

August 2007

conjoncture flash

Fall in hours worked in industry

The number of hours worked in manufacturing industry in the eurozone has fallen over the last few years. Nonetheless, the latest figures seem to indicate that this decline is stabilizing and is even reversing in some countries.

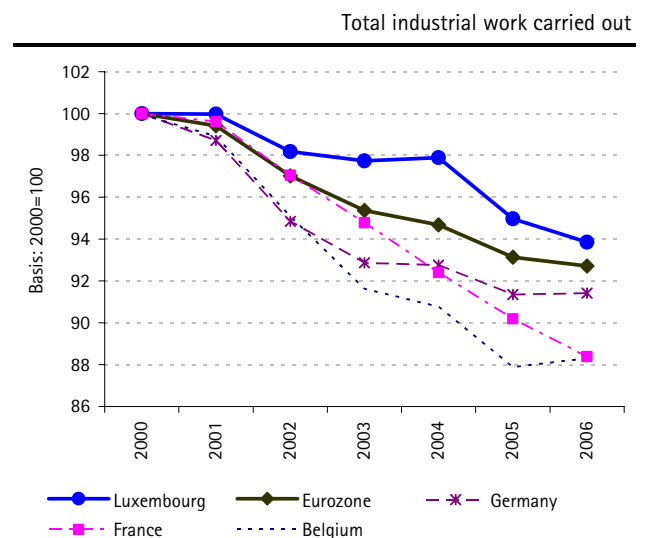
A relatively old phenomenon...

Work volumes in European industry have fallen since the mid-1970s, particularly so during the 1980s, for several different reasons. First of all, increased competition resulting from the development of international trade and mobility of capital have prompted so-called 'developed' economies to specialize in high added-value industries, abandoning sectors where competition is fierce at an international level (such as textile, clothing, electronics or household appliances). Low added value production has been abandoned or relocated to countries with lower wage costs. Economic studies analysing the direct effect of relocations on manufacturing employment¹ concur that these have had relatively little impact (when considering the number of jobs lost compared to the total number of jobs). The changeover from so-called traditional manufacturing to highly skilled manufacturing has been accompanied by very high productivity gains, often to the detriment of employment. Finally, the outsourcing of some tasks (accounting, maintenance, logistics, etc.) has resulted in some manufacturing industry jobs becoming service industry jobs.

From 2000 to 2006, the volume of manufacturing work in the eurozone fell some 8% (falling approximately 1.3% per annum). This volume, measured in terms of hours worked (and standardized in accordance with Eurostat recommendations) has followed a very similar trend to manufacturing employment over the same period. In other words, changes in average working hours, slightly down in manufacturing compared to other sectors as a whole, has not greatly affected the volume of hours worked.

¹ See in particular report No. 55 from the *Conseil d'analyse économique* (Council of Economic Analysis): "Déindustrialisation, délocalisations" (Deindustrialisation and Relocation) by L Fontagné and J-H Lorenzi, 2005.

Monthly publication of the state of the Luxembourg economy



Source: EUROSTAT

... that appears to be slowing down

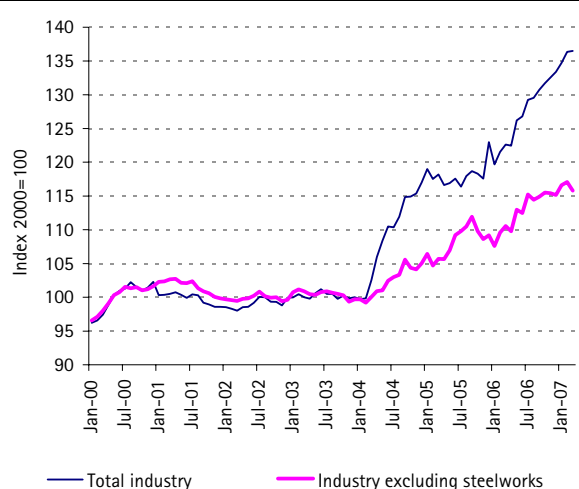
From 2000 to 2006, the number of hours worked in manufacturing industry in Luxembourg fell by 1.1% per annum on average. By contrast, Germany (-1.5% per annum over the same period), Ireland (-1.8%), Belgium, France (-2.0%) and the Netherlands (-2.5%) were more marked by this phenomenon. The number of hours worked also fell in new EU Member States over the same period (-1.2%), although there was greater disparity than among eurozone countries (-1.9% in Poland, +1.3% in Lithuania).

However, in recent times, industry in some countries has been more resilient to the fall in hours worked, particularly in 2006, stalling in Germany and Spain and even rising slightly in Austria, Ireland, Italy, Belgium and Finland, often in conjunction with a more favourable trend in output. The initial, partial results for 2007 seem to indicate that this trend is continuing but some countries remain affected by the fall in hours worked, including Luxembourg, France and Portugal.

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Industry

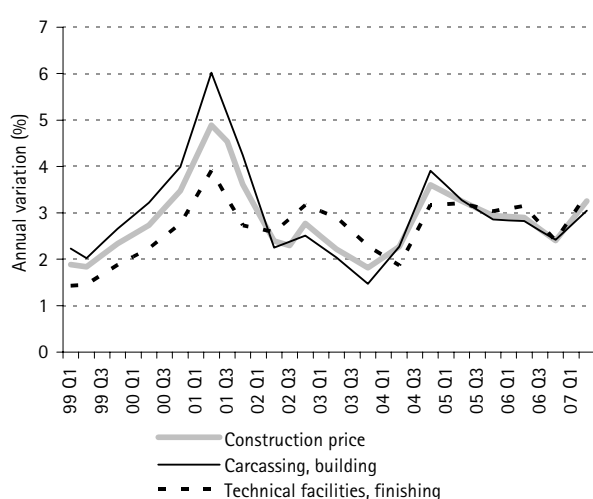
Price of industrial products



Source: STATEC

Construction

Construction price



Source: STATEC

Wholesale and retail trade

Arrivals and bed nights: Hotels, inns, guesthouses

	2006	2007*	2007/06
	In thousands		Variation (%)
January-May arrivals			
Entire country	259.5	270.0	4.0
of which			
Luxembourg City	141.2	145.0	2.7
Rest of country	118.3	125.0	5.7
January-May bed nights			
Entire country	504.6	520.5	3.1
of which			
Luxembourg City	273.9	286.0	4.4
Rest of country	230.7	234.5	1.6

* provisional figures

Source: STATEC

Rising prices, except in energy

Prices for industrial products are still significantly up, rising almost 12% over the first 5 months of the year compared to 2006. Prices for iron and steel products, which have risen strongly since 2004, are continuing to rise: +23% over one year over the first 5 months of 2007. Excluding these, industrial prices are showing significant inflation of about 6%, linked to price rises in non-metallic mineral products (+15% over the same period) and metalwork (+8%). On the other hand, after two years of strong growth (approximately 15% per annum on average), energy prices have stabilized at levels close to those seen in early 2006 (+0.8%).

Construction prices boosted by metal prices

Construction prices accelerated slightly during the 1st quarter of 2007, rising above 3% as an annual variation. Many of the largest price rises (over 5%) were in services linked to increased prices for metal products: metal waterproofing systems (+10.6%), metal windows and external doors (+10.6%), sanitary facilities (+6.0%) and heating systems (+5.4%). Sizeable increases have also been seen in glazing (+12.3%), comparable to price rises in non-metallic mineral products mentioned in the industry section above.

On the other hand, the cost of services related to earthworks (stable over one year) and marble (-0.3%) was moderate.

A good start to 2007 for hotels

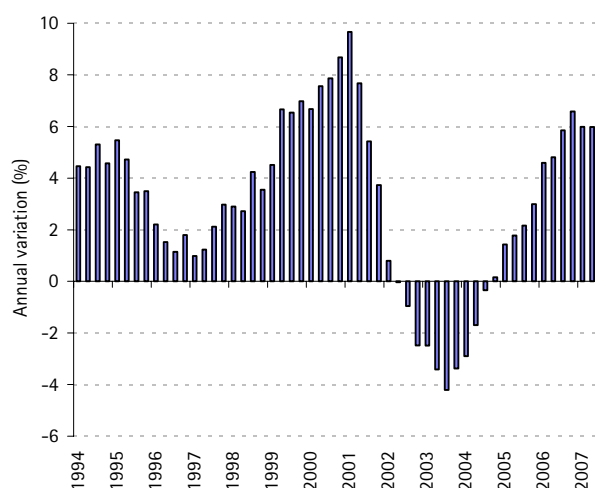
The initial figures for arrivals and bed nights in hotels are up 3.1% for the first 5 months of the year compared to the corresponding period in 2006.

This performance is linked both to the favourable economic climate, which generates what is known as "business tourism", and to the exceptional weather conditions in March and April. For example, bed nights in March 2007 were up 10% on March 2006.

Furthermore, it should be added that Luxembourg, together with its Greater Region, is the European Capital of Culture 2007, which has a positive effect on tourism and the hotel industry.

Financial sector and other market services

Changes in salaried banking workforce



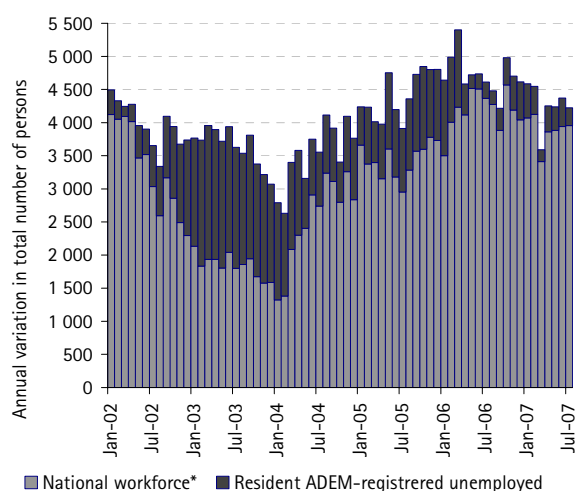
Source: BCL

Banking employment still growing, but less quickly

According to data supplied by BCL, 25,404 people were employed by Luxembourg credit institutions as at June 30th 2007, up 6.0% over one year. While this data also includes employees of rural savings banks affiliated to Banque Raiffeisen since the 1st quarter of 2007, actual growth over one year is closer to 5%, confirming that banking employment peaked in late 2006. Nevertheless, with annual growth of 5% as against an average of 2.8% per annum from 1992 to 2006, banking employment continues to reflect the vigour of the Luxembourg financial sector.

Labour market

Changes in the labour force



Sources: ADEM, IGSS, STATEC (* last 3 months = estimation)

Labour market: +4,300 residents over one year

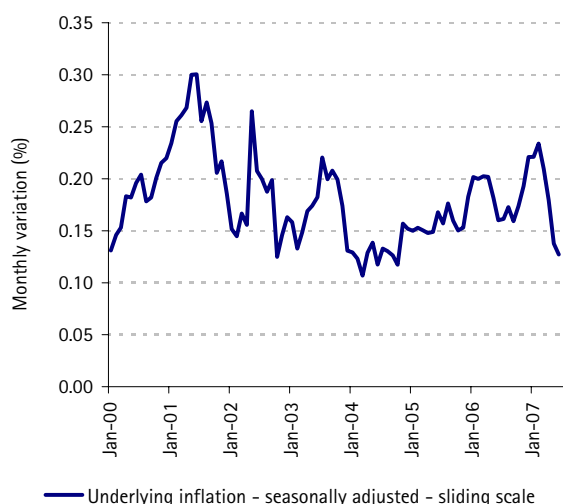
Since early 2007 (7 months), the working population (residents in employment + job-seeking residents) has grown by 4,300 on average (+2.0%) compared to the same period last year. Although this is a net variation (inflow less outflow), it is more or less representative of the number of residents coming on to the Luxembourg labour market.

In 2007, approximately 92% or 3,900 of these were in employment, while the other 8% or 400 were looking for work. While growth in the working population has remained relatively stable over recent years (at around 2.0%), the proportion of those in employment has risen continually from 50% in 2003 to 75% in 2004 and 2005, to 90% in the last two years.

The unemployment rate (number of unemployed persons compared to the working population, seasonally adjusted) was 4.4% in July 2007, as against 4.5% in January.

Wage inflation

Underlying inflation



Source: STATEC

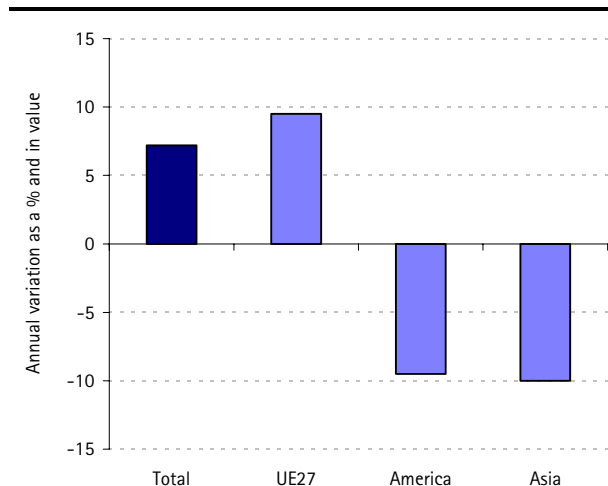
Underlying inflation slows down

After 2.1% in the first and 2.0% in the second quarter of 2007, the national consumer price index (IPCN) reached 1.9% in July. While the deceleration seen during the first half of the year was due to a sharp fall in prices of oil products (-2.7% in the second quarter and -1.2% in the first), the slowdown in July was due to lower underlying inflation (2.1% in July after 2.3% over the first six months of the year), prices of oil products continued to fall at a similar pace (-2.3%).

The graph opposite shows the monthly trend for underlying inflation, seasonally adjusted. After continuously accelerating since 2004, it peaked in early 2007, mostly due to increases in some public charges. Since then, underlying inflation has continued to slow down and, in July 2007, it was very low.

Foreign trade

Exports in the first five months of 2007



Source: STATEC

Refocusing exports of goods on Europe

Exports of goods from Luxembourg rose 7.2% in value over one year during the first 5 months of 2007, a rate of expansion slightly below that for 2006 as a whole (9.6%).

Analysis in terms of recipient country shows that this rise is due entirely to exports to European countries, whereas exports to America and Asia are down after two consecutive years of increased market penetration. As regards these two continents, it should be remembered that in 2006 they represented only 10% (5% each) of Luxembourg's export markets.

Over 80% of the growth in goods exported in early 2007 was driven by exports of manufactures of base metals, mostly to eurozone countries, and Germany, Belgium and France in particular.

Statistics table

	Dec-06	Jan-07	Feb-07	Mar-07	Apr-07	May-07	Jun-07	Jul-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	-0.5	2.5	2.0	1.5	-1.5	...	...	0.7	4.4
Construction output per working day, in volume	8.7	10.6	14.5	8.9	1.2	-1.8	...	...	2.5	2.0
Turnover by volume of total trade	5.0	1.6	-2.1	1.7	...	...	...	...	0.5	3.9
Turnover by volume of total retail trade	5.6	2.2	-0.5	4.5	...	...	...	...	2.2	1.5
Prices, wages										
Consumer price index (IPCN)	2.3	2.3	2.0	2.1	2.1	1.9	2.0	1.9	1.9	3.1
Underlying inflation	2.3	2.4	2.3	2.3	2.3	2.4	2.2	2.1	2.2	2.2
Oil prices	2.2	0.4	-4.1	0.0	-2.2	-4.9	-1.0	-2.3	-2.7	17.5
Industrial producer price index	8.5	12.5	12.2	11.3	13.1	10.0	10.4	...	11.2	6.9
Construction price index ¹	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	4.2	4.2	5.1	5.8	4.0	...	...	...	4.4	4.0
Foreign trade										
Exports of goods	6.8	12.6	6.2	8.3	8.0	1.5	...	...	5.9	12.7
Imports of goods	2.3	9.0	5.9	6.5	-5.9	8.3	...	...	2.9	18.5
Employment, unemployment										
Domestic number of employees	4.1	4.4	4.4	4.1	4.5	4.4	4.3	4.6	4.4	4.3
National employment	2.0	2.0	2.0	1.7	1.9	1.9	1.9	1.9	1.9	2.2
Unemployment rate (% of working population, seasonally adjusted)	4.5	4.5	4.5	4.4	4.5	4.4	4.4	4.4	4.4	4.3

Sources: STATEC

Data in italic font are estimates

¹Estimations based on half-yearly data

Indicators

	Variation on previous quarter in %					
	2007 Q1	2007 Q2	Forecast 2007 Q3		Forecast 2007 Q4	
			Min	Max	Min	Max
Eurozone- Growth in volume of GDP (European Commission)	0.7	0.3	0.3	0.8	0.2	0.8
	Annual variation in %					
	2005	2006	Forecast 2007		Forecast 2008	
Luxembourg - Growth in volume of GDP (STATEC)	4.0	6.2	6.0		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 (July 2007) - base January 1 st 1948: 709.68						
Half-yearly average of the index linked to base as at January 1 st 1948: 713.61						
Current account balance (2006 - 4 th quarter): EUR 1 111 million						
Resident population (01/01/2006): 459 500						

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