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Monthly publication of the state of the Luxembourg economy

STATEC

Institut national de la statistique
et des études économiques

Eurozone: GDP falls in the 2nd quarter

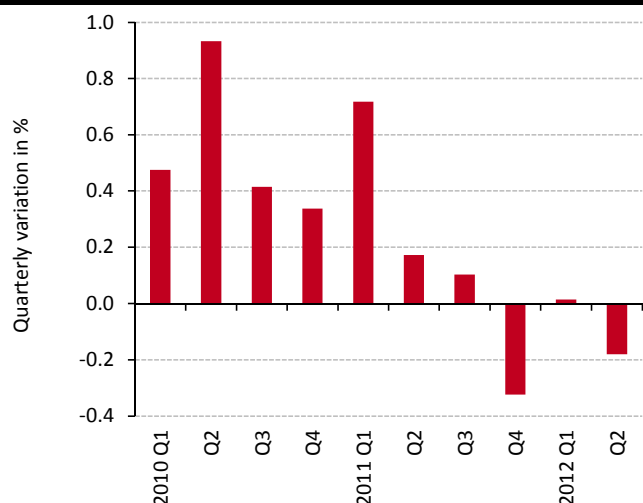
After stabilising in the 1st quarter of 2012, eurozone GDP again contracted in the 2nd quarter (down 0.2% on the previous quarter). Although the eurozone is not strictly speaking in a technical recession – which would require two consecutive quarters of falling GDP – it is well on the way. The cyclical indicators available at the start of the 3rd quarter hold out little hope of escaping a further drop in GDP in the next quarter.

Domestic demand weak

The strength of Germany's figures continues to surprise, rising 0.3% despite the fact that opinion surveys have taken a distinctly worrying turn in recent months. This means that a downward correction in German GDP next quarter cannot be ruled out. France had to content itself with stagnation – for the third quarter in a row – which is quite comforting all the same, given the dreadful results in most other eurozone countries. Italy and Spain, the third and fourth largest economic powers in the eurozone, remain in recession for the 4th and 3rd quarter in a row respectively.

The exact breakdown of GDP components in the eurozone will not be published until early September but it is highly likely that domestic demand will make a negative contribution as a number of elements point to this. Firstly, austerity measures are weighing on household consumption, especially in southern countries, as can be seen in retail sales, which fell 0.7% in volume in the 2nd quarter (-2.0% in Spain, -1.6% in Greece, -1.3% in Portugal and -1.0% in Italy). France also revealed a 2.0% drop in private consumption in the 2nd quarter. Secondly, the sharp slump in confidence among business owners in the 2nd quarter will have an impact on investment, particularly in Germany, where gross fixed capital formation is, as in the 1st quarter, reportedly down.

Eurozone GDP



Source: Eurostat

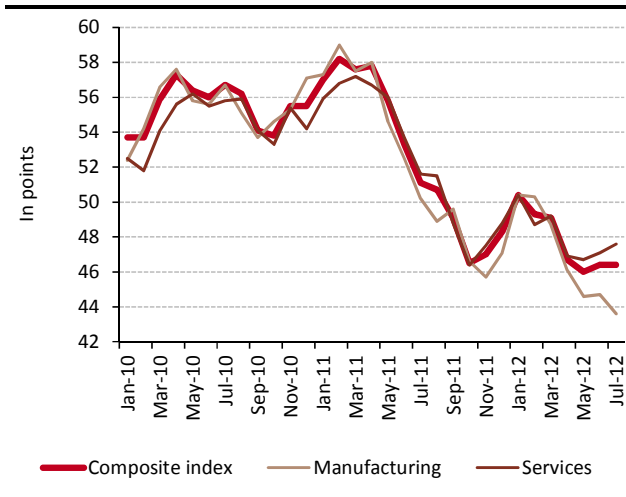
Third-quarter prospects not encouraging

The results of the opinion surveys available for July show overall a deterioration or at best (low-level) stagnation. While European stock exchanges seem to have reacted relatively positively to the announcement of the European summit on June 29th (marking a step towards debt mutualisation, the terms of which have yet to be defined), opinions among consumers and business owners do not seem to have followed this turnaround. Unless there is an exceptional rise in August and September, the data gathered to date points to a GDP falling again in the 3rd quarter.

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Eurozone Leading indicators at lowest point

PMI indices for the eurozone



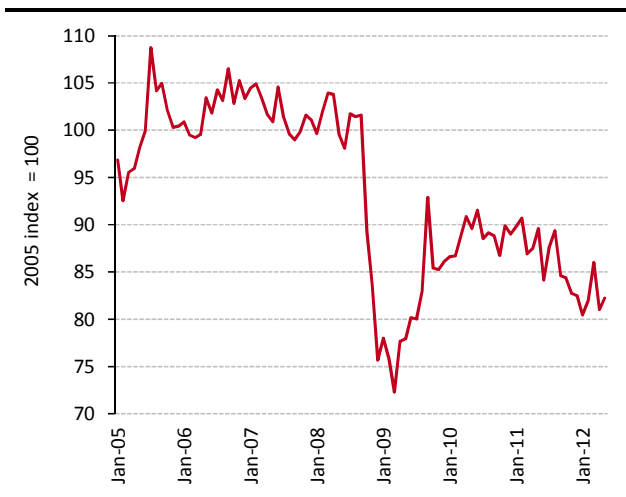
Source: Markit Economics

Most leading economic indicators for the eurozone show that activity fell again in July. Most of the indicators fell in April and May and have not really taken off since then. The fall in eurozone GDP in the 2nd quarter of 2012 had been widely heralded by the PMI indicator (the purchasing managers' index, see Conjoncture Flash for June 2012), which stayed low in July (46.4), in line with a repeated contraction in GDP in the 3rd quarter (the 50-point level marks the threshold between expansion and contraction).

Two new phenomena seem to be emerging from surveys carried out in recent months. Firstly, German business owners, who until now were relatively spared the almost universal depression in Europe, are now much more pessimistic. Secondly, both the manufacturing and services sectors are trending negatively. Both these points are obviously related, as Germany is strongly focused on manufacturing (in 2011, Germany accounted for 27% of eurozone GDP and 36% in terms of added value in manufacturing).

Manufacturing No improvement in sight

Output per working day



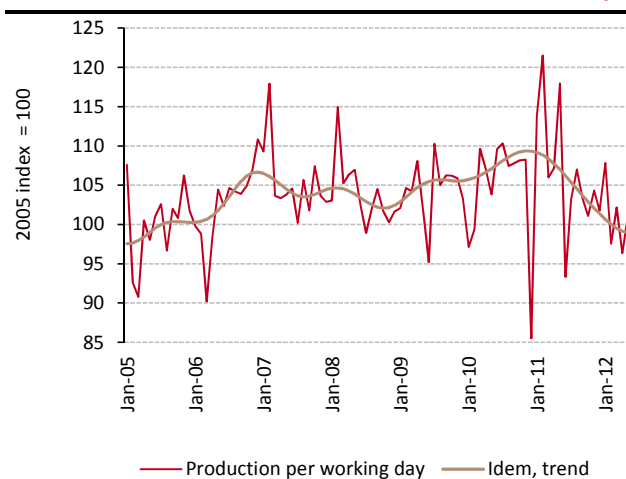
Source: STATEC (Activity survey, seasonally adjusted)

Industrial output in Luxembourg grew slightly in May, up 1.5% on April. This timorous recovery was mainly due to growth posted in the manufacture of metal products and that of machinery and equipment. However, after the almost continuous fall observed in 2011, the general trend is sluggish.

Opinion surveys carried out in June and July 2012 hold out no hope of any significant improvement in output figures over the short term – after rising in June, the confidence indicator among manufacturers fell again in July – but they do indicate that the worst should be over. Nevertheless, coming up to the middle of the year, manufacturing output volumes remained at about 20% below pre-crisis levels (2006-2008).

Construction Persistent decline

Construction output



Source: STATEC (Activity survey, seasonally adjusted)

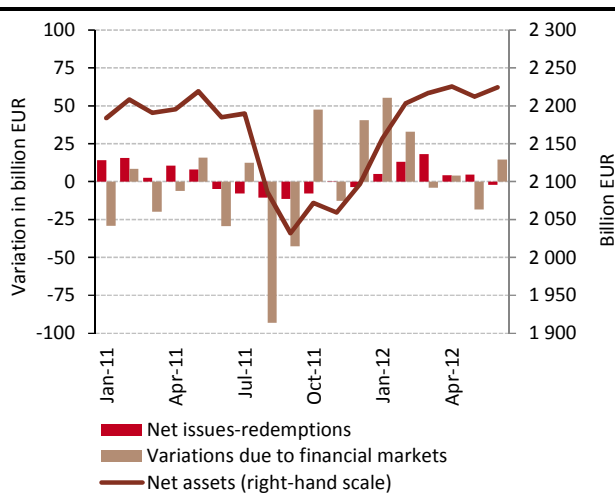
Construction output rose 5.2% in May (after falling 5.7% in April), but not enough to reverse the downward trend that started in 2011. Opinions among business owners in the sector, as indicated in the economic survey, were significantly down in April and May, and hold out absolutely no hope of any extraordinary output figures for the 2nd quarter.

After stagnating in June, the confidence indicator in construction slumped again in July (falling from -12 to -18 points). Apart from opinions on the status of order books, which were very slightly up, all other variables in the survey were severely hit, in particular the outlook for employment trends and for asking prices.

Financial sector

UCIs: A stagnant 2nd quarter

Undertakings for collective investment



Source: CSSF

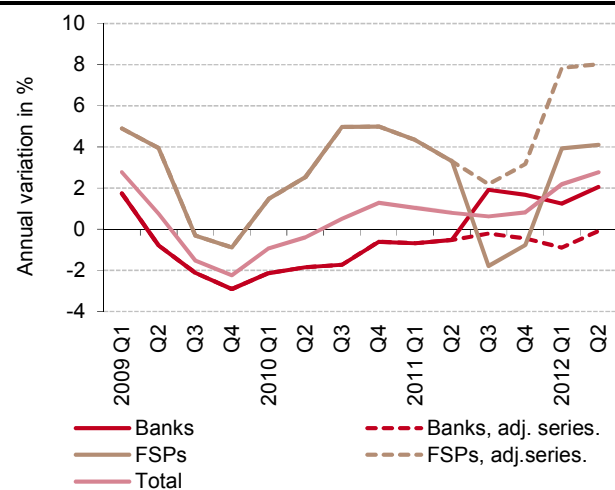
After a very satisfactory performance in the 1st quarter of 2012, Luxembourg UCIs fell back from April to June. Over the 2nd quarter as a whole, net capital investment (issues less redemptions) was just EUR 7 billion, against 36 billion the previous quarter. In a sluggish financial environment at the start of the 2nd quarter, market variations had little impact on changes in net assets. However, the financial markets benefitted from a more favourable climate from June onwards, and this seemed to last into July and August: the Eurostoxx50, a European benchmark index, regained some 20% from early June to mid-August, suggesting better results for UCIs into the 3rd quarter.

The improvement in the financial environment can also be seen in the confidence indicator in financial services (drawn up by the European Commission for the eurozone), which rose again in July after falling for four months in a row.

Labour market

Employment in finance remains dynamic

Employment in the financial sector



Source: BCL (FSP = financial sector professionals)

Although total paid employment continued to slow down around the middle of the year, employment in the Luxembourg financial sector has remained dynamic.

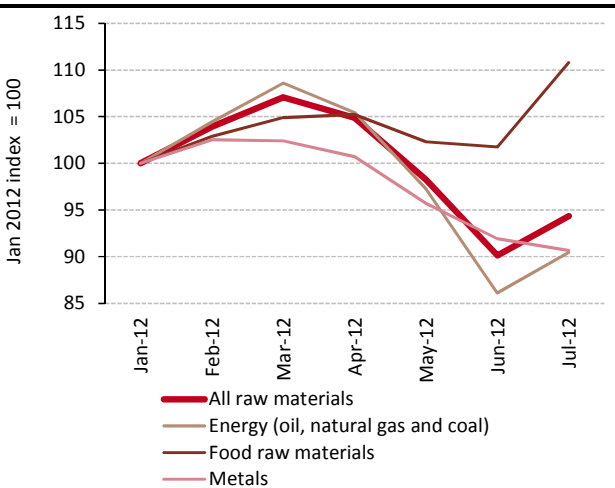
Thus, the Central Bank counted 41,492 employees in credit institutions and financial sector professionals (FSP) in June 2012, 1,120 (or 2.8%) more than a year ago. Taking into account the case of a bank which integrated personnel who had previously worked for one of its subcontractors (see series adjusted in the graph opposite), this momentum comes entirely from financial sector professionals (up 8.0% over one year in the first two quarters), as banks continue to pare back their workforce for the thirteenth quarter in a row (down 0.1% over one year in the second quarter, after falling 0.9% in the first quarter).

The slowdown in total paid employment (up 2.2% over one year in the 2nd quarter of 2012, according to STATEC estimates, after rising 2.8% in the first quarter) was mostly in manufacturing and construction and in services linked to these sectors such as temporary employment and transport.

Price

Diverging trends in raw materials

Prices of raw materials



Source: IMF

The prices of foodstuffs have been trending significantly upwards since July. This phenomenon mainly affects cereal prices and seems to be due to the low agricultural yields this year caused by droughts in the US and Eastern Europe, etc.

Energy prices are also rising, pushed up by the recent upswing in oil prices.

On the other hand, metal prices continue to fall: the low level of construction activity – dating back a number of years in Europe and the US and more recently in China, where the sector is slowing significantly – is one of the main reasons why demand for metals is so sluggish.

These developments are likely to have more impact on inflation in the coming weeks than consumer items such as food and fuel. On the other hand, industrial product prices are expected to remain moderate (all the more so in Luxembourg, where metals and the manufacture of metal products have a considerable weighting).

International trade

Trade in goods falls in the eurozone

Goods trade inside and outside the eurozone



Source: Centraal Planbureau (www.cpb.nl)

The global trade volume indicator calculated by Centraal Planbureau, the Netherlands Bureau for Economic Policy, grew significantly in May (up 2.5% after falling 0.8% in April). This recovery, however, was mostly due to emerging countries, particularly in Asia. The volumes traded in advanced economies rose to a lesser extent but continue to trend downwards in the eurozone.

In the eurozone, there is a growing discrepancy between exports and imports of goods. While it is true that the sharp drop in imports improves the trade balance, it also reflects the weakness of private consumption. This phenomenon is due in no small part to the more restrictive budgetary policies implemented since 2010, whereas in 2009 imports were standing up better than exports to economic support measures.

Trend chart

	Nov-11	Dec-11	Jan-12	Feb-12	Mar-12	Apr-12	May-12	Jun-12	Jul-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	-8.1	-8.5	-11.0	-10.0	-0.3	-7.6	-7.7	...	...	-5.2	-1.6
Construction output per working day, in volume	-3.1	25.2	-5.3	-21.5	-3.3	-9.9	-13.3	...	...	-8.9	3.0
Turnover by volume of total retail trade	0.6	4.0	-0.9	3.5	3.1	-3.9	-1.7	...	...	-0.9	3.3
Prices, wages											
Consumer price index (NCPI)	3.6	3.2	2.9	3.0	2.7	2.7	2.5	2.5	2.5	2.5	3.3
Underlying inflation	2.4	2.4	2.1	2.3	2.1	2.1	2.0	2.2	2.2	2.2	2.3
Oil product index	18.0	12.9	12.7	12.4	8.9	9.0	7.9	5.2	5.5	6.2	15.7
Industrial producer price index	9.7	7.5	5.3	4.4	3.7	2.5	3.1	...	...	3.1	10.4
Construction price index ¹	3.2	3.2	3.0	3.0	3.0	2.9	2.9	2.9	...	2.9	2.7
Average wage bill, per person (National accounts)	1.9	1.9	1.4	1.4	1.4	...	...	...	...	1.4	4.0
Foreign trade											
Exports of goods (volume)	-1.6	2.5	-8.8	-7.8	-11.4	-11.3	-14.5	...	...	-12.4	9.1
Imports of goods (volume)	-4.7	-7.3	-2.7	-0.1	6.9	-3.1	5.9	...	...	3.4	-4.4
Employment, unemployment											
Domestic number of employees	3.0	3.1	2.9	2.8	2.6	2.0	2.3	2.2	1.9	2.1	3.0
National employment	2.6	2.5	2.5	2.5	2.5	2.1	2.4	2.4	2.1	2.3	2.5
Unemployment rate (% of working population, seas. adj.)	5.7	5.9	5.9	5.9	6.0	6.0	6.1	6.1	6.2	6.1	5.7

Source: STATEC

Data pink coloured are estimates

¹ Estimations based on half-yearly data

Indicators

	Variation on previous quarter in %					
	2011 Q1	2011 Q2	2011 Q3	2011 Q4	2012 Q1	2012 Q2
Eurozone- Growth in volume of GDP (European Commission)	0.7	0.2	0.1	-0.3	0.0	-0.2
Luxembourg - Growth in volume of GDP (STATEC)	-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 (2012 - 1 st quarter): EUR 914 million Resident population (01/01/2012): 524 853						
Consumer price index (July) - base January 1 st 1948: 796.81 Half-yearly average of the index linked to base as at January 1 st 1948: 802.98 Estimated deadline for next salary indexation: 4 th term 2012						

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