7 November 2018

Flash Comment Denmark

Stronger productivity figures indicate rosier growth potential

- **New figures reveal Danish GDP was 1.3% (DKK28bn) higher in 2017 than previously estimated. Danish growth rates no longer look low in an international context.**
- **The productivity challenge has not disappeared but it looks significantly less imminent than estimated this far. Service sector productivity looks stronger.**
- **This questions the size of potential growth in Denmark, which could be higher.**

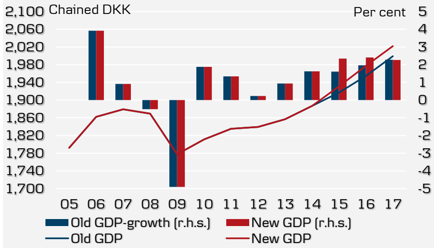
The Danish economic upturn is on a better footing than we thought and GDP was 1.3% (DKK28bn) higher in 2017 than previously estimated. That is the conclusion from Statistics Denmark's revision of the annual national accounts today. In 2015-16 growth was 2.3% and 2.4% respectively and not 1.6% and 2.0%, as previous figures showed. This is interesting, because it questions the size of potential growth in Denmark as the pace of the current economic recovery is actually no longer much different from what we have seen in previous recoveries. It also decreases the gap between what the increasingly tight and fast-paced labour market is telling us and what growth-rates have shown thus far. The current estimates of structural hourly productivity from the Danish Ministry of Finance are 0.6% and 1.3% respectively for 2018-2019 and 2020-2025. These new figures could challenge that estimate as previous years now look significantly less dire.

Productivity, measured as GVA/hour, was almost at a standstill between the years 2015-17 according to the old figures. This is not the case anymore, although the last two years still do not look impressive. Denmark has a productivity challenge, as does the rest of Europe. However, with today's new figures, the problem no longer looks more urgent in Denmark compared to our neighbours.

A large part of the productivity challenge stems from the fact that the economy is shifting towards more service and less manufacturing driven production. Service is less capital intensive and thus has a naturally lower productivity. This pulls down productivity growth in itself, but it has also been a problem that productivity growth within the service sector is low. Today's figures actually bring some good news on that front as productivity growth in both the construction sector and trade and transport have increased significantly with the new figures and explain about half of the 1.5% productivity increase in the total economy.

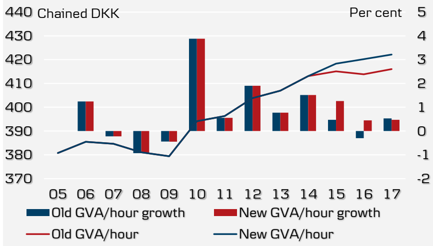
Several things form the new picture of the Danish economy, but the primary contributor is gross capital formation. Here the correction of an error in publicly owned companies' investments of about DKK10bn is the big driver. Also, private consumption and exports have been more upbeat than previously estimated. Imports have also been revised up significantly, though, so the net exports contribution actually contributes less to growth with the new figures.

Strong economic recovery – now also according to GDP



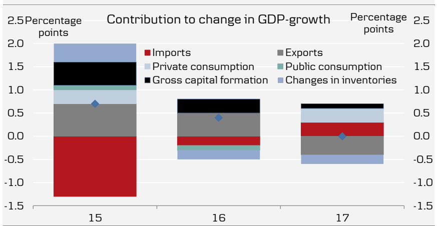
Source: Statistics Denmark, own calculations

Productivity growth looks significantly less weak now



Note: 2017 corrected for DKK9bn patent sale.
Source: Statistics Denmark, own calculations

Capital formation in particular now looks stronger



Source: Statistics Denmark, own calculations

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Expected updates

None.

Date of first publication

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