

# CONJONCTURE FLASH | NOVEMBER 2012



Monthly publication of the state of the Luxembourg economy

**STATEC**

Institut national de la statistique  
et des études économiques

## Forecasts for GDP growth in volume: 0.5% in 2012 and 1.0% in 2013

While the results expected for Luxembourg<sup>1</sup> in 2012 have been revised slightly upwards in STATEC's latest forecasts, these also include a significant downward revision for 2013. The general profile drawn up by these forecasts is that of continuing low growth – well below average past performance – rising just 0.5% in 2012 and 1.0% in 2013.

### Minimal growth

Economic activity as measured by GDP in terms of volume is set to return to pre-crisis levels, due to an estimated rise of 0.5% for 2012 as a whole. This growth has been revised upwards from the forecasts made last July (which predicted growth of just 0.1%), mainly due to better results in the quarterly national accounts for the 1<sup>st</sup> half of 2012 (see Conjoncture Flash for October 2012).

The 2013 forecasts on the other hand have been severely hit by the downturn in the international environment. Recession has taken hold of the eurozone and to a large extent throughout the worldwide economy, so much so that the eurozone growth assumptions retained by STATEC have been reduced to just 0.2% (against 1.0% in its July forecasts). Growth in Luxembourg is expected to be 1.0% in 2013, an improvement on 2012 but much less than previously thought (up 1.7%). While STATEC is predicting a stabilisation in performance in the financial sector, which has weighed negatively on growth in previous years, domestic demand is expected to suffer from the reining in of public expenditure (see below).

In the labour market, the slowdown in growth in activity is affecting net job creation with some delay and points to another (downward) adjustment in working hours. Employment growth will thus slow from 2.2% in 2012 to just 1.3% in 2013 and will therefore be insufficient to stem the rising number of jobseekers, who will account for 6.5% of the working population in 2013 (as an annual average).

## Economic forecasts

	2011	2012	2013
Growth rate in % (or otherwise specified)			
GDP in volume	1.7	0.5	1.0
Total domestic employment <sup>1</sup>	2.9	2.2	1.3
Unemployment rate (ADEM)	5.6	6.1	6.5
Inflation (National prices index)	3.4	2.7	1.9
Average wage costs <sup>1</sup>	2.0	2.2	2.2
Balance of public finances (% of GDP)	-0.3	-2.0	-1.4

<sup>1</sup> Drawn up using the national accounting methodology

Source: STATEC (2011: observed national accounts; 2012-13: forecasts October 2012)

On the inflation side, the effects of the depressed economic climate, marked by a highly negative output gap, have taken some time to trickle down. This is due in large part to commodity prices, which have remained high in 2012. Inflation (NCPI), however, is set to slow in 2013, settling at slightly below 2% on average, based on oil prices that are set to (automatically) remain at the latest levels observed. Persistent inflation and wage restraint, mostly due to falling bonuses and gratuities, mean that real wages will probably continue to stagnate.

### Reining in of public expenditure

From a fiscal perspective, 2013 will be marked by a reining in of public expenditure in Luxembourg, in contrast with 2012, which was characterised by a highly positive fiscal stimulus. In all, public spending is set to rise by 2.8% in 2013, about 1/3 of the average historic rate, which amounts to virtual stagnation in real terms. In early November 2012, the Government unveiled fiscal consolidation measures of almost 2 points of GDP, which have been integrated into STATEC's main forecasting scenario.

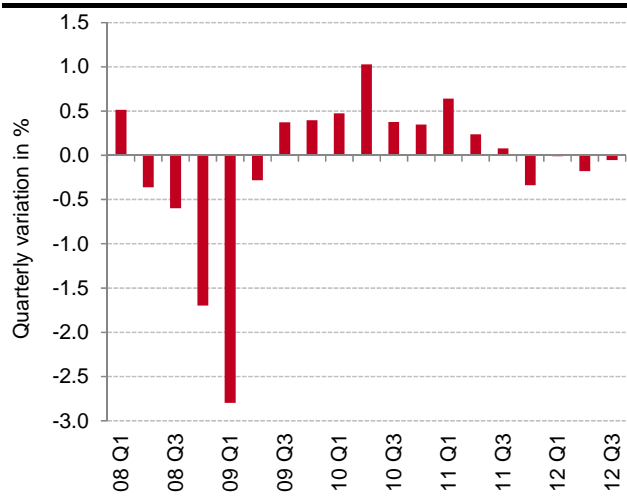
Due mainly to consolidation efforts, the fiscal situation is set to improve in 2013 (expected balance: down 1.4%) than in 2012 (estimated balance: down 2.0%), assuming that the draft budget is implemented as planned. On the revenue side, STATEC predicts a slight reduction (compared to the draft budget), leading to a difference of 0.6 percentage points on the balance, due in part to STATEC's less favourable assumption as regards economic growth, and in part to the consolidation efforts, which will marginally erode the tax base.

**STATEC**  
Luxembourg

<sup>1</sup> Note de Conjoncture 3-2012, November 2012:  
<http://www.statistiques.public.lu/catalogue-publications/note-conjoncture/2012/PDF-NDC-3-2012.pdf>

## International 1/2

## GDP in volume in the eurozone



Source: STATEC

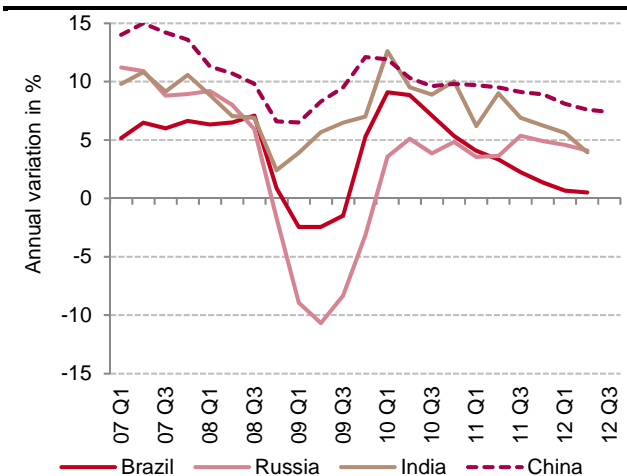
## Recession confirmed in the eurozone

The publication of eurozone GDP for the 3<sup>rd</sup> quarter of 2012, which was down 0.1%, confirms that the area has been in technical recession since the 2<sup>nd</sup> quarter (when it also dipped slightly by 0.3%). There is a silver lining to this cloud, however, as most leading indicators for the eurozone were showing a more marked drop for the 3<sup>rd</sup> quarter (by at least 0.3%). This lower than expected drop in GDP is mostly linked to the fact that the three main economies in the eurozone have held up rather well: GDP rose 0.2% in France and Germany (a result that is more surprising for France than for Germany) and fell just 0.2% in Italy (against an average fall of 0.7% over the previous three quarters). Spain contracted just 0.3%, after falling at least 0.4% over three consecutive quarters.

It remains to be seen whether this better than expected result in the 3<sup>rd</sup> quarter bears the hallmark of a true recovery or whether it is due more to temporary technical phenomena, in which case the figures for the 4<sup>th</sup> quarter could undergo a significant correction.

## International 2/2

## GDP in volume in the BRIC countries



Source: Macrobond

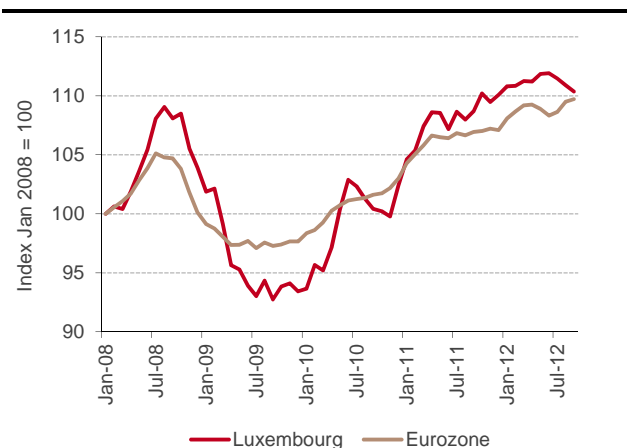
## More moderate growth in emerging countries

Emerging powers – or countries experiencing strong growth – continued to slow in 2012, continuing a trend that dates back to 2010. According to IMF projections published in October 2012, economic growth in these countries will be just 5.3% in 2012 (after rising 7.4% in 2010 and 6.2% in 2011). It is expected to rise about 5.6% in 2013. It should be noted that these forecasts were revised downwards compared to the July forecasts (by 0.3% and 0.2% for 2012 and 2013 respectively) and that these revisions were justified by the external environment – i.e. less favourable prospects for leading economies – as much as by internal factors.

In China, the internal factors causing the slowdown included the tightening of credit to deal with the risks of overheating in the property sector and the slowdown in public investment. In India and Brazil, growth has been hampered by tougher monetary policies that aim to counteract strong inflationary pressures.

## Manufacturing

## Industrial product prices - Luxembourg compared to the eurozone

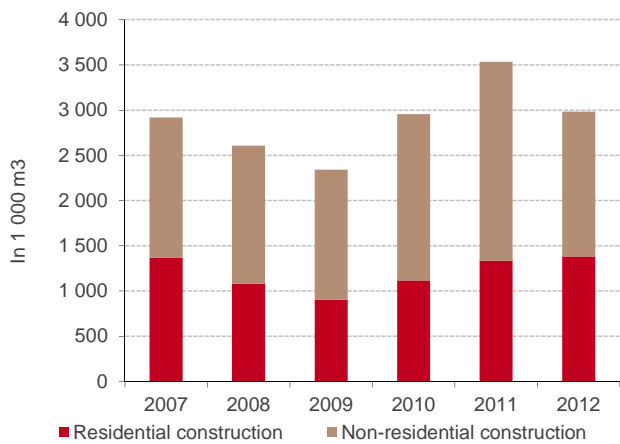


Sources: Eurostat, STATEC

## Recent price falls

Industrial product prices have risen some 3.5% compared to 2011 (a variation noted over the first 8 months of compared), after rising 9% the previous year. This slowdown intensified throughout 2012 and prices have fallen in the last months for which data is available (July to September). This recent decline is firstly due to falling prices for iron and steel products, non-ferrous metals and other metal products, which can be attributed to the downward trend in metal prices worldwide, particularly steel prices. Secondly, it is due to further price falls in non-metallic mineral products (glass, ceramics, etc.) and falls in prices linked to energy generation and distribution.

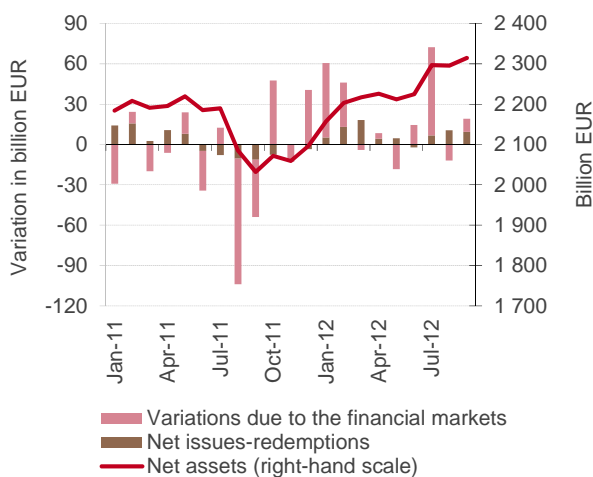
It is unclear how industrial product prices will develop in the near future but an upsurge seems unlikely in the short term. Manufacturers' expectations regarding their selling prices slumped considerably in the 2<sup>nd</sup> quarter of 2012 and recovered only marginally in the 3<sup>rd</sup> quarter.

**Construction****Fewer authorisations in the non-residential sector****Planning authorisations in the 1<sup>st</sup> half - volume of construction projects**

Source: STATEC

Output in the construction sector in 2012 was down over 6% on 2011 (based on the first eight months of the year). The information provided by opinion surveys, *which* show a net downturn in outlook among business owners throughout the 3<sup>rd</sup> quarter of 2012 (followed by some stabilisation in October), give little cause for optimism as regards the results to be expected at the end of the year.

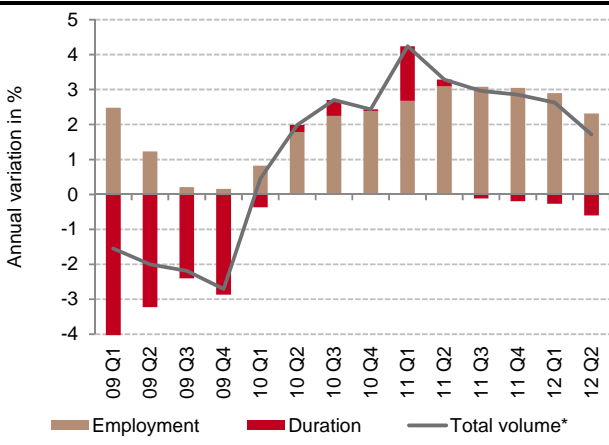
Another negative signal can be seen in 2nd quarter planning authorisations, which fell considerably on last year (down 30% in terms of volume of construction projects). Over the 1<sup>st</sup> half as a whole (see graph), there has been a particularly marked fall-off in non-residential construction projects. Residential builds remain relatively well-placed, however (especially apartment buildings), in line with continuing dynamic growth in housing loans in 2012 (up about 7% on 2011 over the first three quarters).

**Financial sector****A good 3<sup>rd</sup> quarter for UCIs****Undertakings for Collective Investment**

Source: CSSF

Undertakings for collective investment have weathered the 3<sup>rd</sup> quarter relatively unscathed. The more favourable stock exchange trends led to a revaluation of net assets and encouraged net capital inflows (issues less redemptions of UCI units). The 3<sup>rd</sup> quarter thus saw market effects boost overall net assets by some EUR 63 billion, whereas they had made no contribution in the previous quarter. Net capital investment amounted to almost EUR 30 billion over the summer, against just EUR 7 billion in the 2<sup>nd</sup> quarter (average growth recorded since 2008 was about EUR 13 billion per quarter).

Over the first 6 months of 2012 (from 30 December 2011 to 30 June 2012), net Luxembourg assets rose 6.1%, in line with the European average. Luxembourg thus managed to retain its market share in the European family (by far the largest, at over 25%).

**Employment****Working hours fall****Employment and working hours**

Sources: IGSS, STATEC

\*Paid hours declared to social security (inc. overtime), WDA = working-day adjusted

The less buoyant economic climate again led to adjustments in working hours, more so than in employee numbers ("labour hoarding").

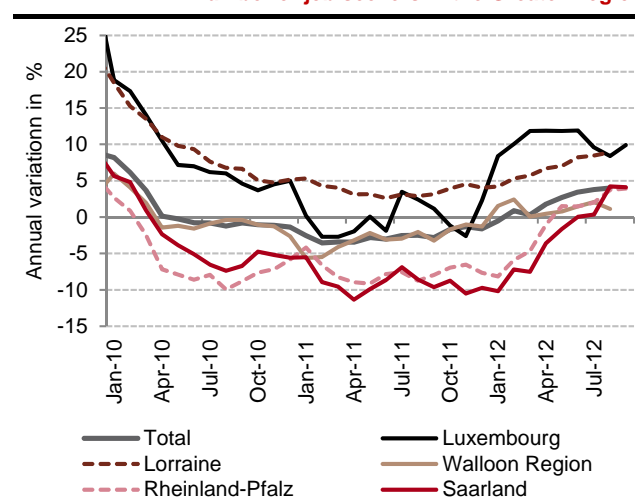
Thus, since the first quarter of 2011, which was marked by a sharp increase in hours worked, volume of work slowed continually, while employment (employee numbers) continued to grow relatively strongly. As a result, working hours per person have been falling since the 3<sup>rd</sup> quarter of 2011, dipping 0.6% over one year in the 2<sup>nd</sup> quarter of 2012. This drop in average working hours has involved a reduction in overtime and increased recourse to part-time employment but has also increased flexible working hours generally (widespread use of flexitime, introduction of working time accounts, etc.).

In its latest macroeconomic forecasts, STATEC predicts a stagnation in working volumes (hours) next year, despite a 1.3% rise in employment. Here again, the adjustment will come in working hours, which are set to fall 1.3% in 2013.

## Unemployment

## Unemployment picks up again in the Greater Region

Number of job seekers in the Greater Region



Source: STATEC, INSEE, IWEPS, Bundesagentur für Arbeit

## Trend chart

	Feb-12	Mar-12	Apr-12	May-12	Jun-12	Jul-12	Aug-12	Sep-12	Oct-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	-10.0	-0.1	-7.4	-7.9	-1.1	-5.9	-9.6	...	...	-5.4	-2.9
Construction output per working day, in volume	-21.4	-3.2	-9.9	-13.6	7.4	-5.1	5.9	...	...	2.1	-7.7
Turnover by volume of total retail trade	3.6	3.1	-4.4	-1.3	1.5	0.0	3.4	...	...	1.5	-0.8
<b>Prices, wages</b>											
Consumer price index (NCPI)	3.0	2.7	2.7	2.5	2.5	2.5	2.6	2.9	2.9	2.8	3.3
Underlying inflation	2.3	2.1	2.1	2.0	2.2	2.2	2.0	2.2	2.2	2.1	2.2
Oil product index	12.4	8.9	9.0	7.9	5.2	5.5	8.8	11.6	10.8	10.4	17.0
Industrial producer price index	5.3	3.7	2.5	3.1	4.5	2.6	2.7	1.6	...	2.3	7.0
Construction price index <sup>1</sup>	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	1.7	1.7	1.7	...	...	...	...	1.7	1.8
<b>Foreign trade</b>											
Exports of goods (volume)	-7.8	-11.4	-11.3	-14.5	0.4	-1.7	-8.4	...	...	-3.2	0.0
Imports of goods (volume)	-0.1	6.9	-3.1	5.9	-3.1	-4.5	-28.1	...	...	-12.7	9.9
<b>Employment, unemployment</b>											
Domestic number of employees	2.8	2.6	2.0	2.3	2.3	2.0	2.3	2.3	2.3	2.3	2.9
National employment	2.4	2.4	2.0	2.2	2.3	2.2	2.4	2.5	2.5	2.5	2.5
Unemployment rate (% of working population, seas. adj.)	5.9	5.9	6.0	6.0	6.1	6.1	6.1	6.1	6.1	6.1	5.7

Source: STATEC

Data pink coloured are estimates

<sup>1</sup> Estimations based on half-yearly data

## Indicators

	Variation on previous quarter in %					
	2011 Q2	2011 Q3	2011 Q4	2012 Q1	2012 Q2	2012 Q3
Eurozone- Growth in volume of GDP (European Commission)	0.2	0.1	-0.3	0.0	-0.2	-0.1
Luxembourg - Growth in volume of GDP (STATEC)	-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	3.0	1.7	0.5	1.0
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 (October) - base January 1 <sup>st</sup> 1948: 813.61						
Half-yearly average of the index linked to base as at January 1 <sup>st</sup> 1948: 806.97						
Estimated deadline for next salary indexation: 4 <sup>th</sup> term 2013						

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