

Slowdown continues in the 4th quarter of 2011

GDP grew slightly in Q4 2011, up 0.2% on Q3 (up 0.8% over one year). This, combined with the results for the first 3 quarters of 2011 (which were revised slightly upwards), ultimately resulted in GDP growth of 1.6% for 2011 as a whole, after rising 2.7% in 2010 (and falling 5.3% in 2009).

4th quarter rise a smokescreen

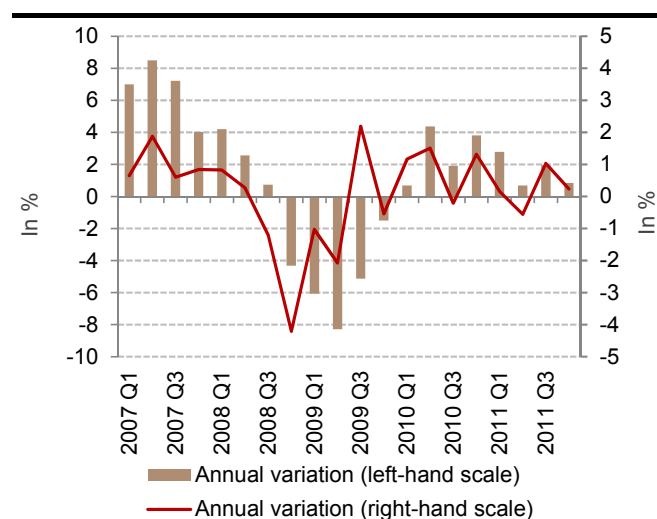
A fourth-quarter rise in GDP was not particularly expected as the cyclical indicators available prior to publication had suggested that most business sectors were trending downwards at year-end. In fact, this downward movement was visible in terms of added value, which fell 0.2% on the 3rd quarter. This discrepancy between GDP trends and added value – which generally post similar variations in terms of size and trend – is mostly due to taxes on production¹, which rose significantly in the 4th quarter.

From an economic perspective, this discrepancy points to the fragility of GDP growth in Q4, as taxes are not strictly a leading cyclical variable: although over the medium term, they follow fluctuations in the economic cycle, they can, in the short term, be subject to unexpected movements due to the inclusion of non-recurring phenomena. Added value is thus far more indicative of cyclical momentum and in this case it points up a difficult economic climate in late 2011. Furthermore, the drop in added value could have been much worse without the highly positive contribution (a rise of 0.3 percentage points) in the protected services sector (administration, education, health and social welfare, community, social and personal services and domestic services).

Finance and manufacturing in difficulty

Financial services were severely hit by the downturn in the European financial environment in the 4th quarter and have remained stuck in the same downward trend since mid-2010. These should start to see a much more favourable trend in the 1st quarter of 2012, as calm finally returns to the financial markets.

GDP in volume

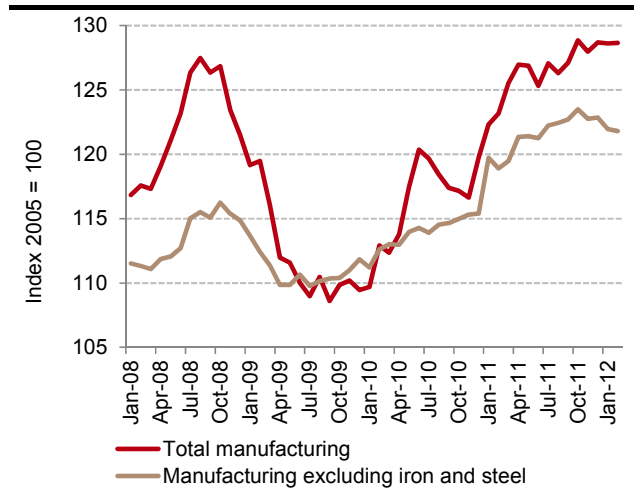


Source: STATEC (National Accounts)

Added value in manufacturing has fallen for the third quarter in a row (down 4.6%, after falling 1.0% in the 3rd quarter), and opinion surveys in early 2012 unfortunately indicate that this deterioration will continue. The other branches in the competitive sector posted only very moderate growth overall in the 4th quarter.

Thus, the start of 2012 has been practically stagnant for the Luxembourg economy. The slowdown affecting GDP in recent quarters has been having a gradual effect on the labour market, with the 4th quarter seeing fewer jobs created (and unemployment simultaneously rising), and the figures already available for early 2012 seem to confirm this deterioration.

¹ GDP is the sum of added value plus taxes on products, less subsidies on products. Added value accounts for about 90% of GDP.

Manufacturing**Prices of industrial products**

Source: STATEC (latest figures: January 2012)

No clear direction on prices

The overall index for Luxembourg industrial products has been stabilising since the last quarter of 2011. However, this stability masks very widely diverging trends. On the one hand, prices for iron and steel products continue to rise sharply, gaining some 10% between August 2011 and February 2012, against a backdrop of a significant fall in output (in Q4 2011 and January). On the other hand, most other products have seen a marked downward trend in recent months, reflecting both the decline in European output since the 3rd quarter and the drop in global commodity prices (between Q2 and Q4 2011). However, all commodities – not just energy-related commodities – have recovered somewhat since January, meaning that it is difficult to define a trend for the coming months. Luxembourg manufacturers, who anticipated a rise in their asking prices in the February and March opinion surveys, are a little less certain in April.

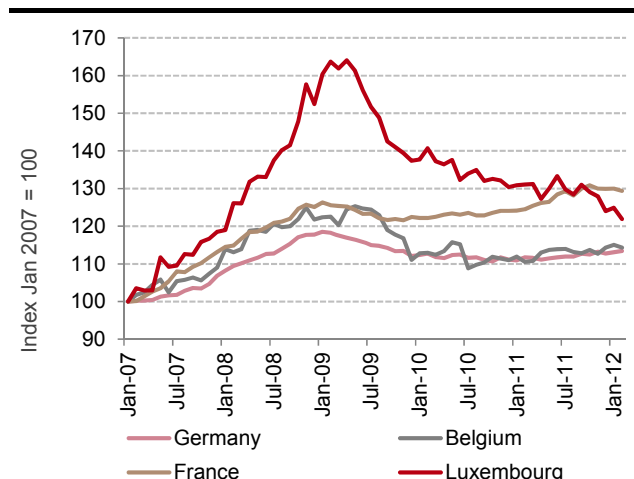
Construction**Estimated period of guaranteed business**

Source: STATEC (Economic survey)

Slowdown

Construction business owners have been less optimistic in recent months. There is little in the latest survey, conducted in April, to halt this trend. As with the period of guaranteed business, the opinions of most business owners remain globally in line with those expressed the previous month, excluding employment prospects, which were revised downwards. However, opinions in this sector are still relatively high compared to their historic average, signalling a slowdown rather than a collapse in activity.

Output figures for the start of the year were substantially affected by negative weather conditions: January, for example, fell more than 6% over one year (due to exceptionally high output in January 2011) and the figures for February 2012 are expected to show a fall of at least that much due to the extreme cold snap in that month.

Financial sector (1)**Bank loans to non-financial companies**

Source: ECB (outstanding loans in the eurozone, including Luxembourg)

Fewer loans to non-financial companies

Loans granted by Luxembourg banks to non-financial companies in the eurozone fell back following the 2008-2009 financial crisis. In contrast to its neighbours, Luxembourg has not shown any signs of recovery in this area and the latest figures (end 2011 – early 2012) largely support this observation. Although this type of loan had seen exceptional – even exponential – growth in Luxembourg from 2005 to 2008, the fall in this customer segment since then seems to have taken on a structural character. However, it should be noted that the trend is different for non-financial companies headquartered in Luxembourg, with loans to these companies by lending institutions rising between the 2nd and 4th quarter of 2011.

Loans to non-financial companies (based in Luxembourg, other eurozone countries and the rest of the world) account for approximately 12% of total lending by Luxembourg banks, most of it in the form of interbank lending.

Financial sector (2)

Confidence indicator in financial services: eurozone



Source: European Commission

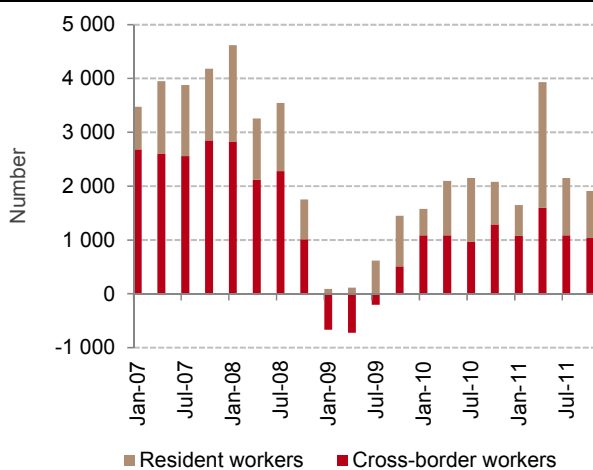
Confidence rises (temporarily?)

Confidence in the eurozone financial sector has recovered somewhat since January. This trend is due mainly to improved outlook in the banking sector and is in line with the easing on the financial markets observed in the 1st quarter (injections of liquidity by the Central Bank, upswing in the European stock-market indices, etc.). Luxembourg banking results for the 1st quarter are not yet available but the figures for UCIs (January and February) are evidence of this improvement.

However, the European financial climate again deteriorated in April as yields on some government bonds started to rise again (particularly in Spain and Italy) and European stock market indices fell sharply (the Eurostoxx50 lost almost 15% between 19 March and 23 April). The confidence indicator in financial services is likely to replicate these trends in April. Generally speaking, even with the recovery in the 1st quarter, confidence in this sector was at extremely low levels in early 2012.

Labour market

Jobs created depending on residency



Source: STATEC (seasonally adjusted figures)

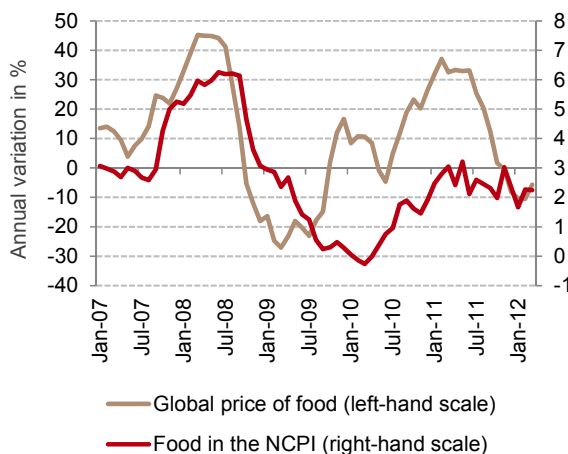
Cross-border workers hold half of all jobs

In 2011, cross-border workers accounted for over half of all jobs created in Luxembourg: 51.5%, or 4,800 jobs. Although this is an improvement on previous years, (48.1% and 35.2% in 2010 and 2009 respectively), this proportion remains far behind pre-crisis levels, when cross-border workers held 2/3 of all newly created jobs. However, cross-border employment (up 3.2%) remained more dynamic than national employment (up 2.3%) in 2011.

In contrast to the slowdown in employment in 2009, the recent downturn in the economic climate seems to be hitting national employment harder than cross-border employment. Thus, after the sharp hike in paid employment in Q2 2011, both among cross-border workers (up 1.1% over one quarter) and resident workers (up 1.2%), employment grew just 0.7% for cross-border workers and 0.5% for residents in Q4. The difference between resident and cross-border employment in late 2011 is mainly due to falling numbers of residents in paid employment in the construction sector (falling 0.5% over one quarter) while cross-border employment continued to rise (up 0.3%).

Inflation

Similar changes in food prices



Sources: STATEC, IMF

Food prices relatively calm

Consumer food prices, up 2.3% over one year in March, are currently rising at a level close to underlying inflation, which is at 2.1%. At 3.9%, prices of processed food in particular are exerting inflationary pressures while non-processed food is almost stagnant at 0.4%.

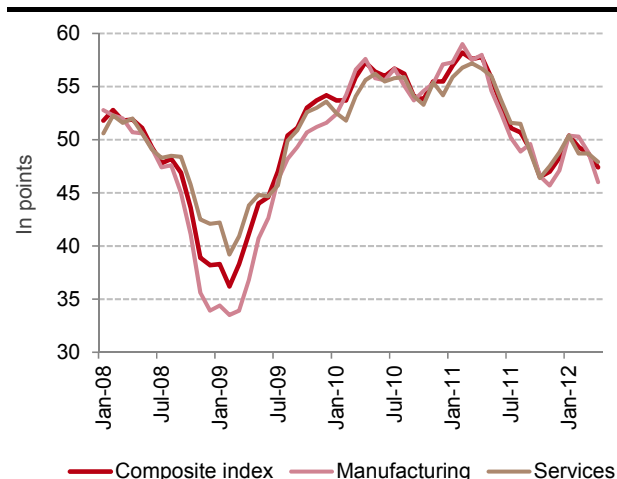
Global prices for food staples are partially reflected in food price trends in Luxembourg. However, the price of food staples fell throughout 2011, but food prices in Luxembourg have up until now been relatively unaffected by this trend and are not likely to take off over the short term.

However, it is to be hoped that the upswing on the international markets observed since the start of the year (6% between January and March) does not last long, as this could lead to a sustained upsurge in market prices.

International

PMI falls sharply in April

PMI indices for the eurozone



Source: Markit (Flash estimates)

Trend chart

	Jul-11	Aug-11	Sep-11	Oct-11	Nov-11	Dec-11	Jan-12	Feb-12	Mar-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	-0.5	1.5	-4.8	-2.7	-8.2	-8.0	-10.3	...	...	-8.9	3.6
Construction output per working day, in volume	-5.1	-0.5	-3.9	-6.0	-3.0	27.7	-6.4	...	...	2.8	0.4
Turnover by volume of total retail trade	-4.6	-4.6	-1.5	-2.7	-2.6	-0.4	...	...	...	-1.8	0.1
Prices, wages											
Consumer price index (IPCN)	2.9	3.3	3.3	3.4	3.6	3.2	2.9	3.0	2.7	2.9	3.5
Underlying inflation	1.8	2.1	2.1	2.3	2.4	2.4	2.1	2.3	2.1	2.1	2.3
Oil product index	15.4	16.9	18.0	16.0	18.0	12.9	12.7	12.4	8.9	11.2	18.1
Industrial producer price index	6.2	6.6	8.3	10.0	9.7	7.5	5.1	4.4	...	5.7	10.0
Construction price index ¹	2.9	2.9	2.9	3.2	3.2	3.2	...	...	...	3.2	1.2
Average wage bill, per person (National accounts)	1.1	1.1	1.1	1.6	1.6	1.6	...	...	...	1.6	3.6
Foreign trade											
Exports of goods (volume)	-1.6	13.7	8.0	-6.9	-2.8	1.5	-10.8	-9.5	...	-6.6	15.8
Imports of goods (volume)	-0.3	35.1	0.9	33.0	-4.7	-5.9	11.9	9.9	...	5.4	5.8
Employment, unemployment											
Domestic number of employees (IGSS)	3.0	3.0	2.8	2.4	3.0	3.1	2.9	3.0	2.8	3.0	2.3
National employment (IGSS)	2.4	2.5	2.3	2.1	2.6	2.5	2.4	2.5	2.4	2.5	1.8
Unemployment rate (% of working population, seas. adj.)	5.8	5.8	5.7	5.7	5.7	5.9	5.9	5.9	6.0	5.9	5.5

Sources: STATEC

Data pink 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	0.7	0.1	0.1	-0.3
Luxembourg - Growth in volume of GDP (STATEC)	-0.1	1.3	0.2	-0.6	1.0	0.2
	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	1.6	1.4
PIB en valeur 2011: 42 822 Mio EUR						
Minimum monthly salary (since 01/01/2011): EUR 1 801.49						
Current account balance (2011 - 4 th quarter): EUR 749 million						
Resident population (01/01/2011): 511 840						
Consumer price index (March) - base January 1 st 1948: 803.82						
Half-yearly average of the index linked to base as at January 1 st 1948: 795.05						
Estimated deadline for next salary indexation: 4 th term 2012						

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