

October 2011

conjoncture flash

GDP slows down

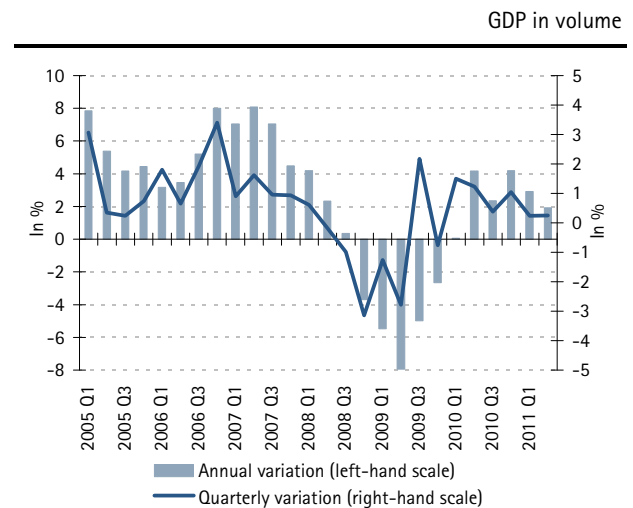
Luxembourg GDP rose slightly, by just 0.3% in the 2nd quarter of 2011, after rising 0.2% in the previous quarter. Alongside the publication of the results for the 2nd quarter of 2011, growth figures for the national accounts since 2008 have been revised downwards.

The adjustments for 2008 to 2010 were substantial, in particular those for 2009 where the fall in GDP in volume is now estimated at 5.3%, compared to 3.6% in the previous version of the accounts dating from July 2011¹. In terms of spending, the most significant revisions (in terms of their impact on the new growth figures) mostly affect the foreign component, i.e. the balance of exports and imports. This component – which accounts for about a quarter of Luxembourg GDP – now weighs negatively on growth over the past three years (in the previous version, the negative impact related solely to 2008). This trend was offset by about one third, due to investment over the same period being revised upwards.

In terms of output (per activity sector), most of the downward adjustment of growth is due to the fact that growth in added value in the trade, hotel & catering, transport and communications sector and, to a lesser extent, in manufacturing, was more sluggish than previously recorded for the period 2008–2010. The upward revision of growth in added value for financial activity and business services only offsets approx. one-third of the fall recorded in the two above-mentioned branches.

Against the backdrop of the 2008–2009 crisis, these new results weigh negatively on the balance sheet, and show that the economy did not weather the crisis as well as previous data had suggested. Although the data for employment and wages remains practically unchanged, the downward revision of GDP (in terms of value) and GDP growth (in terms of volume) means that competitiveness indicators such as apparent labour productivity and nominal unit wage costs have also been revised downwards for the relevant years.

Monthly publication of the state of the Luxembourg economy



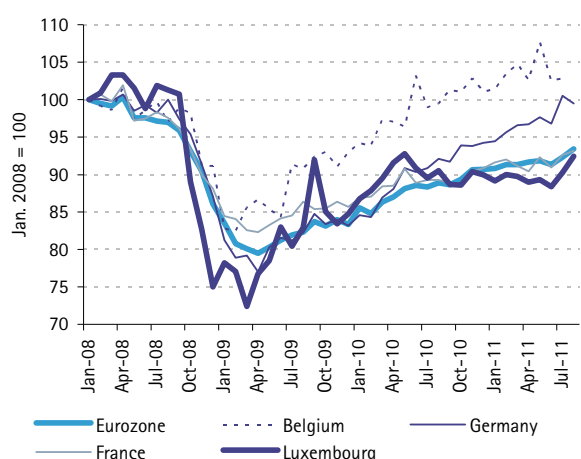
Source: STATEC (National accounts)

However, in terms of the cyclical diagnosis for recent economic trends, there is no change in the slowdown already noted (as reflected in the previous version of the accounts). In fact, it is actually reinforced by less favourable figures for the first two quarters of 2011 and is set to gather pace over the next few quarters, given the sharp cyclical downturn since the summer (see September's Conjoncture Flash). This deterioration, mainly due to the fallout from the sovereign debt problem in the eurozone (which affects the most heavily indebted countries and their creditors alike), has already seen international organisations (in particular the IMF and the ECB) revise European growth prospects for 2011 and 2012 downwards.

¹ Growth for 2008 was adjusted from 1.4% to 0.8% and growth for 2010 from 3.5% to 2.7%.

Manufacturing

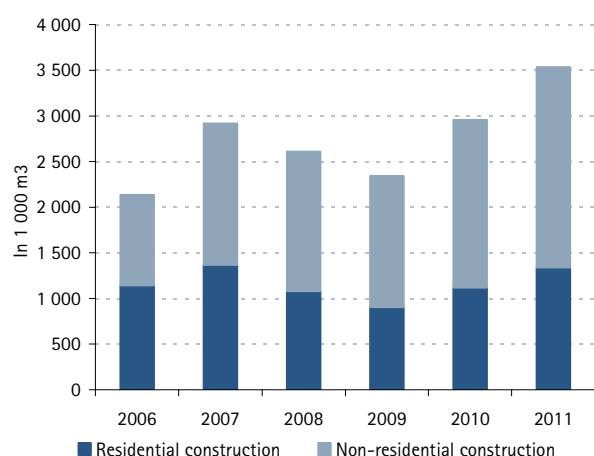
Industrial output



Source: Eurostat - most recent data (provisional figures): August 2011

Construction

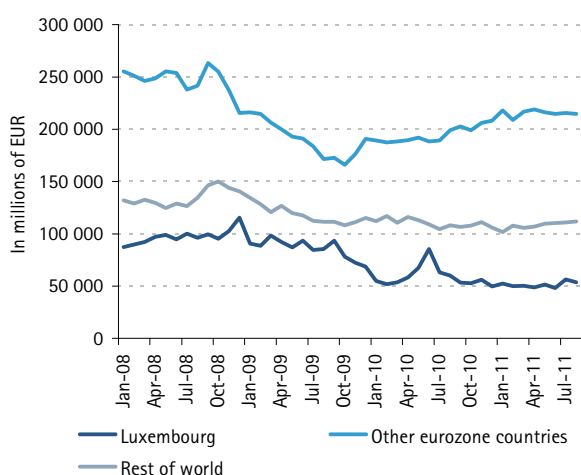
Planning permission - construction project volume in 1st half of year



Source: STATEC

Financial sector

Geographical distribution of interbank lending



Source: BCL

Output bounces back in July

Stagnant since mid-2010, industrial output in Luxembourg recovered somewhat in July (up 3.3% over one month and 0.7% over one year). This was unexpected, as opinion surveys in the sector had suggested that output would be restrained over the summer period. Average opinions on order books had risen, but only from August. After the positive figures in July, the provisional estimate for August indicates a rise in output of more than 3% over one year. Despite these satisfactory results (which are not yet confirmed for August), output levels still appear to be about 10% lower than pre-crisis levels. Moreover, recent economic surveys in the manufacturing sector in both Europe and Luxembourg clearly point to a slowdown in output in the 4th quarter.

Positive signal from planning authorisations

Planning authorisations grew strongly in the first half of 2011. The volume of construction projects is some 20% in excess of the previous year, in both the residential and non-residential sectors. The number of individual houses granted planning permission has risen by about 10%, while the number of apartment complexes has fallen (140 planning authorisations, 20% less than in 2010) but the number of housing units has not fallen and nor has the overall surface area – both are up almost 20% over the same period.

The surface area involved in planning permissions granted also rose throughout the eurozone but trends differed significantly from country to country. The best performers – apart from Luxembourg – in this indicator were Germany (up 17% over one year in the 1st half), France (up 12%) and the Netherlands (up 10%).

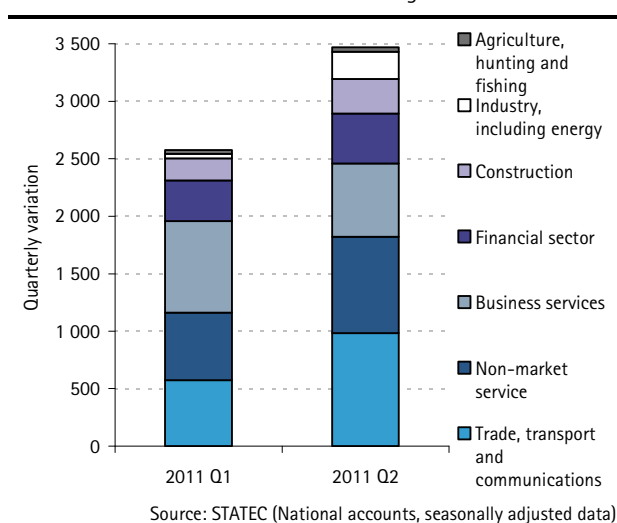
Interbank lending continues to recover

At the end of August 2011, outstanding loans on interbank lending – loans held by Luxembourg banks on other banks – continued the slightly upward trend that started in 2010. This recovery in interbank lending, the main item on the asset side of Luxembourg banks, is mostly perceptible with regard to banks in other eurozone countries.

The share of interbank lending in the overall balance sheets is thus returning to the 50% threshold (it had sunk to 45% in early 2010), in line with its historical average since 1999. However, the securities portfolio held by the banks continues to fall, mainly due to the fall-off in bonds (public, private, bank or other), representing in recent months just 20% of bank assets (compared to an average of 25% since 1999).

Labour market (1)

Jobs created during the first half of 2011



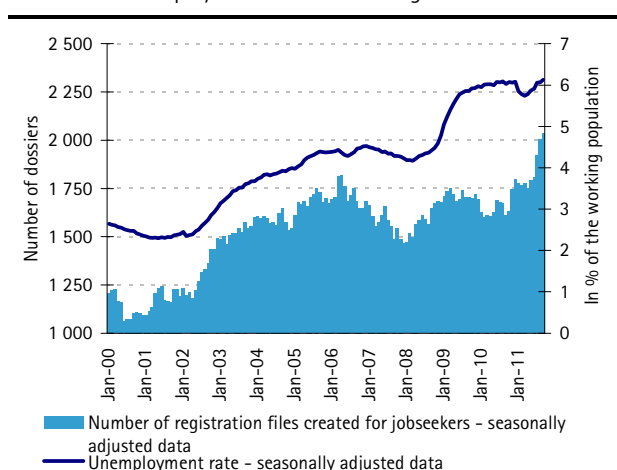
Employment remains dynamic in the second quarter of 2011

In the second quarter of 2011, domestic paid employment rose by 1.0% compared to the first quarter of 2011 (up 2.9% over one year). Thus, employment has continued to accelerate for the fourth quarter in a row. The acceleration in the second quarter was widespread, affecting all branches except business services. These were hit by both a drop in temporary work and a slowdown in employment in other business services, although this sector is performing well compared to the highly dynamic first quarter (see graph opposite).

However, it should be noted that this growth in paid employment is set to weaken in the second half of the year due to the slowdown in economic activity.

Labour market (2)

Unemployment rate and new registrations with ADEM



Sharp rise in new registrations with ADEM

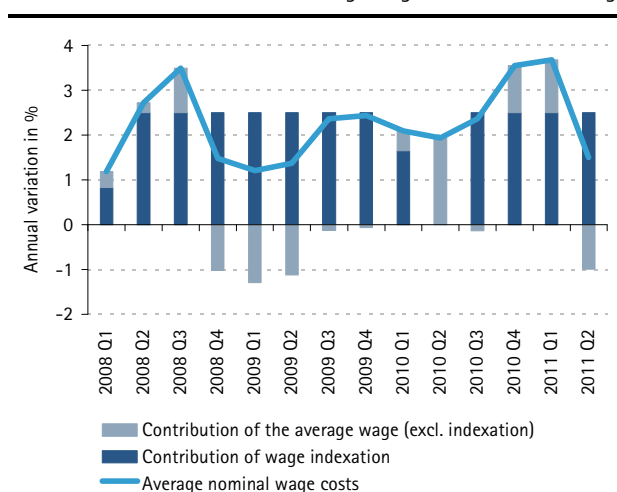
Over the last three months observed, the Employment Administration (ADEM) has seen an increasing number of new registrations. According to provisional seasonally adjusted data for September 2011, over 2,000 new people registered with ADEM at the start of autumn, a level never seen before.

This rise is much higher than the usual seasonal increase in young people entering the labour market at this time of the year. Some of this increase could be due to people re-entering the labour market after withdrawing from employment during the slowdown.

Thus, although paid employment was still relatively dynamic in mid-2011 (see above), unemployment remains at historically high levels.

Inflation and wages

Trends in average wage costs in Luxembourg



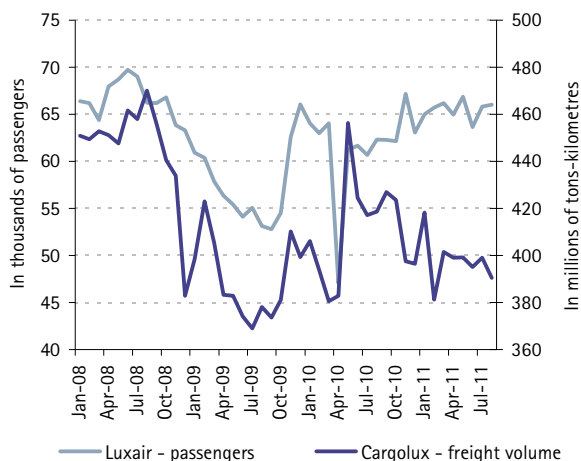
Slowdown in average wage costs

The recovery in the average wage bill since late 2010 (3.7% as an annual variation) did not reoccur in Q2 2011 (1.5%). A negative base effect in financial activities accounts for 0.5 percentage points in this drop (premiums had risen in Q2 2010 as a result of redundancy plans). Nevertheless, this negative effect disappeared in Q3, as did the positive contribution of wage indexation, which only came into play in Q4 (indexation adjustment applied on 1 October). However, since 2008 and excluding indexation, the average wage has only risen by 0.1% as an annual average.

In terms of the other branches, the average wage bill lost momentum in construction (from 8.7% in Q1 to 0.5% in Q2) and manufacturing (from 7.0% to -0.1%), in addition to the technical downturn in financial activities (down 3.3%). In contrast, average wages continue to rise in business services (from 3.1% to 5.5%), trade, transport and communications (from 3.6% to 3.8%) and non-market services (2.8% to 2.4%).

Transport

Air transport indicators



Sources: AEA, STATEC (seasonally adjusted data)

Contrasting indicators in air transport

Turnover in air transport in 2011 (which includes around 20 companies in Luxembourg) has risen some 11% on last year, based on the first seven months of the year. This gain occurred mainly during the 1st quarter, while annual growth in the 2nd quarter of 2011 was just 5%. For the two national airlines, the results in terms of volume show relatively contrasting trends (source: Association of European Airlines). Passenger volume at Luxair rose by approximately 8% over one year over the first eight months of 2011, in line with all European AEA member airlines. In freight, however, volumes transported by Cargolux fell by 3% compared to 2010 over the same period – against a rise of 4% for all European airlines – and it is struggling to return to the record activity levels of 2007–2008.

Statistics table

	Jan-11	Feb-11	Mar-11	Apr-11	May-11	Jun-11	Jul-11	Aug-11	Sep-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	2.6	2.7	0.3	-3.2	-3.8	-3.5	0.7	...	...	-2.3	12.2
Construction output per working day, in volume	18.0	21.0	0.0	0.0	4.0	-7.3	-4.6	...	...	-2.6	4.0
Turnover by volume of total retail trade	1.6	1.0	-2.8	0.0	3.8	-4.5	-2.8	...	...	-1.3	3.2
Prices, wages											
Consumer price index (IPCN)	3.2	3.6	3.7	3.7	3.6	3.5	2.9	3.3	3.3	3.2	2.4
Underlying inflation	2.2	2.4	2.4	2.5	2.6	2.4	1.8	2.1	2.1	2.0	1.6
Oil product index	15.5	18.7	20.1	18.5	15.1	16.5	15.4	16.9	18.0	16.7	11.9
Industrial producer price index	11.5	9.1	11.7	11.6	8.0	4.0	6.1	6.3	...	5.5	8.8
Construction price index ¹	2.0	2.0	2.0	2.7	2.7	2.7	...	...	...	2.7	0.3
Average wage bill, per person (National accounts)	3.7	3.7	3.7	1.5	1.5	1.5	...	...	...	1.5	1.9
Foreign trade											
Exports of goods (volume)	8.4	10.1	-1.8	-1.9	-11.0	-3.1	-1.0	...	...	1.0	17.2
Imports of goods (volume)	-0.9	-0.5	-0.4	0.1	0.4	0.9	0.5	...	...	0.6	-0.9
Employment, unemployment											
Domestic number of employees (IGSS)	2.5	2.6	2.9	2.9	3.1	3.1	3.2	3.2	3.2	3.2	2.1
National employment (IGSS)	2.5	2.5	2.7	2.9	2.9	3.0	3.0	3.0	3.0	3.0	2.0
Unemployment rate (% of working population, seas. adj.)	5.9	5.8	5.7	5.8	5.9	5.9	6.1	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)	0.3	0.9	0.4	0.3	0.8	0.1
Luxembourg - Growth in volume of GDP (STATEC)	1.5	1.2	0.4	1.0	0.2	0.3
	Annual variation in %					
	2007	2008	2009	2010	Forecast 2011	Forecast 2012
Luxembourg - Growth in volume of GDP (STATEC)	6.6	0.8	-5.3	2.7	4.0	3.8
GDP at current prices for 2010: EUR 40 267 million						
Minimum monthly salary (since 01/01/2011): EUR 1 801.49						
Current account balance (2010 - 4th quarter): EUR 1 376 million						
Resident population (01/01/2011): 511 840						
Consumer price index (September) - base January 1 st 1948: 789.87						
Half-yearly average of the index linked to base as at January 1 st 1948: 785.62						
Estimated deadline for next salary indexation: 2nd term 2012						

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