

# Danish economy and the housing market outlook

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Chief Economist

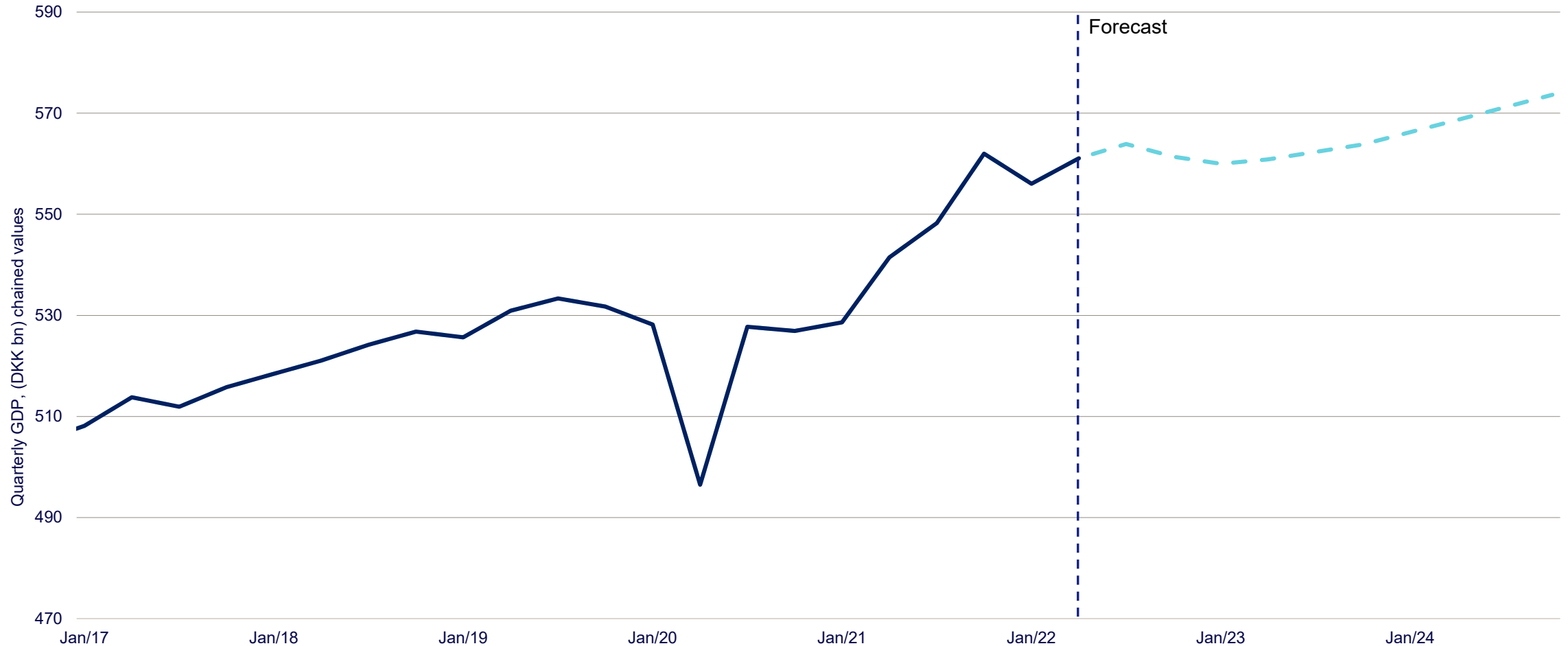
29 September 2022  
Capital Markets Day



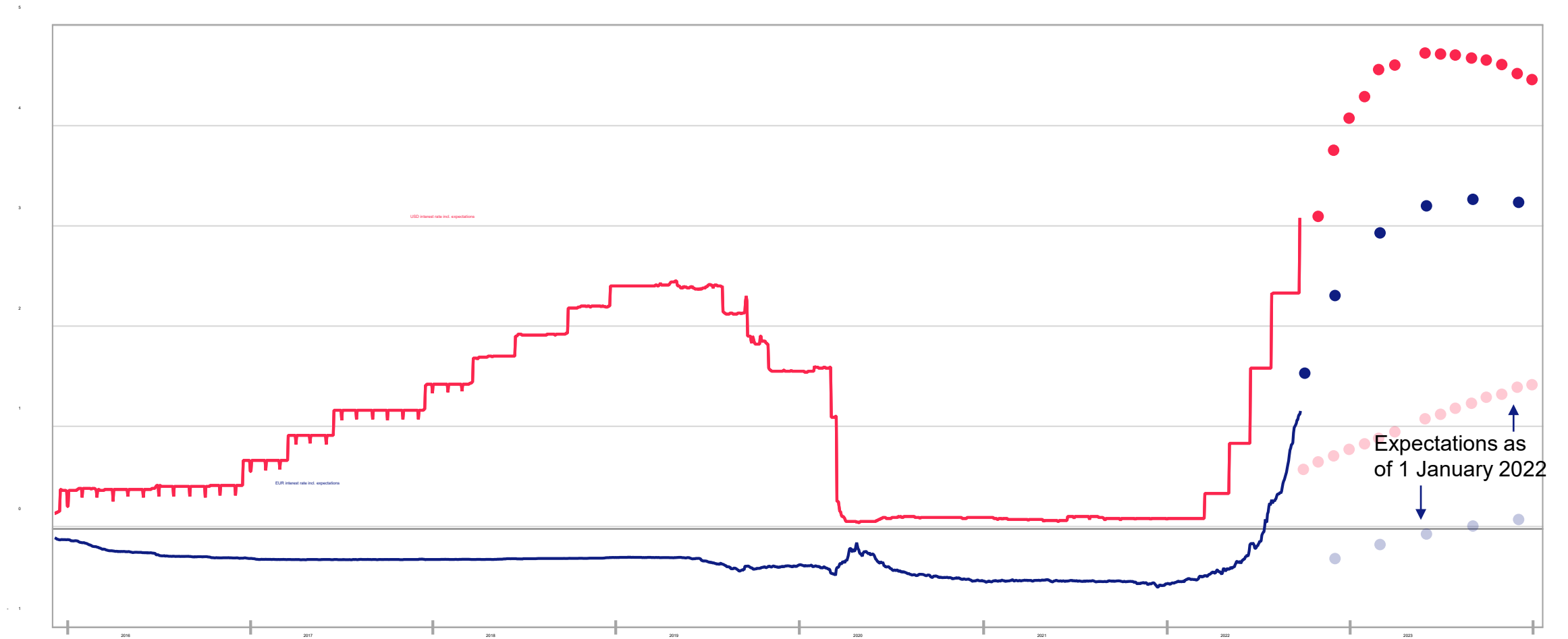
# Conclusions

- Bleak outlook for the Danish economy – coming quarters likely to result in technical recession
- Central banks are stomping down activity to ensure (inflation) credibility
- Danish short-term interest rate expected to increase further, while the outlook for long-term rates is less clear-cut
- The European gas crisis has become the big headache – bound to hit the Danish economy and the housing market
- The Danish housing market is slowing down, and prices are expected to slip further

# Coming quarters likely to result in technical recession



# Central banks are hitting the breaks ...



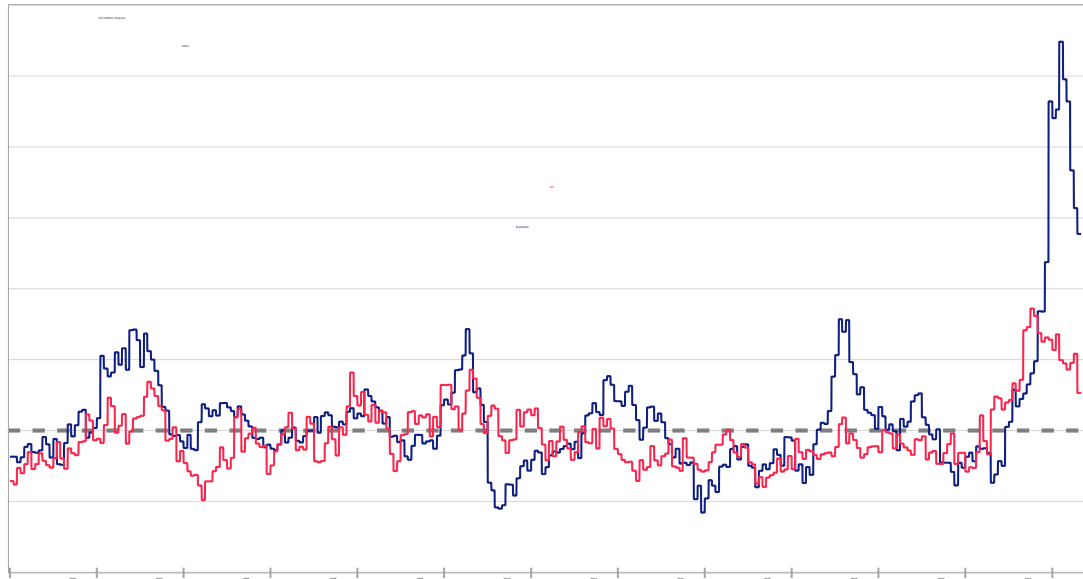
# And because the DKK is pegged to the EUR, this is (expected) to hit Danish rates 1:1



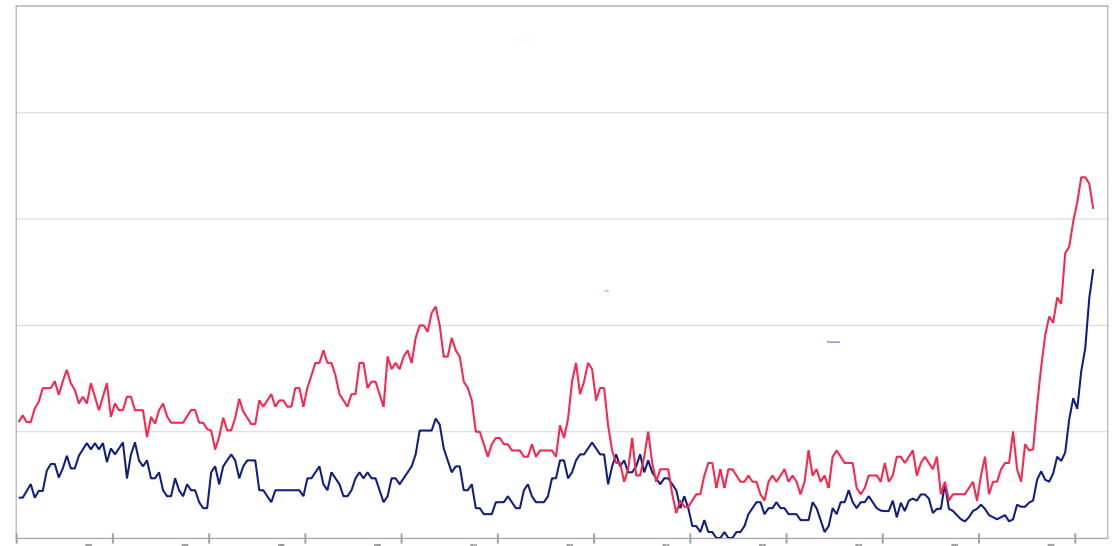
Source: Macrobond, Nykredit Markets

# Because ...

The inflation surprise has been historic ...



... and inflation is becoming more broadly based



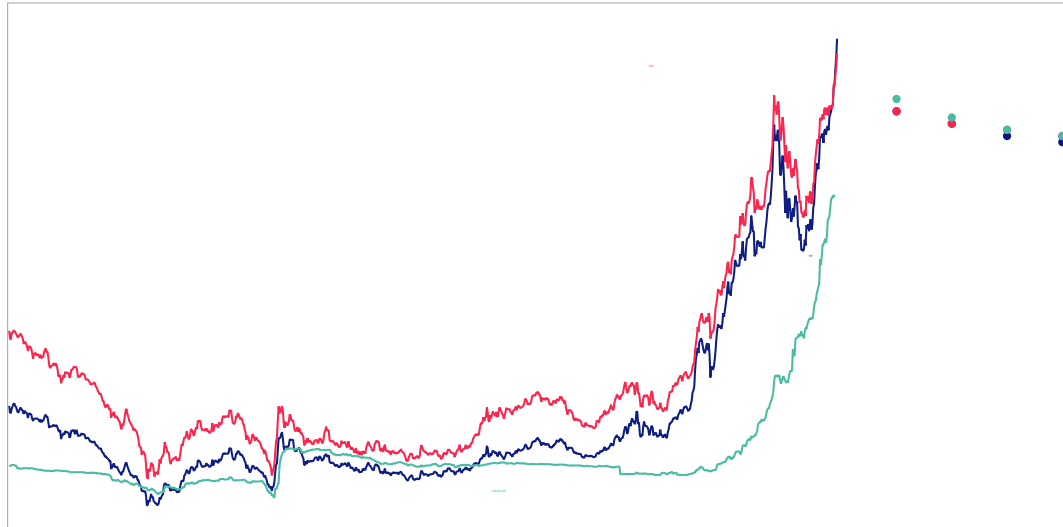
Source: Macrobond, Bloomberg

# ... and central banks fear that the expected inflation becomes unanchored

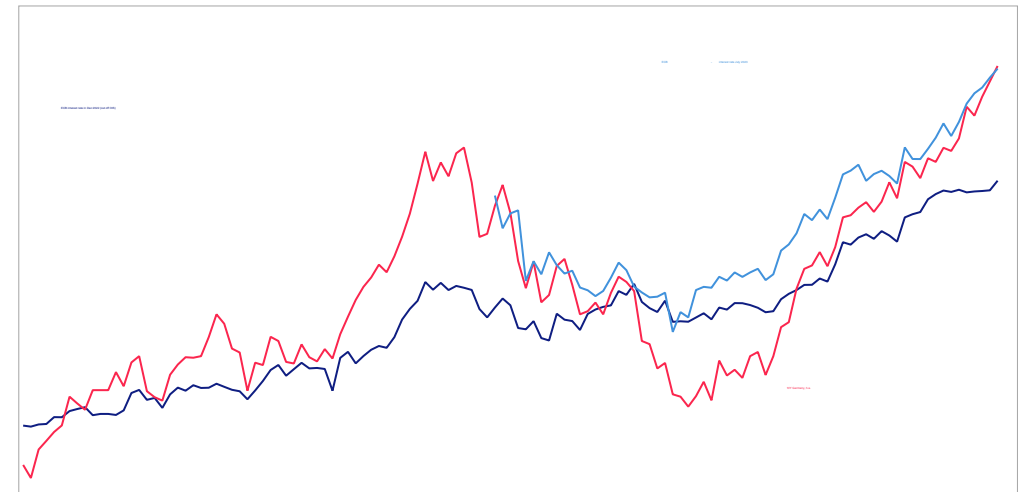


# Still risk of higher interest rates, but a lot has happened already

Forecast on Danish interest rates



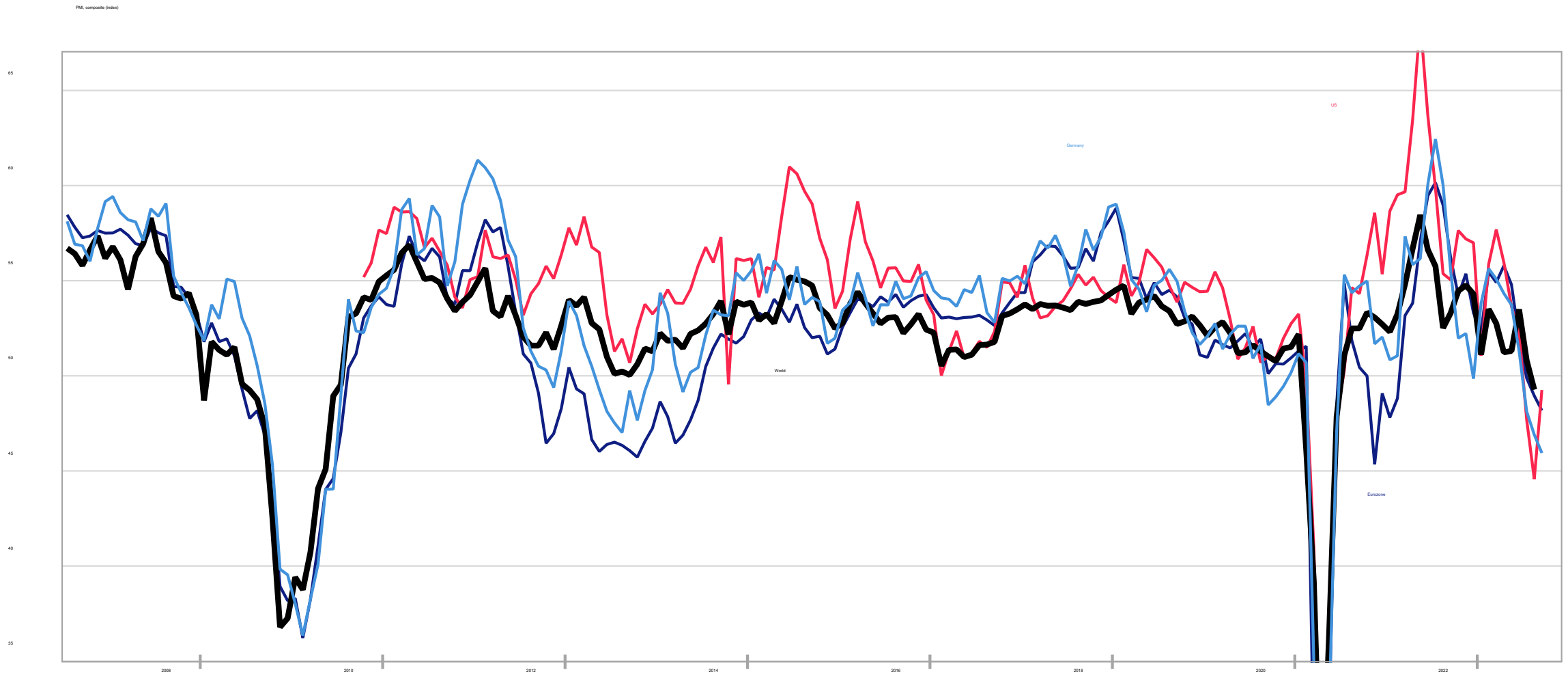
Expectations for the ECB are rather important



- The central banks are not done raising the interest rates, but more muddy situation in 2023, where...
  - Europe is in a recession, the US is close to a recession...  
... and the monetary policy is moving towards tight/neutral.
  - Long-term interest rates have likely peaked, but do not expect a massive interest rate drop – 2019/2020 is not coming back any time soon
  - In the short run, it is crucial whether the ECB stops at 2% (Nykredit) or goes above (market expectation)



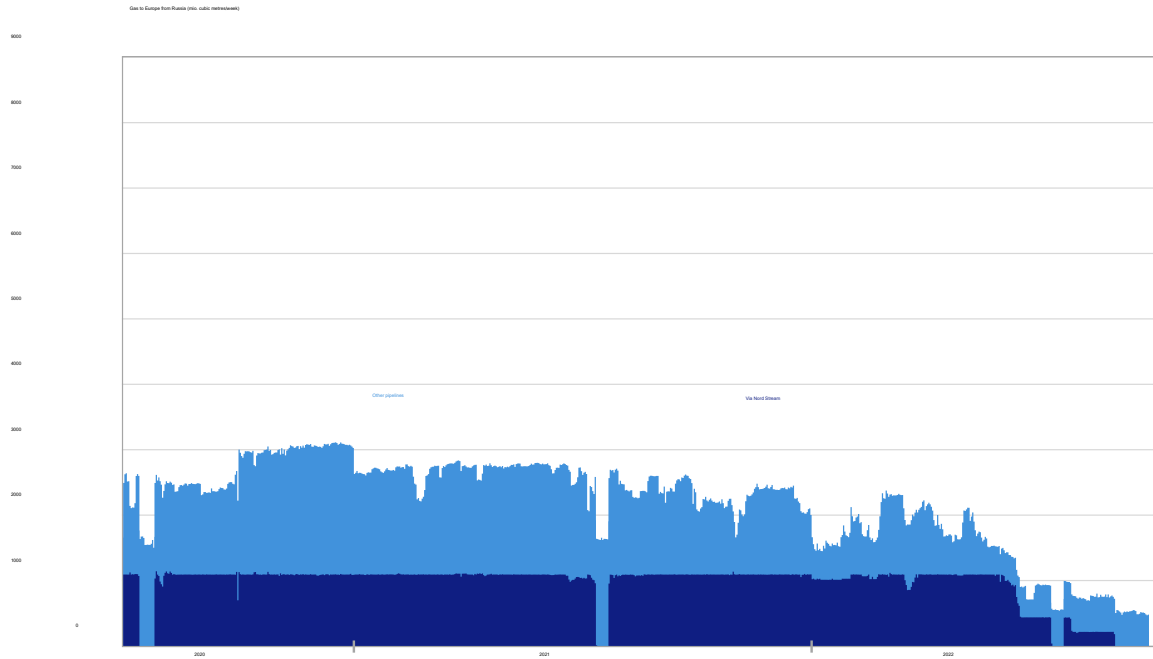
# Not much help from trade partners



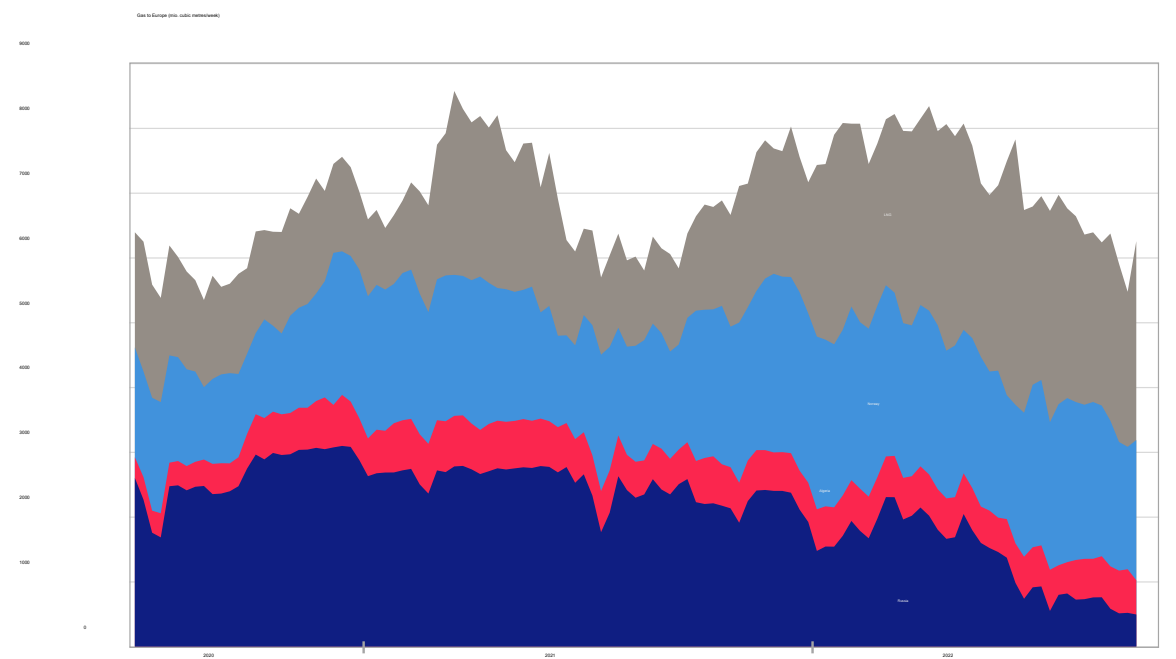


# The gas crisis deepens

## Europe suffers from supply shortages from Russia

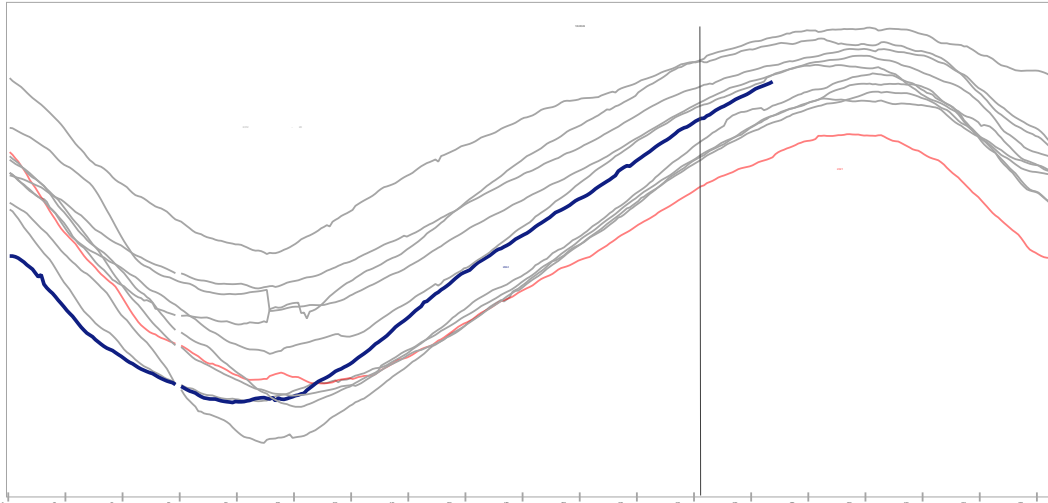


## But LNG imports have saved the day (for now)

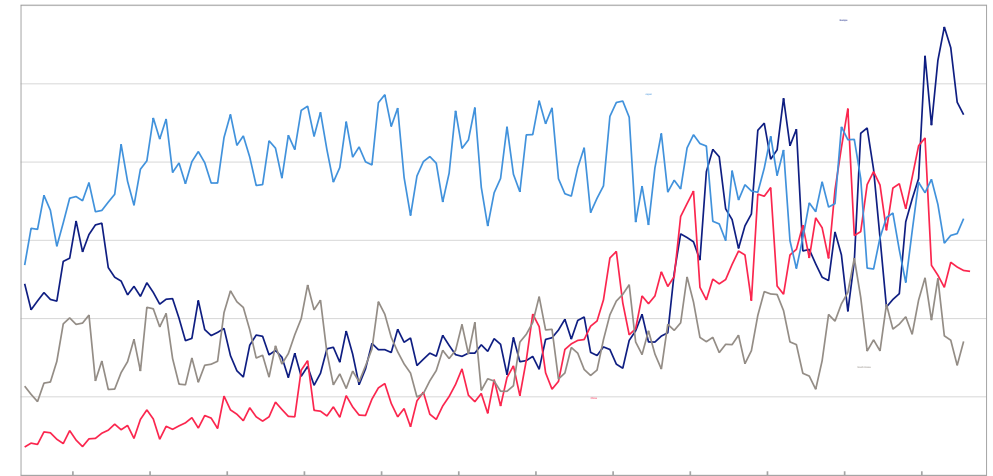


# Storage capacity limited and LNG imports under pressure this winter

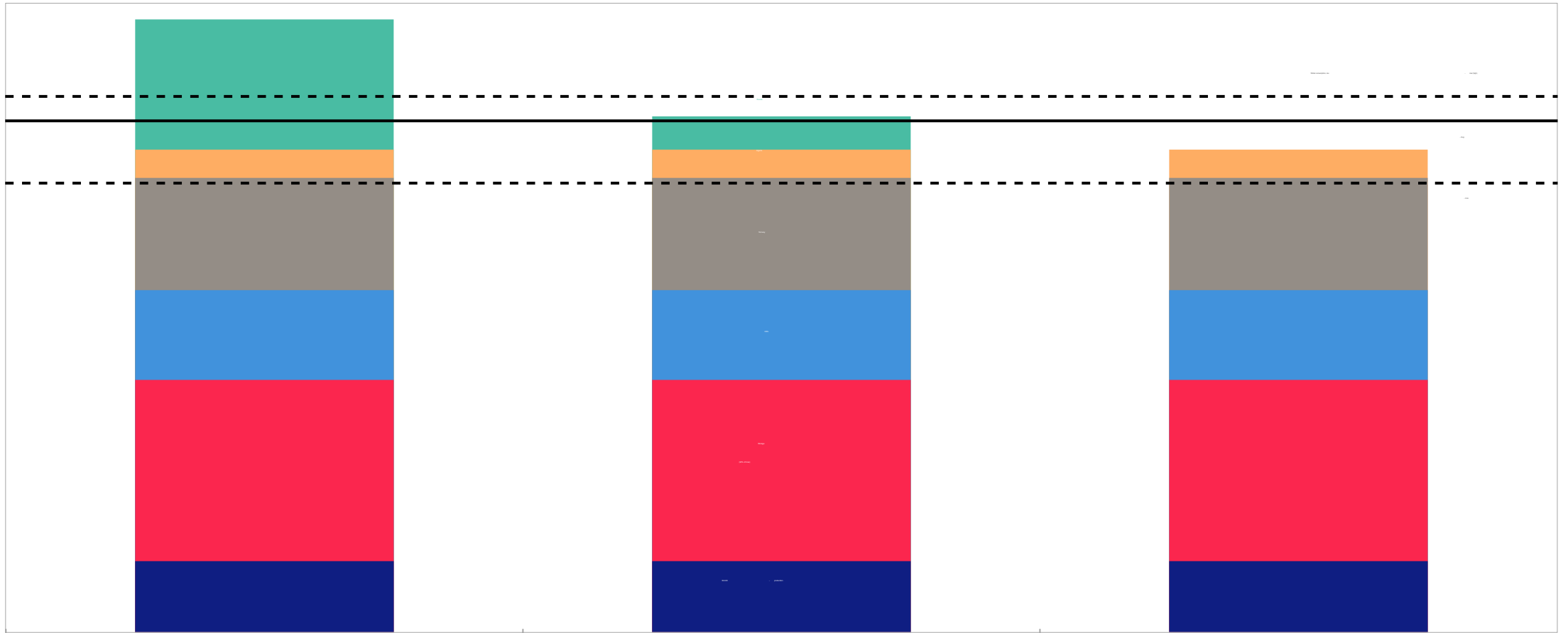
On the surface gas storage looks good – but the capacity is limited



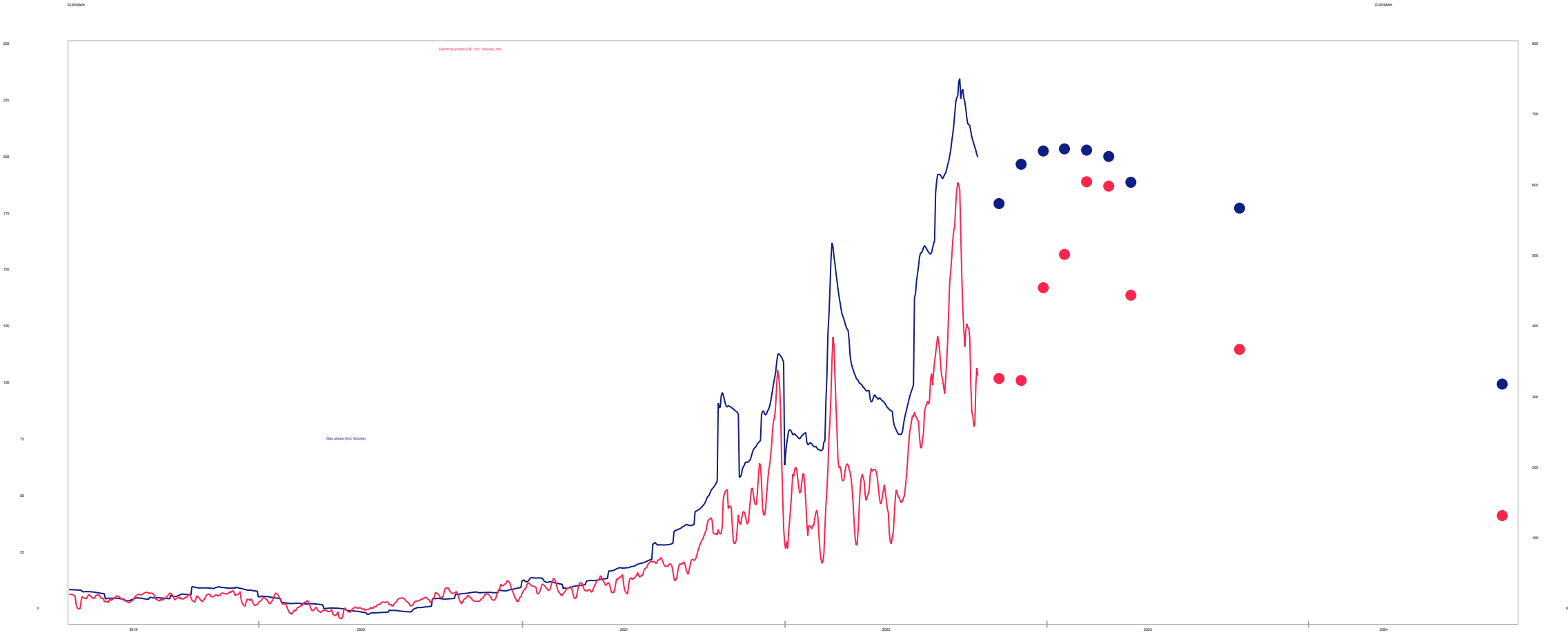
Asian LNG imports are very seasonal – and what if corona plays a smaller role in China?



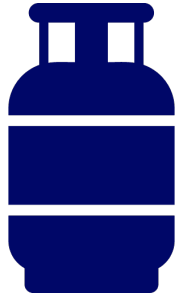
# Risk of natural gas rationing very real ...



# Gas and electricity prices have skyrocketed – and winter is just around the corner



# Private consumption will suffer as energy bills hit the mailbox



Gas bill will be EUR 4,500 higher than in 2021

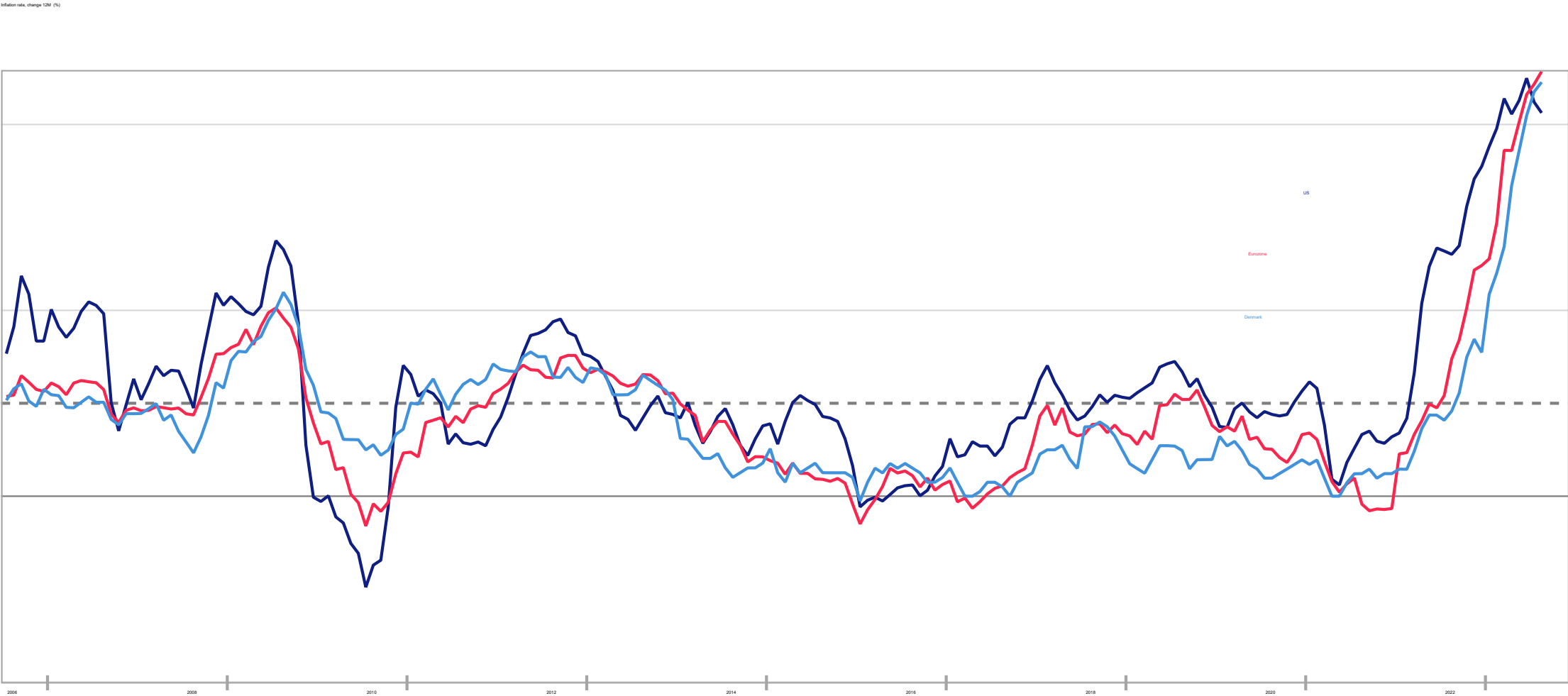


Electricity bill will be EUR 1,700 higher than in 2021



For unchanged consumption and a yearly consumption of 1,700 m3 of natural gas and 4,000 kWh of electricity. It is assumed that prices in the following year will be on a level with average prices in August. If we look at the market for futures, this does not seem unrealistic at all.

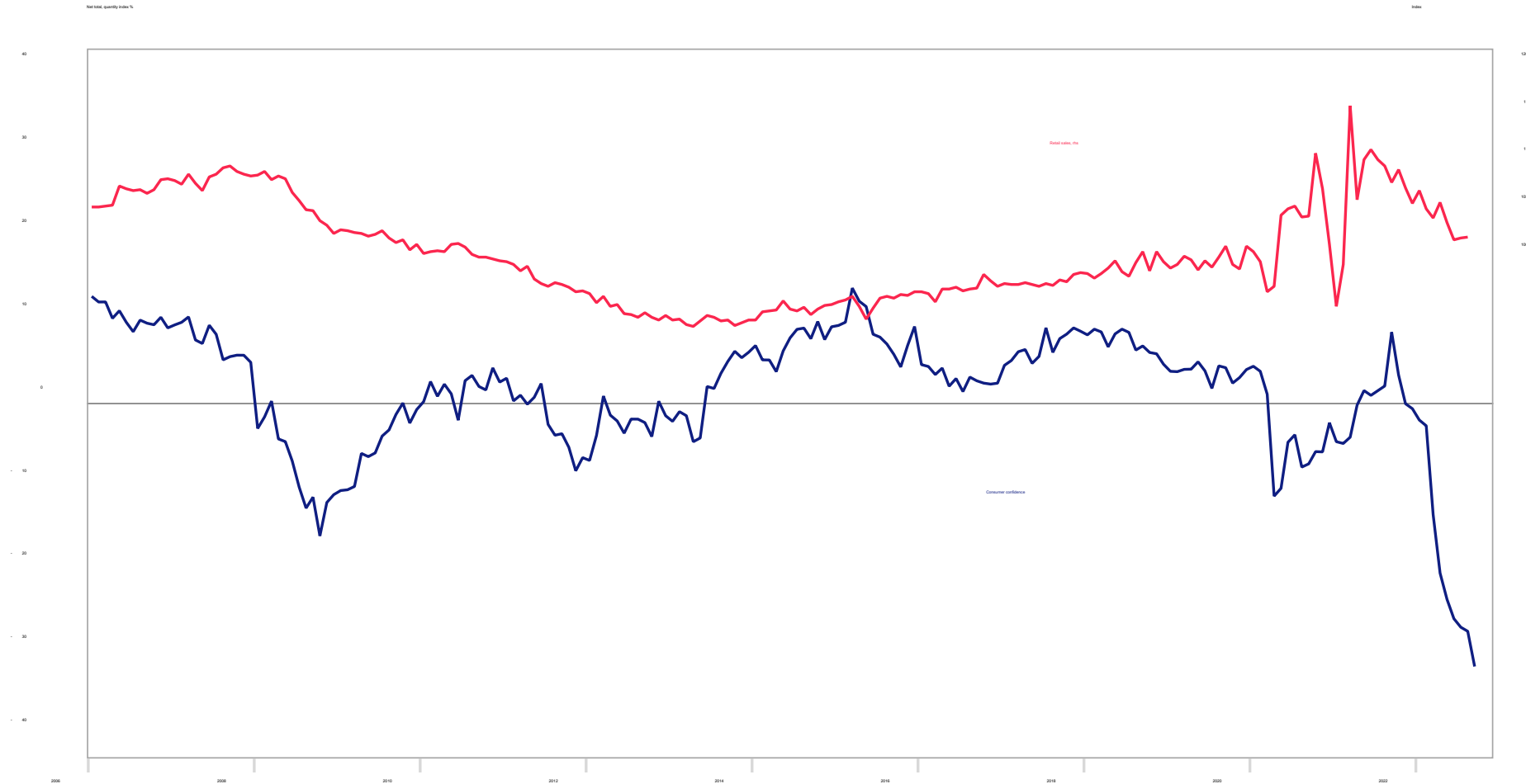
# And inflation is already at record levels



Source: Macrobond, Nykredit Markets



# Consumer confidence at lowest levels ever recorded (since 1974)

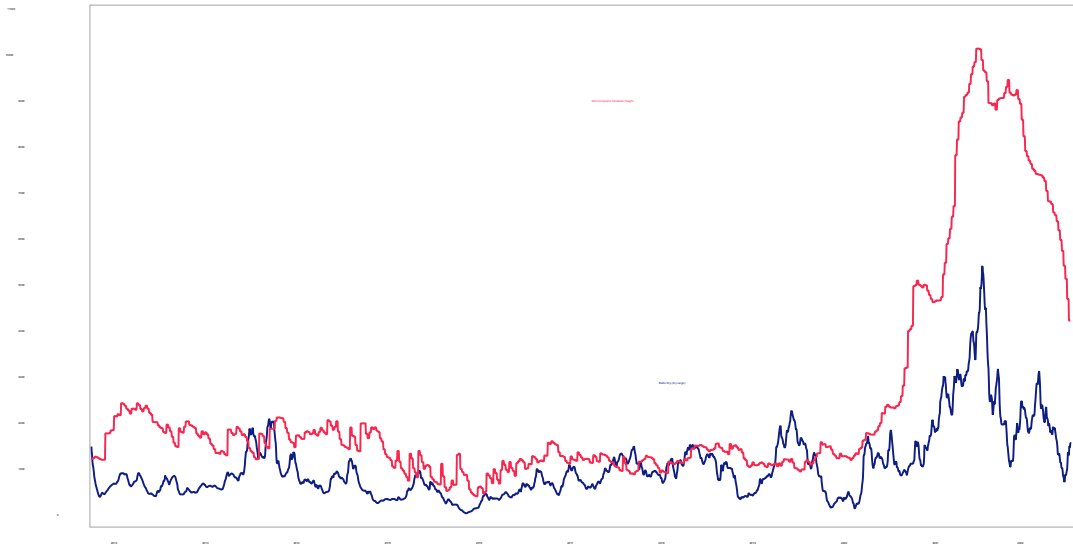


The image features three bright yellow balloons, each with a simple black smiley face drawn on it. The balloons are positioned on a grey, textured carpet. The central balloon is the largest and most prominent, with the text overlaid on it. The other two balloons are partially visible in the foreground and background.

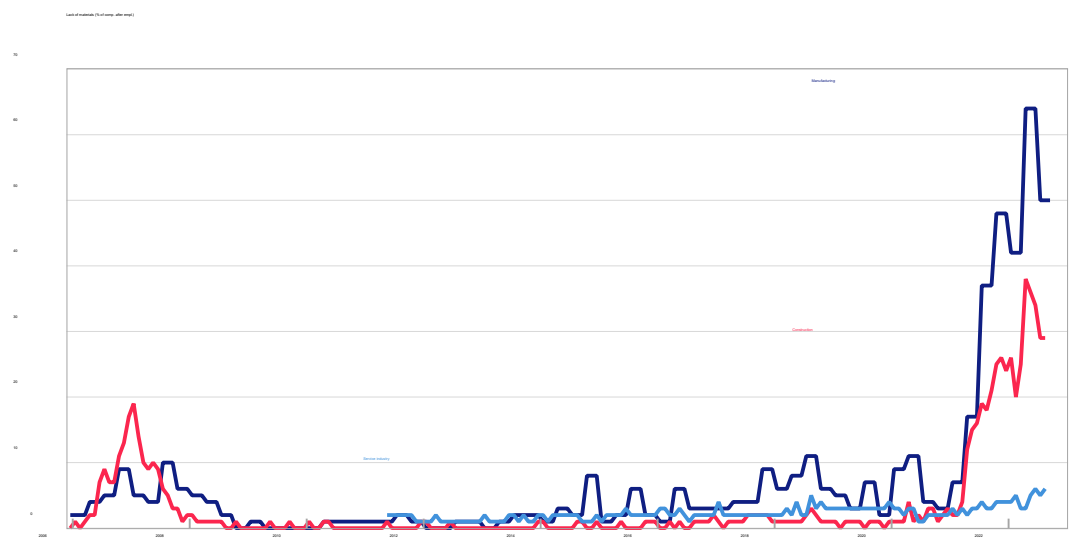
**... so why not a deep recession?**

# Global supply chains issues are easing

The arrow points downwards on container freight rates



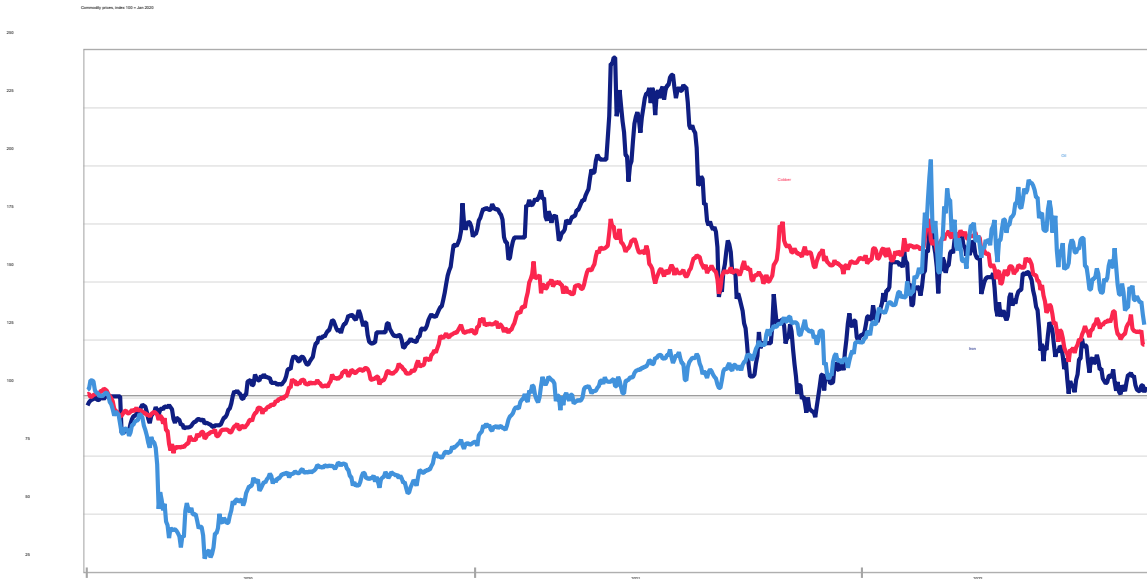
The lack of materials is high, but we have probably seen the peak



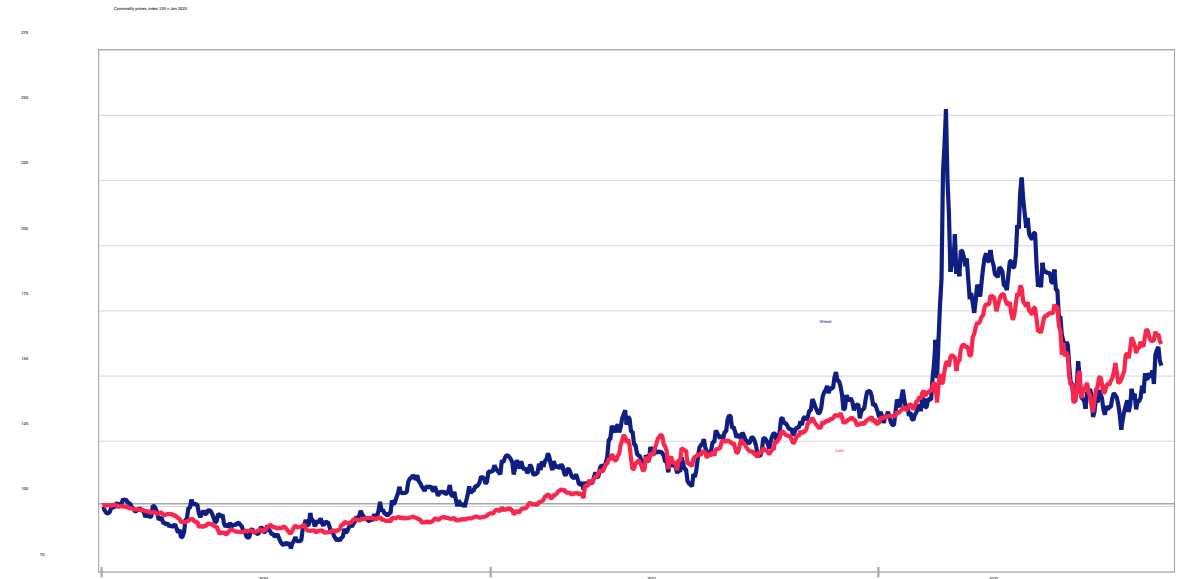
Source: Macrobond, Bloomberg, Nykredit Markets

# Not everything is getting more expensive

## Industrial metals and oil



## Agriculture

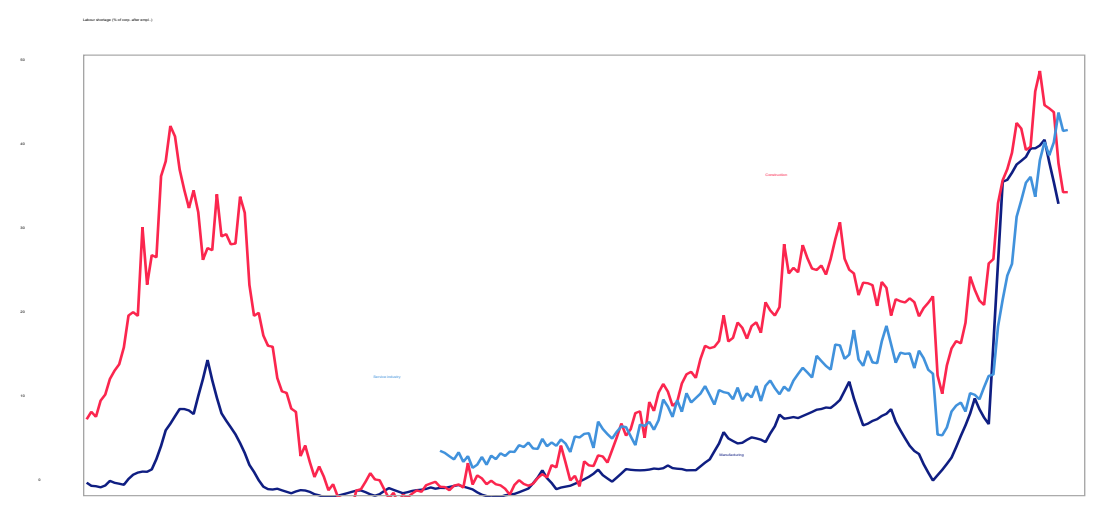
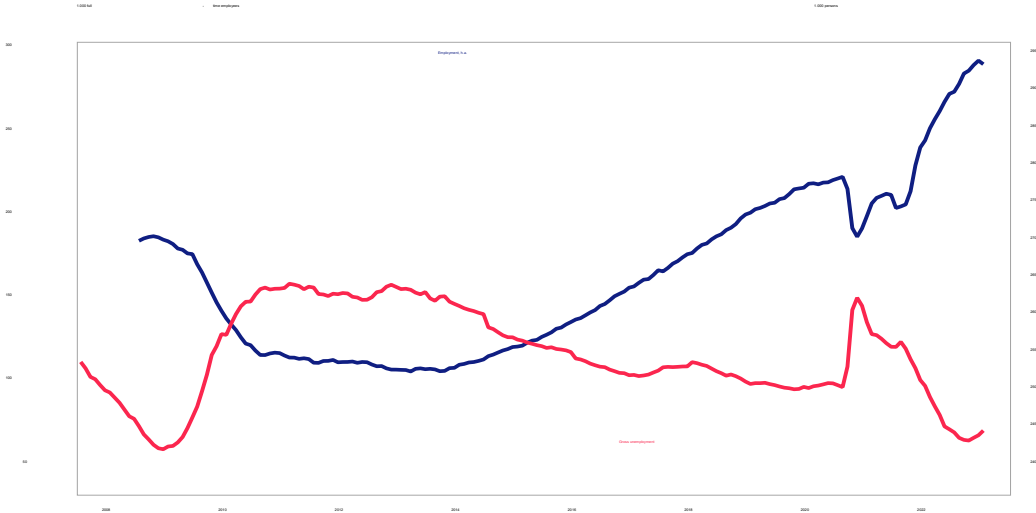


Source: Macrobond, Bloomberg, Nykredit Markets

# Historically tight labour market but no clear signs of overheating

Record-high level of employment and unemployment remain low

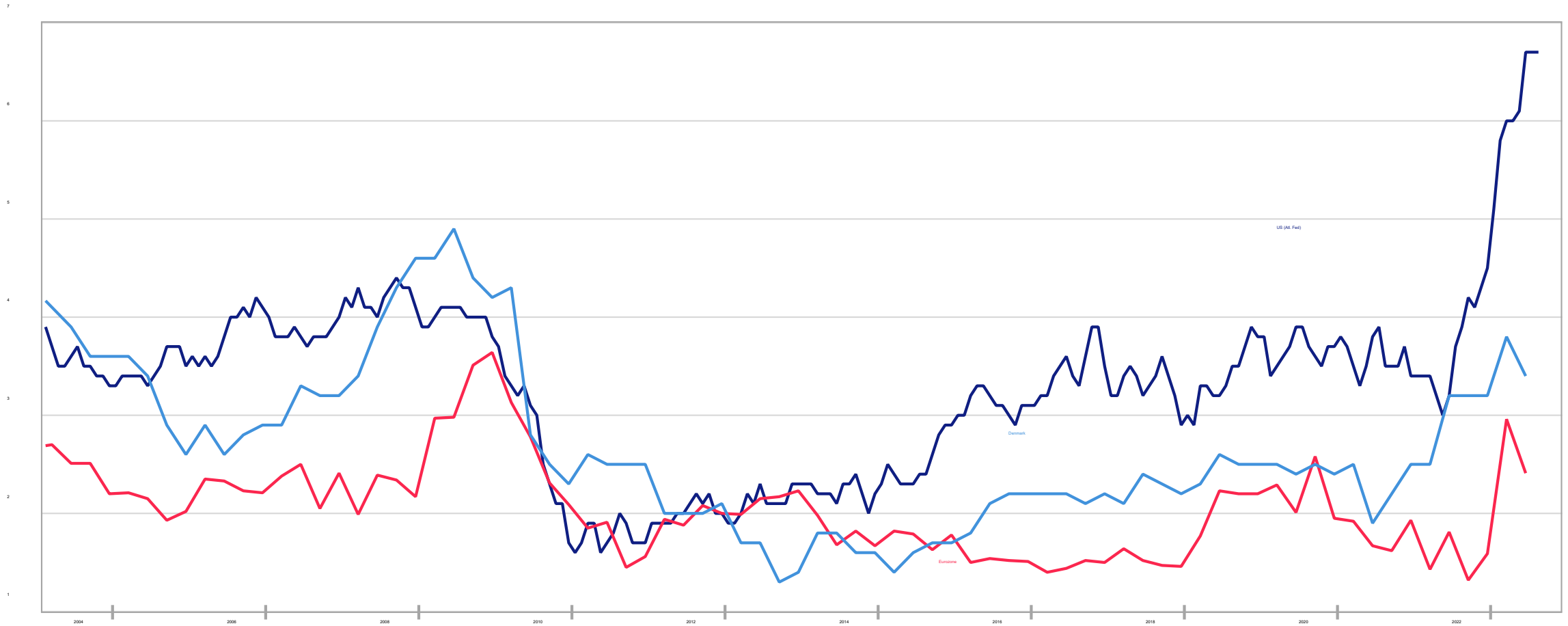
High labour shortage, but on the mend the last couple of months



Source: Macrobond, Statistics Denmark, Nykredit Markets

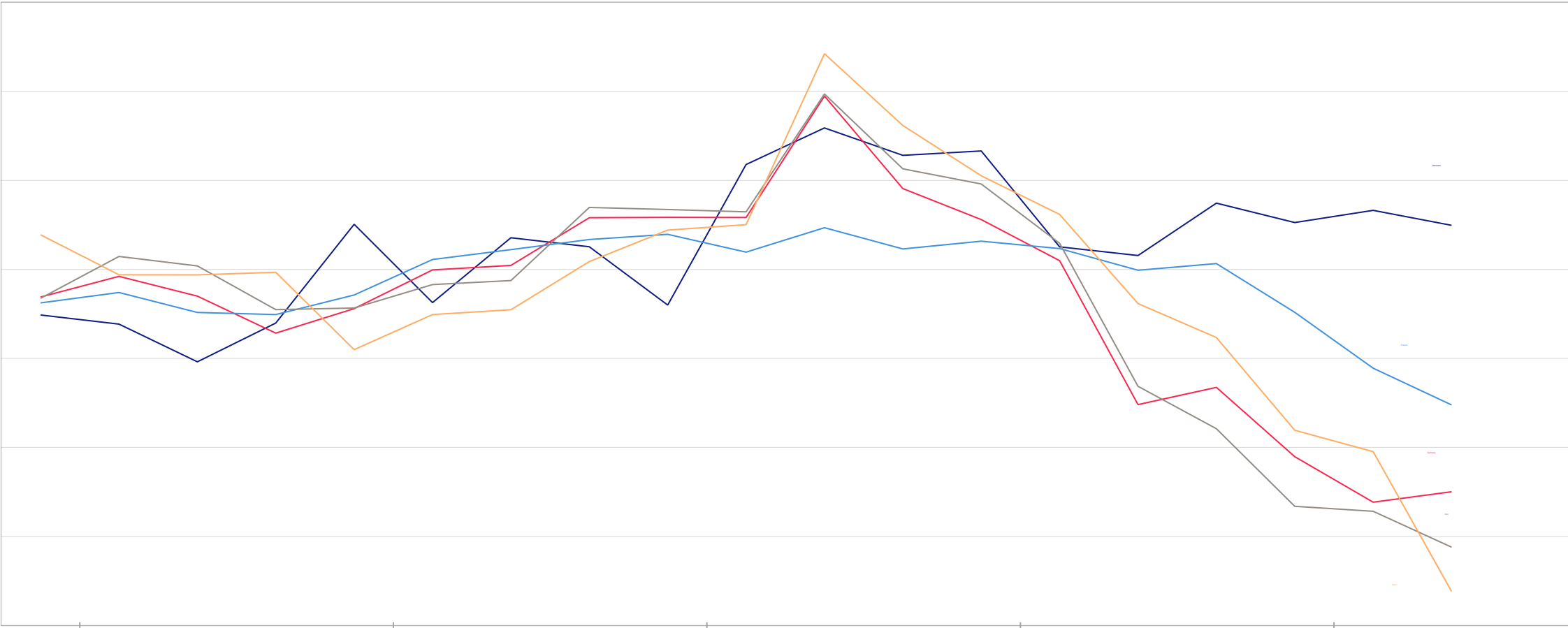
# ... the pressure has only modestly hit wages

Growth in wages, 12M (%)



Source: Macrobond, Nykredit Markets

# The Danish terms of trade are not hit as significantly as other Member States



Source: Macrobond, Nykredit Markets



# A bitter cocktail for the housing market





# Some old news: 2021 was extraordinary



## Houses

**Prices: +11.8%**  
Trades: +8.2%  
Supply: -22.2%



## Apartments

**Prices: +12.4%**  
Trades: +4.4%  
Supply: -16.9%



## Holiday homes

**Prices: +19.1%**  
Trades: -8.7%  
Supply: -35.1%

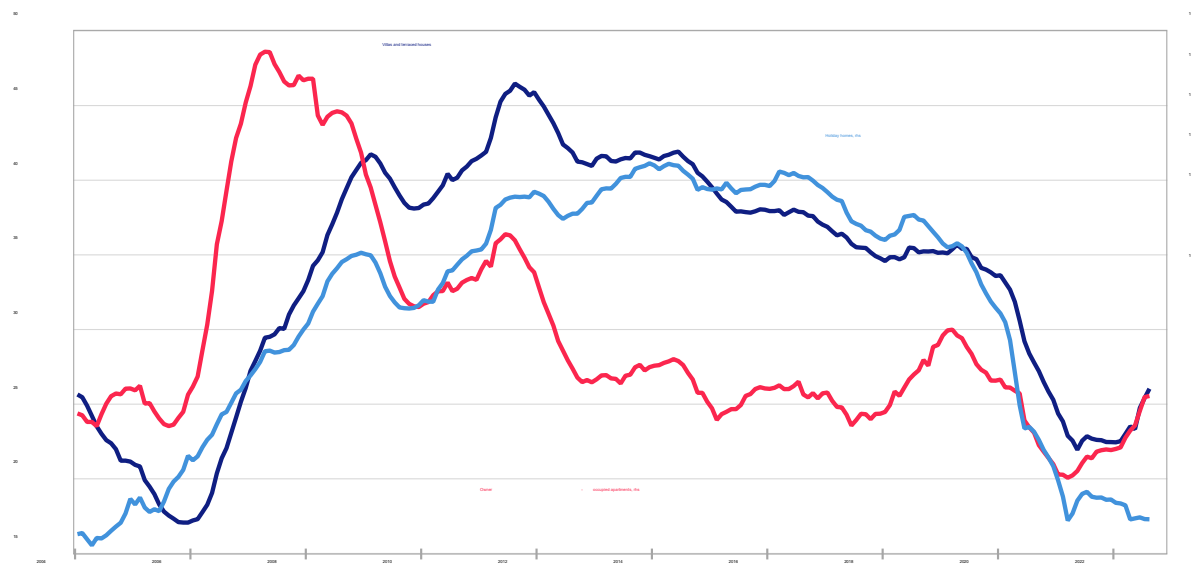
Note: It is the trade price, number of trades and supply of housing.  
The percentage development shows the average change in 2021 relative to 2020.  
Source: Macrobond, Nykredit Markets, Finans Danmark, Statistics Denmark, Boligsiden, Nykredit Markets

# Less sales but still low supply

## Number of sales have more or less normalised



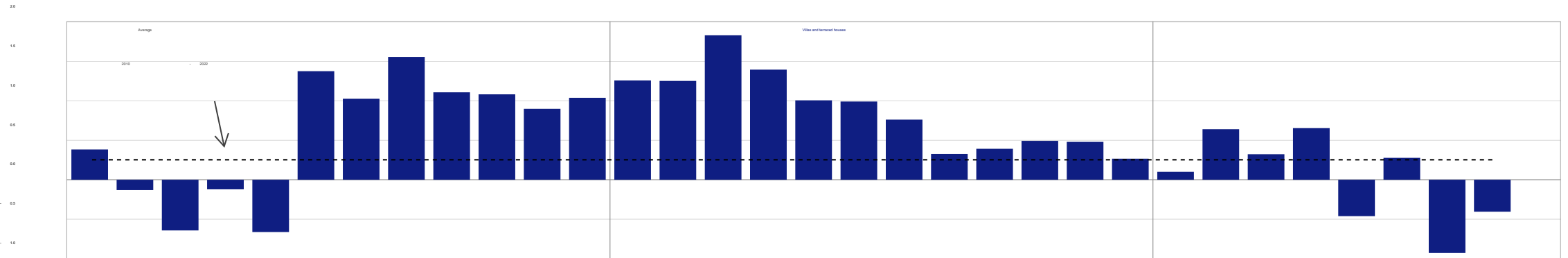
## Housing supply is still low ...



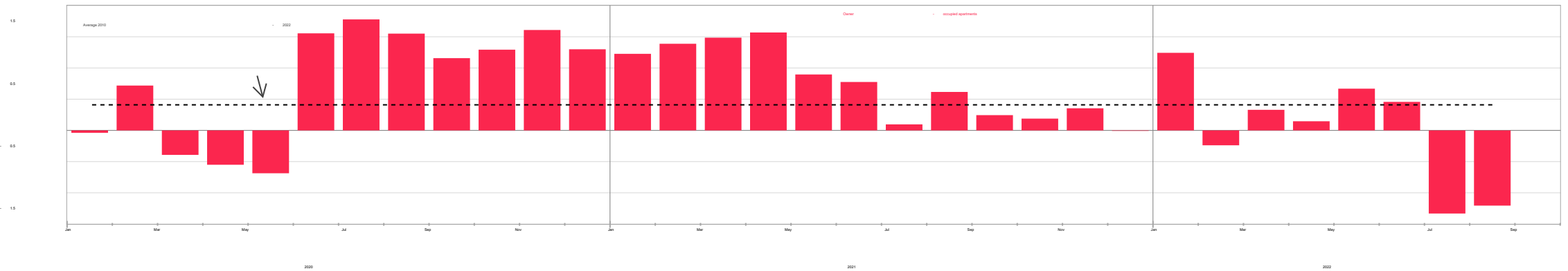
Source: Macrobond, Boligsiden, Finance Denmark

# Prices have started to decline

Monthly change in housing prices, seasonally adjusted (%)



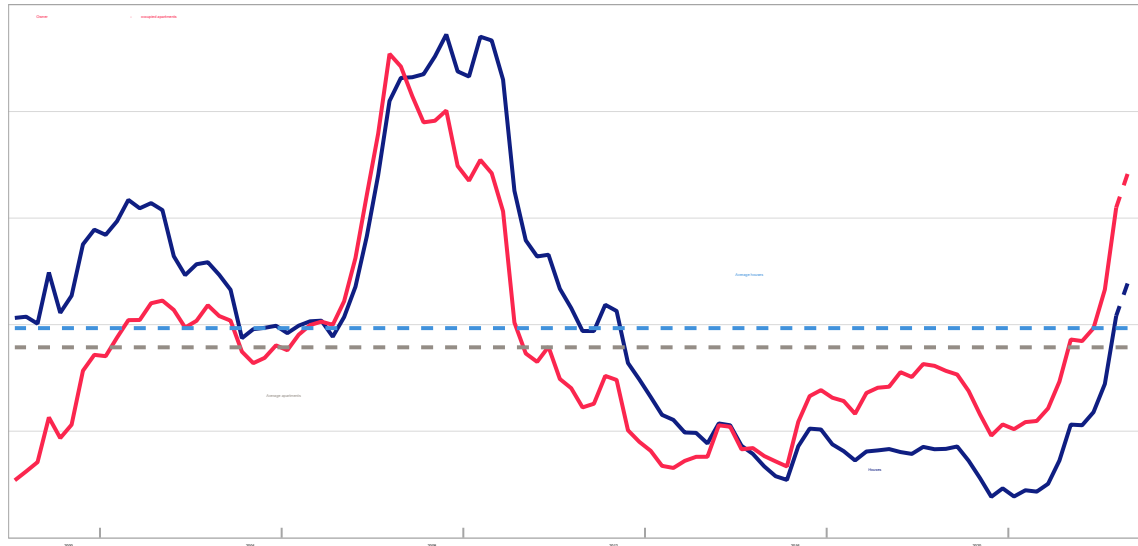
Monthly change in housing prices, seasonally adjusted (%)



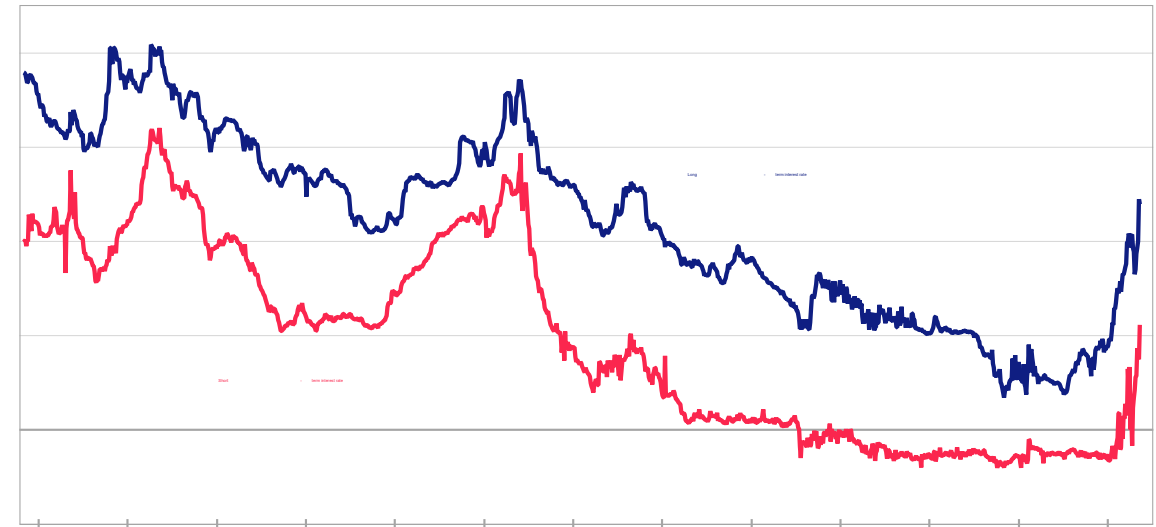
Source: Macrobond, Boligsiden

# Rising interest rates are the main concern

The housing cost burden has increased significantly – especially for owner-occupied apartments



The increase this year is mainly driven by increasing interest rates

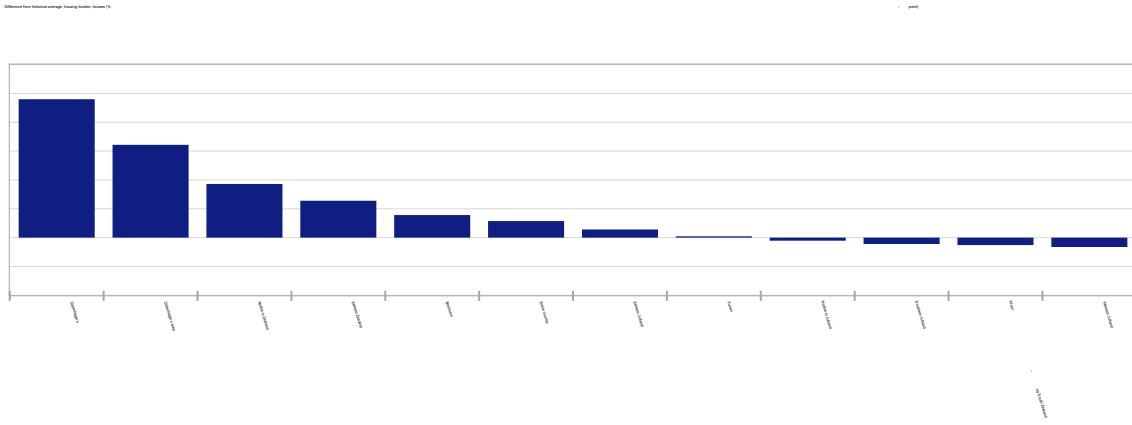


Source: Nykredit Markets

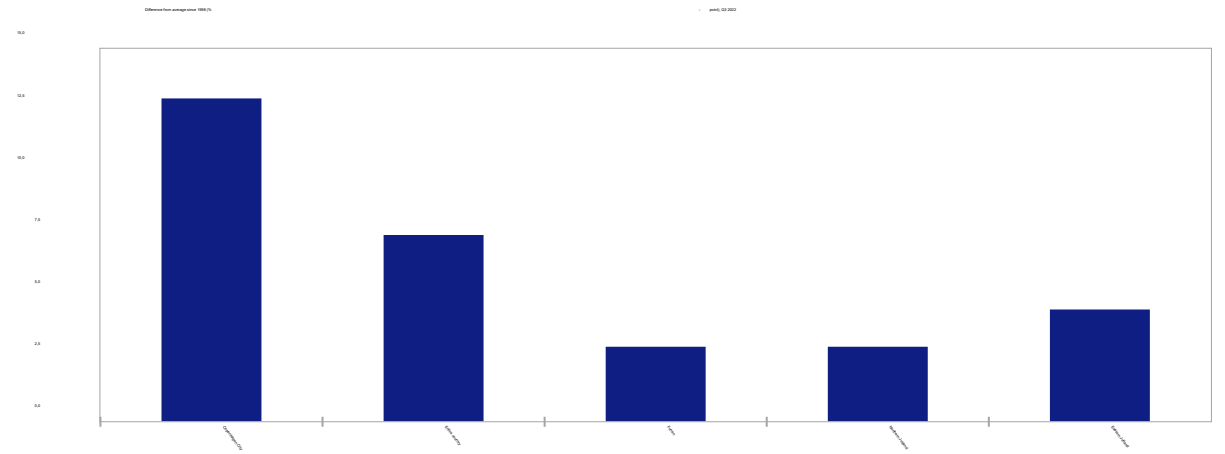


# Only a problem in Copenhagen?

The housing cost burden compared to the historical average



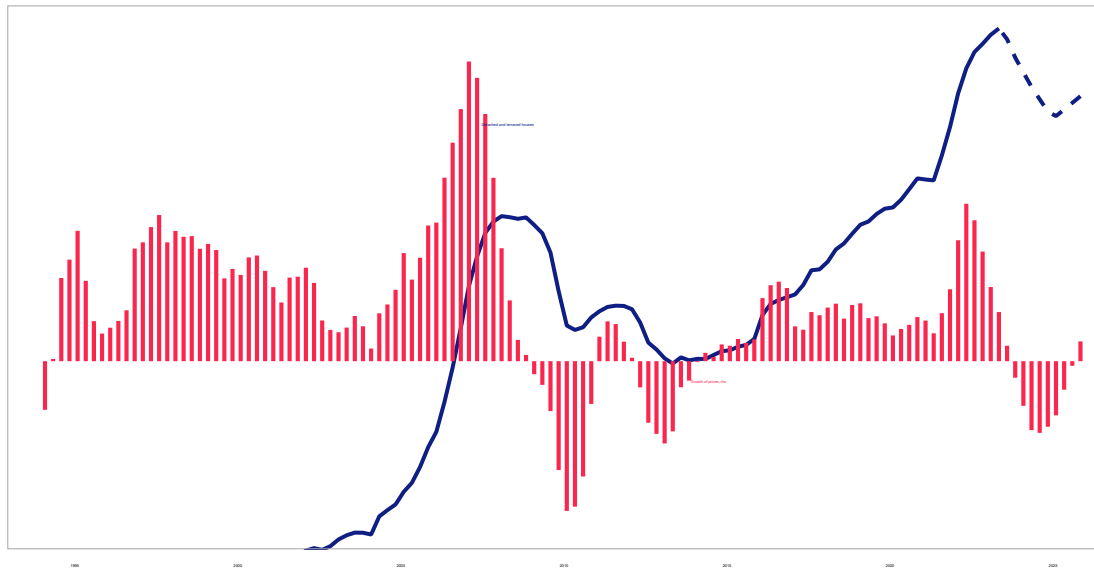
... and for apartments



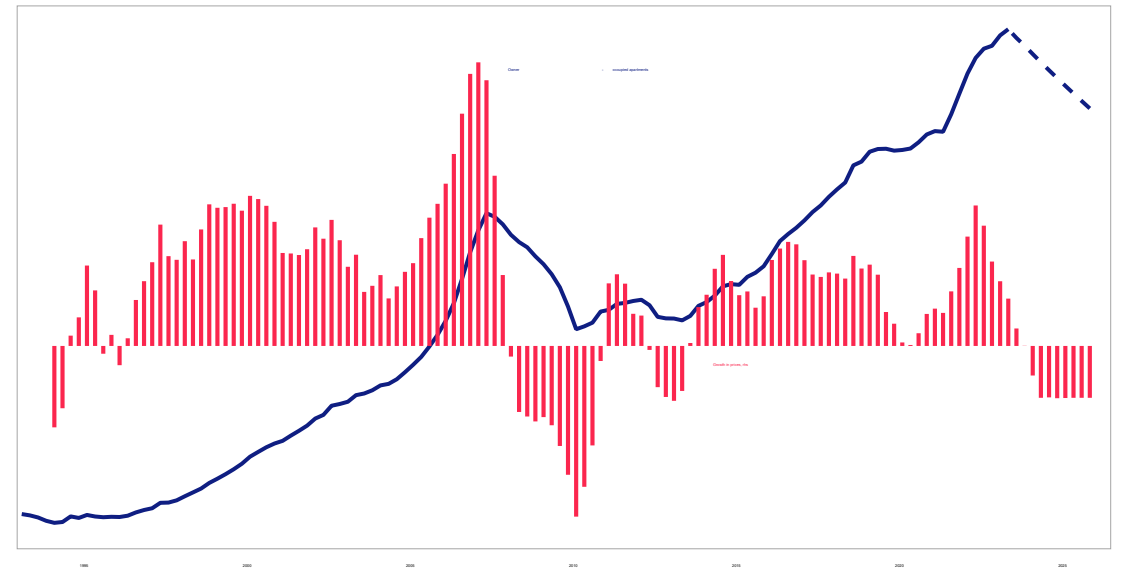
Source: Nykredit

# We expect falling prices in the coming years

## High interest rates are lowering housing prices



## Prices of apartments are also hit by property tax reform

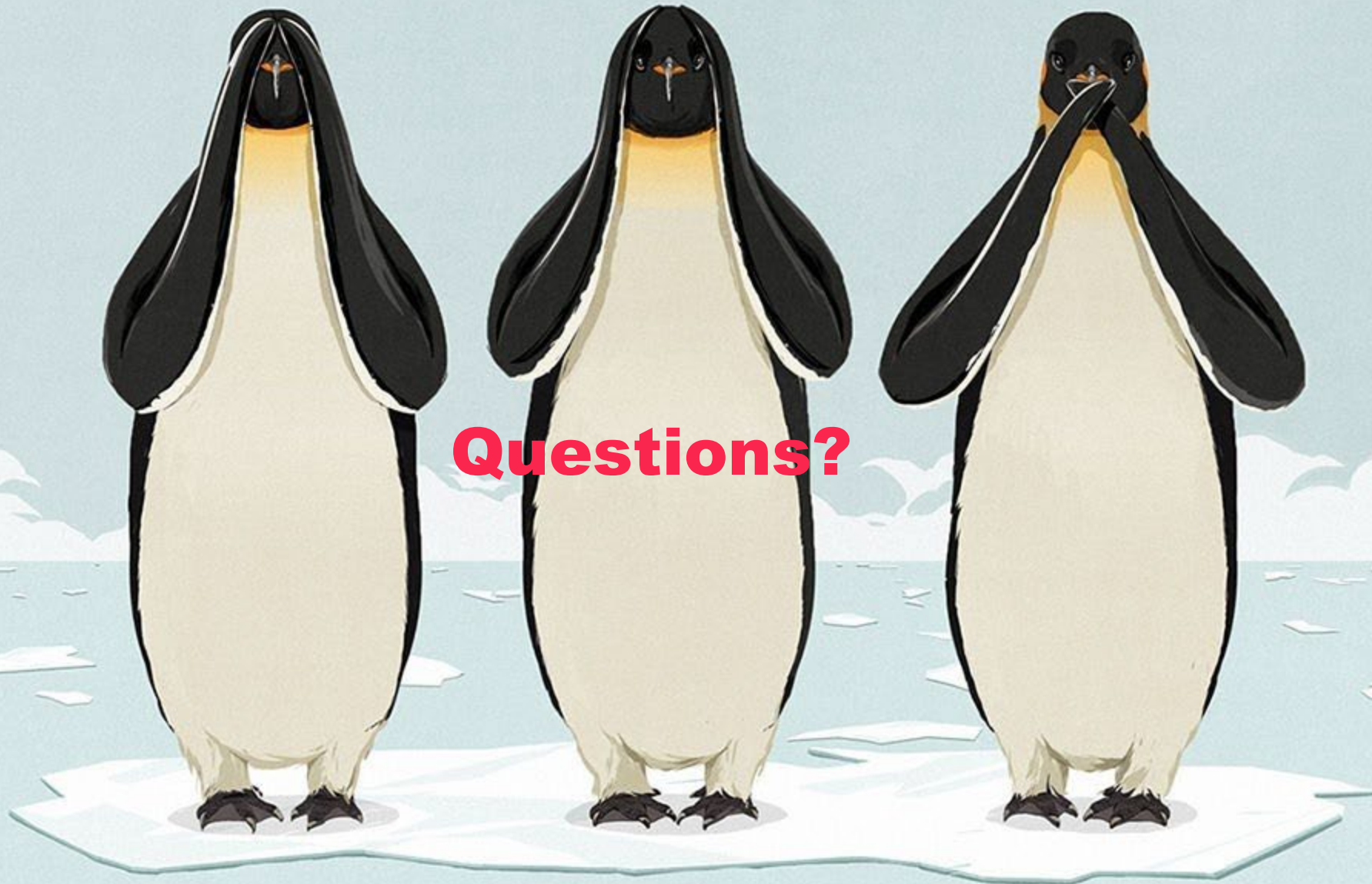


Source: Macrobond, Finance Denmark, Nykredit Markets

## Free fall or soft landing?



- Rising interest rates and growth in supply should lead to declines in housing prices – but it is not a bubble about to burst or a market that is in free fall with no place to land
- Prices are adjusting until the buyers can afford them again ... and so far it is going slowly



Questions?