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STATEC

Institut national de la statistique
et des études économiques

A light at the end of the tunnel?

Recent months have been marked by a progressive improvement in the European financial environment. While this longed-for ray of sunshine holds out the long-term prospect of a more favourable environment for European growth, economic activity in early 2012 has remained hampered by relatively gloomy indicators.

Less turbulence on the financial markets

After being rocked in the second half of 2011, the European financial environment has regained a measure of calm in recent months. A number of events seem to have considerably reduced the pressure on the sovereign debt problems of some Member States – and banks – in the eurozone. Firstly, the funding at exceptional rates granted by the ECB to banks (on 21 December and 29 February, totalling EUR 1,000 billion over 3 years) provided a measure of protection against a liquidity crisis. Secondly, the agreement on Greek debt restructuring on 21 February – and the fact that it is not seen as in default of payment (1 March) – was ratified.

A number of indicators improved in the wake of these events. European equity markets recovered significantly (up about 25% between late November and mid-March), closing the gap with leading US indices, and price volatility – which is an indicator of market nervousness – fell sharply. European bank stocks have played no small part in this recovery. Further, the confidence indicator for financial services in the eurozone has also been rising since January, mostly due to banks. Stress indicators on the interbank market – like the gap between interbank rates (EURIBOR) and swap rates (EONIA) – have also been falling since January, although they still attest to a significant lack of trust between banks.

Clouds persist

The improving environment in the European financial sphere should give a boost to the real economy, which will over time have an impact on growth prospects.

However, there is no room for complacency in the short term: while a number of eurozone countries are

Stock-market indices

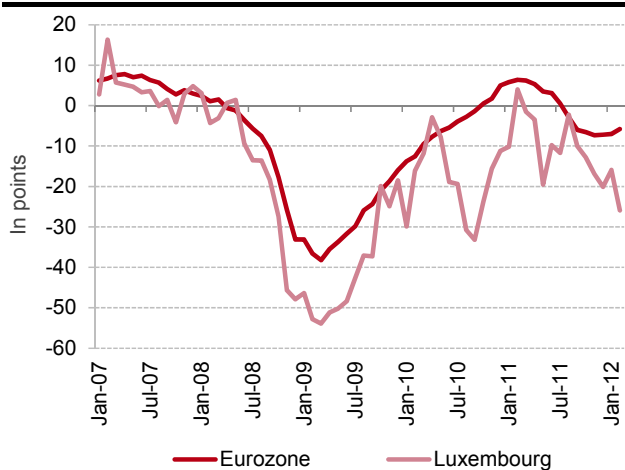


Source: Macrobond

likely to escape economic recession, none are expected to experience strong growth in 2012. Although opinion surveys in the manufacturing and services sectors throughout the eurozone reached their lowest point in the 4th quarter of 2011, the recovery that has taken place since then is not particularly spectacular, with GDP at best stabilising in the 1st quarter – ranging from slightly negative to slightly positive (after a fall of 0.3% in the 4th quarter of 2011). Furthermore, it is important to point out that there is a high degree of uncertainty, with sometimes contradictory results between different opinion surveys (as was the case in France in March), attesting to a lack of visibility for business owners. Consumer confidence in the eurozone at the end of February remained at very similar levels to the low reached in December, holding out little hope that consumption would make a positive contribution to growth over the coming months.

In Luxembourg, where financial activities are dominant, any improvement in the financial environment is naturally seen as a very positive sign. Moreover, while eurozone opinion surveys point to a certain sluggishness in early 2012, Luxembourg's main trading partners – Germany and France – are among those countries with the best results.

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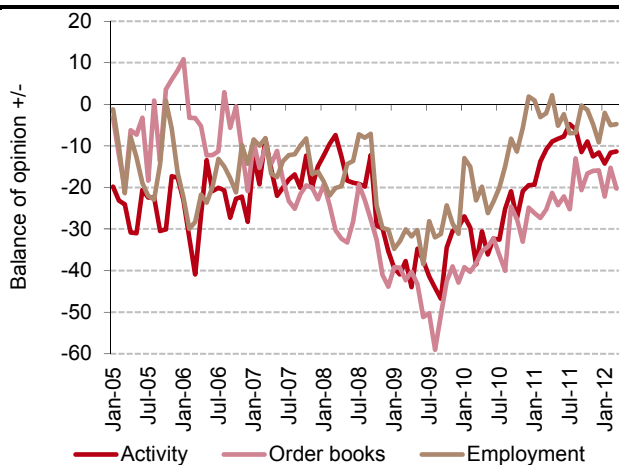
Manufacturing**Confidence indicator for manufacturing**

Source: European Commission

Output down

Over 2011 as a whole, industrial output in Luxembourg fell 3.6% on 2010, a counter-performance in view of the overall result for the eurozone (up 3.5% over the same period), where output fell in just 6 out of the 17 countries in 2011. Although iron and steel output fell sharply in the 4th quarter – linked to partial site closures – it rose 5% over the year as a whole thanks to positive results in the 1st and 3rd quarters. The decline in 2011 was mainly due to the marked downturn in the paper and cardboard and printing industry (down 49%), the chemicals industry (down 38%), glass, refractory and ceramic manufacturing (down 13%) and plastics (down 10%).

2012 started quite badly, with manufacturers' opinions down significantly up to March.

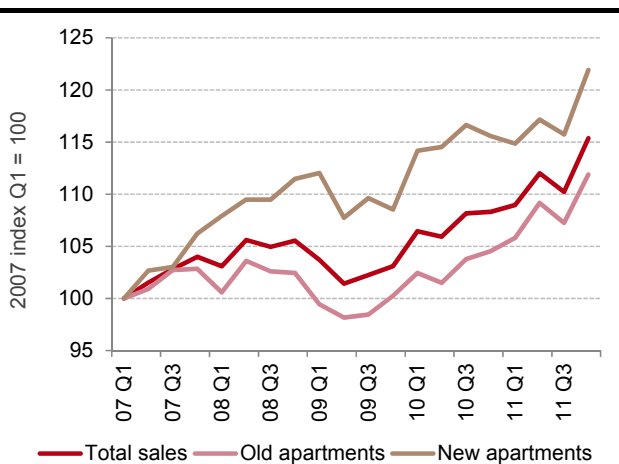
Construction**Economic survey, Construction**

Source: STATEC

2011 a relatively satisfactory year

Output in the construction sector posted a rise of 2.7% over 2011 as a whole. The last quarter of the year contributed in small way to this result, with December, although a "normal" month, up 36% on December 2010, which hit historically low levels (due to the bad weather conditions). Early 2012 will again be affected by exceptional phenomena, with the intense cold in February (average temperatures of -0.3° in Luxembourg, compared to an average of 3.2° over the previous 15 years) set to substantially weigh on construction figures – in terms of both output and employment – in the 1st quarter.

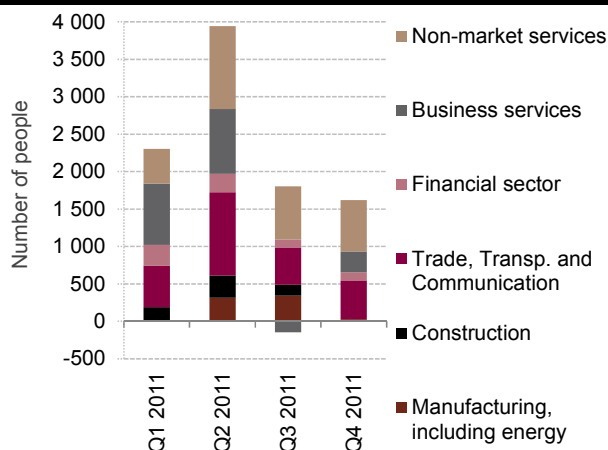
Opinions among construction businesses have also been trending downwards in recent months as regards activity but remain at relatively high levels.

Real estate**Asking prices for apartments**

Source: Land Registration and Estates Department, STATEC

No crisis for apartment prices

After stalling in the 3rd quarter of 2011, asking prices for apartments bounced back strongly at the end of the year (up 4.7% over one quarter, up 6.5% over one year). This observation is valid for both new builds and second-hand apartments ("second-hand" refers to a previously inhabited apartment even if it is relatively recent). This bullishness – substantially above the inflation rate – is quite surprising given the general economic slowdown in late 2011. While it is true that property is often seen as a safe haven by investors, housing prices cannot always escape the economic cycle (see the 2009 downturn). The number of transactions, traditionally higher at the end of the year, is up slightly on the 4th quarter of 2010 (up 2.5) but this masks a higher increase in the new-build segment (up 38% over one year, against a fall of 11% for second-hand properties).

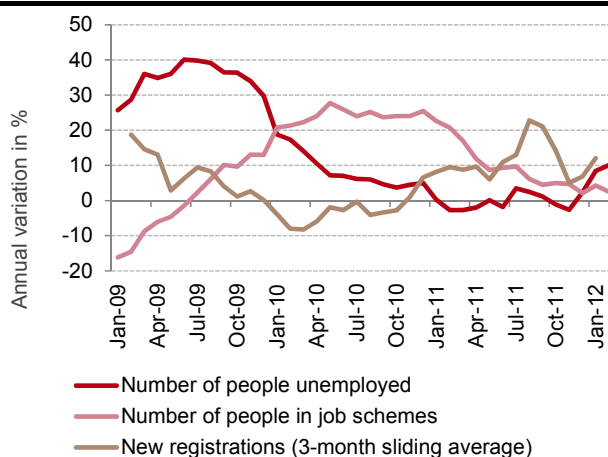
Labour market (1)**Jobs lost and created**

Sources: STATEC

Employment slows slightly in 2011

In the last quarter of 2011, the rise in domestic paid employment started to tail off: up 0.6% after rising 0.7% in the 3rd quarter. With employment in the eurozone falling 0.2% over the same period, this means that employment trends in Luxembourg have remained relatively dynamic.

Non-market services (public administration, education, healthcare, community, social and personal services and household activities), remained the main source of job creation in Luxembourg in late 2011, followed by trade, hotel and catering, transport and communications services, and business services, which, after a poor 3rd quarter, saw their staffing levels rise. Employment performance in other sectors (manufacturing, construction and financial sectors) remains sluggish but better positioned than the eurozone as a whole.

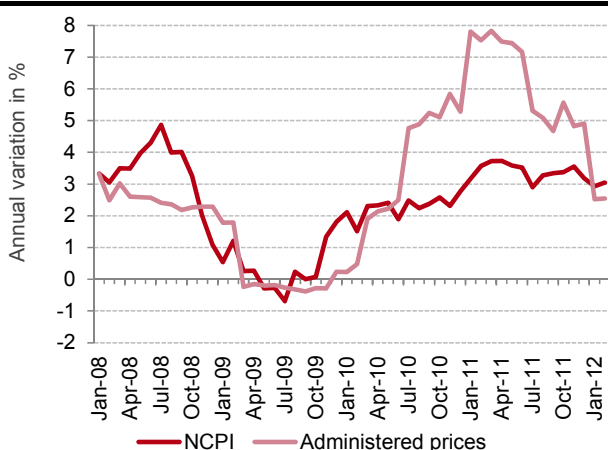
Labour market (2)**Unemployment in Luxembourg**

Source: ADEM

Unemployment rises in early 2012

In February 2012, the seasonally adjusted unemployment rate stood at 5.9%, as in the previous two months. Behind this apparent stabilisation lies an upward trend, as employment growth is insufficient to offset the growing numbers of job seekers. The unemployment rate in early 2012 is therefore back at the record levels seen in late 2010. The number of job seekers is about 10% higher than in early 2011: this additional inflow of job seekers is mainly made up of men aged between 30 and 39 registering as unemployed for the first time.

It should also be noted that the number of people registered on job schemes – which rose significantly in 2009 and 2010 and substantially reduced the rise in unemployment over that period – has been stabilising since 2011.

Inflation**Changes in the NCPI and administered prices**

Source: STATEC

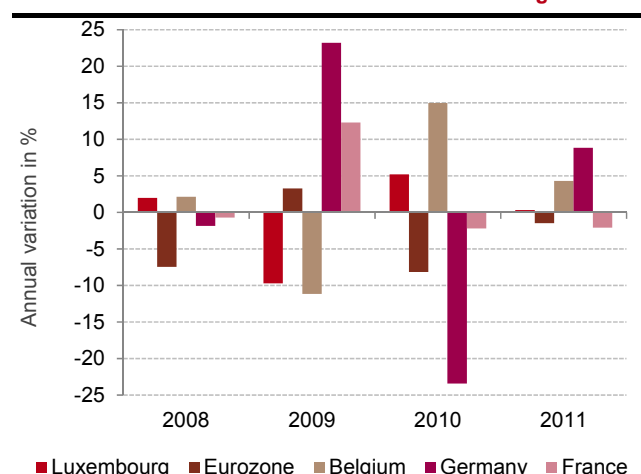
Administered prices contribute little to the NCPI

At the start of the year, contrary to last year, administered prices have not risen significantly. Inflation in administered prices thus fell below the overall inflation rate (2.5% against 3.0%, see graph opposite).

Water rates were the only prices to rise, by 3.7% on average between January 2012 and December 2011. However, these rises relate to a small number of authority areas which had not yet adjusted their water supply and recovery rates to the cost price. Since 2010 the successive adjustment by each local authority area of water rates, plus the impact of the 2011 healthcare reform, had pushed inflation in administered prices up to 7.8%. The effects of these are set to progressively dissipate and a simultaneous drop in the NCPI can be expected. However, the rise of about USD 15 in oil prices since the start of the year is helping keep the NCPI at about 3%.

Consumption

New car registrations



Source: ACEA, STATEC

Favourable trend in car sales

New private car registrations in Luxembourg rose 0.3% in 2011. Sales of new cars were less dynamic in the eurozone (down 1.5% over the same period), but some Member States saw a veritable collapse in sales, which were probably severely affected by austerity measures: down 31% in Greece and Portugal, down 18% in Spain and down 11% in Italy.

In Luxembourg, after a disappointing 1st quarter in 2011, the pace of new car registrations picked up throughout the year and this trend seems to have continued right up to February 2012 (latest data available): over the first 2 months of this year, registrations rose over 5% over one year. The results of the next four months (March to June), usually peak months for car sales, will provide the basis for a solid estimate for the year as a whole.

Trend chart

	Jun-11	Jul-11	Aug-11	Sep-11	Oct-11	Nov-11	Dec-11	Jan-12	Feb-12	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	-8.3	-0.3	-0.5	-5.9	-5.2	-11.2	-13.8	...	...	-9.9	6.3
Construction output per working day, in volume	-7.3	-4.4	-1.4	-4.4	-6.3	-2.8	39.1	...	...	4.5	-4.3
Turnover by volume of total retail trade	-4.5	-4.6	-4.6	-1.5	-2.7	-2.6	-0.4	...	...	-1.8	0.1
Prices, wages											
Consumer price index (IPCN)	3.5	2.9	3.3	3.3	3.4	3.6	3.2	2.9	3.0	3.1	3.2
Underlying inflation	2.4	1.8	2.1	2.1	2.3	2.4	2.4	2.1	2.3	2.2	2.1
Oil product index	16.5	15.4	16.9	18.0	16.0	18.0	12.9	12.7	12.4	12.6	16.9
Industrial producer price index	4.1	6.2	6.6	8.3	10.0	9.7	7.5	5.3	...	7.5	8.9
Construction price index ¹	2.7	...	...	...	...	...	...	...	...	2.7	0.3
Average wage bill, per person (National accounts)	1.5	1.0	1.0	1.0	...	...	...	...	...	1.0	2.4
Foreign trade											
Exports of goods (volume)	-3.6	1.1	36.4	1.1	32.8	-5.1	-1.0	...	...	-3.1	10.6
Imports of goods (volume)	0.9	0.5	0.5	0.3	-0.3	-0.2	-0.2	...	...	-0.2	-1.0
Employment, unemployment											
Domestic number of employees (IGSS)	3.0	3.0	3.0	2.8	2.4	3.0	3.1	3.4	3.2	3.2	2.2
National employment (IGSS)	2.5	2.4	2.5	2.3	2.1	2.6	2.4	3.1	2.6	2.7	1.7
Unemployment rate (% of working population, seas. adj.)	5.6	5.8	5.8	5.7	5.7	5.7	5.9	5.9	5.9	5.9	5.7

Sources: STATEC

Data blue coloured are estimates

¹ Estimations based on half-yearly data

Indicators

	Variation on previous quarter in %					
	2011 Q3	2010 Q4	2011 Q1	2011 Q2	2011 Q3	2011 Q4
Eurozone- Growth in volume of GDP (European Commission)	0.4	0.3	0.8	0.1	0.1	-0.3
Luxembourg - Growth in volume of GDP (STATEC)	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 NDC 3-2011)	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 (2011 - 3 rd quarter): EUR 794 million						
Resident population (01/01/2011): 511 840						
Consumer price index (January) - base January 1 st 1948: 7 801.1						
Half-yearly average of the index linked to base as at January 1 st 1948: 792.73						
Estimated deadline for next salary indexation: 4 th term 2012						

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