

conjoncture flash

May 2010

Inflation rises again to over 2%

After a marked slowdown in 2009, consumer prices started rising again in early 2010. The inflation rate – which was at just 0.4% for 2009 as a whole – has risen to a little over 2% (2.3% in March and April 2010). However, this increase was not due to any improvement in domestic economic fundamentals, such as higher consumer demand for example, which would push up prices. The current rise in inflation is actually mainly due to higher oil prices, over which Luxembourg has no real control¹.

Price rises linked to rising oil prices...

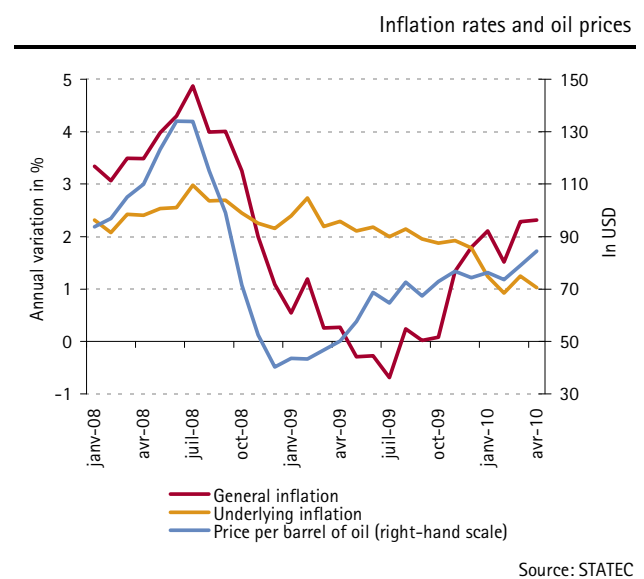
Oil prices have trended upwards since early 2009 (see graph opposite). This has naturally affected fuel prices (and prices of other oil derivatives), which rose over 10% between January and December 2009, while in contrast the inflation rate (expressed as an annual variation) fell in reaction to the particularly high price of oil in 2008. This basic effect was at its highest in mid-2009, pushing inflation temporarily into negative figures, but was no longer a factor from the 4th quarter on, hence the return to rising inflation in recent months. Moreover, the depreciation of the euro compared to the US dollar since late 2009² – exacerbated in recent weeks by what is known as the Greek crisis – has pushed oil prices even higher, as these are quoted in dollars on international markets.

... but lacklustre rises in other spending areas

Furthermore, underlying inflation, which excludes oil prices, has not shown any particular inflationary tension. On the contrary, it has slowed significantly since mid-2008 and remained at about 1% in early 2010, a level not seen since the end of the 90s. This weakness in underlying inflation, which is perceptible elsewhere in Europe, is a better reflection of the current disinflationary economic climate linked to the economic crisis than are the general inflation figures.

Underlying inflation slowed in Luxembourg and elsewhere in the euro zone in early 2010, mainly due to price stability in food and clothing.

Monthly publication of the state of the Luxembourg economy



Over the first 4 months of the year, the general inflation rate was 2.1%. Ten items of expenditure were responsible for 80% of this increase. Unsurprisingly, almost 60% of this was due to fuel (petrol and diesel) and heating oil. The remaining 20% was shared between the 7 following items, in decreasing order: retirement and care homes, apartment rents, small engine diesel vehicles, vehicle maintenance and repair, employment of domestic staff, cigarettes and restaurant meals.

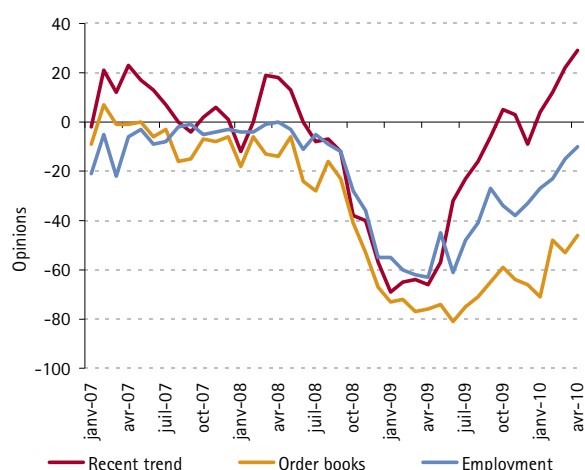
Finally, it should be noted that the relatively sustained rise in oil prices in recent months has triggered another indexation adjustment, scheduled for July 2010.

¹ The only room for manoeuvre for non-producing countries wishing to influence consumer prices is in the area of taxation of oil products.

² The exchange rate fell from USD 1.50 per euro in November 2009 to almost 1.20 in mid-May.

Manufacturing

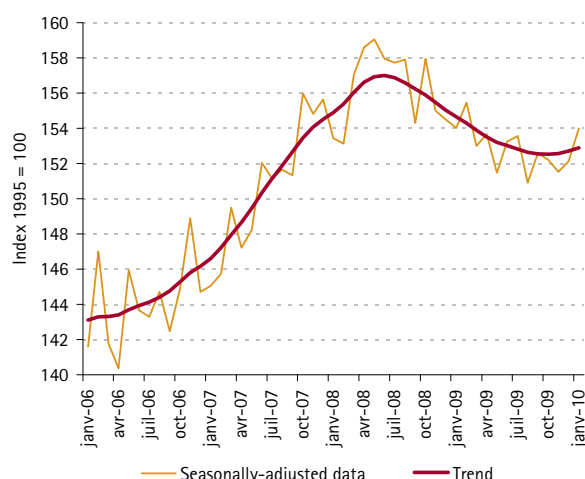
Opinion survey in manufacturing



Source: STATEC

Hotel and catering businesses

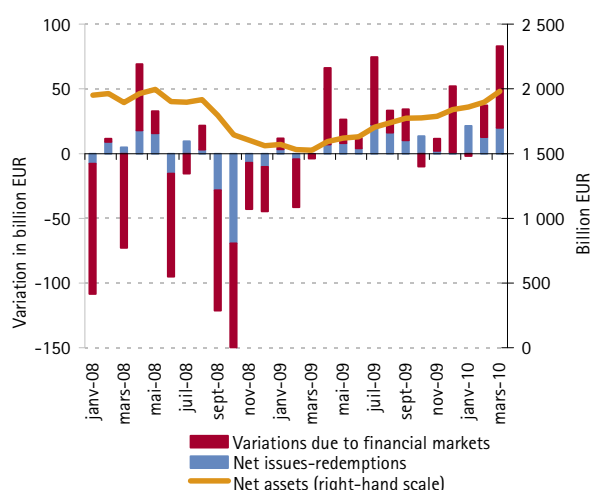
Turnover in the hotel and catering sector



Source: STATEC

Financial sector

Trends in net assets of UCIs



Source: CSSF

Manufacturing starts to recover

The April economic survey has confirmed the improvement noted in recent months. This trend is perceptible when it comes to manufacturers' opinions of recent trends and, to a lesser extent, of trends in order books. It is also heartening to see that this vigour has had an effect on employment prospects, in line with the fall in partial unemployment applications from manufacturing companies (58 in April compared to 70 in January).

In terms of actual output – as obtained from activity surveys – the trend observed in the first two months of 2010 mirrors this, with increases of 10% over one year. Results for March, which are still provisional, indicate growth of some 25% over one year.

A difficult year

Companies in the hotel and catering sector saw their turnover fall 2.3% in 2009. If price rises in the consumer price index for these services were taken into account, the drop would be 5% (up 2.7% in 2009 compared to a rise of 4.4% in 2008).

Hotels suffered the most, with turnover falling 6.7% in value. This is hardly surprising given the spectacular falls in overnight stays observed over the first 8 months of the year (down 15% over one year – see Conjoncture Flash for March 2010). This mediocre performance is due to the strong downward trend in tourist stays throughout Europe combined with the fall-off in business stays (directly linked to the sluggishness of the economy).

The figures for late 2009 and early 2010 appear to show a slight recovery – however, this recovery remains to be confirmed.

UCIs stage a comeback

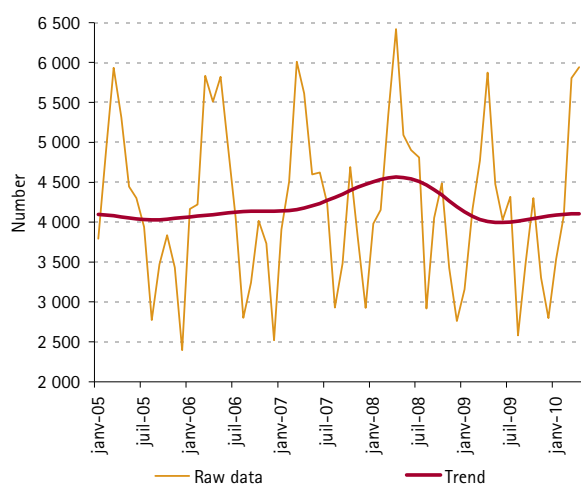
Net assets of Luxembourg undertakings for collective investment (UCIs) rose to EUR 1981 billion in March 2010, a rise of about 4% over one month (and 24% over one year), approaching the symbolic barrier of EUR 2000 billion, first exceeded in May 2007 (see graph opposite).

Net assets rose EUR 140 billion in the first quarter of 2010. Two thirds of this rise was due to market variations and one third was from net capital investment in Luxembourg UCIs, which reached a record EUR 54 billion not seen since mid-2007.

It remains to be seen to what extent the black clouds coming from Greece will affect investor behaviour. Capital inflows (issues less redemptions), which have been in the black consistently for the last 12 months, could fall off somewhat from the 2nd quarter on.

Consumption

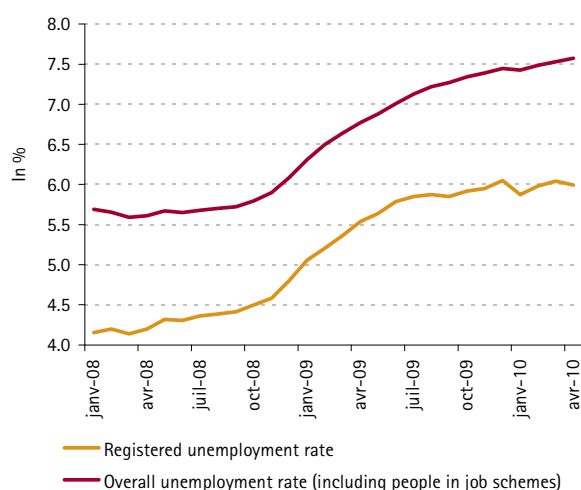
New car registrations



Source: STATEC (latest data: April 2010)

Labour market

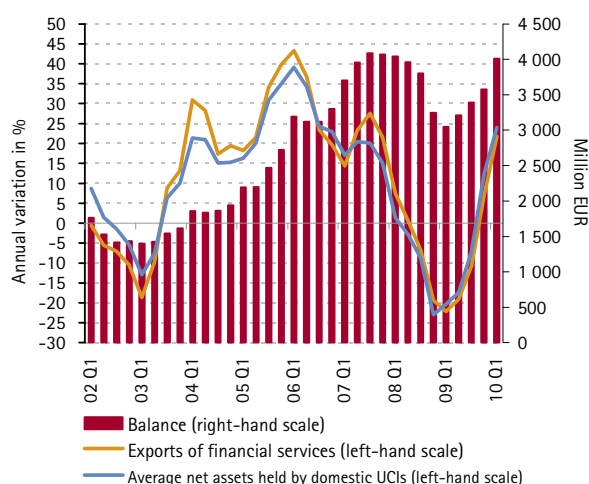
Unemployment rate trends (seasonally adjusted)



Sources: ADEM, IGSS, STATEC

Foreign trade (1/2)

Trends in international exchanges of financial services



Source: BCL, STATEC, CSSF

A good start to the year in car sales

New car registrations rose 11% over one year in the 1st quarter of 2010. These had slumped by 10% in 2009 after an exceptional year in 2008. This positive 1st quarter result, on top of the fact that the number of registrations in April was practically identical to last year (up 1%), sets the course for the rest of the year. New car registrations are in fact highly seasonal and are mostly concentrated around the start of the year (due partly to the February car show).

Throughout the euro zone, registrations in the 1st quarter of 2010 rose about 8% over one year but this is expected to run out of steam over the short term. The effects of scrappage schemes will start to level off from the 2nd quarter on. This was already happening in Germany in the 1st quarter, when registrations slumped 20% over one year.

A seasonal fall

The unemployment rate stood at 6.0% in April 2010, compared to 6.2% in March. This fall – like the one seen in March – was mainly due to seasonal factors. Employment rises each year from spring on – even in a poor economic climate – in a number of branches such as construction, hotel & catering, transport and agriculture.

Therefore, it is important to look at seasonally adjusted figures to show the purely cyclical/economic dynamic (see graph opposite). Looked at like this, the unemployment rate can be seen to be practically stable from mid-2009 on, oscillating between 5.9 and 6.0%. This stabilisation is largely due to subsidised jobs. The overall unemployment rate, which also includes those on job schemes, was slightly up in early 2010.

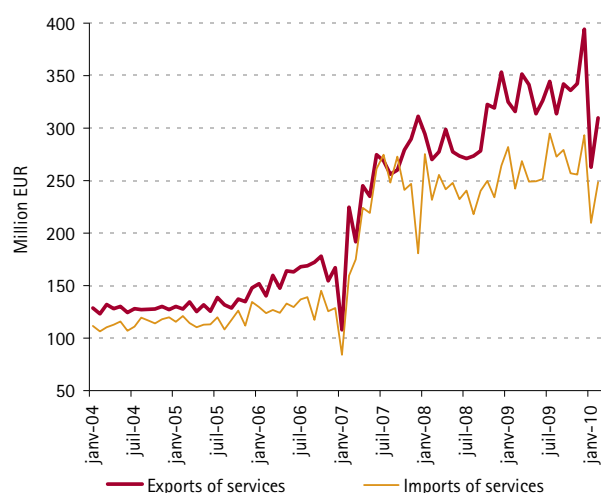
Exports of financial services hold up well

The downward trend in international exchanges of financial services – which started in 2008 – continued in 2009, with a fall of more than EUR 3.5 billion over one year in exports alone. Nevertheless, a marked trend towards recovery has been visible since mid-2009.

In Luxembourg, trends in international exchanges of financial services closely follow those of assets held by investment funds. This strong correlation is linked to the fact that the fees (for management, consultancy, distribution, etc.) paid by Luxembourg UCIs are charged to mostly non-resident investors (unitholders), and they are therefore registered as exports of financial services with a positive impact on GDP. The trend in UCI results in early 2010, set out in the section above, is at first sight a positive signal in terms of economic growth for the 1st quarter of 2010.

Foreign trade(2/2)

Electronic trading between service providers



Source: BCL, STATEC

E-commerce companies stood up well in 2009

From 2003 on, companies providing services electronically and subsidiaries of large corporations active in e-commerce and telephony, set up offices in Luxembourg, mainly to benefit from the advantageous VAT rate on invoicing (standard rate of 15%, the lowest in the EU 27 with Cyprus). There are now 14 companies active in this sector in Luxembourg, accounting for more than 400 jobs.

The difficult economic climate in 2009 does not appear to have caused too much damage to these companies' results in terms of exports (up 15% compared to 2008). VAT receipts in this sector rose almost 7%.

A detailed analysis of these trends and of all exchanges of goods and services in 2009 will be provided in the upcoming STATEC Bulletin No. 2-2010.

Statistics table

	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09	Dec-09	Jan-10	Feb-10	Mar-10	Apr-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	-20.2	-8.8	-4.3	0.7	14.2	8.6	12.7	...	...	11.7	-24.3
Construction output per working day, in volume	10.8	4.3	1.3	3.9	4.3	0.2	-2.6	-3.7	...	...	-2.1	-1.4
Turnover by volume of total retail trade	-1.8	-3.9	-4.7	-0.4	3.3	5.2	-1.6	1.3	...	...	2.0	-3.7
Prices, wages												
Consumer price index (IPCN)	-0.7	0.2	0.0	0.1	1.3	1.8	2.1	1.5	2.3	2.3	2.0	0.6
Underlying inflation	2.0	2.1	2.0	1.9	1.9	1.8	1.2	0.9	1.2	1.0	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	20.7	15.7	-21.3
Industrial producer price index	-13.8	-13.3	-14.0	-13.4	-10.8	-9.9	-8.1	-6.4	-4.0	...	-6.2	0.8
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)	-13.6	-10.4	9.6	-5.2	11.5	19.3	12.7	23.8	19.1	...	18.6	-23.5
Imports of goods (volume)	-19.1	-12.0	-9.1	-6.5	-7.6	4.8	8.8	8.8	6.8	...	8.1	-0.5
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	0.5	0.5	2.2
National employment (IGSS)	1.1	0.8	0.7	0.8	0.9	0.9	0.9	0.9	1.0	0.9	0.9	1.7
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	6.0	5.4

Sources: STATEC

Data grey coloured are estimates

¹ Estimations based on half-yearly data

Indicators

	Variation on previous quarter in %					
	2008 Q4	2009 Q1	2009 Q2	2009 Q3	2009 Q4	2010 Q1
Eurozone- Growth in volume of GDP (European Commission)	-1.9	-2.5	-0.1	0.4	0.0	0.2
Luxembourg - Growth in volume of GDP (STATEC)	-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 (01/01/2010): 502 066						
Consumer price index (April 2010) – base January 1 st 1948: 757.60						
Half-yearly average of the index linked to base as at January 1 st 1948: 750.71						
Estimated deadline for next salary indexation: 3 rd quarter of 2010						

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