

September 2010

conjoncture flash

Recent employment trends in Europe and Luxembourg

Employment stabilises in the eurozone

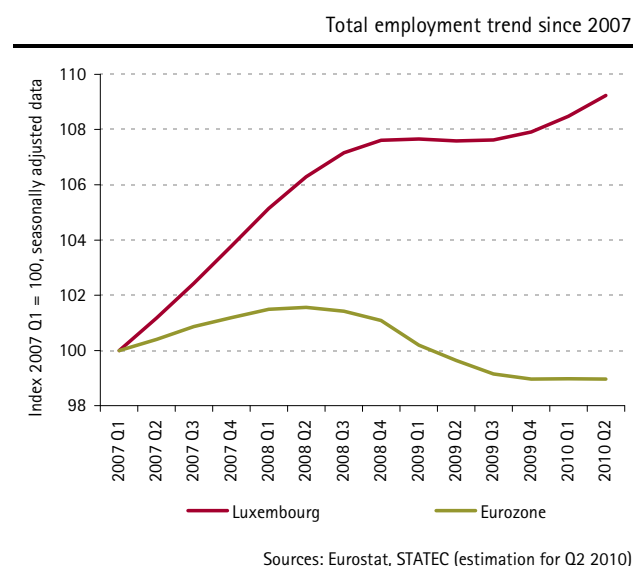
After shrinking for 6 straight quarters – from Q3 2008 to Q4 2009 – total employment in the eurozone started to stabilise in the first half of 2010.

However, this overall movement masks differing trends. Some countries continued on a slightly downward trend after the 2nd quarter of 2010. This was the case of Spain, the Member state that has suffered the most job losses in absolute terms during the current economic crisis, and also Portugal, Slovenia and Slovakia. Greece can be considered a separate case, as employment continued its downward trend in mid-2010 (down 9% over one quarter in Q2 2010). In contrast, other countries started to turn around. These were Germany, France, Belgium, Austria, Finland and – to a lesser extent – Italy. Luxembourg also showed more favourable momentum, particularly in terms of employment. Domestic employment here fell only slightly over one quarter (Q2 2009) and Luxembourg was the only eurozone country where the workforce increased over 2009 as a whole (up 0.9% compared to average falls of about 2% for other Member states).

Employment growth in Luxembourg remains insufficient

While to the uninformed observer Luxembourg employment may seem to compare favourably to its European neighbours, such a view would be overly optimistic and inappropriate given the particularities of the national employment market. With annual growth of 1.2% during the 1st half of 2010 (up 0.7% over one year in Q1, up 1.7% in Q2), the pace of employment growth in Luxembourg is currently much lower than its historical average (up 3.5% on average between 2000 and 2009).

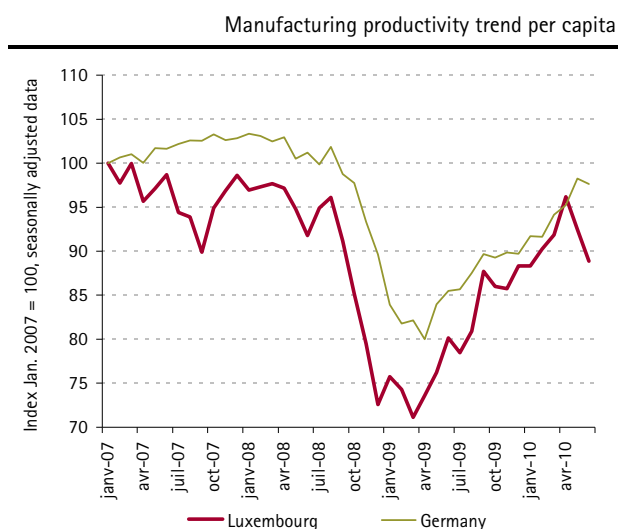
Monthly publication of the state of the Luxembourg economy



This rate of growth is not enough to significantly reduce the unemployment rate. While this has stabilised elsewhere in the eurozone since March 2010, it is still rising in Luxembourg.

In May 2010 (latest figures available), cross-border employment growth (up 1.4% over one year) is slightly lower than employment growth among residents (up 1.9% over one year). While the economic crisis of 2008–2009 hit cross-border employment harder than that of residents – due to higher exposure to competitive sectors – the recent recovery in activity has had the opposite effect. In terms of statistics, this is set to result in slightly higher growth in cross-border employment than in national employment (i.e. that of residents), probably as early as the 3rd quarter of 2010.

Manufacturing



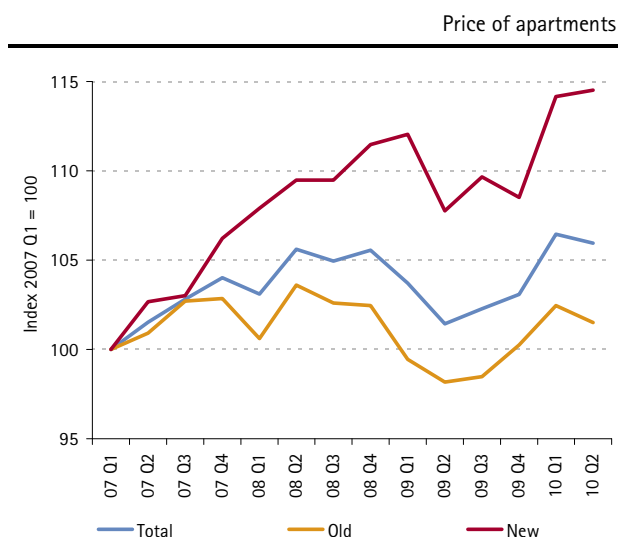
Sources: Eurostat (activity surveys), STATEC calculations

Productivity starts to recover

Apparent labour productivity (productivity per capita) in manufacturing has been rising since the 2nd quarter of 2009. This performance indicator had fallen back significantly in late 2008, because of the dramatic slump in output (down about 30% between August 2008 and March 2009) although due to the partial unemployment scheme, layoffs were relatively limited (down 1% over the same period). This prevented unemployment from rising too fast during this phase of the crisis.

Thereafter, output started to grow again (up 30% between April 2009 and April 2010) albeit more slowly than productivity (up 35% over the same period) because this time there were more redundancies (up 5%). This delayed adjustment in employment compared to productivity means that during an upturn, productivity always recovers before workforce numbers

Property



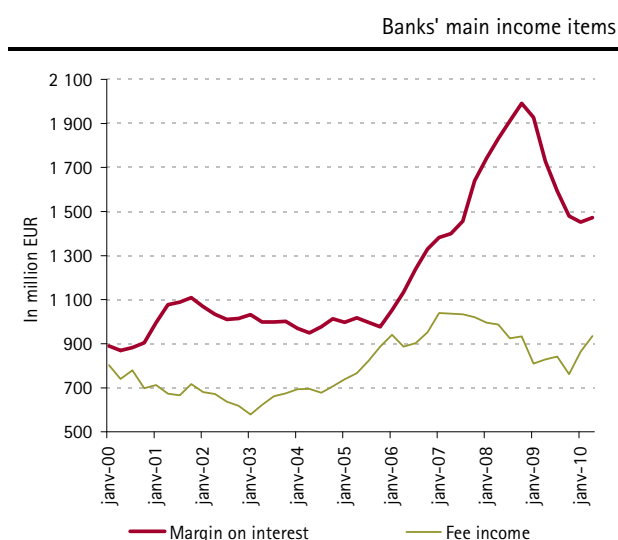
Source: STATEC

Apartment prices under pressure

The recovery of the Luxembourg property market, which started in mid-2009, continued during the 2nd quarter of 2010. Although prices for apartments sold compared to the 1st quarter of 2010 (down 0.5%) were pushed down slightly by older properties, they were still much higher than those noted in late 2008 and the low point in early 2009. Thus, apartment prices climbed 4.4% over one year (with new properties up 6.3% and older properties up 3.4%). With about 720 apartments sold, the number of sales grew significantly compared to the 1st quarter of 2010 (up 22% for older properties, up 30% for new properties).

Price indices published by STATEC take account of the features of the properties sold, i.e. size, location, age, etc. For more information on this, please refer to the latest "Economie & Statistiques" (issue 44) devoted to the methodological aspects of this index.

Financial sector



Source: BCL, STATEC calculations (seasonally adjusted data)

Lacklustre margins

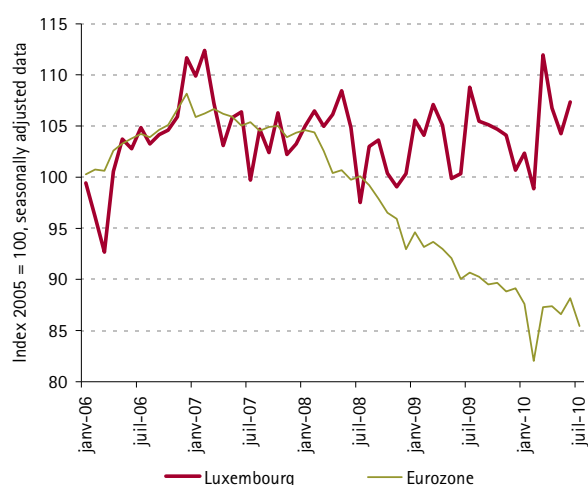
Banking results fell sharply in the first half of 2010, with income before provisions in late June down some 30% on the previous year.

The differential with 2009 was most marked in April and June, with a slump of 55% over one year, which is almost entirely due to the valuation effects on bank holdings. Excepting these once-off phenomena, banking revenue lost just 5% over one year. This loss was due to the falling interest margin, which reached exceptional levels in late 2008/early 2009 at the height of the financial crisis.

The other basic revenue item for banks, fee income, had risen 10% over one year by late June, but this was not enough to offset the fall in the interest margin.

Construction

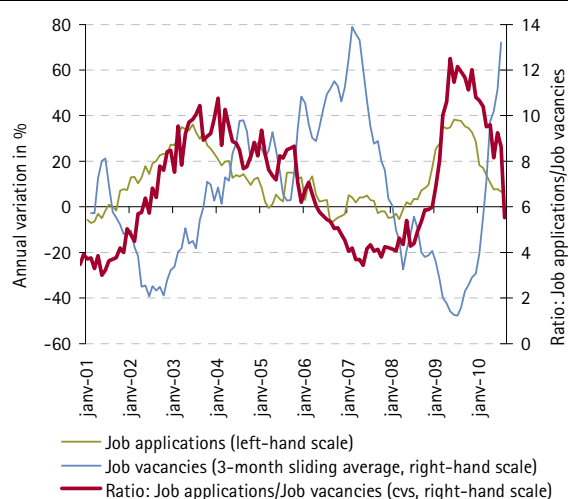
Production in the construction sector



Source: Eurostat

Labour market

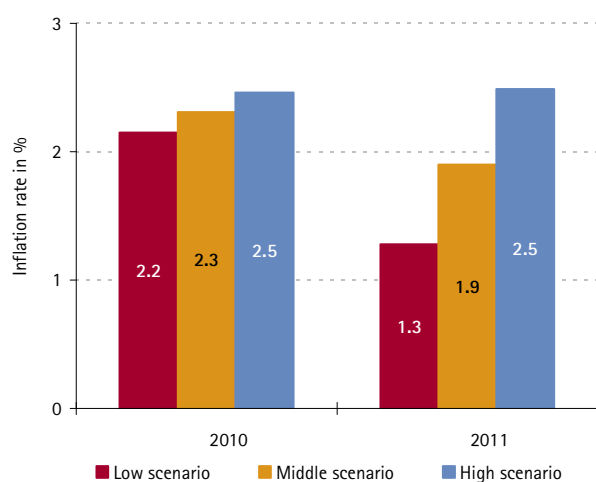
Trends in job applications and job vacancies



Sources: ADEM, STATEC (cvs = seasonally adjusted data)

Inflation - wages

Inflation forecasts, alternative scenarios



Source: STATEC

Luxembourg holds its own

During the 1st half of 2010, construction output in the eurozone fell significantly (down 6% over one year).

This was due to two factors. Firstly, Europe as a whole experienced very severe weather conditions last winter, which had a major effect on activity during the early months of the year. Secondly, the current economic climate is not particularly buoyant for this sector. Finland and Luxembourg were the only two countries not affected by this drop in the 1st half.

After picking up significantly in June 2010, output in the eurozone (up 1.8% over one month, seasonally adjusted) fell back 3.1% in August, mostly due to the counter-performance of Spain and, to a lesser extent, France.

Both job applications and job vacancies rise

The ratio between unsatisfied job applications and unfilled job vacancies has fallen significantly in recent months, from a dozen applications per vacancy in late 2009 to 5.3 applications per vacancy in August 2010.

In line with the economic recovery, unfilled job vacancies recorded by ADEM surged again in 2010 (2,605 vacancies in August compared to a little over 1,000 in late 2009), pulling close to the highs recorded in early 2007.

On the other hand, the number of job seekers continues to grow (up 7% over one year in recent months) and the unemployment rate continues to rise, albeit at a slower pace than before. Thus the surge in the number of unfilled job vacancies shows that things have improved on the employment front but also that there is a structural mismatch between job seeker profiles and what employers are looking for.

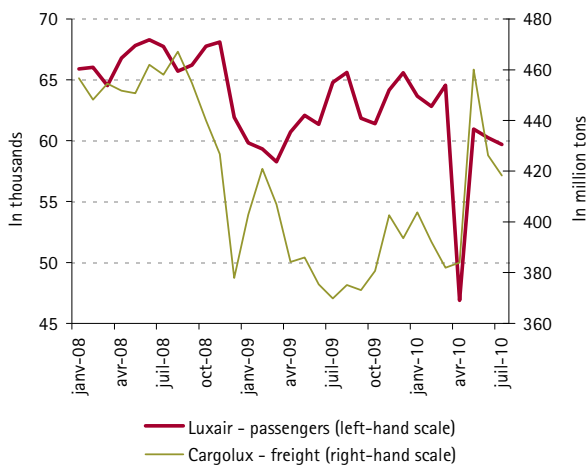
Inflation forecasts: 1.9% in 2011 for NCPI

In addition to macro-economic forecasts, updated twice yearly, STATEC updates its inflation forecasts monthly. These forecasts take account of the most recent price trends, both nationally (goods and services) and internationally (oil prices, exchange rates). STATEC has developed three scenarios, and the hypotheses retained for the latest inflation forecasts were as follows: the middle scenario postulates an exchange rate of 1.29 USD/EUR and 78 USD per barrel of oil throughout the forecasting period. The low scenario postulates a fall of 20 USD per barrel and the high scenario a rise of 20 USD per barrel.

According to the middle scenario, inflation will reach 1.9% in 2011 after 2.3% in 2010. The results obtained for the alternative scenarios set the forecast range (see graph). According to the middle scenario, the next index-linked pay adjustment will occur in the 3rd quarter of 2011 (in the 2nd according to the low scenario and not until the 2nd quarter 2012 according to the high scenario).

Transport

Air transport indicators



Source: AEA, STATEC (seasonally adjusted data)

More goods, fewer people

The situation of the national airlines varies greatly. The overall trend for goods transport has been rising since late 2009, with Cargolux recording a 5% increase in freight traffic over one year for the first 7 months of 2010. This positive development is also apparent in the figures for Luxembourg airport, where freight volumes in the 1st half of 2010 rose 15% over one year.

However, on the passenger side, the situation is more difficult. Over the first 7 months of the year, fewer passengers were carried by Luxair than in 2009 (down 2%). While it is true that activity in April was hindered by the volcanic eruption in Iceland, the results for the following months were just as worrying: from May to July, the peak season for passenger transport, the 2010 results were lower than for the previous year (down 4% on average, down 8% for July alone), marking a downturn in the recovery observed between the 2nd quarter of 2009 and the 1st quarter of 2010.

Statistics table

	Dec-09	Jan-10	Feb-10	Mar-10	Apr-10	May-10	Jun-10	Jul-10	Aug-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	14.8	10.3	14.7	21.9	25.4	17.4	8.0	...	...	16.7	-21.3
Construction output per working day, in volume	-9.6	-3.1	-5.6	3.9	1.5	3.9	6.2	...	...	3.8	-6.3
Turnover by volume of total retail trade	5.4	-2.1	2.1	5.5	1.0	-1.2	3.0	...	...	1.0	-3.7
Prices, wages											
Consumer price index (IPCN)	1.8	2.1	1.5	2.3	2.3	2.4	1.9	2.5	2.2	2.2	-0.2
Underlying inflation	1.8	1.2	0.9	1.2	1.0	1.0	1.1	1.6	1.6	1.4	2.1
Oil product index	2.5	14.9	9.6	17.0	20.7	20.7	12.6	13.5	10.3	12.1	-25.8
Industrial producer price index	-9.9	-7.8	-5.4	-3.2	1.6	5.3	9.3	11.0	...	8.5	-10.8
Construction price index ¹	1.1	0.4	0.4	0.4	0.3	0.3	0.3	...	...	0.3	1.6
Average wage bill, per person (National accounts)	2.5	1.2	1.2	1.2	...	...	...	...	...	1.2	0.8
Foreign trade											
Exports of goods (volume)	-1.8	-14.7	20.3	21.6	19.3	25.1	8.8	...	...	22.1	-28.1
Imports of goods (volume)	-4.7	-5.8	7.0	13.7	16.2	31.7	-1.0	...	...	6.9	-0.6
Employment, unemployment											
Domestic number of employees (IGSS)	0.3	0.3	0.7	1.0	1.5	1.7	1.9	2.2	2.3	2.1	0.7
National employment (IGSS)	0.9	0.9	1.2	1.5	1.7	1.9	2.0	2.1	2.2	2.1	1.1
Unemployment rate (% of working population, seas. adj.)	6.0	5.9	6.0	6.0	6.0	6.0	6.1	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 %					
	2009 Q1	2009 Q2	2009 Q3	2009 Q4	2010 Q1	2010 Q2
Eurozone- Growth in volume of GDP (European Commission)	-2.5	-0.1	0.4	0.2	0.3	1.0
Luxembourg - Growth in volume of GDP (STATEC)	-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 (Aug. 2010) - base January 1 st 1948: 764.40						
Half-yearly average of the index linked to base as at January 1 st 1948: 758.57						
Estimated deadline for next salary indexation: 3rd quarter of 2011						

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