

June 2011

conjoncture flash

Consumers anticipate a continued fall in unemployment

Consumer morale was favourably oriented until May 2011, mainly due to improved prospects on the unemployment front. Combined with the significant statistical link between expectations and effective data regarding unemployment, this points to a continuing fall in unemployment, confirming that conditions in the short-term labour market are improving.

Unemployment is falling...

The Luxembourg unemployment rate, seasonally adjusted, fell in early 2011. The official unemployment rate fell from 5.9% in January to 5.8% in April, while overall unemployment, which also includes people on 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 throughout the EU over the same period.

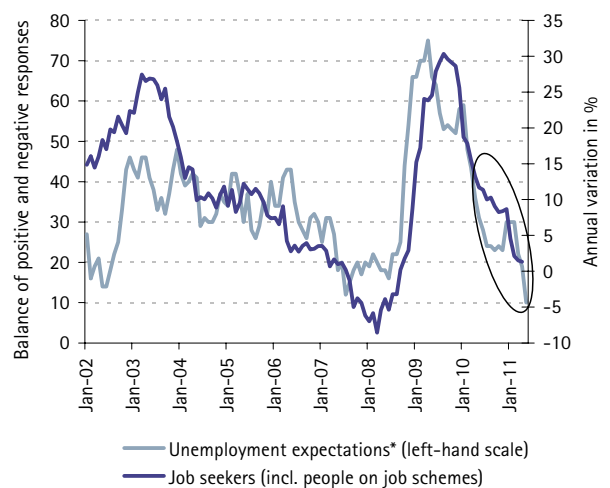
In its monthly consumer surveys, the BCL asks Luxembourg citizens for their opinion on unemployment trends over the following 12 months. In fact, expectations regarding unemployment appear to be strongly correlated (see graph opposite) with the effective numbers of job seekers registered with ADEM¹. The maximum correlation is noted with a delay of three months, i.e. consumers correctly anticipate the trend in the number of job seekers one quarter in advance. However, this mostly applies during upturns (when unemployment falls)², while downturns (when unemployment rises) are only reflected with some delay in survey data. In other words, consumers seem to be better able to anticipate downward trends in unemployment.

... and is likely to continue to fall

This relationship between expectations and effective data means that we can envisage an additional fall-off in unemployment in the coming months. This is yet

Monthly publication of the state of the Luxembourg economy

Perception of unemployment trends



Sources: ADEM, BCL (monthly consumer survey)

another signal that labour market conditions are improving, alongside other statistical indicators such as the recovery in employment and the increase in the number of job offers recorded by ADEM.

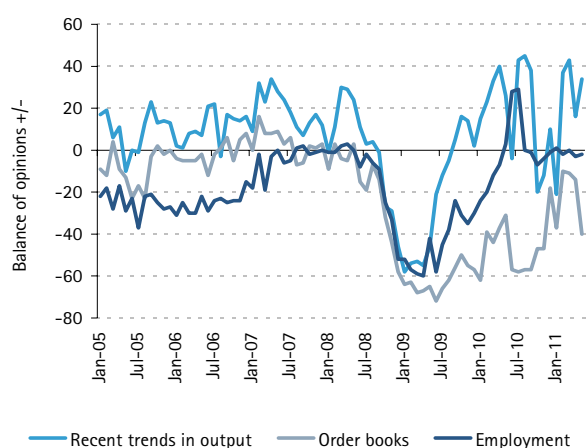
Finally, this improvement is taking place in a very specific context, with a labour market bruised by a major economic recession, which pushed unemployment to record levels in a number of European countries, including Luxembourg. Thus, while the Luxembourg unemployment rate has fallen below 6%, it is still far from the 4% seen in early 2008 before the crisis broke.

¹ If all job seekers registered with ADEM are taken into account, including those on job schemes, the results are slightly better.

² Expectations reached a high point in December 2002 and April 2009, while job seeker numbers peaked in March 2003 and August 2009, i.e. three to four months later.

Manufacturing

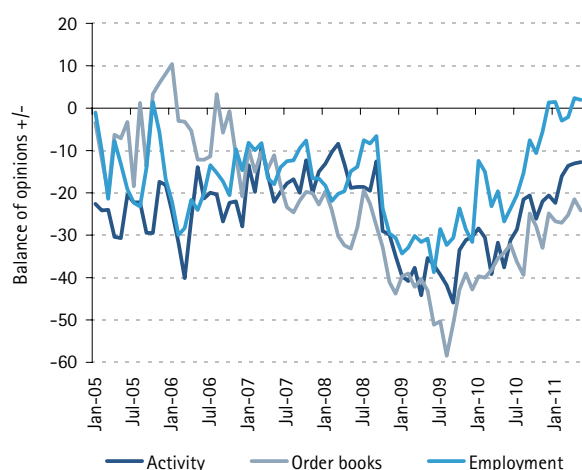
Economic surveys on manufacturing



Source: STATEC (seasonally adjusted data)

Construction

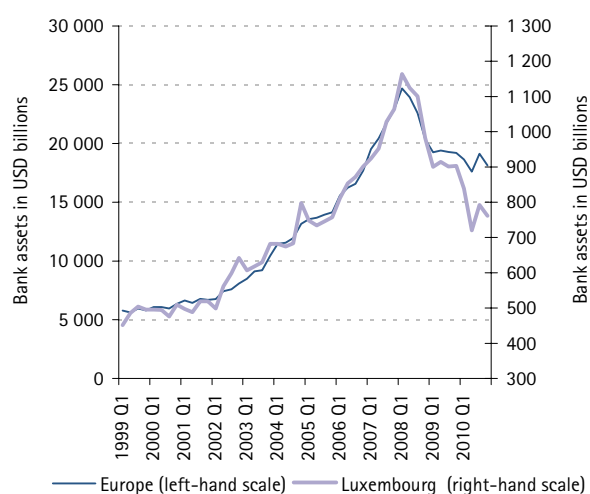
Economic surveys on construction



Source: STATEC (seasonally adjusted data)

Financial sector

International banking activity



Sources: BCL, BIS (Bank of International Settlements)

Moderate increase in output

Output volumes per working day grew some 2% over one year in the 1st quarter of 2011, somewhat below the positive order expectations in late 2010 and early 2011, no doubt partly reflecting the sharp rise in prices for industrial products over the same period (almost 10% over one year). Although order opinions were down in May (especially in the metals sector), they are still trending upward, contrasting with the flat profile for output in early 2011.

The trend elsewhere in Europe is less dynamic, with output up about 6% over one year over the first four months of the current year. Germany (up 12% over the same period) has contributed much to this positive result, but other countries neighbouring Luxembourg are also relatively well oriented (up 10% in Belgium, up 4% in France).

A satisfactory start to the year

The construction sector started 2011 with very good figures in terms of output, rising almost 12% over one year in the 1st quarter.

This was mainly due to an exceptional month in January (making up for the catastrophic climate conditions in December) but also and above all a much more favourable basic dynamism. This can be seen in the results of economic surveys, which show construction companies' opinions of their activity improving generally and regularly since mid-2009. However, it should be noted that the rise in output noted in early 2011 mainly came from building and civil engineering firms, with activity volumes stabilising in specialised construction activities (technical installations and finishing work).

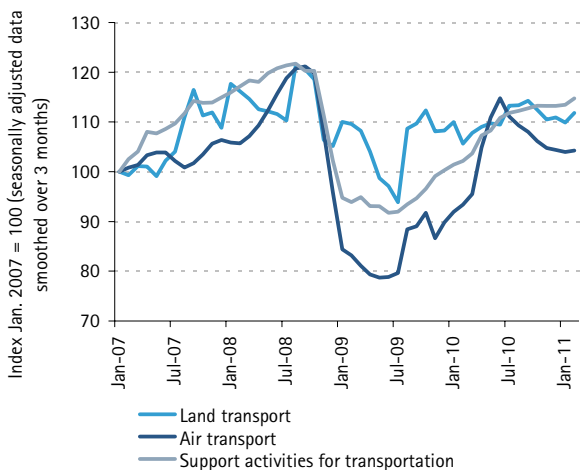
Banks: less weight internationally

The international activity of banks located in Luxembourg – represented by the volume of assets held abroad (expressed here in USD) – fell sharply during the crisis, falling almost 40% between the high point of the 1st quarter of 2008 and the low point of the 2nd quarter of 2010. Over the same period, European banks saw their international activity drop by just 30%.

Thus, in contrast to the situation for the Luxembourg UCI industry, which is gaining in importance at European level (see Conjoncture Flash of May 2011), the market share of Luxembourg banks internationally is on a downward trend, falling from some 5% in 2008 to 4% in late 2010. In 2010, conversely, there was a rise in the market share of the UK (which at 30% is the leader in this area), France and the Netherlands.

Transport

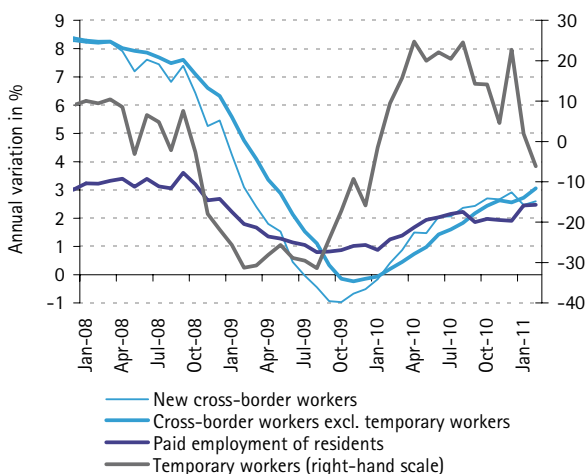
Turnover volume in transport services



Sources: Luxembourg Land Registry, STATEC

Labour market

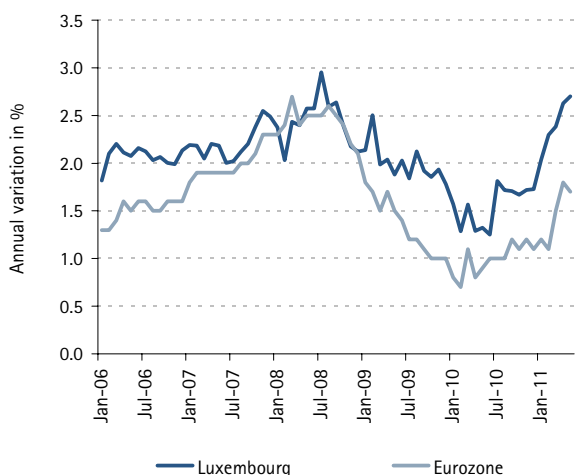
Impact of temporary employment on cross-border employment



Sources: IGSS, STATEC (month-end data)

Inflation

Inflation excl. energy and unprocessed food



Source: Eurostat, Statec

Transport loses speed

Over the first two months of 2011, turnover among transport companies rose by 13% over one year, relatively well distributed over all activities in the sector. This positive result must however be assessed in relation to the situation in early 2010, when transport activity started to pull itself out of the rut caused by the 2009 crisis.

In fact, turnover growth (see graph) has levelled off since mid-2010, which should result in much less favourable annual growth rates from the 2nd half of 2011. Indeed the air transport sector has been trending downwards since the 3rd quarter of 2010, while support activities for transportation (logistics, freight management, warehousing, handling, etc.) are still managing to maintain growth.

Employment trends for cross-border and resident workers

In the first two months of 2011, domestic paid employment rose by 2.6% over one year compared to 2.4% in the last quarter of 2010. At first sight, this seemed to be due to paid employment of residents, where the pace of growth rose from 2.2% in late 2010 (Q4) to 2.6% in the first two months of 2011, while in cross-border employment it fell from 2.7% to 2.5%.

However, the fall-off in temporary work since mid-2010 (see graph opposite), comprising around 80% cross-border workers, had more impact on cross-border employment than that of residents. Thus, cross-border employment excluding temporary workers grew by 2.9% over the first two months of 2011 (up 0.4 percentage points compared to total cross-border employment), whereas the impact of temporary work on the paid employment of residents was just 0.1 percentage points over this period. Excluding temporary workers, cross-border employment continued to rise in early 2011.

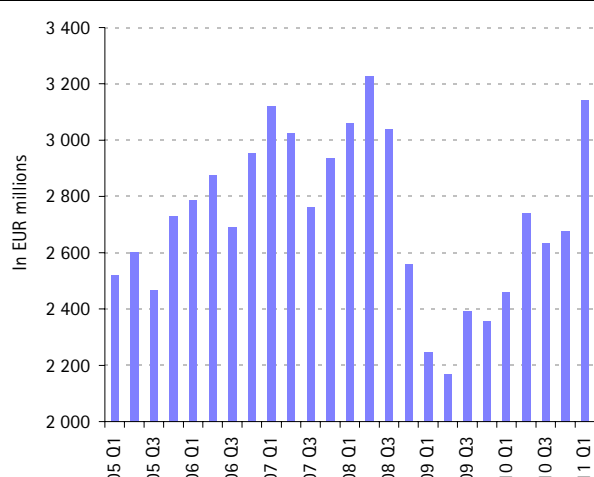
Inflation becomes widespread

Inflation in the eurozone has stabilised in recent months, at 2.7% year-on-year, mostly due to falling oil prices, which offset food price rises. While lately much attention has been paid to the latter, other price rises show that underlying inflationary trends are spreading. In particular, clothing and travel prices have risen significantly since March.

In Luxembourg, inflation excluding energy and unprocessed food has recently risen twice, in July 2010 and then in January this year (see graph opposite) pushed by trends in administered prices. They were up over 7% a year over the last months, twice that of the euro area. In parallel with these isolated, easily identifiable phenomena, a basic inflationary trend comparable to that seen in the rest of the eurozone is setting in.

Foreign trade

Exports of goods by value



Source: STATEC

Impressive recovery in exports of goods

Exports by value literally took off in the 1st quarter of 2011, growing by almost 30% over one year (up 19% in volume). This growth has been noted in most product categories, even though manufactures of base metals and transport equipment alone account for half of this rise (contributing 30% and 20% respectively to the overall trend).

This favourable export trend is partly due to price effects: the most striking example is in iron and steel products, where production prices noted in the 1st quarter – as in the two previous quarters – also show an annual rise of some 30%. In transport equipment, the atypical trend of the 1st quarter is explained by the exporting of two aircraft (in January and March). This also explains the rise in exports to the US (up 180% over one year).

Statistics table

	Sep-10	Oct-10	Nov-10	Dec-10	Jan-11	Feb-11	Mar-11	Apr-11	May-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	-3.6	3.6	8.5	7.0	2.7	2.7	0.0	...	...	1.7	15.9
Construction output per working day, in volume	1.3	1.9	2.5	-22.7	18.9	21.2	-0.8	...	...	11.7	-1.2
Turnover by volume of total retail trade	2.3	-0.3	2.8	-2.1	1.5	2.4	...	...	...	0.2	2.3
Prices, wages											
Consumer price index (IPCN)	2.4	2.6	2.3	2.8	3.2	3.6	3.7	3.7	3.6	3.7	2.3
Underlying inflation	1.6	1.6	1.6	1.7	2.2	2.4	2.4	2.5	2.6	2.5	1.1
Oil product index	11.9	15.5	10.6	16.5	15.5	18.7	20.1	18.5	15.1	17.9	19.5
Industrial producer price index	8.1	6.6	5.9	9.4	11.5	9.1	11.8	11.6	...	10.8	-2.4
Construction price index ¹	0.3	0.7	0.7	0.7	...	...	...	...	...	0.7	1.1
Average wage bill, per person (National accounts)	1.8	1.9	1.9	1.9	...	...	...	...	...	1.9	2.7
Foreign trade											
Exports of goods (volume)	5.4	3.6	9.1	3.8	9.0	4.9	-5.0	...	...	19.0	22.0
Imports of goods (volume)	-1.2	-0.8	-1.0	-1.1	-0.9	-0.5	-0.4	...	...	-0.6	0.0
Employment, unemployment											
Domestic number of employees (IGSS)	2.3	2.4	2.4	2.4	2.5	2.6	2.6	2.4	2.5	2.5	1.4
National employment (IGSS)	2.0	2.1	2.0	2.0	2.4	2.4	2.3	2.3	2.3	2.3	1.6
Unemployment rate (% of working population, seas. adj.)	6.0	6.1	6.1	6.1	5.9	5.8	5.7	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 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 %					Forecast 2011
	2007	2008	2009	2010		
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 - 4th quarter): EUR 898 million						
Resident population (01/01/2011): 511 840						
Consumer price index (Apr. 2011) - base January 1 st 1948: 785.64						
Half-yearly average of the index linked to base as at January 1 st 1948: 774.61						
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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