

## GDP grows 2.1% in 2013

With GDP rising 0.7% in the last quarter of 2013, economic growth for the year as a whole was a little over 2%. Non-financial services, manufacturing and construction largely sustained activity in late 2013, but financial services unfortunately did exhibit the same momentum. 2014 will benefit from relatively high growth acquisition, which will see GDP grow more than in 2013.

### Momentum driven by non-financial services and the secondary sector in late 2013

Luxembourg GDP grew 0.7% over one quarter in the 4<sup>th</sup> quarter of 2013 (up 2.5% over one year). This brings economic growth to 2.1% for 2013 as a whole, after falling 0.2% in 2012.

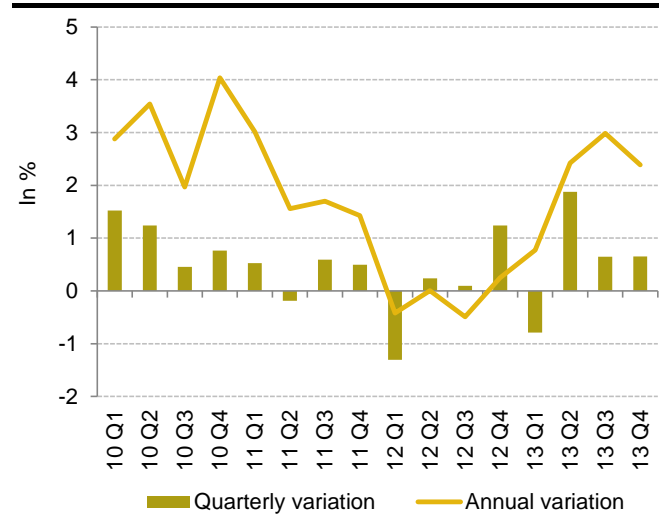
These results reinforce the trend towards recovery that started in late 2012 early 2013, with average growth of about 0.6% per quarter over the last four quarters.

The growth observed over the last quarter of the year is mainly due to the high contribution of net exports (exports less imports). These were significantly driven by exports of non-financial services and goods. In contrast, the balance of trade in financial services fell significantly (down 4% over one quarter). This trend – in line with the decline in added value reported by the financial sector over the same period – is somewhat worrying, even if it does not point to a sluggish trend (there was indeed a fall in the third quarter, but this was much more limited). Trade in non-financial services thus rose considerably in late 2013 (the third-quarter figures have also been revised upwards). The most favourable trends were observed in licenses and patents, certain transport services and IT services.

The secondary sector – manufacturing and construction – had recovered somewhat in the second and third quarters and this trend picked up considerably over the last few months of the year. Initial information available in early 2014 on these branches suggests that they will make an even more positive contribution in the first quarter of the current year.

Investment fell sharply in the 4<sup>th</sup> quarter, but – as is regularly the case – this trend was mainly due to transactions involving aeroplanes and satellites (which are very volatile)

## GDP in volume



Source: STATEC

If the data is adjusted to take account of these non-cyclical effects, investment has been relatively stable over the last few quarters.

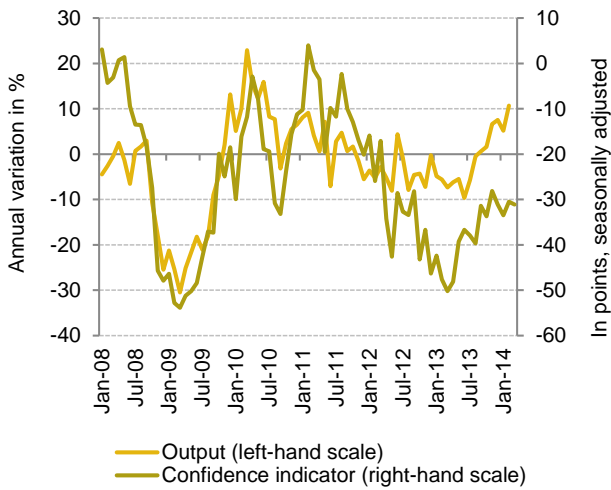
Household consumption grew relatively well in the second half of 2013, but the figures for the start of 2013 have been revised downwards. All in all, it rose just 1.8% over 2013 as a whole, i.e. less than that for the resident population (over 2%). In other words, per capita consumption fell last year.

### Relatively high growth acquisition in 2014

The figures currently available indicate growth acquisition of 1.3% in 2014 (due to GDP stabilising at its level in the fourth quarter of 2013). This growth acquisition at the end of the fourth quarter is quite high, with 2007 being the last year to see such a high figure. With average growth of some 0.6% per quarter – an assumption that is far from unrealistic because it corresponds to the pace of expansion observed over 2013 – GDP growth will be close to 3% over 2014 as a whole.

## Manufacturing

Output and confidence in the manufacturing sector



Source: STATEC

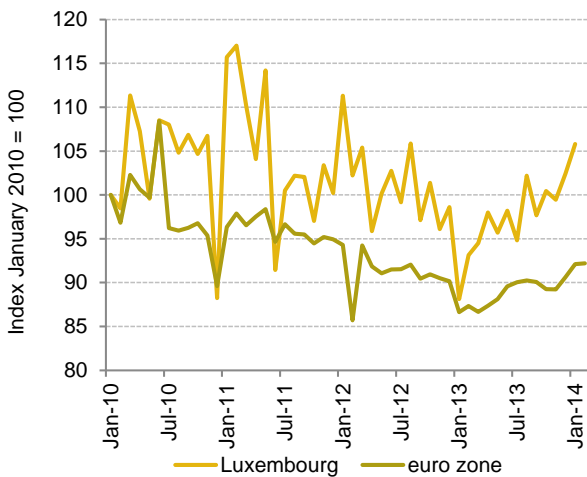
## A late but pronounced recovery

After a rally dating back to the second half of 2013, industrial output has continued to benefit from tailwinds in early 2014. Over the first two months of the year, it rose 8% on the same period in 2013. This momentum benefited the vast majority of the various sectors comprising Luxembourg industry and is in line with the renewed confidence revealed by economic surveys among manufacturing companies.

This rally in industrial output in Luxembourg comes with some delay compared to the trend elsewhere in the euro zone, where industrial output started recovering in late 2012 early 2013. Since mid-2013 however, Luxembourg output has made remarkable progress and is now one of the most dynamic.

## Construction

Construction output



Source: Eurostat (seasonally adjusted figures)

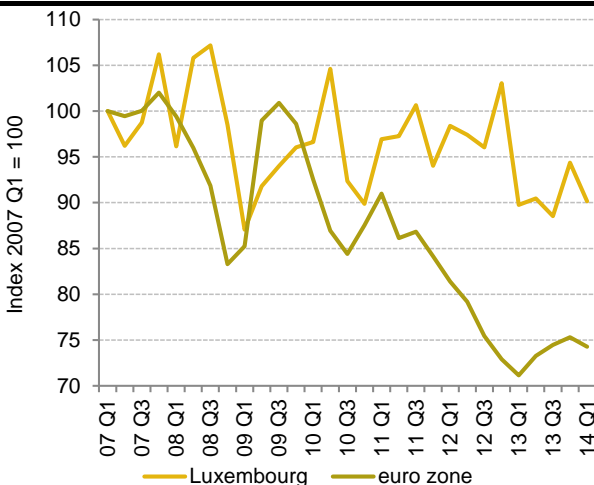
## The sector gets back on track

Output in the construction sector rose over 20% over one year in January 2014. This impressive result is due partly to the fact that output was exceptionally low in January 2013, because of extremely unfavourable weather conditions in particular (which severely penalised activity in the construction and civil engineering sectors over the whole first quarter), but it also contains signs of a cyclical improvement. Seasonally adjusted figures show a very significant upward trend since the second quarter of 2013 and this picked up even more in early 2014. The cyclical nature of this recovery is boosted by a simultaneous improvement in the results of opinion surveys, with growing optimism among businesses observed up to March 2014 (the latest data available).

Output also seems to be recovering across Europe, which, although as yet timid, is an encouraging trend after falling for 6 years in a row.

## Consumption

New registrations of private cars



Sources: SNCT, STATEC (seasonally adjusted figures)

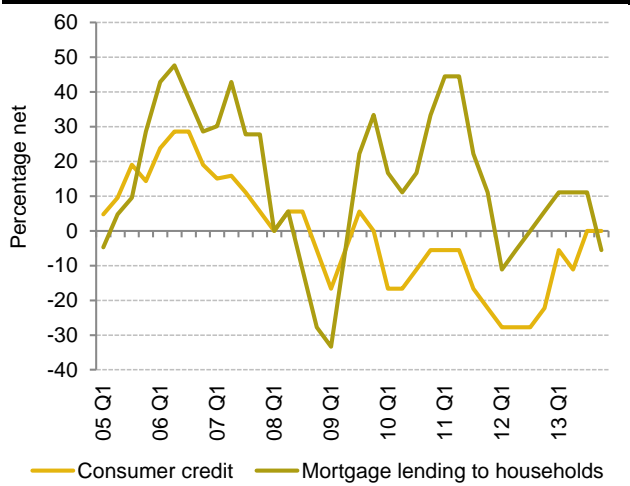
## Registrations: A disappointing 1<sup>st</sup> quarter

Drivers did not rush out to buy new cars in the first quarter of 2014. Luxembourg registrations were at the same low level as a year earlier, down in seasonally adjusted terms compared to the fourth quarter of 2013. The prospect of a VAT hike in 2015 could have boosted early purchases, but this response has not yet been observed in the statistics (it is, however, likely to happen over the coming quarters).

In the euro zone, registrations remain relatively well-placed. Despite a downturn in the first quarter (due mainly to a technical phenomenon affecting the Netherlands), they have risen over 5% over one year. The largest rises were observed in southern euro-zone countries.

### Financial sector

#### Household loan applications in Luxembourg



Sources: BCE - STATEC (centred moving averages over 3 quarters)

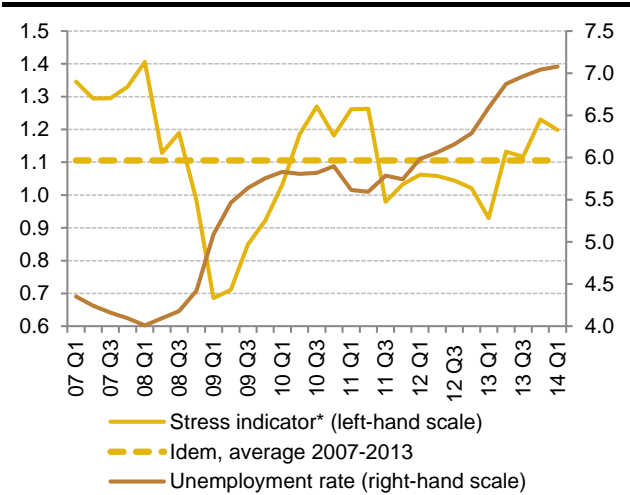
### Contrasting trends in lending, which is generally sluggish

According to the results of a survey on the distribution of bank loans, loan applications from households seem to have stabilised in late 2013 early 2014. Luxembourg banks responding to the survey in particular reported a pronounced fall in consumer loan applications between mid-2011 and early 2013, but this trend seems to be over. However, the results indicate a certain fall-off in demand for mortgages in 2014.

Regarding business loans, banks globally report that negative factors are still weighing on demand for lending, but lending criteria have also tightened slightly.

### Labour market

#### Voltage display on the labour market and unemployment



Source: ADEM, STATEC calculations (seasonally adjusted figures)  
 \* Ratio: New job offers compared to new unemployment claims:

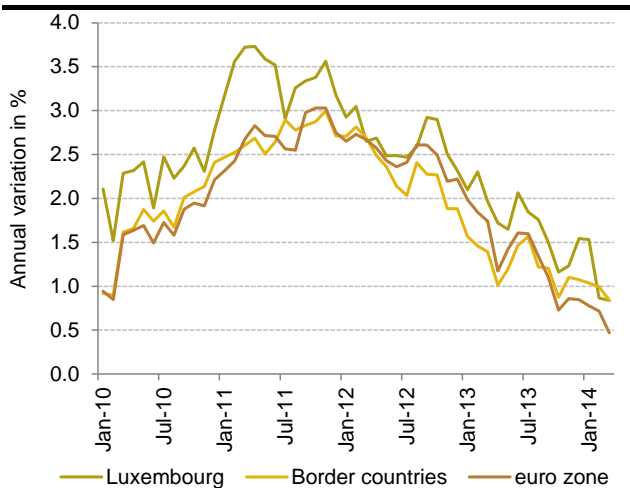
### Unemployment growth slows

In March 2014, the unemployment rate remained stable at 7.1% of the working population (the rate observed since December 2013, corresponding to about 18,000 registered as unemployed).

This stabilisation is primarily due to the rise in those on job schemes since January 2014, especially those aimed at young people (CAE - employment support contract and CIE - employment initiation contract). There was also a less pronounced rise in the total number of people registered with ADEM (job seekers + people in job schemes), probably linked to the improving economic climate. Tensions on the labour market have been more pronounced since mid-2013, as shown by the ratio between new job offers notified to ADEM and new unemployment claims. However, these tensions are still too low to bring unemployment down significantly. Furthermore, these tensions were at their highest in January 2014, but they substantially eased up to March due to the reduced influx of job offers.

### Price

#### Consumer prices



Sources: Eurostat (HCPI), STATEC (HCPI for Luxembourg)

### Gap with neighbouring countries narrowing

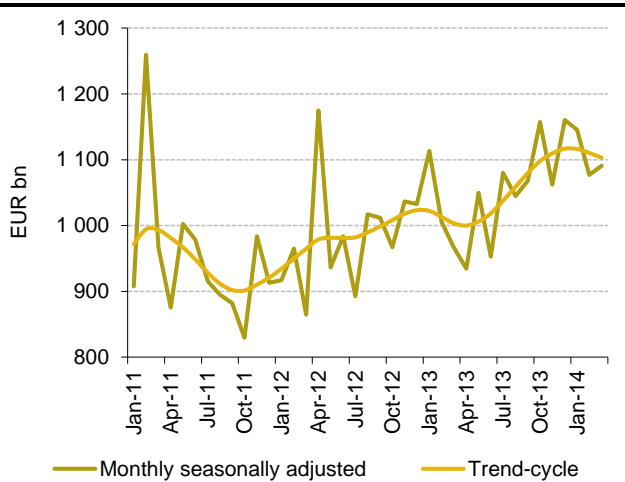
The inflationary gap between Luxembourg and its neighbours has narrowed considerably over recent months, and has been almost nil since February 2014. Narrowing this gap (0.5 percentage points on average over the last 5 years) was to a large extent due to the recent easing off of effects linked to administered prices (which significantly drove Luxembourg inflation in 2013). The gap with the rest of the euro zone remains significant, due in particular to the deflationary trends observed in some Member States (Greece, Spain and Portugal). As elsewhere in Europe, inflation is also falling in Luxembourg because there is less pressure from food and energy prices.

It is interesting to note that inflation expectations among households continue to fall throughout the euro zone (reaching a three-year low in March), but that they have been trending upward in Luxembourg in recent months, probably due to the prospect – recently confirmed – of a VAT hike in 2015.

**Public finances**

**Public receipts relatively well-placed in early 2014**

**Tax receipts – monthly figures**



The first quarter of 2014 was marked by a slightly sluggish rise in public receipts (up 2% over one quarter, against +6% on average over the two previous quarters). Nevertheless, they are up significantly by about 7% (EUR 230 million) compared to early 2013. This rise is mostly due to the increase in corporation tax (up 27% to EUR 131 million), and a rise in taxes levied on households (up 9% to EUR 96 million). VAT receipts rose only slightly, linked in particular to a pick-up in VAT refunds in early 2014 (negatively affecting net VAT revenue). This technical phenomenon is likely to fade later and the improving economic climate should boost VAT (and other) receipts over the rest of 2014. VAT receipts from e-commerce, which now account for almost a third of all VAT receipts, rose 15% over one year in the first quarter.

Sources: Tax authorities, STATEC

**Trend chart**

	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-13	Mar-14	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	-5.7	-0.6	0.6	1.5	6.6	9.1	5.1	...	...	6.9	-4.1
Construction output per working day, in volume	-4.3	-4.8	0.4	-0.7	3.1	5.0	24.8	...	...	9.8	-11.1
Turnover by volume of total retail trade	2.2	1.9	-0.9	-0.5	0.7	-1.4	1.4	...	...	0.1	-0.4
<b>Prices, wages</b>											
Consumer price index (NCPI)	1.8	1.8	1.5	1.2	1.2	1.5	1.5	0.9	0.8	1.1	2.1
Underlying inflation	2.0	2.3	2.1	2.0	1.9	2.0	2.1	1.6	1.5	1.7	2.2
Oil product index	-0.1	-3.8	-4.7	-7.9	-6.2	-3.6	-4.7	-6.8	-6.4	-6.0	1.3
Industrial producer price index	-3.5	-3.3	-3.3	-3.2	-2.8	-2.6	-2.6	-3.6	...	-3.0	-0.9
Construction price index <sup>1</sup>	1.9	1.9	1.9	1.9	1.9	1.9	...	...	...	1.9	2.8
Average wage bill, per person (National accounts)	3.6	3.6	3.6	3.6	3.6	3.6	...	...	...	3.6	2.8
<b>Foreign trade</b>											
Exports of goods (volume)	0.6	-4.3	-2.7	3.6	4.1	12.9	12.7	...	...	9.7	-5.7
Imports of goods (volume)	-3.6	-5.6	-4.6	-4.8	-1.7	-1.6	-4.3	...	...	-2.6	10.5
<b>Employment, unemployment</b>											
Domestic number of employees	1.8	2.0	1.7	1.9	2.0	1.7	2.3	2.4	2.5	2.4	1.6
National employment	1.7	2.0	1.8	1.7	1.6	1.5	2.5	2.6	2.6	2.5	1.7
Unemployment rate (% of working population, seas. adj.)	7.0	6.9	7.0	7.0	7.0	7.1	7.1	7.1	7.1	7.1	6.6

Source: STATEC  
 Data yellow coloured are estimates  
<sup>1</sup> Estimations based on half-yearly data

**Indicators**

	Variation on previous quarter in %					
	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4
Eurozone- Growth in volume of GDP (European Commission)	-0.2	-0.5	-0.2	0.3	0.1	0.2
Luxembourg - Growth in volume of GDP (STATEC)	0.1	1.2	-0.8	1.9	0.6	0.7
	Annual variation in %					
	2009	2010	2011	2012	2013	Forecast 2014
Luxembourg - Growth in volume of GDP (STATEC)	-5.6	3.1	1.9	-0.2	2.1	2.7
GDP at current prices 2013: EUR 45 478 million						
Minimum monthly salary (since 01/10/2013): EUR 1 921.03						
Current account balance (2013 Q4): EUR 1 094 million						
Resident population (01/01/2014): 549 680						
Consumer price index (March) - base January 1 <sup>st</sup> 1948: 826.06						
Half-yearly average of the index linked to base as at January 1 <sup>st</sup> 1948: 823.00						
Estimated deadline for next salary indexation: 4 <sup>th</sup> quarter 2014						

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