

Economic growth is recovering but remains volatile

GDP growth in volume was particularly buoyant in the 3rd quarter of 2014, due notably to financial activities. This good news was marred, however, by the downgrading of performance in non-financial services. Close to 3% growth has been confirmed for 2014 as a whole.

Reduced contrast between financial and non-financial services

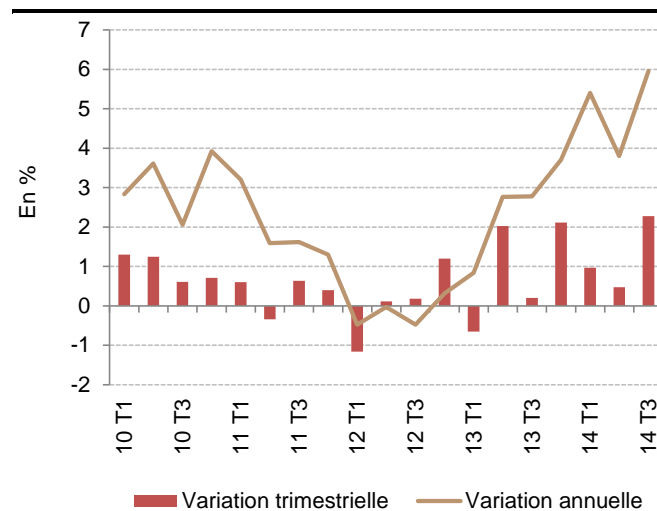
GDP in volume grew 2.3% in the 3rd quarter of 2014 (up 3.8% over one year). This outcome, very satisfactory at first glance, is however tempered by the fact that growth was revised significantly downward for the two previous quarters, to just 1.0% in Q1 2014 (against 1.7% in the previous version) and 0.5% in Q2 2014 (against 0.7% previously).

The highlight of the 3rd quarter results was the substantial increase in added value in the financial sector, almost 7% up on the 2nd quarter. For once, each of the three main components of the sector – financial intermediation (essentially banks), insurance and ancillary activities in the financial sector – received an important boost during the summer period. It would be premature, however, to view this as a real upswing (added value in the financial sector has been trending downward since early 2010), especially as there are negative signals coming from initial estimates of banks' earnings for the 4th quarter of 2014.

This pleasant surprise regarding financial sector performance in the 3rd quarter is offset by the downward revision of added value in activities in business services based on recently released statistics. Nevertheless, added value in this sector was relatively favourable over the first 9 months of the past year (but much less dynamic than in the previous version of the accounts). Exports of non-financial services were consequently also revised downwards.

After falling significantly in the 2nd quarter, investment bounced back significantly, but only in response to rising expenditure on aircraft and satellites. Excluding this specific, highly volatile category, investment declined in the 3rd quarter (albeit not enough to counter the progressive recovery initiated since early 2013).

GDP in volume



Source: STATEC

Household consumption saw a relatively modest rise (up 0.2% over one quarter, against 1.0% the previous quarter). It has been supported by strong demand for private car purchases – a trend that which should be confirmed in the 4th quarter – and spending in property rentals.

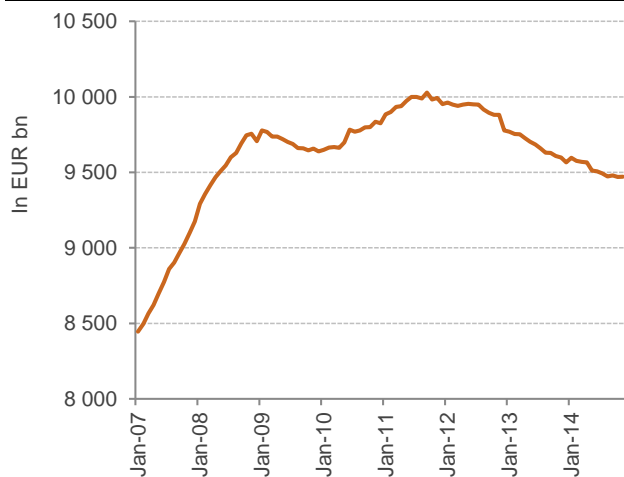
Economic growth heading for 3% in 2014

Growth acquisition in 2014, i.e. the annual variation in GDP in volume obtained for the year overall if 4th-quarter GDP remains identical to 3rd-quarter GDP (and if there is no revision affecting the quarters already recorded), stands at 2.9%. This figure is in line with STATEC's growth forecasts last November.

The confidence indicators drawn from the economic surveys carried out in the 4th quarter (in manufacturing, construction and services) are overall at levels close to those recorded in the 3rd quarter, indicating that there has been no significant slowdown or pick-up in economic momentum. Nevertheless, the high volatility in GDP over recent quarters and the strong growth in the 3rd quarter in particular hint at a possible decline in the final quarter. In conclusion, the possibility of growth lower than 3% for 2014 as a whole remains valid.

International

Euro zone – lending to non-financial private sector



Source: ECB (latest report: February 2014)

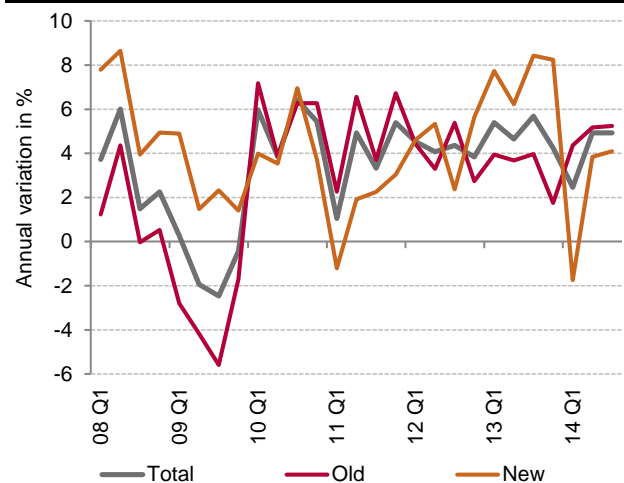
The ECB pulls out all the stops

On 22 January, as expected, the European Central Bank announced its quantitative easing programme to combat deflationary trends and boost growth in the euro zone through easier access to credit. This programme involves massive repurchases of public and private debt totalling EUR 60 billion a month between March 2015 and September 2016 (i.e. over EUR 1100 billion in all). The mandatory purchase of public debt on the secondary markets will mainly be undertaken by national central banks, which will also bear most of the risk (80% against 20% shared by the ECB) linked to their own sovereign bonds.

BCL, Luxembourg's central bank, will thus start buying up Luxembourg public debt on the secondary markets. As this debt is limited and the ECB's programme stipulates that central banks cannot acquire more than 33% of sovereign debt, the BCL will probably buy European institution bonds to fulfil its monthly quota.

Property

Asking prices for housing



Source: STATEC

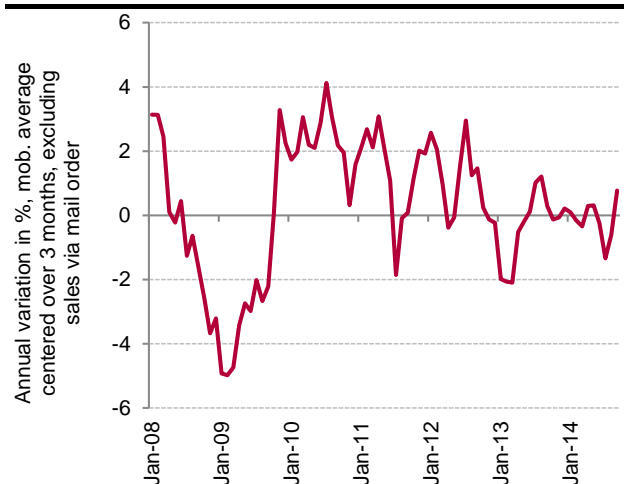
Housing prices: no deflation evident here...

Asking prices for housing in Luxembourg rose some 5% over one year in the 3rd quarter of 2014. After moderating slightly at the turn of the year, price rises returned to a more sustained pace, more in line with the average recorded between 2010 and 2013. This rise relates to both second-hand and new properties. It should be noted that house prices are now included in the indices released by STATEC (but only for second-hand homes; new home prices relate solely to apartments).

Residential construction should benefit from the rise in planning permissions granted in 2014 (up 6.6% over one year in the first 9 months in terms of volume). The rises recorded in sale prices in any case indicate that there is demand for housing.

Consumption

Retail trade – Trends in turnover volumes



Sources: Administration de l'Enregistrement, STATEC

A technical rise at the end of the year?

Retail sales were sluggish over the first part of 2014, but the end of the year could prove better. Turnover in volume in the retail trade (excluding mail-order sales and therefore also e-commerce stores) rose 2.4% over one year in October (after rising 0.8% in September). While there was no significant recovery in consumer confidence at the end of 2014, retailers have been more optimistic since September.

With VAT set to rise in January 2015, consumers may have brought forward the purchase of some items. As regards car sales, it was not until the December registration figures were published (up 42% over one year for new cars) that any such phenomenon was noted.

Financial sector

Profit and loss accounts

	December 2013	December 2014	Variation
	In EUR bn		In %
Interest margin ¹	4 966	4 790	-3.6
Income from commissions	3 723	3 903	4.8
Other net income	1 296	1 135	-12.4
Banking products	9 985	9 828	-1.6
Staff costs	2 519	2 480	-1.5
Other general costs	2 266	2 249	-7.0
General costs	4 785	4 730	-1.1
Results before provisions	5 200	5 098	-2.0

Source: CSSF (provisional results)

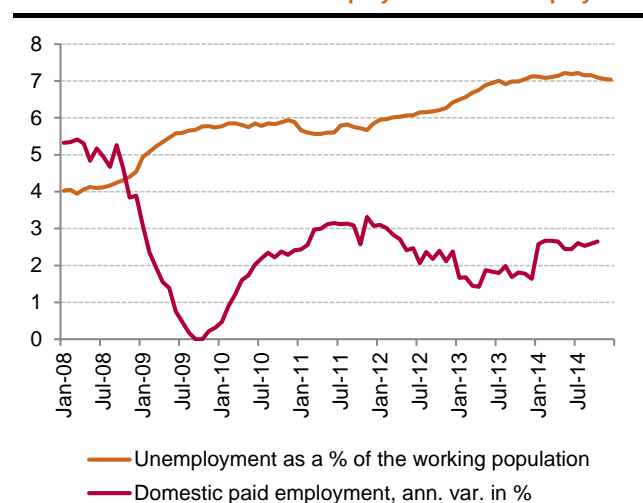
¹ Including dividends received from subsidiariesRather negative signals for the 4th quarter

According to the CSSF, income before provisions for credit institutions slipped 2% over one year in 2014 as a whole. Compared to the figures released at the end of September 2014, the last quarter of the year was marked by a substantial slump in the interest margin and in non-recurring revenue (compared to the 4th quarter of 2013). In contrast, commission revenue rose markedly but overall, the preliminary figures provide a negative signal.

UCIs posted fewer net issues in the 4th quarter (compared to the 3rd quarter of 2014) and also benefitted less from valuation effects linked to market trends. 2014 will nonetheless remain a very satisfactory year for the fund industry, with net assets climbing over 13% (after a 12% surge in 2013).

Labour market

Employment and unemployment



Sources: STATEC, IGSS, ADEM

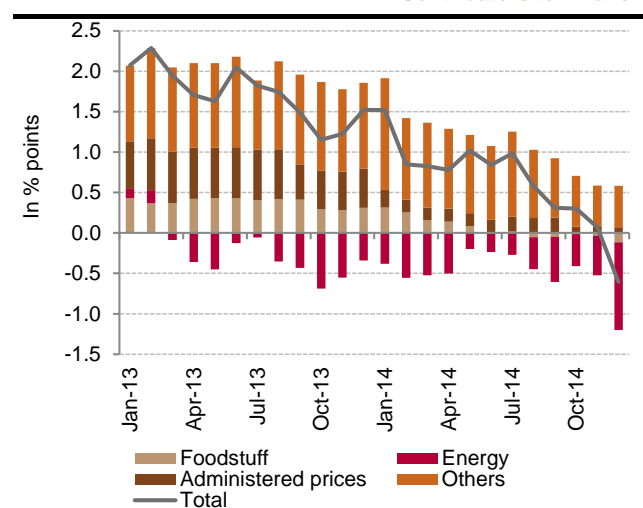
Partial unemployment falls slightly at the end of the year

In December 2014, unemployment continued to fall slowly, as it had done since the summer, to stand at 7.0% of the working population. While during the summer months, falling unemployment had been boosted by the rise in subsidised jobs, the more recent fall in unemployment is more widespread. Thus, the share of all job seekers, including those in job schemes, in the working population fell over the last 3 months, ending at 9.0% in December 2014.

The fall in unemployment may be linked to more sustained activity in construction since the summer and to the recovery in temporary employment, which is predominantly used in the construction industry (over one third of all temporary workers work in construction). The fall in the number of job seekers at the end of the year mainly typically to men with lower levels of education, aged between 30 and 39, of Portuguese nationality, in receipt of payments from ADEM and working on temporary contracts.

Inflation

Contributors to inflation



Source: STATEC

Inflation in the red

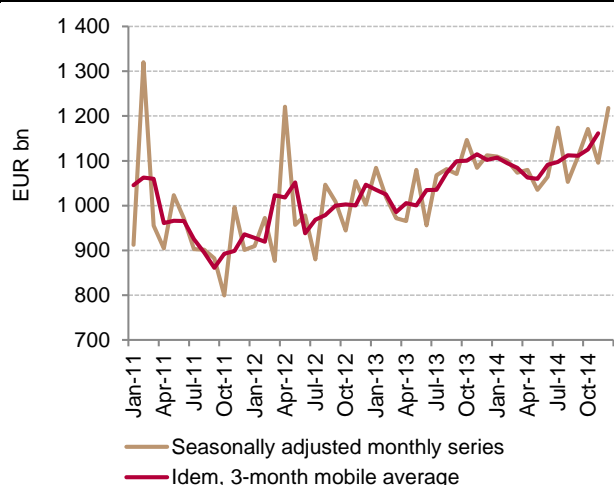
In December 2014, as in the euro zone, inflation in Luxembourg slipped into negative territory for the first time since 2009, falling 0.6% over one year. Like during the financial crisis, this fall in the price index was largely influenced by tumbling price of a barrel of Brent Crude, which reduced energy bills at the end of the year by 11% compared to December 2013. In contrast to the summer of 2009, when underlying inflation remained at around 2% over one year, this rate stood at just 0.5% in December 2014. This confirms the general disinflation over the year as a whole. Prices for (mainly unprocessed) food also remained below end-2013 levels and contributed 0.1 percentage points to the drop in the general index in December.

Over 2014 as a whole, inflation stood at just 0.6%, compared to 1.7% in 2013. In 2015, the 2% hike in VAT applicable since 1 January will boost the inflation rate, but it remains to be seen to what extent (as the hike could be delayed or partially absorbed by producers).

Public finances

Receipts up 5.5%

Tax receipts – monthly figures



According to the figures available at the end of the year, tax receipts grew 5.5% in 2014 compared to the previous year, a rise of EUR 700 million for State coffers. The main contributors to this growth were income tax on individuals (contributing 47%) and taxes on products (43%) while corporation tax made a slightly negative contribution (down 2%). In 2013, receipts rose 7% on the previous year.

The VAT hike on 1 January 2015 probably generated early receipts in late 2014. Thus, the pick-up in property sales in December drove stamp duty receipts up 89% compared to December 2013 (up 34% over the year as a whole). Excise duties on tobacco also rose significantly in December, by more than 140% compared to December 2013 (up 15% over the year as a whole). In contrast, mineral oil excise duties dropped 3% in 2014.

Sources: Tax authorities, STATEC

Trend chart

	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-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	7.7	7.4	6.4	6.1	2.9	3.9	3.3	3.2	...	3.5	1.8
Construction output per working day, in volume	2.1	1.7	-6.2	-2.0	1.7	2.2	-0.3	0.4	...	0.8	0.8
Turnover by volume of total retail trade	-0.1	2.4	-1.4	-1.8	-0.9	0.8	2.4	...	...	0.9	0.2
Prices, wages											
Consumer price index (NCPI)	0.8	1.0	0.9	1.0	0.6	0.3	0.3	0.1	-0.6	-0.1	1.3
Underlying inflation	1.4	1.3	1.2	1.4	1.1	1.0	0.8	0.6	0.5	0.6	2.0
Oil product index	-6.1	-2.3	-2.7	-3.2	-4.8	-6.8	-4.8	-6.1	-13.6	-8.2	-5.9
Industrial producer price index	-4.0	-3.6	-3.2	-3.4	-2.4	-1.8	-1.2	-1.7	...	-1.6	-3.1
Construction price index ¹	2.1	2.1	2.1	1.7	1.7	1.7	...	...	...	1.7	1.9
Average wage bill, per person (National accounts)	2.2	2.2	2.2	2.2	2.2	2.2	...	...	...	2.2	4.2
Foreign trade											
Exports of goods (volume)	7.6	11.5	10.8	12.6	-1.7	5.3	1.5	-2.5	...	1.4	1.8
Imports of goods (volume)	-3.2	-3.2	-1.8	-2.5	-1.4	0.0	0.2	-0.3	...	0.0	-3.6
Employment, unemployment											
Domestic number of employees	2.4	2.3	2.3	2.5	2.4	2.5	2.5	2.3	2.5	2.4	2.0
National employment	2.1	2.1	2.1	2.2	2.0	2.1	2.1	2.1	2.4	2.2	1.8
Unemployment rate (% of working population, seas. adj.)	7.1	7.2	7.2	7.2	7.2	7.2	7.1	7.1	7.0	7.1	7.1

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	0.2	0.2	0.5	0.1	0.2
Luxembourg - Growth in volume of GDP (STATEC)	1.7	-0.2	0.1	1.0	0.5	2.3
	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 01/01/2015): EUR 1 922.96						
Current account balance (2014 Q3): EUR 705 million						
Resident population (01/01/2014): 549 680						
Consumer price index (December) - base January 1 st 1948: 818.57						
Half-yearly average of the index linked to base as at January 1 st 1948: 823.79						
Estimated deadline for next salary indexation: 2 nd quarter 2015						

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