

September 2008

conjoncture flash

Downturn in the eurozone labour market

After falling significantly over the last few years, unemployment has started to rise again in all eurozone countries. While in some countries, unemployment has only stabilised in recent months, most have already witnessed a rise that is set to continue and become more widespread.

Sharp falls in unemployment between 2005 and 2007

The trend for unemployment in the eurozone has been extremely favourable in recent years. The unemployment rate has fallen consistently since mid-2005: from 9.0% in March 2005, it fell to 7.2% during the first quarter of 2008, the lowest level ever recorded in the eurozone since 1993 (when harmonised data first became available).

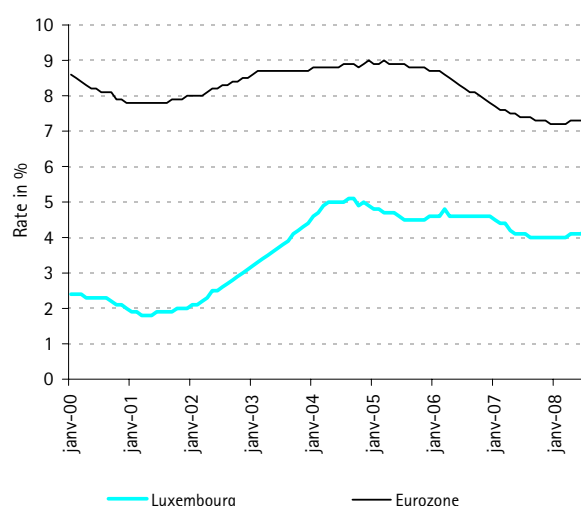
However, the European labour market has reached a turning point and the unemployment rate is now starting to rise again. The reason for this is the economic slowdown that began in mid-2007 and which is starting to affect the labour market. Employment had already started to slow down in late 2007, but up until now this trend had only had a limited effect on unemployment, due to favourable demographics (many baby boomers are retiring, a phenomenon which is set to gradually recede). During the 2nd quarter of 2008, employment rose only 0.8% on an annual basis, as against 2.0% one year ago. In Luxembourg, employment remained dynamic into early 2008, growing at 5.4% during the 1st quarter of 2008. However, the latest data available indicate that this has already peaked and that employment is now growing at an annual rate of close to 5%.

Unemployment rises again in most European countries, including Luxembourg

The trend in the unemployment rate in the various eurozone countries in recent months has been relatively mixed. The countries most affected by rising unemployment are Ireland and Spain. These two countries have been particularly affected by the cyclical downturn in the property market (see last month's Conjoncture Flash), combined with a significant drop in employment in the construction industry (a similar trend has been observed in the United Kingdom). In Italy, unemployment has been rising since early 2007.

Monthly publication of the state of the Luxembourg economy

Trends in the unemployment rate since 2000



Source: EUROSTAT

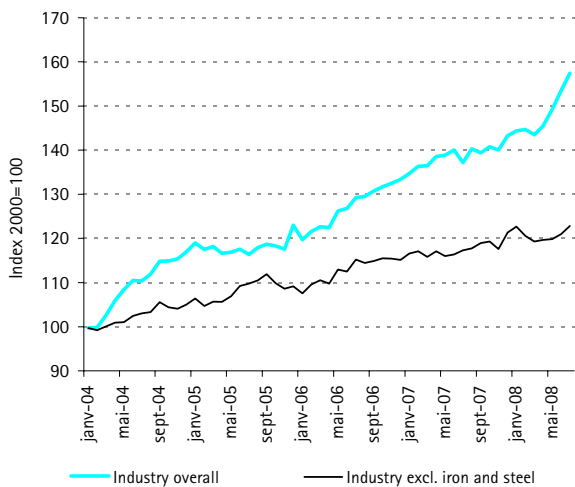
In most other eurozone countries, including Luxembourg¹, the fall was halted in the 1st quarter of 2008 and unemployment has been rising since the start of the 2nd quarter. The two main economies in the eurozone are in a relatively good position. Unemployment has not yet started to rise in France and even continues to fall in Germany. However, recent employment trends and business cycle surveys from these two countries indicate that unemployment is inevitably set to rise. Worries over labour market trends among both business owners and households are increasing, while inflationary worries are expected to recede if oil prices remain below 100 dollars.

¹ The harmonised unemployment rate published by Eurostat (based in particular on the results of labour force surveys) differs slightly from the official unemployment rate published at national level (this is based on the number of unemployed registered with the employment authorities). However, regardless of which statistical source is used, unemployment has been trending upwards in recent months. The harmonised unemployment rate for Luxembourg grew from 4.0% in March 2008 to 4.2% in July 2008. Over the same period, the national official unemployment rate grew from 4.2% to 4.4%.

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Manufacturing

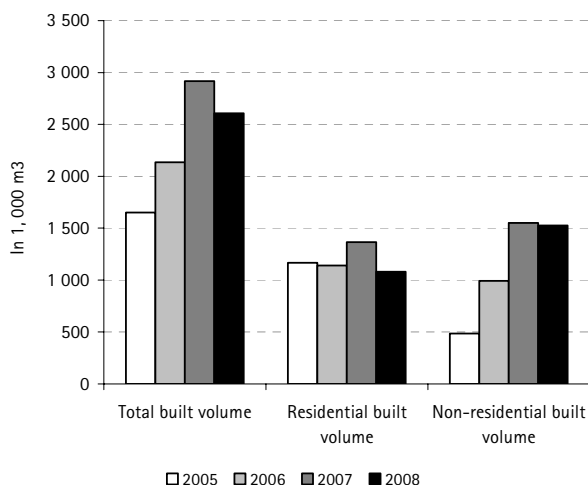
Prices of industrial products



Source: STATEC

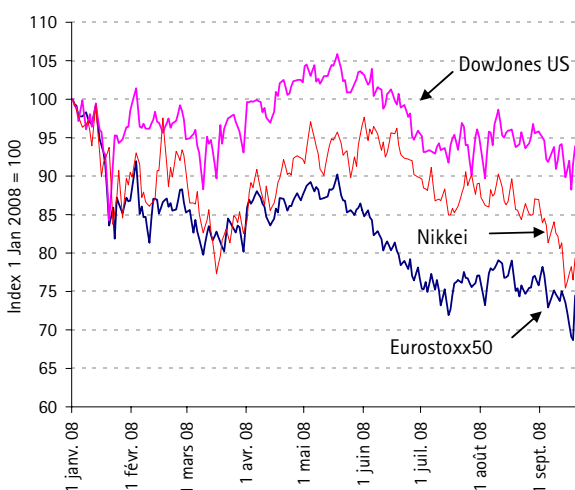
Construction

Planning permissions at the end of Q2



Source: STATEC

Financial sector



Source: EUROSTAT

Prices again driven by iron and steel

Production prices grew strongly from the second quarter of 2008 on. The rise was most spectacular in iron and steel products: every month from April to July 2008 was marked by a rise of about 5% compared to the previous month. With significant falls in metal prices during the summer (excluding gold, which has been providing a refuge in the current financial turmoil), current trends for prices of raw materials are expected to moderate. Apart from iron and steel, price rises were most marked in energy (electricity, gas and water), with a rise of almost 10% between June and July 2008.

Grants for planning permissions fall again in Q2

The number of planning permissions granted during the 2nd quarter of 2008 (in terms of built volume) was sluggish after an already lacklustre 1st quarter. The results indicate that residential construction projects will continue to fall, as will those in the non-residential sector. In terms of the number of housing units, the fall was some 20% during the first half-year compared to 2007 (and it was sharper for apartments than for houses).

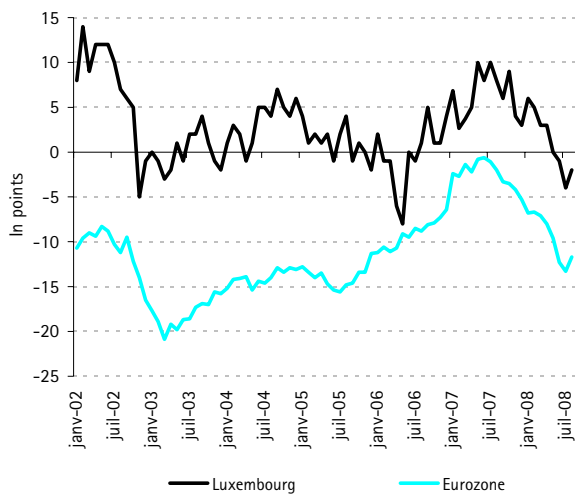
Because statistics are highly volatile in this sector (as planning granted for large-scale construction projects can significantly modify the general trend), it would be premature to draw conclusions for 2008 as a whole. However, other business cycle indicators for construction (output and opinion surveys) confirm that the climate this year is difficult for this sector.

A highly troubled summer for the markets

The trend in the stock markets was punctuated by the announcements of recovery plans for several financial institutions threatened with bankruptcy. The indices resemble the measurements of a seismograph during an earthquake and show the extremely high volatility that is currently affecting the markets, against the background of a downward trend. The 3rd week of September was particularly volatile: after four days of significant falls after the collapse of Lehman Brothers, the indices bounced back sharply after the American Treasury department asked Congress to authorise an additional 700 billion dollars to buy back doubtful loans from the banks. It is as yet uncertain as to whether this measure will be enough to halt the downturn in the stock markets, but at least it has assuaged concerns about American growth in the medium term.

Consumption

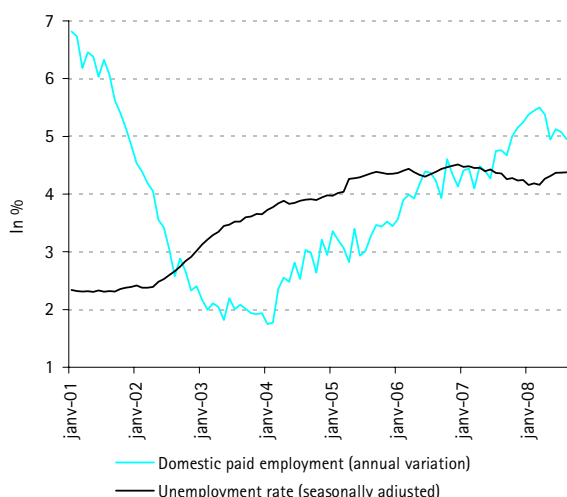
Consumer confidence



Source: BCL, EUROSTAT

Labour market

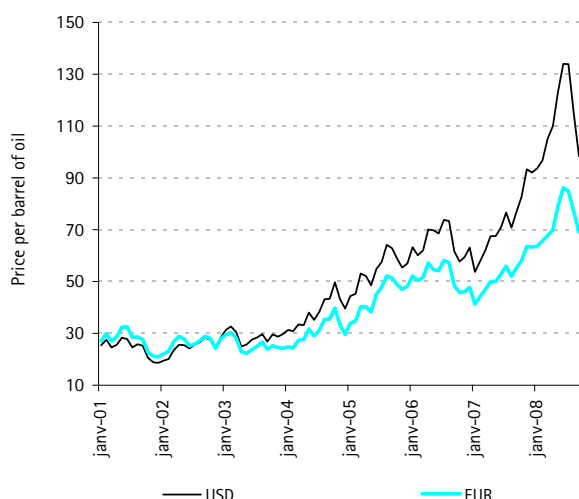
Trends in employment and unemployment



Source: STATEC, IGSS

Inflation - wages

Price per barrel of (crude) oil in EUR and USD



Source: STATEC

Confidence rises tentatively in August

Consumer confidence in Luxembourg rose slightly in August, in line with the rest of the eurozone. This moderate recovery came after several consecutive months of sharp falls. The financial outlook of Luxembourg households has certainly improved, perhaps due to receding worries about inflation and the general economic situation. However, most of this rise in confidence comes from a better understanding of future capacity to save, which is historically highly volatile, meaning that this overall improvement is quite unstable.

Throughout the eurozone, the outlook for the general economic situation has boosted confidence, despite more pessimistic expectations regarding unemployment.

Unemployment in August stable at 4.4%

The seasonally adjusted unemployment rate stood at 4.4% of the working population in August, unchanged compared to the two previous months. However, it continues to rise (standing at 4.2% during the 1st quarter) and is expected to rise further during the coming months, given the perceptible slowdown in employment and the downturn noted in business cycle indicators for the labour market in the eurozone.

The overall unemployment rate (which also takes account of people involved in job schemes) fell slightly to 5.6% in August. For the moment, there is no upward trend (the rate has been between 5.6 and 5.7% since January) and has more or less stabilised, breaking with the significant downturn observed in 2007.

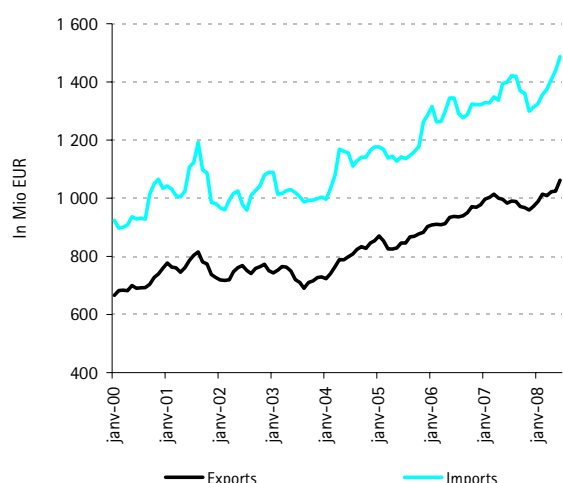
Significant downturn in oil prices

After peaking in mid-July at almost USD 150, the price per barrel of oil fell sharply thereafter, falling below the barrier of USD 100 in mid-September. Expressed in euro, the fall is less spectacular, and for good reason: over the same period, the euro fell against the dollar, with the exchange rate falling from USD 1.58 in July to USD 1.42 in September.

However, the impact on inflation is still significant: in Luxembourg for example, the inflation rate moderated significantly, falling from 4.9% in July to 4.0% in August, most of this directly due to oil price trends.

Foreign trade

Trade in goods



Source: STATEC

Foreign trade sluggish

The value of goods exported grew 3.6% over one year during the first half of 2006, mainly due to price rises in exports of manufactures of base metals. Exports were also more concentrated in Europe, with American and Asian markets significantly down (by 12% and 17% respectively compared to the first half of 2007). Imported goods rose 4.0% over the same period. Finally, the trade deficit reached EUR 2.33 billion for the 1st half-year, an increase of over 5% over one year.

In terms of volume, exports are trending downward (this was already the case in 2007), as are imports (down 6% over one year, with sharp falls in imports of transport equipment).

Statistics table

	dec-07	Jan-08	Feb-08	Mar-08	Apr-08	May-08	Jun-08	Jul-08	Jul-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	0.4	-4.0	-0.1	-1.2	2.0	3.6	-3.0	...	...	0.9	2.1
Construction output per working day, in volume	-10.3	-5.5	-3.3	0.2	-0.3	3.3	-1.5	...	...	0.5	1.6
Turnover by volume of total trade	11.6	15.0	29.3	12.7	14.3	20.2	70.5	...	...	33.1	-3.4
Turnover by volume of total retail trade	0.6	4.8	11.6	1.2	3.1	8.5	...	...	...	4.3	2.9
Prices, wages											
Consumer price index (IPCN)	3.4	3.3	3.1	3.5	3.5	4.0	4.3	4.9	4.0	4.4	1.9
Underlying inflation	2.6	2.3	2.1	2.4	2.4	2.5	2.6	3.0	2.7	2.7	2.2
Oil prices	16.5	19.8	20.4	21.0	21.1	25.4	29.6	31.9	23.3	28.2	-2.1
Industrial producer price index	7.4	7.2	6.1	5.1	5.0	7.5	9.6	14.8	...	10.6	8.8
Construction price index ¹	3.0	...	...	...	...	...	...	...	...	3.0	2.4
Average wage bill, per month, per person	2.5	2.5	2.4	4.4	4.6	1.2	...	...	...	4.4	5.3
Foreign trade											
Exports of goods	-5.6	-0.6	2.0	-10.2	3.7	-1.1	-2.2	...	...	0.1	-6.3
Imports of goods	-8.1	-0.6	-6.1	-10.2	2.5	-12.7	-7.5	...	...	-6.2	-0.7
Employment, unemployment											
Domestic number of employees	5.2	5.4	5.4	5.5	5.4	4.9	5.1	5.1	5.0	5.1	4.6
National employment	2.9	3.0	3.1	3.2	3.2	3.0	3.1	3.0	2.8	3.0	2.3
Unemployment rate (% of working population, seasonally adjusted)	4.2	4.2	4.2	4.2	4.3	4.3	4.4	4.4	4.4	4.4	4.4

Sources: STATEC

Data in italic font are estimates

¹Estimations based on half-yearly data

Indicators

Indicators	Variation on previous quarter in %					
	2007 Q1	2007 Q2	2007 Q3	2007 Q4	2008 Q1	2008 Q2
Eurozone- Growth in volume of GDP (European Commission)	0.7	0.5	0.6	0.4	0.7	-0.2
	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 01/03/2007: EUR 1 609.53)					
Consumer price index (August 2008) - base January 1 st 1948: 746.63	Half-yearly average of the index linked to base as at January 1 st 1948: 743.40					
Current account balance (2008 - 1st quarter): EUR 949 million	Resident population (01/01/2008): 484 000 (estimation)					

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