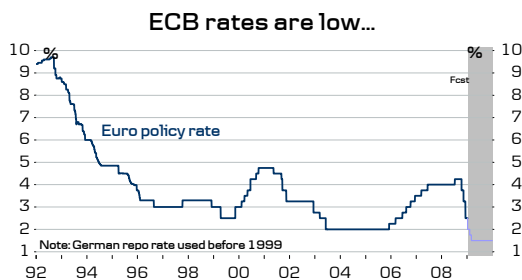
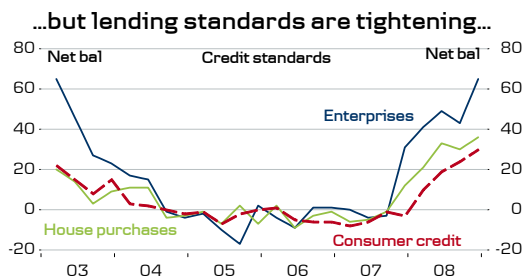


Weekly Focus

9-16 January 2009



Source: Reuters Ecowin



Source: Reuters Ecowin

...and financing costs in the real economy are very high



Source: Reuters Ecowin

“Unorthodox situation requires unorthodox response”

The above remark was made by Fed Chairman Ben Bernanke recently as a comment to the current crisis. Bernanke is a leading expert on the Great Depression and has written several papers on how the breakdown of credit intermediation was an important reason that the Great Depression became so protracted. Policy-makers responded in an orthodox manner with fiscal policy focused on balanced budgets and a monetary policy focused on defending the dollar. He also highlights that the Fed was misled in judging monetary policy by only looking at the nominal rate to judge the looseness of monetary policy. At that time, deflation became widespread and hence real rates were not low. And credit intermediation broke down completely. Hence, overall financial conditions were far from loose even though nominal rates were low.

This is also very much the case today, which is why the Fed is so aggressive and starting to use unorthodox measures. In Euroland, rates have also been lowered more than usual, but tighter lending standards and a substantial widening of credit spreads mean that overall financial conditions are not loose at all. Hence, in our view, there is need for more stimuli in terms of lower rates from the ECB. This was highlighted this week which saw more extremely weak data for Euroland (see Euroland).

We think a very long recession can be avoided but it requires that the policy response is significant - to match the size of the shock - and comes early.

Unfortunately the ECB is already starting to show reluctance to ease policy much further. The meeting next week will be an important guide of how great this reluctance is. We expect a cut of 50bp, taking the leading rate to 2.0%. But there is a risk that the ECB passes this time.

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Dismal indicators

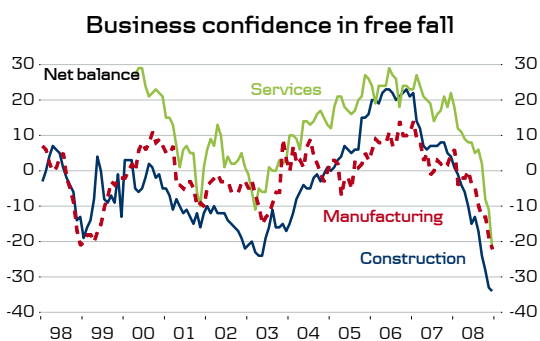
The past week has seen a flow of dismal indicators for the Danish economy. Business confidence, insolvency and foreclosure data all indicate that the economy is slowing sharply. This does not bode well for 2009 – a year when we will hear much more about crisis management and layoffs. The November jobs data confirmed what we all knew – the labour market has turned round, and it is now only a question of how dramatic the rise in jobless numbers will be.

The confidence indicators for the manufacturing, service and construction industries are all in freefall and have plummeted to their lowest levels since they were launched in 1998. In manufacturing industry, new orders are retreating and inventories are growing, while the service industries are generally concerned about a decline in sales. The backlog of orders is also on a negative trend in the construction industry, where the shortage of labour has completely vanished.

The number of insolvencies hit a high of 430 in December (seasonally adjusted) – the highest level ever recorded (i.e. since 1979). We fear that insolvency numbers could go even higher in January and February – and 2009 will probably see more insolvencies in any one year than ever before. Many retailers had probably hoped that the Christmas trade would help them escape insolvency, but although the Christmas trade looked better than feared we believe that quite a few retailers will have to close down business in the early months of this year.

The number of foreclosures has continued to rise, hitting 358 (seasonally adjusted) in December. The severity of the economic slowdown gives grounds for concern. In the coming months, unemployment will increase significantly, putting further pressure on the housing market. That said, we do not expect the number of foreclosures to rise above 1,000 a month, as it did in the early 1990s.

The number of unemployed people rose by 2,800 in November, and 52,000 people, or 1.9% of the labour force, are now out of a job – which is still a very low number. However, we are only in the early stages of the downturn. We expect the jobless number to increase by almost 40,000 this year, and things could turn out even worse. That said, if viewed in an historical perspective, the number of unemployed people does not look likely to increase by any more than 60,000 over the coming year.



Source: Statistics Denmark

Key events of the week ahead

- December inflation numbers are due out on Monday. We expect the falling energy prices to drag inflation further down. Seasonal factors point towards a rise in food prices, but the global downturn in prices will pull inflation in the opposite direction.
- Monday will also see the release of industrial production data for November. We expect industrial production to come out more or less unchanged due to the sluggish production in October, although industrial production is still on a falling trend.

Date	Time	Event	Period	Danske Bank	Consensus	Previous
Mon 12	9:30	DKK Industrial production sa., ex ship	m/m	Nov	-0.5%	-0.7%
Mon 12	9:30	DKK CPI	m/m y/y	Dec	-0.4% 2.3%	-0.3% 2.7%
Mon 12	9:30	DKK Industrial orders	m/m	Nov	-3.0%	3.7%
Thu 15	9:30	DKK Wholesale prices	m/m y/y	Dec		-2.9% -1.1%

Sweden

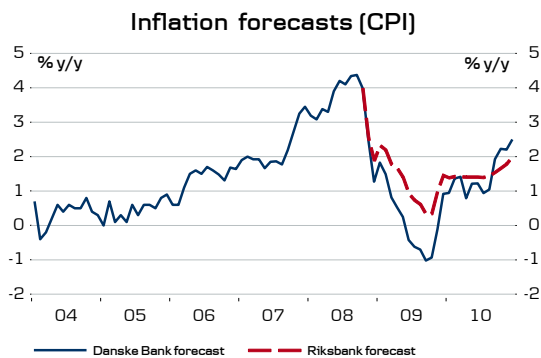
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Inflation plummets, providing the Riksbank with good arguments

We believe the Riksbank’s forecasts in conjunction with the December meeting by no means exclude the possibility of another cut arising from the February meeting. Most data continue to come in at or below the Riksbank’s latest forecast, even though the outcomes so far admittedly have been of minor significance.

However, inflation data out this week should be of more significance. We calculate a quite hefty 0.6 percentage point deviation from the Riksbank’s latest forecast. Whereas the Riksbank expects inflation to edge down to 1.9% y/y in December, we believe there is a good chance that inflation could come in around 1.3% y/y, mainly due to lower energy and food prices.

The continued flow of dismal outcomes from both the domestic and the international economy, together with an inflation outcome of more than half a percentage point below forecast, indeed constitute solid arguments for the Riksbank to deviate from its latest repo rate path (implying no change). In short, our case for a 50bp cut at the Riksbank’s upcoming February meeting is growing stronger – this week’s inflation data should further enhance validity of this.



Source: Reuters Ecowin

Key events of the week ahead

- Inflation will be in focus for financial markets.
- But the week also will reveal more information on the labour market (Labour Market Board) and house prices.

Date	Time	Event	Period	Danske Bank	Consensus	Previous
Tue 13	9:30	SEK CPI	m/mly/y	-1.1% 1.2%		-0.8% 2.5%
Tue 13	9:30	SEK Underlying inflation, UNDI1X	m/mly/y			-0.5% 1.6%
Fri 16	10:00	SEK Unemployment (AMV)	%			3.5

