

Uncertainty regarding consumption

The indicators for consumption showed relatively contrasting results in late 2013 and early 2014. While the economic environment has improved somewhat, consumption remains lacklustre.

Household confidence stabilises

During the 4th quarter of 2013, the Luxembourg consumer confidence indicator continued to build on – and indeed step up – the improvement that started in late 2012 and early 2013. Figures for the first two months of 2014, however, reveal a halt or even a slight fall in household expectations. This less favourable trend is seen mainly in two components of the confidence indicator, namely expectations as regards the general economic situation and the financial situation of households. Regarding this latter variable, the scale of the drop posted between December 2013 and February 2014 is relatively worrying (down 4 points, the largest two-month decline since mid-2012).

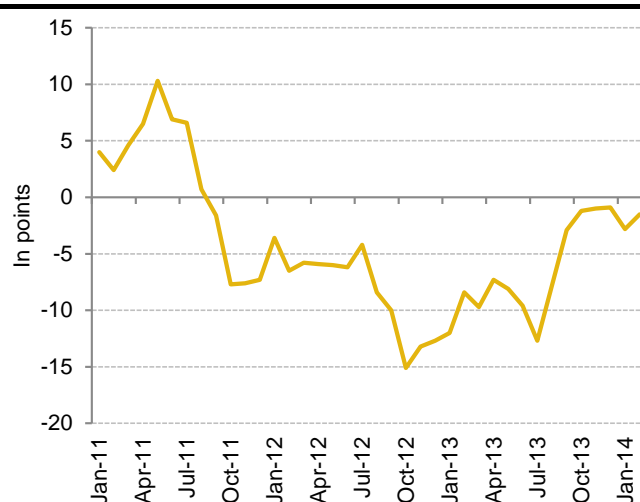
In terms of hard (i.e. observed) data on household consumption, the signs are mixed for the 4th quarter: new car registrations bounced back significantly at the end of the year but retail sales (in volume, excluding e-commerce) were down more than 1% compared to the 3rd quarter (and almost 2% over one year). Sales of new cars in early 2014 were also very disappointing, rising just 1% over one year over the first two months even though a very positive base effect (linked to an exceptionally low 1st quarter in 2013) had been expected.

In view of these very mixed indicators, it is difficult to draw up an accurate picture of household consumption trends to be expected in the final quarter of 2013 and the 1st quarter of 2014. However, a number of elements point to relatively moderate growth.

Few tensions on prices, tentative improvement in the labour market

First of all, it is worth mentioning consumer price trends, which were marked in early 2014 by considerably deflationary trends in Luxembourg and other euro zone countries, showing that the economic climate remains unfavourable for private consumption. Nevertheless, since January, inflation expectations (as reported in the consumer survey) have risen significantly in Luxembourg, but this trend is more likely due to announcements on the VAT hike than cyclical reasons.

Consumer confidence indicator



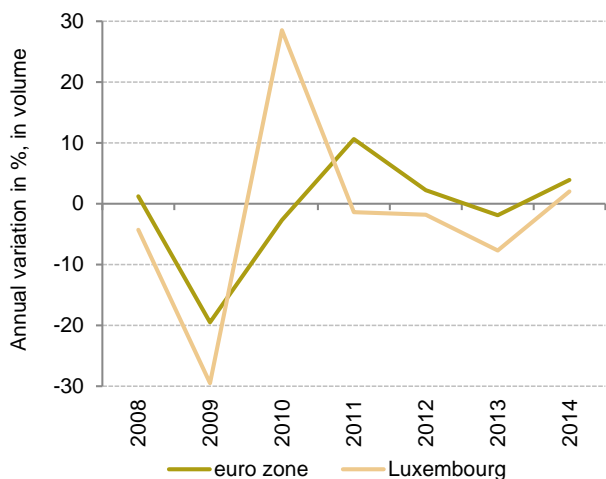
Sources: BCL, European Commission

Wage trends and labour market variables also remain quite lacklustre. While job creations grew somewhat in the 3rd and 4th quarters of 2013, they are still too low to make any significant impact on unemployment growth. The unemployment rate did stabilise in early 2014, but this was mostly due to the rise in subsidised jobs, i.e. job schemes. Consumer expectations as regards the unemployment trend, which had improved from July to October 2013, have since stabilised at a level that reflects persisting concerns. The fact that the financial sector – the flagship of the Luxembourg economy – is currently undergoing structural changes most certainly has something to do with these issues.

To end on a positive note, the economic environment in the euro zone is more favourable, with a number of reassuring business cycle indicators in early 2014. Output in manufacturing, construction and retail sales rose significantly in January. The flash estimate for consumer confidence in the euro zone bounced back strongly in March (figures by country are not yet available).

Manufacturing

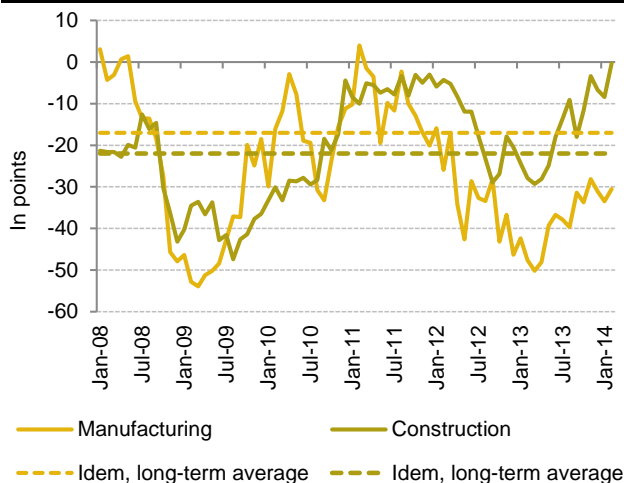
Industrial investments



Sources: European Commission, STATEC

Manufacturing and Construction

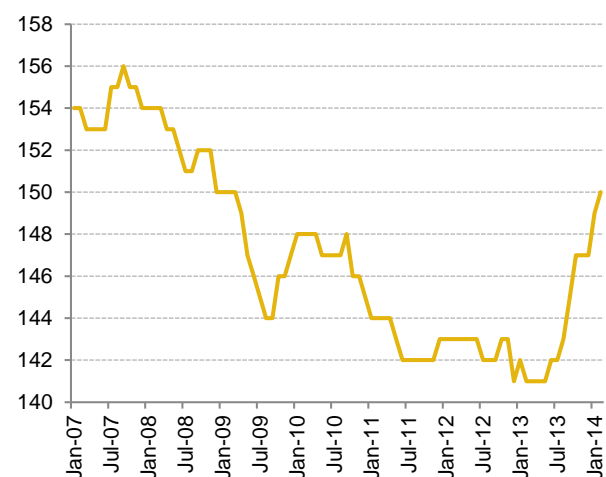
Confidence indicators



Source: STATEC (latest issue: February 2014)

Financial sector 1/2

Number of credit institutions in Luxembourg



Source: CSSF

Positive signal from investments

According to the economic survey on industrial investments, these are set to grow slightly in 2014, by 2% in volume according to the estimates provided by companies in the sector in late 2013. This rise in investments, although moderate, still marks a break with the downward trend reported over the last three years. The expected rise in volume is based mostly on investments to improve capacity, while replacement investments are expected to continue to decline.

This recovery in industrial investment in Luxembourg coincides with that reported in the rest of the euro zone (up 3.9% in volume expected in 2014). Rises are expected in neighbouring countries (+4.6% in Germany, +7.7% in Belgium), with the notable exception of France (down 4.7% in 2014 after falling 8.1% in 2013).

A very good end to 2013

The opinions of business owners in manufacturing and construction remained positive in early 2014. The confidence indicators in both these sectors have been rising since the 2nd quarter of 2013, in line with output. The rally, quite tentative at first, began to gather pace and the last quarter of 2013 was marked by very positive results for Luxembourg in terms of output: up 4.2% over one quarter in manufacturing (against 0.4% in the euro zone as a whole) and up 2.4% in construction (down 0.8% in the euro zone). Industrial output in Luxembourg, which was particularly badly hit between mid-2011 and early 2013 compared to neighbouring countries, made remarkable progress in the 2nd part of the year (with widespread growth over various branches of activity).

In the euro zone, the latest figures show a very favourable trend in the construction sector (in December and January), but much of this is due to the exceptional performance of Germany over that period.

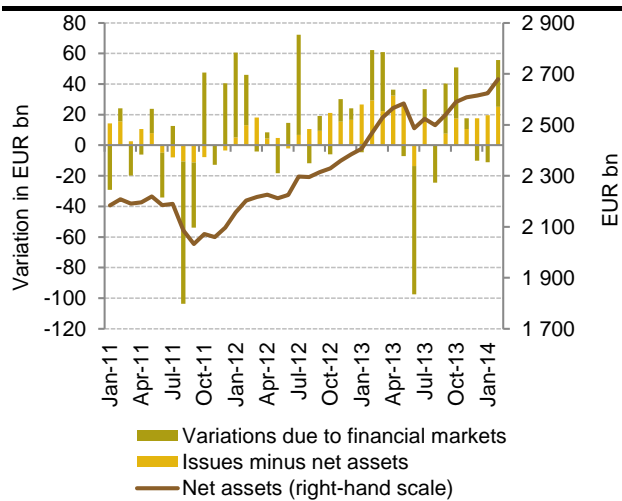
Rising number of banks

The number of banks operating in Luxembourg has fallen almost continually for years, due to a structural trend towards concentration (141 institutions in early 2013, against 220 in the mid-1990s).

Since mid-2013 however, there has been a significant rise in the number of banks, with 9 net creations between June 2013 and February 2014. This rise is mainly due to the arrival of foreign banks, with 2 new French, British and Chinese banks apiece and 1 each from Switzerland, Italy, Brazil and Russia (one Swedish bank left the marketplace). This trend may seem surprising, particularly given the announcement of a switch to the automatic exchange of information in the 2nd quarter of 2013, which was expected to cause problems for smaller institutions and thus increase concentration. Unfortunately, recent trends in banking employment have not been so dynamic: workforce numbers stabilised in the 4th quarter of 2013, after falling for 5 years in a row with the loss of about 1,000 jobs.

Financial sector 2/2

Undertakings for Collective Investment



Source: CSSF

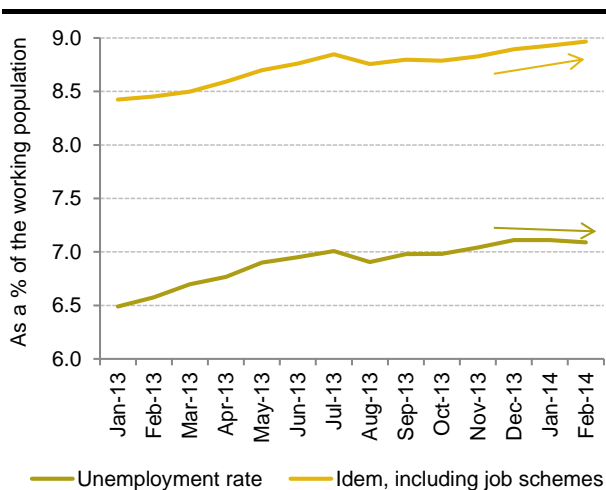
Favourable winds for funds

Luxembourg UCIs continued to have the wind in their sales in February. Net assets rose about 2% over one month (up 9% over one year), with the rise distributed almost equally between net issues and variations due to movements on the financial markets. Despite the publication of disappointing economic indicators in Japan and the political unrest in Ukraine, the financial markets performed well overall. They continued to be marked by relatively high volatility in March, but there were no major slumps.

Net capital investment was relatively high, at over EUR 25 billion in February, (comparable to the positive results recorded in early 2013) point to a very favourable underlying trend for the expansion of the fund industry.

Labour market

Unemployment rate



Sources: ADEM, IGSS, STATEC

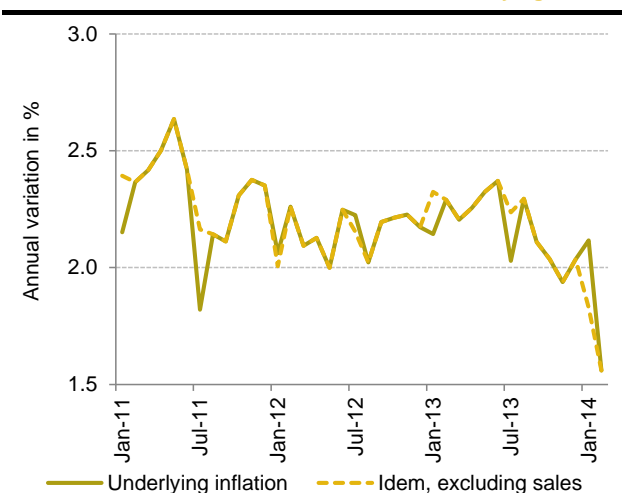
Unemployment stabilising – apparently

The unemployment rate remained at 7.1% in February 2013 (seasonally adjusted figures), i.e. the same level as in January and December, but much higher than a year ago (6.6% in February 2013). This stabilisation was due, however, to increased recourse to job schemes. Taking into account all those registered with ADEM, including those on job schemes, the unemployment rate was a record 9.0% of the working population in February, up from 8.9% in January and 8.5% a year ago. This trend is mainly due to schemes aimed at young people (CIE - employment initiation contracts and CAE - employment support contracts), where numbers rose considerably in January and February 2014.

Thus, although total domestic employment has been on the rise since the spring of 2013 (from 1.4% annual growth in March to almost 2% at the end of the year), the number of jobs created is not enough to offset the rise in unemployment.

Price

Underlying inflation



Source: STATEC

Inflation nose-dives

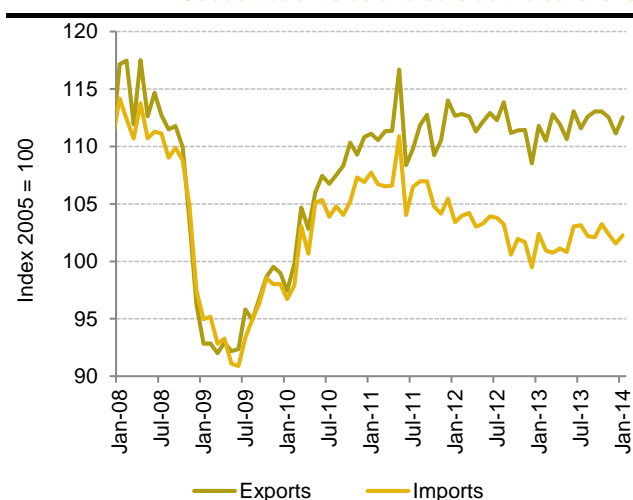
Underlying inflation (which excludes oil products in particular) remained anchored above 2% up to January 2014. However, in February, there was a sharp downturn in the annual rate, from 2.11% to 1.56%, a level not seen since mid-2010, a period when the effects of the crisis were still in full swing.

In 2013, the inflexible nature of underlying inflation was due in large measure to rising administered prices (local authority rates, crèche prices, public transport and parking charges), the effects of which ended in early 2014. This phenomenon was somewhat hidden in January due to the relatively reduced impact of sales (compared to January and July 2013 in particular), but its full effects started to be felt in February, which partly explains the sharp downturn. However, price rises in most consumption spending items have started to fall off, revealing a widespread phenomenon. Luxembourg is therefore clearly in a deflationary phase, similar to trends observed throughout the euro zone for over 2 years.

International

Trade in goods slows slightly

Goods trade inside and outside the eurozone



Source: CPB

The global trade volume indicator drawn up by Centraal Planbureau, the Netherlands Bureau for Economic Policy, grew 0.6% in January (after falling 0.5% in December). Trending figures show an overall slowdown in world trade in goods, particularly in the United States and emerging Asian economies.

In the euro zone as a whole, imports and exports have also been slowing since late 2013, after recovering substantially over the 2nd and 3rd quarters of 2013. If we take a step back, it becomes apparent that imports of goods seem to have broken with the downward trend that prevailed since mid-2011, one of the symptoms of depressed domestic demand throughout the euro zone.

Trend chart

	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-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	-9.8	-5.6	-0.7	-0.1	1.0	6.3	8.7	...	...	5.2	-3.6
Construction output per working day, in volume	-4.1	-4.2	-5.0	0.5	-0.7	3.0	5.1	...	...	2.1	-1.3
Turnover by volume of total retail trade	-2.8	1.5	0.4	-3.0	-1.4	-0.3	-3.1	...	...	-1.7	0.1
Prices, wages											
Consumer price index (NCPI)	2.1	1.8	1.8	1.5	1.2	1.2	1.5	1.5	0.9	1.3	2.2
Underlying inflation	2.4	2.0	2.3	2.1	2.0	1.9	2.0	2.1	1.6	1.9	2.2
Oil product index	-1.0	-0.1	-3.8	-4.7	-7.9	-6.2	-3.6	-4.7	-6.8	-5.0	2.8
Industrial producer price index	-3.2	-3.5	-3.3	-3.3	-3.2	-2.8	-2.6	-3.1	...	-2.9	-1.1
Construction price index ¹	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	3.6	3.6	3.6	...	...	...	...	...	3.6	1.0
Foreign trade											
Exports of goods (volume)	-6.4	0.8	-5.3	-0.4	3.1	13.5	11.8	...	...	9.1	-3.3
Imports of goods (volume)	-3.5	-4.4	-6.1	-6.6	-5.1	-3.3	-3.6	...	...	-4.0	-4.3
Employment, unemployment											
Domestic number of employees	1.8	1.8	2.0	1.7	1.9	2.0	1.8	2.2	2.2	2.1	1.9
National employment	1.8	1.7	2.0	1.8	1.7	1.6	1.6	2.1	2.1	1.9	2.0
Unemployment rate (% of working population, seas. adj.)	7.0	7.0	6.9	7.0	7.0	7.0	7.1	7.1	7.1	7.1	6.5

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 (February) - base January 1 st 1948: 826.19						
Half-yearly average of the index linked to base as at January 1 st 1948: 822.77						
Estimated deadline for next salary indexation: 4 th quarter 2014						

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