

conjoncture

June 2007

flash

Monthly publication of the state of the Luxembourg economy

Food price tensions

Whether in Luxembourg or in the eurozone as a whole, food prices have tended to accelerate since 2006.

These products of everyday consumption are highly representative in consumers' minds of what is called the "basket of goods", although it in fact contains many other items (food, excluding alcohol and tobacco accounts for just about 15% of the budget of a typical consumer in the eurozone).

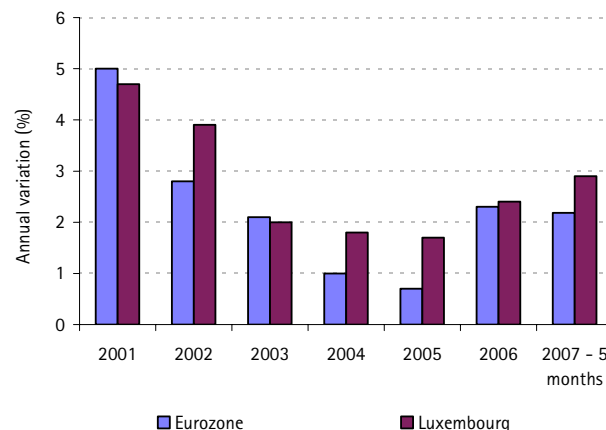
There are several phenomena that may explain the new food inflation.

First of all, the economic climate, which has shown significant improvement since 2006, is also witnessing rising employment. This has naturally boosted consumption and strengthened the power of retailers to set prices.

Secondly, some crop yields have been poor. Worldwide cereal output has fallen for two consecutive years (2005 and 2006, source: Food and Agriculture Organization). Cereal prices have suffered as a consequence and this has pushed up the price of several foodstuffs (particularly those containing bread flour). Worldwide potato prices also surged in 2006, partly due to poor harvests caused by drought, partly because of increased demand. China, for example, has an increasing appetite for this foodstuff: already the leading potato producer since 1993, it now also imports two thirds of its total consumption.

Thirdly, the development of biofuels is pushing up the price of some cereals and oils. Oil prices, which have been rising since 2003, have significantly influenced the focus on biofuels¹, which are now comparatively cheaper. This is a significant development: while rising oil prices have always had an indirect impact on the price of other products (through transport costs or the energy consumption required to produce it), these are now set to directly impact the price of some basic foodstuffs, given that two energy sources, fossil and agricultural, are now in direct competition.

Trend in food prices*



* Except alcohol and tobacco

Sources: Eurostat, STATEC

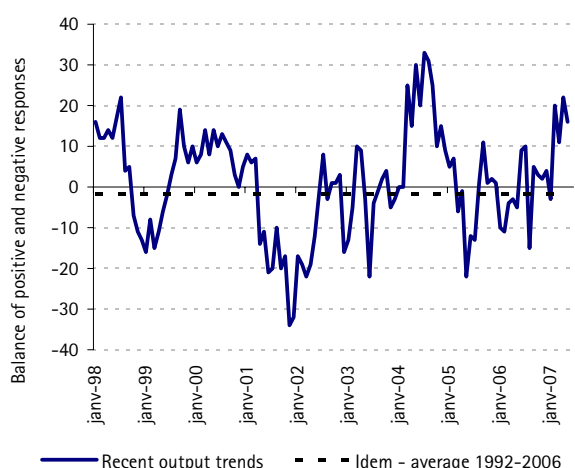
Luxembourg prices above average

From 2001 to 2006, food prices rose faster in Luxembourg (2.8%) than in the eurozone (2.2%). The difference was particularly marked for bread and cereals (2.9% per annum in Luxembourg as against 2.1% in the eurozone), milk, cheese and eggs (2.5% as against 1.8%), fruit (3.8% as against 3.2%), vegetables (3.8% as against 2.9%), sugar, jam, honey, syrups, chocolate and confectionary (2.6% as against 1.8%) and non-alcoholic beverages (1.8% as against 1.1%). Of Luxembourg's three closest neighbours, Belgium has experienced the highest food inflation (2.4% per annum from 2001 to 2006), followed by France (2.1%) and Germany, far behind with only 1.2% per annum.

¹ For more on this, see "Expensive oil and biofuels" in Note de Conjoncture no. 1-06 published by STATEC, pages 93-95.

Manufacturing

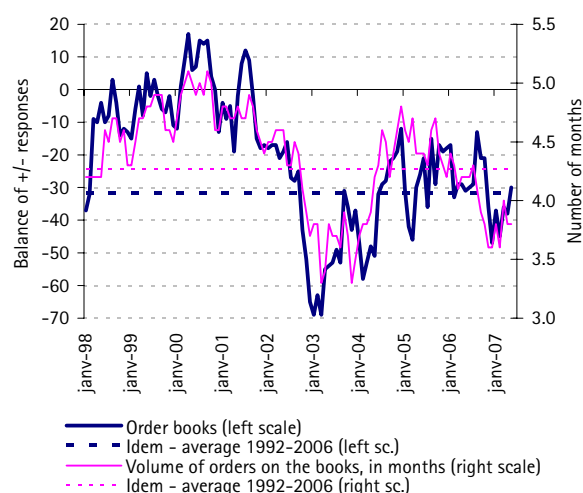
Sentiment indicator survey – Industry



Source: STATEC

Construction

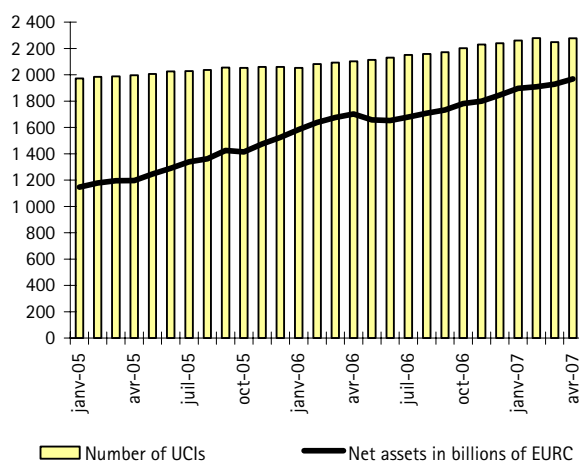
Sentiment indicator survey – Construction



Source: STATEC

Financial sector

Number of UCIs and net assets



Source: CSSF

Manufacturers confident

After a very positive 1st quarter, manufacturers remain confident according to economic surveys carried out in April and May 2007. Output is expected to rise further, orders continue to come in and employment prospects have significantly improved.

The volume of orders on the books expressed in terms of months reached new records in April (up to 4.1 months) as did use of production capacity (89%, a level last reached in early 2001).

While these results justify relatively confident output predictions for the 1st quarter of 2007, the slowdown that is materialising in industry in the eurozone in recent months must also be taken into account, as it will affect national performance eventually.

Muted outlook

Construction companies showed little enthusiasm in the economic survey for the 2nd quarter of 2007.

The opinions polled were slightly less positive in relation to the 1st quarter, but it is important to note that the favourable weather conditions last winter increased output. Output in fact rose by almost 10% over one year during the 1st quarter of 2007.

Opinions on recent activity and on order books remained close to their long-term average in both April and May. The overall dynamic remains more favourable for civil engineering than for those linked to the building industry.

UCIs remain on course

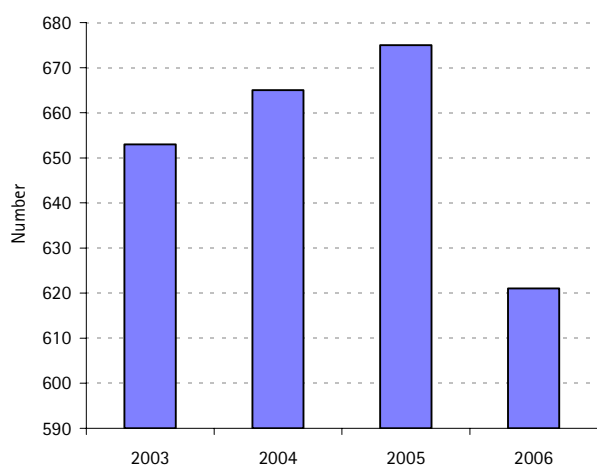
According to data published by the Luxembourg supervisory authority CSSF, the overall net assets for investment companies reached EUR 1,967 billion at the end of April 2007, up 2.1% over one month and 15.6% over one year. The growth in April was partly due to an influx of new capital (issues & repurchases), partly due to rising financial markets.

With the pace at which UCI net assets have been growing, at some EUR 30 billion per month (on average since 2005, a trend that has continued up until early 2007), the symbolic barrier of EUR 2,000 billion could be breached by the end of the 2nd quarter.

The number of UCIs was 2,276 at the end of April, up 8% compared to April 2006.

Business trends

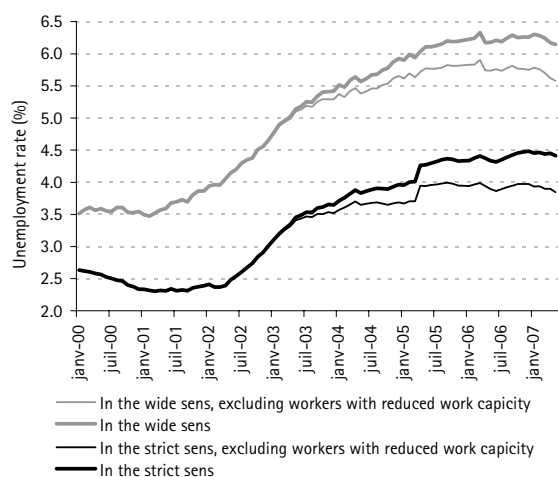
Number of bankruptcies ordered by commercial courts



Sources: Mémorial, STATEC

Labour market

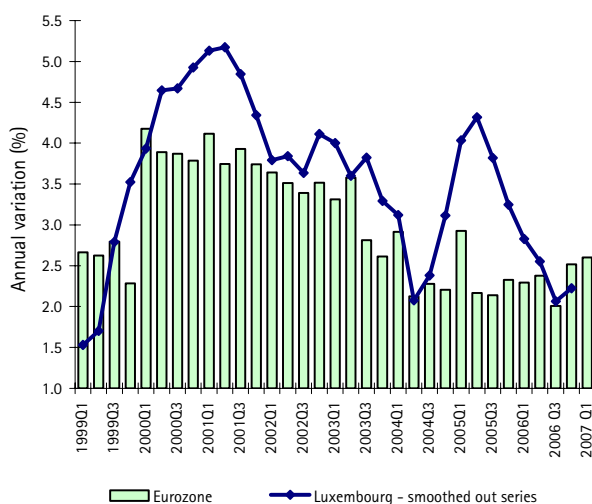
Unemployment rate (seasonally adjusted figures)



Sources: ADEM, STATEC (calculations)

Inflation – wages

Wage trends in Luxembourg and Europe



Sources: STATEC (Luxembourg), Eurostat

Fewer bankruptcies

There were fewer bankruptcies in 2006 in the Eurozone, due to a more favourable economic climate, down 6% compared to 2005 (source: Graydon Belgium).

In Luxembourg, there were 620 bankruptcies in 2006, down 50 on the previous year. This 8% drop took place mainly in retail trade, financial activities and real estate, rentals and business services.

On the other hand, there were more bankruptcies in the motor vehicle trade and repair sector, the wholesale trade and transport sector, and the communications sector than the previous year.

The trade sector, with 220 companies, had the highest number of bankruptcies, i.e. about 35% of the 2006 total.

Fall in unemployment

In May 2007, the registered unemployment rate, seasonally adjusted, was 4.4% as against 4.5% in April. The overall unemployment rate, which also takes account of people in job schemes, fell from 6.2% to 6.1% over the same period.

This drop becomes even more significant when you take into account the statistical effect of legislative changes regarding people with reduced work capacity. Indeed, in May 2007, 1,247 people with reduced work capacity were registered with ADEM, as against 951 one year ago (i.e. almost 300 more people or +31% over one year). Apart from this category of workers, the total number of job seekers (including those in job schemes) has fallen for the third consecutive month. The overall unemployment rate (seasonally adjusted) was 5.6%, while the registered unemployment rate was 3.8%, at levels comparable to those seen two years ago.

Higher wage growth

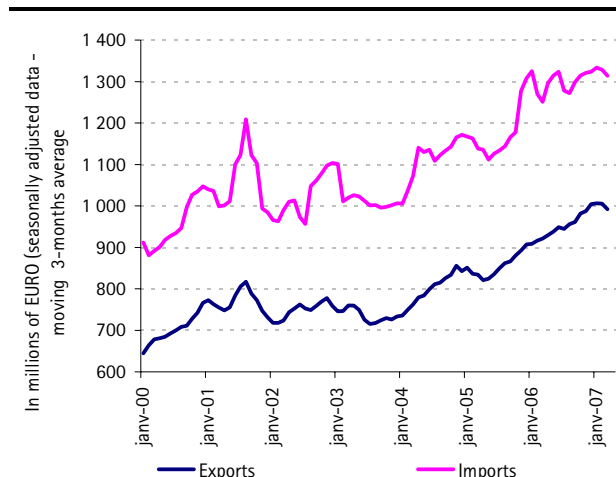
During the first quarter of 2007, labour costs in the market economy rose by 2.9% in Luxembourg compared to the same quarter last year, as against 1% for the previous quarter.

This substantial acceleration is mostly due to the basic effect of automatic index-linking. Setting this aside, wages accelerated from 2.7% during the 4th quarter of 2006 to 2.9% during the 1st quarter of 2007.

In contrast to Luxembourg, labour costs continued to slow down in the eurozone: 2.2% for the first quarter of 2007 as against 2.4% for the previous quarter. In two of our neighbouring countries, wages rose very slightly in early 2007 (+0.1% in Germany, +2.0% in Belgium), while in France, with +3.8%, the rise was more marked.

Foreign trade

Trade in goods and services



Source: STATEC

Mixed start to the year for trade in goods and services

Over the 1st quarter of 2007 as a whole, exports of goods rose slightly more than 5% over one year. Most of this rise was driven by exports of manufactures of base metals and, to a lesser extent, by chemical products. Prices have considerably affected this finding, with metalwork prices rising by about 10% over the same period, according to a survey on manufactured goods.

Imports of manufactures of base metals rose in parallel with this while imports of inedible raw materials, oils and lubricants rose sharply. On the other hand, mineral fuel imports fell (down 30% over one year), with the price effect accounting for half of this fall (a barrel of oil is now worth 15% less than one year ago).

Statistics table

	Sept-06	Oct-06	Nov-06	Dec-06	Jan-07	Feb-07	Mar-07	Apr-07	May-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	0.3	2.4	2.8	1.7	-0.6	2.4	1.9	...	...	1.2	5.5
Construction output per working day, in volume	2.0	5.5	-1.5	10.6	11.8	12.8	6.9	...	...	10.3	1.8
Turnover by volume of total trade	-1.9	12.0	6.5	5.0	1.9	-1.7	1.4	...	...	0.6	3.9
Turnover by volume of total retail trade	0.9	1.6	0.9	5.6	1.9	-0.8	4.3	...	...	1.9	1.5
Prices, wages											
Consumer price index (IPCN)	2.4	1.5	2.0	2.3	2.3	2.0	2.1	2.1	1.9	2.0	3.0
Underlying inflation	2.1	2.1	2.1	2.3	2.4	2.3	2.3	2.3	2.4	2.3	2.2
Oil prices	4.0	-9.0	-1.2	2.2	0.4	-4.1	0.0	-2.2	-4.9	-2.4	17.4
Industrial producer price index	10.2	11.3	12.8	8.5	12.6	12.2	11.3	13.1	...	12.2	4.1
Construction price index ¹	2.9	2.7	2.7	...	...	...	...	...	...	2.7	3.1
Average wage bill, per month, per person	3.7	1.7	1.2	4.2	4.2	5.1	...	...	...	4.5	3.9
Foreign trade											
Exports of goods	9.7	11.0	10.4	10.0	9.1	4.8	2.4	...	...	5.3	12.6
Imports of goods	8.1	11.3	-6.2	0.4	7.8	4.1	3.2	...	...	4.9	11.0
Employment, unemployment											
Domestic number of employees	3.9	4.6	4.3	4.1	4.4	4.4	4.3	4.4	4.4	4.4	4.0
National employment	1.8	2.1	2.0	1.9	2.0	1.9	2.0	2.0	2.0	2.0	2.0
Unemployment rate (% of working population, seasonally adjusted)	4.4	4.5	4.5	4.5	4.5	4.5	4.4	4.5	4.4	4.4	4.4

Sources: STATEC

Data in italic font are estimates

¹Estimations based on half-yearly data

Indicators

	Variation on previous quarter in %			
	2006 Q4	2007 Q1	Forecast 2007 Q1 Min Max	Forecast 2007 Q2 Min Max
Eurozone- Growth in volume of GDP (European Commission)	0.9	0.6	0.4 0.8	0.4 0.8
	Annual variation in %			
	2005	2006	Forecast 2007	Forecast 2008
Luxembourg - Growth in volume of GDP (STATEC)	4.0	6.2	4.5	5.0
GDP at current prices for 2006: EUR 33 055 million	Minimum monthly salary (since 01/01/2007: EUR 1 570.28)			
Consumer price index (May 2007) - base January 1 st 1948: 716.16	Half-yearly average of the index linked to base as at January 1 st 1948: 710.21			
Current account balance (2006 - 4 th quarter): EUR 626 million	Resident population (01/01/2006): 459 500			

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