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STATEC

Institut national de la statistique
et des études économiques

Eurozone: some positive signals

Opinion surveys conducted among businesses in the eurozone have been trending more favourably of late, catching up with the renewed confidence seen in the stock markets since the summer of 2012. For households, however, which continue to suffer from the difficult labour market, the outlook has yet to improve.

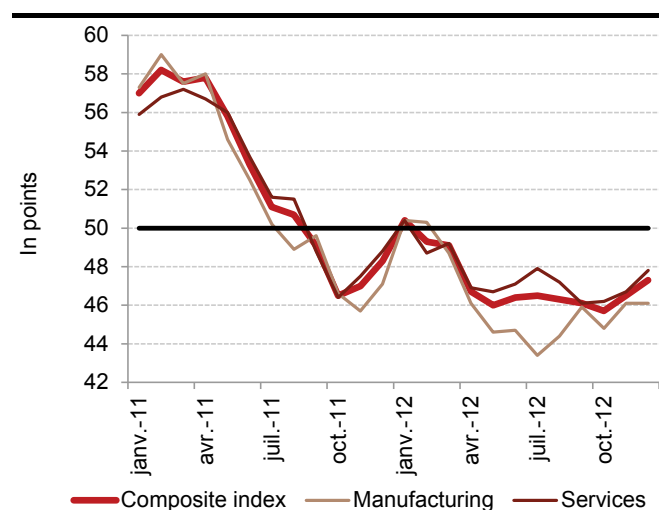
Businesses less pessimistic

Growth prospects for the eurozone seem to be recovering somewhat. The PMI composite index, generally a good leading indicator of GDP growth in the eurozone, rallied in December for the 2nd consecutive month. This rise, particularly in December, is mainly due to improved assessments regarding activity in the services sector. Otherwise, the situation remains quite contrasted within different Member States, and the recent improvement is mainly due to results in Germany and, to a lesser extent, in France, while a good number of other countries are still in a very difficult situation. The PMI composite index remains below 50 points – the threshold between contraction and expansion in activity – which points to another fall in GDP in the 4th quarter (after a drop of 0.2% and 0.1% over the two previous quarters). However, the upswing in the PMI index indicates that the recessionary momentum is receding and, if this upswing continues, there may be a return to growth in 2013.

Other indicators based on economic surveys also point to an improved outlook. After falling slightly in November, the ZEW index bounced back considerably in December. The IFO business climate index for German manufacturing grew significantly in November. The Economic Sentiment Indicator drawn up by the European Commission also rose in November, albeit very slightly but nevertheless marking a reversal in a particularly harmful trend (8 consecutive months of falls from March to November 2012).

In contrast, the surveys carried out among households continue to show very negative signals. The consumer confidence index for the eurozone fell to its lowest point in November, at -26.9 points, comparable to levels seen in the 2nd quarter of 2009. It must be noted that most countries continued to see bad news for their respective labour markets, which is not reassuring for households.

PMIs for the eurozone



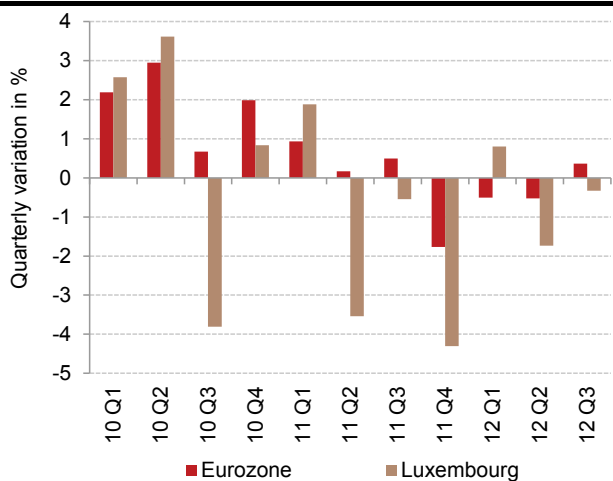
Source: Markit Economics

Financial markets hold their own

Business sentiment has risen, catching up with the mood on the European financial markets. The European stock market indices recovered significantly in the 3rd quarter and continue to hold their own. Although faltering somewhat from late September to mid-November, the indices ended the year on a very favourable note (with the Eurostoxx50 gaining about 8% from mid-November to mid-December). The recent agreement, on 13 December, on the framework for a banking union in the European Union has removed some institutional uncertainties and has the potential to further restore investor confidence. However, on this point as on many others, nothing is guaranteed: the last rise in the financial markets in early 2012 lasted only a single quarter.

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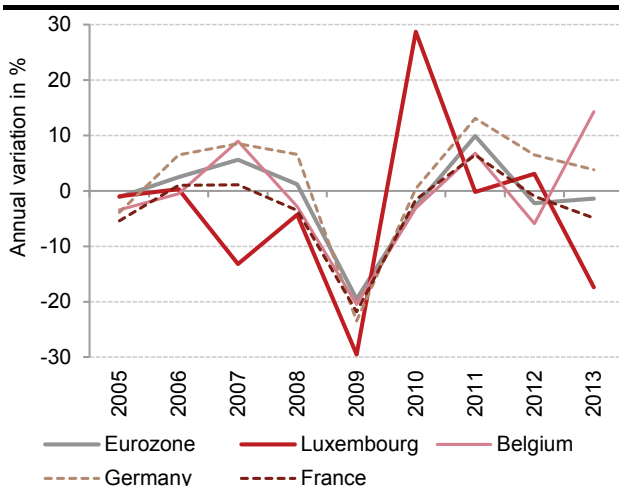
Luxembourg

Manufacturing 1/2**Industrial output**

Source: EUROSTAT

Output falls slightly in the 3rd quarter

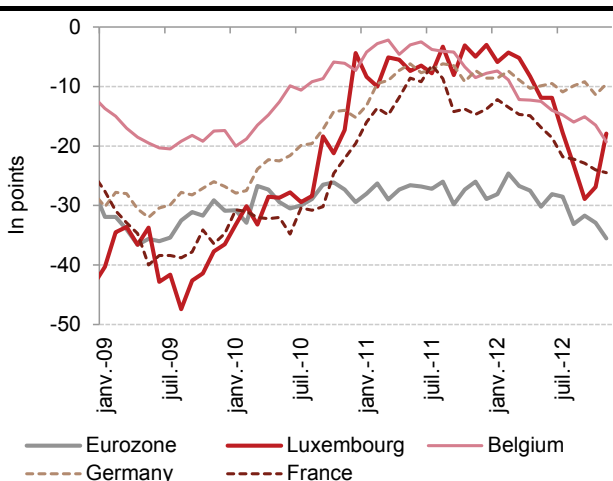
Industrial output in Luxembourg fell 0.3% in the 3rd quarter of 2012. This drop was less than in the previous quarter and seems to be limited in view of the 3rd quarter opinion surveys, which indicated that confidence among manufacturers was still very low. Contrary to previous quarters, it was iron and steel production that limited the damage by rising 15% over one quarter. This should be interpreted as meaning that iron and steel is making a strong recovery: output levels in this sector remain almost 25% lower than the 3rd quarter last year. Excluding iron and steel, output fell almost 2% over one quarter, a drop comparable to that seen in the 2nd quarter and a reflection of the unfavourable general trend which emerges from the opinion surveys. The 4th-quarter surveys (October and November) for their part show no particular signs of recovering but the upsurge in manufacturing confidence witnessed in November in the eurozone is all the same a positive signal (both Luxembourg and eurozone data show a highly significant correlation in terms of trend).

Manufacturing 2/2**Investment in the manufacturing industry (in terms of volume)**

Source: European Commission (2012-2013: forecasts)

Investment set to fall sharply in 2013

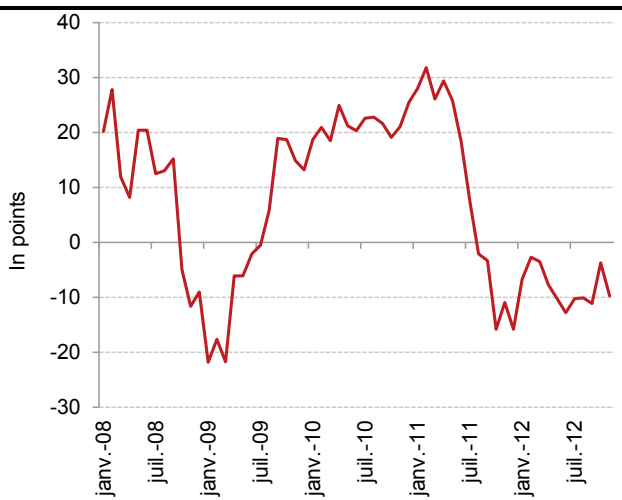
Investment in the Luxembourg manufacturing industry is set to decline significantly in 2013. Business owners surveyed as part of the 4th-quarter investment survey predict an overall drop of 15% in investment volumes next year. On top of this expected slump, the figures for the current year have been significantly revised downwards. The forecast for 2012 in the previous survey (conducted in the 2nd quarter) posited a rise of almost 20%, whereas according to the latest survey, the rise will be just 3%. This downward revision for investment in 2012, which indicates that some projects did not come to fruition, emerges as a widespread phenomenon throughout the eurozone, with the exception of Germany and Austria (which have both largely outperformed the other countries in terms of industrial output since 2010).

Construction**Confidence indicator in construction**

Source: European Commission

Confidence grows

After recovering slightly in October, the confidence indicator among construction businesses confirmed in November the more favourable trend in activity outlook. This improvement is evident in both components of the indicator, i.e. opinions on the order books and on the outlook for employment prospects. This trend, which will hopefully be confirmed by forthcoming surveys (and have a positive impact on output figures), is already a reassuring signal for Luxembourg, where opinions in the construction sector had seriously declined in the first three quarters of 2012. In neighbouring countries and elsewhere in the eurozone, opinions among construction business owners continued to deteriorate up to November.

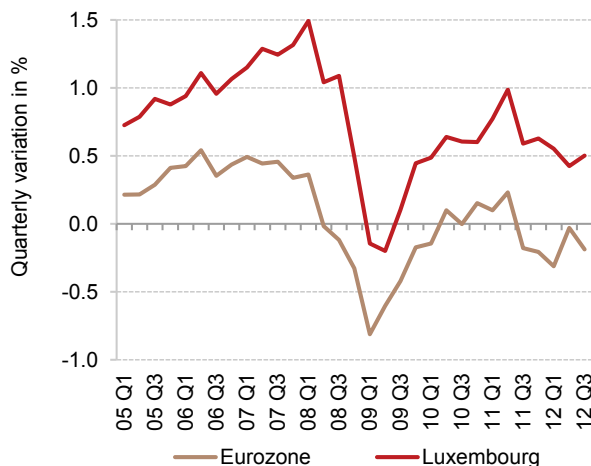
Financial sector**Confidence in financial services - eurozone**

Source: European Commission

Slight improvement

The confidence indicator for financial services in the eurozone has been relatively gloomy in recent months but overall there has been an upswing since the summer. This upswing, however, is timid and much weaker than that witnessed on the stock market indices, for example. The jump in the confidence indicator in October 2012 was thus flattened by another fall in November, mainly due to more negative banking prospects. The insurance industry, in contrast, posted significant gains in November, the highest since April 2011.

Generally speaking, employment prospects are at a low point not seen since early 2009, just after the financial crisis. On the other hand, after deteriorating almost continually since 2011, the opinions of financial professionals on the competitive position of their companies rallied strongly in the 3rd quarter of 2012.

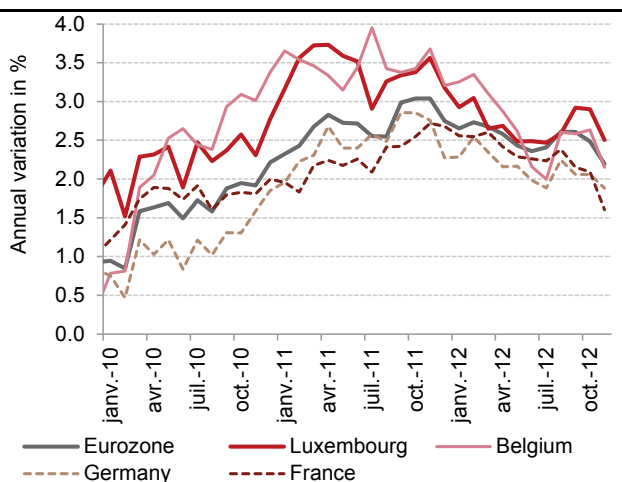
Employment**Employment in Europe and Luxembourg**

Sources: Eurostat, STATEC (seasonally adjusted figures)

Employment falls again in the eurozone

After stabilising in the second quarter of 2012, employment began to fall again in the third quarter of 2012 (down 0.2% on the previous quarter, a fall of 526,500 people). Although most sectors have been affected, the largest downturn is in the construction sector (down 1.5% over one quarter), real estate (down 1%) and financial and insurance activities (down 0.8%).

The decline in the third quarter was mostly due to Italy (down 0.1% in Q3 after rising 0.6% in Q2) and other southern European countries (Spain down 0.8% and Portugal down 0.4%). Luxembourg employment trends, on the other hand, remain dynamic, with a 0.5% rise over one quarter in Q3, according to preliminary data, even if the pace is weakening (see graph opposite). Consequently, employment remains relatively stable in neighbouring countries – with Germany up 0.1%, Belgium down 0.1% and France down 0.1% – with the exception of the Netherlands, where it fell 0.3.

Inflation**Consumer prices**

Sources: Eurostat (HCPI), STATEC (NCPI for Luxembourg)

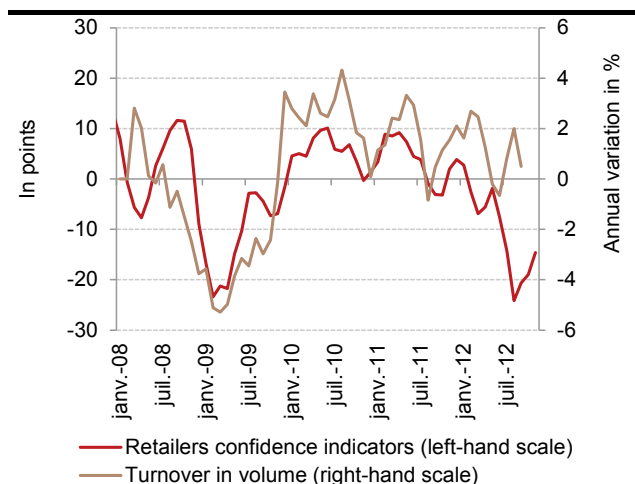
The inflation differential widens again

Consumer prices in Luxembourg rose 2.5% over one year in November, against 2.9% over the 2 previous months. This decline in inflation, which was also noted in other eurozone countries, is linked to the drop in prices of oil products which replicate with some delay the slightly downward trend in oil prices since mid-September. The inflation differential between Luxembourg and its neighbours (and with the eurozone as a whole), which had narrowed considerably in 2011 and 2012 (up to August), has been widening again in recent months. This trend is mainly linked to administered prices and in particular to social welfare money vouchers in Luxembourg since last September, with crèche rates (which take effective household contributions into account) adding almost 0.2 percentage points to inflation. The cost of crèches is set to rise again in 2013, with the impending cut in free childcare hours (first three hours) for parents on high incomes (the impact on the inflation rate has not yet been estimated) and the cost of public transport (which will add 0.16% to the inflation rate from January on).

Wholesale and retail trade

A positive signal for retail sales

Retail trade indicators



Confidence among retail traders fell sharply over the 2nd quarter of 2012. The confidence indicator in this sector, based on estimated sales for the previous and current months and on stock levels, continued to deteriorate in the early summer, reaching a low point in August. However, it picked up thereafter, as confirmed by the latest survey in November. In absolute terms, confidence levels remain very low at the end of 2012, holding out little hope of a strong recovery in retail sales in the short term, all the more so since household morale remained largely depressed up to November. The results emerging from turnover figures available up to September – expressed in volume terms and excluding mail-order sales – are, however, higher than the economic surveys seemed to indicate. Over the first nine months of 2012, turnover volumes grew just 0.7% over one year (against over 2% in 2011).

Sources: Chamber of Commerce, STATEC (data smoothed over 3 months)

Trend chart

	Mar-12	Apr-12	May-12	Jun-12	Jul-12	Aug-12	Sep-12	Oct-12	Nov-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	-0.1	-7.4	-7.9	-0.9	-5.9	-10.3	-1.2	...	...	-5.6	-1.6
Construction output per working day, in volume	-3.0	-10.0	-13.4	7.4	-5.2	5.8	-3.5	...	...	-2.1	-3.7
Turnover by volume of total retail trade	3.7	-3.7	-0.6	2.5	0.7	3.0	-1.9	...	...	0.5	0.5
Prices, wages											
Consumer price index (NCPI)	2.7	2.7	2.5	2.5	2.5	2.6	2.9	2.9	2.5	2.8	3.4
Underlying inflation	2.1	2.1	2.0	2.2	2.2	2.0	2.2	2.2	2.2	2.2	2.3
Oil product index	8.9	9.0	7.9	5.2	5.5	8.8	11.6	10.8	5.4	9.2	17.3
Industrial producer price index	3.7	2.5	3.1	4.5	2.6	2.7	1.6	0.0	...	1.4	8.3
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)	1.4	1.7	1.7	1.7	...	...	...	...	...	1.7	1.8
Foreign trade											
Exports of goods (volume)	-12.8	-12.1	-14.4	0.7	-0.6	-8.1	-14.5	...	...	-8.1	6.4
Imports of goods (volume)	5.9	21.5	6.0	0.3	-0.7	-28.0	2.0	...	...	-9.7	10.7
Employment, unemployment											
Domestic number of employees	2.6	2.0	2.3	2.3	2.0	2.3	2.3	2.3	...	2.3	2.9
National employment	2.4	2.0	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	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

¹ 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	2.9	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 (November) - base January 1 st 1948: 813.07						
Half-yearly average of the index linked to base as at January 1 st 1948: 808.26						
Estimated deadline for next salary indexation: 4 th term 2013						

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