

Macroeconomic forecasts: growth revised downwards but employment revised upwards

While the growth prospects remain unchanged for 2016, they have been revised somewhat downwards for 2015. The labour market should remain relatively dynamic, in line with the favourable trends observed this year.

A less favourable international environment for the eurozone

International organisations anticipate GDP growth in volume of 1¼% in the eurozone in 2016, which constitutes a slight downward adjustment compared to spring, plus increased negative risk.

Following lower growth prospects in China, the global stock markets fell sharply from the summer of 2015 on, leading STATEC to downgrade its assumptions in this respect for 2015. Oil prices also fell, due to lower Chinese demand and the slight appreciation in the euro compared to spring. These events led to the downgrading of inflation forecasts and the next indexation adjustment was postponed to the 2nd quarter of 2016).

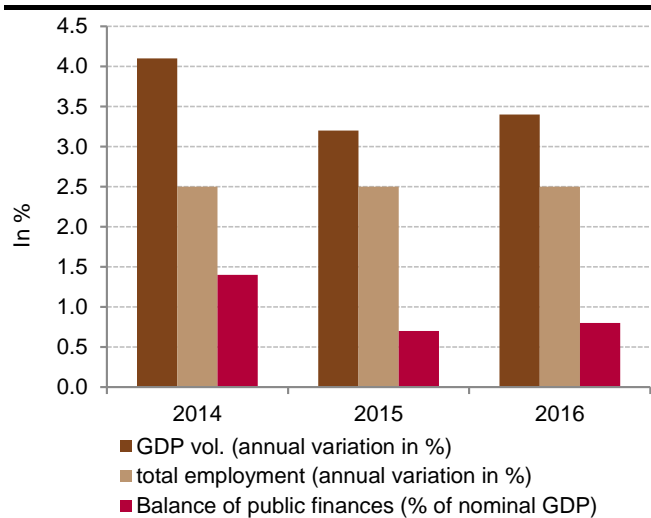
Growth forecast lowered to 3.2% for 2015

STATEC has downgraded GDP growth in volume for 2015 from 3.7% to 3.2%. This revision is mostly due to relatively weak growth acquisition at the end of the first half of 2015. Although GDP was down over the first two quarters of 2015, due in part to technical effects such as the VAT hike, many cycle indicators remain positive (except in the financial sector), in terms of both activity and employment. STATEC is maintaining its spring 2016 forecast, predicting a real rise in GDP of 3.4%. The underlying assumption here is that stock markets will recover after the downturn observed in the 3rd quarter of 2015.

Favourable trend in the employment market

The labour market situation remains satisfactory. Employment growth is stable at around 2.5% year-on-year and the unemployment rate continues to trend downward. Overall, leading indicators – temporary employment, job offers and working hours – were still sending out positive signals at the start of the 4th quarter.

Macroeconomic forecasts



Source: STATEC (NDC forecasts 2-2015)

Thus, in contrast to the forecasts drawn up in spring, STATEC no longer expects employment to slow in 2016 but now expects it to retain its current cruising speed of 2.5%. This realignment is linked to the temporary nature of the slowdown observed in 2015 and the stability of the forecast for GDP in volume in 2016.

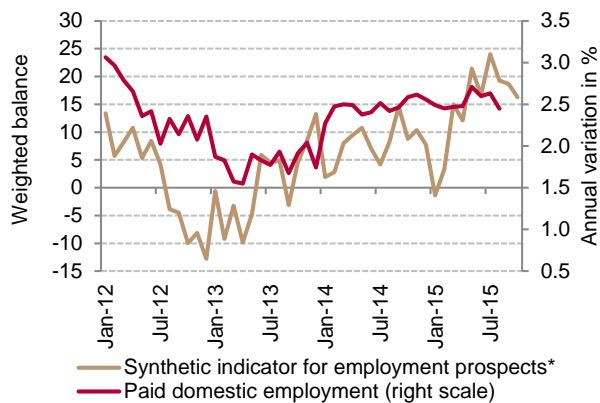
Nominal public balance: a EUR 340 million surplus in 2015

STATEC expects the nominal public balance to fall to 0.7% of GDP (or EUR 340 million) in 2015 after decreasing 1.4% in 2014. These figures should be seen in light of the loss of VAT from electronic commerce, without which the balance would have improved between 2014 and 2015. This (hypothetical) improvement is partly due to the favourable economic situation but it has more to do with the implementation of the "Zukunftspak" tax measures, which should, according to STATEC estimates, improve the public balance by EUR 600 million. In conclusion, the "Zukunftspak" measures will more or less offset the loss of VAT linked to electronic commerce in 2015.

According to STATEC's forecasts, the surplus public balance will remain almost unchanged in 2016, at 0.8%.

Manufacturing

Output and confidence



* The indicator includes the employment prospects in manufacturing, construction, retail, financial sector (eurozone) and other services, weighted in accordance with their respective contribution to paid domestic employment.

Source: STATEC

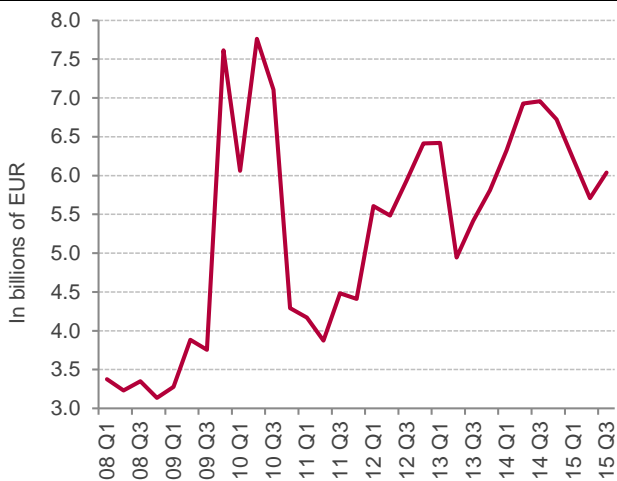
Stagnation persists

According to initial estimates, industrial output fell approximately 1.2% over one month in September 2015. Considering the results for the two previous months, output rose 1.0% in the 3rd quarter (up 0.8% over one year). The figures from the various sub-sectors (available up to August) indicate rising output in computer, electronic and optical products and in electrical equipment (which fell quite sharply over the 2nd quarter), iron and steel products (especially in August) and construction materials.

Generally speaking, after bottoming out in early 2013, output has stabilised since late 2014. Opinion surveys in recent months (up to October 2015) do not show any specific trend for a recovery in manufacturers' opinions, so stagnation is expected to continue here at the end of the year.

Financial sector 1/2

Insurance premium income - quarterly figures



Sources: Commissariat aux Assurances, STATEC (seasonally adj. data)

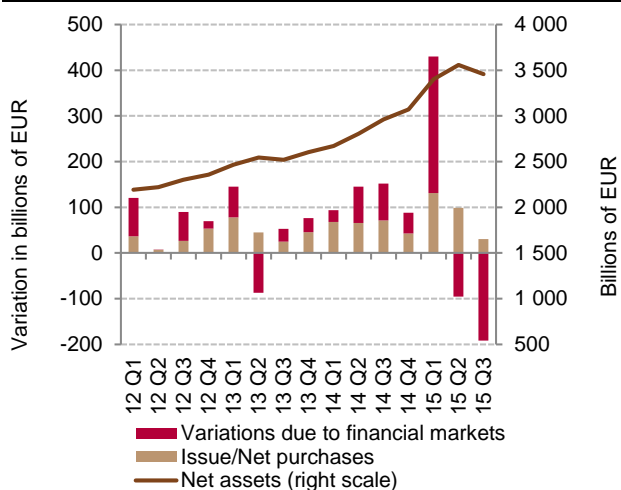
Insurance remains down compared to 2014

Insurance premiums collected in the 3rd quarter are up slightly on the previous quarter but remain well below the figures observed in 2014. As in the 1st half of the year, the life insurance market remains marked by divergent inflow trends between products with guaranteed returns (which are down) and unit-linked products (which are up).

For the Commissariat aux Assurances, the downturn in guaranteed return business is due both to the drop in returns likely to be offered and to a deliberate switch to unit-linked products. Thus, even though the equity markets did not exactly shine in the 3rd quarter, the ongoing weakness in interest rates is pushing investors to favour investments that are riskier (and therefore potentially more lucrative).

Financial sector 2/2

Undertakings for Collective Investment



Source: CSSF

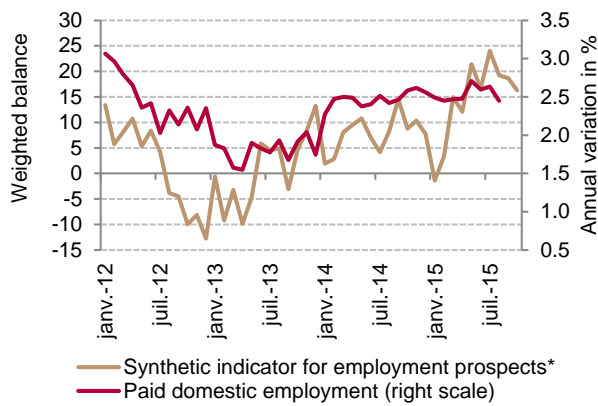
Funds penalised by the markets

The under-performance of Luxembourg UCIs in the 3rd quarter of 2015 is in line with the decline in the financial environment observed over the same period. Net assets fell significantly in August and September, mainly due to negative market effects, mainly related to UCIs invested in equities (particularly from Asia and Latin America) and UCIs invested in emerging market bonds. On top of the loss in value already posted in the 2nd quarter, this loss in value, which is related to financial market trends, practically cancels out the very positive figure posted in this segment in the 1st quarter of 2015.

Alongside these price effects, net capital investment (issues less redemptions) – which is more closely linked to volume effects – was very restricted (EUR 30 billion in Q3, against about EUR 100 billion in Q2 and EUR 130 billion in Q1).

Labour market(1/2)

Employment and employment prospects



* The indicator includes the employment prospects in manufacturing, construction, retail, financial sector (eurozone) and other services, weighted in accordance with their respective contribution to paid domestic employment.

Source: STATEC (economic surveys and national accounts)

Employment prospects remain favourable

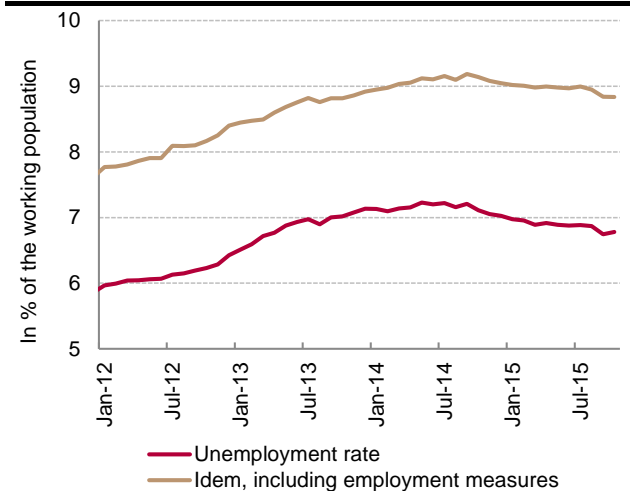
As revealed by economic surveys and the provisional figures for August, the Luxembourg labour market slipped a little over the summer months. Over that month, domestic paid employment rose only 2.4% over one year, after rising 2.7% in July.

However, given the initial figures for temporary employment in September and October (up almost 20% over one year according to Fedil Employment Services – FES), and the significant drop in unemployment in September, this should be no more than a passing phenomenon. Other leading labour market indicators – such as working hours or job offers – have improved considerably in recent months.

STATEC therefore postulates that domestic paid employment will continue to grow steadily at about 2.5% over one year.

Labour market(2/2)

Unemployment and people in job schemes



Sources: ADEM, STATEC (seasonally adjusted figures)

Underlying unemployment trend in decline

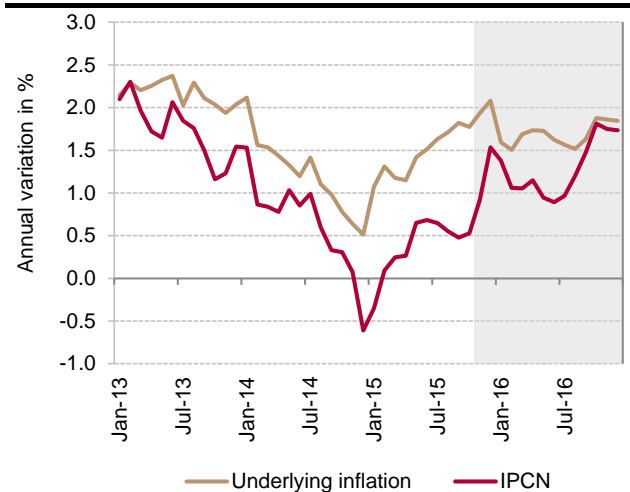
Up to mid-2015, the decline in unemployment was mostly due to non-cyclical effects (job schemes and “reclassification” reform), but started to become more cyclical from the third quarter on.

The number of job seekers continued to fall over the 3rd quarter, despite a decrease in the number of people on job schemes since August (according to seasonally adjusted figures). After stagnating for 8 months at 9.0%, total job seekers (i.e. including those on job schemes) compared to the working population started to fall again from August 2015 (8.9% and 8.8% in September and October).

Thus, the fall in the number of reduced-capacity workers registered with ADEM since March 2014, linked to the “reclassification” reform, has helped reduce unemployment over that period, but only accounts for 23% of the fall over the first nine months of 2015.

Inflation

Inflation observed and forecasts (main scenario)



Sources: STATEC

Inflation at 0.5% in 2015 and 1.3% in 2016

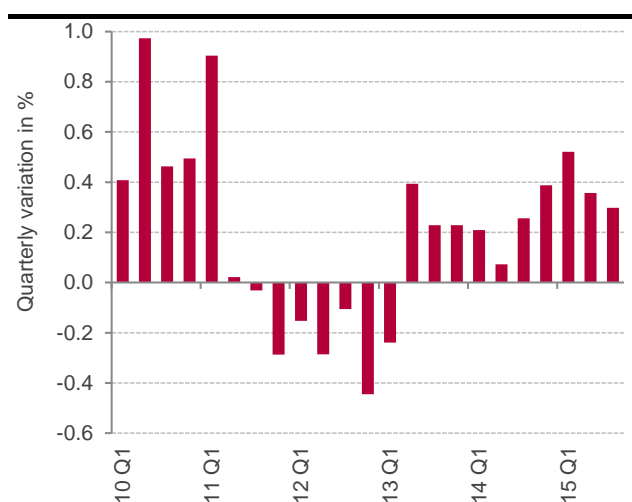
STATEC recently revised its inflation forecasts downwards, for both this year and next. Its main scenario predicts that inflation will reach 0.5% in 2015 (0.8% forecast in August) and 1.3% in 2016 (1.8% in August). According to this scenario, which is based on the assumption that the price per barrel of Brent oil will remain constant at USD 48.1 and on a EUR/USD exchange rate of 1.13 (October levels), the next wage indexation adjustment will be postponed to the second quarter of 2016.

This is down to a further decline of 15% in oil prices and to the euro gaining 3% against the dollar between July and October, the last months observed for these forecasts. On the other hand, the postponing of the next wage indexation adjustment implied by these recent trends will itself push down underlying inflation.

International

Eurozone recovery falters

Eurozone GDP



Source: Eurostat

Eurozone GDP rose 0.3% over one quarter in the 3rd quarter, a slowdown compared to previous quarters (up 0.5% in Q1 and 0.4% in Q2). The recovery is still underway, therefore, but without much momentum – hardly surprising given the deteriorating international climate (especially as regards emerging markets).

Of the major economies, Germany, Spain and Italy have slowed slightly, while French GDP is picking up (0.3%), although this is mostly due to a catch-up compared to a disappointing (i.e. stagnant) 2nd quarter. Portugal's GDP stagnated in the 3rd quarter (due to a drop in domestic demand) while in the Netherlands it rose just 0.1%, in keeping with the previous quarter, chiefly because exports suffered from the slowdown in global trade. The worst performance was in Greece (down 0.5%, penalised by capital controls) and Finland (down 0.6%), where exports are extremely exposed to Russia but also China.

Trend chart

	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-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	3.7	2.8	2.3	-1.1	0.2	-3.4	5.0	...	...	0.8	4.1
Construction output per working day, in volume	-9.6	2.5	-1.1	-5.9	3.6	8.9	-13.2	...	...	-0.2	-1.9
Turnover by volume of total retail trade	-0.5	-0.4	1.3	-4.6	2.4	0.8	-1.8	...	...	0.5	-1.4
Prices, wages											
Consumer price index (NCPI)	0.1	0.2	0.3	0.7	0.7	0.6	0.6	0.5	0.5	0.5	0.4
Underlying inflation	1.3	1.2	1.1	1.4	1.5	1.6	1.7	1.8	1.8	1.8	1.0
Oil product index	-14.0	-10.7	-10.5	-8.1	-8.7	-10.6	-13.5	-16.4	-15.6	-15.2	-5.5
Industrial producer price index	-0.7	0.1	-0.4	-0.2	-0.5	0.8	-1.0	-1.6	...	-0.6	1.7
Construction price index ¹	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	0.9	0.9	0.9	...	...	...	...	0.9	3.7
Foreign trade											
Exports of goods (volume)	0.3	0.9	3.6	-3.0	10.2	-2.6	...	...	...	1.5	12.9
Imports of goods (volume)	-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	2.7	2.6	2.7	2.4	2.7	2.5	2.5	2.5
National employment	2.0	1.9	1.9	1.8	1.7	1.7	1.9	1.9	1.8	1.9	2.0
Unemployment rate (% of working population, seas. adj.)	7.0	6.9	6.9	6.9	6.9	6.9	6.9	6.7	6.8	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 Q2	2014 Q3	2014 Q4	2015 Q1	2015 Q2	2015 Q3
Eurozone- Growth in volume of GDP (European Commission)	0.1	0.3	0.4	0.5	0.4	0.3
Luxembourg - Growth in volume of GDP (STATEC)	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	3.2	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 (October) - base January 1 st 1948: 829.12						
Half-yearly average of the index linked to base as at January 1 st 1948: 830.05						
Estimated deadline for next salary indexation: 2 nd quarter 2016						

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