

Note de Conjoncture n° 4-2003

The economic situation in Luxembourg: Recent trend and outlook

After a difficult second quarter 2003, a number of economic indicators once again started to trend upwards. Activity in industry, trade and house building was steady during the second half of the year. As for the finance sector, high street banks still recorded negative results compared with the year 2002, although a reversal in trend was observed in the direction of an improvement from the third quarter 2003 onwards. For their part, other market services yielded highly mixed results depending on type of activity. Although it is too soon to speak of a widespread economic recovery, the outlook for future activity has been brightening in recent months, buoyed chiefly by hopes of stronger growth within the euro zone. This upturn however will only be able to exert a positive impact on the still depressed employment market at a later date in the future.

These are the main points analysed in the Note de Conjoncture n°4-2003, which STATEC has just published on its Internet site, which charts the recent economic situation in Luxembourg in the light of the statistical indicators available at the start of 2004. It deals in detail with recent trends in the main sectors of activity, inflation, wages, foreign trade relations and the labour market. The Note also includes three additional analyses: "effects of the depreciation of the US dollar on the Luxembourg economy", "Hours of work and employment" and "Public finances in the current economic context".

Industrial recovery and sustained consumer spending

Most of the European Union economies had experienced stagnation in the second quarter, indeed recession for the three "major" economies: Germany, France and Italy. This slowdown also made itself felt in Luxembourg, for which the majority of business indicators recorded signs of weakness.

From the third quarter 2003 onwards, the Luxembourg economy continued to develop in line with the other euro zone countries, but this time in the direction of an upturn in activity.

Industrial production started to rise again from July onwards and the results of opinion surveys carried out among manufacturers offered hope of a similar trend in the last two months of the year. This is expected to result in a rise in profits of approximately 2.5% for the year 2003 (against 1.5% the previous year).

The trade sector continued its upward path in the third quarter, especially in the sale of vehicles, fuel and the wholesale trade. Even though the morale of households appears to have been dented by the difficulties on the labour market (with an unemployment rate of over 4%), consumer spending levels appear to be holding steady. Given Luxembourg's high degree of openness, foreign demand is clearly a contributor to this rise in sales (with non-economic factors playing a part), it should however be pointed out that domestic consumption also shows signs of dynamism: the historically low interest rates are a strong incentive to consume (as evidenced by the rise in consumer credit) rather than save.

The low interest rates are also encouraging home loans. The housing sector is, moreover, one of the only areas of construction where both recorded profit and outlook are healthy. Although Non-residential building construction and civil engineering did record growth in the third quarter, opinions on their future were revised downwards somewhat in the second part of the year.

Revival of the finance sector but mixed situation in other services sectors

The results yielded by the finance sector were still negative compared with 2002. The situation, however, appears to have improved from the third quarter onwards, especially if the exceptional circumstances affecting bank profits in 2002 are disregarded. This trend is likewise confirmed by the favourable development in the provision of financial services on behalf of non-residents observed in the third quarter in terms of current account, as indeed the appreciation in the balance of income from investments ascribable to the banking sector. Conversely, in terms of employment this sector is still recording considerable staff cutbacks (around 1000 jobs shed over one year at the close of the third quarter 2003).

The other market services produced mixed results to say the least. The hotels and restaurants sector (Horeca), transport services, real estate activities and IT-related services still recorded a downturn in business by comparison with 2002 (in terms of revenues), even though performance within each of these branches was heterogeneous.

By contrast, services supplied primarily to businesses (a sector which accounts for some 10% of domestic numbers of employees) continued to grow over the same period: slightly less strongly than in the first half of the year in legal and accountancy activities, more vigorously however so far as temporary employment agencies are concerned.

Inflation and the rise in labour costs comparable with the euro zone

Inflation over the year in Luxembourg (+2.0% for IPCN, the national consumer price index) was comparable with that of all other euro zone countries (+2.1%), although the trend over the last few months of the year differed, accelerating in the neighbouring countries of Germany, France and Belgium while easing over the same period in Luxembourg.

Conversely, a comparison of the rise in the hourly cost of labour pointed to a slightly lower rate than that of the euro zone at the start of 2003, only to converge with one another in the third quarter (in the wake of the new index tranche for Luxembourg).

Employment still rising, along with unemployment

Domestic numbers of employees still grew at an annual rate of slightly more than 2%, not enough to curb the rise in unemployment which is still growing, although showing signs of slowing in recent months.

The core sectors which registered sharp job losses in 2003 (annual variation in September) are the finance sector, more specifically the banking sector, and the manufacturing industry, more specifically activities linked to metallurgy and the food industry.

Outlook

Even though the recovery has exerted a fairly noticeable effect on industry and the banking sector is continuing to recuperate, the return to growth is far from widespread at present, at least in the light of the main statistical indicators available. The reversal in the economic climate from end 2001 – start 2002 has still to make itself fully felt.

Across the euro zone, the recovery recorded from the second half 2003 onwards is expected to last throughout 2004, provided that world demand stays at a high level.

This trend is undoubtedly desirable for Luxembourg too. It should not be forgotten however that industry's share of the Luxembourg economy, basically geared towards services and more particularly financial services, is not as important as in Germany or in France. Thus, a rise in world

demand for goods will not have as much impact at this level in terms of contribution to growth. It is first and foremost a favourable positive shift in the demand for services, accompanied ideally by new business opportunities in the finance sector, which remains key to the future.

On a final note, the strong budgetary impetus given by the State in 2002 and 2003 will gradually fade from 2004 onwards, thereafter ceasing to prop up the economy.

Table 1: Overview of the Luxembourg economy

	1985-2002	2001	2002	2003	2004	2005	2006
						Growth rate in %	
GDP (million current EUR)	...	21 987	22 396	23 038	24 148	25 566	27 032
GDP (vol.)	5.6	1.2	1.3	1.2	2.0	3.0	3.8
Household final consumption and NPISH	3.7	4.5	2.3	1.6	1.9	2.5	2.5
Public administration final consumption	5.1	7.0	4.2	3.8	2.1	2.9	3.0
Gross fixed capital formation (excl. variations in stocks)	7.9	10.1	-1.4	0.5	1.9	3.3	6.2
Exports of goods and services	7.7	2.6	-0.3	1.6	3.7	5.4	6.9
Imports of goods and services	7.2	4.8	-1.6	2.0	3.9	5.6	7.1
Total domestic employment	3.4	5.6	3.1	1.7	1.1	1.8	2.2
Consumer prices (national account deflator)	2.4	3.3	2.3	2.0	1.8	1.6	1.3
Average wage cost	4.1	3.7	3.2	2.6	2.1	2.6	1.5
Unemployment rate (ADEM registered) ¹	2.1	2.6	3.0	3.8	4.1	4.3	4.4

¹ As % of the working population

Source: STATEC, ADEM, IGSS (1985-2002: observed figures; 2003-2006 forecasts)

Table 2: Recent trend of the Luxembourg economy: business indicators by sector

Nace	Production per working day		Turnover by volume	Turnover by value			Gross profit before provisions	Turnover by value	Number of employees
	Industry	Construction	Commerce	HORECA sector	Transport and Communications	Banking sector	Real estate, rentals, IT and R&D	Services primarily to business	Collective and domestic services
	10-41	45	50-52	55	60-64	65	70-73	74	85-93
	Annual rates of variation in %								
1997	5.8	...	17.6	5.5	9.5	20.5	8.8	21.8	...
1998	8.1	...	3.9	4.5	12.3	28.3	14.5	9.5	...
1999	1.5	...	3.1	6.4	17.8	-16.5	1.3	8.7	6.6
2000	5.1	3.2	9.8	6.0	17.7	25.6	24.2	15.7	7.4
2001	3.1	2.0	0.4	2.5	8.4	-1.5	5.3	13.6	6.9
2002	0.4	2.1	2.1	3.5	4.7	-0.7	-7.9	-0.5	5.8
2003 ¹	2.7	-0.9	7.7	-5.5	-2.3	-9.3	-1.6	5.3	5.5
	Seasonally adjusted quarterly rates of variation in %								
	Annual rates of variation in %								
T1 01	4.4	0.0	0.8	4.6	15.5	-12.3	16.4	24.8	7.8
T2 01	-2.6	1.2	2.4	4.1	15.8	2.3	12.6	9.9	7.2
T3 01	0.3	3.1	-0.3	0.5	5.2	-0.9	0.5	30.2	6.6
T4 01	-0.8	1.3	-1.6	1.3	2.0	-1.5	-4.7	-4.2	5.9
T1 02	0.0	-0.6	2.5	5.4	-2.0	2.2	-7.7	-2.8	6.0
T2 02	3.6	3.0	1.0	2.5	-1.5	-11.0	-1.5	-1.7	5.6
T3 02	-3.1	-4.6	1.2	4.1	8.8	-0.7	-8.8	-13.6	5.8
T4 02	1.5	1.2	4.6	2.1	2.4	5.1	-13.1	16.6	5.9
T1 03	1.4	-0.6	6.5	-5.9	2.7	-4.7	-0.7	5.0	6.0
T2 03	-0.3	0.1	6.4	-5.1	-1.2	-10.0	-8.4	9.7	6.4
T3 03	2.2			-5.5	-7.7	-9.3	5.3	1.0	4.0

¹ Industry = 10 months, other = 9 months.

Source: STATEC, Administration de l'Enregistrement et des Domaines, BCL, IGSS

Table 3: Recent trend of the Luxembourg economy: other indicators

	avr-03	mai-03	juin-03	juil-03	août-03	sept-03	oct-03	nov-03	déc-03	Average of last three months	Same period of previous year
	Annual variations in %, unless stated otherwise										
Prices, wages											
national index of consumer prices (NCPI)	2.2	1.9	1.8	1.6	2.0	2.1	1.7	1.8	2.1	1.9	2.2
Underlying inflation	2.1	2.1	2.0	1.7	2.0	2.2	2.1	2.0	2.1	2.1	2.2
Oil prices	4.9	-1.8	-3.7	-0.9	0.0	0.2	-8.8	-2.3	1.1	-3.4	3.6
Industrial producer price index	1.8	2.5	2.1	0.4	0.3	0.3	0.7	0.8	...	0.6	0.1
Construction price index ¹	.	.	.	.	.	.	.	.	.	1.8	2.8
Average wage bill, per month, per person	3.8	1.8	2.2	1.8	2.9	4.5	...	...	...	3.1	3.3
Employment, unemployment											
Domestic number of employees	2.0	1.8	2.2	2.0	2.1	2.0	1.9	1.8	2.1	2.0	2.5
National employment	1.0	0.9	1.0	0.9	1.0	1.0	1.1	1.0	1.0	1.0	1.3
Unemployment rate (% of the working population)	3.6	3.6	3.5	3.7	3.6	3.9	4.0	4.1	4.1	4.1	3.3

Source: STATEC

¹ Data only available quarterly; 2003 fourth quarter

² For technical reasons, publication of the results of unit values of exports and imports has been suspended, as have trends "by volume" of exports and imports of goods.

A complete electronic version of the Note de Conjoncture n°4-2003 in French is available free of charge on the STATEC internet site at the address

http://www.statec.lu/html_fr/statistiques/note_de_conjoncture/index.html. The printed version will be available by the end of February from STATEC, B.P. 304, L-2013 Luxembourg, tel.: 478-4377 / fax 46 42 89, E-mail: info@statec.etat.lu, at the price of 2.90 EUR.

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