



Green shoots of recovery

Activity picked up in the eurozone and in Luxembourg at the start of 2024, and this trend looks set to continue into the second quarter. However, growth in Luxembourg is expected to be modest throughout 2024, before strengthening in 2025.

Economic climate brightens in the eurozone...

In 2024 and 2025, global economic activity should continue to grow at close to 3% per annum. In the eurozone, GDP tended to stagnate during 2023, although there were major differences between the various Member States, with those in the south performing better. Data for the first quarter of 2024 and partially available data for the second quarter point to a cyclical improvement in the eurozone. If this trend persists, it should lead to a relatively small increase in growth this year and a more pronounced one in 2025.

The improved outlook for the eurozone follows also from better financial conditions and the long-awaited fall in inflation. Nevertheless, there could still be some surprises in store and, along with monetary policy reactions, inflation will remain the main point of interest in forecasting.

... and in Luxembourg

The start of 2024 was also marked by an improvement in the economic climate in Luxembourg, after two challenging years in which activity and labour productivity faltered. GDP recovered sharply in the first quarter of 2024, with most sectors benefiting from the rise, particularly the financial sector, where value added had been declining in 2022 and 2023. This upturn in activity reflects the improvement in business sentiment over the same period, and the business surveys for the second quarter indicate that the trend is continuing. However, this recovery in business confidence is not yet apparent in construction. In this sector, the prospect of lower interest rates should gradually revive demand, but it will take time for activity to return to previous levels.

While consumption - underpinned in particular by increases in wages and transfers, as well as a reduction in savings - should remain relatively buoyant this year and next, investment is expected to fall back sharply in 2024 and not improve until 2025. Over this period, exports are likely to display only a half-hearted recovery. The expected recovery of productivity will take place against a backdrop of historically weak employment growth. Overall, real GDP is set to rise by 1.5% in 2024 and by 3.0% in 2025. This central scenario is, however, surrounded by upside and downside risks (which seem to be better balanced than in the previous Note de conjoncture), which will depend on both the international environment and domestic factors.

Falling inflation will reduce pressure on wage costs

Inflation continues to ease in the eurozone and in Luxembourg. While prices of services still contribute most to the price rises, they are slowing, as are prices for food and industrial goods. Only energy prices have risen slightly in recent months. After +3.7% in 2023, inflation in Luxembourg should moderate in 2024 and 2025, but it will remain above 2% (2.3% in 2024 and 2.6% in 2025).

Compensation per employee rose sharply in the second half of 2023, mainly due to the growing impact of indexation. While the purchasing power of wages has developed much more favourably in Luxembourg than in the eurozone, real unit labour costs have also risen sharply compared to those in the monetary union in 2023. In 2024, compensation per employee will slow considerably (to +2.6%), due to the reduced impact of indexation and a reduction in employer contributions to compensate for the third indexation bracket in 2023. This last measure will largely diminish in intensity in 2025, triggering a rebound in compensation per employee (+3.6%).

Major slowdown in Luxembourg's labour market

Since last summer, employment in Luxembourg has grown at almost the same rate as in the eurozone. For the latter, this pace is still appreciable, especially given the lack of impetus in economic activity, suggesting a certain degree of job retention. For Luxembourg, on the other hand, such growth is symptomatic of a crisis situation, reflecting the recession in activity in 2023. The fall in the number of construction workers contributed significantly to this poor result.

Furthermore, in the eurozone, this growth in employment is sufficient to stabilise the unemployment rate at its historic low (6.5% of the labour force). In Luxembourg, on the other hand, with its different demographic and migratory dynamics, unemployment rose sharply over the course of 2023. Paradoxically, it has stabilised at 5.6% since the end of 2023, even as employment continues to lose momentum. An increase in inactivity could explain this discrepancy.

STATEC therefore expects that the unemployment rate will continue to rise, averaging 5.8% this year and 5.9% in 2025. Employment growth should slow this year to +1.3% (after +2.2% in 2023), before picking up slightly to +1.7% in 2025.

A persistent public deficit

Against a backdrop of still elevated inflation, STATEC forecasts very little growth in public revenues in 2024 (+4%). The marked slowdown in revenue is mainly due to the compensation of the third indexation in 2023 via company contributions in 2024, the adjustment of the household income tax scale corresponding to four index brackets, and also to the slowdown in the growth of the wage bill. Spending should also slow in 2024 (+4.8%), due to stagnating investment and moderating employment and sliding wage scale. However, revenues are set to grow still faster than expenditure, so that the public balance will deteriorate by 0.4 percentage points, from -1.3% of GDP in 2023 to -1.7% in 2024.

In 2025, revenue growth should return to normal (+6%), benefiting in particular from the reduced impact of tax cuts. Public spending is expected to grow at a similar rate than revenues, driven mainly by the recovery in investment and the government's programme to purchase housing to meet the needs of low and moderate income households. The deficit should therefore stabilise at the previous year's level.

Renewable energy production gaining ground, emissions set to fall until 2025

In 2023, renewable energy production continued to rise in Luxembourg, with an increase of almost 40% in wind and photovoltaic capacity.

The measures put in place at the end of 2022 to mitigate the effects of the energy crisis protected the households in Luxembourg. Electricity prices have remained stable and gas prices, despite doubling since the start of 2021, have remained lower than in most other eurozone countries. A partial lifting of the tariff shields at the end of 2024 would lead to an increase in gas and electricity prices of 17% and 30% respectively.

Fuel sales and gas consumption continued to fall in 2023, by 2% and 6% respectively. This trend is helping to reduce the country's greenhouse gas emissions, placing Luxembourg (with a reduction of around 20%) among the European countries with the greatest emission reductions since 2015.

Electrification and successive increases in the CO2 tax are expected to extend this downward trend into 2024 and 2025, with a reduction in total emissions of almost 4% in each of the two years.

Thematic studies in this Note

- Macroeconomic forecasts: between domestic and external risks
- Impact of rising interest rates on financing costs and investment by non-financial companies

PRÉVISIONS MACROÉCONOMIQUES

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Scénario central

Taux d'intérêt plus élevés pour plus longtemps¹

Les banques centrales clament victoire sur l'inflation²

1995-2023

2023

2024

2025








2024

2025

2024

2025

Evolution en % sauf sauf si spécifié différemment

 <div>PIB en vol.</div>	3.0	-1.1	1.5	3.0	0.3	0.4	2.0	3.4
 <div>Emploi total intérieur</div>	3.1	2.2	1.3	1.7	0.8	0.4	1.5	2.0
 <div>Taux de chômage (% de la pop. act.)</div>	4.6	5.2	5.8	5.9	6.0	6.5	5.7	5.8
 <div>Indice des prix à la consommation (IPCN)</div>	2.0	3.7	2.3	2.6	2.6	2.2	2.1	2.6
 <div>Coût salarial moyen</div>	2.8	7.3	2.6	3.6	2.5	2.5	2.4	3.5
 <div>Solde public (% du PIB)</div>	1.4	-1.3	-1.7	-1.7	-2.0	-3.3	-1.5	-1.2
 <div>Emissions de gaz à effet de serre³</div>	-2.2	-1.0	-3.6	-3.7	-3.9	-5.7	-3.4	-3.1

Source: STATEC (2024-2025 : prévisions)

1. In this unfavourable scenario, various factors trigger a rise in interest rates (e.g. disruptions to international shipping, escalating military tensions between Hamas and Israel).
2. In this favourable scenario, inflationary pressures would continue to diminish, leading to a greater easing of monetary policy than in the baseline scenario.
3. Trend 2005-2023.

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