

July 2008

conjoncture flash

2.5% GDP growth in the 1st quarter of 2008

GDP growth in Luxembourg continued to grow during the 1st quarter of 2008, mainly due to the financial and business services sectors. However, the overall trend for economic growth remains down.

GDP grew by 2.5% over one year (and by 1.3% over one quarter¹) during the 1st quarter of 2008, below average GDP growth (around 5%² over the last ten years) for the third consecutive quarter. Moreover, the growth profile (see graph opposite) clearly shows a **continuing slowdown**, starting in mid-2006 and steepening during 2007.

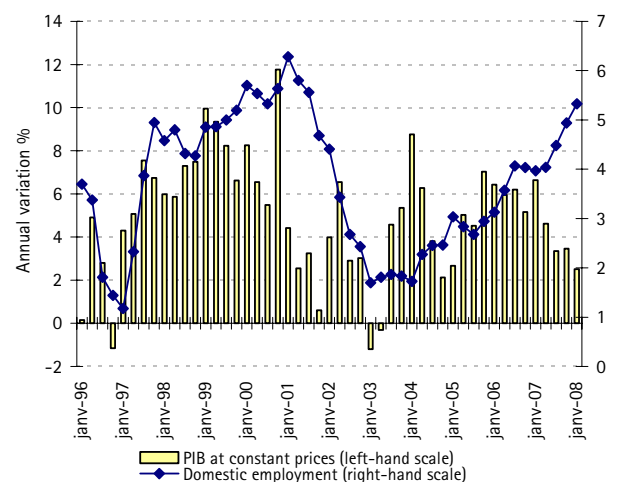
Value-added growth during the 1st quarter was mainly linked to growth in financial activities and business services. Despite disappointing data from the financial sector for this quarter (with falls in both banking results and UCI assets), based on national accounting criteria, which focus mostly on growth in volume (i.e. where the effect of price trends is minimised), rather than purely financial criteria, **the financial sector held its own**. Turnover in business services held up well but results are expected to fall off over the coming quarters, given that companies in this sector are partly dependent on performance in the financial sector. Finally, over the 1st quarter, added value in financial activities and business services was up 5.7% over one year, which although encouraging, pales in comparison to growth figures for 2006, which were at least twice as high again. The other branches of the economy contributed almost nothing to growth in this quarter, except for construction, which was slightly up on data for the last quarter of 2007.

From a spending perspective, performance in financial activities and business services as mentioned above accounted for much of the external balance (exports-imports). Meanwhile, growth in public consumption spending was more modest (up 0.6% over one quarter). On the other hand, private consumption and investment fell again for the second consecutive quarter.

A number of revisions also affected quarterly results for 2007, although performance over the year as a whole remained unchanged, at 6.1%: growth during the 1st quarter of 2007 was stronger than previously stated (6.6% over one year, as against 5.5% in the previous version), while the following three quarters were revised downwards.

Monthly publication of the state of the Luxembourg economy

Trends in GDP and employment



Source: STATEC - national accounts

The next version of the quarterly accounts, which will be published in October, will take new data (available only on an annual basis) into account, with a revision of GDP for 2007 expected.

The last forecasts drawn up by STATEC (in May 2008) predicted 3.0% growth in GDP in 2008 and 4.0% in 2009. Despite **highly satisfactory GDP results in the eurozone** during the 1st quarter of 2008 (up 2.2% over one year), the international economic environment has become more downbeat in recent weeks. Surging oil prices³ are likely to further affect household consumption and activity in some branches, such as transport. Furthermore, financial markets are still trending downwards, suggesting that there will be no end to the crisis in the short term. Finally, most leading business cycle indicators for the eurozone still point to further downturns in activity forecasting.

¹ Based on seasonally- and working-day adjusted data.

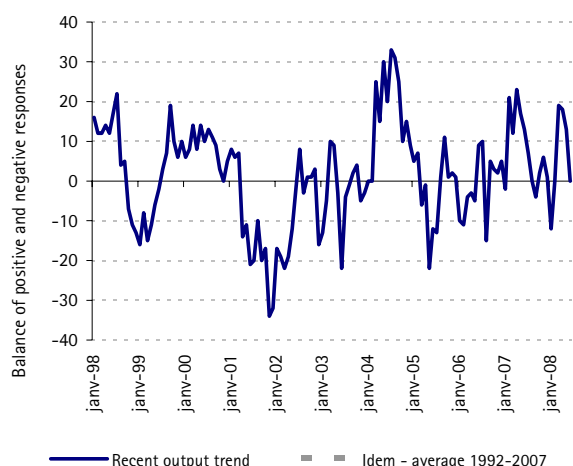
² On an annual basis.

³ The price per barrel has recently repeatedly crossed the USD 140 threshold, while STATEC's latest forecast for NDC 1-08 was based on a price approximating USD 120.

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Manufacturing

Economic survey on manufacturing



Source: STATEC

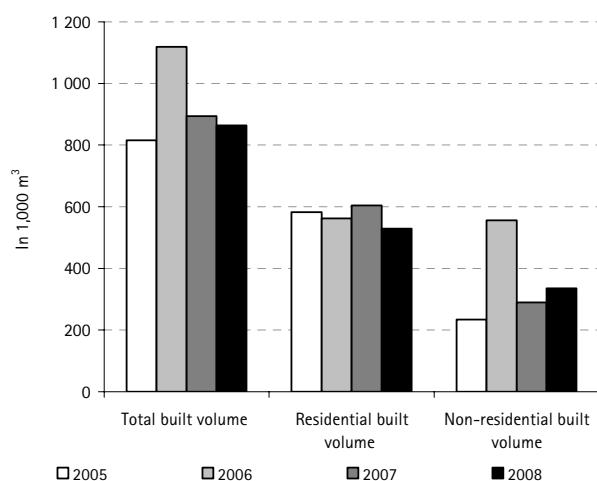
Stormy waters

Confidence levels among Luxembourg manufacturers fell in June, suggesting a difficult 3rd quarter. All the main components, namely opinions on recent and future activity and order levels, were affected by this trend. Manufacturers' views of employment prospects, relatively strong since the 2nd quarter of 2007, were also significantly down. According to activity surveys, industrial output recovered slightly in April (up 2% over one year), after a relatively modest 1st quarter.

The news in the eurozone was also bad, with a significant downturn in industrial output in May: apart from Ireland, the downturn was widespread and particularly worrying for Germany, France and Spain (all of which were down 2.6% over one month). German output, which had been strong up to the 1st quarter of 2008, was down for the 3rd consecutive month.

Construction

Planning permissions at the end of Q1



Source: STATEC

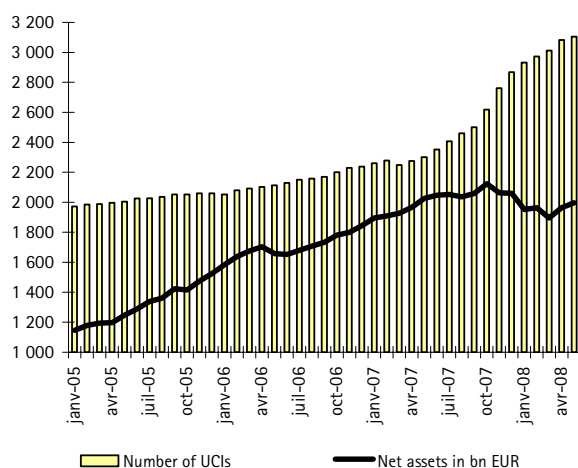
Fewer planning permissions granted in Q1

Planning permissions granted in the 1st quarter of 2008 were down 3% over one year in terms of built volume. This was due to a fall-off in the residential sector (down 12% compared to the 1st quarter of 2007, both for individual housing and apartment buildings), corresponding to 70 housing units less (down 8%). However, planning permissions granted for the non-residential sector partly offset this sluggishness, rising 15% over one year in terms of volume.

By way of conclusion, when taking into account data for the last ten years, the 1st quarter of 2008 was relatively in line with the norm in terms of planning permissions granted, with few large-scale projects granted planning permission.

Financial sector

Number of UCIs and net assets



Source: CSSF

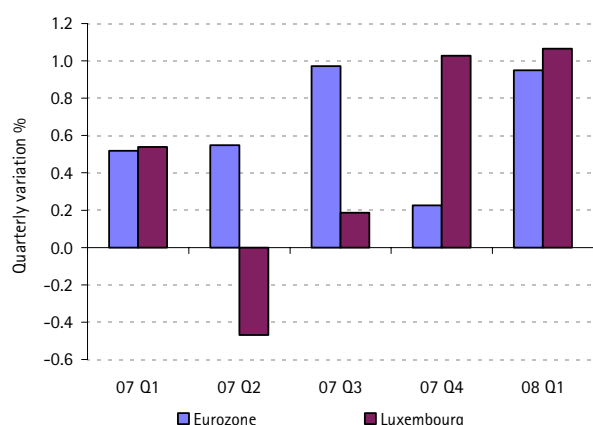
Some respite for UCIs in April and May

After a difficult first quarter, characterised by a significant downturn in the financial markets, Luxembourg UCIs seemed to recover somewhat thereafter. Net assets rose again in April and May 2008, with the markets having a positive effect, mainly due to equities, which performed well during these two months, and increasing capital investment only slightly below the long-term average. In late May, net assets rose back up to 2,000 billion euro, which is, however a fall of 1.4% over one year.

In view of the trends on the main stock markets in recent weeks, with indices significantly down from early June to mid-July, growth in net UCI assets is highly likely to fall again from June.

Consumption

Retail trade: trends in turnover volumes

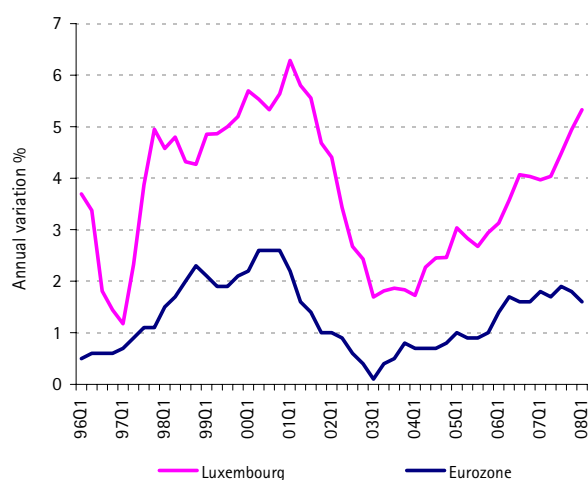


Luxembourg: excl. mail-order sales

Source: STATEC

Labour market

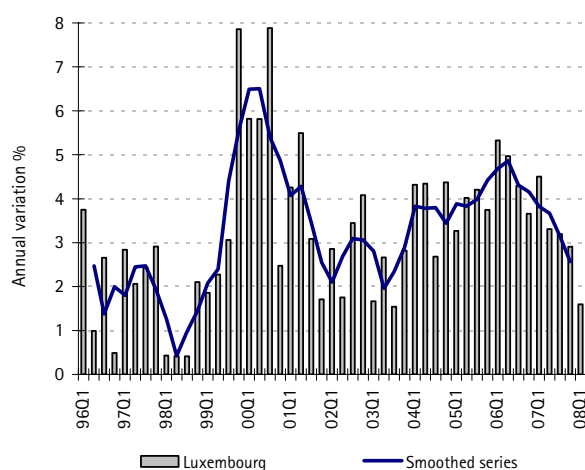
Trends in total domestic employment



Source: STATEC - quarterly national accounts, Eurostat

Inflation - wages

Trends in average wage costs in Luxembourg



Source: STATEC - quarterly national accounts

Retail trade holds its own during the 1st quarter

Retail sales (seasonally adjusted, excluding mail-order sales) were relatively satisfactory during the 1st quarter of 2008, growing 1.1% in volume compared to the 4th quarter of 2007. Despite the slump in confidence among Luxembourg consumers since late 2007, overall sales were not overly affected during the last quarter of 2007 and early 2008. Available data shows that in the case of Luxembourg the downturn occurred in the 2nd and 3rd quarters of 2007. Retail sales in the eurozone also performed well in early 2008, mainly due to a significant rally in Germany. However, consumer confidence remained low during the 2nd quarter of 2008, in both Luxembourg and the eurozone, which should eventually affect consumer spending, all the more so since current inflation levels are weighing more on household purchasing power.

Change of trend

According to the latest data from the national accounts, total domestic employment (i.e. all those working on national territory, including cross-border workers and the self-employed) grew 5.3% during the first quarter of 2008. Although this was a rise on the previous quarter (up 4.9%), the latest monthly data suggest that this is flattening out. The unemployment rate began to rise again slightly during the 2nd quarter (4.3% as against 4.2% during the first quarter).

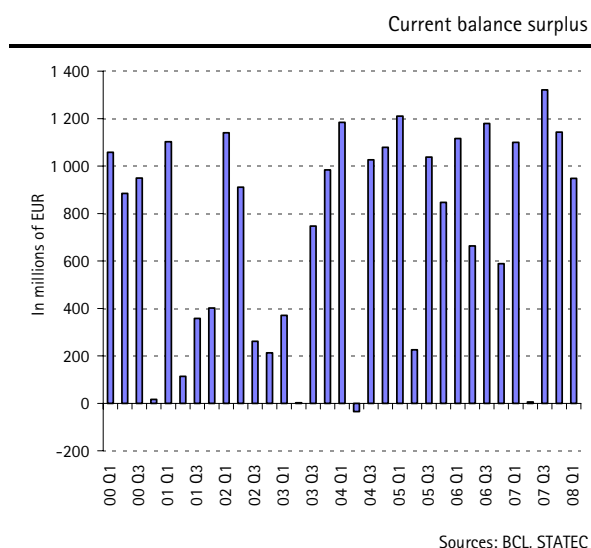
Employment in the financial and business services sectors continued to grow the most (8.8% and 10.6% respectively), followed by construction (5.4%), other market services (trade, hotel and catering, transport and communications: 3.9%) and non-market services (public administration, education, health and welfare, community, social and personal services, domestic services: 3.3%). Manufacturing employment grew 1.2%.

Slight rise in wages during Q1 2008

According to the national accounts, average wage costs (per person) grew 1.6% during the first quarter of 2008. Therefore, the slowdown in wage growth, observed throughout 2007 (wage growth fell from 4.5% during the 1st quarter to 2.9% in the 4th), continued into early 2008.

The slowdown was significant in most branches. After a significant slowdown in 2007, the financial sector was the only one to witness stronger wage growth in early 2008 (up 3.6% as against 2.2% during the 4th quarter of 2007). Wages also rose steadily in construction (up 3.2%), in contrast with manufacturing (1.3%) and market services excluding the financial and business services sectors (trade, hotel and catering, transport and communications, at 0.6%). Wage costs in business services and non-market services remained unchanged compared to last year.

Foreign trade



Current account surplus falls

The current balance during the 1st quarter of 2008 stood at EUR 949 billion, down 14% compared to the 1st quarter of 2007. The slight rise in the surplus in services was not enough to offset all the other declining partial balances (goods, income and current transfers).

After the very high growth rates in recent years (14% on a quarterly average), the pace of growth in foreign trade in services slowed down substantially during the 1st quarter of 2008 (at less than 6%). The improving surplus in the balance of services was mainly due to financial services, although this was less significant than in the past. The effects of the turbulence on the stock market at the start of the year substantially offset income growth despite an increase in the number of UCIs.

Statistics table

	Oct-07	Nov-07	dec-07	Jan-08	Feb-08	Mar-08	Apr-08	May-08	Jun-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	-1.0	-1.6	0.4	-4.0	-0.1	-1.2	2.0	...	...	0.2	2.1
Construction output per working day, in volume	-0.3	-4.1	-10.1	-5.3	-3.4	2.3	-0.7	...	...	-0.5	9.4
Turnover by volume of total trade	-5.9	16.0	11.6	15.5	28.4	17.7	...	...	...	20.2	1.5
Turnover by volume of total retail trade	3.9	1.8	-1.2	0.9	5.2	2.4	...	...	...	2.9	2.6
Prices, wages											
Consumer price index (IPCN)	2.9	3.2	3.4	3.3	3.1	3.5	3.5	4.0	4.3	3.9	2.0
Underlying inflation	2.5	2.6	2.6	2.3	2.1	2.4	2.4	2.5	2.6	2.5	2.3
Oil prices	10.4	12.6	16.5	19.8	20.4	21.0	21.1	25.4	29.6	25.4	-2.7
Industrial producer price index	6.9	5.7	7.4	7.2	6.2	5.1	5.0	7.4	...	5.9	11.5
Construction price index ¹	3.0	3.0	3.0	...	...	...	...	...	...	3.0	2.4
Average wage bill, per month, per person	3.6	3.8	2.5	2.5	2.4	...	...	...	...	2.2	4.5
Foreign trade											
Exports of goods	-2.4	-4.9	-4.0	-1.7	5.9	-1.2	2.2	...	...	2.1	-4.0
Imports of goods	0.6	-2.4	-8.1	-5.1	-8.2	-9.1	1.3	...	...	-5.5	-0.7
Employment, unemployment											
Domestic number of employees	5.0	5.2	5.2	5.4	5.4	5.4	5.5	5.5	5.5	5.5	4.4
National employment	2.5	2.8	2.8	3.1	3.2	3.1	3.1	3.1	3.1	3.1	1.9
Unemployment rate (% of working population, seasonally adjusted)	4.3	4.2	4.2	4.2	4.2	4.2	4.3	4.3	4.4	4.3	4.4

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	4.5	3.0		4.0	
GDP at current prices for 2007: EUR 36 137 million	Minimum monthly salary (since 01/03/2008: EUR 1 609.53)					
Consumer price index (June 2008) - base January 1 st 1948: 747.38	Half-yearly average of the index linked to base as at January 1 st 1948: 737.32					
Current account balance (2008 - 1st quarter): EUR 949 million	Resident population (01/01/2008): 484 000 (estimation)					

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