

2014 gets off to a good start but clouds are looming

GDP growth was relatively satisfactory in the 2nd quarter of 2014. Although the quarterly national accounts have been significantly revised, the new results do not substantially affect the economic momentum observed, specifically the recovery has been underway since mid-2012. However, while activity held up favourably in the first half of 2014, the economic climate has been worsening since the summer.

An honourable first half

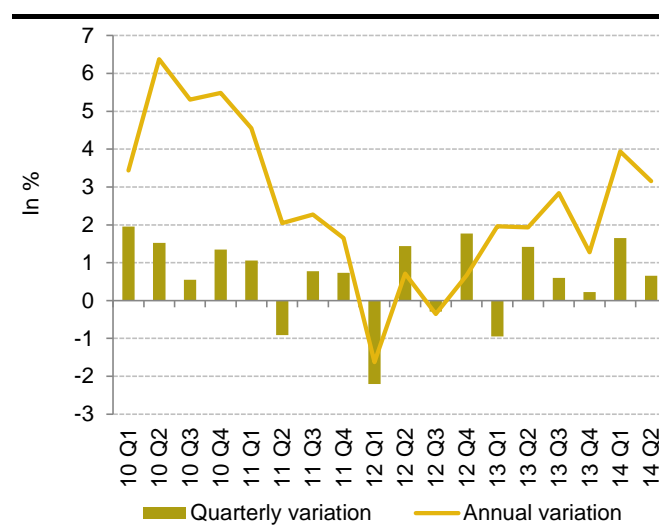
GDP in volume rose 0.7% over one quarter in the 2nd quarter of 2014, a significant result considering the sharp rise in the 1st quarter (up 1.7%), and in line with average trends since mid-2012 (up 0.6% per quarter).

There have been two major changes to annual and quarterly national accounts, namely the switchover to the new European System of Accounts (ESA 2010) and the statistical adjustment for the period 2000-2012. This new data only marginally affects GDP growth in volume observed over the last two years (2010 and 2011 however were significantly revised upwards, by almost 3 extra percentage points cumulatively).

GDP growth in the 2nd quarter of 2014 remained buoyed by the strong performance of non-financial services, particularly business services and trade. In contrast, in financial services, banking activities continue to trend downward in terms of added value, which seems to confirm a structural phenomenon. The resilience of insurance and financial auxiliaries may, however, soften the blow somewhat.

As in previous quarters, net external demand (the balance of exports and imports of goods and services) made the largest contribution to GDP growth. Household consumption bounced back in the 2nd quarter, after stagnating in the previous quarter. However, it remained at an annual growth rate of around 2%, below GDP growth. Taken as a trend, (i.e. excluding aircraft and satellites, which generate a lot of volatility), investment continued to recover slowly, but remains relatively constant.

GDP in volume



Source: STATEC

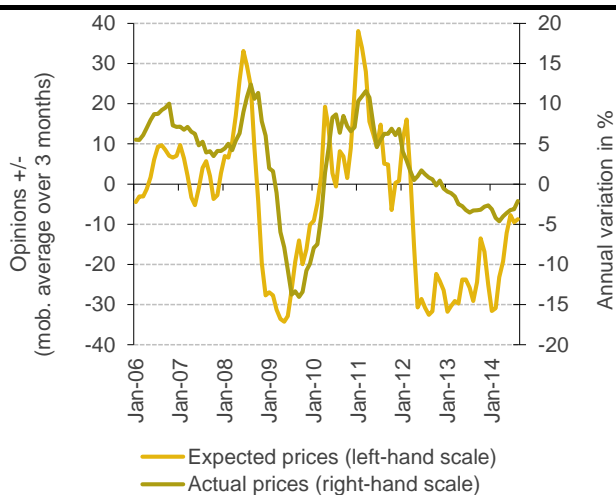
Faltering momentum?

By the end of the 2nd quarter of 2014, growth acquisition for the current year was already significant at 3.0%.

However, there is concern that the second part of the year may be much less favourable: firstly, economic surveys indicate falling confidence among both business owners and consumers and secondly, the international economic environment is likely to be less buoyant. Growth forecasts for the euro zone issued by the ECB, the IMF and the OECD in recent weeks have all been revised downwards because of zero growth in the 2nd quarter, disappointing activity indicators for the 3rd quarter and ongoing deflationary trends. Alongside the downturn in confidence indicators throughout the euro zone, the sharp fall in the European stock markets since late September is another cause for concern. More than a simple slowdown or slump, the possibility of a real cyclical downturn cannot be excluded.

Manufacturing

Price of industrial products



Source: STATEC

Prices recover somewhat

Prices for Luxembourg industrial products rose 0.8% over one month in August 2014, the largest rise since early 2011. This trend was due in large part to rising prices of energy products but in recent months there have also been price rises in iron and steel products, non-ferrous metals, glass and ceramics and food.

This renewed pressure on industrial products, which had been falling almost continually since mid-2012, is as yet quite modest but seems to be in line with expectations of rising prices among manufacturers. Luxembourg is bucking the trend observed elsewhere in the euro zone, where most expectations continue to trend downwards after September (except in Germany, Greece and Finland). In any case, the economic climate (low demand, lack of pressure on commodity prices) rules out any imminent upsurge in prices for industrial products.

Construction

Planning permissions – volume in the 1st quarter



Source: STATEC

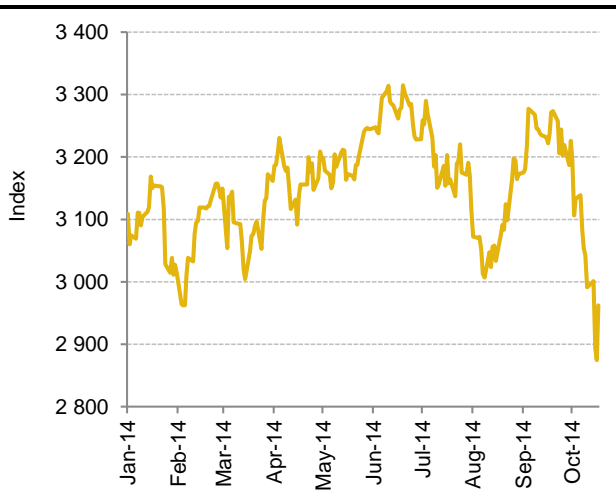
Permits remain at similar levels

The volume of construction projects corresponding to authorisations issued fell about 3% over one year in the 1st half of 2014. It remains high overall, however, due in part to the increase in residential building projects and in part to a number of large-scale projects in the non-residential sector. In the 1st quarter of 2014 in particular, a number of major sites were granted planning permission, including a large complex in Luxembourg City, a sports hall in the south of the country and an industrial facility and shopping centre in the north of the country.

Output in the construction sector fell from March to July 2014 (latest data available). Nevertheless, confidence among business leaders in the sector rose again from July to September – construction is the only segment where business confidence rose over this period – meaning that we can be relatively optimistic about the 3rd quarter.

Financial sector

EuroSTOXX50 market index



Source: Macrobond (latest issue: 17 Oct. 2014)

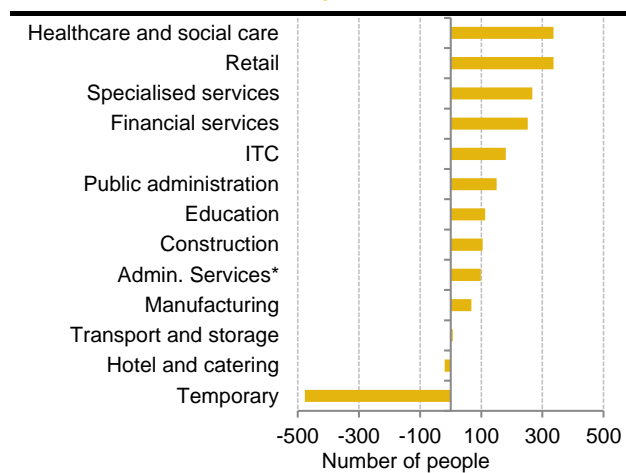
Autumn starts with stock markets taking a dive

Panic swept through the markets in October. Between 19 September and 15 October, the main European stock-market indices fell approximately 12%. The markets had already fallen in July but recovered well in August. This recent slump was much faster and much more marked (the Eurostoxx50 has returned to levels of volatility not seen since 2012).

This trend may be an inevitable correction, as the European stock market indices had performed well from mid-2012 to mid-2014. It could have been prompted by the recent downturn in the macro-economic climate, with rather disappointing euro-zone economic indicators and growth forecasts revised downwards after the summer. Another probable trigger was the vague nature of monetary policy announcements coming from the United States (where their policy tightening schedule is still being debated) and the euro zone (where details of the debt buyback programme have yet to be announced).

Labour market 1/2

Net job creations/losses in Q2 2014

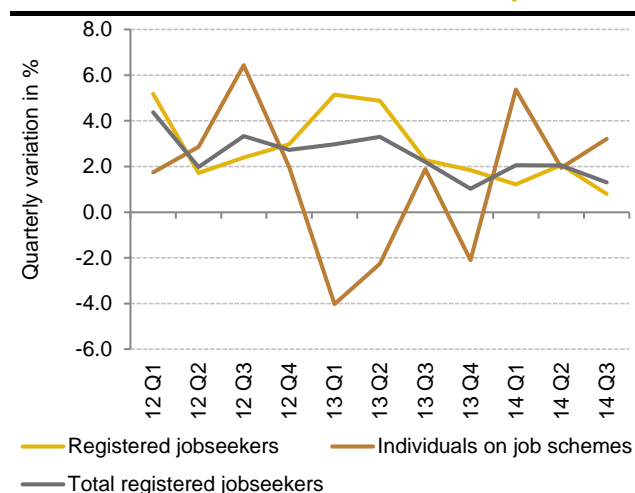


*excluding temporary work

Sources: IGSS, STATEC (national accounts, seasonally adjusted figures)

Labour market 2/2

Job seekers and individuals on job schemes



Sources: ADEM, STATEC (seasonally adjusted figures)

Employment up except in temporary employment

In the second quarter of 2014, paid employment rose 0.6%, the same rate as in the 1st quarter. This rise corresponds to over 2,000 net jobs created over one quarter.

While hotel & catering, construction and financial services created most jobs at the very start of the year, healthcare and social welfare, trade and specialised services provided the most stimulus to employment in the 2nd quarter of 2014. Manufacturing, transport and storage, which witnessed and decline in employment in the 1st quarter, recorded a slight rise in Q2.

Temporary employment, which is classified under administrative services but which is mainly used in construction and manufacturing, fell 7.1% in one quarter, the largest drop in employment. Apart from temporary employment, paid employment picked up slightly in the 2nd quarter (up 0.7% compared to 0.6% in the 1st quarter).

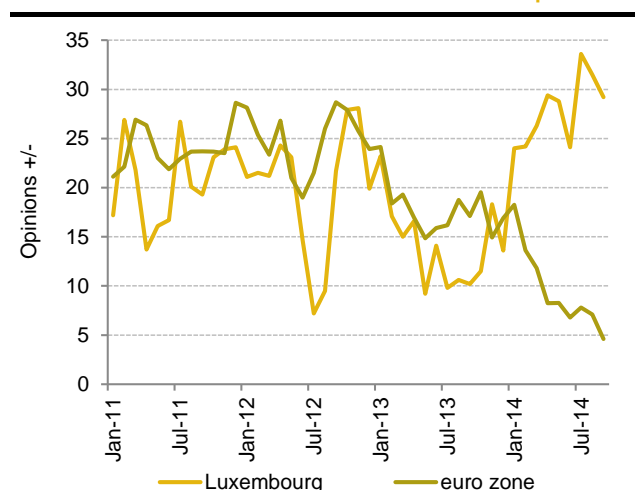
Unemployment growth tails off

In the 3rd quarter of 2014, 18,614 jobseekers, 7.2% of the working population, were registered with ADEM, based on seasonally adjusted figures. The unemployment rate thus remains unchanged compared to the previous quarter. The number of job seekers rose just 0.8% over one quarter in Q3, the lowest increase since 2011.

However, it should be noted that the number of people on job schemes rose 3.2% over one quarter in Q3 2014 and now exceeds the 5,000 mark. The number of job seekers registered with ADEM is often affected by transfers to and from job schemes (see graph), and the increase in these schemes in the 3rd quarter significantly limited unemployment growth (especially in September, when training schemes were up more than usual). Looking at all those registered (job seekers and those on job schemes), it becomes apparent that the numbers have moderated somewhat since mid-2013.

Price

Price trends - expectations



Sources: European Commission, STATEC

Inflation expected to fall (except in Luxembourg)

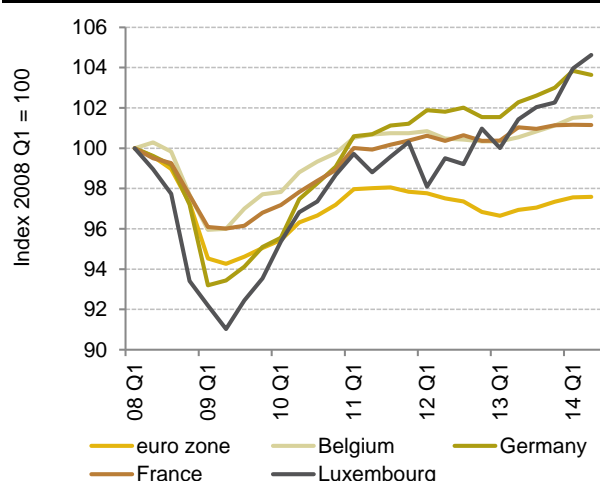
Inflation forecasts in the euro zone fell to 4.6 points in September (based on consumer opinion as regards consumer price trends over the next 12 months), compared to 7.1 in August, continuing the downward trend noted since the start of the year. And it is not just consumers who are anticipating deflation in the medium term, at best. Alternative indicators such as break-even inflation rates or inflation swaps also point to inflation forecasts trending significantly downward over the medium term, which, combined with persistently low inflation (+0.3% over one year in September), means that deflation across the euro zone is a real risk.

In Luxembourg by contrast, consumer inflation expectations have been very different since the end of 2013, as they are very clearly trending upward. This counter-trend is mainly due to the hike in VAT due on 1 January 2015. This increase should, according to STATEC estimates, lead to an inflation surplus of about 0.9 percentage points next year.

International

A better profile for Luxembourg

GDP in volume



Sources: Eurostat, STATEC

The latest national accounts published show that Luxembourg GDP is outperforming the euro zone as a whole.

The significant upward revision of the 2010 accounts saw Luxembourg GDP in volume return to pre-crisis levels in early 2011 (against early 2014, in previous version). GDP growth, particularly over the recession and recovery period of 2008-2010, is now more like Germany (a sharp drop followed by a strong recovery).

Since mid-2012, the growth path in Luxembourg has been much more dynamic than in the euro zone and this trend is still evident in neighbouring countries, particularly in the 2nd quarter, where the general trend is for stagnation.

Tableau de bord

	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-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	4.8	9.6	8.3	9.1	8.9	7.9	6.8	...	...	7.9	-7.9
Construction output per working day, in volume	26.3	20.8	5.2	1.9	1.9	-5.4	-1.9	...	...	-1.9	-4.3
Turnover by volume of total retail trade	1.6	1.7	-0.3	1.4	4.2	1.6	...	...	...	2.4	-0.3
Prices, wages											
Consumer price index (NCPI)	1.5	0.9	0.8	0.8	1.0	0.9	1.0	0.6	0.3	0.6	1.7
Underlying inflation	2.1	1.6	1.5	1.4	1.3	1.2	1.4	1.1	1.0	1.2	2.1
Oil product index	-4.7	-6.8	-6.4	-6.1	-2.3	-2.7	-3.2	-4.8	-6.8	-5.0	-2.9
Industrial producer price index	-3.1	-4.2	-4.6	-4.0	-3.6	-3.2	-3.1	-2.1	...	-2.8	-3.4
Construction price index ¹	2.0	2.0	2.0	2.1	2.1	2.1	...	...	...	2.1	2.2
Average wage bill, per person (National accounts)	3.1	3.1	3.1	2.2	2.2	2.2	...	...	...	2.2	3.5
Foreign trade											
Exports of goods (volume)	12.4	10.6	16.0	6.3	10.7	10.5	14.6	...	...	12.0	0.2
Imports of goods (volume)	-5.0	-6.8	-5.5	-4.2	-4.0	-4.1	-3.1	...	...	-3.7	-4.4
Employment, unemployment											
Domestic number of employees	2.2	2.4	2.4	2.4	2.3	2.3	2.4	2.3	2.4	2.4	2.0
National employment	2.0	2.1	2.1	2.1	2.1	2.0	2.2	1.9	2.1	2.1	2.0
Unemployment rate (% of working population, seas. adj.)	7.1	7.1	7.1	7.1	7.2	7.2	7.2	7.2	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)	-1.0	1.4	0.6	0.2	1.7	0.7
	Annual variation in %					
	2009	2010	2011	2012	2013	Forecast 2014
Luxembourg - Growth in volume of GDP (STATEC)	-5.3	5.1	2.6	-0.2	2.0	2.9
GDP at current prices 2013: EUR 45 288 million						
Minimum monthly salary (since 01/10/2013): EUR 1 921.03						
Current account balance (2014 Q2): EUR 533 million						
Resident population (01/01/2014): 549 680						

Consumer price index (September) - base January 1st 1948: 827.42Half-yearly average of the index linked to base as at January 1st 1948: 825.90Estimated deadline for next salary indexation: 1st quarter 2015

Central office for statistics and economic data

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