

February 2010

conjoncture flash

Feeble growth in the eurozone in the 4th quarter of 2009

According to Eurostat's quick estimate, GDP in the eurozone rose 0.1% in the 4th quarter of 2009 (compared to the 3rd quarter, seasonally adjusted). This pace of growth is well below the 0.4% recording during the 3rd quarter, a rather disappointing performance in view of a number of leading European indicators based on opinion surveys.

Except for France (where GDP rose 0.6%), GDP stagnated or fell slightly in all the other large economies in the eurozone during the 4th quarter, rising 0.0% in Germany but falling 0.1% in Spain and 0.2% in Italy.

German growth probably suffered as a result of the ending of the scrappage scheme in autumn 2009. The imminent ending of the scrappage scheme had boosted new car registrations in Germany in the 3rd quarter and this had a very positive impact on household consumption. Although detailed GDP components are not yet available for the 4th quarter, it is reasonable to assume that household consumption will be affected. New car registrations in Germany were already slowing in November 2009.

The basic trend is for more exports and less consumption.

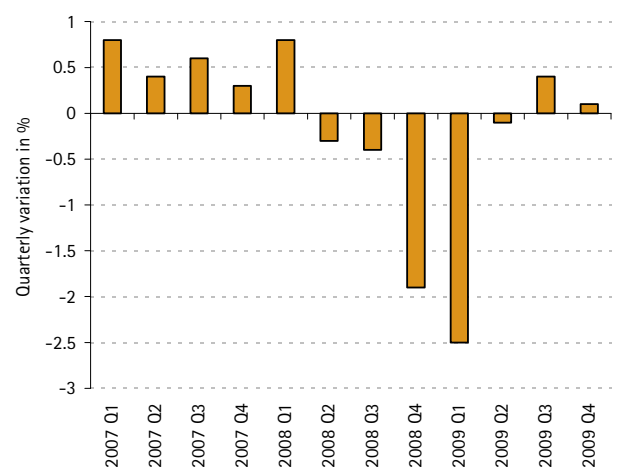
As Germany is still the leading economy in the eurozone – accounting for almost 30% of PIB – its mediocre performance in the 4th quarter had a knock-on effect on overall results. The example of Germany is also symptomatic of the importance of distinguishing between cyclical cycles and the effects of recovery plans.

In fact, according to the partial results available, export trends from eurozone countries (including Germany) remain favourable as they are benefiting from the recovery in global demand¹, which is sluggish from a cyclical standpoint.

In contrast, the basic trend for household consumption is negative. Rising unemployment and slower wage growth because of the crisis is weighing on household spending as consumers seek to reduce their debts.

Monthly publication of the state of the Luxembourg economy

Trends in GDP in the eurozone



Source: Eurostat (based on seasonally and working-day adjusted data)

However, the recovery plans set up by various states, although focused mainly on reviving domestic demand, also stimulated consumption and had a very positive effect on European growth in the 2nd and 3rd quarters of 2009.

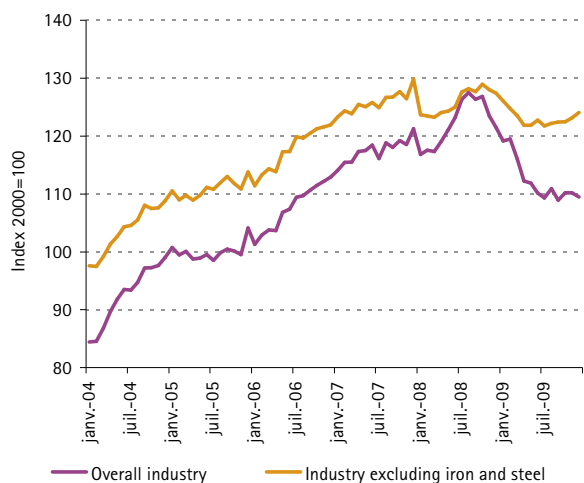
Both of these factors point to sluggish growth in the eurozone for the coming quarters, with the quarterly profile likely to be affected – i.e. more volatile than during traditional cyclical phases – by the schedules of temporary measures to bolster domestic demand.

¹ The depreciation of the euro against the US dollar since December 2009 will also help boost European exports.

² And in France during the 4th quarter of 2009.

Manufacturing 1

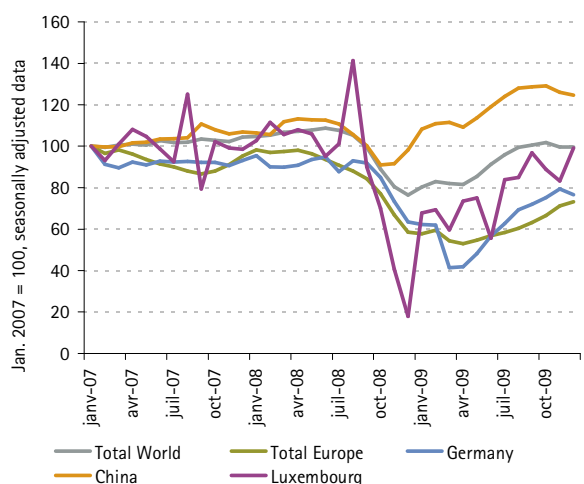
Price of manufacturing products



Source: STATEC

Manufacturing 2

Raw steel production up until December 2009



Source: World Steel Association, STATEC (seasonally adjusted data)

Construction

Construction prices



Source: STATEC

Manufacturing prices fall sharply in 2009

Industrial output prices in Luxembourg slumped by more than 8% in 2009. This fall, which was larger than in the rest of Europe (where falls of 5% were recorded in 2009), was mainly due to price trends for iron and steel products, which fell over 25% over the same period. Apart from iron and steel, industrial prices still fell over 2% in 2009, a drop not seen since 1999.

This price fall was mostly linked to the depression that affected all commodities from late 2008 on. Although commodity prices started to recover in mid-2009, it was only towards the end of the year (November) that industrial output prices started to climb again, particularly in foodstuffs, non-metallic mineral products (glass, ceramics, etc.) and consumer goods.

Steel production recovers

2008 ended very badly for Luxembourg steel production, with one of the worst performances ever in December. However, the situation improved slightly in 2009, when the rate of expansion, although weak, was higher than elsewhere in Europe (particularly in the 2nd half-year).

Over the year as a whole, Luxembourg output fell 14% (after falling 10% in 2008), compared to a 32% fall for the European Union (which fell in 2008). Global output fell just 8% in 2009, thanks mostly to China's impressive performance (up 14%), which now accounts for almost half of global output. Apart from China, the global trend is set to drop by 20% in 2009.

Construction prices stagnate

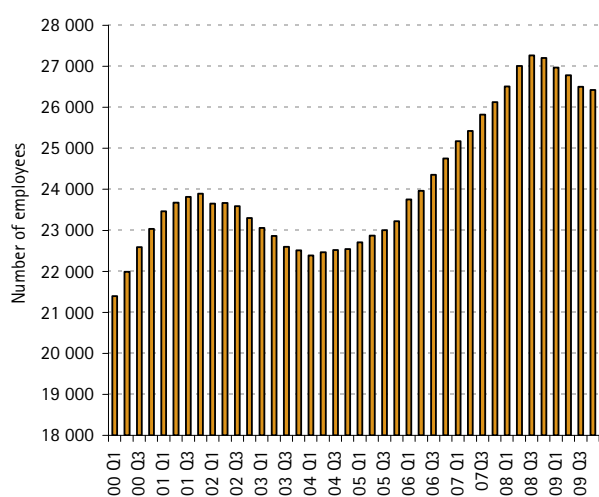
Construction prices continue to slow, rising just 0.5% over one year in the 4th quarter of 2009.

Price rises were most moderate in structural building and general building work, even falling slightly during the 2nd half of the year. The most significant downward trends were in earthworks and concrete works, while roofing and external metal doors, windows and frames recovered slightly.

In technical installations and finishing work, prices rose in sanitary, heating and electrical installations. There were few price changes in finishing work, apart from flooring (rises in marble and carpeting) and plastering services (which fell 3% over 2009 as a whole).

Financial sector

Trends in banking employment



Source: BCL

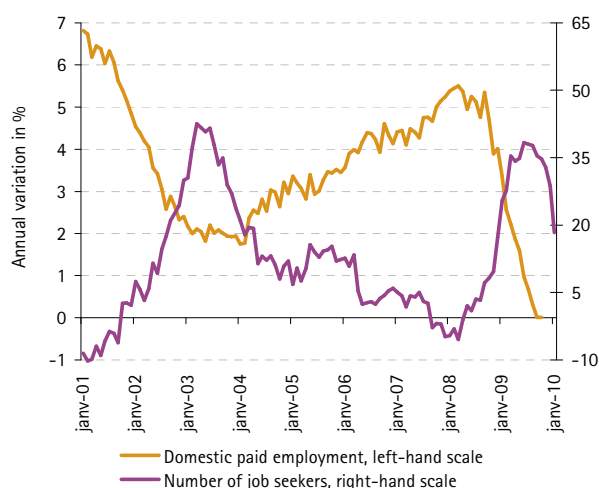
Banking employment falls slightly in the 4th quarter

The financial sector put in a surprising performance, with a loss of just 77 jobs in credit institutions at the end of the 4th quarter of 2009. In fact, job losses in the banking sector had been much higher during the first three quarters of the year, at about 240 on average per quarter.

However, it is still too early to say if this indicates that workforce numbers are set to stabilise. Given banking employment trends during the last crisis, it is important not to get too excited about this as yet isolated change, as the impact of the current crisis on added value in the banking sector is set to be much more significant.

Labour market

Trends in employment and unemployment



Sources: ADEM, IGSS

Downturn less than predicted

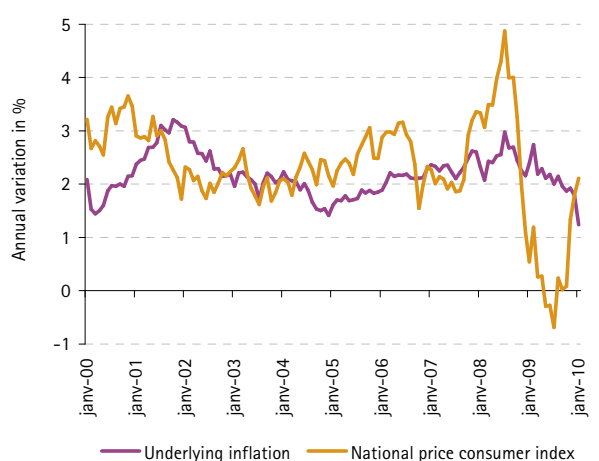
In January 2010, the number of job seekers registered with ADEM rose by just 18.3% over one year, compared to a 30% rise in previous months. The unemployment rate (seasonally adjusted) stood at 5.9% at the start of the year, compared to 6.0% in December.

This was partly due to some job seekers transferring to job schemes, an increase of 21% over one year, compared to 10% in previous months. The overall unemployment rate, which includes workers in job schemes, has peaked at 7.4%.

The latest figures available for employment are a little better than expected, remaining unchanged over one year in September and October, and even rising 0.6% among resident workers. Therefore, domestic paid employment has not yet fallen year on year.

Inflation, wages

Underlying inflation and NCPI



Source: STATEC

Underlying inflation at its lowest level in 10 years

In January 2010, the underlying inflation rate, which excludes oil and other products whose prices are determined on the international markets, stood at 1.2%, its lowest level in over ten years. In the last quarter of 2009, it was at 1.9%.

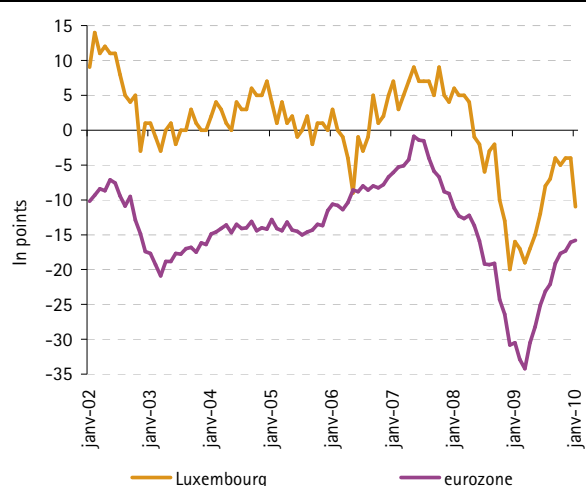
The main reason for this slack growth lies in electricity, where prices fell by 6.8% on average compared to December 2009, dragging the underlying inflation rate down 0.13 percentage points.

Another factor behind this extremely low rate in January was the sustained marketing effort seen during the winter sales. In fact, in January, the effect of sales on underlying inflation was larger than usual.

Finally, underlying inflation is expected to rise automatically from March 2010, due to the introduction of social welfare money vouchers, which from March 2009 pushed crèche prices down 15% (i.e. 0.2 percentage points of underlying inflation).

Consumption

Consumer confidence



Source: BCL

Sharp slump in confidence must be put in context

Consumer confidence in Luxembourg plummeted in January 2010. However, when analysing the reasons for this in detail, this must be put into perspective. Most of the slump was focused on one of the 4 indicator components, i.e. saving intentions for the next 12 months. This component made up 5 of the 7 points recorded by the confidence indicator. However, savings intentions – as regards Luxembourg figures – are erratic and do not follow any trend. There was no comparable movement in savings intentions in other eurozone countries in January. However, expectations as regards the overall economic situation accounted for a loss of 2 points in the confidence indicator, a much more significant and worrying phenomenon.

Tableau de bord

	May-09	Jun-09	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09	Dec-09	Jan-10	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	-22.0	-16.1	-21.9	-20.7	-9.8	-5.6	0.9	...	...	-5.2	-8.4
Construction output per working day, in volume	-6.8	-4.0	10.9	4.2	1.4	3.6	4.5	...	...	3.2	-2.3
Turnover by volume of total retail trade	-7.0	-3.4	-2.0	-4.5	-4.7	-0.4	-0.3	...	...	-1.8	-2.2
Prices, wages											
Consumer price index (IPCN)	-0.3	-0.3	-0.7	0.2	0.0	0.1	1.3	1.8	2.1	1.7	1.2
Underlying inflation	2.1	2.2	2.0	2.1	2.0	1.9	1.9	1.8	1.2	1.7	2.3
Oil product index	-26.9	-26.7	-28.8	-21.6	-22.2	-20.9	-6.5	2.5	14.9	3.0	-11.8
Industrial producer price index	-7.9	-10.7	-13.8	-13.3	-14.0	-13.4	-10.8	-9.9	...	-11.4	3.6
Construction price index ¹	1.6	1.6	1.1	1.1	1.1	0.5	0.5	0.5	...	0.5	3.3
Average wage bill, per person (National accounts)	0.0	0.0	0.3	0.3	0.3	...	...	...	...	0.3	3.4
Foreign trade											
Exports of goods (volume)	-20.4	-18.5	-13.3	-10.5	9.1	-6.9	12.6	...	...	4.3	-5.6
Imports of goods (volume)	-20.2	-9.7	-20.4	-13.3	-10.4	-8.6	-10.6	...	...	-9.9	-0.2
Employment, unemployment											
Domestic number of employees (IGSS)	1.6	1.0	0.7	0.3	0.0	0.0	0.3	-0.1	0.0	0.0	3.7
National employment (IGSS)	1.5	1.2	1.1	0.8	0.7	0.8	0.7	0.6	0.5	0.6	2.6
Unemployment rate (% of working population, seas. adj.)	5.7	5.8	5.9	5.9	5.8	5.9	5.9	6.0	5.9	5.9	4.8

Sources: STATEC

Data grey coloured are estimates

¹ Estimations based on half-yearly data

Repères

	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 rd quarter): EUR 1 083 million						
Resident population (01/01/2009): 493 500						
Consumer price index (September 2009) – base January 1 st 1948: 742.27						
Half-yearly average of the index linked to base as at January 1 st 1948: 746.93						
Estimated deadline for next salary indexation: 4 th quarter of 2010						

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