Denmark officially in recession: Europe to follow

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On July 1, figures released by Statistics Denmark confirmed that Denmark has become the first European economy to enter recession following the collapse of the US sub-prime mortgage market last year and the subsequent global credit crisis.

Denmark’s economy has now contracted for two consecutive quarters, by 0.2 percent in the last quarter of 2007 and by 0.6 percent in the first quarter of 2008. With reports appearing last month that inflation had reached 18-year highs, the situation is not improving. Last month, an OECD report stated that Denmark’s economy would have the lowest growth of all OECD members until 2014.

Many have been taken unawares at the severity of the downturn. “The Danish economy has been hit much harder than we expected. It is worrying that the downturn in growth is so significant. Today’s figures were a negative surprise and we are now readjusting our growth estimates,” said Steen Bocian, head economist with Danske Bank.

The slump is reflected across the economy as a whole. Household spending fell by 1.1 percent in the first quarter, with particularly high reductions in car sales of 4.4 percent. While Danish exports increased by a little over 1 percent, imports failed to keep pace, only achieving an increase of 0.4 percent.

Government expenditure was down 1.4 percent and fixed investments also fell over the same period by 0.6 percent. Confirming the bleak outlook for the future, economist Niels Roenholt commented, “The Danish economy has now entered new times.

“Today’s numbers are without doubt just a foretaste of what’s to come.”

With Denmark entering recession, data issued from across Europe indicates that other countries could quickly follow suit. Commentators have cited Ireland, Spain, Portugal, and Italy as being countries where recession is most likely. Although Italy narrowly avoided suffering two consecutive quarters of economic decline, it is expected to face increased difficulties with figures pointing to a decrease in manufacturing output. Spain faces similar problems with the economics minister admitting that growth is set to slow further than the 0.3 percent growth in the first three months of the year. The bleak outlook forced Prime Minister Zapatero to address parliament on July 2, on the condition of the Spanish economy.

One of the pressures on Europe’s economies is inflation, which is running at extremely high levels, well above the ECB (European Central Bank) target of 2 percent. This was the main reason behind its decision to raise interest rates by 0.25 percent to 4.25 percent on July 3. On the same day, Sweden’s central bank, the Riksbank, released a statement indicating its intention to increase interest rates by a similar margin to 4.5 percent, again to combat high inflation which has been approaching 4 percent.

Britain, Ireland and Spain have seen significant declines in the housing market, which has prompted the concern of economists. Statistics released in Ireland confirmed that the economy had contracted in the first quarter. Added to this, the Economic and Social Research institute has predicted that Ireland will enter a recession this year for the first time since 1983.

In a comment in the *Sunday Business Post*, Vincent Brown outlined the probable consequences of a recession in Ireland. He noted, “The economic downturn will be of enormous significance to hundreds of thousands of people. Unemployment will rise to at least 200,000, and that will directly affect probably about three quarters of a million people.

“These will all live in poverty, on social welfare benefits that are well below the poverty line—by any measure. Over one million people will probably have to live on incomes equivalent to €12,000 for a single person, or €29,000 for two adults and two children.

“About 100,000 families are on housing waiting lists and, because of the recession and our social structure, even more families will be on those waiting lists in a year’s time. Thousands of people are on hospital waiting lists—and there will be more with the coming cutbacks.”

In Britain, house prices have declined for eight months running, with the expectation that this slump will spread throughout the economy. As Denmark announced its economic data, figures released in Britain confirmed that house prices had declined more than at any time since 1992. In spite of these grim statistics, Lena Komileva, an economist at Tullett Prebon in London, noted ominously, “The economy has yet to feel the full effect of the credit crunch, and there are negative effects from the high oil price.

“Recession is a great possibility. We’re getting closer to a 50 percent chance.”

Declining house prices have been a feature of the Danish economy during the period when recession hit. Underscoring the gloomy prospects, Handelsbanken economist Jes Asmussen noted that his bank is expecting the value of single-family homes over the next two years to drop by up to 10 percent.

Morten Skak, a housing economist, told Danish financial daily Borsen, “I expect to see a pretty sour housing market in 2008 and 2009. We must wait until 2010 before things start to move forward again, and the house prices will be weaker in rural areas.”

Fears in Danish ruling circles about the coming period are compounded by a severe labour shortage in the economy. The most recent figures confirm that unemployment is at its lowest in over 30 years, falling to 1.7 percent. Some have pointed out that if unemployment remains below 50,000, there will be a negative impact on the profits of Danish business.

The head of the Danish central bank expressed this most clearly, asserting that an increase in unemployment would be desirable. He thus sought to place the burden for Denmark’s economic troubles on the backs of working people.

His call is already finding a response. In recent days, Danish companies have announced their intentions to cut jobs in a drive to slash production costs. Randers, Europe’s biggest producer of pork, declared its plans to cut 900 jobs in Denmark while biotechnology firm Pharmexa A/S is aiming to reduce its workforce by 40 percent.

As workers demand higher wages to keep pace with rising commodity prices, concerns are growing in ruling circles that Danish products will lose competitiveness on the world market as demand decreases. To avoid this, they are prepared to force workers to suffer job cuts and wage freezes in a bid to ensure their competitive edge is maintained.

The attitude to those at the other end of society is entirely different. In a move which could not have come at a more provocative moment, the ruling Liberal party announced that it was now prepared to support the Conservatives, its coalition partner, in reducing taxes for the highest earners. Announcing the policy shift, Peter Christensen noted on July 2, “In the current situation where we have a labour shortage, we principally only have the tax and employment policies left to use as tools to create new growth, and we know cutting top taxes would result in a lot of extra hands.”

Presented as a measure to “stimulate economic growth”, the opposition Social Democrats have even expressed their intention to support the proposal, which is only another move to enrich those at the top at the expense of working people.

While the rich will receive tax breaks, the wage settlements following the recent strikes by healthcare and daycare workers demonstrate that workers will receive nothing. Furthermore, it exposed the complete inability of the trade unions to achieve the limited wage increases which they originally aimed for.

Nurses will return to work having agreed a 13.3 percent pay rise over three years, virtually no more than the 12.8 percent which was offered before the strike. This is in spite of the pledge from the leader of the Danish Nurses Association that nothing less than 15 percent would be accepted. A report in Gyllands-posten claimed that nurses would have to work 12 years to make up the wages which they had lost during the strike period.

It was no better for daycare workers, who will receive no additional raise beyond the original 12.8 percent, other than a vague guarantee of 30 million kronor of extra funds to allow for bonuses in the future. In the same report, Gyllands-posten pointed out that it would take 8.25 years of work for the daycare workers to make back what they had lost during the strike. For all of these workers, the supposed wage increases they have obtained will almost immediately be offset by rising food and energy prices. With a recent study estimating that the cost of living in Copenhagen has grown by between 15 and 20 percent, in reality these workers have been given a pay cut.

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