

A difficult end to the year

The eurozone ended the year with a slump in GDP in the 4th quarter which few countries escaped. Luxembourg is likely to go down the same road as most of the economic indicators in late 2011 were disappointing.

Eurozone: widespread downturn in the 4th quarter

Eurozone GDP fell 0.3% in the last quarter of 2011, bringing growth to 1.5% for 2011 as a whole (compared to 1.9% in 2010). This fall, the first since Q2 2009, was widely heralded by the extremely negative trend in economic surveys between August and November. This decline in opinions was confirmed by events as monthly activity statistics were published in the 4th quarter.

The results for France surprised many, with growth of 0.2%, despite the average consensus prediction (comprising international organisations and banks) for a fall of 0.2%. But that is where the good news ends, as France – along with Slovakia (up 0.9%) – was one of the only countries that saw growth at the end of the year. The rest experienced stagnation at best (Cyprus and Finland).

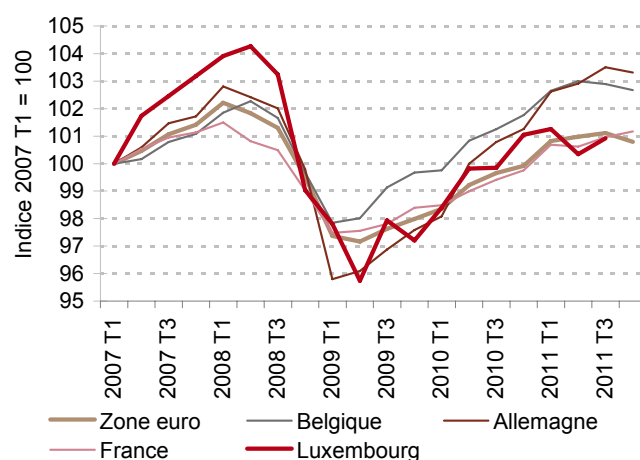
At the end of 2011, four countries were in technical recession (i.e. a fall in GDP over two consecutive quarters). These were Belgium, Portugal, Italy and the Netherlands. For the last two – ranked 3rd and 5th respectively in the eurozone in terms of GDP – the sharp fall experienced in the 4th quarter (down 0.7% each) had a significant impact on the overall result and practically wiped out the effect of France's performance.

Finally, in Germany, the leading economy in the eurozone, the 4th quarter saw GDP shrink 0.2% (the last time GDP fell in Germany was in Q1 2009). German 3rd quarter growth was revised slightly upwards (from 0.5 to 0.6%).

Luxembourg: no miracle expected for late 2011

GDP for the 4th quarter in Luxembourg will not be available until early April 2011.

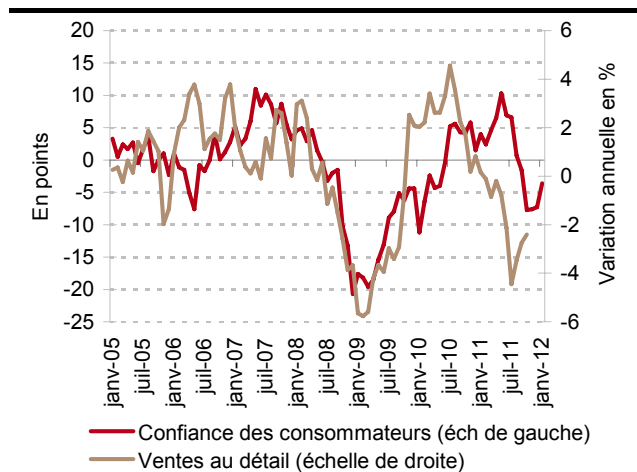
Graph: GDP in volume



Source: Eurostat

Based on the data currently available, it is unlikely that the Luxembourg economy will avoid a fall in GDP at the end of the year. In the secondary sector, output figures (available up to November) and trends indicated by opinion surveys (up to January 2012) show that output fell in the manufacturing sector (by more than 5% on the 3rd quarter) and, to a lesser extent in the construction sector (down approximately 1%).

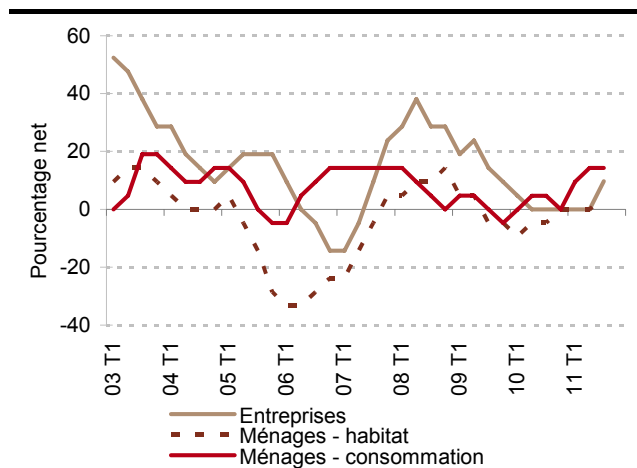
In the financial sector, the 4th quarter saw banks posting quite disappointing results and investment funds had more redemptions than issues, negative signals for added value in this sector. In other services, opinion surveys trended significantly down in the 4th quarter, but partial turnover figures (up to November) point to highly contrasting trends depending on category. The trend in business services, hotel & catering and computer services is relatively favourable while in transport and retail it is mostly unfavourable.

Consumption**Consumer confidence and retail sales**

Sources: Eurostat, STATEC

Consumers (a little) more confident

The Luxembourg consumer confidence indicator recovered in January 2012, in line with trends observed in France and Germany. This recovery, mainly due to a less pessimistic outlook as regards the unemployment trend, appears to be a positive signal for household consumption. However, it is advisable to exercise caution as regards any positive impact. Firstly, confidence remains relatively low (-3.7 points in January, below the historical average of 0.5 points). Secondly, correlation with indicators such as retail sales (see graph opposite) is far from perfect in the case of Luxembourg. For example, the confidence indicator continued to rise up to mid-2011 even though sales (turnover volumes for retail trade excluding fuel and mail-order sales) had already started to fall a few months beforehand.

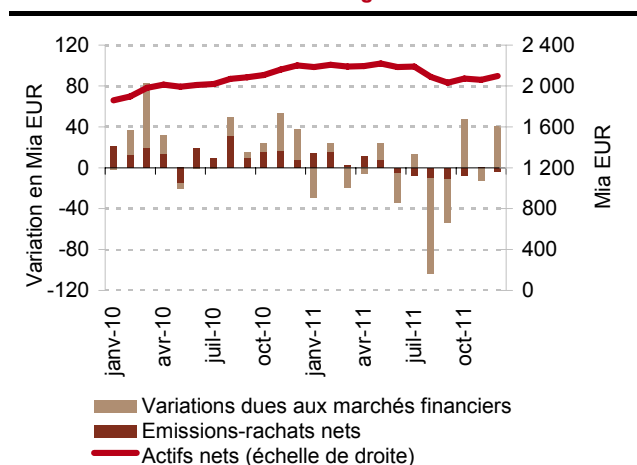
Credit**Loan criteria**

Sources: BCL, STATEC (data smoothed over 3 quarters)

Slight tightening of lending conditions

According to the BCL's quarterly survey of bank lending in Luxembourg, lending conditions tightened slightly in late 2011 for both businesses and households and, for the latter, in both mortgage lending and consumer credit. However, this trend seems to be much less pronounced in Luxembourg than elsewhere in the eurozone (in particular, the ECB has noted much stricter lending conditions for businesses).

On the demand side, mortgage lending in Luxembourg continued to pick up (albeit at a slower rate) in late 2011 but there was much less appetite for consumer credit. Loan applications from businesses have fallen significantly since mid-2011.

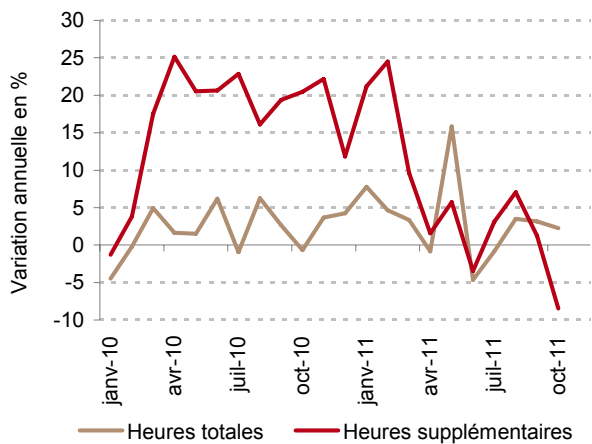
Financial sector**Undertakings for collective investment**

Source: CSSF

UCIs: a turbulent 2nd half

Luxembourg UCI net assets ended 2011 up some 2% in December, bringing overall net assets to EUR 2,097 million (down about 5% on December 2010). The impact of market variations was positive overall in the 4th quarter, in contrast to the 3rd quarter. In December in particular, the value of UCI portfolios benefited from gains in the equity markets, in the money markets and in the bond segment. Government bonds benefited from receding tensions related to the sovereign debts of a number of eurozone member states.

However, net capital investment (issues less redemptions of UCI units) remains sluggish and continues on the downward trend witnessed since June 2011.

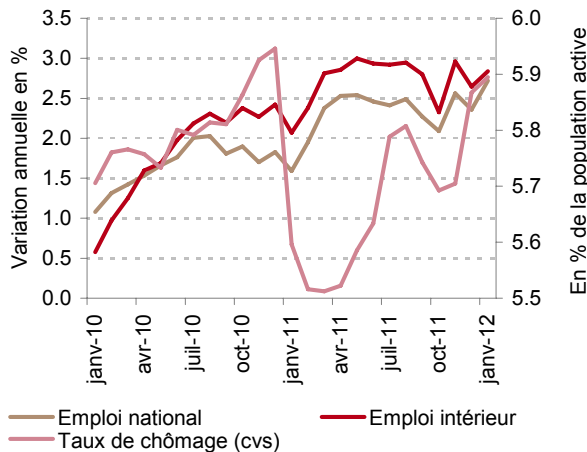
Labour market (1)**Paid hours: total and overtime**

Sources: IGSS, STATEC

Less reliance on overtime

Since March 2011, the amount of paid overtime has fallen significantly (see graph opposite). This trend is linked to the general downturn in the Luxembourg economy and in other labour market indicators (employment, unemployment, temporary work, bankruptcies, etc.). Most of this decline in 2011 came from the manufacturing, construction and transport & communications sectors, all of which saw the highest rises in overtime hours in 2010.

However, for all paid hours registered with IGSS, the trend remains positive. Overtime only accounts for 1.5% of all paid hours and therefore has only a marginal effect.

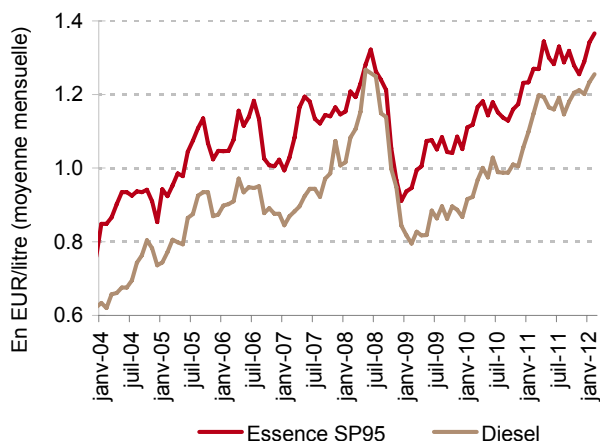
Labour market (2)**Employment and unemployment**

Sources: STATEC - National Accounts, ADEM

Unemployment continues to rise, as does employment

In January 2012, the number of job seekers registered with ADEM was 15,579, up 1,200 (8.4%) on last year. The seasonally adjusted unemployment rate stood at 5.9%, compared to 5.5% in early 2011. Clearly, the rise in employment is insufficient to offset the rise in unemployment.

National employment, which covers all resident workers and is used to calculate the unemployment rate, stood at 227,971 according to initial estimates for November, up 5,700, or 2.6%, over one year. Domestic employment, which covers all those working on national territory and thus includes cross-border workers, was at 373,924 over the same period, up 10,700 (or 3.0%) over one year.

Inflation and wages**Fuel prices very high in Luxembourg**

Source: European Commission (DG ECFIN)

Pump prices at their highest

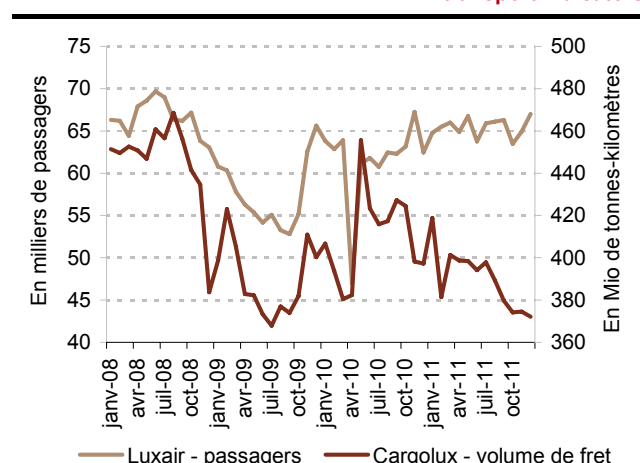
Fuel prices now exceed the peak levels observed in 2008 (see graph opposite). Since the start of February, the price of Brent per barrel – quoted in USD – has risen USD 20, although it is still some way off previous peak levels. As in Luxembourg maximum diesel and petrol prices are set according to crude oil prices expressed in EUR, it is the depreciation of the EUR/USD exchange rate (about 20% compared to the summer of 2008), which has pushed up pump prices.

The recent rise in the price of Brent per barrel is due in particular to geopolitical tensions in a number of exporting countries such as Iran. As reserves and unused production capacity are limited, the price of crude oil may well remain high, which would have a negative impact on the international economic situation.

Transport

More passengers, less freight

Air transport indicators



Sources: AEA, STATEC (seasonally adjusted figures)

Trend chart

	mai-11	juin-11	juil-11	août-11	sept-11	oct-11	nov-11	déc-11	janv-12	des trois derniers mois	période de l'année précédente
Variations annuelles en %, sauf mention contraire											
Activité											
Production industrielle par jour ouvrable, en volume	-4.2	-3.8	-0.2	-0.5	-5.9	-5.2	-11.3	...	...	-7.5	2.8
Production dans la construction par jour ouvrable, en volume	3.6	-6.9	-4.1	-0.5	-3.8	-6.1	-3.1	...	...	-4.4	2.1
Chiffre d'affaires en volume du commerce de détail hors vente par correspondance et carburants	2.8	-4.5	-4.6	-4.6	-1.5	-2.3	-3.4	...	...	-2.4	1.7
Prix, salaires											
Indice des prix à la consommation (IPCN)	3.6	3.5	2.9	3.3	3.3	3.4	3.6	3.2	2.9	3.2	2.7
Inflation sous-jacente	2.6	2.4	1.8	2.1	2.1	2.3	2.4	2.4	2.1	2.3	1.8
Indice des produits pétroliers	15.1	16.5	15.4	16.9	18.0	16.0	18.0	12.9	12.7	14.5	14.2
Indice des prix à la production industrielle	8.0	4.1	6.2	6.6	8.3	10.0	9.7	7.5	...	9.0	7.3
Indice des prix à la construction ¹	2.7	2.7	...	...	...	...	...	...	...	2.7	0.3
Coût salarial moyen par personne (CNT)	1.6	1.6	1.0	1.0	1.0	...	...	...	...	1.0	2.4
Commerce extérieur											
Exportations de biens en volume	-11.1	-2.3	1.1	36.2	0.4	31.9	-8.3	...	...	0.1	6.0
Importations de biens en volume	0.4	0.9	0.5	0.5	0.3	-0.3	-0.2	...	...	-0.1	-1.0
Emploi, chômage											
Emploi salarié intérieur	3.0	3.0	3.0	3.0	2.8	2.4	3.0	2.7	2.9	2.9	2.3
Emploi national	2.5	2.5	2.4	2.5	2.3	2.1	2.6	2.4	2.7	2.5	1.8
Taux de chômage (en % de la population active, cvs, ADEM)	5.6	5.6	5.8	5.8	5.7	5.7	5.7	5.9	5.9	5.8	5.7

Source: STATEC

Les données en couleur sont des estimations, cvs- corrigé des variations saisonnières, CNT - Comptes nationaux trimestriels

¹Estimations sur base de données semestrielles

Indicators

	Variation en % par rapport au trimestre précédent					
	2010 T3	2010 T4	2011 T1	2011 T2	2011 T3	2011 T4
Zone euro - Croissance en vol. du PIB (Commission européenne)	0.4	0.3	0.8	0.2	0.1	-0.3
Luxembourg - Croissance en vol. du PIB (Statec)	0.0	1.2	0.2	-0.9	0.6	...
	Variation annuelle en %					
	2007	2008	2009	2010	Prévision 2011	Prévision 2012
Luxembourg - Croissance en vol. du PIB (Statec)	6.6	0.8	-5.3	2.7	2.0	1.4
PIB en valeur 2010: 40 267 Mio EUR						
Salairé minimum mensuel (depuis le 01/10/2011): 1 801.49 EUR						
Balance courante (2011 - troisième trimestre): 794 Mio EUR						
Population résidente (01/01/2011): 511 840						
Indice des prix à la consommation (01/2012) - base 1er janvier 1948: 787.69						
Moyenne semestrielle de l'indice rattaché au 1er janvier 1948: 790.72						
Date prévue pour la prochaine indexation des salaires: 4ème trimestre 2012						

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