

Less job-intensive growth

Since the publication of the last Note de conjoncture (NDC 1-13, May 2013), the economic situation has changed, as has the outlook for the rest of 2013 and 2014. A number of elements are likely to affect the forecast, the detailed results of which will be included in the next Note (NDC 2-13, to be published in November 2013).

Targeted economic growth of 1% in 2013 remains within reach

After a very positive 4th quarter in 2012, economic activity fell back again in the 1st quarter of 2013. However, in terms of trend the annual growth rate of GDP in vol. remains close to 1%, while growth acquisition at the end of the 1st quarter was close to zero. Without any additional growth in activity over the remaining quarters, the forecast of 1% included in NDC 1-2013 cannot be reached. Most economic surveys signal a recovery from Q2 on, albeit from extremely low levels (see below).

On the other hand, in light of recent developments at international level, it appears highly likely that the growth assumption for eurozone GDP, which was one of the cornerstones of the forecast in NDC 1, is overly optimistic. If STATEC were to draw up another forecast for GDP in volume in the eurozone, it would have to downgrade the 2013 figure by 0.4 percentage points (from -0.3 to -0.7) and the 2014 figure by 0.2 percentage points (from +1.4% to +1.2%). However, the financial markets are holding up well, despite a (temporary?) downward phase at the end of spring, and the expected 10% rise in the European stock market index (as an annual average), seems to be still achievable.

All in all, the spring forecast (1.0% GDP growth in volume for 2013) can be maintained for the moment, but we will have to wait and see how the stock markets behave over the summer months as well as take on board any new information that may become available before things become more certain and the validity of this forecast can be assessed.

Labour market harder hit than forecast

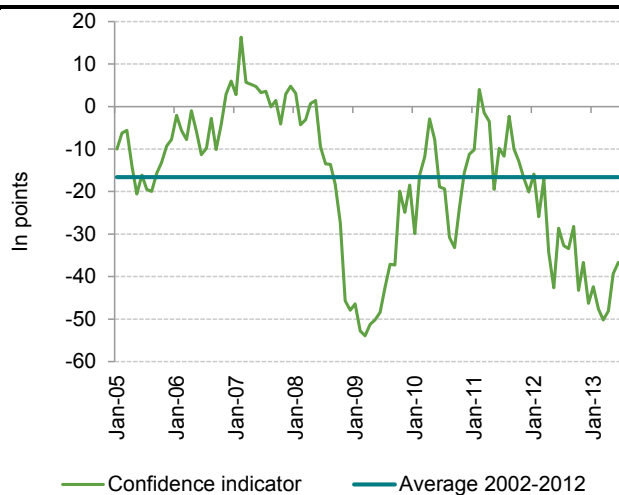
While activity has not collapsed (in Luxembourg), the same cannot be said for the labour market. There has been a sharp downturn in employment – the average monthly growth (seasonally adjusted) is less than 0.1% since November 2012. This downturn has also led to an acceleration in the rise in unemployment. While STATEC had forecast these changes, they were more significant than expected. Employment growth will thus be lower than forecast in the spring (1.2 to 1.3% instead of 1.7%) and unemployment could reach about 7% in 2013 (instead of 6.6% in the NDC forecast).

The prospects in terms of inflation and pay increases are not as yet predicted to change (NCPI: +1.9% in 2013; average wage bill: +1.5%). A wage index adjustment is due in October 2013.

STATEC is also closely monitoring developments in the private banking sector, after the announcement that withholding tax was to be discontinued and the adoption of an automatic disclosure of information strategy (except for residents). While the effects of these measures are uncertain, it appears likely that in the short term at least, funds under management in the private banking sector will fall, which could potentially have a considerable effect on added value in the financial sector. If statistical trends revealed until autumn reported a measurable (and negative) impact STATEC should be considered in updating the forecast for 2013 and especially 2014. On the other hand, this re-orientation could also attract new activities and players in the medium term, which could, to a greater or lesser extent, offset the funds under management lost.

Manufacturing

Confidence in the manufacturing sector



Source: STATEC

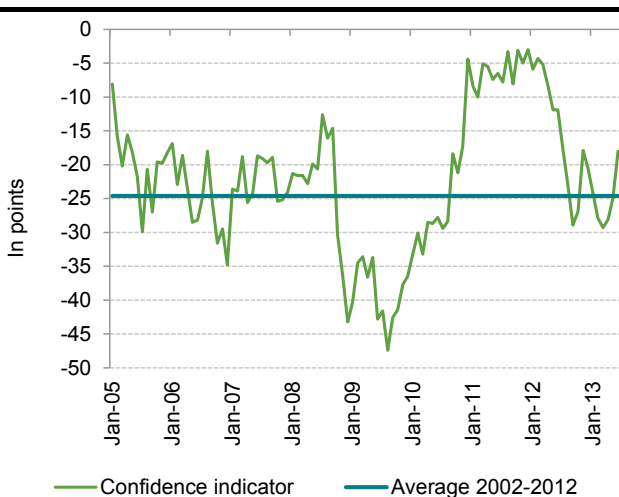
Improvement remains to be confirmed

Manufacturers in June confirmed the renewed optimism observed in the two previous months. Opinions on output (recent trends and outlook) and on the order books have recovered after reaching a low point in March. However, many worrying signs remain: stock levels are still seen as too high and use of production capacity as very low (at just 62%, similar to early 2009) while employment prospects have not improved.

As regards output figures (business survey), there was a fall of about 5% in the first 4 months of 2013 compared to performance in early 2012. Nevertheless, based on seasonally adjusted figures, output seems to have bottomed out and the first estimate for May is relatively encouraging (up 1.6% on April).

Construction

Confidence in the construction sector



Source: STATEC

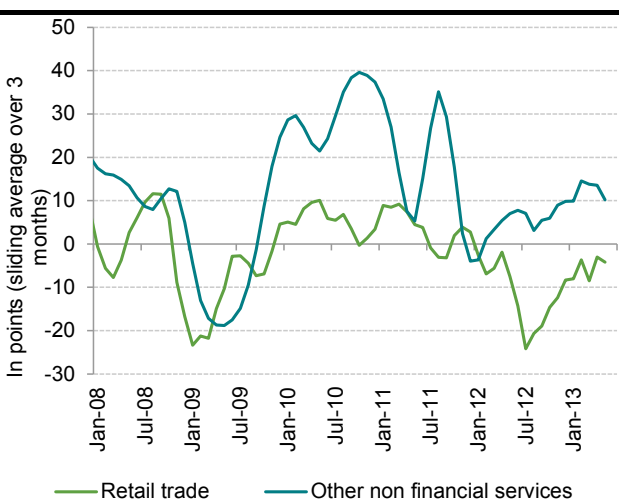
Increases in workforce numbers in the offing?

Over the first 4 months of the year, output in the construction sector lost almost 10% as compared to 2012 levels, a mediocre result due notably to the particularly difficult weather conditions at the start of the year. Therefore, upcoming results are likely to rally somewhat, especially as opinions among business owners in the sector – as in manufacturing – show confidence has been growing since April. This upswing in opinions is due among other things to a net upturn in employment prospects (which is not the case in manufacturing). This bodes well for the labour market, considering that much of the sharp upturn in unemployment in the 1st half of 2013 was essentially due to the large number of job seekers previously employed in this sector.

As regards planning authorisations, the volume of construction projects in the 1st quarter of 2013 was relatively low (down 20% over one year), particularly in non-residential projects.

Non-financial services

Confidence in the services sector



Source: Chamber of Commerce, STATEC

Services sector more optimistic

Confidence indicators in non-financial services were relatively positive at the end of June, with confidence levels close to their historical average. However, it should be noted that the perceptible improvement in the opinion survey has not been reflected in turnover in the retail trade, which fell over 3% over one year over the first 4 months of the year and was still trending downward at the end of April. This loss of consumer appetite is also felt in private car registrations, down 8% over one year in the 1st half of 2013. On the other hand, in other non-financial services, turnover figures appear more in line with the improvement in the confidence indicator.

It should also be borne in mind that the confidence indicator for financial services (calculated for the eurozone as a whole) is also more optimistic (rising for 4 quarters in a row up to Q2 2013).

Financial sector

Profit and loss accounts

	June 2012	June 2013	Variation
	In EUR million		In %
Interest margin ¹	2 860	2 672	-6.6
Income from commission	1 922	2 074	7.9
Other net income	206	644	212.7
Banking income	4 988	5 390	8.1
Personnel costs	1301	1 365	4.9
Other overhead expenses	1 138	1 135	-0.2
Overhead expenses	2 439	2 500	2.5
Income before provisions	2 549	2 890	13.4

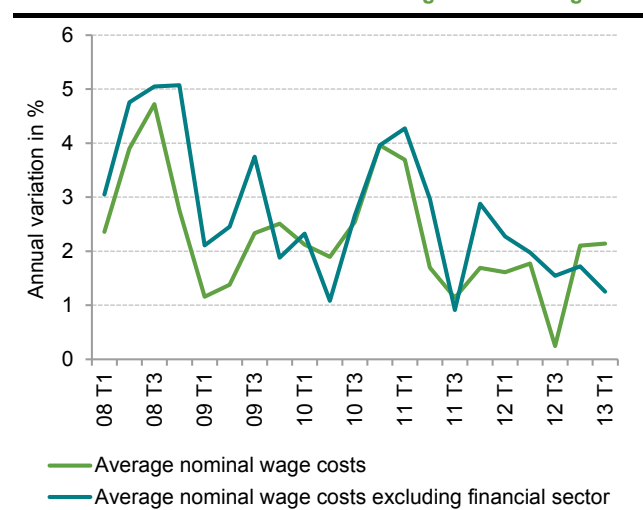
Source: CSSF (provisional results)

¹ Including dividends received from subsidiariesBanking income recovers in the 2nd quarter

According to an initial CSSF estimate, banking income (before provisions) grew 13.4% over one year in the 1st half of 2013. This result is due to relatively satisfactory performance in the 2nd quarter (up 40% over one year according to decumulated figures, against a fall of 8% over one year in the 1st quarter). There are number of phenomena behind this rally. First is other net income, due to the valuation of investment portfolios (price effect). Next, like in the 1st quarter, income from commissions was relatively high, which the CSSF attributes to "administration and management services provided by Luxembourg banks to investment funds". Finally, the interest margin recovered somewhat in the 2nd quarter (up 2.6% over one year, against a fall of 16% in the 1st quarter), but most of this seems to have been due to dividend income received but not yet earned (this income is not taken into account when calculating added value). All in all, taking into account these different phenomena, it is highly unlikely that the banking sector will make any significant contribution to GDP growth in the 2nd quarter.

Wages

Average nominal wage cost



Sources: STATEC (National Accounts)

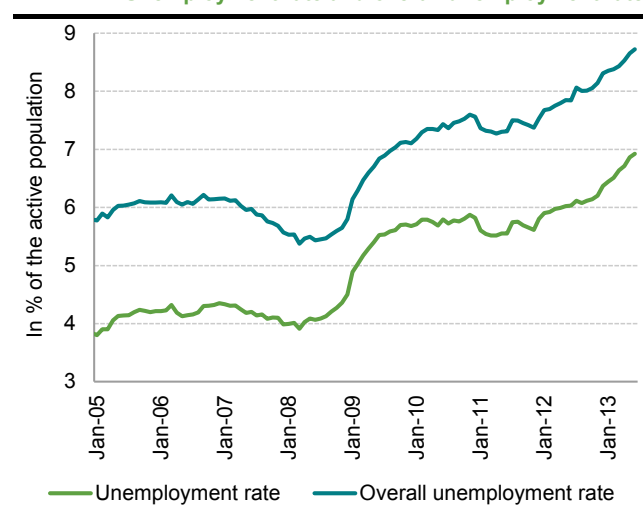
Continued modest wage growth

In the 1st quarter of 2013, average nominal wage costs rose 2.1% over one year, like in the previous quarter. However, trends differ widely across different economic sectors. While average nominal wage costs are falling in agriculture, manufacturing and construction, they are still rising in services. This trend is due in part to the poor weather conditions at the start of the year and to the significant drop in working hours (down 1.9% over one year in Q1). In construction, average nominal wage costs fell 4.5% over one year in Q1 2013 and hourly wage costs rose 4.2%. This phenomenon is also seen in manufacturing.

Average nominal wage costs in the financial sector have risen significantly, from 6.0% over one year in Q1 2013, linked to exceptional redundancy payouts (like in the previous quarter). Apart from the financial sector, wage costs rose just 1.2% in Q1 2013, reflecting the slowing trend and the loss of purchasing power of wages (with inflation at 2.1% over one year in Q1 2013).

Labour market

Unemployment rate and overall unemployment rate



Sources: ADEM, STATEC (seasonally adjusted figures)

Sharp hike in unemployment in the 1st half

Despite stabilising in June at 6.9% of the working population, the unemployment rate has been trending upward since the end of the first half of 2013. In the space of a year, the proportion of people registered as job seekers with ADEM thus rose from 6.0% to some 7% of the working population.

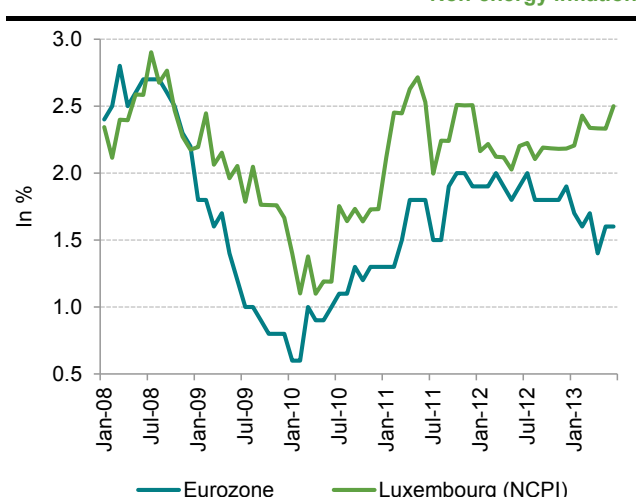
The rise noted in the first six months of 2013 was mostly among the under 30s (who account for 28% of the overall rise) and the over 50s (27% of the rise), those with low or fairly low levels of training (28% and 48% respectively, women (54%), Luxembourg and Portuguese nationals (35% and 29% respectively), mainly from hotel and catering (15%) and construction (11%).

The fall in subsidised jobs in the 1st half, linked in particular to a legislative vacuum as regards schemes aimed at young people (CIE and CAE), only partly explains the rise in unemployment in early 2013. In fact, the overall unemployment rate (including people in job schemes) has also risen considerably, standing at 8.7% in June.

Inflation

No noticeable slowdown in Luxembourg

Non-energy inflation



Source: STATEC

Trend chart

	Oct-12	Nov-12	Dec-12	Jan-13	Feb-13	Mar-13	Apr-13	May-13	Jun-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	-4.4	-4.9	2.8	-5.8	-5.6	-6.3	-1.4	...	...	-4.5	-6.0
Construction output per working day, in volume	0.1	-9.9	2.0	-23.7	-4.8	-4.1	-4.5	...	...	-4.4	-11.1
Turnover by volume of total retail trade	4.4	3.1	1.1	4.4	-5.3	-2.5	-0.1	...	...	-2.6	3.8
Prices, wages											
Consumer price index (NCPI)	2.9	2.5	2.3	2.1	2.3	2.0	1.7	1.6	2.1	1.8	2.6
Underlying inflation	2.2	2.2	2.2	2.1	2.3	2.2	2.3	2.3	2.4	2.3	2.1
Oil product index	10.8	5.4	3.9	1.9	2.5	-0.6	-3.9	-5.0	-1.0	-3.3	7.4
Industrial producer price index	-0.2	0.4	-0.6	-0.9	-1.2	-1.3	-2.1	-2.9	...	-2.3	1.0
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)	2.1	2.1	2.1	...	...	...	...	...	...	0.2	1.1
Foreign trade											
Exports of goods (volume)	3.9	-5.9	-16.9	-4.5	-8.2	-11.5	2.7	...	...	-6.0	-10.2
Imports of goods (volume)	-10.5	16.2	-6.4	4.5	-12.6	-3.9	1.0	...	...	-5.2	1.4
Employment, unemployment											
Domestic number of employees	2.3	2.0	2.3	1.7	1.7	1.5	1.5	1.4	0.9	1.2	3.6
National employment	2.4	2.1	2.3	1.7	1.7	1.5	1.6	1.4	1.1	1.4	2.1
Unemployment rate (% of working population, seas. adj.)	6.1	6.2	6.4	6.4	6.5	6.6	6.7	6.9	6.9	6.8	6.0

Source: STATEC

Data blue coloured are estimates

¹ Estimations based on half-yearly data

Indicators

	Variation on previous quarter in %					
	2011 Q4	2012 Q1	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)	0.2	-1.0	0.6	-0.2	2.2	-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 (2013 Q1): EUR 180 million						
Resident population (01/01/2013): 537 039						
Consumer price index (June) - base January 1 st 1948: 820.89						
Half-yearly average of the index linked to base as at January 1 st 1948: 816.85						
Estimated deadline for next salary indexation: 4 th term 2013						

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