

# conjoncture flash

August 2009

## Monthly publication of the state of the Luxembourg economy

### Renewed confidence among European households

The economic horizon seems to be improving a little for European consumers. Household confidence in the eurozone seems to have bottomed out at a record low in March after a long downturn that began in mid-2007. Falling consumer confidence intensified in late 2008, coinciding with real panic in the financial markets. Between April and July 2009, confidence continued to rise – so much so that it goes beyond a simple technical upswing.

### Downturn in unemployment eases

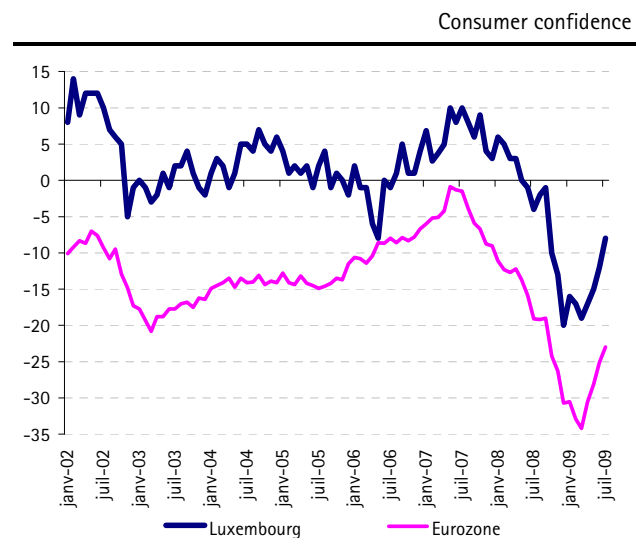
Throughout the eurozone, improvements can be seen mainly in two of the four seasonally adjusted variables that are used to assess confidence: expectations as regards unemployment trends and as regards general economic trends. It may appear contradictory that consumers expect an improvement regarding unemployment while rates are still rising to record levels in Europe. This could be due to hopes that the fall in the employment market will slacken, opinion surveys being far removed from their long-term average. Furthermore, the rise in unemployment has recently slowed in most European countries. Therefore, the improvement is relative – compared to the rapid acceleration in job seekers noted between the 4<sup>th</sup> quarter of 2008 and the 1<sup>st</sup> quarter of 2009 – but it certainly does not yet indicate the beginning of a Europe-wide decrease in unemployment.

### Economic environment in recovery

The upswing in opinion on the general economic situation – particularly in Finland, Spain, Luxembourg and the Netherlands – coincides statistically with a turnaround in several indicators.

The financial markets, despite a relatively gloomy June, have been on an upward trend since April, a sign that financial stakeholders have regained a measure of serenity after the debacle that marked the end of 2008 and beginning of 2009. Banks regained profitability with the rising equity markets and increased opportunities offered by interest rate cuts, even though the credit market remains tense at European level.

GDP in the United States and the eurozone contracted only slightly during the 2<sup>nd</sup> quarter of 2009. Industrial output in the eurozone stopped falling in April and



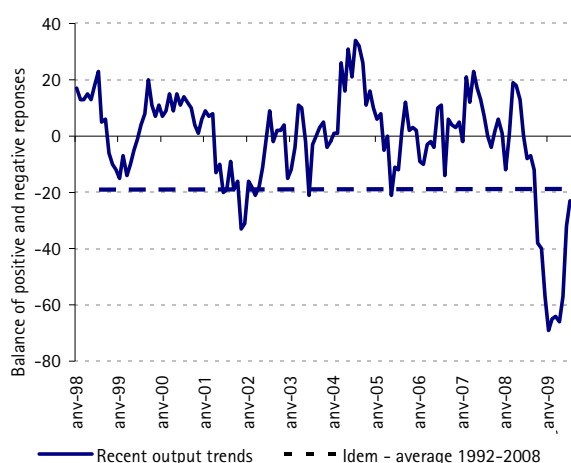
May – albeit remaining well below levels seen in early 2008 – and increasing industrial orders point to an even more favourable 3<sup>rd</sup> quarter (German exports were already significantly up in June).

Finally, leading indicators based on the opinions of European company directors (in industry and services) are still rising and are now close to the point where they will start to expand, opening up the possibility of a positive result for eurozone GDP in the 3<sup>rd</sup> and/or 4<sup>th</sup> quarters of 2009. However, it is too soon to talk about a true upswing, as the crisis hit economies very severely and recovery will take time.

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

## Manufacturing

Economic survey on manufacturing



Source: STATEC (activity survey)

## Encouraging prospects for the 3<sup>rd</sup> quarter

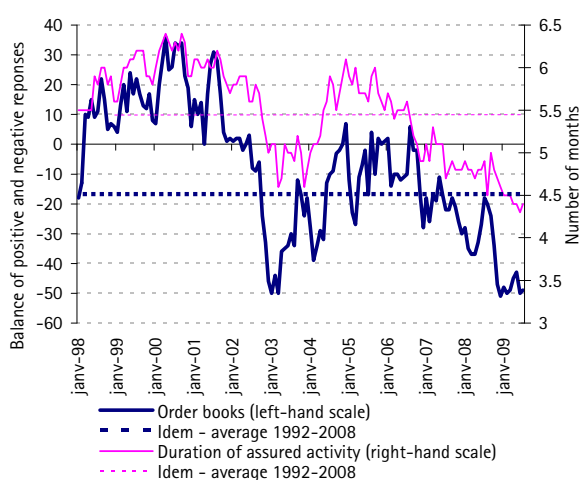
According to the latest economic surveys, Luxembourg manufacturers expect a significant improvement in their outlook for activity. From May to July, opinions on recent and future output recovered spectacularly – in parallel with the equally spectacular fall recorded in late 2008. Not surprisingly, order books have yet to recover but fewer and fewer of the companies surveyed believe their stock levels are too high.

Employment prospects are also improving, albeit more moderately than those for output, which is consistent with an upswing in productivity – typical during a period of recovery.

European manufacturing output remained marked by low demand until June 2009, but survey data also points to a much more favourable 3<sup>rd</sup> quarter in 2009.

## Construction

Economic survey on construction



Source: STATEC (activity survey)

## No improvement in sight

Throughout the first 5 months of 2009, the construction sector output gained 1.8% over one year.

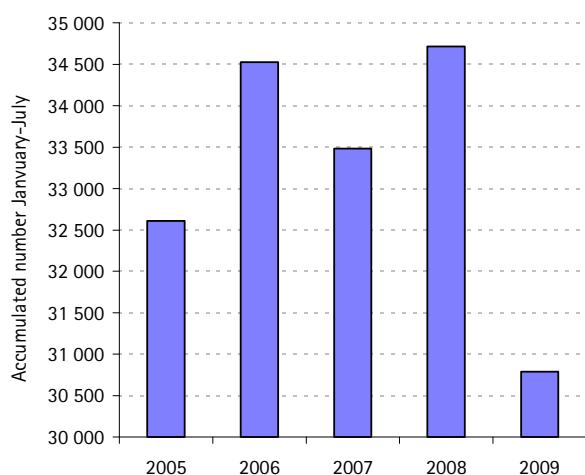
According to economic surveys, the results for the summer period are expected to diminish this performance.

Construction company opinions in June and July – excluding purely seasonal factors – do not point to any improvement in the short term, in terms of order books, recent activity or assured activity.

Nevertheless, compared to other eurozone countries – where output fell over 8% on average over one year during the 1<sup>st</sup> half of 2009 – the situation in Luxembourg is relatively enviable.

## Consumption

New registrations of new cars



Source: STATEC

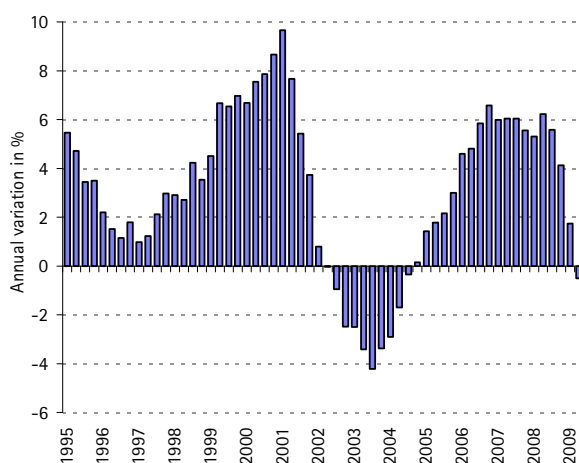
## Falling car sales in Europe

There was an 11% fall in new car registrations in Luxembourg between January and July 2009.

The fall in car sales appears to be widespread in Europe, linked to the international economic crisis. In an economic climate marked by uncertainty, households often rapidly adjust this type of spending, taking a more cautious attitude to consumption by avoiding or deferring large-scale purchases. Throughout the eurozone, registrations fell 12% over one year during the 1<sup>st</sup> half of 2009, with a few notable exceptions. The countries most affected were Italy (down 64%) Spain (down 43%) and Finland (down 42%). In contrast, Germany, France and Austria (up 26%, down 1% and 3% respectively) are holding up better, benefitting from the effects of scrappage schemes in particular.

## Financial sector

Trends in employment in banks (quarterly data)



Source: BCL

## Banking employment trends remain down

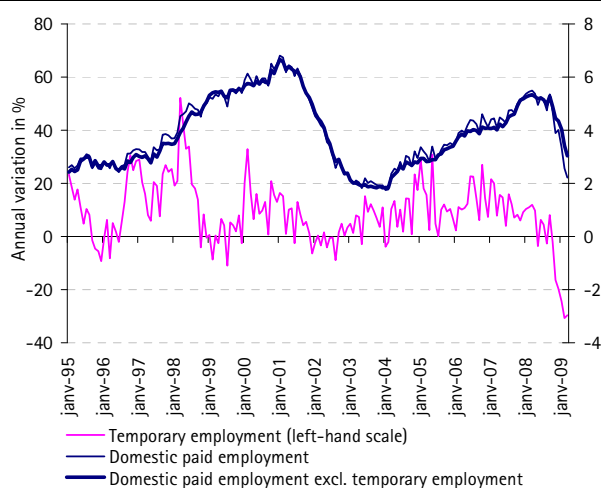
With 26,867 in paid employment in late June 2009, the number of people employed in the Luxembourg banking sector has continued to fall for the third consecutive month. The fall is slightly less marked than during the previous quarter (down 0.4% in Q2 compared to a fall of 0.9% in Q1).

A downturn of 0.5% as an annual variation compared to the 2<sup>nd</sup> quarter of 2008 is also starting to appear – see graph opposite.

Throughout the 1<sup>st</sup> half, personnel costs in the banking sector all but stagnated compared to those last year (provisional CSSF data). Against this backdrop of cost control, other overhead expenses have fallen over 3% over the same period.

## Labour market

Trends in paid and temporary employment



Source: IGSS

## Drastic fall in temporary employment

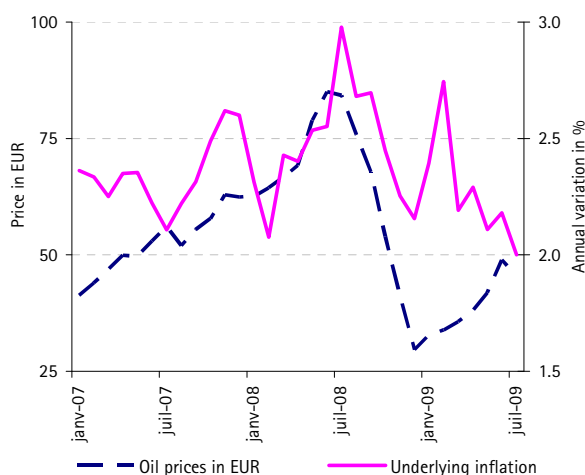
Temporary employment fell drastically in early 2009, down 28% during the 1<sup>st</sup> quarter compared to the same quarter last year.

The fall had a significant impact on domestic paid employment trends. Temporary employment shaved 0.8 percentage points off employment growth during the 1<sup>st</sup> quarter of 2009 – meaning that excluding temporary work, the annual employment growth rate would have been 3.5% during the first quarter of 2009 instead of 2.7%.

The drop is almost entirely due to the manufacturing and construction sectors, which employ about half of all temporary workers (10 percentage points each, i.e. a fall of almost 50% over one year). In services (which employ about 1/4 of all temporary workers), the drop is slightly less: down 30% for market services (of which 26% for financial and business services) and 17% for non-market services.

## Inflation – wages

Underlying inflation and oil prices



Source: STATEC

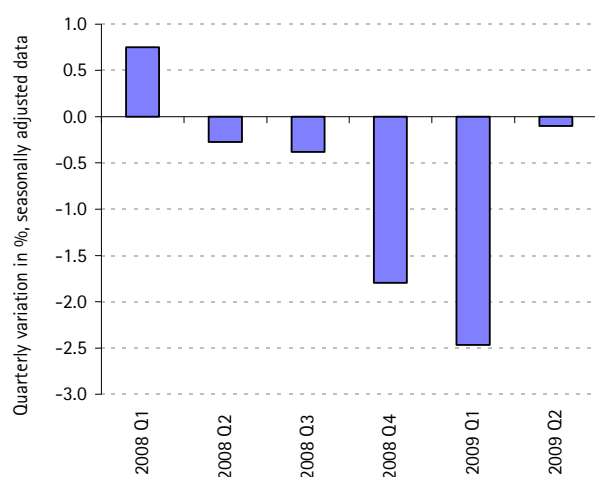
## Underlying inflation slows

In July 2009, the inflation rate (NCPI) fell to 0.7%, dragged down by oil prices (down 29% over one year). The trend for underlying inflation, which excludes oil and other products for which the prices are determined by the international markets, is moderating (just 2.0% in July compared to an average of 2.5% in 2008 and 2.4% in the first quarter of 2009).

This slowdown is part of the current economic climate: falling economic activity (with GDP falling 5.4% over the first quarter), stagnating paid employment (0% growth over the first few months of the year according to the latest monthly data – seasonally adjusted), rising unemployment (5.9% of the working population in July compared to 5.0% at the start of the year) and falling wages (average wage bill per person down 0.3% over one year during the first quarter).

## Euro zone

Trends in GDP in the eurozone



Source: Eurostat

## GDP contracts slightly during the 2<sup>nd</sup> quarter

Eurozone GDP fell 0.1% during the 2<sup>nd</sup> quarter (quarterly variation, seasonally adjusted data). While this does not yet indicate a recovery, it does point to a very slight easing off in the fall in activity after the drop of 2.5% experienced in the 1<sup>st</sup> quarter of 2009. France and Germany in particular are showing positive results – up 0.3% according to preliminary data. Of the other countries for which an estimate has been provided, the Netherlands, Italy and Belgium performed less well, falling 0.9%, 0.5% and 0.4% respectively.

Few details are as yet available on the breakdown of growth, but it is probable that consumption was boosted by the support packages provided to the automobile sector in a number of countries (see under Consumption) and stocks made a positive contribution to growth after two quarters of large-scale destocking.

## Statistics table

	Nov-08	Dec-08	Jan-09	Feb-09	Mar-09	Apr-09	May-09	Jun-09	Jul-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	-17.8	-27.4	-21.4	-23.3	-28.1	-25.0	-19.7	...	...	-24.3	-13.8
Construction output per working day, in volume	-2.5	-4.0	0.9	0.2	1.7	0.0	5.6	...	...	2.5	-1.9
Turnover by volume of total retail trade	-4.8	-4.1	3.5	-8.7	-5.4	-1.2	...	...	...	-5.0	1.7
<b>Prices, wages</b>											
Consumer price index (IPCN)	2.0	1.1	0.5	1.2	0.3	0.3	-0.3	-0.3	-0.7	-0.4	4.4
Underlying inflation	2.3	2.2	2.4	2.7	2.2	2.3	2.1	2.2	2.0	2.1	2.7
Oil product index	-0.9	-12.7	-21.3	-17.3	-22.7	-23.5	-26.9	-26.7	-28.8	-27.5	29.0
Industrial producer price index	4.1	0.2	1.8	1.5	-1.2	-5.9	-7.8	-10.7	...	-8.1	2.8
Construction price index <sup>1</sup>	3.3	3.3	2.5	2.5	2.5	1.6	1.6	1.6	...	1.6	3.1
Average wage bill, per person	2.1	2.1	-0.4	-0.4	-0.4	...	...	...	...	-0.4	1.8
<b>Foreign trade</b>											
Exports of goods (volume)	-19.8	-19.6	-29.3	-26.9	-14.8	-29.1	-21.6	-20.7	...	-24.0	-4.2
Imports of goods (volume)	0.3	-7.1	-19.9	-19.8	-5.7	-21.2	-20.7	-8.3	...	-16.9	0.9
<b>Employment, unemployment</b>											
Domestic number of employees (IGSS)	3.9	4.0	3.3	3.2	3.0	2.6	1.9	1.2	0.9	1.3	5.1
National employment (IGSS)	3.1	3.0	2.9	2.3	2.3	1.8	1.6	1.2	0.6	1.1	3.2
Unemployment rate (% of working population, seas. adj.)	4.6	4.8	5.0	5.2	5.4	5.5	5.7	5.8	5.9	5.8	4.3

Sources: STATEC

Data grey coloured are estimates

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

## Indicators

	Variation on previous quarter in %					
	2008 Q1	2008 Q2	2008 Q3	2008 Q4	2009 Q1	2009 Q2
Eurozone- Growth in volume of GDP (European Commission)	0.8	-0.3	-0.4	-1.8	-2.5	-0.1
Luxembourg - Growth in volume of GDP (STATEC)	-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 (July 2009) - base January 1 <sup>st</sup> 1948: 738.19	Half-yearly average of the index linked to base as at January 1 <sup>st</sup> 1948: 740.82					
Current account balance (2009 - 1st quarter): EUR 891 million	Resident population (01/01/2009): 493 500					

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