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STATEC

Institut national de la statistique
et des études économiques

Eurozone: a difficult end to 2012

2012 ended badly for the eurozone, with GDP falling sharply in the 4th quarter. The forecasts for 2013 indicate virtual stagnation, even though there have been some recent positive signs pointing to more favourable developments.

GDP falls sharply in the 4th quarter of 2012

According to Eurostat's preliminary estimate, GDP in the eurozone fell back by 0.6% over one quarter (down 0.4% over one year) in the last quarter of 2012. This means that the recession – which began in the 2nd quarter of 2012 – worsened towards the end of the year, in line with the poor performance of leading economic indicators. These had worsened considerably in the 3rd quarter, but this trend seems to have had a greater effect on 4th quarter results (eurozone GDP dropped just 0.1% in Q3, less than expected). Thus, the relatively reassuring performance in the 3rd quarter was offset by the very poor results in the 4th quarter.

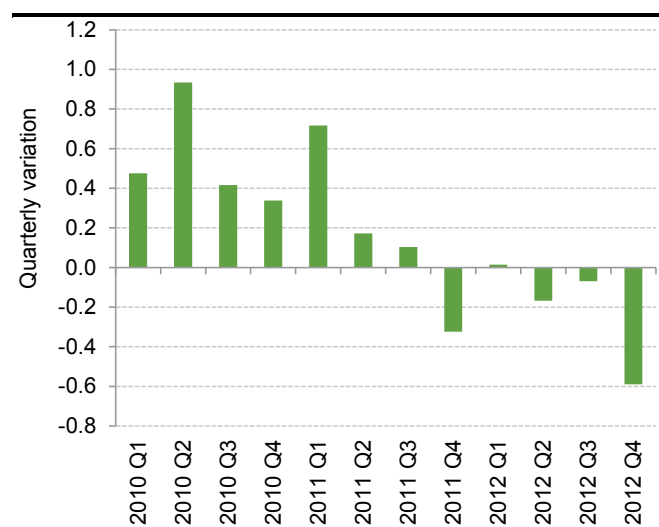
Although the results are not in for all eurozone countries, of those that are, Germany fell by 0.6%, Spain by 0.7%, Italy by 0.9% and Portugal by 1.8%. France's GDP, which had posted relatively surprising growth in the 3rd quarter of 2012 (rising 0.1%), fell back by 0.3% (although this result was enviable compared to other European countries).

In the 4th quarter, the foreign component most likely suffered from the sluggishness in exports (particularly industrial exports), while domestic demand – as in previous quarters – received no boost from household consumption, which remained hampered by the harsh labour market conditions (rising unemployment, limited wage growth) and confronted with relatively high inflation.

Virtual stagnation predicted for 2013

Over 2012 as a whole, eurozone GDP trends slumped by 0.5%, the worst result since 2009. The latest forecasts issued for 2013 by international organisations predict that GDP will virtually stagnate (ranging from a fall of 0.2% for the IMF to a rise of 0.1% for the European Commission). Alongside these less than rosy prospects, there are some hopeful signs emerging from the current economic situation, which, if confirmed, could lead to a more favourable configuration.

eurozone GDP



Source: Eurostat

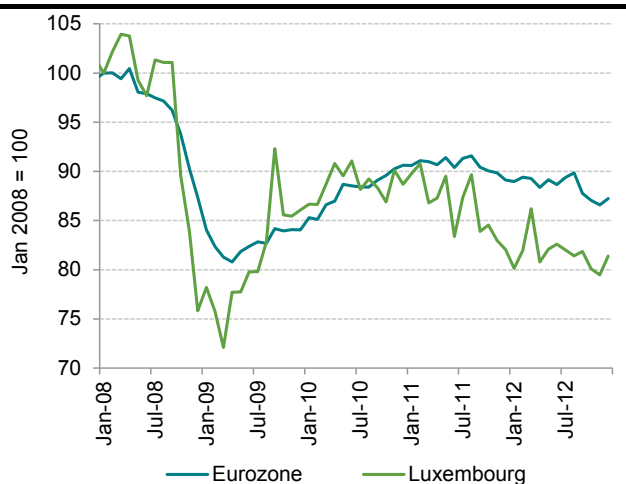
Leading business cycle indicators have recovered from the low point reached by most of them last October (a trend largely confirmed by the January surveys). While we may not see a return to growth in the 1st quarter of 2013, the rates at which economic activity is falling in the eurozone should begin to slow down. This turnaround among leading indicators is not replicated throughout the eurozone, with much of it coming from Germany (the PMI composite index for Germany has returned to positive growth, i.e. GDP has risen, since December). This point is also potentially a good sign for Luxembourg, as Germany is its primary export partner.

In addition to this recovery in leading indicators, the European financial environment continues to distance itself from turmoil: there has been no notable attack by market investors on European stock-market securities or on government bonds since mid-2012 (although tensions have resurfaced regarding Italy and Spain). It goes without saying that this is also a positive signal for Luxembourg and its financial sector.

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Manufacturing

Output per working day



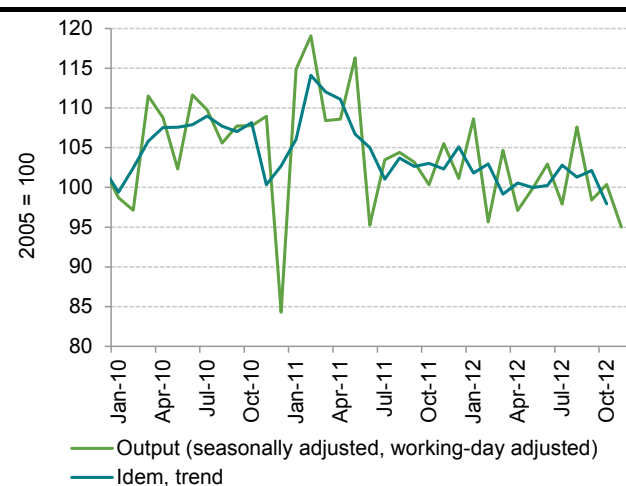
Sources: Eurostat, STATEC (Dec. 2012: prov.)

Output falls 6% in 2012

Industrial output is expected to fall by almost 6% over 2012 as a whole. This downward trend started in mid-2011 and continued until November 2012 (the latest data available). According to preliminary estimates, output bounced back by 2.4% in December 2012. Does this as yet unconfirmed result mark at last the start of a more favourable trend or is it just an isolated phenomenon? In view of the results of the monthly opinion survey in the manufacturing sector, the second proposition may seem more likely, as the confidence indicator has been stuck at a low level since October 2012 (up until January 2013) and a closer reading of components reveals somewhat contradictory trends. Nonetheless, eurozone output also rallied substantially in December (up 0.7% over one month), a development clearly signalled by manufacturers' opinions in economic surveys (see January 2012 issue of Conjoncture Flash).

Construction (1/2)

Output in the construction sector



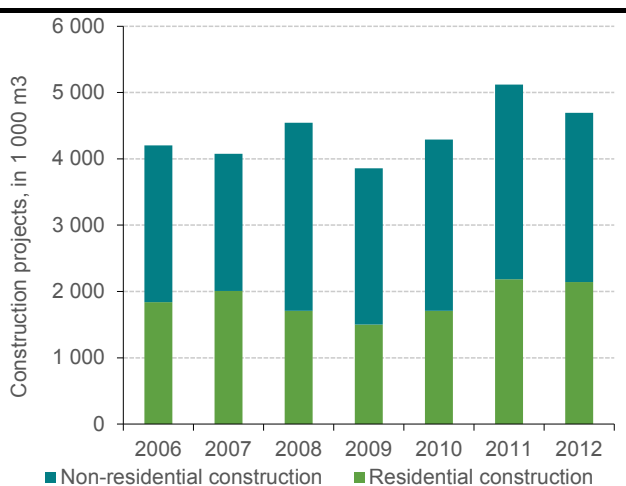
Source: Statec

Gloomy economic situation in 2012

At the end of November, output in the Luxembourg construction sector continued its downturn, falling almost in 2012 compared to the previous year. It is true that few eurozone countries – apart from Belgium and Austria – experienced growth in 2012 but Luxembourg's counter-performance puts it in the lower half of the European ranking, in a sector that had held up well in previous years in the Grand Duchy. The 2012 result could, however, be underestimated, as it is based on activity surveys and therefore on a sample of companies (representing 40% of the sector as a whole in terms of added value). Nevertheless, as regards workforce numbers, activity survey data shows a fall of about 3% on 2011 over the first three quarters, while data from the national accounts (based on IGSS data) shows a rise in workforce numbers of about 1% over the same period.

Construction (2/2)

Building permits at the end of 3rd quarter



Source: Statec

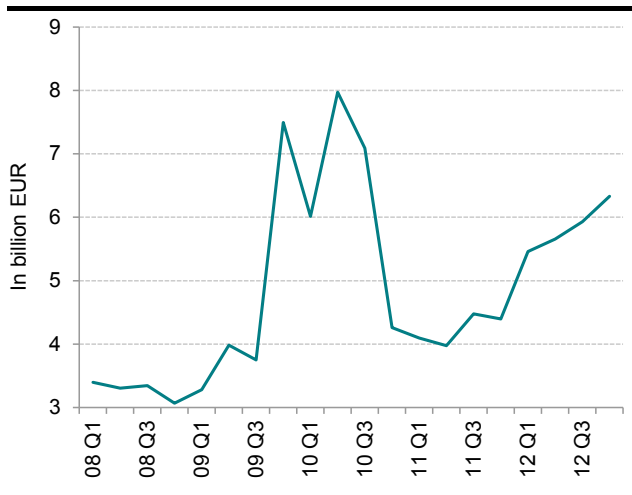
Licensed to build

While output in the construction sector followed an unfavourable trend last year, the 3rd quarter of 2012 on the other hand saw a huge number of planning permissions. The relative volume of construction projects was more than 10% above the average recorded in the 3rd quarter over the previous five years, in both the residential and non-residential sectors. These results partly make up for the relatively disappointing results for the 1st half of 2012, when the volume of construction projects fell by about 15% on 2011, a drop that was reduced to 8% at the end of the 3rd quarter of 2012.

While the volume of non-residential construction projects in 2012 was practically the same as in 2011 (based on the first 3 quarters), there were significant differences as regards building type: individual housing was markedly down (both in terms of the number of buildings and of the volume of construction projects), while apartments were increasingly favoured by builders. Is this a sign of crisis or a symptom of the lack of building land?

Financial sector

Insurance premium income



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

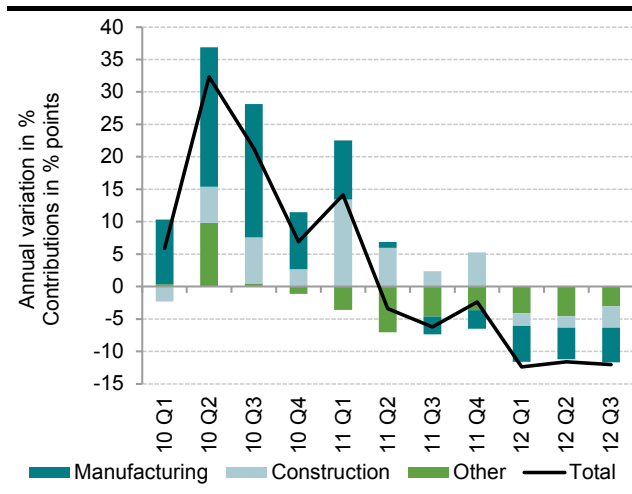
Insurance receives a boost

Insurance premium income rose about 40% over 2012 as a whole, a dynamic and relatively steady trend that remained constant to the end of the year.

While most of this growth came from the life insurance sector, non-life insurance also performed well, as attested by the increase of almost 15% in premium income. In life insurance, which in 2012 accounted for almost 95% of income, most of the rise was due to conventional life insurance (up 84% in 2012, boosted by a number of pension savings products) while unit-linked products benefited from the favourable conditions on the stock markets at the end of the year. During the 4th quarter of 2012, premium income from unit-linked products primes exceeded EUR 5 billion (compared to EUR 2.5 million on average over the first three quarters of the year), a trend undoubtedly due to less risk aversion among policyholders.

Labour market

Hours worked by temporary staff by activity sector



Sources: IGSS, Ministry for Work and Employment

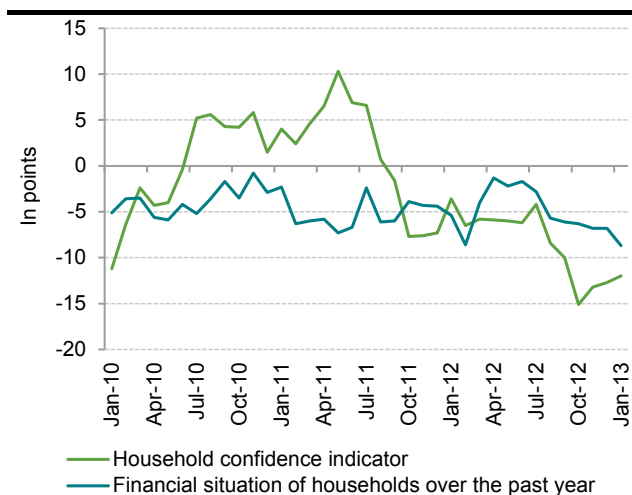
Temporary employment continues to fall

The number of hours worked by temporary staff in the 3rd quarter of 2012 fell by 12% over one year, as in the two previous quarters. This is the 6th quarter in a row that temporary employment has fallen. Temporary work, which accounts for 2% of paid employment, thus shaved 0.3 percentage points off employment growth in 2012. If temporary workers are discounted, domestic paid employment (up 2.1% over one year in Q3 2012) rose by 2.4%.

Temporary work, which is closely linked to the economic situation and employment trends in other sectors, is falling significantly in the manufacturing sector. This sector, which employed 1/4 of all temporary workers in 2012, fell by 20% in terms of hours worked by temporary staff over the first three quarters of 2012, accounting for half of the drop in temporary work over this period. Construction, which remained the main employer of temporary workers in 2012, fell by 7% over this period. The initial estimates available for the start of the 4th quarter show no signs of improvement in late 2012.

Consumption

Consumer survey



Source: BCL

Consumers worried about their future

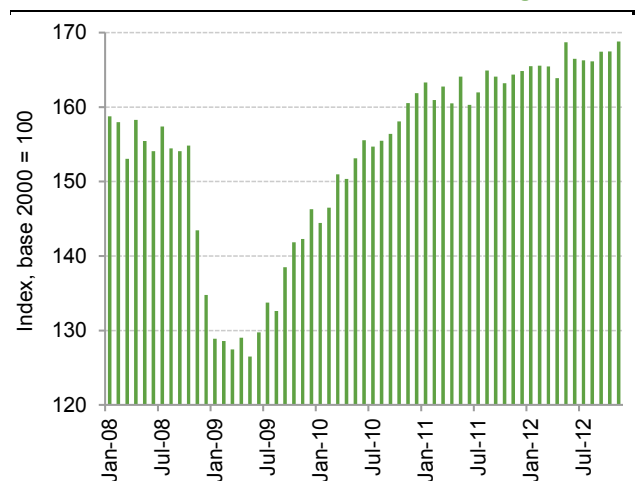
The consumer confidence indicator continued to rise in January 2013, after reaching a low point last October. This was mainly due to improved prospects as regards both general economic trends and unemployment rates.

However, there is no guarantee that this renewed confidence will have any positive impact on household consumption over the short term. In fact, while consumers appear to be more confident about macroeconomic variables, their feeling as regards their own personal situation is not particularly reassuring. In particular, their perceptions of their financial standing have been on the downturn since mid-2012, which trend was largely confirmed by the January 2013 survey. The latter also showed a highly unfavourable trend in opinions on purchasing intentions, whether regarding cars or housing (house or furniture purchases).

International trade

Global trade rallies in November 2012

Volume of global trade



Source: Centraal Planbureau (www.cpb.nl)

After stagnating in October, the volume of global trade started to recover in November 2012, rising by 0.8%. Breaking with the trend observed over the previous four months, the pace of growth in trade was more marked in leading economies than in emerging economies (in terms of both exports and imports). This phenomenon is due to a recovery in trade in the United States and Japan (but unfortunately not in the eurozone), while imports fell substantially in emerging countries.

In Luxembourg, late 2012 was marked by a recovery in air freight volumes (in November and even more so in December), as documented by Findel airport.

Trend chart

	May-12	Jun-12	Jul-12	Aug-12	Sep-12	Oct-12	Nov-12	Dec-12	Jan-13	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	-7.8	-0.9	-5.9	-10.5	-2.4	-5.1	-4.5	...	...	-4.0	-5.3
Construction output per working day, in volume	-13.5	7.4	-5.2	6.1	-4.2	0.0	-9.6	...	...	-4.6	-4.4
Turnover by volume of total retail trade	-0.5	2.5	0.7	3.2	-1.0	1.9	1.0	...	...	0.7	1.2
Prices, wages											
Consumer price index (NCPI)	2.5	2.5	2.5	2.6	2.9	2.9	2.5	2.3	2.1	2.3	3.2
Underlying inflation	2.0	2.2	2.2	2.0	2.2	2.2	2.2	2.2	2.2	2.2	2.3
Oil product index	7.9	5.2	5.5	8.8	11.6	10.8	5.4	3.9	1.9	3.7	14.5
Industrial producer price index	3.1	4.5	2.6	2.7	1.6	0.0	-0.4	...	...	0.4	9.3
Construction price index ¹	3.0	3.0	2.9	2.9	2.9	...	...	...	...	2.9	2.7
Average wage bill, per person (National accounts)	1.7	1.7	0.8	0.8	0.8	...	...	...	...	0.8	0.9
Foreign trade											
Exports of goods (volume)	-14.5	1.7	0.9	-8.1	-12.9	2.5	-8.6	...	...	-6.6	-0.3
Imports of goods (volume)	5.9	-1.1	-1.0	-26.6	6.6	-8.6	19.2	...	...	4.3	9.6
Employment, unemployment											
Domestic number of employees	2.3	2.3	2.0	2.3	2.1	2.0	2.1	1.9	...	2.0	3.0
National employment	2.2	2.3	2.3	2.4	2.0	1.9	2.2	2.0	...	2.1	2.6
Unemployment rate (% of working population, seas. adj.)	6.0	6.1	6.1	6.1	6.1	6.2	6.2	6.4	...	6.3	5.7

Source: STATEC

Data blue coloured are estimates

¹ Estimations based on half-yearly data

Indicators

	Variation on previous quarter in %					
	2011 Q3	2011 Q4	2012 Q1	2012 Q2	2012 Q3	2012 Q4
Eurozone- Growth in volume of GDP (European Commission)	0.1	-0.3	0.0	-0.2	-0.1	-0.6
Luxembourg - Growth in volume of GDP (STATEC)	0.7	-0.3	0.1	0.5	-0.3	...
	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 01/10/2013): EUR 1 874.19						
Current account balance (2012 Q3): EUR 545 million						
Resident population (01/01/2012): 524 853						

Consumer price index (January) - base January 1st 1948: 803.95Half-yearly average of the index linked to base as at January 1st 1948: 810.59Estimated deadline for next salary indexation: 4th term 2013

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