

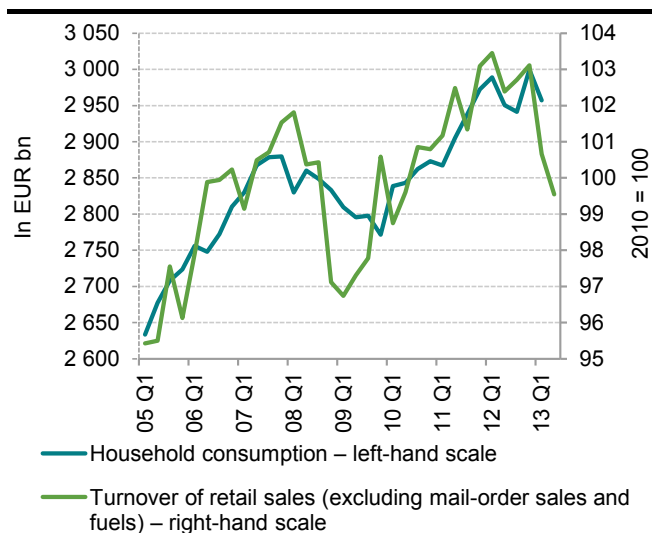
Stalling consumption?

The business cycle indicators for the 1st half of the year point to a highly unfavourable trend in household consumption in Luxembourg. A number of recent developments, however, hold out the hope of a more favourable trend in the long term.

Extremely negative indicators in the 1st half of 2013

Retail sales in Luxembourg did not perform well during the first half of 2013. Excluding mail order sales and fuel, turnover in the retail trade fell 2.5% compared to the 1st half of 2012 in terms of volume (i.e. adjusted for price variations). It slumped substantially between January and February and failed to recover thereafter, although it rallied somewhat across the eurozone as a whole in the 2nd quarter. As turnover figures are partially estimated and therefore subject to revision, caution is advisable when it comes to interpreting these results, which seem to reflect weakness in household consumption. However, other indicators also point to an unfavourable trend in terms of consumption. This is the case for new car registrations (see last month's Conjoncture Flash), which dipped 8% over one year in the 1st half of 2013, followed by similar falls in July and August. Furthermore, the consumer confidence indicator in Luxembourg, like in the rest of the eurozone, had started to recover from the 4th quarter of 2012, but this rally stalled in May, leading to a slump for 3 consecutive months up to July (recovering somewhat in August). This temporary slump in consumer morale was due in particular to growing uncertainty as regards the unemployment outlook. The unemployment rate grew significantly throughout the 1st half of 2013, settling at a record high of 7.0% of the working population in July. The relative instability of labour market indicators affected wages, which saw very moderate growth (apart from the financial sector, where redundancy payments bloated the figures), reducing the purchasing power of wages. All of these elements weighed on consumption in the 2nd quarter (things will become clearer in early October, when the quarterly national accounts are published).

Household consumption and retail sales



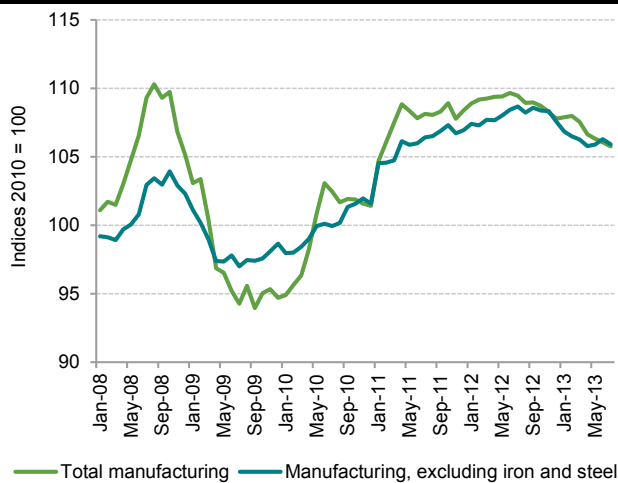
Source: STATEC (seasonally adjusted figures, in volume)

A few encouraging signs recently

A number of recent business cycle indicators have more favourable elements, liable to have a more positive effect – or at least less negative initially – on household consumption. Alongside the renewed consumer confidence seen in August already mentioned above, there was more sustained growth in paid employment in the 2nd quarter of 2013 (up 0.6% over one quarter, compared to just 0.1% the previous quarter). The unemployment rate fell in August, and although this cannot yet be said to be an underlying trend it still marks a break with the upswing since end-2011. Most of the economic surveys carried out among Luxembourg businesses reflect an improved outlook at the end of August and the international indicators available show a better economic profile overall (particularly in leading economies, including the eurozone). Moreover, the 2.5% rise in wages and pensions next October, due to index-linking with consumer prices, should boost consumer purchasing power.

Manufacturing

Output prices



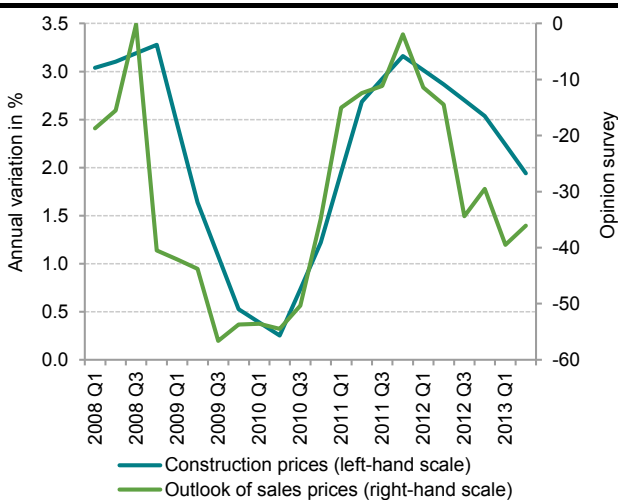
Source: STATEC

Few tensions on prices

Over the first 7 months of the year, industrial output prices fell roughly 2% on the previous year and were still firmly trending downwards at the end of July. However, it should be noted that the iron and steel industry accounted for much of this, particularly in recent months (April to July). Excluding iron and steel, Luxembourg manufacturing prices have more or less stabilised since spring, at almost the same time as output. Output rose slightly in the 2nd quarter (up 1.4% on Q1, after falling for four quarters in a row), due in particular to better June figures than expected in initial estimates and more in line with recovery in manufacturers' opinions over the same period. Despite this (moderate) recovery, output remains relatively low, with little potential for pressure on prices (apart from energy).

Construction

Construction prices



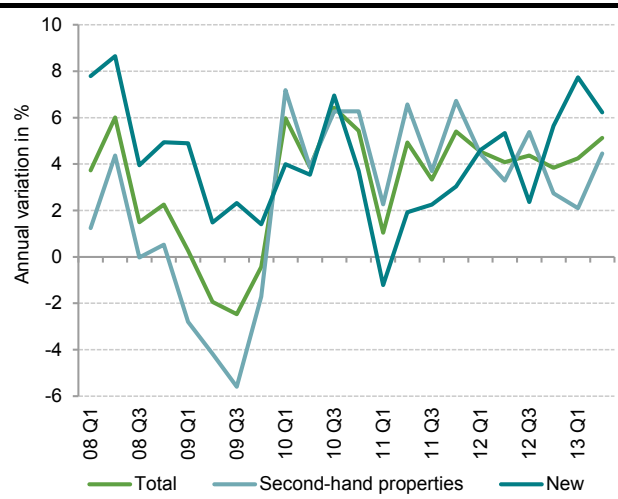
Source: STATEC

Construction prices: moderate rise

Output in the construction sector rose slightly in the 2nd quarter of 2013 (up 0.9%), after falling sharply for two quarters. However, output levels remained historically low in mid-2013 (posting a drop of about 10% compared to early 2011). This low level of activity was also reflected in output prices in the sector, which rose slightly (less than 2% over one year in the 2nd quarter, almost at the same rate as general inflation). This slowdown is notable both in structural and construction work and technical installations and finishing. The lower price rises are also revealed in the economic survey carried out among construction businesses, as these revised their expected output levels significantly downwards in 2012 and again in early 2013. The latest surveys available for the summer months do not reveal any additional expected deterioration in prices, but neither do they point to a recovery.

Real Estate

Asking prices for apartments



Source: STATEC

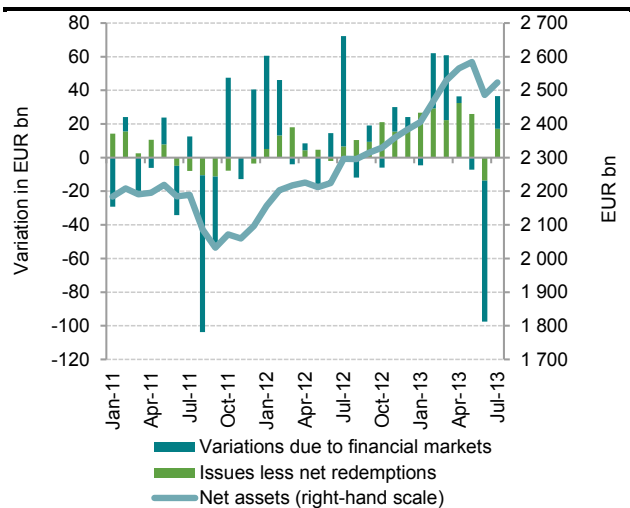
Apartments: higher price rises

Asking prices for apartments grew 5.1% over one year in the 2nd quarter of 2013, a higher pace than in previous quarters (up 4% on average over the four previous quarters). This pick-up was due to price trends in second-hand properties, which rose below those for new builds over recent quarters. New apartments are still showing signs of significant inflation, slightly above 6% over one year in the 2nd quarter. Transaction volumes recovered somewhat over the 1st half of 2013 as a whole (up about 2% over one year, after a drop of more than 5% in 2012), in both new builds and second-hand homes.

It should be noted that these figures are based on a new series published jointly by STATEC and the Observatoire du Logement [Housing Observatory] (using a standardised methodology for processing administrative data).

Financial sector

Undertakings for Collective Investment



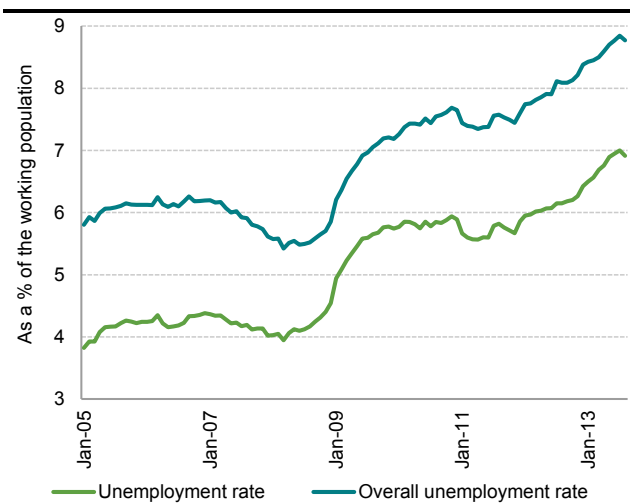
Source: CSSF

UCIs: panic in June

After falling significantly in June (down 3.8%), assets of Luxembourg undertakings for collective investment recovered partially in July (up 1.5%). These trends are closely linked to events in US monetary policy. The drop in June, the most significant since mid-2011, coincided with the announcement that the Fed was to start tapering its bond buyback programme, which led to a rise in interest rates and a fall in the equity markets. After the Fed softened its message, the markets took off again from end-June to mid-August, before the Syrian crisis again unsettled prices. Net UCI issues also yo-yoed in June and July. UCIs are set to benefit from the relative resilience of the markets over the remainder of the 3rd quarter, boosted in mid-September by another about-turn by the Fed (when it decided to maintain its bond buyback programme).

Labour market (1)

Unemployment rate and overall unemployment rate



Sources: ADEM, STATEC (seasonally adjusted figures)

Unemployment falls in August

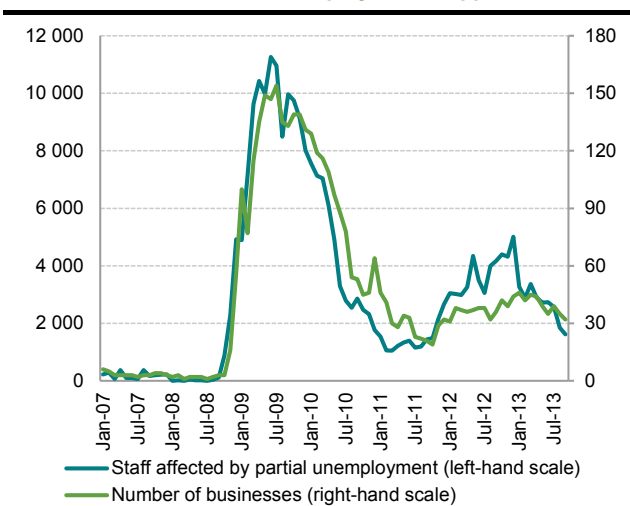
In August 2013, unemployment fell for the first time since November 2011 (down 1.2% over one month). Over one year, however, the rise remains significant (up 15.2%), even though there has been a slowdown compared to previous months (more than 17% over one year in May, June and July). The number of people looking for jobs and registered with ADEM now stands at 17,403, 6.9% of the working population, compared to 7.0% in July and 6.1% a year ago (seasonally adjusted figures).

As the number of people in job schemes has continued to rise (up 0.9% over one month), the fall is less in the overall unemployment rate, which includes job seekers and those on job schemes (down 0.77% over one month). Thus, the overall unemployment rate has remained stagnant at 8.8% since June.

This unemployment trend can be compared to a 2nd quarter that was better in terms of employment, as the latter rose 0.6% over one quarter in Q2 after rising just 0.1% in Q1 2013.

Labour market (2)

Partial unemployment – Applications made



Source: Comité de conjoncture

Fewer applications for partial unemployment

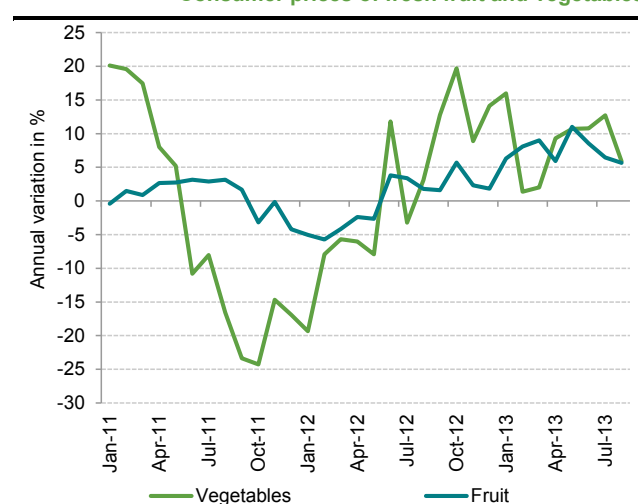
After growing throughout 2012, applications for partial unemployment fell over the first nine months of 2013. In the 3rd quarter of 2013, the comité de conjoncture (a government committee that reports on matters such as unemployment) processed just 35 applications on average per month against 44 in the first quarter. The number of people involved in this scheme to adjust working hours further reflects this trend, from 3,177 people on average per month in Q1 to 2,011 in Q3 2013 (or 1,108 full-time equivalents to 614).

The drop is due to a fall in applications for partial unemployment for cyclical reasons, from 25 units in Q1 to 17 units in Q3, while applications due to economic dependence and structural reasons remained at the same level (11 and 4 units respectively). The branch most affected is the manufacturing industry, the main user of this job scheme, where the number of applications increased from an average of 34 units in Q1 to 25 units in Q3.

Inflation

Fruit and vegetables peak in July

Consumer prices of fresh fruit and vegetables



Source: STATEC

Trend chart

	Dec-12	Jan-13	Feb-13	Mar-13	Apr-13	May-13	Jun-13	Jul-13	Aug-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	-5.8	-5.7	-7.4	-3.2	-4.4	-1.7	...	...	-3.1	-5.4
Construction output per working day, in volume	2.0	-24.6	-5.1	-4.6	-4.6	-4.2	-3.2	...	...	-4.0	-5.9
Turnover by volume of total retail trade	1.1	4.4	-4.1	-1.2	1.1	-0.3	-1.6	...	...	-0.3	2.2
Prices, wages											
Consumer price index (NCPI)	2.3	2.1	2.3	2.0	1.7	1.6	2.1	1.8	1.8	1.9	2.5
Underlying inflation	2.2	2.1	2.3	2.2	2.3	2.3	2.4	2.0	2.3	2.2	2.2
Oil product index	3.9	1.9	2.5	-0.6	-3.9	-5.0	-1.0	-0.1	-3.8	-1.7	6.5
Industrial producer price index	-0.6	-0.9	-1.1	-1.5	-2.5	-2.8	-3.3	...	...	-2.8	1.1
Construction price index ¹	2.5	2.2	2.2	2.2	1.9	1.9	1.9	...	...	1.9	2.9
Average wage bill, per person (National accounts)	1.9	1.6	1.6	1.6	...	...	...	...	...	1.6	2.2
Foreign trade											
Exports of goods (volume)	-15.5	-2.3	-6.3	-10.7	4.4	4.5	-6.8	...	...	0.4	-7.3
Imports of goods (volume)	8.9	19.3	9.8	-9.7	6.5	-7.2	-3.9	...	...	-2.0	3.4
Employment, unemployment											
Domestic number of employees	2.4	1.7	1.7	1.5	1.4	1.9	1.8	2.1	1.8	1.9	2.6
National employment	2.4	1.7	1.7	1.5	1.6	1.8	1.8	1.8	1.7	1.7	2.3
Unemployment rate (% of working population, seas. adj.)	6.4	6.5	6.6	6.7	6.8	6.9	6.9	7.0	6.9	7.0	6.1

Source: STATEC

Data blue coloured are estimates

¹ Estimations based on half-yearly data

Indicators

	Variation on previous quarter in %					
	2012Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2
Eurozone- Growth in volume of GDP (European Commission)	-0.1	-0.3	-0.1	-0.5	-0.2	0.3
Luxembourg - Growth in volume of GDP (STATEC)	-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						
Minimum monthly salary (since 01/10/2013): EUR 1 921.03						
Current account balance (2012 Q4): EUR 180 million						
Resident population (01/01/2013): 537 039						
Consumer price index (August) - base January 1 st 1948: 823.27						
Half-yearly average of the index linked to base as at January 1 st 1948: 818.81						
Estimated deadline for next salary indexation: October 1 st 2013						

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