

September 2011

conjoncture flash

Monthly publication of the state of the Luxembourg economy

Growth reviewed downwards in the eurozone

Recent economic forecasts published by various international organisations confirm what had been announced since the middle of the year – that economic prospects are in the process of deteriorating rapidly (see table opposite).

With the slowdown of growth in the eurozone in the 2nd quarter of 2011 (+0.2%) and the drop in business leading indicators (IFO, PMI), which *unanimously* forecast moderate growth over the coming months, growth prospects are gloomy – especially for 2012.

The combination of a suddenly weakened short-term visibility and unresolved financial disruption in the eurozone makes it difficult to maintain the course of growth set at the beginning of the year, from which a more dynamic upturn was expected. STATEC and the European Commission will publish their forecasts for 2012 in November, but the latest estimates from the IMF for 2011 and 2012 show a glimpse of the scope of the downward review.

In Europe, these reviews relate to all Member States. However, growth remains unequal. Some countries – especially those principally geared towards exports – may still register fairly satisfactory growth, while others – mainly peripheral ones – are lagging behind. The German powerhouse should start to slow down, from 2.5% this year (forecast reviewed downwards by 0.5 points) to 1.3% next year, while in Italy and Spain, the dynamic should remain limited with a forecast of 0.6% and 0.8% respectively for 2011 (2012: 0.6% and 0.3%). Weak underlying growth and vicious circles fed by budgetary problems and financial disruption could get worse, going as far as plunging the whole of Europe into another recession.

Growth forecasts for the eurozone

	2011	2012	publication dates
As a % (previous forecasts in brackets)			
International Monetary Fund	1.6 (2.0)	1.1 (1.7)	20 sept. 11
European Commission	1.6 (1.6)	- ¹ (1.8)	15 sept. 11
European Central Bank ²	1.6 (1.9)	1.3 (1.7)	8 sept. 11

¹ Not published for 2012

² Middle of the forecast range

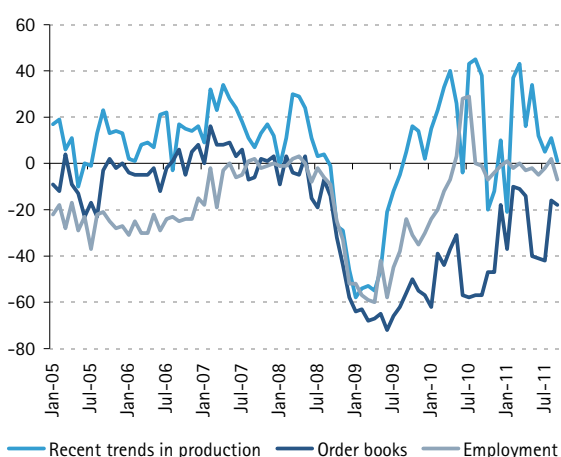
Overall, the global economy has witnessed a slowdown and hopes that the sovereign debt crisis could see a prompt and favourable outcome are now in doubt.

With regard to emerging countries, the International Monetary Fund certainly forecasts a contraction of business, but the dynamic should remain firm. On the other side of the Atlantic, however, the situation is scarcely better than in Europe. Growth in the United States is set to be a great deal less sustained than was previously estimated. The rate of growth should reach 1.5% in 2011 and 1.8% the following year, even though the IMF was still projecting 2.5% and 2.7% at the end of May. The stagnation of the jobs market in the United States is a strain on household income, not to mention on confidence. In spite of the new economic support measures ("operation twist") announced by the American Federal Reserve, the volatility and nervousness of the financial markets are still there, in the absence of resolutions of clear decisions regarding the current situation.

STATEC
Luxembourg

Manufacturing

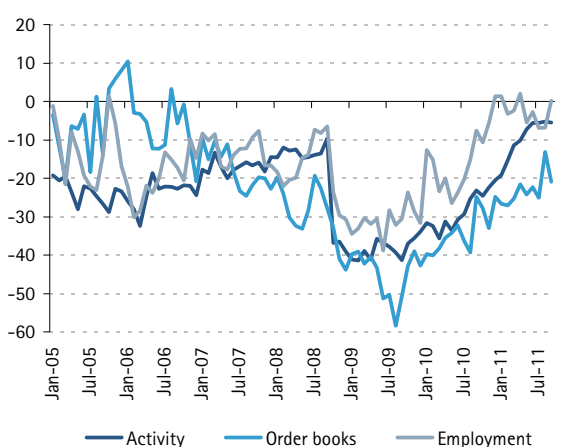
Economic surveys on manufacturing (seasonally adjusted data)



Source: STATEC (seasonally adjusted data)

Construction

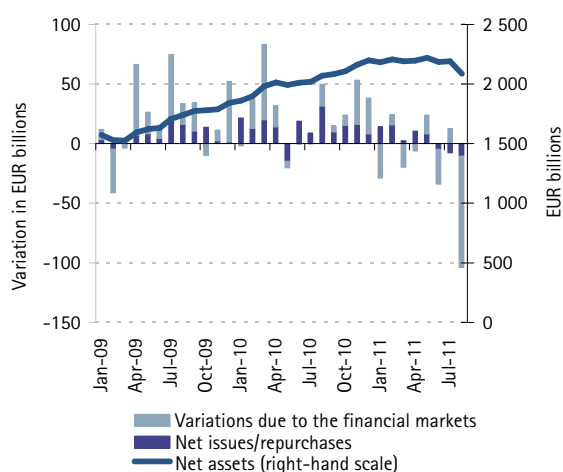
Economic surveys on construction (seasonally adjusted data)



Source: STATEC (seasonally adjusted data)

Financial sector

Undertakings for collective investment



Source: CSSF

Moderation of business outlook

Since the summer, manufacturer's opinions have shown increasing pessimism for both recent and future production trends. Opinions on the state of the order books certainly picked up in September, but this is probably just a temporary phenomenon. European manufacturing orders have dropped constantly since June (until August, the time of the last available data), manufacturing order entries in the eurozone showed a clear drop in June (-1.2%) and July (-2.1%) and, despite greater short-term volatility, it is rare that manufacturing orders for Luxembourg are too far removed from the basic European trend.

Opinions on manufacturing job prospects remain relatively stable up to September in Luxembourg, but they have dropped since the beginning of the 3rd quarter in the eurozone.

Prospects remain favourable

The opinions of construction developers reveal a certain stability in September (slight increase in recent business, slight drop in orders), in line with the favourable trend that has been in place since early 2010. The period of guaranteed business (estimated on average at approximately 4 months by the companies polled) and the share of companies estimating insufficient demand (at 26% in September) are close to their historical averages. For all the variables of the economic situation survey, we can deduce from the detail that civil engineering companies have been in a less favourable position since September.

Planning permissions in the 1st quarter of 2011 show a relatively high volume, up 10% over one year (+20% in the residential market, +3% in the non-residential market).

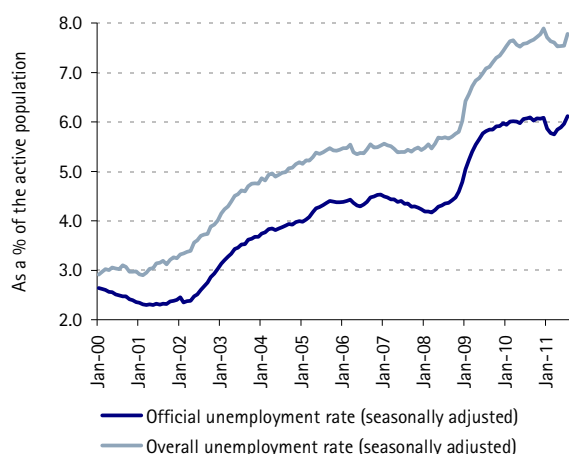
Meltdown of funds in August

The holdings of equity funds in Luxembourg dropped sharply in August (by almost 5% compared to July). This development is mainly due to variations in the markets - in other words due to the financial valuation of the securities making up the investment fund portfolios, which reflect the falls on the main stock markets (see Flash economic situation for August 2011). September will probably see a negative contribution of the financial markets (drop in stock markets in Europe and Asia), but this drop should be less significant than the one experienced in August. Net capital issues also show an unfavourable development: they showed a considerable slowdown from March onwards, and have witnessed three consecutive months of drops from June to August.

Net assets of equity funds, which had showed a certain stability since late 2010, fell again towards the threshold of 2,000 billion EUR. They have not suffered such a significant drop since the crash of October 2008.

Labour market (1)

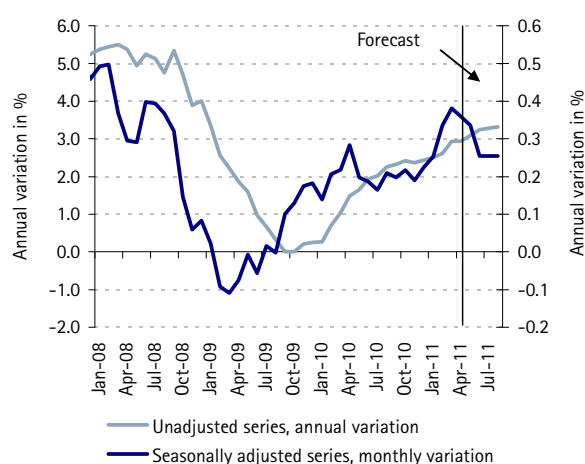
Unemployment rate in Luxembourg



Sources: ADEM, IGSS, STATEC

Labour market (2)

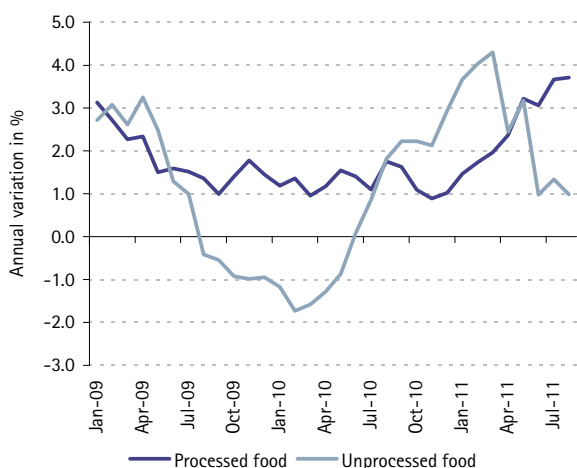
Domestic paid employment



Sources: IGSS, STATEC (forecast for the last 3 months)

Inflation

Food prices measured by the NCPI



Sources: STATEC

High increase in unemployment

The definitive data from July confirms the fairly strong increase in the number of registered job seekers still out of work – something which had been seen the previous month using provisional data.

The official and definitive unemployment rate (strict figures corrected for seasonal adjustments) reached 6.1% in July, up from 5.7% in March. This development, as confirmed recently by certain indicators (see below), shows a general deterioration of working conditions as of the end of the second quarter of 2011.

The annual unemployment rate is set to stand at 6% in 2011 (average over the whole year) – the same level as in 2010.

A very good beginning to the year, but then ...

According to the latest data from the Inspection Générale de la Sécurité Sociale (IGSS), employment grew by 3.1% over the year up to May 2011, which represents the best performance since early 2009. And according to initial estimates from Eurostat, jobs in Europe posted a fairly significant increase in the second quarter (+.4% over a year for the eurozone).

This excellent performance in jobs at the beginning of the year has been marred by more recent observations. According to seasonally corrected data, employment has been slowing down since the beginning of the second quarter (see graph opposite), and initial estimates for June show an even more pronounced slowdown. This fall in job creation is also confirmed by the Luxembourg Union of Temporary Employment Companies (ULEDI – Union Luxembourgeoise des Entreprises de Travail Intérimaire), which saw a drop in the hours worked by its members over this period.

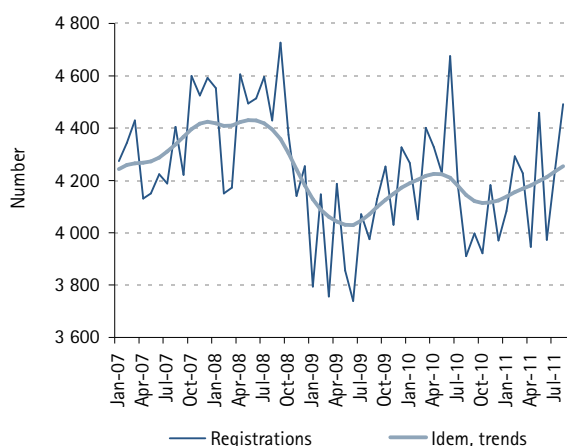
Respite on the price of raw materials

Between July 2010 and April 2011, the price of raw materials increased sharply on the global markets: +52% for energy, +42% for raw agricultural materials, +39% for metals and +31% for edible products. A decline has since been seen on these prices (respectively of 11%, 13%, 7% and 5%) until August. This relative calm on raw materials appeared to be limited in relation to the economic damage seen elsewhere, taking its cue from oil prices, which have stayed at a relatively high level for several months (around 115 USD by barrel of Brent).

The development of prices on global markets can be seen on certain positions of the consumer price index. The increase in the price of unprocessed food slowed down alongside global food prices, from a pace of over 4% using annual variation, to under 1%. Processed food, however, followed the opposite trend (see graph opposite), with the price of foodstuffs generally growing at the same rate as the general index.

Consumption

New car registrations



Source: STATEC (seasonally adjusted data)

Car registrations up over the summer

New car registrations were relatively high in August, with over 3,000 vehicles registered (against around 2,500 over the previous two years). This result, combined with that of July (+2.1% over one year), goes some way to catching up after the disappointing figures for early 2011. However, over the first eight months of the year, new car registrations did see a slight drop (-1.4%) compared to 2010.

The trend is fairly uniform across the entire eurozone, with vehicle registrations dropping by approximately 1% over the same period, resulting from strong contrasts according to Member States. New car sales were revealed to be very dynamic in Germany in 2011 (+11% over one year on the first 8 months), the Netherlands (+19%), Austria (+9%) and Finland (+20%). But the economic situation appears to be greatly damaging vehicle sales in Greece (-38%), Spain (-22%), Italy (-12%) and Portugal (-23%).

Statistics table

	Dec-10	Jan-11	Feb-11	Mar-11	Apr-11	May-11	Jun-11	Jul-11	Aug-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	7.0	2.6	2.7	0.2	-3.2	-3.9	-3.4	...	...	-3.5	14.7
Construction output per working day, in volume	-23.3	18.1	21.0	0.0	0.0	3.5	-7.3	...	...	-1.3	3.9
Turnover by volume of total retail trade	-1.9	1.6	1.0	-2.7	0.0	3.7	-1.7	...	...	0.6	2.6
Prices, wages											
Consumer price index (IPCN)	2.8	3.2	3.6	3.7	3.7	3.6	3.5	2.9	3.3	3.2	2.2
Underlying inflation	1.7	2.2	2.4	2.4	2.5	2.6	2.4	1.8	2.1	2.1	1.4
Oil product index	16.5	15.5	18.7	20.1	18.5	15.1	16.5	15.4	16.9	16.3	12.1
Industrial producer price index	9.4	11.5	9.1	11.7	11.6	7.9	4.0	5.5	...	5.8	8.1
Construction price index ¹	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	4.1	4.1	4.1	...	...	...	...	...	4.1	1.5
Foreign trade											
Exports of goods (volume)	1.7	10.7	9.9	-0.9	-2.0	-3.7	-5.0	...	...	-1.0	21.0
Imports of goods (volume)	-1.1	-0.9	-0.5	-0.4	0.1	0.4	0.9	...	...	0.5	-0.7
Employment, unemployment											
Domestic number of employees (IGSS)	2.4	2.5	2.6	2.9	2.9	3.1	3.2	3.3	3.3	3.2	1.9
National employment (IGSS)	2.1	2.5	2.5	2.7	2.8	2.8	2.9	2.9	2.9	2.9	1.9
Unemployment rate (% of working population, seas. adj.)	6.1	5.8	5.8	5.7	5.8	5.9	6.0	6.1	...	5.9	6.0

Sources: STATEC

Data blue coloured are estimates

¹Estimations 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)	0.4	0.9	0.4	0.3	0.8	0.1
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 1 376 million						
Resident population (01/01/2011): 511 840						
Consumer price index (August 2011) - base January 1 st 1948: 789.05						
Half-yearly average of the index linked to base as at January 1 st 1948: 784.53						
Estimated deadline for next salary indexation: october 2011*						

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

National institute 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