

Eurozone: an end to the recession

GDP in the eurozone recovered in the 2nd quarter of 2013, after an eighteen-month recession. Although this was a nice surprise, the overall economic climate remains difficult.

Rally stronger than expected

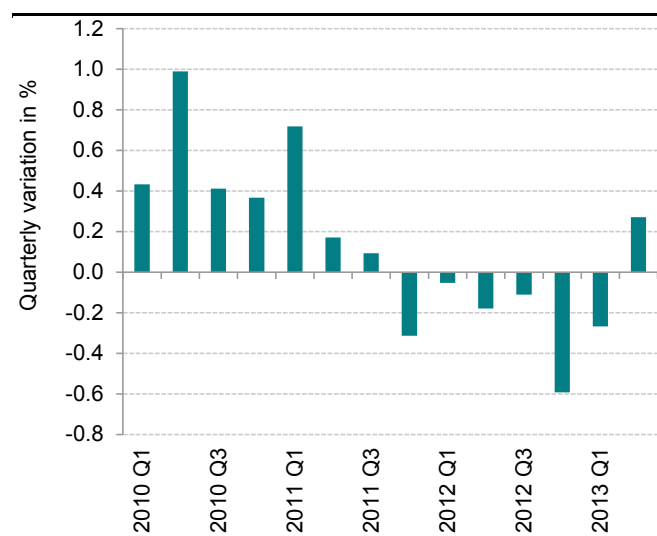
According to Eurostat's preliminary estimate, gross domestic product in the eurozone rose 0.3% in the 2nd quarter of 2013. This rally in GDP ended a recession that started in late 2011 and lasted six quarters. Performance in the 2nd quarter proved far higher than suggested by the various leading business cycle indicators for the eurozone, which – at best – pointed to a less pronounced contraction in activity in the 2nd quarter. With GDP growth of 0.7%, Germany made a significant contribution to overall growth, linked in particular to a recovery in its industrial output (with very good figures in June). However, the best surprises came from France, with 0.5% growth, largely exceeding expectations, and Finland (0.7% growth). In peripheral countries, the overall trend is for less of a downturn in activity, as in Spain, where growth fell just 0.1% in the 2nd quarter (compared to an average of -0.5% over the previous three quarters). Portugal even saw its GDP grow 1.1%, posting the highest rise since the 1st quarter of 2010, after falling for ten quarters in a row. One of the most disappointing results came from the Netherlands, with a fall of 0.2%.

Cyclical momentum remains fragile

While this early exit from recession is to be welcomed, caution is advisable as regards growth prospects. According to European Commission forecasts in May 2013, eurozone GDP will fall 0.4% over 2013 as a whole. To achieve this less than rosy figure, growth will have to rise again to 0.3% over the two remaining quarters of 2013, which is far from certain.

Firstly, there is no doubt the recent rally is partly due to the result of a technical catch-up – albeit to what extent remains unknown – after a start to the year when weather conditions severely penalised activity in several sectors (construction, manufacturing and certain services). Germany, for example, posted a significant increase in construction in the 2nd quarter (up 3.9% against a fall of 2.9% in Q1).

GDP in the eurozone

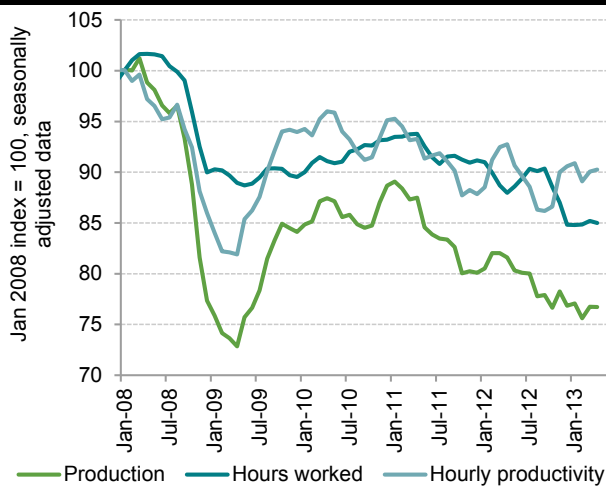


Source: Eurostat

Secondly, the overall economic climate remains very difficult. While confidence indicators among eurozone business owners have risen in recent months (the rising eurozone PMI index in August confirms this trend), they are not yet at levels compatible with sustained growth. The same applies to household confidence, which is gradually recovering but which remains severely affected by the historically high unemployment rate. The European macroeconomic climate remains marked by restrictive fiscal policies, which are set to continue to curb domestic demand.

Manufacturing

Output, hours worked and productivity



Source: STATEC (activity survey)

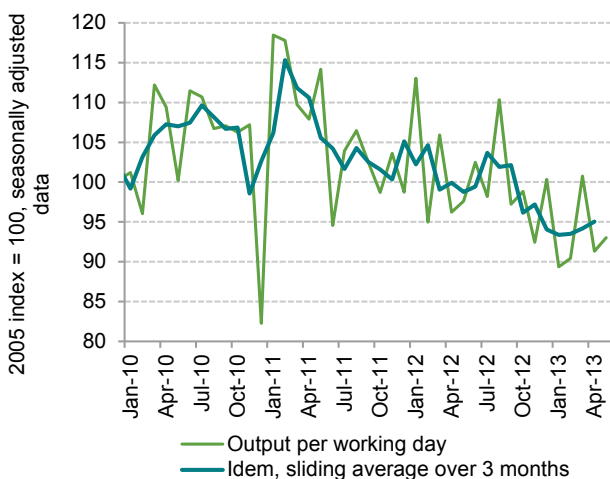
Output disappointing in the 2nd quarter

While eurozone industrial output recovered somewhat in the 2nd quarter, the figures for Luxembourg are not as favourable. National output remained on a downward trend at the end of June (data estimated for that month), despite the upturn in opinions among Luxembourg manufacturers since May.

However, detailed output figures point to dynamic growth in most manufacturing sectors, but unfortunately not in the largest ones: the negative trend in iron and steel, the manufacture of machinery and equipment, the textiles industry and energy in the first part of 2013 weighed heavily on the overall result. Still, the resulting drop in hours worked (apart from temporary work) at the end of 2012 led to a regain in productivity.

Construction

Output per working day



Source: STATEC (activity survey)

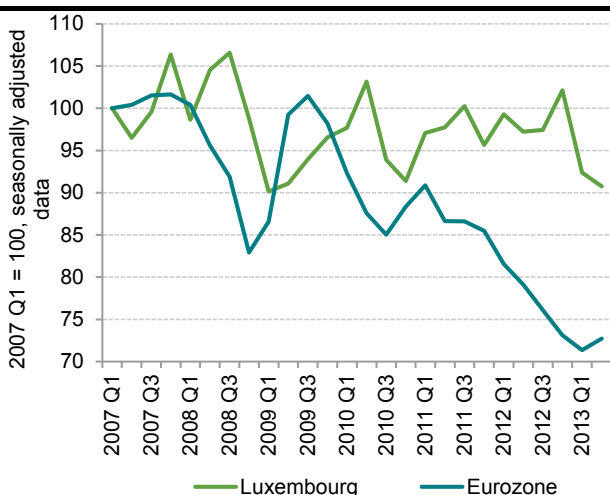
A very tentative recovery

Output from construction companies dropped over 8% on last year over the first 5 five months. This under-performance is partly linked to extremely low activity levels in the 1st quarter (due to the difficult weather conditions), but also to a deterioration in the economic climate. Opinion surveys, which were trending more favourably since April 2013 (up to July), point to an improvement but this has not really been reflected in output figures. For the moment, (i.e. based on the results available up to May), there is at best a trend toward a very slight rise in output, making it difficult to talk about a recovery.

In the eurozone, output in this sector fell some 4% over one year in the 1st half of 2013 (with both Germany and France falling 3%). Alongside Austria, Spain is one of the few countries to show a positive figure (up 2%) over the same period, following a collapse of almost 50% in output in this sector between 2006 and 2012.

Consumption

New registrations of private cars



Sources: ACEA, STATEC

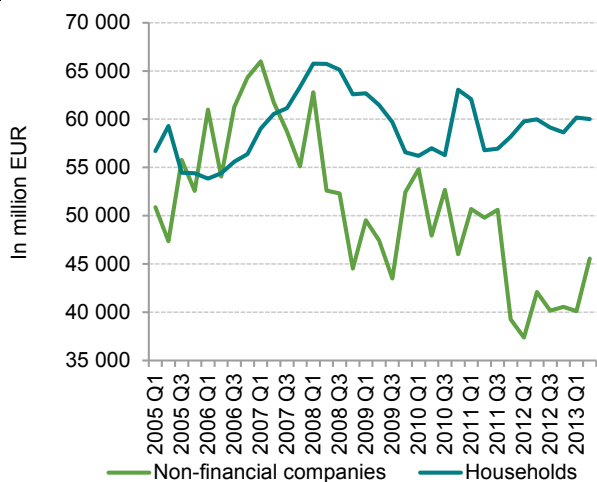
Registrations continue to fall

New registrations of private cars in Luxembourg fell in the 2nd quarter of 2013, by about 2% over one quarter (seasonally adjusted figures) and by 7% over one year. Over the 1st half as a whole, new car sales fell some 8% compared to last year. This indicator, which had held up well in the gloomy economic situation in 2011 and 2012 compared to other European countries, shows a clear drop in 2013. The figures already available for July for Luxembourg show no improvement on this (down 0.8% over one month, down 6.9% over one year).

In the eurozone, registrations rallied in the 2nd quarter, after steadily declining for the previous two years. It should be noted that Italy and Spain made quite a significant contribution to this increase and many eurozone countries seem to have turned the corner (except for France and the Netherlands, which continue to trend downwards).

Financial sector

Deposits by non-financial companies and households



Source: BCL (end-of-quarter figures)

Contrasting trends in deposits

Bank deposits, excluding credit institutions and public services, performed relatively well during the 1st half of 2013. Between the end of December 2012 and the end of June 2013, they rose about 14% (up 8% over the 1st quarter, up 6% over the 2nd). Most of this rise – about four fifths – is due to financial companies (excluding banks), mostly undertakings for collective investment. In the 2nd quarter, there was also sustained growth in deposits by non-financial companies, particularly Luxembourg-based companies. The rise in household deposits was much more modest: up about 2% over the 1st half as a whole, with a slight drop in the 2nd quarter (down 0.3%). This minor downturn between the end of March and the end of June is the result of diverging trends: a 0.9% rise for households resident in Luxembourg, a 2.0% fall for those in other eurozone countries and a stabilisation for those in the rest of the world.

Labour market

Job offers notified to ADEM



Sources: ADEM, STATEC (seasonally adjusted figures)

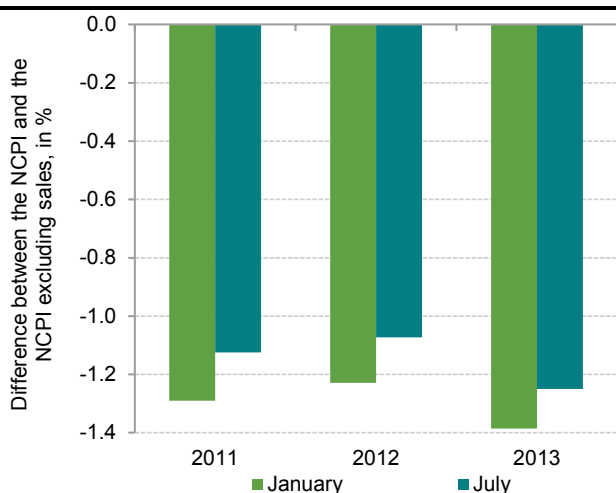
Fewer vacancies notified to ADEM

In the 2nd quarter of 2013, 2,355 job offers (or vacancies) were recorded by ADEM, against 2,445 in Q1 (seasonally adjusted figures). The slow decline in job offers since mid-2011 is due to a simultaneous fall in new vacancies (in-flows) and filled vacancies (out-flows), although the fall was more pronounced in the former. Nevertheless, the number of new vacancies remained relatively high in early 2013 (with almost 2,000 new notifications a month). New vacancies also recovered significantly in the 2nd quarter, but this came after a 1st quarter marked by particularly unfavourable weather conditions, and does not necessarily reflect a real improvement.

In early 2013, the sectors with the most job offers remained hotel & catering and business services, which continued to post the highest vacancy rates (i.e. the number of offers compared to all positions occupied or to be filled). In contrast, manufacturing, construction, transport and public administration posted the lowest rates.

Inflation

Impact of sales on consumer prices



Source: STATEC

A significant "sales" effect in 2013

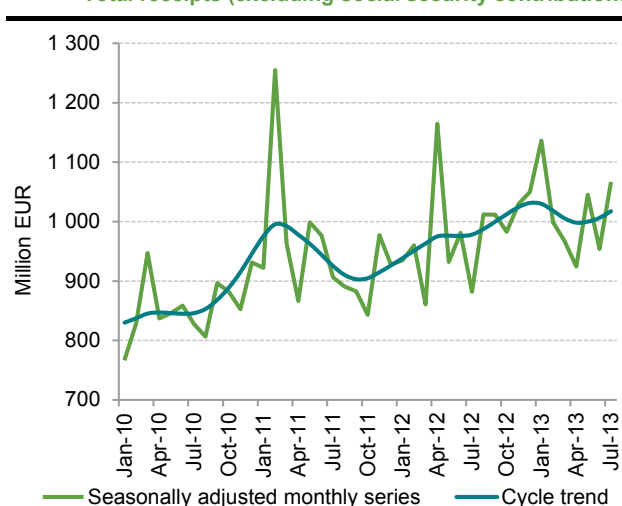
Inflation fell considerably in July, from 2.1% over one year in June to just 1.8%. There are number of phenomena behind this fall. One particular example is the end of certain base effects linked to price rises in July 2012 (financial services, beer). Some food prices also fell, such as fresh fruit or preserved fish products (which peaked in June). Package holidays by air also contributed less to inflation than in June.

Above all, however, the effect of sales was much more significant this year in July than in previous years, and this had a considerable impact on prices in a number of clothing categories, travel goods, jewellery, etc. This more pronounced effect of sales in July no doubt partly reflects the consequence of the bad spring weather, but perhaps also (because the same phenomenon was observed in January) a less buoyant climate in terms of household consumption.

Public finances

Tax receipts: up 5.5% over the first 7 months

Total receipts (excluding social security contributions)



Source: Tax authorities, STATEC

Trend chart

	Nov-12	Dec-12	Jan-13	Feb-13	Mar-13	Apr-13	May-13	Jun-13	Jul-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	-4.9	2.8	-5.8	-5.6	-6.3	-1.4	-4.0	...	...	-4.0	-5.3
Construction output per working day, in volume	-9.9	2.0	-24.6	-5.1	-4.5	-4.6	-4.4	...	...	-4.5	-8.9
Turnover by volume of total retail trade	3.1	1.1	4.4	-5.3	-2.5	-0.1	-0.5	...	...	-1.1	2.3
Prices, wages											
Consumer price index (NCPI)	2.5	2.3	2.1	2.3	2.0	1.7	1.6	2.1	1.8	1.9	2.5
Underlying inflation	2.2	2.2	2.1	2.3	2.2	2.3	2.3	2.4	2.0	2.2	2.2
Oil product index	5.4	3.9	1.9	2.5	-0.6	-3.9	-5.0	-1.0	-0.1	-2.1	6.2
Industrial producer price index	0.4	-0.6	-0.9	-1.1	-1.5	-2.5	-2.8	-3.3	...	-2.8	1.1
Construction price index ¹	2.7	2.7	2.5	2.5	2.5	...	...	...	...	2.5	3.2
Average wage bill, per person (National accounts)	1.9	1.9	1.6	1.6	1.6	...	...	...	...	1.6	2.2
Foreign trade											
Exports of goods (volume)	-3.7	-15.5	-2.3	-6.3	-10.7	4.4	4.5	-6.8	...	0.4	-7.3
Imports of goods (volume)	5.6	8.9	19.3	9.8	-9.7	6.5	-7.2	-3.9	...	-2.0	3.4
Employment, unemployment											
Domestic number of employees	2.0	2.3	1.7	1.7	1.5	1.5	1.9	1.7	2.0	1.9	2.9
National employment	2.1	2.3	1.7	1.7	1.5	1.6	1.9	1.6	1.8	1.8	2.0
Unemployment rate (% of working population, seas. adj.)	6.2	6.4	6.4	6.5	6.6	6.7	6.9	6.9	7.0	6.9	6.1

Source: STATEC

Data blue coloured are estimates

¹ Estimations based on half-yearly data

Indicators

	Variation on previous quarter in %					
	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2 ¹
Eurozone - Growth in volume of GDP (European Commission)	-0.1	-0.2	-0.1	-0.6	-0.3	0.3
Luxembourg - Growth in volume of GDP (STATEC)	-0.8	0.6	-0.1	2.3	-1.8	...
	Annual variation in %					
	2008	2009	2010	2011	2012	Forecast 2013
Luxembourg - Growth in volume of GDP (STATEC)	-1.3	-4.2	3.0	1.7	0.3	1.0
PIB in value 2012: 44 426						
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 (July) - base Januaryst 11948: 811.43Half-yearly average of the index linked to base as at Januaryst 1948: 818.12Estimated deadline for next salary indexation:th 4th term 2013

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