

August 2011

# conjoncture flash

## Summertime blues

The disappointing development in eurozone GDP for the 2nd quarter, as well as the turmoil affecting the financial markets from July onwards, reveal both a deterioration in the European economy and weaker growth prospects than expected.

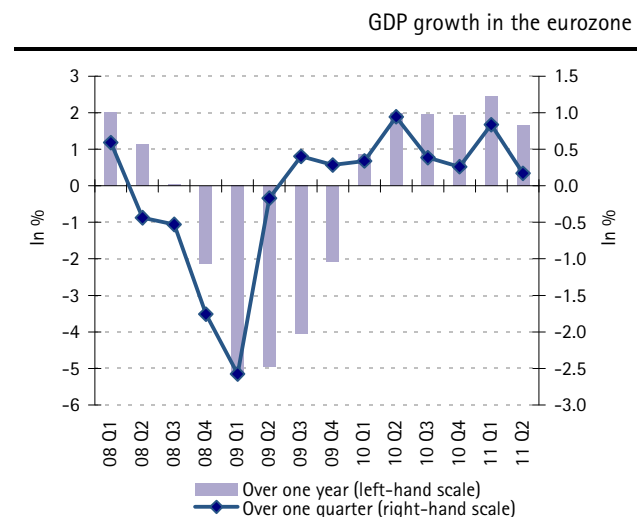
### Little growth in eurozone during 2nd quarter

According to initial estimates, eurozone GDP only grew 0.2% over the whole of the Q2 2011. This result reveals a marked slowdown compared with performance in the 1st quarter (+0.8%). While slower growth was certainly expected, given that leading indicators were pointing downwards during the 2nd quarter, it was perhaps not expected to be so substantial. The major economies of the eurozone, which were among the best positioned over the preceding quarters, were this time affected across a broad front, and had to content themselves with virtually static GDP: +0.1% for Germany (as compared with +1.3% in the 1st quarter of 2011), and 0.0% for France (compared with +0.09% in the 1st quarter). Although such feeble growth in the Franco-German alliance has a general effect on the overall dynamic, other countries in the eurozone put up spirited resistance; this was the case with Finland (+1.2%), Austria (+1.0%), Belgium (+0.7%) and, to a lesser degree, Italy (+0.3%). However, there is little doubt that, looking forward, the trend towards a slowdown will spread and even be exacerbated, since economic prospects have considerably worsened over the course of the summer.

### Markets once more in turmoil

The problem of European sovereign debt became a key economic issue in mid July, with anxieties relating to Italian debt leading to a substantial fall in major stock-market indexes, whose progress had already been impeded since the start of the 2nd quarter. Added to this were disappointing US growth statistics (+0.3% for the 2nd quarter, following +0.1% in Q1), published on 29 July.

## Monthly publication of the state of the Luxembourg economy



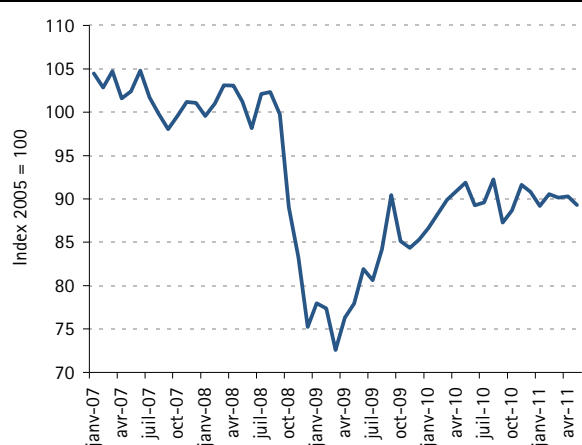
The downward movement then took on the appearance of a stock-market crash as a result particularly of the lowering by Standard & Poor's of the rating given to US long-term public debt (5 August). In the space of two weeks, the main European and US stock-market indexes lost between 15% and 20% of their value, and now, at the end of August, the equity markets are still vulnerable to extremely high levels of volatility. These market upheavals seen over the summer, to which no end is yet in sight, are already having a strongly-negative effect on growth prospects for the eurozone and Luxembourg for the 2<sup>nd</sup> half of 2011 as well as for 2012.

Only a few economic indicators have been published since this sharp fall in the financial markets. With regard to the eurozone, the composite PMI (index of purchasing managers, industry and services) remained stable in August. In Germany, on the other hand, which has played the role of economic engine in the European recovery, the ZEW and IFO indexes fell back substantially on the surveys for August.

**STATEC**  
Luxembourg

## Manufacturing

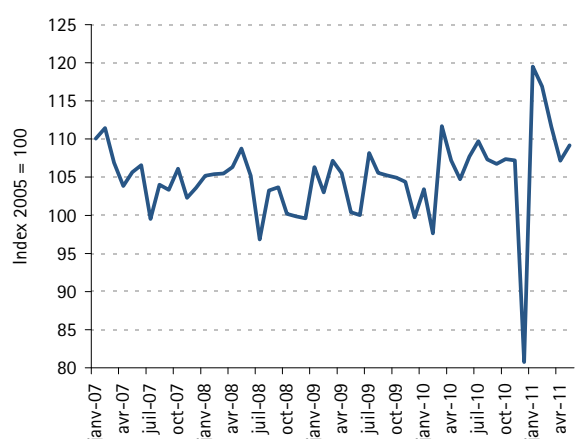
Manufacturing output per working day



Source: STATEC (seasonally adjusted data, latest review date: May 2011)

## Construction

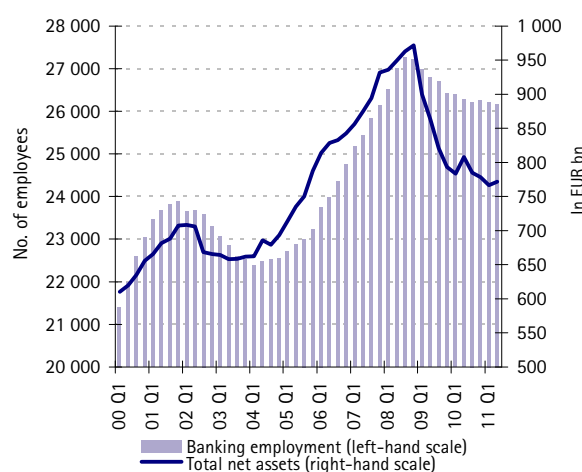
Construction output per working day



Source: STATEC (seasonally adjusted data, latest review date: May 2011)

## Financial sector

Banking indicators



Source: BCL

## Stagnant production

At the end of May 2011, Luxembourg's industrial production was not showing any signs of a strong growth dynamic, with volumes virtually unchanged since mid 2010.

While there has indeed been a recovery – following the collapse at the end of 2008 – the level of production has not climbed back up to levels seen before the crisis, being still between 10% and 15% lower. Manufacturers have indeed been able to benefit from higher selling prices since 2010 (see last month's Conjoncture Flash), enabling them to pass on the rise in commodity prices and no doubt also to re-establish a degree of profitability, impacting positively on sales (+11% compared with 2010 over the first five months of the year), but manufacturing employment, on the other hand, which depends on volume, is not profiting in this regard from favourable prospects, all the more so since opinion surveys for June and July suggest a fall in production..

## Favourable global economy

Production in the construction sector gained an annualised 5% during the first five months of 2011. The months of January and February were able to benefit from an exceptional level of production, making up for cancelled operations in December due to bad weather (cold, snow). This exceptional increase explains the slump which occurred from March onwards (see chart), more indicative of a return to normal than a shift towards a downward trend.

Activity remains dynamic in this sector, as evidenced by the results of opinion surveys, which retained a positive focus until July 2011.

At European level, it is still difficult to see any signs of a recovery in the construction sector, all the more so since June ended with a fairly pronounced fall in production (particularly in Germany).

## Banking employment continues downward

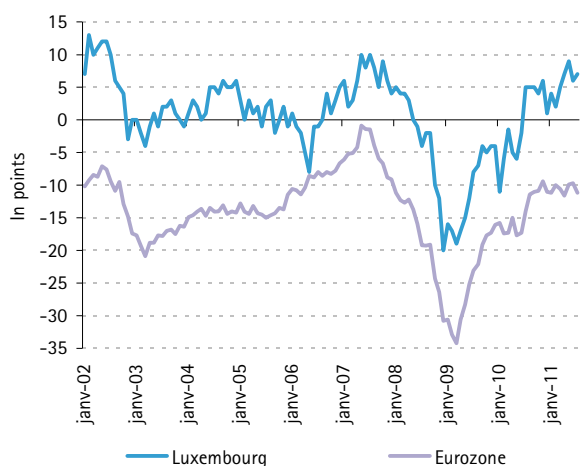
Employment with credit institutions fell by 65 units as at the end of the 2nd quarter 2011 (-0.2% over one quarter, -0.5% over one year). Since the peak reached in the 3rd quarter of 2008, some 1,100 net jobs have disappeared from the Luxembourg banking scene (-4%). This contraction in employment runs in parallel to that of total net assets. Bearing in mind that this indicator has fallen by almost 20% over the same period, all in all the fall in jobs appears relatively limited compared with the previous crisis of 2002-2003.

Total net assets have tended to stabilise over recent months; they even grew slightly in July 2011, by 0.8% compared with June, but it is not yet possible to speak of a veritable turnaround on the upside.

Finally, it is worth noting that employment in the whole of the financial sector, i.e. not only banking employees, but also those of financial sector professionals (FSPs), has been on an upward trajectory since the 1st quarter of 2010.

## Consumption

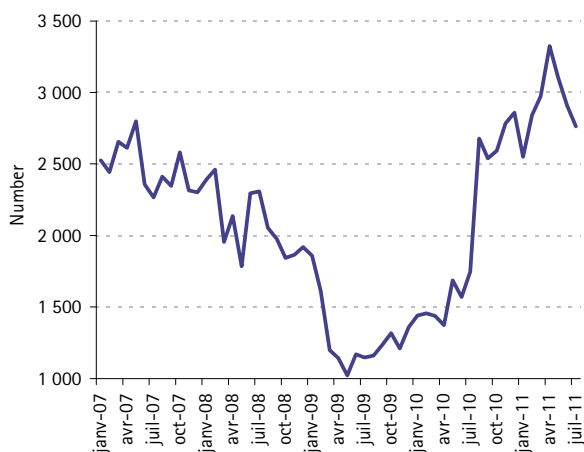
Consumer confidence indicator



Sources: BCL, Eurostat

## Labour market

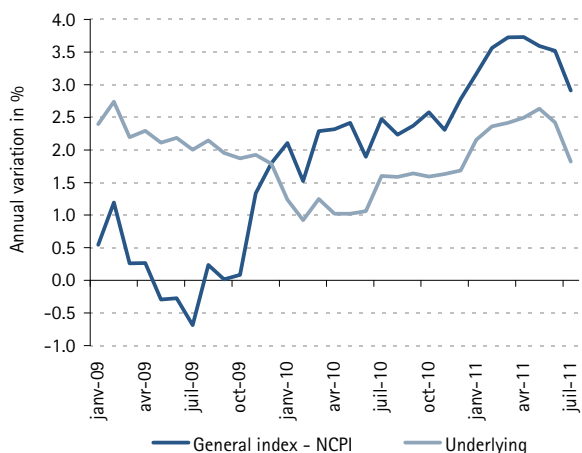
Unfilled job offers



Sources: ADEM, STATEC (seasonally adjusted data)

## Inflation

Inflation rates



Source: STATEC

## (Temporary) rise in consumer morale

The consumer confidence indicator climbed slightly in July, from 6 to 7 points. This movement is mainly due to the positive orientation of the outlook on savings – a fairly uninformative aspect from an economic point of view – as well as the positive trend in the outlook for household finances. With regard to the latter, a link should perhaps be made with announcement of the salary agreement (civil service) of 15 July, which provides in particular for a single premium of 0.9% on the scale-based salary of all government employees as well as an end to the "crisis contribution" for all employees (0.8% of gross salary) with effect from January 2012.

It is likely that the confidence indicator will subsequently take a downward turn; unemployment prospects and the economic situation in effect both substantially deteriorated in July and will no doubt continue suffering from the troubled economic scene in August.

## Negative signals

Unfilled job offers recorded with ADEM fell for the 3rd month in succession in July 2011. This indicator is fairly volatile over the short term, but tends to closely follow the employment market cycle. There has moreover been a rise in the unemployment rate over the past few months, from 5.7% in March to 6.0% in June.

This phenomenon of a rise in unemployment has also been affecting France (since May) and Belgium (since April), but spared Germany at least until June. The possibility cannot be ruled out that the sharp slowdown in eurozone economic growth in the 2nd quarter is partly responsible for this trend, even though the speed at which the slowdown in activity has impacted upon employment appears rather fast. With GDP figures becoming available in October, growth is also likely to slow in Luxembourg in the 2nd quarter, while the 3rd quarter is seeing a multiplication of warning signs at international level, which does not inspire any optimism as regards developments in the job market.

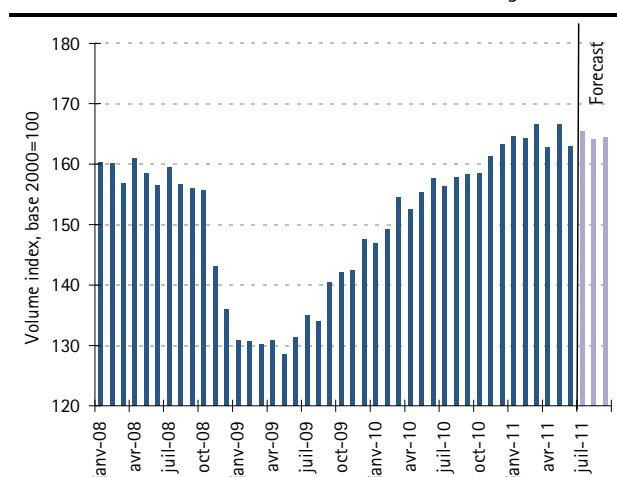
## Brake on inflation

Inflation statistics for July confirm the fall which was already being tentatively heralded over the two preceding months. The National Consumer Price Index (IPCN) fell to 2.9% (-0.8 percentage points since April) as compared with 2.5% for the eurozone (-0.3 percentage points since April). The fall is essentially due to underlying inflation, which was only 1.8% in July. This particularly low level can be explained in part by a change in methodology, which is amplifying the effect of the sales (although without this effect, it would still slow to 2.2%).

In a general manner, there was a fall in the most inflationary components at the start of 2011. Primarily, this was the case with energy prices and administered prices, which are still responsible for 1.8 inflation points, but which have seen their contributions fall by 0.7 percentage points since their peak in March. With regard to food prices, on the other hand, the pace of inflation is not slowing, although it remains lower than the general rate of inflation, and still far off the peaks from 2008.

## Foreign trade

Outlook for global trade



Source: Centraal Planbureau

## Stagnation in global exchange of goods

Following a rally in May, the volume of global trade fell substantially in June (-2.2%). Imports fell particularly in Europe and Asia, while on the export side, Europe has remained the most affected, as has the United States.

In terms of general trend, in fact a stabilisation in global trade since the start of 2011 can be observed, with diminished prospects for industrial production and activities linked to the transportation of goods.

According to experts at the Netherlands Bureau for Economic Policy, this trend is likely to continue until the end of Q3 2011. Moreover, they do not rule out an even gloomier scenario, given the recent turmoil on the financial markets.

## Statistics table

	Nov-10	Dec-10	Jan-11	Feb-11	Mar-11	Apr-11	May-11	Jun-11	Jul-11	Average over the last three months	Same period previous year
Annual variations in %, except where otherwise indicated											
<b>Activity</b>											
Industrial output per working day, in volume	8.5	7.1	2.6	2.7	0.2	-2.5	-3.0	...	...	-1.8	19.4
Construction output per working day, in volume	2.5	-22.9	18.6	21.1	-0.1	0.0	3.9	...	...	1.2	3.1
Turnover by volume of total retail trade	3.0	-1.9	1.5	0.9	-2.9	-0.4	0.1	...	...	-1.1	2.6
<b>Prices, wages</b>											
Consumer price index (IPCN)	2.3	2.8	3.2	3.6	3.7	3.7	3.6	3.5	2.9	3.3	2.3
Underlying inflation	1.6	1.7	2.2	2.4	2.4	2.5	2.6	2.4	1.8	2.3	1.2
Oil product index	10.6	16.5	15.5	18.7	20.1	18.5	15.1	16.5	15.4	15.7	15.5
Industrial producer price index	5.9	9.4	11.5	9.1	11.7	11.6	7.9	4.0	...	7.8	5.4
Construction price index <sup>1</sup>	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	4.1	4.1	4.1	...	...	...	...	4.1	1.5
<b>Foreign trade</b>											
Exports of goods (volume)	8.7	1.6	10.3	8.5	-2.5	-4.1	-4.4	...	...	7.0	19.2
Imports of goods (volume)	-1.0	-1.1	-0.9	-0.5	-0.4	0.1	0.4	...	...	0.1	-0.3
<b>Employment, unemployment</b>											
Domestic number of employees (IGSS)	2.4	2.4	2.5	2.6	2.9	2.9	3.0	3.2	3.3	3.2	1.9
National employment (IGSS)	2.2	2.1	2.5	2.5	2.7	2.8	2.8	2.9	2.9	2.9	1.9
Unemployment rate (% of working population, seas. adj.)	6.1	6.1	5.8	5.8	5.7	5.8	5.9	6.0	...	5.9	6.0

Sources: STATEC

Data blue coloured are estimates

<sup>1</sup>Estimations based on half-yearly data

## Indicators

	Variation on previous quarter in %					
	2010 Q1	2010 Q2	2011 Q3	2010 Q4	2011 Q1	2011 Q2
Eurozone- Growth in volume of GDP (European Commission)	0.3	0.9	0.4	0.3	0.8	0.2
Luxembourg - Growth in volume of GDP (STATEC)	0.9	1.3	0.7	2.8	0.1	...
	Annual variation in %					
	2007	2008	2009	2010	Forecast 2011	Forecast 2012
Luxembourg - Growth in volume of GDP (STATEC)	6.6	1.4	-3.6	3.5	4.0	3.8
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						

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

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