

June 2008

# conjoncture flash

## Change of trend in the Luxembourg labour market...

The labour market usually has a delayed reaction to activity, all the more so in an economy marked by a structural lack of (qualified) labour. Businesses are reluctant to shed personnel in a time of uncertainty as to how long the current downward cycle will last (i.e. particularly at the beginning of a slowdown). Thus, after a year in 2007 which was marked by continuously accelerating employment and falling unemployment while the economy was slowing down, 2008 began less positively for the Luxembourg labour market.

The most recent data on **employment** suggest that it has peaked, although the annual rate of growth - at over 5% - still remains high (see graph opposite), due mostly to the slowdown in the financial sector. Temporary employment, which reacts more quickly to cyclical trends, has already been slowing since early 2007.

**Unemployment** rates also began to rise in the last two months. In May 2008, the official seasonally adjusted rate rose to 4.3% as against 4.2% at the start of the year. This trend was also observed in annual variations of job seeker numbers signing on. After a fall of 4.4% over the first quarter of 2008, the number of job seekers signing on fell only slightly in April (-1.1%) and even rose slightly in May (+2.0%).

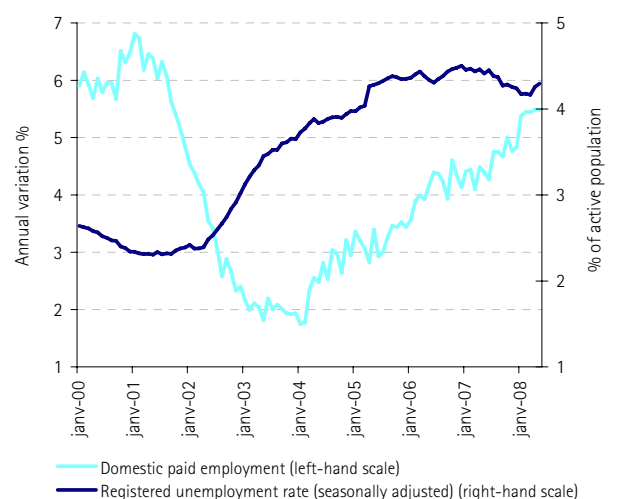
In Luxembourg, rising unemployment is not unusual, even when employment growth still exceeds 3%. Because of the openness of the labour market, employment growth, which is necessary to push down unemployment rates, has been about 4.0% on average over recent decades, trending slightly upward over time.

## ... and European labour market.

The trends are similar for other European countries. However, in contrast with Luxembourg, employment had already started to slow down in early 2007 while unemployment continued to fall, albeit more slowly.

## Monthly publication of the state of the Luxembourg economy

Trends in domestic employment and unemployment rates



Sources: ADEM, IGSS, STATEC

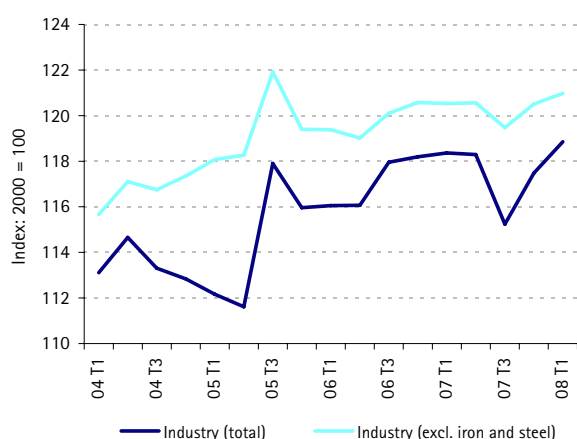
During the first quarter of 2008, **employment** grew 1.6% over one year in the eurozone and EU-27, after rising 1.8% in the fourth quarter of 2007 and 1.9% in the third. Luxembourg still has the highest growth rate in the eurozone, followed by Ireland, Austria and the Netherlands. Of the EU-27, Luxembourg ranks second behind Latvia.

The **unemployment** rate in the European Union fell to 6.7% in April 2008 (as against 7.2% a year ago), a level lower than before the economic slowdown in 2001. In April 2008, Denmark registered the lowest unemployment rate in the European Union (2.7%), followed by the Netherlands (2.8%) and Cyprus (3.6%). Luxembourg ranked in 9<sup>th</sup> place<sup>1</sup>, with 4.7%.

<sup>1</sup> From 2007, the unemployment rates for Luxembourg published by Eurostat differ slightly from those published by STATEC, due to a different weighting system.

## Manufacturing

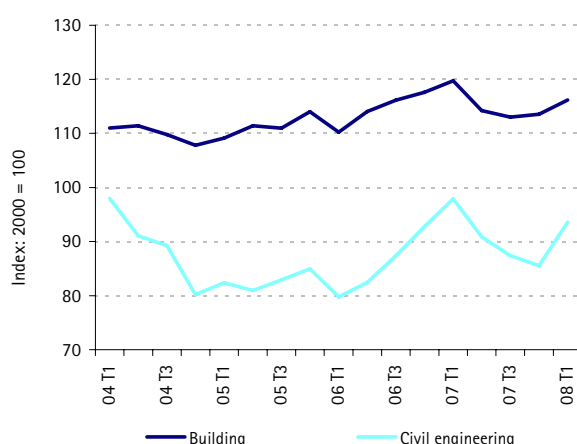
### Industrial output



Source: STATEC (activity surveys, seasonally and working-day adjusted)

## Construction

### Output in the construction sector



Source: STATEC (activity surveys, seasonally and working-day adjusted)

## Financial sector

### Profit and loss accounts

	March 2007	March 2008	Variation in %
	In millions of EUR		In %
Interest margin <sup>1</sup>	1 341	1 617	20.6
Income from fees	1 060	999	-5.8
Other net income	304	-282	-192.7
<b>Banking output</b>	<b>2 705</b>	<b>2 334</b>	<b>-13.7</b>
Personnel costs	588	620	5.4
Other overheads	480	469	-2.3
<b>Overheads</b>	<b>1 068</b>	<b>1 088</b>	<b>1.9</b>
<b>Income before provisions</b>	<b>1 637</b>	<b>1 246</b>	<b>-23.9</b>

Source: CSSF (provisional results)

<sup>1</sup> Including dividends received from subsidiaries

## Output holds up while orders fall back

Industrial output continued to recover during the 1<sup>st</sup> quarter of 2008. There had already been a rally in late 2007, a catch-up after the slump in the third quarter. Despite this vigour, favourable in the short-term, output levels in early 2008 grew only slightly over one year and new orders were down over 7% compared to the 1<sup>st</sup> quarter of 2007. This fall-off in orders is quite worrying, all the more so because it affects all production sectors (intermediate, consumer and household goods) and recipient countries in the European Union.

In the eurozone, production also stood up well during the 1<sup>st</sup> quarter of 2008, but business cycle indicators also point to a slowdown in industrial activity from the 2<sup>nd</sup> quarter on.

## A relatively satisfactory first quarter

After falling for three consecutive quarters, output in the construction sector recovered during the 1<sup>st</sup> quarter of this year, both in building and civil engineering. While it is true that output per working day fell about 2% compared to the 1<sup>st</sup> quarter of 2007, that period was exceptionally favourable. However, economic surveys (results available up to May) confirm a trend for falling orders on the books, which should, in time, affect activity.

In the eurozone as a whole, output in the construction sector fell in March and April 2008. The economic downturn, in line with the slowdown – or even fall, for some countries – in property price indicators at European level, is expected to have a long-term impact on output, particularly in residential construction.

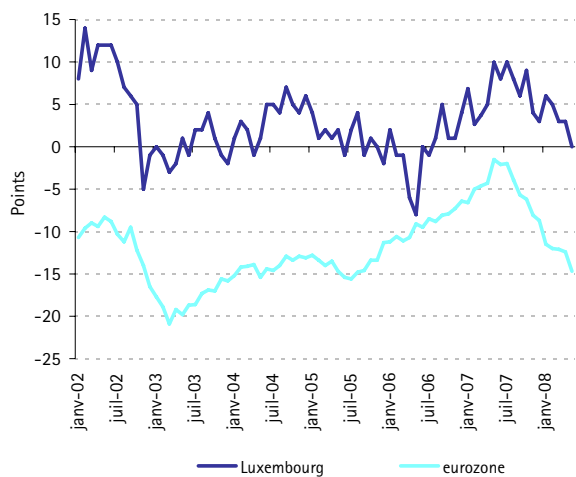
## A difficult 1<sup>st</sup> quarter for banks

According to provisional CSSF data, income before provisions in the Luxembourg banking sector slowed down considerably during the 1<sup>st</sup> quarter, by about 24% over one year.

While the interest margin remains healthy, benefiting, according to the CSSF, from a "climate of rising risk premiums" (i.e. rising interest rates) and sufficient liquidity arising from wealth management activity. However, the turmoil affecting the financial markets for the last year or so, leading to falling capital markets, has faded somewhat due to income from fees on the one hand and, more significantly, due to income linked to the valuation of financial assets.

## Consumption

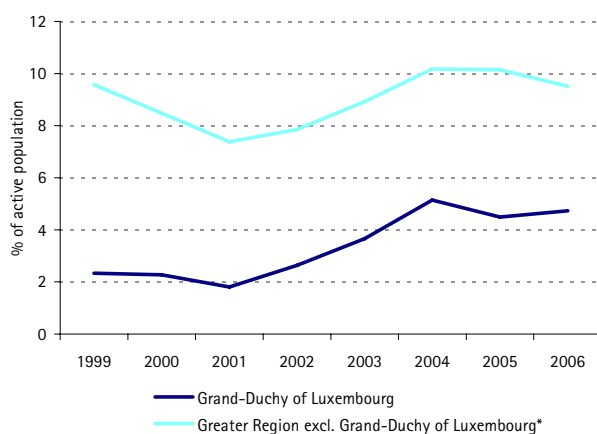
Consumer confidence



Source: Eurostat, BCL

## Labour market

Trends in unemployment in the Greater Region

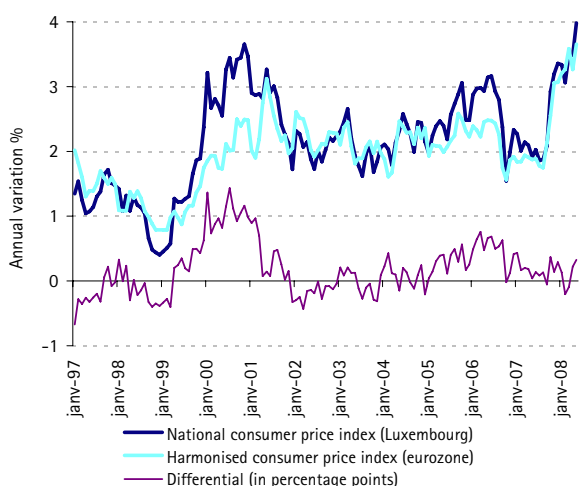


\* Province of Liège (B), departments of Moselle (F) and Meurthe-et-Moselle (F), the Saarland (D) and Regierungsbezirk Trier (D)

Source: Eurostat, Survey on work forces (EFT)

## Inflation – wages

Trends in inflation in Luxembourg and the eurozone



Sources: STATEC, Eurostat

## Encroaching gloom

Consumer confidence in Luxembourg fell significantly in May 2008, confirming a continuation of the downward trend witnessed since mid-2007. The May survey in particular shows a significant downturn in expectations as regards the financial situation of households and, to a lesser extent, the general economic trend. By contrast, opinions on expected labour market trends reveal less concern on the part of households: although no longer counting on a drop in unemployment in recent months, most of them do not anticipate a jump in unemployment in the short term.

The consumer confidence indicator for the eurozone has followed the same trend in recent months, for the same reasons.

## Unemployment of 9.1% in the Greater Region in 2006

In 2006, the Greater Region had 207,100 job seekers, a drop of 4.4% compared to 2005. The unemployment rate in the Greater Region (excluding the Grand-Duchy of Luxembourg) was 9.5% in 2006, as against 10.1% in 2005, above the rate in the eurozone and EU-27 (8.2%). The highest unemployment rates were recorded in the province of Liège (11.5% in 2006), the French departments Moselle (10.0%) and Meurthe-et-Moselle (9.5%) and the Saarland (9.5%). Regierungsbezirk Trier and the Grand-Duchy posted the lowest rates (6.2% and 4.7% respectively).

From 2002, unemployment rose everywhere in the Greater Region and it was only in 2005 that this trend reversed. Over recent years, Luxembourg has experienced the highest rise in unemployment in the Greater Region: the number of job seekers rose on average by 15% per annum, as against 2.6% in the other regions.

## The unfavourable inflation differential falls

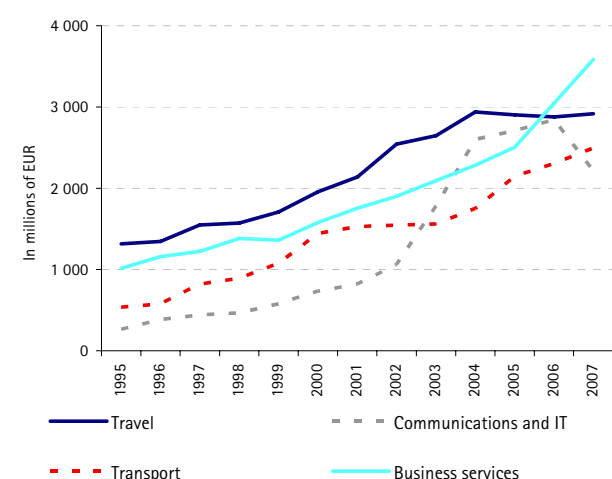
In May 2008, inflation rose to 4% in Luxembourg and 3.7% in the eurozone. In the first five months of the year, the rate rose to 3.5% in Luxembourg, which is an unfavourable difference of 0.1 percentage points compared to the eurozone.

Therefore, compared to the average over the last ten years (0.2 percentage points, i.e. with inflation rising 2.3% on average per annum in Luxembourg as against 2.1% in the eurozone), the inflation differential fell in early 2008.

Over the last ten years, the divisions with the most unfavourable inflation differentials for Luxembourg have been Leisure, entertainment and culture (0.13 percentage points of difference with the eurozone on average per annum), Furniture, household and maintenance equipment (0.11 percentage points) and Food and non-alcoholic beverages (0.07 points). (see graph "Inflation comparison over the last ten years" pp. 75-76 of NDC 1-08).

## 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

	Sep-07	Oct-07	Nov-07	dec-07	Jan-08	Feb-08	Mar-08	Apr-08	May-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	-5.1	-1.4	-1.4	-0.3	-4.3	0.0	4.0	...	...	0.0	2.5
Construction output per working day, in volume	-3.5	-0.3	-3.8	-9.7	-4.5	-2.6	2.9	...	...	-1.2	12.2
Turnover by volume of total trade	4.8	-3.1	15.0	7.6	...	...	...	...	...	6.5	14.8
Turnover by volume of total retail trade	13.8	11.0	29.2	33.8	...	...	...	...	...	25.1	16.4
<b>Prices, wages</b>											
Consumer price index (IPCN)	2.1	2.9	3.2	3.4	3.3	3.1	3.5	3.5	4.0	3.7	2.0
Underlying inflation	2.3	2.5	2.6	2.6	2.3	2.1	2.4	2.4	2.5	2.5	2.3
Oil prices	-0.8	10.4	12.6	16.5	19.8	20.4	21.0	21.1	25.4	22.5	-2.4
Industrial producer price index	7.3	7.3	6.4	8.1	7.1	6.0	5.1	5.0	...	5.4	12.2
Construction price index <sup>1</sup>	3.1	3.0	3.0	3.0	...	...	...	...	...	3.0	2.4
Average wage bill, per month, per person	3.2	3.6	3.8	2.5	2.5	2.4	...	...	...	2.2	4.5
<b>Foreign trade</b>											
Exports of goods	-6.5	-3.3	-3.1	-3.6	2.5	7.3	-0.4	...	...	3.0	-3.1
Imports of goods	-4.3	-0.2	-2.7	-6.9	-4.0	-8.5	-9.1	...	...	-7.3	-0.6
<b>Employment, unemployment</b>											
Domestic number of employees	4.7	5.0	5.2	5.2	5.4	5.4	5.4	5.5	5.5	5.5	4.3
National employment	2.2	2.5	2.8	2.8	3.1	3.2	3.1	3.2	3.1	3.1	1.8
Unemployment rate (% of working population, seasonally adjusted)	4.3	4.3	4.2	4.2	4.2	4.2	4.2	4.3	4.3	4.2	4.4

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
Luxembourg - Growth in volume of GDP (STATEC)	Annual variation in %			Annual variation in %		
	2006	2007	Forecast 2008	2006	2007	Forecast 2008
GDP at current prices for 2007: EUR 36 137 million	6.1	4.5	3.0	6.1	4.5	3.0
Consumer price index (May 2008) - base January 1 <sup>st</sup> 1948: 744.11	Minimum monthly salary (since 01/03/2008: EUR 1 609.53)					
Current account balance (2007 - 4 <sup>th</sup> quarter): EUR 1 144 million	Half-yearly average of the index linked to base as at January 1 <sup>st</sup> 1948: 734.13					
	Resident population (01/01/2008): 484 000 (estimation)					

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