CONJONCTURE
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STATEC
Institut national de la statistique
et des études économiques

No great tidings from the economic climate this Christmas

The end-of-year economic climate features contrasting indicators and signals. The downturn in confidence indicators in the euro zone seems to be over, the drop in oil prices should reduce energy bills for households and companies, and employment continues to recover. However, the European environment remains marked by deep-seated weaknesses, particularly as regards investment and economic governance. Europe is also set to take a stricter line with Luxembourg on the issue of tax harmonisation.

Some good news…

While most economic surveys point to declining confidence in the euro zone since the summer, the end-of-year results are a little more reassuring. The German indicators in particular – the ZEW and IFO indices – bounced back, after bottoming in October. The European Commission's Economic Sentiment Indicator also rose in November for the 2nd month in a row. However, this more favourable trend is fragile, as can be seen from the Eurocoin indicator for example, which was still trending downwards in November, and the Purchasing Managers' Index for the euro zone (which rose only slightly in December, with the German index continuing to trend downwards). In general, the economic surveys do not point to strong growth in the euro zone for the 4th quarter of 2014, but hint at more sustained growth in early 2015.

Oil prices continue to tumble, registering the sharpest drop since summer 2008. This will have positive effects on the energy bills of households and companies in importing countries, which should boost consumption and profits. On the other hand, there is increased risk of deflation through knock-on effects on the prices of other goods and services. The euro zone is not yet in a deflationary pattern, however, with a downward spiral having a lasting effect on both consumer prices and wages.

Euro-zone employment continues to recover, rising 0.2% over one quarter in the 3rd quarter of 2014 (up 0.6% over one year). The results by country confirm a more positive trend in southern countries (especially Spain and Portugal, Greece and Italy more recently). In contrast, France again posted disappointing results, with employment stagnant for the 3rd quarter in a row. Growth in Luxembourg was 0.6% (up 2.5% over one year), in line with late 2013.

European investment is set to benefit from the 'Juncker plan' measures announced in late November. The theoretical impact of this plan is EUR 315 billion over 3 years (a little more than 2% of EU GDP), but the final impact will depend on the substance of the investment projects selected and their related leverage effects. In the current context, this plan should be welcomed, if only because it revives the idea of a Europe of projects, whereas EU fiscal policy over the last few years has been more or less restricted to deficit and debt issues.

… but considerable challenges remain

The euro zone remains in a fragile situation. The announcement of pre-term elections in Greece in particular was unsettling for European marketplaces in the second week of December, with the downward trend reinforced by the downturn in oil prices.

The 'Juncker plan' could help support investment, which remains the euro zone's greatest weakness, and without which there will be no real recovery. The European Central Bank's targeted long-term refinancing operations (TLTRO) in September and December seem to have generated only limited interest among banks, indicating that current monetary policy is reaching its limits as regards restarting corporate lending and hence investment. Pressure is growing on the ECB to move to a more aggressive monetary policy – such as quantitative easing (through sovereign bond-buying) – especially as there is currently no inflationary tension (and inflation expectations in the euro zone are well-anchored below the 2% target).

More specifically as regards Luxembourg (and perhaps other countries also), there has been increasing pressure for tax harmonisation following the ‘Lux Leaks’ revelations in November and December, which may lead to stringent measures.

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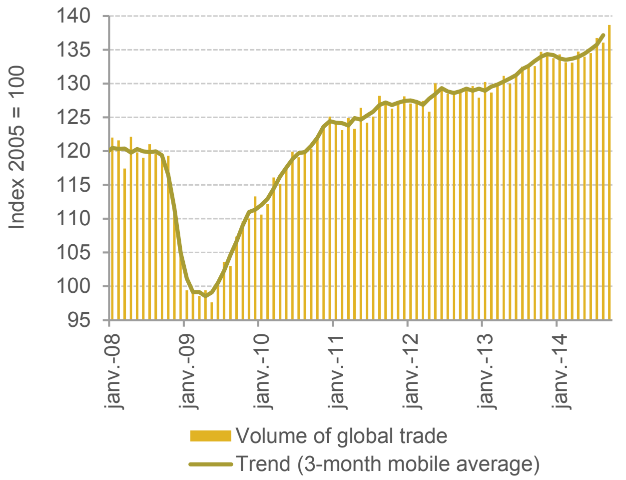
International 1/2

Volume of global trade



Source: Centraal Planbureau (wwww.cpb.nl)

World trade in goods recovers

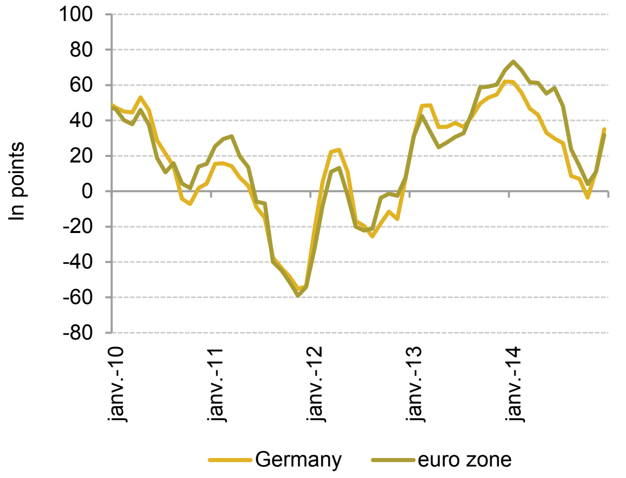
The global trade volume indicator developed by CPB rebounded strongly in September. This result confirms the recovery in international trade in goods since mid-2014, especially since the drop reported in August proved less substantial than initially thought.

The development of trade intensified globally, both in the leading economies (apart from the United States in September) or emerging economies (particularly in Asia and Latin America).

Euro-zone exports of goods rose significantly as well, growing 1.3% in September (compared to an average fall of 0.3% per month over the previous four months).

International 2/2

Economic Sentiment Indicators (ZEW)



Source: ZEW

Upswing

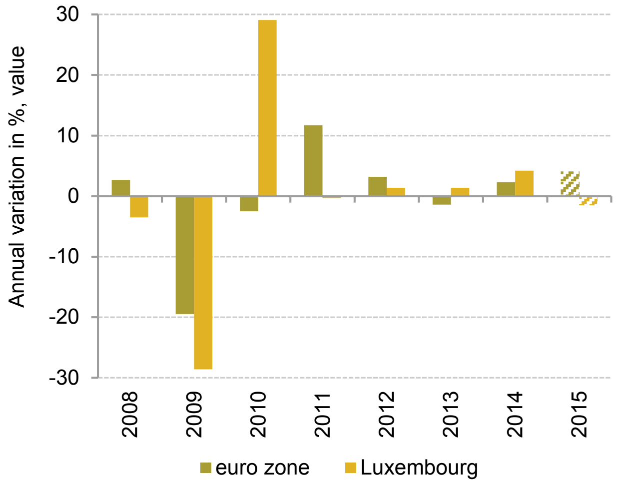
The ZEW barometer for December, which assesses morale among German financiers, largely confirmed the previous month's turnaround in December.

This renewed confidence, which is evident in expectations regarding Germany but also the euro zone as a whole, is mainly linked to "favourable economic conditions such as the weak euro and the low crude oil price", according to the ZEW president. He added, however, that "the current optimism is fuelled by factors that might change even over the short term".

In any event, this rise is a very positive signal, not necessarily for the 4th quarter because it is too recent, but for early 2015. The upswing in the German economy is particularly good news for Luxembourg as Germany is its main export market.

Manufacturing

Actual and planned investments



Sources: European Commission, STATEC

Sluggish investment

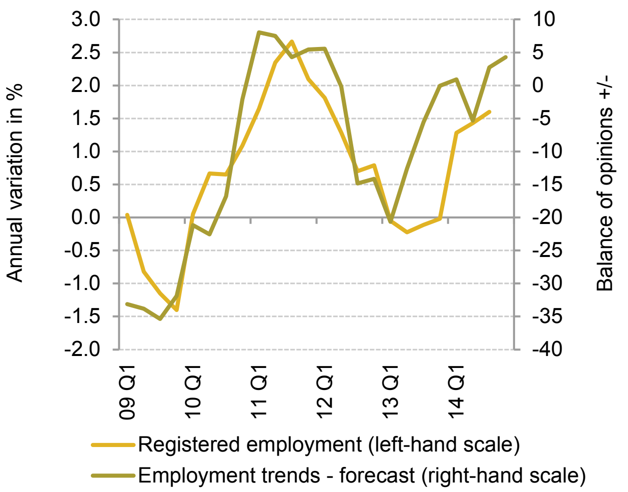
According to the survey for the first half of 2014, the value of industrial investments in Luxembourg is set to drop slightly in 2015 (down 1.5%). This means that Luxembourg will be going against the trend elsewhere in the euro zone, where 4.1% growth is anticipated for 2015).

The pick-up expected in the euro zone is not uniform, however. Central and eastern Europe will see the strongest growth, as will Austria, Greece and the Netherlands. In France, Italy and Spain, industrial investments will at best stabilise.

The main investment driver in Luxembourg remains adaptation to new technologies, while demand continues to act as a brake (as seen in the significant under-use of production facilities).

Construction

Construction sector workforce



Source: STATEC (national accounts and economic survey)

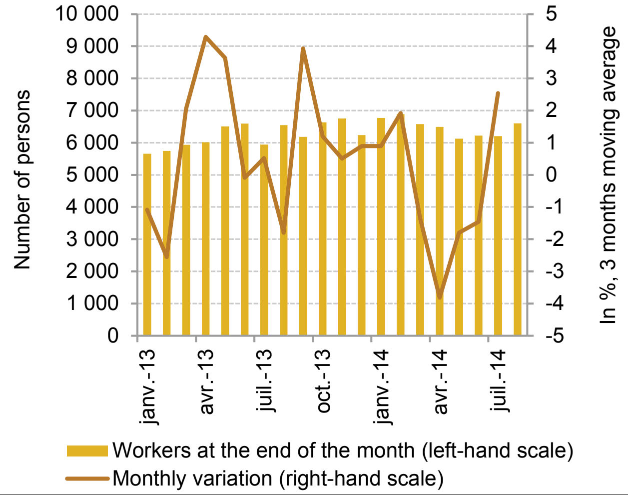
Hiring forecasts materialise

Employment in the construction sector rose 0.4% over one quarter in the 3rd quarter of 2014 (up 1.6% over one year). This pick-up in recruitment is in line with the more favourable confidence indicator for businesses in the sector and more positive opinions as regards employment trends.

While confidence indicators have slackened somewhat since the summer of 2014 (manufacturing, services and consumers), construction was noteworthy for its optimism, which will again be reflected in the output and employment results for the 4th quarter. In the euro zone, confidence in the construction sector has also been rising since June, but almost exclusively due to business leaders in Spain.

Labour market

Temporary work



Sources: IGSS, STATEC (seasonally adjusted figures)

Temporary employment recovers in the 3rd quarter

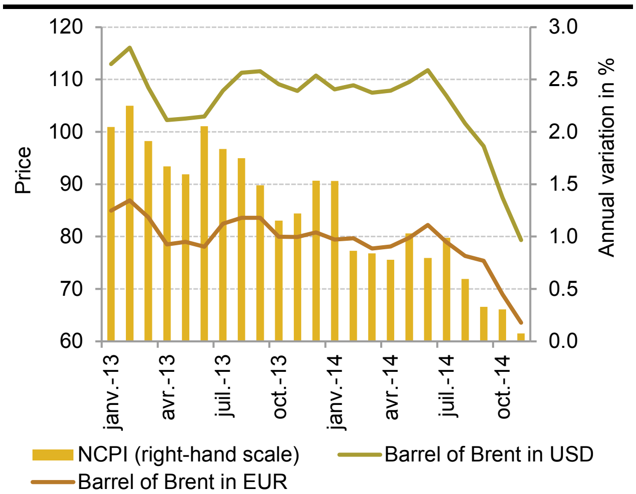
The number of temporary workers rose over the first eight months of 2014 (up 5.9% over one year). However, the positive performance in 2014 masks exceptional growth in the 1st quarter (up 17.9% over one year), linked to weather conditions that were very favourable to construction activity, and much less positive performance in the 2nd quarter (down 1.5%).

Over the first six months of 2014, the construction sector employed 38% of temporary workers. In recent years, recourse to temporary employment in the construction sector has risen steadily, from 4.4% of work volume in 2009 to 6.0% in the first six months of 2014.

The latest figures show a recovery in temporary employment in the 3rd quarter, possibly linked to the renewed confidence witnessed in the construction sector. Thus, social security registrations were up 2.4% on average over one year in July and August and figures from FES (Fedil Employment Services) show an even stronger recovery since September.

Consumer prices

Inflation and oil prices



Sources: STATEC, Macrobond

Inflation pushed even further down by oil

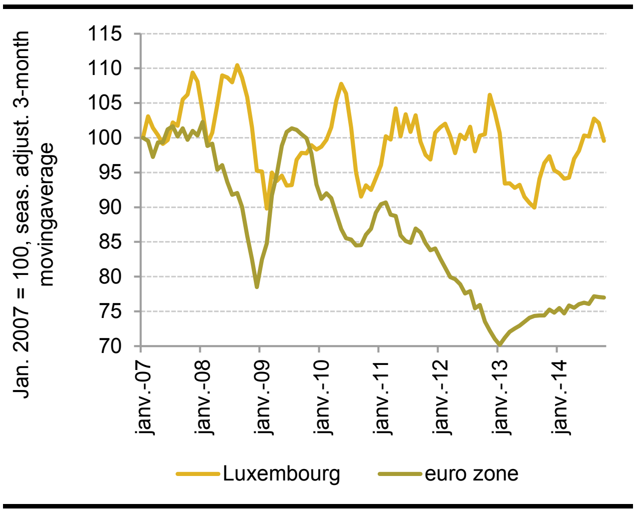
November confirmed the low inflation figures, at a rate of just 0.1% over one year (compared to a 0.3% rise in October). This disinflationary trend was also noted across the euro zone (0.3% over one year in November, compared to 0.4% in October).

Alongside the low pressure on all consumer prices, oil prices have contributed significantly to the decline since September. This is happening against a backdrop of a marked slump in the price per barrel of oil in dollars, which has fallen over 30% since June (down 25% in euro over the same over the same period due to the depreciation in the single currency).

Analysts explain this drop by OPEC's inability to agree an output cut, increasing shale oil extraction in the United States and more pessimistic prospects as regards global demand. As at mid-December, oil prices were continuing to fall – with the price per barrel of Brent close to USD 60 – and this could considerably dampen inflation forecasts (and hence also wage indexation in Luxembourg) over the medium term.

Consumption

New registrations of private cars



Sources: SNCT, ACEA, STATEC

No rush to buy cars

After rebounding significantly in the 2nd and 3rd quarters of 2014, new car registrations in the 4th seem to have fallen off, according to the results available. Seasonally adjusted figures indicate a drop in new car sales in October and November (down 2.0% and 6.5% over one month respectively).

This fall is relatively surprising given that VAT is set to rise by 2 points in the new year and so a certain pick-up in registrations could have been expected.

Registrations are set to rise some 5% over 2014 as a whole (compared to 4% for the euro zone as a whole), but unless there is a big surprise in December, they will be at well under 50,000 vehicles, roughly in line with the figures observed from 2010 to 2012.

Trend chart

	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-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	8.3	9.1	9.0	7.9	7.5	4.6	3.2	…	…	5.1	-2.7
Construction output per working day, in volume	5.2	2.0	1.7	-6.0	-2.0	1.6	2.0	…	…	0.4	-2.6
Turnover by volume of total retail trade	-1.5	0.0	2.3	-1.4	-1.6	-0.9	1.2	…	…	-0.5	1.2
Prices, wages											
Consumer price index (NCPI)	0.8	0.8	1.0	0.9	1.0	0.6	0.3	0.3	0.1	0.2	1.3
Underlying inflation	1.5	1.4	1.3	1.2	1.4	1.1	1.0	0.8	0.6	0.8	2.0
Oil product index	-6.4	-6.1	-2.3	-2.7	-3.2	-4.8	-6.8	-4.8	-6.1	-5.9	-6.3
Industrial producer price index	-4.6	-4.0	-3.6	-3.2	-3.5	-2.4	-1.8	-1.2	…	-1.8	-3.3
Construction price index[1]	1.9	1.9	1.9	1.9	2.0	2.0	2.0	…	…	2.0	2.2
Average wage bill, per person (National accounts)	3.1	2.2	2.2	2.2	…	…	…	…	…	2.2	3.5
Foreign trade											
Exports of goods (volume)	22.7	10.0	16.0	14.0	13.1	-0.3	7.6	…	…	2.5	0.6
Imports of goods (volume)	-5.1	-3.4	-2.8	-2.2	-2.2	-2.0	-0.4	…	…	-1.0	-4.3
Employment, unemployment											
Domestic number of employees	2.4	2.4	2.3	2.3	2.5	2.3	2.6	2.5	…	2.5	2.0
National employment	2.1	2.1	2.1	2.1	2.2	2.1	2.2	2.2	…	2.1	1.9
Unemployment rate (% of working population, seas. adj.)	7.1	7.1	7.2	7.2	7.2	7.2	7.2	7.1	…	7.1	7.0

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

Indicators

	Variation on previous quarter in %					
	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3
Eurozone- Growth in volume of GDP (European Commission)	0.3	0.1	0.2	0.5	0.1	0.2
Luxembourg - Growth in volume of GDP (STATEC)	1.4	0.6	0.2	1.7	0.7	…
	Annual variation in %					
	2010	2011	2012	2013	Forecast 2014	Forecast 2015
Luxembourg - Growth in volume of GDP (STATEC)	5.1	2.6	-0.2	2.0	2.9	2.2

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 (November) - base January 1st 1948: 823.61
Half-yearly average of the index linked to base as at January 1st 1948: 825.26
Estimated deadline for next salary indexation: 2nd quarter 2015

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