

April 2011

conjoncture flash

Monthly publication of the state of the Luxembourg economy

Economic growth reaches 3.5% in 2010

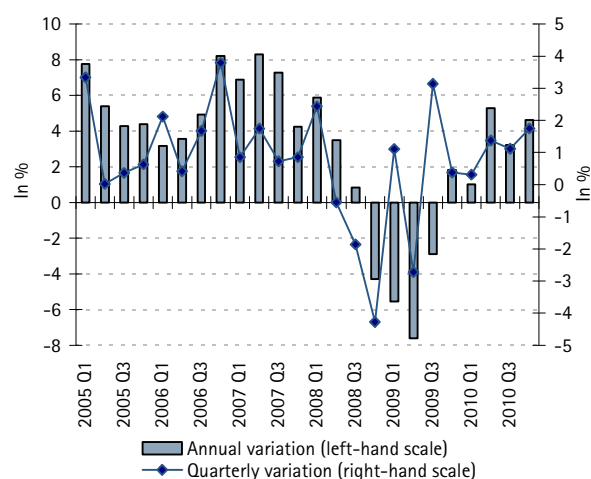
In the 4th quarter of 2010, the Luxembourg economy posted a rise of 4.6% growth in GDP over one year (up 1.7% over one quarter), bringing economic growth to 3.5% over the past year as a whole. This is the 6th consecutive quarter of growth since mid-2009, with growth strengthening throughout 2010. In this regard, the 4th quarter of 2010 can be seen as symbolic, with GDP in volume reaching the record high last seen before the crisis in the 2nd quarter of 2008.

Banking services lagging behind

Although the recovery was widespread, two sectors mainly accounted for the turnaround in 2010. The first of these was trade, hotel & catering and transport & communications, and it was in transport, severely hit by the effects of the economic crisis in 2009, that the recovery was the most marked. As regards trade, the indicators differ significantly from sector to sector, with in-store retail sales rising only slightly, compared to a satisfactory year for new car sales and strong growth in wholesale and mail-order trade. The other branch with the most favourable growth in added value in 2010 was manufacturing, up 13%. As with transport, manufacturing had felt the full force of the crisis (with a cumulative decline of some 20% over 2008 and 2009).

The financial sector appears to be a little like the poor relation in this recovery – at least in terms of added value – rising just 1.5% over the year as a whole. This was particularly the case in the banking sector, where the balance sheet total fell sharply in 2009 and which has not shown any real signs of recovery since then. Employees of credit institutions felt the brunt of the cuts, with 1,200 jobs lost in the space of two years, which translates as a fall of 6%, but this trend seems to have fallen off in the past few quarters. The overall picture for the financial sector is obscured by the poor performance of banking activity, while other areas such as insurance and undertakings for collective investment seem to have the wind in their sails. Thus, UCI net assets have gone back to – and even outstripped – their pre-crisis levels, buoyed in particular by the upswing in the equities markets and, more generally, by the improved international financial environment.

GDP trends in terms of volume



Source: STATEC (national accounts)

External demand takes over

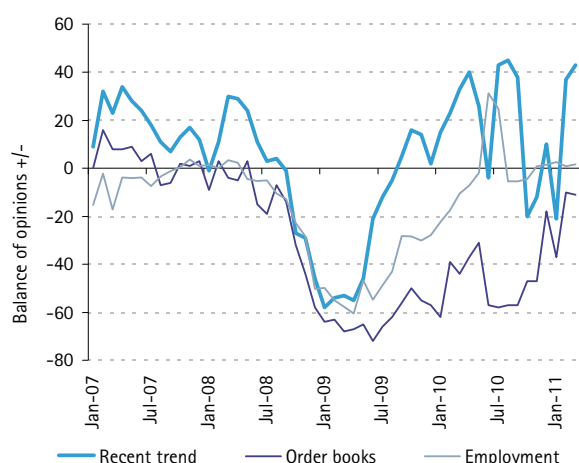
The foreign component – i.e. the balance of exports and imports of goods and services – ended 2010 on a very positive note following vigorous growth in the previous 2 quarters. Domestic demand on the other hand felt the brunt of lower public consumption spending and investment in the 4th quarter, while household consumption remained relatively well-placed.

Business cycle indicators available for the 1st quarter of 2011, including opinion surveys of manufacturers, construction businesses and consumers, reveal a favourable profile compatible with continuing expansion. Moreover, leading international indicators – particularly for the eurozone – also showed relatively positive growth in early 2011, which is reassuring as regards foreign demand for Luxembourg goods.

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Manufacturing

Economic survey on manufacturing



Source: STATEC (seasonally adjusted data)

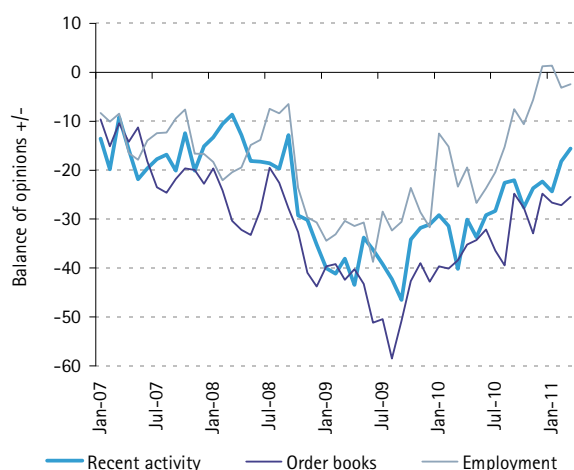
Favourable prospects for the 1st quarter

Manufacturing output for Luxembourg grew some 10% in 2010. The end of last year was marked by a slump in manufacturers' opinions (see the January 2011 issue of *Conjoncture Flash*), which translated into relatively modest output in the 4th quarter. Manufacturers' sentiment over the first 3 months of 2011 holds out the prospect of a relatively satisfactory volume of activity in the 1st quarter of 2011.

For their part, employment prospects are returning to normal and remain relatively high compared to their historic average: employment in manufacturing (excluding temporary workers) has been on the rise since early 2010, with about 400 jobs created between the 1st and the 4th quarter. However, an additional 1 400 jobs are needed to bring the number of manufacturing jobs back to the late-2008 levels.

Construction

Economic survey on construction



Source: STATEC (seasonally adjusted data)

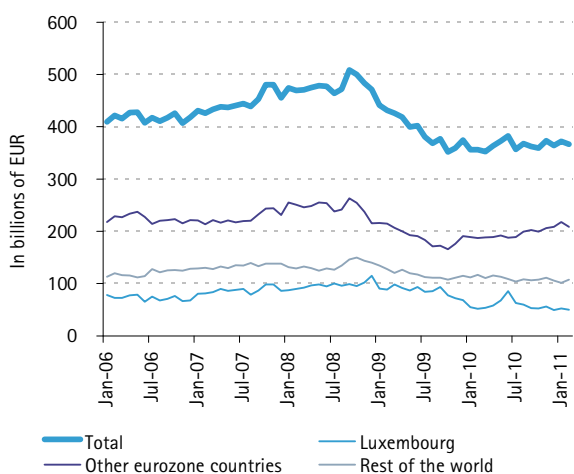
Snow in December, renewed activity in January

2010 ended on a particularly bad note in construction, with heavy snowfalls and intense cold significantly restricting activity in December. Output fell over 20% on December 2009 (and by almost 50% in building and civil engineering alone).

This exceptional phenomenon had a drastic effect on annual output, which stagnated at 0.1% compared to 2009 whereas a standard December would have shown a rise of 2% on 2009. In contrast, the overall result for 2011 will show an exceptional month for January (up 19% over one year), apparently benefiting from an upswing in activity postponed in December. What is more, opinion surveys for the 1st quarter (see graph) show that activity continues to strengthen.

Financial sector

Interbank loans of Luxembourg banks



Source: BCL (outstanding at the end of the period)

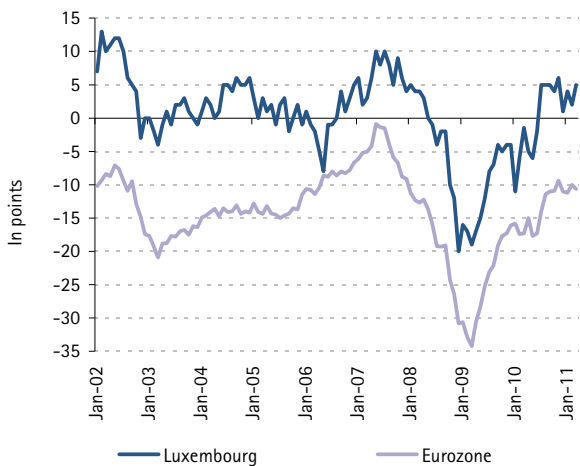
Interbank lending stagnates

Interbank lending, i.e. outstanding loans granted by banks to other banks, represents the main item on the asset side of the balance sheet for Luxembourg credit institutions (just under 50% in early 2011) and two thirds of all loans granted.

These interbank loans fell sharply in the wake of the financial crisis, by about 30% in the space of a year (between September 2008 and October 2009). They have barely recovered since then, but this stagnation is due to contrasting trends depending on the geographic origin of the debtors. Thus, loans granted to institutions within the eurozone have recovered significantly since late 2009 (up 25%). By contrast, loans to other Luxembourg banks or the rest of the world (i.e. excluding the eurozone and Luxembourg) do not seem to be able to pull away from the downward trend they have been on since early 2009.

Consumption

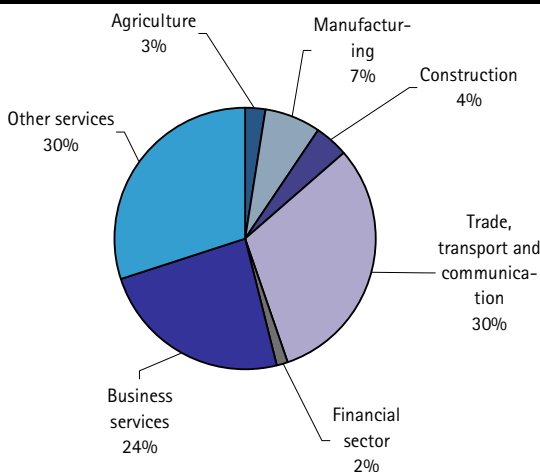
Consumer confidence indicator



Sources: BCL, Eurostat

Labour market

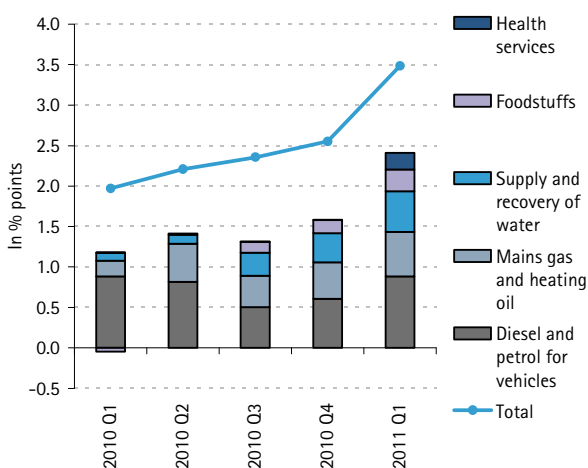
Breakdown of net jobs created in 2010



Source: STATEC (national accounts)

Inflation

Main factors affecting inflation



Source: STATEC

Consumer morale peaks

Confidence among Luxembourg consumers bounced back in March 2010, driven by more positive expectations regarding unemployment trends and the financial situation of households. However, the overall consumer confidence index has been stabilising in recent months and this is also true of the eurozone as a whole. As things currently stand, this is good news given that this stagnation has occurred at a time when confidence is at a relatively high level (i.e. above its historic level).

However, there are significant discrepancies between eurozone countries. Over the last 12 months, the countries where consumer confidence rose the most are, in decreasing order, Germany, Austria, Belgium, the Netherlands and Luxembourg. Those most affected by a drop in confidence were Portuguese, Greek, Maltese, Italian and Spanish households.

Employment recovers in all branches

In 2010, 5 149 new jobs were created in Luxembourg, up 1.6% over one year, compared to just 1% in 2009.

Health and welfare (included in other services), temporary work (included in business services), wholesale trade and hotel & catering (under trade, transport and communication) contributed the most to this trend in 2010.

Since mid-2009, growth trends in paid employment strengthened in all activity sectors. After business services, construction and manufacturing, the financial sector finally started to see a recovery in job creation in the 4th quarter of 2010 (up 0.4% over one quarter according to seasonally adjusted figures, against just 0.1% over the previous three quarters)

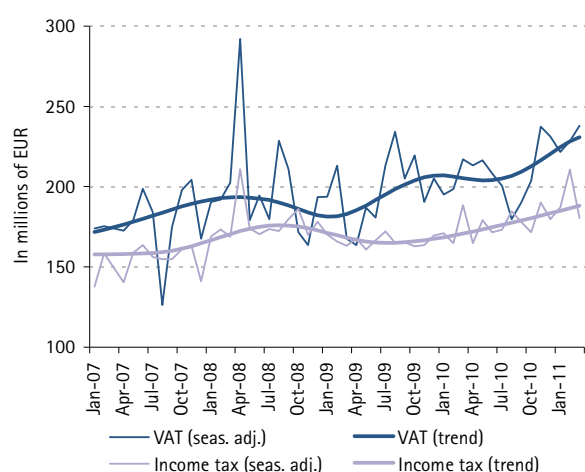
Factors affecting inflation since 2010

Inflation recovered significantly in 2010, rising 2.3%, after growing just 0.4% in 2009. Over the 1st quarter of 2011, inflation grew again, by 3.5% year-on-year. Most of this increase came from rising oil prices, administered prices and food prices, accounting for 2.4 inflation points in total.

The trend in these prices over the past five quarters illustrates the multifaceted nature of the return of inflation. Over the entire period, diesel and petrol prices contributed the most to inflation, followed by heating oil and mains gas prices. Changes in water rates also gradually contributed and the effect of these will flatten out at the same pace. By contrast, the recent contribution of 0.2 inflation points to healthcare reform will be felt throughout the year through a base effect. Since the 2nd half of 2010, food prices have rallied, and this trend is set to continue, given that commodity prices have only just started to take effect.

Public finances

Trends in receipts in millions of EUR



Source: STATEC

A successful quarter

The state took in EUR 3.25 billion over the first 3 months of 2011, up 600 million (or 22%) on the 1st quarter of 2010. This is likely to be reviewed downwards due to adjustments in accounting periods for municipal business tax and corporation tax, but the details of revenue components show a general upward trend, reflecting the effects of the economic recovery currently underway.

For example, over the first 3 months of 2011, VAT (one of the main revenue items) generated EUR 760 million as at 30 March 2011, EUR 84 million more than the same period in 2009 (up 12%). Over the same period, the subscription tax on company securities was 20% higher than for last year, a trend due equally to increasing volumes of assets under management and to revaluations linked to variations in the financial markets.

Statistics table

	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10	Jan-11	Feb-11	Mar-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	10.7	10.9	-3.7	3.3	8.3	7.3	8.1	...	...	7.9	8.2
Construction output per working day, in volume	1.2	3.0	1.3	1.9	2.5	-22.7	18.9	...	...	0.1	0.7
Turnover by volume of total retail trade	2.2	3.3	1.8	-0.4	2.2	-1.8	...	...	...	-0.2	3.0
Prices, wages											
Consumer price index (IPCN)	2.5	2.2	2.4	2.6	2.3	2.8	3.2	3.6	3.7	3.5	2.0
Underlying inflation	1.6	1.6	1.6	1.6	1.6	1.7	2.2	2.4	2.4	2.3	1.1
Oil product index	13.5	10.3	11.9	15.5	10.6	16.5	15.5	18.7	20.1	18.1	13.8
Industrial producer price index	9.8	7.2	8.1	6.6	5.9	9.4	11.3	8.8	...	9.8	-7.8
Construction price index ¹	0.7	0.7	0.7	1.2	1.2	1.2	...	...	...	1.2	0.5
Average wage bill, per person (National accounts)	1.8	1.8	1.8	1.9	1.9	1.9	...	...	...	1.9	2.7
Foreign trade											
Exports of goods (volume)	6.2	17.0	6.0	4.0	11.0	3.1	14.2	...	...	13.1	14.3
Imports of goods (volume)	-0.9	-1.0	-1.2	-0.8	-1.0	-1.1	-0.9	...	...	-1.0	0.5
Employment, unemployment											
Domestic number of employees (IGSS)	2.0	2.3	2.3	2.4	2.4	2.4	2.5	2.4	2.4	2.5	0.7
National employment (IGSS)	2.1	2.2	2.2	2.3	2.2	2.1	2.1	2.1	2.1	2.1	1.1
Unemployment rate (% of working population, seas. adj.)	6.1	6.1	6.1	6.1	6.1	6.1	5.9	5.8	5.8	5.8	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)	3.1	0.4	0.3	1.4	1.1	1.7
	Annual variation in %					
	2007	2008	2009	2010		Forecast 2011
Luxembourg - Growth in volume of GDP (STATEC)	6.6	1.4	-3.6	3.5		3.0
GDP at current prices for 2010: EUR 41 597 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 (Mar. 2011) - base January 1 st 1948: 783.33						
Half-yearly average of the index linked to base as at January 1 st 1948: 771.24						
Estimated deadline for next salary indexation: 4 th quarter of 2011*						

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

Central office for statistics
and economic data
B.P. 304
L-2013 Luxembourg
Tel. 247-84219 Fax 46 42 89
Email: info@statec.etat.lu
Internet: www.statistiques.lu

For further information:
Pascale Armstrong
Tel. 247-84234
Email: Pascale.Armstrong-Pax@statec.etat.lu
Bastien Larue
Tel. 247-84339
Email: Bastien.Larue@statec.etat.lu