

January 2010

# conjoncture flash

## Rebound of GDP in the 3<sup>rd</sup> quarter of 2009

### A marked recovery...

Luxembourg GDP bounced back significantly in the 3<sup>rd</sup> quarter of 2009, gaining 4.2% (seasonally adjusted) over one quarter (down 2.6% over one year), which is substantially higher than the 0.4% rise recorded in the euro zone as a whole over the same period.

However, this impressive result should be put into perspective. If the data for the previous quarters had remained unchanged, this would have been a very positive result. However, the figures were revised significantly downwards. In the previous version of the national accounts – published in October 2009 – GDP had slipped by just 0.3% during the 2<sup>nd</sup> quarter, giving the impression that economic activity was stabilising. However, the current version shows that the fall in GDP during the 2<sup>nd</sup> quarter was much more significant, registering 2.7% over one quarter. In other words, the large rally in the 3<sup>rd</sup> quarter is due in part to a very disappointing performance in the previous quarter.

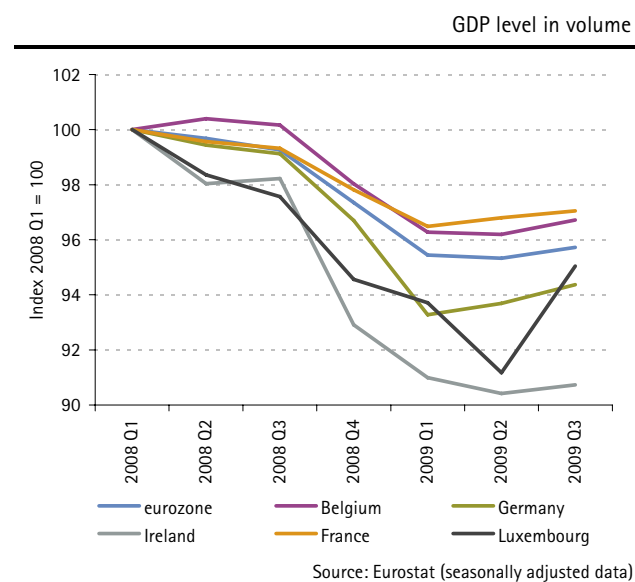
The financial sector was where most results were revised downwards during the first half of 2009, mainly due to methodological adjustments. Naturally, the aim of these adjustments is to improve data quality but they nevertheless disrupt analysis over the short term: in this case, they have had a considerably negative impact on economic assessments with regard to the financial sector.

However, these revisions do not undermine everything. After 5 consecutive quarters of decline in Luxembourg GDP – from Q2 2008 to Q2 2009 – the 3<sup>rd</sup> quarter of 2009 seems to signal the end of the recession. Certainly, one of the positive aspects of the 3<sup>rd</sup> quarter lies in the fact that added value rose in all sectors of activity, including the financial sector.

### ... after a marked slump

On the basis of currently available data, which may be revised in upcoming versions, the recession in Luxembourg will have lasted comparably as long as in most other euro zone countries – i.e. 5 quarters<sup>1</sup>.

## Monthly publication of the state of the Luxembourg economy

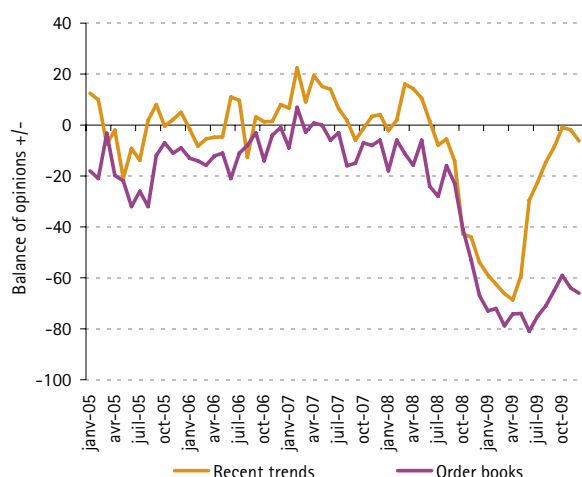


As regards the extent of the recession, Luxembourg's position is contrasted. The fall in GDP expected for 2009 as a whole is close to 4% (as forecast by STATEC), a counter-performance identical to that predicted for the euro zone in the European Commission's autumn forecasts. However, GDP trends in volume since early 2008 (see graph above) show that the slump in the Luxembourg economy was particularly marked, similar to what was happening in Ireland initially, followed by a further slump in the 2<sup>nd</sup> quarter of 2009. Therefore, the positive 3<sup>rd</sup> quarter for Luxembourg was more of a catch-up phase than an exceptional result that has nothing to do with the European economic climate.

<sup>1</sup> Of Luxembourg's direct neighbours, Germany and France experienced only 4 quarters of recession.

## Manufacturing

Economic survey on manufacturing



Source: STATEC (seasonally adjusted data)

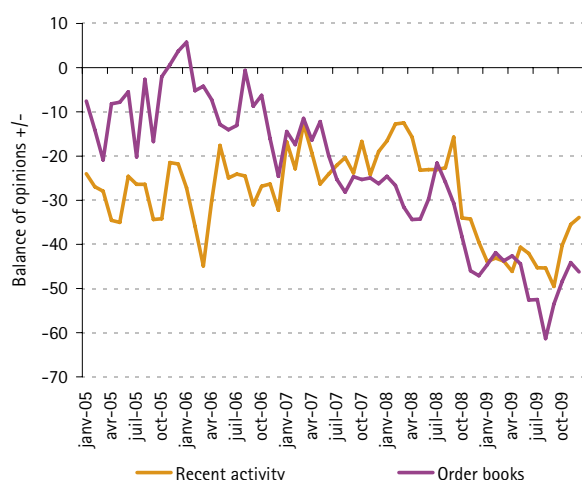
## The trend remains upward

Manufacturers' opinions on their recent activity deteriorated slightly in December 2009. This trend, also observed in the order books, seems marginal, however, compared to the overall trend for the 4<sup>th</sup> quarter of 2009 as a whole, which points to significant improvement (especially in output). Output volumes in the 4<sup>th</sup> quarter of 2009 are expected to be similar to those for the previous year (in the 2<sup>nd</sup> and 3<sup>rd</sup> quarters of 2009, output fell almost 20% over one year) – albeit still a long way off the record levels seen in 2007.

Further, the outlook for future output continued to recover in December, a positive sign for activity in the 1<sup>st</sup> quarter of 2010 and in line with the improvement in opinions among other European manufacturers.

## Construction

Economic survey on construction



Source: STATEC (seasonally adjusted data)

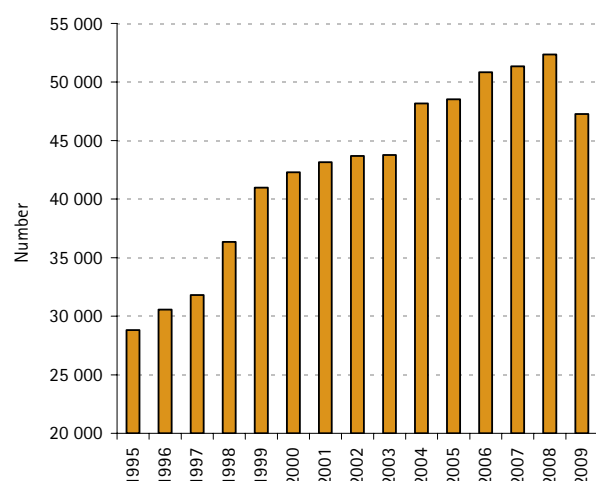
## A relatively optimistic Luxembourg

The economic situation seems to be recovering a little in the construction sector. Opinion surveys for the 4<sup>th</sup> quarter show renewed optimism in terms of the volume of activity, particularly in housing construction (from November on).

It is difficult to say whether this improvement will continue or not: many businesses still think demand is insufficient and the overall trend in Europe (up to November) was still mainly downward in terms of output. Germany and Luxembourg were the only euro zone countries where output for the 3<sup>rd</sup> quarter of 2009 was higher than the previous year. However, opinions among Luxembourg businesses have not yet shown any improvement in terms of hiring forecasts (the number of people employed in the sector fell 0.4% over one year in the 3<sup>rd</sup> quarter).

## Consumption

New registrations of new cars



Source: STATEC (private and commercial cars)

## New car registrations fall in 2009

The number of new car registrations in Luxembourg fell almost 10% in 2009, something not seen since the early 1990s. During the previous economic crisis (2001–2003), net sales of new cars slowed significantly but did not contract. The results for 2009 are disappointing, particularly compared to European performance (a rise of 3.2% in 2009 for the euro zone). However, it is important to highlight that without the remarkable performance of Germany (up 23%) and France (up 11%), where scrappage schemes boosted results, the picture of new car sales across Europe in 2009 was very negative. One consolation for Luxembourg car dealers is that new car registrations were particularly high during the previous three years (in contrast with a fall of 8% in 2008 across the euro zone).

## Financial sector

Profit and loss accounts for the end of the 4th quarter

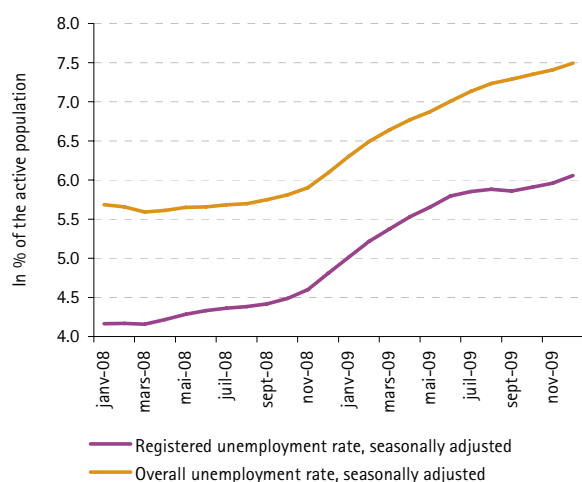
	December 2008	December 2009	Variation in %
	In EUR billion		In %
Interest margin <sup>1</sup>	7 072	6 247	-11.7
Income from commission	3 603	3 125	-13.3
Other net income	-528	729	.
<b>Banking products</b>	<b>10 147</b>	<b>10 100</b>	<b>-0.5</b>
Personnel costs	2 403	2 391	-0.5
Other general costs	2 056	1 940	-5.6
<b>General costs</b>	<b>4 459</b>	<b>4 331</b>	<b>-2.9</b>
<b>Income before provisions</b>	<b>5 687</b>	<b>5 770</b>	<b>1.4</b>

Source: CSSF (provisional figures)

<sup>1</sup> Including dividends received from subsidiaries

## Labour market

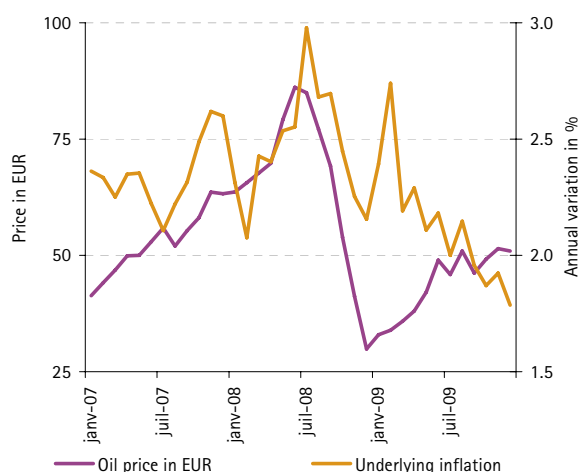
Unemployment rate in Luxembourg



Sources: ADEM, IGSS, STATEC calculations (seasonally adjusted)

## Inflation-wages

Underlying inflation and oil price



Source: STATEC

## Contrasted performance compared to the end of 2008

Income before provisions among Luxembourg banks rose 1.4% overall over 2009 as a whole. This figure is in marked contrast to the almost 30% rise over one year recorded at the end of the 3<sup>rd</sup> quarter of 2009. This difference is due mostly to the interest margin, which fell by almost half compared to the 4<sup>th</sup> quarter of 2008. It is important to remember that the end of 2008 saw exceptional growth in the interest margin, propelled both by increased interbank lending and falling interest rates. During the financial storm, the ECB dropped its main leading rate from 4.25% (in September) to 2.50% (in December), allowing banks to benefit greatly from maturity transformations. The CSSF also mentions the important role played by the fall in dividend earnings (included in the interest margin) compared to 2008.

## Unemployment rises again

After stabilising in recent months (at 5.9% from July to October 2009), the unemployment rate started to rise again at the end of the year (6.0% in November and 6.1% in December 2009).

This trend is due partly to a stabilisation of the increase in the numbers of people available for work at a little over 10% over one year. The stagnation in seasonally adjusted unemployment up until October was due to the increased numbers of job seekers in job schemes. The overall unemployment rate, which includes these workers, continued to rise steadily over this period (up 0.1 percentage point per month, 6.3% in January and 7.5% in December 2009).

On the other hand, the employment situation has continued to deteriorate, with employment among residents, which is used as the basis for calculating the unemployment rate, continuing to slow (from 2.3% over one year in January to 0.7% in September).

## Underlying inflation continues to slow

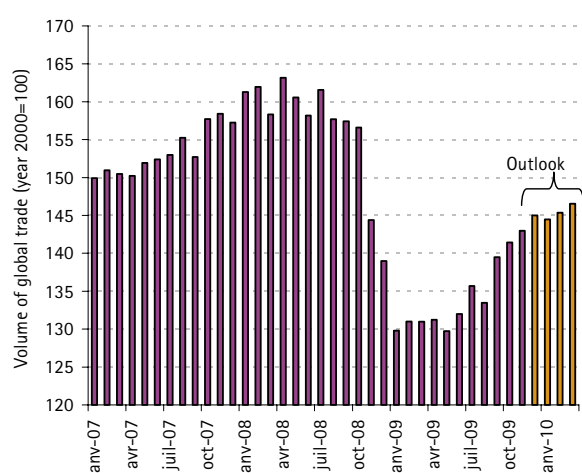
Underlying inflation continued to slow significantly in late 2009. After average monthly growth of 0.18% in 2008 and 0.15% in 2009, the last quarter of 2009 recorded a rise of just 0.07%.

This trend led STATEC to revise its inflation forecasts downwards. In 2010, the underlying inflation rate is expected to fall to 1.6%, compared to 1.5% in the previous version (see NDC 2-09 and Conjoncture flash for November 2009). Working on the hypothesis that oil prices will remain stable at around EUR 50 per barrel in 2010, the general inflation rate (NIPC) will be about 1.5% compared to 1.8% previously.

This lower inflation would delay the triggering of the next indexation adjustment, which is expected to take place during the fourth quarter of 2010.

## Foreign trade

Trend and outlook for global trade



Source: CPB Netherlands Bureau for Economic Policy Analysis

## Global trade recovers but the euro zone lags behind

The volume of global trade – as reported by CPB – rose 1.1% last November, after rising by a similar amount in October and recovering by over 5% in September.

In terms of exports, the strong recovery since September 2009 was observed both in emerging and developing countries (up 6.5%) and in what are known as "advanced" economies (up 4.5%). Among the latter, the euro zone (up 1.0% over the same period) unfortunately did not show the same vigour as the United States (up 8.2%) or Japan (up 9.7%).

CPB experts predict that global trade will continue to grow in the coming months, albeit to a lesser extent than in the last quarter of 2009.

## Statistics table

	Apr-09	May-09	Jun-09	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09	Dec-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	-25.7	-22.0	-16.1	-21.9	-20.7	-9.8	-5.4	...	...	-11.6	-1.7
Construction output per working day, in volume	-0.9	-6.9	-4.0	10.9	4.2	0.8	3.3	...	...	2.5	-2.1
Turnover by volume of total retail trade	-0.8	-6.5	-2.7	-1.4	-3.5	-2.5	...	...	...	-2.4	0.0
<b>Prices, wages</b>											
Consumer price index (IPCN)	0.3	-0.3	-0.3	-0.7	0.2	0.0	0.1	1.3	1.8	1.1	2.1
Underlying inflation	2.3	2.1	2.2	2.0	2.1	2.0	1.9	1.9	1.8	1.9	2.3
Oil product index	-23.5	-26.9	-26.7	-28.8	-21.6	-22.2	-20.9	-6.5	2.5	-9.2	0.2
Industrial producer price index	-5.8	-7.7	-10.6	-13.5	-13.0	-14.0	-13.4	-10.8	...	-12.7	5.9
Construction price index <sup>1</sup>	2.5	2.5	2.5	...	...	...	...	...	...	2.5	3.0
Average wage bill, per person (National accounts)	0.0	0.0	0.0	0.3	0.3	0.3	...	...	...	0.3	3.4
<b>Foreign trade</b>											
Exports of goods (volume)	-27.3	-20.4	-18.5	-13.3	-10.5	9.1	-6.9	12.6	...	4.3	-5.6
Imports of goods (volume)	-20.3	-20.2	-9.7	-20.4	-13.3	-10.4	-8.6	-10.6	...	-9.9	-0.2
<b>Employment, unemployment</b>											
Domestic number of employees (IGSS)	1.9	1.6	1.0	0.7	0.3	0.0	-0.1	0.0	-0.4	-0.2	4.2
National employment (IGSS)	1.6	1.5	1.2	1.1	0.8	0.7	0.6	0.5	0.4	0.5	2.9
Unemployment rate (% of working population, seas. adj.)	5.5	5.7	5.8	5.9	5.9	5.9	5.9	6.0	6.1	6.0	4.6

Sources: STATEC

Data grey coloured are estimates

1 Estimations based on half-yearly data

## Indicators

	Variation on previous quarter in %					
	2008 Q2	2008 Q3	2008 Q4	2009 Q1	2009 Q2	2009 Q3
Eurozone- Growth in volume of GDP (European Commission)	-0.3	-0.4	-1.9	-2.4	-0.2	0.4
Luxembourg - Growth in volume of GDP (STATEC)	-1.6	-0.8	-3.1	-0.9	-2.7	4.2
	Annual variation in %					
	2007	2008	Forecast 2009		Forecast 2010	
Luxembourg - Growth in volume of GDP (STATEC)	6.5	0.0	-3.9		2.1	
GDP at current prices for 2008: EUR 39 348 million						
Minimum monthly salary (since 01/03/2009: EUR 1 682.76)						
Current account balance (2009 - 3 <sup>rd</sup> quarter): EUR 1 083 million						
Resident population (01/01/2009): 493 500						
Consumer price index (September 2009) - base January 1 <sup>st</sup> 1948: 748.40						
Half-yearly average of the index linked to base as at January 1 <sup>st</sup> 1948: 746.24						
Estimated deadline for next salary indexation: 4 <sup>th</sup> quarter of 2010						

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