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Monthly publication of the state of the Luxembourg economy

STATEC

Institut national de la statistique
et des études économiques

GDP momentum disrupted

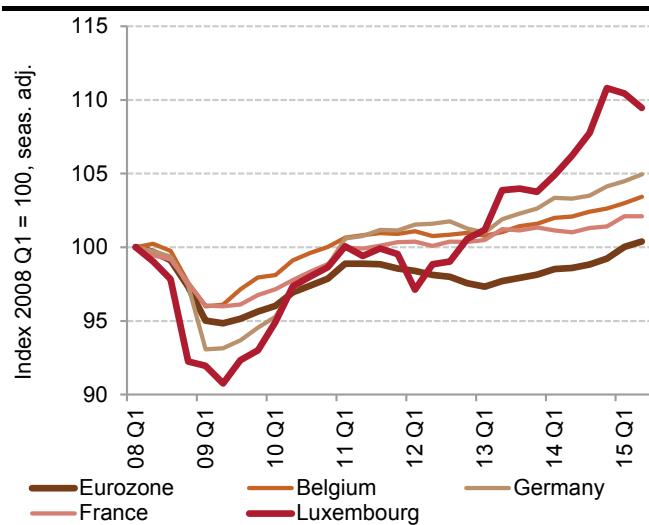
Early 2015 was marked by a decline in GDP, due notably to less favourable figures in financial and non-financial services, but these downturns could not yet be described as major trends. Results were also affected by technical disruptions: anticipating the VAT hike on 1 January, households brought forward some expenditure to late 2014, leading to a shortfall in early 2015.

Partly technical downturn in early 2015

The quarterly national accounts for the 2nd quarter of 2015, published in early October, indicate that GDP in volume fell 0.9% over one quarter (but rose 3.1% over one year). The data for previous quarters was also substantially revised: GDP growth in 2014 was revised downwards (+4.1% compared to +5.6% in the previous version) and the 1st quarter of 2015 now includes a drop in GDP as a quarterly variation (-0.3% compared to +0.7% in the previous version). This more sluggish momentum is mainly linked to a downward adjustment of figures from the financial sector – in terms of both added value and net exports – echoing STATEC's warning in its previous publication, which mentioned a higher margin of uncertainty than usual as regards the data.

GDP in volume was thus affected by falls over two consecutive quarters in the first part of the current year, meaning that technically Luxembourg is now in recession. This should not, however, be over-dramatised as it is due to technical more than cyclical factors. GDP growth was particularly strong in late 2014 (up 2.8% in the 4th quarter), boosted notably by a sharp rebound in household consumption and in taxes on products: the prospect of the VAT hike on 1 January is likely to have been a significant factor in this trend, pushing households to bring forward some items of expenditure. This is in any case the picture that emerges from a number of short-term indicators such as retail sales, car sales and turnover among construction companies, where results rose considerably in late 2014, followed by a slump in early 2015. While this "VAT effect" altered the perception of trend data in late 2014, early 2015, it is temporary in nature and the relevant variables can be expected to return to normal (i.e. lower volatility) over the second half of 2015.

GDP in volume



Sources: Eurostat, STATEC

Less support from services

It must be noted that despite the above-mentioned downward revisions for the financial sector, this sector retains a very favourable profile. This momentum ran out of steam somewhat in early 2015, but added value remained relatively high (it was over 10% higher over one year between the Q4 2014 and Q2 2015).

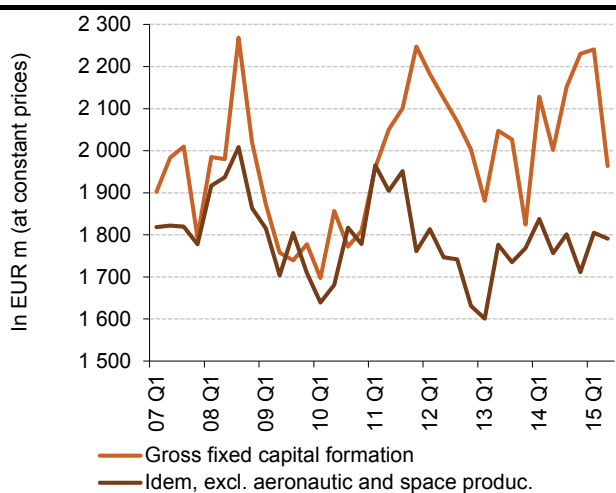
Lastly, another potentially more worrying factor is the trend in added value in non-financial services in early 2015, which was down over the first two quarters. This slump was due to two sectors in particular: the retail sector (mainly) and business services. In the retail trade, household consumption partly explains the phenomenon but only in the 1st quarter (it rose slightly in the 2nd quarter); wholesale trade, which is more difficult to assess in cyclical terms, seems to have posted the worst results. In business services, which largely sustained activity in 2013 and 2014, added value has also been trending negatively since early 2015, but this trend seems to be due more to isolated phenomena than a general trend.

STATEC
Luxembourg

Investments

No real upturn

Investments in volume



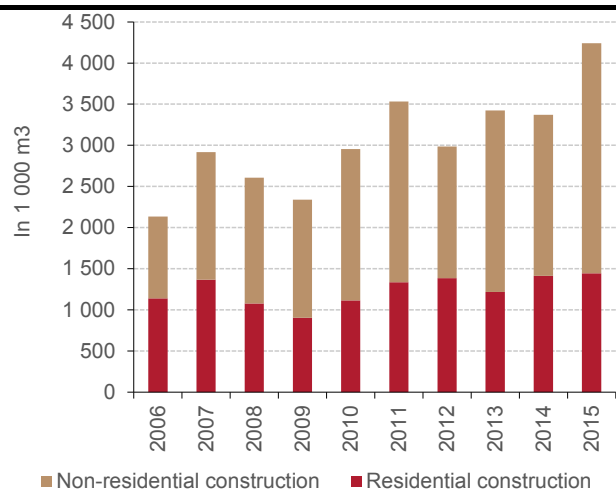
Source: STATEC

Investments (or gross fixed capital formation in terms of the national accounts), fell over 12% over one quarter in the 2nd quarter of 2015. However, this huge drop was largely due to falling in acquisitions of aircraft and satellites and therefore has no impact on GDP (it is offset by a simultaneous fall in imports for these specific products). Nonetheless, the underlying trend for investments – i.e. excluding aircraft and satellites – has not been particularly cheering in recent quarters, given that since mid-2013 things have tended to stabilise rather than recover as is the case with GDP when looked at on its own.

Investment also fell across the euro zone in the 2nd quarter, although overall it been trending upward since mid-2013. Investment levels remain some 15% below pre-crisis levels (i.e. early 2008).

Construction

Projects set to boost activity

Planning permissions – volume of projects in the 1st half

Source: STATEC

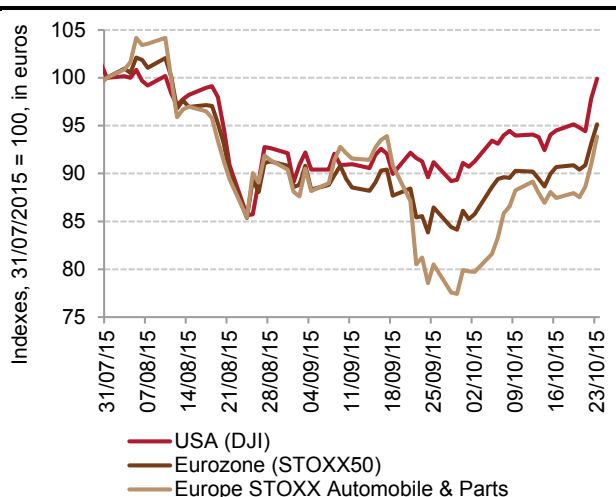
Early 2015 was very favourable for construction projects. The volume of projects granted planning permission rose some 25% over one year during the 1st half of the year. While much of this marked rise was due to the planning permission granted to a huge site at Ban de Gasperich in June – significantly boosting results in the non-residential sector – even without this particular project, the underlying trend was rather positive.

Specifically, although less favourable figures could have been expected for residential building projects after the surge in late 2014 (due to the lower VAT rate applicable), the 1st half of 2015 saw momentum continue in this area. It must be noted that asking prices for housing, which rose almost 5% over one year for new-builds and previously owned properties alike, were a significant boost here.

Financial market

Stock markets on an uneven path

Stock-market indices



Source: Macrobond

Financial markets have seen increased volatility since mid-2014 and recent months have largely confirmed this trend. Falls on the Chinese stock markets in August also hit the American and European indices, which fell roughly 15% in the space of three weeks.

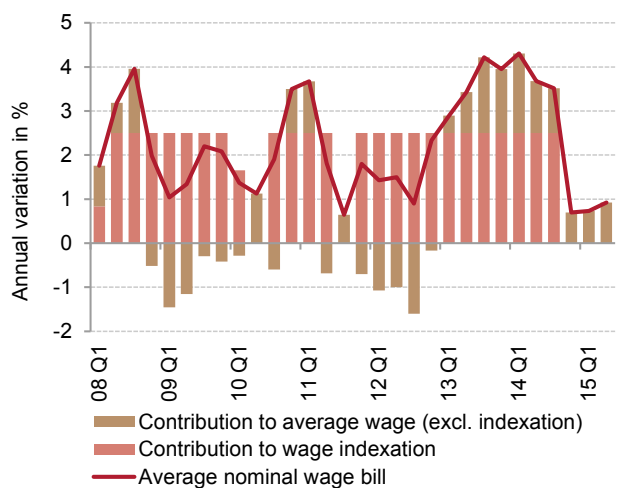
The first half of September saw some calming – and then the Volkswagen scandal broke. This hit European car maker stocks and also contaminated other sectors. The performance gap between US and European indices also widened in the second half of September.

Since October, the climate has been bullish, boosted notably by recent ECB announcements (22 Oct) – suggesting that it might extend its quantitative easing programme – and by the publication of better than expected results from American companies.

Wages

Slight increase in wages in 2015

Average wage bill and index-linking



Source: STATEC, national accounts

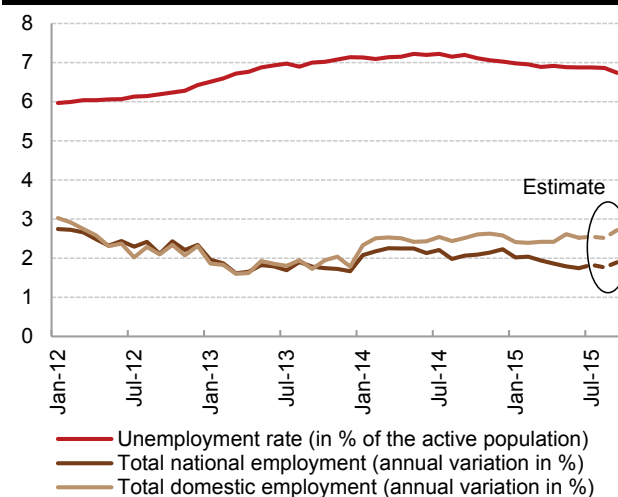
Wage costs have been subject to increasing upward pressure in recent times. Over the first two quarters of 2015, the average wage bill (per capita) rose some 0.8% over one year, against 2.9% in 2014 and 3.6% in 2013. In this respect, Luxembourg is following a prevailing trend across the euro zone as a whole. Low inflationary trends in Europe are having even more of an effect on Luxembourg wages due to the fact that there has been no automatic index-linking since late 2013.

In the 2nd quarter of 2015, the average wage bill rose 0.9% over one year compared to a rise of 0.7% in Q1. This slight pick-up is entirely down to public administration and education, due to the application of provisions of the public sector wage agreement. Excluding public administration and education, the average wage bill in the rest of the economy rose just 0.4% over one year in the 2nd quarter. This means that the underlying trend for the Luxembourg wage bill is still slowing.

Labour market

Unemployment falls in September

Unemployment and employment rate



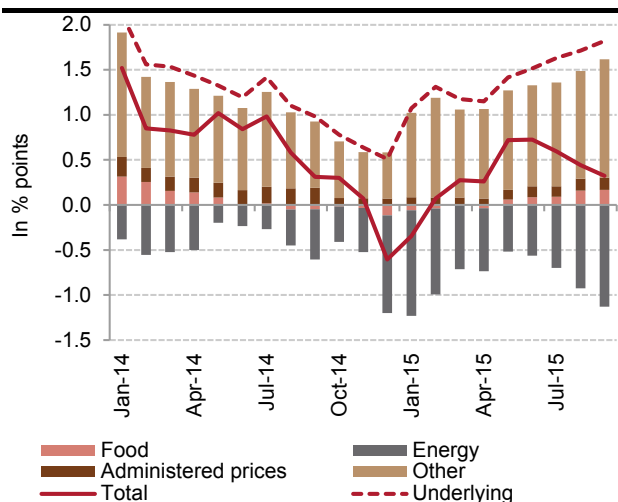
Sources: ADEM, IGSS, STATEC

After stagnating for 6 months at 6.9%, the Luxembourg unemployment rate started to fall again in September 2015 (to 6.7%). The downturn is due to the number of jobseekers (down 1.8% over one month, i.e. a drop of 325 persons, seasonally adjusted), partially offsetting the somewhat disappointing results for the previous 2 months. Overall, the third quarter saw the number of jobseekers drop 0.6% over one quarter, after falling 0.4% in Q2 and 1.4% in Q1. As in 2015 overall, the reduction in recent months was mainly among young, male Portuguese jobseekers entitled to job seeker benefits, with few qualifications, and who had worked in construction and/or temporary employment. According to the latest data from FES (Fedil Employment Services), hours worked by temporary staff rose 17% over one year on average in the 3rd quarter of 2015, after rising 14% in Q2 and 7% in Q1. This favourable trend in unemployment and temporary employment could thus point to a more sustained employment trend in Q3. According to the latest short-term estimates, domestic paid employment rose 2.7% in Q3, after rising 2.6% in Q2 and 2.5% in Q1.

Inflation

The inflation rate falls but...

Contributors to inflation



Source: STATEC

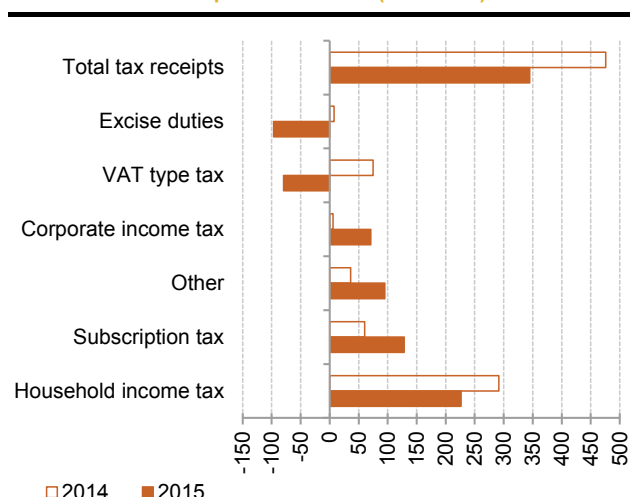
In September, inflation in Luxembourg fell for the third month in a row and now stands at just 0.5% over one year. This is linked to the new drop in oil prices, which led the oil price index to fall 8.1% year-on-year in May to 16.4% in September. Thus, for the first time since March, eurozone inflation slid slightly into negative territory at -0.1% over one year.

By contrast, underlying inflation, which excludes oil products and some other highly volatile prices, climbed regularly and continuously in Luxembourg (up 0.1% per month since May) and rose to 1.8% over one year in September. Driven at the start of the year by the impact of the VAT hike, since the start of the summer its rise has been due to prices of unprocessed food (up 2.6% over one year in September compared to a rise of 1.4% in June and a drop of 1% in April), to adjustments in rates for retirement and care homes and clothing and air passenger transport prices.

Public finances

Receipts rise more slowly

Tax receipts: annual var. (In EUR m) after 9 months



Sources: Tax authorities, STATEC

Trend chart

	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	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	3.6	3.7	2.8	2.3	-1.1	0.1	-3.3	4.8	...	0.7	4.1
Construction output per working day, in volume	-5.3	-11.2	4.3	-1.1	-6.1	5.5	5.7	-17.3	...	-2.0	-2.9
Turnover by volume of total retail trade	-2.1	-0.4	-0.4	1.4	-4.7	2.3	0.8	...	...	-0.5	-0.1
Prices, wages											
Consumer price index (NCPI)	-0.4	0.1	0.2	0.3	0.7	0.7	0.6	0.6	0.5	0.6	0.6
Underlying inflation	1.1	1.3	1.2	1.1	1.4	1.5	1.6	1.7	1.8	1.7	1.2
Oil product index	-17.3	-14.0	-10.7	-10.5	-8.1	-8.7	-10.6	-13.5	-16.4	-13.5	-5.0
Industrial producer price index	-1.4	-2.0	-0.7	0.1	-0.4	-0.3	-0.5	0.7	-0.9	-0.2	-3.4
Construction price index ¹	1.2	1.2	1.2	1.0	1.0	1.0	...	...	...	1.7	1.9
Average wage bill, per person (National accounts)	0.7	0.7	0.7	0.9	0.9	0.9	...	...	...	0.9	3.7
Foreign trade											
Exports of goods (volume)	-2.9	0.3	0.9	3.6	-3.0	10.2	-2.6	...	...	1.5	12.9
Imports of goods (volume)	-5.2	-2.9	0.0	-2.8	-4.5	-3.7	-3.2	...	...	-3.8	-2.1
Employment, unemployment											
Domestic number of employees	2.5	2.5	2.5	2.5	2.7	2.6	2.6	2.6	2.8	2.7	2.5
National employment	2.0	2.0	1.9	1.9	1.8	1.7	1.8	1.8	1.9	1.8	2.1
Unemployment rate (% of working population, seas. adj.)	7.0	7.0	6.9	6.9	6.9	6.9	6.9	6.9	6.7	6.8	7.2

Source: STATEC

Data yellow coloured are estimates

¹ Estimations based on half-yearly data

Indicators

	Variation on previous quarter in %					
	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1	2015 Q2
Eurozone- Growth in volume of GDP (European Commission)	0.2	0.1	0.3	0.4	0.5	0.4
Luxembourg - Growth in volume of GDP (STATEC)	1.1	1.2	1.5	2.8	-0.3	-0.9
	Annual variation in %					
	2011	2012	2013	2014	Forecast 2015	Forecast 2016
Luxembourg - Growth in volume of GDP (STATEC)	2.6	-0.8	4.3	4.1	3.7	3.4
GDP at current prices 2014: EUR 48 897 million						
Minimum monthly salary (since 01/01/2015): EUR 1 922.96						
Current account balance (2015 Q2): EUR 1 061 million						
Resident population (01/01/2015): 562 958						
Consumer price index (September) - base January 1 st 1948: 830.61						
Half-yearly average of the index linked to base as at January 1 st 1948: 829.87						
Estimated deadline for next salary indexation: 4 th quarter 2015						

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