

CONJONCTURE FLASH | JULY 2014



Monthly publication of the state of the Luxembourg economy

STATEC

Institut national de la statistique
et des études économiques

A favourable start to the year in terms of growth

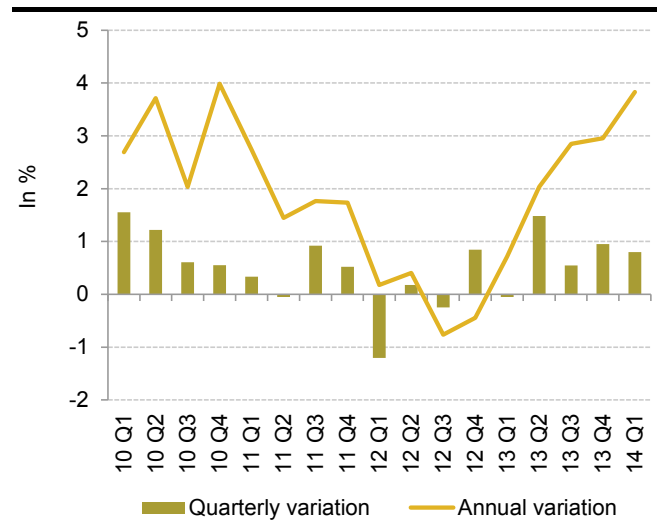
The 1st quarter of the year again saw good GDP growth, which means this year's 3% target is likely to be reached. The cyclical improvement, however, remains limited by high unemployment, which is weighing on consumption, and by the counter-performance of the financial sector compared to other branches of activity.

Relatively high growth in the 1st quarter

Luxembourg GDP grew 0.8% in the 1st quarter of 2014 (up +3.8% over one year). This is in line with the average rate observed over last year as a whole (up 0.7% per quarter on average) and shows that momentum is far higher than in other euro-zone countries – including Germany – since the start of the recovery in the 2nd quarter of 2013.

STATEC's forecast last May of GDP growth of some 3% over 2014 as a whole seems now to be quite an achievable target. Indeed, growth acquisition for 2014 at the end of the 1st quarter was already 2.2%, which means that a rise of just 0.5% per quarter over the remaining three quarters would be enough to achieve the target. However, this is subject to the reservation that there are no major revisions to actual data. Given that the statistics for the national accounts will be subjected to a "major revision" in September and October next, mostly due to the switch to the new European System of National Accounts (ESA 2010), revisions can be expected not only as regards GDP trends but also most likely in terms of volume as well. Pending these new results, some caution is therefore required. The international climate over recent months also remains quite uncertain (with disappointing statistics for the euro zone in May and growing geopolitical tensions in Europe and the Near East).

GDP in volume



Source: STATEC

Weaknesses persist

In terms of GDP components, most of the basic trends¹ observed in previous quarters continued in the 1st quarter of 2014. Private consumption grew moderately (up 0.6% over one quarter, but just 1.4% over one year), most likely due to the high unemployment rate. The recovery is not yet strong enough and is too recent to have had any impact as yet on bringing unemployment down.

Investment seems to be picking up steadily and the balance of trade in goods and services is improving.

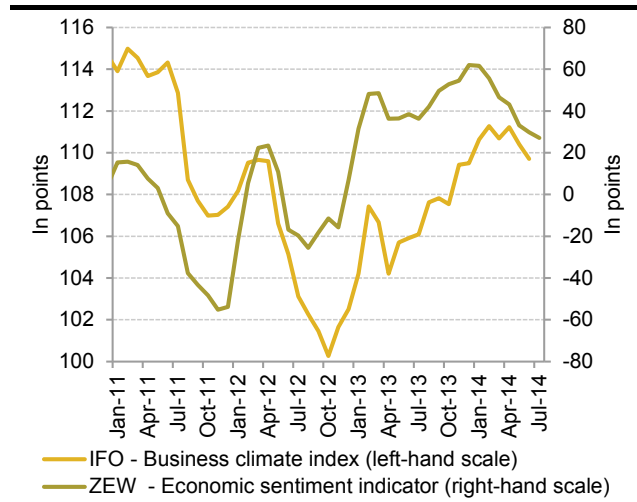
This renewed growth seems to extend to most branches of the economy, but the financial sector remains the poor relation in this recovery. Added value in terms of volume in this branch stabilised in the 1st quarter of 2014, after falling significantly for two quarters in a row, and it remains stuck at historically low levels, mainly due to the unfavourable trend in the banking component.

STATEC
Luxembourg

¹ i.e. excluding transactions relating to aircraft, satellites and non-monetary gold.

International

Confidence indices in Germany



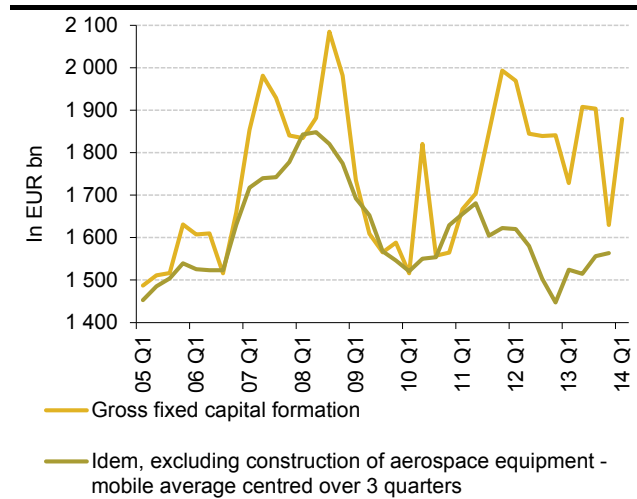
Source: Macrobond

Negative signals in Germany

The powerhouse of the euro zone seems to be showing signs of weakness. German industrial output declined significantly in May (down 1.4%), after stagnating in April and falling 0.4% in March. The trend is no better in the construction sector, where output has dropped sharply for 3 consecutive months (down an average of 3.5% per month), after, it must be said, an exceptional start to the year linked to particularly favourable weather conditions. It is likely that certain phenomena linked to the calendar had a negative effect on activity (there were more long weekends than usual in May this year), but the economic surveys indicate all the same a downward trend in the order books. Summary confidence indices (ZEW, Ifo) also reveal that German investors and business leaders are more worried than before, probably due to the rising geopolitical tensions in a number of countries and to the economic slowdown observed in Asia.

Investment

Gross fixed capital formation



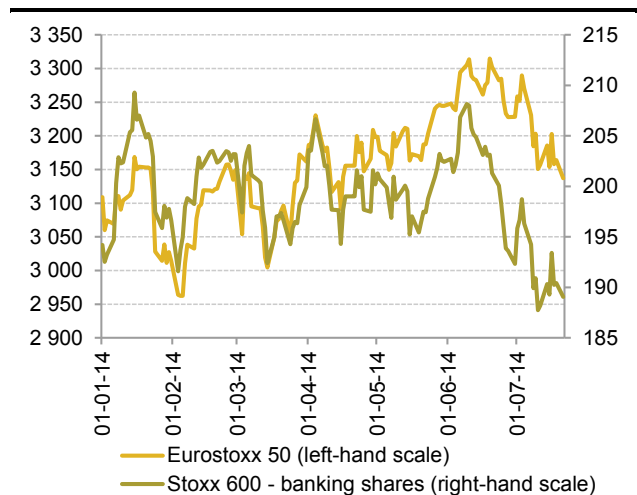
Source: STATEC (seasonally adjusted figures, in volume)

Investment rallies somewhat

Investments in Luxembourg seem to be taking a more favourable turn. The basic trend, excluding investments in aircraft and satellites (which largely sustained global investment over the last two years), have recovered somewhat over recent quarters, even though this rise could hardly be qualified "spectacular". The increased investment was mainly in the construction sector, but also in road and rail transport equipment. Investment has also recovered elsewhere in the euro zone since mid-2013, but it remains modest and very unequal, with Germany contributing the most to this trend (Belgium and the Netherlands are also trending well, although on a much smaller scale), but the median trend is for stabilisation (worryingly, investment in France fell significantly in the 1st quarter of 2014, accentuating the downward trend seen in the country since early 2012).

Financial sector

European stock-market indices



Source: Macrobond

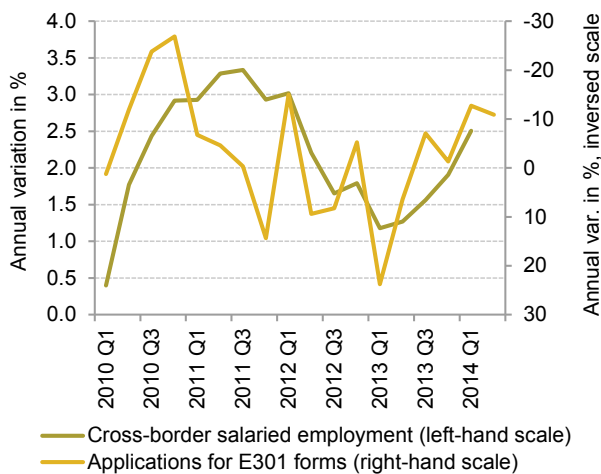
A stormy summer on the markets

The European stock markets are experiencing a troubled summer. The Eurostoxx 50 has fallen significantly since late June, particularly because of growing geopolitical tensions (Ukraine/Russia, Israel/Palestine). Volatility has increased substantially due to the uncertainty regarding the potential repercussions of these conflicts.

European bank stocks have also been negatively affected by various events, including the default on repayments of a holding of Banco Espírito Santos might. Fears of contagion throughout the European banking sector do not seem to have dissipated. The troubled international climate has also pushed investors towards more reliable stocks, both in terms of equities and the bond markets (acquisition of German and French stocks, rising spread to the detriment of peripheral euro-zone countries). The rise in the value of gold over the same period is also part of this movement towards a safe haven.

Labour market

Cross-border employment



Sources: ADEM, IGSS, STATEC

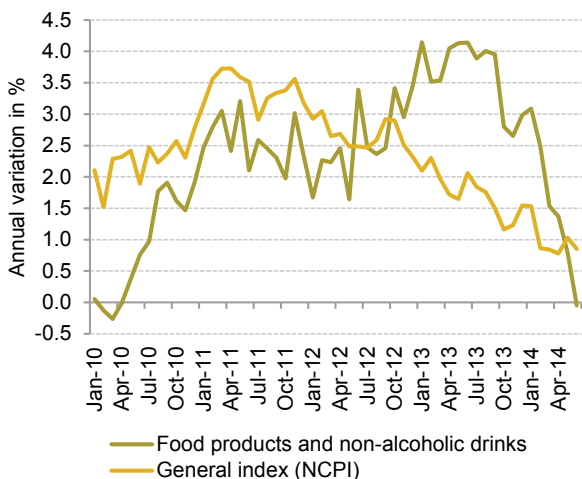
Cross-border employment trending more favourably

In the 1st quarter of 2014, domestic paid employment grew 2.3% over one year, of which 2.1% for national employment and 2.5% for cross-border paid employment. After rising weakly in 2013, cross-border employment started to pick up again in early 2014. This trend is partly linked to the high proportion of cross-border workers in sectors where activity has recovered the most (manufacturing, construction, temporary work). The share of cross-border workers in total domestic employment, which rose continually from 28% in 1995 to 44% in 2008, and then stabilised thereafter, could take off again over the coming quarters.

This recovery in cross-border employment is also observed through the fall in people registering E301 forms with ADEM. These forms are used by cross-border workers to prove that they have worked in the Grand Duchy, entitling them to unemployment benefit in their country of residence. This indicator, strongly correlated with cross-border employment, also points to this favourable trend continuing in the second quarter of 2014.

Inflation

Food prices



Source: STATEC

Food prices falling

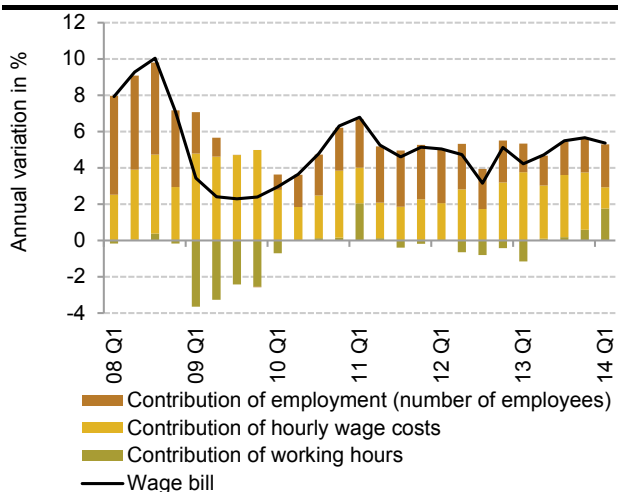
After reaching very high levels in 2013, inflation on foodstuffs slowed significantly in early 2014. In June 2014, for the first time since 2010, it was even slightly negative (and well below general inflation).

This sharp drop is explained to a large extent by the drop in prices for unprocessed food (down 1.9%), mainly due to fresh fruit and vegetables and in contrast to the upsurge observed last year on these products. It must be noted that the weather conditions were particularly good for fruit and vegetable harvests this year, whereas they were dreadful in 2013. Nevertheless, there was also less inflation in processed foodstuffs (up 1.5% over one year in June).

As regards agricultural commodities, up to June, there were few tensions liable to substantially impact on food prices over the short term.

Wages

Payroll



Source: STATEC, national accounts

Slight rise in wage costs in the 1st quarter

Average wage costs (per capita) were up 2.9% over one year in the 1st quarter of 2014, compared to 3.7% in the 4th quarter of 2013. The rise in hourly wage costs was much lower, just 0.7% over the same period, despite automatic index-linking of 2.5 percentage points over the period.

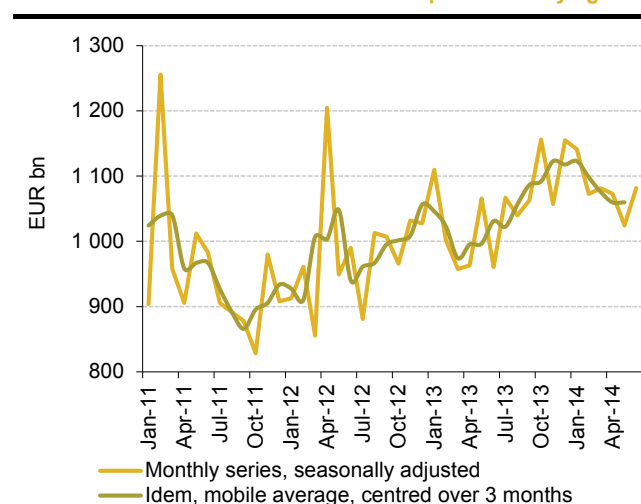
This very modest wage growth is due in particular to the fact that the number of working hours was much higher than in the 1st quarter of 2013, mainly in activities where average wages are relatively low, such as construction and temporary work.

However, another phenomenon is at play here as well: wages paid in the financial sector have slumped significantly, in contrast to the exceptional redundancy pay-outs in early 2013. Outside the financial sector, wage costs climbed 1.4% over one year in the 1st quarter of 2014 (compared to 0.7% for all sectors).

Public finances

Tax receipts down slightly

Tax receipts – monthly figures



Sources: Tax authorities, STATEC

The 1st half of 2014 was marked by a slower rise in tax receipts, up 2.7% over the half-year (seasonally adjusted figures), compared to an average of 5% over the previous two half-years. This downturn is mainly due to lower corporation tax receipts, but these are so volatile that a sluggish trend cannot be identified with certainty.

Nevertheless, year-on-year, tax receipts were up 7% over one year during the first six months of 2014 (up EUR 413 million). The annual rise is mostly due to the increase in taxes levied on households (up 11.3% to EUR 229 million), and in corporation tax (up 9.5 % to EUR 92 million). In contrast, VAT receipts grew only slightly (2.5%). VAT receipts directly linked to e-commerce rose 11% over this period, much lower than observed over 2013 as a whole (up approximately 30%).

Trend chart

	Oct-13	Nov-13	Dec-13	Jan-14	Feb-13	Mar-14	Apr-14	May-13	Jun-12	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	0.7	6.0	9.0	4.8	9.6	9.5	11.9	...	...	10.3	-7.4
Construction output per working day, in volume	-0.3	3.2	4.6	26.2	20.9	5.2	1.8	...	...	8.4	-6.6
Turnover by volume of total retail trade	-0.7	0.8	-0.7	1.5	2.0	1.0	2.9	...	...	2.0	-2.2
Prices, wages											
Consumer price index (NCPI)	1.2	1.2	1.5	1.5	0.9	0.8	0.8	1.0	0.9	0.9	1.8
Underlying inflation	2.0	1.9	2.0	2.1	1.6	1.5	1.4	1.3	1.2	1.3	2.3
Oil product index	-7.9	-6.2	-3.6	-4.7	-6.8	-6.4	-6.1	-2.3	-2.7	-3.7	-3.3
Industrial producer price index	-2.6	-3.6	-3.6	-3.9	-4.0	-3.3	-4.0	-3.7	...	-3.7	-3.2
Construction price index ¹	1.9	1.9	1.9	1.9	1.9	1.9	...	...	...	1.9	2.5
Average wage bill, per person (National accounts)	3.7	3.7	3.7	2.9	2.9	2.9	...	...	...	2.9	2.6
Foreign trade											
Exports of goods (volume)	4.3	5.2	12.7	12.9	9.6	16.7	7.0	...	...	11.1	-2.8
Imports of goods (volume)	-4.6	-2.3	-2.2	-4.5	-5.7	-4.8	-4.0	...	...	-4.8	3.3
Employment, unemployment											
Domestic number of employees	1.9	2.0	1.7	2.2	2.4	2.5	2.5	2.5	...	2.5	1.5
National employment	1.6	1.6	1.5	1.9	2.0	2.1	2.1	2.2	...	2.1	1.6
Unemployment rate (% of working population, seas. adj.)	7.0	7.0	7.1	7.1	7.1	7.1	7.2	7.3	...	7.2	6.8

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	0.3	0.2
Luxembourg - Growth in volume of GDP (STATEC)	0.8	0.0	1.5	0.5	1.0	0.8
	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 431 million						
Resident population (01/01/2014): 549 680						
Consumer price index (June) - base January 1 st 1948: 827.42						
Half-yearly average of the index linked to base as at January 1 st 1948: 824.79						
Estimated deadline for next salary indexation: 1 st quarter 2015						

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