

February 2011

conjoncture flash

Monthly publication of the state of the Luxembourg economy

Inflation rate rises in January

In January 2011, the inflation rate in Luxembourg rose to 3.2%, a significant jump compared to the December 2010 rate of 2.8% and particularly compared to the average of 2.3% recorded for last year as a whole. Much of this relatively high inflation rate was caused by rising oil prices and to increases in some administered prices.

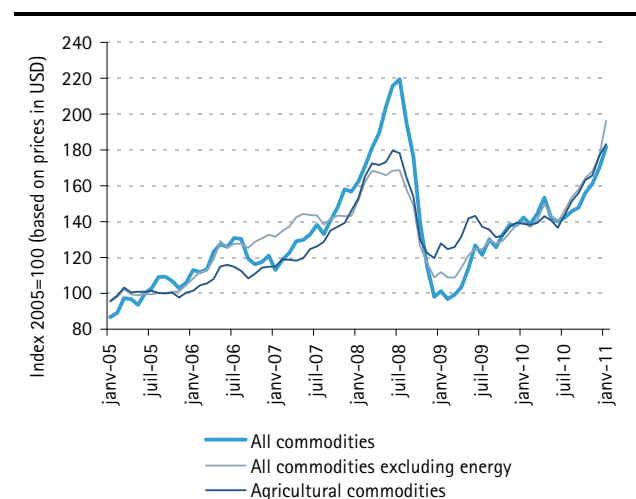
Soaring commodities

Commodity prices have been rising since mid-2009 and this trend has accelerated significantly since late 2010. The global commodity index (see graph opposite) has not yet exceeded its 2008 record, mainly due to the fact that oil prices¹, which rose to USD 100 in February, are still well below those seen in mid-2008 (USD 134 per barrel in July). On the other hand, excluding energy, commodity prices are now above their historic highs, mainly due to two components. The first is agricultural commodities, which have risen substantially in recent months, in particular wheat, corn, rice and cotton. The second is metals, with the price of copper, tin and nickel rising sharply in January. For the moment, the soaring prices in agricultural commodities have not yet had an impact on consumer prices and, except for bread (which rose about 5% over one year in January), there has been no significant trend that can be directly linked to the trend in these commodities as regards food prices. However, inflationary pressure is to be expected in this area in the coming months.

Although rising more slowly than commodity prices, oil prices are having a far greater impact on consumer prices. Thus, of the 3.2% inflation recorded in January, about one third is due directly to oil price rises.

¹ Price per barrel of Brent

Price of commodities



Source: IMF - Primary Commodity Prices

Rises in administered prices

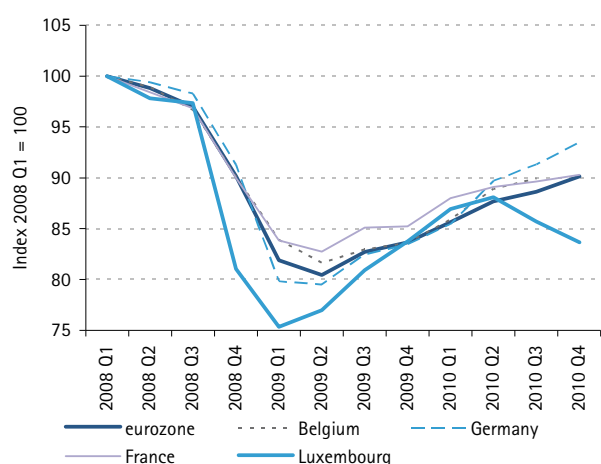
Another source of inflation is administered prices, which account for about 0.8 percentage points of the 3.2% inflation rate in January. About 2/3 of this relatively high impact is due to increases in local rates for water supply and treatment last year and the rest is due to increases in rates linked to health expenditure in January 2011, due to lower refunds as a result of the health reform voted in December 2010.

Excluding oil products and administered prices, the January inflation rate amounted to just 1.2% (instead of 3.2%), which does not reveal the type of significant tension as would be seen in the context of high economic growth. In fact, rising oil prices, the (coming) rises in food prices and increases in administered prices have little connection with the cyclical domestic economic climate.

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Manufacturing

Manufacturing output



Sources: Eurostat, STATEC (Luxembourg: estimation for 2010 Q4)

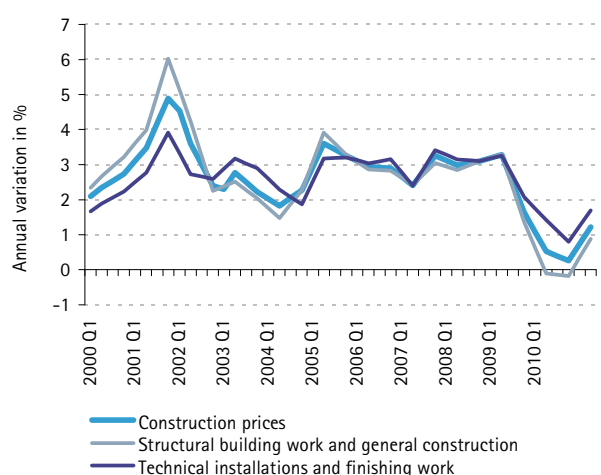
A disappointing end to the year

Luxembourg manufacturing is expected to end 2010 on a disappointing note. Estimates for the 4th quarter point to another drop in output, after the fall already recorded in the previous quarter. This poor performance, particularly compared to the European trend, is shown in opinion surveys. December seems to have been particularly weak, especially for metalworking industries. However, the latest figures on orders and outlook for output hold out the prospect of more favourable developments in early 2011.

Over 2010 as a whole, Luxembourg manufacturing is expected to grow some 9%, compared to about 7% for the eurozone. This relatively positive result for Luxembourg is due to the fact that output fell much more here in early 2009.

Construction

Construction prices



Source: STATEC

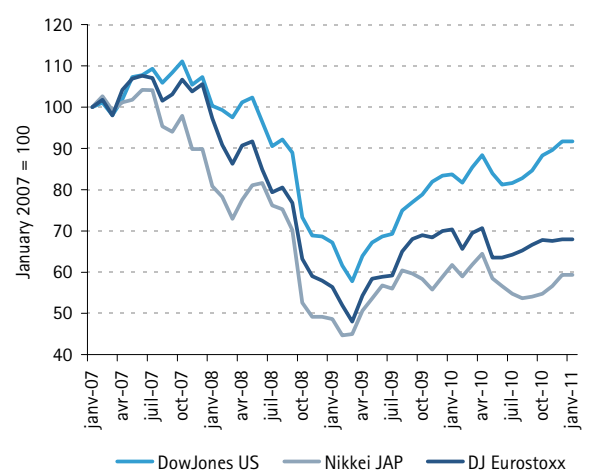
Construction prices grow slightly

Construction prices rose only moderately from mid-2009 to mid-2010. According to the latest figures (dating from late 2010), this slowdown appears to be reaching an end, although there is no indication of an upsurge in prices.

It should be noted that prices for structural work, which accounts for almost 50% of the overall index, have remained very modest, rising just 0.4% over one year. In other areas, however, the upward trend is widespread. Roofing work (up 2.6% over one year) and technical installations (up 2.5%, of which 2.9% for plumbing and 3.4% for electrical work) have been the most inflationary trades in the recent period. There was less tension in the finishing sector (up 1.1% over one year) but some trades will have a bigger impact on bills (marble is up 5.1% over one year, joinery up 2.7%).

Financial sector

Stock market indices



Source: STATEC

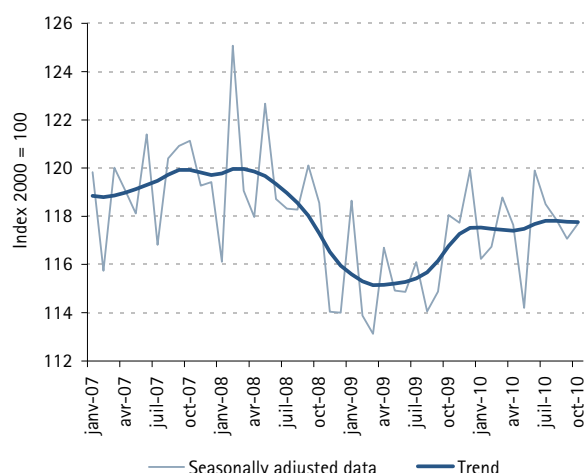
Equity growth?

The sluggish recovery that is a feature of developed economies has apparently not generated any great enthusiasm on the part of investors to acquire European, Japanese or US equities over the last year. The trend in 2010 on the main equity indices in these economies was relatively flat (particularly in Europe when exchange rates are taken into account), with a pronounced downturn in the 2nd and 3rd quarters. The equity markets were much more dynamic in 2010 in emerging economies, also known as "high-growth" economies (China, India, Brazil, Argentina, etc.).

2011 started on a relatively positive note on all international stock markets. Leading indices in the United States, Europe and Japan gained between 3 and 5% in the space of just two months.

Retail trade

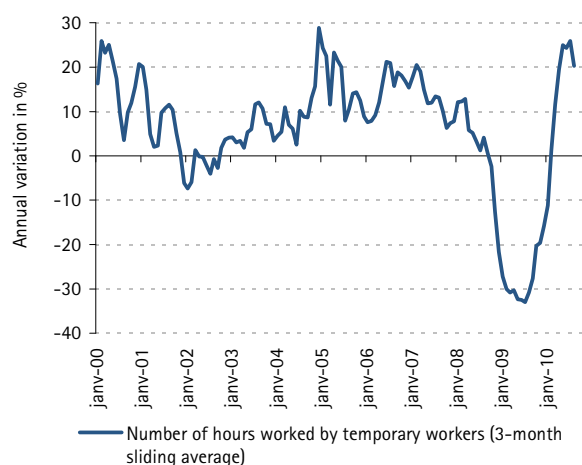
Turnover in volume - retail trade



Source: STATEC (excluding mail-order sales and fuel)

Labour market

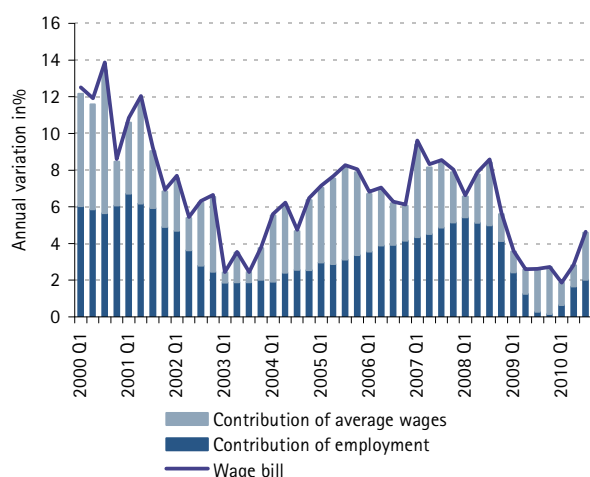
Temporary employment in Luxembourg



Source: IGSS

Wages

Wage bill trends



Source: STATEC

Retail sluggish in the 4th quarter

Over the first 10 months of the year, the volume of retail sales (excluding mail-order and fuel sales) in Luxembourg grew 1.6% compared to the previous year, after falling almost 2% in 2009. It has more or less stabilised since the 3rd quarter of 2010, in line with the stagnation in the consumer confidence indicator observed from July to November 2010. As this indicator fell back substantially in December, due to more unfavourable expectations regarding unemployment trends, a fall in retail sales is to be expected for this month.

Furthermore, throughout the eurozone, turnover volumes in retail trade fell back sharply in December, another negative sign.

Temporary work recovers significantly in 2010

After falling sharply in 2009, temporary work took off strongly in early 2010 (up 25% over one year for hours worked in the second quarter, following a rise of 2% and a fall of 20% over the two previous quarters). In the third quarter, growth in temporary work stabilised at about 20% over one year.

This positive performance of temporary work in 2010 is mostly due to the recovery in manufacturing. In fact, manufacturing, with annual average growth of 80% in early 2010, accounted for 2/3 of the increase in the volume of temporary work over the first seven months of the year. In early 2010, 4% of work in manufacturing was carried out by temporary workers (compared to 2.5% in 2009).

Alongside manufacturing, construction and trade availed of this flexible form of work over the first 7 months of 2010, with an increase of 14% and 12% respectively in the volume of hours worked.

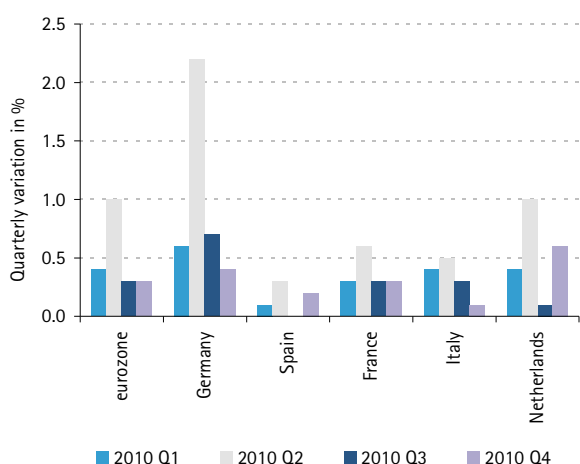
Rebound of wage bill

After a slump in late 2008, the wage bill seems to have regained a certain vigour in 2010. The 4.6% rise in the 3rd quarter reflects the combined effect of employment growth, up 2%, and the average wage, up 2.6% - with this latter rise mainly due to wage indexation. Excluding index-linked adjustments which came into effect in March 2008 and 2009 and in July 2010, average wages rose only 0.1% in the 3rd quarter of 2010 and they have actually fallen by 0.1% on average since 2008.

Regarding the contribution of employment to the wage bill, two conclusions emerge. Firstly, agriculture, construction, manufacturing and financial services have contributed almost nothing since 2008. Secondly, employment is growing significantly in the retail, transport and communications sector (0.6% on average per quarter since 2008), in business services (0.7%) and non-market services (0.8%).

International

GDP of principal member states in the eurozone in 2010



Source: Eurostat (data in volume, seasonally adjusted)

European recovery remains modest

The eurozone continued to recover in the 4th quarter of 2010, with GDP rising 0.3%, similar to the increase seen in the 3rd quarter. Finally, for 2010 as a whole, the first estimate for the eurozone puts growth at 1.7%. This result compares favourably with the 2009 recession (down 4.1%), but is still far behind the 3% pace of growth seen in 2006 and 2007.

In Germany and France, the figures for the 4th quarter may seem disappointing in view of economic surveys in recent months. The exceptional weather in December (and the October strikes in France) undoubtedly disrupted activity, but detailed results are not yet available to shore up this assumption. After stagnating in the 3rd quarter, Spanish GDP again made a positive contribution to European growth. Finally, the Netherlands ended 2010 on a positive note, with GDP up 0.6% in Q4.

Statistics table

	May-10	Jun-10	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-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	17.3	8.2	10.7	10.9	-3.8	3.2	8.2	...	...	2.4	-4.2
Construction output per working day, in volume	3.9	6.8	1.1	3.2	1.3	2.0	2.2	...	...	1.8	3.2
Turnover by volume of total retail trade	-1.0	4.6	2.2	3.3	1.8	-0.3	...	...	...	1.5	-2.8
Prices, wages											
Consumer price index (IPCN)	2.4	1.9	2.5	2.2	2.4	2.6	2.3	2.8	3.2	2.7	1.7
Underlying inflation	1.0	1.1	1.6	1.6	1.6	1.6	1.6	1.7	2.2	1.8	1.7
Oil product index	20.7	12.6	13.5	10.3	11.9	15.5	10.6	16.5	15.5	14.2	3.0
Industrial producer price index	5.3	9.4	9.8	7.2	8.1	6.6	5.9	9.4	...	7.3	-11.4
Construction price index ¹	0.3	0.3	0.7	0.7	0.7	1.2	1.2	1.2	...	1.2	0.5
Average wage bill, per person (National accounts)	0.9	0.9	2.5	2.5	2.5	...	...	...	...	2.5	2.3
Foreign trade											
Exports of goods (volume)	24.1	15.4	6.1	17.2	3.4	3.5	0.9	...	...	3.7	4.8
Imports of goods (volume)	33.8	-1.0	-0.9	-1.0	-1.2	-0.8	-1.0	...	...	-0.7	1.0
Employment, unemployment											
Domestic number of employees (IGSS)	1.7	1.9	2.0	2.3	2.3	2.4	2.5	2.5	2.6	2.5	0.2
National employment (IGSS)	1.8	1.9	1.9	2.0	2.0	2.1	2.1	2.1	2.1	2.1	0.9
Unemployment rate (% of working population, seas. adj.)	6.0	6.0	6.1	6.1	6.1	6.1	6.1	6.0	6.0	6.1	6.0

Sources: STATEC

Data blue coloured are estimates

¹Estimations based on half-yearly data

Indicators

	Variation on previous quarter in %					
	2009 Q3	2009 Q4	2010 Q1	2010 Q2	2010 Q3	2010 Q4
Eurozone- Growth in volume of GDP (European Commission)	0.4	0.2	0.4	1.0	0.3	0.3
Luxembourg - Growth in volume of GDP (STATEC)	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						
Current account balance (2010 - 3rd quarter): EUR 1 335 million						
Resident population (01/01/2010): 502 066						
Consumer price index (Jan. 2011) - base January 1 st 1948: 765.56						
Half-yearly average of the index linked to base as at January 1 st 1948: 765.91						
Estimated deadline for next salary indexation: 4 th quarter of 2011						

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