

2nd quarter 2013 GDP: up 1.6% over one quarter, up 2.4% over one year

GDP grew quite strongly in the 2nd quarter of 2013, a trend partly linked to the exceptionally weak activity in the 1st quarter. A moderate recovery seems to be setting in, after a rather gloomy 2012. This upswing in activity is currently apparent in foreign trade, while domestic demand – private consumption and investments – is still showing signs of weakness.

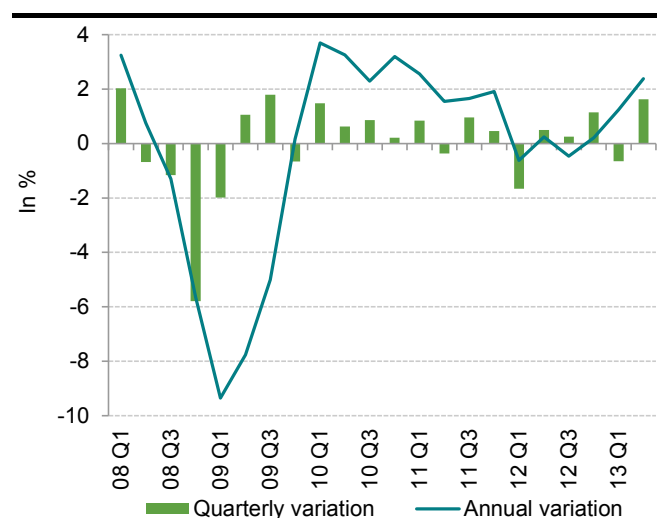
A moderate recovery takes hold

GDP growth stood at 1.6% over one quarter in the 2nd quarter of 2013, a remarkable result. The extent of this rally needs, however, to be kept in perspective given the very specific context of a very weak 1st quarter in terms of activity. The extremely unfavourable weather conditions in early 2013 – as in some other euro-zone countries – probably weighed heavily on the results of certain branches (particularly the construction, manufacturing and transport sectors). This led to somewhat erratic variations in GDP in late 2012, early 2013 but the underlying trend shows that a recovery has been under way since mid-2012, at an average pace of about 0.5% per quarter (i.e. about 2% on an annualized basis).

More growth... but less GDP

The latest figures look healthier in terms of growth in 2013, with growth acquisition for this year now amounting to 1.7% at the end of the 2nd quarter. This is mainly due to the fact that results in early 2012 were weaker than expected. They were not only weaker in terms of level, resulting from a downward revision of GDP from 2009, but also in terms of trend (for the 1st quarter of 2012 in particular, which now shows a drop of 1.7%, against fall of just 1.0% in the previous version). Annual adjustments for 2009 to 2012 show that the crisis had more impact than previously thought, with GDP declining 5.6% in 2009 (against -4.1% formerly) and falling 0.2% in 2012 (against a 0.3% rise in the previous version). Growth in 2010 and 2011 on the other hand was revised upwards but to a much more marginal extent (up 0.2 percentage points each year).

GDP in volume



Source: STATEC (National accounts, seasonally adjusted figures)

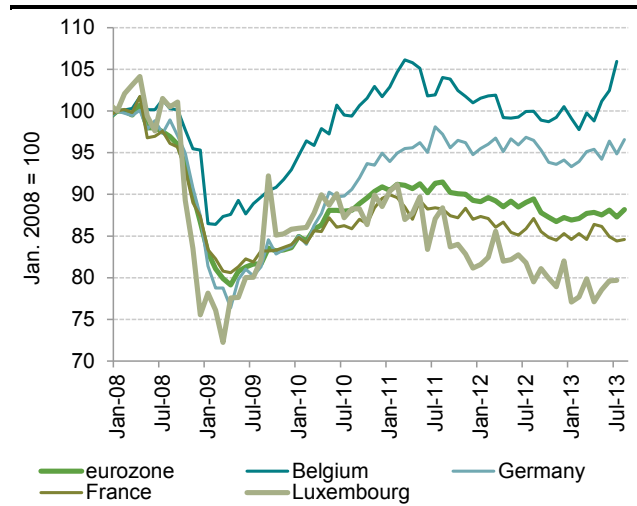
Recovery mainly driven by foreign demand

The various GDP components reveal relatively weak domestic demand. Household consumption rose just 1% over one year in the 1st half of the year, significantly less than population growth over the same period (over 2%). This low consumption growth is mostly due to spending on services, with spending on goods falling over the same period (due to trends in indicators such as retail sales and car registrations). Investment for its part fell 1% over one year in the 1st half of 2013, but the underlying trend (excluding airplanes and satellites) appears better positioned from the 2nd quarter on (a trend that remains to be confirmed).

A recovery was also noted in foreign trade, more specifically in trade in services. The balance of trade in services grew 0.9% per quarter over the first half of 2013, at a pace identical with the trend seen in the 2nd half of 2012, albeit with a different make-up. In fact, the most notable growth in early 2013 came in financial services, while other services – which had to a large extent sustained the external component of GDP in 2011 and 2012 – have been showing signs of flagging.

Manufacturing and Construction

Industrial output



Source: Eurostat

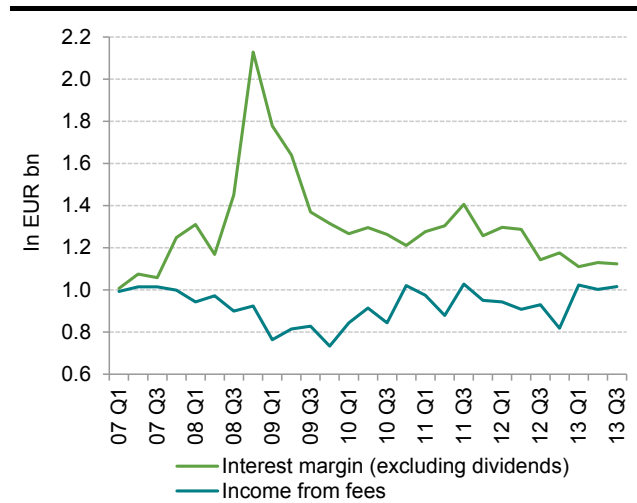
Disappointing results in July

Industrial output in Luxembourg stagnated in July and, despite the rally in the two previous months, is struggling to return to an upward trajectory. The upswing in opinions among manufacturers since the 2nd quarter of 2013, coming from a historically low level, has, for the moment, resulted more in halting the downturn rather than a true recovery. In fact, the gap in trends between Luxembourg manufacturing output compared to that of neighbouring countries and of the euro zone as a whole has widened to the detriment of Luxembourg since 2011 and this trend does not seem to be over yet.

Similarly, in the Luxembourg construction sector, output in July was disappointing (falling 6% over one month) in contrast with a trend towards recovery throughout the euro zone since the 2nd quarter. Here again, the improved opinions of business owners in the sector since the spring might have held out the hope of better results.

Financial sector

Main revenue items in the banking sector



Sources: BCL, STATEC (seasonally adjusted figures)

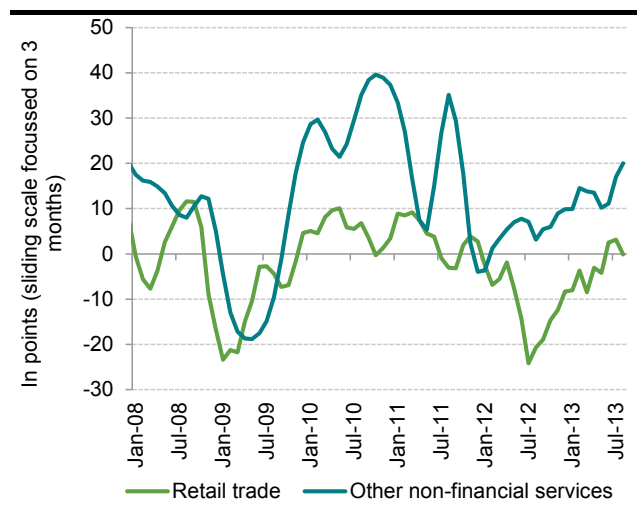
Banks: stagnating revenues

At the end of the 3rd quarter of 2013, banking income before provisions rose 13% compared to last year, in line with performance that was already apparent at the end of the 2nd quarter. This rise was wholly due to miscellaneous revenues (benefiting from revaluations of securities portfolios). For more traditional items of revenue such as the interest margin and income from commissions, recent trends point overall to stabilization. As in the first two quarters, income from commissions remained high, but the interest margin continued to trend firmly downward. Overall revenues generated by these two main components of banking income have remained virtually unchanged since mid-2009.

On the expenses side, staff expenditure rose 5% over one year, due mostly to exceptional pay-outs linked to job cuts (banking employment fell over 1% over the same period).

Non-financial services

Confidence in the services sector



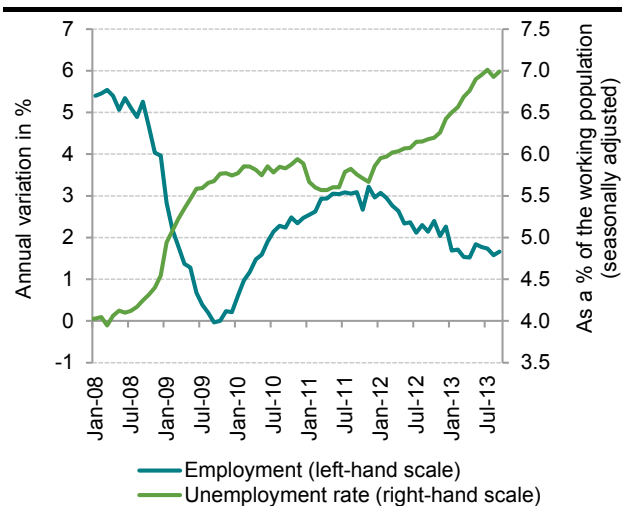
Sources: Chamber of Commerce, STATEC

Overall improvement in confidence

Confidence indicators in non-financial services retained a positive focus over the 3rd quarter. The renewed confidence among stakeholders in the retail trade remains puzzling as it appears to diverge significantly from the indicators available in this sector. For example, turnover volumes in the retail trade (excluding mail-order sales and retail sales of fuel) trended downward up to July (and had been doing so since mid-2012, affecting mainly brands in the non-food sector). For other services, the perceived improvement is more in line with the observed data, particularly in terms of added value: despite certain volatility in communication and business services, the general trend over the 1st half of 2013 was that of a strengthening of added value compared to the 2nd half of 2012.

Labour market

Employment and unemployment



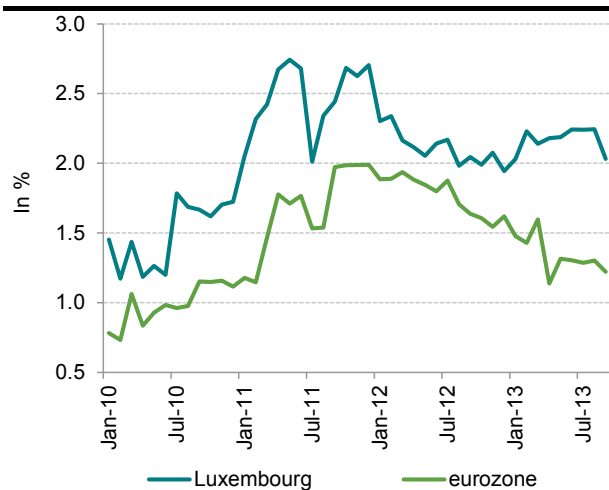
Source: STATEC (July to Sep. 2013: estimates)

Unemployment growth eases

After falling in August, the unemployment rate returned to a record 7.0% of the working population. This rise is relatively widespread throughout different categories of job seekers (age, gender, period of unemployment, nationality, etc.), in line with the drop observed over the previous month. After accelerating very rapidly from the 4th quarter of 2012 to the 2nd quarter of 2013, unemployment trends have been less unfavourable in recent months, still rising but easing significantly. On the employment side, a certain recovery was noted in the 2nd quarter (up 0.6% on the 1st quarter), partly reflecting a catch-up after the exceptionally low levels in the previous quarter (up 0.1%), but this upswing is not sufficient to posit a solid rise over the short term. Annual employment growth remains below 2%, a level that is generally not enough to have any substantial impact on unemployment.

Inflation

Inflation excluding energy and non-processed food



Source: Eurostat

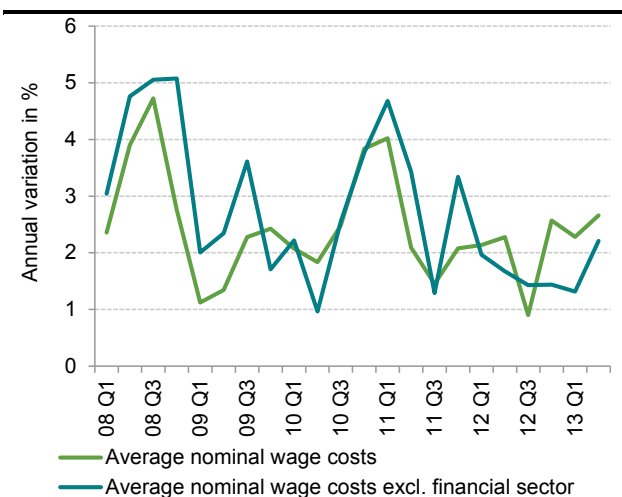
Less pressure on prices

Inflation in the euro zone declined 1.1% in September, due in particular to a sharp slowdown in energy price hikes compared to 2012. At the same time, the deceleration in inflation excluding energy and non-processed food (close to the concept of underlying inflation) reflects a slowdown in price rises in most other components. Increases in indirect taxes in a number of euro-zone countries (accounting for 25% of general inflation over the first nine months of 2013) also masks an even more pronounced disinflationary trend.

This decline was not really apparent in Luxembourg until August 2013, where inflation excluding energy and non-processed food remained firmly anchored above 2%. The effect of increases in administered prices since late 2012 goes a long way to explaining this resilience and accounts for over 25% of the increase in 2013. This effect became less significant in September (with the disappearance of the base effect linked to the reform of social welfare money vouchers in September 2012) and will continue to fall off considerably over the coming months, which will have a moderating impact on inflation.

Wages

Average nominal wage cost



Source: STATEC (National Accounts)

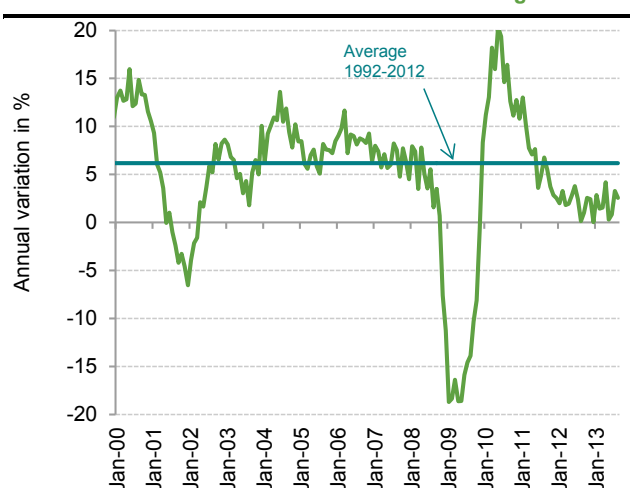
Acceleration likely to be temporary

Average nominal wage costs (per capita) grew 2.7% over one year in the 2nd quarter of 2013, a trend close to that in previous quarters. However, wage increases were most marked recently in the financial sector, due to exceptional costs caused by staff reductions. This was much less the case in the 2nd quarter, when other sectors also drove wage costs upward. This trend may reflect a turnaround – an acceleration after the slowdown that had prevailed since mid-2011 – but this is not the most likely hypothesis. In fact, the 2nd quarter also saw a strong rebound in hours worked and in the wage bill in sectors such as construction, manufacturing and business services (particularly in temporary employment for the latter), sectors where activity had suffered a real downturn in the 1st quarter of 2013 and where a catch-up is doubtless at play. Furthermore, the pace of growth in hourly wage costs (i.e. per hour worked) started to stabilize in early 2013, at about 2% over one year (excluding the financial sector).

Foreign trade

Global trade sluggish

Volume of global trade



Source: Centraal Planbureau

Trend chart

	Jan-13	Feb-13	Mar-13	Apr-13	May-13	Jun-13	Jul-13	Aug-13	Sep-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	-5.8	-5.6	-6.3	-1.4	-4.5	-3.6	-2.5	...	...	-3.5	-4.9
Construction output per working day, in volume	-24.6	-5.1	-4.6	-4.6	-4.2	-3.2	-6.0	...	...	-4.4	-4.2
Turnover by volume of total retail trade	1.5	-6.4	-3.3	-0.9	-2.1	-3.4	-1.9	...	...	-2.5	1.3
Prices, wages											
Consumer price index (NCPI)	2.1	2.3	2.0	1.7	1.6	2.1	1.8	1.8	1.5	1.7	2.7
Underlying inflation	2.1	2.3	2.2	2.3	2.3	2.4	2.0	2.3	2.1	2.1	2.1
Oil product index	1.9	2.5	-0.6	-3.9	-5.0	-1.0	-0.1	-3.8	-4.7	-2.9	8.7
Industrial producer price index	-0.9	-1.1	-1.5	-2.5	-2.8	-3.3	-3.4	-3.4	...	-3.4	1.3
Construction price index ¹	2.2	2.2	2.2	1.9	1.9	1.9	...	...	...	1.9	2.9
Average wage bill, per person (National accounts)	2.3	2.3	2.3	2.7	2.7	2.7	...	...	...	2.7	2.3
Foreign trade											
Exports of goods (volume)	-1.3	-5.4	-10.1	8.5	5.8	-6.6	0.0	-1.1	...	-2.7	0.6
Imports of goods (volume)	19.4	10.2	-9.2	11.3	-7.6	-5.6	-7.2	-5.1	...	-6.0	5.0
Employment, unemployment											
Domestic number of employees	1.7	1.7	1.5	1.4	1.9	1.8	1.7	1.6	1.6	1.6	2.2
National employment	1.7	1.7	1.5	1.6	1.8	1.8	1.7	1.5	1.7	1.6	2.3
Unemployment rate (% of working population, seas. adj.)	6.5	6.6	6.7	6.8	6.9	7.0	7.0	6.9	7.0	7.0	6.2

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
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)	-1.7	0.5	0.2	1.1	-0.6	1.6
	Annual variation in %					
	2008	2009	2010	2011	2012	Forecast 2013
Luxembourg - Growth in volume of GDP (STATEC)	-0.7	-5.6	3.1	1.9	-0.2	1.0
GDP at current prices 2013: EUR 42 917 million						
Minimum monthly salary (since 01/10/2013): EUR 1 921.03						
Current account balance (2013 Q2): EUR 508 million						
Resident population (01/01/2013): 537 039						
Consumer price index (September) - base January 1 st 1948: 824.70						
Half-yearly average of the index linked to base as at January 1 st 1948: 819.73						
Estimated deadline for next salary indexation: October 1 st 2014						

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