

CONJONCTURE FLASH

JUNE 2017

STATEC

Institut national de la statistique
et des études économiques

Monthly publication of the state of the Luxembourg economy

GDP stagnates in the 1st quarter of 2017

Luxembourg GDP stagnated in the 1st quarter of the year, a disappointing result due to the marked decline in added value in the financial sector. While these figures constitute a negative signal for early 2017, they are founded on a statistical basis that is still too patchy to establish a reliable diagnosis. Economic surveys among companies and households in Luxembourg and the euro zone remained on a favourable trend over the spring.

A chill in financial activities

According to initial estimates, Luxembourg GDP in volume grew just 0.1% in the 1st quarter of 2017 (+3.3% over one year). Growth thus levelled off compared to the average pace of 1.0% per quarter over the four previous quarters.

Financial activities were the main reason for this slowdown, with added value in volume down sharply (-7.3% over one quarter). This trend is mainly due to bank results, which were, however, relatively vigorous over the whole of last year. For the moment, it is difficult to ascertain if this phenomenon is part of a trend reversal or if it is a temporary downturn (financial sector data can be subject to quite significant adjustments in the short term).

... but non-financial services hold up well

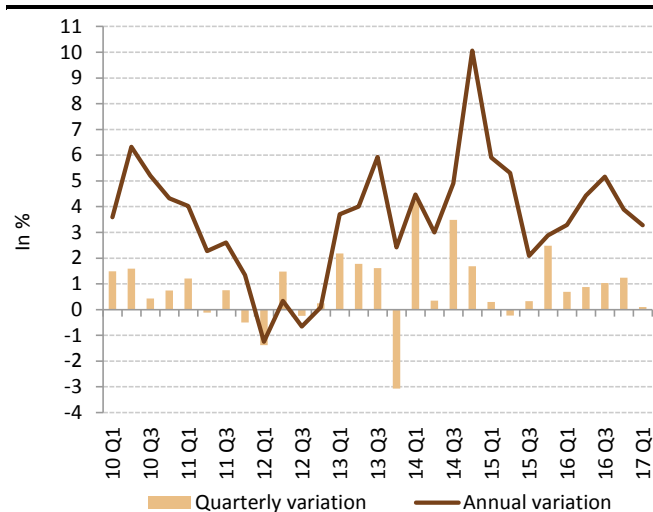
In contrast, non-financial services as a whole continued to perform well, with added value rising 2.2% over the quarter. The main contributors to this result were information and communication, business services and trade.

Investment expenditure, which had bounced back in the 4th quarter of 2016, continued to rise (+2.3% over one quarter, +11% over one year), due mainly to acquisitions of aircraft and satellites. The latter are set to sustain business investment in 2017. The impact of the recovery in investment is, however, very limited in terms of GDP as it means that imports will also rise at more or less the same extent.

The economic climate remains favourable

In sum, while the growth figures for the 1st quarter of 2017 were disappointing, they are founded on a restricted statistical basis and should therefore be treated with caution.

GDP in volume



Source: STATEC - National accounts (seasonally adjusted figures)

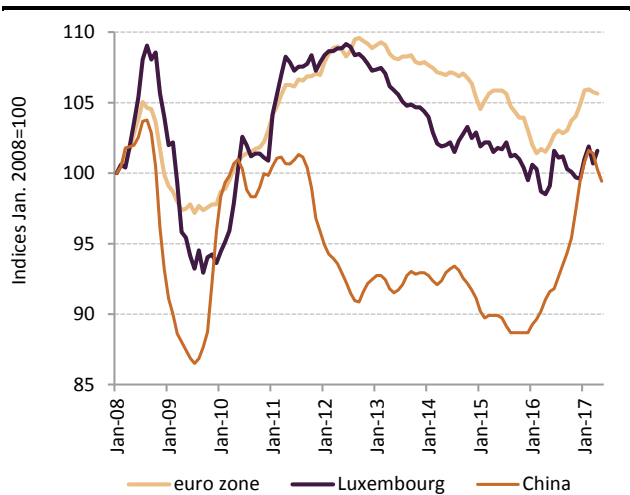
Other, more positive, cyclical elements merit a mention. Firstly, opinion surveys carried among businesses and households in Luxembourg are holding up well. These figures are not revised, they are much less volatile than quarterly GDP and performed well up to May 2017. Economic surveys were also positive at European level over the spring, suggesting that the external environment is more favourable. A number of indicators are already available for June and these show satisfactory results overall (this is the case for the ZEW and IFO indices in particular). In contrast, the PMI purchasing managers' index for the euro zone index fell sharply in June but reached its highest level in six years over the 2nd quarter of 2017 as a whole, in line with quarterly growth of some 0.6-0.7 percentage points for euro-zone GDP.

GDP growth in the euro zone in the 1st quarter of 2017 was also revised upward to 0.6% over one quarter (against 0.5% in the quick estimate). This revision was mostly due to better than expected results in France, Italy, Austria and Greece.

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Manufacturing

Industrial output prices



Source: Macrobond

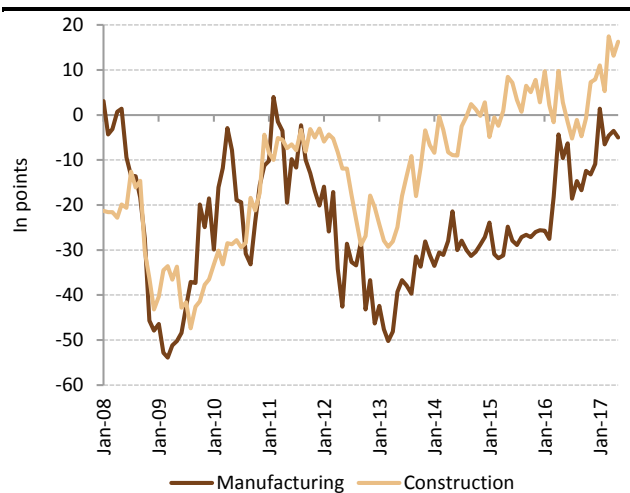
Output prices: rally halts

In recent months, the recovery in industrial output prices, which started in early 2016, showed signs of flagging, partly reflecting recent trends in oil prices. Prices for raw materials and metals were down slightly compared to the start of the year (although they reached +11 and 18% respectively over one year in May). Producer prices fell in China in May for the third month in a row (industrial overcapacity in the country was one of the factors behind the drop in global prices in 2012-2015), due in particular to mixed economic indicators. In Luxembourg, the profile is currently more unsettled but is more or less in line with the trend noted in the euro zone, where a slight decline has also been observed (latest data: April). Despite this, the European index continued to grow, excluding energy, albeit at a slower pace.

Currently, the impact of rising producer prices in 2016 on consumer prices remains very limited. This should materialise gradually unless producers reduce their margins.

Manufacturing and construction

Confidence indicators



Source: STATEC (seasonally adjusted figures)

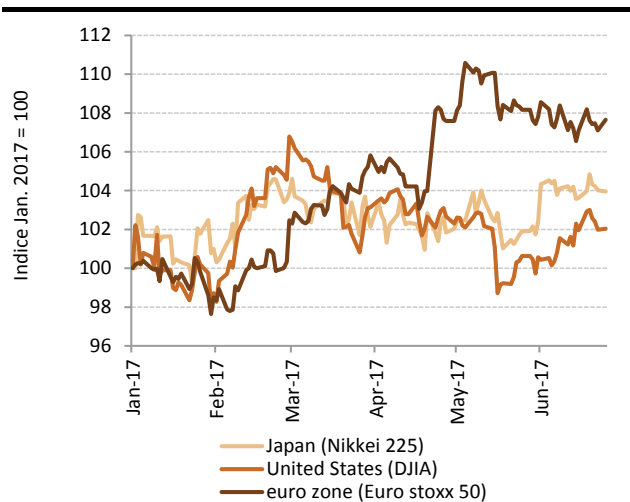
Businesses more confident

Confidence indicators for Luxembourg manufacturing and construction businesses stayed relatively high in early 2017 and continued to do so up to May. Added value in these two sectors fell, however, in the 1st quarter (-0.8% over one quarter for manufacturing, -5.2% for construction), but this trend is explained in part by technical effects. This is the case in particular in construction, where output figures were affected by both extremely low temperatures at the start of the quarter and by collective leave schedules (which were later this year than usual, boosting activity in December but reducing it in January). In manufacturing, output was also disappointing in January – mainly due to very weak activity in iron and steel – but the figures for the following months (up to April) seem to indicate some measure of recovery.

This improvement in the economic climate for manufacturing and construction can also be seen across the euro zone and has benefited most Member States.

Financial sector 1/2

Stock-market indices



Source: Macrobond (figures denominated in EUR)

European stock markets perform well

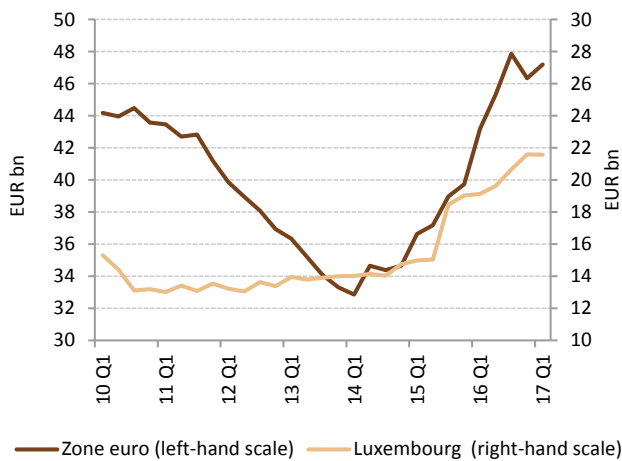
The first half was favourable for the equity markets, thanks to satisfactory quarterly results for companies and sustained investor optimism. In the euro zone, the index has risen 7.6% since the start of the year, much higher than in the United States (+2.0%) or Japan (+3.9%). Over one year, the Euro Stoxx 50 rose 24.3% (+15.7% between the 1st half of 2016 and the 1st half of 2017).

Although political risks weighed on the Euro Stoxx in the 1st quarter, the results of the two rounds of the French presidential elections (on 23 April and 7 May) boosted the index by 6.4% in just 2 weeks. The index then fell slightly, mostly because the EUR rose sharply against the USD, which made euro-zone equities less attractive, and fears of a slowdown in inflation, which discouraged risk-taking.

In the United States, the Dow Jones fell in mid-May after the charges related to the "Russiagate". But this latest downward trend was brief and the index took off again afterwards.

Financial sector 2/2

Loans to non-financial companies



Source: BCL

Business lending: trend remains favourable

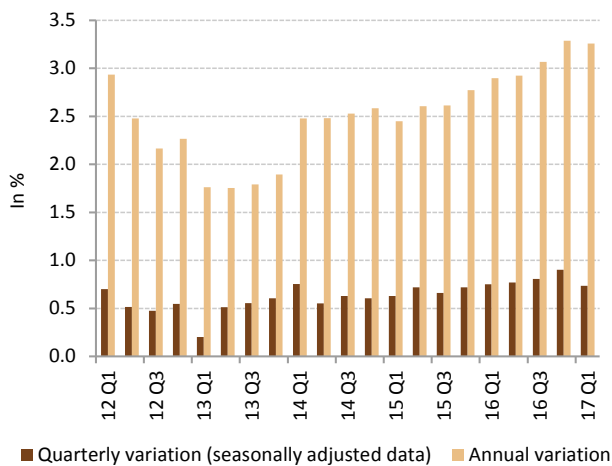
Total loans granted by Luxembourg banks to non-financial companies (based in Luxembourg, other euro-zone countries and other countries) amounted to EUR 103.8 bn at the end of the first quarter of 2017, 7.5% more than last year.

Following the slowdown in late 2016, loans granted to non-financial companies in the euro zone rose again in the first quarter of 2017, eventually rising 9.3% over one year.

Outstanding loans to Luxembourg businesses stagnated between the last quarter of 2016 and the first quarter of 2017 but these are still up 12.8% on an annual basis, boosted by strong growth in loans granted in the second half of 2016.

Labour market

Trends in paid employment (in %)



Source: STATEC, national accounts

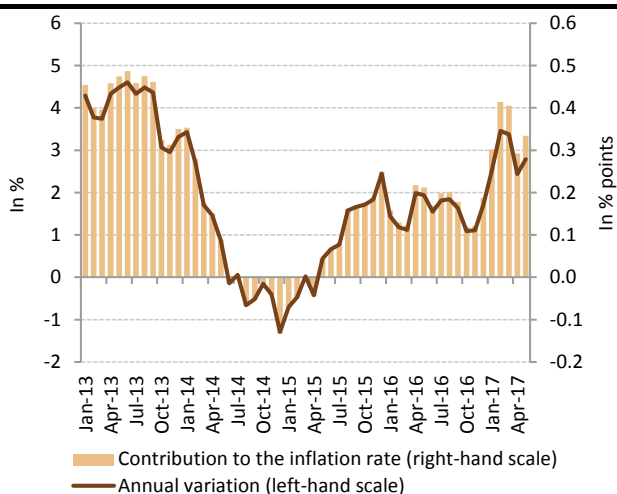
Slight slowdown in employment in the 1st quarter

In the first quarter of 2017, growth in paid employment slowed slightly, dropping to +0.7% over one quarter compared to +0.9% in the final quarter of 2016. Year-on-year, growth has stabilised at +3.3%. Discounting the effect of a reclassification in public administration, construction, temporary employment and road haulage contributed the most to the slowdown in employment in the 1st quarter of 2017.

The slowdown in construction employment and temporary employment seems to be a passing phenomenon (output in construction was exceptionally low in January). In any case, construction businesses remain very optimistic as regards employment prospects in the 2nd quarter of 2017 and the data from FES on temporary employment (which is mainly used in the construction sector) showed evidence of a recovery in May 2017 after quite a weak month in April. Everything thus seems to be pointing to a continuation of the favourable trend over the short term (STATEC forecasts a 3.3% rise in employment in 2017, after +3.0% in 2016).

Inflation

Trends in food prices in Luxembourg



Source: STATEC

Increased pressure on food prices

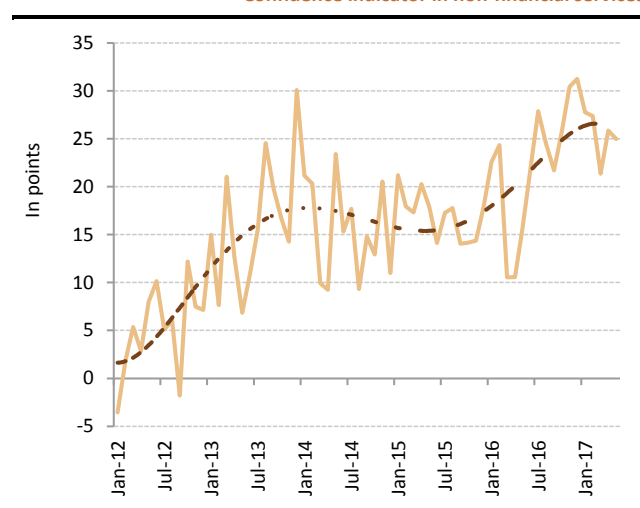
While the hike in the inflation rate since late 2016 is mainly due to oil price trends and the effects of indexation, upward pressure on food prices has also strengthened. At 2.8% over one year in May, the rise in food prices substantially exceeds general inflation (+1.7%). It thus contributed almost 0.4 percentage points to annual inflation over the first 5 months of 2017, compared to just 0.2 percentage points in 2016 (and 0.1 in 2015).

While inflation in fresh vegetables has stabilised in recent months after the soaring prices last winter, meat prices (particularly beef) remain high (+3.4% over one year in May compared to 1.4% over 2016 as a whole). Meat prices are currently contributing 0.1 percentage points to inflation. Prices of dairy products (especially butter) have recently picked up in Luxembourg and across Europe in general. The sharp rise in milk prices since the 2nd half of 2016 (+50% over one year in May) has thus started to affect consumers. The price of sugar and some fats and oils posted an annual increase of over 10% in May.

Non-financial services

Confidence down slightly

Confidence indicator in non-financial services



Source: STATEC (latest issue: May 2017)

Confidence among business leaders in non-financial services fell slightly at the start of 2017, but at 25 points in May 2017 remains well above its long-term average (16 points over the period 2005-2016). Those surveyed have seemed a little less optimistic in recent months as regards their company's position as well as in terms of demand for their products and services. In contrast, their employment prospects have been recovering well since January. More of them are also signalling an increase in their selling prices, which may be due to the new indexation adjustment last January (which saw wages increase automatically by 2.5%).

At euro-zone level, confidence among non-financial companies continued to rise slightly in the first few months of 2017, but with relatively noticeable differences between countries (opinions were more pessimistic in France and Germany in April and May).

Trend chart

	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17	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	2.9	-3.7	-7.4	3.4	-12.5	-5.3	2.1	3.4	...	0.1	1.2
Construction output per working day, in volume	1.4	2.0	3.7	11.2	-17.6	-6.1	0.0	3.1	...	-1.0	4.8
Turnover by volume of total retail trade	3.4	2.0	2.0	2.8	-1.7	-4.0	1.3	0.0	...	-0.9	-0.2
Prices, wages											
Consumer price index (NCPI)	0.4	0.5	0.5	1.1	1.7	1.8	1.7	1.9	1.7	1.8	0.0
Underlying inflation	0.8	0.7	0.8	1.0	1.2	1.2	1.3	1.4	1.5	1.4	1.1
Oil product index	-6.4	-2.5	-3.6	4.9	13.2	15.2	11.5	14.1	5.6	10.4	-16.6
Industrial producer price index	-0.9	-0.9	-0.7	0.1	0.5	1.6	1.9	3.2	...	2.2	-2.7
Construction price index ¹	1.0	1.0	1.0	1.0	...	...	...	...	...	1.0	1.0
Average wage bill, per person (National accounts)	0.3	0.7	0.7	0.7	3.1	3.1	3.1	...	...	3.1	1.1
Foreign trade											
Exports of goods (volume)	0.1	-8.1	-1.0	4.0	24.0	-2.1	7.7	-10.5	...	-1.6	7.0
Imports of goods (volume)	-3.1	5.9	3.1	0.5	1.4	2.1	0.3	3.3	...	1.9	-3.0
Employment, unemployment											
Domestic number of employees	3.1	3.1	3.3	3.4	3.0	3.3	3.5	3.4	3.4	3.4	2.8
National employment	2.3	2.3	2.5	2.5	2.3	2.5	2.7	2.7	2.7	2.7	1.8
Unemployment rate (% of working population, seas. adj.)	6.3	6.3	6.2	6.2	6.2	6.1	6.0	6.0	6.0	6.0	6.5

Source: STATEC

Data coloured are estimates

¹ Estimations based on half-yearly data

Indicators

	Variation on previous quarter in %					
	2015 Q3	2015 Q4	2016 Q1	2016 Q2	2016 Q3	2016 Q4
Eurozone- Growth in volume of GDP (European Commission)	0.4	0.5	0.3	0.4	0.5	0.6
Luxembourg - Growth in volume of GDP (STATEC)	2.5	0.7	0.9	1.0	1.2	0.1
	Annual variation in %					
	2012	2013	2014	2015	2016	Forecast 2017
Luxembourg - Growth in volume of GDP (STATEC)	-0.4	4.0	5.6	4.0	4.2	4.8
GDP at current prices 2016: EUR 54 201 million						
Minimum monthly salary (since 01/01/2017): EUR 1 998.59						
Current account balance (2017 Q1): EUR 462 million						
Resident population (01/01/2017): 590 667						
Consumer price index (May) - base January 1 st 1948: 844.94						
Half-yearly average of the index linked to base as at January 1 st 1948: 840.01						
Estimated deadline for next salary indexation: 2 nd quarter 2018						

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