

conjoncture flash

February 2008

Luxembourg industry in 2007

2007 started quite well for Luxembourg industry but output slumped during the second half of the year. Manufacturers' prospects, for both the eurozone and Luxembourg, show continued signs of concern in early 2008.

Virtual stagnation in output in 2007

After a relatively satisfying start to the year, manufacturing output fell significantly, which is expected to result in stagnation over the year as a whole. Daily output in the first 11 months grew by only 0.3% compared to 2006.

At the start of the 1st half of the year, the iron and steel industry had an exceptional number of orders on the books, which boosted output until June (+10% approximately compared to 2006 over the first six months). In other industries, the rise was more modest but nevertheless higher than in 2006, which had been a little disappointing.

As from the summer of 2007, both orders and output started to shrink, in line with a significant fall-off in manufacturers' opinion surveys. The slump affected both the iron and steel and other industries.

Growth was best in capital goods in 2007. However, there was a significant downturn

in consumer goods (-6% on average, mostly in the production of beverages, tobacco, textiles and clothing), already significantly affected in 2006 (-4.4%).

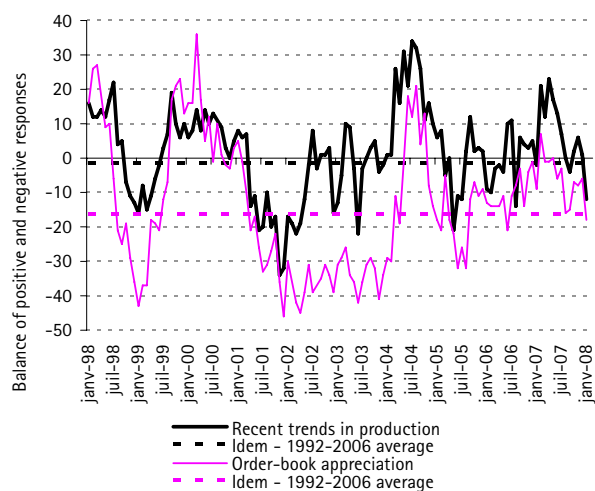
In the eurozone, industrial output tended to stabilise from the 3rd quarter on, also reflecting the less favourable economic climate. However, over the year as a whole, it grew by 3.4%, with Luxembourg's results paling into insignificance.

Modest prospects for the eurozone and Luxembourg

Industrial orders bounced back in October and November 2007 in the eurozone, but when aircraft orders are excluded, the recovery is modest.

Monthly publication of the state of the Luxembourg economy

Economic survey on manufacturing



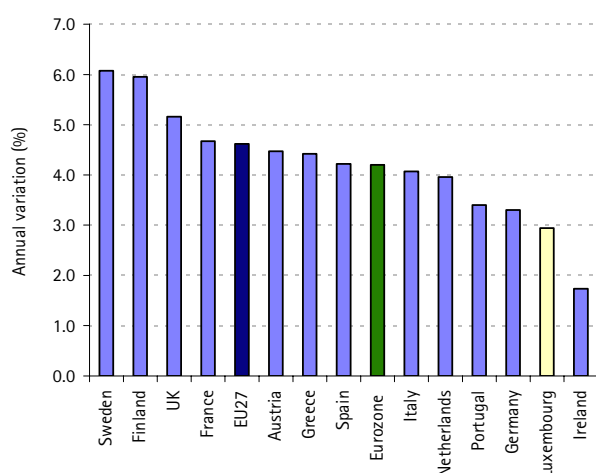
Source: STATEC

Industrial output tended to slow down in the eurozone as a whole over the last quarter of 2007, including in Germany, where it was most dynamic. European manufacturers' opinions overall were down until January 2008, which points to difficulties in the first quarter of 2008 and probably also in the second (given the extent of negativity). Luxembourg is not exactly in a party mood either. The results of the January 2008 survey show a sharp downturn in opinions on recent trends in output and order books. While those surveyed seem to have a more favourable view of future trends from December on, caution is advisable until this is confirmed on the order books. Moreover, use of production capacity has been down since mid-2007.

statec
L U X E M B O U R G

Construction

Construction price trends in 2007



Source: EUROSTAT

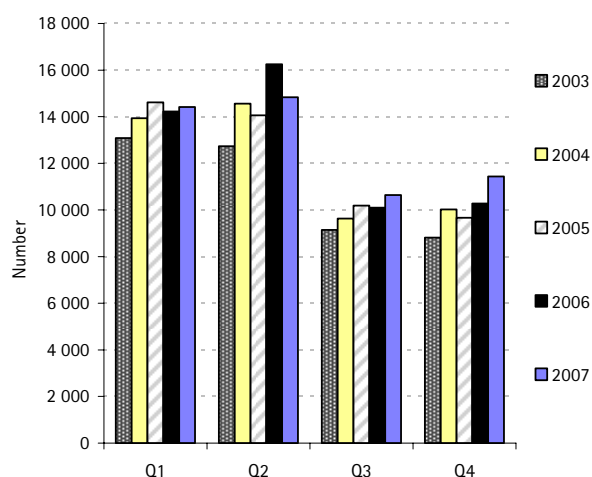
Construction prices remain relatively modest

Construction prices (the prices charged by various tradesmen for the construction of residential buildings) accelerated slightly in early 2007 in Luxembourg, mostly for services connected to the use of metal products (linked to the sharp rise in the global price of base metals) and glazing. Prices rose more slowly during the 2nd half of 2007 (+3.0% over one year), despite significant rises in framework (+3.9% compared to the 1st half), glazing (+4.5%) and flooring (+3.0%).

It is a little surprising to note that Luxembourg is currently one of the least inflationary European countries as regards construction prices. While prices in the Grand Duchy grew by about 3% in 2006 and 2007, they rose over 4% per annum in the EU27 and eurozone over the same period.

Consumption (1)

New vehicle registrations



Source: STATEC

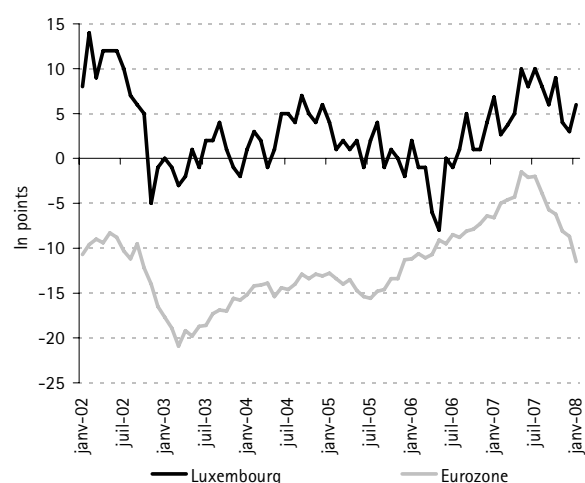
Slight rise in new vehicle registrations in 2007

New vehicle registrations in Luxembourg (private and commercial cars) until mid-2007 were down by about 40% compared to 2006 but this was offset by better results in the second half of the year. Finally, the number of new car registrations rose by 1% over the year as a whole, down on 2006 (+4.8%).

In the eurozone, new car registrations have also stalled somewhat (+0.5% in 2007 as against +1.5% in 2006). The situation varies a great deal from country to country, with registrations considerably down in Germany (-9%), Austria (-4%) and Finland (-14%), offset by better results in France (+3%), Italy (+7%) and Spain (+8%).

Consumption (2)

Consumer confidence



Source: EUROSTAT

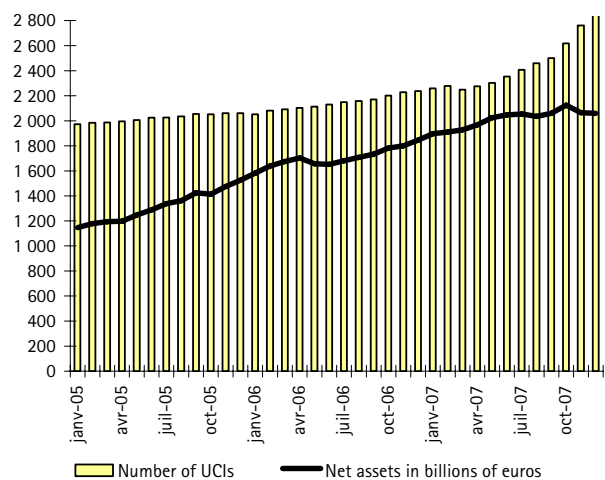
Slump in confidence less severe in Luxembourg

Luxembourg shares the growing pessimism seen in other European countries over the last six months (with more negative expectations as regards the general economic situation and unemployment) but to a lesser extent. In other words, consumer confidence in Luxembourg is markedly higher than in the rest of the eurozone. The gap, favourable to the Grand Duchy, has not been this marked since mid-2005.

However, Luxembourg households are far from seeing the world through rose-tinted glasses: the positive results in January are due in large part to significant rises in expected savings, one of the most volatile components of the indicator (and more difficult to interpret economically), which should not mask the downward trend. Even taking into account this one-off phenomenon, Luxembourg consumers were not as affected as their European counterparts.

Financial sector

Number of UCIs and net assets



Source: CSSF

A halt to the rise in UCIs

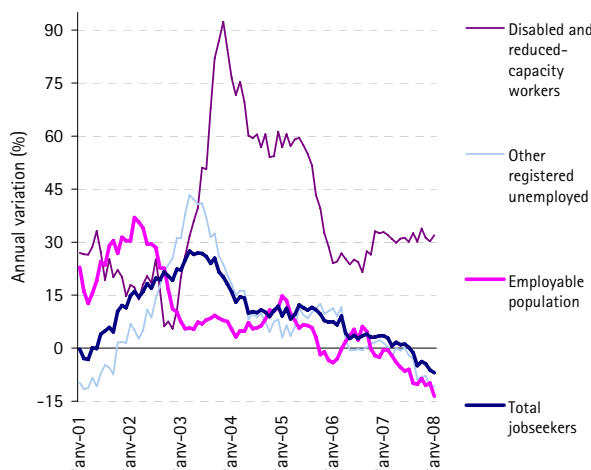
UCI statistics have suffered in recent months from the effects of the turbulence affecting the stock markets. Growth in net UCI assets, particularly high since mid-2003, came to a halt in August 2007. After picking up slightly in October, assets fell again over two consecutive months and the overall trend since August has been stagnant.

The financial markets continued their decline in early 2008 (with a particularly strong correction during the 3rd week in January) and disappointing statistics are again to be expected for the 1st quarter.

Net inflows of capital (excluding variations linked to the financial markets) amounted to just EUR 30 billion approximately during the 3rd and 4th quarters, twice as low as the quarterly average recorded from 2005 to mid-2007. Over the last two months available (November and December 2007) net capital inflows shrank away.

Labour market

Changes in unemployment figures



Source: ADEM

Fall in unemployment since mid-2007

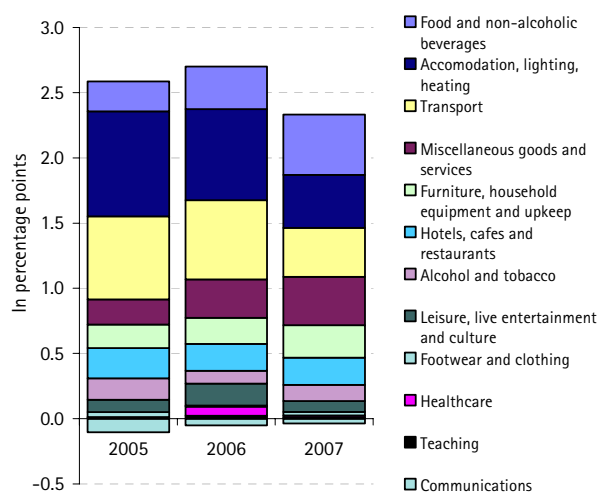
Since mid-2007, the total number of jobseekers registered with ADEM has fallen.

The numbers of those receiving full unemployment benefit were the first to fall in early 2006, followed by a drop in the numbers of those on job schemes in late 2006. Apart from the disabled and reduced-capacity workers, the number of jobseekers registered with ADEM fell from early 2007. However, the total number of jobseekers registered with ADEM only started to fall in the last quarter of 2007.

This delay is explained by the continuous increase in disabled and reduced-capacity workers registered with ADEM. After slowing down significantly throughout 2004 and 2005 (see graph opposite), growth rates stabilised at around 30% in 2006 and 2007.

Inflation, wages

Contribution to the progression of the IPCN index in 2007



Source: STATEC

Foodstuffs generate more inflation

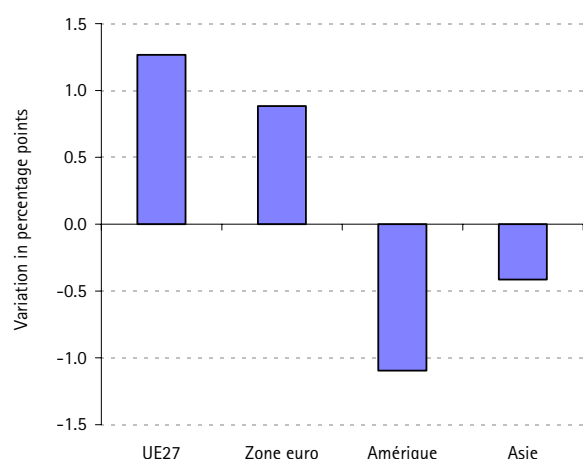
Oil products contributed only 0.09 percentage points to inflation in 2007, which stood at 2.3% (i.e. approximately one twentieth). Therefore, underlying inflation was the main source of inflation in 2007.

In 2007, foodstuffs were the main source of inflation (0.46 percentage points out of 2.3%, i.e. 20%), followed by public charges, which accounted for some 15% of inflation in Luxembourg (0.34 percentage points, of which used water recovery accounted for 0.10 percentage points, electricity 0.09 points and water supply 0.06 points).

Other factors that contributed to inflation included: retirement and care homes (0.17 points), vehicle maintenance and repairs, cigarettes and restaurant meals (0.08 points each), diesel cars and employment of domestic staff (0.07 points each) and apartment rents (0.05 points).

Foreign trade

Relative trends in exports of goods per region in 2007



Source: STATEC

Exports of goods more focused on Europe

Exports of goods from Luxembourg grew 4.3% in value over 2007 as a whole, totalling EUR 11.8 billion.

In a less expansionist environment than in 2006, exports of goods were driven mostly by European demand, rising 5.9% for EU exports and 5.6% for eurozone exports.

On the other hand, sales outside the EU fell in value, particularly exports to the United States (-21%) and China (-12%). However, sales to Russia and Brazil grew a healthy 29% and 19% respectively. Despite the slowdown, the United States remains by far Luxembourg's main trading partner outside Europe, with 18% of all non-EU exports.

Statistics table

	juin-07	juil-07	août-07	sept-07	oct-07	nov-07	déc-07	janv-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	5.6	-2.2	-2.0	-4.4	-1.3	-1.4	...	...	-2.4	1.8
Construction output per working day, in volume	2.6	-4.9	-0.3	-3.0	-0.3	-3.8	...	...	-2.3	1.7
Turnover by volume of total trade	-9.7	-4.8	20.9	4.2	-3.1	...	...	...	6.2	6.4
Turnover by volume of total retail trade	14.2	8.4	13.1	13.2	11.0	...	...	...	12.4	15.1
Prices, wages										
Consumer price index (IPCN)	2.0	1.9	1.9	2.1	2.9	3.2	3.4	3.3	3.3	2.2
Underlying inflation	2.2	2.1	2.2	2.3	2.5	2.6	2.6	2.3	2.5	2.3
Oil prices	-1.0	-2.3	-3.0	-0.8	10.4	12.6	16.5	19.8	16.3	0.4
Industrial producer price index	10.3	6.1	8.3	6.6	6.9	5.7	7.4	...	6.7	10.8
Construction price index ¹	3.3	3.1	3.1	3.1	3.0	3.0	3.0	...	3.0	2.4
Average wage bill, per month, per person (IGSS)	0.7	4.4	3.9	3.2	3.6	...	...	...	4.1	2.9
Foreign trade										
Exports of goods, in volume	-5.1	0.2	-8.7	-6.5	-3.3	-3.1	...	...	-4.3	-5.1
Imports of goods, in volume	5.6	13.8	14.4	-4.3	-0.2	-2.7	...	...	-2.4	-0.5
Employment, unemployment										
Domestic number of employees (IGSS)	4.3	4.7	4.8	4.7	5.0	4.9	5.0	5.6	5.2	4.3
National employment (IGSS)	1.9	2.2	2.2	2.2	2.5	2.3	2.3	2.6	2.4	2.1
Unemployment rate (% of working population, seasonally adjusted, ADEM)	4.5	4.4	4.4	4.3	4.3	4.3	4.2	4.2	4.2	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 01/03/2008): EUR 1 609.53					
Consumer price index (01/2008) - base January 1 st 1948: 723.79	Half-yearly average of the index linked to base as at January 1 st 1948: 723.13					
Current account balance (2006 - 3 rd quarter): EUR 1 212 million	Resident population (01/01/2006): 476 200 (estimation)					

Service central de la statistique
et des études économiques
B.P. 304
L-2013 Luxembourg
Tel. 2478-1 Fax 46 42 89
E-mail: info@statec.etat.lu
Internet: www.statistiques.public.lu

For further information:
Pascale Armstrong
Tel. 2478-4234
E-mail: Pascale.Armstrong-Pax@statec.etat.lu
Bastien Larue
Tel. 2478-4339
E-mail: Bastien.Larue@statec.etat.lu