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STATEC
Institut national de la statistique
et des études économiques

Job cuts in the banking sector: upward impact on wage costs

Over recent months, the financial sector has seen relatively high wage growth, in contrast with the disappointing data on the added value of activities in this sector. STATEC has attempted to estimate the impact of exceptional redundancy payments on wage costs in the sector and in the economy overall. The impact, determined by cross-tabulating individual data on personnel costs and redundancy plans in the banking sector, appears significant but not sufficient to explain on its own the rising wages in the sector. However, the extent of the increase is probably underestimated by the method used.

Sharp hike in wages despite a difficult environment

Average wage costs have been rising dramatically in recent years. It is quite surprising to see that over the most recent period – since about mid-2012 – wage costs in this sector have been trending significantly upwards, well above wage costs outside the financial sector. It is surprising because the performance recorded by financial activities since 2012 – in terms of gross added value expressed in volume – has been rather disappointing. Personnel costs in the financial sector have, however, been pushed up in recent years by phenomena not particularly linked to a more buoyant environment but rather to staff reduction plans.

Impact far from marginal

To assess the impact of this exceptional expenditure in terms of personnel costs, STATEC cross-tabulated individual data from banks' profit and loss accounts and the list of redundancy plans in the financial sector drawn up by ALEBA (the Luxembourg association of bank and insurance employees). The cross-tabulation revealed exceptional increases in bank personnel costs, linked to the implementation of redundancy plans. The analysis showed that exceptional settlements paid out in the banking sector under redundancy plans generated an additional 1.4% growth in average wage costs in the financial sector in 2012 and 2.2% in 2013, i.e. 0.3% and 0.4% in terms of average wage costs in the overall economy.

Wage costs and bank redundancy plans

	2008	2009	2010	2011	2012	2013
	Growth rate in % (or otherwise specified)					
Financial Sector						
Average wage costs	-2.0	0.4	4.4	-0.2	3.8	6.7
Idem, excluding banking redundancy plans effects	-2.0	0.2	3.0	1.3	2.4	4.4
Impact in points of %	0.0	0.2	1.4	-1.5	1.4	2.2
Total Economy						
Average wage costs	3.4	1.8	2.6	2.4	2.0	3.2
Idem, excluding banking redundancy plans effects	3.4	1.7	2.4	2.7	1.7	2.7
Impact in points of %	0.0	0.0	0.3	-0.3	0.3	0.4

References: CSSF, Aleba, STATEC

Average wage costs in the financial sector, excluding the effects of bank redundancy plans, have nonetheless grown considerably over the past two years, in particular in 2013, when they increased by 4.4%. Therefore, other factors may have pushed up wage growth in the financial sector in 2013. However, it is difficult to state this categorically, because the estimate provided here comes with major reservations: firstly, the personnel costs paid out for downsizing operations do not relate solely to redundancy plans; secondly, only bank redundancy plans were taken into account in the calculations (not redundancy plans for the financial sector as a whole). This implies that the positive impact on wages of exceptional settlements paid out under redundancy plans in the financial sector is probably underestimated in this exercise. Nonetheless, it appears to be substantial. It also points to the possibility of a decline in average wage cost trends in 2014, there are no new redundancy plans (the last one, concluded at the end of March 2014, concerned 150 employees out of a total workforce of 184).

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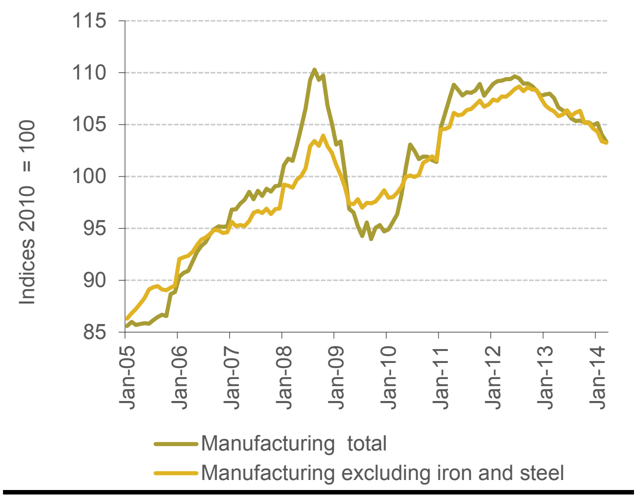
Manufacturing

Prices of industrial products



Source: STATEC

Manufacturing prices continue to fall

Despite signs of recovery – output has been rising since the 3rd quarter 2013, posting 8% growth over one year at the start of 2014 – the manufacturing sector is not yet under pressure concerning demand and still has considerable unused capacity.

This is affecting production prices, which continue to decline (down 3% over one year for the first two months of 2014), a trend that is affecting most products. The most significant contributions to this downward trend come from chemicals, rubber, energy, non-ferrous metals and steel.

Manufacturers' expectations do not point to any significant rise in the short term. There are also no warning signals from commodity prices, which remained moderate at the start of the 2nd quarter of 2014.

Construction

Construction prices - observations and expectations

Source: STATEC

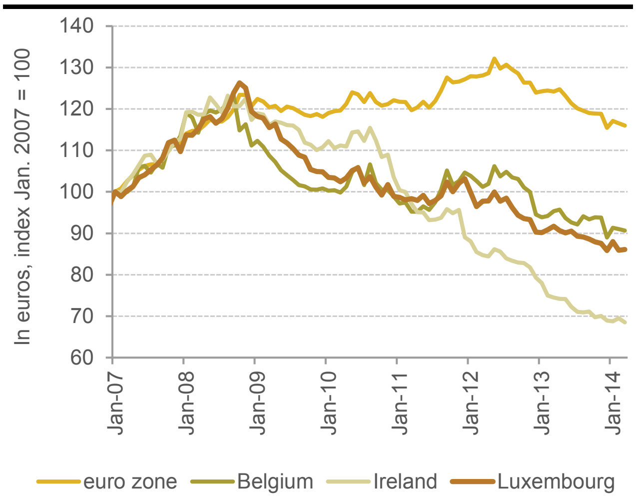
Construction prices likely to rise

The prices charged by construction businesses slowed down slightly between early 2012 and early 2013. This continued over the rest of the year, with "inflation" in construction services falling under 2% over one year in the 2nd half of 2013.

However, prices may have regained momentum in early 2014. Firstly, because trends are well correlated with the production cycle (which has rallied considerably since the 2nd quarter of 2013), and secondly, because this seems to be the message that businesses in the sector want to convey in their responses to opinion surveys (rising expectations, see graph).

Financial sector

Total assets of financial and monetary institutions



References: ECB, STATEC

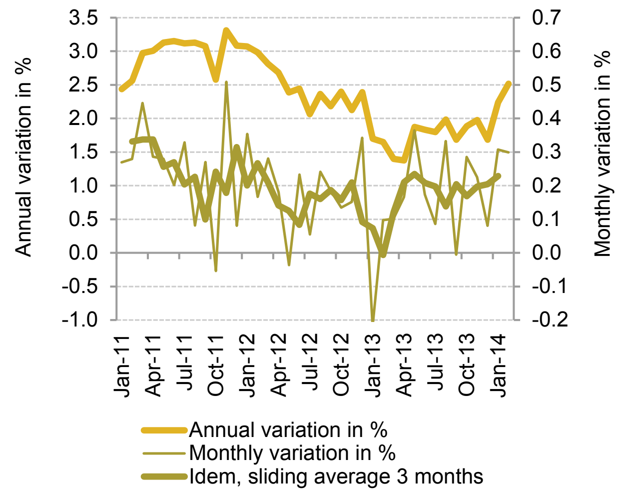
Bank balance sheets slimming down

At the end of the 1st quarter of 2014, total bank balance sheets in Luxembourg were still falling, negatively affecting the interest margin (which is one of the main revenue items for banks). This contraction is part of a trend dating back to 2009 which has not really abated since then (apart from a certain stagnation between mid-2011 and mid-2012).

It also reflects a general downward trend for all balance sheets assets of financial and monetary institutions (credit institutions and monetary UCIs) perceptible in a number of euro-zone countries, particularly Belgium and Ireland, partly linked to bringing their systems into compliance with banking sector regulations (specifically Basel III rules). The strengthening of prudential regulations has led European banks to reduce the size of their balance sheets – from 2011 on – through disposals of assets and withdrawals from some activities.

Labour market (1/2)

Domestic paid employment



References: IGSS, STATEC (seasonally adjusted figures)

More job creation

Domestic paid employment accelerated considerably in early 2014. Year-on-year growth rose from 1.7% in December to 2.2% in January and reached 2.5% in February.

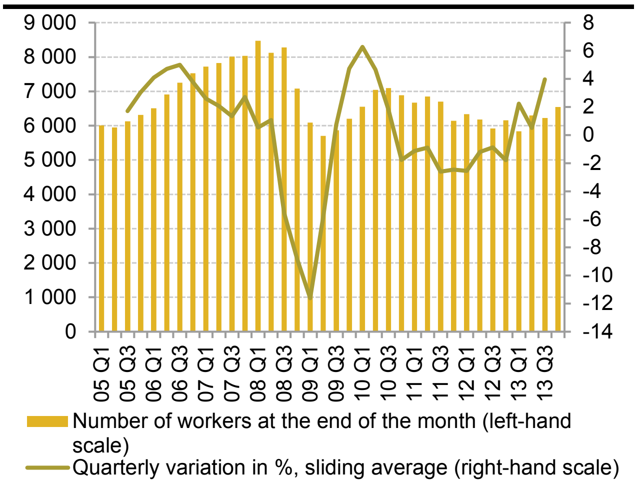
This development is partly the result of a base effect due to an exceptionally disappointing 1st quarter in 2013. Early 2013 was marked by very difficult weather conditions and complete stagnation in employment.

However, monthly growth – where the base effect no longer applies – is far from disappointing: it is up 0.3% over the first two months of 2014, after rising 0.1% on average in 2013. This more sustained growth in employment, which is spread across all branches, is also cyclical in nature, thus pointing to more sustained activity.

It remains too low, however, to push down unemployment (the unemployment rate remained stagnant at 7.1% in April 2014).

Labour market (2/2)

Temporary work



References: IGSS, STATEC (seasonally adjusted figures)

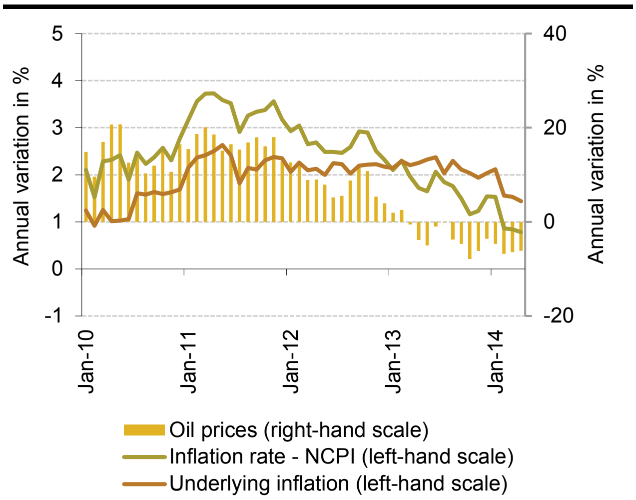
Temporary employment on the up

Temporary employment declined continually from the end of 2010 to early 2013, but this trend has reversed since then. In the last quarter of 2013, annual growth reached 8.8% and figures from FES – Fedil Employment Services – show continuing acceleration in hours worked in the 1st quarter of 2014, also due to the more favourable trends in total paid employment in early 2014.

In the 4th quarter of 2013, construction (40% of the volume of hours worked) and manufacturing (20%) are still the main sectors for temporary workers, followed by retail (8%), financial services (4%) and transport and warehousing (4%). As in previous quarters, temporary employment rose throughout all sectors in the last quarter of 2013: up 19.7% over one year in construction, up 5.2% in manufacturing, up 4.1% in retail, up 18.2% in financial and insurance services and up 45.6% in transport and warehousing.

Inflation

Inflation in Luxembourg and oil prices



Source: STATEC

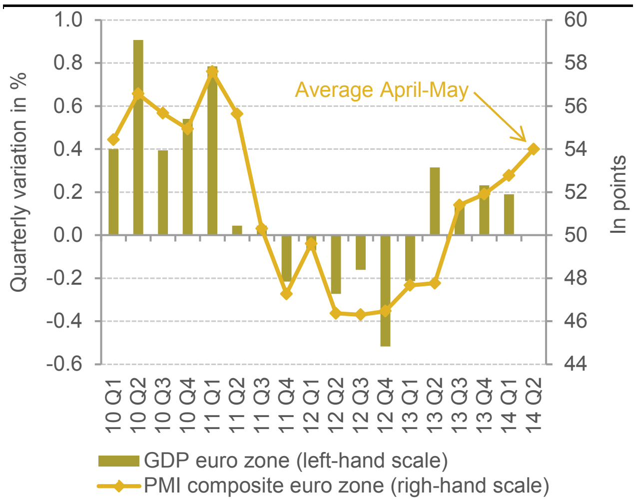
Disinflationary trends confirmed

Since 2011, inflation in Luxembourg has been on a downward trend, reaching a low of 0.8% in April 2014. 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.

Underlying inflation (up 1.4% over one year in April), remained relatively inflexible until the end of 2013, but started to fall in early 2014. The downturn was related to the end of base effects on administered prices (which increased considerably in early 2013), and an easing of food prices. It is also due to the more confirmed and generalised nature of disinflationary trends.

International

Eurozone: GDP and the PMI index



References: Eurostat, Markit Economics

Eurozone: moderate growth in the 1st quarter

In the 1st quarter of 2014, eurozone GDP rose for the 4th quarter in a row. However, the rise was quite modest, just 0.2% over one quarter. This is a similar pace as observed on average over the previous three quarters. The various eurozone member states put in extremely contrasted performances in the 1st quarter of 2014. Of the three largest countries in the eurozone, Germany again confirmed its role as a driving force (up 0.8%), while the results for France (0.0%) and Italy (down 0.1%) were somewhat disappointing.

The economic surveys indicate that activity remained favourable in the 2rd quarter. An indicator like the eurozone PMI, generally strongly correlated with GDP trends, reached a level compatible with a pick-up in growth in April and May.

Trend chart

	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-13	Mar-14	1/04/2015	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	-0.6	0.2	1.2	6.5	9.4	5.3	10.2	…	…	8.3	-3.7
Construction output per working day, in volume	-4.8	0.6	-0.3	3.0	4.6	24.8	19.5	…	…	16.0	-11.1
Turnover by volume of total retail trade	1.9	-0.9	-0.5	0.7	-1.4	1.4	3.9	…	…	0.9	-1.9
Prices, wages											
Consumer price index (NCPI)	1.8	1.5	1.2	1.2	1.5	1.5	0.9	0.8	0.8	0.8	2.0
Underlying inflation	2.3	2.1	2.0	1.9	2.0	2.1	1.6	1.5	1.4	1.5	2.3
Oil product index	-3.8	-4.7	-7.9	-6.2	-3.6	-4.7	-6.8	-6.4	-6.1	-6.4	-0.7
Industrial producer price index	-3.3	-3.3	-3.2	-2.8	-2.6	-2.5	-3.6	-3.9	…	-3.4	-1.2
Construction price index[1]	1.9	1.9	1.9	1.9	1.9	…	…	…	…	1.9	2.8
Average wage bill, per person (National accounts)	3.6	3.6	3.6	3.6	3.6	…	…	…	…	3.6	2.8
Foreign trade											
Exports of goods (volume)	-4.1	-2.6	3.6	4.0	12.9	13.6	9.8	…	…	12.1	-6.7
Imports of goods (volume)	-5.9	-5.1	-5.3	-2.4	-2.5	-4.5	-5.9	…	…	-4.3	12.2
Employment, unemployment											
Domestic number of employees	2.0	1.7	1.9	2.0	1.7	2.2	2.5	2.6	2.6	2.6	1.5
National employment	2.0	1.8	1.7	1.6	1.5	1.9	2.6	2.6	2.6	2.6	1.6
Unemployment rate (% of working population, seas. adj.)	6.9	7.0	7.0	7.0	7.1	7.1	7.1	7.1	7.1	7.1	6.7

Source: STATEC
Data yellow coloured are estimates
[1] Estimations based on half-yearly data

Indicators

	Variation on previous quarter in %					
	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1
Eurozone- Growth in volume of GDP (European Commission)	-0.3	-0.2	-0.5	-0.2	0.3	0.1
Luxembourg - Growth in volume of GDP (STATEC)	0.2	0.1	1.2	-0.8	1.9	…
	Annual variation in %					
	2009	2010	2011	2012	2013	Forecast 2014
Luxembourg - Growth in volume of GDP (STATEC)	-5.6	3.1	1.9	-0.2	2.1	2.9

GDP at current prices 2013: EUR 45 478 million
Minimum monthly salary (since 01/10/2013): EUR 1 921.03
Current account balance (2013 Q4): EUR 1 094 million
Resident population (01/01/2014): 549 680

Consumer price index (April) - base January 1st 1948: 826.33
Half-yearly average of the index linked to base as at January 1st 1948: 823.55
Estimated deadline for next salary indexation: 1st quater 2015

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