

November 2010

# conjoncture flash

## Moderate growth in 2010 and 2011

### A modest recovery

In the wake of an improving economic situation worldwide, the cyclical diagnosis for Luxembourg has changed little: although the recovery is underway, it remains slack. Thus, expected GDP growth in volume in 2010 has been revised only marginally upwards, to 3.2% (instead of 3.0%) and remains unchanged at 3.0% for 2011.

Although activity prospects have changed little, this is not the case for employment, which has recovered well. After growing 1% in 2009, it is set to rise 1.8% in 2010. Much of this pick-up is coming from construction, temporary employment and other service sectors, particularly non-market services, while sectors most affected by the crisis (financial services and business services) remain sluggish. STATEC also expects domestic employment growth to slow down somewhat in 2011, rising by about 1.5% (see graph opposite).

### Unemployment and public finances getting better

The lacklustre economic environment is the main reason for rising unemployment – although it has stabilised somewhat in recent months. As a result of incentives to channel job seekers into training and job schemes, registered unemployment is set to remain below the overall unemployment rate. The latter is expected to be at about 8.5% of the working population in 2011, compared to 6.5% for registered unemployment. Thus since 2008, registered unemployment will have risen slightly above 2 points and overall unemployment almost 3 points. Over 2% of the working population will be in training and job schemes in 2011.

## Monthly publication of the state of the Luxembourg economy

	2009	2010	2011
			En %
GDP in volume	-3.7	3.2	3.0
Total domestic employment <sup>2</sup>	1.0	1.8	1.5
Unemployment rate <sup>1</sup>	5.7	6.2	6.5
Inflation (National prices index)	0.4	2.2	1.6
Average wage costs	1.8	2.2	1.9
Balance of public finances (% of GDP) <sup>2</sup>	-0.7	-1.9	-0.7

<sup>1</sup> Registered concept; <sup>2</sup> 2010 and 2011: STATEC forecasts

Source: STATEC

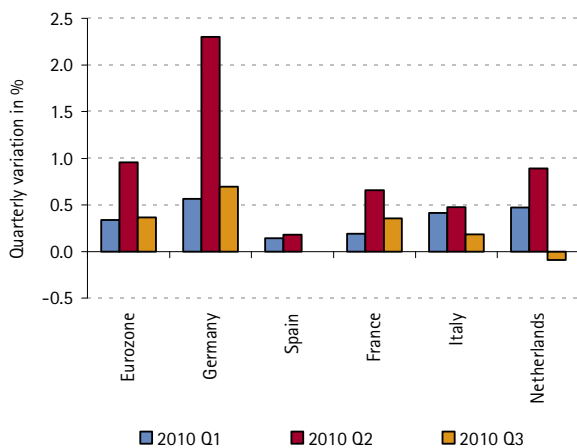
The economic environment remains basically disinflationary in Europe and Luxembourg. For 2010 and 2011, STATEC expects monthly wage costs per capita to rise by about 2% per year, down slightly on the spring forecasts. As consumer prices are set to rise at roughly the same rate and direct taxation is also set to rise, STATEC is predicting household purchasing power to fall 0.5% in 2011 (actual available income per capita).

The public deficit forecast for 2010 has substantially improved, revised downwards by STATEC to EUR 760 million from the April 2010 forecast of EUR 1,600 million (equivalent to a fall of 1.9% in GDP). This improvement is mostly due to better receipts, with growth prospects changing little between spring and autumn. Thus, much of the additional improvement in the public balance – which STATEC predicts will fall to below 1% of GDP in 2011 – will come from the projected slowdown in spending, linked to government cost-saving measures.

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## International

GDP of principal Eurozone Member States in 2010



Source: Eurostat (in volume, seasonally adjusted data)

## Less momentum in the eurozone in the 3<sup>rd</sup> quarter

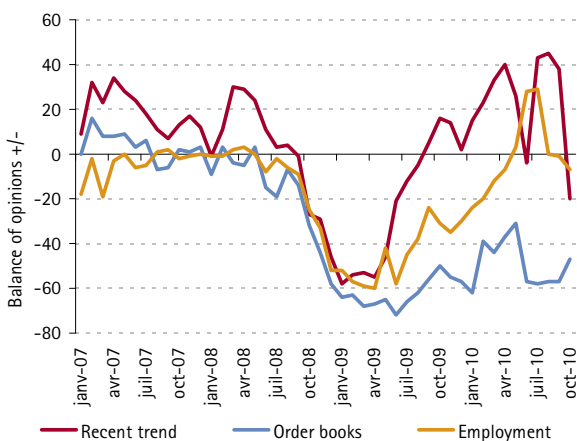
The eurozone started to recover in the 3<sup>rd</sup> quarter of 2009. GDP grew 1.0% in the 2<sup>nd</sup> quarter of 2010, an exceptional performance that was mostly due to Germany, where GDP jumped 2.3% after exports surged and construction bounced back.

Germany ranked high during the 3<sup>rd</sup> quarter: although performance was slightly lower than in the previous quarter, GDP growth retained its momentum at 0.7%, compared to 0.4% for the eurozone as a whole).

In contrast to the powerhouse that is Germany, figures from other countries gave the impression that some are experiencing serious difficulties in joining this recovery. Ireland, Greece and Spain in particular appear to be particularly badly affected by the crisis, while the recovery in Italy and Portugal is below the European average

## Manufacturing

Economic survey on manufacturing



Source: STATEC (seasonally adjusted data)

## End-of-year outlook downbeat

Industrial output trends were still favourable at the end of August (up 13% over one year) but the pace of growth appears to be gradually slowing.

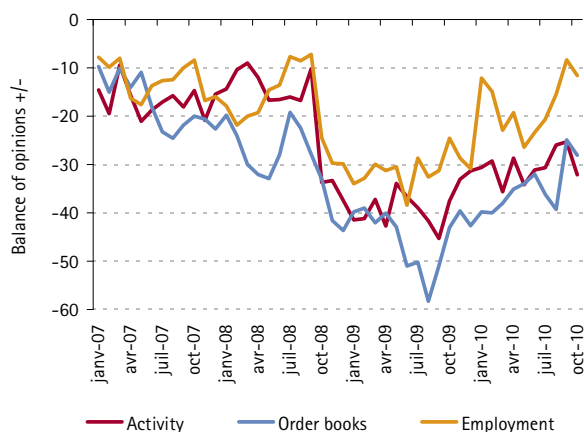
Manufacturers' opinions have also fallen since mid-summer. The latest survey in October shows a drastic slump in opinions on output and employment. These trends are mainly due to expected falls in the metals sector, which accounts for a third of the total.

However, it should be noted that as this is a qualitative survey both the extent of the expected fall and the actual impact on output remains unknown.

Further, at international level, advanced indicators for European manufacturing confirm that momentum is slowing in late 2010.

## Construction

Economic survey on construction



Source: STATEC (seasonally adjusted data)

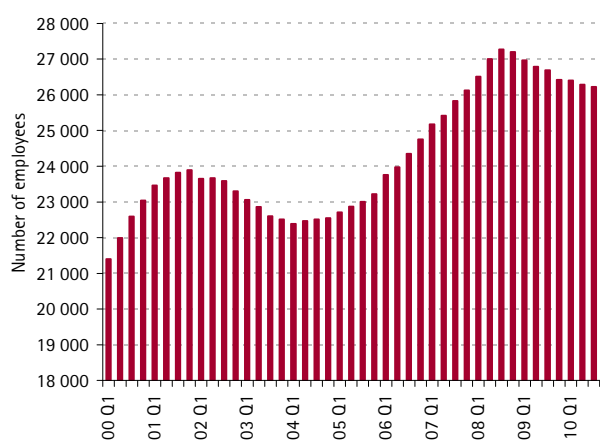
## The upward trend continues

Economic surveys of construction companies indicate that the recovery will continue. Although there was a slight fall in October, all components – opinions on activity, order books, employment or months of assured activity – remain favourable overall and point to results growing over the 3<sup>rd</sup> quarter as a whole as well as a relatively favourable climate in the 4<sup>th</sup> quarter. In any event, the figures do not point to a downturn of the kind suggested in manufacturers' opinion surveys (see below).

These positive expectations are also in line with the upward trend in planning authorisations (see the October 2010 issue of Conjoncture Flash).

## Financial sector

Trends in banking employment



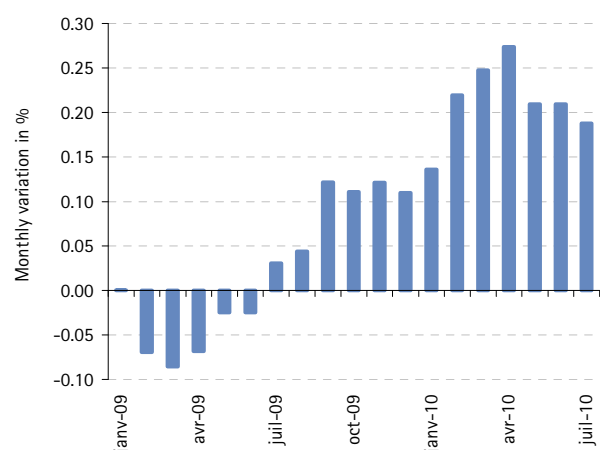
Source: BCL

## Slight drop in banking employment

Banking employment continued to fall in the 3<sup>rd</sup> quarter of 2010, with a loss of 72 jobs in one quarter (down 0.3% compared to the 2<sup>nd</sup> quarter of 2010) and almost 500 in the space of a year (down 1.8%). Despite this trend and against a negative backdrop, the fall in banking sector employment since late 2008 bears little relation to the sharp slump in added value in this sector. During the last crisis, between the high point of 2000 and the low point of 2003, this fell by about 4% in volume. In the recent crisis added value fell almost 20% between the high point of 2007 and 2009. However, the adjustment in employment appears as yet to be much less pronounced, with 130 net job losses per quarter over the last 8 quarters (compared to about 170 per quarter for 9 quarters between early 2002 and early 2004).

## Labour market

Domestic paid employment, seasonally adjusted series



Sources: IGSS, STATEC calculations

## More moderate employment growth ahead

Domestic paid employment continues to grow in Luxembourg, albeit at an increasingly slower pace.

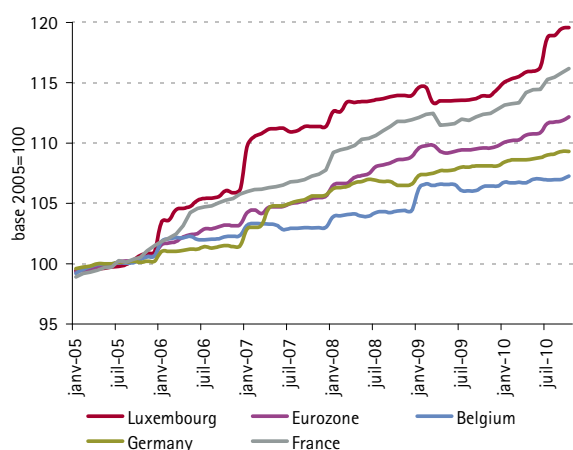
From February to June 2009, domestic paid employment in terms of net job creations (i.e. creations less losses) fell by about 900 based on seasonally adjusted figures. Thereafter, from June 2009 to July 2010, employment started to grow again significantly (up about 6,800).

Domestic paid employment has accelerated continually since bottoming out in March 2009. However, this seems to have tailed off since the 2<sup>nd</sup> quarter of 2010. After monthly growth of 0.27% in March and April, paid employment grew just 0.19% in July 2010.

This slowdown is set to continue and growth as an annual average is expected to fall to 1.5% in 2011 (compared to 1.8% in 2010).

## Inflation - wages

Administered prices - international comparison



Source: Eurostat

## Surge in administered prices in 2010

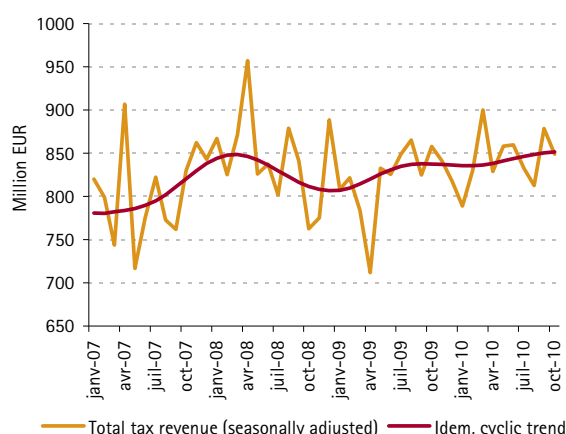
Administered prices, which are largely set by state and local authorities, grew 5.3% over one year over the first 10 months of 2010 (after growing 4.4% in 2009), at a much higher rate than general inflation (2.2%).

Thus, since 2005, prices for administered services have grown 4.3% on average per year in Luxembourg, twice as fast as general inflation. At European level, Luxembourg is well above the average, with a substantial and unfavourable gap between it and its neighbours (Belgium and Germany in particular).

The upcoming 15% hike in vehicle roadworthiness test rates, the increase in medical costs charged by the national health fund (CNS) from 2011, combined with the rate increase in some postal services in December 2010 all indicate that this upward trend in administered prices is set to continue.

## Public finances

Total tax revenue



Source: STATEC

## Recent monthly trends in tax receipts

According to the last statistics, the state collected EUR 8.4 billion in tax receipts between January and October 2010, i.e. 300 million more than over the same period in 2009. This rise in receipts is due to the economic recovery seen in most categories. For example, over the first ten months of 2010, the subscription tax on company securities was EUR 134 million (or 31%) above the amount collected a year ago. Community income tax (one of the main revenue items) had generated EUR 1,172 million as at 30 October 2010, EUR 18 million more than in the same period in 2009, and almost reaching the amount provided for in the draft budget for 2011 (EUR 1,200 million).

The figures currently available (up to October 2010) points to growth of 5% in tax receipts (excluding social security contributions) over the year compared to 2009.

## Statistics table

	Feb-10	Mar-10	Apr-10	May-10	Jun-10	Jul-10	Aug-10	Sep-10	Oct-10	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	14.7	21.9	18.4	17.4	8.4	10.6	9.8	...	...	9.6	-19.1
Construction output per working day, in volume	-5.6	4.2	1.5	3.9	6.8	0.9	3.2	...	...	3.6	3.2
Turnover by volume of total retail trade	2.3	5.8	1.2	-0.8	4.8	2.1	...	...	...	2.1	-3.9
<b>Prices, wages</b>											
Consumer price index (IPCN)	1.5	2.3	2.3	2.4	1.9	2.5	2.2	2.4	2.6	2.4	0.1
Underlying inflation	0.9	1.2	1.0	1.0	1.1	1.6	1.6	1.6	1.6	1.6	1.6
Oil product index	9.6	17.0	20.7	20.7	12.6	13.5	10.3	11.9	15.5	12.6	-21.3
Industrial producer price index	-5.5	-3.2	1.6	5.3	9.4	11.0	8.3	8.5	...	9.2	-13.7
Construction price index <sup>1</sup>	0.4	0.4	0.3	0.3	0.3	...	...	...	...	0.3	1.6
Average wage bill, per person (National accounts)	1.2	1.2	0.7	0.7	0.7	...	...	...	...	0.7	1.5
<b>Foreign trade</b>											
Exports of goods (volume)	24.1	22.1	22.4	23.6	12.0	0.6	11.8	...	...	16.6	-15.2
Imports of goods (volume)	5.7	8.6	15.1	31.8	-1.0	-0.9	-1.0	...	...	5.9	-0.5
<b>Employment, unemployment</b>											
Domestic number of employees (IGSS)	0.7	1.0	1.5	1.7	1.9	2.0	2.2	2.3	2.3	2.3	0.1
National employment (IGSS)	1.2	1.5	1.6	1.8	1.9	2.0	2.0	2.0	2.0	2.0	0.8
Unemployment rate (% of working population, seas. adj.)	6.0	6.0	6.0	6.0	6.1	6.1	6.1	6.1	6.1	6.1	5.9

Sources: STATEC

Data grey coloured are estimates

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

## Indicators

	Variation on previous quarter in %					
	2009 Q2	2009 Q3	2009 Q4	2010 Q1	2010 Q2	2010 Q3
Eurozone- Growth in volume of GDP (European Commission)	-0.1	0.4	0.2	0.3	1.0	0.4
Luxembourg - Growth in volume of GDP (STATEC)	-2.6	3.5	1.3	0.8	-0.3	...
	Annual variation in %					
	2007	2008	2009	Forecast 2010	Forecast 2011	
Luxembourg - Growth in volume of GDP (STATEC)	6.6	1.4	-3.7	3.2	3.0	
GDP at current prices for 2009: EUR 38 045 million						
Minimum monthly salary (since 01/07/2010): EUR 1 724.81						
Current account balance (2010 - 2 <sup>nd</sup> quarter): EUR 155 million						
Resident population (01/01/2010): 502 066						
Consumer price index (Oct. 2010) – base January 1 <sup>st</sup> 1948: 765.42						
Half-yearly average of the index linked to base as at January 1 <sup>st</sup> 1948: 761.41						
Estimated deadline for next salary indexation: 4 <sup>th</sup> quarter of 2011						

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