

Industrial output rises in the eurozone

Industrial output in the eurozone has been recovering since early 2013, mainly due to Germany and the automobile industry, while the bad weather temporarily favoured energy output. Luxembourg's performance was rather disappointing until April but manufacturers' opinions rose sharply in May, a trend that remains to be confirmed.

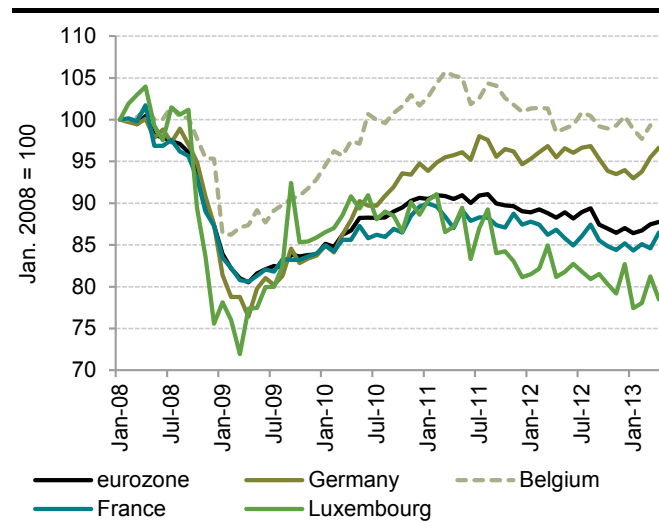
Energy and automobile

Industrial output in the eurozone has been recovering in recent months. It rose 0.4% in April 2013, after rising 0.9% in March and 0.3% in February. This rise was concentrated in a small number of states: only 7 (of the 17 eurozone countries) saw their output levels rise between January and April. Performance according to geographical area remains marked by a gap between north and south, in favour of northern countries in the eurozone, primarily Germany.

Since early 2013, the recovery in output levels has mainly been in capital goods and the energy sector, while intermediate and consumer goods (except in the pharmaceutical industry) are apparently still suffering from weak domestic demand. As regards energy, the increase in output is directly attributable to the particularly cold temperatures pushing up energy demand, especially in February and March. Energy output fell somewhat in April (particularly in the Netherlands).

The rally in capital goods mostly related to the automobile industry (up 14% from January to April), again mainly driven by Germany (up 17% over the same period), but not exclusively. Motor vehicle output also rose significantly (almost 10% from January to April) in countries such as France, Italy, Spain, Portugal and even Ireland. This phenomenon does not mean that demand has risen in the eurozone, as new private car registrations have been bottoming out since the start of the year, a trend that continued up to May.

Industrial output



Source: STATEC

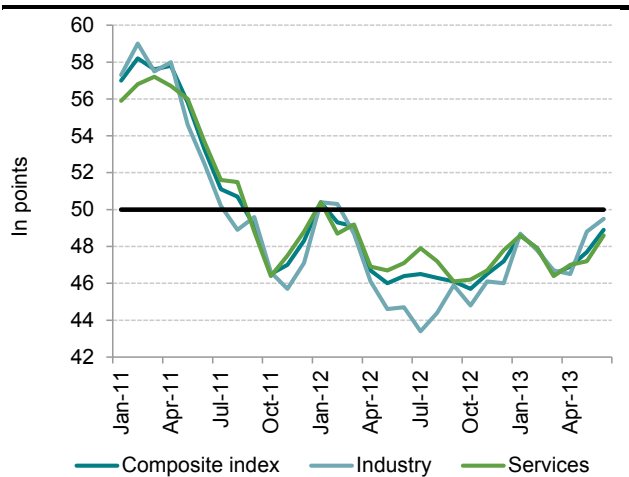
Luxembourg lags behind

In Luxembourg, however, there was no indication of a rally in industrial output up to April (provisional data), but at best (low-level) stabilisation. This sluggish profile is characteristic of all Luxembourg manufacturing sectors. However, the May economic survey shows a significant upturn in opinions among Luxembourg manufacturers (after an almost continuous fall since mid-2011) but it is too soon to see in this is a significant recovery in output over the short term.

In the eurozone, in any case the June PMI indices confirm a slightly more favourable trend for European manufacturing.

International

PMIs for the eurozone



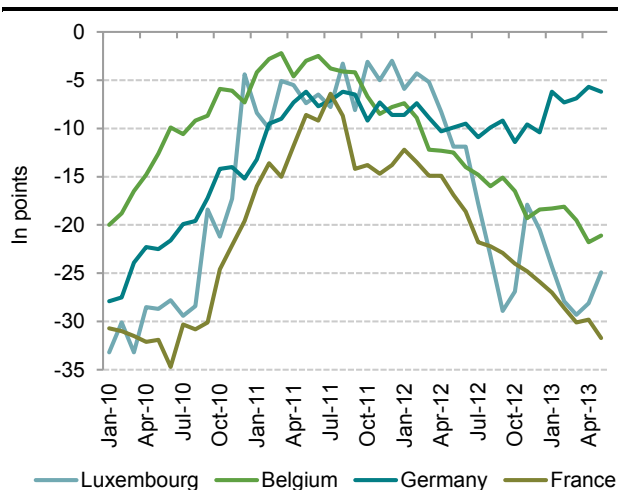
Source: Markit Economics

Eurozone: contraction of activity levels off

The PMI indices (Purchasing Managers' Index – flash estimates) for the eurozone in June confirm the rise in April and May, a trend benefiting both manufacturing and service activities. In contrast to the two previous months, the rise in June was relatively more marked in France than in Germany. Activity outlook is improving, at least relatively speaking. The composite index remains below the 50-point threshold, which marks the boundary between contraction and expansion: in other words activity is expected to decline up to June but less so than before. Moreover, the recent more favourable trend, provided it lasts, holds out hope of a return to expansion – corresponding to positive GDP trends – in the 3rd quarter. In the 2nd quarter, by contrast, a slump in GDP seems on the cards for the eurozone, as the composite PMI index indicates that it will contract by some 0.2%, a fall comparable to that in the 1st quarter of 2013.

Construction

Confidence indicator in construction



Source: Eurostat

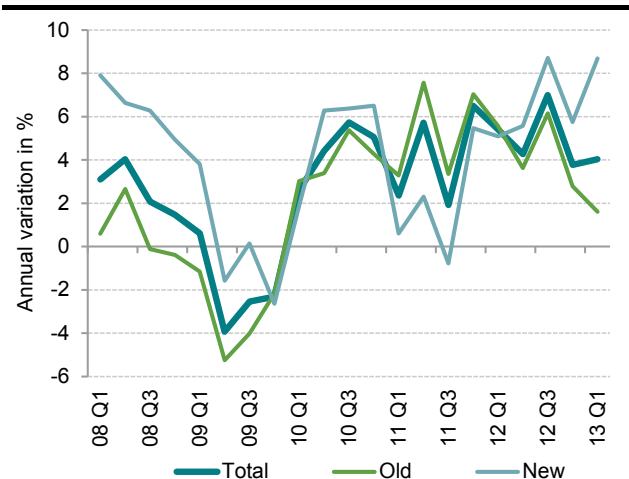
After the cold, the rain

Confidence in the Luxembourg construction sector has risen recently, tentatively in April and then more markedly in the May survey. It had already recovered somewhat in late 2012, but this was not reflected in output figures and it proved short-lived. In May, business owners were more optimistic as regards all survey variables (order books, employment and recent activity trends). They again mention the difficult climate conditions as one of the main factors inhibiting activity (keeping pace with insufficient demand) and indeed the intense cold of the 1st quarter gave way to rainfall that was just as intense, with twice as much rain as normal in May.

In neighbouring countries, the outlook was no better, except in Germany, where confidence returned to levels not seen since the early 90s. Germany did see output fall in the 1st quarter, drastically cutting its imports (and therefore exports from its partners, particularly in Europe).

Real Estate

Apartment prices



Source: STATEC

Apartment prices moderate somewhat

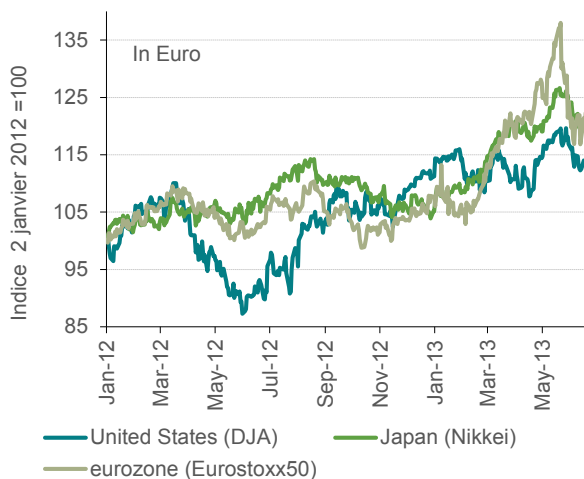
The price of apartments sold in Luxembourg fell slightly in the 1st quarter of 2013, by 0.2% compared to the 4th quarter. Over one year, the growth recorded remains significant – at almost 4% – but there has been some moderation in prices for older properties.

On the new-build market (i.e. housing that has not previously been occupied, accounting for roughly one third of all transactions) on the other hand, prices appear to be picking up, with annual growth of over 8% in the 1st quarter of 2013 (compared to a little over 6% over 2012 as a whole).

The number of transactions fell in the 1st quarter of 2013 (this phenomenon seems to be partly due to seasonal factors) but remains relatively comparable to the levels observed in the 1st quarter of 2012.

Financial sector (1/2)

Stock-market indices



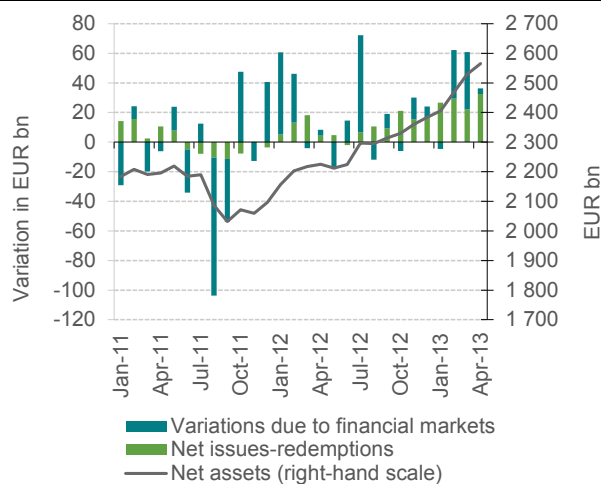
Source: Macrobond

Stormy waters on the stock markets

The international financial environment has deteriorated in relative terms in recent weeks. After reaching record – or at least relatively high – levels, the leading American, European and Japanese indices have fallen sharply since mid-May. The most severe correction was in Japan. The initial wave of enthusiasm for Shinzo Abe's ultra-expansionary economic policy, which saw the Nikkei index gain about 80% in 6 months, seems to have given way to more mixed feelings on the part of investors. In the United States, Federal Reserve statements seemed to indicate that its quantitative easing programme, QE3, would be scaled back earlier than expected, which plunged the financial markets into turmoil and prompted renewed volatility. This reduced support as announced by the FED, although linked to improving US economic indicators, has apparently left investors dubious. The European stock markets were not insensitive to the negative signals coming from the American and Japanese markets, and they fell substantially (the Eurostoxx index fell some 10% between 20 May and 20 June).

Financial sector (2/2)

Undertakings for Collective Investment



Source: CSSF

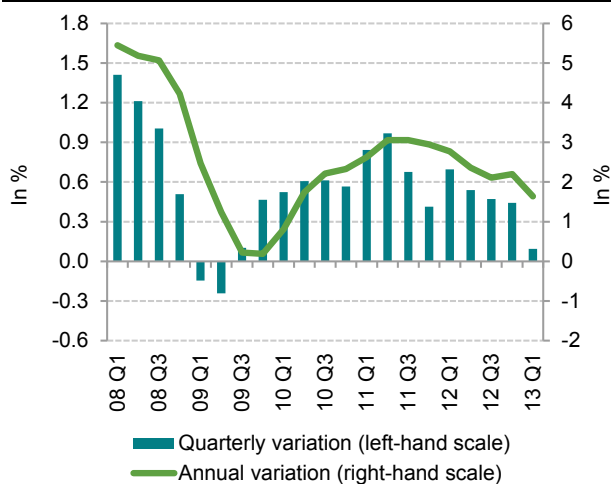
UCIs: positive underlying trend

For the eighth consecutive month, net assets of Luxembourg undertakings for collective investment (UCIs) rose again in April 2013. However, they rose just 1.4% over one month, much lower than the average 2.5% observed in February and March. This slower momentum is due first and foremost to market effects, as the stock markets fluctuated somewhat from the end of March to mid-April. At the end of the 2nd quarter, market effects are also expected to be limited (the benchmark stock market indices were bullish in May but bearish in June).

On the other hand, net investment (issues less redemptions of UCI units) remained considerable, exceeding 32 billion euro in April, a level last seen in early 2006, proving that Luxembourg funds are still popular among investors.

Labour market

Paid employment



Source: STATEC (National Accounts)

Employment stalls

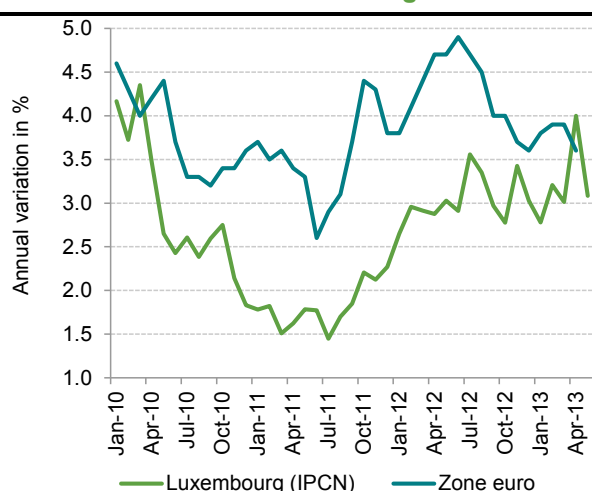
Paid employment slowed considerably in the 1st quarter. Rising just 0.1% (seasonally adjusted figures) compared to the 4th quarter of 2012, job creation practically stalled in early 2013. Two sectors were even hit by net job losses: construction (-0.7% over one quarter) and business services (-0.5%, severely hit by the drop in temporary worker numbers). These sectors probably suffered particularly badly from the very bad weather conditions in early 2013, but for most sectors the generally unfavourable trend noted in paid employment is due to cyclical factors and is the logical continuation of 2012 when GDP growth was very low (0.3%). By contrast, the damage was limited in manufacturing: worker numbers stagnated in the 1st quarter, benefiting from some respite after three consecutive quarters of decline.

Unemployment continued to rise sharply in the 2nd quarter, at a rate of close to 7% of the working population at the end of May.

Inflation

Alcohol and tobacco: relatively modest price rises

Price of alcoholic beverages and tobacco



Source: Eurostat

Trend chart

	Sep-12	Oct-12	Nov-12	Dec-12	Jan-13	Feb-13	Mar-13	Apr-13	May-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	-2.8	-4.4	-4.9	2.8	-5.8	-5.7	-5.8	...	...	-5.8	-7.2
Construction output per working day, in volume	-4.5	0.1	-9.9	2.2	-23.7	-1.7	-0.4	...	...	-8.4	-10.5
Turnover by volume of total retail trade	-0.5	1.4	0.2	-1.7	1.4	-7.8	...	...	...	-2.5	2.9
Prices, wages											
Consumer price index (NCPI)	2.9	2.9	2.5	2.3	2.1	2.3	2.0	1.7	1.6	1.8	2.6
Underlying inflation	2.2	2.2	2.2	2.2	2.1	2.3	2.2	2.3	2.3	2.3	2.1
Oil product index	11.6	10.8	5.4	3.9	1.9	2.5	-0.6	-3.9	-5.0	-3.2	8.6
Industrial producer price index	0.6	-0.2	0.4	-0.6	-0.9	-1.2	-1.3	-2.1	...	-1.5	1.7
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)	0.4	1.8	1.8	1.8	...	...	...	...	...	1.8	1.8
Foreign trade											
Exports of goods (volume)	-11.3	3.9	-5.9	-17.0	-4.4	-8.2	-11.4	...	...	-8.2	-9.4
Imports of goods (volume)	5.3	-10.6	16.2	-6.4	4.4	-12.6	-5.6	...	...	-4.9	1.6
Employment, unemployment											
Domestic number of employees	2.1	2.3	2.0	2.3	1.7	1.7	1.5	1.1	1.2	1.3	4.0
National employment	2.1	2.4	2.1	2.3	1.7	1.7	1.5	1.1	1.2	1.3	2.3
Unemployment rate (% of working population, seas. adj.)	6.1	6.2	6.3	6.4	6.4	6.5	6.6	6.7	6.9	6.7	6.0

Source: STATEC

Data blue coloured are estimates

¹ Estimations based on half-yearly data

Indicators

	Variation on previous quarter in %					
	2011 Q4	2012Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1
Eurozone - Growth in volume of GDP (European Commission)	-0.3	-0.1	-0.2	-0.1	-0.6	-0.2
Luxembourg - Growth in volume of GDP (STATEC)	-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 2012: 44 426 Mio EUR						
Minimum monthly salary (since 01/10/2013): EUR 1 874.19						
Current account balance (2012 Q4): EUR 1 175 million						
Resident population (01/01/2013): 537 039						
Consumer price index (May) - base January 1 st 1948: 818.17						
Half-yearly average of the index linked to base as at January 1 st 1948: 815.23						
Estimated deadline for next salary indexation: 4 th term 2013						

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