

conjoncture flash

November 2007

Confidence still high in Luxembourg

While consumer confidence has fallen sharply since June 2007 in the eurozone, Luxembourg households seem to be doing better, despite worries about unemployment and inflation.

A more pessimistic European context

Household confidence indicators for the eurozone peaked in May 2007 after a prolonged rally that started in early 2006, falling significantly particularly since August. The economic downturn in the United States and the turmoil that has affected the financial markets since the summer are the two key potential threats behind this trend.

The downturn is widespread but confidence in some countries suffered more than others, including the economic heavy weights: Germany (especially in August) and France (regular marked drop up to October). Luxembourg represents an international exception because it is the only eurozone country where confidence rose in October 2007.

If we analyse the various elements taken into account when calculating consumer confidence¹, two factors explain the general slump in the eurozone: increasing pessimism as regards the general economic situation and unemployment trends. France, Belgium and the Netherlands figured highly in this regard.

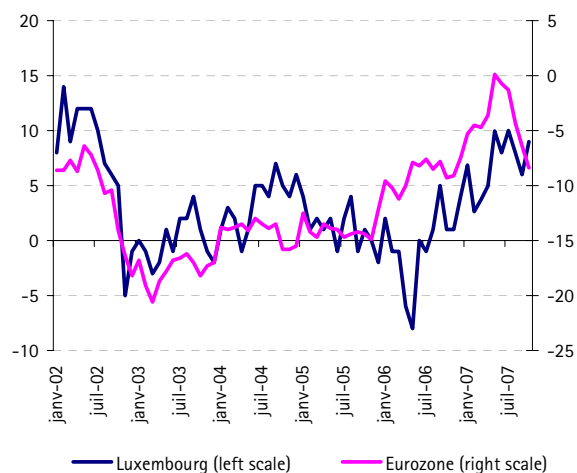
Confidence among European company directors has also slumped since last summer.

Luxembourg rally in October

There has been increasing pessimism in Luxembourg as regards unemployment in recent months. However, other factors came into play, leading to a recovery in October: after the sharp downturn in September, household expectations of their financial situation and of the general economic situation have considerably recovered.

Monthly publication of the state of the Luxembourg economy

Consumer confidence indicator



Sources: BCL, Eurostat

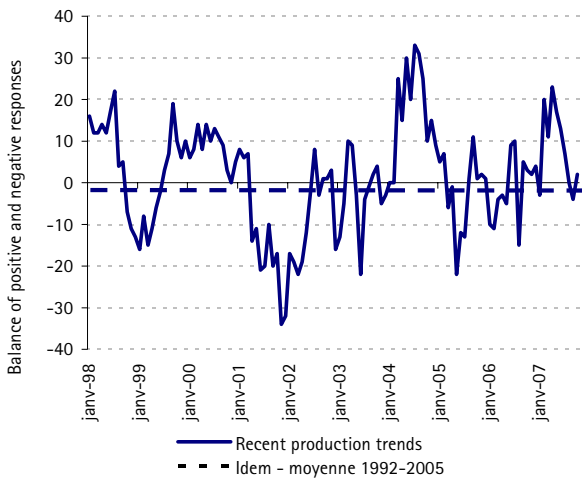
Their ability to save into the future also improved. These developments, which are out of sync with what is happening elsewhere in Europe, may be linked to recently announced government measures: to adjust tax schedules and tax credits for dependant children.

On the other hand, Luxembourg households were in line with European results as regards their expectations of price trends, i.e. they expected to see inflation shifting up a gear from September onwards. This variable is not taken into account when calculating the confidence indicator but could have an indirect effect over the longer term (should oil prices continue to rise as quickly as they have done in recent weeks).

¹The consumer confidence indicator is the weighted average of the balances of the four following questions (out of a total of fifteen questions): the financial situation of households over the next 12 months, the general economic situation over the next 12 months, unemployment trends over the next 12 months and the ability to save over the next 12 months (source: BCL).

Industry

Economic survey of industry



Source: STATEC

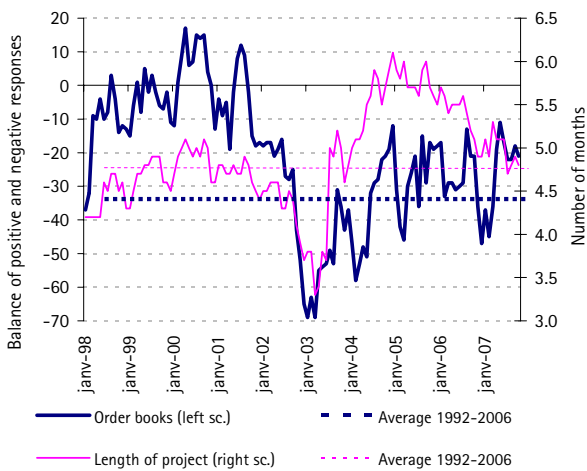
Slight improvement in opinions

After falling significantly over the 3rd quarter of 2007, the results of the October economic survey point to a slight improvement in manufacturers' opinions. Opinions on recent activity and order books are more positive and opinions on future trends, although very volatile over recent months, remain at historically high levels.

In the eurozone, industrial output dropped in September 2007 (particularly among French and Italian manufacturers), in line with more pessimistic economic surveys. However, in November, confidence among French manufacturers recovered quite spectacularly, indicating increased output in the short term, while the IFO index for German manufacturing made marginal progress.

Construction

Economic survey of construction



Source: STATEC

Gloomy outlook

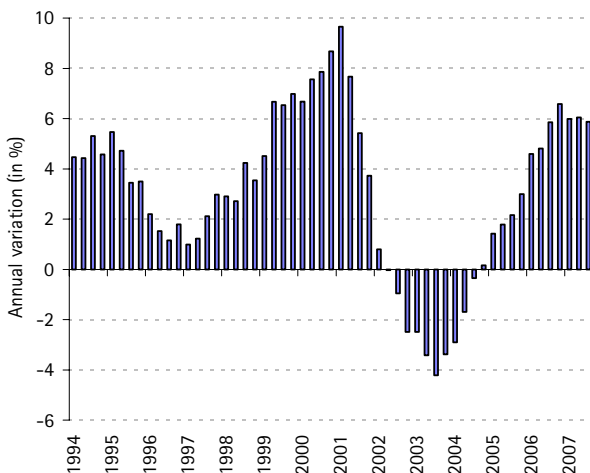
The October economic survey confirms the trends of recent months.

While opinion on recent activity remains relatively strong (particularly for construction rather than civil engineering), companies are increasingly pessimistic as regards other factors. Opinions on order books and expressed in terms of months was sluggish. Moreover, more and more believe that there is insufficient demand.

In the final analysis, these results point to more modest performance in construction activity in late 2007 and early 2008 (apart from seasonal factors).

Financial sector (1)

Changes in banking workforce



Source: BCL

Banking employment peaks

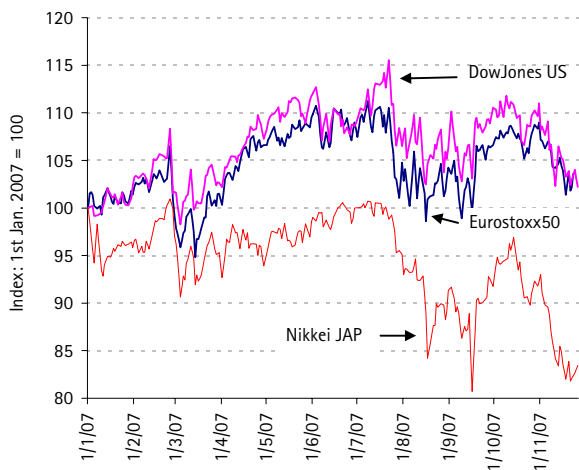
Based on provisional data, employment in Luxembourg lending institutions rose to 25,785 employees as at 30 September 2007, a rise of 366 (+1.4%) since 30 June 2007.

According to BCL, this figure takes account of rural savings banks affiliated to Banque Raiffeisen since the first quarter of 2007. Year on year, net banking employment increased by 1,216 employees in late September, translating into growth of 5.0%.

In parallel, as at 30 September 2007, there were 158 lending institutions in Luxembourg, a rise of two compared to 31 December 2006.

Financial sector (2)

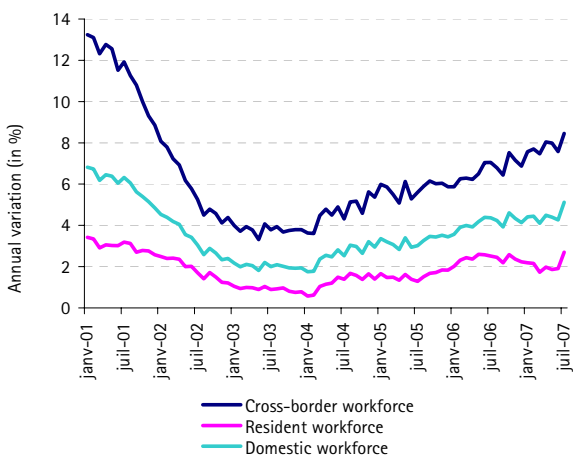
Stock-market indices



Source: EUROSTAT

Labour market

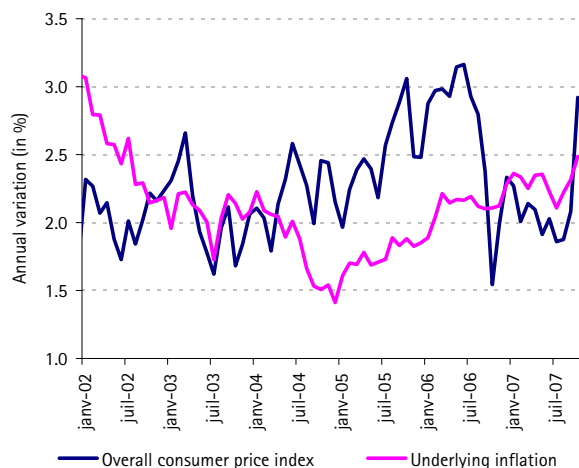
Changes in labour market



Source: IGSS

Wage inflation

Changes in inflation



Source: STATEC

Markets under pressure

Recent trends in the main stock markets suggest the financial turmoil is set to continue. After falling sharply between mid-July and mid-August 2007, the equity markets turned the corner without, however, reaching the levels seen before the crisis. What is more, they fell back from November on, mostly due to modest growth prospects for the 4th quarter (while the 3rd quarter was actually quite good in the United States and Europe).

It would be going too far to posit a stock market crash based on these results because, despite higher volatility, there has been no real panic in the markets. However, we are now faced with a phenomenon that far exceeds other corrections recorded since mid-2003, in both size and duration.

Employment up by 5.1% in July 2007

According to data from the General Social Security Inspectorate, domestic paid employment rose to 317,646 in July 2007, 5.1% more than this time last year (+4.4% in previous months). This time, temporary work did not buck the trend. Excluding this flexible form of work, employment would have risen from 4.1% at the start of the year to 4.9% in July.

Acceleration appears widespread. It can be seen in almost all economic branches (construction, trade, hotel & catering, financial sector, business services and public services) and both resident workers and cross-border workers are benefiting (cross-border employment growth rose from +7.7% at the start of the year to +8.5% in July, while resident employment growth rose from 2.0% to 2.7%).

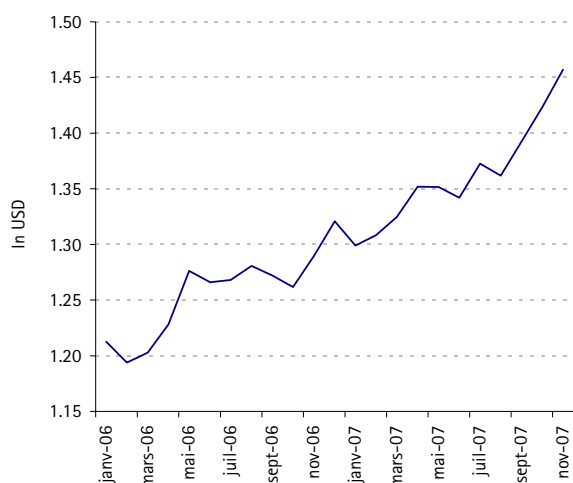
Inflation rises to 2.9% in October 2007

In October 2007 the national consumer price index rose 2.9%, as against +2.1% one month previously. This rapid acceleration was due in large part to rising oil prices (+10.4% over one year in October as against -0.8% in September), but also underlying inflation (2.5% as against 2.3% this time last month). Underlying inflation has been accelerating since early 2005 (see graph opposite).

According to the latest forecasts from STATEC (see NDC No. 2-2007, pages 45-46), the annual average inflation rate is expected to reach 2.3% in 2007 and 2.6% in 2008. Underlying inflation is also at around 2.3% this year and predicted to rise to 2.4% in 2008.

Foreign trade

Euro-US dollar exchange rate



Source: EUROSTAT

The euro breaks record after record

The euro has appreciated almost continuously against the US dollar since early 2006 and in the last few days it has come close to the 1.50 USD threshold. The euro has risen about 25% against the US dollar over the last two years, a trend also evident against other currencies, such as the Japanese yen (+15% over the same period) or the Chinese yuan (+15%).

Variations in monetary policy partly explain recent currency movements, but the dollar would seem to be undergoing structural depreciation, linked to the risk caused by the deepening American current account deficit.

While a rising euro does keep down imported inflation, particularly oil inflation, it also weighs on the competitiveness of European products (and therefore on European employment and wages).

Statistics table

	Mar-07	Apr-07	May-07	Jun-07	Jul-07	Aug-07	Sep-07	Oct-07	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	2.0	3.7	-0.5	4.7	-3.7	-2.0	...	...	-0.3	0.3
Construction output per working day, in volume	8.9	1.2	-1.8	2.5	-5.0	0.3	...	...	-1.0	1.4
Turnover by volume of total trade	1.6	1.0	-1.7	-1.8	-2.1	9.6	...	...	1.5	0.6
Turnover by volume of total retail trade	4.5	0.4	-4.4	2.6	-1.5	-2.3	...	...	-0.4	1.5
Prices, wages										
Consumer price index (IPCN)	2.1	2.1	1.9	2.0	1.9	1.9	2.1	2.9	2.3	2.2
Underlying inflation	2.3	2.3	2.4	2.2	2.1	2.2	2.3	2.5	2.3	2.1
Oil prices	0.0	-2.2	-4.9	-1.0	-2.3	-3.0	-0.8	10.4	2.0	2.0
Industrial producer price index	11.3	13.1	10.0	10.4	6.1	8.3	6.6	...	7.0	10.4
Construction price index	2.8	3.3	3.3	3.3	...	...	...	...	3.3	2.9
Average wage bill, per month, per person	5.8	4.0	6.2	0.7	4.2	...	...	...	3.5	3.4
Foreign trade										
Exports of goods	10.6	8.1	0.6	5.4	9.4	-1.0	...	...	4.8	8.6
Imports of goods	6.0	-5.2	8.9	9.0	13.2	-1.5	...	...	7.1	11.1
Employment, unemployment										
Domestic number of employees	4.1	4.5	4.4	4.3	5.1	5.1	5.0	5.1	5.1	4.3
National employment	1.7	1.9	1.8	1.8	2.5	2.4	2.4	2.4	2.4	2.2
Unemployment rate (% of working population, seasonally adjusted)	4.4	4.5	4.4	4.5	4.4	4.4	4.3	4.3	4.3	4.4

Sources: STATEC

Data in italic font are estimates

¹ Estimations based on half-yearly data

Indicators

	Variation on previous quarter in %			
	2007 Q2	2007 Q3	Forecast 2007 Q4	Forecast 2008 Q1
			Min	Max
Eurozone- Growth in volume of GDP (European Commission)	0.3	0.7	0.3	0.8
	Annual variation in %			
	2005	2006	Forecast 2007	Forecast 2008
Luxembourg - Growth in volume of GDP (STATEC)	5.0	6.1	5.0	4.5
GDP at current prices for 2006: EUR 33 852 million				
Consumer price index (October 2007) - base January ¹ 1948: 723.25				
Current account balance (2007 - 2nd quarter): EUR 618 million				
	Minimum monthly salary (since 01/01/2007: EUR 1 570.28)			
	Half-yearly average of the index linked to base as at January ¹ 1948: 717.28			
	Resident population (01/01/2007): 476 200 (estimation)			

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