

June 2010

# conjoncture flash

Monthly publication of the state of the  
Luxembourg economy

## Gradual recovery in activity

Although the European economic environment has become somewhat gloomier since the explosion of the Greek crisis, the Luxembourg economy is set to grow 3% in 2010 and 2011. The outlook for exports has improved and export outlets are the main cause of the slight, gradual recovery in Luxembourg. STATEC forecasts a 4% rise in exports for 2010 as a whole, which will not however be enough to offset the 7.6% fall in 2009, partly due to expected weakness in exports of services.

In contrast, domestic demand (private and public consumption and investments) are set to remain lacklustre, for a variety of reasons. These include low disposable household income, under-use of production capacities which is weighing on investment and the government's resolve to control spending. In all, domestic demand is set to grow 3% in 2010 and 2% in 2011, compared to average growth of 4% per year since 1985.

Up till now, the labour market has held up well and registered unemployment levelled off during the 3<sup>rd</sup> quarter of 2009. This is due to activity falling more sharply than expected, increasing numbers of job seekers in job schemes, recourse to partial unemployment and the fact that employment fell furthest in those sectors with a higher proportion of cross-border workers, thus sparing resident workers.

The improvement in the labour market is set to continue and STATEC forecasts a 0.6% rise in domestic employment in 2010 and 1.1% in 2011. Unemployment is expected to continue to rise slightly, from 6.0% in 2010 (as an annual average) to 6.3% in 2011, as many factors underlying the current improvement are only temporary.

Macro-economic trends 2009-2011

	2009	2010	2011
	In %		
GDP (in vol.)	-3.4	3.0	3.0
Total domestic employment	1.1	0.6	1.1
Unemployment rate (% of working pop.)	5.7	6.0	6.3
National consumer price index (NCPI)	0.4	2.1	1.6
Average nominal wage cost	1.7	2.9	2.0

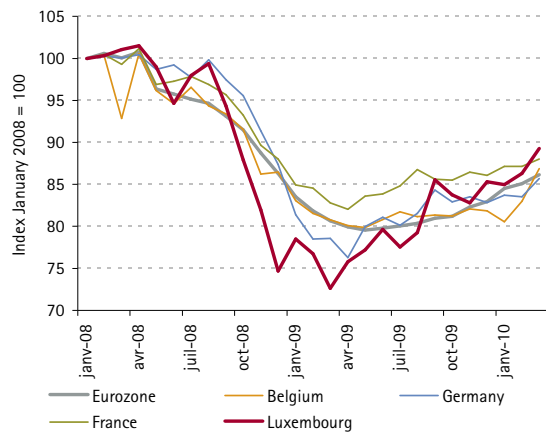
Source: STATEC (2009: observations, 2010-2011: forecasts)

Inflationary tension is currently low, as is underlying inflation, which has been stable at about 1% since the start of the year, a level last seen between 1996 and 1999, when a barrel of oil cost USD 15. This trend for moderate inflation is set to continue into 2011 at least if oil remains at its current price of about USD 80 per barrel and the euro does not depreciate any further. The general inflation rate is expected to be about 2.1% in 2010 and 1.6% in 2011, while underlying inflation is set to stabilise at about 1.5% in 2010 and 2011. This relatively low level of inflation partly depends on restricted wage increases due to unemployment, which is set to remain high, and more generally by significant under-use of production capacities. If these hypotheses hold up and all other things remain equal, the next wage adjustment – after the indexation due this summer – will not happen before 2012 at the earliest.

**statec**  
L U X E M B O U R G

## Manufacturing

Trends in industrial output since 2008



Source: Eurostat

## A significant rally – after a sharp fall

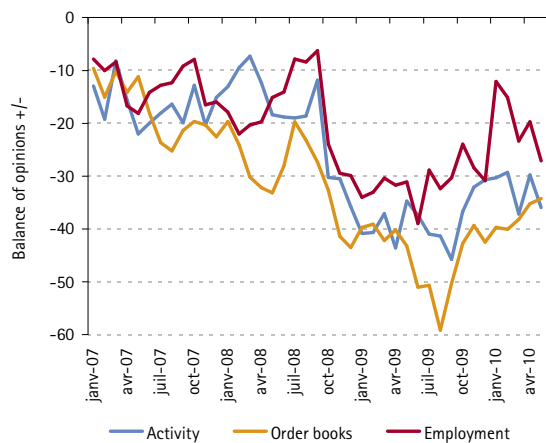
Industrial output fell significantly between 2008 and 2009, a trend that was observed both in Luxembourg and elsewhere in Europe. This downward trend was also one of the main reasons for the fall recorded in Luxembourg, which exports a large proportion of its products (mainly intermediate goods) to other European industries.

Compared to the eurozone average, output in Luxembourg fell earlier and much more significantly. However, the recovery also proved stronger from the summer of 2009 onward.

Over the 1st quarter of 2010, Luxembourg output rose almost 15% over one year, the best result (just behind Slovenia) recorded in the eurozone, where output rose just 4% over the same period.

## Construction

Economic survey on construction



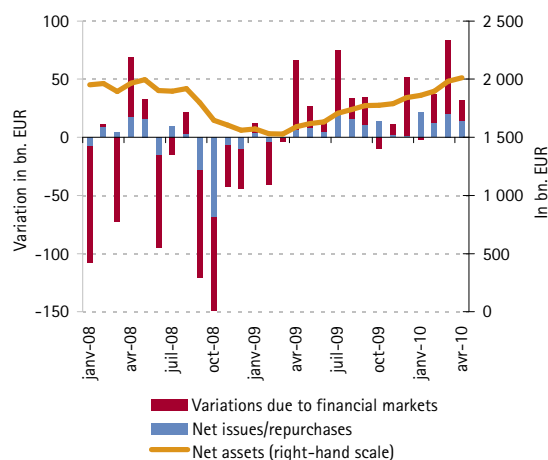
Source: STATEC (seasonally adjusted data)

## Measured optimism

Luxembourg construction companies have shown renewed optimism since the autumn of 2009. After a difficult start to the year in 2009, the opinions of construction businesses on activity, orders and employment prospects started to pick up. Nevertheless, the data for the first few months of 2010 (the latest survey dates from May 2010) shows that growth has levelled off somewhat, a sign that the sector is not heading for a boom in activity such as was witnessed up to early 2008. Opinions on the order books remained favourable, but only 3% of businesses deemed that orders were high (with 63% stating they were normal and 34% insufficient). Further, 33% of business leaders surveyed thought that their activity was restricted by insufficient demand, compared to almost 50% at the end of 2009.

## Financial sector

Trends in net UCI assets



Source: CSSF

## A symbolic rise

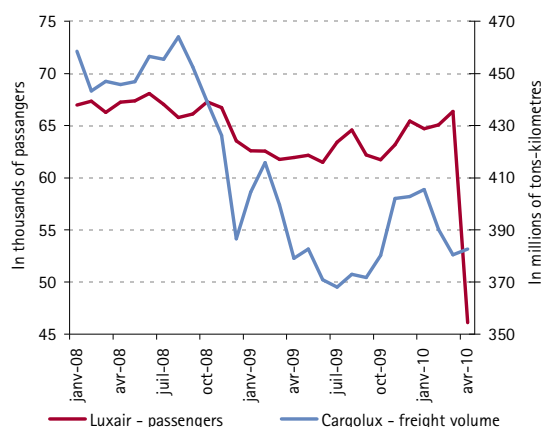
In April 2010, net assets of Luxembourg undertakings for collective investment (UCIs) exceeded EUR 2,000 billion, a level not seen since December 2007.

Assets have risen for the 13th month in a row, but the rise in April was a little less vigorous than in previous months. This was directly linked to trends in the financial markets (up EUR 18 billion in April, compared to a rise of EUR 63 billion in March) and assets suffered in particular from the fall in stock market indices (particularly in Europe) at the end of the month. Given the market trends in May, it is reasonable to assume that the impact on the next set of UCI statistics will be negative.

New capital (issues less net repurchases) rose to EUR 18 billion, a little below the trend observed during the 1st quarter of 2010 (when it rose 18 billion per month on average).

## Transport

Air transport indicators



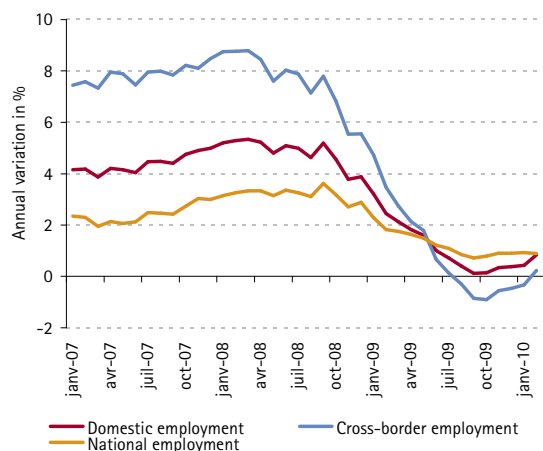
Sources: AEA, STATEC (seasonally adjusted data)

## Overcast skies in April

The national airlines started to grow again in late 2009. The summer period had already seen a recovery in terms of passenger transport but it wasn't until the 4th quarter that growth returned to the whole sector, as it did elsewhere in Europe. Unfortunately, the cyclical recovery observed up to March 2010 deteriorated in April due to the volcanic eruption in Iceland, which significantly disrupted European air traffic in the 2nd half of the month. Passenger numbers for European airlines as a whole fell 15% compared to April 2009 (Luxair fell 23%). Cargolux, which operates on a global scale and therefore also outside the European area, does not seem to have suffered to the same extent in April, although its performance – after an already disappointing result in March – remained modest.

## Labour market

Employment trends



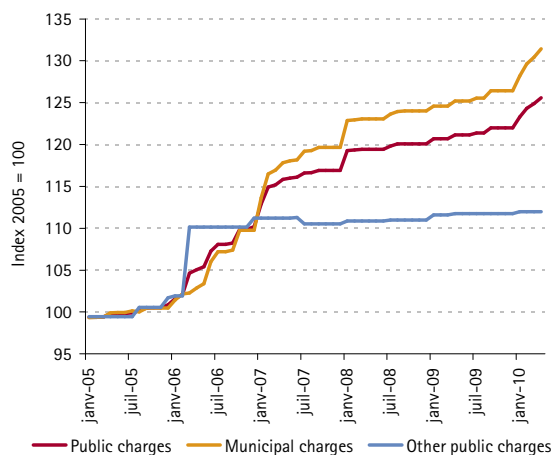
Source: IGSS, STATEC (last month: February 2010)

## Cross-border employment expected to rise

Domestic employment has been recovering since late 2009, from a low point at the end of the 3rd quarter of 2009, expressed as an annual variation. Cross-border employment, which is much more dynamic than national employment during boom periods, was, however much harder hit by the economic crisis, slowing significantly from the end of 2008 and even declining in the 2nd half of 2009. While national employment (i.e. employment of Luxembourg residents) is less affected by cyclical fluctuations – due to the higher proportion of workers in non-competitive sectors – it is not completely immune and the economic crisis indubitably slowed growth in this area as well, with growth of just 1.3% in 2009 compared to 3.2% in 2008. For these reasons, if the recovery noted in early 2010 is confirmed, cross-border employment should grow more quickly than national employment.

## Inflation – wages

Trends in administered prices



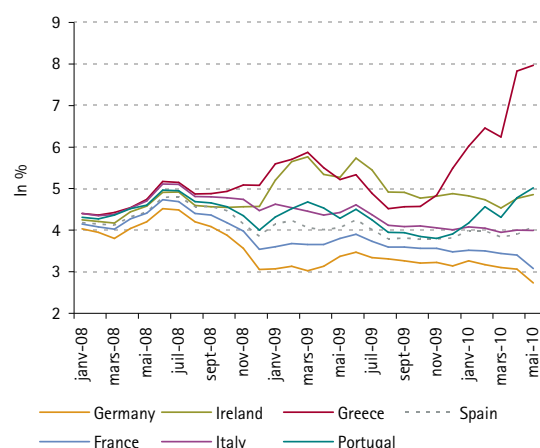
Source: STATEC

## Public charges recover

Public charges rose only 1.4% in 2009, after rising 3.2% in 2008. This slowdown was mainly due to a slowdown in several charges levied by local authorities. Increases in charges for water supply, waste collection and used water recovery in particular were much lower than in previous years. Moreover, the increases were not all concentrated at the start of the year. In early 2010, the opposite happened, with significant increases for water-related services for domestic use (water supply and used water recovery) and prices for theatres, concerts, museums, libraries, etc. Over the first 4 months of 2010, public charges grew in all by more than 3% over one year, much more than underlying inflation and also more than general inflation.

## International

### Long-term interest rates



Source: European Central Bank

## Worries over European indebtedness

As the summer approaches, many questions have been raised about the sustainability of the public debt of some European states, such as Greece, Ireland, Spain and Portugal. The depreciation of the euro, the fall in equity markets in April and rising interest rates on public debt securities (see graph opposite) for states in difficulty appear to be the main symptoms of this crisis. The EUR 750 billion European bailout package adopted in May to address this crisis requires more stringent budgetary measures in return, which some states have already adopted by curbing expenditure. While these measures to reduce public spending are aimed at restoring market confidence, which would stimulate economic growth (investors prefer a stable financial environment), they may also weigh on key features of domestic demand such as consumption and investment, which would work against economic growth.

## Statistics table

	Sep-09	Oct-09	Nov-09	Dec-09	Jan-10	Feb-10	Mar-10	Apr-10	May-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	-8.8	-4.2	0.7	14.1	8.6	12.6	22.7	...	...	14.6	-24.7
Construction output per working day, in volume	1.3	4.0	4.3	0.2	-3.2	-5.2	3.5	...	...	-1.3	0.6
Turnover by volume of total retail trade	-4.7	-0.4	3.3	5.2	-1.6	1.3	...	...	...	2.0	-3.7
<b>Prices, wages</b>											
Consumer price index (IPCN)	0.0	0.1	1.3	1.8	2.1	1.5	2.3	2.3	2.4	2.3	0.1
Underlying inflation	2.0	1.9	1.9	1.8	1.2	0.9	1.2	1.0	1.0	1.1	2.2
Oil product index	-22.2	-20.9	-6.5	2.5	14.9	9.6	17.0	20.7	20.7	19.5	-24.4
Industrial producer price index	-14.0	-13.4	-10.8	-9.9	-7.9	-6.2	-3.9	1.5	...	-2.9	-1.8
Construction price index <sup>1</sup>	1.1	0.5	0.5	0.5	...	...	...	...	...	0.5	3.3
Average wage bill, per person (National accounts)	1.5	3.2	3.2	3.2	...	...	...	...	...	3.2	1.4
<b>Foreign trade</b>											
Exports of goods (volume)	9.6	-5.2	11.5	19.3	12.7	23.8	19.1	...	...	18.6	-23.5
Imports of goods (volume)	-9.1	-6.5	-7.6	4.8	8.8	8.8	6.8	...	...	8.1	-0.5
<b>Employment, unemployment</b>											
Domestic number of employees (IGSS)	0.0	0.0	0.2	0.3	0.3	0.7	0.7	0.7	1.0	0.8	1.9
National employment (IGSS)	0.7	0.8	0.9	0.9	0.9	1.2	1.0	0.8	1.1	1.0	1.6
Unemployment rate (% of working population, seas. adj.)	5.9	5.9	5.9	6.0	5.9	6.0	6.0	6.0	6.0	6.0	5.5

Sources: STATEC

Data grey coloured are estimates

<sup>1</sup> 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	3.0	3.0	
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 <sup>th</sup> quarter): EUR 604 million						
Resident population (01/01/2010): 502 066						
Consumer price index (April 2010) - base January 1 <sup>st</sup> 1948: 759.03						
Half-yearly average of the index linked to base as at January 1 <sup>st</sup> 1948: 752.31						
Estimated deadline for next salary indexation: 3 <sup>rd</sup> quarter of 2010						

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