

December 2009

conjoncture flash

Monthly publication of the state of the Luxembourg economy

European manufacturing starts to recover

Destocking comes to an end

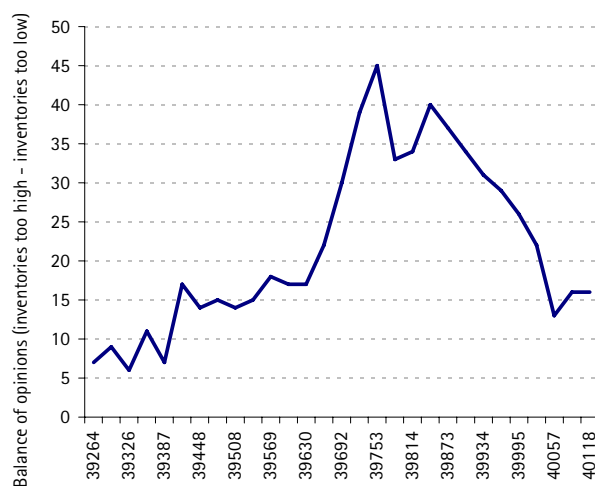
Industrial output in the eurozone recovered during the 3rd quarter, rising by 1.1% compared to the previous quarter (seasonally adjusted) and by 3.4% in Luxembourg. This trend, which had been extensively predicted by opinion surveys carried out over the summer period, breaks with the significant downward trend observed since the 2nd quarter of 2008. European manufacturing is therefore pulling itself out of five quarters of recession – in terms of output – during which activity fell sharply. Despite the recovery recorded in the 3rd quarter of 2009, output volumes remain about 20% lower than before the crisis.

Demand for industrial products was boosted in particular by the support provided to European car manufacturers via one-off scrappage schemes aimed at consumers. Some countries, including China, were also quick to commit infrastructural investments to support their economy, which boosted demand for capital and intermediate goods in Europe. However, the rise in demand did not have an impact on all manufacturing output.

From the summer of 2008 on, manufacturers' stocks had started to swell subsequent to a delayed adjustment in production levels given the higher than expected drop in sales. As a result, when demand picked up again¹, manufacturers initially sought to reduce their stock levels. This over-stocking followed by massive destocking during the recession was observed in all industrialised economies, including Luxembourg (see graph opposite). The destocking process has now ended and production has started to pick up again.

¹ Based on the number of new car registrations in the eurozone, the recovery in demand in the European automobile market can be shown to have started during the 1st quarter.

Appreciation of manufacturing inventories – Luxembourg



Source: STATEC (economic survey on manufacturing)

The 4th quarter should remain positive

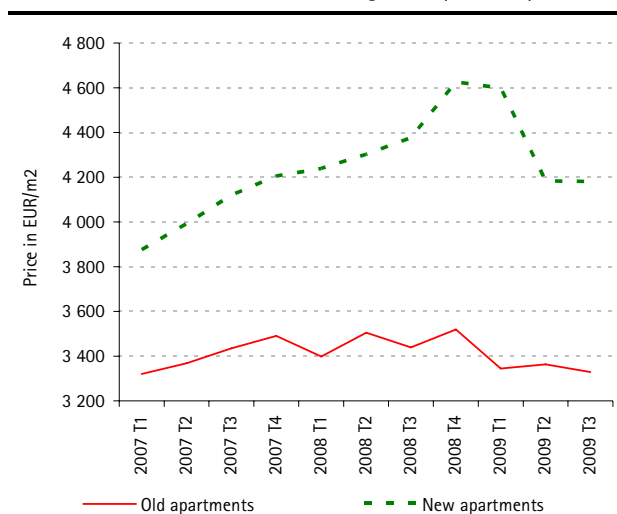
In October 2009, industrial output in the eurozone slipped 0.6% over one month.

This fall should not, however, be interpreted as a trend reversal because monthly data is relatively volatile. According to economic surveys conducted among European manufacturers, output is set to remain positive during the 4th quarter, albeit with slightly lower momentum. Global trade indicators still point to an ongoing recovery in manufacturing although no boom is predicted in this sector in the medium term. In the United States, there was no rise in industrial output in October but the figures for November – with growth of 0.8% over one month – provided observers with some measure of comfort.

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L U X E M B O U R G

Construction

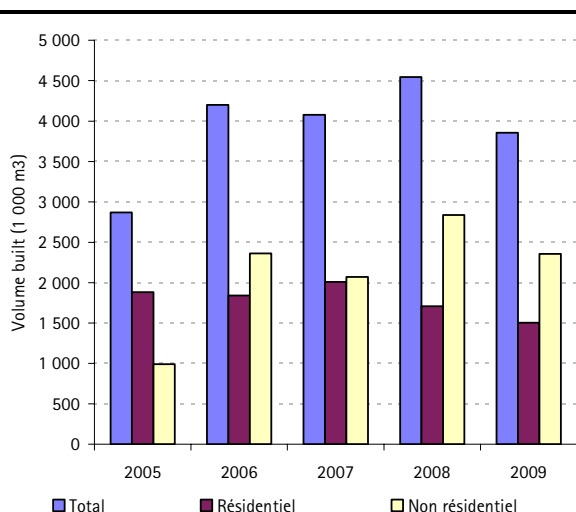
Average sales price of apartments



Source: STATEC

Housing

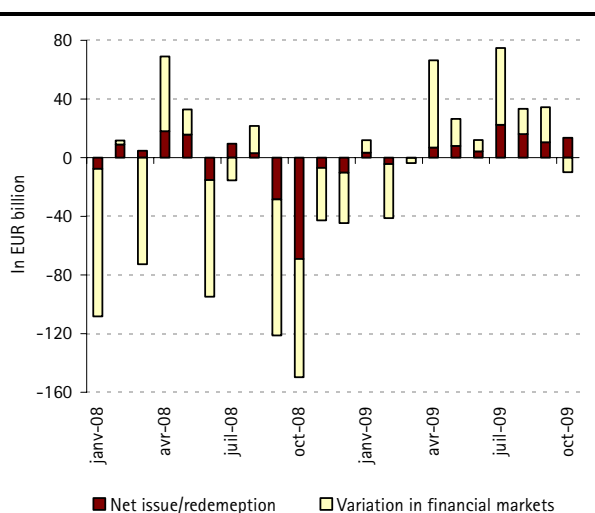
Planning permissions issued at the end of Q3



Source: STATEC (cumulative data)

Financial sector

Trends in UCI net assets



Source: CSSF

Fewer planning authorisations

The number of planning authorisations granted in the 3rd quarter of 2009 confirms the downward trend in construction volumes. In the residential sector, planning volumes fell 5% from July to September compared to last year, a drop comparable with that observed the previous quarter.

In the non-residential sector, the fall is much more marked, down 30% over one year in the 3rd quarter, after a fall of 40% in the 2nd quarter. Fortunately, there were a lot of planning authorisations granted at the start of the year. This means that since January (see graph opposite), the volume of construction projects fell 15% compared to 2008 (down 12% in the residential sector and 17% in the non-residential sector).

Over the same period, authorised construction projects in the eurozone were about 25% lower than in 2008, which puts Luxembourg's underperformance somewhat into perspective.

Apartment prices remain stable

The average price per square metre for apartments sold during the 3rd quarter fell almost 2% over the quarter (and almost 7% over one year). The fall was less marked than in the previous quarter, mainly due to a noticeable stabilisation in the price of new apartments.

The number of apartment sales bounced back significantly, exceeding 700 over the quarter (compared to about 600 during the 2nd quarter). This trend was due solely to higher sales of older properties. In contrast, sales of new apartments fell for the 5th quarter in a row.

Favourable trend for UCIs

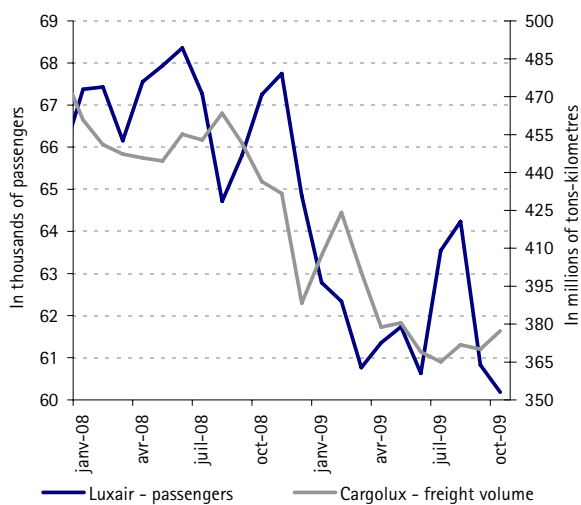
Net assets of Luxembourg Undertakings for Collective Investment (UCIs) grew to EUR 1778 billion in October 2009, the 7th consecutive month of growth.

Although some of this was due to the positive influence of the financial markets, net inflows of capital (excluding variations linked to the financial markets, i.e. the difference between issues and redemptions of UCI units) were also a factor. Since July in particular, net inflows of capital have averaged a little over EUR 15 billion per month, which is quite a dynamic pace of growth (comparable to that seen in 2007 for example).

Trends in the financial markets – prices of equities, bonds and monetary markets – generated negative effects in October. Overall, the main stock markets have stabilised since September and are therefore not expected to support the growth in UCI assets in Q4.

Transport

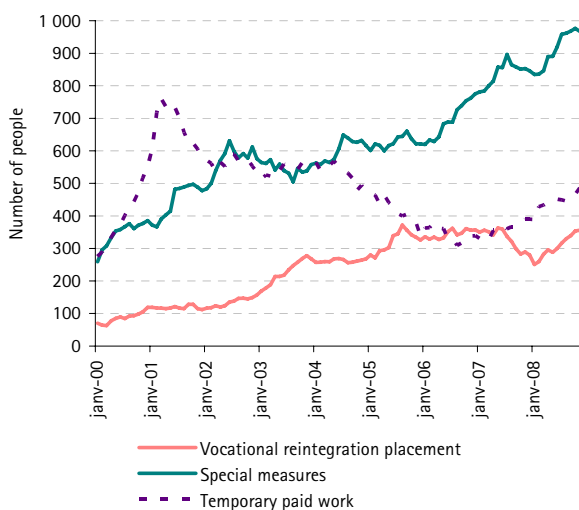
Air transport indicators



Sources: AEA, STATEC (seasonally adjusted data)

Labour market

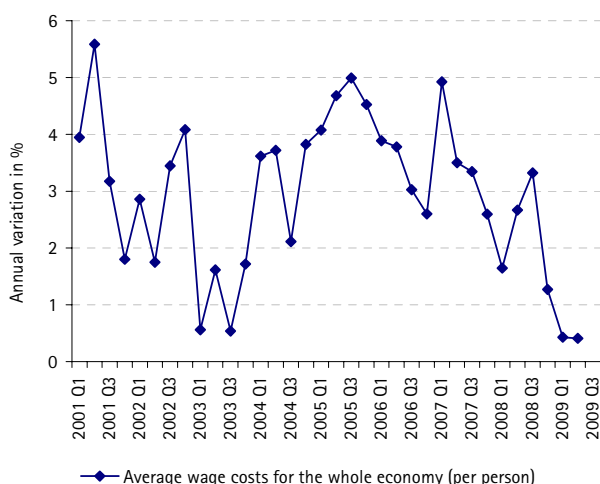
Employment measures having the most significant influx



Source: ADEM

Inflation - wages

Trends in wage costs in Luxembourg



Source: STATEC, National Accounts

Air transport remains in difficulty

The air transport sector remains marked by the difficult economic climate in Europe. In Luxembourg, the two national companies posted mixed results. The freight sector (Cargolux) has been trending upward since August although volumes remain low compared to the performance for 2008. For Luxair and passenger transport, July and August saw a significant recovery (excluding purely seasonal phenomena) but this tailed off thereafter.

Over the first ten months of the year, Luxair's passenger numbers fell 7.7% compared to 2008, as against an average fall of 7.2% for all European airlines. Over the same period, the fall in freight recorded by Cargolux amounted to about 15%, compared to a fall of about 20% at European level.

Mixed results for job schemes

The number of people in job schemes has risen again in recent months. In November 2009, ADEM recorded 3,313 people in job schemes, compared to 2,931 a year ago. However, the rise is concentrated in three of the nine schemes offered by ADEM.

The highest rise was in special schemes (involving non-profit associations), followed by temporary paid schemes (organised by SNAS, the national agency for social measures) and welfare to work initiatives (where job seekers aged over 30 receive theoretical and practical training as part of a paid in-company placement).

The number of people registered in other job schemes rose very little over one year, even falling in some cases, such as employment initiation contracts.

Wages stagnate in early 2009

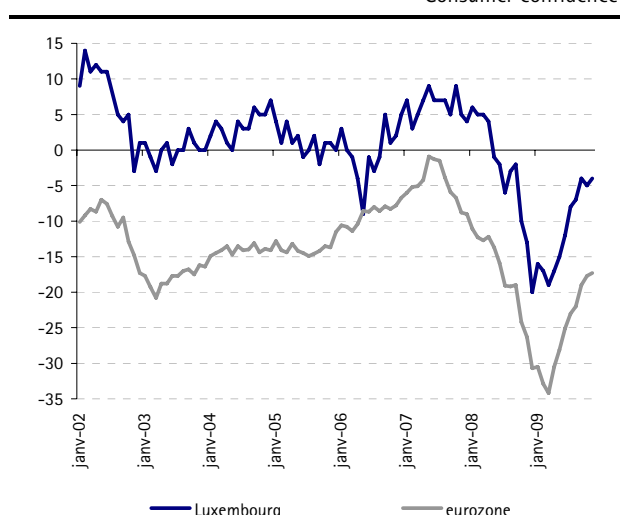
In early 2009, the average wage bill per person slowed considerably according to the quarterly data for the national accounts. Over the first half of 2009, it grew by just 0.4% over one year, compared to an average of 3% over the last three years.

This virtual stagnation in wages, despite the fact that automatic index-linked pay rises added 2.5% to wages in 2009, is partly explained by the reduction in working hours, particularly in manufacturing and construction (with partial unemployment, reduced overtime and unpaid leave, etc.).

The slowdown in pay rises has impacted most on those sectors affected by the crisis. The fall in the average wage bill per person was most marked in the financial sector and in manufacturing. Nevertheless, real wage costs (i.e. excluding the sliding wage scale) have fallen across all sectors, except for non-market services.

Consumption

Consumer confidence



Sources: BCL, EUROSTAT – Seasonally adjusted data

Statistics table

	Mar-09	Apr-09	May-09	Jun-09	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09	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	-28.4	-25.5	-21.9	-15.9	-21.9	-20.8	-9.0	...	...	-17.0	2.1
Construction output per working day, in volume	1.8	-0.8	-6.8	-3.9	10.9	4.1	-0.2	...	...	4.9	-1.0
Turnover by volume of total retail trade	-5.6	-0.8	-6.5	-2.7	-1.4	-3.5	-2.5	...	...	-2.4	0.0
Prices, wages											
Consumer price index (IPCN)	0.3	0.3	-0.3	-0.3	-0.7	0.2	0.0	0.1	1.3	0.5	3.1
Underlying inflation	2.2	2.3	2.1	2.2	2.0	2.1	2.0	1.9	1.9	1.9	2.5
Oil product index	-22.7	-23.5	-26.9	-26.7	-28.8	-21.6	-22.2	-20.9	-6.5	-17.0	12.2
Industrial producer price index	-1.1	-5.8	-7.7	-10.6	-13.5	-13.0	-13.8	-13.1	...	-13.3	6.9
Construction price index ¹	3.3	2.5	2.5	2.5	...	...	...	...	...	2.5	3.0
Average wage bill, per person (National accounts)	0.4	0.4	0.4	0.4	...	...	...	...	...	0.4	1.6
Foreign trade											
Exports of goods (volume)	-13.1	-27.9	-20.9	-19.5	-14.5	-11.1	11.5	...	...	-4.3	3.0
Imports of goods (volume)	-5.2	-20.9	-20.8	-9.5	-20.6	-13.3	-7.7	...	...	-14.1	0.7
Employment, unemployment											
Domestic number of employees (IGSS)	2.2	1.9	1.6	1.0	0.7	0.3	-0.1	-0.2	-0.1	-0.2	4.6
National employment (IGSS)	1.8	1.6	1.5	1.2	1.1	0.8	0.6	0.4	0.2	0.4	3.1
Unemployment rate (% of working population, seas. adj.)	5.4	5.5	5.7	5.8	5.9	5.9	5.9	5.9	5.9	5.9	4.5

Sources: STATEC

Data grey coloured are estimates

¹ Estimations based on half-yearly data

Indicators

	Variation on previous quarter in %					
	2008 Q2	2008 Q3	2008 Q4	2009 Q1	2009 Q2	2009 Q3
Eurozone- Growth in volume of GDP (European Commission)	-0.3	-0.4	-1.9	-2.4	-0.2	0.4
Luxembourg - Growth in volume of GDP (STATEC)	-1.0	-0.4	-2.9	-1.7	-0.3	...
	Annual variation in %					
	2007	2008	Forecast 2009		Forecast 2010	
Luxembourg - Growth in volume of GDP (STATEC)	6.5	0.0	-3.9		2.1	
GDP at current prices for 2008: EUR 39 347 million						
Minimum monthly salary (since 01/03/2009: EUR 1 682.76)						
Current account balance (2009 - 2 nd quarter): EUR -348 million						
Resident population (01/01/2009): 493 500						
Consumer price index (September 2009) - base January 1 st 1948: 749.42						
Half-yearly average of the index linked to base as at January 1 st 1948: 745.65						
Estimated deadline for next salary indexation: 3 rd quarter of 2010						

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Consumers worried about unemployment

Morale among Luxembourg and European consumers improved slightly in November, continuing the favourable trend seen since the 2nd quarter of 2009.

However, the rise observed since September appears to have eased somewhat. In Luxembourg and the eurozone as a whole, consumers have become more optimistic as regards both their own financial situation and the general economic situation. On the other hand, households have been more cautious as regards unemployment trends, and have not anticipated any improvement since September.

In November, consumer morale fell in only four countries in the eurozone, with Greek consumers the most negative. Since early 2009, Spain has showed the most improvement on this indicator, but this comes after significant downturns in 2008.

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