

CONJONCTURE FLASH | SEPTEMBER 2014

STATEC

Institut national de la statistique
et des études économiques

Monthly publication of the state of the Luxembourg economy

Labour market shows fragile improvement

The unemployment rate fell in August but continues to trend upwards. Slower growth in unemployment over recent months and the healthier rate of job creations in 2014 are encouraging signals for the labour market, but a number of signals indicate that this relative improvement might not last.

Signs of improvement...

The unemployment rate in Luxembourg stood at 7.2% of the working population in August 2014, down slightly on the previous month (7.3% in July). However, this drop is not yet part of a firm trend. Beyond a certain amount of volatility from one month to the next, the unemployment rate remains anchored on an upward trend, even if this trend has softened considerably since the 2nd half of 2013.

This very relative improvement is also evident in domestic employment, which has been rising at an annual rate of over 2% since the 1st quarter of 2014. This compares very favourably to other European countries but from a strictly Luxembourg viewpoint it remains quite modest given the trends observed in the past (almost 4% growth per annum on average between 1996 and 2008). The rise is also as yet too modest to really bring unemployment down.

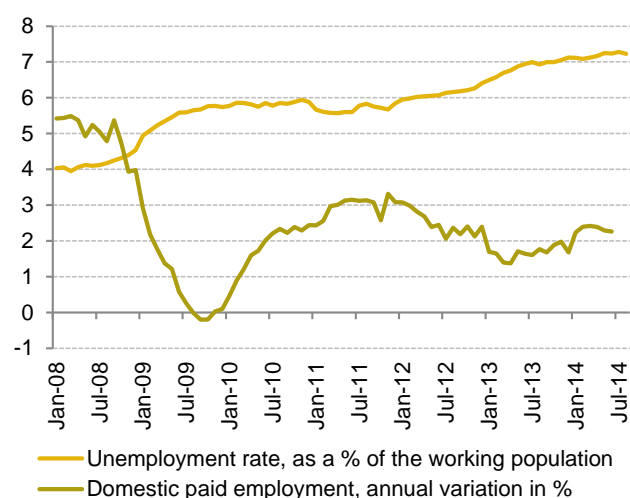
... but also reasons for concern

A number of signals suggest that even this relative improvement may not last.

Temporary work in particular is showing signs of flagging. It fell in the 2nd quarter and although this was in reaction to exceptionally strong activity in the 1st quarter of 2014 (see below), initial information available for the summer months do not show any signs of recovery in temporary employment.

In economic surveys, where company managers are asked for their opinion on employment prospects, results in recent months (available up to August) show a less favourable profile for most sectors (and particularly in manufacturing and retail). The consumer opinion survey shows a rise in expectations regarding unemployment since July.

Employment and unemployment



Sources: STATEC, IGSS, ADEM

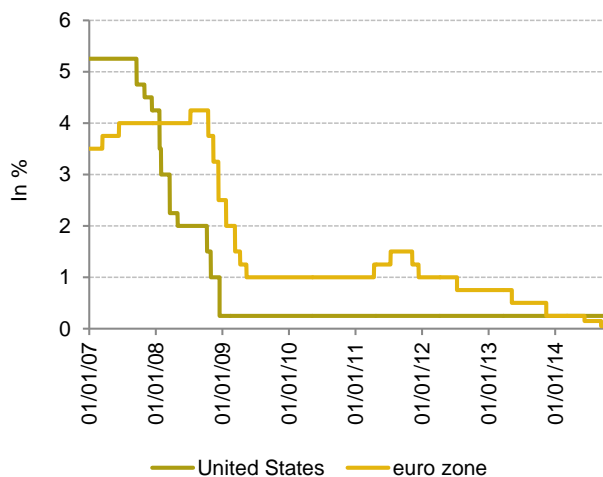
Finally, the downturn in a number of cyclical indicators relating to euro zone activity (see August's Conjoncture Flash) has led to growth prospects being downgraded (such as in September by the European Central Bank and the OECD). In Luxembourg also, although GDP figures for the 2nd quarter are not yet available, a number of indicators (including the confidence indicators for most sectors since June) point to more moderate growth, which would inevitably affect the labour market.

Nevertheless, the news is not all negative. New jobs notified to ADEM for example started to climb again in July, after slumping somewhat in the 2nd quarter. Vacancy rates continued to grow in the 2nd quarter (1.0% against 0.9% in the 1st quarter of 2014 and 0.7% in the 4th quarter of 2013). Finally, partial unemployment applications have dropped significantly since April (both in terms of overall numbers and employees affected).

STATEC
Luxembourg

International

Key interest rates



Sources: Federal Reserve, ECB

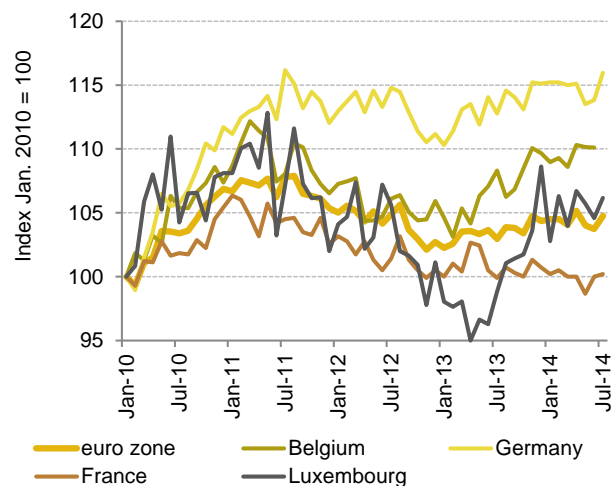
The ECB propelled into action

Following its meeting on 4 September, the European Central Bank announced a number of new measures: rates were cut (3 months after the June cut), a new wave of massive lending to banks (targeted long-term refinancing operations, TLTRO) and a programme to purchase private debt securities (asset-backed securities and covered bank bonds in the euro zone).

These monetary policy decisions came in response to the decline in a number of economic indicators (notably stagnating GDP in the euro zone in the 2nd quarter and falling confidence indicators during the summer) and an environment where deflationary trends have extensively been confirmed in recent months. The aim is to boost both lending to businesses and to favour depreciation of the euro.

Manufacturing

Industrial output



Sources: Eurostat, STATEC

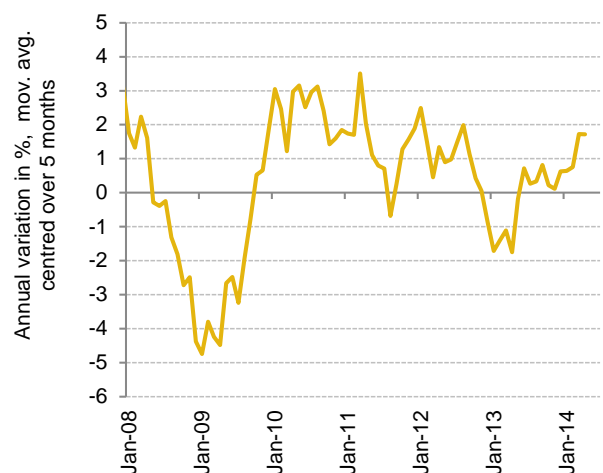
Output stabilises

Luxembourg industrial output rose 1.5% over one month in July, partly making up for the drop observed in the two previous months and comparing favourably with the 1.0% rise observed in the rest of the euro zone (the latter benefitted from quite a strong recovery in Germany, up 1.9%). Overall, the trend toward stabilisation (or even a slight rise) has prevailed since early 2014, whereas economic surveys have indicated a levelling off in manufacturing confidence since spring (peaking in May and stabilising at a slightly lower level thereafter).

Since the start of the year, trends have been very varied depending on sector. The most significant contributions to the downward trend were in iron and steel, the manufacture of machinery and the paper, cardboard and printing industry. In contrast, the manufacture of plastic products, construction materials and abrasive products, and of IT, electronic, optical and electrical products largely sustained industrial output.

Consumption

Retail trade – Trends in turnover volumes



Sources: Administration de l'Enregistrement, STATEC

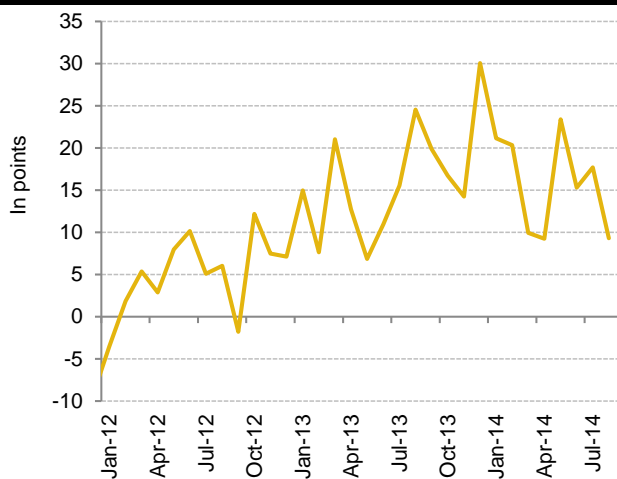
Retail improving

Retail sales seem to have trended well in the 2nd quarter of 2014. Based on (provisional) figures of trends in turnover volumes, retailers (excluding mail order sales and therefore those specialising in e-commerce) have posted a 2.4% rise in sales over one year (up 1.5% over one quarter based on seasonally adjusted figures).

Alongside the upswing in new private car registrations in the same quarter, this is a positive signal for household consumption. This trend is quite reassuring, given that consumer confidence had been badly hit since spring, notably due to the high volatility in expectations regarding the financial situation of households (with two sharp drops, in March and July).

Non-financial services

Confidence indicator



Sources: Chamber of Commerce, STATEC

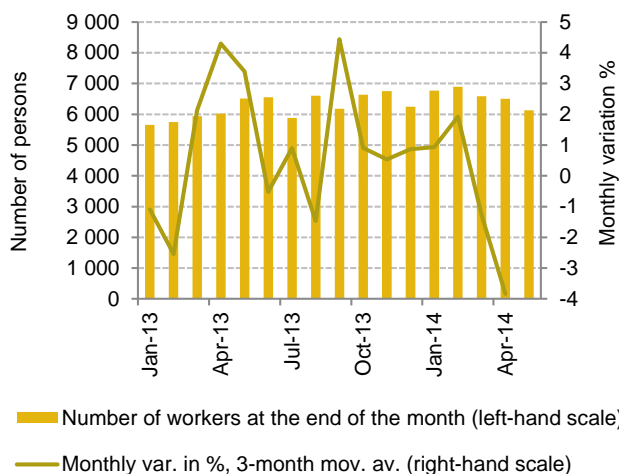
Running out of steam?

After peaking in late 2013, the confidence indicator for non-financial services companies (excluding trade) stalled somewhat over the course of 2014. While the indicator did not actually collapse, this trend is still worrying because these services make up a significant share of added value created over recent quarters (about three quarters between the 1st quarter of 2013 and the 1st quarter of 2014) and jobs created (almost two thirds over the same period).

Turnover figures available for the 2nd quarter also seem to confirm a less favourable climate for these activities, particularly in transport, services provided to businesses and hotel & catering (where results are trending downward in terms of volume).

Labour market

Temporary work



Sources: IGSS, STATEC (seasonally adjusted figures)

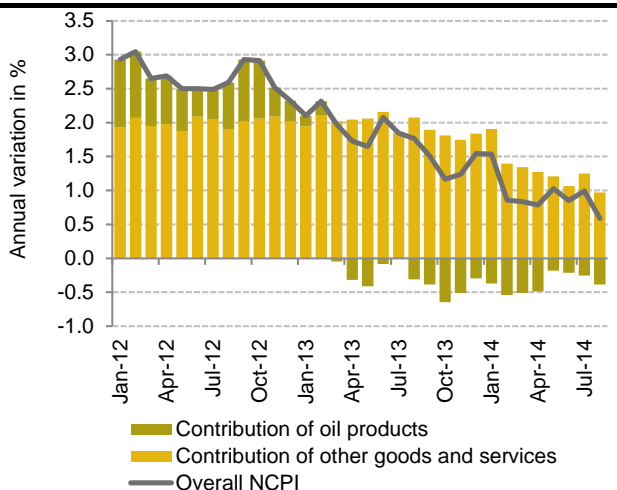
A rather negative signal in temporary employment

In the 2nd quarter of 2014 domestic paid employment rose 0.5% over one quarter compared to a rise of 0.6% over the two previous quarters. This slowdown in Q2 was mainly due to business services, where the variation in employment fell from +1.3% over one quarter in Q1 to -0.1% in Q2.

This unfavourable trend in the numbers of those employed in business services is mostly due to a drop in temporary employment, included under this heading. This was affected by lower activity in construction, which is the main sector using this flexible form of work, and which fell back somewhat after an exceptionally favourable start to the year (due to mild weather conditions). Temporary employment has declined since March 2014, mainly because of a drop in construction projects (paid employment in construction excluding temporary workers has also slowed significantly, rising just 0.3% against 0.7% in the 1st quarter). Initial estimates for the summer months do not point to a recovery but at best a certain stabilisation in the hours worked by temporary workers.

Inflation

Consumer prices



Source: STATEC

Oil continues to dampen inflation

Oil price trends have been dampening inflation in Luxembourg for the last year and a half (0.4 percentage points in August).

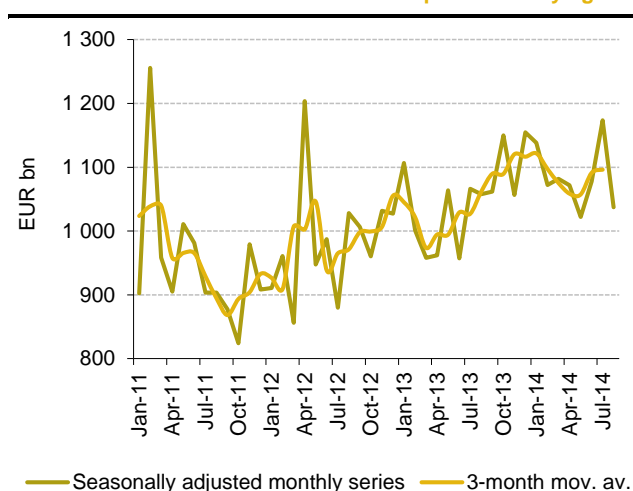
In September, oil prices fell to their lowest level since April 2013, with relatively abundant supply compared to demand. Despite the geopolitical tensions in Ukraine and Iraq, and numerous production downtimes (in Libya notably), oil prices have not come under any particular pressure. The strong growth in oil output, mainly from oil shale in the US, is one of the reasons for this.

The drop in oil prices significantly contributes to the worsening of deflationary trends in the euro zone, even if the drop is partly limited by the depreciation of the euro compared to the dollar in recent months (falling from USD 1.36 to 1.28 between early July and late September). Thus the price per barrel of Brent has fallen 13% since in USD, but just 7% in EUR.

Public finances

Tax receipts: up 6% over one year in late August

Tax receipts – monthly figures



Sources: Tax authorities, STATEC

Trend chart

	Dec-14	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-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	9.0	4.8	9.6	8.3	9.1	9.2	8.1	...	...	8.8	-7.3
Construction output per working day, in volume	4.5	26.2	20.8	5.1	1.9	2.2	-4.8	...	...	-0.3	-2.2
Turnover by volume of total retail trade	-0.7	1.6	1.7	-0.3	1.4	4.2	1.6	...	...	2.4	-0.3
Prices, wages											
Consumer price index (NCPI)	1.5	1.5	0.9	0.8	0.8	1.0	0.9	1.0	0.6	0.8	1.9
Underlying inflation	2.0	2.1	1.6	1.5	1.4	1.3	1.2	1.4	1.1	1.2	2.2
Oil product index	-3.6	-4.7	-6.8	-6.4	-6.1	-2.3	-2.7	-3.2	-4.8	-3.6	-1.7
Industrial producer price index	-2.6	-3.1	-4.2	-4.6	-4.0	-3.7	-3.3	...	...	-3.7	-3.4
Construction price index ¹	1.9	2.0	2.0	2.0	2.1	2.1	2.1	...	...	2.1	2.2
Average wage bill, per person (National accounts)	3.7	2.9	2.9	2.9	...	...	...	...	...	2.9	2.6
Foreign trade											
Exports of goods (volume)	12.4	12.3	11.0	16.1	6.2	10.0	10.7	...	...	9.0	2.4
Imports of goods (volume)	-2.2	-4.6	-6.1	-5.1	-3.1	-3.7	-2.8	...	...	-3.2	0.4
Employment, unemployment											
Domestic number of employees	1.7	2.2	2.4	2.4	2.4	2.3	2.3	2.6	2.2	2.4	1.7
National employment	1.5	1.9	2.0	2.0	2.0	2.0	1.9	2.0	1.6	1.8	1.7
Unemployment rate (% of working population, seas. adj.)	7.1	7.1	7.1	7.1	7.2	7.3	7.2	7.3	7.2	7.2	7.0

Source: STATEC

Data yellow coloured are estimates

¹ Estimations based on half-yearly data

Indicators

	Variation on previous quarter in %					
	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2
Eurozone- Growth in volume of GDP (European Commission)	-0.2	0.3	0.1	0.3	0.2	0.0
Luxembourg - Growth in volume of GDP (STATEC)	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 (2014 Q1): EUR 431 million						
Resident population (01/01/2014): 549 680						

Consumer price index (August) - base January 1st 1948: 828.17Half-yearly average of the index linked to base as at January 1st 1948: 825.67Estimated deadline for next salary indexation: 1st quarter 2015

National institute for statistics and economic studies

Tel: 247-84219
info@statec.etat.lu
www.statistiques.lu

13, rue Erasme
B.P. 304
L-2013 Luxembourg

For further information:

Bastien Larue
Tel. 247-84339
Email: Bastien.Larue@statec.etat.lu

Véronique Sinner
Tel. 247-84228
Email: Veronique.Sinner@statec.etat.lu