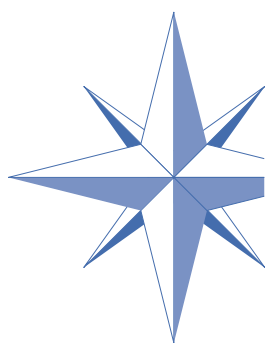


Autumn 2013

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# **Luxembourg Business Compass**

by KPMG and Luxemburger Wort

**Luxembourg Business Compass**

10th Survey Wave

October 2013

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## INTRODUCTION

In April 2009, top decision-makers at the largest companies in Luxembourg, as defined by the number of employees, were interviewed for the first time within the framework of the *Luxembourg Business Compass*. Using this instrument, the aim was to establish an economic indicator—for the first time ever—that could be employed to ascertain Luxembourg business leaders' expectations regarding the future economic trend in Luxembourg at regular intervals. The survey focuses particularly on how business leaders expect the Luxembourg economy will develop in the next 12 months, along with their expectations and plans for their own companies' future development. These core questions are supplemented by varying questions pertaining to business or politics.

In October 2013, the survey for the *Luxembourg Business Compass* was conducted for the tenth time. As with the prior survey waves, the INSTITUT FÜR DEMOSKOPIE ALLENSBACH was commissioned by KPMG S.A.R.L. to design the survey methodologically, develop the questionnaire in cooperation with the client, confidentially process the anonymous data collected and compile a report on the findings. After being notified about the survey in writing or by telephone, a total of 86 top decision-makers were interviewed using an online questionnaire in English in the time from October 2 to 14, 2013. As in all of the previous survey waves, it was also possible to draw a top-notch sample for the present survey: in about 16 percent of the cases, the interview was completed by the company owner him- or herself, while about three quarters of the respondents hold the position of CEO, CFO or COO at their companies (73 percent), and an additional 11 percent hold other executive positions.

The companies were selected based on the STATEC directory, "Les principaux employeurs au Luxembourg d'après l'effectif classés par branche d'activité économique de la NACE Rév.2, Situation au 1er janvier 2013 (édition juin 2013)." In drawing the sample, companies were selected from the different business sectors in line with these sectors' share of the gross domestic product in Luxembourg.

Within the different economic sectors, the largest companies—as determined by the number of employees—were included in the investigation.

The present report summarizes the most important findings of the study and presents them in graphic form. The report is supplemented by a basic volume of tables showing the responses to all questions in tabular form.

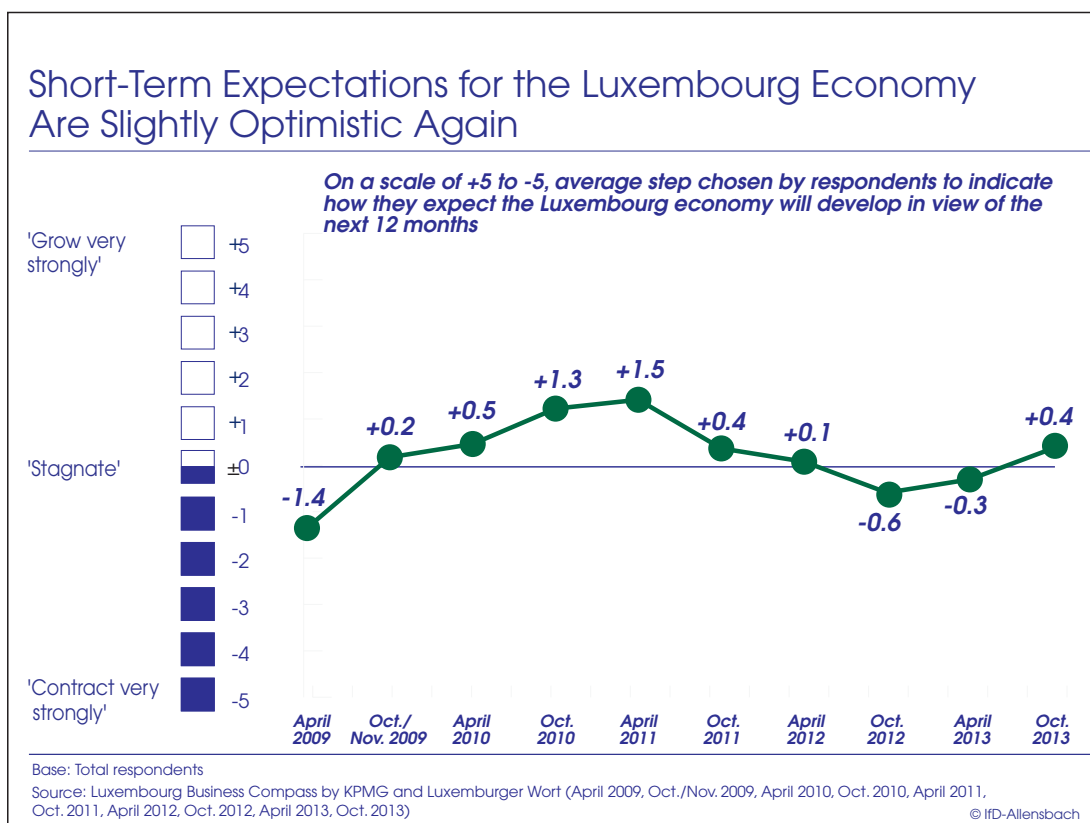
Allensbach on Lake Constance, INSTITUT FÜR DEMOSKOPIE ALLENSBACH  
October 22, 2013

## FINDINGS

### Entrepreneurs expect that the Luxembourg economy will again grow slightly over the next 12 months

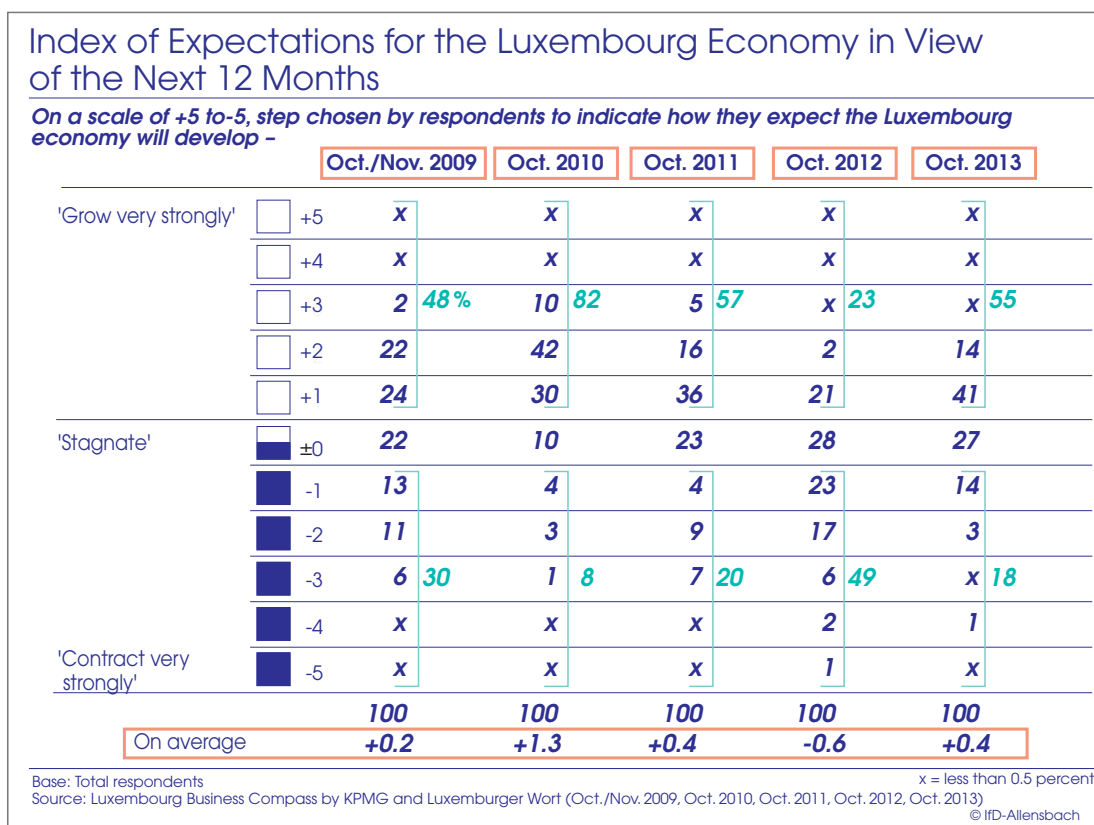
For the first time in two years, Luxembourg business leaders now expect that the country's economy will grow perceptibly over the next 12 months, thus continuing the positive trend which was already detected in the prior survey wave conducted in spring of this year. On an 11-step scale ranging from '-5' ("economy will contract very strongly") to '+5' ("economy will grow very strongly"), respondents chose an average value of +0.4. This figure represents an increase of 0.7 points on the scale in comparison to the value obtained in April 2013. Nevertheless, expectations are still considerably more cautious than they were in late 2010/early 2011 (Figure 1).

Figure 1



A more differentiated look at the findings obtained for the individual steps on the scale shows that strong economic growth over the next 12 months (steps 3, 4, or 5 on the scale) is still not expected by any of the decision-makers interviewed. At the same time, however, practically no one now anticipates a strong recessionary trend (steps -3, -4 or -5 on the scale). In comparison to the assessments given a year ago in October 2012, respondents' expectations are now relatively consistent, with more than two thirds of the business leaders interviewed expecting either slight growth or stagnation (Figure 2).

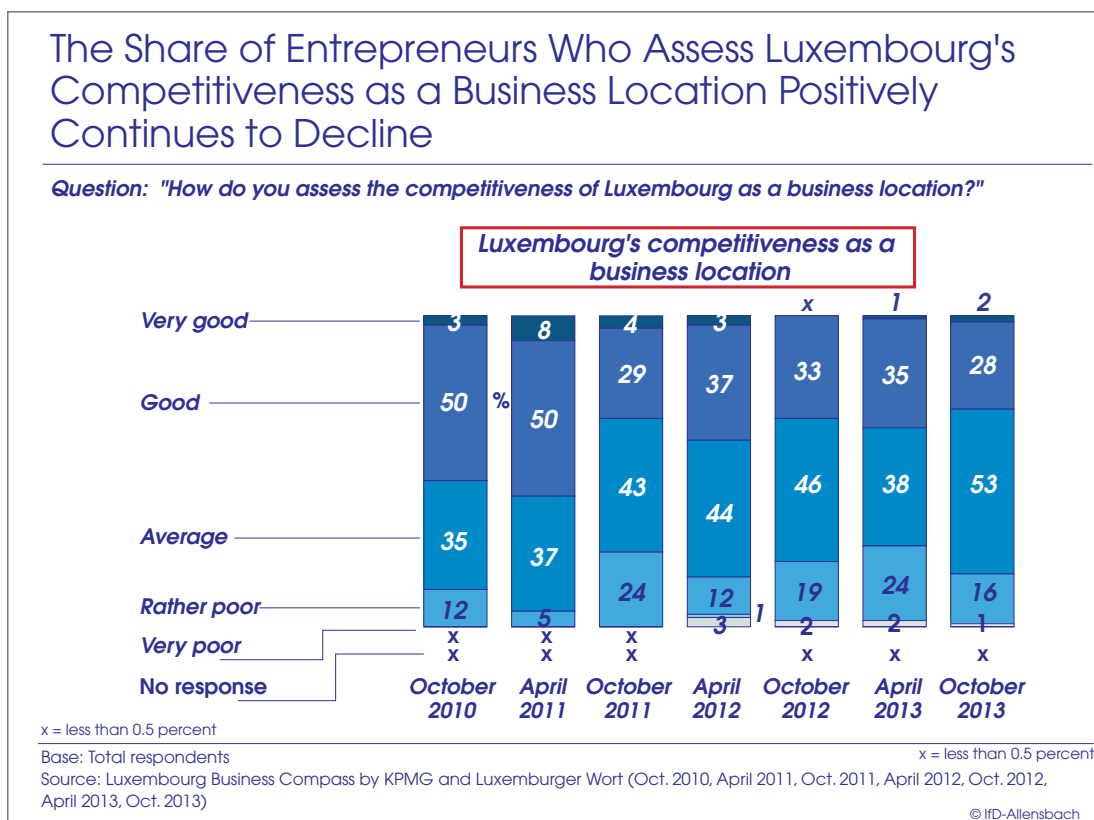
Figure 2



Luxembourg's competitiveness has suffered sustained damage: Negative trends particularly in connection with labor costs, political stability and the regulatory environment

In the eyes of Luxembourg entrepreneurs, Luxembourg's competitiveness as a business location has suffered sustained damage in the time since April 2011. Whereas assessments were still quite positive in April 2011, they took a clearly negative turn in October 2011 and have not recovered in the time since. A majority of business leaders currently view Luxembourg's competitiveness as a business location as only average, whereas the share who rate the country as good or even very good in terms of competitiveness has now dropped to 30 percent, which is the lowest rating obtained in any of the waves of the *Luxembourg Business Compass* conducted thus far (Figure 3).

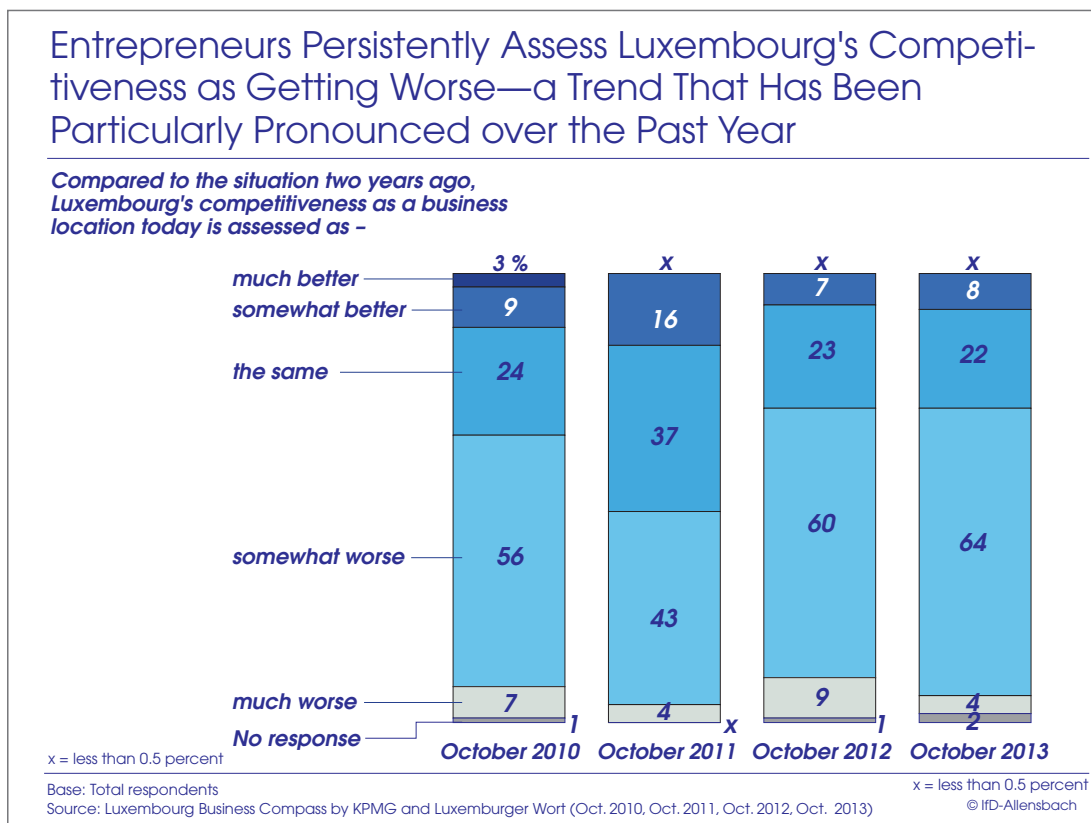
Figure 3





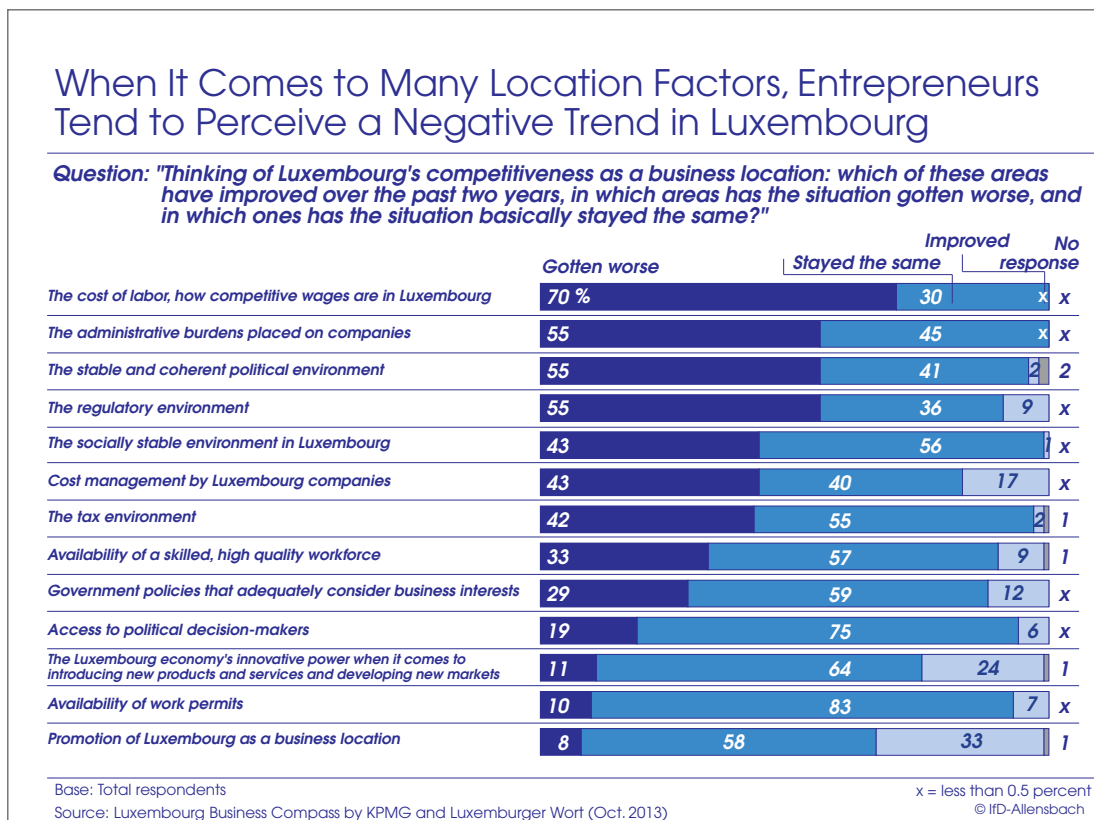
When asked directly, the majority of entrepreneurs say that Luxembourg's competitiveness as a business location has gotten worse over the past two years. 64 percent report that Luxembourg's competitiveness is somewhat worse today than it was two years ago, while 4 percent even say it is much worse. In contrast, none of the business leaders interviewed assess Luxembourg's competitiveness as much better and only few say it is somewhat better (8 percent). Of course, three years ago, business leaders also tended to say that Luxembourg's competitiveness was getting worse and not better. Over the past year, however, the impression that the country is losing ground in terms of competitiveness has become especially widespread among Luxembourg business leaders (Figure 4).

Figure 4



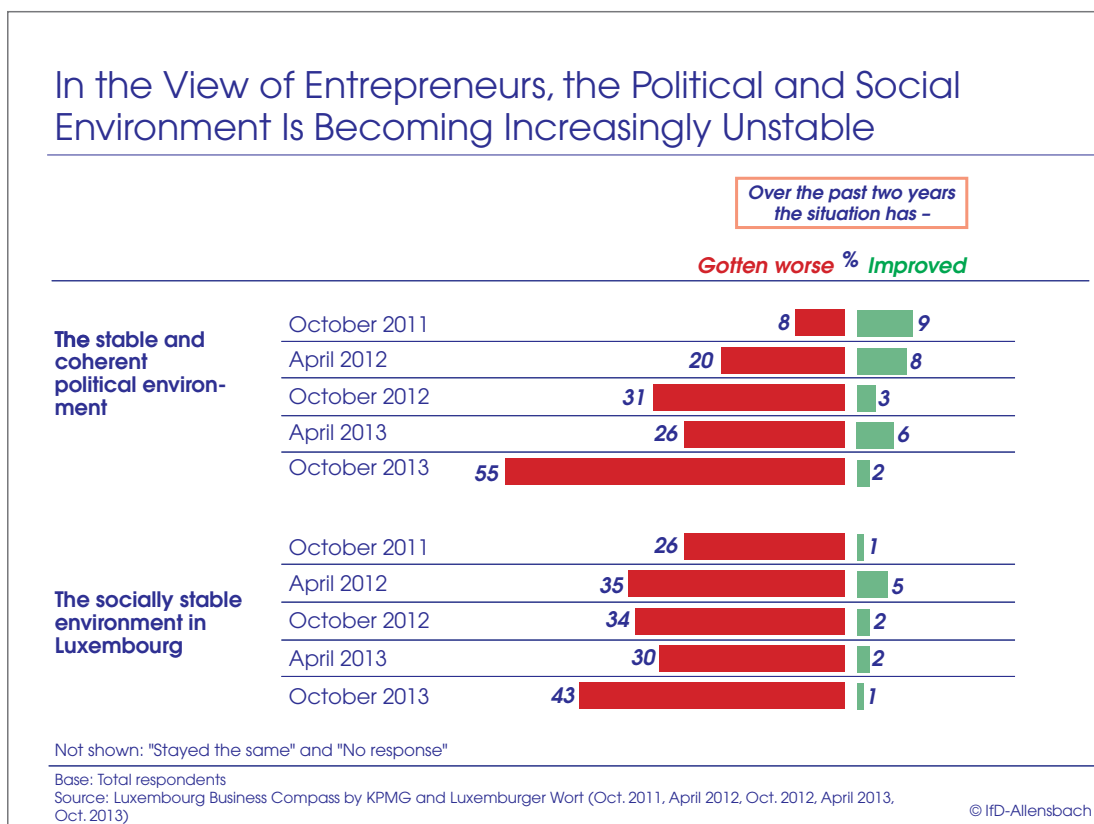
When asked specifically about the development of individual factors that contribute to Luxembourg's competitiveness as a business location, a majority of entrepreneurs perceive a negative trend in conjunction with labor costs, government regulations and the political environment: 70 percent consider labor costs in Luxembourg to be less competitive today than they were two years ago, and 55 percent say that the situation has worsened with respect to the regulatory environment, the stable and coherent political environment and the administrative burdens placed on companies. With respect to almost all of the other factors that contribute to Luxembourg's competitiveness as a business location, the majority generally perceives no change, whereas the remaining respondents tend to report negative developments more frequently than positive changes. The Luxembourg economy's innovative power and the promotion of Luxembourg as a business location are the only two factors considered to have developed positively on balance (Figure 5).

Figure 5



In comparison to the assessments given in prior survey waves, one especially striking finding obtained in the current survey is the growing conviction among Luxembourg entrepreneurs that both the political and social environments have become more unstable. The fact that more than half of the business leaders interviewed currently perceive a negative trend with respect to the stable and coherent political environment is understandable in view of the events leading up to the early elections. Nevertheless, the extent of this shift is remarkable (Figure 6).

Figure 6



In contrast, assessments of the trend regarding the innovative power of the Luxembourg economy are more positive on balance than in any of the prior survey waves (Figure 7). It stands to reason that this positive assessment is connected to the more optimistic outlook among business leaders when it comes to the expected development of the Luxembourg economy (cf. Figure 1). With respect to cost management, however, Luxembourg companies rate themselves poorly—in fact, the assessment given in the present survey is worse on balance than it was in any of the prior waves (Figure 8).

Figure 7

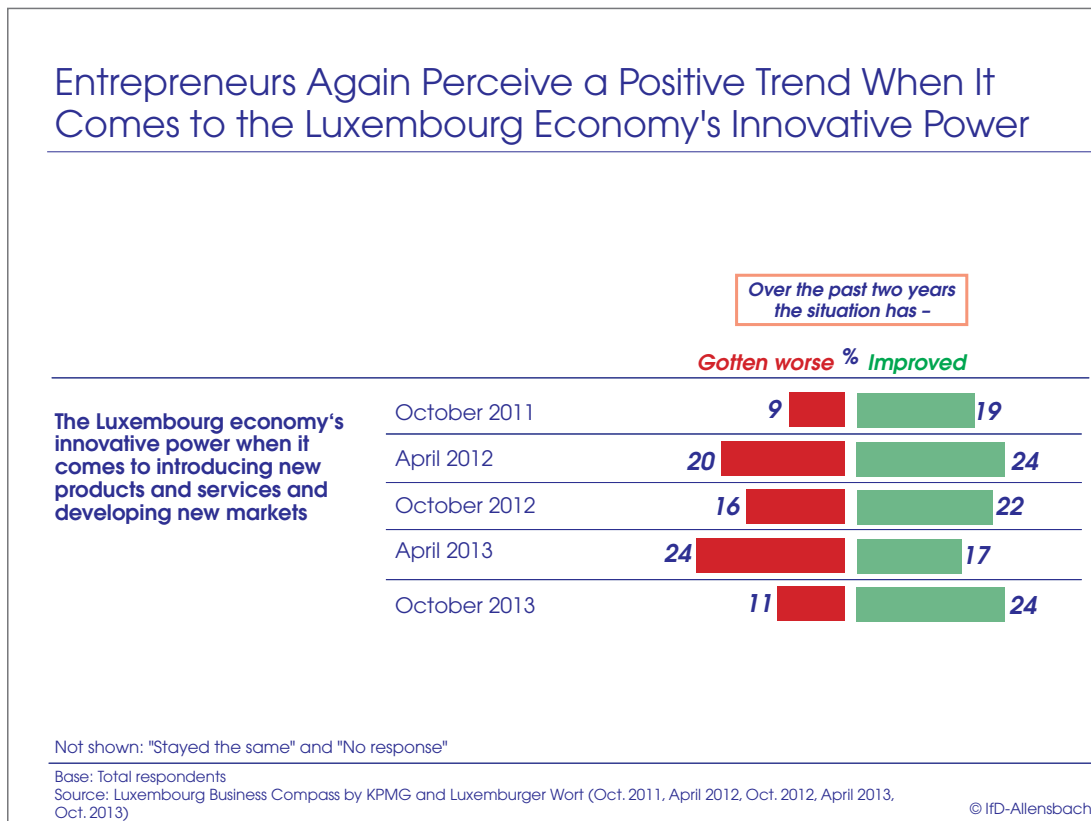
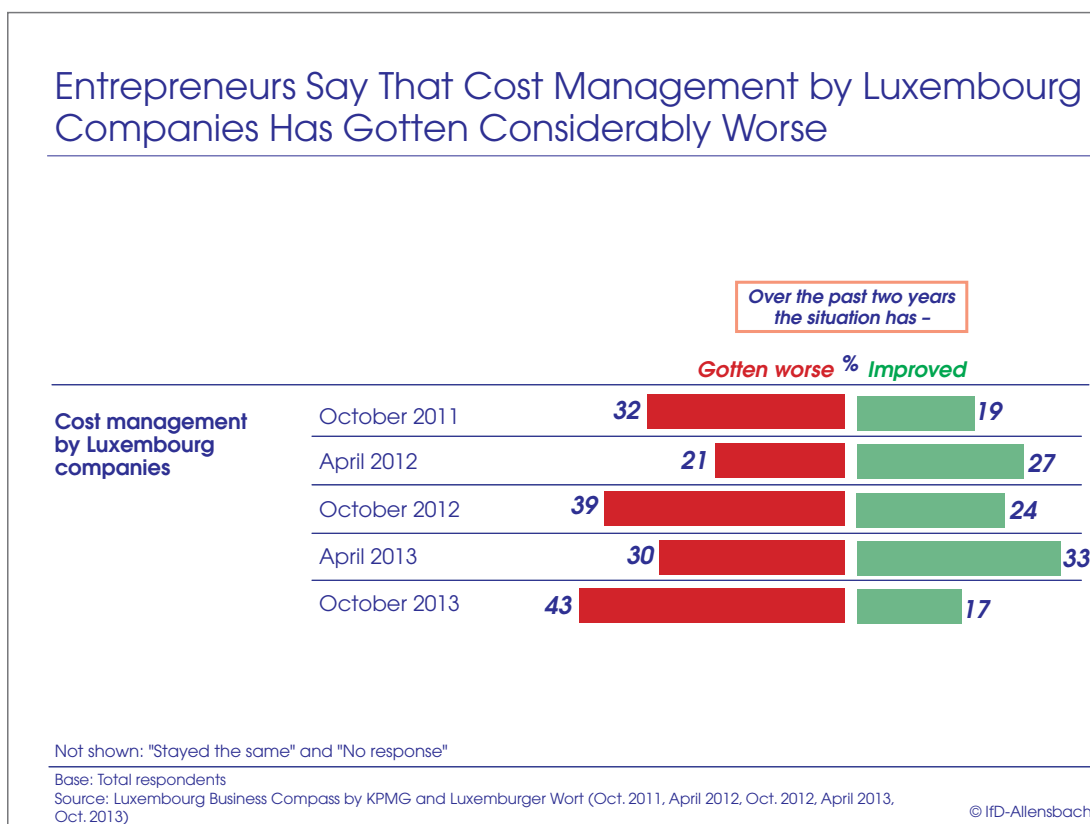
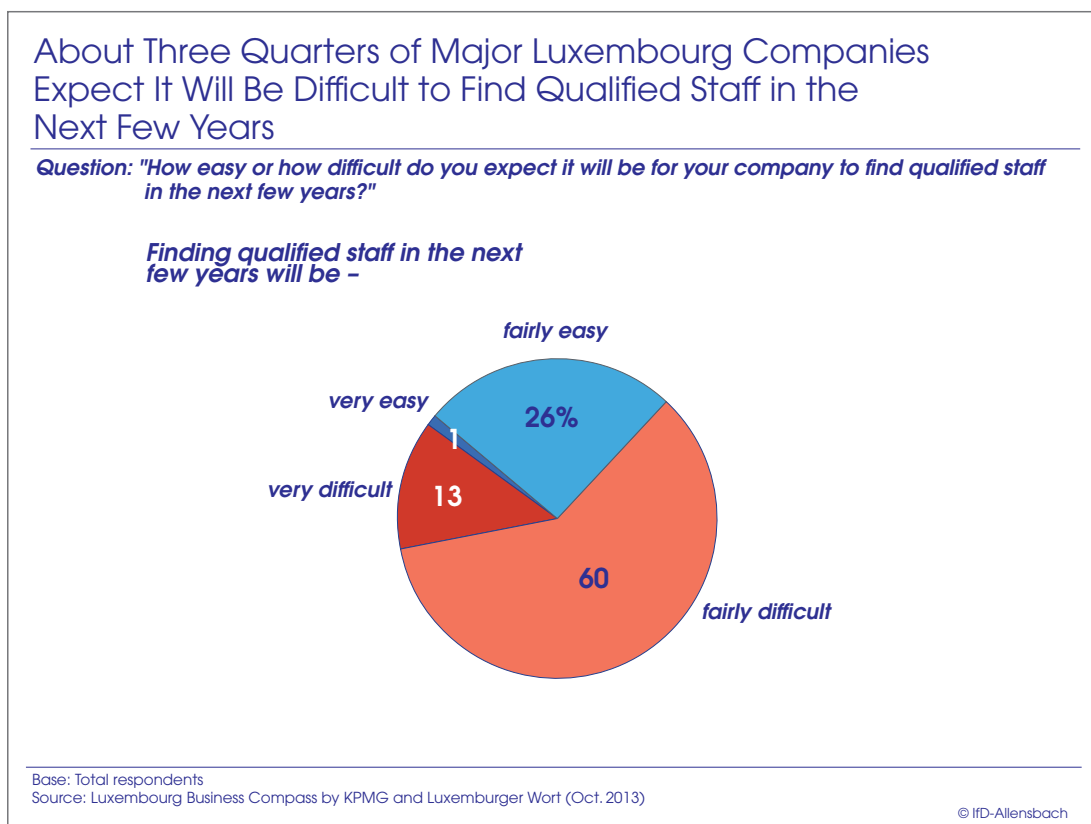


Figure 8



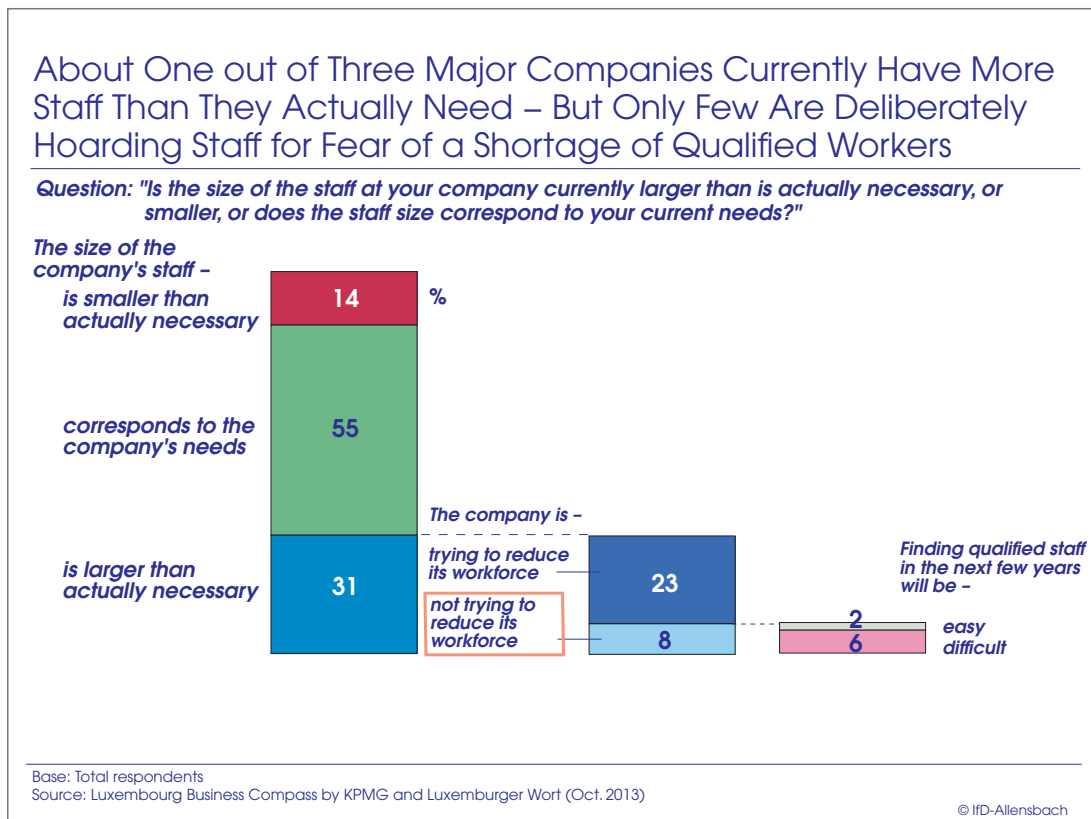
When it comes to the availability of a skilled, high quality workforce, one third of Luxembourg businesses currently complain that the situation has gotten worse over the past two years (Figure 5). In future, the decision-makers interviewed also anticipate difficulties in finding highly skilled workers. About three quarters expect it will be difficult for their companies to find qualified staff in the next few years, including 13 percent who even expect finding qualified staff will be very difficult (Figure 9).

Figure 9



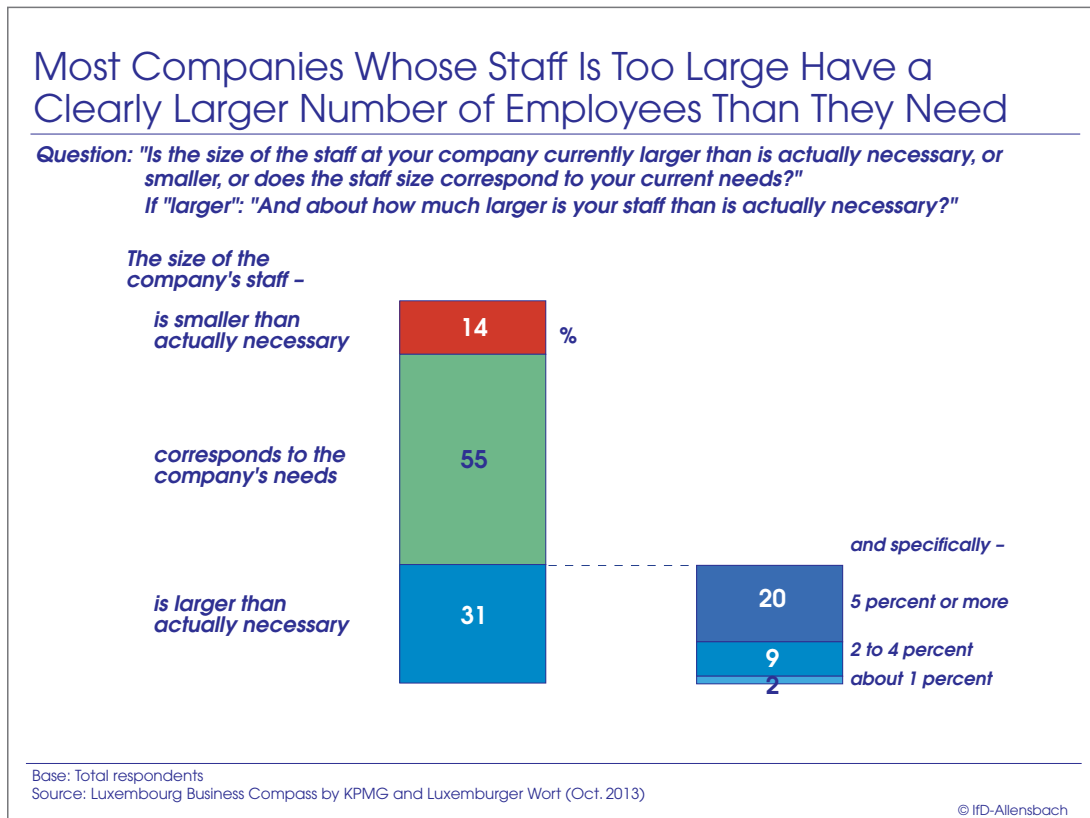
Nevertheless, the anticipated shortage of qualified workers is only prompting a small share of Luxembourg companies to "hoard" staff as a precautionary measure. Most companies say that the size of their staff corresponds to their current needs (55 percent). Still, at just under one out of three companies, the current staff is larger than is actually needed. Most of these companies are, however, trying to reduce their workforce. Only 8 percent of Luxembourg companies say their staff is too large for their needs and are not currently trying to reduce their workforce. Among these, 6 percent are convinced that finding qualified staff will be (very) difficult in future (Figure 10).

Figure 10



In the case of those companies that have overly large staffs, the number of employees generally clearly exceeds their needs. 31 percent of Luxembourg companies say that their company's staff is currently too large: of these, 20 percent state that the staff is 5 percent larger than necessary or more (Figure 11).

Figure 11

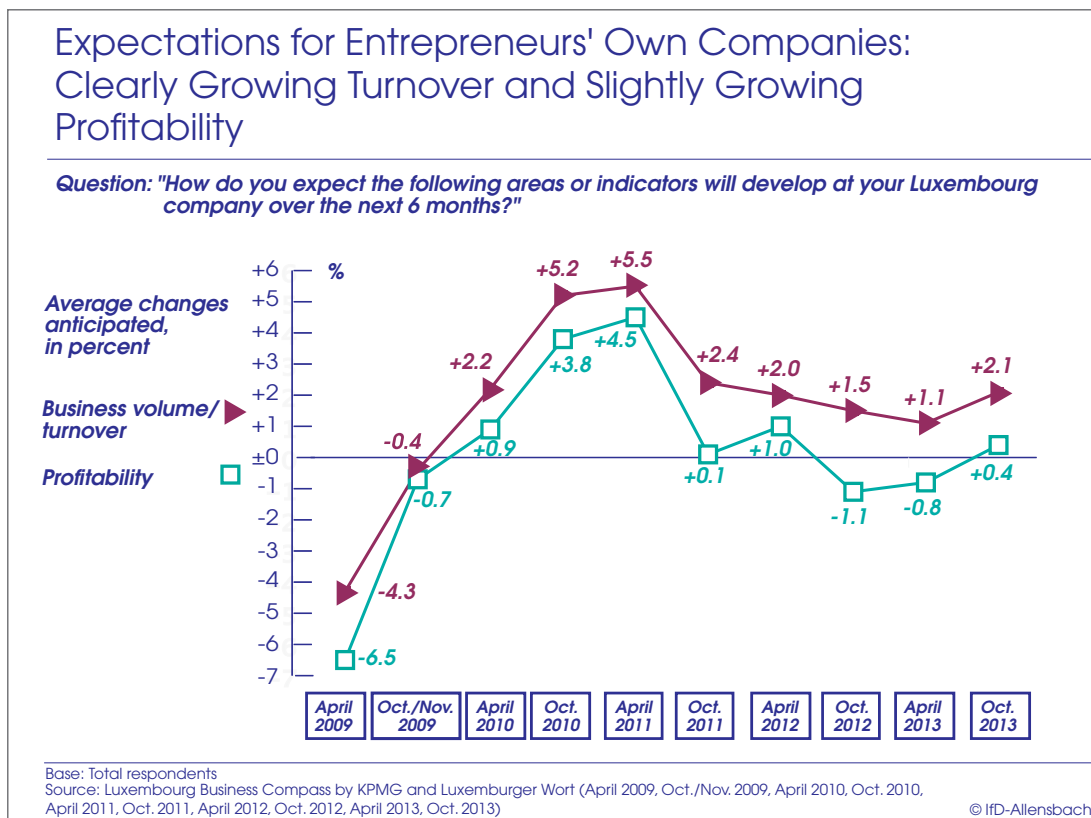




### Luxembourg companies expect growing turnover and investments – with no positive effect on the number of employees

On the whole, Luxembourg business leaders' expectations regarding the development of key economic indicators at their own companies are a reflection of their more optimistic prognosis for the overall economic development in Luxembourg (cf. Figure 1). In contrast to recent survey waves, respondents now anticipate a substantially greater increase in business turnover over the next 6 months—specifically, an average increase of +2.1 percent. This the first time that this indicator has increased following its steady decline in the past four consecutive survey waves. In addition, business leaders now once again anticipate an increase in profitability at their companies, even if the expected increase (+0.4 percent on average) is somewhat small (Figure 12).

Figure 12



When it comes to investment plans, the findings also point to a continued upward trend. On average, the decision-makers interviewed assume that the investment volume at their companies will increase by +2.9 percent over the next 6 months, a level that has not been higher since April 2011.

With respect to the number of employees at their own companies, however, there are no signs of a similarly positive trend. On the contrary: the leaders of Luxembourg's largest companies even anticipate a slight decline in the number of employees over the next 6 months (-0.3 percent on average, Figure 13). Moreover, 36 percent of the business leaders interviewed say that their companies are trying to reduce their workforce, while only 27 percent are currently looking for additional staff (Figure 14).

Figure 13

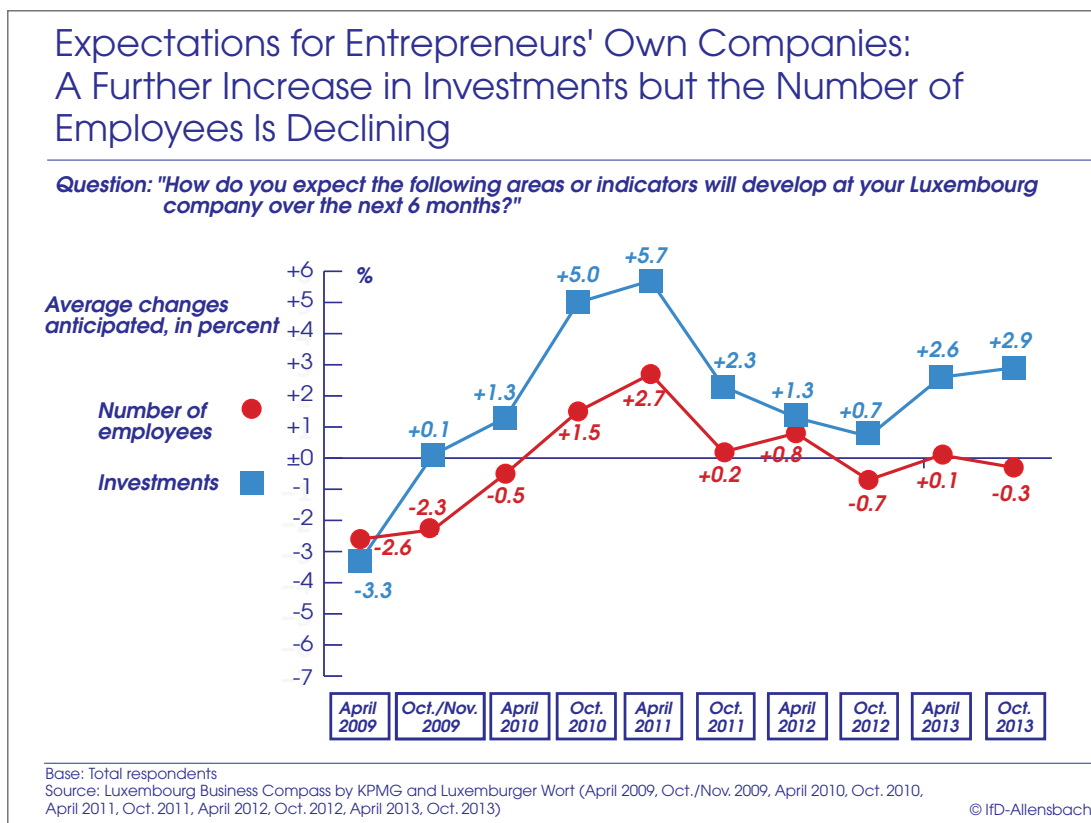
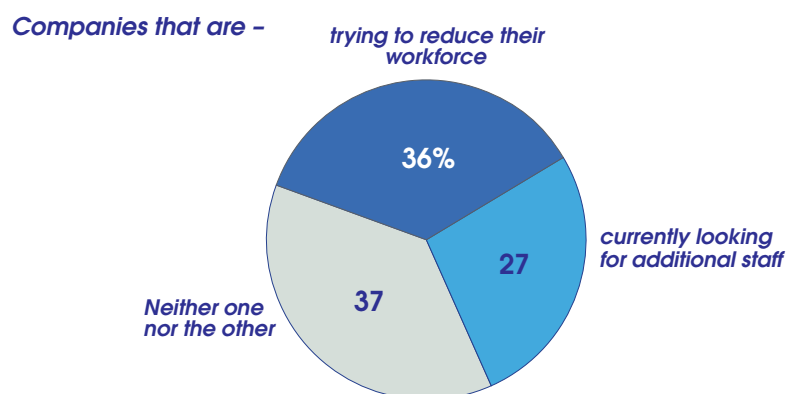


Figure 14

## More Than One Third of Major Luxembourg Companies Are Currently Trying to Reduce Their Workforce

**Question:** "What's the situation in your company at the moment: Are you currently looking for additional staff, or are you currently trying to reduce your workforce, or are you doing neither one nor the other?"



Base: Total respondents

Source: Luxembourg Business Compass by KPMG and Luxemburger Wort (Oct. 2013)

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A more differentiated analysis of Luxembourg business leaders' expectations regarding the short-term development of key economic indicators at their own companies shows that a clear majority of entrepreneurs anticipate growing turnover and investments, including 13 percent who expect investment gains of 10 percent or more. When it comes to the number of employees, however, the expected development is clearly less consistent, with essentially equal shares of entrepreneurs saying that they expect the number of employees at their companies will either increase, decrease or stay the same (Figure 15).

Figure 15

A Majority Expects Increases in Turnover and Investments				
Question: "How do you expect the following areas or indicators will develop at your Luxembourg company over the next 6 months?"				
	Profitability %	Business volume/ turnover %	Investments %	Number of employees %
<b>Increase:</b>	<b>37</b>	<b>63</b>	<b>57</b>	<b>35</b>
+20% or more	1	1	5	x
+10% to less than +20%	2	7	8	x
+5% to less than +10%	19	18	21	9
less than +5%	15	37	23	26
<b>No change</b>	<b>30</b>	<b>15</b>	<b>26</b>	<b>33</b>
<b>Decrease:</b>	<b>33</b>	<b>22</b>	<b>17</b>	<b>32</b>
less than -5%	19	13	7	23
-5% to less than -10%	7	6	6	6
-10% to less than -20%	4	1	2	1
-20% or more	2	2	2	2
No response	1	x	x	x
	100	100	100	100
<b>On average</b>	<b>+0.4</b>	<b>+2.1</b>	<b>+2.9</b>	<b>-0.3</b>

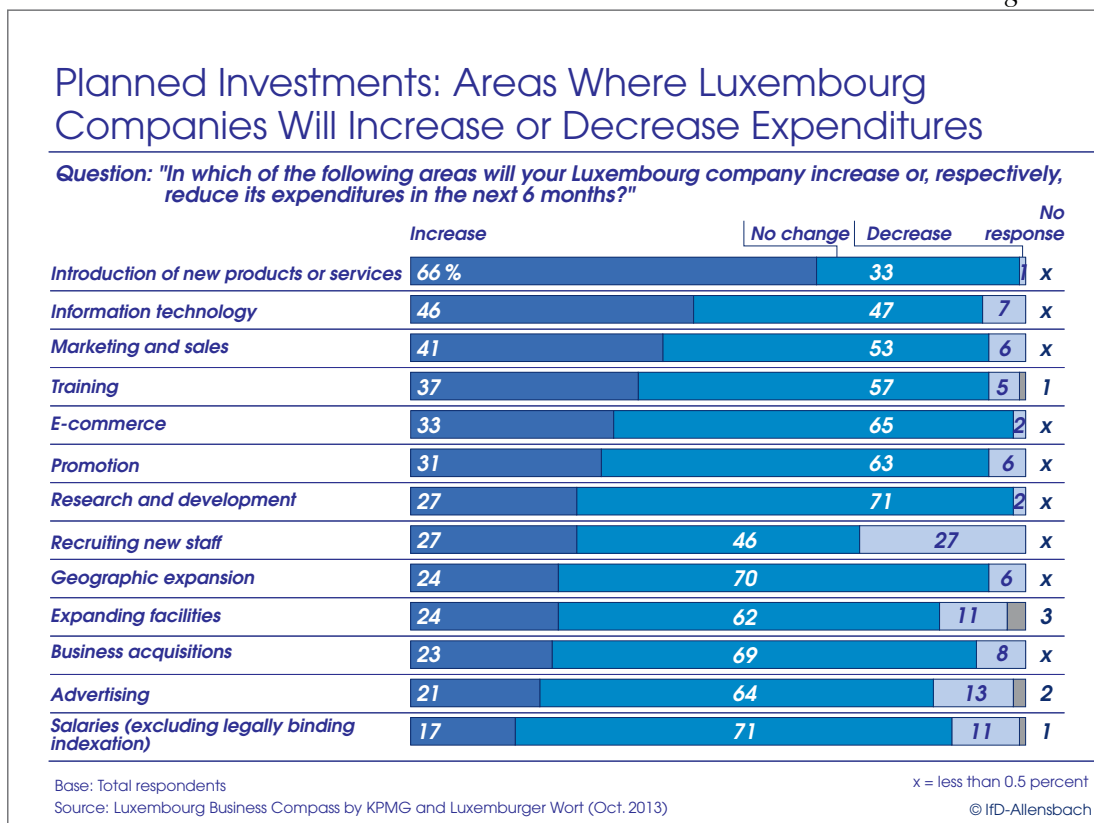
x = less than 0.5 percent  
Source: Luxembourg Business Compass by KPMG and Luxemburger Wort (Oct. 2013)

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For all areas of operations, companies are generally planning to increase rather than reduce their budgets—except when it comes to recruiting new staff

The largest Luxembourg companies are generally planning to increase rather than reduce their budgets for practically all areas of operations over the next six months. A particularly large share anticipates increases in connection with the introduction of new products or services (66 percent). In contrast, the companies' plans show relatively great divergence with respect to expenditures for recruiting new staff. 27 percent of the companies surveyed are planning to increase their budgets for staff, while another 27 percent expect they will reduce their expenditures for recruiting new staff and the remaining companies are not planning to make any changes at all in this area. This is also the only area in which the share of companies that are planning to increase their budgets does not outweigh the share of companies that anticipate declining budgets (Figure 16), a finding which again reflects business leaders' highly heterogeneous and relatively pessimistic expectations with regard to the number of employees at their own companies (cf. Figure 15).

Figure 16

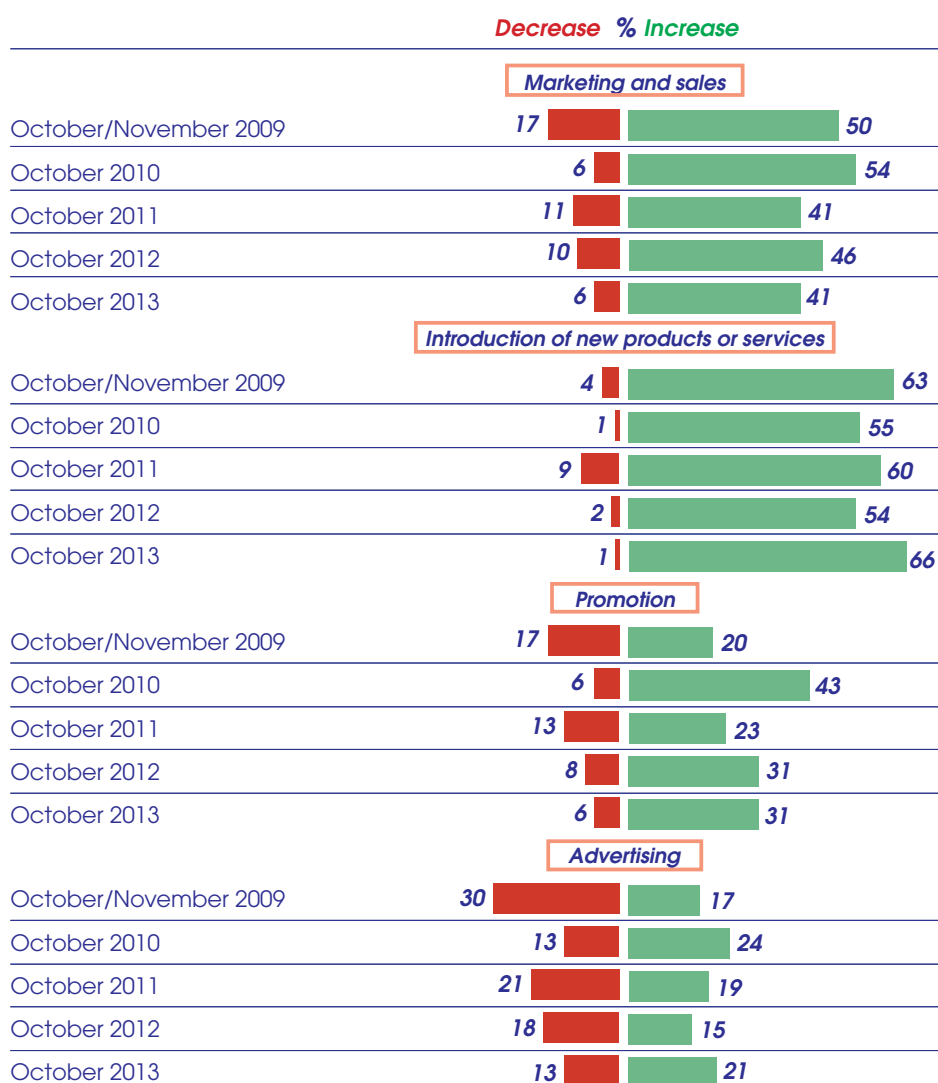


Compared to the budget plans ascertained last year, the share of companies that are now planning to increase their budgets for introducing new products and services is considerably greater on balance. It is reasonable to assume that this finding is connected to business leaders' relatively positive assessment of the development of the Luxembourg economy's innovative power (cf. Figure 5). In contrast, the planned budgets for promotion and advertising are only expected to increase slightly more than was the case in the past two years, while the budgets for marketing and sales are expected to increase at essentially the same level (Figure 17).

Figure 17

## Changes in Companies' Planned Expenditures – I: Budgets for Introducing New Products Increase Strongly

**Question:** "In which of the following areas will your Luxembourg company increase or, respectively, reduce its expenditures in the next 6 months?"



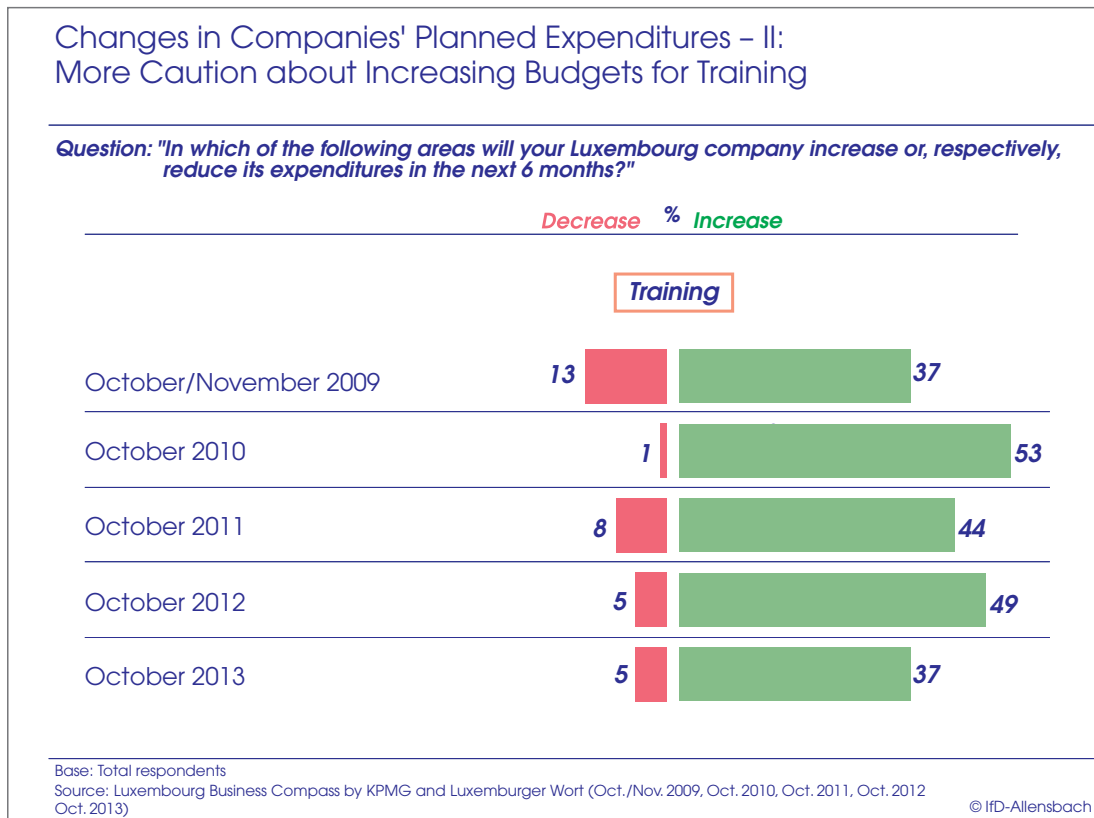
Base: Total respondents

Source: Luxembourg Business Compass by KPMG and Luxemburger Wort (Oct./Nov. 2009, Oct. 2010, Oct. 2011, Oct. 2012, Oct. 2013)

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With regard to planned expenditures for training, the largest Luxembourg companies are more cautious about increasing their budgets in this area now than they have ever been since the year 2009 (Figure 18).

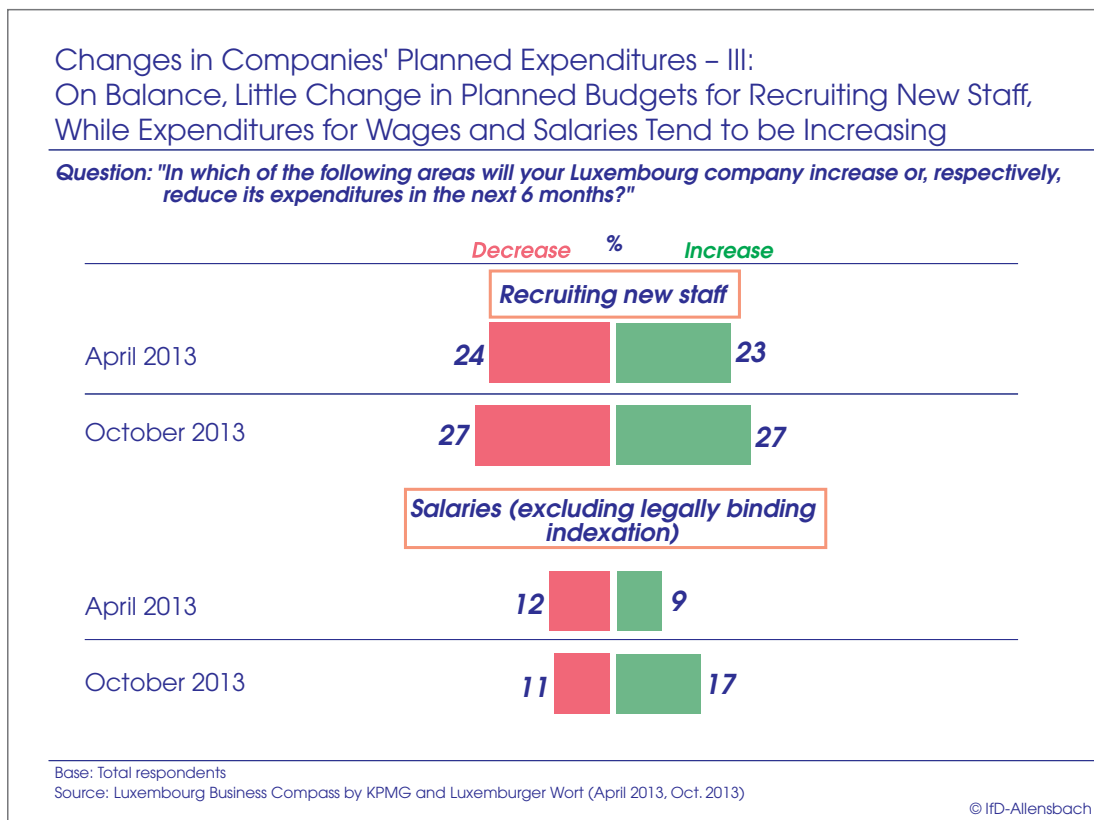
Figure 18





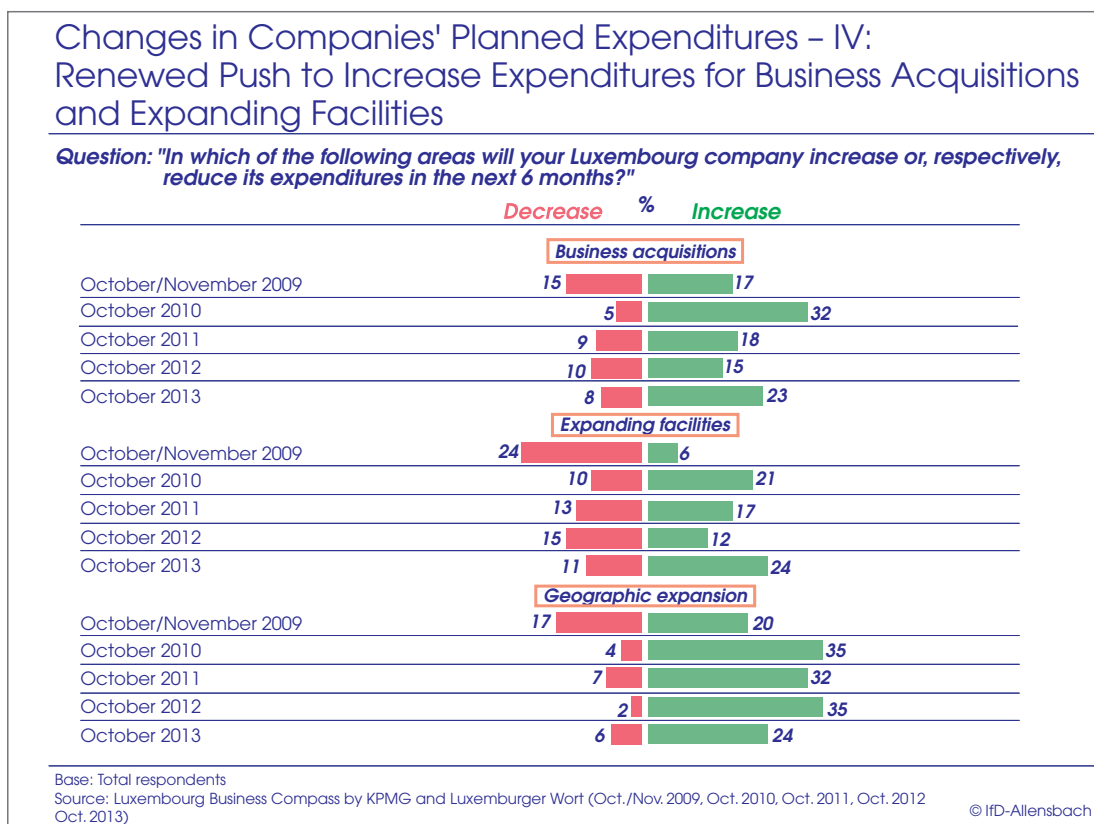
When it comes to the planned budgets for recruiting new staff, there has been little change in comparison to the survey conducted in April of this year. In contrast to the April findings, however, a greater share of companies now tend to be planning to increase their expenditures for wages and salaries over the next six months (Figure 19).

Figure 19



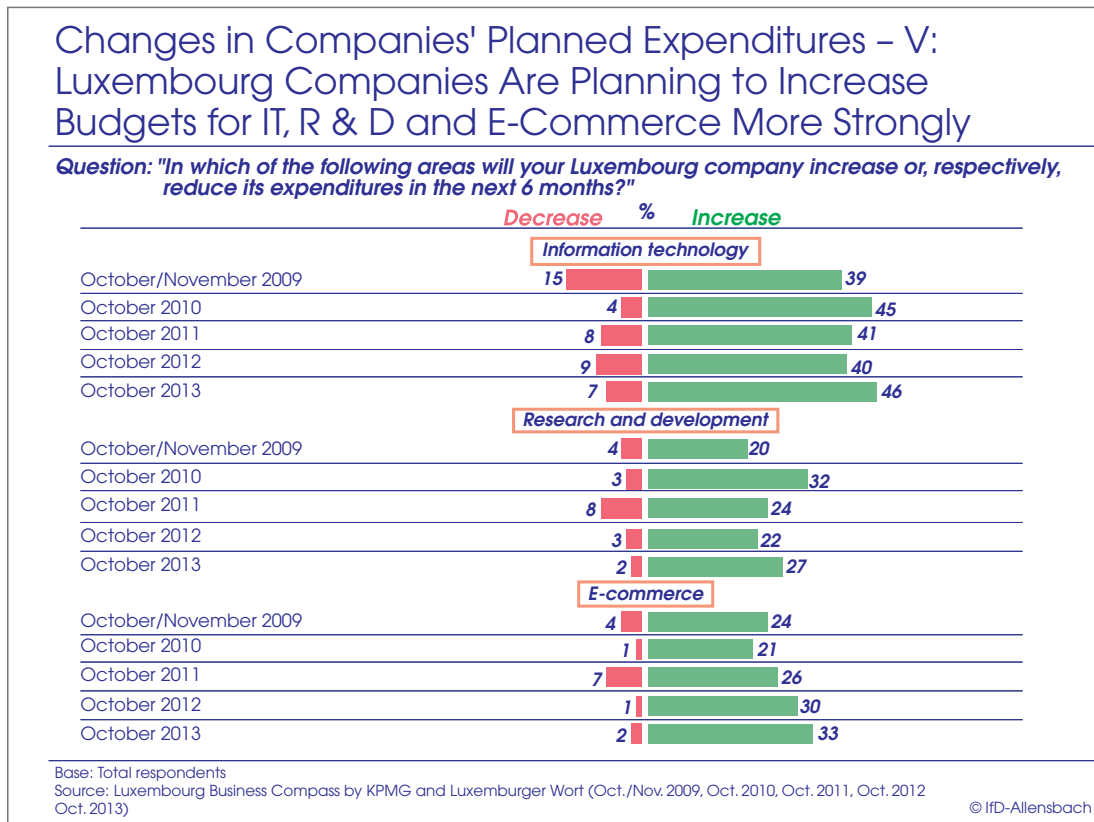
Looking at the planned budgets for company expansion, it would seem that Luxembourg companies are pursuing a new strategy: in comparison to prior years, a considerably smaller share of companies are now planning to increase their budgets for geographic expansion. At the same time, however, the share of companies that are planning to increase their expenditures for business acquisitions and expanding existing facilities has grown substantially in comparison to recent survey waves (Figure 20).

Figure 20



Luxembourg companies are now also planning to increase their expenditures for information technology and research and development to a greater extent than was the case in prior years, thus putting an end to the trend towards the declining willingness to increase expenditures in these areas, as was evident over the past two years. In comparison to recent survey waves, a larger share of companies are also planning to increase their expenditures for e-commerce (Figure 21).

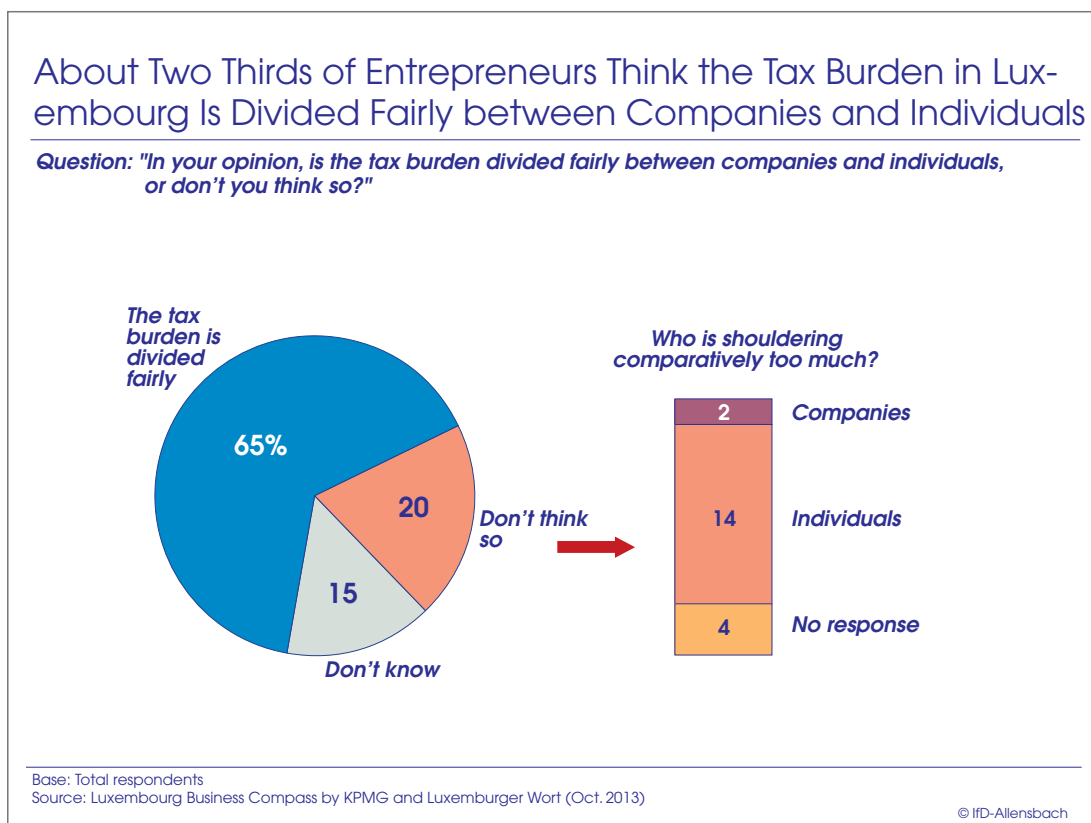
Figure 21



### The majority rejects tax increases

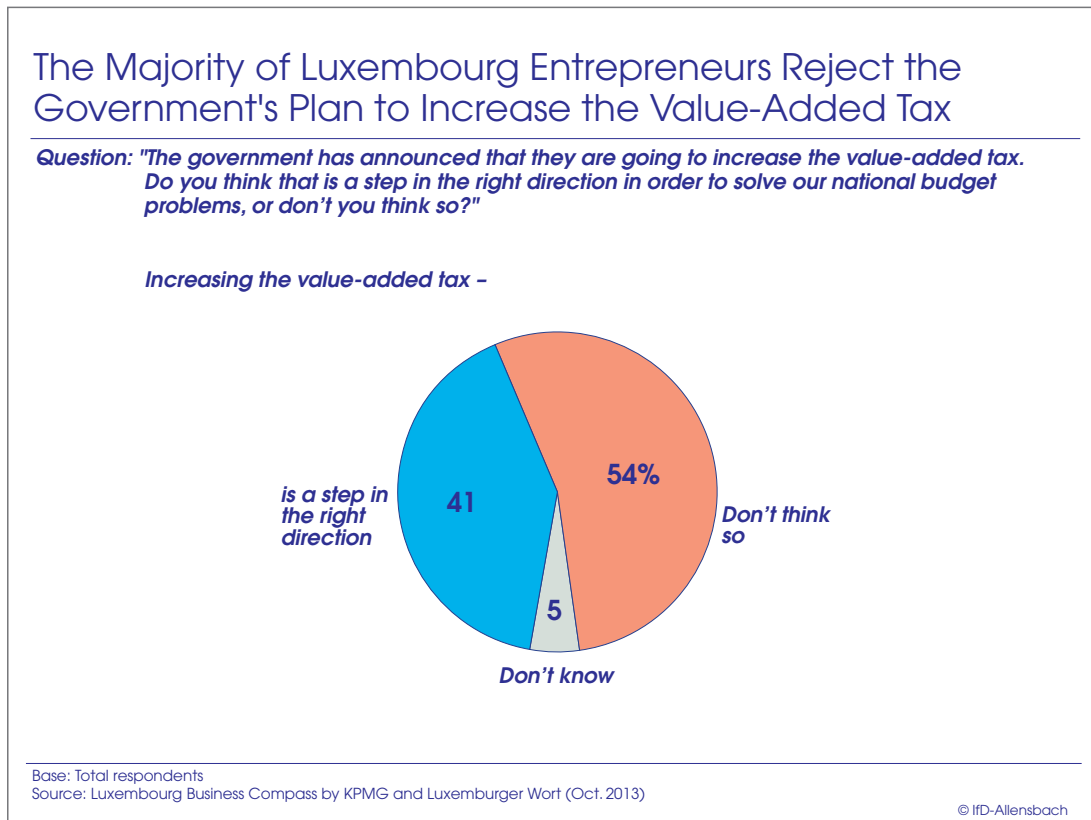
In the view of entrepreneurs, the tax burden in Luxembourg is divided fairly between companies and individuals on the whole. About two thirds of the decision-makers interviewed are of this opinion, while only 20 percent expressly perceive any imbalance in this regard. Those business leaders who believe the tax burden is not divided fairly tend to say that individuals are shouldering too much of the burden (Figure 22).

Figure 22



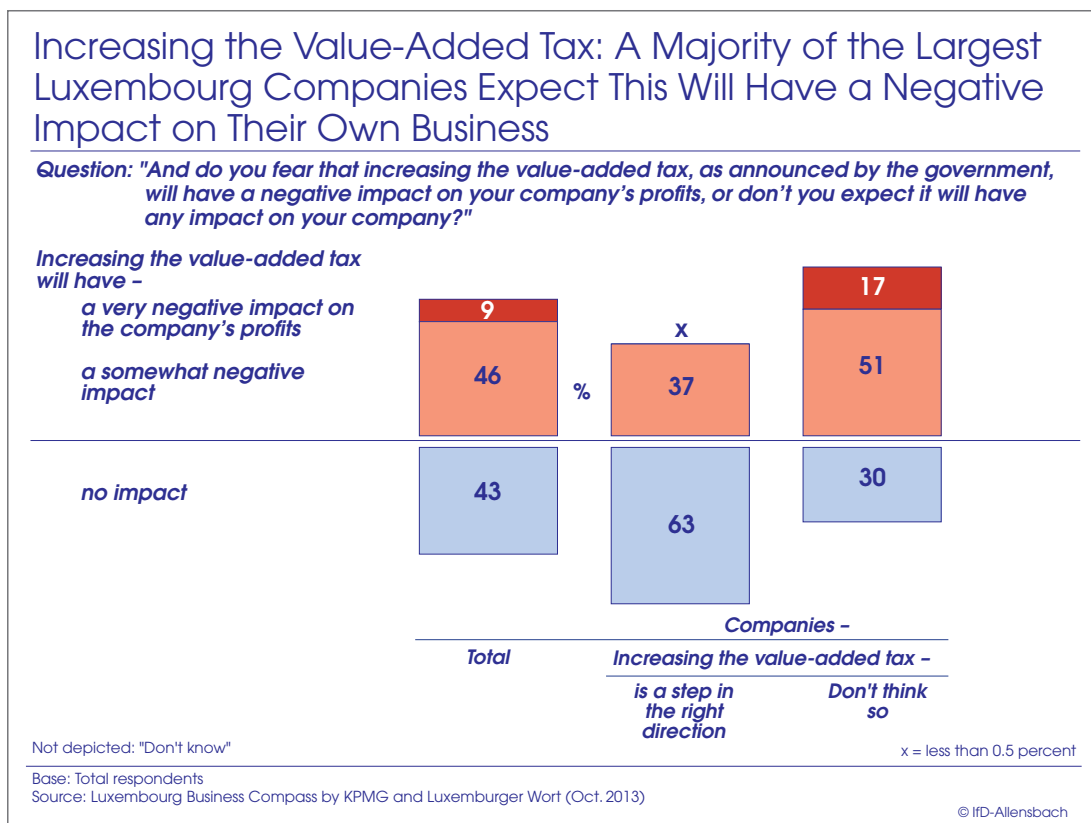
The majority of business leaders (54 percent) think that the increase in the value-added tax announced by the government is not the right way to address the country's budget problems. At the same time, however, a strong minority of 41 percent says that this measure is a step in the right direction (Figure 23).

Figure 23



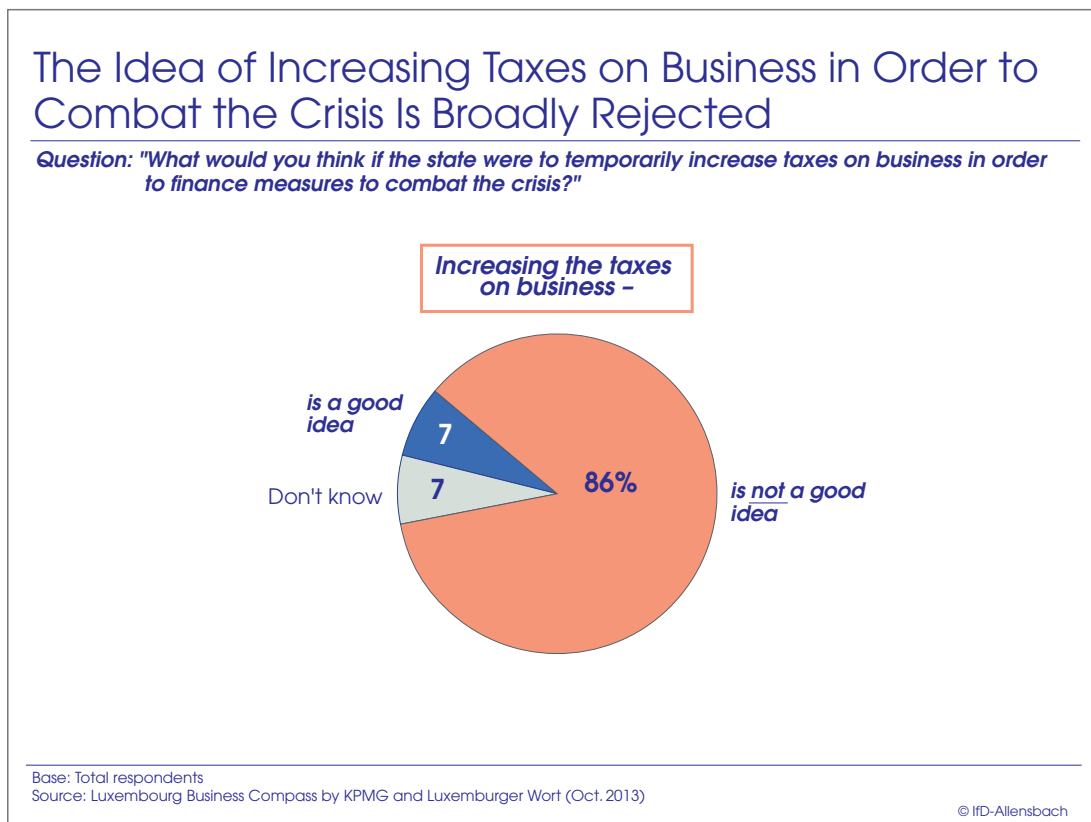
The rejection of the planned increase in the value-added tax by a majority of entrepreneurs is undoubtedly also connected to their expectation that such an increase would have a negative impact on their own companies: 9 percent of the business leaders interviewed fear that increasing the value-added tax will have a very negative impact on their company's profits, while an additional 46 percent fear it will have a somewhat negative impact. Entrepreneurs who say that increasing the value-added tax is not a step in the right direction expect to an above-average extent that such an increase would have a negative impact on their company. In contrast, among those decision-makers who favor increasing the value-added tax, about two thirds expect that such an increase would have no impact on their company (Figure 24).

Figure 24



The idea of increasing taxes on business in order to combat the financial crisis—even if only temporarily—is rejected by Luxembourg entrepreneurs even more clearly than the proposed increase in the value-added tax. Only 7 percent of respondents think increasing the taxes on business is a good idea, whereas 86 percent reject this proposal (Figure 25).

Figure 25



### An agenda for the new government: Reducing expenditures is the top priority

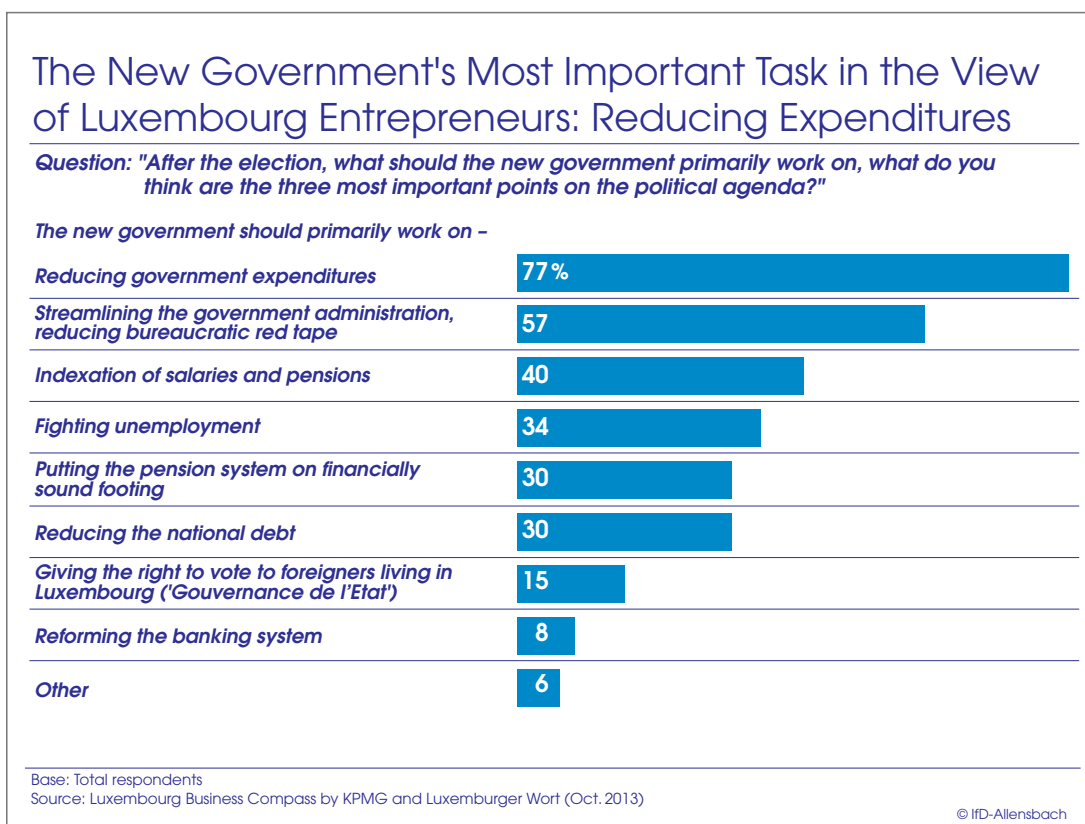
In the view of Luxembourg business leaders, the most important points on the new government's political agenda should be reducing government expenditures and streamlining the government bureaucracy: about three quarters of the entrepreneurs interviewed cite reducing government expenditures as one of the new government's three most important political goals, while 57 percent say that streamlining the government administration and reducing bureaucratic red tape belong among the top three priorities. In contrast, only 30 percent of the entrepreneurs interviewed say that reducing the national debt should be given top priority. Obviously, business leaders view the current level of debt in Luxembourg as less problematic than the tendency to incur even more debt due to excessively high government expenditures.

In the view of Luxembourg business leaders, the national budget is primarily suffering from a spending problem, which could also explain their strong rejection of tax increases—be they increases in the value-added tax or increases in the taxes on business—as described in the previous section.

Only about one out of three entrepreneurs give priority to fighting unemployment and putting the pension system on financially sound footing. Remarkably, Luxembourg business leaders tend to cite indexation of salaries and pensions more frequently (40 percent). Reforming the Luxembourg banking system, however, hardly registers at all on the business leaders' list of political priorities (Figure 26).



Figure 26



## APPENDIX

Survey data

## SURVEY DATA

Overall responsibility for methods:	Institut für Demoskopie Allensbach
Planning and drawing the sample:	KPMG Luxemburg
Group of persons interviewed (universe):	Top decision-makers at the largest companies in Luxembourg, as defined by the number of employees
Sampling method:	<p><u>Top-down approach stratified according to business sectors</u></p> <p>The sample was drawn based on the directory<sup>(*)</sup> of the Luxembourg statistics bureau (Statec), which lists companies with 90 employees or more in Luxembourg. For each business sector, the number of companies included in the survey was roughly commensurate with the sector's share of the gross domestic product (GDP) of Luxembourg, whereby the companies were selected in descending order according to the number of employees.</p> <p>In the companies selected to participate, every effort was made to persuade a representative of the upper management (owner, CEO, CFO, COO, etc.) to complete the online survey.</p>
Number of respondents:	86
Type of interviews:	Online survey completed after prior notification in writing or by telephone
Fieldwork dates:	October 2 – 14, 2013
IfD Archives Survey No.:	6279

(\*) Les principaux employeurs au Luxembourg d'après l'effectif classés par branche d'activité économique de la NACE Rév.2 Situation au 1er janvier 2013 (édition juin 2013)

#### KPMG contacts

##### **Georges Bock**

**Managing Partner**

**T:** +352 22 51 51 5522

**E:** georges.bock@kpmg.lu

##### **Patrick Wies**

**Partner**

**Head of Public Sector / National Markets**

**T:** +352 22 51 51 6305

**E:** patrick.wies@kpmg.lu

##### **Alain Picquet**

**Partner**

**Head of Advisory & Markets**

**T:** +352 22 51 51 7910

**E:** alain.picquet@kpmg.lu

[www.luxembourgbusinesscompass.lu](http://www.luxembourgbusinesscompass.lu)

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