

September 2009

conjoncture flash

Monthly publication of the state of the Luxembourg economy

Recovery in sight in the eurozone

September is traditionally the month when international organisations publish their new macro-economic forecasts. These are known as intermediate forecasts because they come at the halfway point between the full spring and autumn forecasts, enabling results to be adjusted based on the latest cyclical information.

Overall, the latest forecasts predict more favourable prospects for eurozone economies – mostly for the 2nd half of 2009 – than the last forecast in spring 2009.

Encouraging signs...

The OECD anticipates a recession of 3.9% for 2009 as a whole, compared to a 4.8% drop last spring. The European Commission has left its growth forecast unchanged at –4.0% for the current year, but with a significantly changed quarterly profile: there was less growth than predicted during the 4th quarter of 2008 and the 1st quarter of 2009 but this was offset by a more marked recovery for the rest of the year. Furthermore, the European Central Bank has changed its forecast for GDP in the eurozone in 2009, which it now predicts will be somewhere in the range of –4.4 to –3.8% (as against –5.1 to –4.1% last June).

The improved forecasts are due to a number of phenomena. Firstly, there has been a return to some form of normality in the financial environment, with easier access to the money market, equity markets starting to climb back up and an easing of the criteria for granting loans. Secondly, the property price correction in the United States seems to be coming to an end, which augurs well for the eurozone economies. The current crisis has amply shown that what was happening there also affected the eurozone, especially in this case, when the systemic financial crisis drastically limited the usual decoupling mechanisms.

Finally, opinion surveys of both businesses and consumers in the eurozone continue to provide positive signs as regards activity forecasting.

Evolution of GDP in euro zone and forecasts

		09 Q1	09 Q2	09 Q3	09 Q4	2009
OCDE	Sep-09	-2.5	-0.1	0.1	0.5	-3.9
	Jun-09	-2.4	-0.8	-0.3	-0.1	-4.8
European commission	Sep-09	-2.5	-0.1	0.2	0.1	-4.0
	May-09	-2.1	-0.7	-0.3	-0.1	-4.0

* 09Q1 eQ 09Q2: registered data, other data: forecasts

As regards accounting, GDP in the eurozone fell just 0.1% during the 2nd quarter, mostly due to better than expected performance in Germany and France (both up 0.3%), pointing to an earlier end to the recession than anticipated.

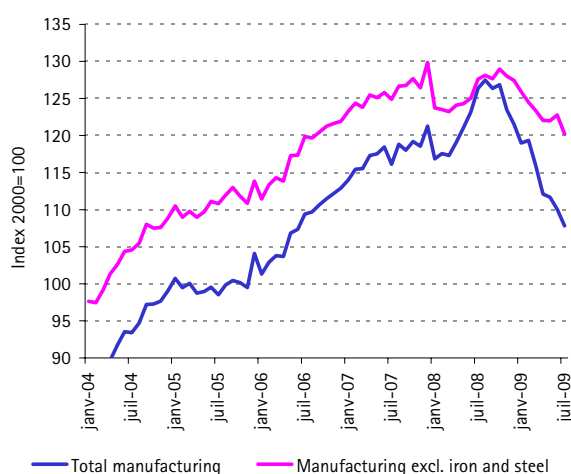
... in an extremely difficult climate

Despite these positive developments, 2009 will remain the year of the worst recession in the eurozone since World War II. The recovery expected in the 2nd half of the year will not deliver activity back up to levels seen before the crisis – growth in 2010 will almost certainly be lower than its potential and unemployment will continue to rise. For the moment, the measures taken by developed economies to combat the crisis amount to little more than support packages. Over the longer term, the great unknown concerns structural reform, particularly in those areas which triggered the crisis in the first place. In Luxembourg in particular, given the importance of financial activities to its economy, a large question mark hangs over what financial regulatory measures will be decided at international level. STATEC's next economic forecasts for Luxembourg will be published in the next Note de Conjoncture, which will be published in early December 2009.

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L U X E M B O U R G

Manufacturing

Industrial product prices



Source: STATEC

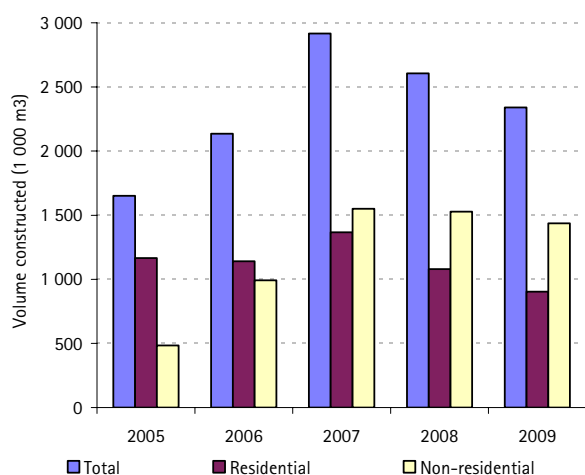
Continuing downward pressure on prices

Industrial product prices in Luxembourg fell for the 5th consecutive month in July 2009. Apart from a slight rise last February, prices have fallen significantly since the 4th quarter of 2008, when economic activity first began to feel the full effects of the financial crisis.

The drastic slump in demand for industrial products, combined with the almost simultaneous fall in prices for raw materials, have unsurprisingly driven industrial prices down. Prices for raw materials have recovered somewhat since April-May, in particular in metals, but the low demand continues to weigh on the price of factory goods. In June 2009 (the latest month for which data is available), industrial output in Luxembourg again fell more than 15% over one year.

Construction 1/2

Planning permits granted at the end of the 2nd quarter



Source: STATEC

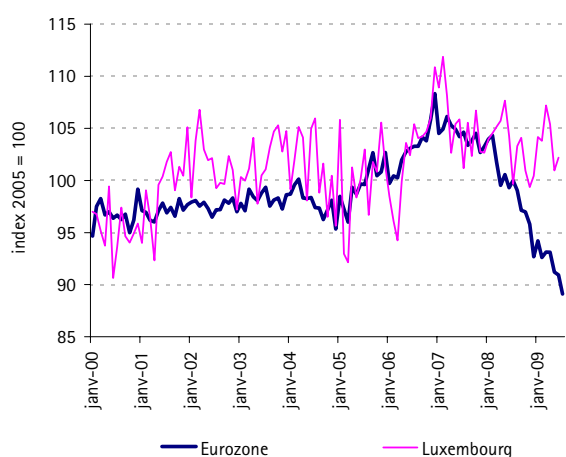
Fewer planning permits, fewer transactions

The volume of construction projects, corresponding to permits delivered during the 2nd quarter, fell 28% over one year. In contrast to the previous quarter, the fall was most marked in non-residential construction projects (down approximately 40% over one year, compared to a fall of 3% for residential construction). Thus, over the 1st half as a whole, planning permits fell some 10% compared to last year.

Figures for property sales (source: Administration de l'Enregistrement et des domaines) also show a slump in residential property: during the 1st quarter of 2009, the number of sales fell some 15% over one year for houses and about 20% for apartments.

Construction 2/2

Trends in production



Sources: Eurostat, STATEC (working-day adjusted data)

Luxembourg holds its own

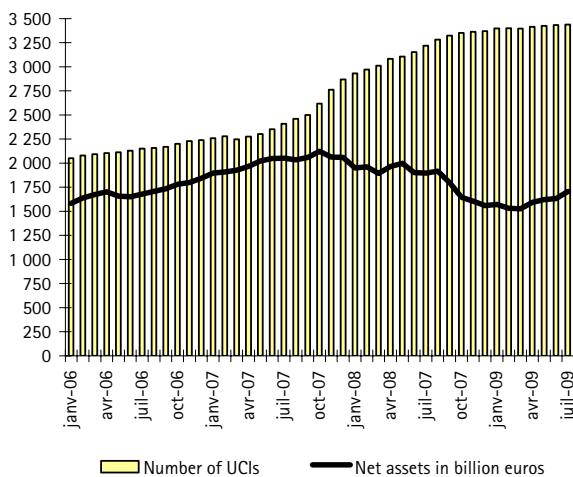
Over the 1st half of 2009 as a whole, all eurozone countries were affected by the drop in activity in the construction sector. Compared to the 1st half of 2008, the decline was of the order of 9% in terms of output.

For the moment, Luxembourg is holding its own, with a fall of just 1% over the same period, the best performance in the eurozone. However, activity is set to fall even further, given the unfavourable results of the economic survey carried out among businesses in Luxembourg in July and August.

In the eurozone, the construction companies most affected by falling activity in the first half of 2009 were those based in Ireland, Finland, Italy and Spain.

Financial sector

Number of UCIs and net assets



Source: CSSF

UCIs up in July

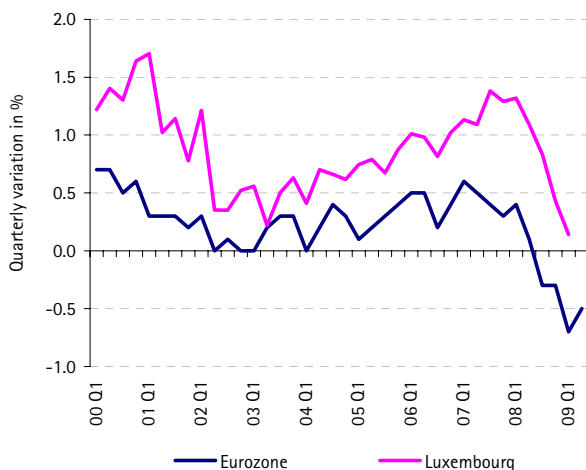
Luxembourg undertakings for collective investment put in their best performance of the year in July. With an increase of EUR 75 billion in net assets, this was the best monthly result ever recorded.

Two thirds of this rise is due to market variations. The favourable trend in the equity indices observed since April 2009 contributed to the positive results in July. In addition, improved performance was seen in private bonds, with investors, who had largely switched to government bonds during the financial storm, coming back gradually to company bonds, a sign of rising confidence in their expansion prospects.

Net capital investment in Luxembourg UCIs reached EUR 22 billion in the same month, a level not seen since October 2007.

Labour market

Trends in employment in Europe and Luxembourg



Sources: Eurostat, Statec (Quarterly national accounts)

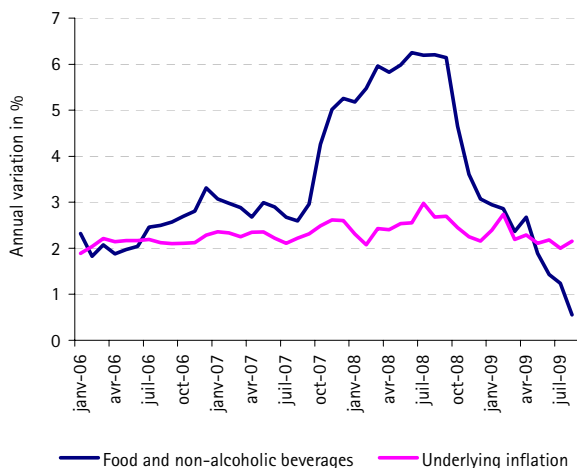
Employment in Europe continues to fall

According to the latest figures from Eurostat, total domestic employment in the eurozone fell 0.5% (702,000 people) during the second quarter of 2009 (down 1.8% over one year), compared to a fall of 0.7% in the previous quarter. All sectors of the economy were affected, except for public administration, health and education. In Luxembourg, according to seasonally adjusted social welfare data, paid employment has not yet started to fall but has been stagnant since the start of the year.

In July 2009, Eurostat estimated the number of job seekers at 15.1 million in the eurozone, 9.5% of the working population. This is a rise of 2 percentage points over one year. In Luxembourg the official registered unemployment rate (ADEM), seasonally adjusted, was 5.9% in August 2009, compared to 4.4% a year before (i.e. up 1.5 percentage points). When people on job schemes are included (about 3,000 people) the rate is 7.2% compared to 5.7% a year ago (i.e. also 1.5 percentage points higher).

Inflation - wages

Trends in food prices



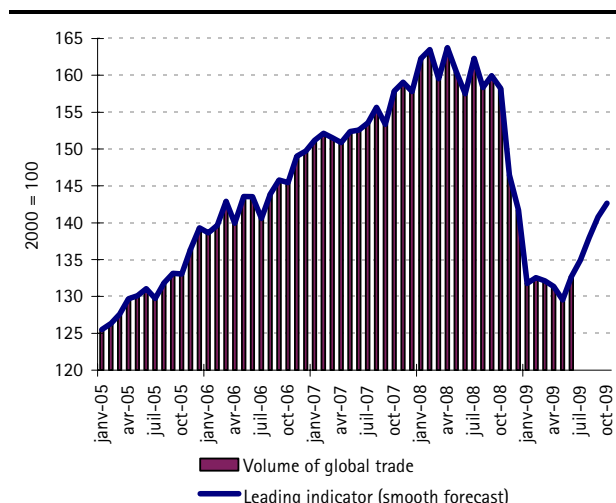
Source: Statec

Sharp slowdown in food prices

For the last few months, underlying inflation, which excludes oil products and other products whose prices are determined on the international markets, has moderated (2.1% in August compared to an average of 2.5% in 2008).

Apart from a number of exceptional events (the introduction of social welfare money vouchers in March 2009, the effects of water price rises in early 2008, etc.), the slowdown in underlying inflation is mostly due to food prices stabilising. Following very high growth rates in 2008 (up 5.4% on average), food prices rose just 0.6% year on year in August 2009. The slowdown has been particularly marked in dairy products, fats and oils, and in bread, cereal and fruit.

Foreign trade



Source: CPB Netherlands Bureau for Economic Policy Analysis

Trade in goods recovers

The volume of global trade rose 2.5% in June 2009, the highest monthly growth since July 2008. In absolute terms, the volume remains relatively low, 20% below the peak in April 2008, but the improvement noted in June is set to continue.

According to forecasts by the Netherlands Bureau for Economic Policy Analysis, the 3rd quarter of the year is set to be favourable, with global industrial output becoming more dynamic, particularly in emerging economies. Partial output figures already available confirm this rising trend as noted in opinion surveys available up to September. For example, global output in raw steel rose for the 5th consecutive month in August (Source: World Steel Association).

Statistics table

	Dec-08	Jan-09	Feb-09	Mar-09	Apr-09	May-09	Jun-09	Jul-09	Aug-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	-27.5	-21.3	-23.3	-28.1	-25.0	-21.4	-14.7	...	...	-20.5	-2.0
Construction output per working day, in volume	-4.1	0.9	-0.5	1.7	-0.1	-5.3	-2.3	...	...	-2.6	1.2
Turnover by volume of total retail trade	-4.1	3.5	-8.7	-5.4	-0.4	-6.1	...	...	...	-4.0	0.9
Prices, wages											
Consumer price index (IPCN)	1.1	0.5	1.2	0.3	0.3	-0.3	-0.3	-0.7	0.2	-0.2	4.4
Underlying inflation	2.2	2.4	2.7	2.2	2.3	2.1	2.2	2.0	2.1	2.1	2.7
Oil product index	-12.7	-21.3	-17.3	-22.7	-23.5	-26.9	-26.7	-28.8	-21.6	-25.8	28.2
Industrial producer price index	0.2	1.8	1.5	-1.2	-5.8	-7.8	-10.7	-14.7	...	-11.1	5.3
Construction price index ¹	3.3	2.5	2.5	2.5	1.6	1.6	1.6	...	...	1.6	3.1
Average wage bill, per person (National accounts)	2.1	-0.3	-0.3	-0.3	...	...	...	...	...	-0.3	1.7
Foreign trade											
Exports of goods (volume)	-19.6	-29.3	-26.9	-14.8	-29.1	-21.6	-20.7	...	...	-24.0	3.9
Imports of goods (volume)	-7.1	-19.9	-19.8	-5.7	-21.2	-20.7	-8.3	...	...	-16.9	0.9
Employment, unemployment											
Domestic number of employees (IGSS)	4.0	3.3	2.6	2.2	1.9	1.6	1.2	1.0	1.0	1.1	5.0
National employment (IGSS)	2.8	2.3	1.8	1.8	1.6	1.5	1.2	1.0	0.8	1.0	3.2
Unemployment rate (% of working population, seas. adj.)	4.8	5.0	5.2	5.4	5.5	5.7	5.8	5.8	5.9	5.8	4.4

Sources: STATEC

Data grey coloured are estimates

¹ 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)	0.7	-0.3	-0.2	-1.5	-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)						
Current account balance (2009 - 1st quarter): EUR 891 million						
Resident population (01/01/2009): 493 500						
Consumer price index (August 2009) - base January 1 st 1948: 747.92						
Half-yearly average of the index linked to base as at January 1 st 1948: 742.08						
Estimated deadline for next salary indexation: [May 2010; July 2010]						

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