

January 2009

# conjoncture flash

## Zero growth during the 3<sup>rd</sup> quarter of 2008

With zero growth in GDP during the 3<sup>rd</sup> quarter of 2008, Luxembourg has not escaped the global cyclical slowdown that has particularly affected its financial sector.

### Slowdown confirmed

Luxembourg GDP in volume for the 3<sup>rd</sup> quarter of 2008 shows zero growth over one year. This confirms the trend already observed over the previous quarters, i.e. a continuing slowdown in economic activity. This slowdown started in mid-2007, when the financial sector started to flag, after three years of highly sustained growth<sup>1</sup>, even before the turbulence linked to the subprime crisis had started to affect the financial markets.

Compared to the 2<sup>nd</sup> quarter of 2008, based on seasonally adjusted data, GDP fell by 1.4%. The main contributor to this fall was financial services, more specifically financial intermediation services and financial auxiliaries. Insurance companies for their part saw their added value rise over the same period and seem to be less affected by the cyclical downturn. Paid employment in the financial sector also started to slow but still posted significant growth (7.5% over one year during the 3<sup>rd</sup> quarter).

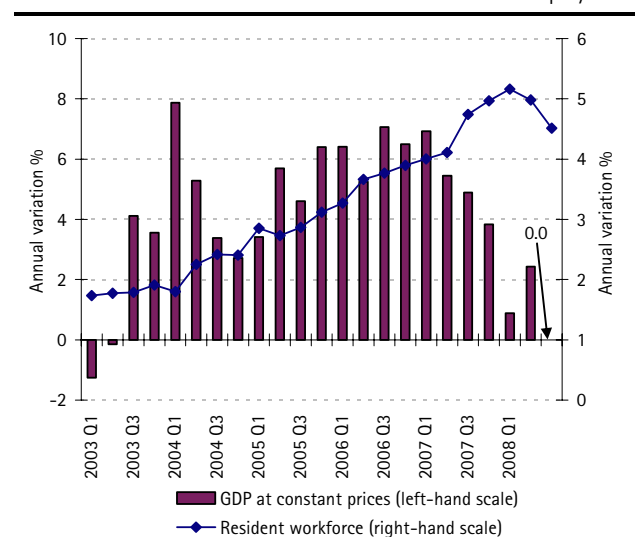
The construction sector also weighed negatively on growth during the 3<sup>rd</sup> quarter – a little surprising given the dynamic growth observed in construction company turnover over the same period. As the calculation of added value in construction is based partly on estimates, there may be future revisions that will show an improvement on this performance. However, economic surveys carried out among the construction industry during the 4<sup>th</sup> quarter point to a sharp downturn in late 2008 that goes well beyond the purely seasonal fall generally witnessed at this time of year.

### Determining growth levels for 2008

This new data, which includes the 3<sup>rd</sup> quarter of 2008 and revisions affecting the previous quarters for 2008, suggests growth of about 1% for 2008 as a whole, lower than STATEC's prediction of 2% made last December.

## Monthly publication of the state of the Luxembourg economy

Trends in GDP and employment



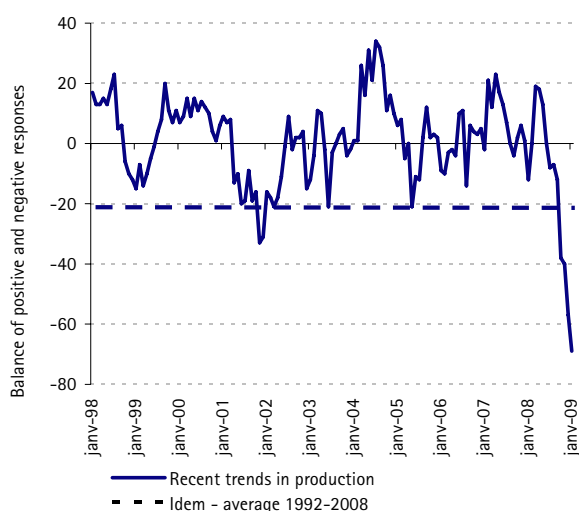
Source: STATEC - national accounts

However, past experience has shown that although quarterly data is key to detecting turnarounds and drawing up the annual accounts, it should not be over-interpreted as regards growth. With relatively significant revisions affecting the quarterly accounts (whether in Luxembourg or elsewhere), the latest data should only be taken as provisional. The discrepancy currently observed between the growth profile for the quarterly data and the forecast of about 1 percentage point more or less corresponds to the historic margin of error (either upwards or downwards) and is not sufficient to challenge the growth forecast of 2% for 2008 as a whole.

<sup>1</sup> From 2004 to 2006, added value in the financial sector rose 11% per year on average, three times faster than all of the other branches of the Luxembourg economy.

## Manufacturing

Economic survey on manufacturing



Source: STATEC (activity survey)

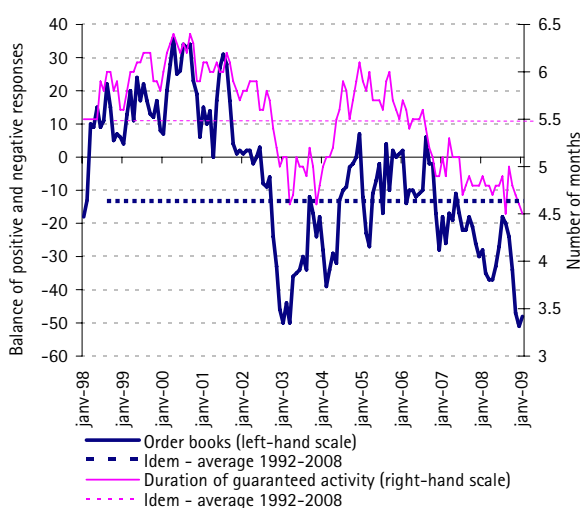
## General drop in demand

The January 2009 economic survey reveals that manufacturers' opinions have continued to slide. Assessments of recent output and order books are at historically low levels. The situation has worsened considerably in recent months: 68% of business owners surveyed complained of insufficient demand, as against 39% last October, and only 70% of production capacity is currently being used (84% in October).

Like European manufacturing as a whole, Luxembourg manufacturing has been essentially confronted with a significant slump in demand since the 4<sup>th</sup> quarter of 2008. Companies also do not think that their competitive position has deteriorated. However, the outlook for output improved in January, but it remains to be seen whether this trend is confirmed in future surveys.

## Construction

Economic survey on construction



Source: STATEC (activity survey)

## A chill in the sector

As in manufacturing, construction companies have thought for several months that activity is being restricted by insufficient demand, which affects both activity and the order books.

In January 2009, this lack of demand was again cited (albeit less frequently than in December), but more difficult climatic conditions were also mentioned by companies in the sector, with 23% estimating that these restricted their activity – particularly in the building sector – compared to 11% in January 2008.

Financial constraints were also mentioned, particularly in the housing construction sector (by 18% of companies active in this niche, as against only 3% in December).

## Financial sector

Profit and loss accounts

	December 2007	December 2008	Variation as a %
	In millions of EUR		In %
Interest margin <sup>1</sup>	5 748	7 091	23.4
Income from commission	3 797	3 417	-10.0
Other net income	900	-499	-155.4
<b>Banking income</b>	<b>10 445</b>	<b>10 009</b>	<b>-4.2</b>
Personnel expenses	2 218	2 308	4.1
Other overhead expenses	1 922	1 939	0.9
<b>Overhead expenses</b>	<b>4 139</b>	<b>4 247</b>	<b>2.6</b>
<b>Income before provisions</b>	<b>6 306</b>	<b>5 762</b>	<b>-8.6</b>

Source: CSSF (provisional data)

## Banks under pressure but holding firm

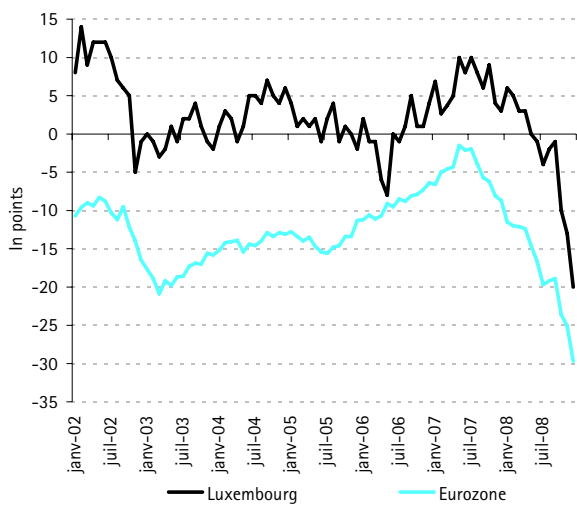
According to provisional data released by the CSSF, income before provisions for credit institutions recorded a fall of 8.6% over 2008 as a whole. According to the figures mentioned at the end of the 3<sup>rd</sup> quarter, we can deduce that the 4<sup>th</sup> quarter alone will post a decline of about 15% in income before provisions compared to the previous year.

The interest margin continued to rise (up about 7% over one year during the 4<sup>th</sup> quarter) and income from commission continued to fall (by almost 25% over the same period). Income from commission fell by 10% over 2008 as a whole, which is not so bad given that the main stock markets fell by about 20% over the same period. Securities in the trading book felt the worst effects of the financial crisis. Finally, it appears that overheads (in personnel and others) suffered a significant slowdown in the 4<sup>th</sup> quarter.

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

## Consumption

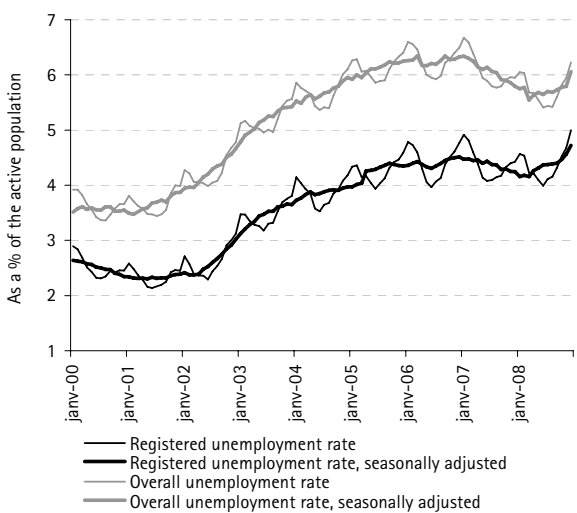
Consumer confidence



Sources: BCL, EUROSTAT

## Labour market

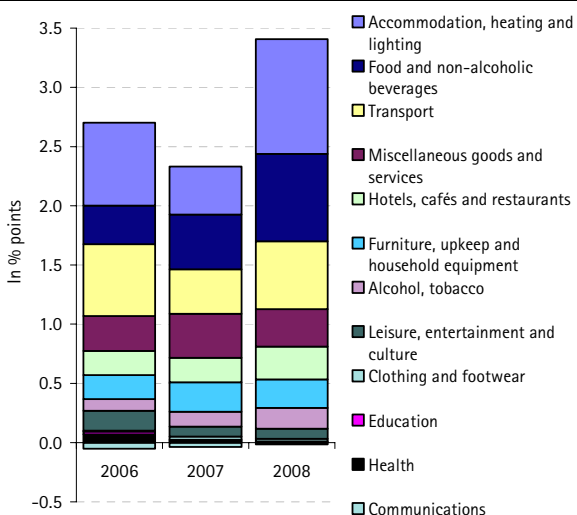
Trends in unemployment in Luxembourg 2000-2008



Sources: ADEM, IGSS, STATEC (past three months = estimation)

## Inflation - wages

Contribution to the progression of the NCPI in 2008



Source: STATEC

## Confidence falls further in December

Consumer confidence, down since mid-2007, fell sharply during the 4th quarter.

Household confidence, both in Luxembourg and all European countries, fell particularly sharply in November and December, again due to more pessimistic expectations regarding the general economic situation and unemployment trends.

Apart from Malta, all eurozone countries were affected by the drop in household confidence in December. Confidence in Germany fell the furthest during this month, followed by Luxembourg and the Netherlands. Greece, Austria and Portugal apparently withstood the ambient gloom better than most.

## Unemployment rises sharply in December

The unemployment rate reached a new peak in December 2008. The registered unemployment rate, seasonally adjusted, (excluding people in job schemes) reached 4.7% as against 4.2% at the start of the year.

The number of jobseekers is generally higher in December than in November, due to seasonal phenomena, namely the arrival of school-leavers and students who have finished their studies and the ending of many fixed-term contracts (particularly in temporary work). However in 2008, with 710 jobseekers more from November to December, the rise is significantly higher than usually observed. Further, the annual increase in the number of jobseekers was 17% in December 2008, whereas it was under 10% over the previous three months. The rise seen at the end of the year related in particular to male jobseekers aged between 30 and 40 with lower levels of training (i.e. no more than compulsory schooling) and who were working as tradespeople and labourers.

## Oil prices responsible for one third of inflation in 2008

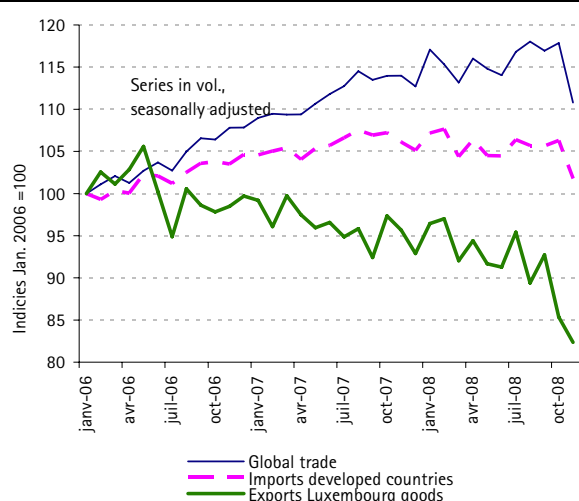
In 2008, the average annual inflation rate was 3.4% as against 2.3% in 2007. A third of this rise was due to oil prices (1.15 percentage points). Thus, 'housing, water, electricity and fuel', 'food and non-alcoholic beverages' and 'transport' were responsible for two-thirds of inflation in 2008. However, it should be noted that the price of other energy sources (electricity and solid fuel) fell in 2008 compared to 2007.

Among foodstuffs, dairy products, bread, cereals and meat were the most significant contributors to inflation in 2008.

Public prices, which in the year under review were frozen, contributed 0.25 percentage points to inflation in 2008, half of the previous year. This was mainly due to 'retirement homes, crèches and day nurseries' and 'waste water recovery'.

## Foreign trade

Foreign trade indicators



Sources: STATEC, CPB (latest data: November 2008)

## Trade in goods slows down

Exports of goods in volume from Luxembourg have been on a downward trend since 2006. This is a structural trend, given that until 2007, the national and international economic climate was relatively favourable.

According to data compiled by CPB (Centraal Planbureau, Netherlands: [www.cpb.nl](http://www.cpb.nl)), global trade remained dynamic until the 4<sup>th</sup> quarter of 2008. The data for November, however, shows a relatively significant slump, which echoes that seen in industrial output for all developed economies. Luxembourg has not escaped this trend and has undergone a fairly significant fall in exports for the second consecutive month.

## Statistics table

	Apr-08	May-08	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-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	3.4	-3.4	1.2	2.5	1.0	-9.8	...	...	-2.6	-2.3
Construction output per working day, in volume	0.3	1.7	-1.9	-2.8	-4.6	0.2	-5.3	...	...	-3.0	-1.2
Turnover by volume of total trade	14.7	20.7	70.9	65.1	46.4	71.1	31.6	...	...	48.9	3.1
Turnover by volume of total retail trade	-0.9	3.8	-1.0	-1.4	10.9	2.8	-3.9	...	...	2.9	2.6
Prices, wages											
Consumer price index (IPCN)	3.5	4.0	4.3	4.9	4.0	4.0	3.3	2.0	1.1	2.1	3.2
Underlying inflation	2.4	2.5	2.6	3.0	2.7	2.7	2.4	2.3	2.2	2.3	2.6
Oil prices	21.1	25.4	29.6	31.9	23.3	23.3	15.0	-0.9	-12.7	0.2	13.2
Industrial producer price index	5.0	7.5	9.7	14.5	13.9	12.9	11.2	...	...	12.6	7.3
Average wage bill, per month, per person	4.6	1.2	5.3	4.2	2.9	4.7	...	...	...	4.2	3.8
Foreign trade											
Exports of goods	4.3	-4.9	-5.4	2.8	-8.0	2.1	-12.4	-15.3	...	-8.7	-3.6
Imports of goods	2.6	-16.3	-11.5	3.1	-23.1	1.6	-5.7	-5.1	...	-3.2	-1.0
Employment, unemployment											
Domestic number of employees	5.4	4.9	5.2	5.1	4.8	5.3	5.0	4.7	4.9	4.9	5.1
National employment	3.2	3.0	3.3	3.2	3.0	3.5	3.2	2.9	3.2	3.1	2.8
Unemployment rate (% of working population, seasonally adjusted)	4.3	4.3	4.4	4.4	4.4	4.4	4.5	4.6	4.7	4.6	4.3

Sources: STATEC

Data in italic font are estimates

## Indicators

	Variation on previous quarter in %					
	2007 Q2	2007 Q3	2007 Q4	2008 Q1	2008 Q2	2008 Q3
Eurozone- Growth in volume of GDP (European Commission)	0.5	0.6	0.3	0.7	-0.2	-0.2
Luxembourg - Growth in volume of GDP (STATEC)	-0.1	1.0	0.7	-0.8	1.5	-1.4
	Annual variation in %					
	2006	2007	Forecast 2008		Forecast 2009	
Luxembourg - Growth in volume of GDP (STATEC)	6.4	5.2	2.0		0.5	
GDP at current prices for 2007: EUR 36 409 million	Minimum monthly salary (since 01/03/2007: EUR 1 609.53)					
Consumer price index (December 2008) - base January 1 <sup>st</sup> 1948: 735.66	Half-yearly average of the index linked to base as at January 1 <sup>st</sup> 1948: 743.30					
Current account balance (2008 - 3rd quarter): EUR 348 million	Resident population (01/01/2008): 484 000 (estimation)					

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