

July 2010

conjoncture flash

A laboured recovery

With a drop of 0.3% over one quarter and an increase of 2.9% over one year, GDP for the first quarter of 2010 confirms the modest nature of the economic recovery in place since mid-2009.

This is shown in the latest version of the quarterly national accounts, published on 16 July 2010, which show a more marked recession for 2009 than was originally estimated, with -4.1% instead of -3.4%. From a statistical point of view, this revised figure falls within a margin which is far from exceptional for Luxembourg and does not modify the economic prognosis: a large-scale economic crisis, as observed in all countries in the eurozone.

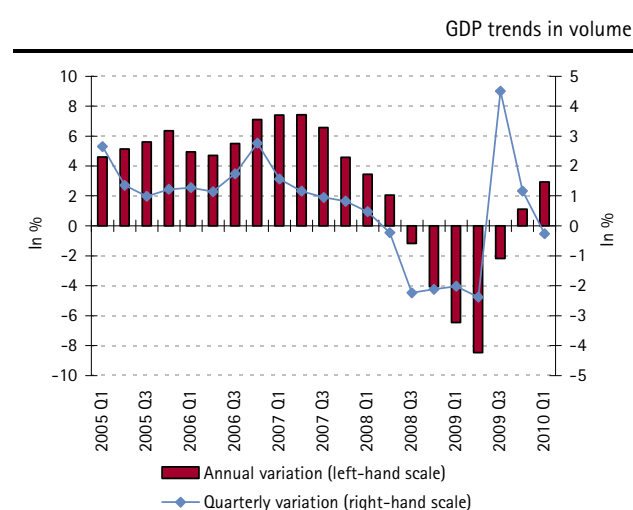
As regards the momentum of recovery, which can be identified from the seasonally adjusted quarterly GDP trends, this appears more balanced between the third and fourth quarters of 2009: GDP is now showing an upward trend in the fourth quarter (+1.2%), as against a drop of 0.2% in the previous version. For the first quarter of 2010 it fell slightly (by -0.3%), not enough to call into question the momentum of recovery, but sufficiently to confirm that said momentum remains moderate.

As regards activity by sector, the trend in financial services is relatively disappointing, with a drop in value-added volume over two consecutive quarters. The services to companies sector is, however, faring better.

Manufacturing, as linked to the positive trend of activity surveys, has also contributed to the recovery of GDP over recent quarters (the slight drop in Q4 of 2009 is not too worrying, given that recovery was significant in Q3 of the same year). Manufacturing activity should continue to remain dynamic given the favourable nature of orders at European level.

In terms of spending, it was the foreign component (exports less imports) that was mainly responsible for the drop in GDP in the first quarter, with a relatively high deficit in terms of trade in goods: this movement can be explained above all, however, by non-monetary gold transactions.

Monthly publication of the state of the Luxembourg economy



Source: STATEC (national accounts)

Household consumption and investment and stocks have, however, boosted GDP, which is much more significant – and reassuring – from an economic point of view.

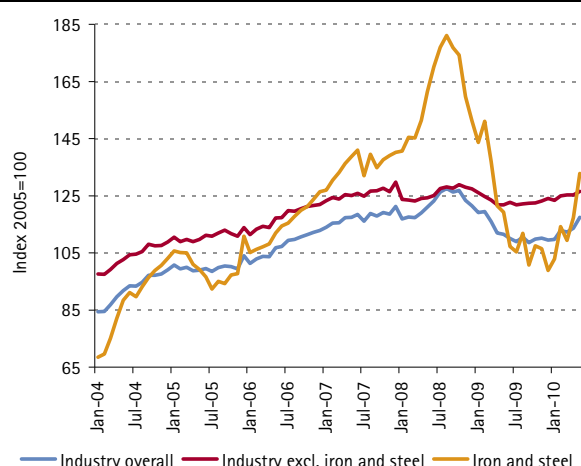
It is likely that GDP for the second quarter of 2010 will show growth of more than 3% over one year, and in any case a relatively high result. As activity reached a low in the second quarter of 2009, the data will benefit from a maximum positive trend. In addition to this technical effect, the partial economic data available point to a relatively favourable economic climate.

Finally, it should be pointed out that the GDP adjustment for 2009 is not without consequence for growth acquisition¹ for 2010, as this rises from 1.8% to 2.3%.

¹ Growth acquisition of a variable for a year t corresponds to the rate of growth of the variable between the year t-1 and the year t, which would be obtained if the variable remained at the level of the latest available quarter until the end of year t.

Manufacturing

Prices of industrial products



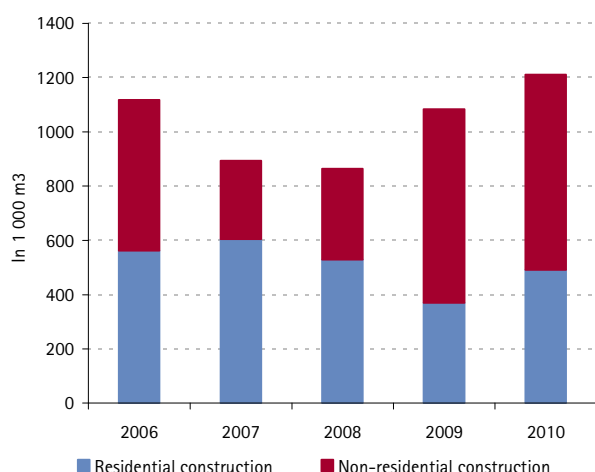
Source: STATEC

Rise in prices linked to iron and steel

Manufacturing output prices have been on the rise since the beginning of 2010. In Luxembourg, they rose by about 7% between December 2009 and May 2010, as against approximately 3% for all the countries in the eurozone. This relatively high rise recorded in Luxembourg can be explained mainly by the rise in prices of products from the iron and steel sector: + 34% over the same period (as against just 2% for other industrial products). This significant growth in iron and steel prices does not appear to be worrisome in terms of competitiveness: over recent years, a significantly positive link between prices paid and output volume in this area of activity has been noted. Furthermore, orders in the iron and steel sector rose significantly in March and April 2010. As iron and steel represents more or less 20% of Luxembourg industrial output, this is a very positive sign for the sector as a whole.

Construction

Planning permissions - construction volume in Q1



Source: STATEC

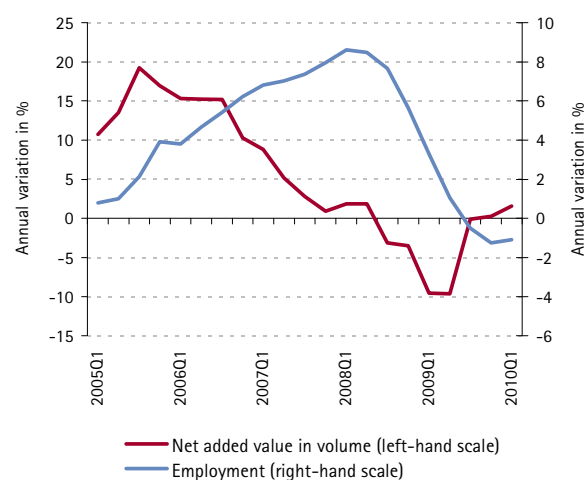
Planning permission: a satisfactory first quarter

The volume of construction projects in relation to planning permits fell by nearly 12% in 2009. In the residential sector (i.e. for housing projects), the volume was down over two consecutive years (-23% in 2008 and -9% in 2009).

Data for the first quarter of 2010 are more reassuring, with a marked recovery in the residential sector and a volume comparable to that of the first quarter of 2009 (which was fairly high) for the non-residential part. In total, the authorised volume exceeds that of the first quarter of last year by about 10%. It is difficult to say whether this trend will span the whole of 2010, but the result for Luxembourg in the first quarter appears, at any rate, relatively favourable in comparison with the rest of Europe (-20% over one year in the eurozone, including -3% for Germany and -11% for Belgium).

Financial sector

Added value and employment in the financial sector



Source: STATEC (national accounts)

Limited employment perspectives

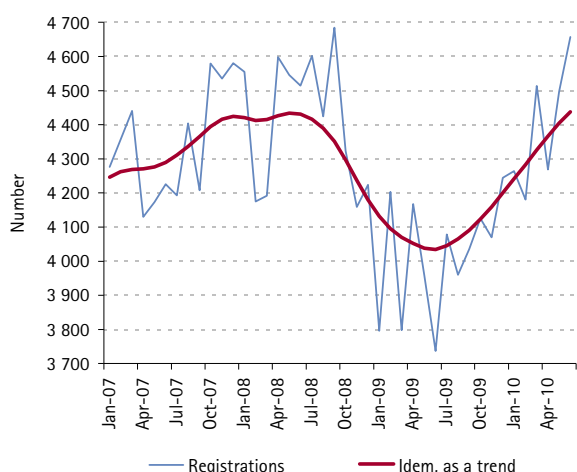
Although value added in the financial sector had already been slowing down significantly since the beginning of 2007, employment in the sector continued to grow steadily until 2008. It was only really from the beginning of 2009 that the sector began to make changes in the numbers employed.

In terms of value added, the financial sector certainly seems to have got through the worst of the crisis after the second quarter of 2009, but the growth rate has been relatively low at the beginning of 2010 – in particular as regards credit establishments – and is therefore unlikely to boost employment in the short term.

The number of people employed in the financial sector was just over 41,000 at the beginning of 2010, representing almost 12% of total domestic employment. As a sign of the difficulties affecting the sector, this proportion has been gradually falling over the past 4 quarters.

Consumption

New car registrations



Source: STATEC (seasonally adjusted data)

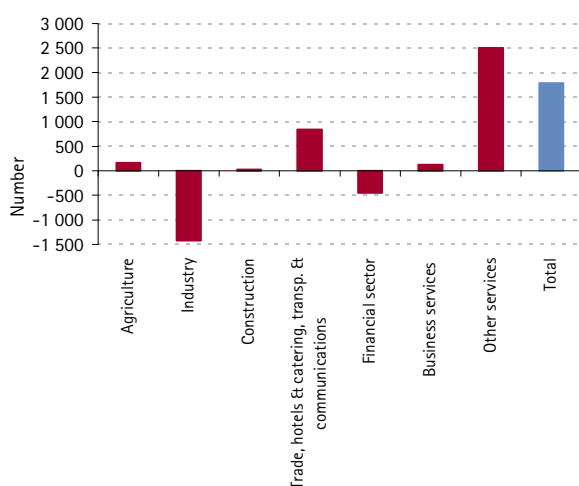
Positive signs for car registrations

New private car registrations dropped by approximately 10% in 2009. Car sales have been on the rise, however, since the end of 2009, a trend largely confirmed by the results of the second quarter of 2010. These results show a gradual return towards the levels reached in 2008 – which was a very good year in terms of registrations. During the first half of 2010, registrations were up by 12% in relation to last year, compared to a drop of 1% in the eurozone. It should be pointed out that this European result stems from very variable trends, mainly in accordance with national programmes of exceptional support measures for the purchase of new vehicles.

Getting back to Luxembourg, the trend seen in registrations is a very positive sign for household consumption in the second quarter (and for companies in the automotive sector).

Labour market

Trends in paid employment between Q1 in 2009 and 2010



Source: STATEC (national accounts)

Low and disparate growth in employment

Domestic paid employment concerned 332,500 people in the first quarter of 2010. Compared to the first quarter of 2009, the number of people employed has increased by 0.5% over 1 year, or 1,786 additional people. Paid employment seems to be picking up (growth was 0.0% over one year in the fourth quarter of 2009), but this rate still remains extremely low in relation to the historical average (+3.8% over the past 10 years).

These net 1,786 new jobs created (creations less job cuts) are mainly in the 'Other services' sector (see graph), which includes a large number of activities in the non-competitive sector (administration, health services, etc.). Growth has been much less favourable in other sectors, particularly in manufacturing and the financial sector, which have been the worst hit by the economic crisis.

Inflation – wages

Prices of food products and non-alcoholic beverages



Source: STATEC

Food prices relatively steady

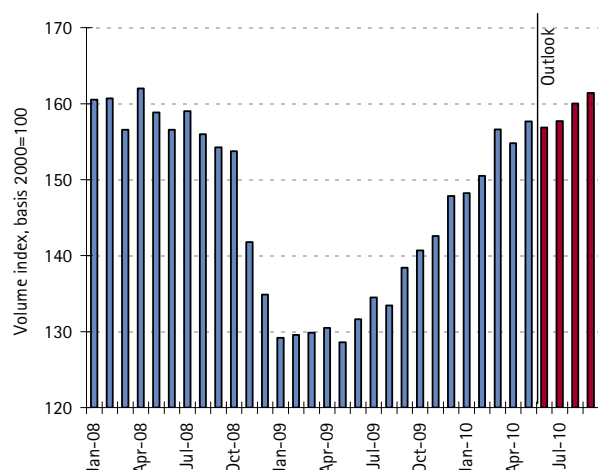
After having risen very sharply between 2006 and 2008, food product prices more or less stabilised in 2009.

However, a slight progression has been noted since March. This is mainly due to the 'non-alcoholic beverages' component (+2.8% over one year in June, as against just +0.5% for purely food products) with relatively high rises in mineral waters (+3.4% over the same period) and non-mineral carbonated drinks (+3.4%).

Over one year, the other products for which sharp rises have been noted in June are fish and seafood (approximately +6%), sauces and condiments (+6%), and eggs and animal fats (+4%). On the other hand, vegetable oils have shown a marked fall over the same period (-4%), as have frozen vegetables, ovine and caprine meat products (-6%), ice cream and fresh fruit (-4%), and potatoes (-3%).

Foreign trade

Trends and outlook for global trade



Source: Centraal Planbureau (www.cpb.nl)

Trade on the right track

After falling in April, the volume of global trade picked up somewhat in May (+1.8% over one month), according to the statistics generated by the Centraal Planbureau néerlandais (CPB). The rise in May can be attributed almost entirely to the advanced economies, in particular Japan and the United States.

Global trade has returned slowly but surely to its level at the start of 2008, but this recovery is largely due to the emerging economies of Asia and Latin America.

According to the CPB forecasts, partial data for June suggests a new dip in trade, though this should not stifle the growth trend which is expected to prevail for the whole of the 3rd quarter of 2010. This trend will, however, be less marked than in the preceding quarters.

Statistics table

	Oct-09	Nov-09	Dec-09	Jan-10	Feb-10	Mar-10	Apr-10	May-10	Jun-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	-4.3	1.2	14.7	10.2	14.6	21.9	27.1	...	...	21.3	-26.1
Construction output per working day, in volume	4.0	4.3	0.2	-3.2	-5.5	4.0	0.5	...	...	-0.1	0.0
Turnover by volume of total retail trade	-0.4	3.3	5.4	-2.1	2.2	5.7	1.0	...	...	2.9	-4.9
Prices, wages											
Consumer price index (IPCN)	0.1	1.3	1.8	2.1	1.5	2.3	2.3	2.4	1.9	2.2	-0.1
Underlying inflation	1.9	1.9	1.8	1.2	0.9	1.2	1.0	1.0	1.1	1.0	2.2
Oil product index	-20.9	-6.5	2.5	14.9	9.6	17.0	20.7	20.7	12.6	17.9	-25.8
Industrial producer price index	-13.4	-10.8	-9.9	-7.9	-5.5	-3.2	1.6	5.3	...	1.2	-5.0
Construction price index ¹	1.1	1.1	1.1	0.4	0.4	0.4	...	...	...	0.4	2.5
Average wage bill, per person (National accounts)	2.5	2.5	2.5	1.2	1.2	1.2	...	...	...	1.2	0.8
Foreign trade											
Exports of goods (volume)	-5.2	11.3	19.1	12.0	20.3	21.6	19.3	25.1	...	22.0	-21.1
Imports of goods (volume)	-6.9	-7.8	4.1	7.2	7.0	13.7	16.2	31.7	...	15.3	-0.6
Employment, unemployment											
Domestic number of employees (IGSS)	0.0	0.2	0.3	0.3	0.7	1.0	1.0	1.3	1.5	1.3	1.5
National employment (IGSS)	0.8	0.9	0.9	0.9	1.2	1.5	1.2	1.6	1.8	1.5	1.4
Unemployment rate (% of working population, seas. adj.)	5.9	5.9	6.0	5.9	6.0	6.0	6.0	6.0	6.1	6.0	5.7

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	0.1	0.2
Luxembourg - Growth in volume of GDP (STATEC)	-2.1	-2.0	-2.4	4.5	1.2	-0.3
	Annual variation in %					
	2007	2008	2009	Forecast 2010	Forecast 2011	
Luxembourg - Growth in volume of GDP (STATEC)	6.5	0.0	-4.1	3.0	3.0	
GDP at current prices for 2009: EUR 37 645 million						
Minimum monthly salary (since 01/07/2010: EUR 1 724.81)						
Current account balance (2010 - 1st quarter): EUR 1 858 million						
Resident population (01/01/2010): 502 066						
Consumer price index (June 2010) - base January 1 st 1948 : 758.75						
Half-yearly average of the index linked to base as of 1 January 1948 : 754.03						
Estimated deadline for next salary indexation: 1st quarter of 2012						

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