

No respite for prices

While inflation is breaking records in the euro area, recent disruptions in supply chains, linked to the emergence of the Omicron variant and the surge in energy prices, do not point towards an imminent easing of inflationary pressures.

Although the Omicron wave should have a relatively limited impact on economic growth [see Conjoncture Flash 1-2022], it is all the same causing renewed turbulence in global supply chains and is therefore expected to prolong the inflationary shock. Thus, worker absences due to record numbers of infections worldwide will have aggravated labour shortages in certain fields. In addition, [partial] shutdowns of activities in some Chinese ports are adding to congestion problems on shipping routes. In parallel with these new supply disruptions, demand for goods once again rose at the expense of services, after health restrictions were re-imposed in December and January.

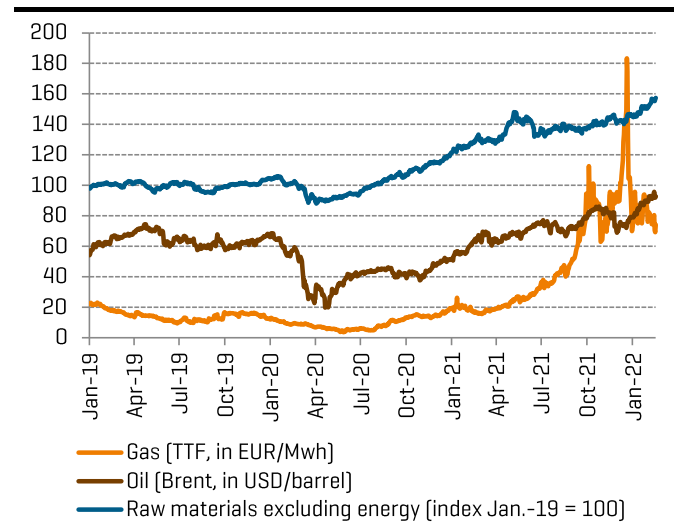
The gradual rise in crude oil prices [to more than USD 90 per barrel in mid-February] and the prolonged nervousness of spot gas prices have also caused both direct and indirect inflationary pressure [due to retail energy prices and rising production costs for other goods and services]. Gas prices in Europe have been fuelled in recent weeks by extremely low inventory levels and tensions with Russia over Ukraine. Spot prices for electricity were driven by the surge in gas prices and the rising cost of emission certificates.

A certain easing of these tensions is however expected over the coming quarters. Analysts expect bottlenecks to ease in the second half of 2022. Consumer enthusiasm for goods is expected to decline in favour of services, which will become more accessible as restrictions are lifted. Some rebalancing between oil supply and demand will gradually push energy prices down towards USD 70 per barrel by late 2023 according to forecasts by Oxford Economics. Gas futures markets point to a substantial price drop in the spring of 2023 [previously anticipated for the spring of 2022].

Further increases on the horizon

In the meantime, price hikes identified upstream of the production chain will partially and gradually be passed on to consumer prices. Non-energy commodity prices seemed to have peaked last May. The index eased temporarily before recovering at the end of 2021, reaching new highs at the start of the year. The energy component will have contributed to this trend, with increased costs for producing and transporting metals.

EVOLUTION OF COMMODITY PRICES



Source: Macrobond

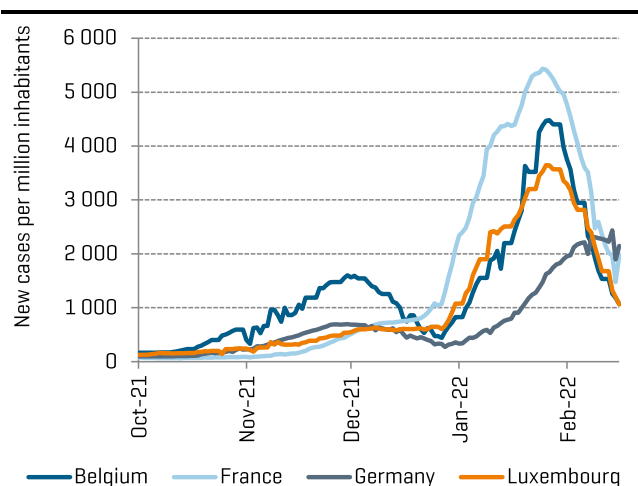
Global food prices have soared since the summer of 2020, climbing to over 30% above their pre-crisis levels in January 2022. Unfavourable weather conditions coupled with rising energy prices have been key factors in this rise. These rising prices are partly down to food and fertilizer production costs, while increased demand for certain food products with a view to their alternative use as biofuels is also a contributing factor.

Against this backdrop, industrial producer prices in the euro area continue to rise [+19% over one year in December for intermediate goods, +3.1% for consumer goods excluding food]. The depreciation of the euro – around 6% since last spring – is further propelling inflation in imported goods [+6.3% for consumer goods]. In Luxembourg, industrial producer prices also accelerated sharply during 2021, leaping 25% over one year in December. More than half of this increase is attributable to the steel industry [+76%], but there have been price increases in almost all other products.

In the euro area, economic surveys show that sales price expectations have settled at record levels since last autumn. This is true of the manufacturing industry as well as services and trade. Services are indirectly exposed to fluctuations in the price of goods via their inputs [e.g. in transport or catering] and their costs are likely to rise in the coming quarters if the inflationary surge is accompanied by a wage hike.

Health situation

COVID-19 INFECTIONS



Source: Ourworldindata.org

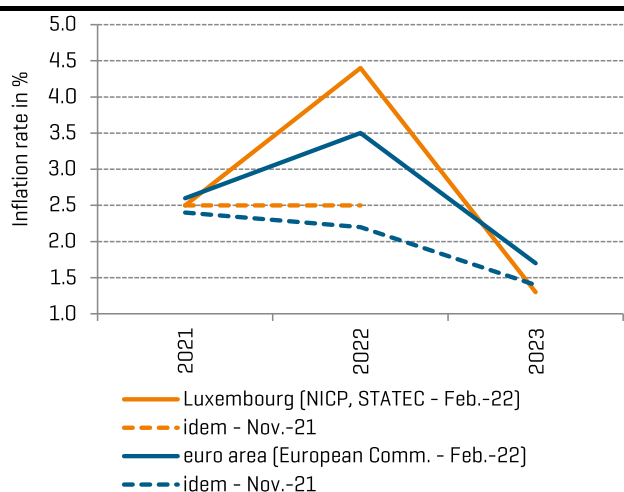
Omicron wave running out of steam

Although the Omicron variant has dominated the health situation for the past months, the pandemic now appears to be under control. The Omicron wave peaked in Luxembourg in the last week of January, as it did in France and Belgium, which each had well over 3,000 cases per million people per day. All three countries are currently showing a rapid decline in the number of new daily infections. Germany is lagging behind, only hitting the peak of new infections in mid-February. However, like Luxembourg, all of the neighbouring states are in the process of lifting restrictions.

The WHO Director-General stated that the acute phase of the pandemic could be over by the end of 2022 if a global vaccination rate of 70% is achieved by mid-2022. Currently, 62% of the world's population have received at least one dose and 54% are fully vaccinated, according to Ourworldindata.org.

Inflation forecasts

INFLATION FORECASTS FOR LUXEMBOURG AND THE EURO AREA



Sources: STATEC, European Commission

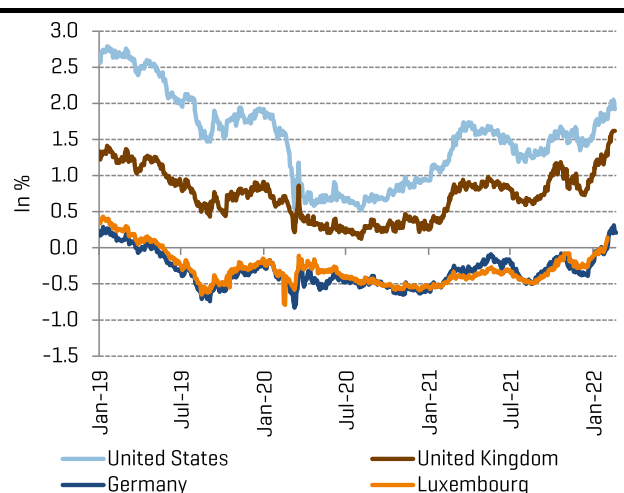
Inflation to soar this year

STATEC and the European Commission have revised their inflation forecasts for 2022 sharply upwards. The reason for this is the new pressures on production chains and the prolonged upturn in energy prices [see previous page], but also the finding that upstream pressures are now having a significant impact on end prices. While core inflation remained relatively low and sluggish for most of 2021, it has picked up since the autumn (to around 2.5% in the euro area and Luxembourg, excluding the effect of sales).

In Luxembourg, inflation is set to jump to 4.4% in 2022, whereas it had previously been anticipated to stabilise at 2.5%. The surge in energy prices will largely contribute to this, but underlying inflation is also expected to be more vigorous (2.9% expected for this year). The gradual easing of bottlenecks and slowing energy prices will bring general inflation down to 1.4% in 2023 (2.2% for core inflation). The next wage indexation adjustment could take place in Q2 2022 and the subsequent adjustment should come less than a year later [see also STATNEWS No. 06 of February 16].

Financial environment

GOVERNMENT BOND RATES



Source: Macrobond

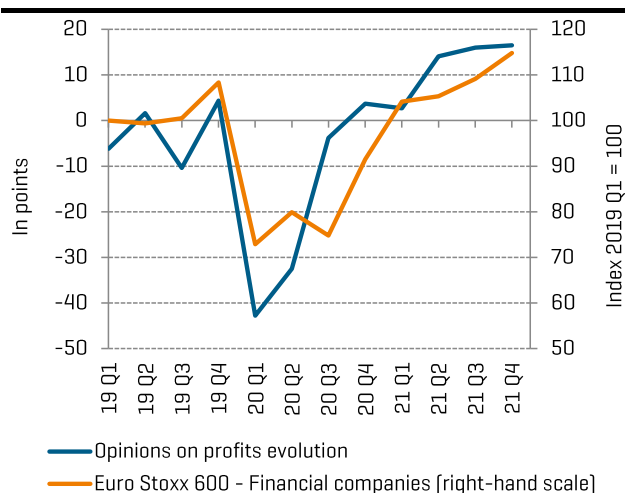
Long-term rates bounce back alongside inflation

Growing inflationary pressures and the historically low levels of real interest rates have led at the end of 2021 European and US central banks to accelerate or schedule the tightening of monetary policies. The Bank of England has raised its key interest rate twice since then (from 0.1% to 0.5%), while the US Fed intends to hike its leading rate several times from March onwards and to reduce its balance sheet. The European Central Bank will end its pandemic-related emergency purchase programme in March and will then end its asset purchase programme (probably from Q3 2022) before raising its key rates (probably at Q4 2022).

The prospects of higher rates have led investors to sell their sovereign bonds to benefit from higher yields, pushing government borrowing rates (historically low, even negative for some) to their highest level for three years. Interest rate differentials between euro-area countries and Germany have widened but remain relatively low compared to past trends.

Financial sector

OPINIONS AND VALUATIONS OF FINANCIAL COMPANIES (EURO AREA)



Sources: European Commission, Macrobond

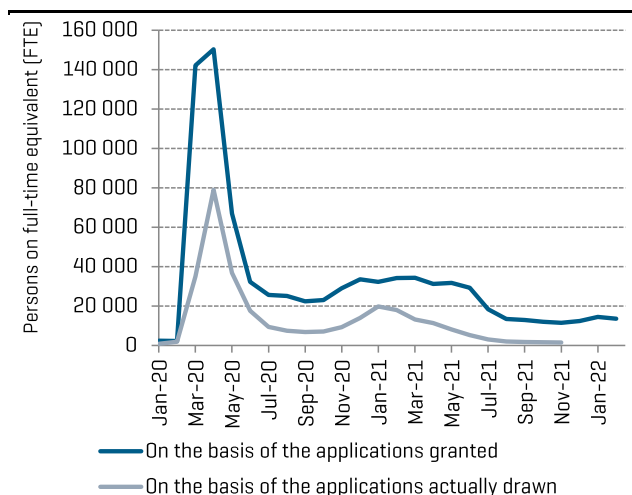
Positive results for financial companies

Economic surveys carried out among financial companies in the euro area in January show favourable trends for recent and future activity, employment and earnings, with a particularly marked upturn for banks. However, forecasts for operating expenses are strongly on the rise [to their highest level since late 2008] for all types of financial companies, tempering the outlook for profits.

Several major European banks have already published their results for 2021. They have reported record profits bolstered by the recovery in activity, making it possible to reduce provisions to cover risks and to reboot financing and investment activities. Expenses continued to grow, but less strongly than the revenues generated by the various business lines of the banking industry. On the markets, banking stocks rose much more strongly than other sectors in 2021 [+19% over one year] and at the start of 2022 [+12% in mid-February].

Labour market 1/2

PEOPLE IN SHORT-TIME WORK



Sources: Economic Committee, IGSS, STATEC calculations

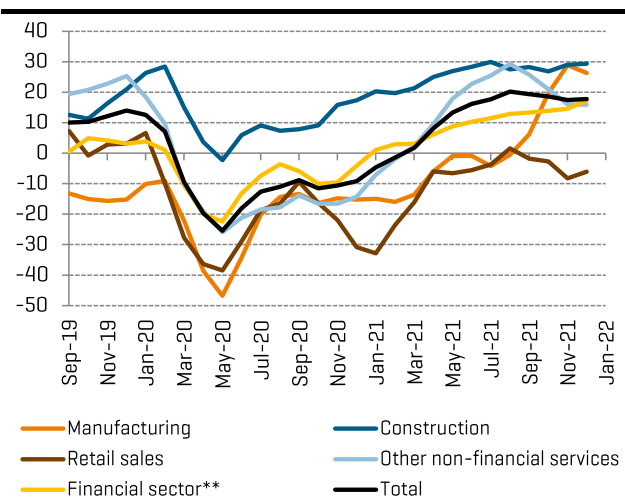
The number of short-time workers remains low

With the health measures in place since the end of December 2021 [in particular the application of night-time curfews and the 2G+ strategy in restaurants, bars and cafés], the number of companies applying for the short-time work scheme rose again at the turn of 2021/2022. In January, almost 1,500 companies were granted this aid, twice as many as in November, representing a workforce of some 15,000 people, including 44% from the hospitality sector and 39% from industry. While applications from industry remain relatively stable [at 15% of its workforce], the recent increase comes exclusively from hospitality [where one-third of employees were affected at the start of the year, compared to 15% in November].

Despite this recent increase, the proportion of employees affected by short-time work applications is just 3%, much less than in early 2020 and 2021 but above pre-crisis levels [0.3% in 2019]. This figure is expected to fall further with the easing of health measures in February and will become marginal again when the specific pandemic-related eligibility provisions come to an end [scheduled for July 2022].

Labour market 2/2

BUSINESS SURVEYS - EMPLOYMENT PROSPECTS*



Sources: STATEC, European Commission (smoothed series)

*Balance of positive and negative answers, ** from the euro area

Employment prospects remain favourable

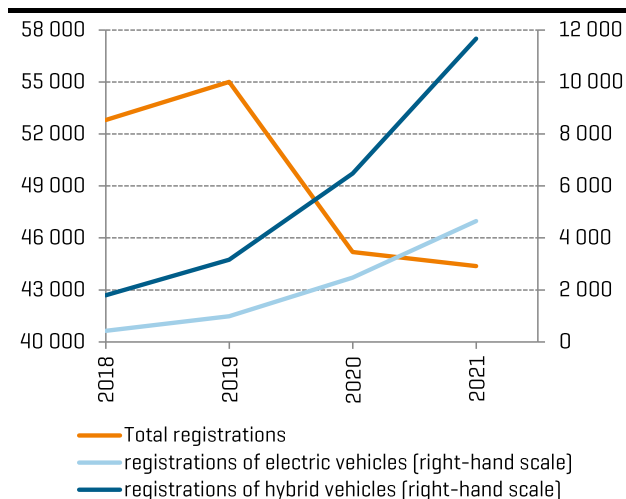
Employment prospects declined slightly in the Grand Duchy at the end of 2021 but remain high overall. The recent decline comes from retail trade and other non-financial services [the latter account for 32% of total employment], with other sectors still showing a firm intention to recruit.

Employment prospects in manufacturing have even reached an all-time high [since the start of the series in 1985]. The woodworking, machinery and equipment and metalworking industries in particular reveal very strong employment prospects to the end of 2021. Alongside this sharp rise in recruitment intentions, the vacancy rate in the manufacturing sector has shown a markedly increasing trend over the past year [at 1.8% in Q4, compared to 0.7% in Q3 2020].

In construction and the financial sector [for the latter, data is only available for the euro area as a whole], the outlook for changes in the workforce also remained favourable at the end of the year.

Energy/Environment

NEW REGISTRATIONS OF PRIVATE CARS



Sources: SNCA, STATEC

Positive outlook for electric and hybrid vehicles

The share of electric cars in new registrations in Luxembourg reached a record high at the end of 2021. In December, 21% of new registrations were for electric cars, higher than the proportion of diesel cars. Over the whole of 2021, 10% of new registrations were for electric cars (5% in 2020) and 26% were for hybrids (14% in 2020), in line with figures observed in the European Union. Electric and hybrid cars now account for around 2% and 6% respectively of the total number of vehicles in Luxembourg.

Total registrations, however, continued to decline in 2021, by around 2% in both Luxembourg and the EU. While one might have expected a recovery in 2021 (after the 18% drop in 2020), supply bottlenecks have clearly hampered the automotive industry supply chain. They are expected to continue to hamper car production and sales this year, even if there have been signs of a turnaround recently (with, for example, registrations up in January compared to last year in Germany, Spain and Austria).

Trend chart

	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	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	20.2	11.3	1.9	5.6	0.8	0.9	-2.5	...	...	-0.3	-3.0
Construction output per working day, in volume	0.8	3.8	-5.0	0.6	-3.2	-1.7	-2.1	...	...	-2.4	-2.7
Turnover by volume of total retail trade	15.9	3.6	-3.4	-0.1	0.5	0.2	-1.9	...	...	-0.4	4.9
Prices, wages											
Consumer price index (NCPI)	2.5	2.2	2.3	2.5	2.7	3.6	4.5	4.1	3.6	4.1	0.9
Underlying inflation	1.2	1.1	1.2	1.3	1.4	1.8	2.2	2.3	1.4	2.0	1.8
Oil product index	35.5	28.6	28.3	29.9	34.6	48.5	60.0	46.9	48.7	51.7	-13.5
Industrial producer price index	2.7	4.5	11.1	17.0	21.5	22.1	25.1	25.6	...	24.3	-5.2
Construction price index ¹	5.2	5.2	7.2	7.2	7.2	9.3	9.3	9.3	...	9.3	2.9
Average wage bill, per person (National accounts)	11.3	11.3	3.1	3.1	3.1	...	...	...	...	3.1	2.3
Foreign trade											
Exports of goods (volume)	16.9	12.5	4.9	9.4	-1.2	-2.8	1.4	...	...	-0.9	-2.1
Imports of goods (volume)	32.2	16.5	1.3	0.6	8.3	22.8	8.4	...	...	13.3	-4.3
Employment, unemployment											
Domestic number of employees	3.4	3.5	3.1	3.1	3.6	3.5	3.8	3.8	3.6	3.7	1.4
National employment	2.3	2.6	2.2	2.2	2.9	2.8	2.9	2.9	2.7	2.8	0.8
Unemployment rate [% of working population, seas. adj.]	5.9	5.7	5.6	5.5	5.5	5.3	5.2	5.1	4.9	5.1	6.4

Source: STATEC

¹ Estimations based on half-yearly data

Indicators

	Quarterly variation in %					
	2020 Q3	2020 Q4	2021 Q1	2021 Q2	2021 Q3	2021 Q4
Eurozone- GDP growth in volume (European Commission)	12.6	-0.3	-0.2	2.2	2.3	0.3
Luxembourg - GDP growth in volume (STATEC)	7.8	0.6	3.7	0.0	0.9	...
	Annual variation in %					
	2017	2018	2019	2020	Forecast 2021	Forecast 2022
Luxembourg - GDP growth in volume (STATEC)	1.3	2.0	3.3	-1.8	7.0	3.5
GDP at current prices 2020: EUR 64 221 million						
Minimum monthly salary (since 01/10/2021): EUR 2 256.95	Consumer price index (01/2022) - base January 1 st 1948: 915.97					
Current account balance (2021 Q3): EUR 718 million	Half-yearly average of the index linked to base as at January 1 st 1948 (01/2022) : 910.27					
Resident population (01/01/2021): 634 730	Estimated deadline for next salary indexation: Q2 2022					

STATEC
info@statec.etat.lu
(+352) 247-84219
www.statistiques.lu

For further information:
Bastien Larue
Bastien.Larue@statec.etat.lu
(+352) 247-84339

Cathy Schmit
Cathy.Schmit@statec.etat.lu
(+352) 247-88459

This newsletter may be reproduced in full or in part, provided the source is quoted.