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Monthly publication of the state of the Luxembourg economy

STATEC
Institut national de la statistique et des études économiques

GDP growth: up 0.3% in 2012

The Luxembourg economy saw very weak growth in 2012, ending however with a relatively high increase in GDP in the 4th quarter. This end-of-year recovery was largely due to performance in non-financial services. The financial sector remains sluggish, with no return to high growth in the short term expected.

A 4th quarter rally linked to private consumption and exports of non-financial services

GDP recovered strongly in the 4th quarter of 2012, up 1.6% on the 3rd quarter of 2012 (also up 1.6% on the 4th quarter of 2011). This result, combined with that of previous quarters (which were revised slightly downwards), provided GDP growth of 0.3% for 2012 as a whole, in other words, quasi-stagnation for the year.

Following declines in the last two quarters, household consumption performed relatively well at the end of 2012 (up 1.9% over one quarter), which was unexpected given the economic environment (rising unemployment, fall in real wages, low consumer confidence). It benefitted in particular from a rally in car sales just before the end of the CAR-e bonus scheme on 1 January 2013 (repercussions are highly probable in the 1st quarter of 2013), but the underlying trend remained sluggish and even bearish at the end of 2012. This impression is confirmed by almost zero growth in turnover in volume terms in retail trade (excluding mail order sales and retail fuel) in the 3rd and 4th quarters.

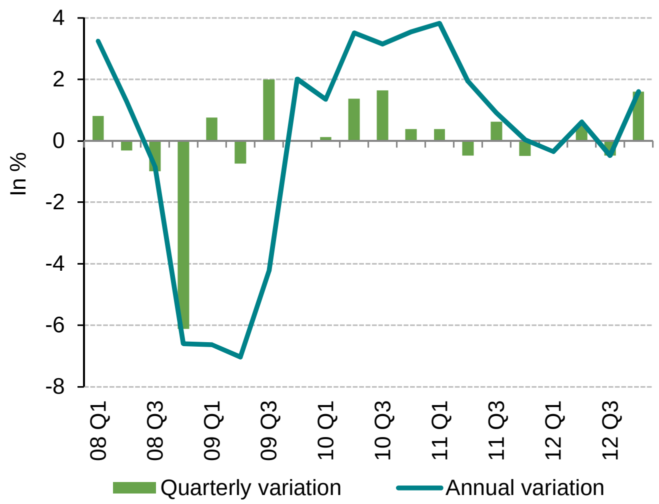
Investment also rose substantially in late 2012, but this trend is mainly based on acquisitions of airplanes and satellites and is therefore cancelled out in GDP terms (and therefore in terms of economic growth) by a more negative contribution from imports of goods. Similarly, the sustained rise in exports of goods (up 7% on the 3rd quarter) was almost entirely based on gold exports, which has no effect on GDP.

Alongside the rise in household consumption, the other component contributing the most to 4th quarter growth involved trade in services and, more specifically, trade in non-financial services (whereas those relating to financial services were down).

No significant recovery yet in the financial sector

Added value in the financial sector, a major branch of the economy, fell again in the 4th quarter, although less so than in the previous quarter. Generally speaking, after ongoing declines in 2010 and 2011, added value in the financial sector started to stabilise in early 2012, albeit with no upturn. However, there are marked differences between players in this sector and banks in particular are trending negatively.

GDP in volume



Source: STATEC

In other services, added value in business services continues to contribute significantly, as does the real estate sector and communication services (these sectors were already performing well in previous quarters). The 4th quarter of 2012 was more specifically marked by the rise in added value among companies operating in the trade, transport and hotel & catering sectors, marking an upswing after 4 consecutive quarters of decline. This trend coincided with a considerable recovery in turnover in wholesale trade in volume terms (which had deteriorated significantly in the 1st half of 2012) and in car sales (hardly surprising, given the above-mentioned ending of the bonus scheme). Added value in manufacturing – after almost 6 quarters of decline – finally posted a rise of 1.7% over one quarter. However, it would be foolhardy to believe that this favourable trend will continue in early 2013, given that manufacturers' opinions continued to fall in the 1st quarter.

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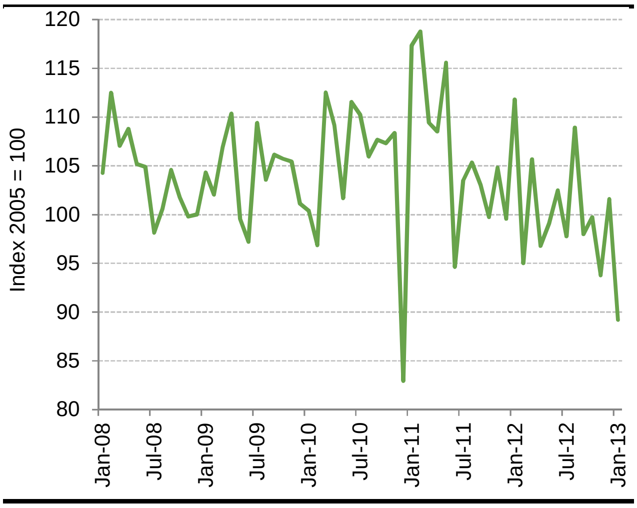
Construction

Construction output



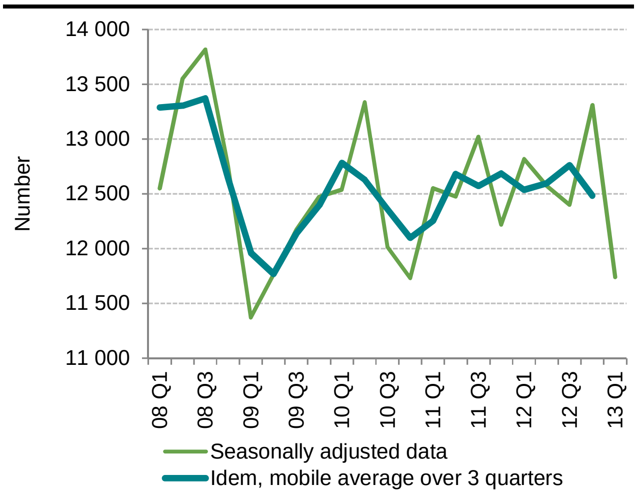
Source: STATEC (Activity survey, seasonally adjusted)

Bad times for construction

Output in the construction sector dropped sharply in January 2013, falling almost 10% over one month (based on seasonally adjusted figures) and by more than 20% over one year. This phenomenon masks the very unfavourable weather conditions, which were colder than usual, hindering activity in the building and civil engineering sectors. The average temperature recorded in Luxembourg in January 2013 was just 0.5° against over 3° over the past two years. The cold also affected construction activity in other countries (output fell sharply by almost 10% over one year in January). The weather will undoubtedly have a negative effect on February and March as well, as temperatures during those months were also well below seasonal norms. The negative signals from economic surveys must also be taken into account, with more negative opinions on the part of industry professionals over the whole of the 1st quarter (regarding activity, order books and employment).

Consumption

New car registrations



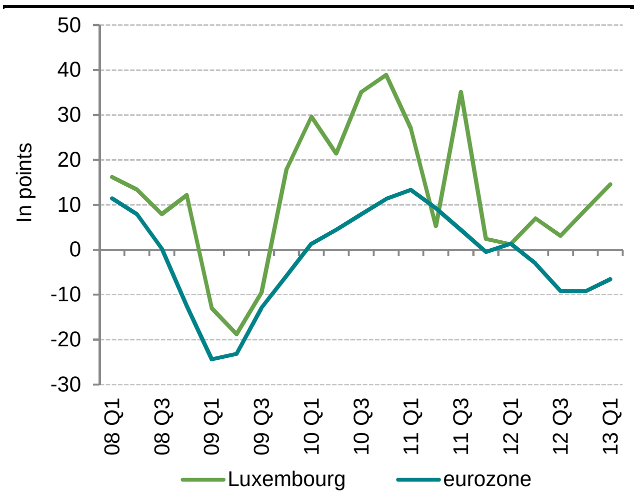
Sources: SNCT, STATEC

Fall in new car registrations (expected)

There were relatively few new registrations of private cars in the 1st quarter of 2013, a drop of almost 10% over one year. This downturn was largely expected: it marked a cooling-off period after the rush at the end of 2012, when sales soared before the CAR-e bonus scheme came to an end on 1 January 2013 (EUR 750-1,500 depending on the type of vehicle). While registrations were also significantly down across the eurozone – falling 15% over one year in the 1st quarter of 2013, after falling 11% over 2012 as a whole – this drop was much more due to economic reasons. In the case of Luxembourg, the downturn in early 2013 is primarily technical and the underlying trend (taking average registrations over three quarters) remains relatively favourable. While there is no talk of collapse, it is still highly likely that Luxembourg registrations will undergo a slump over the coming months, given the less than propitious economic climate in terms of consumption.

Non-financial services

Confidence indicator



Sources: DG ECFIN, STATEC, Chamber of Commerce

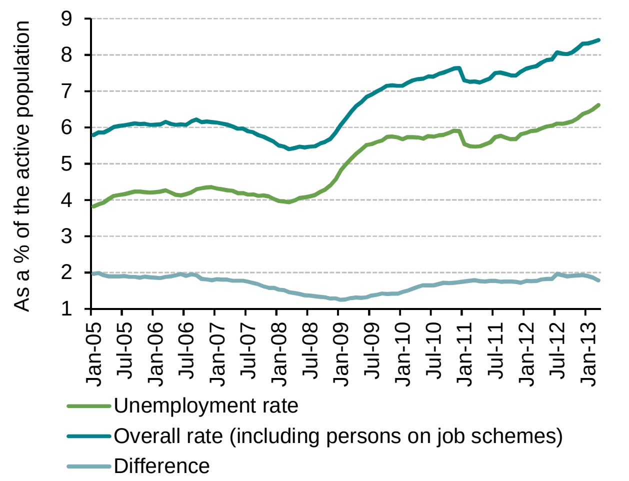
Confidence seems to be gradually returning

The confidence indicator in non-financial services in the 1st quarter of 2013 confirmed the recovery of the previous quarter. Managers surveyed spoke overall of an improved situation for their company and of a more favourable trend in terms of demand. Despite high volatility in terms of monthly results, the background trend nevertheless shows increasing optimism since mid-2012. However, it should be noted that this renewed optimism does not yet apply to employment, in relation to which opinions remain anchored at low levels as regards both recent trends and prospects.

In other eurozone countries, the 1st quarter was also marked by improved results in this survey. This renewed confidence was evident in most Member States.

Labour market

Unemployment rate and overall unemployment rate



Sources: ADEM, STATEC (seasonally adjusted figures)

Fall in subsidised jobs pushes unemployment up

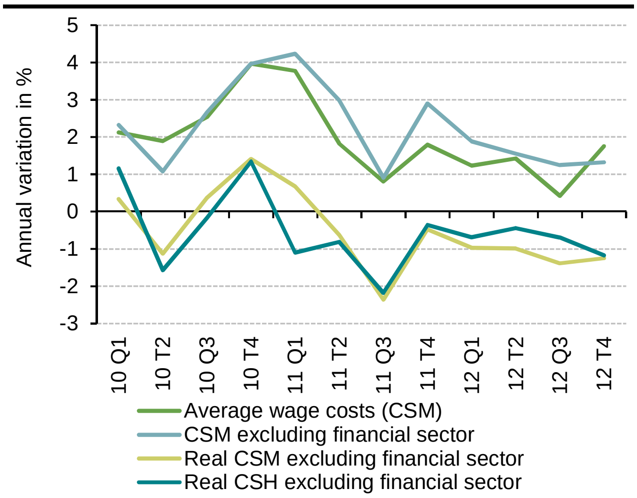
In March 2013, unemployment again rose sharply (up 2.1% over one month and 13.8% over one year). The number of people looking for jobs and registered with ADEM now stands at 16,572, 6.6% of the working population, compared to 6.5% in February and 6.4% in January (seasonally adjusted figures).

This trend in unemployment is exacerbated by the drop in the number of people in job schemes in early 2013 (down 3.5% over one quarter in Q1 2013), due to a legislative vacuum for job schemes aimed at young people (CIE and CAE) from January to April 2013 (down 13.3% over one quarter). This temporary situation certainly partly explains the higher increase in youth unemployment in early 2013 (up 4.7% over one quarter in Q1 2013 for people under 30).

Thus, the increased numbers of all job seekers registered with ADEM (job seekers + those in job schemes) is lower: up 0.5% over one month and 11.5% over one year in Q1 2013. The overall unemployment rate remained stable at 8.4% in March (compared to 8.4% in February and 8.3% in January).

Wages

Average wage costs



Source: STATEC, quarterly national accounts

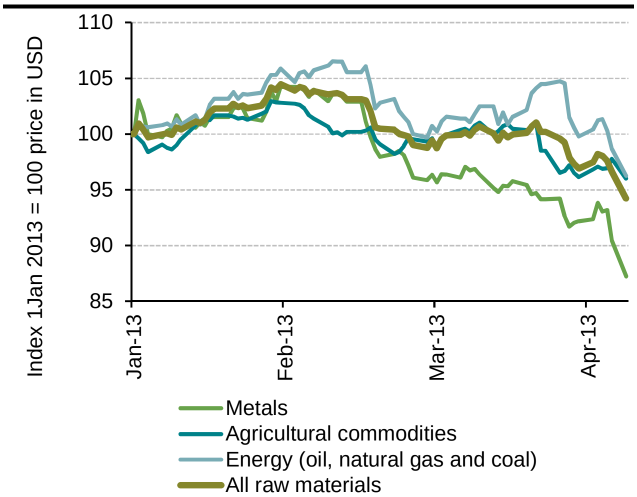
Redundancies weigh on wage costs

In the 4th quarter of 2012, the average wage bill rose 1.8% over one year compared to a rise of 0.4% in Q3. This development is mainly due to an exceptional rise in bank wages (up 4% after rising 2.8% in Q3), mainly due to redundancy payments made in this sector in late 2012. Thus, outside the financial sector, wages rose just 1.3% in the 4th quarter, as in Q3. Wage trends therefore remain very low, not enough to offset loss of purchasing power due to price hikes. Average real wage costs (deflated by inflation), excluding the financial sector, have fallen for the 7th quarter in a row (down 1.2% in Q4 2012).

The same applies to hourly wage costs, which take account of changes in working hours. These are down for the sixth quarter in a row (down 0.2% in Q4, after falling 0.7% and 0.6% in the previous quarters).

Inflation

Price trends in raw materials



Source: Rogers commodities indices

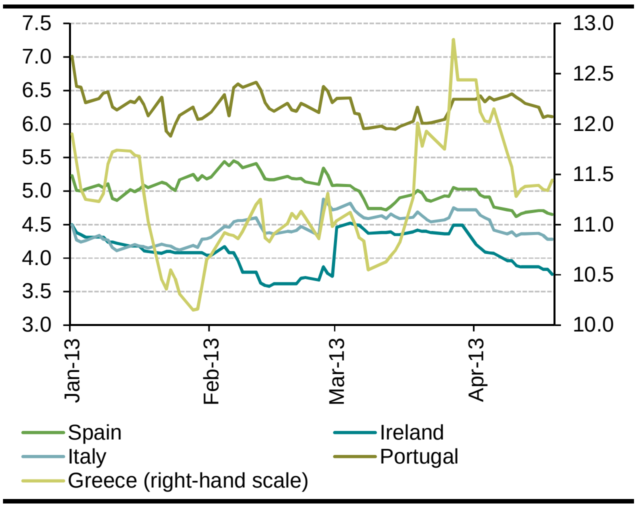
Price falls in raw materials

Metals and minerals have massively depreciated on international commodity markets since April. Gold, aluminium, nickel, tin, lead and zinc reached their lowest levels since the start of the year, following disappointing economic indicators in China (a major consumer of raw materials). In a climate that shows that global economic growth could slow down, energy prices are also weakening. The price per barrel of Brent has fallen below the psychological threshold of 100 dollars for the first time since July 2012.

These downturns should ease inflationary pressures in Luxembourg. They should be felt quickly in oil prices (fuel, heating oil, etc.) and further down the line in other areas such as food prices (through cereal prices) and jewellery (through gold prices). The fall in raw materials, particularly metal products, will also probably be felt over the coming months on prices of industrial products.

International - eurozone

10-year government bond yields (in %)



Source: Macrobond

Limited tensions on government bonds

Recent weeks have been marked by turbulence on the European stock markets. Questions raised by events in Italy and Cyprus brought a halt to the optimism that had prevailed since mid-2012 and the stock market indices have recently been trending slightly downwards, against a backdrop of increased volatility. However, these events have not given rise to over-reaction on sovereign debt markets. Indeed, in April – after a turbulent March – most government bonds from states on the periphery of the eurozone saw their interest rates fall back. While worries over the eurozone are far from over, particularly as regards growth prospects and the diverging performance of Member States, the commitment of political leaders to maintaining the single currency and the reduced risk that the eurozone will break up have apparently reduced tensions on financing conditions for government debt.

Trend chart

	Jul-12	Aug-12	Sep-12	Oct-12	Nov-12	Dec-12	Jan-13	Feb-13	Mar-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	-5.6	-10.6	-2.7	-4.5	-4.9	3.1	-6.8	...	...	-3.1	-9.4
Construction output per working day, in volume	-5.1	6.0	-4.4	0.0	-9.8	2.6	-23.6	...	...	-10.9	2.6
Turnover by volume of total retail trade	1.1	3.7	-0.5	1.4	0.1	-2.2	1.0	...	...	-0.5	1.7
Prices, wages											
Consumer price index (NCPI)	2.5	2.6	2.9	2.9	2.5	2.3	2.1	2.3	2.0	2.1	2.9
Underlying inflation	2.2	2.0	2.2	2.2	2.2	2.2	2.1	2.3	2.2	2.2	2.1
Oil product index	5.5	8.8	11.6	10.8	5.4	3.9	1.9	2.5	-0.6	1.3	11.2
Industrial producer price index	1.2	0.8	0.6	-0.2	0.4	-0.6	-0.9	-0.8	...	-0.8	4.6
Construction price index[1]	2.7	2.7	2.7	2.5	2.5	2.5	...	...	...	2.5	3.2
Average wage bill, per person (National accounts)	0.4	0.4	0.4	1.8	1.8	1.8	...	...		1.8	1.8
Foreign trade											
Exports of goods (volume)	1.6	-8.7	-12.5	2.4	-5.7	-17.7	-7.9	...	...	-10.3	-2.9
Imports of goods (volume)	-2.1	-28.0	5.8	-10.2	18.0	-4.7	5.5	...	...	6.4	-5.0
Employment, unemployment											
Domestic number of employees	2.0	2.3	2.1	2.3	2.0	2.3	1.7	1.8	1.8	1.8	4.6
National employment	2.3	2.4	2.1	2.4	2.1	2.3	1.6	1.6	1.6	1.6	2.6
Unemployment rate (% of working population, seas. adj.)	6.1	6.1	6.1	6.2	6.3	6.4	6.4	6.5	6.6	6.5	5.9

Source: STATEC
Data blue coloured are estimates
[1] Estimations based on half-yearly data

Indicators

	2011 Q3	2011 Q4	2012 Q1	2012 Q2	2012 Q3	2012 Q4
Eurozone- Growth in volume of GDP (European Commission)	0.1	-0.3	-0.1	-0.2	-0.1	-0.6
Luxembourg - Growth in volume of GDP (STATEC)	0.6	-0.5	0.0	0.5	-0.5	1.6
	Annual variation in %					
	2008	2009	2010	2011	2012	Forecast 2013
Luxembourg - Growth in volume of GDP (STATEC)	-0.7	-4.1	2.9	1.7	0.3	1.0

PIB en valeur 2011: 44 427 Mio EUR

Minimum monthly salary (since 01/10/2013): EUR 1 874.19

Current account balance (2012 Q4): EUR 1 139 million

Resident population (01/01/2012): 524 853

Consumer price index (March) - base January 1st 1948: 819.19

Half-yearly average of the index linked to base as at January 1st 1948: 813.33

Estimated deadline for next salary indexation: 4th term 2013

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