

3rd quarter GDP: improvement confirmed

In the 3rd quarter of 2013, GDP growth was less than in the previous quarter but overall confirms the recovery that started in late 2012. These figures, together with the favourable trend of other indicators in late 2013, point to growth of at least 2.0% over the past year.

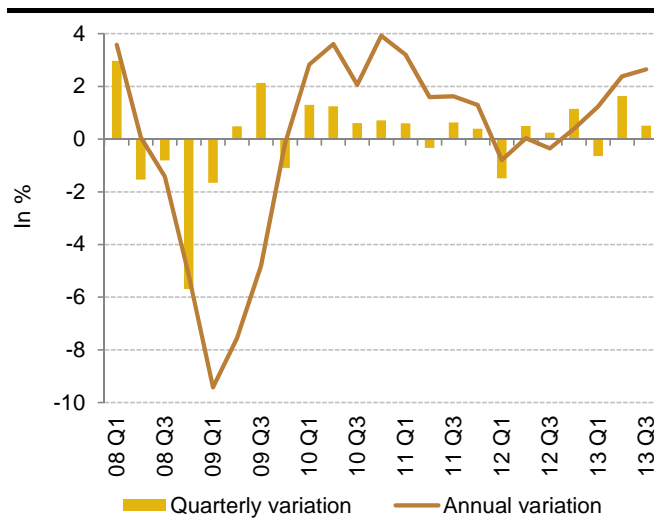
Consumption up

Luxembourg GDP rose slightly in the 3rd quarter, up 0.2% on the 2nd quarter of 2013. While this rise may seem modest, given the strong growth in the previous quarter (up 2.0%) due to a catch-up, this performance is far from disappointing. Expressed as an annual variation, the figures also point to a strengthening of economic momentum, with growth of 2.8% over one year in both the 2nd and 3rd quarters (compared to quasi-stagnation over 2012 as a whole).

In line with better signs in retail sales and improved consumer confidence, household consumption rose significantly in the 3rd quarter (up 0.7% over one quarter). Investment remained strong (up 4% over one quarter, after rising 9% in the 2nd quarter), but, in contrast to the previous quarter, growth here was solely based on investments in aircraft and satellites and does not therefore point to overall cyclical improvement. The effect of these specific investments on GDP was also directly offset by imports of goods. Exports of goods have also improved to a certain extent – rising over three consecutive quarters excluding transactions on non-monetary gold – due in particular to the recovery in industrial output.

As regards trade in services, the balance between exports and imports improved in the 3rd quarter, even though both components fell (more sharply in the case of imports), resulting mainly from lower trade in financial services. This development coincided with the disruption noted in investment funds over the summer period, which affected performance in the financial sector. As regards non-financial services, the 3rd quarter was relatively favourable, especially as the 2nd-quarter figures were revised upwards, which is reassuring in terms of the picture given in the previous quarterly accounts published.

GDP in volume



Source: STATEC

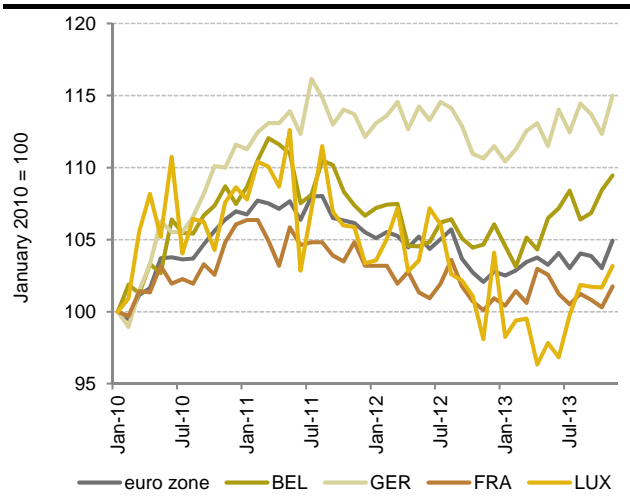
These various elements were distributed across the various branches, with an increase in added value (generally small-scale) for most non-financial services and manufacturing, while financial activities made a negative contribution to GDP growth in the third quarter.

Growth acquisition strengthened

Based on the data currently available, the carry over for 2013 now amounts to 2.0%, in line with STATEC's forecast last November (see Note de conjoncture 2-13). Considering the partial data already available for the 4th quarter – increased output in manufacturing (November) and in construction (October) – and the positive overall trend emerging from opinion surveys (including in the services sector) at the end of the year, it is highly likely that growth in 2013 will exceed the 2.0% forecast (up to a few tenths of a percentage point and excluding revisions to figures already available).

Manufacturing

Industrial output



Source: Eurostat (last point: Nov. 2013)

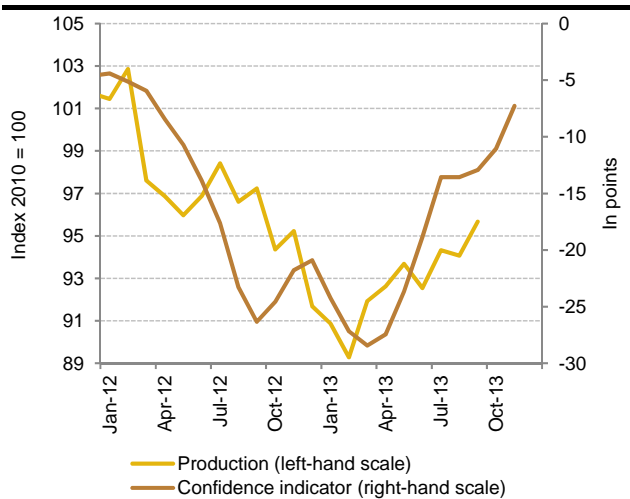
Europe-wide recovery

November 2013 was a particularly good year for European manufacturing. Output in the euro zone rose 1.8% over one month, its strongest rally since May 2010, a trend that affected the vast majority of member states.

In Luxembourg, output rose 1.5% in November (provisional estimate), confirming that the recovery which began a few months earlier is ongoing. Over 2013 as a whole, however, industrial output in Luxembourg is expected to fall some 3.5%. It bottomed out in the 1st half of 2013 and remained low at the end of the year. Use of production capacity – as mentioned in economic surveys – was only 66% at the start of the 4th quarter, compared to 80% in early 2012. Nevertheless, opinions among Luxembourg and European manufacturers remained positive in December (and in January 2014, according to the PMI index for manufacturing in the euro zone), hinting at encouraging prospects for the manufacturing sector.

Construction

Output and confidence



Source: STATEC (seasonally adjusted figures, smoothed over 3 months)

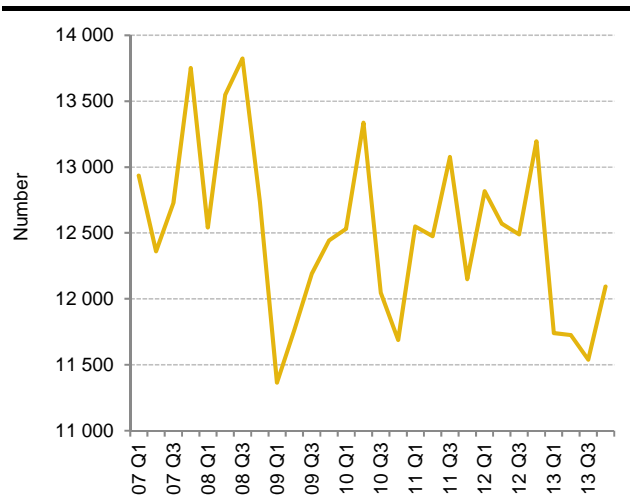
A better end to the year ended than the start

Output in the construction sector rose 2.3% over one month in October 2013 (down 0.9% over one year) and continued to recover after falling sharply in 2012 and reaching a low point in early 2013. Opinion surveys for the 4th quarter reveal growing confidence among business owners – based on opinions on order books and on the outlook for employment prospects – which should ensure a relatively satisfactory level of output over the end of the year.

However, 2013 remains marked by a sharp drop in output, probably close to 5% (making it the worst year since 1996), with activity reduced to the strict minimum at the start of the year due to the exceptionally cold winter. As the weather was much warmer in early 2014, the output figures for the 1st quarter – expressed as an annual variation – will benefit from a very positive base effect.

Consumption

New registrations of private cars



Sources: SNCT, STATEC (seasonally adjusted figures)

2013: a mediocre year for registrations

New registrations of private cars recovered somewhat in the 4th quarter of 2013, growing 5% on the 3rd quarter (seasonally adjusted figures). Over the year as a whole, however, they fell 7.5%, which, when compared to other euro-zone countries (down 5.5% on average), places Luxembourg at the back of the pack.

We need to go back to 2009 to find a similar counter-performance (a fall of about 10% that year), due partly in 2013 to the change in the financial aid scheme on 1 January (which also boosted registrations in late 2012). This may well have positive ramifications in 2014, which could go hand-in-hand with a more cyclical effect linked, for example, to improved consumer confidence. The prospect of a VAT hike in 2015 is another factor that may stimulate car sales in 2014.

Financial sector

Profit and loss accounts

	December 2012	December 2013	Variation
	En Mio EUR		En %
Interest margin ¹	5 551	5 049	-9.0%
Income from commissions	3 705	3 956	6.8%
Other net income	578	1 432	147.9%
Banking products	9 834	10 437	6.1%
Personnel costs	2 637	2 749	4.3%
Other general costs	2 381	2 438	2.4%
General costs	5 017	5 187	3.4%
Results before provisions	4 816	5 250	9.0%

Source: CSSF (provisional results)

¹ Including dividends received from subsidiaries

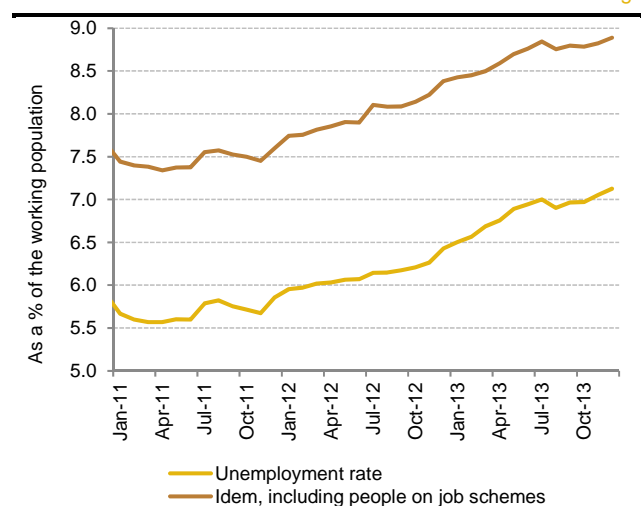
Banking income: a significant "value" effect

According to the assessment made by the CSSF, income before provisions for last year as a whole in the banking sector gained 9% on 2012. A look at income reported at the end of the 3rd quarter of 2013 (when income rose 13% over one year) reveals that the last quarter was characterised by a relatively disappointing trend in the main revenue items (interest margin and income from commissions). The increased income in 2013 was closely linked to the more favourable trend on the stock markets, which improved the valuation of securities portfolios and income from commissions but the effects in terms of activity volumes are likely to be much more modest.

Banking employment (provisional BCL data) posted very slight growth – 5 persons – in the 4th quarter of 2013 (over one year this represents a drop of 232 persons or 1.1%).

Labour market

Taux de chômage



Sources: ADEM, STATEC (seasonally adjusted figures)

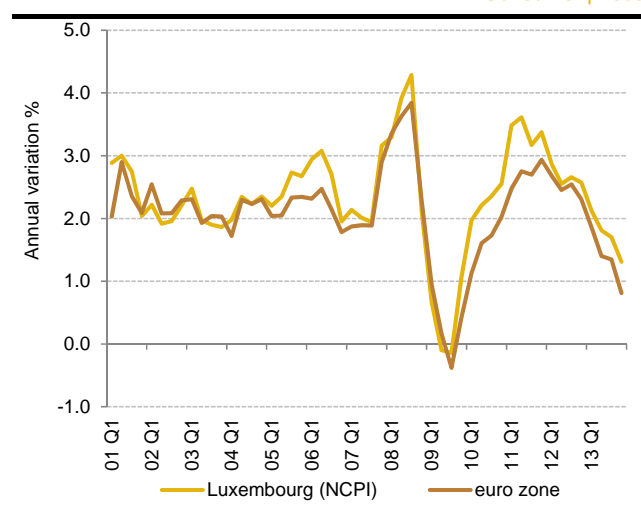
Unemployment slowing but not halted

The unemployment rate stood at 7.1% in December 2013, a record high already achieved in November. While unemployment has slowed since the summer of 2013, the upward trend is not yet over. Job creations remained too low at the end of 2013 (lower than 2% year-on-year) to absorb significant proportions of job seekers. The number of those on job schemes (i.e. in subsidised jobs) has fallen in recent months (down 3.5% between September and December 2013).

The last month of 2013 was marked by a rise in new unemployment claims, after falling for two months. This bad news is somewhat offset by an even sharper rise in new job offers registered by ADEM in December. The ratio between new job offers and new unemployment claims is growing and points to increased tension on the labour market, a less negative signal for upcoming unemployment trends.

Prices (1/2)

Consumer prices



Sources: STATEC, Eurostat

Inflation slows in 2013

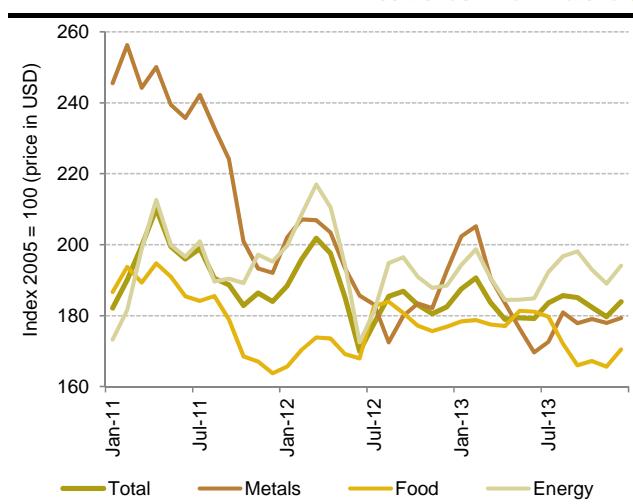
In 2013, consumer prices rose 1.7% over one year, after climbing 2.7% in 2012. This slowdown in inflation was mainly due to the drop in oil prices in 2013 (down 2.7%) compared to the double-digit levels observed in 2011 (up 16.8%) and part of 2012 (up 8.5% over the year as a whole). Consumer prices had not risen so little since 2009, when the inflation rate stood at 1.1%.

Inflationary pressures have thus abated since mid-2012, linked to the deterioration in the economic climate. While a deflationary-type scenario is currently feared in some European countries, the price rises in the Grand-Duchy remained relatively high compared to those in the euro zone and neighbouring countries (euro zone: 1.4%, Germany: 1.6%, France: 1.0%, Belgium: 1.2%). This was mainly due to substantial price hikes for certain services, particularly crèches (which contributed 0.22 percentage points, retirement homes (0.11 percentage points) and restaurant meals (0.07 percentage points).

Prices (2/2)

Uneven performance in commodities

Price trends in raw materials



Sources: IMF - Primary Commodity Prices

Over 2013 as a whole, commodity prices fell 1.8% on the previous year, mainly due to the fall in energy commodities. Slowing growth in emerging countries, with fears about China in particular, had an impact on prices of raw materials (down 0.5%), particularly metals, hard hit by the relative over-supply compared to demand. Food prices rose slightly in 2013 (up 1.1%), but with wide variations depending on products: on the one hand, fish and seafood rose strongly, while on the other cereals and oil-seed crops fell sharply, especially from the summer on, due to bumper harvests.

In December 2013, however, commodity prices posted a relatively significant rise, up 2.5% as a monthly variation, the highest rise in 5 months (up 2.7% for energy prices, up 1.8% for non-energy prices).

Trend chart

	Apr-13	May-13	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-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	-3.9	-5.8	-9.7	-5.7	-0.6	-0.2	0.7	...	...	0.0	-5.5
Construction output per working day, in volume	1.9	-4.4	-3.9	-4.4	-4.7	0.3	-0.9	...	...	-1.3	1.4
Turnover by volume of total retail trade	-0.6	-1.7	-2.9	1.7	0.2	-3.6	-2.3	...	...	-2.0	1.5
Prices, wages											
Consumer price index (NCPI)	1.7	1.6	2.1	1.8	1.8	1.5	1.2	1.2	1.5	1.3	2.6
Underlying inflation	2.3	2.3	2.4	2.0	2.3	2.1	2.0	1.9	2.0	2.0	2.2
Oil product index	-3.9	-5.0	-1.0	-0.1	-3.8	-4.7	-7.9	-6.2	-3.6	-5.9	6.7
Industrial producer price index	-2.5	-2.8	-3.2	-3.5	-3.3	-3.3	-3.3	-2.8	...	-3.3	0.4
Construction price index ¹	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	2.6
Average wage bill, per person (National accounts)	2.8	2.8	2.8	3.6	3.6	3.6	...	...	...	3.6	1.0
Foreign trade											
Exports of goods (volume)	6.8	3.9	-6.9	0.0	-5.2	-3.0	3.6	8.7	...	3.0	-2.2
Imports of goods (volume)	12.0	-6.5	-3.2	-3.9	-5.4	-6.6	-5.0	-2.3	...	-4.6	-5.1
Employment, unemployment											
Domestic number of employees	1.4	1.9	1.8	1.8	2.0	1.7	1.8	1.8	1.6	1.7	2.3
National employment	1.6	1.8	1.8	1.7	2.0	1.8	1.8	1.7	2.0	1.8	2.4
Unemployment rate (% of working population, seas. adj.)	6.8	6.9	6.9	7.0	6.9	7.0	7.0	7.1	7.1	7.1	6.3

Source: STATEC

Data yellow 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)	0.1	0.2	1.2	-0.7	2.0	0.2
	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 Q3): EUR 672 million						
Resident population (01/01/2013): 537 039						
Consumer price index (December) - base January 1 st 1948: 823.61						
Half-yearly average of the index linked to base as at January 1 st 1948: 821.50						
Estimated deadline for next salary indexation: October 1 st 2014						

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