

May 2008

conjoncture flash

Preliminary growth estimate for 2007: +4.6%

Growth slightly lower than expected

According to the quarterly accounts, which now include the 4th quarter of 2007, GDP growth now stands at 4.5% for 2007 as a whole, a relatively disappointing result. In fact, growth during the end of the 3rd quarter had pointed to growth of nearer 5%, in line with STATEC's central forecasts. However, the lower than expected growth in 2007 was not due to poor results in the last quarter but rather to the fact that data for the previous quarters was substantially revised.

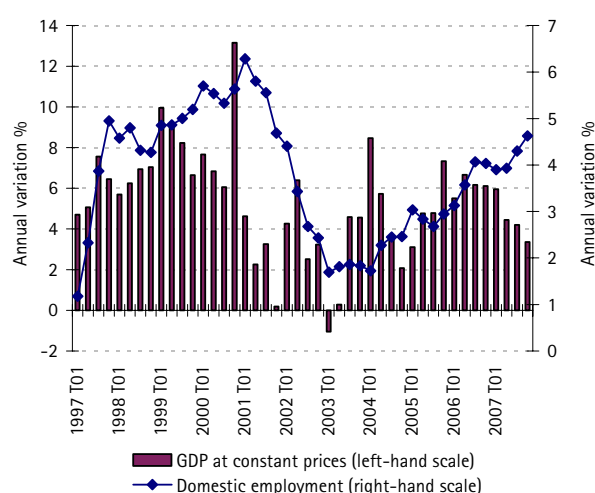
The downward revisions were mainly concentrated in financial activities and business services. Some aggregates relating to the financial sector, partly based on estimates, had to be recalculated in light of new information and now reveal a less favourable profile in the 1st and 3rd quarters. Nevertheless, it is important to remember that the revision process is ongoing: future versions of the quarterly accounts may well incorporate other revisions affecting the 2007 results one way or the other. It should also be added that, compared to the forecast of 5.0% for 2007, a result of 4.6% remains within an acceptable margin of error from a purely statistical viewpoint, particularly for an economy of Luxembourg's size and volatility.

Nevertheless, this lower than expected growth for 2007 and the attendant quarterly GDP profile are difficult to interpret given the European cycle and employment growth. Generally speaking, the European and Luxembourg cycles are relatively well correlated. However, the latest data available for Luxembourg shows that contrary to previous data, dynamic growth is relatively disconnected from that of the European Union, with a drop during the 3rd quarter followed by a strong recovery in the 4th quarter. This slower growth in 2007 may also seem in contradiction with employment performance, which has not yet slowed down. While employment trends remain out of sync with activity trends (by approx. one year), GDP growth peaked in mid-2006 and domestic employment continued to accelerate in late 2007.

These various elements again indicate that great care should be taken when interpreting this data. In broader terms, the message is clear: growth in 2007 was lower than in 2006, falling back to average long-term levels (or, more technically, its potential) with less momentum from the 2nd half year on.

Monthly publication of the state of the Luxembourg economy

Trends in GDP and employment



Source: STATEC

Financial sector contributed less in 2007

Over 2007 as a whole, financial activities and business services generated approximately two thirds of economic growth. The breakdown between the two main components in this branch continued to favour financial activities (37% as opposed to approximately 30% for business services), but much less so than in 2006.

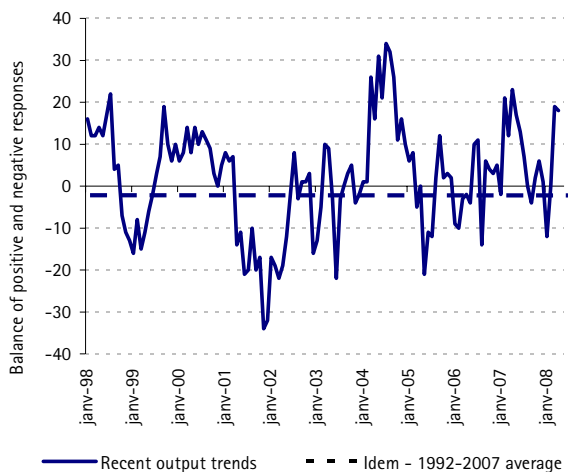
The 3rd quarter fall in GDP was due mainly to the financial sector's disappointing performance (down approximately 5% in terms of added value compared to the 2nd quarter). The 4th quarter recovery in growth (based on seasonally adjusted figures) can therefore be explained more as a compensatory catch-up on the previous quarter rather than the promise of a new cycle of strong growth. Considered as an annual variation (see graph), the results leave little doubt as to the overall downward trend.

Manufacturing and construction also contributed, albeit modestly, to the 4th quarter rally. Two areas continued to perform well, contributing to growth for the 3rd quarter running: business services and businesses in trade, hotel & catering and transport & communications.

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Manufacturing

Economic survey on manufacturing



Sources: STATEC

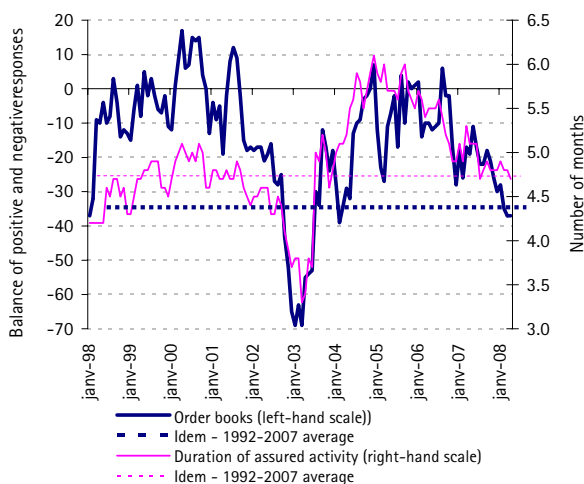
Output down in early 2008

During the first two months of 2008, industrial output fell by about 2% compared to the previous year, affecting intermediate goods (including iron and steel products) and consumer goods (down 5% over the same period).

Opinion surveys carried out among Luxembourg manufacturers do not give any clear indication on activity forecasting. After falling in January, opinions on output trends recovered significantly in March and April 2008. Similarly, opinions on expected employment trends revealed a certain momentum up to April (the latest data available). However overall opinion on order books remains stuck around the long-term average and there does not as yet appear to be any notable medium-term trend for output, either downward or upward.

Construction

Economic survey on construction



Source: STATEC

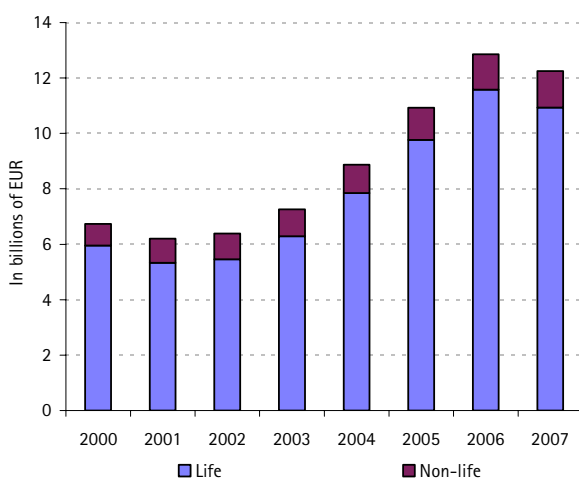
Downbeat forecast

Output (data available for the first two months of 2008), is down about 1% compared to early 2007, almost certainly due to the exceptionally high levels during the 1st quarter of last year, marked by favourable weather conditions.

Forecasts for the rest of the year are somewhat worrying, for at least three reasons. Firstly, opinions on the status of order books have deteriorated since February, reaching their lowest level since 2003 in April. Secondly, assured activity expressed in terms of months as estimated by businesses continues to slide, falling to 4.7 months in April. Lastly, approximately one quarter of businesses believe that there was insufficient demand in April 2008, compared to just 10% two years ago.

Financial sector

Premiums collected by Luxembourg insurance companies



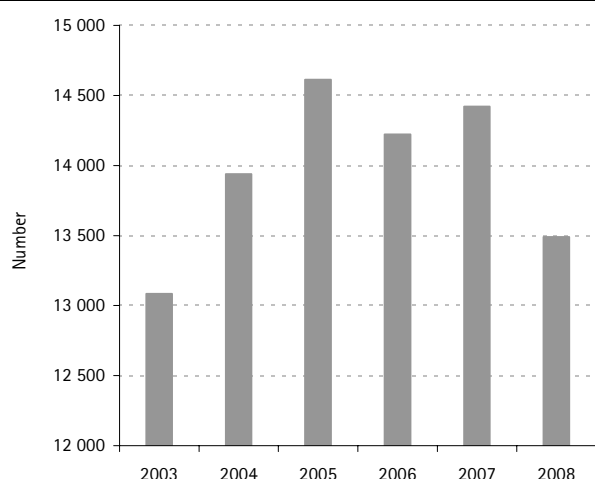
Source: Commissariat aux Assurances

A difficult end to 2007 for the insurance sector

2007 ended badly for the insurance sector. According to data provided by the insurance regulator (Commissariat aux Assurances), premiums collected appear to have fallen during the 4th quarter. In fact, at the end of the 3rd quarter of 2007, collections were still up some 6% on 2006. The last quarter unfortunately saw this gain converted into a net loss of about 5% for the year as a whole, due mainly to sharp falls in life insurance receipts in units of account (down 23% over one year for the 4th quarter of 2007), which represent about three quarters of total premiums (life plus non-life). This very poor performance in late 2007 was due to a "context that became extremely difficult following the turbulence in the financial markets".

Consumption

New vehicle registrations at the end of the 1st quarter



Source: STATEC

New vehicle registrations down in the 1st quarter

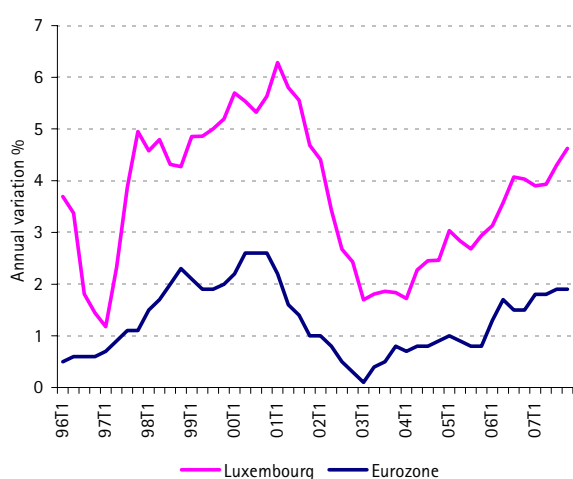
New vehicle registrations in Luxembourg (private and commercial cars) rose 1% over 2007 as a whole, down on 2006 (+4.8%).

However, the latest data (for the 1st quarter of 2008) shows that new registrations fell some 6% compared to early 2007, which does not bode well for household consumption in the 1st quarter of 2008.

New registrations in the eurozone also fell during the 1st quarter (about 3% over one year). On the other hand, April saw a significant recovery (up 10% over one year, including a 20% rise in Germany), which more or less made up for the drop in the 1st quarter. This movement was mainly due to the fact that Easter fell in March this year.

Labour market

Trends in total domestic employment



Sources: STATEC - quarterly national accounts, Eurostat

Employment in Luxembourg continues to accelerate

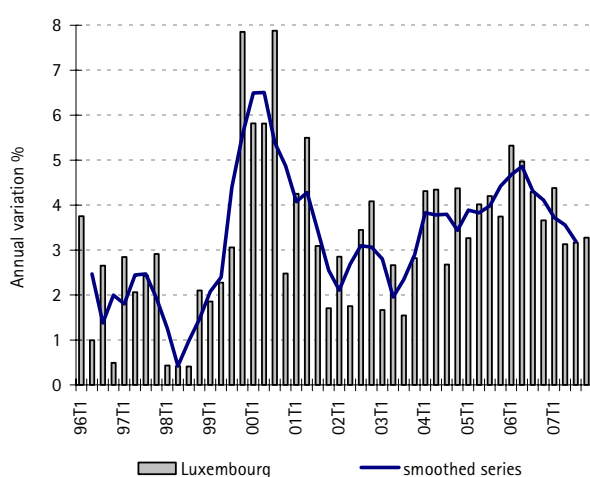
According to the quarterly national accounts, total domestic employment grew 4.2% in 2007, as against 3.7% a year ago.

This acceleration was mainly due to the two flagship branches of the Luxembourg economy, the financial sector and business services, with the other economic branches recording less employment growth in 2007 than in 2006.

The quarterly profile also shows an acceleration throughout 2007: up 3.9% over the first two quarters and 4.3% and 4.6% respectively for the following two quarters. During 2008, employment is expected to fall in line with economic growth, which peaked in 2006.

Inflation - wages

Trends in average wage costs in Luxembourg



Source: STATEC - quarterly national accounts

Slowdown in wage growth throughout 2007

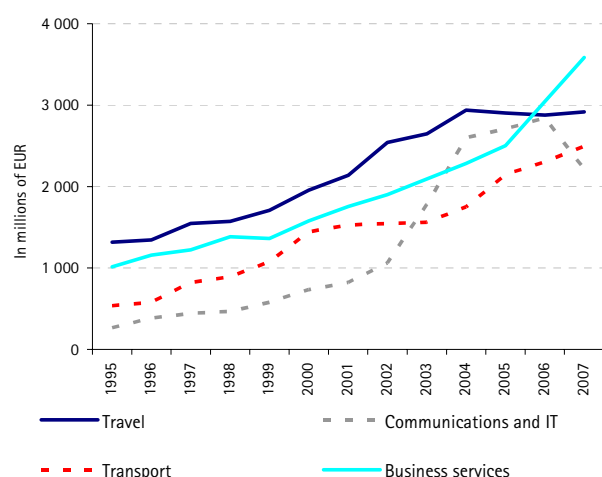
In 2007, average wage costs per person grew by only 3.5%, as against 4.5% in 2006, according to data from the quarterly national accounts. This trend was due mainly to a sharp drop in wage growth in the financial sector. Apart from the financial sector, wage growth fell from 3.0% in 2006 to 2.9% in 2007.

Since the start of 2006, wage trends have continued to slow down: growth fell from 5.3% during the first quarter of 2006 to a little over 3.0% in late 2007.

It should also be noted that there was a new wage indexation adjustment in March 2008 and that according to the latest forecasts from STATEC, the threshold will be exceeded again in June 2008, leading to a new wage adjustment on 1 March 2009.

Foreign trade

Exports of non-financial services 1995-2007



Sources: BCL, STATEC

Exports of services: up 12% in 2007

Exports of services again grew strongly in 2007, influenced mainly by financial services (up 18%). Annual receipts from financial services exceeded EUR 31 billion, which translates into a surplus of EUR 15 billion, representing $\frac{3}{4}$ of the total surplus in services (EUR 19.4 billion). This favourable trend was due to sound UCI management in Luxembourg despite the difficulties experienced in the financial sector from mid-2007 on. The surplus for other service activities (see graph) was 4 billion (as against 3.6 billion in 2006). The fall in activity of a major player in the communications and information sector was more than offset by improved surpluses in business services.

Statistics table

	Aug-07	Sep-07	Oct-07	Nov-07	dec-07	Jan-08	Feb-08	Mar-08	Apr-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	-2.0	-3.7	-1.0	-1.6	0.5	-4.0	-0.2	...	...	-1.3	1.8
Construction output per working day, in volume	-0.3	-3.0	-0.3	-4.1	-10.1	-5.3	-3.4	...	...	-6.2	12.0
Turnover by volume of total trade	24.0	4.8	-4.0	19.0	11.8	...	...	...	...	8.9	14.8
Turnover by volume of total retail trade	39.2	13.8	10.6	29.0	35.3	...	...	...	...	25.5	17.8
Prices, wages											
Consumer price index (IPCN)	1.9	2.1	2.9	3.2	3.4	3.3	3.1	3.5	3.5	3.3	2.1
Underlying inflation	2.2	2.3	2.5	2.6	2.6	2.3	2.1	2.4	2.4	2.3	2.3
Oil prices	-3.0	-0.8	10.4	12.6	16.5	19.8	20.4	21.0	21.1	20.8	-2.1
Industrial producer price index	8.3	7.3	7.3	6.4	8.1	7.2	6.2	...	...	7.2	10.8
Construction price index ¹	3.3	3.3	3.1	3.1	3.1	...	...	...	...	3.0	2.4
Average wage bill, per month, per person	3.9	3.2	3.6	3.8	2.5	2.5	...	...	...	2.6	3.3
Foreign trade											
Exports of goods	-6.2	-6.0	-0.1	-2.4	-3.6	1.1	5.9	-1.2	...	1.8	-2.5
Imports of goods	16.1	-6.1	1.6	-2.1	-6.9	-2.5	-8.2	-9.1	...	-6.8	-0.6
Employment, unemployment											
Domestic number of employees	4.8	4.7	5.0	5.2	5.2	5.4	5.4	5.4	5.4	5.4	4.3
National employment	2.2	2.2	2.5	2.8	2.7	3.1	2.7	2.7	2.7	2.7	1.9
Unemployment rate (% of working population, seasonally adjusted)	4.4	4.3	4.3	4.2	4.2	4.2	4.2	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 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 %					
	2006	2007	Forecast 2008		Forecast 2009	
Luxembourg - Growth in volume of GDP (STATEC)	6.1	4.6	4.0		5.0	
GDP at current prices for 2007: EUR 36 137 million	Minimum monthly salary (since 01/03/2008: EUR 1 609.53)					
Consumer price index (April 2008) - base January 1 st 1948: 739.27	Half-yearly average of the index linked to base as at January 1 st 1948: 731.11					
Current account balance (2007 - 4 th quarter): EUR 1 144 million	Resident population (01/01/2008): 484 000 (estimation)					

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