

CONJONCTURE FLASH | JUNE 2012



Monthly publication of the state of the Luxembourg economy

STATEC

Institut national de la statistique
et des études économiques

Eurozone: extremely negative signals for the 2nd quarter

European economic indicators deteriorated sharply during the spring, pointing to a drop in GDP in the 2nd quarter of 2012 in the eurozone. This marked and rapid decline in opinions is also worrying for European momentum in the 2nd half of 2012 and for the external outlook for Luxembourg.

Short respite at the start of the year

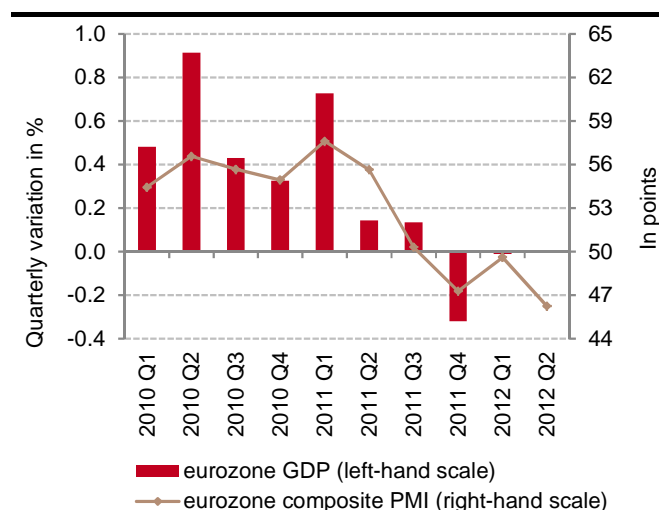
Opinion surveys are a good way of gathering information rapidly on the latest economic trends. Most of these indicators recovered somewhat at the turn of 2011 and 2012, over a period extending roughly from November to February. This modest rebound happened at a time when the outlook for the future of the eurozone seemed a little brighter. The European financial markets responded positively to the ECB's two long-term refinancing operations, launched in December 2011 and February 2012, with equity markets up, long-term rates down, the euro gaining against the dollar, etc. In terms of GDP, this led to stagnation in the 1st quarter of 2012 throughout the eurozone after a 0.3% fall in the 4th quarter.

Unfortunately, this positive trend was only short-lived. The short-term positive effects of European monetary policy (i.e. avoiding a liquidity crisis and credit crunch) were not enough to reassure the markets as the structural problems threatening the banking sector and European public finances again loomed large. Financial market indicators fell again in late March, followed quickly by business owners' opinions.

Opinions fall sharply and quickly from April

The fall started to materialise among businesses in April (European Commission's economic sentiment indicators and eurozone PMI indices) and May (ZEW indices for the eurozone, IFO survey for Germany).

Eurozone: GDP and PMI index



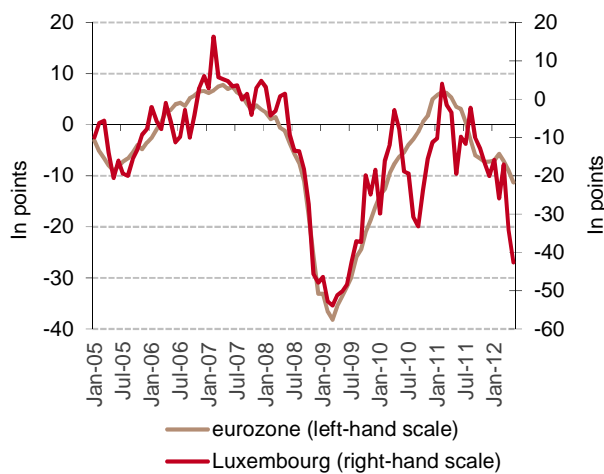
Sources: Eurostat, Markit Economics

The fact that these indicators are declining again is in itself bad news but what is even more worrying is that the trend is particularly marked and rapid.

The PMI index for the eurozone, which correlates well with GDP trends, also shows GDP falling 0.2 or 0.3% in the 2nd quarter.

Recent political developments in June were also not reassuring, as they revealed profound disagreement within the eurozone on how to solve the current crisis. In these conditions there seems little likelihood of the confidence boost hoped for by business owners and consumers, whose morale has remained very low in recent months, and this compromises growth prospects for the 2nd half of the year in the eurozone and by extension in Luxembourg.

STATEC
Luxembourg

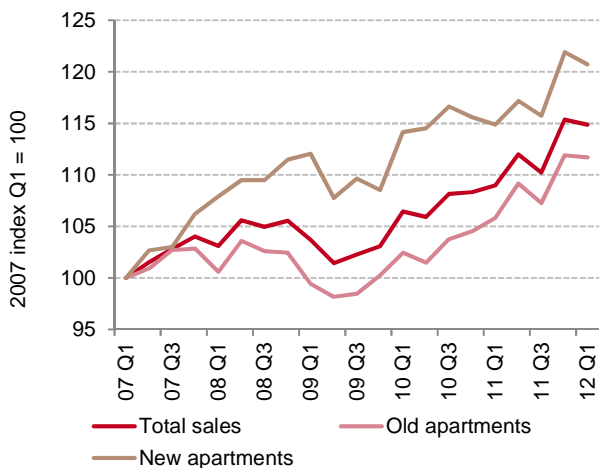
Manufacturing**Manufacturing confidence - standardised indicator**

Source: EUROSTAT

Confidence: after a fall ... freefall

According to the economic survey on manufacturing, Luxembourg manufacturers have become more pessimistic since mid-2011. This trend strengthened in April and May 2012. All survey variables were affected, namely output trends, order books, stock levels (deemed too high) and employment prospects. Moreover, manufacturers have revised their price expectations significantly downwards since April.

The scale of the drop affecting opinions is not in the least marginal: confidence levels at the end of May 2012 were close to levels seen at the turn of 2008 and 2009. While manufacturers in other eurozone countries have also been more pessimistic since April (particularly countries neighbouring Luxembourg), this trend seems much more pronounced in Luxembourg.

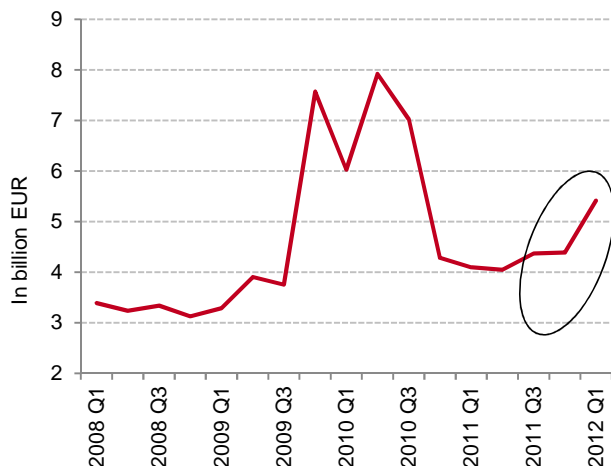
Real Estate**Asking prices for apartments**

Sources: Land Registration and Estates Department, STATEC

Prices remain high in the 1st quarter

Asking prices for apartments dropped slightly in the 1st quarter of 2012 (down 0.4% on the 4th quarter of 2011). This drop is not overly surprising given that asking prices had considerably accelerated in the previous quarter. Therefore, the drop seems to be more of a correction than the sharply of a trend reversal. Average selling prices for apartments sold in the first three months of 2012 were over 5% higher than last year (up 4% over 2011 as a whole), and the scale of the increase was practically identical for new builds and older apartments.

While prices may continue to fall subsequently, particularly if the economic climate continues to deteriorate (as happened in 2009), for the moment there is no tangible evidence of a definite trend. However, there has been a slowdown in the number of transactions recorded (independently of seasonal movements generally observed).

Financial sector**Insurance premiums collected - quarterly data**

Sources: Commissariat aux Assurances (insurance regulator), STATEC

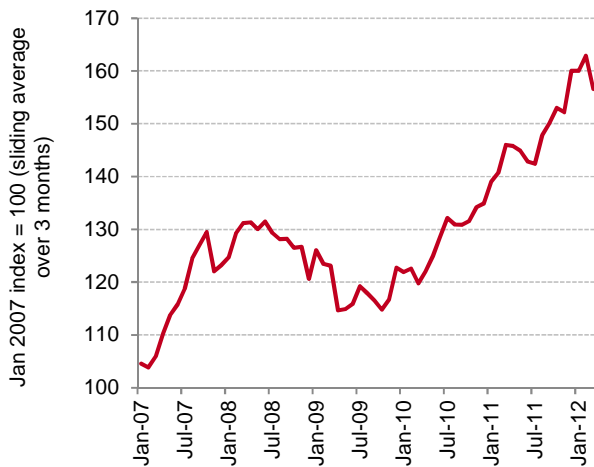
A good start to the year for insurers

Recent years could hardly be termed years of crisis for the insurance sector in Luxembourg. Insurance premiums benefitted from non-cyclical phenomena which considerably boosted results between 2008 and 2010, in contrast to the overall macroeconomic trend, which was sluggish at best. In this respect, 2011 marked a certain return to normality. The prospects for 2012 are relatively encouraging, with premiums trending up since mid-2011 and continuing in the 1st quarter of 2012, with an increase 35% over one year.

Despite the drop in premiums in 2011, employment in this sector continued to rise. However, growth over the last year has been very modest, rising just 0.8%, compared to 2.5% in 2010 and 3.8% in 2009.

Business services

Turnover in business services



Source: STATEC (seasonally adjusted figures)

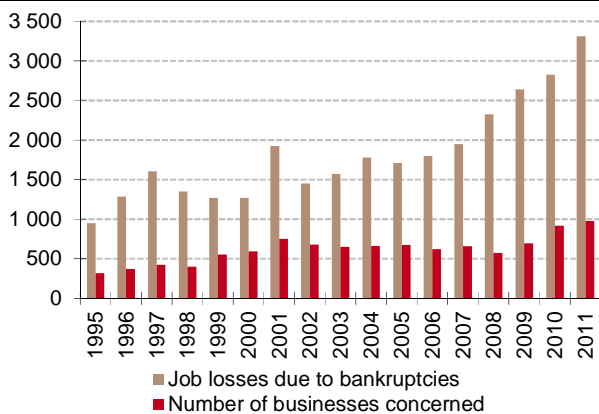
Strong growth in early 2012

Services provided mainly to businesses trended favourably in the early part of this year. Turnover was up over 10% over one year in the 1st quarter, continuing the dynamic trend observed since 2010. Most of this growth was in companies engaged in legal, accounting and management consultancy activities, where there was a general upward trend in early 2012. The current economic situation – although turbulent – seems to be favourable for this type of activity in Luxembourg (hopefully the figures for the 2nd quarter will not contradict this impression).

For all services provided mainly to businesses, employment is growing at a slightly slower pace since 2011, but it remains higher than the overall employment rate (up 3% over one year approximately in early 2012).

Bankruptcies

Number of bankruptcies and job losses due to bankruptcy



Source: STATEC

* Job losses due to bankruptcy are deemed to be the maximum number of jobs recorded by a bankrupt company over the 6 months before bankruptcy (prior to 2008, over the 3 months before bankruptcy).

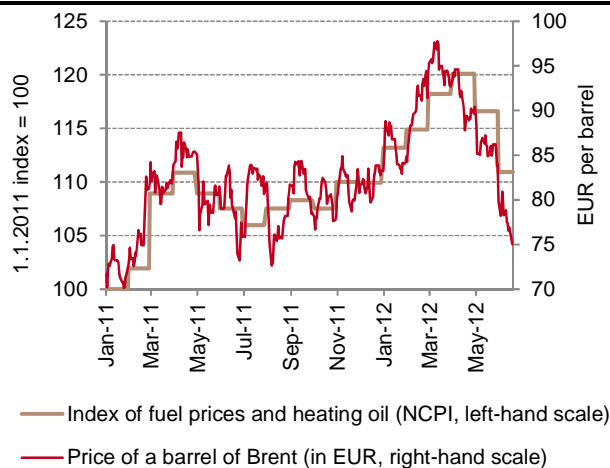
Considerable job losses due to bankruptcy in 2011

In 2011, 3,300 people lost their job due to bankruptcy, 17% more than in 2010. Almost 1,000 companies were involved in bankruptcy proceedings last year (6.5% more than in 2010). While the number of bankruptcies rose less than in previous years (32.5% in 2010 and 20.7% in 2009), these still remain at record levels and involve much more significant job losses.

As in previous years, most bankruptcies were declared by companies involved in trade, followed by construction and hotel & catering. In terms of jobs lost, construction experienced the most spectacular increase, rising 87% over one year, half of all job losses due to bankruptcy that year. In trade, losses remained high (12% of total), despite a 13% fall on 2010.

Inflation

Price per barrel of crude oil and prices measured in the NCPI



Source: European Commission, AEI

Correction in oil and fuel prices

The soaring price of oil at the start of the year again evaporated in the last three months. Since peaking in March, the price of a barrel of oil has plunged 26%, falling below USD 100. Expressed in euro, which has fallen against the dollar, the drop was 23% over the same period. However, the price per barrel of Brent still costs EUR 80, as it did throughout most of 2011. The recent correction in oil prices still seems limited when compared to the current cyclical downturn.

But at least the oil bill is not rising any higher. The fall in the price of crude triggered a drop in pump prices in Luxembourg of about EUR 0.10 per litre for both petrol and diesel. According to the NCPI, prices for fuel and domestic heating oil also fell, by 3% on average in May. These are set to fall further by 5% in June and will probably stabilise at levels seen last summer.

Forecasts

Weak growth in 2012 and 2013

Growth forecasts for Luxembourg

	2012	2013	Publication dates
	In %		
International Monetary Fund	-0.2	1.9	16/04/12
STATEC	1.0	2.4	09/05/12
European Commission	1.1	2.1	11/05/12
OECD	0.6	2.2	22/05/12
Central Bank of Luxembourg ¹	1.0	2.4	14/06/12

¹ Middle of forecasting range

Economic forecasts for Luxembourg published in spring 2012 by various national and international organisations globally agree that growth in 2012 will be very weak with a tepid recovery to follow in 2013.

The range of the various forecasts is quite wide for the current year. The IMF forecast stands out as it is the only one that forecasts a recession in 2012, whereas most of the others predict a figure of close to 1%. For 2013 by contrast there seems to be fairly widespread consensus on growth of close to 2%.

The results – and therefore revisions between the spring and autumn forecasting periods – are highly dependent on their respective finalisation dates. Of course, in the current cyclical downturn, more pessimistic growth trajectories are to be expected in the upcoming forecasting periods.

Tableau de bord

	Sep-11	Oct-11	Nov-11	Dec-11	Jan-12	Feb-12	Mar-12	Apr-12	May-12	Average over the last three months	Same period previous year
Annual variations in %, except where otherwise indicated											
Activity											
Industrial output per working day, in volume	-4.9	-2.7	-8.1	-8.4	-11.1	-9.8	0.3	-6.7	2.6
Construction output per working day, in volume	-3.9	-6.1	-3.1	26.9	-5.7	-28.0	-1.3	-11.7	13.1
Turnover by volume of total retail trade	2.9	1.0	0.6	4.0	-0.9	3.6	3.2	1.9	2.4
Prices, wages											
Consumer price index (IPCN)	3.3	3.4	3.6	3.2	2.9	3.0	2.7	2.7	2.5	2.6	3.7
Underlying inflation	2.1	2.3	2.4	2.4	2.1	2.3	2.1	2.1	2.0	2.1	2.5
Oil product index	18.0	16.0	18.0	12.9	12.7	12.4	8.9	9.0	7.9	8.6	17.9
Industrial producer price index	8.3	10.0	9.7	7.5	5.3	4.4	3.7	2.5	...	3.5	10.8
Construction price index ¹	2.9	3.2	3.2	3.2	3.2	1.2
Average wage bill, per person (National accounts)	1.0	1.7	1.7	1.7	1.7	3.6
Foreign trade											
Exports of goods (volume)	8.0	-6.7	-2.7	1.5	-8.7	-9.4	-12.9	-12.2	...	-11.5	11.9
Imports of goods (volume)	1.1	33.0	-4.5	-7.5	-1.5	-1.4	5.8	21.4	...	8.4	2.2
Employment, unemployment											
Domestic number of employees (IGSS)	2.7	2.2	2.9	2.9	2.5	2.4	2.2	1.7	1.7	1.8	2.8
National employment (IGSS)	2.0	1.8	2.4	2.2	1.9	1.9	1.8	1.3	1.4	1.5	2.3
Unemployment rate (% of working population, seas. adj.)	5.8	5.7	5.7	5.9	5.9	6.0	6.0	6.1	6.1	6.1	5.6

Sources: STATEC

Data pink coloured are estimates

¹ Estimations based on half-yearly data

Indicators

	Variation on previous quarter in %					
	2010 Q4	2011 Q1	2011 Q2	2011 Q3	2011 Q4	2012 Q1
Eurozone- Growth in volume of GDP (European Commission)	0.3	0.7	0.1	0.1	-0.3	0.0
Luxembourg - Growth in volume of GDP (STATEC)	1.3	0.2	-0.6	1.0	0.2	...
	Annual variation in %					
	2008	2009	2010	2011	Forecast 2012	Forecast 2013
Luxembourg - Growth in volume of GDP (STATEC NDC 3-2011)	0.8	-5.3	2.7	1.6	1.0	2.4
PIB en valeur 2011: 42 635 Mio EUR						
Minimum monthly salary (since 01/01/2011): EUR 1 801.49						
Current account balance (2011 - 4 th quarter): EUR 749 million						
Resident population (01/01/2011): 511 840						
Consumer price index (May) - base January 1 st 1948: 805.32						
Half-yearly average of the index linked to base as at January 1 st 1948: 799.59						
Estimated deadline for next salary indexation: 4 th term 2012						

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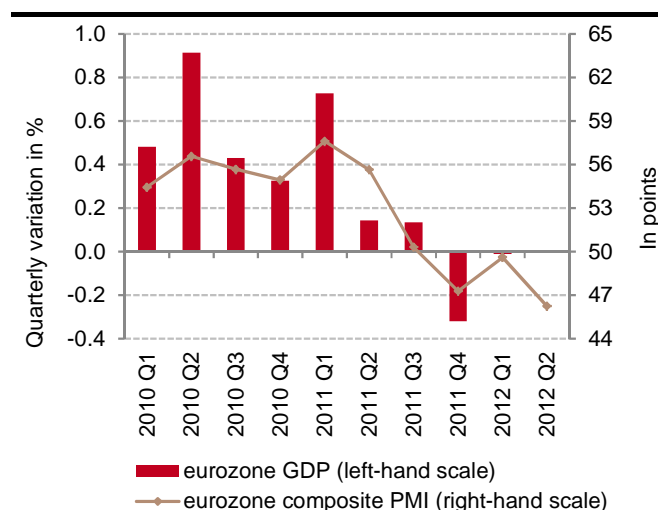
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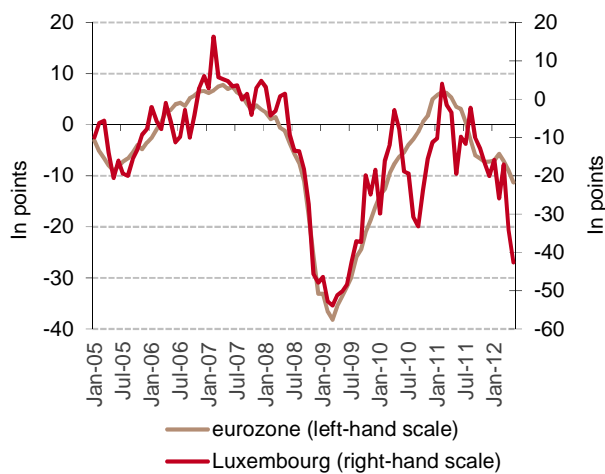
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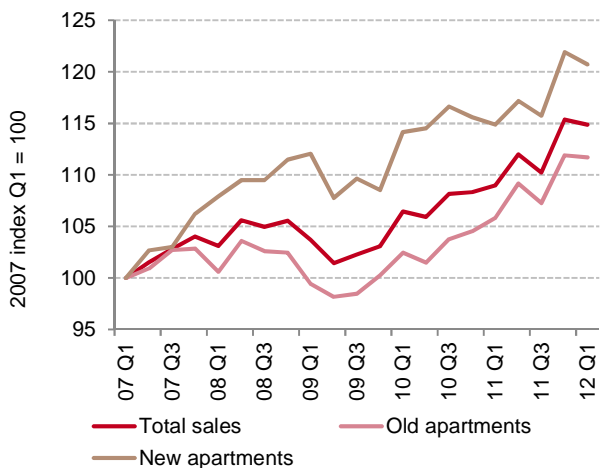
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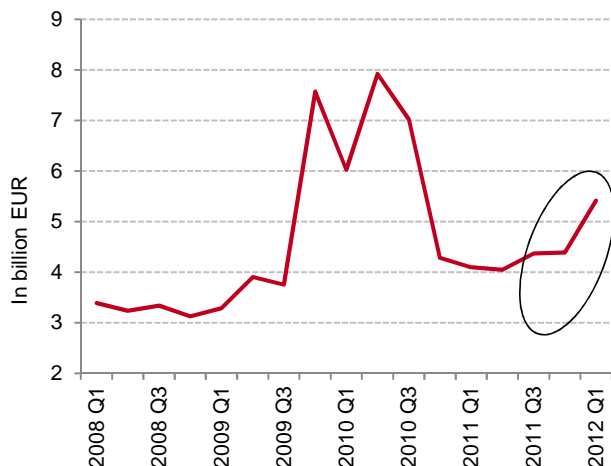
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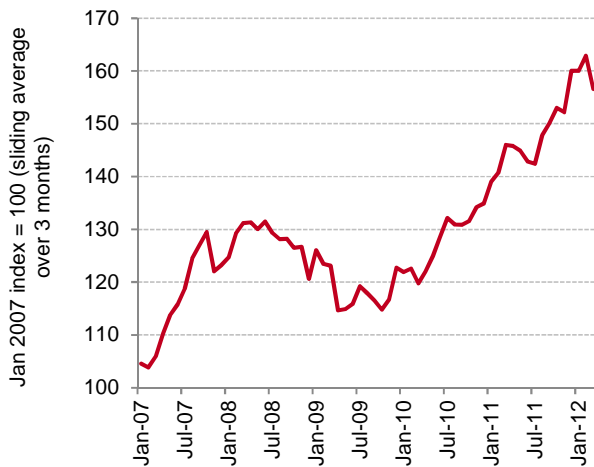
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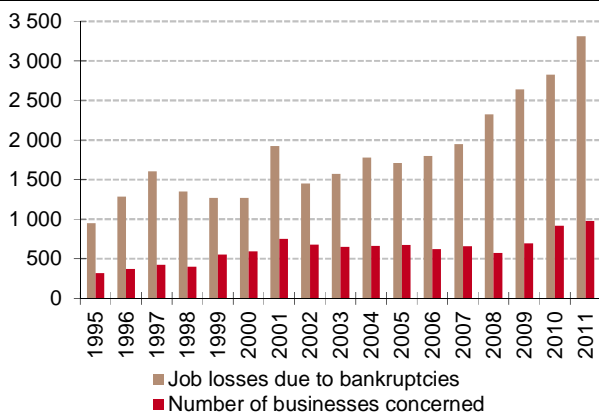
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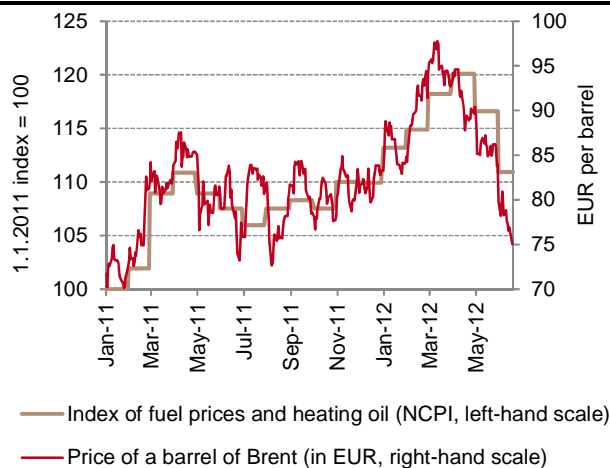
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Employment, unemployment											
Domestic number of employees (IGSS)	2.7	2.2	2.9	2.9	2.5	2.4	2.2	1.7	1.7	1.8	2.8
National employment (IGSS)	2.0	1.8	2.4	2.2	1.9	1.9	1.8	1.3	1.4	1.5	2.3
Unemployment rate (% of working population, seas. adj.)	5.8	5.7	5.7	5.9	5.9	6.0	6.0	6.1	6.1	6.1	5.6

Sources: STATEC

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