

July 2011

conjoncture flash

Favourable trend in GDP in late 2010 and early 2011

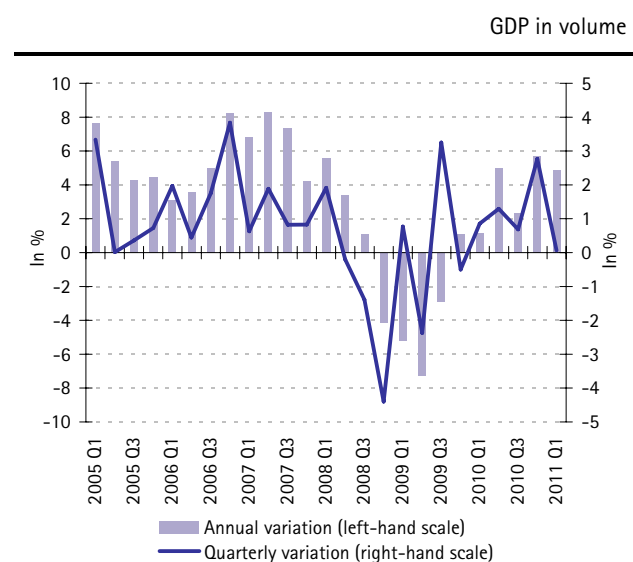
The past year saw a recovery in the Luxembourg economy. GDP in volume rose 3.5% over 2010 as a whole, after a marked recession in the previous year (down 3.6%) and slow growth in 2008 (up 1.4%).

In the 1st quarter of 2011, GDP in volume rose 4.9% over one year and 0.1% over one quarter. The latter figure was somewhat surprising, given that the 1st quarter of 2011 had been particularly dynamic throughout the rest of the eurozone (up 0.8% over one quarter). However, it must be noted that GDP growth in Luxembourg was extremely dynamic in the 4th quarter 2010, rising 2.8% over one quarter. A number of exceptional phenomena significantly affected momentum in the last two quarters for which statistics have been published¹ (Q4 2010 and Q1 2011) but, considered as a whole, these nonetheless show a favourable trend that is generally in line with that of neighbouring countries. This picture is conveyed by the results presented as an annual variation (see graph opposite), which provide for an annual growth rate of almost 5%, higher than the historical trend of some 4% over the 1995-2010 period.

Financial sector lagging behind

A number of sectors stand out in the current recovery, starting with trade, hotel and catering and transport and communications. Business services have also been trending quite favourably over the same period, as has manufacturing. Pending the results of more extensive surveys, a measure of caution regarding the latter sector is necessary, with short-term indicators providing a slightly different view to the quarterly national accounts. The least favourable trend concerns the financial sector, which has not really displayed any signs of recovery in terms of volume indicators. However, trends in this sector remain highly varied, with banks bringing the overall result down while other segments such as UCIs and insurance are much more positive.

Monthly publication of the state of the Luxembourg economy



Source: STATEC (National accounts)

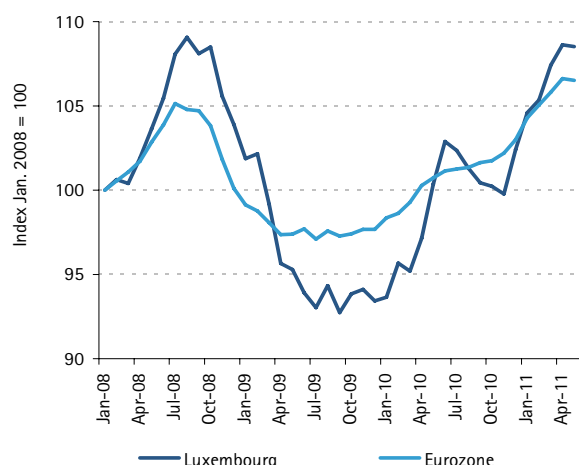
Growth forecasts revised upwards

Economic growth forecasts have been revised slightly upwards. GDP growth in volume is now expected to be 4.0% in 2011 (instead of 3.2% as previously forecast) and 3.8% in 2012 (instead of 3.5%). This upward revision is linked to a revision of the assumptions, which are mainly variables linked to the international economic environment. The increase in growth will have a positive impact on employment and unemployment: the latter is expected to fall very slightly over 2011 (to 5.9%) and to 5.7% in 2012. Consumption and investment have also been revised upwards, particularly for 2011. Furthermore, inflation forecasts have been revised slightly upwards, to 3.3% in 2011 and 2.1% in 2012. The public deficit is expected to reach 0.8% of GDP in 2011 and 1.1% of GDP in 2012.

¹ For more information, see the last Note de Conjoncture (No. 2-2011), published on 12 July 2011: <http://www.statistiques.public.lu/catalogue-publications/note-conjoncture/2011/PDF-NDC-2-2011.pdf>

Manufacturing

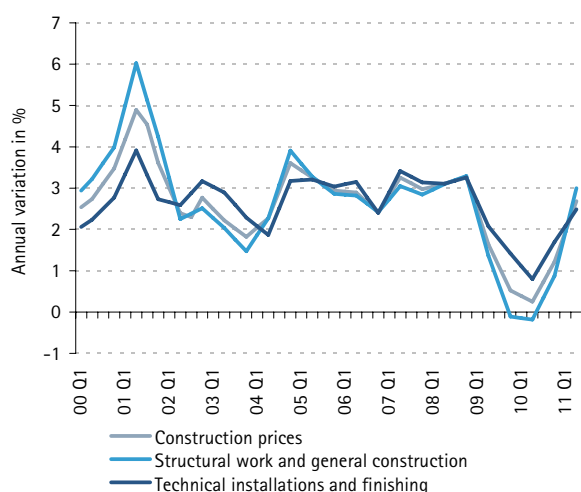
Prices of industrial products – Luxembourg vs eurozone



Sources: Eurostat, STATEC

Construction

Construction prices



Source: STATEC

Financial sector

Profit and loss accounts

	June 2010	June 2011	Variation in %
	In millions of EUR		In %
Interest margin ¹	2 902	2 878	-0.8
Income from commission	1 798	1 920	6.8
Other net income	-76	414	...
Banking income	4 624	5 212	12.7
Personnel costs	1 274	1 245	-2.2
Other overhead expenses	1 019	1 046	2.6
Overhead expenses	2 293	2 292	-0.1
Income before provisions	2 330	2 921	25.3

Source: CSSF (provisional results)

¹ Including dividends received from subsidiaries

Price rises likely to slow

After falling 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. Prices continued to rise in 2011 (up 6% from December 2010 to May 2011, according to the latest available data), mostly due to capital goods in January and February, rubber and plastic goods (up 8% between December 2010 and May 2011), iron and steel products (up 10% over the same period) and energy output and distribution (up 7%).

The lull noted since April in commodity prices should ease tension on manufacturing prices in the 2nd half of 2011. Moreover, the opinion survey of the manufacturing sector also indicates price moderation since the 2nd quarter.

Construction prices: the recovery is confirmed

The rise in construction prices fell off significantly between mid-2009 and mid-2010. According to the figures for the 2nd quarter of 2011, this trend seems to have ended and prices are once again coming under pressure, with the overall summary index rising 2.8% over one year. All services are witnessing price rises, including structural work, where prices had risen only slightly by late 2010. The most marked rises affected primarily roofing work (up 4% over one year), door and window work (up 3.6%) and technical installations (i.e. plumbing, heating, electricity, etc. – up 3.5%).

Furthermore, price expectations according to the opinion survey of construction businesses continued to trend upwards at the end of the 2nd quarter.

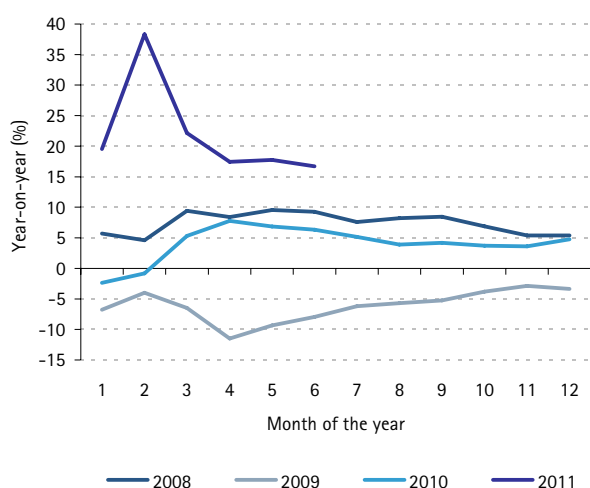
Banking income disappointing in the 2nd quarter

According to provisional figures, income before provisions for Luxembourg banks rose 25% over one year at the end of the 1st half of 2011. This high rise was largely influenced by "other net income" (with value adjustments in the equity portfolio), which had been in the red in the 1st half of 2010. Alongside this exceptional phenomenon, initial analysis of decumulated figures points to a disappointing downward trend for conventional income items during the 2nd quarter of 2011: the interest margin remained relatively low and income from fees had fallen sharply compared to the 1st quarter of 2011, probably linked to the concomitant decline in the stock market indices (see under "International environment").

The fall noted in personnel costs may be due in part to the negative employment trend, but mostly to the base effect of the exceptionally high level in the 1st half of 2010, linked to redundancy plans.

Public finances

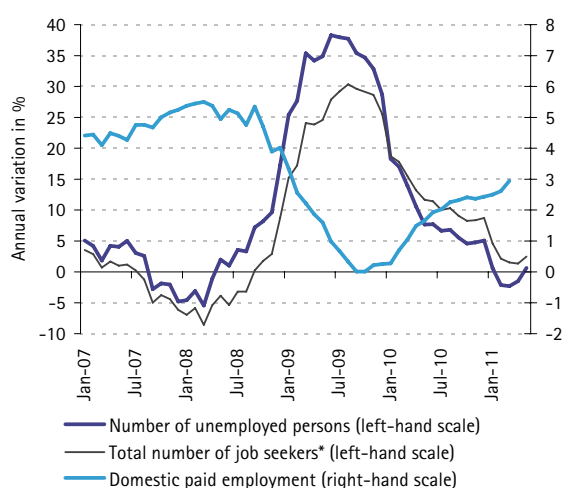
Development of revenue throughout the year



Source: STATEC

Labour market

Trends in employment and unemployment in Luxembourg

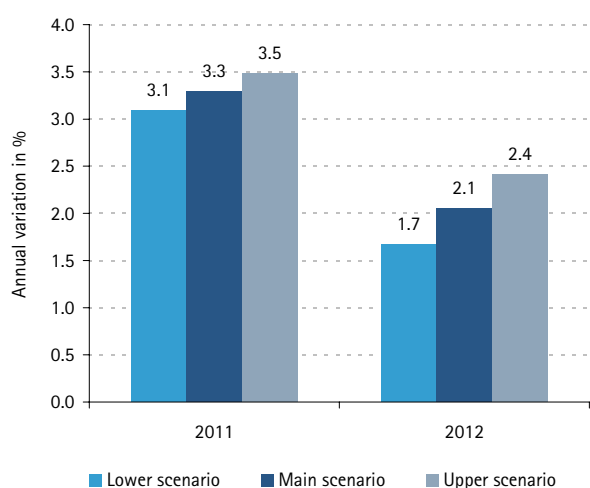


* incl. people in job schemes

Sources: ADEM, IGSS

Inflation

Inflation forecasts



Source: STATEC

Is growth in receipts set to tail off?

Over the first six months of the year, tax receipts were up 16.7% on the first half of 2010, by over EUR 874 million. Is this upward trend likely to be reversed again in the second half? Taking into account similar interannual variations in recent years, the trend is set to stabilise from the middle part of the year: as the months go by, the accumulated rise will approximate to the final annual figure (i.e. the last point for each curve in the graph opposite). Thus, over the past few years, the maximum spread in absolute terms between the rise in growth after six months and the final figure was five percentage points.

Nevertheless, first-half receipts include a number of exceptional items such as VAT and municipal business tax, which drove results up. The final annual figure should therefore be below the 16.7% rise posted up to June.

Is the unemployment trend set to reverse?

According to the latest definitive figures from ADEM, the number of unemployed persons rose slightly in May (up 0.6% year-on-year), after falling for just three months in a row (see graph opposite). Because of this, the seasonally adjusted unemployment rate also started to rise, reaching 5.9% in May 2011 after falling slightly in the early part of the year.

In terms of employment, the latest figures available point to a very positive performance, with domestic paid employment up 2.9% year-on-year in March 2011, after a rise of 2.5% in previous months. This favourable trend however goes hand in hand with a fall in unemployment at the start of the year and the latest figures from ADEM leaving little room for optimism in the months to come. STATEC's latest annual forecasts (see NDC No. 2-11, pages 102-103) provide for a reversal of this trend in 2011, i.e. another rise in (monthly) unemployment and a new slowdown in employment.

Inflation forecasts: 3.3% in 2011 and 2.1% in 2012

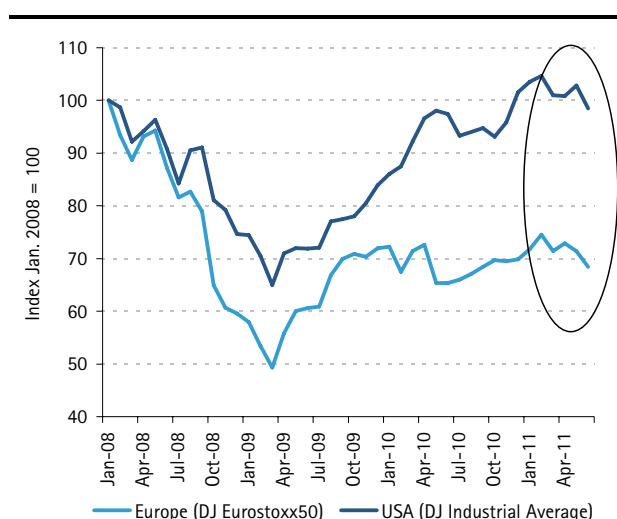
According to the latest forecasts from STATEC, which are based on a price per barrel of USD 116.2 and an exchange rate of 1.44 USD/EUR from June 2011, inflation is expected to average 3.3% in 2011, falling back to 2.1% in 2012.

Alongside this main scenario, which assumes that the price per barrel of oil and the exchange rate will remain in line with the average noted in the last month, the upper and lower scenarios assume a deviation of USD 20 respectively in the price per barrel. In this case, the inflation rate in 2011 would be 0.2 percentage points higher or lower respectively.

According to the above-mentioned main scenario, the next wage indexation adjustment should normally take place in the 2nd quarter of 2012. According to the alternative scenarios, the next indexation would be respectively brought forward (upper scenario) or delayed (lower scenario) by one quarter each time.

International environment

Stock market indices



Sources: Eurostat, STATEC (US data adjusted according to exchange rates)

Stock market indices fall

Equity market indices displayed a relatively flat profile in the 1st quarter of 2011, and there is reason to believe that there will be a turnaround from the second quarter, gathering momentum at the start of the 3rd quarter. The worsening public debt crisis is affecting the outlook for the stock market in Europe and the United States alike. In the eurozone, Greece, Ireland, Spain, Portugal and, more recently, Italy, are the most worrying in terms of yields on their public borrowings. Even for countries with a healthier budgetary situation, the exposure of their financial institutions to countries in difficulty, and therefore the risk of contagion, represents a systemic risk.

As the international financial environment is extremely important for Luxembourg, stock market indices are a key variable in macroeconomic forecasting, particularly in determining fees in the financial sector.

Statistics table

	Oct-10	Nov-10	Dec-10	Jan-11	Feb-11	Mar-11	Apr-11	May-11	Jun-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	8.5	7.1	2.7	2.7	0.2	-0.6	...	...	0.7	18.7
Construction output per working day, in volume	1.9	2.5	-22.7	18.9	21.1	-0.3	-0.2	...	...	5.7	0.3
Turnover by volume of total retail trade	-0.2	2.9	-1.9	1.4	0.8	-3.0	0.2	...	...	-0.7	3.4
Prices, wages											
Consumer price index (IPCN)	2.6	2.3	2.8	3.2	3.6	3.7	3.7	3.6	3.5	3.6	2.2
Underlying inflation	1.6	1.6	1.7	2.2	2.4	2.4	2.5	2.6	2.4	2.5	1.0
Oil product index	15.5	10.6	16.5	15.5	18.7	20.1	18.5	15.1	16.5	16.7	17.9
Industrial producer price index	6.6	5.9	9.4	11.5	9.1	11.7	11.6	8.0	...	10.4	1.2
Construction price index ¹	1.2	1.2	1.2	2.0	2.0	2.0	2.7	2.7	2.7	2.7	0.3
Average wage bill, per person (National accounts)	2.9	2.9	2.9	4.1	4.1	4.1	...	...	...	4.1	1.5
Foreign trade											
Exports of goods (volume)	3.5	9.2	4.5	10.1	6.5	-3.2	-6.3	...	...	8.9	17.4
Imports of goods (volume)	-0.8	-1.0	-1.1	-0.9	-0.5	-0.4	0.1	...	...	-0.2	0.0
Employment, unemployment											
Domestic number of employees (IGSS)	2.4	2.4	2.4	2.5	2.6	2.9	2.7	2.9	3.0	2.9	1.7
National employment (IGSS)	2.3	2.2	2.1	2.5	2.5	2.7	2.6	2.6	2.6	2.6	1.7
Unemployment rate (% of working population, seas. adj.)	6.1	6.1	6.1	5.9	5.8	5.7	5.8	5.9	...	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)	0.3	0.3	0.9	0.4	0.3	0.8
Luxembourg - Growth in volume of GDP (STATEC)	-0.5	0.9	1.3	0.7	2.8	0.1
	Annual variation in %					
	2007	2008	2009	2010	Forecast 2011	
Luxembourg - Growth in volume of GDP (STATEC)	6.6	1.4	-3.6	3.5	4.0	
GDP at current prices for 2010: EUR 41 597 million						
Minimum monthly salary (since 01/01/2011): EUR 1 757.56	Consumer price index (June 2011) - base January 1 st 1948: 785.44					
Current account balance (2010 - 4th quarter): EUR 898 million	Half-yearly average of the index linked to base as at January 1 st 1948: 780.62					
Resident population (01/01/2011): 511 840	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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