

January 2012

conjoncture flash

The slowdown continues

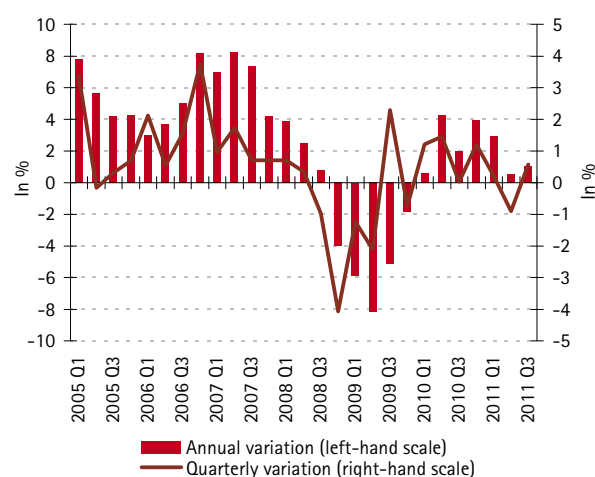
Luxembourg GDP in volume posted quarterly growth of 0.6% in the 3rd quarter (up 1.1% over one year). While this result exceeds that of the eurozone, which rose just 0.2% over the same period, the cyclical component of Luxembourg's performance should not be overestimated: the recovery in the 3rd quarter should be seen more as a correction, after a very bad 2nd quarter (down 0.9% compared to growth of 0.2% in the eurozone), than as a promise of high growth rates for the coming quarters.

It is important to note that the figures for the 2nd quarter of 2011 were significantly revised downwards, due mostly to statistics that were more complete (although not as good in terms of added value) in the financial sector. In any case, the figures confirm a trend for a weaker growth rate, linked to the macroeconomic forecasts for 2011 and 2012. However, growth acquisition for 2011, at 1.1%, was much lower than in the previous version of the quarterly accounts (1.7%). Therefore, STATEC's growth forecast of 2.0% for 2011 appears to be a gamble: to achieve this, all things being equal (i.e. excluding adjustments to previous data), the 4th quarter will need to be exceptional, with over 3% growth over one quarter.

Negative outlook for late 2011

However, the economic indicators for the 4th quarter do not point to any such trend. Internationally, most eurozone forecasts for the 4th quarter predict negative GDP growth (as for the 1st quarter of 2011), which is unlikely to stimulate foreign demand for Luxembourg goods. Furthermore, Luxembourg surveys of industry, services and consumers reveal that opinions are much more pessimistic than in the 4th quarter.

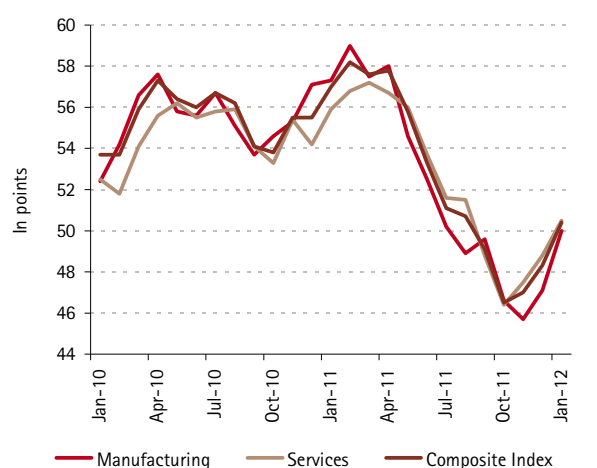
GDP in volume



Source: STATEC (National accounts)

While the financial sector weathered the 3rd quarter fairly well (with added value rising 0.8%) – despite significant turbulence on the stock markets since August – it is unlikely to do as well in the 4th quarter. Late 2011 was marked by a significant decline in the international financial environment, arising from the worsening of the sovereign debt crisis in the eurozone (with equity indices falling and interbank loans stalling, etc.), which bodes ill for the health of the dominant sector of the Luxembourg economy.

PMI indices for the euro zone

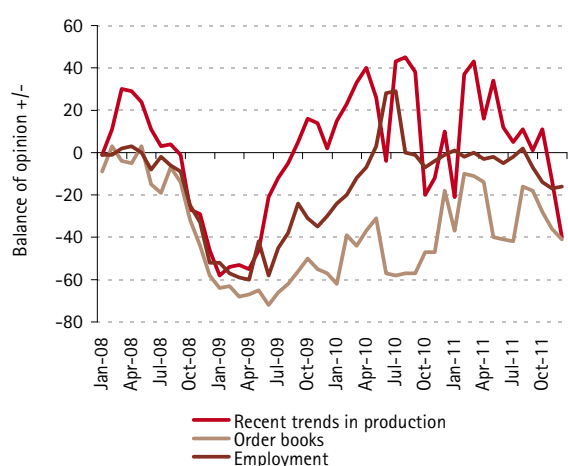


Source: Markit (Flash estimates)

Leading indicators recover

Most economic business surveys reached a low point in the eurozone in November. Given the link between these surveys and actual activity as subsequently recorded, the sharp decline in opinions in September and October points to a fall in GDP in the eurozone during the 4th quarter. However, opinions among business leaders recovered somewhat in December and the January surveys confirm this trend. PMI indices (purchasing managers indices), which are a good leading indicator for eurozone GDP, show hopes of improvement in early 2012, as long as these continue to grow over the coming months: however, the possibility of a technical recession still looms (GDP has fallen over two consecutive quarters) for the turn of the year 2011-2012. The ZEW index for the eurozone also shows a similar recovery for December and January.

Manufacturing economic surveys



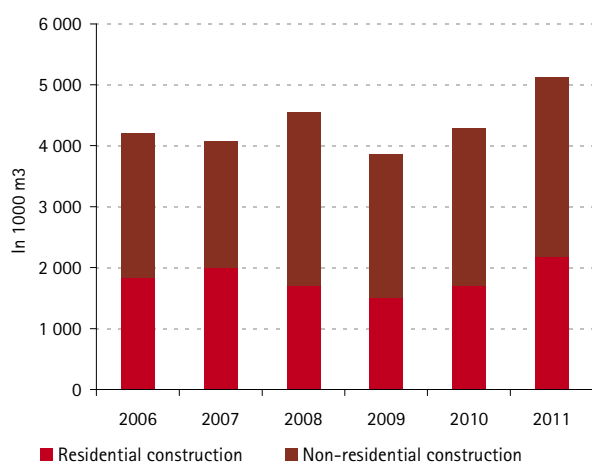
Source: STATEC (seasonally adjusted)

Bleak outlook

Luxembourg manufacturers were increasingly pessimistic in late 2011. Opinions gathered in the December economic survey largely confirm the trend noted in November of a net downturn in outlook regarding both output and order books. The slump in opinions is part of a general trend although the manufacture of non-metallic mineral products (glass, ceramics, etc.) and machinery and equipment were not affected.

Over the first 10 months of 2011, industrial output lost approximately 2% compared to 2010, one of the most disappointing results in the eurozone as a whole (where output gained 5% over the same period).

Planning permissions at the end of Q3 - vol. of building projects

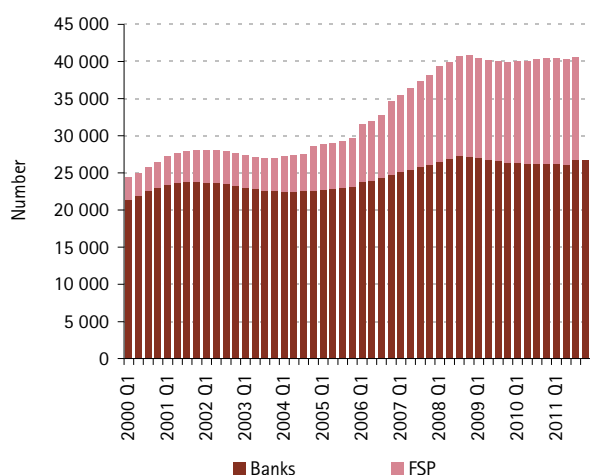


Source: STATEC

Projects despite the crisis

Planning authorisations issued during the 3rd quarter retained the strong momentum seen in the first half of 2011. In terms of volume at the end of September, construction projects rose some 20% above last year and even more markedly in the residential sector (up 28% compared to 14% in the non-residential sector). The residential sector benefited from large-scale projects in the 2nd and 3rd quarters in the apartment building segment. This bodes well for the construction sector and the building trades in particular. At a time when financial markets are extremely volatile, investment in bricks and mortar may seem an attractive alternative for economic operators. Also, it appears that demand for accommodation remains strong in Luxembourg, given that asking prices for houses and apartments have been relatively spared by the economic crisis.

Employment in the financial sector



Source: BCL

Disappointing results for banking employment

According to provisional figures from the Luxembourg Central Bank (BCL), employment in credit institutions in Luxembourg amounted to 26,695 at the end of December 2011, a drop of 114 (-0.4%) over one quarter. This drop is all the more disappointing given that in the third quarter banking employment put in its best performance since the beginning of the crisis in late 2008, when it rose 0.4% (excluding the technical rise linked to the inclusion of a sub-contractor's workforce).

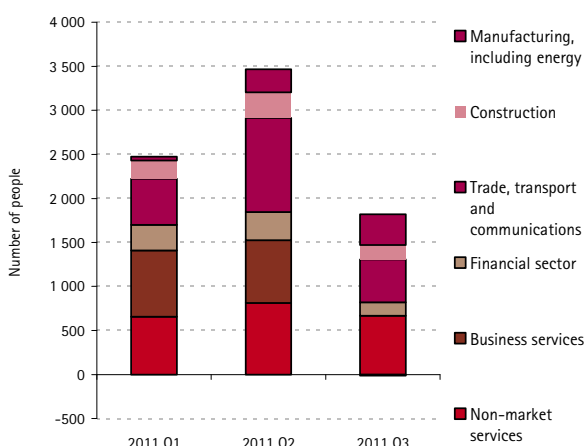
Total banking net assets ended 2011 up 0.7% in December, continuing the upward trend that started in March 2011, after bottoming out in February 2011, since when they have gained some 5%.

Overall decline in the labour market

In the third quarter of 2011, domestic paid employment rose by 0.6% compared to the second quarter 2011 (after rising 1.0% the previous quarter). After growing for four quarters in a row, employment has started to slow down, linked also to the new cyclical downturn. This dip in the labour market is widespread and is affecting almost all economic sectors (see graph opposite).

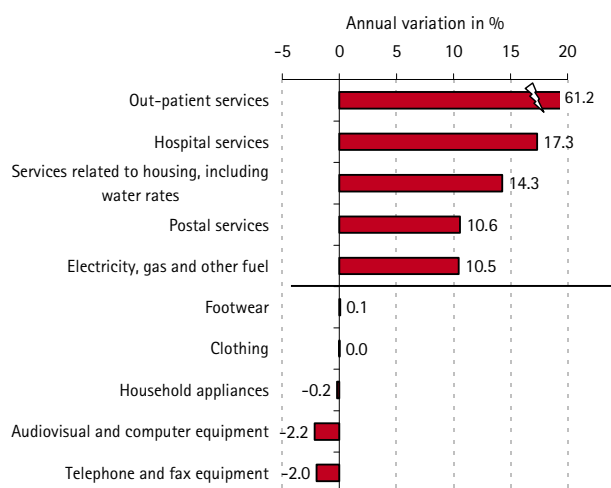
The figures available for the fourth quarter also show a more marked decline in late 2011. Initial employment estimates for October are bad, as are the (provisional) unemployment figures for December. In December 2011, 16,337 people were registered with ADEM, 770 or 4.9% more than a year previously. The seasonally adjusted unemployment rate thus reached a record 6.2% at the end of 2011.

Job creation/loss



Source: STATEC

Highest and lowest annual rates in 2011

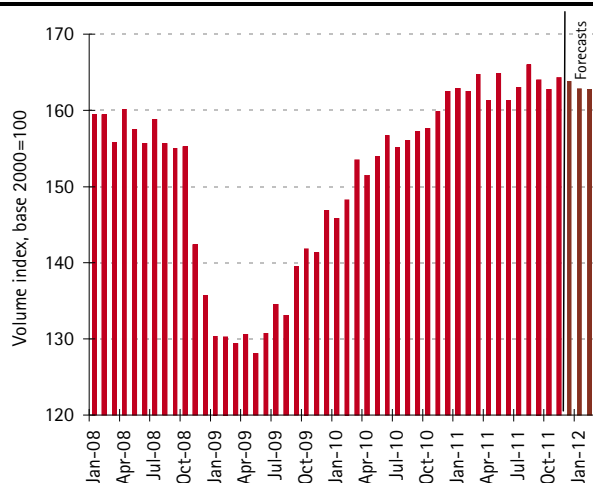


Source: STATEC (IPCN, level of detail: groups)

The main price trends in 2011

Inflation stood at 3.4% for 2011 as a whole, compared to 0.4% in 2009 and 2.3% in 2010. The most notable price changes had relatively little to do with the national economic situation: the highest price rises were due to price trends in the commodities markets – energy products, metals and fuel – and in administered prices. Thus, there were high annual rates for prices in products as diverse as diesel (18.2%), jewellery (23.6%), cocoa (5.2%), healthcare (11.6%) and water supply (19.8%). Where there were price drops, these were mostly due to structural or methodological causes. So, for example, prices for high tech equipment have been falling for years (at constant quality) while the drops in clothing prices were affected by methodological changes (on a European scale) as regards seasonal products: prices stabilised (0.0%) whereas using the former methodology these same prices would have risen 0.8%.

Trends and outlook for global trade



Source: Netherlands Bureau for Economic Policy (www.cpb.nl)

Global trade falls at the start of 2012

Global trade in goods rose 1.0% in November 2011, after falling 0.7% in October. The virtually stagnant overall trend that has prevailed since early 2011 may subsequently turn down slightly. In fact, according to experts at the Netherlands Bureau for Economic Policy, global trade is set to suffer over the next few months from the economic slowdown in advanced economies, in particular in Luxembourg's main trading partners in Western Europe.

Over 2011 as a whole, global growth in trade in goods is expected to reach about 5%, after 15% in 2010 (a recovery year). Emerging countries saw their exports of goods rise in volume by about 6% in 2011, with particularly sustained growth for Asia and Central and Eastern Europe. However, since mid-2011, the most favourable trend has been in exports from Latin America.

Statistics table

	Apr-11	May-11	Jun-11	Jul-11	Aug-11	Sep-11	Oct-11	Nov-11	Dec-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	-3.2	-4.1	-3.9	-0.3	-0.6	-5.8	-5.2	...	...	-4.0	3.3
Construction output per working day, in volume	0.0	4.0	-7.3	-4.4	-1.0	-4.5	-6.0	...	...	-4.4	1.9
Turnover by volume of total retail trade	-0.3	2.9	-4.5	-4.4	-4.5	-1.6	-1.7	...	...	-2.5	1.9
Prices, wages											
Consumer price index (IPCN)	3.7	3.6	3.5	2.9	3.3	3.3	3.4	3.6	3.2	3.4	2.6
Underlying inflation	2.5	2.6	2.4	1.8	2.1	2.1	2.3	2.4	2.4	2.3	1.6
Oil product index	18.5	15.1	16.5	15.4	16.9	18.0	16.0	18.0	12.9	15.6	14.2
Industrial producer price index	11.6	8.0	4.1	6.2	6.6	8.3	10.0	9.7	...	9.3	6.9
Construction price index ¹	2.7	2.7	2.7	...	...	...	...	...	...	2.7	0.3
Average wage bill, per person (National accounts)	1.6	1.6	1.6	1.0	1.0	1.0	...	...	...	1.0	2.4
Foreign trade											
Exports of goods (volume)	5.6	-11.0	-3.0	1.0	36.5	0.6	32.0	...	...	4.5	7.6
Imports of goods (volume)	0.1	0.4	0.9	0.5	0.5	0.3	-0.3	...	...	0.1	-1.0
Employment, unemployment											
Domestic number of employees (IGSS)	2.9	3.1	3.1	3.1	3.2	3.1	3.1	3.2	3.1	3.1	2.4
National employment (IGSS)	2.7	2.7	2.8	2.8	2.9	2.9	2.9	2.9	2.9	2.9	2.1
Unemployment rate (% of working population, seas. adj.)	5.8	5.9	5.9	6.2	6.1	6.0	5.9	5.9	6.2	6.0	6.1

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)	1.5	0.0	1.2	0.2	-0.9	0.6
	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	Consumer price index (December) - base January 1 st 1948: 793.13					
Current account balance (2011 - 3rd quarter): EUR 794 million	Half-yearly average of the index linked to base as at January 1 st 1948: 789.10					
Resident population (01/01/2011): 511 840	Estimated deadline for next salary indexation: 4th term 2012					

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