

Euro zone: mixed opinions for the 4th quarter

GDP growth in the euro zone for the third quarter of 2013 was confirmed at 0.1%. In order to achieve the forecast drawn up by the European Commission in November – predicting a decline of 0.4% in euro-zone GDP over 2013 as a whole – all Member states are set to turn in a performance of at least 0.2% over the last quarter of the current year. Opinion surveys in the final months of the year, which indicate favourable trends overall, hold out the hope that this challenge will be met, although a number of indicators are showing worrying signs for the start of the 4th quarter.

Confidence still high among businesses...

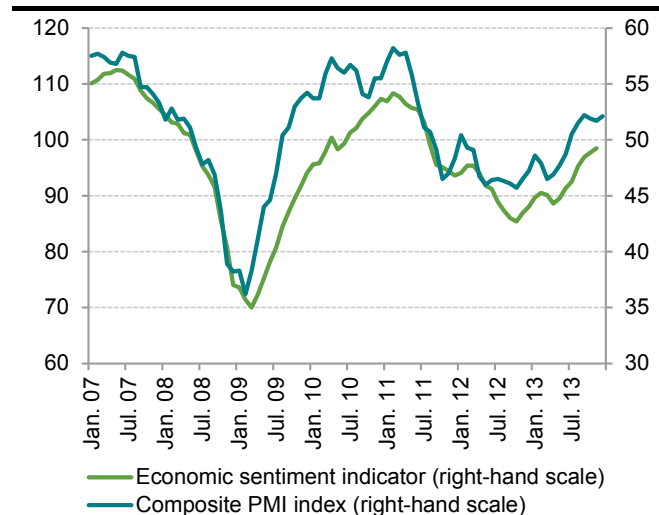
As indicated in economic surveys, business leaders in the euro zone believe that the prospects for activity are generally more favourable. The Economic Sentiment Indicator drawn up by the European Commission thus posted a rise in November for the seventh month in a row, standing at 98.5 points, close to its long-term average (100 points). The composite PMI index for the euro zone for its part fell in October and November, but rallied considerably in December, and over the final quarter its level was compatible with activity growth of about 0.2%. Germany was again key to this improvement in business morale, despite somewhat disappointing output figures.

... but initial results for the 4th quarter disappoint

Industrial output in the euro zone fell significantly in September and October (by 0.2% and 1.1% respectively), with German output a considerable factor in this counter-performance (falling 0.7% and 1.2% over the same period). The national surveys (ZEW, IFO) did not predict such a disappointing trend for German output. In fact, the manufacturing sector across the euro zone was marked by a certain disconnect between improved opinions and weak output results at the end of 2013.

No 4th quarter data is as yet available for the construction sector but the pronounced slump in output in September (down 1.3% in the euro zone) is not a good sign.

Economic surveys in the euro zone

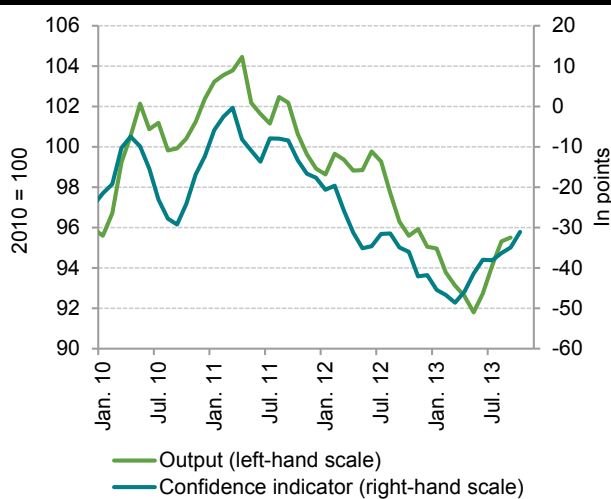


Sources: European Commission, Markit

Retail sales are also not providing much reassurance. After falling 0.6% in September, they contracted again by 0.2% in October. What's more, the consumer confidence indicator dropped in November for the first time in a year. On this last point, however, it should be noted that the very negative, bizarre trend among French consumers – with a veritable period of depression in November – has weighed heavily on euro-zone results (in other countries, consumer morale has generally continued to rise). More generally, there is little solid evidence of reinvigorated household consumption, particularly in view of labour market data. The unemployment rate remains high (dipping slightly to 12.1% in October after peaking at 12.2% in September), and employment stagnated in the 2nd and 3rd quarters. This has affected consumer prices, with an inflation rate at just about 1% at the end of the year (for general inflation and underlying inflation alike).

Manufacturing

Confidence and output



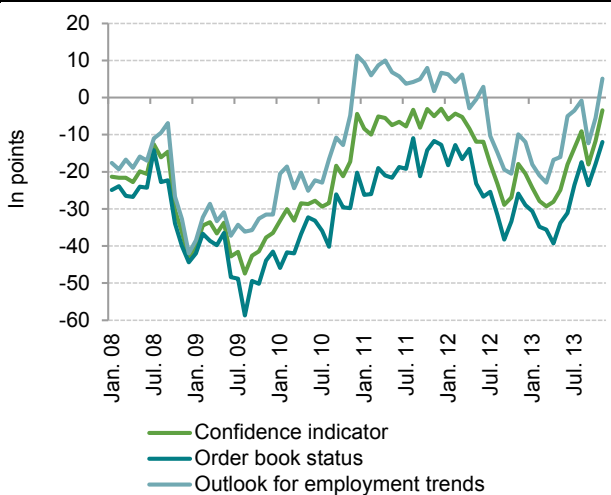
Source: STATEC (seasonally adjusted figures, smoothed)

Widespread but general recovery

Industrial output in Luxembourg dropped 1.5% over one month in September, a slight drop compared to the rises of 2.8% in July and 2.7% in August. Over the 3rd quarter as a whole, output rose almost 4% compared to the 2nd quarter. This recovery in output is in line with the improvement in manufacturers' opinions noted since spring and is set to continue over the 4th quarter as a whole in view of results that were favourable up to November. It is true that output is still far off the levels seen in early 2011, but the current improvement is relatively widespread across the various manufacturing sub-sectors, indicating that it may well be cyclical. The various components of economic surveys also point to more general momentum: the improved outlook which related initially to output and order books has since September extended to employment and prices.

Construction

Economic survey



Source: STATEC

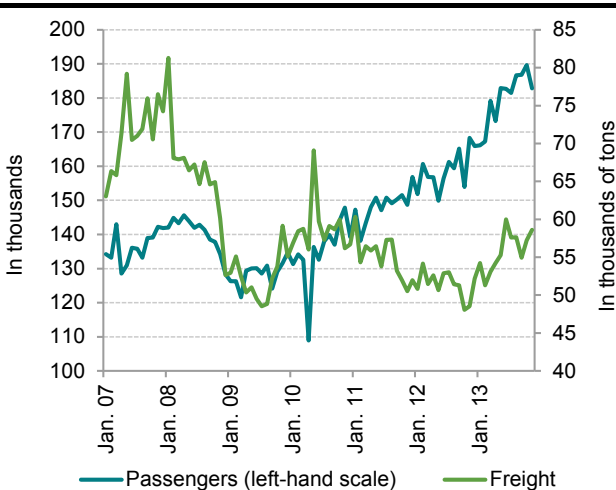
Growing optimism

Economic surveys in the construction sector indicate that morale has improved among business leaders in the sectors. The confidence indicator – which provides an overview of opinions on order books and employment prospects – slumped significantly last September but rallied over the following two months. Regarding output results (available up to September), there is a marked trend towards recovery since the 2nd quarter, but this is as yet quite moderate. Based on opinions collected in October and November, this recovery is likely to strengthen over the 4th quarter.

In any event, 2013 will remain marked by exceptionally low levels of activity in the 1st quarter, due to the particularly bad weather conditions. This will probably have a fundamentally positive effect on 1st quarter performance in 2014 (at least that expressed as an annual variation).

Transport

Air transport volume indicators



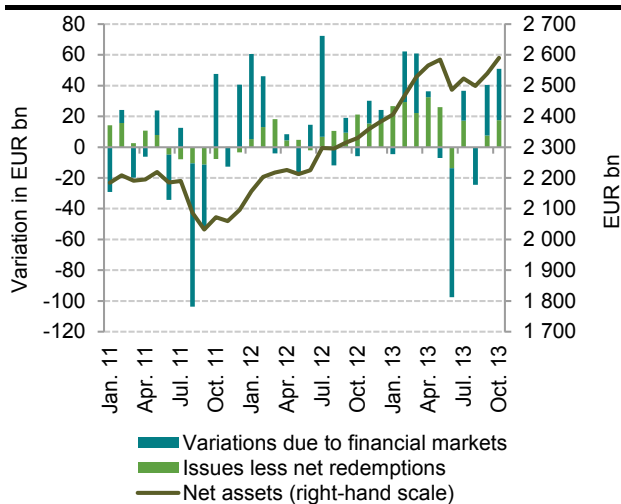
Sources: ANA, STATEC (seasonally adjusted figures)

Air transport results take off

The statistics for Luxembourg airport show a sustained rise in traffic recorded. Whether in terms of passenger numbers or freight volumes, the data for 2013 (based on the first eleven months of the year) show considerable growth of 14% and 9% respectively compared to last year. This performance is well ahead of the average noted across Europe (up about 2% for both passengers and freight - AEA data). While the number of passengers has been rising regularly since 2010, most likely linked to the arrival of several new airlines since end-2012, freight transport has witnessed a true trend reversal in 2013, after two difficult years. In terms of turnover, the air transport sector has also held up the transport sector this year, while land transport and auxiliary transport activities have trended downwards.

Financial sector

Undertakings for collective investment



Source: CSSF

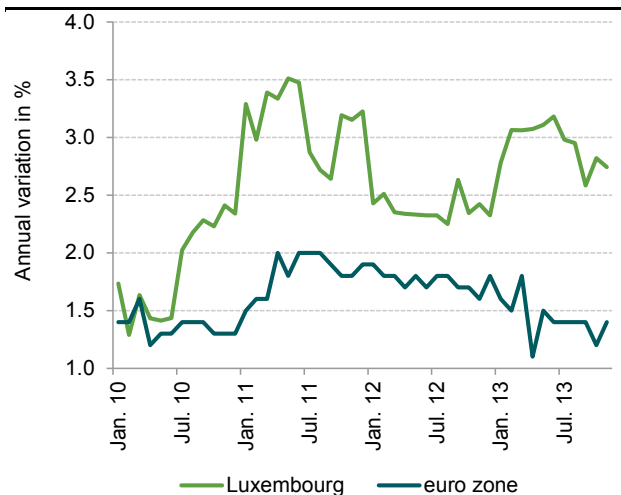
UCIs recover after a difficult summer

Net assets of Luxembourg UCIs reached a record EUR 2,590 billion in October 2013. The investment fund industry is thus returning to more favourable momentum after a summer period that was severely disrupted by market trends (especially in June and August). Net capital investment amounted to a little under EUR 20 billion in October, a return to normal compared to the value observed from the 4th quarter of 2012 to the 2nd quarter of 2013.

Over the 3rd quarter as a whole, Luxembourg lost a little ground compared to other European countries involved in fund domiciliation – with its market share dropping to 26.6% (against 26.9% at the end of the 2nd quarter - EFAMA data) – particularly France and the United Kingdom. It must be noted that investor concerns about US monetary policy during the summer hit bond markets particularly badly and therefore also bond funds (the bulk of Luxembourg funds).

Inflation

Consumer prices for services



Sources: EUROSTAT, STATEC

Services contribute greatly to inflation

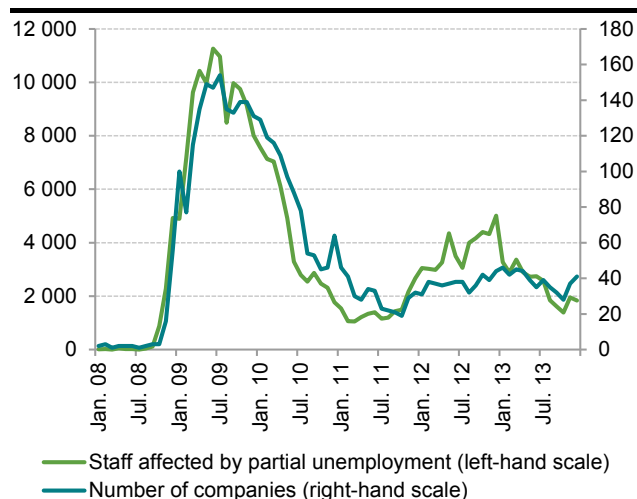
As in the previous month, the inflation rate in Luxembourg stood at 1.2% in November 2013, the lowest level recorded in four years. In the euro zone, inflation bounced back slightly in November, from 0.7% in October to 0.9%, at a rate that is still below that observed in Luxembourg.

Much of the differential is due to price trends in services, which continue to grow more rapidly in Luxembourg (up 2.7% over one year in November) than in the euro zone (up 1.4% over the same period). Prices for services account for 90% of general inflation in Luxembourg, against just 60% in the euro zone.

The low contribution of prices on goods is also due to the downward impact of oil prices, which made a negative contribution of 0.5 percentage points in Luxembourg (other goods generated 0.6% percentage points in inflation in November).

Labour market

Partial unemployment – Applications made



Source: Comité de conjoncture

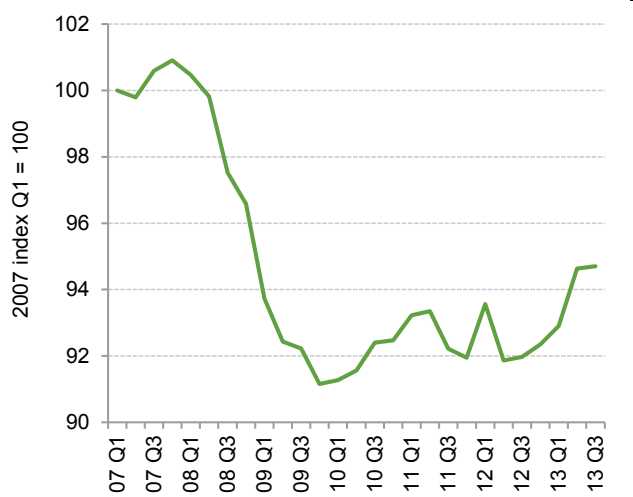
Partial unemployment rises slightly at the end of the year

After falling considerably since January, the number of partial unemployment applications rose again over the last two months of the year. Thus, 42 companies applied to work reduced hours in December, compared to a low of 28 in October (although the rise was less pronounced in terms of numbers of employees affected). In annual terms, the number of applications for this employment maintenance scheme rose on average from 37 units in 2012 to 39 in 2013, although the number of people affected by partial unemployment was lower (2,400 people on average per month in 2013, against 3,700 in 2012).

The rise in recent months is mainly due to an increase in applications made for cyclical reasons. Although these rose from 14 units in October to 24 in December, there has been a slight drop in applications due to economic dependence (from 11 units to 9 over the same period). Companies in the manufacturing industry remain the principal users of partial unemployment, accounting for 78% of applications made in December.

Hotel and catering sector

Hotel & catering - Trends in turnover volumes



Source: STATEC (seasonally adjusted figures)

Tableau de bord

	Mar-13	Apr-13	May-13	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-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	-9.2	-3.8	-5.8	-9.7	-5.7	0.8	-1.2	...	...	-2.2	-4.3
Construction output per working day, in volume	-9.6	2.1	-4.4	-3.7	-4.4	-5.0	0.3	...	...	-2.7	-0.8
Turnover by volume of total retail trade	-3.2	-0.6	-1.8	-3.0	1.0	0.4	-1.8	...	...	-0.1	1.4
Prices, wages											
Consumer price index (NCPI)	2.0	1.7	1.6	2.1	1.8	1.8	1.5	1.2	1.2	1.3	2.8
Underlying inflation	2.2	2.3	2.3	2.4	2.0	2.3	2.1	2.0	1.9	2.0	2.2
Oil product index	-0.6	-3.9	-5.0	-1.0	-0.1	-3.8	-4.7	-7.9	-6.2	-6.3	9.2
Industrial producer price index	-1.5	-2.5	-2.8	-3.2	-3.5	-3.3	-3.3	-3.0	...	-3.2	0.4
Construction price index ¹	2.5	1.9	1.9	1.9	...	...	...	...	...	1.9	3.0
Average wage bill, per person (National accounts)	2.3	2.7	2.7	2.7	...	...	...	...	...	2.7	2.3
Foreign trade											
Exports of goods (volume)	-10.3	6.6	3.9	-7.1	0.0	-4.2	-3.7	...	...	-2.6	-4.7
Imports of goods (volume)	-9.8	10.4	-8.9	-4.2	-6.6	-9.8	-7.1	...	...	-7.9	4.2
Employment, unemployment											
Domestic number of employees	1.4	1.4	1.9	1.8	1.8	1.8	1.9	2.0	...	1.9	2.3
National employment	1.5	1.6	1.8	1.8	1.7	1.9	1.9	1.9	...	1.9	2.4
Unemployment rate (% of working population, seas. adj.)	6.7	6.8	6.9	6.9	7.0	6.9	7.0	7.0	...	6.9	6.2

Source: STATEC

Data blue coloured are estimates

¹ Estimations based on half-yearly data

Indicators

	Variation on previous quarter in %					
	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3
Eurozone - Growth in volume of GDP (European Commission)	-0.3	-0.1	-0.5	-0.2	0.3	0.1
Luxembourg - Growth in volume of GDP (STATEC)	0.5	0.2	1.1	-0.6	1.6	...
	Annual variation in %					
	2009	2010	2011	2012	Forecast 2013	Forecast 2014
Luxembourg - Growth in volume of GDP (STATEC)	-5.6	3.1	1.9	-0.2	2.0	2.7
GDP at current prices 2012: 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 (November) - base January 1 st 1948: 823.00						
Half-yearly average of the index linked to base as at January 1 st 1948: 821.05						
Estimated deadline for next salary indexation: October 1 st 2014						

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