

December 2007

conjoncture flash

Financial sector: tension on the labour market

The Luxembourg financial sector (including insurance and financial auxiliaries) employed some 40,000 people at the end of 2007, i.e. approximately 13% of all wage-earners in the Grand-Duchy. Almost one in five net job creations in Luxembourg in 2007 was in the financial sector.

Given the shortage in qualified labour.....

However, for some time, professionals in the sector have stated that banks, and investment funds in particular, are finding it more and more difficult to source qualified personnel. This is confirmed by job vacancy data. During the third quarter of 2007, ADEM counted over 500 job offers for a little over 200 job seekers in this sector (i.e.. 2.4 offers per job seeker, see graph opposite). In fact, the financial sector mainly employs highly qualified personnel¹ whereas over half of the people registered with the ADEM have a lower level of education.

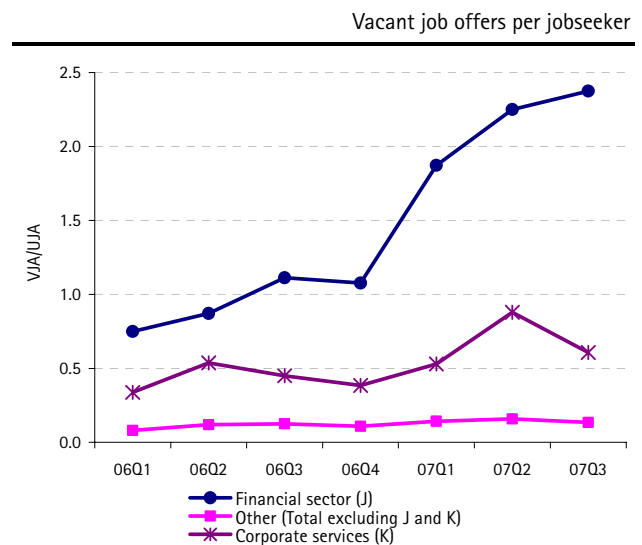
This imbalance may also partially explain the sharp rise in wages in the financial sector. In early 2007, wages rose over 5% in the financial sector while those in the rest of the economy went up by only about 3%.

The opening-up of the Luxembourg labour market to eight new EU member states² from 1 November 2007, before the end of the second transitory phase (30 April 2009), may provide a solution to the shortage of qualified labour in the Luxembourg labour market.

... the momentum is mainly benefiting non-Luxembourg nationals.

Recruitment in the financial sector, which is difficult in the national labour market, is now taking place beyond our borders. Thus, the French (both residents and cross-border workers) were, at 27%, the largest contingent in the Luxembourg financial sector in March 2007, followed by Luxembourg nationals (24%), Belgians (20%) and Germans (14%). At the end of 2007, over half of all wage-earners in the financial sector did not live in the Grand Duchy (employment of cross-border workers in the financial sector rose from some 14,500 people in 2002 to 20,000 in 2007, whereas resident employment is stagnant at 20,000 employees).

Monthly publication of the state of the Luxembourg economy



Source: ADEM

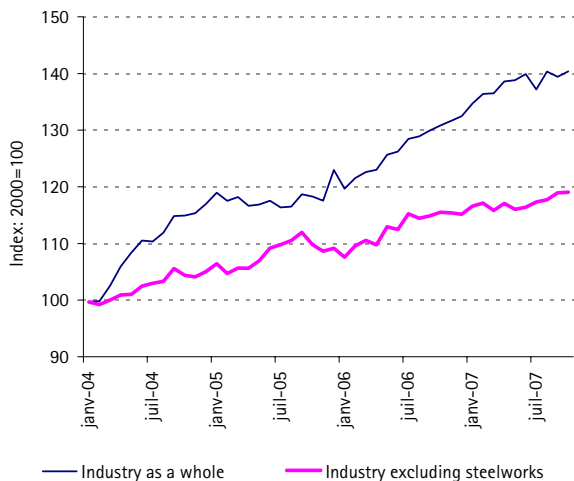
However, it should be noted that employment in the banking sector has stopped accelerating since early 2007 and the impact of the recent economic slowdown on employment should be confirmed in early 2008. In fact, in the financial sector, there is a delay of about 2 years between turnarounds in employment and in activity.

¹ According to labour force surveys for 2006, which only take residents into account (therefore excluding cross-border workers), 40% of employees in the financial sector have higher or university education and 40% have secondary school education. The remaining 20% have a lower level of education (compulsory schooling 19%, primary school 1%).

² The countries concerned are Estonia, Hungary, Latvia, Lithuania, Poland, the Czech Republic, Slovakia and Slovenia.

Industry

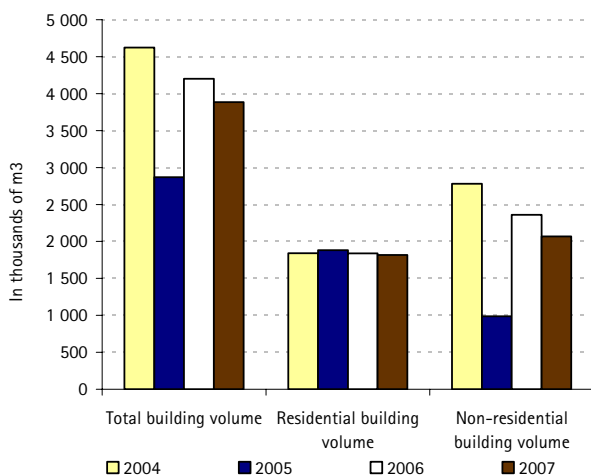
Price of industrial products



Source: STATEC

Construction

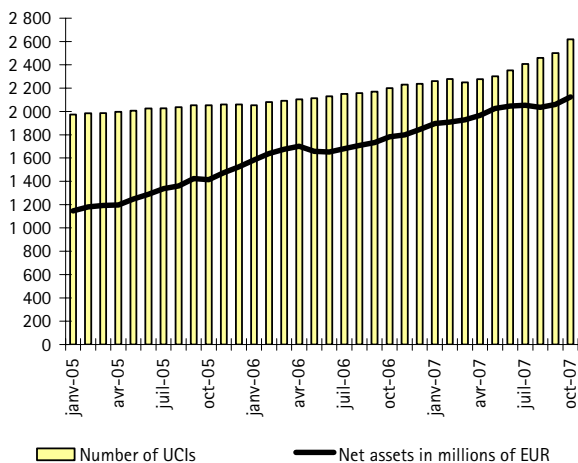
Building permits granted at end of 3rd quarter



Source: STATEC

Financial sector

Number of UCIs and net assets



Source: CSSF

Prices ease against a backdrop of mixed trends

Price rises for industrial products were particularly sharp in late 2006 and early 2007, mainly due to the effect of inflation on iron and steel products and increases in non-metallic mineral products. However, for both categories, the latest data points to slower growth from the 3rd quarter of 2007 on.

On the other hand, there was renewed tension in the price of foodstuffs (excluding alcohol and tobacco), in line with what was observed in the national consumer price index and the price of consumer goods. Given the limited weight of these two items in overall manufacturing output, the effect of the price rises is relatively limited.

Downturn in construction permits in the 3rd quarter

The volume of construction projects slumped considerably against the number of construction permits granted in the 3rd quarter of 2007 (down approximately 40% over one year). Over the first nine months of 2007, this indicator fell by 3%, after a very satisfactory 1st half-year.

There was less momentum than usual in projects granted planning permission during the 3rd quarter of 2007 (15% less in volume compared to the long-term average) and much less than those for the 3rd quarter of 2006. Planning permission granted during the 3rd quarter of 2006 was exceptional, with many large-scale projects in both the housing and non-residential sectors.

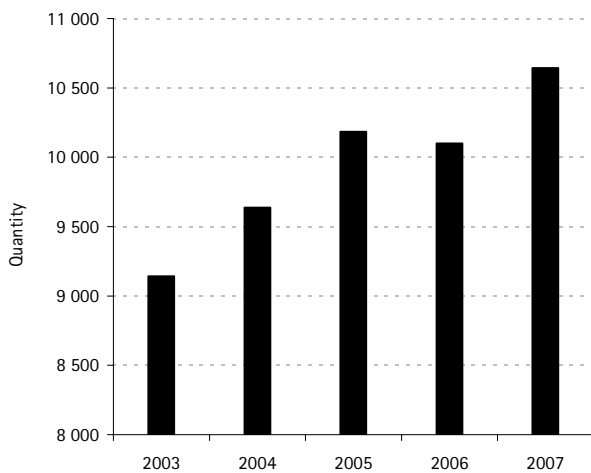
Good results for UCIs in October

In late October 2007, overall net assets for collective undertakings for investment and specialized investment funds amounted to EUR 2,123 billion as against EUR 2,059 billion as at 30 September 2007, representing a rise of 3.1% over one month. This can mostly be explained by the inflow of new capital and by rises in most financial markets.

During October 2007, net capital investment, which had stagnated in August and September, rose to about EUR 25 billion, close to the average observed during the 1st half-year of 2007.

Consumption

New vehicle registrations during the 3rd quarter



Source: STATEC

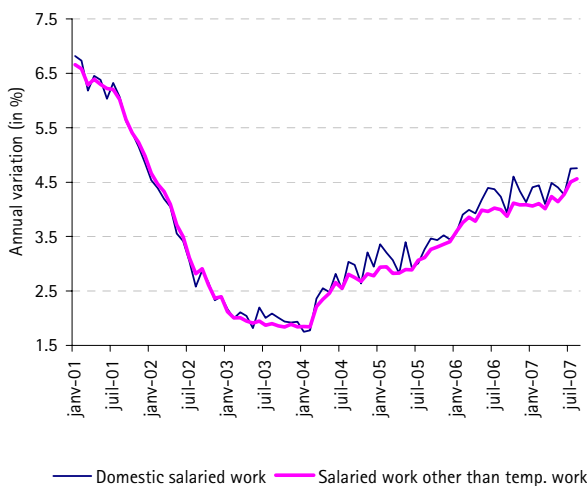
More new vehicle registrations during the 3rd quarter

New registrations for private cars bounced back during the 3rd quarter of 2007 (up 5.4% over one year), partially making up for the poor performance during the previous quarter (down 8.7% over one year) and, at the end of the 3rd quarter, the number of new registrations was close to that for 2006 (down 1.7%).

Compared to 2006, new registrations throughout the eurozone were stagnant throughout the first nine months (up 0.2%), varying widely depending on the country: Germany and Austria fell slightly while in Ireland, Spain, Italy and the Netherlands, new registrations rose by about 5%.

Labour market

Temporary and salaried domestic work



Source: IGSS

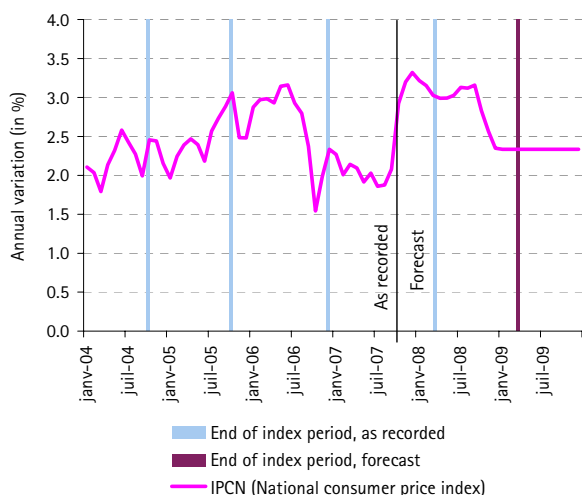
Employment accelerates

Over the last two months for which data is available (July and August), paid employment accelerated significantly (4.3% annual growth in June, 4.7% in July and 4.8% in August).

This more substantial growth is partially explained by temporary employment which, after a month of June when very few jobs were created (up 4%), grew again to more respectable levels (16% and 12% over the last two months, in line with trends for the last two years). Apart from temporary work, employment grew by 0.2 percentage points (employment growth rose from 4.3% in June to 4.5% in July and 4.6% in August).

Wage - inflation

Inflation forecasts and index-linked wage rises



Source: STATEC

Wage increase threshold exceeded in November

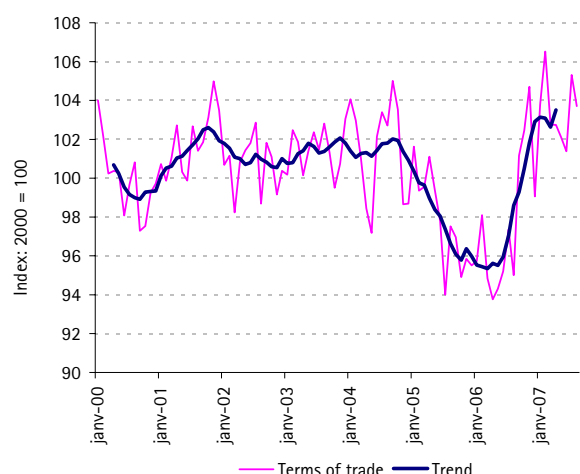
During the last quarter of 2007, inflation in Luxembourg grew to over 3%, as against 2.0% over the first nine months of the year. This strong growth is primarily explained by the trend in oil prices (-3% over the last quarter of 2006 and +13% over the last quarter of 2007).

According to the latest forecasts from STATEC, which project the price per barrel of Brent oil at USD 93.5 and an exchange rate of USD 1.47 against the euro (making the price per barrel of Brent oil at EUR 63.7), inflation is set to reach 3.0% in 2008, after 2.3% in 2007. Underlying inflation is expected to rise from 2.3% in 2007 to 2.5% in 2008.

The threshold figure of 717.31 was exceeded in November 2007 and, in accordance with current legislation, wages, salaries and pensions will rise by 2.5% on 01/03/2008.

Foreign trade

Terms of trade



Source: STATEC

Stabilization in terms of trade

Terms of trade, which plot export unit values against import unit values, represent a country's export purchasing power in terms of imports. In Luxembourg, terms of trade improved considerably between mid-2006 and early 2007, due to two phenomena: falling energy prices (imports) and higher iron and steel prices (exports)

This improvement is unlikely to continue. Indeed, oil prices have risen sharply since September and iron and steel prices, although still up, are slowing down (see Manufacturing section).

Statistics table

| | Apr-07 | May-07 | Jun-07 | Jul-07 | Aug-07 | Sep-07 | Oct-07 | Nov-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 | 2.2 | 3.5 | 5.1 | -3.7 | -2.5 | -5.1 | ... | ... | -3.8 | 0.4 |
| Construction output per working day, in volume | 0.6 | -2.7 | 2.5 | -5.0 | 0.3 | -3.5 | ... | ... | -3.3 | 2.2 |
| Turnover by volume of total trade | 11.1 | 4.2 | -7.5 | 2.4 | 24.0 | 4.8 | ... | ... | 9.7 | -0.4 |
| Turnover by volume of total retail trade | 33.5 | 29.1 | 38.4 | 35.2 | 39.2 | 13.8 | ... | ... | 28.2 | 5.6 |
| Prices, wages | | | | | | | | | | |
| Consumer price index (IPCN) | 2.1 | 1.9 | 2.0 | 1.9 | 1.9 | 2.1 | 2.9 | 3.2 | 2.7 | 2.0 |
| Underlying inflation | 2.3 | 2.4 | 2.2 | 2.1 | 2.2 | 2.3 | 2.5 | 2.6 | 2.5 | 2.1 |
| Oil prices | -2.2 | -4.9 | -1.0 | -2.3 | -3.0 | -0.8 | 10.4 | 12.6 | 7.2 | -2.2 |
| Industrial producer price index | 13.2 | 10.0 | 10.3 | 6.1 | 8.3 | 7.3 | ... | ... | 7.3 | 10.1 |
| Construction price index ¹ | 3.3 | 3.3 | 3.3 | ... | ... | ... | ... | ... | 3.3 | 2.9 |
| Average wage bill, per month, per person | 4.0 | 6.2 | 0.7 | 4.4 | 3.9 | ... | ... | ... | 3.6 | 3.3 |
| Foreign trade | | | | | | | | | | |
| Exports of goods | 8.1 | 0.6 | 5.4 | 9.4 | -1.0 | ... | ... | ... | 4.8 | 8.6 |
| Imports of goods | -5.2 | 8.9 | 9.0 | 13.2 | -1.5 | ... | ... | ... | 7.1 | 11.1 |
| Employment, unemployment | | | | | | | | | | |
| Domestic number of employees | 4.5 | 4.4 | 4.3 | 4.7 | 4.8 | 4.7 | 4.8 | 4.8 | 4.8 | 4.3 |
| National employment | 1.9 | 1.8 | 1.8 | 2.2 | 2.2 | 2.0 | 2.0 | 2.0 | 2.0 | 2.1 |
| Unemployment rate (% of working population, seasonally adjusted) | 4.5 | 4.4 | 4.5 | 4.4 | 4.4 | 4.3 | 4.3 | 4.3 | 4.3 | 4.5 |

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 Min Max | Forecast 2008 Q1 Min Max |
| Eurozone- Growth in volume of GDP (European Commission) | 0.3 | 0.7 | 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 | Minimum monthly salary (since 01/01/2007: EUR 1 570.28) | | | |
| Consumer price index (November 2007) - base January 1 st 1948: 725.97 | Half-yearly average of the index linked to base as at January 1 st 1948: 718.92 | | | |
| Current account balance (2007 - 2nd quarter): EUR 618 million | Resident population (01/01/2007): 476 200 (estimation) | | | |

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