

General downturn in employment market

Following the economic slowdown since 2011, the labor market is again entered a difficult phase. After a major deterioration at the intersection of 2008 and 2009, halted on employment and dramatic rise in unemployment, he could regain some momentum in 2010. This improvement has not had time to settle permanently, thwarted by the new cyclical turnaround.

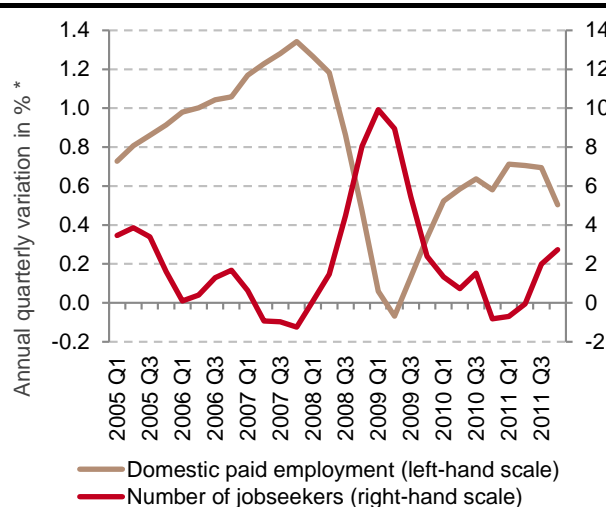
In the Grand Duchy of Luxembourg ...

All available indicators confirm this general worsening of the Luxembourg employment market at the end of 2011 and suggest a further deterioration in early 2012. Employment prospects in manufacturing and construction (monthly economic surveys), which have become more gloomy since the end of 2010, posted a further downturn in early 2012. A similar situation occurred for temporary work, mostly used by manufacturing and construction companies.

In terms of unemployment, over the latest available months to March 2012, along with a rise in the number of jobseekers, we see a further rise in the number of people in job schemes and applications for E301 certificates, which are used by cross-border workers to prove their right to unemployment benefit in their country of residence. The symptoms of a downturn are also visible in partial unemployment. Between February and May 2012, some 37 companies applied each month to the *Comité de Conjoncture* to work reduced hours, compared with an average of 30 in 2011. More significantly, in May 2012, these applications covered 4,300 people compared with 1,500 people on average each month in 2011.

Given the delay of around three quarters between activity and the employment market, and given the weakness in activity in early 2012, both in Luxembourg and Europe, the situation is likely to further deteriorate throughout 2012. In its macro-economic forecasts published in early May, STATEC therefore reckons on domestic paid employment growth of just 2.1% over one year in 2012, following a figure of 2.6% in 2011.

Employment and unemployment in the Grand Duchy



Sources: ADEM, IGSS, STATEC, seas.adj. data
* moving average on 3 quarters

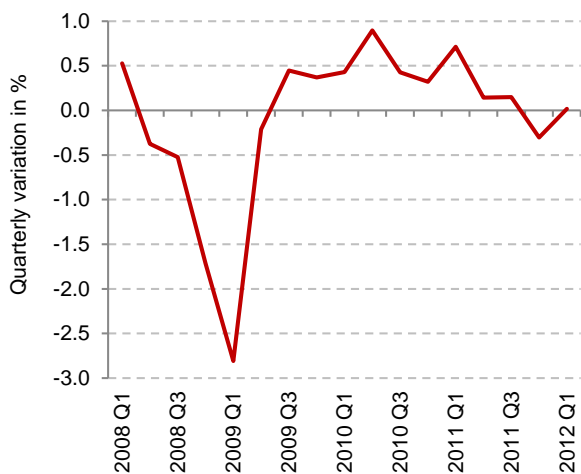
The unemployment rate should therefore continue to rise gradually from 5.9% at the start of the year to more than 6% at the end of 2012 (with an average of 6.1% over the whole year).

... and in most bordering regions

This negative development is also seen in most of the bordering regions. Therefore, like the whole of mainland France, Lorraine has little employment dynamic and unemployment continued to rise at the end of 2011 and in early 2012. The situation was similar in Wallonia in early 2012 despite a still highly dynamic employment market at the end of 2011. The two bordering areas of Germany, the Saar and Rhineland-Pfalz, on the other hand are amongst the most dynamic regions.

International

Eurozone GDP



Source: Eurostat

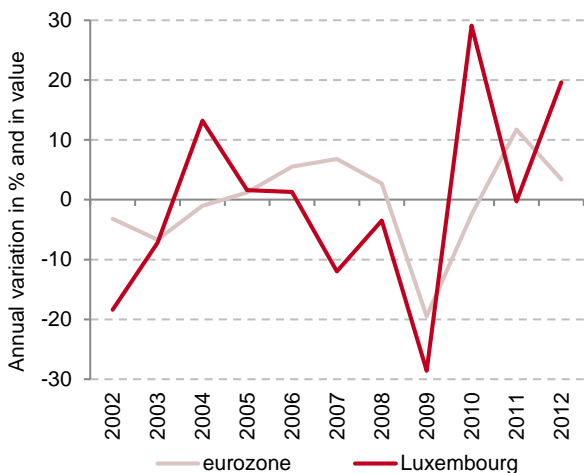
Eurozone: between stagnation and recession

Eurozone GDP stagnated over the 1st quarter (+0.0% over one quarter and +0.0% also over one year). The eurozone on the whole therefore is falling just shy, at least for the moment, of a recession, which is defined as two consecutive quarters of falling GDP. Nonetheless recession was already a reality for around half of the Member States at the turn of 2011 and 2012. German performance at +0.5% made a broad contribution to limiting the damage in the 1st quarter whilst France just stagnated (the result for the 4th quarter in fact was revised from +0.2% to +0.1%). Italy again recorded a marked fall (of 0.8% after -0.7% in the previous quarter), Spain did too, but to a lesser extent of -0.3% for the second consecutive quarter.

The prospects for the rest of the year provide little source of encouragement: advance activity indicators for the eurozone in general show a pronounced deterioration in April, consumer confidence remaining at a low level such that a fall in GDP in the 2nd quarter cannot be ruled out.

Manufacturing

Investments in manufacturing industry



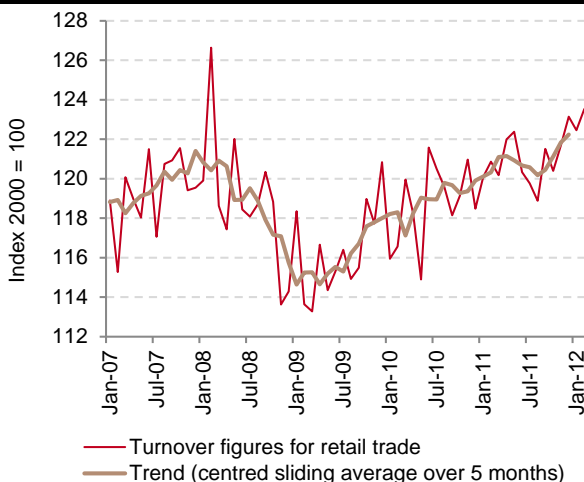
Source: European Commission (Investment Survey)

Investment expected to rise in 2012

According to the latest economic survey on investment in the manufacturing industry (March/April 2012), Luxembourg manufacturing companies plan to increase their investment by around 20% in 2012. Like in Germany and France, investment prospects in Luxembourg for 2012 have been revised upwards compared to the previous survey in Oct/Nov 2011. This anticipated recovery in investment should be met with caution given that, on the one hand, the economic climate currently offers little clarity to manufacturing, and, secondly and more technically, the significant variability of the data collected in Luxembourg for this survey. This positive sign about investment contrasts somewhat with the poor output at the end of 2011 and in early 2012. Amongst the type of investments mentioned by manufacturers in the survey for 2012, it should however be noted that there was less replacement and capacity investment and more rationalisation and other types of investment (environment, safety, etc.).

Consumption

Retail sales volume



Sources: Administration de l'Enregistrement, STATEC

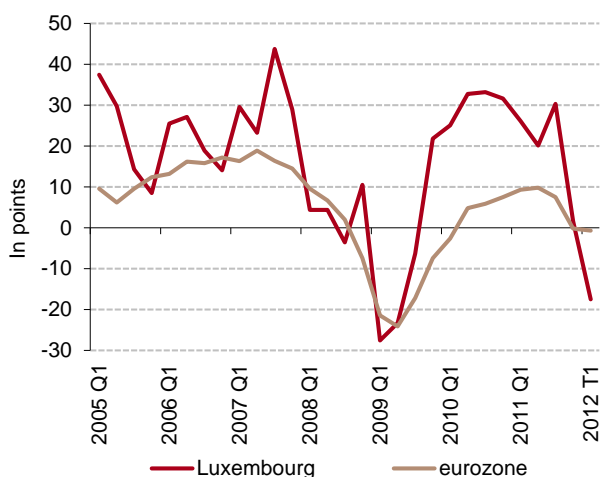
Retail sales holds up well

Retail sales seem to have displayed a better dynamic over the past few months. Following a downward trend over the first half of 2011, turnover from retailers (excluding fuels and mail-order sales) showed quite a marked recovery at the end of 2011 and the beginning of 2012. The movement is quite surprising given the situation on the employment market and the fall in consumer confidence over the same period. This relatively good resistance in consumption was also observed in Germany and France. Over January and February 2012, the volume of retail sales in Luxembourg therefore grew 2% over one year.

New vehicle registrations rose by 1.3% compared with last year based on the first 4 months of the year, an appreciable result at least when compared with the rest of Europe.

Although these results offered a nice surprise at the start of 2012, the current macroeconomic situation does not suggest that the improvement is sustainable.

Non-financial services Confidence indicator in non-financial services



Sources: Eurostat, Chamber of Commerce, STATEC (seasonally adjusted data – values at start of quarter)

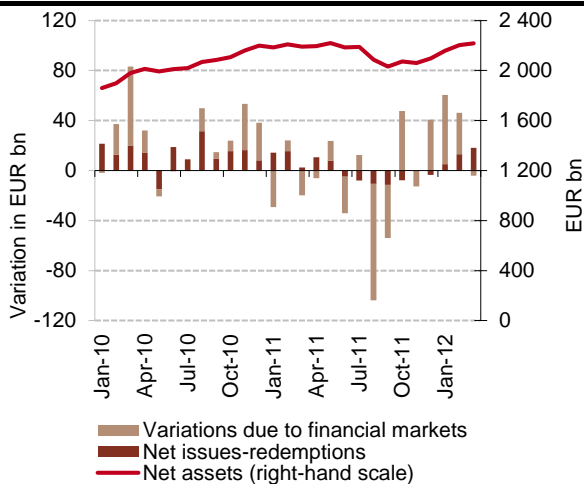
Contradictory signals

The confidence of non-financial services businesses plummeted in Luxembourg over the 1st quarter. This movement extends the strong fall already recorded over the 4th quarter and owes a lot to the more pessimistic prospects for business for the current quarter (survey was conducted at the beginning of the 1st quarter of 2012). However, the initial turnover estimates for non-financial services collected by the tax authorities for the beginning of 2012 (January and February) show a relatively positive performance, notably in field of services to businesses. The survey on the business climate in the services sector, which has been carried out on a monthly basis since February 2012 in Luxembourg does however show an improvement between February and March, such that the strong fall reported here for the 1st quarter - but which is based on opinions expressed in January - is perhaps a bit excessive.

Given the volatility of the data, both in the business climate survey and for revenues, it is still difficult to establish a clear trend for the start of this year.

Financial sector

Undertakings for collective investment



Source: CSSF

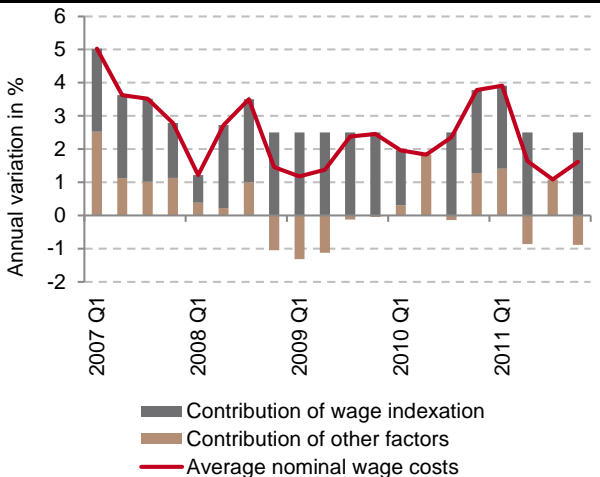
A boost for funds in the 1st quarter

The first quarter of the year turned out to be very profitable for Luxembourg UCIs. Assets at the end of March amounted to EUR 2,217 billion just shy of - more precisely 2 billion shy of - the May 2011 record. Net investment - excluding market variations - was positive for three months in a row - something which has not happened again since the start of 2011. This positive movement took place in a more relaxed context on the financial markets between December and March. The 2nd quarter will probably not benefit from the same dynamic, concerns about public debt in several eurozone states once again affecting investor confidence. The EuroStoxx 50 stock exchange index for example declined by 18% between mid-March and mid-May.

In the insurance sector, following highly erratic fluctuations in receipts in 2010 and 2011, results in the 1st quarter of 2012 definitely normalised and this was in a relatively satisfactory growth scenario.

Wages

Average wage bill per employee



Source: STATEC (National Accounts)

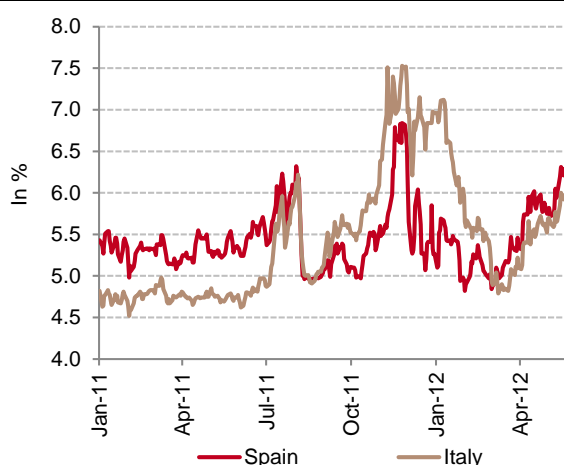
Restrained rise in wages

Average wage costs (per employee) rose slightly in the 4th quarter of 2011, by 1.6% over one year. This development increases average wage costs to 2.0% over the whole of 2011 (compared with +2.5% in 2010). The automatic indexation of wages was the main contributor to the rise in wages in 2011 despite the modulation of the system which has the effect of delaying the payment of the new wage index adjustment by 5 months (from May to October 2011). The other variables which impact average wage cost trends: adjustment of working hours, basic salaries, bonuses, etc. and which are more representative of the economic dynamic demonstrate a less favourable climate for wages in 2011. This phenomenon is to be seen in the context of the economic slowdown and its impact on the employment market. It was in the financial services field where the impact of the business climate was most marked: wage costs have grown in this field at a rate of just 1% per year on average since the 2008 crisis, far from the 5% average between 2005 and 2007.

Public finances

Public debt still a source of concern

10-year government bond yields



Source: Macrobond

Yields on government bonds, which represent the annual cost at which countries can obtain finance on the markets, have tended to recover in several eurozone Member States since March. After a relatively calm period between December and February, the finance of public debt has become a source of major concern, notably for Spain and Italy two economic heavyweights in the eurozone, and creates a risk concerning the cohesion and opportunities for growth for all eurozone countries.

Luxembourg was amongst the best pupils in this field: the 10-year interest rate has remained on a downward trend (since the 2nd quarter of 2011) and stood at slightly more than 1.70% in mid-May. We see that the gap between Luxembourg and Germany, reference countries in the area on a European level, having widened a little over April, returned to a more normal value in May (considering the average since 2011) of 25 basis points.

Trend chart

	Aug-11	Sep-11	Oct-11	Nov-11	Dec-11	Jan-12	Feb-12	Mar-12	Apr-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	1.5	-4.8	-2.7	-8.2	-8.0	-10.8	-11.1	...	...	-10.0	3.7
Construction output per working day, in volume	-0.5	-3.9	-6.1	-3.1	26.8	-5.7	-27.9	...	...	-7.2	7.9
Turnover by volume of total retail trade	-0.8	2.9	0.9	0.6	4.0	2.0	2.3	...	...	2.9	1.4
Prices, wages											
Consumer price index (IPCN)	3.3	3.3	3.4	3.6	3.2	2.9	3.0	2.7	2.7	2.8	3.7
Underlying inflation	2.1	2.1	2.3	2.4	2.4	2.1	2.3	2.1	2.1	2.2	2.4
Oil product index	16.9	18.0	16.0	18.0	12.9	12.7	12.4	8.9	9.0	10.0	19.1
Industrial producer price index	6.6	8.3	10.0	9.7	7.5	5.9	5.2	3.7	...	4.9	10.8
Construction price index ¹	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	1.6	1.6	1.6	...	...	...	...	1.6	3.8
Foreign trade											
Exports of goods (volume)	13.7	8.0	-6.9	-2.8	1.5	-10.8	-9.5	...	...	-6.6	15.8
Imports of goods (volume)	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)	2.8	2.7	2.2	2.8	2.9	2.7	2.5	2.3	1.9	2.2	2.6
National employment (IGSS)	2.2	2.0	1.8	2.3	2.2	2.0	2.1	1.8	1.3	1.7	2.1
Unemployment rate (% of working population, seas. adj.)	5.8	5.8	5.7	5.7	5.9	5.9	5.9	6.0	...	6.0	5.5

Sources: STATEC

Data pink coloured are estimates

¹ Estimations based on half-yearly data

Indicators

	Variation on previous quarter in %					
	2010 Q4	2011 Q1	2011 Q2	2011 Q3	2011 Q4	2012 Q1
Eurozone- Growth in volume of GDP (European Commission)	0.3	0.8	0.1	0.1	-0.3	0.0
Luxembourg - Growth in volume of GDP (STATEC)	1.3	0.2	-0.6	1.0	0.2	...
	Annual variation in %					
	2008	2009	2010	2011	Forecast 2012	Forecast 2013
Luxembourg - Growth in volume of GDP (STATEC NDC 3-2011)	0.8	-5.3	2.7	1.6	1.0	2.4
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 (April) - base January 1 st 1948: 806.47						
Half-yearly average of the index linked to base as at January 1 st 1948: 797.63						
Estimated deadline for next salary indexation: 4 th term 2012						

National Institute for statistics and economic studies

Tel: 247-84219
 info@statec.etat.lu
 www.statistiques.lu

13, rue Erasme
 B.P. 304
 L-2013 Luxembourg

For further information:

Pascale Armstrong
 Tel. 247-84234
 E-mail: Pascale.Armstrong-Pax@statec.etat.lu

Bastien Larue
 Tel. 247-84339
 E-mail: Bastien.Larue@statec.etat.lu