CONJONCTURE FLASH | MARCH 2013

Monthly publication of the state of the Luxembourg economy

STATEC
Institut national de la statistique
et des études économiques

Turmoil

The last few weeks have been marked by renewed cause for concern as regards the economic outlook in the eurozone. Alongside the threats weighing on southern European countries (Italy and Cyprus) which affected market investors, the economic surveys at the end of the 1st quarter show a slump in business confidence.

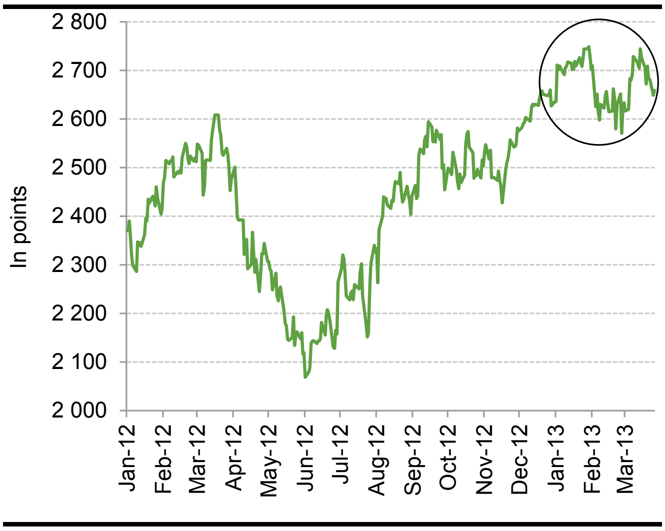
Market downturn in February

The main European stock markets took a nosedive in February, coinciding with a tense political situation in Italy, pending the outcome of legislative elections which resulted in political impasse with no government coalition yet emerging. This state of affairs makes it difficult to predict the type of economic policy that will be pursued in Italy over the coming months. Italy is the 3rd largest economy in the eurozone and its position in terms of public debt is highly sensitive.

Nevertheless, concerns over Italy dissipated somewhat towards the end of the month. While it is true that interest rates on Italian government bonds have risen, the scale of this phenomenon has been limited. Investors were partially reassured by the successful bond issue on 27 February whereby the Italian Treasury raised EUR 6.5 billion in medium- and long-term bonds, and the euro regained ground. Eurostoxx50, the benchmark index for the eurozone, recovered to levels seen in late January, and volatility subsided.

European markets were against put to the test from mid-March on, in the wake of the European Union's proposed Cyprus bailout package. The deal hammered out during the night of 15-16 March provided for a one-off tax on all bank deposits in the country in exchange for European aid, a first for European bailout packages. In what was also a first, the Cypriot parliament wholeheartedly rejected this deal on 18 March. The markets were hit hard, destabilised by the uncertain outcome of the aid process, and, while the correction remains limited for the moment (the Eurostoxx50 fell 3.0% between 15 and 26 March), the Cyprus issue constitutes a risk to European momentum.

Stock market indices - EuroSTOXX50 since 2012



Source: Macrobond (latest issue: 26 March 2013)

Disappointing results in March opinion surveys

In parallel to the chill on the markets – where the consequences in terms of growth are difficult to estimate – the results of economic surveys already available for March were relatively gloomy for the eurozone.

The ZEW index, which tracks prospects in the eurozone, fell after 4 consecutive months of strong growth (only Germany continued to grow in March, albeit to a much lesser extent than in previous months). The purchasing managers' index (PMI composite index) fell in February and declined further in March to 46.5 points, well below the 50 point threshold corresponding to stabilising economic activity. The PMI from January to March fell some 0.3% for eurozone GDP in the 1st quarter of 2013 and the downturn that has set in since February has considerably dampened hopes of a recovery in the 2nd quarter.

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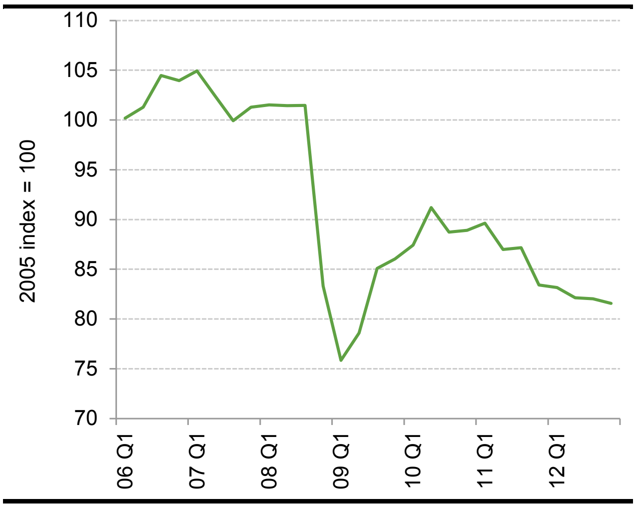
Manufacturing

Manufacturing output per working day



Source: STATEC (seasonally adjusted figures)

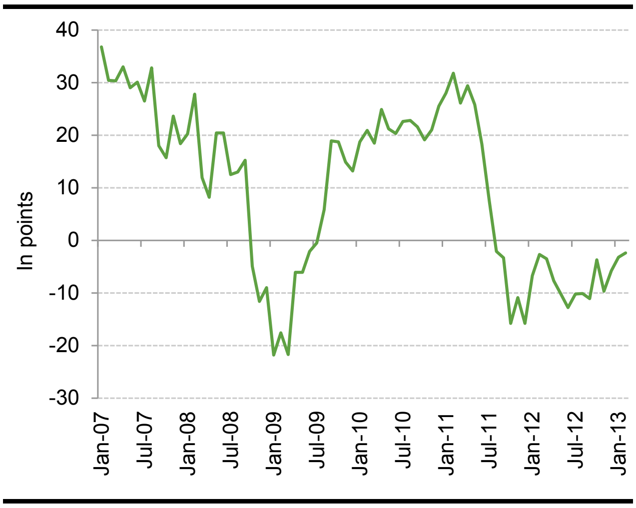
Persistent downturn

Luxembourg industrial output fell 0.6% in the 4th quarter of 2012 and 5.4% over 2012 as a whole. Despite a recovery in output in December (up 2.6%), mainly due to a rally in the textile industry (a phenomenon that is unlikely to last), the last quarter of the year was in line with previous quarters, marked by a resolutely falling trend.

The forecasts for the 1st quarter of 2013 are not hugely optimistic. Opinion surveys conducted in the manufacturing sector in January and February show a continuing decline in prospects among manufacturers surveyed. Crude steel output in Luxembourg, for which figures are already available for the first two months of 2013 (source: World Steel Association) show an almost identical level to that in early 2012, i.e. relatively weak, which does not point to any major support from the iron and steel industry in the 1st quarter.

Financial sector 1/2

Confidence indicator for financial services in the eurozone



Source: European Commission (DG ECFIN)

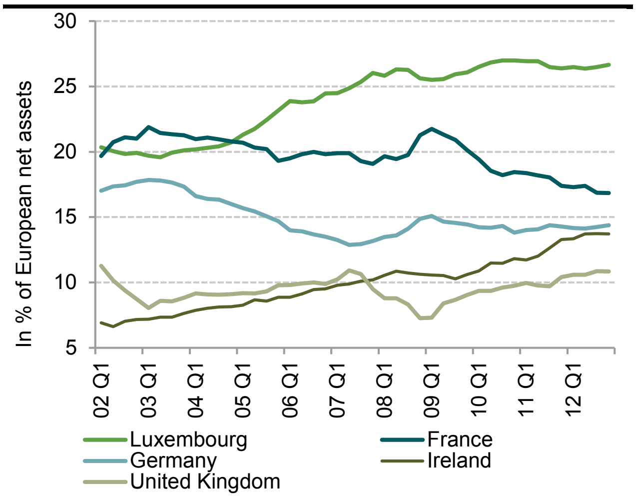
Contrasting upswing in confidence

The confidence indicator for financial services in the eurozone drawn up by the European Commission was still relatively gloomy in February 2013, but it has nonetheless been improving since mid-2012. Apart from this movement, the underlying momentum in the sector shows highly contrasting trends: the upswing in recent months – particularly in early 2013 – is mostly due to a much more positive assessment by insurance professionals and financial intermediation auxiliaries, whereas in pure financial intermediation (i.e. the banks) the improvement was much more tentative.

This discrepancy is somewhat similar to other trends in the Luxembourg financial sector, with a contraction in bank balance sheets (and sluggish revenue trends) but very positive developments in the insurance sector (see the February issue of Conjoncture Flash) and investment funds (see below).

Financial sector 2/2

UCIs - Market share in Europe



Source: EFAMA

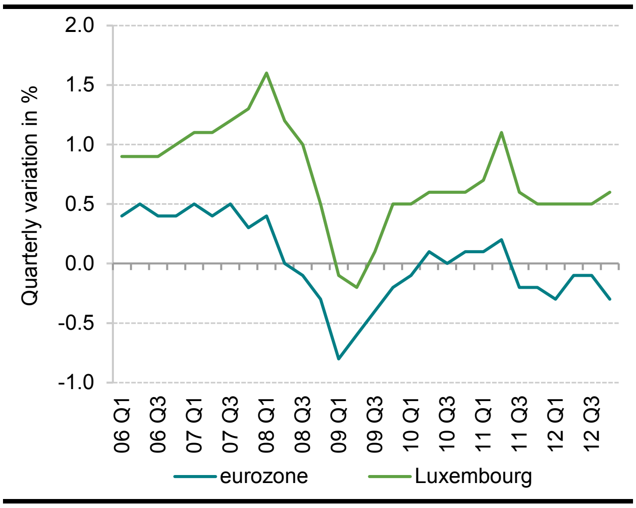
UCIs: Luxembourg consolidates its top ranking

Thanks to extremely dynamic growth since mid-2012, Luxembourg undertakings for collective investment exceeded the milestone of EUR 2,400 billion in assets. A little less than half of the rise recorded since July 2012 is due to market effects (valuation of equities, bonds, exchange rates, etc.), with the remainder due to net issues (issues less redemptions).

In comparison with other European countries, the 2nd half of 2012 was particularly favourable for Luxembourg funds, with Luxembourg gaining market share (to 26.7% in December 2012) in total European net assets. This is reassuring, given that this market share had been eroded since 2011, in favour of Anglo-Saxon countries in particular (United Kingdom and Ireland).

Employment

Employment in Europe and Luxembourg



Sources: Eurostat, STATEC (seasonally adjusted figures)

Employment continues to fall in the eurozone

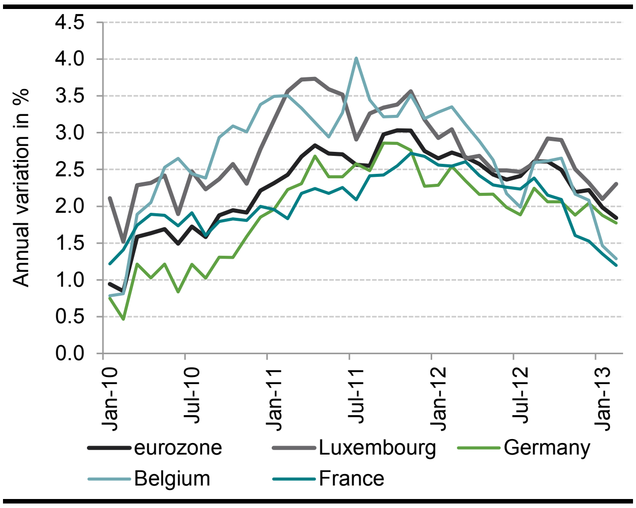
Employment in the eurozone fell in the fourth quarter of 2012 (down 0.3%) for the 6th quarter in a row, and the rise in unemployment in January 2013 (to 11.9% in the eurozone) holds out little hope of any improvement in the first quarter of 2013.

Employment continues to fall in most sectors, except for "Financial and insurance activities" and "Information and communication activities" which bounced back in the fourth quarter of 2012 after a very poor third quarter. In contrast, the sharpest decline in employment over the last months of the year was in Manufacturing, Trade and "Other services", which had performed well in Q3.

The most marked falls were in Portugal (down 2.0%), Spain (down 1.4%) and Cyprus (down 1.3%), whereas the labour market remained dynamic in Luxembourg (up 0.6%), Austria (up 0.2%) and Germany (up 0.1%). The recovery in Luxembourg (up 0.6% after rising 0.5%) was mainly due to legal and accounting activities.

Inflation

Consumer prices



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

Slowdown less severe in Luxembourg

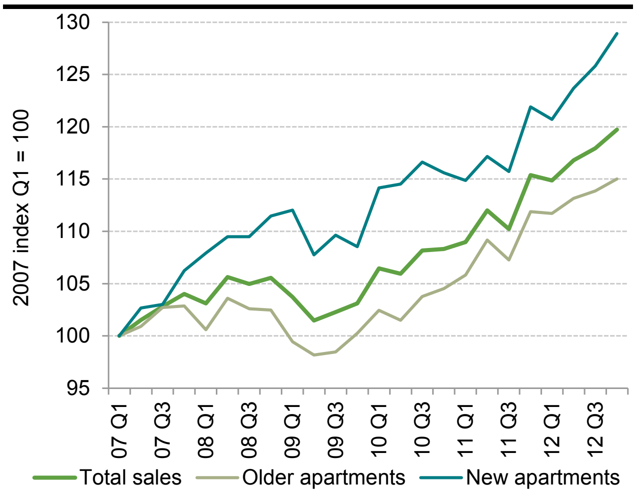
Inflation in the eurozone continued to fall in February 2013. For the first time in 2 years, the inflation rate in the eurozone fell below 2%, close to the target set by the European Central Bank (less than but close to 2%), removing any obstacle to a reduction in leading rates.

Less pressure on food prices, combined with a much reduced contribution from energy prices, has brought eurozone inflation to its lowest level since mid-2010.

However, the inflation differential between Luxembourg and its neighbouring countries has widened in recent months (0.6% on average over the last four months), mostly due to trends in administered prices. These have grown at an annual rate of over 5% since the beginning of the year, almost three times the rate of Luxembourg's main trading partners.

Real Estate

Selling prices for apartments



Sources: Land Registration and Estates Department, STATEC

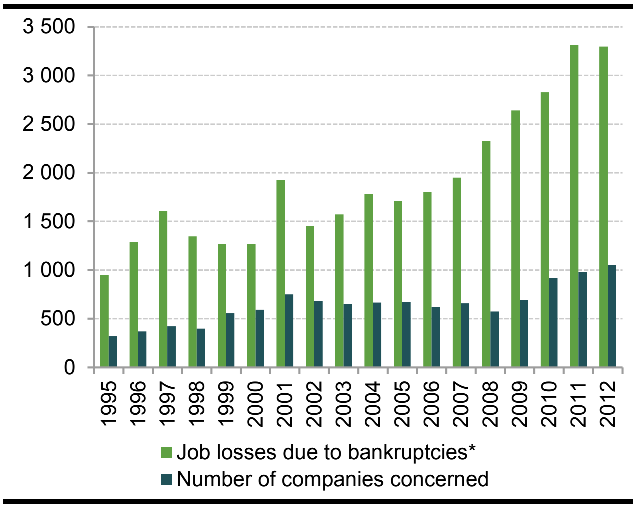
Strong demand for apartments

Selling prices for apartments rose 1.5% in the 4th quarter of 2012 (up 3.8% over one year). Over the year as a whole, asking prices for apartments rose some 5%, after increasing 4.1% in 2011 and 4.5% in 2010. These results are based on hedonic indices as calculated by STATEC and therefore cancel out structural effects (depending on the surface area of the properties sold, their location, fit-out, etc.), and show that there is real inflationary pressure on sellling prices for apartments in Luxembourg, seemingly unaffected by the cyclical slowdown.

The number of apartments sold (i.e. transactions) reached a record 3,700 over 2012 as a whole, rising some 12% (similar to the increase in 2011 and 2010).

Bankruptcies

Number of bankruptcies and job losses due to bankruptcy



Source: STATEC (* provisional figures for 2012)

Job losses linked to bankruptcy remained significant in 2012

In 2012, 1,050 businesses were the subject of bankruptcy proceedings, 7% more than in 2011. The number of people who lost their job because of these bankruptcies remained stable, however, at 3,300 (provisional figure), 1% of domestic paid employment. In other words, bankruptcies affected employment slightly less in 2012 than in 2011.

With 35% of job losses, construction remained the sector most affected by bankruptcy in 2012, although these losses were not as extensive as in 2011 (a record year for the construction sector in this area). It was followed by the hotel & catering and trade sectors (15% of jobs lost) and the transport and warehousing sector (11%). Compared to last year's figures, the transport industry saw the sharpest decline, followed by administrative and support service activities.

Trend chart

	Jun-12	Jul-12	Aug-12	Sep-12	Oct-12	Nov-12	Dec-12	Jan-13	Feb-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	-0.8	-5.8	-10.5	-2.3	-4.7	-4.6	3.2	…	…	-2.4	-6.5
Construction output per working day, in volume	7.5	-5.1	6.1	-4.4	0.1	-9.7	3.9	…	…	-2.5	1.7
Turnover by volume of total retail trade	2.5	0.7	3.1	-1.0	1.3	0.2	-2.5	…	…	-0.5	2.2
Prices, wages											
Consumer price index (NCPI)	2.5	2.5	2.6	2.9	2.9	2.5	2.3	2.1	2.3	2.2	3.1
Underlying inflation	2.2	2.2	2.0	2.2	2.2	2.2	2.2	2.1	2.3	2.2	2.2
Oil product index	5.2	5.5	8.8	11.6	10.8	5.4	3.9	1.9	2.5	2.8	12.6
Industrial producer price index	4.5	2.6	2.7	1.6	0.0	-0.4	-1.2	…	…	-0.5	9.1
Construction price index[1]	2.9	2.7	2.7	2.7	2.5	2.5	2.5	…	…	2.5	3.2
Average wage bill, per person (National accounts)	1.7	0.8	0.8	0.8	…	…	…	…	…	0.8	0.9
Foreign trade											
Exports of goods (volume)	1.8	1.1	-8.1	-12.8	2.6	-8.4	-17.8	…	…	-7.6	-2.3
Imports of goods (volume)	-0.8	-0.8	-27.0	6.4	-9.1	20.6	-2.7	…	…	1.7	6.6
Employment, unemployment											
Domestic number of employees	2.4	2.0	2.3	2.1	2.3	2.0	2.3	2.3	2.3	2.3	2.9
National employment	2.4	2.3	2.4	2.1	2.4	2.1	2.3	2.4	2.4	2.4	2.5
Unemployment rate (% of working population, seas. adj.)	6.1	6.1	6.1	6.1	6.2	6.2	6.4	6.4	6.4	6.4	5.8

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 (February) - base January 1^{st} 1948: 819.12

Half-yearly average of the index linked to base as at January 1^{st} 1948: 812.23
Estimated deadline for next salary indexation: 4^{th} term 2013

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