

Euro zone: brighter spells but remaining cloudy

Recent economic indicators for the euro zone give signs of improvement overall. Activity should become steadier in the 2nd quarter and unemployment should continue to fall, linked in particular to the recovery recorded in the southern countries. Risks are still present, however, particularly with regard to public debt and the slight increase in prices.

Relatively encouraging statistics for spring...

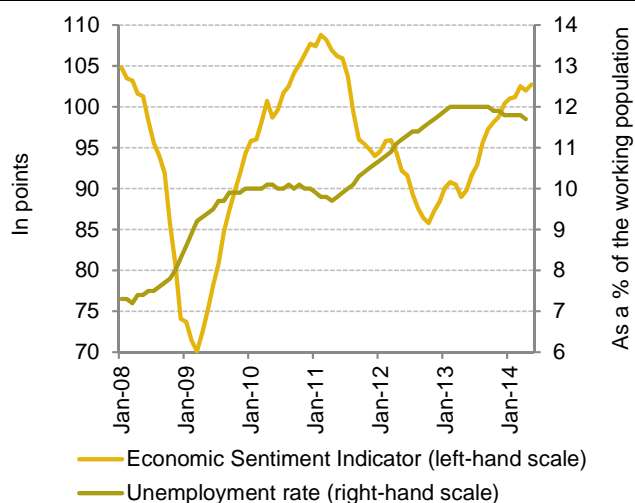
The most recent economic indicators for the euro zone show a continuing improvement on the whole.

The GDP for the euro zone only rose by 0.2% in the 1st quarter of 2014, but the details of its components – only recently available – indicate a strengthening domestic demand (through private and public consumption, and investments). Leading indicators on activity (such as the PMI, Euroframe or Eurocoin) suggest accelerated growth in the 2nd quarter; their correlation with the GDP giving hope to the latter rising by at least 0.3%.

The business and consumer surveys for May 2014 indicate increased business confidence for all sectors (manufacturing, construction, financial and non-financial services) and in households. Manufacturing output picked up significantly in April (+0.8% over the month), boosting the more positive aspect apparent in opinion polls, which show a marked rise in the capacity utilisation rate since the 1st quarter.

The southern euro zone countries also confirm more favourable economic trends. Spain and Portugal – and to a lesser extent Greece – have seen a fairly marked fall in unemployment over the last few months. In April, half of the fall in unemployment in the euro zone (with a rate of 11.7%, against 11.8% in March and a higher rate of 12.0% in September 2013) was due to the Spanish contribution. Moreover, the financing conditions in the southern states have improved: Spain and Italy have been borrowing at less than 3% (10-year rate) since the end of May and the beginning of June respectively. Furthermore, Spain, Portugal and Greece were upgraded by the rating agencies in May.

euro zone - Confidence and unemployment



Source: European Commission

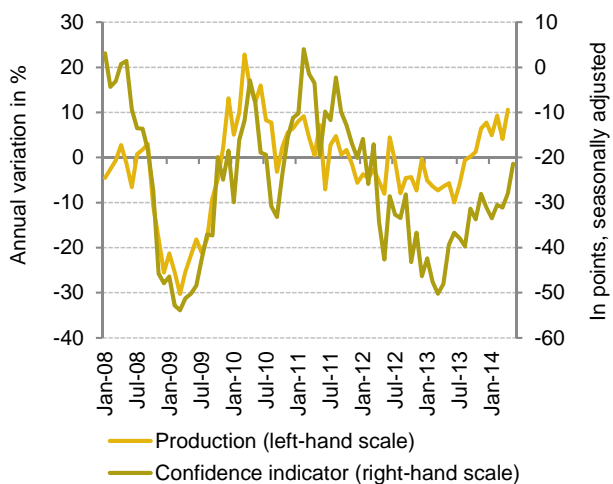
Some cloudy periods persist

In spite of this short-term improvement, the euro zone is still suffering – from the institutional point of view – from a problem of economic governance. Despite some advances, such as the European Stability Mechanism or the steps towards banking union, there is no mutualisation of public debts and debts remain the responsibility of the States. The (dangerous) liaisons between public debt and the banking system have also not disappeared.

The risk of deflation is, moreover, still present. Inflation was very weak in May (+0.5% over the year, against +0.7% in April), and this weakness shows a very definite underlying nature (or trend). This prompted the ECB to announce a raft of easing measures at the beginning of May (cuts in key lending rates, negative rate on the deposit facility, and new long-term loans in particular), in order to stimulate demand and credit in the euro zone. In effect, the latter two remain at low levels, which do not generate any particular pressures on consumer prices. This relative depression in prices is also felt on labour costs within the euro zone: the latter's annual increase fell below the 1% mark in the 1st quarter of 2014 (+0.9%) for the first time since 2009 - which does little to contradict the risk of deflation scenario.

Manufacturing

Output and confidence in the manufacturing sector



Source: STATEC

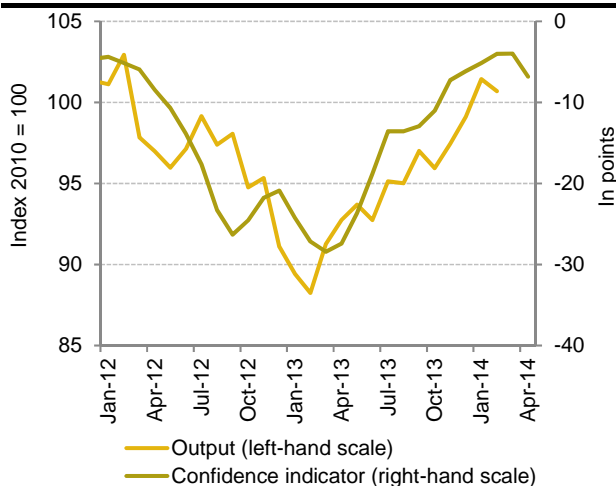
Output intensifies

According to initial estimates, manufacturing output in Luxembourg increased by 2.5% over the month in April 2014 (+10.6% over the year), confirming the continuing favourable trend in activity recorded since the second half of 2013. The short-term outlook seems relatively good, with manufacturers providing more positive assessments in the business and consumer survey for May on the state of their order books, the prospects for growth in output and on their stock levels (falling) – these last three elements being summarised by the confidence indicator.

If the recovery in output in Luxembourg remains in line with the trend in the euro zone, it would seem, however, to be significantly stronger than the average. Since the beginning of 2013, Luxembourg has recorded the strongest increase alongside Ireland and Slovakia (close to 10%), against an increase of 2.5% for the whole of the euro zone.

Construction

Output and confidence



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

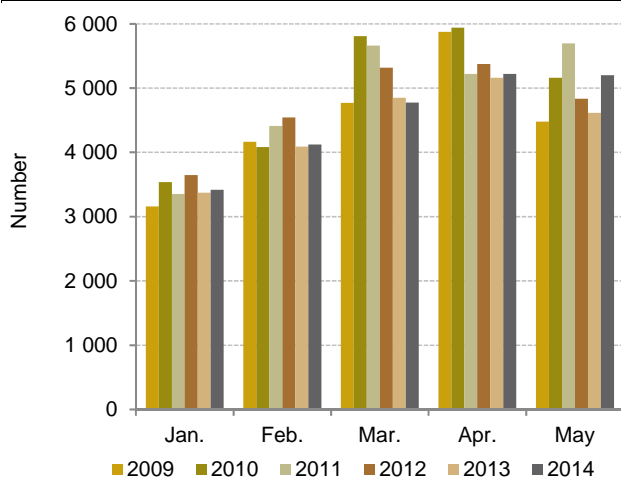
Towards less dynamic growth

Output in the construction sector fell by some 6% over the month in March 2014, but this movement does not yet constitute too worrying a signal. In effect, it is possible that this fall is a reaction to the extremely clement climatic conditions of the first two months of the year (likely to have particularly stimulated activity over this period when activity is usually very low). In this regard, the downward movement recorded in March is more likely to convey some normalisation rather than an economic downturn.

It should also be noted that, after the high point reached in February, the opinions of contractors have somewhat deteriorated since (until May). Even so, confidence remains relatively high, which suggests an ever increasing trend for the forthcoming results, although certainly less dynamic.

Consumption

New registrations of private cars



Source: SNCT

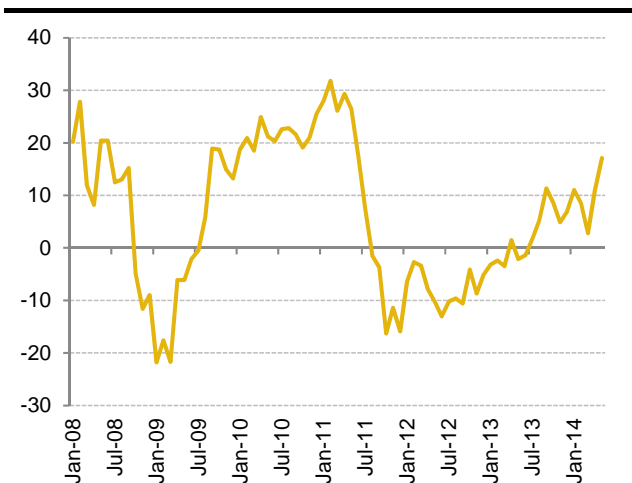
Registrations picked up in May

New registrations of private cars, a benchmark for household consumption, were very disappointing in early 2014. Over the first four months they showed hardly any improvement against the 2013 figures, which had, however, been a bad year in terms of new vehicle sales. This trend was partially restored in May, with registrations up by 13% over 12 months (+3% over the month on seasonally adjusted data).

This recovery is somewhat reassuring, particularly with regard to the confidence indicator which has substantially recovered since mid-2013, but it remains too isolated to assume an economic turnaround. For retail sales (excluding e-commerce), the most recent data – up to March 2014 – only show, for their part, a stabilising trend compared with the results for the end of 2013.

Financial sector

Confidence indicator for the euro zone



Source: European Commission

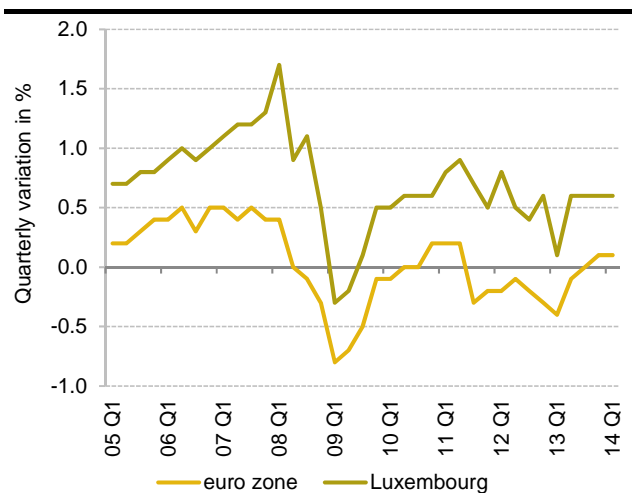
From credit to confidence

The confidence indicator for financial services in the euro zone reached a standstill in February and March 2014, but it has recovered well over the course of the following two months. This rise is very generalised in nature as it concerns, at the same time, all stakeholders in the sector (financial intermediation, insurance companies and auxiliaries of the finance sector) and all the variables which are taken into consideration in the confidence indicator (namely the course of business and the recent and expected increase in demand).

The latest survey on the distribution of bank credit coordinated by the ECB (April 2014) was already showing a more favourable assessment of the outlook on credit demand from companies and households in the euro zone. The more positive outlook on loans was also apparent in the Luxembourg data relating to the same survey, except in terms of home loans.

Labour market place (1/2)

Salaried employment in the euro zone and Luxembourg



Sources: Eurostat, STATEC (seasonally adjusted figures)

Employment is increasing but not accelerating

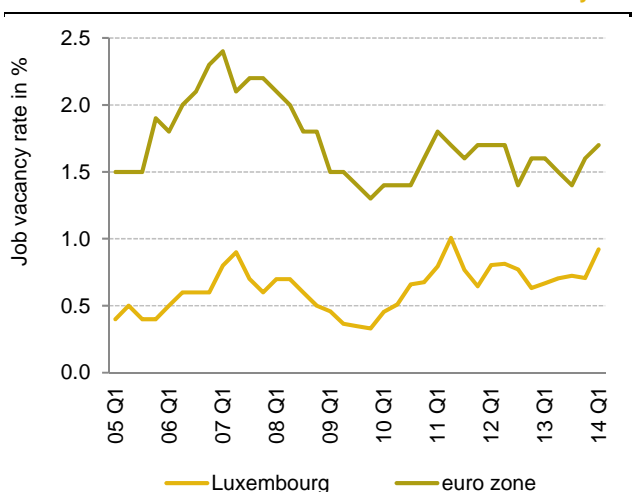
Employment in the euro zone increased by 0.1% over three months in the 1st quarter of 2014, at the same rate, therefore, as for the previous quarter. In Luxembourg, the growth in employment has been at 0.6% for four consecutive quarters.

Luxembourg remains the euro zone country where employment is growing the fastest in early 2014. It is followed by Austria (+0.4%), Germany (+0.3%) and Estonia (+0.3%). Cyprus recorded the sharpest fall with -1.2% over three months in the 1st quarter of 2014, followed by Portugal (-0.3%), Finland (-0.2%) and Italy (-0.1%).

In Luxembourg as in the euro zone, it is services (particularly those provided directly to businesses) which have seen the most favourable dynamic in terms of job creation. However, the manufacturing industry in Luxembourg is still shedding jobs (-0.2% in Q1 2014), while staff numbers in the euro zone witnessed slight growth. Conversely, employment in construction is much better positioned in Luxembourg.

Labour market place (2/2)

Job vacancy rate



Sources: ADEM, STATEC, Eurostat

Sharp increase in vacant positions in the 1st quarter

In the 1st quarter of 2014, the job vacancy rate, that is to say the proportion of vacant posts to all posts (filled and vacant), increased both in Luxembourg and in the whole of the euro zone, showing not only a rise in job offers but also an increasing mismatch between offers and job seekers.

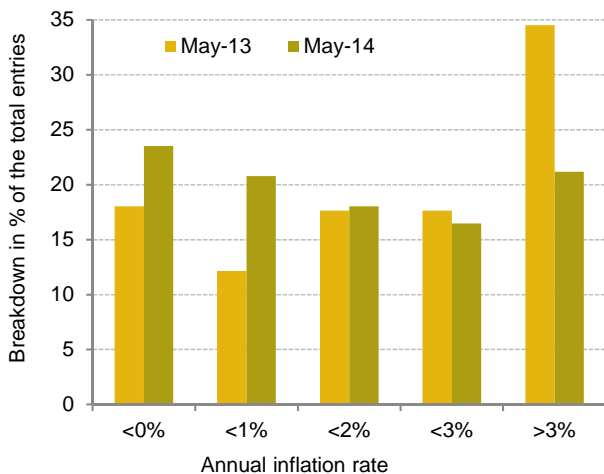
The highest rates of vacant jobs within the euro zone in the 1st quarter of 2014 were recorded in Germany (2.9%), Belgium (2.0%) and Austria (1.7%), and the lowest in Cyprus (0.2%), Latvia (0.5%), Portugal (0.6%) and Spain (0.6%).

In Luxembourg, 0.9% of all positions (i.e. almost 3,400 posts) remained unoccupied in the 1st quarter of 2014 against 0.7% in the 4th quarter of 2013. This rise comes mainly from three branches: hotel and catering (where the rate increased from 1.1% to 2.2%), administrative and support service activities, and information and communication. Apart from for the Financial and Education activities, the rate of vacant posts for all economic branches increased in early 2014.

Consumer prices

Inflation still very low in May

Distribution of items of expenditure regarding their inflation



Source: STATEC

Trend chart

	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-13	Mar-14	Apr-14	May-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	-0.6	0.2	1.2	6.5	9.4	4.9	10.0	6.3	...	...	7.0	-7.2
Construction output per working day, in volume	-4.8	0.5	-0.3	3.2	4.5	25.0	19.5	4.6	...	...	15.0	-11.0
Turnover by volume of total retail trade	1.9	-0.9	-0.5	0.7	-0.8	1.5	1.9	-0.1	...	...	1.1	-2.0
Prices, wages												
Consumer price index (NCPI)	1.8	1.5	1.2	1.2	1.5	1.5	0.9	0.8	0.8	1.0	0.9	1.8
Underlying inflation	2.3	2.1	2.0	1.9	2.0	2.1	1.6	1.5	1.4	1.3	1.4	2.3
Oil product index	-3.8	-4.7	-7.9	-6.2	-3.6	-4.7	-6.8	-6.4	-6.1	-2.3	-5.0	-3.2
Industrial producer price index	-3.3	-3.3	-3.2	-2.8	-2.6	-2.6	-2.6	-3.6	-4.0	-3.3	-3.6	-2.3
Construction price index ¹	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	...	...	1.9	2.5
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	-2.3	3.9	4.5	13.5	11.7	9.3	15.8	...	...	12.3	-5.3
Imports of goods (volume)	-5.9	-5.0	-5.0	-2.4	-2.2	-4.1	-6.1	-4.9	...	...	-5.1	5.3
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)	-0.5	-0.2	0.3	0.1	0.2	0.2
Luxembourg - Growth in volume of GDP (STATEC)	1.2	-0.8	1.9	0.6	0.7	...
	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 (May) - base January 1st 1948: 826.60Half-yearly average of the index linked to base as at January 1st 1948: 824.15Estimated deadline for next salary indexation: 1st quarter 2015

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