

conjoncture flash

March 2011

Monthly publication of the state of the Luxembourg economy

Eurozone: an eventful start to the year

The year started well...

According to leading economic indicators available up to February (see graph opposite), GDP growth in the eurozone is set to pick up in the 1st quarter of 2011. After modest performance in the 4th quarter (up 0.3%), activity in December was severely penalised by unfavourable weather conditions – in particular in the construction and transport sectors – pointing to a catch-up in January. In Luxembourg, the weather in December 2010 will also affect GDP in the 4th quarter, the results of which will be out on 5 April.

The recovery underway since late 2009 has finally started to have a positive impact on labour market statistics in the eurozone. Employment picked up again in the last months of the year – after a pause in the 3rd quarter – and the unemployment rate dropped in January 2011, falling under 10% for the first time since late 2009.

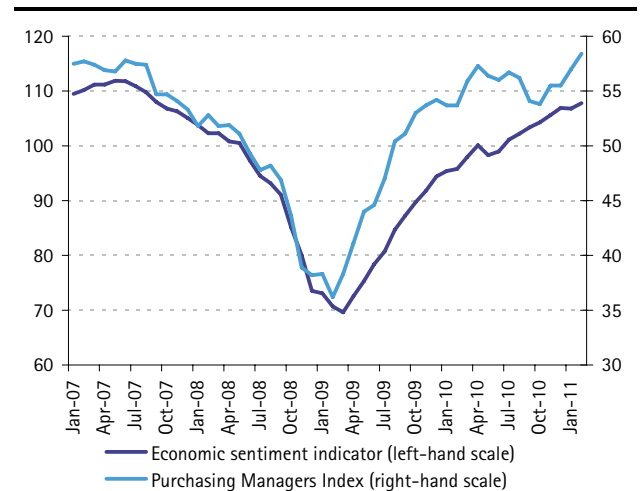
... but new risks emerge on growth.

Alongside this favourable news, dark clouds gradually gathered on the economic horizon during the 1st quarter of 2011.

The price of a barrel of oil, contained since late 2009 at between USD 75 and 85, exceeded the threshold of USD 90 in December 2010, shot past USD 100 last January and stood above USD 110 during the first two weeks of March.

Inflationary pressure was increased by an even higher rise in other commodities (see the February 2011 issue of Conjoncture Flash), confirming a threat for both companies (rising costs) and consumers (rising prices and therefore falling purchasing power). Worried about rising inflation (up 2.4% in February), the European Central Bank hinted that it might hike up interest rates in April.

Leading indicators for the eurozone



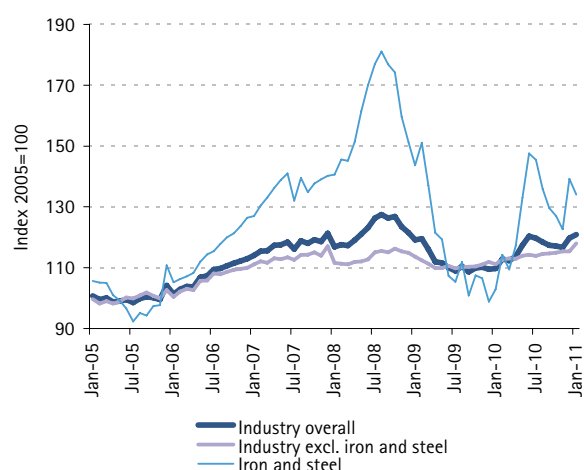
Sources: European Commission, Markit Economics

Economic stakeholders nervously awaited the outcome of the Brussels summit of 11 March held in response to the European debt crisis. The decisions taken – to increase the funding available through the European Financial Stability Facility and provide an option to directly purchase bonds issued by states in default – seem to have been welcomed by the markets. Unfortunately, on the same day, Japan was hit by an earthquake followed by a tsunami. The nuclear accident in the Fukushima plant and the consecutive press releases highlighting the worsening potential consequences caused the Tokyo stock exchange to slump by 13% in just five days. The European stock markets were not spared and they saw their gains from early 2011 reduced to nothing, particularly through the drop in securities related to the nuclear, semiconductor and luxury industries. The negative macro-economic effects of this catastrophe remain difficult to estimate, both for Japan and for the global economy.

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L U X E M B O U R G

Manufacturing

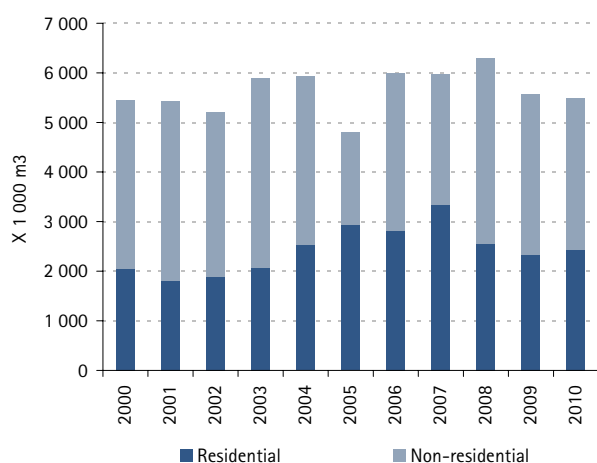
Prices of industrial products



Source: STATEC

Construction

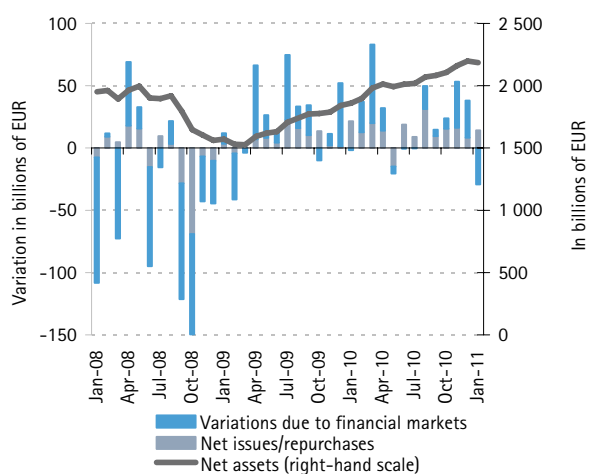
Planning permission volume



Source: STATEC

Financial sector

Trends in UCI assets



Source: CSSF

Price rises in industrial products

After falling by some 8% in 2009, prices for Luxembourg industrial products picked up again in 2010, rising by almost 4% over the year as a whole (compared to a rise of 3.2% in the eurozone). Although partly due to rising prices for iron and steel products (especially in the 1st half), the upward trend was widespread. The only sectors that escaped this inflationary trend in 2010 were beverages and tobacco, textiles, IT, electronic and electrical products as well as products related to energy supply.

Manufacturing prices continued to rise in January 2011, in particular due to some capital goods. Given recent price trends in commodities, it is highly likely that this upswing will continue – and even intensify – as 2011 goes on.

More planning permission, but for smaller buildings

The volume of projects granted planning permission over 2010 as a whole fell slightly (down 1.4%) on 2009. This was unexpected and disappointing because up to October the 2010 figures had grown by 10% over one year. Volumes were extremely low in the last two months of 2010, leading to the worst 4th quarter results recorded since 1997.

However, a number of positive points on 2010 deserve a mention. First of all, the drop in volume was mostly in the non-residential sector, whereas the residential sector rose by 5% on 2009: this rise was mainly in the individual housing segment (up 23%). The number of housing units relative to planning permission also rose by 5% in 2010 and the total number of projects granted planning permission (both residential and non-residential) grew by some 16% on the previous year.

UCIs: adverse effects of the dollar in January

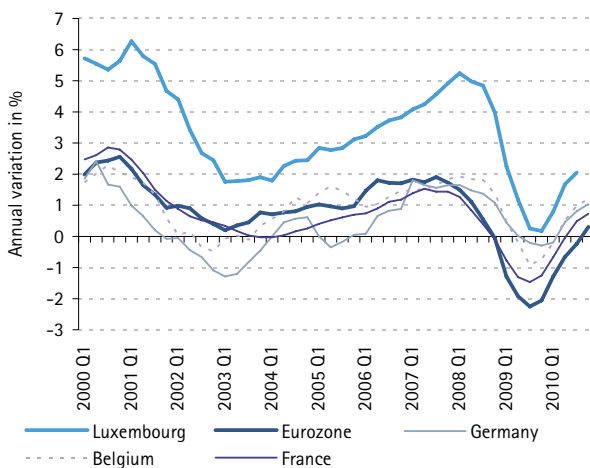
Net assets of Luxembourg UCIs grew by just over 20% over one year for 2010 as a whole, pushing Luxembourg fund assets up to EUR 2 199 billion in late 2010, beating the previous record of October 2007 (EUR 2 124 billion).

UCI earnings in January 2011 – with a fall of EUR 15 billion (0.7%) in net assets – were hit by a severe downturn in the financial markets (down EUR 30 billion). This was mainly due to exchange rates and more specifically to the US dollar, which started to fall in early January 2011 and is still falling in March, dragging down securities (equities and bonds) denominated in dollars.

Nevertheless, total net issues (excluding market variations) amounted to about EUR 14 billion in January, in line with the monthly average recorded last year.

Labour market (1/2)

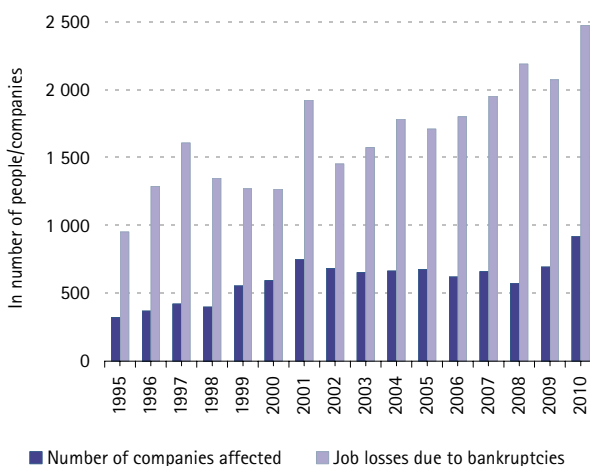
Domestic employment



Sources: Eurostat, STATEC, National Accounts

Labour market (2/2)

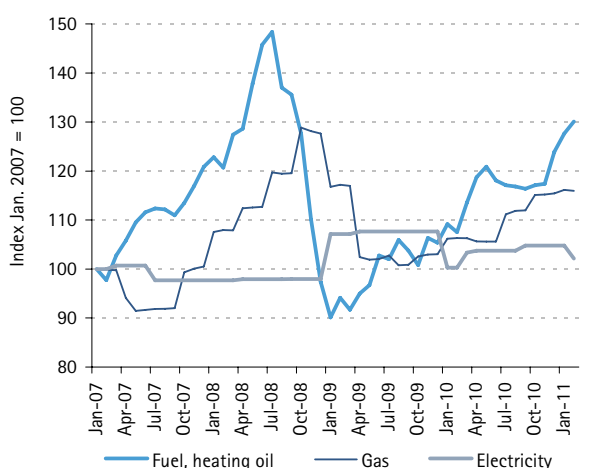
Bankruptcies in Luxembourg



Source: STATEC

Inflation

Indices on the consumption of energy prices



Source: STATEC (NCPI)

Employment on the rise in Europe

According to Eurostat estimates, 221.7 million people were in employment in the EU27 at the end of 2010, 0.3% more than a year ago. This is the first year-on-year rise in European employment since the beginning of the crisis in late 2008.

In late 2010, the most dynamic countries in terms of employment were Malta (up 3.4%) and Sweden (up 2.4%), followed closely by Luxembourg, which rose by 2.4% in October and November according to IGSS figures. Germany created by far the most jobs over the period (422 000 jobs), followed by the UK, France, Poland and Sweden.

However, even though the labour market situation has improved in all European countries, employment is still falling in ten countries, including, in order of importance, Spain, Romania, Bulgaria, Greece, Portugal and Ireland.

More bankruptcies in the financial sector in 2010

In 2010, 918 companies went bankrupt in Luxembourg (source: STATEC), compared to 693 in 2009 (up 32.5%). Jobs lost as a result of bankruptcies amounted to 2 473, compared to 2 072 in 2009 (up 19.4%).

Most of the companies that went bankrupt in 2010 were active in retail (248 or 27% of the total number), a sector which accounts for about a quarter of Luxembourg companies. However, 2010 was more marked by bankruptcies in the financial sector, with a total of 145 companies going bankrupt, compared to 62 in 2009 and just 30 per year in previous years.

In 2010, construction was hardest hit by job losses due to bankruptcy (744 people), followed by retail (424), transport and communications (343), property, rental services and business services (342) and hotels and catering (290). By contrast, manufacturing (199 people) and the financial sector (45) were relatively spared in terms of job losses.

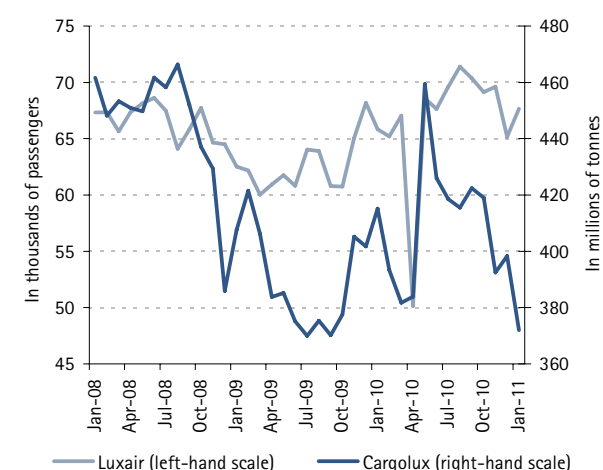
Increased volatility in energy prices

Long-term trends and short-term volatility in energy prices are what drive inflation. This is first and foremost due to oil products, both because of their NCPI weighting (6.3% compared to 9.7% for energy as a whole) and price trends. These have risen by 90% since January 2000, compared to 51% for other energy prices and 28% for the other components in the general index.

Furthermore, oil price trends have been extremely volatile since January 2007 (see graph opposite), rising by 48% over 19 months, falling by 39% in just 7 months and then rising again by 44%. Rising gas prices, which generally follow oil price trends with some delay, were visibly halted by the spectacular falls in the latter. Electricity prices have seen slack growth since 2007 (up 2.1%), which has helped stabilise both energy and NCPI prices.

Transport

Air transport indicators



Source: AEA (seasonally adjusted data: STATEC)

Mixed performance by national airlines in 2010

According to statistics gathered by the AEA (Association of European Airlines), the number of passengers carried by European airlines grew by almost 3% in 2010. Luxair's performance in this area was relatively satisfactory, with growth of over 6% on 2009. 2010 was marked by the Icelandic volcanic eruption in April (when passenger numbers fell by 16% over one year) and the highly unfavourable weather conditions in December (down 5% over one year).

In freight, the volumes transported by Cargolux rose by 5%, less than the European average of 8% and much less than the average worldwide (which rose by 15% according to the Airports Council International). The downturn started last October and continued into January 2011 marking a disappointing start to 2011, with the lowest January tonnage recorded since 2004.

Statistics table

	Jun-10	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10	Jan-11	Feb-11	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	8.2	10.7	10.9	-3.8	3.2	8.2	7.4	...	...	6.2	2.8
Construction output per working day, in volume	6.8	1.1	3.2	1.3	1.8	2.2	-20.4	...	...	-3.8	3.1
Turnover by volume of total retail trade	4.6	2.2	3.3	1.8	-0.4	2.2	-1.8	...	...	-0.2	3.0
Prices, wages											
Consumer price index (IPCN)	1.9	2.5	2.2	2.4	2.6	2.3	2.8	3.2	3.6	3.2	1.8
Underlying inflation	1.1	1.6	1.6	1.6	1.6	1.6	1.7	2.2	2.4	2.1	1.3
Oil product index	12.6	13.5	10.3	11.9	15.5	10.6	16.5	15.5	18.7	16.9	8.8
Industrial producer price index	9.4	9.8	7.2	8.1	6.6	5.9	9.4	10.2	...	8.5	-9.6
Construction price index ¹	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	2.5	2.5	2.5	...	...	...	...	...	2.5	2.3
Foreign trade											
Exports of goods (volume)	15.1	6.4	17.4	5.8	4.7	11.5	5.6	...	...	7.4	7.2
Imports of goods (volume)	-1.0	-0.9	-1.0	-1.2	-0.8	-1.0	-1.1	...	...	-0.7	0.9
Employment, unemployment											
Domestic number of employees (IGSS)	1.9	2.0	2.3	2.3	2.4	2.4	2.4	2.5	2.4	2.4	0.4
National employment (IGSS)	1.9	1.9	2.0	2.0	2.1	2.0	2.0	2.0	2.0	2.0	1.0
Unemployment rate (% of working population, seas. adj.)	6.1	6.1	6.1	6.1	6.1	6.1	6.1	6.0	5.9	6.0	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 (Feb. 2011) - base January 1 st 1948: 777.68						
Half-yearly average of the index linked to base as at January 1 st 1948: 768.12						
Estimated deadline for next salary indexation: 4 th quarter of 2011*						

*In accordance with forecasts and the bipartite agreement of 29 September 2010.

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