

December 2008

conjoncture flash

International: crisis starts to impact on the real economy

International business cycle indicators have deteriorated in recent months. Despite the paucity of data available for the 4th quarter in Luxembourg, the decline in the eurozone can be seen as a negative signal for external demand as regards the Luxembourg economy.

The figures are starting to show clearly how the real shock is reverberating in various ways: from sector to sector, from output to employment and from household confidence to sales figures. The fall in inflation has been spectacular, as have the reactions of monetary policy.

Indicators of activity at their lowest

In the United States, the first official figures for November confirm the downward trend in industrial output: down 0.6% as a monthly variation and 5.5% year-on-year. In the eurozone the contraction is very similar, down 5.3% year-on-year for October (the last month available). However, the Purchasing Managers' Index (PMI) for November indicates that the cyclical downturn is set to continue into the 4th quarter. Whereas the PMI was still above 50 in June (i.e. expanding), it has been in freefall ever since, ending at 35.6 in November. A new historic low of 34.5 was reached in December.

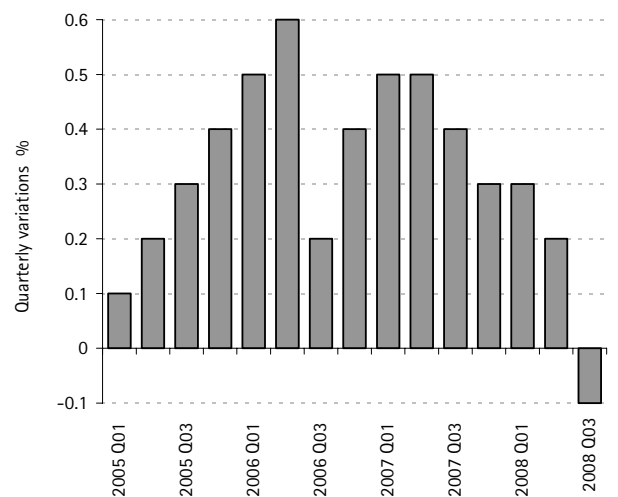
Suffering from the decline in manufacturing, construction and trade, service activities are starting to feel the effects of the cyclical downturn. In the United States, the non-manufacturing PMI fell sharply, from 50.2 in September to 37.3 in November. In the eurozone, the PMI in services had already started to fall in June. However, the fall was not as sharp, but was significant all the same, with a value of 42.5 in November, practically stabilising in December at 42.0.

Job losses start to have a significant impact

The sharp slowdown in activity has impacted on employment figures. In the United States, net losses increased in November (down 533,000), totalling 1.26 million for the last three months. In the eurozone, the same process seems to have started: provisional estimates for the 3rd quarter show that seasonally adjusted employment was down 0.1% compared to the previous quarter.

Monthly publication of the state of the Luxembourg economy

Trends in employment in the eurozone



Source: EUROSTAT (seasonally adjusted)

Unprecedented falls in both inflation and interest rates

With prices for oil and raw materials falling, the inflation rate (year-on-year) in the United States tumbled at an unprecedented rate: from 4.9% in September to 3.7% in October and 1.1% in November. Spurred by the extent of the recession, the FED reacted immediately, lowering the key interest rate to between 0 and 0.25%.

In the eurozone, EUROSTAT has just confirmed that inflation was at 2.1% in November, falling from 3.2% and 3.6% in September and October. Inflationary pressures are set to dissipate in the coming months (see Inflation, wages section) and the monetary relaxation initiated by the ECB is expected to continue.

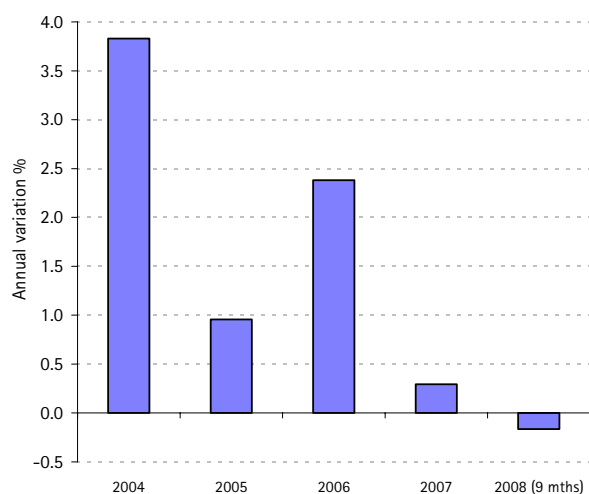
Despite the marked fall in inflation, household confidence is flagging, reflecting the situation in the labour market. This loss of confidence has, for example, affected vehicle registration figures (see Consumption section).

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Manufacturing

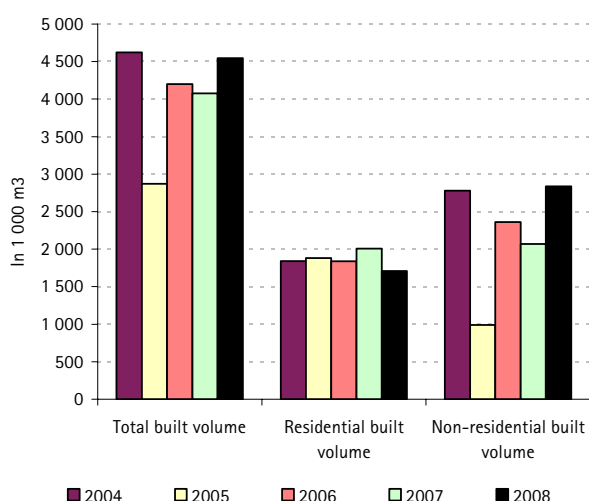
Industrial output per working day



Source: STATEC (activity survey)

Construction

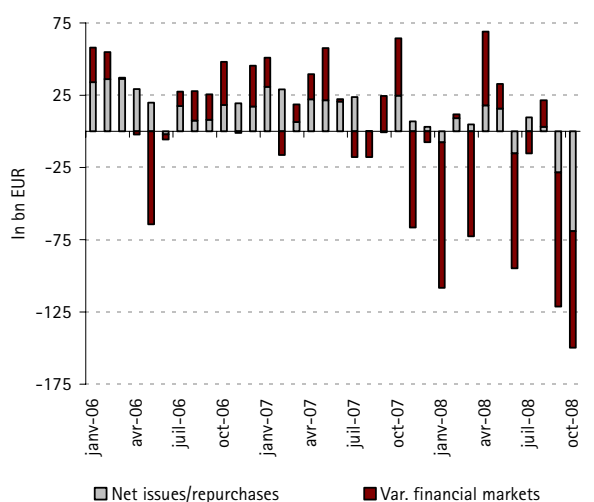
Planning permissions at the end of Q3 (accumul.)



Source: STATEC

Financial sector

Undertakings for collective investment



Source: CSSF

A difficult end to the year expected

Industrial output fell by 2.3% during the 3rd quarter of 2008 based on seasonally adjusted figures (increasing 1.1% over one year).

Iron and steel output was relatively high during the 3rd quarter (up 30% over one year), linked to increasing orders. This trend is not, however, expected to last, with several companies in this sector already announcing large cuts in output for the 4th quarter.

The 3rd quarter figures for output in intermediate goods (excluding iron and steel) and consumer goods are particularly disappointing. Over the first 9 months of the year, industrial output for 2008 fell just slightly compared to 2007, but the last quarter is expected to bring the overall figures further down, given the stalling of activity as seen in economic surveys and negative information coming from businesses in the sector.

Planning authorisations recover

Planning authorisations throughout the first half-year of 2008 were down on those for 2007. However, data for the third quarter provides a measure of comfort, particularly in the non-residential sector, owing to two large-scale construction projects – in Esch-Belval and Bertrange – which have largely offset the deficit recorded for the first part of the year.

However, the trend in the residential sector remains down some 15% compared to 2007, despite the relatively high level of construction projects in July.

Luxembourg is in line with the European trend in this regard, with a 15-20% drop in planning authorisations for residential buildings over the first 3 quarters of 2008.

A turbulent autumn for UCIs

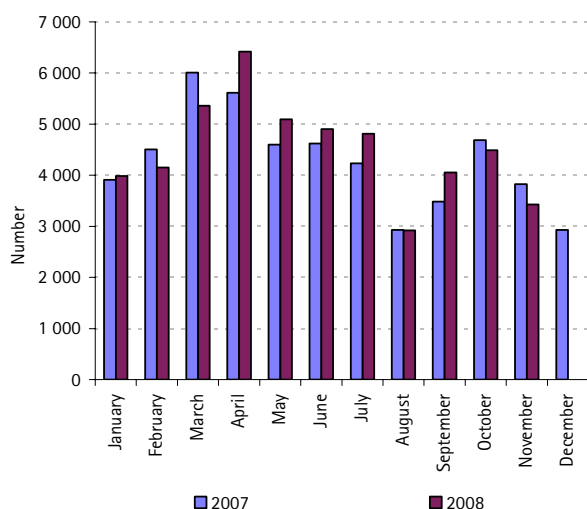
The net assets of Luxembourg UCIs fell significantly in September and October, losing 14% overall compared to August. The direct impact of the financial markets accounted for around 2/3 of this slump. It must be noted that the main stock markets had a particularly rough ride over this period, recording a loss of around 25%.

Net capital investment bore the brunt of this slump, falling EUR 28 billion in September and EUR 70 billion in October. Over the first 10 months of 2008, net investment fell EUR 6 billion per month on average, compared to an average rise of EUR 15 billion per month in 2007 as a whole.

The stock markets have been stabilising since mid-November, which should reduce the impact on UCI assets by the end of the year.

Consumption

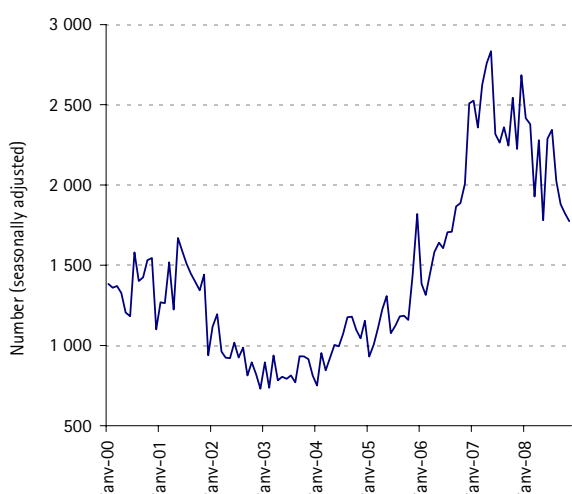
New vehicle registrations in Luxembourg



Source: STATEC

Labour market

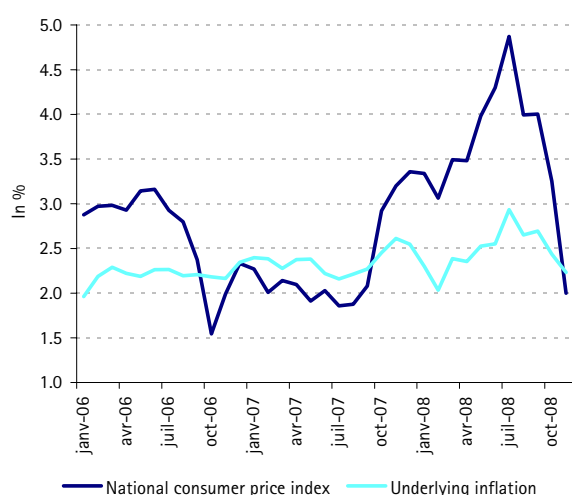
Unfilled vacancies



Source: ADEM and STATEC calculations (seasonally adjusted)

Inflation - wages

Inflation in Luxembourg



Source: STATEC

Vehicle registrations down

New car registrations in the eurozone, already down in the previous months, fell sharply in November by almost 25% over one year (Source: ACEA). This attests in particular to the sharp drop in demand mentioned in recent weeks by European car makers, which also affects component manufacturers in Luxembourg.

Luxembourg registrations were down 10% over one year in November (after falling 4% in October). However, this fall should be put in perspective because after the first 11 months, registrations for 2008 were up 2%, compared to a fall of 7% for the eurozone as a whole. We will have to wait for the results for February to April (generally the biggest months for registrations) to determine the trend for 2009 as a whole.

Fewer job vacancies

Although job **vacancies** (i.e. those declared to ADEM by employers) are a relatively volatile short-term indicator, they do provide a snapshot of labour market trends. During the last cycle, the volume of vacancies peaked in 2007. Since the end of 2007, the number of vacancies has fallen, more sharply so since the summer of 2008. The volume of vacancies fell by about 20% from August to November this year compared to 2007.

Meanwhile, the unemployment rate has been rising, reaching 4.5% in November (seasonally adjusted figures), as against 4.2% in January 2008.

In November 2008 there were about 6 job seekers for every job vacancy declared to ADEM, as against one for every 4 job seekers in the 2nd half-year of 2007. In early 2004, this ratio was only one in 8.

Oil shock repercussions

Inflation is down for the second month in a row, at a rate of 2.0% in November 2008. With oil prices continuing to fall since August, general inflation has now fallen below underlying inflation. Among other things, underlying inflation excludes oil prices and is also falling, linked mainly to much lower price rises for food. Inflation in food and drinks, excluding alcoholic beverages, was only 3.6% in November (as against over 6% in September). This moderation was mainly seen in bread, cakes, pasta and dairy produce.

Oil prices are expected to bring inflation down until mid-2009 due to basic effects (oil peaked at almost 150 dollars during the summer of 2008). For the first half of December, oil prices have oscillated between USD 40 and 50.

Hotel and catering

Arrivals and overnight stays: hotels, hostels, guest houses

	2007	2008*	2008/07*
	Unit: thousands		Variation (%)
Arrivals			
Entire country	340	325	-4.3
incl.			
Luxembourg City	179	170	-5.0
Rest of country	161	155	-3.6
Overnight stays			
Entire country	657	637	-0.3
incl.			
Luxembourg City	349	335	-4.1
Rest of country	307	302	-1.7

Source: STATEC

* provisional figures

Statistics table

	Mar-08	Apr-08	May-08	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08	Nov-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	-1.4	1.9	3.5	-3.4	1.1	2.7	-0.3	...	...	1.1	-2.9
Construction output per working day, in volume	0.2	0.3	2.1	-1.4	-2.3	-4.1	0.1	...	...	-1.7	-3.2
Turnover by volume of total trade	13.0	14.5	20.4	70.3	65.2	47.2	69.2	...	...	60.4	3.1
Turnover by volume of total retail trade	-2.4	-0.9	3.8	-1.0	-1.4	10.9	2.8	...	...	3.9	0.4
Prices, wages											
Consumer price index (IPCN)	3.5	3.5	4.0	4.3	4.9	4.0	4.0	3.3	2.0	3.1	2.7
Underlying inflation	2.4	2.4	2.5	2.6	3.0	2.7	2.7	2.4	2.3	2.5	2.5
Oil prices	21.0	21.1	25.4	29.6	31.9	23.3	23.3	15.0	-0.9	12.2	7.2
Industrial producer price index	5.0	5.0	7.5	9.7	14.5	13.9	12.9	11.2	...	12.6	7.3
Average wage bill, per month, per person	4.4	4.6	1.2	5.3	4.2	2.9	...	...	...	4.6	2.9
Foreign trade											
Exports of goods	-10.5	3.5	-1.4	-2.2	-0.3	-6.4	-0.1	...	...	-2.1	-3.8
Imports of goods	-10.0	3.0	-12.1	-7.5	-13.4	-21.7	3.1	...	...	-10.8	-0.7
Employment, unemployment											
Domestic number of employees	5.5	5.4	4.9	5.2	5.1	4.8	5.0	5.0	4.7	4.9	4.9
National employment	3.2	3.2	3.0	3.3	3.2	3.0	3.2	3.2	2.9	3.1	2.6
Unemployment rate (% of working population, seasonally adjusted)	4.2	4.3	4.3	4.4	4.4	4.4	4.4	4.5	4.5	4.5	4.3

Sources: STATEC

Data in italic font are estimates

Indicators

	Variation on previous quarter in %					
	2007 Q2	2007 Q3	2007 Q4	2008 Q1	2008 Q2	2008 Q3
Eurozone- Growth in volume of GDP (European Commission)	0.5	0.6	0.3	0.7	-0.2	-0.2
Luxembourg - Growth in volume of GDP (STATEC)	-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	2.0		0.5	
GDP at current prices for 2006: EUR 36 276 million	Minimum monthly salary (since 01/03/2007: EUR 1 609.53)					
Consumer price index (November 2008) - base January 1 st 1948: 740.02	Half-yearly average of the index linked to base as at January 1 st 1948: 745.26					
Current account balance (2008 - 2nd quarter): EUR -108 million	Resident population (01/01/2008): 484 000 (estimation)					

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Fewer tourists in the 1st half-year of 2008

Over the 1st half-year of 2008, hotel frequentation was a little disappointing. With overnight stays down about 3% compared to the 1st half-year of 2007, the hotels in the Grand-Duchy apparently did not benefit from the rise in arrivals in arrivals recorded in the European market by the World Tourism Organisation (WTO) during the same period – about 5% over one year.

According to WTO data, tourism numbers in Europe started to fall from June on and the summer period witnessed a stagnation compared to the results for 2007. The WTO forecasts a drop in arrivals for the end of 2008 and 2009, due mainly to declining economic forecasts.

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