

CONJONCTURE FLASH | OCTOBER 2012



Monthly publication of the state of the Luxembourg economy

STATEC

Institut national de la statistique
et des études économiques

Growth blows hot and cold

Recently published growth figures give a rosier picture of the economic climate in early 2012, particularly in the financial sector. However, they also reveal worrying trends in other sectors and come with a negative outlook for the 3rd quarter. Growth forecasts for next year are also in doubt, with more pessimistic projections for the eurozone as a whole.

1st half-year of 2012 better than expected

GDP grew 0.4% in the 2nd quarter of 2012 (up 0.8% over one year). This result, together with the revised figures for the previous quarters, significantly improves the assessment of the economic situation in the first half of 2012.

On the one hand, growth in the 1st quarter was significantly revised upwards (up 0.1% in the 1st quarter, compared to a drop of 1.5% over one quarter in the previous version), due to much more favourable trends in added value in the financial sector, which rebounded 0.8% after slumping an alarming 8%. It should be noted first of all that this version of the quarterly accounts includes an annual adjustment process – traditionally carried out in October when the 2nd quarter accounts are published – which explains why there are more revisions than usual.

Moreover, the financial sector continued to perform well in the 2nd quarter of 2012 (up 2.8%). This state of affairs is naturally reassuring, as the financial sector accounts for about one quarter of added value in the Luxembourg economy and is a demand centre for the activity of other sectors.

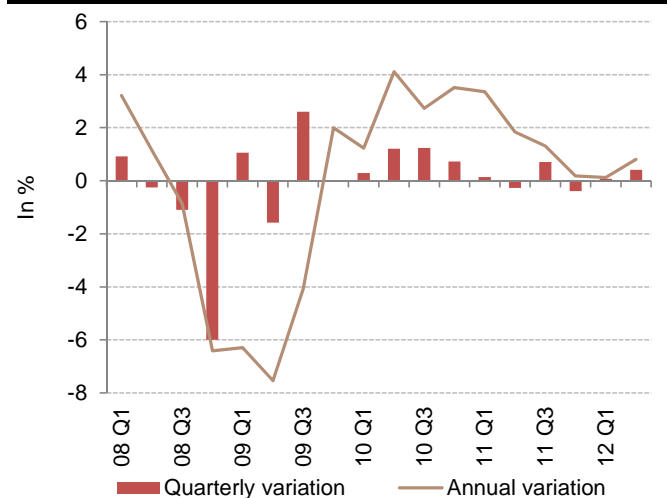
The figures currently available thus point to more favourable growth acquisition in 2012 (i.e. expected growth for the year as a whole if GDP stabilises at the same level as for the last known quarter). Growth acquisition is now at 0.4%, compared to -0.7% in the previous version of the accounts. While this revision is significant, in absolute terms the economy remains very far off the average growth rates in previous years (over 3% per annum from 2000 to 2010).

Clouded outlook

On the other hand, growth prospects are offset by other factors, both nationally and internationally.

Trends in added value in a number of branches of the Luxembourg economy were bearish at the end of the 1st half of the year. Manufacturing fell for the fifth quarter in a row in Q2 2012.

GDP in volume

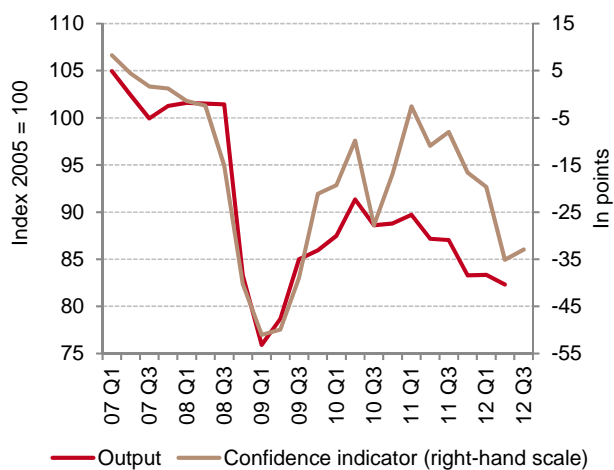


Source: STATEC

After stabilising in the last two quarters, construction returned to the bearish trend of 2011. Services in the trade, hotel and catering, transport and communications sectors fell sharply in Q1 and Q2. Added value in real-estate services, rental services and business services rose just 0.3% in the 2nd quarter, a considerable slowdown compared to the average rate of 1.8% seen in the three previous quarters. In addition to these poor results, opinion surveys carried out in the 3rd quarter in the manufacturing, construction and non-financial services sectors do not hold out any hope of an improvement in the short term.

Growth prospects for the eurozone have also been revised downwards, especially as regards 2013. The International Monetary Fund projections published in early October predict a 0.4% slump in eurozone GDP in 2012 (compared to -0.3% in their July forecast) and growth of just 0.2% for 2013 (instead of 0.7%). While the IMF does not rule out the possibility of the eurozone exiting the crisis – related to recent decisions made at European level – it points out that the impact of budgetary consolidation measures on European growth prospects will be worse than expected. This slower growth in the eurozone is of course a negative signal for the prospects of foreign demand for Luxembourg exports.

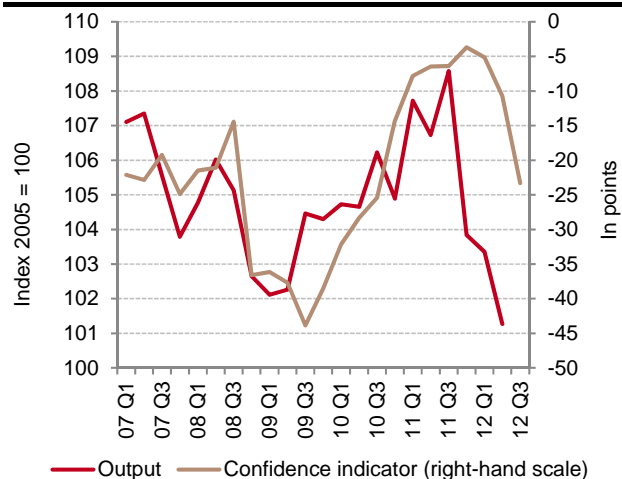
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Manufacturing**Bearish trend continues****Output and confidence in the manufacturing sector**

Source: STATEC

Industrial output in Luxembourg fell 1.4% in the 2nd quarter of 2012 (compared to the 1st quarter). This fall prolongs the bearish trend affecting this sector since the 2nd quarter of 2011. Over the 1st half of 2012 as a whole, the decline in output was mainly due to unfavourable trends in iron and steel and the manufacture of rubber products, and, more generally, there seems to be little buoyancy in any industry.

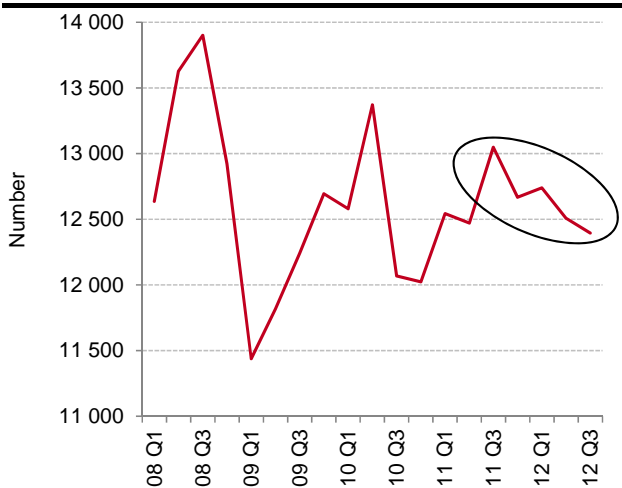
The prospects for the 3rd quarter are not particularly encouraging. Although the confidence indicator has risen slightly, this seems quite marginal after the sharp deterioration in this indicator in the 2nd quarter: the underlying trend remains bearish for the time being – as in the rest of the eurozone, particularly in Germany – and there is little likelihood of industrial output recovering in the 3rd quarter.

Construction**Negative signal in the 3rd quarter****Output and confidence in the construction sector**

Source: STATEC (smoothed output data)

Apart from its highly erratic profile, linked to exceptional meteorological conditions, output in the construction sector has been trending downward since end-2011. This relatively brusque downturn was largely unexpected, as opinion surveys carried out among businesses only started to reverse in the 2nd quarter of 2012.

The link between the results of economic surveys (opinions, i.e. qualitative data) and business surveys (output, i.e. quantitative data) is certainly less important (i.e. less significant) in construction than in manufacturing, but it is there nonetheless. In this case, the marked deterioration in construction business owners' opinions in the 3rd quarter of 2012 is a warning sign of what is to come.

Consumption**New car registrations stall****New car registrations**

Source: STATEC (seasonally adjusted figures)

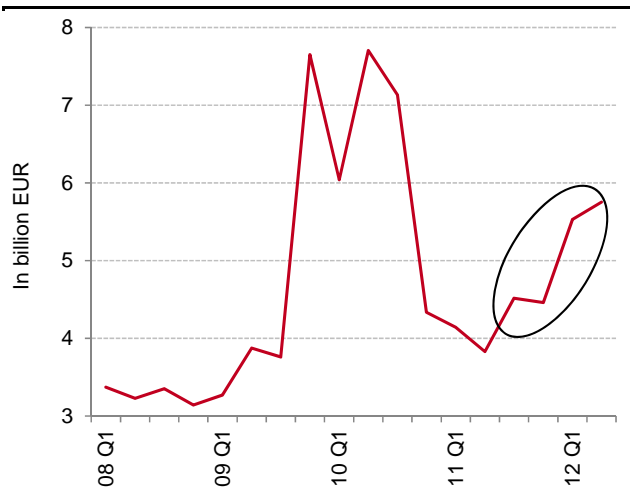
New car registrations in September (down 3.6% on September 2011) confirm the disappointing figures of July and August (see last month's Conjoncture Flash). The 3rd quarter saw new car registrations fall, continuing with the unfavourable trend that started in late 2011. Compared to last year, there was no dramatic shift in trends – over the first 9 months of the year, registrations fell just 1.3% on the previous year – but the figures do seem to point to a reversal in terms of household consumption.

Compared to Europe, where this indicator has fallen over 10% on 2011 levels (January to September), Luxembourg's performance is significantly above average. Three quarters of this drop in car sales can be attributed to Italy (down 20% over the same period), France (down 14%), Spain (down 11%) and Belgium (down 12%).

Financial sector

Confirmed growth in insurance

Insurance premium income



Source: Commissariat aux Assurances, STATEC (seasonally adjusted data)

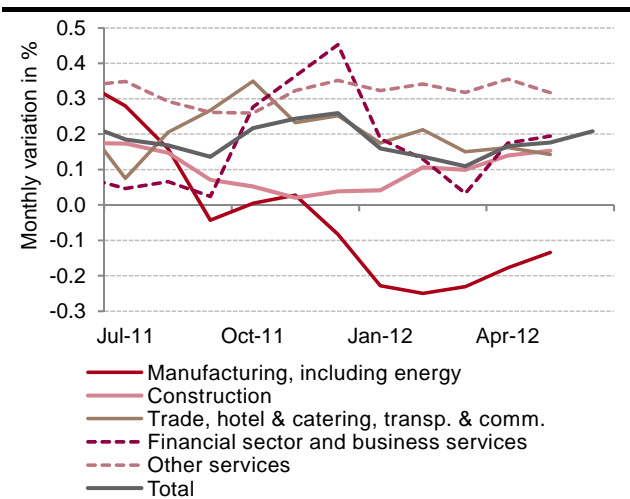
Insurance premium income in the 2nd quarter performed well overall. Although it rose less than in the 1st quarter, it nonetheless confirms the favourable trend in activity in this sector, which accounts for about 10% of the financial sector in terms of added value.

Almost all of the increase in premiums in the 1st half of the year related to life insurance, more than three quarters of which was in conventional life insurance (i.e. with a guaranteed return). Premiums for unit-linked life insurance products, where returns are asset-backed, have also been rising since 2012, but to a much lesser extent, perhaps because risk aversion remains high in a financial environment characterised by uncertainty.

Employment

Employment recovers slightly in the 1st half of 2012

Paid employment per branch



Source: STATEC, seasonally adjusted and smoothed data

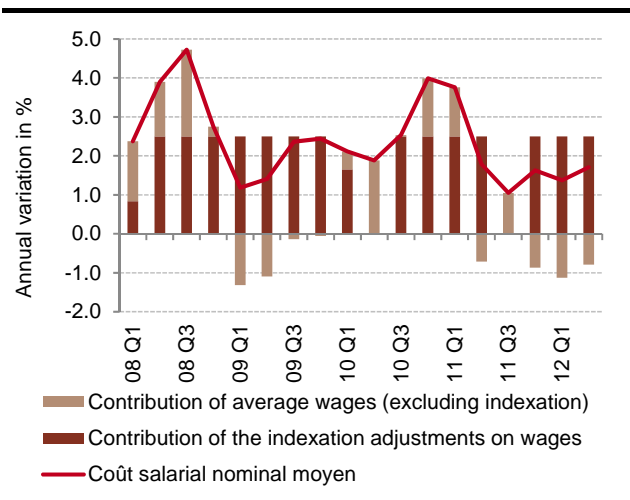
Over the 1st half of 2012, employment started to pick up again. Domestic paid employment grew more than 0.2% month-on-month, or about 2.5% year-on-year. This positive development is due mostly to the recovery in construction employment but also to an easing of the fall-off in manufacturing employment.

However, other services (public administration, education, health and welfare services, community, social and personal services and domestic services), which are more protected from cyclical factors, remained the main employment driver over this period (2/5 of net jobs created over the first half). It is therefore hardly surprising that the recovery in employment over recent months has benefitted resident workers (up 0.3% month-on-month in recent months) than cross-border workers (up 0.1% over the same period), as the latter are more active in the competitive sector.

Wages

Low wage growth in the 2nd quarter of 2012

Average wage costs



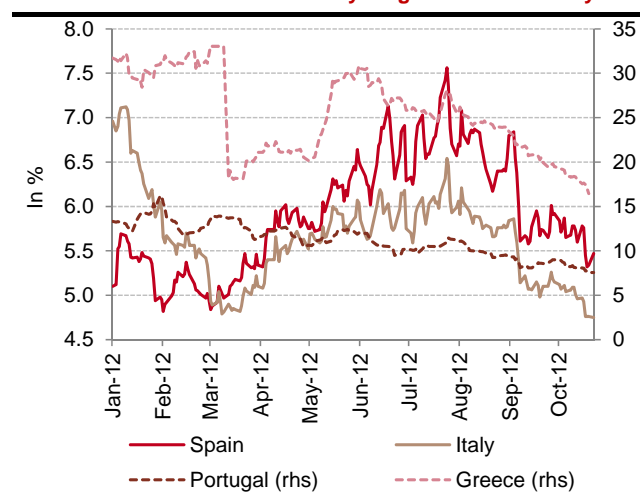
Source: STATEC, quarterly national accounts

In the second quarter of 2012, the average wage bill rose 1.7% over one year compared to a rise of 1.4% in the first quarter. The main reason for this was wage indexation, despite the adjustment postponing the payment of the indexation adjustment by 7 months this year. In fact, if indexation is discounted, wages fell for the third quarter in a row. Therefore, real wages, i.e. adjusted for consumer prices (deflated by the NCPI), have been falling since mid-2011, in line with the economic slowdown and its impact on the labour market.

This development goes hand in hand with a significant fall in bonuses and gratuities over the first two quarters of the year (down 4% over one year). While the financial and healthcare sectors accounted for most of the drop in bonuses and gratuities in the first quarter, most of the fall in bonuses and gratuities in the second quarter was in the business services and transport and communications sectors.

International Less pressure on southern Europe

10-year government bond yields



Source: Macrobond

The interest rates at which southern European member states obtain funding on the markets have fallen considerably in recent weeks. In Spain and Italy in particular, this fall was due in no small part to the new outright monetary transactions programme launched by the European Central Bank in early September.

These countries have also seen a reduction in external imbalances, due in particular to a fall in their trade deficits (Italy even went from a trade deficit in 2011 to a trade surplus in 2012): the budgetary consolidation measures undertaken in these countries had a negative effect on consumption, which pushed imports down while exports rose.

Trend chart

	Jan-12	Feb-12	Mar-12	Apr-12	May-12	Jun-12	Jul-12	Aug-12	Sep-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	-11.1	-10.0	-0.2	-7.4	-7.9	-1.1	-4.4	...	...	-4.5	-2.9
Construction output per working day, in volume	-5.4	-21.4	-3.2	-9.9	-13.4	6.9	-4.5	...	...	-4.2	-2.6
Turnover by volume of total retail trade	-0.8	3.6	3.1	-4.3	-1.3	1.1	-0.6	...	...	-0.3	1.6
Prices, wages											
Consumer price index (NCPI)	2.9	3.0	2.7	2.7	2.5	2.5	2.5	2.6	2.9	2.7	3.2
Underlying inflation	2.1	2.3	2.1	2.1	2.0	2.2	2.2	2.0	2.2	2.1	2.0
Oil product index	12.7	12.4	8.9	9.0	7.9	5.2	5.5	8.8	11.6	8.7	16.7
Industrial producer price index	6.0	5.3	3.7	2.5	3.1	4.5	2.7	2.8	...	3.3	5.6
Construction price index ¹	3.0	3.0	3.0	2.9	2.9	2.9	...	...	...	2.9	2.7
Average wage bill, per person (National accounts)	1.4	1.4	1.4	1.7	1.7	1.7	...	...	...	1.7	1.8
Foreign trade											
Exports of goods (volume)	-8.8	-7.8	-11.4	-11.3	-14.5	1.5	-0.8	...	...	-4.9	-0.2
Imports of goods (volume)	-2.7	-0.1	6.9	-3.1	5.9	1.6	-1.0	...	...	2.3	-4.6
Employment, unemployment											
Domestic number of employees	2.9	2.8	2.6	2.0	2.2	2.3	2.0	2.2	2.3	2.1	3.0
National employment	2.4	2.4	2.5	2.0	2.2	2.4	2.4	2.5	2.7	2.5	2.6
Unemployment rate (% of working population, seas. adj.)	5.9	5.9	5.9	6.0	6.0	6.1	6.1	6.1	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)	0.1	-0.3	0.7	-0.4	0.1	0.4
	Annual variation in %					
	2008	2009	2010	2011	Forecast 2012	Forecast 2013
Luxembourg - Growth in volume of GDP (STATEC)	-0.7	-4.1	2.9	1.7	0.1	1.7
PIB en valeur 2011: 42 625 Mio EUR						
Minimum monthly salary (since 01/10/2012): EUR 1 846.51						
Current account balance (2012 Q2): EUR 576 million						
Resident population (01/01/2012): 524 853						
Consumer price index (September) - base January 1 st 1948: 812.59						
Half-yearly average of the index linked to base as at January 1 st 1948: 805.78						
Estimated deadline for next salary indexation: 4 th term 2013						

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