

February 2009

conjoncture flash

European unemployment on the increase

In all eurozone countries, the unemployment rate – i.e. the number of jobseekers compared to the working population – has risen significantly in recent months. It rose to 8.0% in December 2008, still below the 2004 and 2005 figures (when it was almost 9%) and significantly lower than in the mid-90s, when it varied between 10 and 11%.

Nevertheless, the unemployment rate is currently accelerating and is expected to rise even further in the coming quarters, at national, European and global levels. The current economic crisis is international and all countries – regardless of their structural difficulties – are being affected by the cyclical downturn.

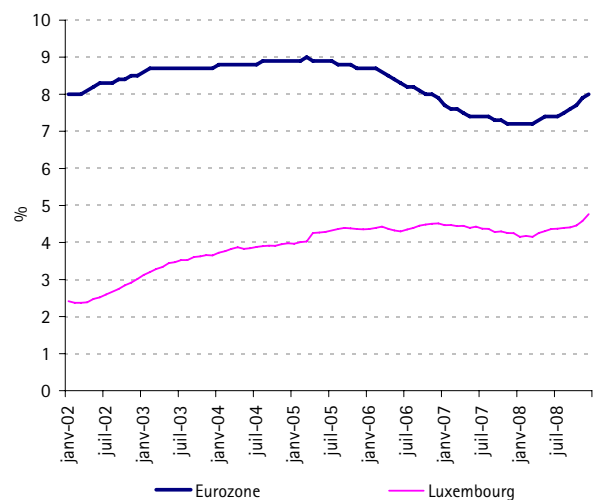
Recent forecasts by international organisations predict that unemployment in the eurozone will rise to between 8.3% and 9.4% for 2009 and between 9.1% and 10.2% for 2010. The varying range of these forecasts is due to the uncertainty of economic growth forecasts and of the resulting effects on the labour market (employment and unemployment). In any event, unemployment is set to be higher in 2010 than in 2009, despite the fact that all forecasts predict an economic recovery from the second half of 2009. This is due to the fact that pick-ups in growth generally have a delayed effect on employment.

In Luxembourg, STATEC's latest forecast (in autumn 2008) predicted an unemployment rate of 5.2% in 2009 and 5.6% in 2010.

Employment in the eurozone started to fall from the 3rd quarter of 2008, based on seasonally adjusted data. In Luxembourg, again based on seasonally adjusted data¹, employment was still rising at the end of the 4th quarter² (up 1.1% compared to the 3rd quarter), albeit more slowly than at the start of the year and not enough to offset the rise in unemployment. Historical data shows that in Luxembourg, growth in domestic employment can go hand in hand with increasing unemployment, due to both the opening-up of the labour market and relatively high population growth.

Monthly publication of the state of the Luxembourg economy

Trends in the unemployment rate



Sources: Eurostat, STATEC

A significant rise in Luxembourg

In the eurozone, the unemployment rate rose from 7.2% in January 2008 to 8.0% in December. In Luxembourg, despite lower levels overall in absolute terms, the increase was relatively more marked, with the rate rising from 4.2% to 4.8% over the same period. The countries most affected by the downturn in the labour market were Denmark, Spain and Ireland – in the latter country, unemployment rose from 4.7% to 8.2% in the space of just one year. In contrast, Belgium, Germany, the Netherlands, Austria and Finland seem to have been somewhat spared at the moment, although a reversal has been looming in recent months.

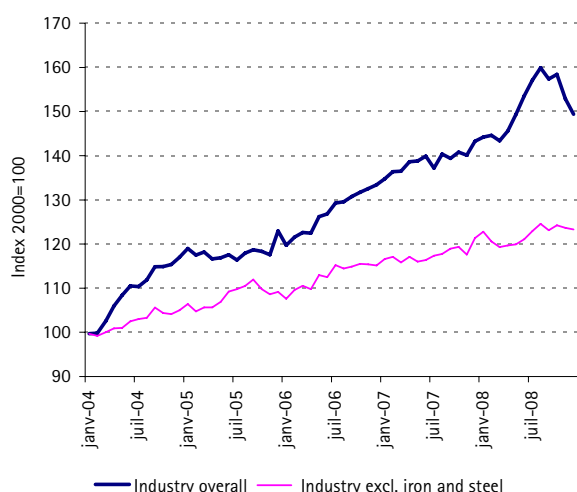
¹Employment data is seasonal. For example, the number of jobs in December is always lower than in November, even in a favourable economic climate. For cyclical analysis, in order to follow trends on a month-to-month basis, it is important to take seasonally adjusted data into account.

²The November and December data are estimates.

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Manufacturing

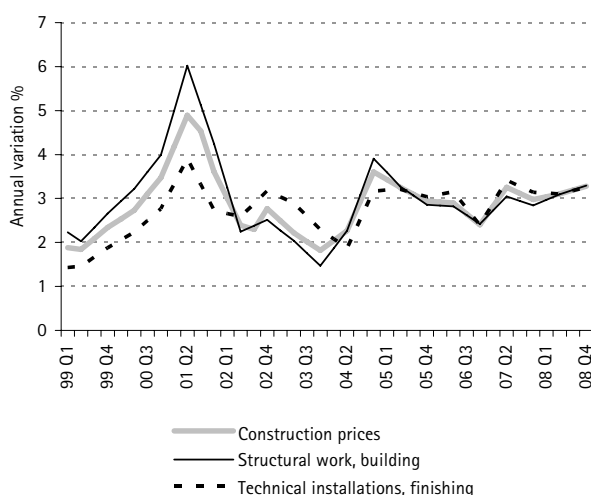
Prices of industrial products



Source: STATEC

Construction

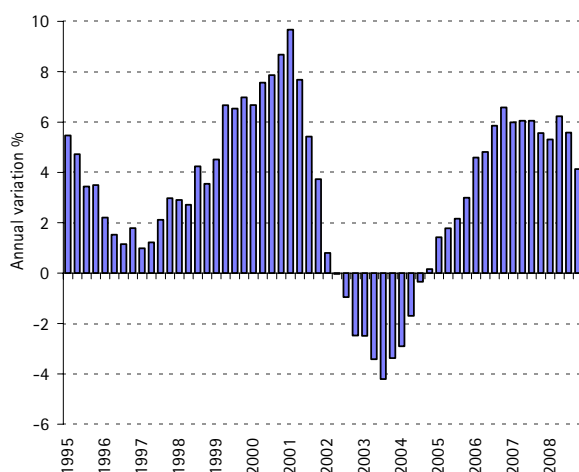
Construction prices



Source: STATEC

Financial sector

Employment in banks (quarterly data)



Source: BCL

Industrial prices drop

Prices for industrial products rose by 9.0% in 2008, in line with what was observed in previous years. Prices have risen regularly by an annual average of 8.6% since 2004, mainly due to rising iron and steel prices (up 18% per year on average over the same period).

However, over the last months observed, prices seem to have taken a different turn. This trend is hardly surprising, given that prices in raw materials have dropped considerably since the autumn, and global demand for industrial products has fallen off significantly in recent months (both phenomena being partly linked). For example, iron and steel prices lost 12% between October and December 2008 and prices for other products are also trending downward – albeit to a lesser extent – and this trend is expected to continue in the coming months, in particular as regards energy prices (electricity and gas) and foodstuffs.

Output down, moderate price growth

Output in the construction sector has fallen off since the 2nd quarter of 2008 in the eurozone, ending the year significantly down (down 10% over one year in December). The December figures are not yet available for Luxembourg, but the two previous months posted a drop of around 4% over one year.

During the second half of 2008, construction costs in Luxembourg rose 1.5% over the half-year and 3.3% over one year. There was little significant movement to report: the highest rise related to earthworks (up 4.4% over the half-year) while tiling and plastering services fell by about 0.5% each. Recent falls in industrial prices (see above) is expected ultimately to have an impact on construction prices.

Banking employment falls slightly

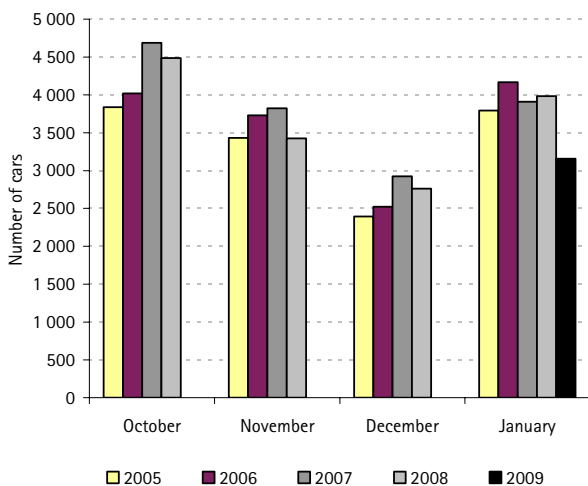
Banking employment fell by 0.2% in the 4th quarter of 2008 – a loss of 61 jobs – compared to the 3rd quarter. This is the first drop observed since mid-2004. During the last crisis, sparked off by the dotcom bubble, banking employment fell for 9 consecutive quarters (from 2002 to early 2004).

Job losses in the 4th quarter related mainly to foreign workers (down 79 units net), while employment among Luxembourg nationals rose slightly (up 10 units net).

Banking employment is still rising on an annual basis (by about 4%, see graph). However, with income levels falling, banks will have to restrict spending even more, on top of the redundancies already announced, no doubt leading to reductions in the workforce over the coming quarters.

Consumption

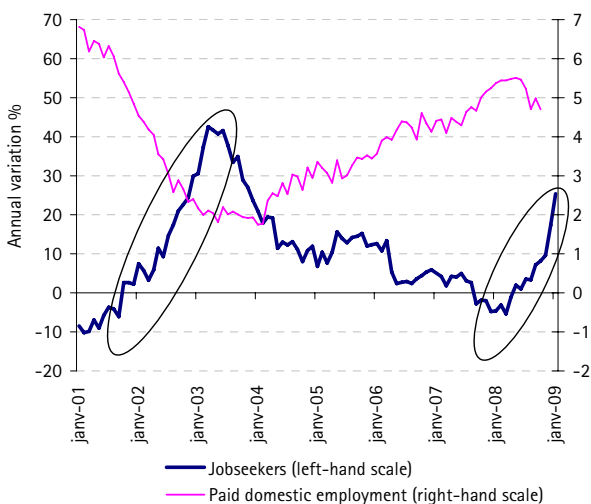
New car registrations



Source: STATEC

Labour market

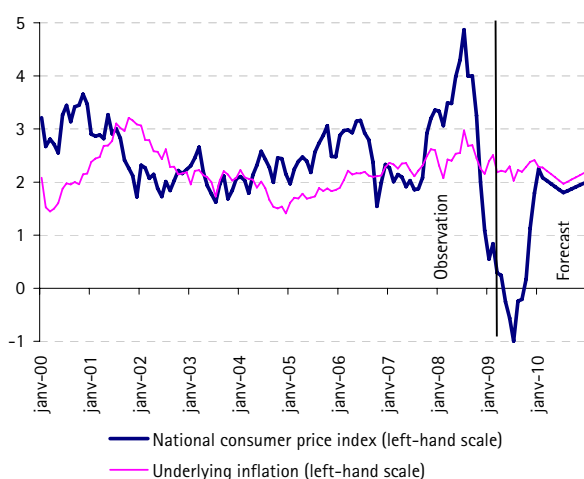
Trends in paid employment and jobseeker numbers



Sources: ADEM, IGSS

Inflation - wages

Inflation forecasts



Source: STATEC

Trade in difficulty

In September and October 2008, retail sales rose 9% in volume compared to 2007 but this figure includes the relatively impressive growth in turnover for mail-order companies (mostly in e-commerce). If these companies are excluded, retail sales slipped 2% over the same period, with local shops experiencing significant difficulties. In the last two months of 2008, estimates (based on a reduced sample and yearly data) indicate that the drop was even more significant: down 5% over one year in November and down 2% in December.

New car registrations in January 2009 were mediocre, confirming the downward trend seen in previous months. However, some of the shortfall may be made up in the coming months, with interesting offers linked to the car fair, although this remains to be seen.

Unemployment growth accelerates

In January 2009, the number of jobseekers registered with ADEM rose to 12,798. This represents an increase of 25.4% on an annual basis (i.e. 2,593 more than in January 2008). Like during the last economic slowdown (2002-2003), the number of registered jobseekers accelerated significantly (see graph opposite).

According to the latest available data (October 2008), paid employment grew by around 5% on an annual basis (with cross-border employment up 7% and national employment up 3%). However, a more severe slowdown in employment is expected for November and December, given the accumulation of negative signals for this period.

Thus, the unemployment rate reached 4.9% in January 2009 compared to 4.8% in December 2008 and 4.2% the previous year. The overall unemployment rate, which also takes account of people involved in job schemes, reached 6.4% in January 2009 (6.1% in December and 5.7% in January 2008).

Wage adjustment due on 1 March 2009

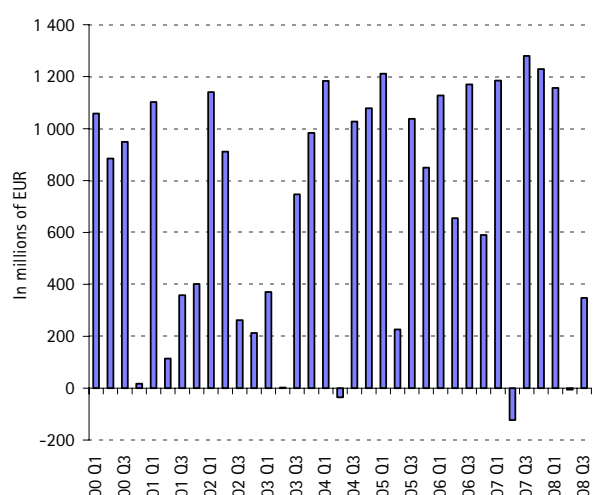
On 1 March 2009, wages and salaries are set to rise by 2.5%. This relates to the payment of the automatic indexation adjustment, triggered in June 2008 but delayed by the implementation of the Act of 27 June 2006 modifying certain aspects of the sliding wage scale.

According to the latest forecasts from STATEC, which are based on an oil price USD 44 a barrel and an exchange rate of 1.34 USD/EUR, inflation is expected to reach an average of 0.2% in 2009 and 2% in 2010. This price stability for 2009 will be mainly due to a sharp drop in oil prices compared to 2008, with underlying inflation remaining stuck at about 2%.

If the national inflation rate remains as low as this there will be no wage adjustments in 2009 as, according to central forecasts, the threshold will not be exceeded again until mid-2010.

Foreign trade

Current account surplus



Source: STATEC

Statistics table

	May-08	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08	Jan-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	3.4	-3.4	1.2	2.5	1.0	-9.8	-15.9	...	...	-8.5	-2.1
Construction output per working day, in volume	1.7	-1.9	-2.8	-4.6	0.3	-5.3	-2.8	...	...	-2.7	-2.3
Turnover by volume of total trade	20.3	70.4	64.7	46.2	70.9	29.8	-12.5	...	...	25.1	3.9
Turnover by volume of total retail trade	3.8	-1.0	-1.4	10.9	2.8	-3.9	2.0	...	...	0.2	2.6
Prices, wages											
Consumer price index (IPCN)	4.0	4.3	4.9	4.0	4.0	3.3	2.0	1.1	0.5	1.2	3.3
Underlying inflation	2.5	2.6	3.0	2.7	2.7	2.4	2.3	2.2	2.4	2.3	2.5
Oil prices	25.4	29.6	31.9	23.3	23.3	15.0	-0.9	-12.7	-21.3	-11.8	16.3
Industrial producer price index	7.6	9.7	14.5	13.9	12.9	12.5	9.1	4.3	...	8.6	6.7
Average wage bill, per month, per person	1.2	5.3	4.2	2.9	4.7	5.0	...	...	...	4.1	3.5
Foreign trade											
Exports of goods	-4.9	-5.4	2.8	-8.0	2.1	-12.4	-15.3	...	...	-8.7	-3.6
Imports of goods	-16.3	-11.5	3.1	-23.1	1.6	-5.7	-5.1	...	...	-3.2	-1.0
Employment, unemployment											
Domestic number of employees	4.9	5.2	5.1	4.8	5.3	4.7	4.7	4.8	4.2	4.6	5.3
National employment	3.1	3.3	3.2	3.1	3.6	3.2	3.1	3.0	2.9	3.0	2.9
Unemployment rate (% of working population, seasonally adjusted)	4.3	4.4	4.4	4.4	4.4	4.5	4.6	4.8	4.9	4.8	4.2

Sources: STATEC

Data in italic font are estimates

Indicators

	Variation on previous quarter in %					
	2007 Q3	2007 Q4	2008 Q1	2008 Q2	2008 Q3	2008 Q4
Eurozone- Growth in volume of GDP (European Commission)	0.7	0.4	0.7	-0.2	-0.2	-1.5
Luxembourg - Growth in volume of GDP (STATEC)	0.6	0.9	0.1	1.2	-1.9	...
	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 01/01/2009: EUR 1 641.74)					
Consumer price index (January 2009) - base January 1 st 1948: 727.41	Half-yearly average of the index linked to base as at January 1 st 1948: 743.58					
Current account balance (2008 - 3rd quarter): EUR 348 million	Resident population (01/01/2008): 484 000 (estimation)					

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