

November 2011

conjoncture flash

Monthly publication of the state of the Luxembourg economy

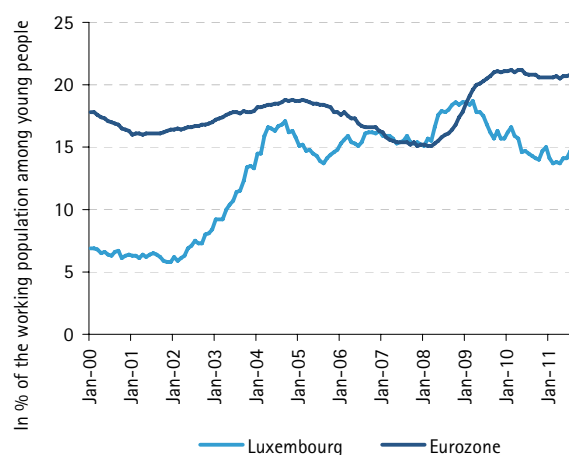
Fewer young people in the labour market

As a result of the economic crisis, unemployment, particularly among young people, has grown significantly *across Europe*. The unemployment rate among the under 25s reached 21.2% in the eurozone in September 2011, twice the overall unemployment rate. The rise was particularly sharp at the start of the crisis (from 16% in 2008 to 20.3% in 2009), which clearly shows that young people have been the most affected by the recent slowdown. Youth unemployment is particularly high in countries with high overall unemployment such as Spain (48% in September 2011) and Greece (43.5% in July 2011).

Furthermore, some young people are not considered as fully unemployed as they are not actively looking for work, a prerequisite for classification as a job seeker as defined by the ILO. In fact, during difficult economic periods, there can be a discouragement factor, whereby some job seekers withdraw from the labour market in order to undertake further study, for example. The drop in the activity rate among young people¹ in the eurozone (from 44% throughout the period 1998-2008 to 43.6% in 2009 and 42.5% in 2010) shows that young people are indeed withdrawing from the labour market. This fall is widespread and can be seen almost across the board. However, Ireland's case is particularly alarming: the activity rate among young people dropped from 52.5% in 2008 to 42% in 2010. According to a recent ILO report², the unemployment rate among young people was over 19 percentage points higher in 2010 in Ireland (i.e. 47.2% instead of 27.9%) if we take into account young people who withdrew from the labour market.

In Luxembourg, the situation is only slightly different. Here, the unemployment rate among young people fell during the crisis (from 18.1% in Q3 2008 to 14.7% three years later), probably linked to the fall in the activity rate of young people from 29% in 2008 to 24.7% in 2010. This withdrawal of young people from the Luxembourg labour market also goes hand in hand with the trend towards longer studies. In fact, according to the data on state financial aid for higher education, the academic years 2007-2008 and 2009-2010 were marked by a larger number of students, a phenomenon which was also observed during the last economic slowdown in 2000-2001 and 2001-2002.

Unemployment rate among young people (aged 15 to 24)



Source: Eurostat (EFT - Survey on workforces)

It is important not to confuse the youth unemployment rate, the proportion of unemployed young people and the proportion of young people among job seekers, as these are three distinct concepts. In 2010, 21% of job seekers were aged 15-24, the youth unemployment rate was 14% and the proportion of unemployed young people was 3.6%. The proportion of unemployed young people is very low because most young people (75%) are neither unemployed nor employed but in education and therefore not counted in the working population. By contrast, the other ratios are higher because they relate solely to the young working population (youth unemployment rate) and to the proportion of this population who are unemployed (proportion of young people among job seekers).

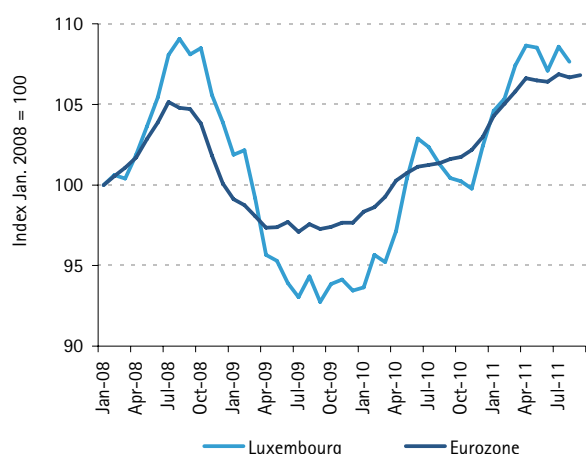
¹ Working population aged 15-24 compared to the total population aged 15-24.

² See "Global employment trends for youth: 2011 update", ILO - International Labour Office, October 2011.

STATEC
Luxembourg

Manufacturing

Prices of industrial products – Luxembourg vs. eurozone



Sources: Eurostat, STATEC

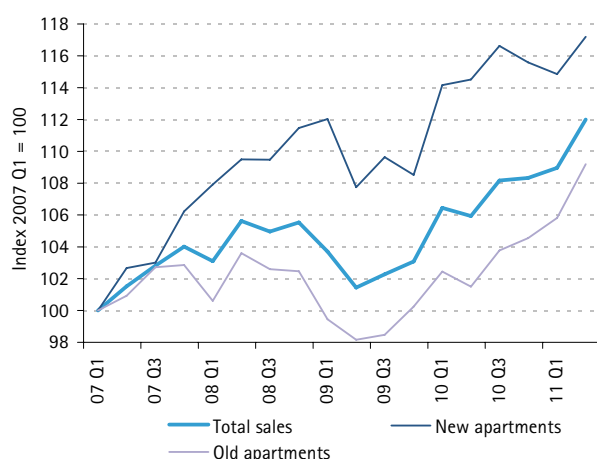
Prices stabilise

The fall-off in commodity prices noted since mid-2011 does not as yet seem to have significantly affected industrial product prices. These have been stabilising since the 2nd quarter of 2011, both in Luxembourg and elsewhere in the eurozone.

In Luxembourg, this stabilisation is due to different trends: on the one hand, iron and steel prices have fallen – mostly due to the decline in steel prices – as have prices of non-metallic mineral products while on the other hand, food and energy products (both generation and distribution) are still trending upwards. In any case, manufacturers' expectations up to October (as expressed in the sectoral survey) clearly show that their prices are coming under pressure.

Property

Sale prices for apartments



Sources: Luxembourg Land Registry, STATEC

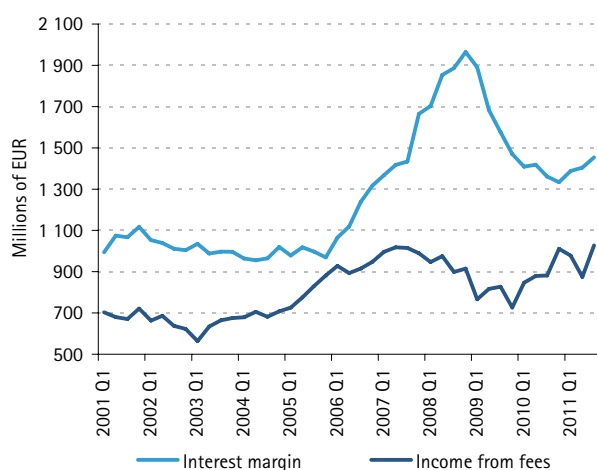
Tensions over housing prices

In the residential property sector, a certain nervousness was apparent in the 1st quarter of 2011, reflecting more sluggish demand overall. Housing prices in fact rose significantly, whether in sales or rentals, in houses or apartments. While the number of transactions involving apartments fell compared to the 4th quarter of 2010 – positively influenced by the government's announcement of changes to the "Bellegen Akt" (involving reduced conveyancing fees) – it nevertheless remained relatively high. Sale prices for apartments rose by almost 3% over one quarter (up 6% over one year) at the end of the 2nd quarter.

This momentum was accompanied by an acceleration in mortgages granted to owner occupiers over the same period. These rose some 9% over one year in the 2nd quarter of 2011.

Financial sector

Main revenue items of banks



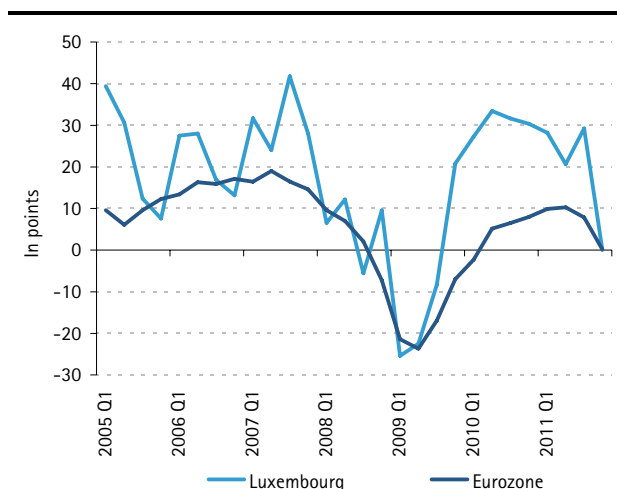
Source: BCL, STATEC (decumulated and seasonally adjusted data)

Fees rise unexpectedly in the 3rd quarter

At the end of the 3rd quarter of 2011, banking income before provisions grew by 8% compared to last year, due to both a hike in the interest margin (with rates rising in April) and income from fees. Income from fees put in a relatively dynamic performance in the 3rd quarter, which may seem contradictory given the general collapse in the stock market indices at the same time. The falling value in terms of fees was in fact offset by a rise in the number of transactions. The negative effects will no doubt be felt on fee income in the following quarters and are already weighing on net banking income (which includes the write-offs and provisions that can be expected in this sharply declining market). The market, according to data published by the CSSF, had fallen by almost 18% compared to last year by the end of the 3rd quarter.

Non financial services

Confidence indicator in non-financial services



Sources: Eurostat, Chamber of Commerce, STATEC

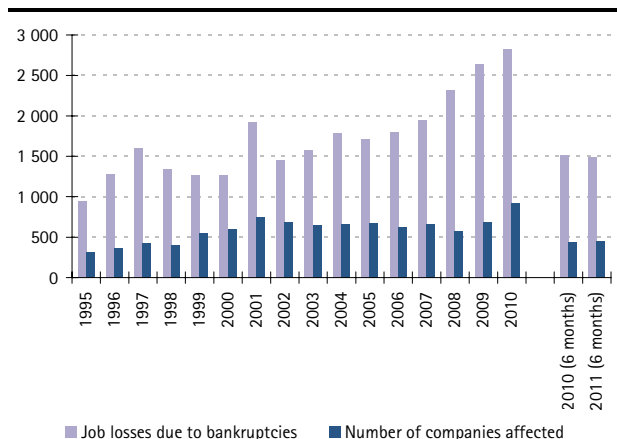
Prospects down significantly

Business surveys for non-financial services showed a significant decline since August throughout the eurozone. In Luxembourg, the quarterly survey carried out by the Chamber of Commerce and STATEC shows a similar trend, with the confidence indicator slumping in the 4th quarter (October survey).

In particular, Luxembourg service providers believe that their companies' positions have deteriorated significantly compared to the previous quarter. Alongside falling confidence levels in manufacturing and retail trade recorded over the same period, business leaders in the services industry are much more pessimistic, a particularly negative signal for activity trends in late 2011 and early 2012.

Labour market

Number of bankruptcies and job losses due to bankruptcy



Source: STATEC

* "Job losses due to bankruptcies" refers to the maximum number of jobs registered by a bankrupt company during the six months prior to the bankruptcy (before 2008: during the three months prior to the bankruptcy)

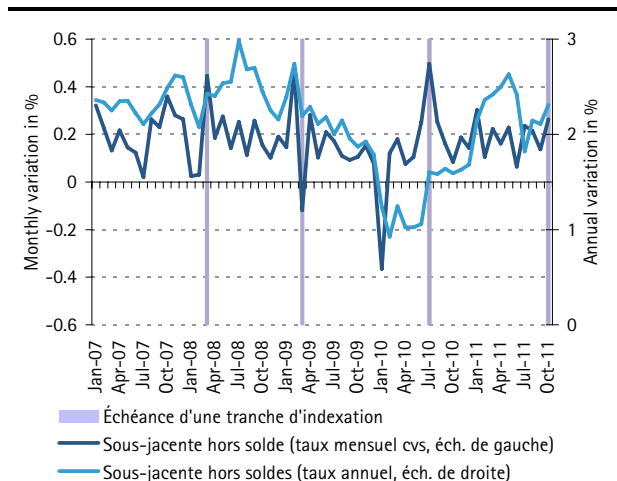
Number of bankruptcies remains high in early 2011

In the first six months of 2011, 458 businesses went bankrupt in Luxembourg, against 438 over the same period last year, a rise of 4.6%. As in the past, most of these businesses were retail businesses (28% of the total number). The number of bankruptcies in financial activities and business services, which had soared in 2010, fell back again in early 2011.

The number of jobs lost as a result of these bankruptcies was 1,497. Traditionally, job losses are highest in construction and these rose again sharply in early 2011, representing 43% of the total over the first six months, against 30% over previous years. As these figures relate to the 1st half of the year, the overall figure for 2011 is expected to be even worse. In fact, one major company, with a workforce of 500 went bankrupt this summer and has not been included in these figures.

Inflation and wages

Underlying inflation and wage indexation dates



Source: STATEC

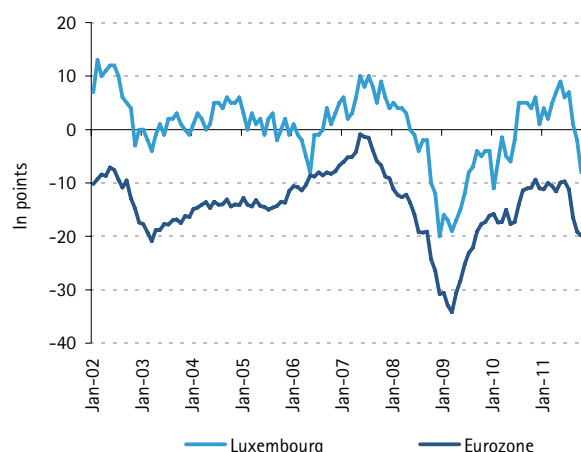
Prices in services adapted to indexation

In October, the inflation rate (NCPI) was 3.4%, the average rate observed since the start of the year. Oil prices are high but have been remarkably stable since March. The impact of oil prices is set to gradually recede and this should bring the NCPI down to 1.5 percentage points over the next six months as long as this stability endures.

Underlying inflation is also trending at a high level, accounting for about 2 percentage points since the start of the year. However, the pace of increase seen since early 2010 may have subsided. Underlying inflation went up in the last three months as prices in services were adjusted in line with the wage indexation in October. Contrary to previous index-linked adjustments, where the impact was primarily felt in the month in which the adjustment took place, this time the impact will be spread out over a number of months (see graph opposite). The next adjustment, scheduled for March 2012, and the ensuing adaptation of prices for services, should nevertheless push it up again.

Consumption

Consumer confidence indicator



Sources: BCL, Eurostat (seasonally adjusted data)

Householders worried

Consumer morale has slumped since the summer of 2011, both in Luxembourg and elsewhere in the eurozone, falling sharply for the third month in a row, from August to October. The reason for this negative sentiment is often the same throughout the various Member States: consumers have a much more negative view of the overall economic outlook – hardly surprising given the economic news over the same period – and they also expect unemployment to worsen significantly.

This anxiety is, naturally, a negative signal for private consumption: in a more uncertain environment, it is easy to understand why households are more cautious. In other words, they allocate more of their income to savings (or to reducing their debt levels) and less to consumption.

Statistics table

	Feb-11	Mar-11	Apr-11	May-11	Jun-11	Jul-11	Aug-11	Sep-11	Oct-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	2.7	0.3	-3.2	-4.1	-4.1	-0.6	-1.0	...	...	-2.0	10.4
Construction output per working day, in volume	21.0	0.0	0.0	4.0	-7.3	-4.5	-2.0	...	...	-5.1	3.7
Turnover by volume of total retail trade	1.0	-2.8	0.0	3.8	-4.4	-3.7	-3.6	...	...	-3.9	3.2
Prices, wages											
Consumer price index (IPCN)	3.6	3.7	3.7	3.6	3.5	2.9	3.3	3.3	3.4	3.3	2.4
Underlying inflation	2.4	2.4	2.5	2.6	2.4	1.8	2.1	2.1	2.3	2.2	1.6
Oil product index	18.7	20.1	18.5	15.1	16.5	15.4	16.9	18.0	16.0	17.0	12.6
Industrial producer price index	9.1	11.7	11.6	8.0	4.1	6.2	6.7	8.4	...	7.1	8.4
Construction price index ¹	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	1.5	1.5	1.5	...	...	...	...	1.5	1.9
Foreign trade											
Exports of goods (volume)	9.7	-1.4	-2.7	-10.7	-3.9	0.9	33.0	...	...	-1.5	17.9
Imports of goods (volume)	-0.5	-0.4	0.1	0.4	0.9	0.5	0.5	...	...	0.6	-1.0
Employment, unemployment											
Domestic number of employees (IGSS)	2.6	2.9	2.9	3.1	3.1	3.1	3.2	3.2	3.2	3.2	2.3
National employment (IGSS)	2.5	2.7	2.9	2.9	3.0	2.9	2.9	2.9	2.9	2.9	2.2
Unemployment rate (% of working population, seas. adj.)	5.8	5.7	5.8	5.9	5.9	6.0	6.0	6.0	...	6.0	6.0

Sources: STATEC

Data blue coloured are estimates

1 Estimations based on half-yearly data

Indicators

	Variation on previous quarter in %					
	2010 Q2	2011 Q3	2010 Q4	2011 Q1	2011 Q2	2011 Q3
Eurozone - Growth in volume of GDP (European Commission)	0.9	0.4	0.3	0.8	0.2	0.2
Luxembourg - Growth in volume of GDP (STATEC)	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	2.0	1.4
PIB en valeur 2010: 40 267 Mio EUR						
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 (October) - base January 1 st 1948: 791.02						
Half-yearly average of the index linked to base as at January 1 st 1948: 786.52						
Estimated deadline for next salary indexation: 1st term 2012						

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