

April 2008

# conjoncture flash

Monthly publication of the state of the Luxembourg economy

## Economic forecasts for the eurozone revised downwards

International organisations usually publish their macro-economic Spring forecasts between mid-April and mid-June, with the IMF generally being the first to publish its World Economic Outlook<sup>1</sup>. In its latest edition, the IMF anticipates GDP growth in volume of 1.4% in 2008 and 1.2% in 2009 in the eurozone. This relatively downbeat view is surprising given that first quarter data pointed to continuing strong growth in the eurozone and is in contrast with the more upbeat views expressed by managers of other international organisations.

## Unusually high differences

In February and March, interim forecasts were drawn up by the European Commission (which is to publish its definitive forecasts on 28 April) and the OECD. The timing of these publications was sufficiently close to the above IMF report to warrant comparison. However, the interim forecasts by the European Commission and the OECD are more upbeat than those of the IMF as regards economic trends in the eurozone for 2008. The Commission has forecast growth of 1.8% for 2008 as a whole, while the OECD confined itself to publishing quarterly forecasts for GDP growth: +0.5% for the first quarter of 2008 and +0.4% for the second, seasonally adjusted. The quarterly figures published by the OECD correspond to an annual rate of just below 2%.

## The US property crisis leads to international financial turbulence

The IMF's more downbeat forecasts than those of the other two international organisations are mainly due to a more pessimistic view of the global impact of the US 'subprime' crisis. This crisis – in relation to which there should be no divergence in interpretation – has resulted in international financial turbulence, the main cause for the global economic slowdown.

According to the IMF: "*[the subprime crisis] has spread quickly and unpredictably to inflict extensive damage on markets and institutions at the core of the financial system*". The key issue is to ascertain whether the current financial crisis is likely to turn into a real credit crunch. In this case, according to the IMF, the global economy will have to face a real recession.

## How does this impact the Luxembourg economy?

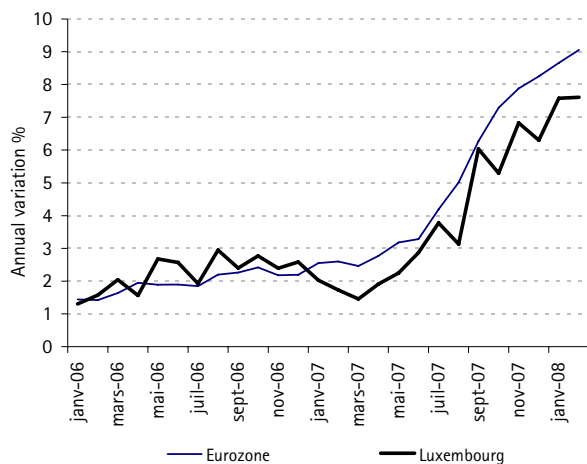
Even though the IMF's forecasts for the eurozone appear – for the moment – to be overly downbeat, if STATEC were redrafting its forecasts today, it would opt for a more downbeat scenario than that retained in the last Note de Conjoncture (published in early March). Two qualifications are in order: firstly, the benchmark European stock market index Eurostoxx50 fell about 10% on an annual average (rather than stagnating as predicted in the last forecast) and, secondly, economic growth in 2009 for the eurozone as a whole will slow (down to 1.7% from 2.2%), as it is taking longer than anticipated to recover from the turbulence in the financial markets. This would result in a downward revision of growth for Luxembourg for 2008 and 2009, which is likely to occur when GDP for the last quarter is known in mid-May, and the relevant results are published in the next Note de Conjoncture in early June.

<sup>1</sup> Published on 9 April:  
<http://www.imf.org/external/pubs/ft/weo/2008/01/index.htm>

<sup>2</sup> "The subprime crisis: size, deleveraging and some policy options", OECD, April 2008:  
<http://www.oecd.org/dataoecd/36/27/40451721.pdf?contentId=40451722>

## Manufacturing

### Food production prices



Sources: Eurostat, STATEC

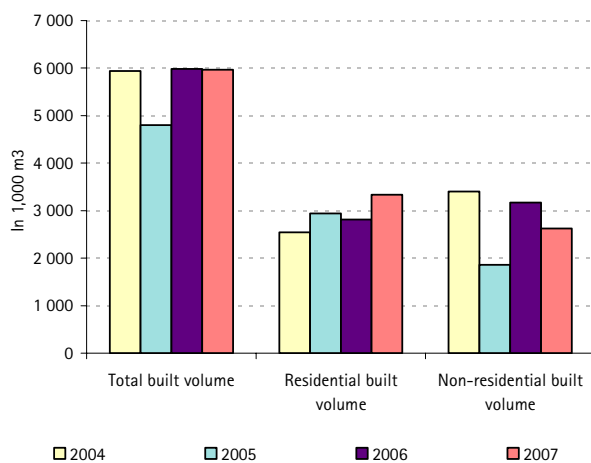
## Food prices still under pressure

The price of food production continued to rise sharply in the first months of 2008, in both Luxembourg and the eurozone. This phenomenon was mainly linked to sharp rises in the price of agricultural products, due in turn to a more general upward trend in prices for raw materials internationally.

In late February 2008, the price of food production continued to rise (+8% over one year for Luxembourg, rising to 14% when beverages are excluded), which will certainly have an effect on consumer prices for foodstuffs, which have already risen to a rhythm of 5% since November 2007.

## Construction

### Planning permissions



Source: STATEC

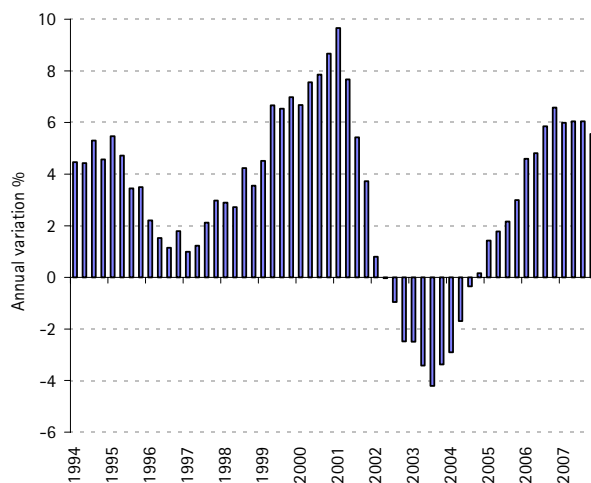
## More housing units anticipated

The volume of planning permissions granted in 2007 stabilised compared to the previous year (-0.3%). However, closer reading reveals two distinct trends. Firstly, non-residential building has fallen some 17%, with a volume of approximately 2.5 million m<sup>3</sup>, below the average figure of 3.1 million per annum observed over the last 10 years.

In contrast, the volume of residential building grew considerably, particularly over the last quarter of 2007, rising 33% in the house and apartment sector. This trend was accompanied by a record of almost 5,000 housing units to be built (as against 3,600 per annum on average over the previous 10 years). In terms of geographical distribution, this increase in the number of housing units granted planning permission is widespread, with the exception of Luxembourg City (200 units less than in 2006).

## Financial sector

### Trends in paid employment in banks



Source: BCL

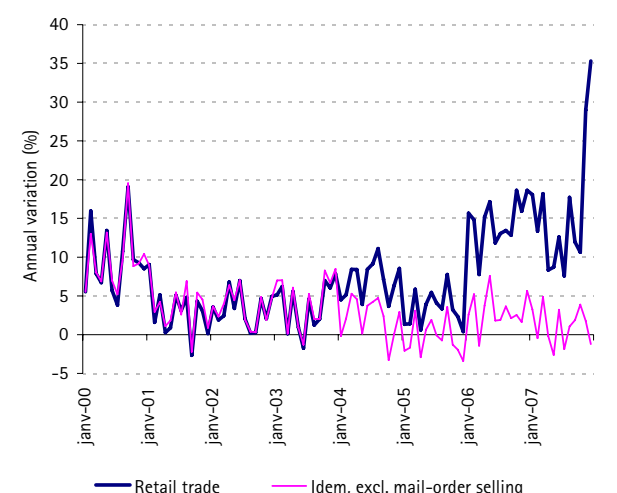
## Slowdown in banking employment

Employment in lending institutions in the financial sector grew 5.9% in 2007, after an already favourable year in 2006 (+5.2%). This renewed vigour, linked to increased activity in the financial sector from 2005 on, is unlikely to reach the high levels seen from 1999 to 2001, when banking employment grew by almost 7% per annum.

Moreover, the outlook for 2008 is not particularly encouraging: banking results, already affected in late 2007, are expected to continue to suffer from the current financial crisis and employment seems set to slow down. In fact, a slowdown was already apparent in the last quarter of 2007.

## Trade

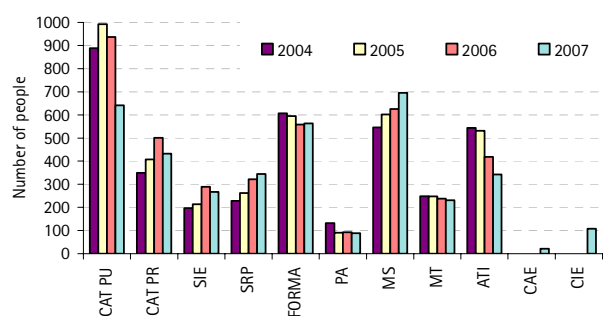
Trends in turnover volumes



Source: STATEC

## Labour market

People in job schemes

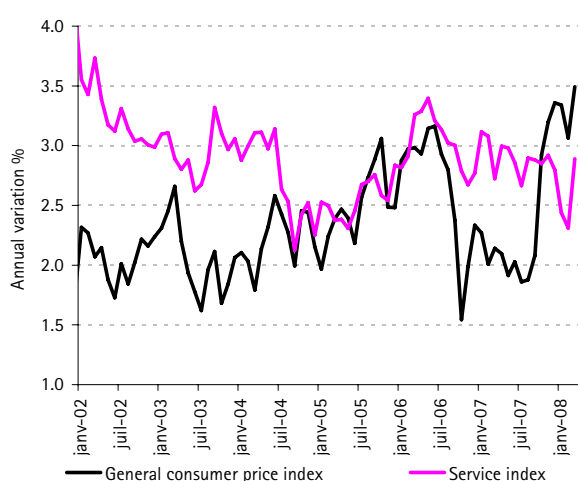


CAT PU	Contrat d'auxiliaire temporaire du secteur public-PU et du secteur privé-PR	PA	Pool des assistants
CAT PR		MS	Mesures Spéciales
SIE	Stage d'insertion en entreprise	MT	Mises au travail
SRP	Stage de réinsertion professionnelle	FORMA	Mesures de formation
ATI	Affectation temporaire indemnisée	CAE	Contrat d'appui emploi
CIE	Contrat d'initiation à l'emploi		

Source: ADEM

## Inflation – wages

Trends in inflation



Source: STATEC

## Mixed performance in retail trade

The 2007 results for retail trade are deceptive. Turnover in volume grew by more than 15% (compared to growth of only 1.3% recorded on average in other eurozone countries). However, most of this good performance is linked with the activity of mail-order companies (linked to what is known as e-commerce), recently reclassified as retail trade in line with European criteria.

Mail-order companies have had increasing – and positive – influence since 2004. Excluding mail-order selling, growth was just 1.1% in 2007, more in line with European trends and evidence of a certain sluggishness as regards distribution results at national level.

## Falling numbers of people in job schemes

In 2007, the number of people in job schemes fell 6.2% (245 people), after rising 0.9% in 2006 and 5.4% in 2005.

This drop is due to the implementation of new contracts from July 2007 on. The disappearance of CAT and SIE contracts left a vacuum in the second half of 2006 and these were replaced by the new CAE and CIE contracts. Those with CAE contracts fell by 385 in 2007 (-22%), while those with CIE contracts grew by only 128 (+100%). The numbers of those involved in other job schemes rose slightly (+0.5% in 2007).

In total, there were 13,356 job seekers in 2007 (of which 3,733 were involved in job schemes), representing 6.1% of the active population. In 2006, the overall unemployment rate (i.e. including those in job schemes) was at 6.2%. In March 2008, the unemployment rate was at 5.6%.

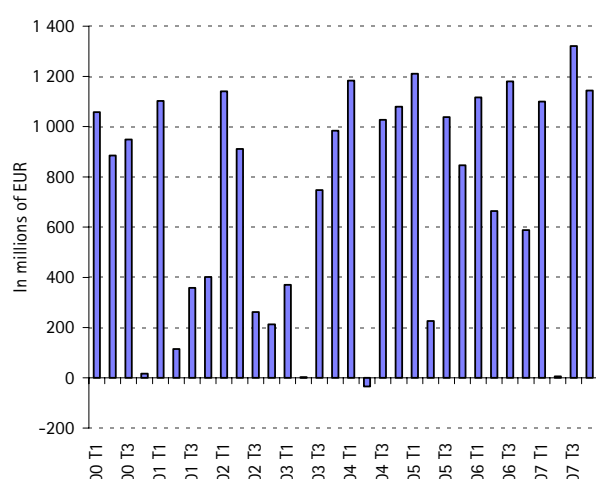
## Price hikes in services

In March 2008, the inflation rate reached 3.5%, its highest level since November 2000 (3.7%). Alongside oil prices (1.35 percentage points) and food prices (0.82 points), the index was also marked by another wage indexation adjustment and the consequential adaptation of rates for various services (0.98 points), a phenomenon that is likely to reoccur in the coming months for other services.

As regards services, the highest monthly rises in March 2008 were observed in the following positions: repairs of other durable leisure goods (+10.2%), repairs of household appliances (+5.7%), repairs of audiovisual equipment (+4.7%), services for pet animals (+4.5%), hospital services (+2.6%), medical services (+2.5%), housing maintenance services (+2.5%), maintenance and repairs (+2.5%), dental services (+2.4%) and paramedical services (+2.0%).

## Foreign trade

### Current balance surplus



Sources: BCL, STATEC

## Stabilisation of the current balance in 2007

The current balance in Luxembourg in 2007 represented a surplus of EUR 3.6 billion. This result, similar to that of the previous year, is due to a new record surplus in the balance of services (EUR 19.4 billion as against EUR 16.5 billion in 2006) which more than offset the downturn in the balance of revenues and transfers. The trade deficit remained at the same level as in 2006 (EUR -3.4 billion).

The new improvement in trade in services was mostly due to financial services, where exports rose 18%. This favourable trend was due to sound UCI management in Luxembourg, despite the difficulties experienced in the financial sector from the second half of 2007 on. Trade in goods was marked by growth in value of exports of metals and imports of oil products and consumer goods.

## Statistics table

	juil-07	août-07	sept-07	oct-07	nov-07	déc-07	janv-08	févr-08	mars-08	Average over the last three months	Same period previous year
Annual variations in %, except where otherwise indicated											
<b>Activity</b>											
Industrial output per working day, in volume	-2.7	-2.0	-3.7	-1.0	-1.6	0.5	-4.3	...	...	-1.9	2.1
Construction output per working day, in volume	-4.9	-0.3	-3.0	-0.3	-4.0	-9.9	-4.3	...	...	-5.9	5.7
Turnover by volume of total trade	-5.2	21.1	3.7	-4.0	19.0	11.8	...	...	...	8.9	14.8
Turnover by volume of total retail trade	7.6	17.7	11.9	10.6	28.9	35.3	...	...	...	25.5	17.8
<b>Prices, wages</b>											
Consumer price index (IPCN)	1.9	1.9	2.1	2.9	3.2	3.4	3.3	3.1	3.5	3.3	2.1
Underlying inflation	2.1	2.2	2.3	2.5	2.6	2.6	2.3	2.1	2.4	2.3	2.3
Oil prices	-2.3	-3.0	-0.8	10.4	12.6	16.5	19.8	20.4	21.0	20.4	-1.2
Industrial producer price index	6.1	8.3	6.6	6.9	5.7	7.4	7.2	6.2	...	6.9	11.1
Construction price index <sup>1</sup>	3.3	3.3	3.3	3.1	3.1	3.1	...	...	...	3.0	2.4
Average wage bill, per month, per person	4.4	3.9	3.2	3.6	3.8	...	...	...	...	4.2	2.2
<b>Foreign trade</b>											
Exports of goods	1.8	-8.5	-6.6	-2.4	-4.9	-4.0	-1.7	...	...	-3.5	-4.0
Imports of goods	13.0	14.8	-5.8	0.6	-2.4	-8.1	-5.1	...	...	-5.2	-0.7
<b>Employment, unemployment</b>											
Domestic number of employees	4.7	4.8	4.7	5.0	5.2	5.2	5.3	5.3	5.3	5.3	4.3
National employment	2.2	2.2	2.2	2.5	2.7	2.7	2.7	2.7	2.7	2.7	2.0
Unemployment rate (% of working population, seasonally adjusted)	4.4	4.4	4.3	4.3	4.2	4.2	4.2	4.2	4.1	4.1	4.5

Sources: STATEC

Data in italic font are estimates

<sup>1</sup>Estimations based on half-yearly data

## Indicators

	Variation on previous quarter in %					
	2006 Q3	2006 Q4	2007 T1	2007 T2	2007 T3	2007 T4
Eurozone- Growth in volume of GDP (European Commission)	0.6	0.8	1.2	0.3	0.7	0.4
	Annual variation in %					
	2005	2006	Forecast 2007		Forecast 2008	
Luxembourg - Growth in volume of GDP (STATEC)	5.0	6.1	5.0		4.0	
GDP at current prices for 2006: EUR 33 852 million	Minimum monthly salary (since 01/03/2007: EUR 1 609.53)					
Consumer price index (March 2008) - base January 1 <sup>st</sup> 1948: 737.43	Half-yearly average of the index linked to base as at January 1 <sup>st</sup> 1948: 728.44					
Current account balance (2006 - 4 <sup>th</sup> quarter): EUR 1 144 million	Resident population (01/01/2007): 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](mailto:info@statec.etat.lu)  
Internet: [www.statistiques.public.lu](http://www.statistiques.public.lu)

For further information:  
Pascale Armstrong  
Tel. 247-84234  
E-mail: [Pascale.Armstrong-Pax@statec.etat.lu](mailto:Pascale.Armstrong-Pax@statec.etat.lu)  
Bastien Larue  
Tel. 247-84339  
E-mail: [Bastien.Larue@statec.etat.lu](mailto:Bastien.Larue@statec.etat.lu)