

CONJONCTURE FLASH | FEBRUARY 2014

STATEC

Institut national de la statistique
et des études économiques

Monthly publication of the state of the Luxembourg economy

Euro zone recovery slowly takes hold

Economic growth in the euro zone picked up to a certain extent in late 2013 with less unequal distribution among member states. Luxembourg's neighbours were among the most dynamic, an encouraging signal for external demand for Luxembourg exports. While this recovery in the euro zone has been confirmed, it remains very moderate and is unlikely to pick up any further in the coming quarters.

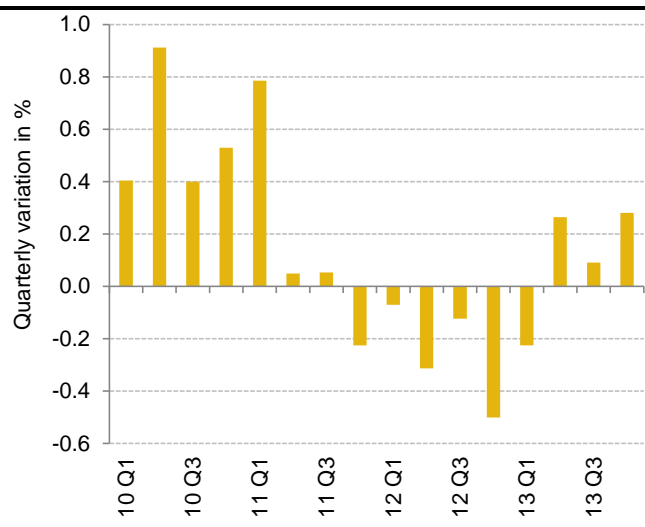
GDP rises 0.3% in the 4th quarter

In the 4th quarter of 2013, GDP in the eurozone rose 0.3% over one quarter (according to Eurostat's preliminary estimate), after growing just 0.1% in the 3rd quarter. This pick-up in growth was due notably to the four major economies in the eurozone – Germany, France, Italy and Spain – which all posted a rise in GDP over this quarter (for the first time since the 1st quarter of 2011). Germany continues to drive recovery in the euro zone, with momentum coming initially from the manufacturing sector (a trend confirmed in the 4th quarter) and which seems to be progressively spreading to service activities. After a rather disappointing 3rd quarter, France rallied and saw its GDP bounce back by 0.3% (Spain also posted a 0.3% rise in GDP).

Overall, the results of peripheral countries (except Cyprus and Greece) bolster the feeling that they are coming out of recession, with Portugal growing 0.5% and Italy 0.1%. In the heart of the euro zone, the Netherlands and Belgium also performed well, rising 0.7% and 0.4% respectively.

Ultimately, in terms of economic momentum, Luxembourg will be boosted by its neighbours (who are also its main trading partners) in the 4th quarter, which have all posted satisfactory results. This is a positive signal for demand for Luxembourg exports (the initial estimate for Luxembourg GDP in the 4th quarter of 2013 will be published in early April 2014).

Euro-zone GDP



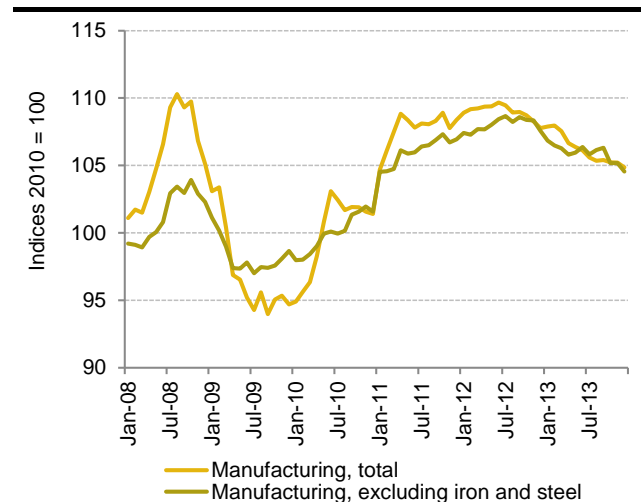
Source: Eurostat

Recovery confirmed but with no fanfare

Based on these new figures, GDP in the euro zone fell 0.4% overall in 2013 compared to the previous year (after falling 0.6% in 2012), despite exiting from recession in the 2nd quarter. GDP levels at the end of the year remained about 3% below pre-crisis levels (1st quarter of 2008). Growth acquisition for 2014 – i.e. the change that would result from GDP stagnating at this level over the four quarters of 2014 – stands at 0.4%. This implies quarterly growth of at least 0.3% per quarter this year to reach the 1% growth in 2014 predicted by international organisations (European Commission, OECD and IMF). This guestimate is likely to pay off in the 1st quarter, at least if the indications of the PMI index for the euro zone prove true (this index is generally strongly correlated with GDP). It must be noted that this forecast of 1% for 2014 points to a less than spectacular recovery (it represents average growth recorded over the last ten years, some of which were extremely difficult) and indicates that many constraints continue to weigh on the opportunities for economic development in the euro zone.

Manufacturing

Output prices



Source: STATEC

Prices continue to drop

In 2013, output prices in the Luxembourg manufacturing sector fell 2.6% on the previous year (after rising 1.2% in 2012).

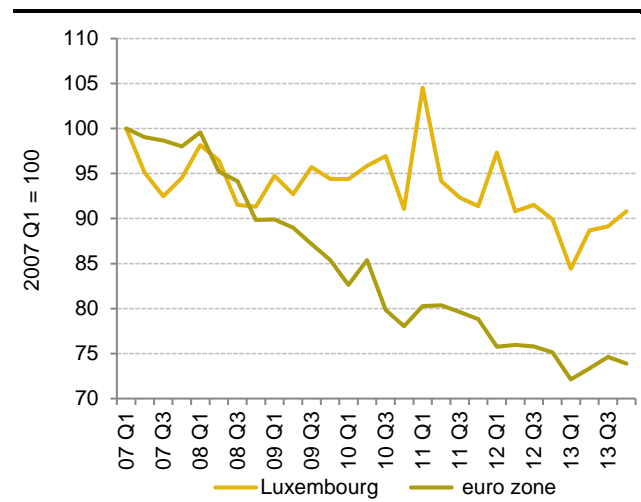
This downward trend started in mid-2012 and continued throughout last year. The reason for the decline, especially in the first part of the year, was the drop in prices for iron and steel products, non-ferrous metals and other metal products, linked to the downward trend in metal prices worldwide (although these have stabilised in recent months).

However, excluding iron and steel, manufacturing prices also fell, by 1.9% in 2013, mainly due to rubber products (the global price of this commodity fell 17% last year).

As regards the trend for the coming months, manufacturers surveyed as part of the regular economic surveys have not signalled any particular pressure on their asking prices.

Construction

Output per working day



Sources: Eurostat, STATEC

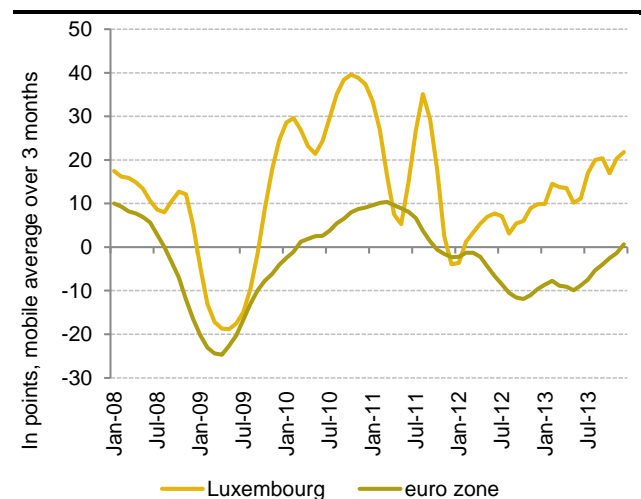
Progressive consolidation

After falling significantly in 2012, the construction sector entered a weak recovery phase in the 2nd quarter of 2013. Output remained relatively weak at the end of the 4th quarter (December figures are estimated) but, going on the positive replies of business owners surveyed at the start of the year, it is set to grow further in early 2014. The upturn in output is not yet reflected in employee numbers in this sector (stable up to the 3rd quarter), firstly because the rebound in activity will partly involve increased recourse to temporary employment (classified as services) and secondly because it will also involve an increase in working hours rather than a rise in job numbers (a phenomenon usually observed in the initial phase of a recovery).

In the euro zone, opinions among businesses are much more pessimistic and there is no indication that the fall in output noted for the last 6 years in a row has finally ended.

Non-financial services

Confidence indicator in non-financial services



Sources: CSSF

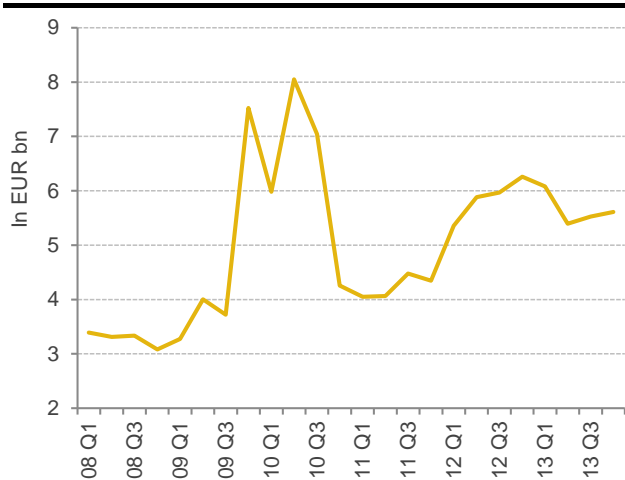
Growing optimism

The confidence indicator for businesses operating in non-financial services continues to point to an optimistic climate. It remained on an upward trend at the end of January 2014 (the latest data available), an encouraging sign in terms of economic growth for late 2013 and early 2014. Companies operating in this sector account for some 45% of total added value in the Luxembourg economy. This upturn in confidence in non-financial services came earlier in Luxembourg (2012) than in the rest of the euro zone (since the summer of 2013 only).

Luxembourg figures relating to turnover in the 4th quarter are still very patchy, but they seem to indicate a relatively positive trend in business services (particularly legal and accounting activities and the selection and provision of personnel).

Financial sector

Insurance premium income



Sources: Commissariat aux Assurances, STATEC (seas. adjusted data)

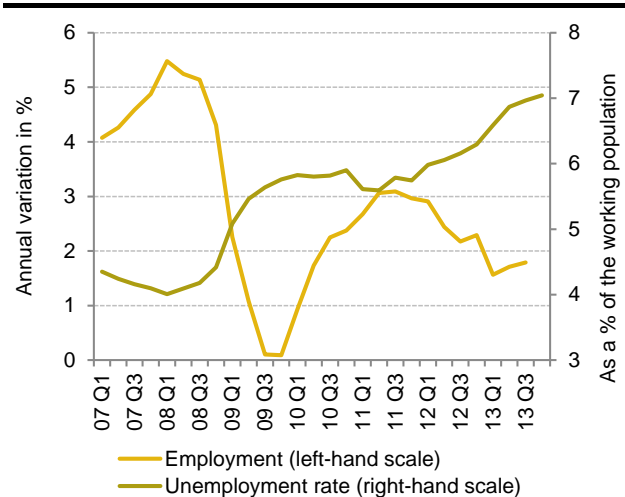
Insurance premiums fall slightly in 2013

Insurance premium income in 2013 was a little lower than the previous year (down 4%), but still remains at a historically high level. The decline came in life insurance products, particularly unit-linked policies (i.e. backed by assets exposed to market risks). The slump was particularly noticeable in the 1st and 2nd quarters, possibly tied in with questions about the regulatory and fiscal environment: in this regard, businesses mentioned the negative effect of the announcement that banking secrecy was to be abandoned and of the fiscal measures taken by some neighbouring countries aimed at repatriating funds.

In any case, there was a definite rally in the 3rd and 4th quarters, although not to the extent seen in late 2012.

Labour market

Employment and unemployment



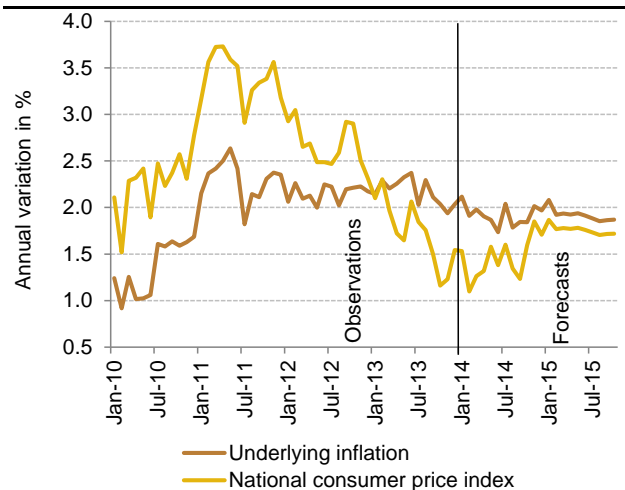
Sources: STATEC, ADEM

Job creations remain insufficient

Total employment seems to have bottomed out in early 2013. It rose a little in the 2nd and 3rd quarters, but there was no impressive rebound. Jobs created over these two quarters were mainly concentrated in service activities, with employee numbers in manufacturing (excluding temporary employment) still trending downwards and those in construction (also excluding temporary employment) stabilising. The most dynamic sectors in terms of job creations over this period were hotel & catering, business services (a third of which were linked to the rally in temporary employment) and health and welfare. Job growth is set to accelerate a little further in the 4th quarter of 2013, but not at a level likely to stabilise unemployment. The unemployment rate stood at 7.1% in January, stable compared to the previous month but still on an upward trend.

Inflation

Inflation: observations and forecasting



Source: STATEC

Less inflation on the horizon

Since early 2012, when the inflation rate stood at some 3%, oil prices, combined with other elements such as food prices (in late 2013), have pushed inflation down to ever-decreasing levels (1.5% in July 2014).

Inflation fell from 2.6% in 2012 to 1.7% in 2013 and is set to fall even further to 1.5% in 2014, according to STATEC's latest inflation forecasts, which are based on a price per barrel of oil USD 108 and an exchange rate of 1.35 USD/EUR.

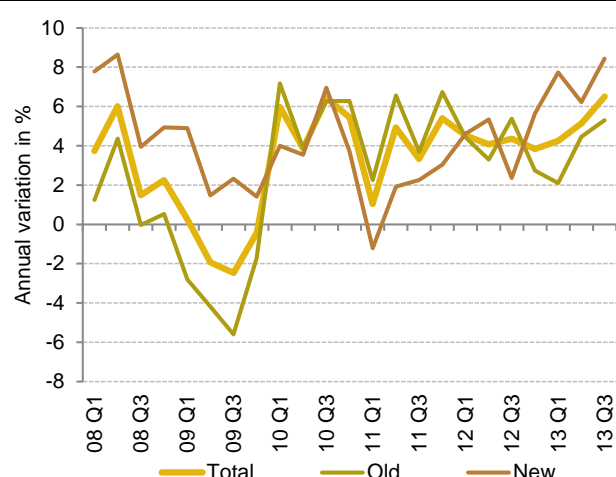
Much of this reduction is due to falling energy prices but also to the slowdown in underlying inflation, with less pressure from administered prices and food prices. This means that underlying inflation will continue to slow, reaching 1.9% in 2014 (against 2.2% in 2013).

This threshold for automatic wage-linking is expected to be exceeded in the 4th quarter of 2014. This will trigger a 2.5% increase in wages, salaries and pensions in the following month.

Property

Under-supply of apartments

Asking prices for apartments



Source: STATEC

Trend chart

	May-13	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14	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	-9.9	-5.6	-0.8	-0.1	1.1	6.1	...	...	2.3	-5.1
Construction output per working day, in volume	-4.4	-3.9	-4.3	-4.7	0.3	-0.6	3.8	...	...	1.1	-2.3
Turnover by volume of total retail trade	-1.7	-2.7	1.5	0.5	-3.0	-0.7	0.4	...	...	-1.0	0.5
Prices, wages											
Consumer price index (NCPI)	1.6	2.1	1.8	1.8	1.5	1.2	1.2	1.5	1.5	1.4	2.3
Underlying inflation	2.3	2.4	2.0	2.3	2.1	2.0	1.9	2.0	2.1	2.0	2.2
Oil product index	-5.0	-1.0	-0.1	-3.8	-4.7	-7.9	-6.2	-3.6	-4.7	-4.8	3.7
Industrial producer price index	-2.8	-3.2	-3.5	-3.3	-3.3	-3.2	-2.8	-2.7	...	-2.9	-0.6
Construction price index ¹	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	3.6	3.6	3.6	...	...	...	...	3.6	1.0
Foreign trade											
Exports of goods (volume)	3.9	-6.9	0.0	-5.2	-3.0	3.6	8.7	...	...	3.0	-2.2
Imports of goods (volume)	-6.5	-3.2	-3.9	-5.4	-6.6	-5.0	-2.3	...	...	-4.6	-5.1
Employment, unemployment											
Domestic number of employees	1.9	1.8	1.8	2.0	1.7	1.9	2.0	1.8	2.3	2.0	2.1
National employment	1.8	1.8	1.7	2.0	1.8	1.7	1.9	2.0	2.3	2.1	2.2
Unemployment rate (% of working population, seas. adj.)	6.9	6.9	7.0	6.9	7.0	7.0	7.0	7.1	7.1	7.1	6.4

Source: STATEC

Data yellow coloured are estimates

¹ Estimations based on half-yearly data

Indicators

	Variation on previous quarter in %					
	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4
Eurozone- Growth in volume of GDP (European Commission)	-0.2	-0.5	-0.2	0.3	0.1	0.3
Luxembourg - Growth in volume of GDP (STATEC)	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 (January) - base January 1 st 1948: 816.121						
Half-yearly average of the index linked to base as at January 1 st 1948: 822.28						
Estimated deadline for next salary indexation: 4 th quarter 2014						

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