

# CONJONCTURE FLASH | JULY 2012



Monthly publication of the state of the Luxembourg economy

**STATEC**

Institut national de la statistique  
et des études économiques

## Growth stalls

The results for the 1<sup>st</sup> quarter of the current year and the outlook for the 2<sup>nd</sup> quarter indicate that economic activity is weakening in Luxembourg and throughout the eurozone. Consequently, growth forecasts for 2012 and 2013 have been revised downwards.

## GDP falls sharply in the 1<sup>st</sup> quarter

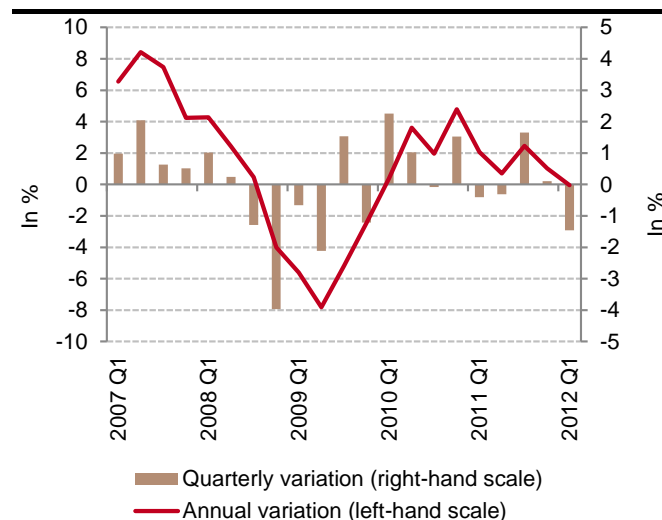
Luxembourg GDP fell sharply during the 1<sup>st</sup> quarter of 2012, by 1.5% compared to the 4<sup>th</sup> quarter of 2011 (and stagnating compared to the 1<sup>st</sup> quarter of 2011).

Trends in added value in various sectors showed that financial activities made a major contribution to the slump in GDP at the start of the year. This deterioration is mainly linked to financial intermediation activity – where banks account for three quarters of added value – while other components (insurance and auxiliaries) played a more positive role. This drop in added value in the financial sector is due mainly to the negative trend in lending, whether to other banks, businesses or households.

Another relatively significant negative contribution in early 2012 – albeit less so than in the financial sector – was noted in the trade, hotel & catering, transport and communications sectors. Some components in this branch were affected by negative phenomena, both cyclical and non-cyclical. However, GDP was sustained by momentum in business services and services with little or no exposure to economic downturns (administration, education, healthcare, social welfare, personal services, etc.).

The activity outlook for the 2<sup>nd</sup> quarter of 2012 is also not especially reassuring. In fact, apart from opinion surveys, few indicators are available for the 2<sup>nd</sup> quarter. Overall, these were trending negatively from April to June 2012. This trend was noted in manufacturing and construction, among consumers, in financial services (at European level) and in most other market services. Non-financial services, which provided a major boost to growth in 2011 and again in early 2012, somewhat offsetting the decline in financial activities, are giving off ever more negative signals.

## GDP in volume



Source: STATEC (National Accounts)

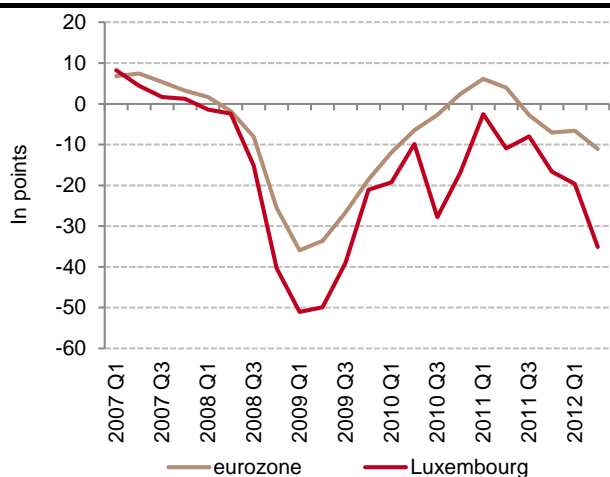
## Growth forecasts revised downwards

The decline in the international and national economic climate since the last forecast (Note de Conjoncture 1-12, published in May 2012) has led STATEC to revise its growth forecasts downwards for 2012 and 2013. GDP growth is set to rise just 0.1% in 2012 (against 1.0% in the previous forecast) and 1.7% in 2013 (down from 2.4%).

The revisions also have an unfavourable effect on the labour market outlook, with employment set to rise more slowly, resulting in a higher than expected rise in the unemployment rate, which is set to rise from 5.7% in 2011 to 6.2% in 2012 and to 6.8% in 2013. Pressure on wage costs will become stronger and nominal wages will grow more slowly, by just 2.9% on average per year in 2012 and 2013 (i.e. a downward revision of 0.7 percentage points for each year).

The public deficit forecast for 2012 (1.8% of GDP) remains unchanged, but the 2013 deficit is expected to worsen by 0.4 percentage points compared to the last forecast, reaching 3.2% of GDP (excluding policy changes, i.e. excluding cost-saving measures included in the stability and convergence programme).

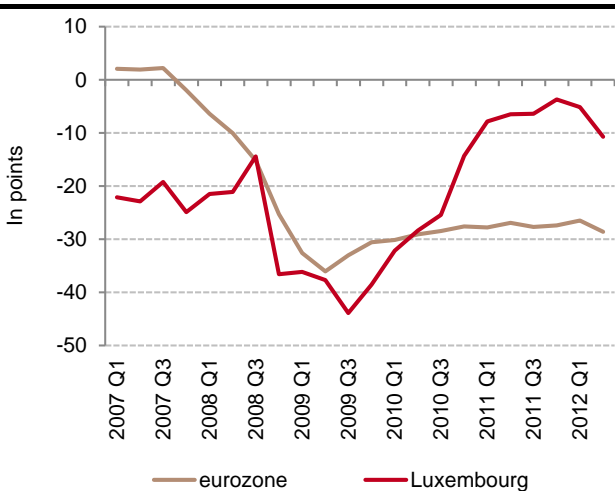
**STATEC**  
Luxembourg

**Manufacturing****Downbeat forecast****Confidence indicator in manufacturing**

Source: European Commission

Luxembourg manufacturers have displayed much more pessimism in the opinion surveys for the 2<sup>nd</sup> quarter. All survey variables were affected, namely output trends, order books, inventory levels (deemed too high) and employment prospects. Price expectations, which were trending upwards in the 1<sup>st</sup> quarter, have also suffered a reversal – or at the very least a slackening – in output prices.

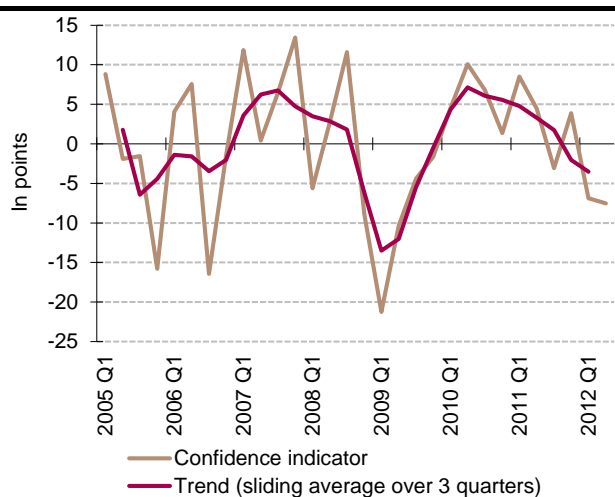
Opinions slumped considerably in April and May. The results for June were a little better but the recovery remains to be confirmed and nothing in the current climate points to a firming up of demand for manufactured goods in the short term. In any case, the confidence indicator seems to have fallen much further in Luxembourg in the 2<sup>nd</sup> quarter than for manufacturers elsewhere the eurozone.

**Construction****Downturn confirmed****Confidence indicator in construction**

Source: European Commission

As with manufacturing, the confidence indicator among construction companies took a nosedive in the 2<sup>nd</sup> quarter. The reversal already observed in the 1<sup>st</sup> quarter was thus largely confirmed, even though opinions remained high overall, particularly when compared with the rest of Europe.

Output fell 10% in the first four months of 2012 compared to 2011. This fall is due in part to the exceptionally low output levels in February 2012 (down 21% over one year), when activity was constrained by temperatures well below normal for the season. However, in April 2012 (the most recent output data available) there was another fall of 10% over one year and this time, climate conditions are much less likely to have affected activity, pointing to a true cyclical slowdown.

**Wholesale and retail trade****Contrasting trends in retail****Confidence indicator**

Sources: Chamber of Commerce, STATEC

Luxembourg retailers seem to share the prevailing pessimism. The opinion survey carried out among retailers shows that opinions have slumped since early 2011, a trend that has intensified in 2012. While it is true that this type of data can be highly volatile from one quarter to another, the underlying trend is unquestionably down.

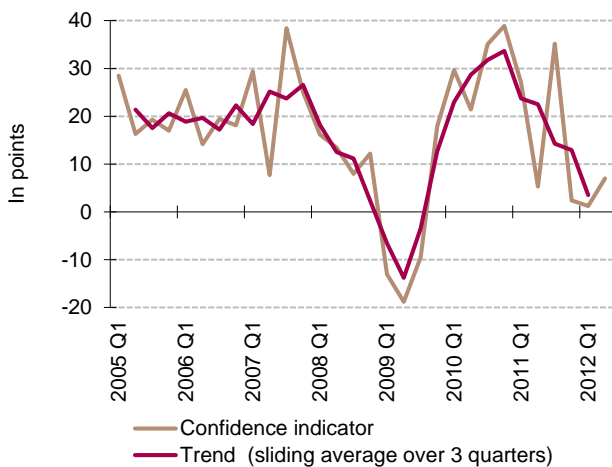
However, data relating to turnover in the retail trade – excluding fuel and mail-order sales – were relatively encouraging in early 2012 (up 1.3% in volume terms on 2011 in the first four months of the year). This trend is somewhat surprising given that consumer confidence has fallen significantly since mid-2011.

New car registrations bounced back in June, substantially making up for the disappointing figures in April and May. Over the first 6 months of 2012, new car registrations grew 0.2% as compared to last year (whereas, at the end of May, they were still trailing by 2.6%).

## Non-financial services

## Minimum service

## Confidence indicator



Sources: Chamber of Commerce, STATEC

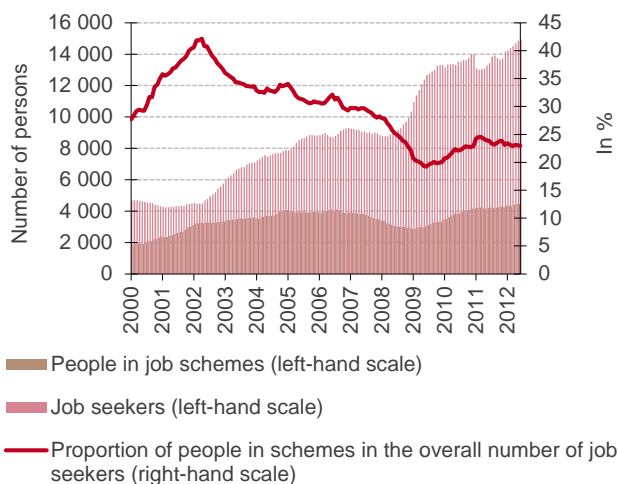
In non-financial market services, only services provided mainly to businesses showed favourable momentum in early 2012, in terms of both turnover and employment (with the exception of temporary employment companies). This is particularly true for services in legal, accounting and management consultancy activities. Otherwise, the general trend was for a downturn or slowdown in activity.

This deterioration was reflected in the confidence indicator for non-financial services companies (hotel & catering, transport and communications, property, rental and business services). Apart from short-term developments, this indicates a worrying trend that dates back to 2011. The last time this indicator peaked in the eurozone was in the 1<sup>st</sup> quarter of 2011, and the trend noted since then has been globally in line with the figures for Luxembourg.

## Labour market

## Slight rise in assisted jobs

## Job seekers and people in job schemes



Sources: ADEM, STATEC (seasonally adjusted figures)

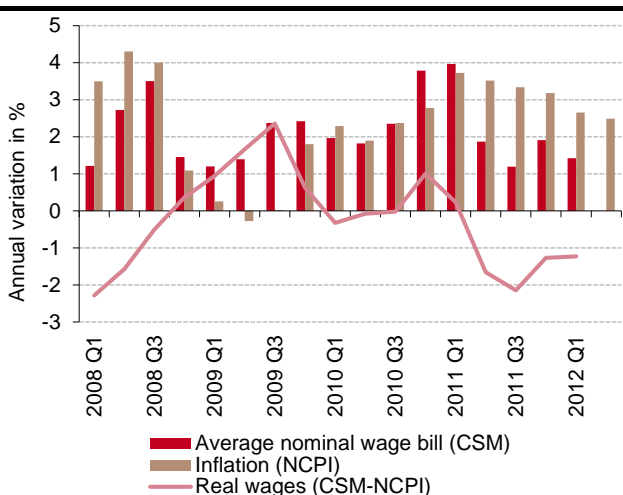
Faced with the upswing in unemployment, the number of people on government-assisted job schemes has also risen. However, as the rise in these is lower than the number of job seekers, their share in the overall number of registered job seekers is falling. Taking into account both job seekers and people in job schemes (i.e. not counted as job seekers), the numbers were at a record 7.9% of the working population in June 2012 (compared to an official unemployment rate of 6.1%).

'Special schemes' is still the mechanism that is used the most. Over the last two years, however, schemes aimed at young people saw the strongest growth. Comparing trends for persons in job schemes during the recent crisis to those at the start of the millennium reveals that schemes currently absorb fewer job seekers than ten years ago (see NDC No. 2-12). This is especially true of training schemes and other schemes for adults, as the take-up of schemes for young people has been as high as before.

## Inflation and wages

## Real wages fall

## Nominal and real wages



Source: STATEC, quarterly national accounts

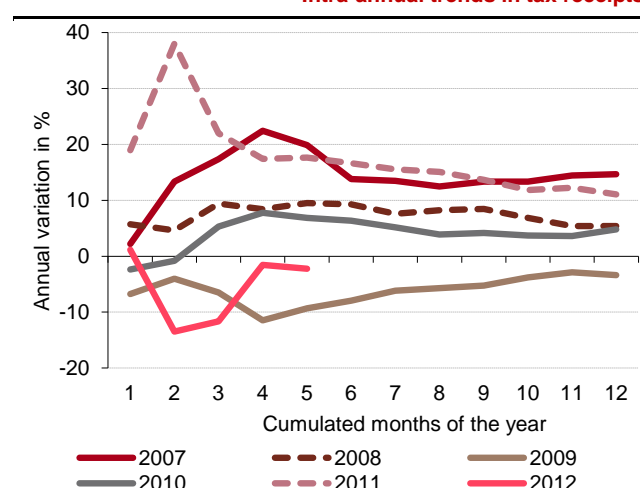
Nominal wage growth has been slowing in 2012 (up 1.4% in Q1 2012). As this growth is lower than consumer prices, this means that real wages have fallen. A similar drop was observed in 2008, but at the time this was mainly due to high inflation, whereas in 2012 it reflects more of a slowdown in nominal wages. In fact, over the entire period between 2006-2012 wages have almost stagnated in real terms.

Following the change in automatic index-linked pay rises, the sliding wage scale has risen more slowly than inflation, even though the latter has also slowed (2.4% in 2012 on average after 3.4% in 2011). However, wage growth – excluding index-linked adjustments – is also limited. Bonuses and gratuities have stagnated since the first few years of the crisis, despite being inflated by the redundancy payments that went hand-in-hand with job cuts. Faced with nominal wage rigidities, this can be seen as a gradual adjustment of wages to the loss of productivity in the Luxembourg economy.

## Public finances

## Tax receipts down

Intra-annual trends in tax receipts



Sources: Tax authorities, STATEC (NDC 2-2012)

## Trend chart

	Oct-11	Nov-11	Dec-11	Jan-12	Feb-12	Mar-12	Apr-12	May-12	Jun-12	Average over the last three months	Same period previous year
Annual variations in %, except where otherwise indicated											
<b>Activity</b>											
Industrial output per working day, in volume	-5.2	-11.2	-13.8	-10.3	-11.2	0.6	-5.8	...	...	-5.3	-0.2
Construction output per working day, in volume	-6.2	-3.1	24.9	-5.2	-21.5	-3.4	-10.0	...	...	-11.4	5.4
Turnover by volume of total retail trade	1.0	0.6	4.0	-0.9	3.5	3.1	-0.4	...	...	2.0	2.4
<b>Prices, wages</b>											
Consumer price index (NCPI)	3.4	3.6	3.2	2.9	3.0	2.7	2.7	2.5	2.5	2.6	3.6
Underlying inflation	2.3	2.4	2.4	2.1	2.3	2.1	2.1	2.0	2.2	2.1	2.5
Oil product index	16.0	18.0	12.9	12.7	12.4	8.9	9.0	7.9	5.2	7.4	16.7
Industrial producer price index	10.0	9.7	7.5	5.3	4.4	3.7	2.5	3.1	...	3.1	10.4
Construction price index <sup>1</sup>	3.2	3.2	3.2	...	...	...	...	...	...	3.2	1.2
Average wage bill, per person (National accounts)	1.9	1.9	1.9	1.4	1.4	1.4	...	...	...	1.4	4.0
<b>Foreign trade</b>											
Exports of goods (volume)	-6.9	-2.8	1.5	-10.8	-9.5	-12.8	-12.1	...	...	-11.5	11.9
Imports of goods (volume)	33.0	-4.7	-5.9	11.9	9.9	5.9	21.5	...	...	12.2	2.1
<b>Employment, unemployment</b>											
Domestic number of employees	2.4	3.0	3.1	2.9	2.8	2.6	2.1	2.0	2.1	2.1	2.9
National employment	2.1	2.6	2.5	2.5	2.5	2.6	2.2	2.2	2.4	2.3	2.5
Unemployment rate (% of working population, seas. adj.)	5.7	5.7	5.9	5.9	5.9	6.0	6.0	6.1	6.1	6.1	5.6

Source: STATEC

Data pink coloured are estimates

<sup>1</sup> 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	0.2	0.1	-0.3	0.0
Luxembourg - Growth in volume of GDP (STATEC)	1.5	-0.4	-0.3	1.7	0.1	-1.5
	Annual variation in %					
	2008	2009	2010	2011	Forecast 2012	Forecast 2013
Luxembourg - Growth in volume of GDP (STATEC)	0.8	-5.3	2.7	1.6	0.1	1.7
PIB en valeur 2011: 42 822 Mio EUR Minimum monthly salary (since 01/01/2011): EUR 1 801.49 Current account balance (2011 - 4 <sup>th</sup> quarter): EUR 749 million Resident population (01/01/2012): 524 853						
Consumer price index (May) - base January 1 <sup>st</sup> 1948: 804.70 Half-yearly average of the index linked to base as at January 1 <sup>st</sup> 1948: 801.52 Estimated deadline for next salary indexation: 4 <sup>th</sup> term 2012						

## Central office for statistics and economic data

Tel: 247-84219 13, rue Erasme  
 info@statec.etat.lu B.P. 304  
 www.statistiques.lu L-2013 Luxembourg

## For further information:

Pascale Armstrong  
 Tel. 247-84234  
 E-mail: Pascale.Armstrong-Pax@statec.etat.lu

Véronique Sinner  
 Tel. 247-84228  
 E-mail: Veronique.Sinner@statec.etat.lu