

Denmark Has Only Reached 20% of the Way

08-20-2008 08:34am by Jens Nymark – Translated by Jens Kjaer Sorensen
<http://borsen.dk/finans/nyhed/138450/>



With his thesis from the University of Copenhagen in Spring 2006 Jens Kjaer Sorensen gave his analytical view on the economical future. And the tune was rough– just like the development turned out to be.

The financial crisis has now rounded the first year after its demolitions, and there is still a long way, predicts Jens Kjaer Sorensen, an equity trader in a greater Nordic bank. He finds that the US is almost half way through the crisis, but that we have only reached around 20% in Denmark – partly because of the strong Euro, and the weak European competitiveness.

"I believe that the crisis in Denmark will exist for another 4-5 years. It is frightening that we have experienced such a long upturn– which points in a direction for a longer downturn than normally. The future seems likely to include several more bubbles and imbalances," says Jens Kjaer Sorensen to borsen.dk.

Psychological factors can crush the economy

The economic upturn has existed since 1993, but the downturn does not need to be as long, even though the consequences by the very aggressive credit expansion in Denmark is far from over. There are several tools in the belt. For example, the Federal Reserve has lowered the interest rate in the US to 2%, which has sent huge amounts of money into the financial sector.

But the central bank and the other actors in the market fight against an invisible enemy, that easily can appear as an exposed position at counterforce, the consumers psychological reactions – a phenomenon, which Jens Kjaer Sorensen in his thesis describes as an important part of a reinforcing process.

Individuals are backwardslooking, but only with a short time horizon. That's the explanation on how people act when investing. When people act to protect themselves such short sightedness can threaten the entire economy. When the market moves upwards for a while people tend to believe that the trend will continue. People confirm to each other that the market can only go in one direction.

"Now we are experiencing the same mechanisms in the opposite direction. Investors have switched from the one extreme to the other and have become extremely critical when the economic realities appear. We are now facing an enormous correction with destructive consequences for both companies and individuals," the equity trader concludes.

Round handed credit as scapegoat

The financial crisis started because of numerous weaknesses in the American mortgage market, which initiated the sub-prime crisis with bad payers who could not keep up with their huge loans.

Jens Kjaer Sorensen described in his analysis how 23 housing bubbles and the coming financial crisis one year before it started, and after the one year anniversary of the financial crisis eyes are now turned towards the initiation of the crisis and the future. The crisis was basically caused by the recent years' massive credit expansion on an international level.

"With financial liberalization the new loan types have had uncontrollable impact, because of the consumer being able to loan much more than previously on the same monthly payment. The consumers take what they can get, and when there are no restrictions, it is doomed to go wrong," concludes Jens Kjaer Sorensen.

Regulators have been sitting on their hands

In his thesis, *The Dynamics of House Prices – International Evidence*, from 2006 Jens Kjaer Sorensen concluded that the economy was very likely ending in a recession if the market participants continue their "laissez faire attitude" towards credit expansion. And that is exactly what has happened, Jens Kjaer Sorensen points out with respect to the current situation with the Danish economy in a recession.

Neither the national banks, nor Financial Supervisory Authorities or governments have dared to put an end to the development, which made things go out of proportion.

"Nobody has questioned the existence of interest only loans. When the snowball started to roll, there was nobody who did anything to stop it. We have been blinded by the actors in the market. The real estate agents assured us that the market could only go in one direction, and the banks, which also had become real estate agents, did not hold back until it was too late," the thesis writer comments.

As an example, he mentions that easily accessible data on The Association of Danish Mortgage Banks homepage only has statistics that go 13 years back, which only informs the consumer about economic optimism on the real estate market.