

July 2009

conjoncture flash

GDP falls further in the 1st quarter

The Luxembourg economy slumped even further in the 1st quarter of 2009, with added value down about 5% on the 1st quarter of 2008. However, the situation varies from sector to sector, with encouraging signs from the financial sector in particular.

Manufacturing and construction suffering

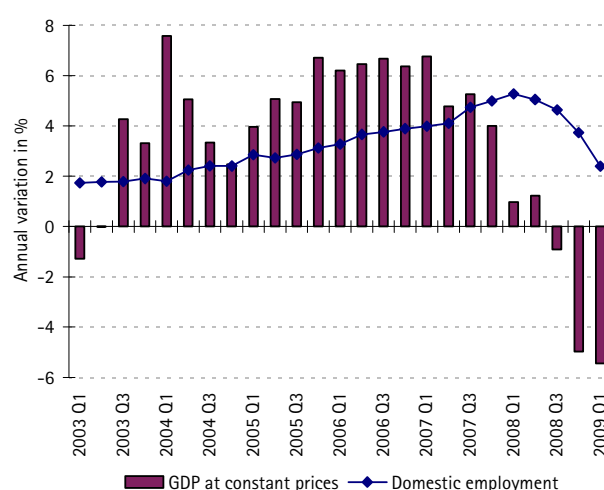
Looking at seasonally adjusted quarterly variations, this is the 5th consecutive quarter where momentum has fallen back. Therefore, after the 1st quarter 2009, the economy remains in recession, although the downturn is less marked than during the previous quarter (down 1.5% compared to a drop of 3.6% in the 4th quarter of 2008). Activity in the secondary sector – manufacturing and construction – was a major factor in the depression of the economy. Manufacturing, which saw a collapse in order books from the 4th quarter of 2008 on, shrank again in terms of output. However, the situation may stabilise during the 2nd quarter, with opinion surveys of manufacturers indicating more favourable momentum. Added value in construction also fell significantly. However, it is advisable to exercise caution when interpreting this trend as the data is partly based on estimates linked in particular to employment trends. Other indicators from activity surveys point to a stabilisation in output. While it is true that the construction industry is undergoing a difficult period – with confidence among construction companies sagging and momentum in the residential sector running out of steam – there is not as yet sufficient statistical evidence of a real "crisis" – in contrast to the manufacturing sector.

Creditable performance for services

On the other hand, the services sector, which represents almost 80% of added value, has been sending out a number of positive signals. Thanks to banks and insurance companies, financial services bounced back during the 1st quarter and this trend is likely to extend into the 2nd quarter due to a more favourable international financial environment.

Monthly publication of the state of the Luxembourg economy

GDP and employment



Source: STATEC (quarterly accounts)

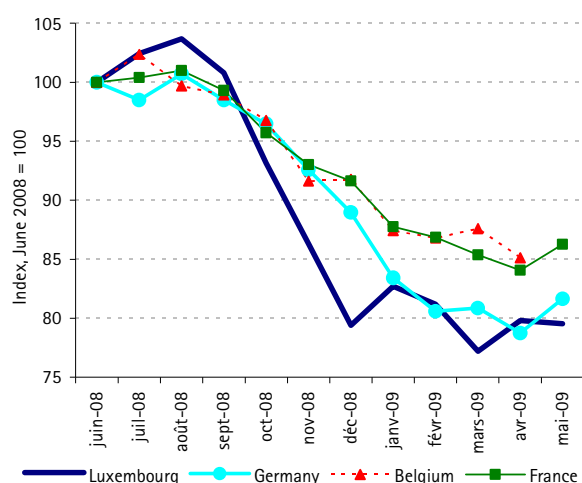
Business services also performed relatively well, but are expected to suffer over time from the general fall-off in activity. The same can be said about trade, hotel & catering and transport & communications.

Internationally, most forecasters are hoping for a slow recovery in worldwide growth during the second half of 2009, driven by an improving economic situation and the initial impact of recovery plans. In Luxembourg, the 2nd quarter GDP figures will be available in October, when new consolidated results for 2008 will also be published and these will help provide a significantly more accurate prognosis. Based on the data currently available, economic activity in the 2nd quarter is expected to stabilise somewhat, although talk of a true recovery remains premature. However, in employment (and consequently unemployment), which has a delayed reaction to fluctuations in activity, no improvement is expected before 2010.

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L U X E M B O U R G

Manufacturing

Trends in industrial output over one year



Sources: Eurostat, STATEC (seasonally adjusted data)

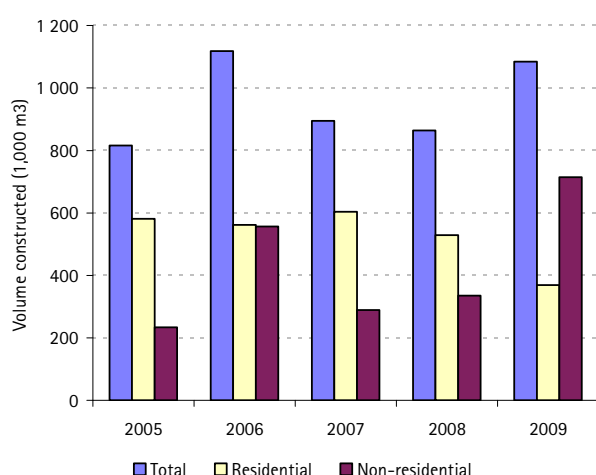
Improvement in sight

European manufacturing output fell sharply in the last quarter of 2008. Over the first few months of 2009, the trend remained downward but tended to stabilise. Compared to its neighbouring countries, the downturn in Luxembourg was almost identical to that seen in Germany (although more rapid in the 4th quarter of 2008). Germany, which had followed a similar path to Belgium and France up until late 2008, diverged in the early part of 2009.

The most recent data, for May 2009, shows a relatively marked recovery in output in Germany and France. Although Luxembourg is not directly involved in this trend, it is an encouraging signal for the coming months, bolstering the upturn noted in opinion surveys in May and June.

Construction (1/2)

Planning permission granted during the first quarter



Source: STATEC

Contrasting situation in planning permission

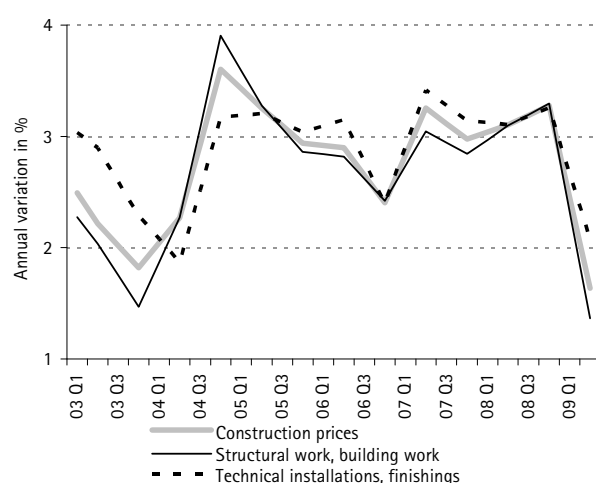
The volume of planning permission granted shot up in the 1st quarter of 2009, due to a significant increase in non-residential construction projects (administrative and industrial buildings, warehouses, etc.). This was the highest volume in this sector – for a 1st quarter – since 2001.

However, in the residential sector, the downward trend seems set to continue: the volume of building projects was about 30% lower than for last year, while over 2008 as a whole, this indicator was already over 20% down. The loss of momentum in the residential sector was even more marked in individual housing than in apartment buildings.

Finally, the number of scheduled housing units fell 23% compared to the 1st quarter of 2008 (i.e. 184 units).

Construction (2/2)

Construction prices



Source: STATEC

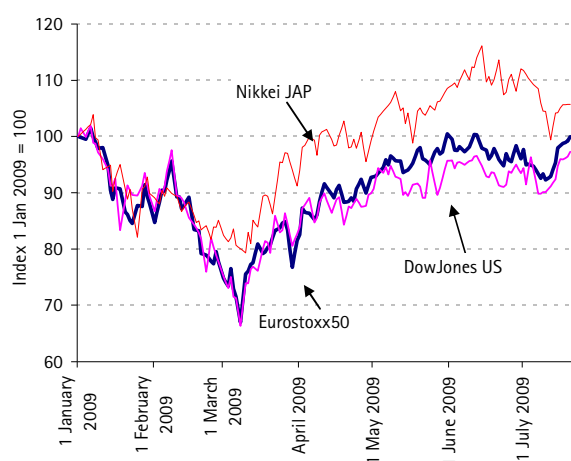
Downward pressure on construction costs

Construction price trends (for residential buildings) in Luxembourg slowed considerably in early 2009. Although complete data is not available for all eurozone countries for this period, the trend seems widespread: for most of these countries, price rises have slowed considerably since the last quarter of 2008. This trend is due to the reversal in the property market and falling prices of raw materials (these two phenomena are partially linked). As construction activity in Europe has fallen off significantly since early 2008, downward pressure on prices should continue to be felt throughout 2009.

In Luxembourg, prices have fallen for reinforced concrete structures, roofing, glazing, plastering and painting services.

Financial sector

Trends in financial markets in 2009



Source: Eurostat (latest data: 20 July 2009)

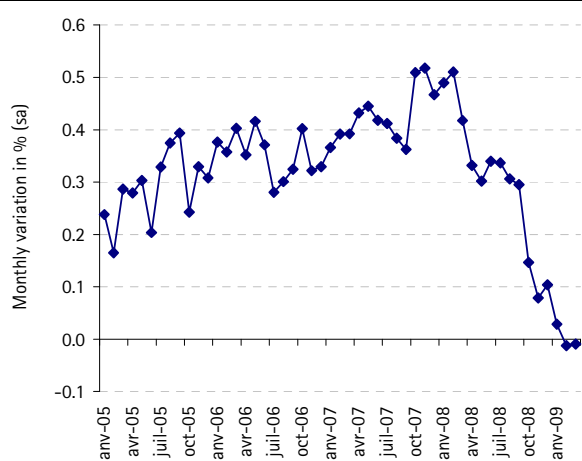
The upward trend in the markets continues

The leading indices in the main stock markets picked up again from March onwards. Stock prices started to gain more and more moderately throughout the 2nd quarter, peaking in mid-June. In late June and early July, the markets were shaken by the publication of relatively disappointing macroeconomic indicators and the surprise fall in American consumer confidence. Prices recovered thereafter, boosted mainly by the positive results of American banks during the 2nd quarter.

According to the Eurostoxx index on 20 July, prices have risen some 50% since the low in March, representing a return to the values seen in early 2009 (and a fall of 25% over one year).

Labour market

Trends in domestic paid employment



Sources: IGSS, STATEC (sa - seasonally adjusted)

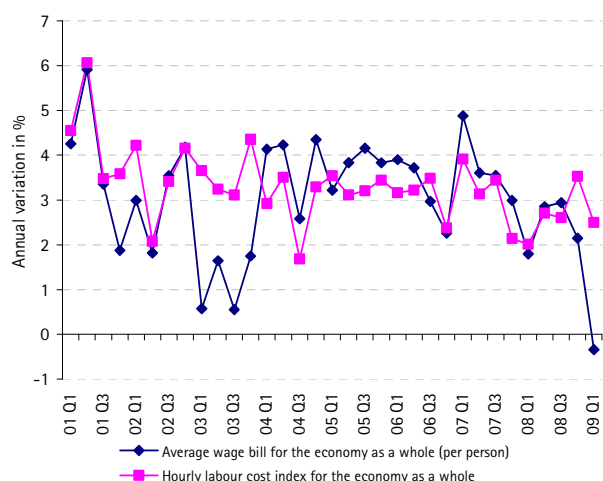
Employment stagnant in early 2009

According to the latest monthly seasonally-adjusted data, domestic paid employment stagnated in February and March 2009 (see graph opposite). It fell to 331,187 people during the first quarter of 2009, a drop of 0.2% (or 716 people) compared to the last quarter of 2008, but is still up year-on-year (up 2.5% compared to the 1st quarter of 2008).

The downturn in employment is widespread but is particularly marked in construction (down 1.5% over one quarter) and manufacturing (down 0.9%). In other sectors, except for non-market services (up 1.4%), employment has fallen by half a percentage point. Employment had already been slowing since early 2008 and this trend is set to remain unchanged in the coming months. Therefore, in its spring forecasts, STATEC predicted total domestic employment growth of about 1% on average in 2009, which has been confirmed by the latest monthly figures.

Inflation - wages

Trends in average wage costs



Source: STATEC

Wages fall at the start of the year

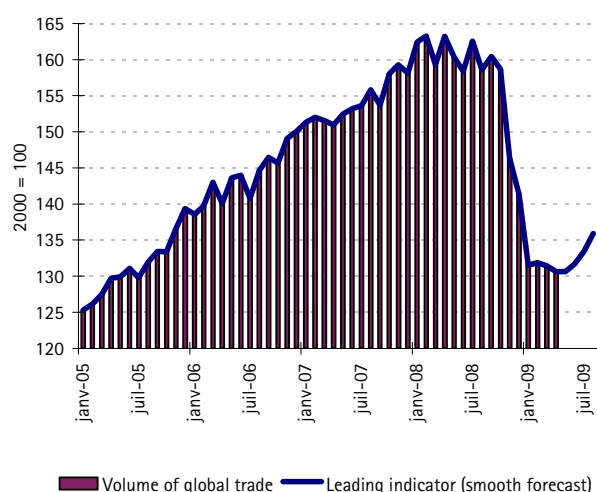
In the 1st quarter of 2009, the average wage bill per person fell 0.3% on an annual basis. Considering that the automatic index-linked pay rises added 2.5% to the wage bill over this period, the drop is even more remarkable as it means that real wage costs have fallen significantly.

However, part of this fall can be explained by the reduction in working hours, particularly in manufacturing and construction (i.e. partial unemployment, bad weather leave, etc.). Therefore, trends for hourly labour costs remained positive in early 2009 (up 2.5% in Q1 - see graph).

While wages (per person or per hour worked) fell in the financial sector and business services (down 0.5% approximately), mainly due to a decrease in bonuses, trends have remained positive in other services. In manufacturing and construction, the cost per person is down (0.3% and 0.6% respectively) while the hourly cost continues to rise (up 3.2% and 3.6% respectively).

Foreign trade

Global trade trends and prospects



Source: CPB Netherlands Bureau for Economic Policy Analysis

Recovery in sight for global trade

After falling back significantly in late 2008, the volume of global trade more or less stabilised in the first few months of 2009. It is expected to take off again from the summer of 2009 on, according to forecasts by the Netherlands Bureau for Economic Policy Analysis (among others).

There are several reasons for this optimism. Firstly, manufacturers have significantly reduced their stock levels since late 2008 in reaction to the fall in demand. They will now have to partially restock, which will stimulate input trade. Secondly, the economic environment should improve over time: opinion surveys show increasing optimism on the part of manufacturers (particularly in the United States) and the international financial system seems to be stabilising. Finally, activity in emerging countries such as China has remained dynamic overall, thanks to the development of their domestic markets and massive investments made possible by their significant financial reserves accumulated in previous years.

Statistics table

| | oct-08 | nov-08 | déc-08 | janv-09 | févr-09 | mars-09 | avr-09 | mai-09 | juin-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 | -9.7 | -16.0 | -24.5 | -34.8 | -35.9 | -39.0 | -34.8 | ... | ... | -36.6 | -0.1 |
| Construction output per working day, in volume | -5.4 | -2.9 | 4.7 | -3.4 | -8.2 | -2.9 | -1.9 | ... | ... | -4.2 | -1.1 |
| Turnover by volume of total trade | 29.5 | -19.1 | -11.8 | -12.5 | -15.7 | 3.7 | ... | ... | ... | -7.8 | 18.7 |
| Turnover by volume of total retail trade | -1.9 | -5.7 | -2.6 | -0.4 | -9.1 | ... | ... | ... | ... | -3.8 | 1.4 |
| Prices, wages | | | | | | | | | | | |
| Consumer price index (IPCN) | 3.3 | 2.0 | 1.1 | 0.5 | 1.2 | 0.3 | 0.3 | -0.3 | -0.3 | -0.1 | 3.9 |
| Underlying inflation | 2.4 | 2.3 | 2.2 | 2.4 | 2.7 | 2.2 | 2.3 | 2.1 | 2.2 | 2.2 | 2.5 |
| Oil product index | 15.0 | -0.9 | -12.7 | -21.3 | -17.3 | -22.7 | -23.5 | -26.9 | -26.7 | -25.8 | 25.4 |
| Industrial producer price index | 12.5 | 9.1 | 4.3 | -17.4 | -17.5 | -19.1 | -5.8 | -7.8 | ... | -11.4 | 3.3 |
| Construction price index ¹ | 3.3 | 3.3 | 3.3 | 2.5 | 2.5 | 2.5 | 1.6 | 1.6 | 1.6 | 1.6 | 3.3 |
| Average wage bill, per person | 2.1 | 2.1 | 2.1 | -0.3 | -0.3 | -0.3 | ... | ... | ... | -0.3 | 1.7 |
| Foreign trade | | | | | | | | | | | |
| Exports of goods (volume) | -10.1 | -17.6 | -15.2 | -18.0 | -11.0 | -20.3 | -30.9 | ... | ... | -20.8 | -3.0 |
| Imports of goods (volume) | -3.4 | 1.1 | -6.5 | -15.8 | -10.5 | -11.2 | -25.2 | ... | ... | -15.8 | 0.3 |
| Employment, unemployment | | | | | | | | | | | |
| Domestic number of employees (IGSS) | 4.7 | 3.9 | 4.0 | 3.3 | 2.6 | 2.2 | 1.9 | 1.5 | 1.2 | 1.6 | 5.2 |
| National employment (IGSS) | 3.1 | 2.7 | 2.8 | 2.3 | 1.8 | 1.7 | 1.5 | 1.3 | 1.1 | 1.3 | 3.2 |
| Unemployment rate (% of working population, seas. adj.) | 4.5 | 4.6 | 4.8 | 5.0 | 5.2 | 5.4 | 5.5 | 5.7 | 5.8 | 5.7 | 4.3 |

Sources: STATEC

Data grey coloured are estimates

¹Estimations based on half-yearly data

Indicators

| | Variation on previous quarter in % | | | | | |
|------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------|---------|---------------|---------|---------------|---------|
| | 2007 Q4 | 2008 Q1 | 2008 Q2 | 2008 Q3 | 2008 Q4 | 2009 Q1 |
| Eurozone- Growth in volume of GDP (European Commission) | 0.4 | 0.7 | -0.3 | -0.4 | -1.8 | -2.5 |
| Luxembourg - Growth in volume of GDP (STATEC) | 0.5 | -1.0 | 0.2 | -0.6 | -3.6 | -1.5 |
| | Annual variation in % | | | | | |
| | 2007 | 2008 | Forecast 2009 | | Forecast 2010 | |
| Luxembourg - Growth in volume of GDP (STATEC) | 5.2 | -0.9 | -4.0 | | 1.0 | |
| GDP at current prices for 2008: EUR 36 659 million | Minimum monthly salary (since 01/03/2009: EUR 1 682.76) | | | | | |
| Consumer price index (June 2009) - base January 1 st 1948: 744.86 | Half-yearly average of the index linked to base as at January 1 st 1948: 737.49 | | | | | |
| Current account balance (2009 - 1st quarter): EUR 891 million | Resident population (01/01/2009): 493 500 | | | | | |

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