

August 2010

conjoncture flash

Surprising pick-up of eurozone GDP

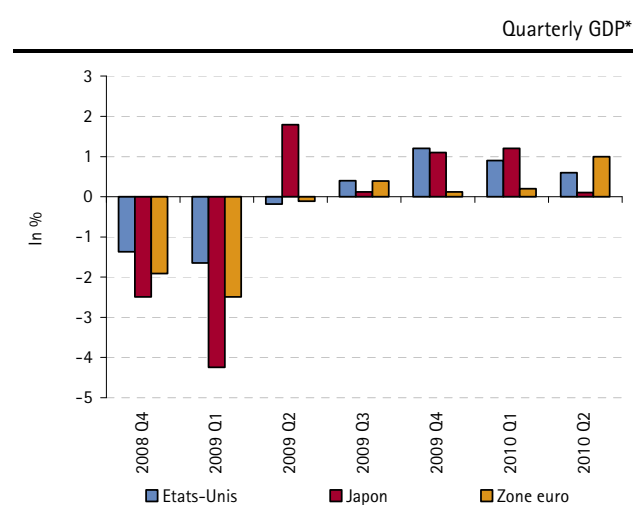
In the eurozone, growth clearly accelerated in the second quarter, reaching 1.0% (with respect to the previous quarter, seasonally adjusted figures), following rather unremarkable rises over the two previous quarters (see graph). However, this surprising performance is only a partial recovery in relation to the other members of the triad that came out of recession earlier (Japan) and more markedly (USA). US and Japanese growth slowed in the second quarter, finishing below that of the eurozone (+0.6% for the US and +0.1% for Japan).

Germany showed unprecedented dynamism with a (quarterly!) rise in GDP of 2.2%, but this was an isolated case. Among the other big eurozone countries, only France showed significant growth, which moved from 0.2% in Q1 to 0.6% in Q2. Other countries' growth rates were either appreciable (Italy: +0.4%) or disappointing (Spain: +0.2%), though close to growth rates of the previous quarters. On the other hand, the United Kingdom seemed to be on the right track with a rise of 1.1%.

The Federal Statistical Office of Germany will only publish Q2 account details on 24 August. One can only speculate on the source of the German recovery, but healthy foreign trade (around +13% cumulatively and by volume since the start of the year) and the near-stagnation of retail trade leave no doubt: growth has been stimulated by foreign trade. Data published on 24 August will show whether capital creation grew again, after the marked falls of the previous quarters.

The French INSEE has already published an initial estimation of GDP breakdown for the second quarter, and these figures are rather encouraging as business investment has begun to increase again. France's decreasing performance is due to a downturn in foreign trade.

Monthly publication of the state of the Luxembourg economy



* Trends in seasonally adjusted data compared to the previous quarter

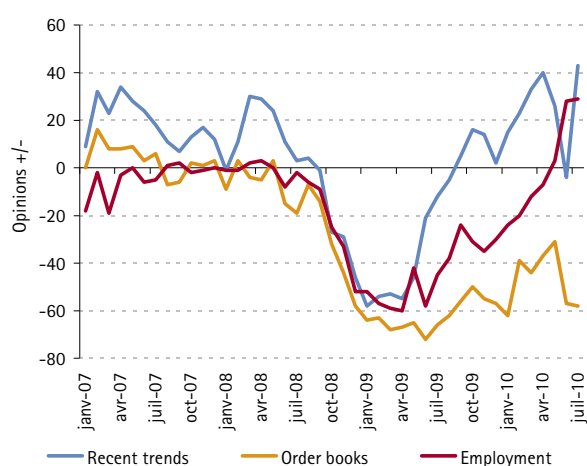
Source: Eurostat

A roller coaster ride?

The sharp rise in eurozone GDP means that the forecast for the year as a whole needs to be revised. If GDP remained at Q2 levels, the rise, as an annual average, or as growth acquisition, would be around 1.2%. But as we have good reason to expect growth to continue during the second half of the year, a 1.5% performance for the eurozone becomes a possibility. On the other hand, some signs lead one to be cautious, namely the progressive withdrawal of public stimulus measures, the slowing of international trade, and the lack of dynamism of domestic demand (at least up until now), in particular of private consumption. It is also envisageable that performance will be poor in the third and fourth quarters, in which case results for the second quarter would be an anomaly, a third-quarter figure of close to zero becoming possible due to a backfire effect.

Manufacturing

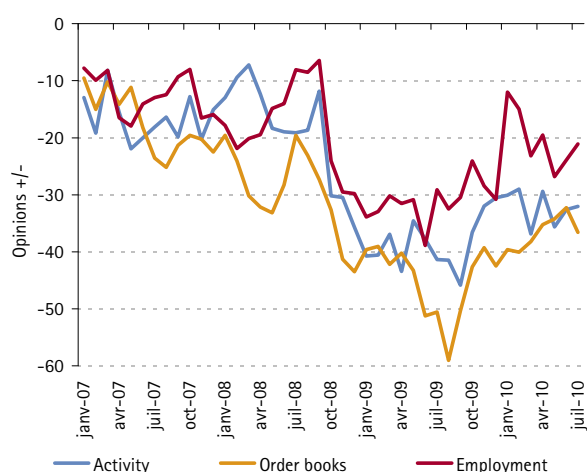
Economic survey on manufacturing



Source: STATEC (seasonally adjusted data)

Construction

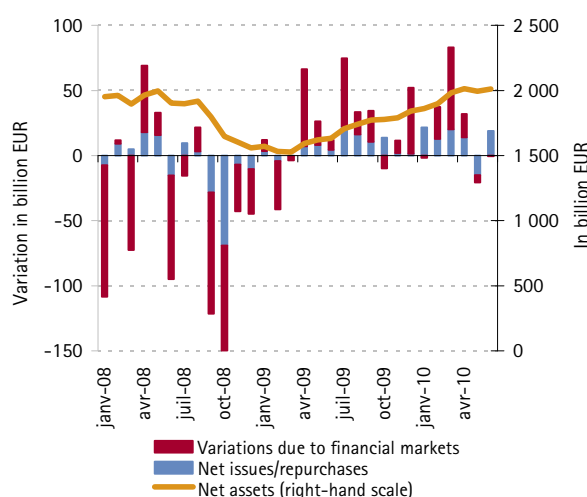
Economic survey on construction



Source: STATEC (seasonally adjusted data)

Financial sector

Variations in UCI net assets



Source: CSSF

Production growth likely to slow

Over the 5 first months of the year, industrial production showed an increase of almost 20% compared with 2009 (+40% for the iron and steel industry and +15% for the other industries). Opinion polls for June and July remain more or less positive, but perhaps also reveal glimpses of a slowing of the recovery dynamic which has been evident since mid-2009. Opinions about recent production trends were clearly negative in June, in particular in the metals sector but also in most other industrial sectors, but the mood was positive again in July. On the other hand, this recovery is not evident in the mood regarding order books, which also fell back in June. Though these signals indicate a more moderate increase in activity, this is likely to be fruitful in terms of jobs (see graph opposite). This is also the message given by various advanced indicators of European industry, which have increasingly stabilised since May.

Positive trend

At the start of 2010 (January to May), production in the construction industry posted a slight rise (+0.5%) with respect to the previous year. Results for the summer period should be relatively good compared with those of the previous year. According to the economic survey (see graph opposite), opinions of professionals in the sector were relatively positive at the end of July. Moreover, they reached a low point regarding the majority of elements (activity, order books, etc.) during the third quarter of 2009, which is likely to create a basically positive effect on third-quarter production results.

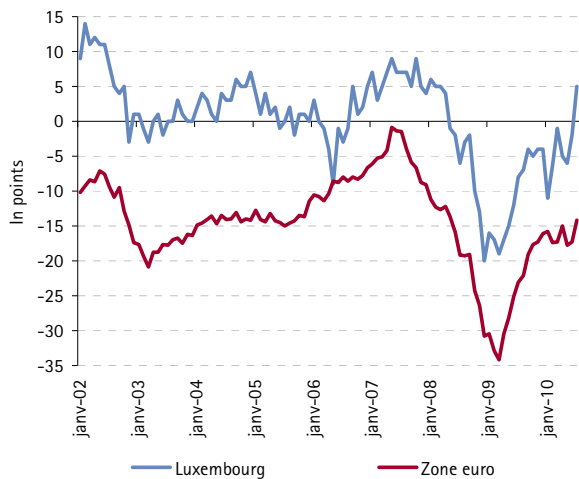
Across the eurozone as a whole, the construction industry still seems depressed: over the first 5 months of 2010, production fell by 8% over one year (the most affected were Spain and Holland).

UCITS remain on course

After falling in May, the net assets of Luxembourg UCITS grew again in June and rose above the EUR 2 billion mark. The effect of the financial markets on overall assets was still negative: May and June were affected by the unsettled stock-market climate, linked in particular to concerns over the debt level of several European States. These concerns seem to have been allayed in the past weeks, as publication of the results of the stress tests on European banks has apparently reassured investors, which bodes well for the results of July and August. Net inflows of capital (issues less redemptions of units) recovered well in June: rising by EUR 19 billion, as opposed to a fall of around EUR 15 billion in May, they returned to the relatively high growth rate they posted during the first quarter of 2010.

Consumption

Consumer confidence indicator



Sources: BCL, Eurostat

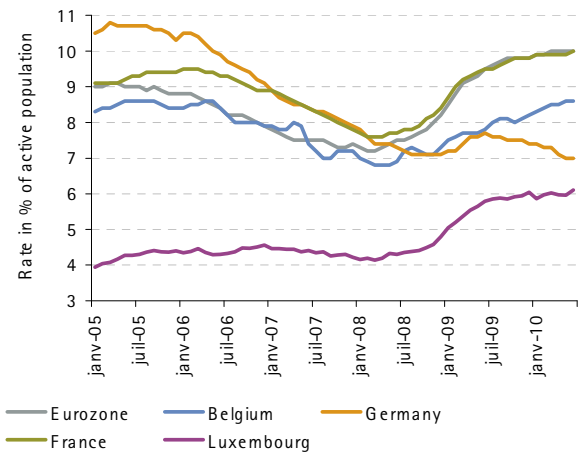
Consumers confident about the recovery

Consumer confidence increased significantly in July, by at least 7 points. Though a part of this increase is due to the marked rise in expectations about the ability to save – a volatile variable and not particularly significant (as there is no clear trend) – consumers undeniably see the economic situation picking up: regarding both the general economic situation and unemployment, expectations point clearly to improvement. With respect to their own financial situation, the trend in opinion is also positive, after a significant fall in April and May.

The recovery in consumer confidence, noticeable since mid-2009, reflects that of turnover figures for retail trade (excluding fuels and distance sales): the latter posted an increase in volume of 1.7% over one year from January to April 2010.

Labour market

Unemployment trends in Europe



Sources: Eurostat, STATEC (Luxembourg)

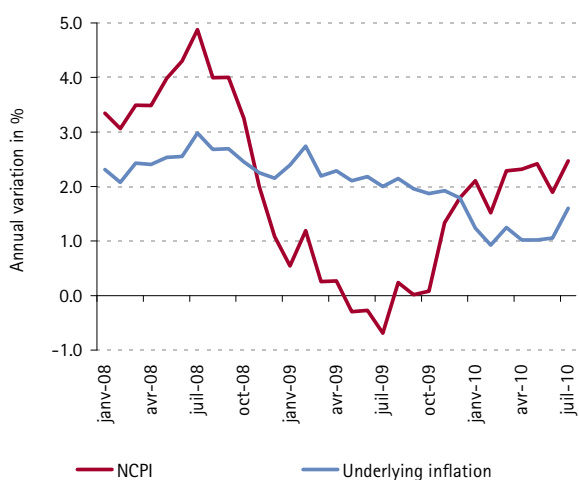
Unemployment in Europe reaches its upper limit

Over past months, the unemployment rate (seasonally adjusted data) has remained practically unchanged in Europe. Since March, it has remained at 10%, which is nevertheless a 12-year record level. Furthermore, the fall is far from being of the same order in different countries (see graph opposite). The stabilisation of the figures in Europe is in fact mainly due to a fall in unemployment in Germany. The latter, along with Austria, Malta and Finland, is the only country in the eurozone which has experienced a significant fall in unemployment since the beginning of 2010.

In Luxembourg, the registered unemployment rate continues to increase, but only slightly. In July it was 6.1%, compared with 5.9% at the start of the year. On the other hand, employment figures were pleasantly surprising, reaching 2.3% in July, over one year. This rise is shared more or less equally between cross-border workers and residents.

Inflation – wages

General and underlying inflation



Source: STATEC

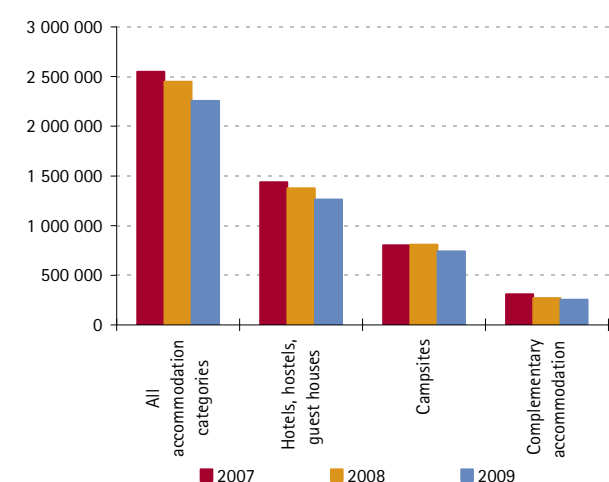
Rise in the underlying inflation rate

Consumer prices fell by 0.33% in July, compared with June. This fall mainly reflects downward pressure resulting from the sales, which has been slightly less marked than last year. The year-on-year inflation rate has climbed to 2.5%, compared with 1.9% in June, reaching its highest level since October 2008.

The underlying inflation rate (excluding energy), stable at a very low level since the start of 2010 (around 1%), has jumped to 1.6%. This movement is mainly due to price rises in the service sector. On the one hand, certain prices that usually react to the automatic wage indexation (this occurred in July) were adjusted: this mainly concerned retirement homes and care (+2.5% compared to June), car maintenance and repair services (+1.4%), and housing (+2.2%). On the other hand, there were significant rises of nearly 10% on average which affected water bills in some localities (water supply and waste-water treatment).

Hotel and catering sector

Overnight stays according to category of accommodation



Source: STATEC

Tourism: 2009 was an unremarkable year

As the partial results for hotels, hostels and guest houses seemed to indicate, the results for the tourism sector in 2009 were very poor. Combining all tourist-accommodation categories, overnight stays were down 8% (-3% for arrivals) compared with 2008, the downturn being particularly marked in the first quarter. There was a slight recovery from the beginning of the summer, and this was more pronounced in the last quarter: from October onwards, hotel stays in Luxembourg city were clearly on the increase.

The fall in the number of overnight stays has mainly been due to their decrease in Belgium, Holland and Germany. Among eurozone countries, very significant falls in trade were experienced by tourist-accommodation providers in the States most affected by the economic crisis (around -20% for residents of Ireland and Greece). A decrease in overnight stays regarding Luxembourg residents (-6%, following a fall of 7% in 2008).

Statistics table

| | Nov-09 | Dec-09 | Jan-10 | Feb-10 | Mar-10 | Apr-10 | May-10 | Jun-10 | Jul-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 | 1.1 | 14.6 | 10.3 | 14.6 | 21.8 | 25.3 | 17.3 | ... | ... | 21.4 | -25.4 |
| Construction output per working day, in volume | 4.2 | 0.1 | -3.1 | -5.6 | 3.9 | 1.5 | 3.9 | ... | ... | 3.1 | -2.2 |
| Turnover by volume of total retail trade | 3.3 | 5.4 | -2.1 | 2.2 | 5.7 | 1.0 | ... | ... | ... | 2.9 | -4.9 |
| Prices, wages | | | | | | | | | | | |
| Consumer price index (IPCN) | 1.3 | 1.8 | 2.1 | 1.5 | 2.3 | 2.3 | 2.4 | 1.9 | 2.5 | 2.3 | -0.4 |
| Underlying inflation | 1.9 | 1.8 | 1.2 | 0.9 | 1.2 | 1.0 | 1.0 | 1.1 | 1.6 | 1.2 | 2.1 |
| Oil product index | -6.5 | 2.5 | 14.9 | 9.6 | 17.0 | 20.7 | 20.7 | 12.6 | 13.5 | 15.5 | -27.5 |
| Industrial producer price index | -10.8 | -9.9 | -8.1 | -6.4 | -4.0 | 1.5 | 5.3 | ... | ... | 0.9 | -5.0 |
| Construction price index 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 | 1.2 | 1.2 | 1.2 | ... | ... | ... | ... | 1.2 | 0.8 |
| Foreign trade | | | | | | | | | | | |
| Exports of goods (volume) | 11.3 | 19.1 | 12.0 | 20.3 | 21.6 | 19.3 | 25.1 | ... | ... | 22.0 | -21.1 |
| Imports of goods (volume) | -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) | 0.2 | 0.3 | 0.3 | 0.7 | 1.0 | 1.5 | 1.7 | 2.0 | 2.3 | 2.0 | 1.1 |
| National employment (IGSS) | 0.9 | 0.9 | 0.9 | 1.2 | 1.5 | 1.7 | 1.8 | 1.9 | 2.0 | 1.9 | 1.3 |
| Unemployment rate (% of working population, seas. adj.) | 5.9 | 6.0 | 5.9 | 6.0 | 6.0 | 6.0 | 6.0 | 6.1 | 6.1 | 6.1 | 5.8 |

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 (July 2010) - base January 1 st 1948: 756.23 | | | | | | |
| Half-yearly average of the index linked to base as at January 1 st 1948: 756.36 | | | | | | |
| Estimated deadline for next salary indexation: 1st quarter of 2012 | | | | | | |

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