

conjoncture flash

March 2010

Crisis and unemployment in the eurozone: the main trends

The unemployment rate in the eurozone was close to 10% in January 2010. Affected by the international economic crisis, it rose 2.6 points in just two years, the fastest rise ever recorded.

Uneven rises in unemployment

The rise in the unemployment rate varied according to eurozone country. Over the last two years (with unemployment at minimum levels in early 2008), almost 4.5 million extra people swelled the ranks of the unemployed in the eurozone. Spain alone accounted for almost half of the increase, mainly due to job losses in the construction sector (almost 1 million jobs lost) – directly linked to the unprecedented property crisis – and the manufacturing sector (550,000 job losses). France and Italy also saw significant increases in job seeker numbers, at 740,000 and 460,000 respectively.

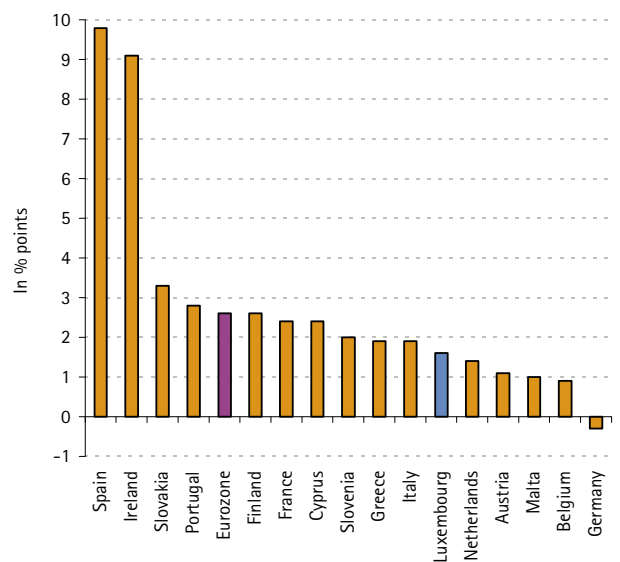
In terms of jobs, the crisis has mainly affected the manufacturing sector. In the eurozone as a whole, almost 3.1 million jobs were lost between late 2007 and late 2009, 1.8 million in manufacturing alone. Unsurprisingly, construction was also badly hit (1.2 million job losses), mainly in Spain and, to a lesser extent, Ireland and Portugal.

Net employment trends (new jobs minus job losses) were positive in some eurozone countries over the same period. Germany, Austria, Belgium, Cyprus, Malta and Luxembourg counted more jobs in late 2009 than two years previously.

The trend in Germany, with 277,000 net job creations over 2 years, is atypical and of particular interest. Germany lost 272,000 manufacturing jobs over this period, a figure comparable to France, which lost 245,000. Most of the other trade sectors experienced positive growth – albeit relatively low – in employment. In fact, most of the new German jobs (almost 450,000) were in public administration, education, health and welfare services, community, social and personal services and domestic services, which are somewhat protected sectors from an economic standpoint, insofar as they are the furthest removed from cyclical effects.

Monthly publication of the state of the Luxembourg economy

Trends in the unemployment rate from January 2008 to January 2010



Source: Eurostat, STATEC

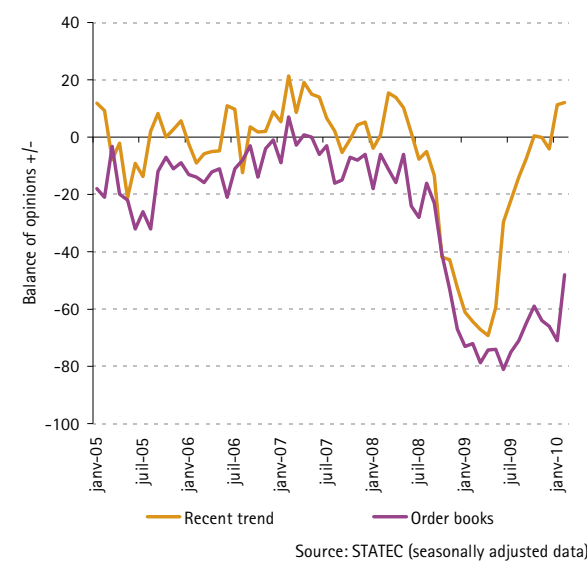
By comparison, France created just 220,000 jobs in this sector over the same period.

The jump in unemployment in 2008 and 2009 seems to have come to an end, however, or at least it has been halted, with the unemployment rate in the eurozone stable at 9.9% since last November. The same phenomenon was observed in Luxembourg, where the seasonally adjusted unemployment rate has stabilised at close to 6% in recent months. The unemployment rate in Germany, Spain and Austria has been falling since the fourth quarter of 2009. In contrast, up until January 2010, the unemployment rate in Ireland, France, Italy and the Netherlands was still rising.

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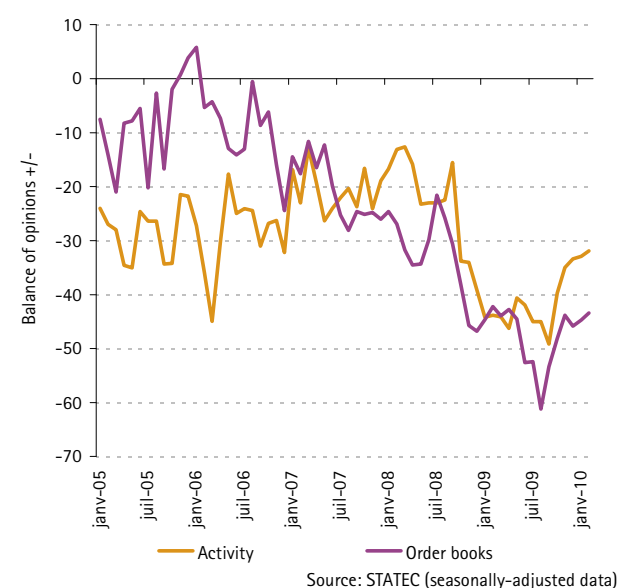
Manufacturing

Economic survey on manufacturing



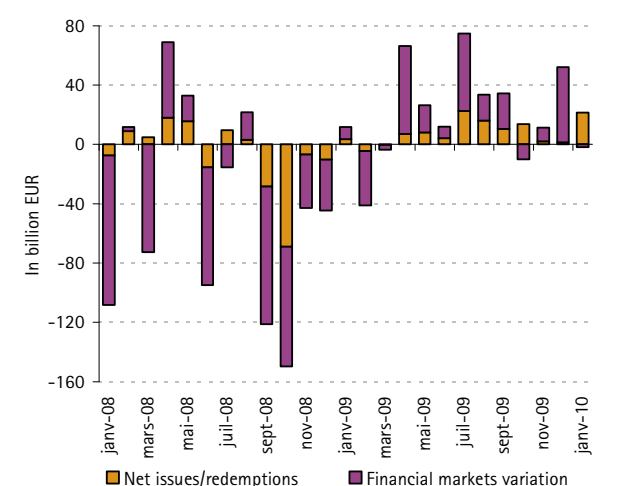
Construction

Economic survey on construction



Financial sector

Trends in UCI net assets



Confirmed turnaround

Manufacturing output fell 16% in 2009 but started to recover significantly towards the end of the year. The latest economic surveys carried out among manufacturers (in January and February 2010) show that this favourable trend is continuing. Opinions on recent activity and employment prospects continue to rise. Opinions on the status of order books, which up until now had not followed the favourable trend, also bounced back significantly in February 2010.

According to provisional figures, output is expected to rise by more than 10% over one year in January 2010. Similar rises are to be expected over the next three months as the period from February to April 2009 marked the low point of activity in 2009.

Back to work

As in manufacturing, surveys of construction businesses have been mostly optimistic since late 2009. Whether regarding recent activity, order books, perception of demand or assured activity, business people's opinions have undeniably recovered in recent months (last available data: February 2010), even though we are still far from the levels seen in early 2008. Even the outlook for employment, which showed no signs of recovery up until December 2009, recovered in early 2010.

However, this improvement masked very different situations depending on the company and the area of activity (in particular, finishing businesses seem to be suffering more from the sluggish economic climate), meaning that it is difficult to speak of an overall improvement.

UCIs: a relatively satisfactory result in January

In late January 2010, the overall net assets of undertakings for collective investment and specialised investment funds amounted to EUR 1,860 billion, representing a rise of about 1% over one month (and 18% over one year). These levels are more or less the same as those seen in mid-2008, before the looming financial storm was unleashed.

Net inflows of capital (issues less redemptions, see graph opposite) recovered well in January 2010, after two disappointing months. The variation due solely to market movements was slightly negative, which is hardly surprising given the substantial correction experienced on the main stock market from mid-January on. Despite the upturn in prices since early February, this variation is likely to affect the overall result for February.

Tourism

Overnight stays: hotels, hostels, guest houses

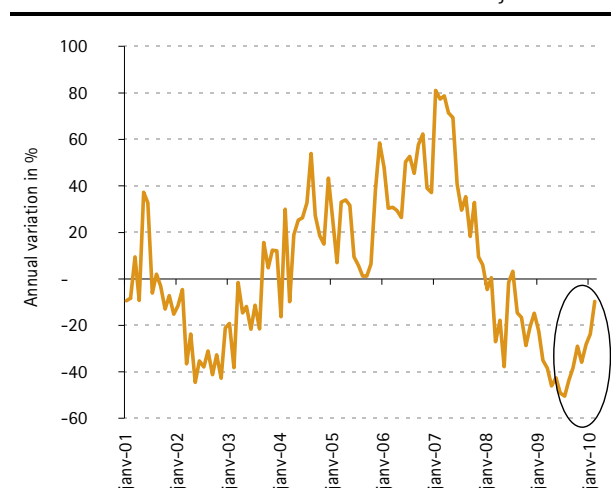
| | Overnight stays January to August | | |
|----------------------|-----------------------------------|----------------|----------------|
| | 2008 | 2009* | 2009/08 (in %) |
| Whole country | 931 528 | 788 834 | -15.3 |
| of which | | | |
| Luxembourg City | 479 928 | 408 982 | -14.8 |
| Rest of the country | 451600 | 379852 | -15.9 |

* provisional data

Source: STATEC

Labour market

Unfilled job vacancies



Source: ADEM

Inflation, wages

Most significant price changes in 2009

| | Variation 2009/2008 In % |
|--------------------------------------------------------------------------------|-----------------------------|
| <u>Items contributing the most to inflation in 2009 (in descending order)</u> | |
| Package holidays by plane | 16.5 |
| Electricity | 9.9 |
| Rent for apartments | 2.9 |
| Retirement homes, care homes, etc. | 2.4 |
| Diesel automobiles with capacity of <= 2000 cm3 | 1.7 |
| <u>Items contributing the least to inflation in 2009 (in descending order)</u> | |
| City gas and natural gas | -8.9 |
| Crèches, day-care centres for children, etc. | -11.4 |
| Petrol | -13.2 |
| Liquid fuel | -35.7 |
| Diesel | -23.7 |

Source: STATEC

A very bad year in 2009

The Luxembourg tourist sector was sorely tested in 2009.

The trend for the first 8 months of the year was mostly negative for hotels, hostels and guest houses. The summer period did not bring any improvement: overnight stays fell about 15%, showing no improvement on the 1st quarter of 2009. It is unlikely that the last months of 2009 will show any improvement in this regard, so yet another negative year for overnight stays is to be expected in these establishments after the 4% drop in 2008.

Overnight stays in campsites fell about 10% in 2008.

Unemployment levels off

The official, seasonally adjusted unemployment rate stood at 5.9% in February 2010, almost unchanged since July 2009, confirming that unemployment has levelled off in recent months. This trend was also observed in the overall unemployment rate (i.e. taking into account people on job schemes), which has stagnated at 7.4% since last November.

Job offers collated by ADEM (see graph) also show a more favourable trend in recent times. This signal, combined with the better-than-expected employment trend (already mentioned in the February 2010 issue of Conjoncture Flash and confirmed by the November employment figures), also indicates that the decline in the Luxembourg labour market is coming to an end.

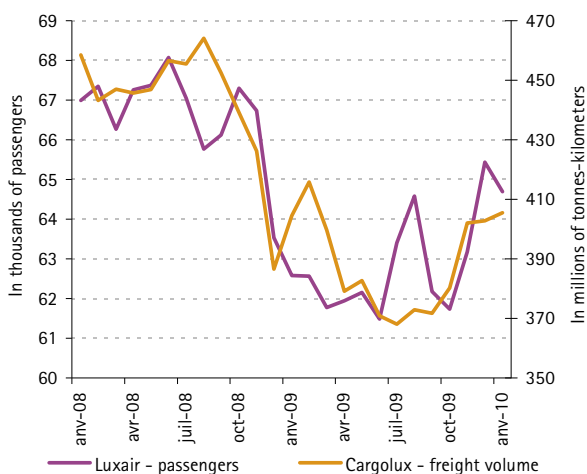
Inflation at 1.5% in February

The relatively low inflation rate at the start of 2010 (2.1% in January, 1.5% in February) is expected to continue unless there is an explosion in the price of oil, which is under 2% for the year as a whole. Underlying inflation is still slowing (less than 1% over one year in February).

Inflation was just 0.4% in 2009, brought down mostly by oil prices (see table opposite). Price rises in package holidays by air were unjustly ranked first of the rises that most affected the inflation rate. However, these rises were purely statistical, due to a change in data collection methods. Electricity was ranked 2nd in terms of price rises in 2009 but is expected to fall this year (rates have already fallen 7% since January).

Transport

Air transport indicators



Sources: AEA, STATEC (seasonally-adjusted data)

Recovery after free-fall

Indicators of volumes transported by Luxembourg airlines have recovered since late 2009. Passenger transport in the summer period was relatively satisfactory in terms of tourist numbers (apparently due to attractive pricing) but this trend was short-lived. It was only really from November 2009 on that the improvement took hold, both for passenger transport and freight, in line with the statistics published by other European airlines.

Although passenger numbers fell slightly in January 2010, the upward trend is set to continue. It must be borne in mind that air traffic in January 2010 was particularly affected by severe weather conditions and strikes.

Statistics table

| | May-09 | Jun-09 | Jul-09 | Aug-09 | Sep-09 | Oct-09 | Nov-09 | Dec-09 | Jan-10 | Feb-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 | -21.9 | -16.1 | -21.9 | -20.7 | -9.8 | -5.6 | 0.2 | 13.2 | ... | ... | 1.5 | -17.9 |
| Construction output per working day, in volume | -6.5 | -3.6 | 11.8 | 4.7 | 2.4 | 4.7 | 4.7 | ... | ... | ... | 3.9 | -2.2 |
| Turnover by volume of total retail trade | -6.4 | -2.4 | 0.7 | -1.7 | -0.5 | 1.7 | 1.0 | ... | ... | ... | 0.8 | -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 | 1.5 | 1.8 | 0.9 |
| Underlying inflation | 2.1 | 2.2 | 2.0 | 2.1 | 2.0 | 1.9 | 1.9 | 1.8 | 1.2 | 0.9 | 1.3 | 2.4 |
| Oil product index | -26.9 | -26.7 | -28.8 | -21.6 | -22.2 | -20.9 | -6.5 | 2.5 | 14.9 | 9.6 | 8.8 | -17.2 |
| Industrial producer price index | -7.7 | -10.6 | -13.5 | -13.0 | -13.6 | -13.1 | -10.8 | -9.9 | -7.9 | ... | -9.6 | 2.1 |
| 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) | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | ... | ... | ... | ... | ... | 0.4 | 3.3 |
| Foreign trade | | | | | | | | | | | | |
| Exports of goods (volume) | -20.2 | -18.8 | -13.7 | -10.6 | 9.1 | -5.7 | 10.4 | 20.0 | ... | ... | 6.6 | -15.4 |
| Imports of goods (volume) | -20.0 | -9.1 | -19.8 | -12.5 | -10.2 | -7.9 | -8.0 | 2.2 | ... | ... | -4.9 | -0.4 |
| Employment, unemployment | | | | | | | | | | | | |
| Domestic number of employees (IGSS) | 1.6 | 1.0 | 0.7 | 0.3 | 0.0 | 0.0 | 0.2 | 0.1 | 0.2 | 0.4 | 0.2 | 3.3 |
| National employment (IGSS) | 1.5 | 1.2 | 1.1 | 0.8 | 0.7 | 0.8 | 0.9 | 0.8 | 0.8 | 0.8 | 0.8 | 2.3 |
| Unemployment rate (% of working population, seas. adj.) | 5.6 | 5.8 | 5.9 | 5.9 | 5.9 | 5.9 | 5.9 | 6.0 | 5.9 | 5.9 | 5.9 | 5.0 |

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) | -0.4 | -1.9 | -2.4 | -0.1 | 0.4 | 0.1 |
| Luxembourg - Growth in volume of GDP (STATEC) | -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 (February 2010) - base January 1 st 1948: 751.13 | | | | | | |
| Half-yearly average of the index linked to base as at January 1 st 1948: 747.46 | | | | | | |
| Estimated deadline for next salary indexation: 3 rd quarter of 2010 | | | | | | |

Central office for statistics
and economic data
B.P. 304
L-2013 Luxembourg
Tel. 247-84219 Fax 46 42 89
Email: info@statec.etat.lu
Internet: www.statistiques.lu

For further information:
Pascale Armstrong
Tel. 247-84234
Email: Pascale.Armstrong-Pax@statec.etat.lu
Bastien Larue
Tel. 247-84339
Email: Bastien.Larue@statec.etat.lu