

Renewed growth in the 3rd quarter of 2017

Luxembourg GDP performed relatively well in the 3rd quarter of 2017 compared with the results for the 1st half of the year. Non-financial services contributed significantly to this improvement, while the financial sector seems to be easing off somewhat. The international economic climate remained buoyant in the run-up to 2018.

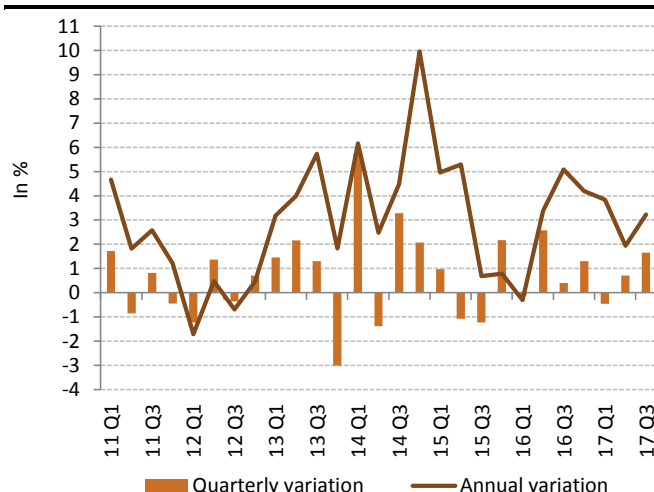
Non-financial services boost growth in the 3rd quarter of 2017

Luxembourg GDP grew 1.7% over one quarter in the 3rd quarter of 2017 (+3.2% over one year). This is an improvement on the previous two quarters (a 0.5% drop in Q1 17 and a 0.7% rise in Q2 17). On the whole, this improved result is due to more favourable activity trends in business services and trade over the summer of 2017. Information and communication services remained very dynamic, making a large and regular contribution to added value. This sector has been enjoying high employment growth, rising 6.5% over one year in the 3rd quarter of 2017, almost twice as much as other sectors.

The financial sector seems to be lagging behind, with added value rising just 0.4% over one quarter. Generally speaking, over the first three quarters of 2017, the financial sector performed better in terms of employment (+3.0% compared to the previous year) than added value (-2.0%). This contrast, which led to a sharp drop in apparent labour productivity, must be taken with a grain of salt given the high volatility in added value in this area (and of the level of revision to historical data observed). The fact remains, however, that employment in financial activities started to flag in 2017 (it rose 3.5% in 2016), particularly in the 3rd quarter, when a number of banks implemented redundancy plans (see *Conjoncture Flash* of December 2017).

Household consumption continued to grow, a little slower than in the 2nd quarter, and this trend seems to be strengthening: over the first three quarters, it rose 2.7% over one year, as compared to +2.4% in 2016. On the other hand, investment expenditure shrank considerably in the 3rd quarter (-13.5% over one quarter). This phenomenon was mainly due to the effects of the sharp rise in acquisitions of aircraft and satellites and railway equipment in the 2nd quarter. Investment trends remain healthy, in line with the improvement noted across the euro zone.

GDP in volume



Source: STATEC - National accounts (seasonally adjusted figures)

General economic climate remains buoyant at the start of 2018

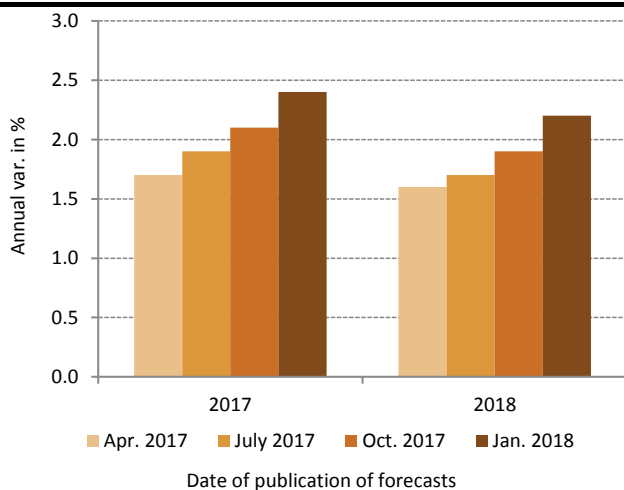
Based on this data, growth acquisition¹ in 2017 stood at 2.7%. All things being equal – i.e. discounting revisions of data already published – fourth-quarter growth would need to be relatively high to reach the figure of 3.4% foreseen in the autumn forecasts (*Note de Conjoncture* 2-17). Such revisions are inevitable given that the process used to prepare the national accounts relies on estimates, and thus the current quarterly figures are likely to be revised – either up or down – to an extent that has yet to be determined.

In any event, the current climate gives cause for optimism, as the economic surveys for Luxembourg have remained favourable in recent months and the indicators for other euro-zone member states continue to indicate a general strengthening in economic momentum. Economic forecasts recently issued (in January 2018) by the World Bank and the International Monetary Fund have also upgraded their prospects for the euro zone.

¹ Growth acquisition for 2017 represents GDP growth, obtained by assuming that fourth-quarter GDP will stabilise at the same level as in the 3rd quarter.

International

IMF forecasts for GDP in volume in the euro zone



Source: IMF

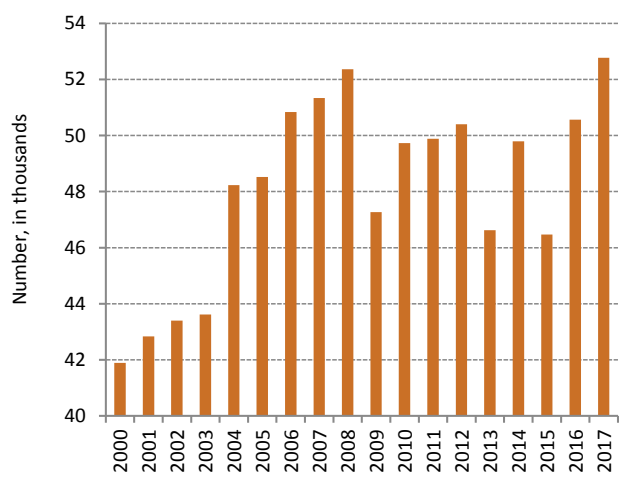
Prospects for the euro zone gradually raised

In its last two forecasts (22 January 2018), the International Monetary Fund (IMF) upgraded its prospects for worldwide growth. Compared to last year (October 2017), leading economies are expected to produce the highest results. One of the most marked revisions concerns the United States, where GDP is set to grow 2.7% in 2018 (+0.4 percentage points) and 2.5% in 2019 (+0.6). Much of this is due to the expected impact of the tax reform, which should have significant effects on America's main economic partners.

Euro-zone growth is expected to reach 2.2 and 2.0% in 2018 and 2019 (+0.3 percentage points), with much better figures in Germany and Italy in particular. Since the start of 2017, the IMF has progressively – and significantly – upgraded its prospects for the euro zone, where the economic indicators provided good news this year.

Consumption

New registrations of private cars



Source: SNCT

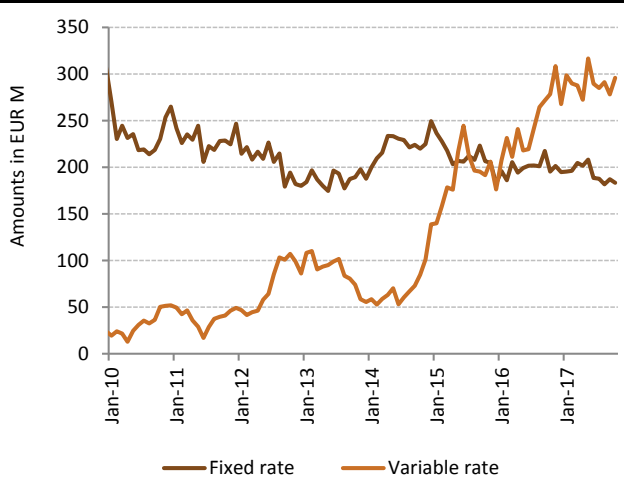
A record that needs to be put into perspective

It was no surprise (see Conjoncture Flash of October 2017) when the bar of 50 000 new private car registrations was crossed with ease in 2017. With almost 53 000 newly registered vehicles, the previous record, dating from 2008, was exceeded. However, considering the population growth recorded in the meantime (above 20%), the performance in 2017 is not all that impressive.

Despite a disappointing December (-7.2% over one year), the 4th quarter of 2017 rose slightly compared to the previous quarter (seasonally adjusted). Over the past year as a whole, new car sales rose 4.4% compared to 2016. Over the same period, the rise noted across the euro zone was a little more pronounced (5.2%), with the highest increases coming from southern countries (Greece, Italy, Spain and Portugal).

Financial sector 1/2

New mortgages according to rate type



Sources: BCL, STATEC (seasonally adjusted figures)

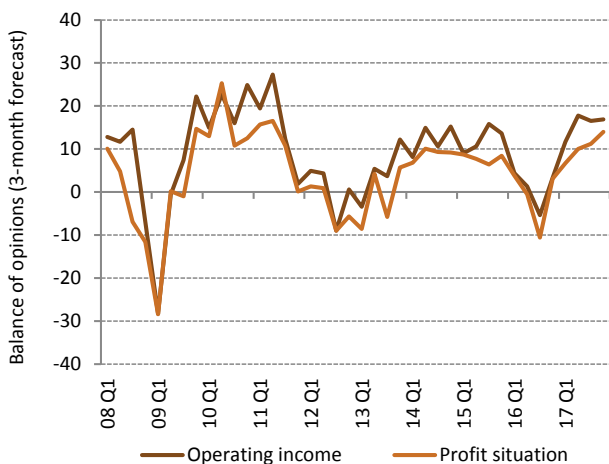
Sustained demand for fixed-rate loans

Over the first 10 months of 2017, the number of new mortgages granted to households (in Luxembourg and the euro zone) rose 10.4% over one year. This rise was entirely due to sustained demand for fixed-rate financing (+22%), while new variable-rate mortgages fell again (-4%).

With leading rates close to 0% since late 2014, fixed rates applied to mortgages reached a historic low of 1.6% on average in September 2016. They rose slightly thereafter, reaching 1.8% in October 2017, but remain well below their historical average of 2.6% and close to variable rates (1.6% in October 2017). These low rates explain why households prefer this type of low-cost mortgage, with fixed-rate loans representing 59% of new mortgage applications in 2017. This trend is set to continue in 2018 as statements by the European Central Bank do not point to an increase in leading rates before 2019.

Financial sector 2/2

Economic survey in the euro-zone financial sector



Source: DG ECFIN

Better prospects for results

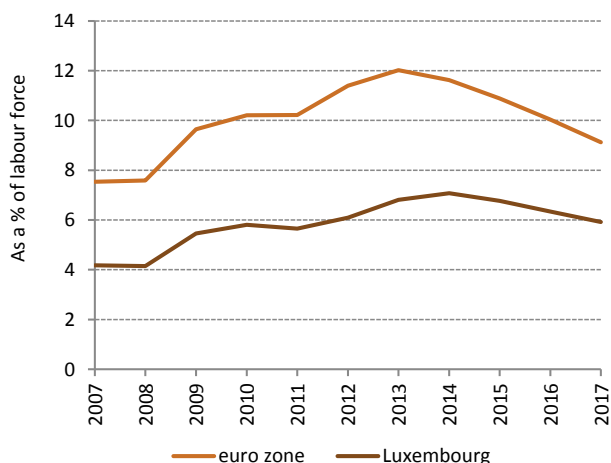
The results of the latest economic surveys in financial services in the euro zone show that confidence has risen since late 2016. This trend coincides with a recovery in the equity markets and in particular an upturn in financial stocks since the end of 2016.

In the last quarter of 2017, the forecasts regarding projected results and profits remained positive. This trend relates to all stakeholders in the financial sector, who are also much more optimistic as regards projected activities and demand than they were in 2016. Insurers have experienced the largest recovery in projected results and profits in recent quarters.

Furthermore, financial professionals were also more optimistic about their competitive position in 2017 compared to 2016.

Labour market

Unemployment rate



Sources: ADEM, Eurostat

Unemployment remains above pre-crisis levels

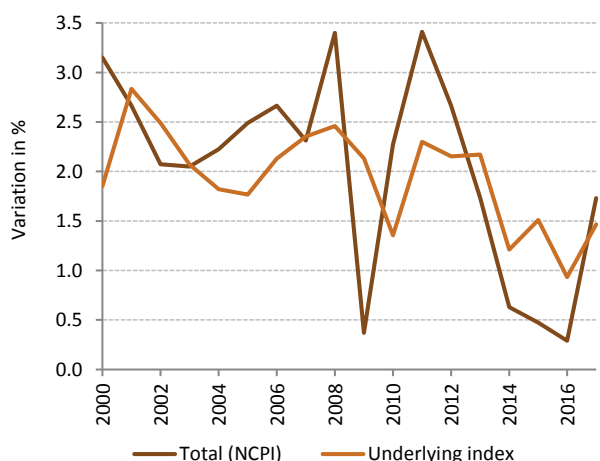
In Luxembourg, unemployment affected 5.9% of the working population in 2017 and has thus continued to fall since peaking at 7.1% in 2014. However, it remains far off pre-crisis levels (4%). It rose slightly to 5.8% in December 2017 (after 5.7% in November), but labour market indicators already available for the 4th quarter are on the whole positive. According to the latest forecasts from STATEC, unemployment should continue to fall in 2018.

In the euro zone, the drop in unemployment has been relatively more pronounced and dates back to 2014. The unemployment rate stood at 9.1% on average of the working population over the first 11 months of 2017, after reaching 12% in 2013, and therefore remains 1.5 percentage points above pre-crisis levels (7.6% in 2008).

All euro-zone countries benefited from this drop in unemployment in 2017. Since 2014, the improving labour market situation in Spain has contributed the most (45%) to the drop in unemployment in Europe.

Inflation

Inflation in Luxembourg



Source: STATEC

Despite a recovery, inflation remained low in 2017

In contrast to the 4 previous years, oil prices pushed inflation upwards in 2017. In Luxembourg, their contribution to inflation rose from -0.5 percentage points in 2016 to +0.4 percentage points in 2017. In total, inflation recovered from 0.3% in 2016 to 1.7% in 2017, while remaining low from a long-term perspective (2.2% on average over the period 2000-2015). In effect, underlying inflation – excluding oil prices – remains well below its historical average of 2% (2000-2015), despite rising from 0.9% in 2016 to 1.5% in 2017. It was sustained in 2017 by food inflation and the effects of wage indexation, and by more exceptional increases (prices for holidays and financial services).

If oil prices stabilize at the current levels, the upward impact of oil prices on inflation will be less in 2018 than in 2017. Considering also the reductions in crèche prices (which have had a considerable impact on the NCPI since last November) and healthcare (since January), inflation is set to slow in 2018, despite increasing cyclical pressures on prices.

Public finances

5.6% rise in tax receipts in 2017

Tax receipts* in 2017

	Receipts	Change	
		In EUR M	In %
VAT-type taxes	3 407	-59	-1.7
<i>including e-commerce VAT</i>	88	-295	-77.0
Household taxes	5 076	156	3.2
Company taxes	2 935	525	21.8
Subscription tax	972	68	7.5
Excise duty	1 364	34	2.5
Others	1 296	79	6.5
<i>including - Wealth tax</i>	521	12	2.3
- Registration duties	304	45	17.3
- Inheritance duties	110	23	26.6
Total tax receipts	15 050	804	5.6

* Cash-based data, different from annual data, calculated on a "transactionnalised cash" basis

Sources: Tax authorities, STATEC

Trend chart

	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-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	-0.4	-0.4	0.4	1.6	5.2	1.2	-2.6	...	...	1.3	-3.0
Construction output per working day, in volume	3.4	5.5	5.5	-1.3	4.5	2.9	4.9	...	...	4.1	3.7
Turnover by volume of total retail trade	0.8	2.3	-0.2	-0.4	-0.9	1.5	-2.8	...	...	-0.7	2.6
Prices, wages											
Consumer price index (NCPI)	1.9	1.7	1.5	1.9	2.0	1.8	1.9	1.5	1.4	1.6	0.5
Underlying inflation	1.4	1.5	1.5	1.9	1.7	1.6	1.8	1.2	1.2	1.4	0.8
Oil product index	14.1	5.6	1.0	1.7	7.0	5.6	4.4	8.6	4.2	5.7	-4.2
Industrial producer price index	1.7	1.8	0.8	1.9	2.1	3.3	4.2	2.6	...	3.4	0.0
Construction price index ¹	1.5	1.5	1.5	1.9	1.9	1.9	...	...	...	1.9	1.0
Average wage bill, per person (National accounts)	4.0	4.0	4.0	2.8	2.8	2.8	...	...	...	2.8	0.3
Foreign trade											
Exports of goods (volume)	-9.0	5.7	0.0	9.3	4.9	2.2	9.9	...	...	5.7	0.8
Imports of goods (volume)	5.5	6.9	4.0	4.3	1.3	2.1	-3.0	...	...	0.1	1.1
Employment, unemployment											
Domestic number of employees	3.4	3.5	3.5	3.1	3.5	3.5	3.4	3.7	4.0	3.7	3.3
National employment	2.8	2.9	2.8	2.6	2.8	2.7	2.7	2.9	3.1	2.9	2.6
Unemployment rate (% of working population, seas. adj.)	6.0	5.9	5.9	6.0	5.9	5.9	5.8	5.7	5.8	5.8	6.2

Source: STATEC

Data coloured are estimates

¹ Estimations based on half-yearly data

Indicators

	Variation on previous quarter in %					
	2016 Q2	2016 Q3	2016 Q4	2017 Q1	2017 Q2	2017 Q3
Eurozone - Growth in volume of GDP (European Commission)	0.4	0.4	0.7	0.6	0.7	0.7
Luxembourg - Growth in volume of GDP (STATEC)	2.6	0.4	1.3	-0.5	0.7	1.7
	Annual variation in %					
	2013	2014	2015	2016	Forecast 2017	Forecast 2018
Luxembourg - Growth in volume of GDP (STATEC)	3.7	5.8	3.7	5.8	3.4	4.4
GDP at current prices 2015: EUR 53 006 million						
Minimum monthly salary (since 01/01/2017): EUR 1 998.59						
Current account balance (2017 Q3): EUR 2 247 million						
Resident population (01/01/2017): 590 667						

Consumer price index (December) - base January 1st 1948: 847.26

Half-yearly average of the index linked to base as at January 1st 1948: 846.69

Estimated deadline for next salary indexation: 3rd quarter 2018

National Institute of Statistics and Economic Studies

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