness of the translation, the Danish version will prevail.

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Editing completed on 20 September 2024

DANMARKS NATIONALBANK