

May 2011

conjoncture flash

Eurozone: exceptional start to the year, moderation to follow

Economic growth was particularly pronounced in the eurozone in the 1st quarter, despite significant differences between Member States. However, cyclical data available at the end of May point to more moderate expansion thereafter.

A very good 1st quarter

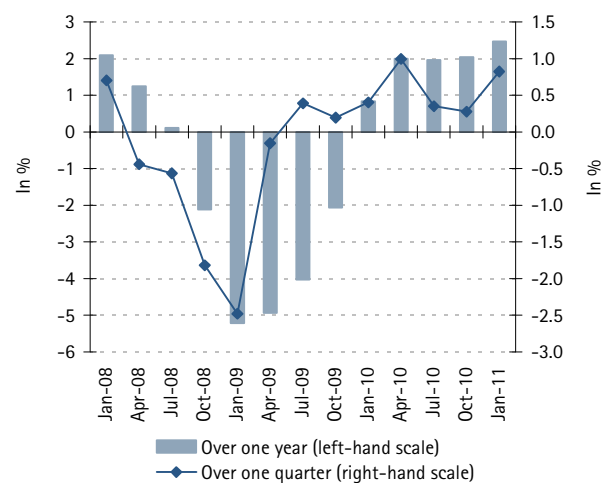
Economic activity in the eurozone strengthened considerably during the 1st quarter of 2011, with GDP in all Member States growing 0.8% over one quarter (up 2.5% over one year), well above the 0.4% and 0.3% recorded for the 2 previous quarters. This recovery had been largely expected due to the highly favourable European business cycle indicators at the start of the year and was strengthened by activity postponed from December 2010 (see Conjoncture Flash for March).

Trends by country remained varied and the origin of this variety barely changed. The two European leaders reinforced their position, with Germany confirming its role as driver (up 1.5% over one quarter) and France following close behind (up 1.0%). In Italy and Spain, respectively the 3rd and 4th economic powers in the eurozone, although the trend for economic recovery was indisputable, it was much more timid. As regards the smaller economies in the eurozone, the relatively satisfactory results posted by the Netherlands, Belgium and Austria (each rising 1.0% in the 1st quarter) were in marked contrast to those of Greece, Ireland and – to a lesser extent – Portugal, which remain deeply affected by the effects of the crisis.

However, GDP components for the eurozone – which will not be published until early June – are expected to show investments and exports making a significant contribution to growth. As regards investments, the figures already available for France and the Netherlands prolong the upward trend seen throughout the eurozone since the 2nd quarter of 2010.

Monthly publication of the state of the Luxembourg economy

GDP growth in the eurozone



Source: Eurostat

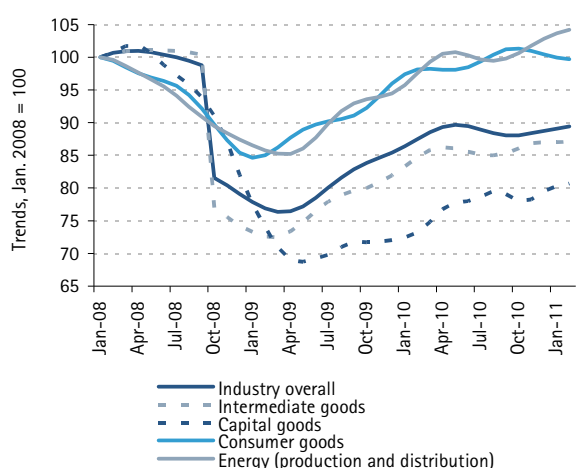
Expected slowdown

Given the relatively strong relationship between European and national dynamics, Luxembourg GDP for the 1st quarter of 2011 (to be published in early July) is likely to show a relatively satisfactory performance, as suggested by the national economic indicators in early 2011.

However, the overall dynamic for the eurozone and Luxembourg is likely to slow down after that. The main leading economic indicators at European level (Purchasing Managers Index and Economic Sentiment Indicator) have experienced a downward trend since April 2011, evident in both the manufacturing industry and services sectors, suggesting slacker growth from the 2nd quarter on. For their part, surveys specific to Germany (IFO and ZEW) show that the German economic climate has been slowing since March.

Manufacturing

Trends in industrial output since 2008



Source: STATEC (Industry survey)

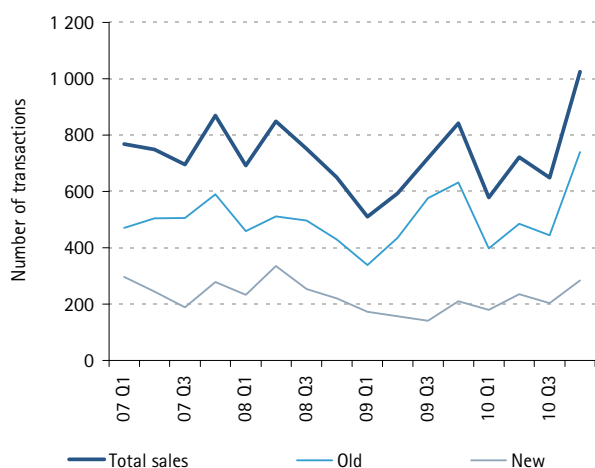
Economic situation remains buoyant in manufacturing

In the first 2 months of the year, industrial output in Luxembourg grew about 4% over one year. The recovery extended to all manufactured goods, even though the pace of growth has moderated significantly since mid-2010. Intermediate goods (which include iron and steel products and which account for 50% of total output) were the first to be affected by the crisis and output volumes remain almost 15% below those in early 2008. For capital goods, which felt the brunt later but more strongly, the difference is about 20%.

The favourable results of the economic surveys up to May and the rise in orders recorded (up 30% over one year in the first 2 months of the year) point to relatively sustained industrial activity throughout the 1st half of 2011.

Property

Apartment sales



Source: STATEC

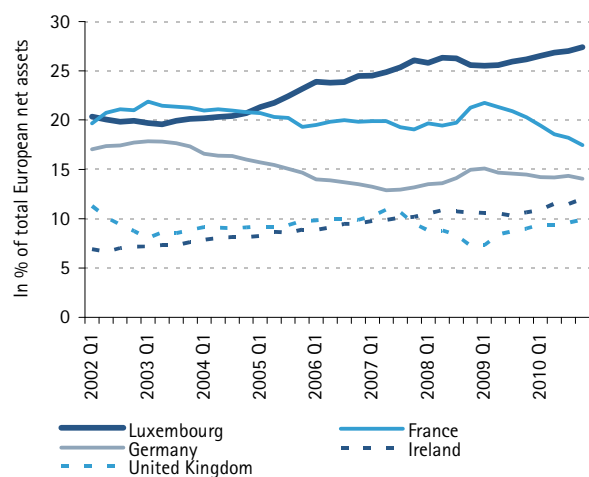
Record number of transactions in the 4th quarter

The number of transactions involving apartments was exceptionally high in the 4th quarter of 2010, particularly in older properties, although new builds also benefitted from this favourable trend. It is difficult to link this trend to purely cyclical elements and it may be that the announced amendment of the "Bëllegen Akt" (involving reduced notary fees according to household income and the discontinuation of interest rate subsidies) triggered a number of transactions. It should be noted that this amendment, which was to be implemented on 1 January 2011, was eventually abandoned by the government.

Asking prices for these apartments changed little compared to the 3rd quarter: up 0.2% in total, with older properties rising 0.7% and new builds falling 0.9%.

Financial sector

Market share of the main players in terms of European UCIs



Source: EFAMA

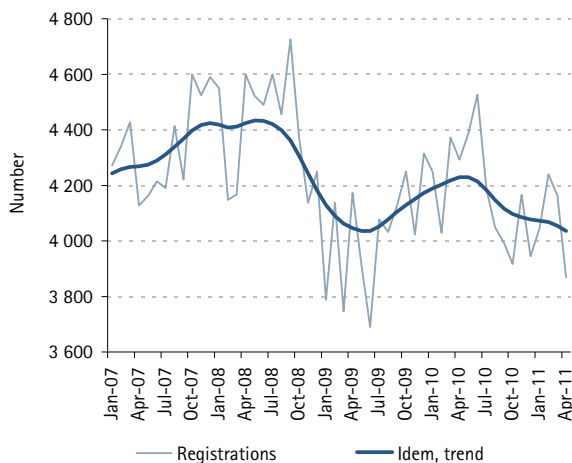
UCIs: Luxembourg leads the pack

Net assets of Luxembourg UCIs amounted to almost EUR 2,200 billion at the end of the 1st quarter of 2011. March was marked by a slight fall (down 0.8% over one month), due to the negative impact of financial markets which the low level of net capital investment was unable to offset. However, this does not challenge the overall growth trend which has prevailed since the 2nd quarter of 2009.

The favourable dynamic for UCIs was observed throughout Europe, but some countries benefitted more than others. This was the case of Luxembourg in particular, which bolstered its leading position and which – like Ireland and the United Kingdom – has seen its market share grow in Europe. Market share for Germany and France, which bounced back at the time of the 2008–2009 crisis, now seems to be returning to the downward trend of previous years.

Consumption

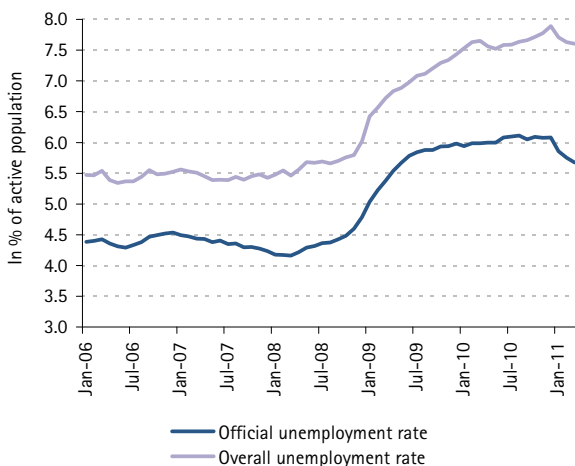
New car registrations



Source: STATEC (seasonally adjusted data)

Labour market

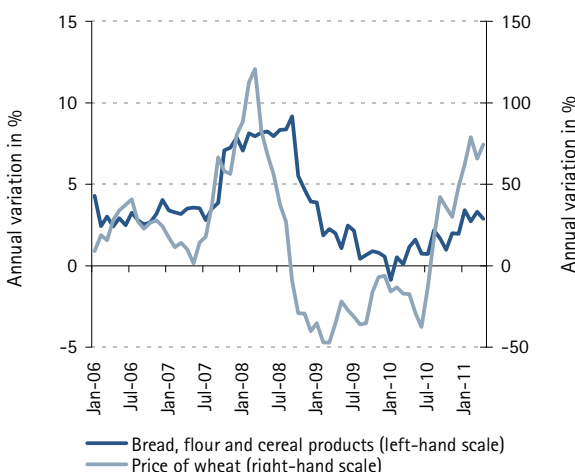
Official and overall unemployment rate (s.a.)



Sources: ADEM, IGSS, STATEC (s.a. =seasonally adjusted data)

Inflation

Food: trends in wheat-based products



Source: STATEC; IMF

Disappointing start to the year for car sales

New private car registrations remain low, falling by about 4% over the first 4 months of 2011 compared to last year (against a fall of 2% throughout the eurozone in the same period).

In March and April in particular – when car registrations are traditionally boosted by the car show – the fall was 7% as compared to 2010 levels.

The downward trend started in mid-2010, doubtless due to the end of the scrappage scheme set up in early 2009 and extended to July 2010. This subsidy did not do much to bolster new car sales in 2009, compared to other European countries opting for this type of scheme, although consumers seem to have been more active in the 1st half of 2010 as the scheme came to an end.

Unemployment falls in early 2011

Luxembourg unemployment (seasonally adjusted) fell in early 2011. The official rate fell from 5.9% in January to 5.7% in March, while the overall rate, which also includes people in job schemes, fell from 7.7% to 7.6% over the same period. Despite the break in the series in December 2010 (linked to the way job seekers are monitored by ADEM), it seems that a downward trend has set in in recent months, with a similar trend observed in neighbouring countries and throughout the EU over the same period.

However, this drop needs to be put into perspective to take account of job seekers transferring to job schemes. Thus, although the number of unsatisfied job applications fell 1.3% in the 1st quarter of 2011, the total number of job seekers (including those in job schemes) rose 2.7% over the same period, due to the significant rise in the numbers of those on such schemes (up 20%).

Increasing tension on food prices

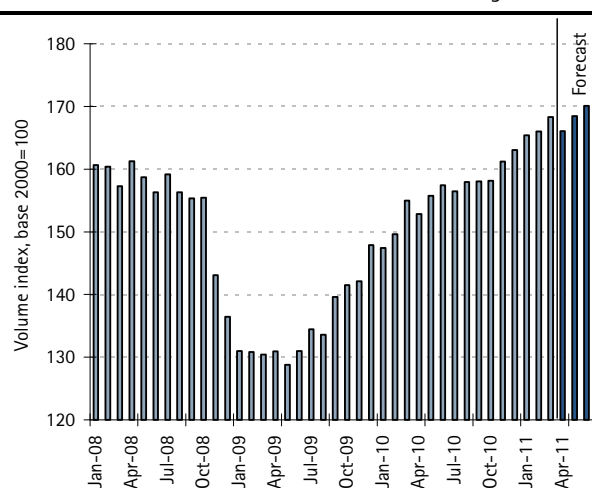
After the negative rates in early 2010, food price inflation has accelerated in the last year (up 2.9% as an annual variation at the start of the 2nd quarter).

Prices for unprocessed food were more dynamic (3.2%), mainly driven by fresh vegetables (0.6 percentage points) and fruit (0.4 points). However, since April, prices of processed food also saw inflation rise to 2.7% over one year, with coffee (0.4 points), cheese and bread (0.2 points each) or flour (0.1 points) all pushing inflation in processed food.

The pace of growth in wheat-based product prices is still far from the 2008 upturn (see graph opposite). While wheat prices on the global markets have risen significantly since last summer, prices in wheat-based products are visibly less in step than before, indicating that the transfer is as yet only partial.

Foreign trade

Trends and outlook for global trade



Source: Centraal Planbureau (www.cpb.nl)

Trade sluggish in the 2nd quarter

International trade grew 1.4% in volume in March. Trade in the 1st quarter of 2011 continued to benefit from the vigorous growth of emerging countries, particularly in Asia.

However, the Asian region was affected by the consequences of the catastrophic earthquake in Japan in March after which Japanese exports fell 8% and industrial output slumped 15%.

According to initial estimates and forecasts by the Dutch Centraal Planbureau, Japan is set to contribute significantly to the slowdown in trade from April on, and international trade in goods is set to grow more slowly in the 2nd quarter, linked to the slowdown in global industrial output.

Statistics table

	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10	Jan-11	Feb-11	Mar-11	Apr-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	12.5	-3.6	3.5	8.5	7.1	2.5	2.1	...	...	3.8	13.3
Construction output per working day, in volume	3.1	1.3	1.9	2.4	-22.7	19.1	21.2	...	...	6.5	-3.0
Turnover by volume of total retail trade	3.8	2.3	-0.3	2.8	-2.9	2.4	...	...	...	0.4	2.4
Prices, wages											
Consumer price index (IPCN)	2.2	2.4	2.6	2.3	2.8	3.2	3.6	3.7	3.7	3.7	2.0
Underlying inflation	1.6	1.6	1.6	1.6	1.7	2.2	2.4	2.4	2.5	2.4	1.1
Oil product index	10.3	11.9	15.5	10.6	16.5	15.5	18.7	20.1	18.5	19.1	15.7
Industrial producer price index	7.2	8.1	6.6	5.9	9.4	11.4	9.0	11.7	...	10.7	-5.6
Construction price index ¹	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	1.9	1.9	1.9	...	...	...	...	1.9	2.7
Foreign trade											
Exports of goods (volume)	13.9	4.7	2.0	8.5	2.8	15.6	14.0	...	...	17.4	16.4
Imports of goods (volume)	-1.0	-1.2	-0.8	-1.0	-1.1	-0.9	-0.5	...	...	-0.8	0.2
Employment, unemployment											
Domestic number of employees (IGSS)	2.3	2.3	2.4	2.4	2.4	2.5	2.4	2.4	2.2	2.4	1.1
National employment (IGSS)	2.0	2.0	2.1	2.0	2.0	2.4	2.1	2.1	1.9	2.0	1.4
Unemployment rate (% of working population, seas. adj.)	6.1	6.1	6.1	6.1	6.1	5.9	5.8	5.7	6.0	5.8	6.0

Sources: STATEC

Data blue coloured are estimates

¹Estimations based on half-yearly data

Indicators

	Variation on previous quarter in %					
	2009 Q4	2010 Q1	2010 Q2	2011 Q3	2010 Q4	2011 Q1
Eurozone- Growth in volume of GDP (European Commission)	0.2	0.4	1.0	0.4	0.3	0.8
Luxembourg - Growth in volume of GDP (STATEC)	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		3.2
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 (01/01/2011): 511 840						

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

Consumer price index (Apr. 2011) - base January 1st 1948: 785.64
Half-yearly average of the index linked to base as at January 1st 1948: 774.61
Estimated deadline for next salary indexation: 4th quarter of 2011*

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