

April 2010

conjoncture flash

GDP falls 3.4% in 2009

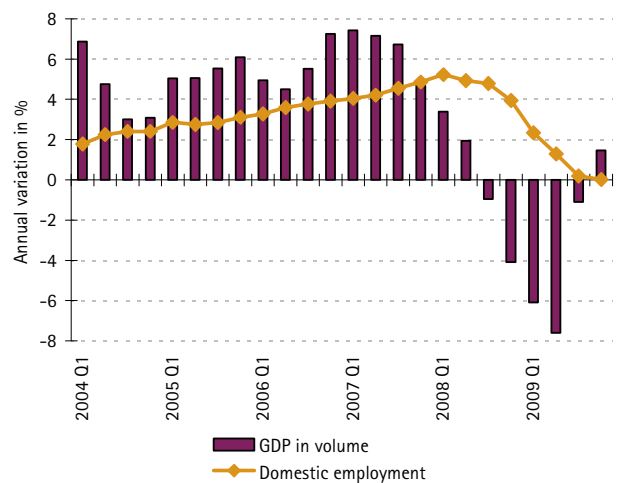
After a strong recovery in the 3rd quarter of 2009, Luxembourg gross domestic product more or less stabilised in the 4th quarter. In fact, when seasonal adjustments are taken into account, it fell slightly by 0.2% but statistically speaking, this dip was more of a stagnation than a real drop for the Luxembourg economy. In addition to this, GDP as an annual variation returned to positive figures in the 4th quarter of 2009 (up 1.4% - see graph), in contrast to all other euro zone countries, which are still in negative territory.

These 4th quarter figures, added to those for previous quarters, make up the first annual GDP estimate. This shows that Luxembourg GDP fell 3.4% over 2009 as a whole and, while this is less than expected¹, this does not affect the observation that there was a marked recession last year, pending more detailed and consolidated figures to be published in October 2010. Although most traded services were affected by the downturn in activity, this recession was mostly felt in the manufacturing and financial sectors. Of these, manufacturing was the hardest hit, making up about half of the fall in added value in 2009. The recession also hit employment in this sector hardest, with the workforce sliding 2.5% over the year as a whole (see Labour market section in this issue). The fall in manufacturing employment might well have been much worse had companies not relied heavily on the partial unemployment scheme, since added value in this sector fell almost 18%. This slight adjustment in employment compared to the slump in activity meant that labour productivity in this sector was in freefall in 2009.

The financial sector accounted for one third of the drop in GDP last year. However, financial activities in terms of added value started to recover in the 3rd quarter of 2009 (up 2.6%) and this continued into the 4th quarter (up 0.9%).

Monthly publication of the state of the Luxembourg economy

GDP and employment



Source: STATEC

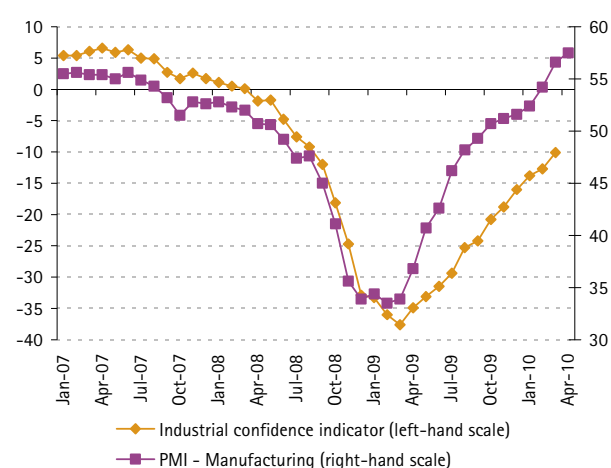
The same phenomenon was observed in business services (where activity is partly linked to financial sector activity), rising for the 2nd consecutive quarter (up 0.7% in Q3 and 1.2% in Q4).

The outlook for the first quarter of 2010 is quite encouraging, with surveys of manufacturing and construction companies providing favourable results (including in the last survey in April). Although the growth in the financial markets was lower than in the last two quarters, there was no major correction. The international outlook, based on leading economic indicators for manufacturing and services in the euro zone, is expected to remain buoyant throughout the first half of the year.

¹ STATEC's last forecast, drawn up in December 2009, predicted a fall of 3.9%.

Manufacturing

Leading manufacturing indicators for the eurozone



Sources: European Commission, Markit Economics

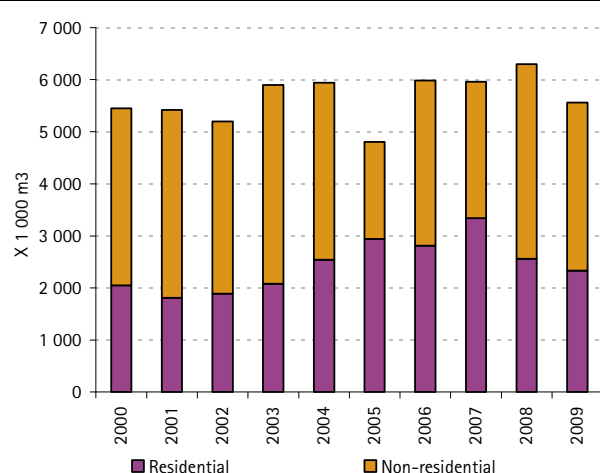
European manufacturers regain confidence

Leading indicators for European manufacturing remained positive at the end of the 1st quarter of 2010. After falling slightly in February, the European Commission indicator recovered significantly in March surveys, boosted by increasingly optimistic prospects, both for the order books and output. While Germany contributed most to this recovery, the improvement seems to have been widespread throughout the euro zone.

The PMI index (purchasing managers' index) for manufacturing confirms this upward trend. In April, the index was close to levels seen in mid-2006, suggesting that manufacturing output will rise significantly in the 2nd quarter of 2010. The employment sub-index is climbing back up towards 50 points (49.6 points in April), the point at which contraction turns into expansion, suggesting that workforce numbers will stabilise in the short term.

Construction

Relative volume of projects granted planning permission



Source: STATEC

Residential projects fall again in 2009

The volume of planning authorisations fell almost 12% in 2009. In the non-residential sector (administrative or industrial buildings, warehouses, etc.), the fall was some 14%, but this partly reflects a return to what could be termed 'normal' volumes (3.2 billion m³ in 2009, compared to an average of 3.3 billion m³ over the previous decade), after an exceptional year in 2008.

The residential (housing) sector fell just 9% in 2009 but this came after a massive slump of 23% in 2008. Historically, the connection between the economic cycle and housing authorisations has always been closer than with non-residential construction authorisations. In any event, the last two years have been fairly sluggish in economic terms.

Financial sector

Profit and loss accounts at the end of the 1st quarter

	mars-09	mars-10	Variation in %
	In EUR M		In %
Interest margin ¹	1 930	1 415	-26.7
Income from commissions	792	871	10.0
Other net income	-10	394	.
Banking income	2 712	2 681	-1.2
Personnel costs	613	661	7.8
Other general costs	482	491	1.9
General costs	1 095	1 152	5.2
Income before provisions	1 617	1 529	-5.5

Source: CSSF (provisional results)

¹ Including dividends received from subsidiaries

Lower earnings on loans

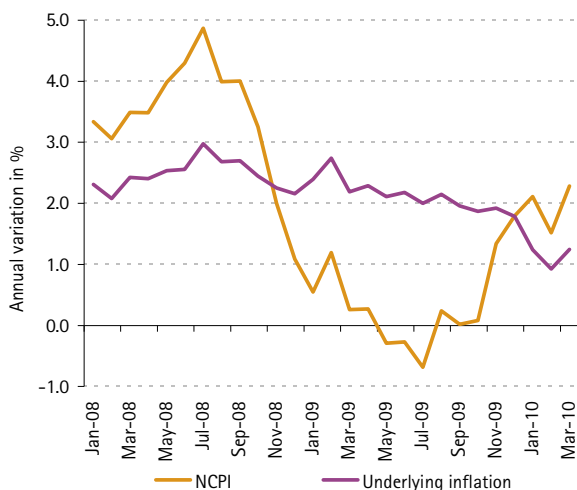
According to provisional CSSF data, banking income in the 1st quarter of 2010 fell 1.2% over one year, due to a fall in the interest margin of 27%. The margin was penalised by the fall in loan volumes (debts recorded fell about 15% compared to early 2009) and by the stagnation in leading rates since May 2009 (meaning that maturity transformations can no longer be carried out).

The lower interest margin was almost entirely offset by fee income (up 10% over one year) and non-recurring income, as both these channels benefitted from an improved market environment.

Personnel costs rose 7.8% over one year, a surprisingly sharp hike given that banking employment fell 2.2% over the same period (according to BCL estimates). This atypical trend has been ascribed to welfare spending due to job reductions such as redundancy payments.

Inflation

Overall and underlying inflation



Source: STATEC

Inflation rises 2.3% in March

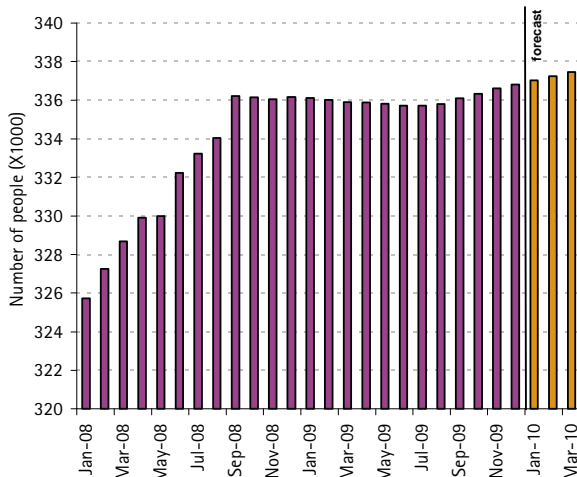
Consumer prices rose significantly in March 2010, climbing 0.6% over one month (compared to an average of 0.3% observed for the same month over the past five years), pushing the inflation rate up to 2.3% over one year. This rising inflation was due to three key phenomena.

The first of these was the rise in oil prices – over USD 80 in March, almost double the price noted in early 2009 – which affected fuel and heating oil prices.

In terms of underlying inflation, price rises were most marked in clothing. Once the January sales were over, promotional prices were retained on a number of items in February and were only readjusted in March. Finally, electricity rates rose 3% in March, offsetting the drop of almost 7% in January 2010.

Labour market (1/2)

Domestic paid employment, seasonally adjusted series



Source: STATEC

Labour market comes out of the red...

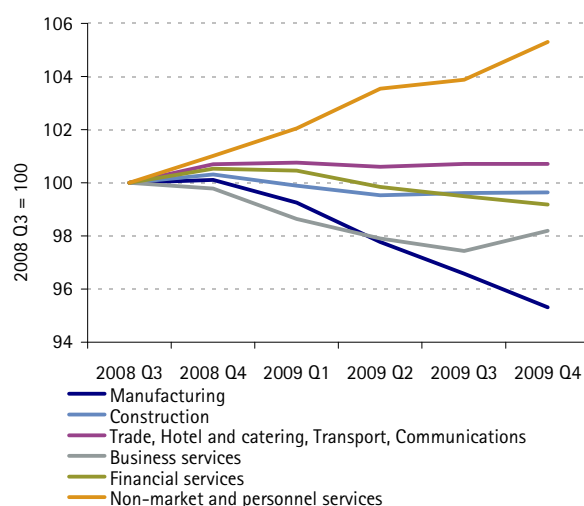
Job creation was halted in the Luxembourg labour market in the 4th quarter of 2008, when the financial crisis started to bite. Domestic paid employment in terms of net job growth (i.e. job creations minus job losses) fell by 400 between September 2008 and August 2009, based on the seasonally adjusted series.

Since September 2009, employers have started recruiting again, although the resulting monthly rises in seasonally adjusted employment figures in Luxembourg remain extremely low in a historical context (averaging about 0.1% per month).

However, the number (four) and regularity of rises means that the labour market has indeed turned the corner and hopefully a real recovery should not be too far off.

Labour market (2/2)

Trends in employment per sector since mid-2008



Source: STATEC (seasonally adjusted data)

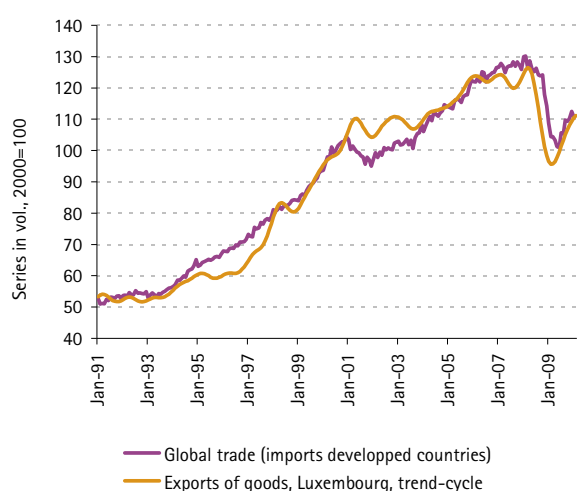
... but remains sluggish

The tiny rise in employment in the fourth quarter was mainly due to growth in business services. This sector felt the effects of the crisis earlier and more markedly than most other branches and is now showing renewed vigour. Of the two other worst hit sectors, financial services are doing well, falling less in the second half of 2009, but manufacturing employment continues to suffer despite the favourable impact of the partial unemployment scheme.

Employment in construction, trade, hotel & catering, transport and communications also stopped falling, although there was no real sign of vigour. Non-market and personal services (NACE 75-95) continued to create jobs throughout the difficult period and these now represent the mainstay of employment in the Grand Duchy.

Foreign trade

Global trade and export of goods from Luxembourg



Source: STATEC, CPB

Exports of goods recover

Over the last 20 years, exports of Luxembourg goods mostly followed trends in global trade, albeit with occasional deviations.

Thus, during the recent crisis, Luxembourg exports fell a little lower and a little more rapidly than demand (i.e. imports from developed countries – see graph opposite) but they also recovered more significantly and slightly earlier. In fact, since the low point in the first half of 2009, Luxembourg exports have risen 16% on aggregate (see trend-cycle component in graph opposite) rising by as much as 26% based on the underlying seasonally adjusted series. Over the same period, imports from developed countries rose about 8%. The Netherlands Central Planning Bureau, which compiles these series, forecasts that global trade will fall back somewhat over the next few months.

Statistics table

	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09	Dec-09	Jan-10	Feb-10	Mar-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	-20.9	-20.1	-8.8	-4.3	1.6	14.4	9.0	...	...	7.9	-22.1
Construction output per working day, in volume	12.1	4.9	2.5	5.1	4.7	0.5	-4.0	...	...	0.7	-1.6
Turnover by volume of total retail trade	-2.0	-4.5	-4.7	-0.4	-0.3	...	...	...	...	-1.8	-2.2
Prices, wages											
Consumer price index (IPCN)	-0.7	0.2	0.0	0.1	1.3	1.8	2.1	1.5	2.3	2.0	0.7
Underlying inflation	2.0	2.1	2.0	1.9	1.9	1.8	1.2	0.9	1.2	1.1	2.4
Oil product index	-28.8	-21.6	-22.2	-20.9	-6.5	2.5	14.9	9.6	17.0	13.8	-20.5
Industrial producer price index	-13.8	-13.3	-14.0	-13.4	-10.8	-9.9	-8.0	-6.4	...	-8.1	1.2
Construction price index ¹	1.1	1.1	1.1	0.5	0.5	0.5	...	...	...	0.5	3.3
Average wage bill, per person (National accounts)	1.5	1.5	1.5	3.2	3.2	3.2	...	...	...	3.2	1.4
Foreign trade											
Exports of goods (volume)	-14.0	-10.6	9.2	-5.4	10.5	19.1	12.6	24.6	...	18.8	-26.0
Imports of goods (volume)	-19.3	-12.2	-9.3	-7.0	-8.2	4.9	9.7	7.4	...	7.2	-0.4
Employment, unemployment											
Domestic number of employees (IGSS)	0.7	0.3	0.0	0.0	0.2	0.3	0.3	0.5	0.5	0.4	2.7
National employment (IGSS)	1.1	0.8	0.7	0.8	0.9	0.9	0.9	0.9	1.0	0.9	2.0
Unemployment rate (% of working population, seas. adj.)	5.9	5.9	5.9	5.9	5.9	6.0	5.9	6.0	6.0	6.0	5.2

Sources: STATEC

Data grey coloured are estimates

1 Estimations based on half-yearly data

Indicators

	Variation on previous quarter in %					
	2008 Q3	2008 Q4	2009 Q1	2009 Q2	2009 Q3	2009 Q4
Eurozone- Growth in volume of GDP (European Commission)	-0.4	-1.9	-2.4	-0.1	0.4	0.0
Luxembourg - Growth in volume of GDP (STATEC)	-2.1	-2.7	-1.3	-1.6	4.8	-0.2
	Annual variation in %					
	2007	2008	2009	Forecast 2010	Forecast 2011	
Luxembourg - Growth in volume of GDP (STATEC)	6.5	0.0	-3.4	2.1	2.8	
GDP at current prices for 2009: EUR 37 755 million						
Minimum monthly salary (since 01/03/2009: EUR 1 682.76)						
Current account balance (2009 - 4 th quarter): EUR 604 million						
Resident population (01/01/2009): 493 500						

Consumer price index (March 2010) - base January 1st 1948: 755.42
Half-yearly average of the index linked to base as at January 1st 1948: 748.84
Estimated deadline for next salary indexation: 3rd 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