

Economic downturn is confirmed

As reported by business surveys, industrial output and retail sales declined in March in Luxembourg and in the euro area. While confidence in non-financial services continues to hold up well, the financial sector is suffering from the market downturn at the beginning of the year.

Three months have now passed since the beginning of the war in Ukraine. As early as March (the conflict began at the end of February), business surveys showed a clear decline in economic confidence in Europe. The trends observed at this level in Luxembourg are more or less the same as in the other European countries: a sharp drop in consumer confidence (similar to that observed at the start of the pandemic crisis), which is significant for industry and retail trade companies, but a healthy level of confidence remains among construction and non-financial services companies.

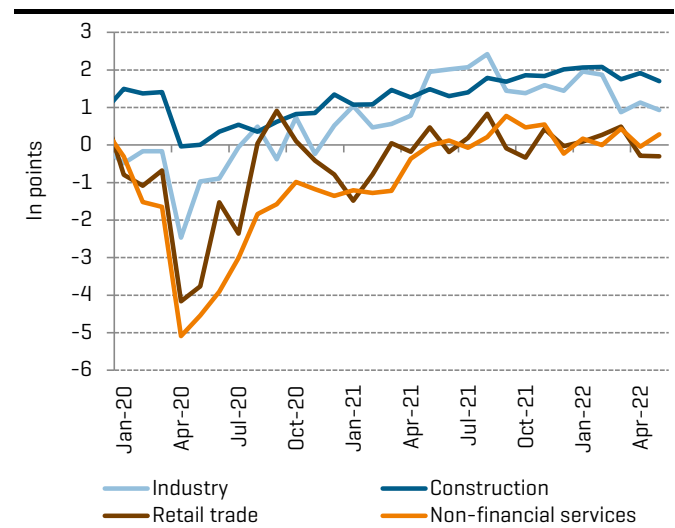
The hard data (output and turnover), which require a longer preparation time, are starting to arrive for March and they seem to confirm the trends noted in the opinion surveys.

The volume of retail sales fell in March, by 0.7% over one month in Luxembourg and by 0.4% in the euro area as a whole. The decline is particularly marked for fuel outlets, with a much larger drop in Luxembourg [-11% over one month] than in the euro area [-3%].

Industrial production also fell in Luxembourg in March [-3.2% over one month] and in the euro area [-1.8%, with a particularly sharp drop of 5% in Germany¹]. It is especially in the field of capital goods that Luxembourg has seen declines [-4.5% over one month]. In addition, in March, we noted a decrease in construction production in Luxembourg [-2.2% over one month], while it stagnated in the euro area. However, this decline is not worrying considering the very solid results of the previous two months [+5.7% in January, +1.3% in February] and confidence levels remaining at historically high levels through May. While construction order books appear to remain strong, the current environment is likely to increase difficulties in sourcing materials (which will lengthen production times).

Although the economic environment has deteriorated since the spring, confidence in non-financial services has not been overly affected. This is certainly due in part to the easing of pandemic-related restrictions, as is the morale of the Horeca sector, which has risen sharply since March. There are also much more favourable trends for land transport, employment activity and investigation and security activities.

BUSINESS CONFIDENCE INDICATORS IN LUXEMBOURG



Source: STATEC, business surveys (centred-reduced, seasonally adjusted data, last point: May 2022)

Finally, all these sectors of activity (industry, construction, retail trade, non-financial services) have one point in common, whether in Luxembourg or in the euro area: their prospects for the evolution of sales or production prices remain firmly on the upward trend until May [see hereafter], which does not augur well for an easing of inflationary pressures in the near future.

Difficult start to the year for the financial sector

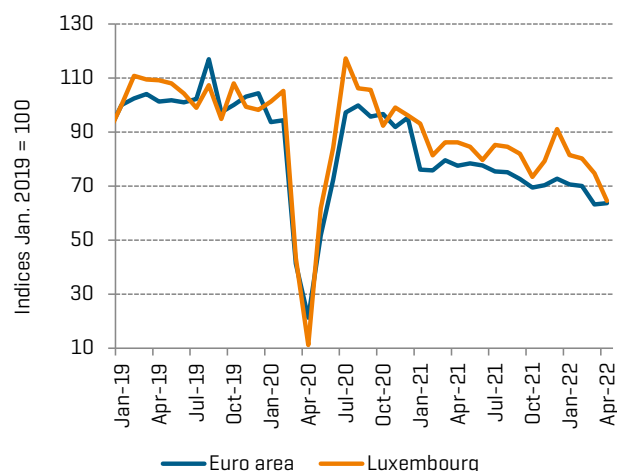
The context has also deteriorated for the Luxembourg financial sector following very positive results in 2021. The stock market environment was already unsettled prior to the conflict in Ukraine due to rising inflation (and therefore the prospect of tighter monetary policies), which weighed on the performance of Luxembourg UCIs in particular [see hereafter]. This is expected to impact the sector's value added downwards in Q1 [after having already recorded a slight decline in Q4 2021].

In the longer term, the rise in key interest rates [already underway in the United States and the United Kingdom, and expected this summer in the euro area] should nevertheless favour certain sectors of banking activity.

¹ This movement is due in particular to the German car industry, which shrank by 17% over one month in March.

Consumption

NEW REGISTRATIONS OF PRIVATE CARS



Sources: SNCT, ACEA, STATEC (seasonally adjusted data)

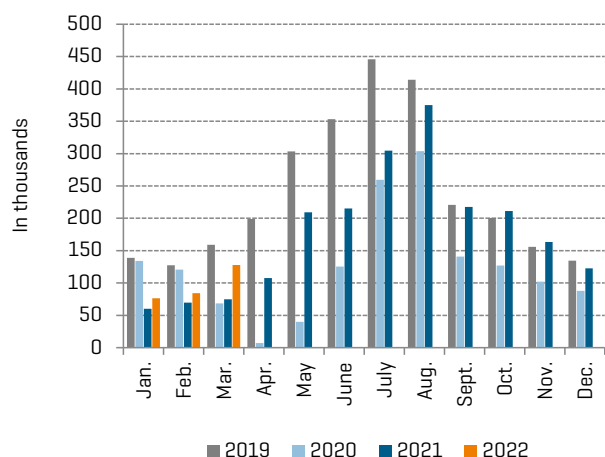
Vehicle sales continue to struggle

Material and component shortages continue to affect global automotive production and the conflict in Ukraine is creating additional supply difficulties for European manufacturers. After a slight upturn at the end of 2021, new registrations of passenger cars have started to fall again. In April 2022, in Luxembourg and in the euro area, registrations were down by 22% over one year (with less than 3,500 registrations in Luxembourg, a level close to that of the mid-1990s). Electric and hybrid models, which posted strong sales throughout 2021, are also slowing down. Their shares in total registrations stabilised at the beginning of 2022 (at 15% and 25%, respectively). Car sales prices have risen significantly since mid-2021 and show an increase of around 4% year-on-year in April (the increase is more pronounced for conventional engines than for electric and hybrid engines).

In the first four months of the year, sales of passenger cars in Luxembourg fell by 12.5% compared to last year (-14.8% in the euro area). Sales of commercial vehicles (vans, trucks, etc.) declined by 18% over the same period (-21% in the euro area).

Tourism

OVERNIGHT STAYS IN TOURIST ACCOMMODATION IN LUXEMBOURG



Source: STATEC

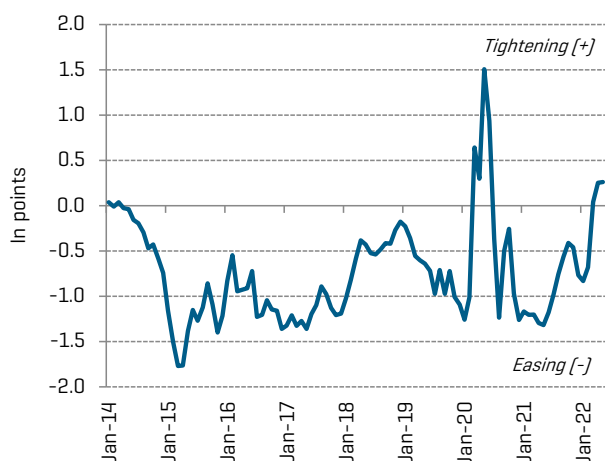
The recovery is evident and should expand further

Tourist numbers in Luxembourg are gradually recovering. Nevertheless, in Q1 2022, they remain below 2019 levels (around 30%, both in terms of arrivals and overnight stays), certainly also because of a "fourth wave" effect linked to the pandemic during this period. They should subsequently benefit from the upturn in international mobility and in particular from business clients with the resumption of face-to-face meetings and associated business travel. Passenger traffic at Luxembourg Airport also recovered significantly in April, with a result nearly in line with that of April 2018.

The recovery in tourism can also be observed throughout Europe: according to results compiled by the World Tourism Organisation for early 2022, Europe is the region in the world where this recovery is most pronounced. The strongest progress can be observed in particular for the southern European destinations (Spain, Portugal, Cyprus, Malta). By contrast, tourism in the Asia-Pacific region, with several destinations closed, remains well below pre-pandemic levels.

Financial environment

FINANCIAL CONDITIONS INDEX IN THE EURO AREA



Source: Banque de France

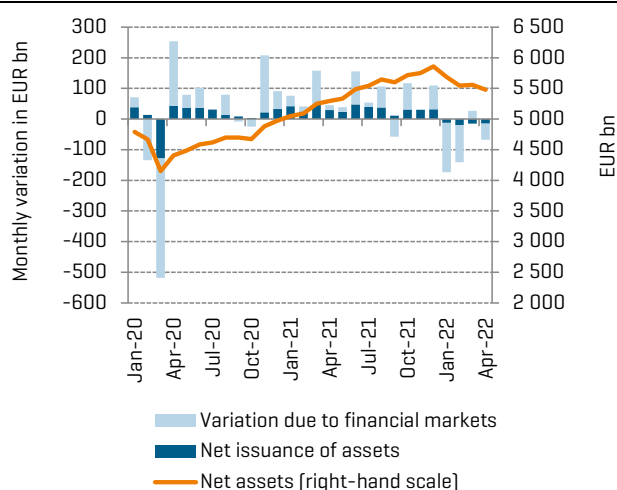
Worsening financial conditions in the euro area

Financial conditions in the euro area, which have been relatively accommodating since 2013, have deteriorated since February. They had already deteriorated briefly during the first coronavirus lockdown due to falling stock valuations before easing again with the recovery in activity. Since February and the outbreak of war in the Ukraine, it is primarily the sharp rise in inflation and long-term borrowing rates that have worsened financial conditions (in addition to the related falls in stock market valuations). This trend is expected to continue and even increase in the coming months with the first tightening of European monetary policy in 11 years.

The European Central Bank will put a halt to its asset purchases in July and start to raise its key rates. Market participants expect four rate hikes of 25 basis points each by the end of the year and six 25 basis point hikes in 2023. These rate hikes will increase the short-term refinancing costs of banks and will be passed on to corporate and retail lending rates.

Financial sector

ASSETS OF LUX. UNDERTAKINGS FOR COLLECTIVE INVESTMENT



Source: CSSF

Uncertainty weighs on investment funds

The decline in investors' confidence in the stock markets, with a weaker growth outlook and faster-than-expected monetary policy tightening, has weighed on undertakings for collective investment in Luxembourg since the beginning of 2022. After reaching an all-time high of EUR 5 859 billion in assets at the end of 2021, assets decreased by 6.5% in the first four months of 2022, mainly due to decreases in stock market valuations [EUR -308 billion] but also with outflows [EUR -62 billion]. Redemptions were mainly in money market securities and European or Japanese equities during Q1.

This drop in investment fund assets is having an impact on activities and value added of financial auxiliaries and custodian banks in Luxembourg, as well as on exports of financial services, the vast majority of which (75%) are transactions with undertakings for collective investment. The detailed developments of GDP and value added by branch in Q1 will be published on 14 June.

Labour market

UNEMPLOYMENT RATE FORECASTS IN EUROPE

	Spring 2022 forecast*			Autumn 2021 forecast**		
	2021	2022	2023	2021	2022	2023
Euro area	7.7	7.3	7.0	7.9	7.5	7.3
Luxembourg***	5.3	5.2	5.1	6.1	5.8	5.7
Germany	3.6	3.3	3.2	3.6	3.4	3.2
France	7.9	7.6	7.6	8.0	8.0	7.9
Belgium	6.3	5.8	5.6	6.2	6.3	5.8
Netherlands	4.2	4.0	4.2	3.5	3.6	3.6
Spain	14.8	13.4	13.0	15.2	14.3	13.9
Italy	9.5	9.5	8.9	9.8	9.3	9.2

Source: European Commission

*published on 16 May 2022, ** published on 11 November 2021.

***STATEC forecasts for Luxembourg will be published on 7 June 2022 in the Note de conjoncture 1-22.

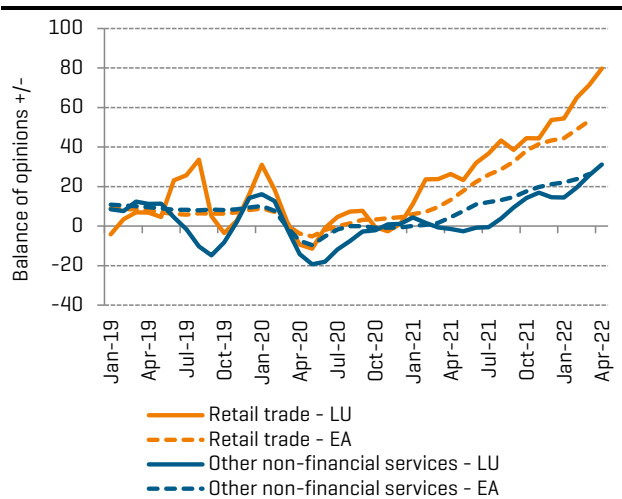
Slower decline in unemployment

Employment in the euro area remains very dynamic in Q1 2022 (+0.5% quarter-on-quarter, according to Eurostat's flash estimate, after +0.4% in Q4 2021) and follows a more favourable trajectory than that forecast by the European Commission [EC] last autumn. In its recent forecasts, the EC has thus revised upwards employment growth for the euro area for 2022 (from 1.1% to 1.3%) and for 2023 (from 0.7% to 0.8%) and lowered its forecast for unemployment (to 7.3% in 2022 and 7.0% in 2023).

Overall, the employment outlook in the euro area remains relatively positive for the first four months of the year in the business surveys, although there was a slight decline in March and April (mainly in industry). While unemployment continued to fall in the euro area in Q1 22, the decline was slower [-0.2 percentage points compared to Q4 21, after -0.4 and -0.6 percentage points in the previous quarters]. Over the start of 2022, unemployment rose again or stopped falling in some euro area countries, notably Spain, France and Belgium. In Luxembourg, the unemployment rate also stagnated in April (at 4.7%) after a very steady decline for more than a year (of at least 0.1 percentage points each month).

Inflation

OUTLOOK FOR SALE PRICE TRENDS



Sources: Eurostat, STATEC (business surveys); moving average over three months

More price increases expected in services

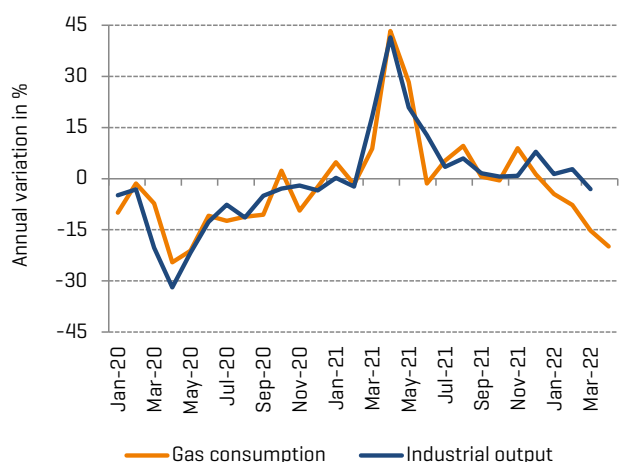
The inflation rate hit 7% in Luxembourg in April (7.4% for the euro area) and pressures are expected to remain high, at least in the short term. This is indicated, among other factors, by price expectations in the retail trade, which have continued to rise in recent months, both in the euro area and in Luxembourg. Supply issues – stocks are still considered to be low – and the rise in input prices (increases in raw material prices which are passed on along the production chain) should continue to push expected prices higher.

In other non-financial services, expected prices in Luxembourg have started to rise in the second half of 2021, probably also as a result of the lifting of health restrictions. They were especially high for accommodation and catering. These retailers are expected to face multiple shocks from higher energy, food and labour costs and a rebound in demand. Prices in hotels, restaurants and cafés have already risen by 5.5% year-on-year in April (compared to +2% last summer).

Energy

Decrease in gas consumption

LUXEMBOURG: INDUSTRIAL OUTPUT AND GAS CONSUMPTION



Source: STATEC

In March 2022, industrial output in Luxembourg decreased by 3% year-on-year. Industrial confidence has deteriorated significantly since March and points towards a more pessimistic outlook in terms of output. In addition to a high level of uncertainty and difficulties in supply chains, exceptionally high input prices explain the slowdown in industrial output and economic activity as a whole. Gas consumption, of which industry is the main user, also fell by 15% year-on-year in March.

In April 2022, gas consumption continues to fall (-20% over one year). The declines in consumption could indicate that industrial production would continue to decline in April. High gas prices are expected to continue to have an impact on gas consumption throughout 2022, not only due to declines in consumption from industry but also from the economy as a whole as consumer prices reach a historic high.

Trend chart

	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-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	6.0	1.6	0.7	0.9	7.9	1.3	2.8	-3.1	...	0.2	5.1
Construction output per working day, in volume	0.6	-0.2	-0.9	-0.1	-8.1	5.7	5.4	-2.9	...	2.3	8.4
Turnover by volume of total retail trade	0.5	0.8	1.5	0.6	3.5	6.1	-5.4	-4.5	...	-1.5	11.3
Prices, wages											
Consumer price index (NCPI)	2.5	2.7	3.6	4.5	4.1	3.6	6.6	6.1	7.0	6.6	1.3
Underlying inflation	1.3	1.4	1.8	2.2	2.3	1.4	4.2	3.5	4.2	4.0	0.8
Oil product index	29.9	34.6	48.5	60.0	46.9	48.7	51.7	56.9	59.2	56.0	13.1
Industrial producer price index	17.8	21.7	22.7	25.3	26.3	25.6	24.4	24.1	...	24.7	1.2
Construction price index ¹	7.2	7.2	9.3	9.3	9.3	...	...	...	...	9.3	2.9
Average wage bill, per person (National accounts)	3.3	3.3	4.4	4.4	4.4	...	...	...	...	4.4	3.5
Foreign trade											
Exports of goods (volume)	8.8	-1.1	-5.6	0.7	2.0	1.7	2.8	-1.2	...	1.0	2.6
Imports of goods (volume)	-1.9	4.7	15.5	1.7	1.5	5.9	2.1	4.6	...	4.2	4.3
Employment, unemployment											
Domestic number of employees	3.1	3.6	3.5	3.8	3.8	3.8	3.7	3.8	3.7	3.7	2.8
National employment	2.3	2.9	2.8	2.9	2.9	3.0	2.8	2.7	2.5	2.7	1.9
Unemployment rate (% of working population, seas. adj.)	5.5	5.5	5.3	5.2	5.1	4.9	4.8	4.7	4.7	4.7	6.1

Source: STATEC

¹ Estimations based on half-yearly data

Indicators

	Quarterly variation in %					
	2020 Q4	2021 Q1	2021 Q2	2021 Q3	2021 Q4	2022 Q1
Eurozone - real GDP growth (European Commission)	-0.3	-0.1	2.2	2.2	0.3	0.2
Luxembourg - real GDP growth (STATEC)	0.5	3.8	0.0	0.5	0.5	-
	Annual variation in %					
	2018	2019	2020	2021	Forecast 2022	Forecast 2023
Luxembourg - real GDP growth (STATEC)	2.0	3.3	-1.8	6.9	3.5	4.0
GDP at current prices 2021: EUR 73 313 million						
Minimum monthly salary (since 01/04/2022): EUR 2 313.38						
Current account balance (2021 Q4): EUR -1 345 million						
Resident population (01/01/2022): 645 397						
Consumer price index [04/2022] - base January 1 st 1948: 953.03						
Half-yearly average of the index linked to base as at January 1 st 1948 [04/2022]: 930.37						
Estimated deadline for next salary indexation: April 2023						

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