

CONJONCTURE FLASH | SEPTEMBER 2012



Monthly publication of the state of the Luxembourg economy

STATEC

Institut national de la statistique
et des études économiques

Confidence lacking

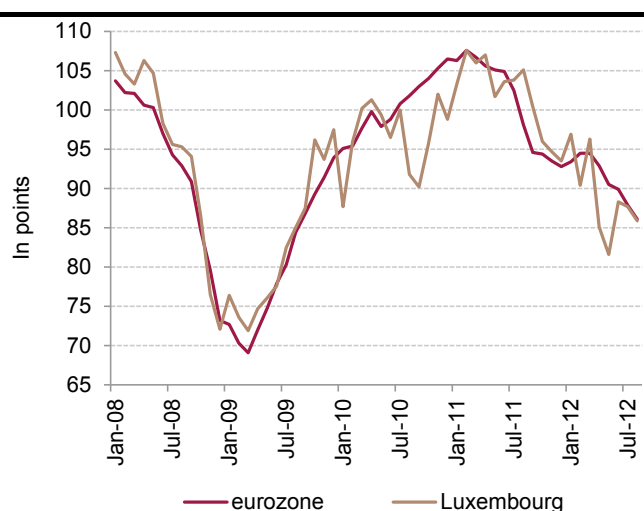
The economic outlook as revealed by economic surveys carried out over the summer is marked by gloominess and point to a recessionary climate. While the financial markets seemed to have responded relatively well to the decisions made at European level, these effects have not yet filtered down to the real economy.

A depressing summer...

Business and consumer confidence in the eurozone fell again during the 3rd quarter of 2012. The Economic Sentiment Indicator (ESI) calculated by the European Commission fell sharply in July and August. All components in this indicator, which combines the results of opinion surveys carried out among business owners (in manufacturing, construction and services) and households (consumers), were affected by the slump in confidence over the summer. The September ESI is not yet available but other cyclical indicators already published for this month are disappointing overall. This is the case, for example, for the PMI (purchasing managers' index) in the eurozone, which fell again and which reveals a contraction in GDP over the 3rd quarter as a whole, like the previous quarter. The eurozone's slip into recession is expected to be confirmed when the 3rd quarter GDP figures are published (flash estimate due on 15 November). German economic surveys also available for September show mixed results, better in the case of the PMI and ZEW indices but less favourable for the IFO index.

In Luxembourg, the underlying trend for the ESI was down at the end of August. The index recovered somewhat in June, boosted by better prospects for Luxembourg manufacturers but this improvement was not confirmed thereafter – on the contrary in fact. However, it should be noted that in Luxembourg, the ESI does not include economic surveys carried out among services businesses. Moreover the survey of this sector carried out by the Chamber of Commerce and STATEC indicates an improved outlook over the last few months.

Economic Sentiment Indicator (ESI)

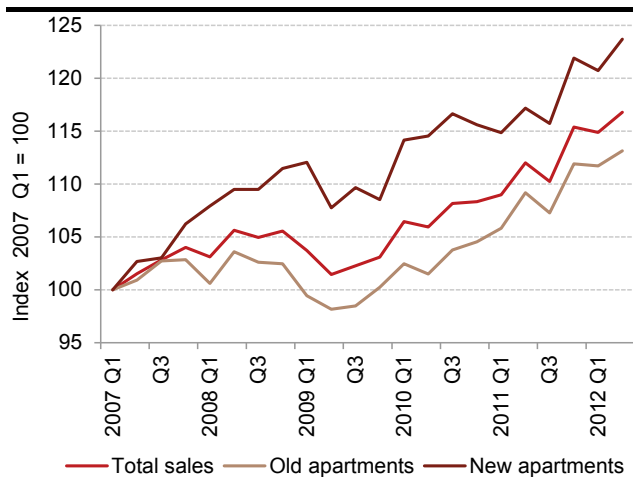


Source: Eurostat

... but a ray of sunshine on the markets

Contrasting with the gloom revealed in the opinion surveys, the international financial environment benefited from a calmer climate over the 3rd quarter. The measures announced at the European Summit of 29 July – including the formation of a banking union for the eurozone and a change in tone as regards the pooling of debt – have, it would seem, partially reassured investors. Another step was taken on 6 September with the ECB's unveiling of the sovereign debt bond-buying programme (Outright Monetary Transactions). This turnaround also seems to have been welcomed by the markets: the government bond rates of Member States in southern Europe fell back sharply and equity market indices saw bank stocks rally significantly. In the United States, the Federal Reserve announced a new wave of quantitative easing on 13 September, which had a significant notable on US indices. It remains to be seen whether this improvement in the financial environment will last – the last one was only 4 months long in Europe, from December 2011 to March 2012 – and to what extent it might have any positive impact on the real economy.

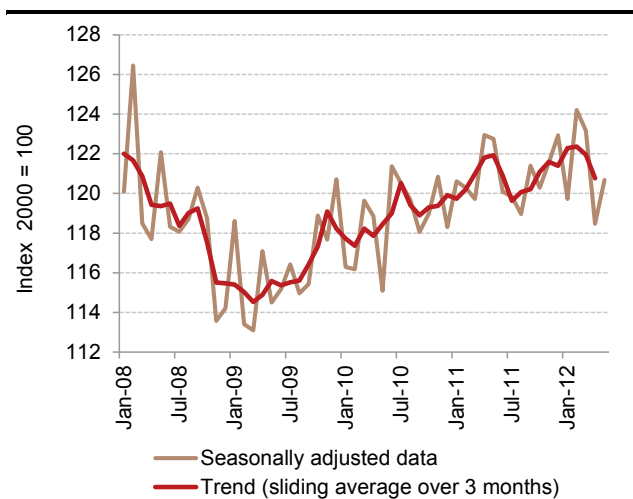
STATEC
Luxembourg

Real Estate**Apartment sales hold up well****Asking prices for apartments**

Sources: Land Registration and Estates Department, STATEC

Apartment sales in Luxembourg continue to show a certain momentum. After a pause in the 1st quarter (in terms both of prices and of transaction volumes), the statistics for the 2nd quarter show that the popularity of this type of asset remains high. In terms of volume, 967 units were sold (up 15% on the 2nd quarter of 2011), a record for this time of year, for both new builds and older properties. Asking prices largely share this upward trend, rising 4.3% on average over one year (up 1.7% over one quarter).

In fact, the sluggish cyclical trend in early 2012 – with activity down and unemployment up – does not seem to be having a negative effect on the apartment property market. In contrast, rental prices for both houses and apartments fell at the turn of the year 2011-2012 (Source: Observatoire de l'habitat), but rose again in the 2nd quarter.

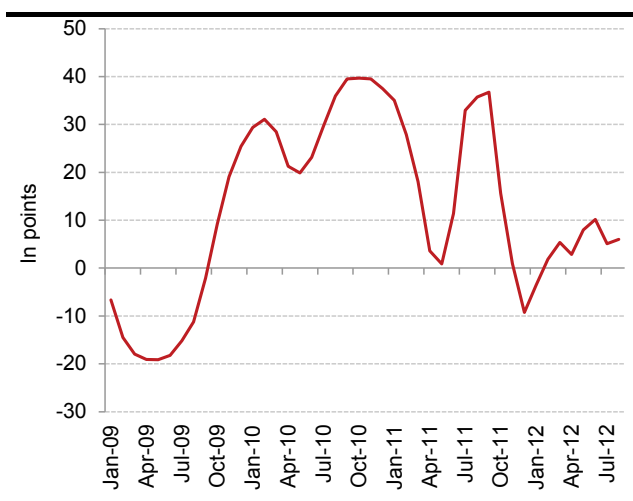
Consumption**Negative signals****Turnover volumes for retail trade**

Source: STATEC (excluding fuel and mail-order sales)

The volume of retail sales fell in April and May 2012 (down 3% on 2011 over the two months). While it is true that these are provisional figures and therefore subject to revision, this unfavourable trend may mark a cyclical downturn after the relatively satisfactory results from mid-2011 to early 2012.

The confidence indicator for retail businesses (based on the joint economic survey carried out by the Chamber of Commerce and STATEC) fell sharply in June and remained low until August, which suggests that the summer period was not satisfactory in terms of sales.

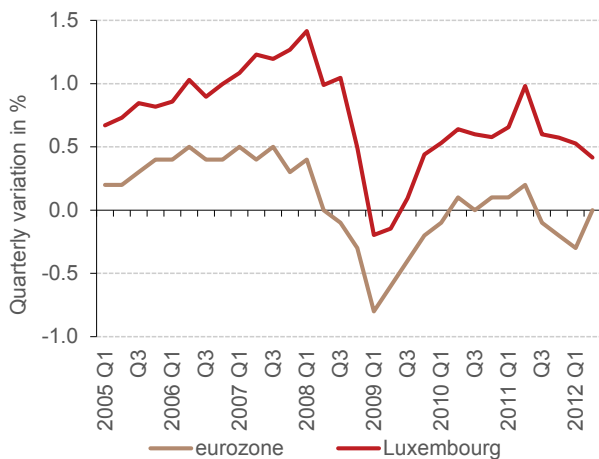
Another negative signal for household consumption was new car registrations, which fell 6% in July-August compared to last year. This may have been due to the very good volumes of new car registrations in June or it may point to a trend reversal.

Non-financial services**Recovery remains tentative****Confidence indicator in non-financial services**

Sources: Chamber of Commerce, STATEC

The economic survey in the services sector carried out jointly by the Chamber of Commerce and STATEC reveals that the business climate has recovered somewhat, at least in non-financial services (excluding trade), where the confidence indicator has been trending upward since January, in contrast to the eurozone trend.

However, the confidence level reached by end-August (6 points) remains below its long-term average (16 points), reflecting a difficult economic climate all the same. Turnover figures, available only up to May 2012, show very contrasting trends depending on service type. Trends in business services remain favourable on the whole (except for temporary employment companies), as do postal and telecommunications services. Turnover in transport services, on the other hand, has been trending downward since mid-2011.

Employment**Employment in the eurozone no longer falling****Total domestic employment in Europe and Luxembourg**

Sources: Eurostat, STATEC (national accounts - seasonally adjusted)

According to Eurostat estimates, 223.4 million people in the eurozone were in employment in the 2nd quarter of 2012, almost the same as in the 1st quarter (223.1 million). This is a positive trend given the falls in the past quarters (-0.3%, -0.2% and -0.1% respectively over the previous three quarters).

This recovery came mostly from a less marked fall in employment in southern European countries (Italy, Spain and Portugal). Italy's contribution to job creation in the eurozone in the 2nd quarter, with 136,700 new jobs over one quarter, was particularly significant. It is followed by Germany (up 92,000) and Austria (up 10,700), despite the fact that, like in Luxembourg, employment has continued to slow in these countries.

This more favourable trend in the 2nd quarter of 2012 was due to new jobs in professional, scientific, technical and administrative activities and in trade, transport and hotel & catering and also to an easing of the fall in construction employment.

Unemployment**Unemployment recedes very slightly in August****Unemployment in Luxembourg**

Sources: ADEM, STATEC (seasonally adjusted)

In August 2012, the number of jobseekers registered with ADEM dropped 0.03% over one month, according to seasonally adjusted figures. Despite the continuing slowdown in employment in Luxembourg, this drop was reflected in a fall in the unemployment rate, from 6.2% in July to 6.1% in August according to seasonally adjusted figures.

This favourable unemployment trend is, however, offset by the relatively sharp hike in the number of jobseekers registered the previous month (up 1.18% over one month in July 2012), suggesting that this may be a simple catch-up rather than a sustainable reversal in unemployment. Unemployment is set to continue to rise over the next few months given the sluggishness in activity, the ongoing slowdown in job creations and discouraging employment prospects as revealed by economic surveys in recent months.

Price**Black gold and yellow gold weigh on inflation****The most significant contributors to inflation in 2012**

Rank	Expenditure items	Annual variation in %	Contrib. in % points	Relative contrib. in %
1	Gasoline	8.1	0.25	9.5
2	Liquid fuels	11.6	0.16	5.9
3	Petrol	7.2	0.15	5.5
4	Mains gas and natural gas	10.0	0.13	5.0
5	Jewellery	28.7	0.12	4.5
6	Retirement and care homes	2.8	0.11	4.2
7	Transport-related insurance	7.8	0.10	3.8
8	Eating in restaurants	2.7	0.09	3.4
9	Maintenance and reparations	2.6	0.06	2.3
10	Rent for apartments	1.6	0.06	2.3
General index		2.7	2.7	100.0

Source: STATEC (figures for the first 8 months of the year)

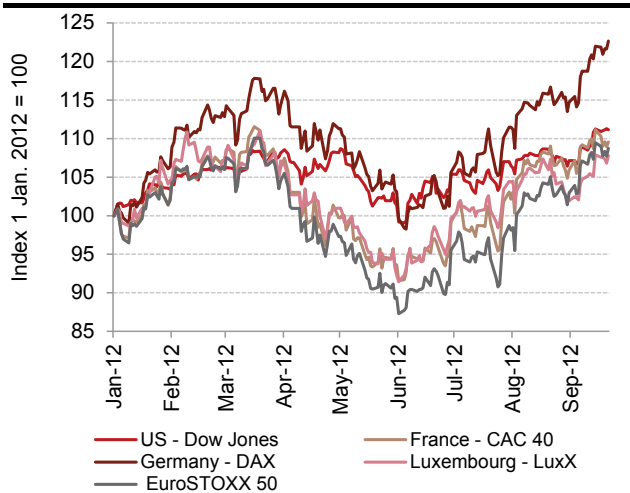
Over the first 8 months of 2012, consumer prices rose 2.7% compared to 2011. One of the main expenditure items contributing most to this inflation is oil products for domestic use or transport. These accounted for about a quarter of inflation this year and replicate with some delay the trend in oil prices, which have been at historically high levels since 2011. While oil prices fell back in the 2nd quarter of 2012, this movement was short-lived (and limited).

Another reason for the rise in inflation can be found in jewellery prices, driven up by the rise in the price of gold. Prices of transport-related insurance, which had remained particularly stable in recent years also rose significantly in 2012 due to the rise in civil liability rates.

Financial sector

Stock markets bounce back

Stock-market indices



Source: Macrobond (latest issue: 21 September 2012)

After a significant slump in the 2nd quarter, the leading European stock markets rose again over the summer. For example, the Eurostoxx 50 regained over 20% between early June and late September.

The equity markets seem to have been comforted by the decisions made at European level as regards the funding support policies for certain eurozone Member States. European indices, buoyed by bank stocks in particular, are bridging the gap that had formed with US indices. The trade-off between European and American prospects has also led to the euro gaining on the dollar (the USD/EUR exchange rate rose from USD/EUR 1.20 in late July to 1.30 in late September). Yields on the sovereign securities of peripheral eurozone countries have come down considerably, although they remain high in absolute terms and are symptomatic of the difficulties in financing public debt on the markets.

Tableau de bord

	Dec-11	Jan-12	Feb-12	Mar-12	Apr-12	May-12	Jun-12	Jul-12	Aug-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	-8.5	-11.1	-10.0	-0.2	-7.4	-8.0	-1.5	...	...	-5.7	-4.5
Construction output per working day, in volume	25.5	-5.4	-21.4	-3.2	-9.9	-13.4	6.4	...	...	-6.2	-1.0
Turnover by volume of total retail trade	4.0	-0.9	3.5	3.1	-3.9	-1.7	...	...	...	-0.9	3.3
Prices, wages											
Consumer price index (NCPI)	3.2	2.9	3.0	2.7	2.7	2.5	2.5	2.5	2.6	2.5	3.2
Underlying inflation	2.4	2.1	2.3	2.1	2.1	2.0	2.2	2.2	2.0	2.2	2.1
Oil product index	12.9	12.7	12.4	8.9	9.0	7.9	5.2	5.5	8.8	6.5	16.3
Industrial producer price index	7.5	6.0	5.3	3.7	2.5	3.1	4.5	2.6	...	3.4	6.1
Construction price index ¹	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	1.4	1.4	1.4	...	...	...	...	...	1.4	4.0
Foreign trade											
Exports of goods (volume)	2.5	-8.8	-7.8	-11.4	-11.3	-14.5	0.4	...	...	-8.7	2.5
Imports of goods (volume)	-7.3	-2.7	-0.1	6.9	-3.1	5.9	0.2	...	...	1.1	-5.8
Employment, unemployment											
Domestic number of employees	3.2	2.9	2.8	2.6	2.0	2.3	2.3	1.9	2.1	2.1	3.0
National employment	2.6	2.5	2.5	2.5	2.1	2.3	2.4	2.0	2.2	2.2	2.5
Unemployment rate (% of working population, seas. adj.)	5.9	5.9	5.9	6.0	6.0	6.1	6.1	6.2	6.1	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)	0.6	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 01/10/2012): EUR 1 846.51 Current account balance (2012 Q1): EUR 914 million Resident population (01/01/2012): 524 853						
Consumer price index (August) - base January 1 st 1948: 809.12 Half-yearly average of the index linked to base as at January 1 st 1948: 804.32 Estimated deadline for next salary indexation: 4 th term 2012						

Central office for statistics and economic data

Tel: 247-84219
 info@statec.etat.lu
 www.statistiques.lu

13, rue Erasme
 B.P. 304
 L-2013 Luxembourg

For further information:

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

Bastien Larue
 Tel. 247-84339
 E-mail: Bastien.Larue@statec.etat.lu