

conjoncture flash

November 2008

Less inflationary pressure

With falling prices of raw materials, the inflation rate is set to slow considerably in the months to come. If the price of oil remains close to levels currently observed, inflation is expected to fall below 2% in 2009.

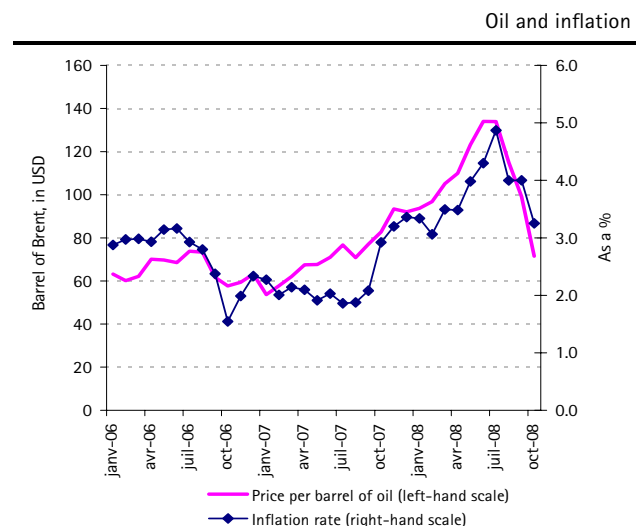
Oil prices fall, as do prices for all raw materials

The inflation rate in Luxembourg was at 3.3% in October 2008, a significant downturn compared to recent months: from May to September, inflation was over 4%, reaching a maximum of 4.9% in July.

The reasons for this drop are the same as those which pushed inflation upwards in early 2008, i.e. prices of raw materials. These peaked in July and then fell over the following months. The fall in oil prices was largely covered in the media, deservedly so given that oil prices strongly influence the consumer price index and are often behind short-term changes in the inflation rate. Since July, when the price per barrel was about USD 134 (on a monthly average), oil prices have fallen drastically to around USD 50 today. This trend has been strongly reflected in fuel prices (and heating oil), which fell in August, September and August, 12% in all. The fall noted in prices paid by consumers is not as significant as that affecting the price per barrel of oil, for two reasons. The first reason is structural: the price of raw materials (oil in this case) factored into the price of products sold to consumers is relatively low, as the latter is mostly composed of taxes¹. The second reason is more cyclical: oil prices are set in dollars which has gained against the euro in recent months, hence a lesser fall for consumers in the eurozone. Apart from oil prices, prices for all raw materials, whether energy, metal, agricultural or other, have also fallen since the summer.

For many of these the delayed effect on consumption is set to take longer than for oil, which is subject to automatic adjustments and the impact of falls on the inflation rate should be felt progressively.

Monthly publication of the state of the Luxembourg economy



Inflation forecasts revised downwards

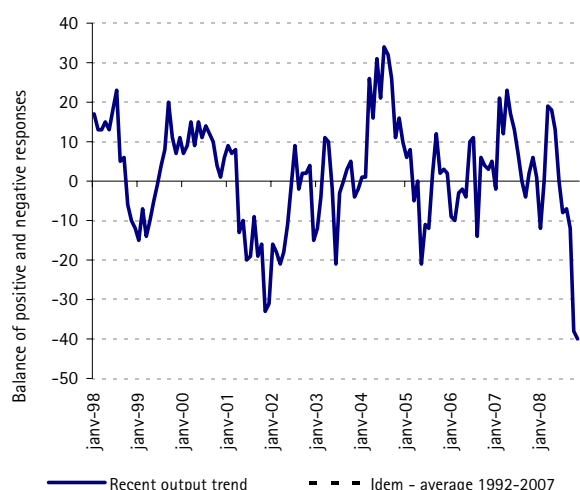
Inflation forecasts have been considerably affected by this recent trend in the price of raw materials. Based on the data available in October 2008, STATEC is predicting inflation of approximately 1.6% for 2009. This significant slowdown will be mainly due to the effect of falling energy prices compared to 2008. Given that oil prices have continued to fall in November and assuming that these will remain at about the current level of USD 50 in 2009, inflation may fall to about 1% in 2009, and some months may post a negative inflation rate – last seen in 1999. For November and December 2008, inflation is expected to slow considerably to about 2%.

The next wage indexation adjustment is due in March 2009 and, as provided for in the sliding wage scale system in the tripartite agreements, there will be no further indexation in 2009.

¹This also implies that when oil prices go up, fuel prices go up proportionally less.

Manufacturing

Economic survey on manufacturing



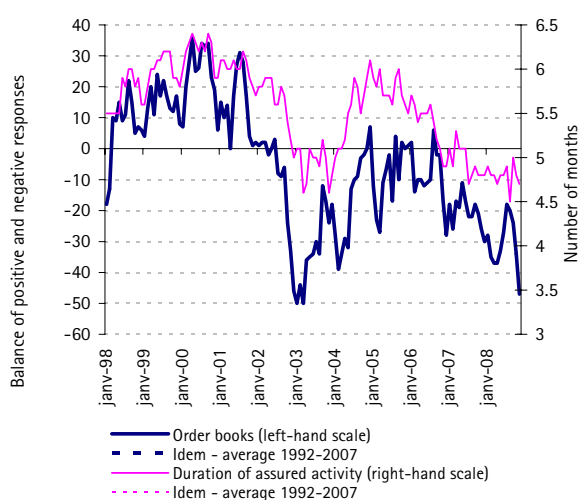
Source: STATEC

Manufacturers depressed since October

During the first 8 months of 2008, industrial output in Luxembourg stagnated compared to the previous year (down 0.1% over one year). Output recovered slightly in July and August, propelled by new orders in the iron and steel industry, but this is not set to last. In fact, opinion surveys, which were already down during the 3rd quarter for several components, show evidence of even sharper falls in forecasts from October 2008. The November results confirm this downturn: about two thirds of companies surveyed have revised their expected output levels downwards, while other indicators – recent output, order books, and employment prospects – have also deteriorated. With the European industrial context significantly less buoyant and with several large companies announcing particularly low demand for late 2008 and early 2009, output for the 4th quarter is likely to fall sharply.

Construction

Economic survey on construction



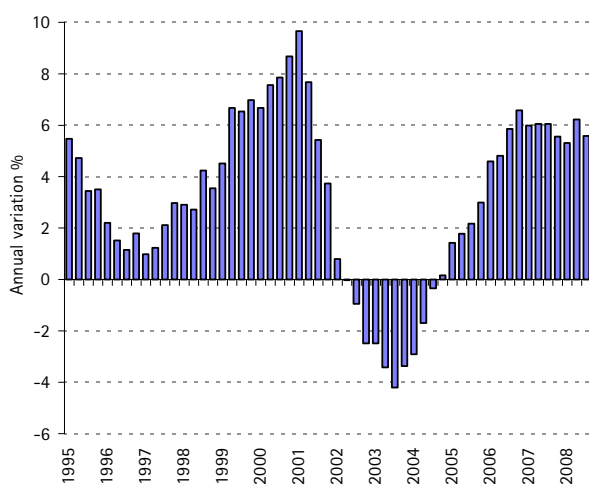
Source: STATEC

A difficult end to the year

Output in the construction sector based on the number of hours worked fell 1.4% over one year between January and July 2008. This disappointing result should, however, be put in perspective, given that nominal turnover figures for companies in the sector shows a rise of approximately 7% over the same period. However, as for industry, opinions in the construction sector fell significantly from October on, particularly as regards order books, well below the seasonal drop usually seen at the onset of winter. Almost 40% of companies surveyed considered that demand was insufficient in November 2008, compared with only 22% in November 2007.

Financial sector

Employment in banks (quarterly data)



Source: BCL

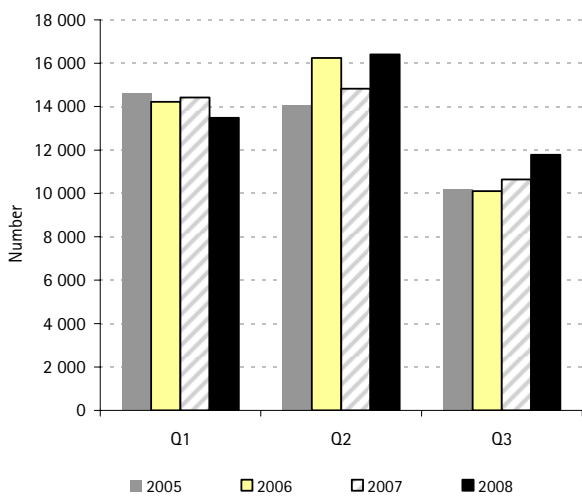
Banking employment holds up...

During the 3rd quarter of 2008, banking employment rose only slightly (267 persons) to settle at 27,269, reflecting a rise of 5.6% over one year. Compared to the pace of job creation observed in previous quarters, banking employment remains relatively dynamic (particularly due to a surprising upturn in the 2nd quarter), even though growth seems to have peaked in early 2007.

Recent weeks have brought bad news for banking employment, with several planned redundancies announced. These job losses concern the following banks: State Street (50 people, over 30 in the IFDS subsidiary), WESTLB (30 people), Glitnir (30-45 people) and Sella (45 people). The fate of Kaupthing Luxembourg employees (a subsidiary of the Icelandic bank) is not yet known, but in early November, management at Kaupthing Bank Belgium announced that they were considering a collective redundancy plan for the 46 employees of the Belgian subsidiary established in Luxembourg.

Consumption

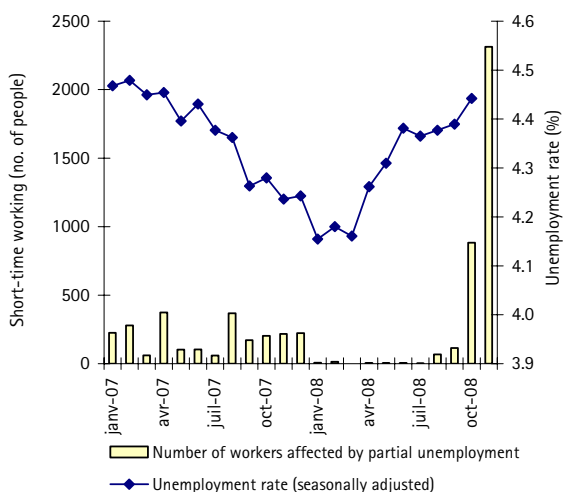
New registrations of new cars



Source: STATEC

Labour market

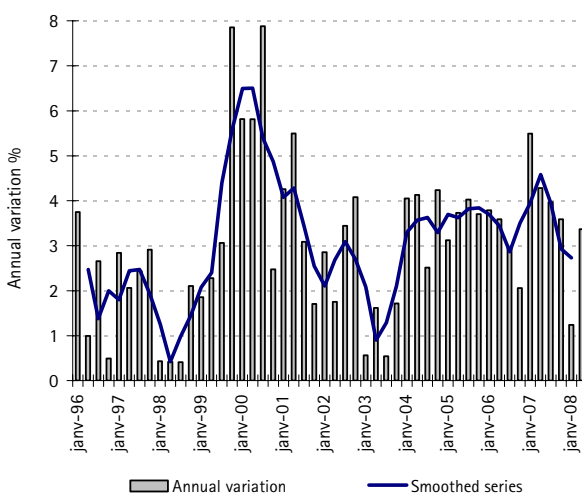
Short-time working and unemployment rate



Source: ADEM

Inflation - wages

Trends in average wage costs



Source: STATEC - quarterly national accounts

A particularly satisfying 3rd quarter for vehicle sales

Car sales also suffered at the start of the year (turnover in volume was down 7% over one year during the 1st quarter) but recovered thereafter.

Over the first three quarters of 2008, new vehicle registrations (private and commercial cars) rose 4.5% compared to last year and the figures for the 3rd quarter alone showed no sign of a slowdown (up 10% over one year approximately), contrary to what has been observed in most European countries.

However, there are worries as regards the 4th quarter, with several European car makers anticipating a significant fall in consumer demand for late 2008 and early 2009.

Bad news on short-time working

In November, based on provisional data for October from the *Comité de Conjoncture*, the number of short-time working persons increased sharply, breaking with the pattern of calm that had reigned for months (see graph). For December, the number of companies applying for short-time working exceeded fifty, a figure significantly higher than the peaks seen in previous slowdown periods (around 15 in late 2001 and a dozen in early 2004).

Despite other bad news, for example regarding collective redundancies, registered unemployment rose only slightly up to October. Using seasonally adjusted figures, the rise is insignificant. Nonetheless, the trend is now well established and is set to continue, no doubt more sharply in the coming months.

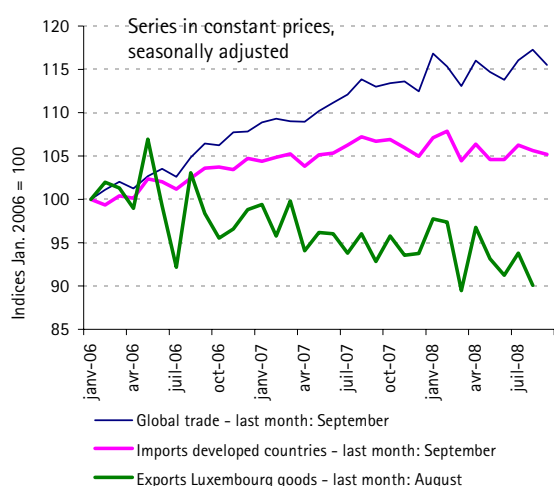
Limited wage increases in the 1st half-year

According to the quarterly data for the national accounts, average wage costs rose 3.4% over one year during the 2nd quarter of 2008, as against only 1.2% over one year during the 1st quarter. However, this acceleration is insignificant from a cyclical point of view as it is mostly based on automatic wage adjustments. During the 1st quarter of 2008, the impact of indexation on rising average wage costs was just 0.8 points, as against 2.5 during the 2nd quarter of 2008. Excluding adjustments, the results show a moderate increase of just 0.6% over one year for the first half of 2008 as a whole, as against 2.0% on average for 2007 as a whole.

For the first half of 2008, average wage costs tended to accelerate in Europe, with however marked differences between countries. Nonetheless, with inflation slowing down and more sombre prospects for the labour market from the 2nd half-year on, wage pressures are likely to progressively recede.

Foreign trade

Global trade and exports of goods from Luxembourg



Source: STATEC; CPB

Structural falls in exports of goods

Exports of goods from Luxembourg expressed in volume peaked in 2006 and have fallen progressively since then. Because of the increasing discrepancy between exports and a number of indicators of global demand, the drop seems more structural than cyclical. Furthermore, according to the latest data compiled by the CBP (Centraal Planbureau, Netherlands: cpb.nl), global trade has not yet turned around, at least not up to September, even though that month saw a fall (down 1.5%). Luxembourg exports, expressed in volume, reportedly fell by 4% in August and this is expected to continue, given the data for the subsequent months is already available (economic surveys and partial unemployment).

Statistics table

	Feb-08	Mar-08	Apr-08	May-08	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08	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	-0.1	-1.2	2.0	3.5	-3.4	1.1	2.7	...	...	-0.1	0.4
Construction output per working day, in volume	-3.1	0.2	0.3	2.1	-1.4	-2.3	-4.1	...	...	-2.3	-0.9
Turnover by volume of total trade	29.3	12.7	14.3	20.2	70.5	68.9	...	...	...	52.5	-7.2
Turnover by volume of total retail trade	7.9	-2.4	-0.9	3.8	-1.0	-1.4	...	...	...	0.4	-0.1
Prices, wages											
Consumer price index (IPCN)	3.1	3.5	3.5	4.0	4.3	4.9	4.0	4.0	3.3	3.7	2.3
Underlying inflation	2.1	2.4	2.4	2.5	2.6	3.0	2.7	2.7	2.4	2.6	2.3
Oil prices	20.4	21.0	21.1	25.4	29.6	31.9	23.3	23.3	15.0	20.5	2.0
Industrial producer price index	6.0	5.0	5.0	7.5	9.7	14.7	13.9	12.8	...	13.8	7.0
Construction price index ¹										3.0	2.4
Average wage bill, per month, per person	2.4	4.4	4.6	1.2	5.3	4.2	...	...	...	4.8	3.7
Foreign trade											
Exports of goods	2.3	-12.2	5.2	-4.1	-4.8	1.2	-6.6	-0.4	...	-1.7	-3.5
Imports of goods	-6.0	-12.7	2.7	-15.2	-10.3	2.0	-22.5	2.3	...	-6.0	-0.7
Employment, unemployment											
Domestic number of employees	5.4	5.5	5.4	4.9	5.5	5.1	4.7	5.0	4.9	4.9	4.8
National employment	3.2	3.1	3.1	3.1	3.1	3.4	3.0	3.2	3.0	3.1	2.3
Unemployment rate (% of working population, seasonally adjusted)	4.2	4.2	4.3	4.3	4.4	4.4	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	2007 Q3	2007 Q4	2008 Q1	2008 Q2
Eurozone- Growth in volume of GDP (European Commission)	0.7	0.3	0.7	0.4	0.7	-0.2
Luxembourg - Growth in volume of GDP (STATEC)	2.4	-0.4	0.6	0.9	0.1	1.2
	Annual variation in %					
	2006	2007	Forecast 2008		Forecast 2009	
Luxembourg - Growth in volume of GDP (STATEC)	6.4	5.2	1.7 – 2.0		-0.4 – +0.5	
GDP at current prices for 2006: EUR 36 297 million	Minimum monthly salary (since 01/03/2007: EUR 1 609.53)					
Consumer price index (October 2008) – base January 1 st 1948: 746.29	Half-yearly average of the index linked to base as at January 1 st 1948: 745.94					
Current account balance (2008 – 2nd quarter): EUR -108 million	Resident population (01/01/2008): 484 000 (estimation)					

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