

# conjoncture flash

April 2009

## From slowdown to recession

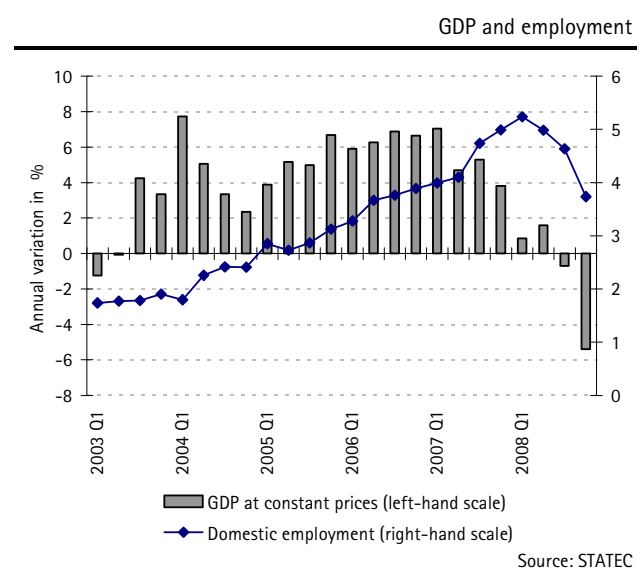
### A recession already apparent in 2008

The fourth-quarter data for 2008 and for the three previous quarters lead us to postulate an initial growth estimate for 2008 as a whole. This reveals a negative result of 0.9% – in other words, an economic recession. The latest forecasts from STATEC, presented in the previous month's Conjoncture Flash, had already taken into account the marked deterioration in activity indicators from October on. These forecasts, however, still predicted a positive figure for 2008 – albeit very low, at only 0.7%. From this standpoint, the national accounts for the 4<sup>th</sup> quarter reveal even more extensive and faster drops in activity than anticipated, which weigh on the annual result.

Apart from this initial observation, a number of additional remarks can be made. Firstly, revisions for the previous quarters come on top of the new data for the 4<sup>th</sup> quarter 2008. These revisions were relatively significant, bringing down GDP for the 2<sup>nd</sup> and 3<sup>rd</sup> quarters. They were linked to construction activity – with a slightly positive effect on growth – and trade – with a very negative effect. Next, the uncertainty surrounding data from the banking sector linked to changes in accounting standards from 2007 to 2008 should be noted, with doubts about data comparability. These remarks go some way to explaining the negative figure for 2008 and justify the need for prudence from a statistical standpoint with regard to this result.

Nevertheless, the final quarter of the year, in line with other eurozone countries, was very poor. All major branches of activity posted falls in added value, although not always as expected. For example, despite the stock market collapse in the 4<sup>th</sup> quarter (with the main indices falling more than 20%), the financial sector contributed far less to the fall in GDP than manufacturing. This latter sector, which witnessed a complete shutdown in output in many companies from October on, was responsible for about half of the negative result of the 4<sup>th</sup> quarter.

## Monthly publication of the state of the Luxembourg economy



### Bleak outlook for early 2009

Sadly, the outlook for the 1<sup>st</sup> quarter of 2009 is not encouraging. According to economic surveys, manufacturing and construction are expected to experience another decline in output.

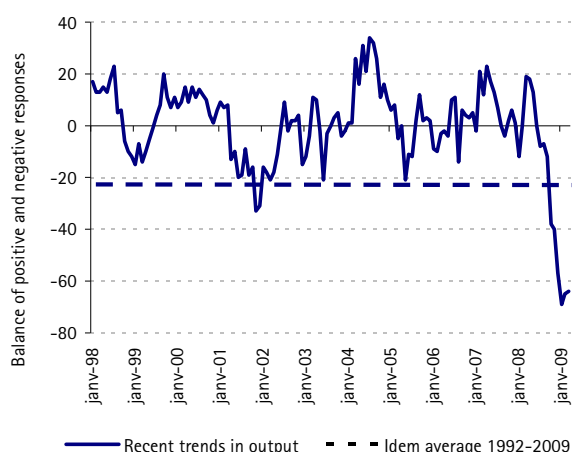
Non-financial services, already affected during the 4<sup>th</sup> quarter, are expected to continue to slow down, with lower demand both domestically and abroad. Although the financial markets have been faring better since early March 2009, this will not lead to improved results until the 2<sup>nd</sup> quarter – if indeed this turnaround is sustained.

With a number of leading indicators now more favourable, output may have bottomed out in the 1<sup>st</sup> quarter in some branches and a slight recovery could ensue. However if this happens, it will be from an extremely low base and will not keep the current year out of an economic recession or prevent a rapid rise in unemployment in the coming months.

**statec**  
L U X E M B O U R G

## Manufacturing

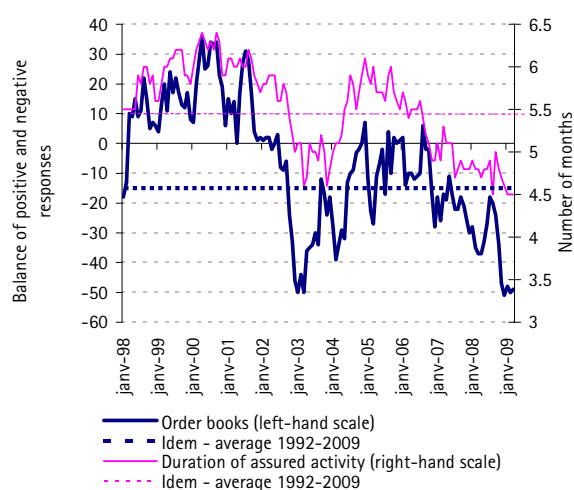
Economic survey on manufacturing



Source: STATEC (activity survey)

## Construction

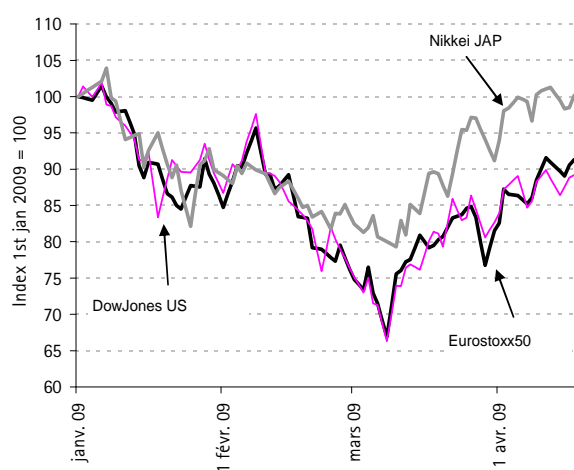
Economic survey on construction



Source: STATEC (activity survey)

## Financial sector

Financial market trends in 2009



Source: Eurostat (latest data: 17 April 2009)

## Turbulent times

Industrial output in Luxembourg fell sharply during the 4<sup>th</sup> quarter of 2008, by 17% compared to the 4<sup>th</sup> quarter of 2007 (against a fall of just 9% for the eurozone as a whole). Economic surveys on Luxembourg manufacturing indicate that activity will fall again in the 1<sup>st</sup> quarter of 2009. In terms of output, orders and employment, the overall opinion remained downbeat between January and March, although the first two of these stabilised somewhat from February on.

Internationally, some leading indicators for manufacturing – such as PMI manufacturing indices in Europe and the United States – have stabilised since January. In the absence of a recovery, this indicates that the worsening manufacturing climate will at least be less pronounced. In other words, the worst of the storm may have passed during the 1<sup>st</sup> quarter – nevertheless, dark clouds still threaten and the future remains uncertain.

## Mixed opinions on the 1<sup>st</sup> quarter

The construction industry noted a relatively significant downturn in their order books in late 2008. First-quarter surveys indicate a slight improvement on this, but there are other reasons for concern.

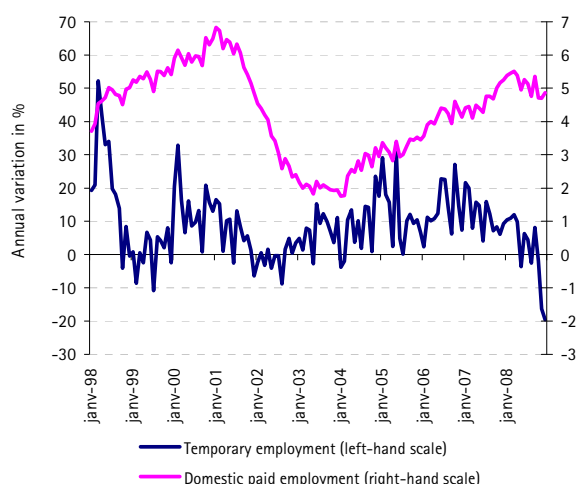
Assured activity expressed in terms of months remains low, mainly due to a more pessimistic outlook on housing construction. The proportion of businesses that believe insufficient activity is affecting their activity has progressively decreased since January: apparently, the climate conditions that were more unfavourable than in early 2008 led to a slowdown in activity in the 1<sup>st</sup> quarter of 2009. Moreover, between January and March, the number of companies mentioning increasing financial constraints rose significantly (22% in March 2009, as against only 13% in March 2008 and 9% in March 2007).

## Markets up since March

After falling heavily in 2008 and early 2009, the main stock market indices recovered in March. Without wishing to be overly optimistic, it is not outlandish to posit a definite rally, at the very least the most significant one since the financial crisis first broke. Between 9 March and 17 April, these indices gained a little over 25%. However, it would be premature to talk about a true recovery, which presupposes a sustainable trend over a number of months. Volatility, symptomatic of investor uncertainty, remains high on the stock markets, even though it has abated somewhat in recent weeks. This recovery in stock market securities should offset first-quarter losses on financial products directly or indirectly related to these – a positive signal for the 2nd quarter.

## Labour market (1)

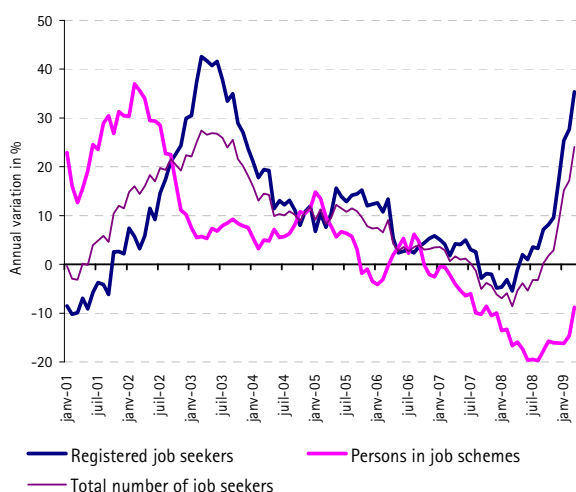
Trends in paid employment and temporary employment



Source: IGSS

## Labour market (2)

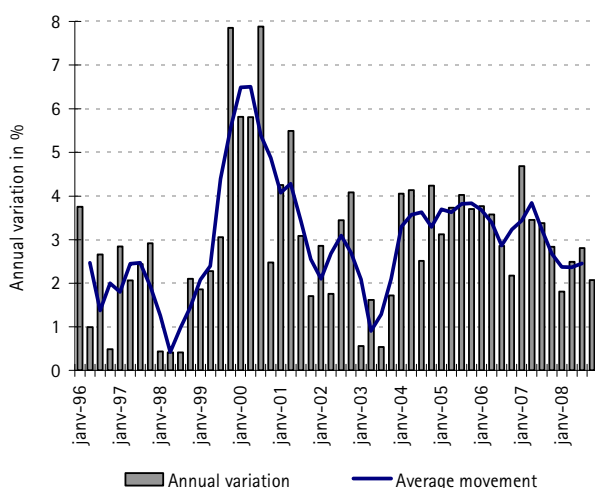
Trends in job seeker numbers



Source: ADEM

## Inflation – wages

Trends in average wage costs



Source: STATEC

## Temporary employment falls in late 2008

Temporary employment, which is a good leading indicator of the labour market, has fallen significantly in recent months. The slowdown already observed since early in 2007, became more accentuated in late 2008 – up 17.5% for the last quarter of 2006, up 7.6% for the last quarter of 2007 and down 11.4% for the last quarter of 2008.

The financial sector was the first to lay off temporary workers in 2008, followed by the transport and communications sector from the 2<sup>nd</sup> quarter. Manufacturing and construction, which employ a little over half of all temporary workers, only started to lay these workers off from the end of the last quarter of 2008, which explains the impressive fall in this indicator at the end of the year (down 20%, i.e. approximately 1,000 workers in the last two months of the year). The falls in temporary employment were responsible for half of the slowdown in employment at the end of the year (growth in domestic paid employment fell from 5% to 4% between the 3<sup>rd</sup> and 4<sup>th</sup> quarters).

## Unemployment continues to accelerate

In March 2009, 12,860 people registered with ADEM (up 3,360 over one year). This meant a rapid acceleration in the number of job seekers: up 30% over the 1<sup>st</sup> quarter of 2009 after rising 10% at the end of 2008. This trend also affected the unemployment rate, which reached 5.3% in March 2009, up 1.1 percentage points over one year.

The number of people in job schemes continued to fall at the start of the year (down 8.8% over one year in March), but this is starting to level off. Taking people in job schemes into account (2,980 workers in March), the total rise in job seeker numbers was a little lower (up 24% over one year, against excluding those on job schemes). The overall unemployment rate rose from 5.6% in March 2008 to 6.6% a year later.

Over the 1<sup>st</sup> quarter, the largest rise was among male recipients of full unemployment benefits aged 31-40 with higher level training.

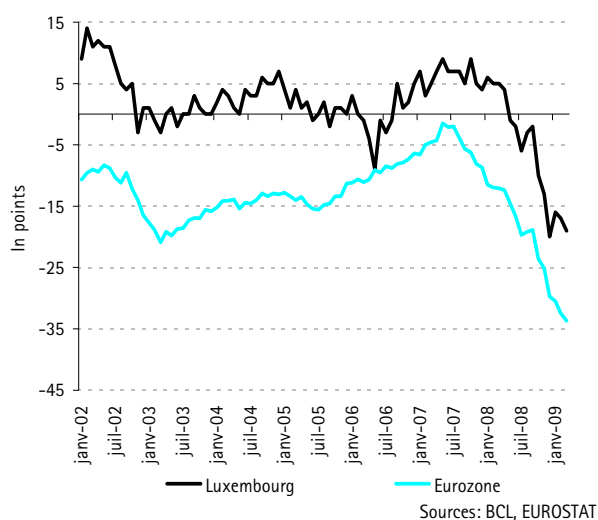
## Wages fall in the financial sector

According to the quarterly data for the national accounts, average wage costs rose 2.1% over one year during the 4<sup>th</sup> quarter of 2008, as against 2.8% over one year during the previous quarter. Excluding adjustments (2.5% over this period), the results show a 0.4% drop in real wages in the last quarter of 2008.

Wages fell most in the financial sector, down 2.8% in the 4<sup>th</sup> quarter of 2008. Excluding the financial sector, average wage costs continued to accelerate (from 2.9% in the 3<sup>rd</sup> quarter to 3.1% in the 4<sup>th</sup>). Wages rose most in business services and non-market services. However, in manufacturing – which relied heavily on partial unemployment in the 4<sup>th</sup> quarter – and construction, average wages fell at the end of 2008.

## Consumption

Consumer confidence



## Consumers demoralised

Consumer morale fell in Luxembourg in February and March 2009. However, in contrast to the eurozone as a whole, Luxembourg residents regained their optimism in January, although this did not last. The pessimistic unemployment outlook continued to weigh heavily on confidence, although the deterioration observed between February and March was due to a downturn in expectations with regard to the general economic situation and ability to save.

In Europe, the situation differed significantly from country to country. Several eurozone heavyweights – Germany, France, Italy and the Netherlands – have witnessed a marked deterioration in recent months. In other member states, confidence stagnated overall at low levels or at best improved very slightly. Of the 27 EU member states, 8 experienced boosted confidence levels in March (as against just 2 in December), 4 of which are in the eurozone.

## Statistics table

	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08	Jan-09	Feb-09	Mar-09	Average over the last three months	Same period previous year
Annual variations in %, except where otherwise indicated											
<b>Activity</b>											
Industrial output per working day, in volume	1.2	2.8	0.9	-9.5	-17.0	-24.1	...	...	...	-16.7	-0.7
Construction output per working day, in volume	-2.8	-4.6	0.3	-5.3	-2.8	4.7	...	...	...	-1.8	-4.2
Turnover by volume of total trade	64.5	46.1	71.1	29.5	-19.1	-11.8	...	...	...	-2.2	7.9
Turnover by volume of total retail trade	0.5	-2.5	-1.6	-1.5	-6.4	...	...	...	...	-3.2	2.7
<b>Prices, wages</b>											
Consumer price index (IPCN)	4.9	4.0	4.0	3.3	2.0	1.1	0.5	1.2	0.3	0.7	3.3
Underlying inflation	3.0	2.7	2.7	2.4	2.3	2.2	2.4	2.7	2.2	2.4	2.3
Oil product index	31.9	23.3	23.3	15.0	-0.9	-12.7	-21.3	-17.3	-22.7	-20.5	20.4
Industrial producer price index	8.8	7.3	7.1	6.4	4.1	0.2	2.0	2.2	...	1.4	3.9
Construction price index <sup>1</sup>	3.1	3.1	3.1	3.2	3.2	3.2	3.3	3.3	3.3	3.3	3.0
Average wage bill, per month, per person	4.2	2.9	4.7	5.0	3.2	4.0	...	...	...	4.0	3.3
<b>Foreign trade</b>											
Exports of goods	0.6	-10.0	0.0	-8.8	-21.9	-20.5	-31.4	...	...	-24.8	-5.4
Imports of goods	2.5	-23.1	1.9	-3.7	0.1	-9.1	-10.9	...	...	-6.5	-1.1
<b>Employment, unemployment</b>											
Domestic number of employees	5.1	4.8	5.3	4.7	3.9	4.0	3.2	3.1	3.2	3.2	5.4
National employment	3.2	3.1	3.6	3.2	2.7	2.8	1.9	1.9	1.9	1.9	3.2
Unemployment rate (% of working population, seasonally adjusted)	4.4	4.4	4.4	4.5	4.6	4.8	5.0	5.2	5.3	5.2	4.2

Sources: STATEC

Data grey coloured are estimates

<sup>1</sup>Estimations based on half-yearly data

## 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)	0.6	0.4	0.7	-0.3	-0.3	-1.6
Luxembourg - Growth in volume of GDP (STATEC)	1.5	0.5	-1.0	0.2	-0.6	-3.6
	Annual variation in %					
	2007	2008	Forecast 2009		Forecast 2010	
Luxembourg - Growth in volume of GDP (STATEC)	5.2	-0.9	-1.8		2.1	
GDP at current prices for 2008: EUR 36 410 million	Minimum monthly salary (since 01/03/2009: EUR 1 682.76)					
Consumer price index (April 2009) - base January 1 <sup>st</sup> 1948: 739.00	Half-yearly average of the index linked to base as at January 1 <sup>st</sup> 1948: 738.12					
Current account balance (2008 - 4th quarter): EUR 260 million	Resident population (01/01/2008): 484 000 (estimation)					

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