

Research Denmark

Danish PMI is hard to use as guide to growth

- Danish PMI is very volatile and sometimes show very large moves, for example in July this year.
- This is not a reflection of underlying changes in the economy. Unfortunately, there are no other single good indicators for the economy, it is necessary to look at a broader picture.

From time to time, there are very large movements in the Danish manufacturing PMI, for example, the decline from 70 to 38 in July 2022. These movements understandably are a source for concern among investors and analysts who are used to using PMI's as a good indicator of the state of the economy in other countries, but in our view, they should be ignored. Danish PMI is both much more volatile than seen in other countries, and not a very good guide to the current state of the economy. The correlation between quarterly GDP growth and the quarterly average of PMI is only 0.04, and we very frequently see them moving in opposite directions.

PMI's are often less useful as indicators in small countries, as random variations within individual companies are more likely to move the overall index. In the case of Denmark, it is possible that the large share of pharmaceuticals and windmill producers in manufacturing is a source of added volatility, as these industries tend to have large variations in production levels from month to month that are not correlated with the overall cyclical situation. Partly for these reasons, Danish quarterly GDP is also more volatile than in larger countries.

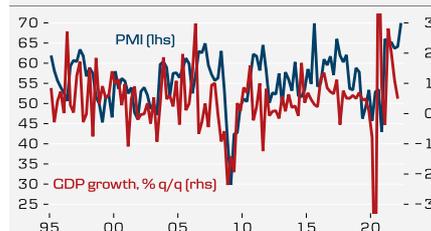
Unfortunately, there is no single good alternative to gauge the current state of the economy in Denmark. Quarterly growth is quite strongly (0.56) correlated with quarterly growth in the Euro Area, and in those quarters where there are large deviations, they tend to correct afterwards. The Euro Area is Denmark's most important trading partner, and the economies are affected by many of the same external factors and by the same monetary policy. Hence, it is often most useful to look at the indicators for the Euro Area economy to gauge the situation in Denmark. Alternatively, Nationalbanken (the central bank) has constructed a *nowcast* for growth in the current quarter, along the lines of the US Fed. However, it is not always updated – at the time of writing, the last update was 24 June.

Very volatile data



Sources: IHS Markit, DILF, Macrobond Financial

No close connection to growth



Quarterly average of PMI. Right hand scale truncated. Sources: DILF, Statistics Denmark, Macrobond Financial

Denmark tracks the Euro Area



Axis is truncated. Source: Macrobond Financial

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