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conjoncture flash

Recovery takes hold in Luxembourg but remains unevenly spread

Over the 3rd quarter of 2010, gross domestic product in Luxembourg grew 3.6% over one year. This marks a slowdown compared to the 5.5% rise seen in the 2nd quarter of 2010, although it was widely expected because it was linked to a base effect: the crisis bottomed out in the 2nd quarter of 2009, after which GDP bounced back strongly in the 3rd quarter of 2009, signalling the beginning of recovery.

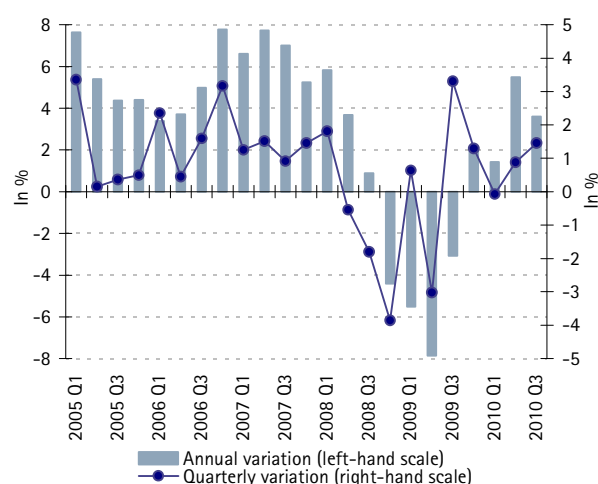
On the other hand, quarterly growth strengthened, up 1.5% over one quarter¹. The external balance (exports less imports of goods and services) was a major contributor to this trend, which can also be seen at a sectoral level in the expansion of retail, transport and communications activities. Public consumption also recovered strongly in the 3rd quarter, in contrast to investment, which fell back significantly. It should be noted that in this recovery, investment still appears to be significantly hampered by the delayed effects of the crisis. While GDP is gradually returning to pre-crisis levels – about 2% lower than volumes in early 2008 in the 3rd quarter of 2010 – investment remains about 20% behind the levels seen before the recession took hold.

The financial sector for its part had a negative impact on GDP growth for the second quarter in a row. However, it should be noted that not all areas in this sector, which has been the main driver of Luxembourg growth in recent decades, are in the same boat: while banks significantly weakened the overall result, insurance and financial auxiliary activities are positively oriented.

After a difficult start to the year, business services started contributing again to economic expansion in the 2nd quarter. Finally, the construction sector has been growing at a relatively sustained and regular pace since early 2010 and productivity is recovering, although this means that employment growth is still slow.

Monthly publication of the state of the Luxembourg economy

GDP trends in terms of volume



Source: STATEC (National accounts)

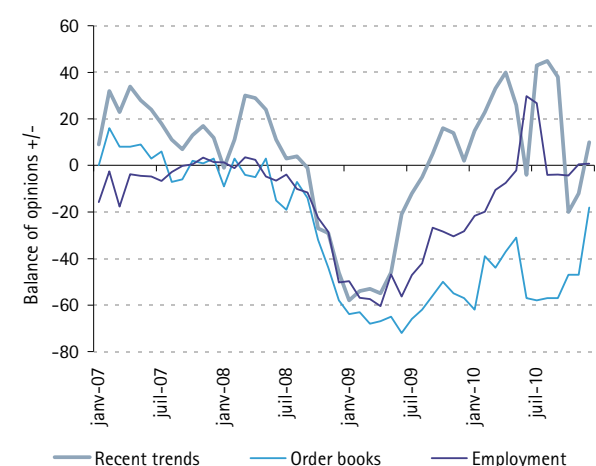
Figures for the 1st quarter of 2010 have been revised downwards because of adjustments to data from the financial and business services sector, and this has had a slightly negative impact on GDP (down 0.1%). On the other hand, there have been almost 5 consecutive quarters of growth since mid-2009.

At the end of the 3rd quarter, growth acquisition was 3.2% for 2010. STATEC's growth forecast for 2010 (published in November 2010) is also 3.2%. National and international business cycle indicators already available for the 4th quarter do not show any fall in activity and the objective seems clearly in sight.

¹ Based on data in volume, chained and adjusted for seasonal variations and working day effects.

Manufacturing

Economic survey on manufacturing



Source: STATEC

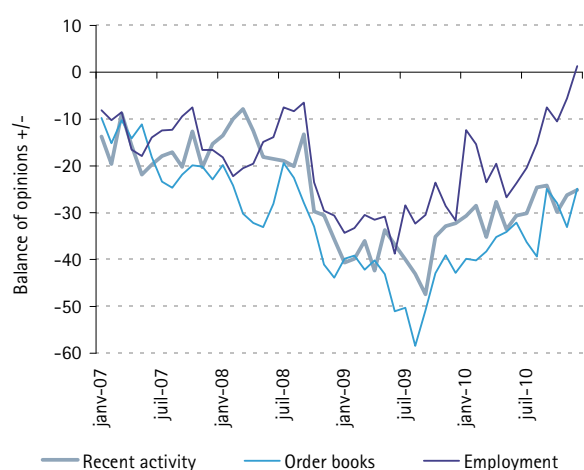
Is this slowdown in pace purely temporary?

Manufacturers' opinions fell back sharply in October 2010, due to a slump in outlook in the metals sector. However, based on trends identified after the latest survey (December 2010), this could be just a temporary setback. Opinions on order books have started trending significantly upwards again, as have those on future output trends (and, to a lesser extent, recent trends).

Furthermore, the context for European manufacturing appears relatively buoyant. Orders in the eurozone recovered well in November (up 2.1% over one month) and various leading indicators (such as PMI, ESI, ZEW, etc.) point to a return to favourable trends for the manufacturing component since the last quarter of 2009.

Construction

Economic survey on construction



Source: STATEC

A solid recovery

Business owners' view of the situation in construction points to increasing optimism in recent months. Opinions on order books, recent activity, employment prospects and assured activity all show a positive trend, holding out the prospect of good results for the last quarter of 2010 and early 2011.

In line with the upswing in opinions, added value in this branch has risen comfortably since early 2010, up 2.5% on average per quarter over the first 3 quarters of the past year. The construction sector, which represents only 5% of added value in the Luxembourg economy, accounts for some 12% of the GDP growth recorded in 2010 (based on the first 3 quarters).

Financial sector

Profit and loss accounts

	Dec-09	Dec-10	Variation in %
	In EUR bn		In %
Interest margin ¹	6 404	5 378	-16.0
Income from commissions	2 985	3 360	12.6
Other net income	847	349	-58.8
Banking income	10 236	9 088	-11.2
Personnel costs	2 313	2 347	1.5
Other overhead expenses	1 893	1 968	3.9
Overhead expenses	4 206	4 315	2.6
Income before provisions	6 030	4 773	-20.8

Source: CSSF (provisional results)

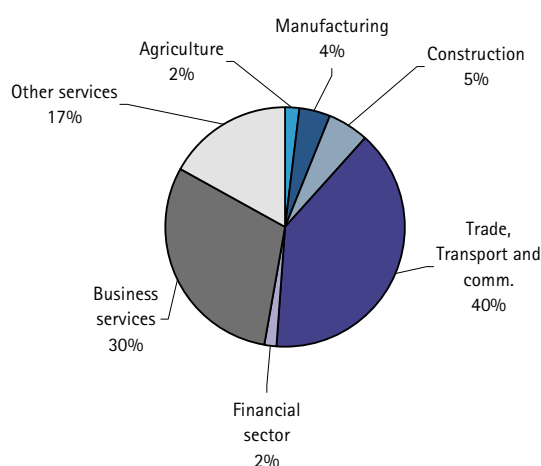
¹ Including dividends received from subsidiaries

Banking income before provisions down sharply

Luxembourg banks ended 2010 with income before provisions down 21% on 2009, mostly located in the interest margin: the decline recorded for the first 3 quarters (down 15% over one year) continued at an almost identical pace in the 4th quarter. In contrast, income from commissions picked up significantly over the 4th quarter, limiting the fall on the interest margin by about one third. Moreover, other non-recurring net income seems to have been significantly hit in the 4th quarter. This is probably due to the falling value of bonds held by banks, linked to the sovereign debt crisis and the rise in yields on government bonds (a phenomenon which had already occurred in the 2nd quarter). Net earnings before interest, taxes, depreciation and amortization are not yet available but the CSSF expects these to benefit substantially from lower net impairments in financial assets compared to 2009.

Labour market (1)

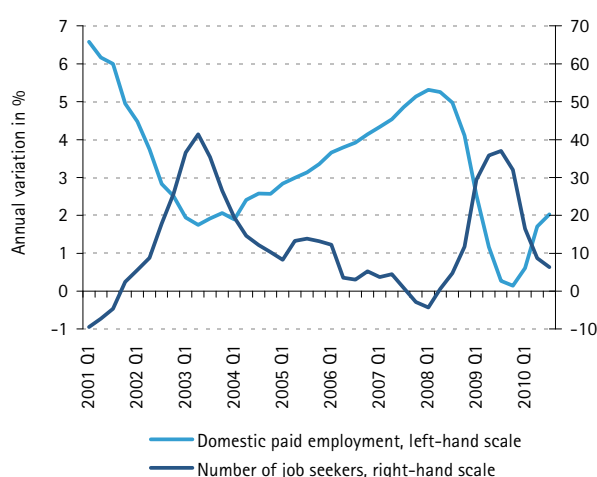
Distribution of jobs created in 2010 (3 quarters)



Source: STATEC (national quarterly accounts, seasonally adjusted data)

Labour market (2)

Paid employment and unemployment



Sources: ADEM, STATEC (national quarterly accounts, seasonally adjusted data)

Employment: favourable trend in services

After a very positive 2nd quarter (up 0.9% over one quarter), paid employment rose 0.4% in the 3rd quarter of 2010 (up 2% on an annual basis). This is a significant improvement on 2009 (when average growth per quarter was 0.1%) but growth in paid employment remains more than 50% below its historical average and seems insufficient to drive unemployment downwards (see below).

In 2010, employment grew in all sectors, with a total of 5,500 jobs created over the first three quarters (based on seasonally adjusted figures). Appointments were particularly noteworthy in services, except in the financial sector. For example, the trade, transport & communications sector has recorded a rise of some 2,150 employees since late 2009, while business services – which include temporary work – generated a little over 1,650 jobs created.

Moderate increase in unemployment in 2010

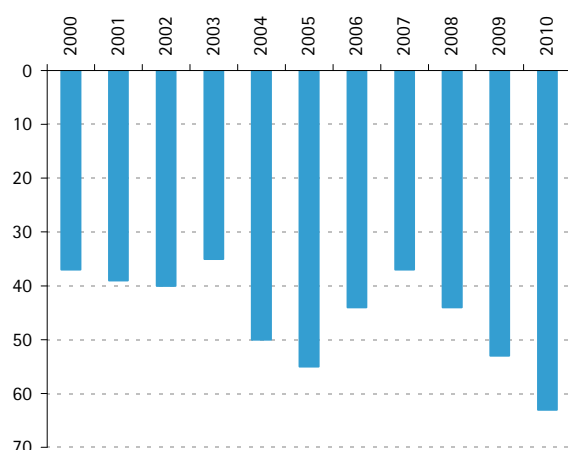
In December 2010, 15 704 unsatisfied job applicants were registered with ADEM, 888 more people than a year ago, or a rise of 6%. The number of job seekers therefore continues to rise, even though the pace of growth has fallen off since mid-2009 (see graph opposite).

The seasonally adjusted unemployment rate, which fluctuated around 6.0% throughout 2010, reached 6.2% in December. The overall unemployment rate, which includes those on job schemes, rose to 7.9% in late 2010, up from 7.8% in November and 7.7% in October. However, these negative December results must be interpreted with caution as the severe weather conditions may have hindered activity in some sectors such as construction and transport).

In 2010, the overall unemployment rate averaged out at 6.0%, up from 5.7% in 2009 and 4.4% between 2006 and 2008.

Inflation

Number of positions where the price dropped over one year



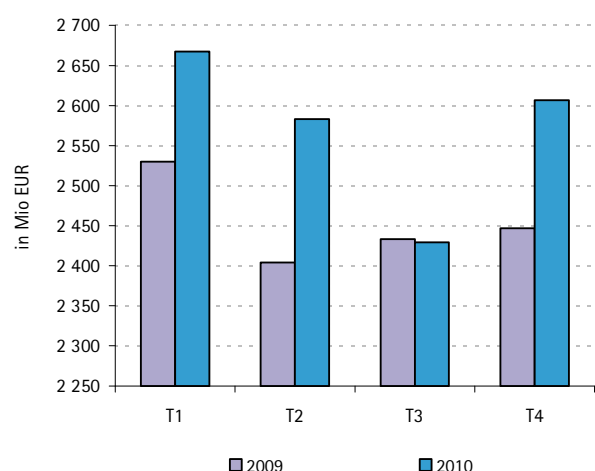
Source: STATEC (IPCN, based on 255 positions in goods and services)

Inflationary and deflationary forces

With an inflation rate of 2.8% in December, 2010 ended with an average annual rate of 2.3%. While oil prices fuelled inflation throughout the year, other prices exerted deflationary pressures. Thus, 25% of positions (63 out of 255 goods and services) in the price index fell in 2010, a higher proportion than in the last economic slowdown (see graph). Apart from the sheer number of deflationary positions, it is important to determine their contribution to inflation – in this case negative – taking into account the weighting of products that fell within the general index. After a record deflationary impact of 1.8 percentage points in 2009, linked mainly to the base effect of oil prices, the impact was just 0.4 in 2010. Apart from energy products (i.e. excluding oil products), the deflationary contribution was just 0.3 points, which is also the average level noted over the last decade.

Public finances

Total tax receipts



Source: STATEC

Tax receipts improve in 2010

According to provisional figures, the state collected EUR 10.3 billion in tax receipts in 2010, i.e. 4.8% more than in 2009.

This rise in receipts – which is directly linked to the economic recovery – is relatively evenly spread. Community income tax (one of the main revenue items) generated EUR 1,470 million in 2010, 3.2% more than in 2009 and exceeding the amount provided for in the 2010 draft budget by 6%. Another example is the subscription tax on company securities, which was EUR 115 million over the amount collected a year previously (up 24%).

This improvement in tax receipts points to a more favourable trend for the public deficit than provided for in the draft budget (at less than 2% of GDP in 2010).

Statistics table

	Mar-10	Apr-10	May-10	Jun-10	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-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	21.9	18.4	17.4	8.3	10.7	11.0	-3.8	3.2	...	...	2.7	-10.7
Construction output per working day, in volume	4.1	1.5	3.9	6.8	1.1	3.2	1.1	2.0	...	...	1.9	3.0
Turnover by volume of total retail trade	5.8	1.0	-0.9	4.9	1.9	4.3	4.9	...	...	...	3.6	-3.2
Prices, wages												
Consumer price index (IPCN)	2.3	2.3	2.4	1.9	2.5	2.2	2.4	2.6	2.3	2.8	2.6	1.1
Underlying inflation	1.2	1.0	1.0	1.1	1.6	1.6	1.6	1.6	1.6	1.7	1.6	1.9
Oil product index	17.0	20.7	20.7	12.6	13.5	10.3	11.9	15.5	10.6	16.5	14.2	-9.2
Industrial producer price index	-3.2	1.6	5.3	9.4	9.8	7.2	8.1	6.6	5.9	...	6.9	-12.7
Construction price index ¹	0.4	0.3	0.3	0.3	...	...	...	...	...	...	0.3	1.6
Average wage bill, per person (National accounts)	1.2	0.9	0.9	0.9	2.5	2.5	2.5	...	...	...	2.5	2.3
Foreign trade												
Exports of goods (volume)	22.3	22.3	23.6	13.7	3.9	12.4	1.6	7.8	...	...	8.9	-1.6
Imports of goods (volume)	8.8	15.7	32.4	-1.0	-0.9	-1.0	-1.1	-0.8	...	...	6.9	0.2
Employment, unemployment												
Domestic number of employees (IGSS)	1.0	1.5	1.7	1.9	2.0	2.3	2.3	2.4	2.5	2.6	2.5	0.2
National employment (IGSS)	1.5	1.6	1.8	1.9	1.9	2.0	2.0	2.0	2.0	2.1	2.0	0.9
Unemployment rate (% of working population, seas. adj.)	6.0	6.0	6.0	6.1	6.1	6.1	6.0	6.1	6.1	6.2	6.1	6.0

Sources: STATEC

Data blue coloured are estimates

¹Estimations based on half-yearly data

Indicators

	Variation on previous quarter in %					
	2009 Q2	2009 Q3	2009 Q4	2010 Q1	2010 Q2	2010 Q3
Eurozone- Growth in volume of GDP (European Commission)	-0.1	0.4	0.2	0.4	1.0	0.3
Luxembourg - Growth in volume of GDP (STATEC)	-3.0	3.3	1.3	-0.1	0.9	1.5
	Annual variation in %					
	2007	2008	2009	Forecast 2010	Forecast 2011	
Luxembourg - Growth in volume of GDP (STATEC)	6.6	1.4	-3.7	3.2	3.0	
GDP at current prices for 2009: EUR 38 044 million						
Minimum monthly salary (since 01/01/2011): EUR 1 757.56	Consumer price index (Dec. 2010) - base January 1 st 1948: 768.96					
Current account balance (2010 - 3rd quarter): EUR 1 335 million	Half-yearly average of the index linked to base as at January 1 st 1948: 764.36					
Resident population (01/01/2010): 502 066	Estimated deadline for next salary indexation: 4 th quarter of 2011					

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