

# CONJONCTURE FLASH

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**STATEC**

Institut national de la statistique  
et des études économiques

Monthly publication of the state of the Luxembourg economy

## Growth under threat

Luxembourg GDP slowed somewhat in early 2016, caused mostly by the slowdown in financial activities. Statistical indicators for the 2<sup>nd</sup> quarter are not yet fully available, meaning that little can be said about GDP trends in the spring. In any case, the summer of 2016 started with Europe-wide turbulence with the Brexit confirmation, an event that is highly likely to have a negative impact on economic performance over the next few quarters.

## More modest growth in the 1<sup>st</sup> quarter

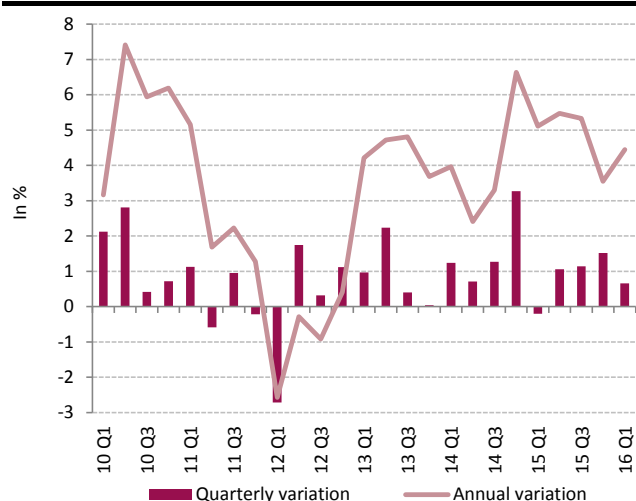
According to initial estimates, Luxembourg GDP grew 0.7% over one quarter during the 1<sup>st</sup> quarter of 2016 (up 4.4% over one year). This means that the economic climate here is better than elsewhere in the euro zone (where growth reached 0.5% over one quarter in Q1 2016), although growth has been slowing somewhat, with Luxembourg GDP rising over 1% over the three previous quarters.

The first months of 2016 saw growth benefit mainly from foreign trade (sustained in particular by net exports of non-financial services) and – to a lesser extent – by investment expenditure. On the other hand, household consumption was again disappointing, falling 0.7% over one quarter, whereas certain elements (rising household confidence, falling unemployment, recovering car sales) point to more favourable momentum at the start of 2016. Compared to the 1<sup>st</sup> quarter of 2015, households consumed less road fuel and tobacco as well as less gas and electricity – probably due to the relatively warm temperatures at the start of the year (particularly in February).

Added value in volume terms in the financial sector continued to grow over the 1<sup>st</sup> quarter, but its contribution to growth has been slowing over recent quarters. It should also be noted that, expressed in value terms, it is sharply down, having been significantly affected by negative market effects (mainly due to the pronounced slump in stock market indices over the period). This negative “price” effect has had an impact in turn on certain variables expressed in value terms, particularly tax receipts (subscription tax and corporation tax levied on financial sector companies).

In other sectors of activity, business services (particularly legal and accounting services) were the main growth drivers in the 1<sup>st</sup> quarter. In contrast, manufacturing, where output figures were revised substantially downwards compared to preliminary estimates, fell significantly.

## GDP in volume



Source: STATEC - National accounts (seasonally adjusted figures)

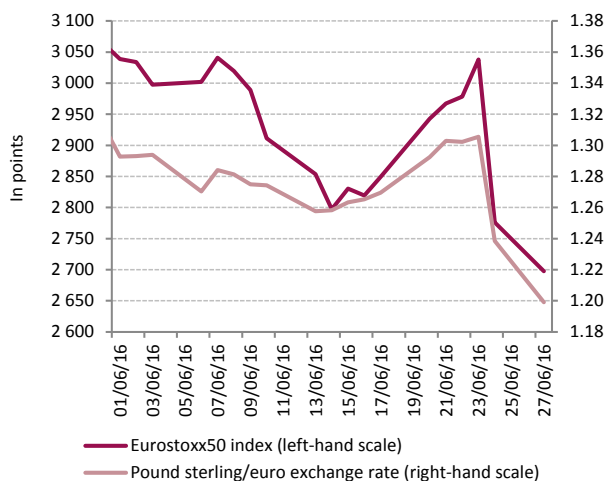
## Outlook affected by Brexit

Many statistics relating to the 2<sup>nd</sup> quarter of 2016 have not yet come in. Opinion surveys available up to May show diverging trends: favourable for manufacturing, construction and consumers, less so for services (financial and non-financial). The leading indices of the main stock markets have more or less stabilised after falling for three consecutive quarters. The 3<sup>rd</sup> quarter may well be more turbulent, now that UK voters opted for a Brexit on 23 June, immediately sending European stock markets lower. The uncertainties surrounding the arrangements of the Brexit are likely to significantly destabilise the financial markets over the next few months. Other negative macroeconomic consequences can also be expected (in particular, trade between the United Kingdom and the European Union is expected to fall).

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## International

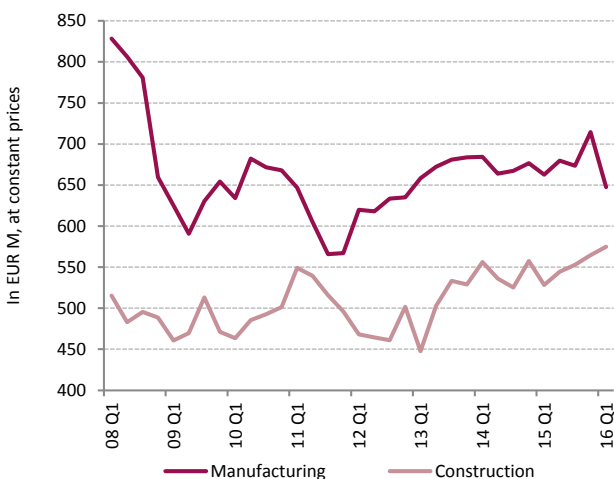
Eurostoxx index and sterling exchange rate



Source: Macrobond

## Manufacturing and construction

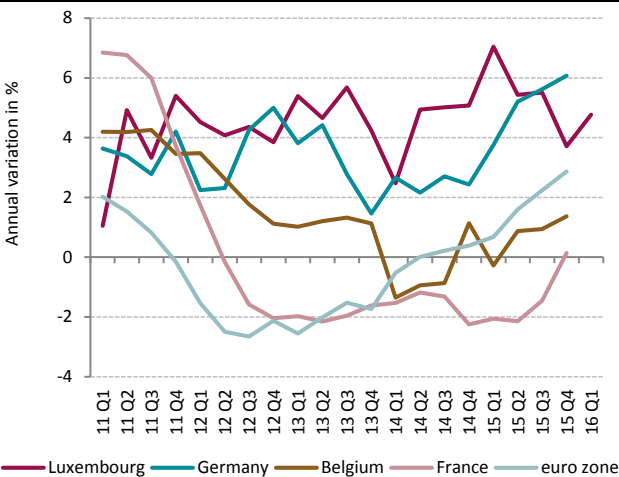
Added value in volume terms in manufacturing and construction



Source: STATEC (seasonally adjusted figures)

## Property

Asking prices for housing



Sources: Eurostat, STATEC

## Brexit worries the markets

While the consequences of the United Kingdom's exit from the European Union are uncertain (because there are many unknowns as to how this will be effected), all the various prospective studies carried out to date show that there will be a negative economic impact, not only on the United Kingdom but also on other European Union countries.

What is already known is the reaction on the financial markets since the referendum results were announced. Stock market indices fell sharply (the Eurostoxx50, the leading index for the euro zone, lost 11% in just two sessions, reaching its lowest point since February 2016) and the sterling lost 8% against the euro over the same space of time, dropping to its lowest level since March 2014). Financial volatility will be punctuated by news relating to the Brexit and is set to increase over the coming weeks.

## Construction outperforming manufacturing

Added value in volume terms for manufacturing fell almost 10% over one quarter in the 1<sup>st</sup> quarter of 2016 (compared to a 6% rise in Q4 2015). Ultimately, industrial output figures for March 2016, relatively satisfactory according to initial estimates, were quite disappointing. The initial figures available for April point to a more favourable trend overall, with machinery and equipment production recovering after largely contributing to the drop in the 1<sup>st</sup> quarter (similar to energy generation).

In construction, added value data for recent quarters shows a more regular and more dynamic trend, echoed by recent employment trends in the sector.

The trends observed in economic surveys up to May were relatively well-placed, both for manufacturing and construction.

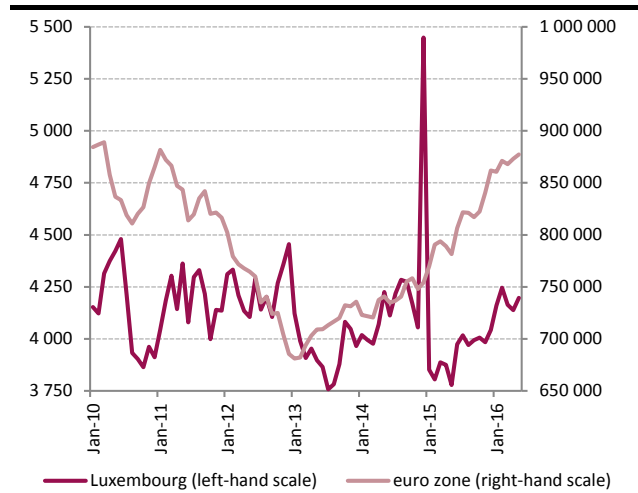
## Prices continue to trend firmly downward

Asking prices for houses and apartments in Luxembourg rose 4.8% over one year in the 1<sup>st</sup> quarter of 2016, in line with the sustained pace observed in recent years (up 4.7 per annum on average from 2010 to 2015). The number of corresponding transactions (approximately 1,650) is up 2.8% over one year, mainly driven by sales of second-hand homes.

At euro-zone level, the recovery trend for the property market seems to be taking hold, with asking prices recovering in most member states. France in particular, which had seen property prices fall since 2012, also seems to be arriving at a turning point. Germany posted solid growth at the end of 2015 and continues to recover (after many years of stagnation), mainly driven by prices in its major cities.

## Consumption

## New car registrations



Sources: ACEA, STATEC (seasonally adjusted figures)

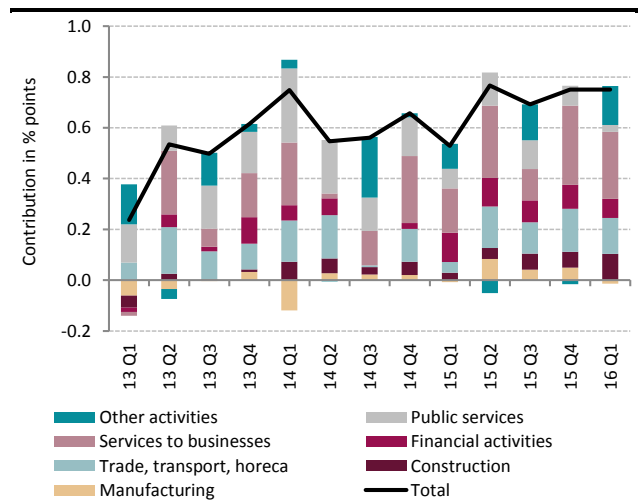
## Car registrations recover

New registrations of private cars grew almost 20% over one year in May 2016, which must be put into perspective given the very modest figures for last year due to the VAT hike. Registrations rose almost 10% over the first five months of the year compared to 2015. German models remain the most popular on the Luxembourg market this year, with Volkswagen reaffirming its leading position with 11% of all registrations (compared to 12% in 2015).

Registrations rose almost 10% in the euro zone as a whole over the same period, but this is part of a wider recovery that started in 2013 in most member states. The most remarkable rises are in countries where car sales had suffered significantly from austerity policies (Portugal, Ireland, Spain and Italy) after the 2008-2009 crisis.

## Labour market

## Domestic paid employment



Source: STATEC, national accounts:

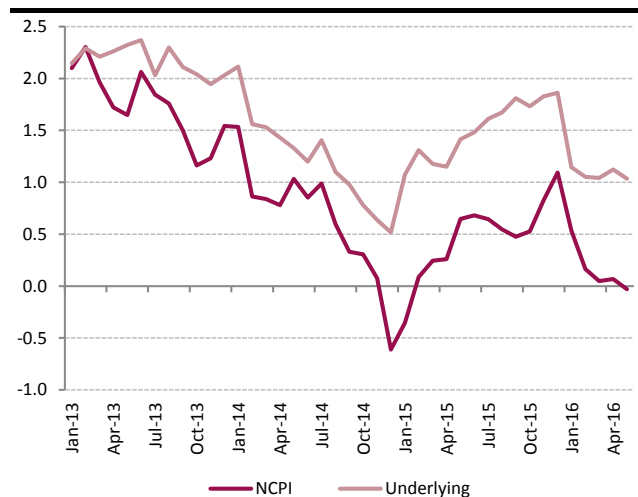
## Steady rise in job creation

In the 1<sup>st</sup> quarter of 2016, domestic paid employment rose 0.8% over one quarter, the same pace as the previous quarter. However, this development masks more mixed trends at sectoral level. Most sectors witnessed a slowdown in employment in the 1<sup>st</sup> quarter of 2016 and manufacturing employment fell slightly after rising for 3 quarters in a row. The resilience in job creations in construction has offset these effects in terms of overall momentum. As in the previous quarter, and despite a slight slowdown, business services made the largest contribution to the rise in headcount in the 1<sup>st</sup> quarter of 2016, thanks again to temporary employment, private security activities and cleaning activities.

Despite weaker growth among Luxembourg residents (up 0.1% over one quarter in the 1<sup>st</sup> quarter of 2016), unemployment continued to trend downwards in early 2016. Thus, after rising slightly in April, unemployment started to fall again in May, to 6.5% of the working population.

## Inflation

## Inflation in Luxembourg (annual rates in %)



Sources: STATEC

## Inflation set to recover over the short term

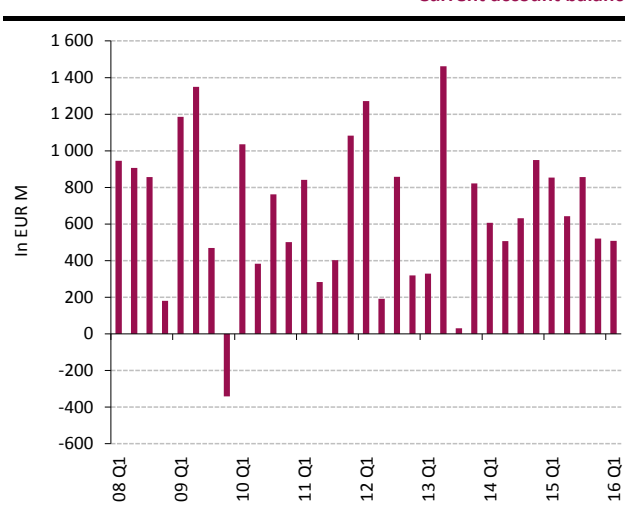
Annual inflation in Luxembourg fell to 0% in May after standing at 0.1% in April. Underlying inflation, which excludes oil products in particular, has stabilised at about 1% since the start of the year. Despite the rise in the price of Brent to \$50 per barrel, energy prices (down 13.4% over one year) continued to pull inflation down sharply, including via gas prices, which fell in April (down 8.3% over one month). If energy prices stabilise at current levels, they should boost general inflation over the second half of 2016 (by about 0.7 percentage points).

The category "Housing, water, electricity, gas and other fuel" (-3.1% over one year in May against -0.6% in December 2015) is currently the one driving down the annual inflation rate, ahead of transport (-1.6% over one year in May). The increasingly marked decline in prices relating to housing expenditure is mainly due to recent falls in gas and electricity prices and by more moderate price hikes for water supply and residential rents.

## Foreign trade

## Current account surplus in decline

Current account balance



Sources: BCL, STATEC

## Trend chart

	Sep-15	Oct-15	Nov-15	Dec-15	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Average over the last three months	Same period previous year
Annual variations in %, except where otherwise indicated											
<b>Activity</b>											
Industrial output per working day, in volume	-0.9	2.0	6.3	-0.8	5.6	3.2	-3.7	3.4	...	1.0	3.0
Construction output per working day, in volume	1.4	-1.7	-0.2	-3.3	2.0	13.4	0.4	0.8	...	4.8	-3.8
Turnover by volume of total retail trade	1.0	1.6	0.8	-6.9	-3.4	-2.4	-1.3	...	...	-2.4	1.7
<b>Prices, wages</b>											
Consumer price index (NCPI)	0.5	0.5	0.8	1.1	0.5	0.2	0.0	0.1	0.0	0.0	0.4
Underlying inflation	1.8	1.7	1.8	1.9	1.1	1.1	1.0	1.1	1.0	1.1	1.2
Oil product index	-16.4	-15.6	-13.1	-10.9	-10.3	-15.3	-16.1	-17.3	-16.4	-16.6	-9.8
Industrial producer price index	-1.5	-2.2	-2.0	-3.4	-1.3	-1.8	-3.1	-2.7	...	-2.5	-0.3
Construction price index <sup>1</sup>	1.0	1.0	1.0	1.0	...	...	...	...	...	1.0	1.4
Average wage bill, per person (National accounts)	0.6	1.3	1.3	1.3	0.2	0.2	0.2	...	...	0.2	0.9
<b>Foreign trade</b>											
Exports of goods (volume)	9.9	7.1	12.9	4.0	-1.4	9.2	2.2	6.9	...	6.1	0.5
Imports of goods (volume)	-5.3	-6.7	-6.4	-3.5	-0.7	-0.1	-3.7	-1.5	...	-1.8	-2.4
<b>Employment, unemployment</b>											
Domestic number of employees	2.9	3.0	2.6	2.7	3.3	2.9	2.9	2.9	2.8	2.8	2.5
National employment	1.9	2.0	1.7	1.8	2.0	1.8	1.7	1.7	1.7	1.7	1.9
Unemployment rate (% of working population, seas. adj.)	6.7	6.7	6.7	6.7	6.5	6.5	6.5	6.6	6.5	6.5	6.9

Source: STATEC

Data yellow coloured are estimates

<sup>1</sup> Estimations based on half-yearly data

## Indicators

	Variation on previous quarter in %					
	2014 Q4	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 Q1
Eurozone- Growth in volume of GDP (European Commission)	0.4	0.6	0.4	0.3	0.3	0.5
Luxembourg - Growth in volume of GDP (STATEC)	3.3	-0.2	1.1	1.1	1.5	0.7
	Annual variation in %					
	2012	2013	2014	2015	Forecast 2016	Forecast 2017
Luxembourg - Growth in volume of GDP (STATEC)	-0.8	4.3	4.1	4.8	3.1	4.6
GDP at current prices 2015: EUR 52 113 million						
Minimum monthly salary (since 01/01/2015): EUR 1 922.96						
Current account balance (2016 Q1): EUR 509 million						
Resident population (01/01/2016): 576 249						
Consumer price index (May) - base January 1 <sup>st</sup> 1948: 830.96						
Half-yearly average of the index linked to base as at January 1 <sup>st</sup> 1948: 826.37						
Estimated deadline for next salary indexation: 1 <sup>st</sup> quarter 2017						

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