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European Economy: Denmark slides into Recession

The 27 countries of the EU saw GDP growth in Q1 2008 of 0.7% GDP over previous quarter, marginally below the 0.8% rate previously forecast. Following a poor performance in Q4 2007, of just 0.5% growth, finance ministers were satisfied but do not expect this resilience to be maintained into the second quarter. Last year the European Commission estimated annual GDP growth for Europe of 2.4%, although the end figure will now be lower as the downside risks grow. This follows growth of 2.9% in 2007. At the same time inflation rates have been higher than expected. As fuel costs continue to rise and wage pressures increase, ECB reacted by raising interests rates to 4.25% up from 4%, first increase since summer 2007.

- The best performing countries in Europe were Slovenia, Slovakia and Malta, with respectively Q1 2008 GDP growth results of 2.2%, 2.1% and 1.7%.
- Germany is both the largest economy in the EU and traditionally also its strongest economy. Nevertheless the relatively good Q1 results, of 1.5% GDP growth are unlikely to be repeated, after a large number of negative economic shocks in recent months, including sharp falls in industrial output, slower exports and a down turn in job creation. Investor confidence as measured by the ZEW index hit a 17-year low, with the expectation that the country will enter into recession, whilst the Ifo index of business confidence is less pessimistic. Nevertheless the German government now expects a rate of GDP growth of only 1.8% in 2008, down from 2.5% in 2007, with 2009 slipping even further to 1.4%.
- The UK economy grew by 0.3% in Q1 2008, which is expected to be followed by 0.2% in Q2 2008, but prospects are increasingly gloomy. Figures published in July show a sharp fall in industrial production, despite a potential export boost from the weaker pound. Consumer spending is poor, mortgage lending has collapsed as the housing market has been severely affected by the US sub-prime crisis, unemployment is expected to rise and inflation will soon top 4%.
- Spain and Italy, as also France, are considered to be in danger of economic slowdown. Spain Q1 2008 results slowed to 0.3%, compared to quarterly rates of 0.9% in 2007. In particular the Spanish construction sector has been hit, with new housing starts in Q1 down by 60% over last year. Consumer spending, another leading factor for the Spanish economy has been affected by inflation and higher prices.
- Denmark has become the first European country to fall into recession. This is defined as two consecutive quarters of negative growth, which was confirmed when Q1 2008 growth contracted by -0.6%, following -0.2% growth in Q4 2007. Inflation in Denmark has hit an 18-year high of 3.4%, whilst the housing market has collapsed. In 2007 Denmark recorded GDP growth of 1.8%.
- The Irish Economic and Social Research Institute expects Ireland to achieve an annual growth of -0.4% in 2008. Ireland will thus be in recession for the first time since 1983, driven by the housing market crisis, and increasingly by weakening consumer spending. [SL]

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