

January 2008

conjoncture flash

GDP up 5.6% during the 3rd quarter

Growth in Luxembourg remained relatively vigorous during the 3rd quarter of 2007, despite reduced performance in the financial sector. With economic clouds gathering on the international horizon, the slowdown is set to continue beyond the 4th quarter of 2007.

Non-financial services still sound

According to initial estimates, GDP growth rose to 5.6% over one year during the 3rd quarter of 2007. Compared to the 2nd quarter, GDP grew by 0.7% (seasonally adjusted), as against 0.6% during the previous quarter. Reduced performance by companies in financial activities and business services (-0.3% over one quarter) weighed on the overall result, mainly due to the drop in activity in the financial sector. This sector, which has been slowing down since mid-2006, seems to have been affected by the unfavourable economic climate during the 3rd quarter, marked by the slump in the financial markets linked to concerns over the subprime mortgage crisis. The drop witnessed in the financial sector is, however, moderate and, in terms of added value, the figures for the 3rd quarter still compare favourably year-on-year (+5% compared to the 3rd quarter of 2006).

Fortunately, performance remains dynamic in business services, bolstering Luxembourg's economic performance during the 3rd quarter of 2007. Activity in trade, transport and communications also remains strong, helping to offset the downturn. On the other hand, the secondary sector in Luxembourg (manufacturing: -0.4% over one quarter, construction: -0.1%) did not show the same vigour as non-financial services.

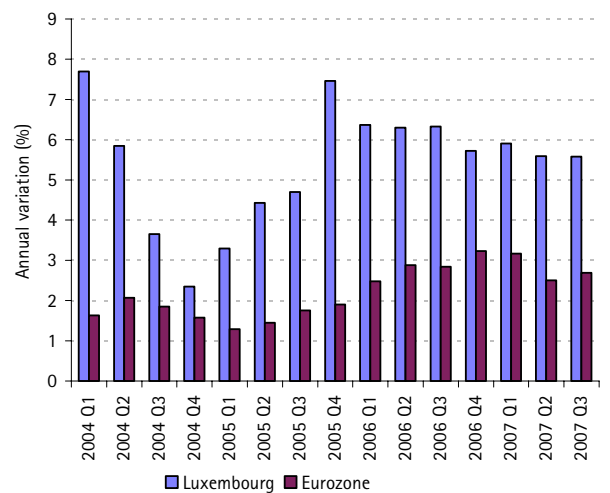
Finally, GDP growth was revised upwards for the first two quarters of 2007 (+5.9% and +5.6% as against 4.7% and 5.3% in the previous version of the national quarterly accounts).

Further slowdown expected

Although growth in Luxembourg did not collapse during the 3rd quarter, it was affected by concerns over the health of the global economy, affected by the slowing American economy and the

Monthly publication of the state of the Luxembourg economy

Trends in GDP per quarter

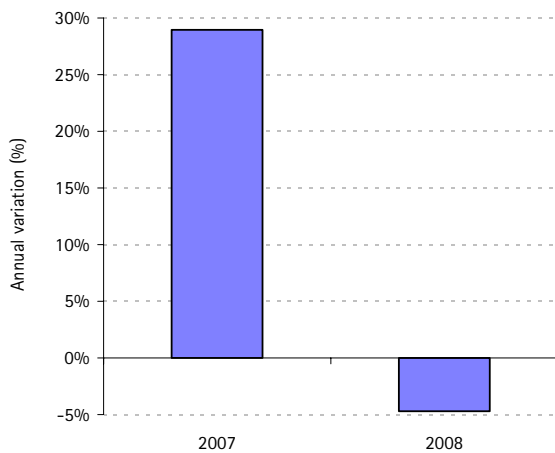


Sources: Eurostat, STATEC (seasonally adjusted data)

downturn in the stock exchanges (both phenomena are closely linked). At European level, international institutions are predicting a slowdown in growth from the 4th quarter of 2007, in line with the downturn in leading business cycle indicators. The prospects for the 1st quarter of 2008 are no more encouraging, with financial markets in freefall in January (plummeting over 10% inside a week). The 140-billion-dollar recovery plan announced by the United States to avoid recession in the American economy, financed by tax cuts, does not seem to have been enough to halt the strong downward trend in the main financial centres. European and Luxembourg household consumption is expected to suffer from a credit crunch and stronger inflation in 2008 (linked notably to price rises in oil products), while the European monetary authorities call for wage restraint.

Manufacturing

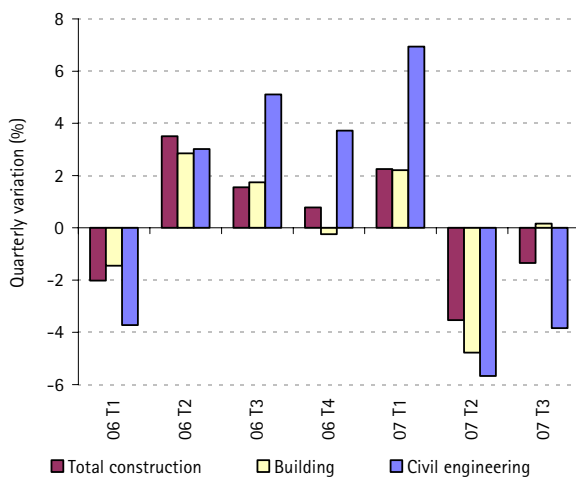
Trends in investment amounts (carried out and planned)



Source: STATEC (survey on manufacturing investment)

Construction

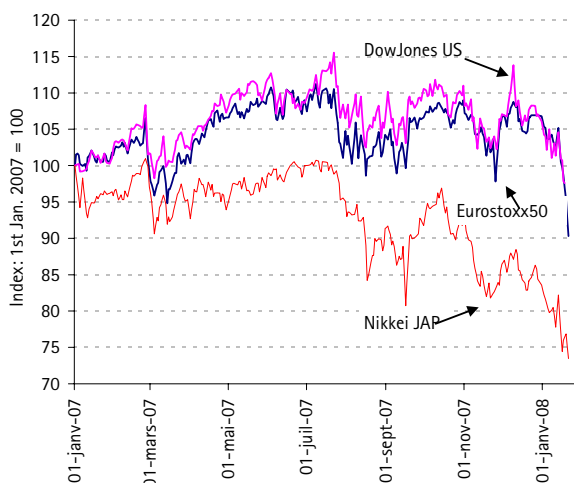
Trends in production per working day



Source: STATEC (seasonally adjusted data)

Financial sector (1)

Stock-market indices



Source: EUROSTAT

Less investment in 2008

Manufacturing investment grew strongly in 2007, up about 30% on 2006, better than predicted by manufacturers in late 2006. This surge in investment came mostly from the intermediate goods sector, but output in consumer goods also generated substantial additional investment in 2007.

As regards the forecasts for 2008, the latest survey conducted (October 2007) points to a fall of 5% in manufacturing investment. This negative trend is not in itself overly alarming: after a year as exceptional as 2007, the level of manufacturing investment forecast for 2008 remains at a historical high.

A difficult end to the year

Activity in the construction sector fell again during the 3rd quarter of 2007. Based on seasonally adjusted figures, this sector has undergone decline over two consecutive quarters. 2006 started rather badly for the construction sector, but finished well. For 2007, the situation is the opposite: the mild temperatures last winter led to increased activity, which proved temporary.

Finally, construction companies are heading for output growth of about 2% for 2007, close to that for 2006 (+2.4%). On the other hand, 2007 was a more favourable year for civil engineering than for building.

Panic sweeps through the markets

After falling sharply between mid-July and mid-August 2007, the stock exchanges climbed back up again, stabilising somewhat at the end of the year. January 2008 was again marked by a sharp fall, or rather freefall, with most of the stock exchanges down over 10% within a week. The Asian stock markets were particularly badly hit in the last few days, but the movement is general and extensive. Banks are gradually revealing results that are affected by quite heavy losses and a recession in the US economy looks increasingly likely, with few economic indicators holding out any hope of any immediate improvement. The drop in oil prices over the last few days, back down to USD 90 per barrel after exceeding USD 100, seems small consolation.

Financial sector (2)

Profit and loss accounts

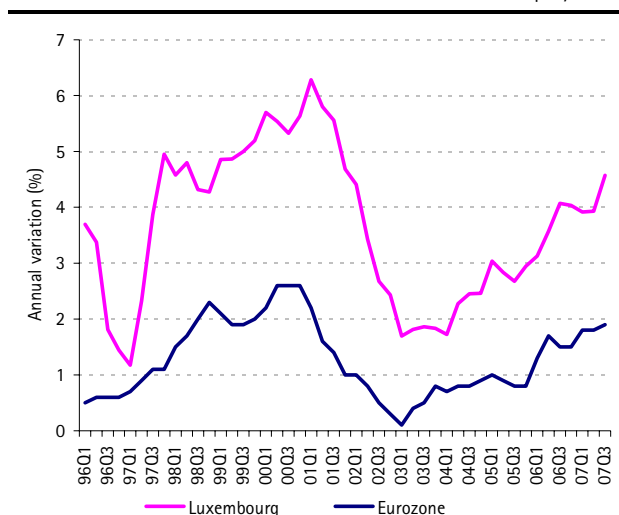
	December 2006	December 2007	Variation as a %
	In millions of EUR		As a %
Interest margin ¹	4 621	5 744	24.3
Income from commission	3 280	3 568	8.8
Other net income	2 257	934	-58.6
Banking income	10 157	10 247	0.9
Personnel expenses	1 972	2 178	10.4
Other overhead expenses	1 674	1 878	12.1
Overhead expenses	3 647	4 056	11.2
Earnings before provisions	6 510	6 191	-4.9

Source: CSSF (provisional results)

¹ Including dividends received from subsidiaries

Labour market

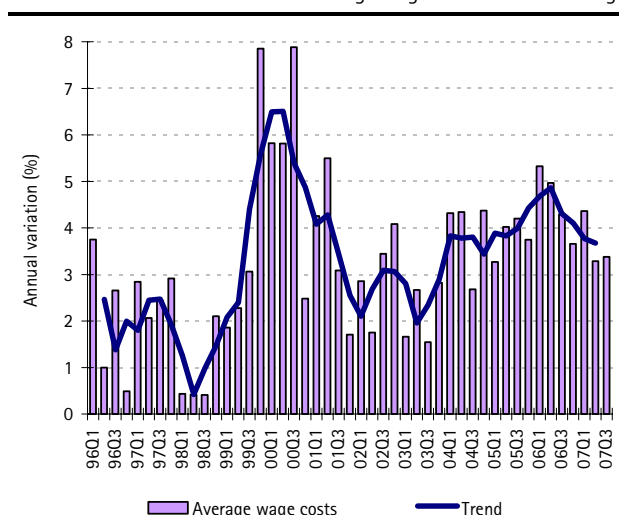
Trends in total domestic employment



Sources: STATEC - National quarterly accounts, Eurostat

Wage inflation

Trends in average wage costs in Luxembourg



Source: STATEC - National quarterly accounts

Fairly satisfactory results in the banking sector for 2007

Based on provisional figures, earnings before provisions in the banking sector were EUR 6,191 billion for 2007 as a whole (-4.9% over one year).

Despite sharp rises in income from interest and commission, banking output grew by only 0.9% compared to December 2006, due to much lower exceptional income than in 2006. Excluding these non-recurring effects, earnings before provisions rose by 10.4% compared to 31 December 2006 (as against approximately 6% at the end of the 3rd quarter). In the absence of definitive figures, the CSSF believes that the subprime crisis has had little direct impact on these results.

This trend does not overestimate results in terms of added value (i.e. economic growth) as calculated in the national accounts for the 4th quarter 2007. For example, the sharp rise in the bank interest margin in 2007 was mainly due to increased dividends from subsidiaries but these have little impact on added value created by the banking sector.

Employment in Europe continues to accelerate

According to the quarterly national accounts, total domestic employment grew by an average of 4.1% on an annual basis in early 2007 (three quarters) as against 3.6% over the same period last year. This acceleration came both from paid employment, with annual growth up from 3.8% to 4.3% in early 2006, and self-employment (from -0.1% to +1.6% over the same period).

The trend of acceleration began in early 2003 in Luxembourg and the entire eurozone.

However, it should be noted that the national accounts take account of various data sources available to calculate employment (social security files, surveys, etc.) and therefore this may differ from employment calculated directly from social security files.

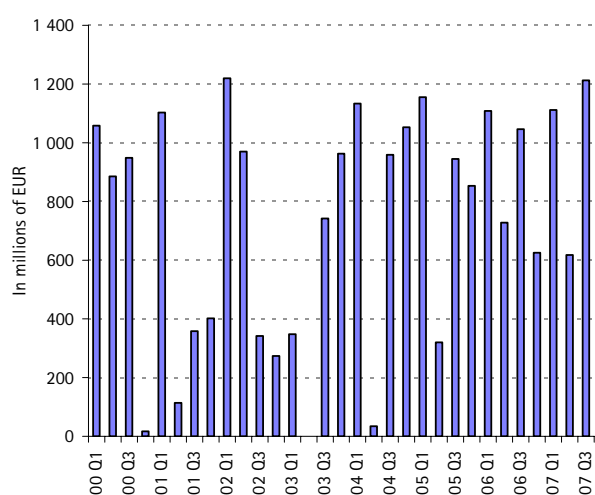
Moderate growth in average wage costs

In early 2007 (three quarters), average wage costs per person grew by 3.7% on average according to the quarterly national accounts, as against 4.9% over the same period last year. Of this, indexation accounted for 2.5% over the first three quarters (2.3% over the year as a whole), back to early 2006 levels. This is the cost borne by the employer per employee, i.e. benefits in kind and in cash paid by employers to their employees, including employer-paid social security contributions.

It should however be noted that the national accounts take account of various data sources available to calculate wage costs (social security files, surveys, etc.) and may therefore differ from wage costs calculated directly from social security files.

Foreign trade

Current account surplus



Source: STATEC

Current account surplus remains high

The current account surplus for the first three quarters of 2007 stabilised at EUR 2.93 billion, compared to EUR 2.92 billion for the same period last year. This stabilisation at global level is the result of strongly diverging trends from partial balances – in particular a rising surplus in services and growing deficits in the balance of revenues and current transfers.

The improvement in the surplus in services – at a record of EUR 12.1 billion, up from EUR 13.4 billion – is mainly linked to the sound state of the UCI sector (undertakings for collective investment). Over the first three quarters, income from financial services rose by 15%, a level of growth that was matched in the third quarter alone. Net issues of financial assets remained positive in Luxembourg.

The very slight decline in the trade deficit is explained by improved terms of trade (up 9% over the first three quarters), linked mostly to rising export prices in metal products.

Statistics table

	May-07	Jun-07	Jul-07	Aug-07	Sep-07	Oct-07	Nov-07	Dec-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	0.7	5.5	-2.5	-2.5	-5.1	-1.4	...	...	-3.0	0.8
Construction output per working day, in volume	0.6	2.6	-4.9	-0.3	-3.1	-0.8	...	...	-1.6	4.7
Turnover by volume of total trade	-0.5	-9.7	-4.7	21.0	4.8	...	...	...	6.0	2.2
Turnover by volume of total retail trade	9.1	14.2	8.6	13.3	13.8	...	...	...	11.8	13.1
Prices, wages										
Consumer price index (IPCN)	1.9	2.0	1.9	1.9	2.1	2.9	3.2	3.4	3.2	2.0
Underlying inflation	2.4	2.2	2.1	2.2	2.3	2.5	2.6	2.6	2.6	2.2
Oil prices	-4.9	-1.0	-2.3	-3.0	-0.8	10.4	12.6	16.5	13.2	-2.9
Industrial producer price index	10.0	10.4	6.1	8.3	6.6	6.9	5.7	...	6.4	11.4
Construction price index ¹	3.3	3.3	...	...	...	...	...	...	3.3	2.9
Average wage bill, per month, per person (IGSS)	6.2	0.7	4.2	3.9	3.2	...	...	...	3.7	3.5
Foreign trade										
Exports of goods, in volume	-11.0	-4.8	0.1	-8.0	-5.0	-6.0	...	...	-6.2	-2.7
Imports of goods, in volume	5.5	5.9	14.1	13.6	-4.2	-2.0	...	...	1.7	-0.4
Employment, unemployment										
Domestic number of employees (IGSS)	4.4	4.3	4.7	4.8	4.7	4.8	4.8	4.8	4.8	4.4
National employment (IGSS)	1.8	1.9	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
Unemployment rate (% of working population, seasonally adjusted, ADEM)	4.4	4.4	4.4	4.4	4.3	4.3	4.3	4.3	4.3	4.5

Sources: STATEC

Data in italic font are estimates

¹Estimations based on half-yearly data

Indicators

	Variation on previous quarter in %					
	2006 Q2	2006 Q3	2006 Q4	2007 Q1	2007 Q2	2007 Q3
Eurozone- Growth in volume of GDP (European Commission)	1.0	0.6	0.8	0.8	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 (12/2007) - base January 1 st 1948: 728.22	Half-yearly average of the index linked to base as at January 1 st 1948: 720.78					
Current account balance (2006 - 3 rd quarter): EUR 1 212 million	Resident population (01/01/2006): 476200 (estimation)					

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