

conjoncture flash

July 2007

Monthly publication of the state of the Luxembourg economy

Growth still riding a wave

According to STATEC's initial estimates, GDP growth over one year rose 6.2% during the first quarter of 2007 (and +1.6% over the quarter for seasonally adjusted figures). The Luxembourg economy continues to expand at a relatively high pace, with growth averaging 5.0% over the last ten years.

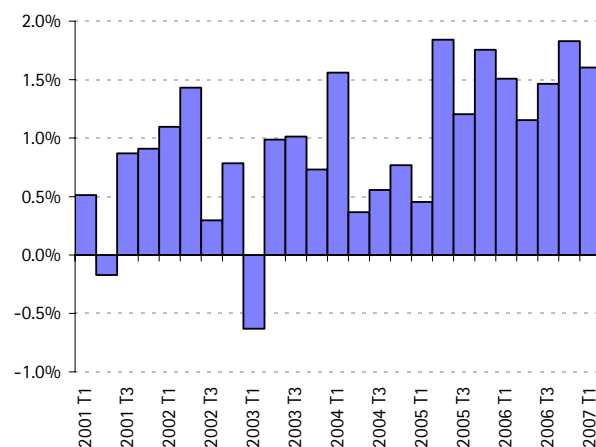
Dynamic growth spreads to other areas

In the previous version of the accounts, added value created by financial services was slightly down on the 4th quarter of 2006, leading to worries about pending results. This trend was reversed during the 1st quarter of the current year. On the contrary, the data gathered shows a catch-up, all the more notable given the sizeable upheavals experienced in the financial markets over the period, with a relatively strong adjustment in stock market prices in February and March.

From a sectoral viewpoint, it is not surprising that growth in early 2007 remained strongest in financial services. Business services, however, are weighing negatively on the overall result but, after an exceptional 4th quarter in 2006, this marks a return to normality. Dynamic growth appears to be spreading to other areas, with industry, construction, trade, hotel & catering and transport and communications, contributing to higher GDP over recent quarters.

As regards spending, external demand was a major factor in 1st quarter growth, most notably with net exports of financial exports. As in most eurozone countries, investment remains strong, bolstering the image of a solid recovery. However, consumer spending in both the private and public sectors has proven less dynamic.

Quarterly variation in GDP



Source: STATEC (annually and seasonally adjusted data)

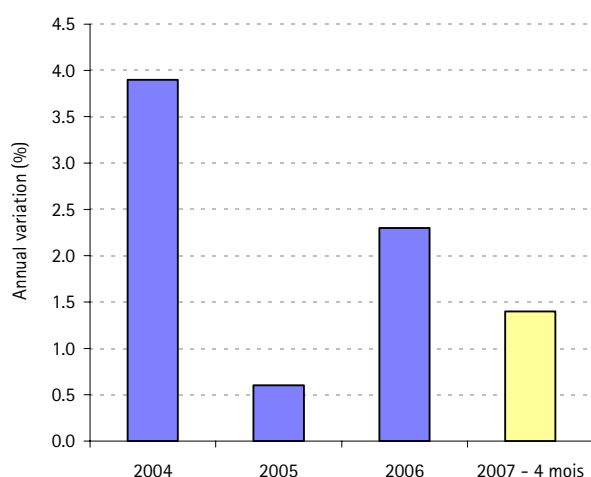
Growth for 2007 revised strongly upwards

At the end of the 1st quarter 2007, growth acquisition for 2007 was 4.0%. In other words, supposing zero growth for the remaining 3 quarters of 2007 and if the 1st quarter figures remain unchanged (both hypotheses are technical), GDP growth is set to exceed 4.0% in 2007. Indicators already available for the 2nd quarter of 2007 (and for the 3rd if some leading indicators are taken into account) suggest that activity in Luxembourg and the eurozone should continue to expand. This bolsters the idea that STATEC's latest official forecast of 4.5% GDP growth for 2007 should be significantly revised upwards. STATEC therefore projects 6.0% growth in 2007. This figure encompasses a certain margin of security insofar as momentum is particularly strong and that at the start of the 3rd quarter, there were no perceptible signs of a worldwide slowdown, at least in the short term.

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Manufacturing

Industrial production per working day



Source: STATEC (activity surveys)

Modest performance set to improve

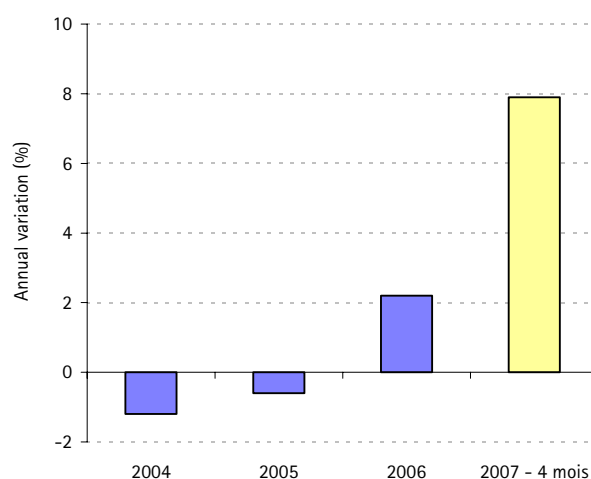
Working-day adjusted output for manufacturing rose 1.4% over one year between January and April 2007. Apart from iron and steel, results were up only 0.2% over the same period.

This seemingly modest performance, if not downright disappointing, is more comparable to performance in France (+1.1%, over the same period) or Italy (+0.9%) than in Germany (+6.0%) or Ireland (+10.9%). It is also in contrast with manufacturers' confidence levels, which have been high since the start of the year.

Nevertheless, order books (including non-iron and steel) have been up since February, which should have a positive impact on the next activity statistics.

Construction

Construction industry production per working day



Source: STATEC (activity surveys)

An exceptional start to the year

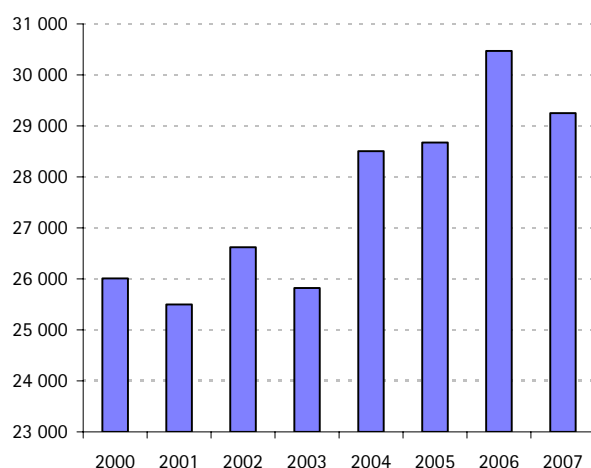
In contrast with manufacturing, confidence among construction companies has been low (see last month's Conjoncture Flash), but output is excellent.

Working-day adjusted output rose almost 8% over one year for the first four months of 2007, with civil engineering in particular performing very well (+23% approx.).

However, it should be remembered that activity in early 2007 was much higher than normal due to the mild winter temperatures and, once the effects of this have receded, the sector may lose momentum and fall back to more modest growth levels.

Wholesale and retail trade

New vehicles registrations at the start of the 1st half-year



Source: STATEC

New car registrations stall

A little over 29,250 new private cars were registered during the first half of 2007, down 4% on the same period last year.

However, this does not signal a major trend reversal. Firstly, May 2006 was, atypically, an exceptional month for new car registrations, up over 30% on previous years. If only the five other months of the first half of 2007 are taken into account, registration levels were in line with those for 2006. Secondly, the results for 2007 compare favourably (at least for the first half) to 2004 and 2005.

Financial sector and other market services

Profit and loss accounts

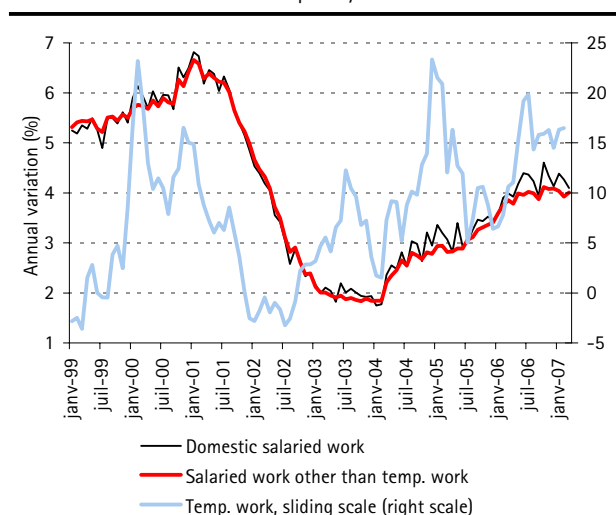
	June 2006	July 2007	Variation
	In millions of EUR	As a %	
Interest margin ¹	2 038	2 596	27.4
Income from commission	1 842	2 034	10.4
Other net income	851	591	-30.6
Banking income	4 730	5 221	10.4
Personnel expenses	1 011	1 125	11.3
Other overhead expenses	834	929	11.4
Overhead expenses	1 845	2 055	11.4
Earnings before amortization	2 880	3 166	9.9

Source: CSSF (provisional results)

¹Including dividends received on subsidiaries

Labour market

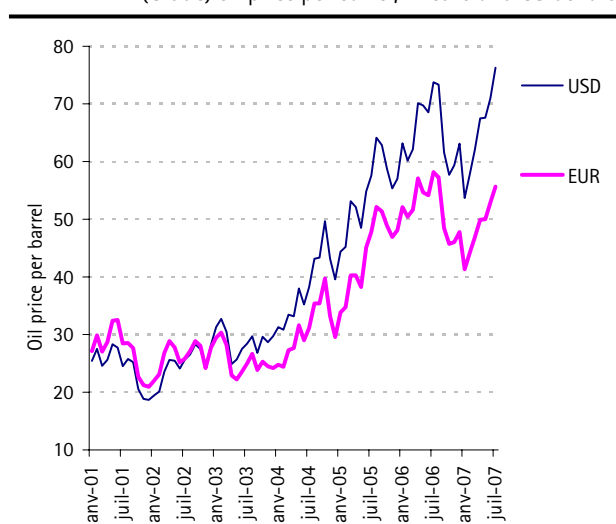
Temporary and salaried domestic work



Source: IGSS

Inflation, wages

(Crude) oil price per barrel, in euro and US dollars



Source: STATEC

Satisfactory first half for banks

According to provisional figures released by the CSSF, banking activity continued to grow during the 2nd quarter of 2007. Income before provisions totalled EUR 3,166 billion on June 30th 2007, up 9.7% on June 30th 2006.

Apart from exceptional income, which was relatively high over the 1st half of 2006, income before provisions was up 25%.

Compared to the situation at the end of the 1st quarter of 2007, income from commission continued to grow and the rate of expansion in the interest margin was sustained. Personnel costs continued to climb (up 11.3% over one year, at least half of which were due to workforce increases), but the main increases were in overheads, which rose 11.4% over one year at June 30th 2007, compared to only 6.6% at the end of March 2007.

Temporary work continues to accelerate

Temporary employment continued to rise in line with domestic paid employment (see graph opposite) albeit at a much higher rate. It rose 16.1% over one year during the first quarter of 2007, while employment in other sectors rose 4.1% over the period.

This high growth in temporary work, which represents approximately 2% of paid employment in Luxembourg (7,328 out of 309,405 employees in the 1st quarter of 2007), has also had an effect on overall employment trends. Domestic paid employment rose 4.3% during the first quarter of 2007, of which 0.2 percentage points are due to temporary work.

During the first quarter of 2007, 1,017 net temporary jobs were created over one year, 8% of all net employment created over the period (12,798 jobs).

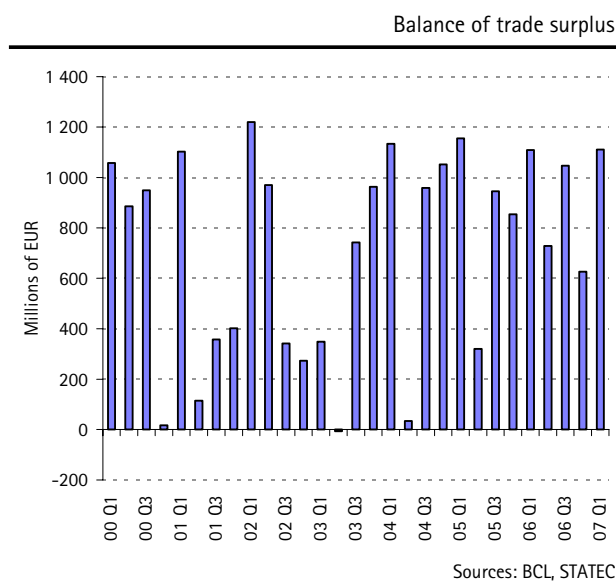
Price hike in oil products

Since 2003, the price of a barrel of oil has gained an average of 10 USD/barrel per annum, rising again strongly after some respite during the 2nd half of 2006 and levelling out at about 75 USD in early July, with peaks at over 80 USD observed.

For the moment, this upturn has had relatively little impact on the inflation rate, as this is expressed as an annual variation. The price of a barrel of petrol had already risen sharply over the same period the previous year (see graph opposite), which has had a favourable basic effect.

In Europe, this hike in oil prices was slightly offset by the rate of the euro, which gained against the US dollar. In mid-July, one euro was worth about 1.38 US dollars compared to 1.34 in June and 1.27 a year ago.

Current account surplus stabilises Foreign trade



Current account surplus stabilises

According to BCL and STATEC, the current account surplus for the 1st quarter of 2007 stood at EUR 1,111 billion, as against EUR 1,109 billion during the 1st quarter of 2006. This stabilisation was due to rising surpluses in trade in services, a slight reduction in the trade deficit and a worsening slump in income and current transfers.

Although expansion in exports of financial services has slowed slightly (+12% in early 2007, as against +30% during the 1st quarter of 2006), it is the main reason for the improved surplus in services, against a background of record receipts.

On the other hand, exports of services other than financial grew by only 1% – mainly due to the move by a major operator specialising in information and communication services to shut down a large part of its activity.

The slight drop in the trade deficit is mainly explained by the excellent export performance of the metal industry, the drop (in value) in imports of oil products and the growing surplus in non-monetary gold transactions.

Statistics table

	Nov-06	Dec-06	Jan-07	Feb-07	Mar-07	Apr-07	May-07	Jun-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	2.8	1.8	-0.6	2.5	2.0	1.6	...	...	2.0	4.3
Construction output per working day, in volume	-1.8	8.7	10.3	14.1	7.7	1.3	...	...	7.3	2.2
Turnover by volume of total trade	6.5	5.0	1.9	-1.7	1.4	...	...	...	0.6	3.9
Turnover by volume of total retail trade	0.9	5.6	1.9	-0.8	4.3	...	...	...	1.9	1.5
Prices, wages										
Consumer price index (IPCN)	2.0	2.3	2.3	2.0	2.1	2.1	1.9	2.0	2.0	3.1
Underlying inflation	2.1	2.3	2.4	2.3	2.3	2.3	2.4	2.2	2.3	2.2
Oil prices	-1.2	2.2	0.4	-4.1	0.0	-2.2	-4.9	-1.0	-2.7	18.5
Industrial producer price index	12.8	8.5	12.6	12.2	11.3	13.1	10.0	...	11.5	5.6
Construction price index ¹	2.4	2.4	2.8	2.8	2.8	3.3	3.3	3.3	3.3	2.9
Average wage bill, per month, per person	1.2	4.2	4.2	5.1	5.8	...	...	...	3.8	3.7
Foreign trade										
Exports of goods	7.1	7.1	11.0	7.1	8.2	8.4	...	...	7.9	11.2
Imports of goods	-5.6	1.6	8.1	5.7	5.9	-6.7	...	...	1.5	13.2
Employment, unemployment										
Domestic number of employees	4.3	4.1	4.4	4.4	4.1	4.3	4.2	4.1	4.2	4.2
National employment	2.0	1.9	1.9	1.9	1.6	1.8	1.8	1.8	1.8	2.1
Unemployment rate (% of working population, seasonally adjusted)	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	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 Q2		Forecast 2007 Q3	
			Min	Max	Min	Max
Eurozone- Growth in volume of GDP (European Commission)	0.9	0.7	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	6		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 (June 2007) - base January 1 st 1948: 717.04	Half-yearly average of the index linked to base as at January 1 st 1948: 712.15					
Current account balance (2007 - 1 st quarter): EUR 1 111 million	Resident population (01/01/2006): 459 500					

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