

Employment performance on hold

The Luxembourg labour market continued to perform well in Q2 2022. However, the consequences of the war in Ukraine are already impacting on unemployment figures through the influx of refugees. The war is also weighing on activity and is likely to lead to a slowdown in employment.

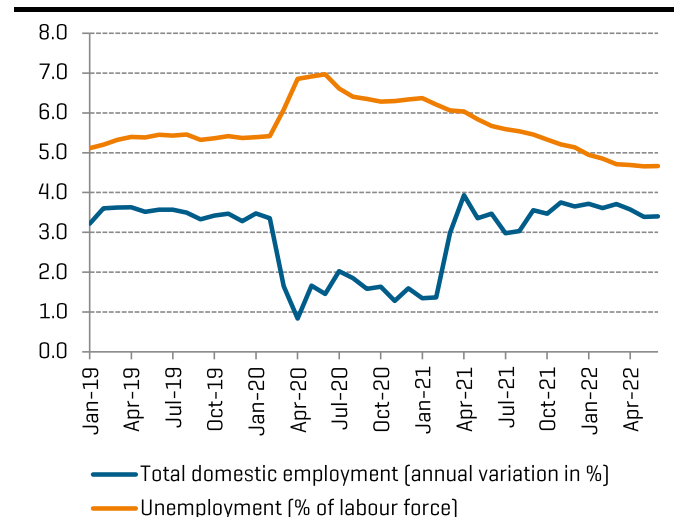
The Luxembourg labour market remains dynamic as the summer approaches, with employment growth of +3.5% over one year in Q2. Strongly affected over the pandemic crisis, cross-border workers are making a significant contribution to the recovery in employment. The national workforce (Luxembourgers and foreign residents) is also performing well. The branches contributing most to expanding employment in Q2 were business services (vacancy rates are also the highest in these branches), the hotel and catering sector (where activity has rebounded significantly since the end of the restrictions), the financial sector and the public sector. Public employment grew strongly in 2020 and 2021 but has been slowing in recent months. This is also the case for sectors such as construction and trade.

As in most European countries, the job vacancy rate continues to rise in Luxembourg (to 2.3% in Q1 2022), although it remains lower than in the euro zone (3.1%).¹ Recruitment difficulties are the result of a structural imbalance between labour supply and demand and are currently being amplified by the post-pandemic recovery,² which has proven much more intense than expected, as well as by lack of recruitment during the health crisis. Recruitment fell sharply between March 2020 and May 2021 (2,000 fewer recruitments per month compared to pre-crisis levels). On the other hand, as a result of support measures such as short-time working, contract terminations remained relatively stable over this period, comparable to pre-crisis levels.

Outlook remains good but probably not for much longer

Both the economic climate and business prospects are currently in a downward phase, as indicated by the most recent forecasts published by international organisations (see hereafter). A slowdown in employment is therefore likely in the coming months or quarters and is an integral part of the latest STATEC forecast (NDC 1-22).³ Recent developments in the Ukraine conflict are weighing negatively on overall growth prospects in the euro zone (and hence in Luxembourg), but the consequences will be felt most in 2023. Employment could slow more than currently anticipated by STATEC and unemployment could accelerate further.

EMPLOYMENT AND UNEMPLOYMENT IN LUXEMBOURG



Sources: STATEC, (national accounts), ADEM (seasonally adjusted figures)

Unemployment in Luxembourg has stabilised in recent months (at 4.7% of the working population from March to June). However, this is not due to deterioration in the economic situation but mainly to incoming Ukrainian refugees registering as unemployed (according to figures provided by ADEM).⁴ The profile of newly registered unemployed persons is indeed predominantly female, under 30 years of age, with a higher level of education and from outside the EU27. At euro-zone level, unemployment continued to fall (until May, latest data available) albeit more slowly, with unemployment having risen again or stopped falling in several member states.

In contrast to the euro zone, the employment outlook in Luxembourg remains rather positive in June, except for the retail sector. This is in line with the sharp fall in the confidence indicator this month (see below) and in consumer sentiment since March. In the euro zone, the employment outlook has continued to deteriorate since March, except in non-financial services.

¹ Data on vacancies are not fully comparable at European level. Some countries use surveys, others use administrative data (see [Eurostat, Euro-indicators, Methods and definitions](#)). In Luxembourg, vacancy rates are based on job vacancies notified to ADEM.

² Manufacturing and construction companies, both in Luxembourg and in the euro zone, reported ever-increasing recruitment difficulties in Q2 2022 (question in the economic surveys on the factors limiting output).

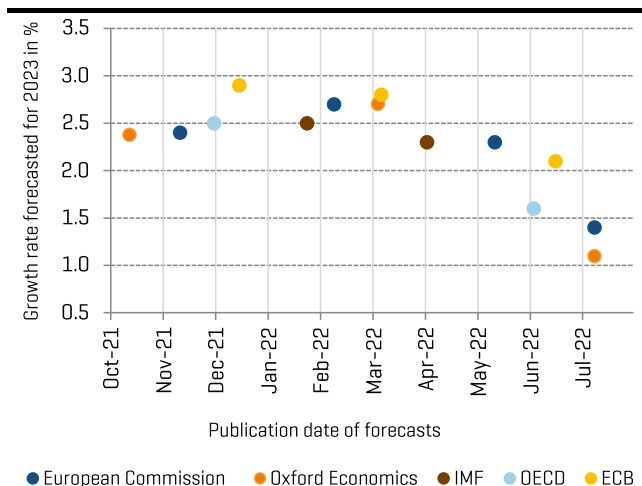
³ [Note de Conjoncture 1-22, War and Prices](#).

⁴ ADEM key figures from May 2022,

<https://adem.public.lu/fr/actualites/adem/2022/06/chiffres-cles-2022-05.html>.

International

EURO ZONE GDP GROWTH FORECAST FOR 2023



Sources: European Commission, Oxford Economics, European Central Bank, OECD, IMF

Growth prospects for 2023 have deteriorated significantly

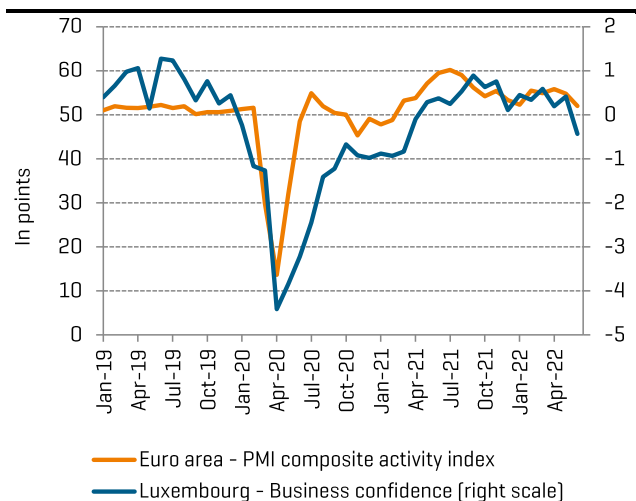
Euro-zone GDP growth forecasts for 2023 have been significantly lowered due to concerns about gas supplies from Russia and the impact of inflationary pressures on consumption and activity. The European Commission is now forecasting 1.4% growth in the euro zone in 2023 [compared to 2.3% in its spring forecast] while Oxford Economics is predicting just +1.1% [compared to 2.7% in the spring].

The risk of gas rationing this winter looks increasingly likely, which could lead to a sharp slowdown in economic activity [particularly in industry] at the end of this year and early in 2023. The countries most dependent on Russian gas, such as Germany and Italy, would be the most affected. In a downside scenario by Oxford Economics, Russian oil and gas supplies would end in the second half of 2022, adding to inflationary pressures and impacting activity.

Inflation will weigh on consumption growth, which could slow down from the fourth quarter of this year and thus grow by 2% in 2023.

Activity

BUSINESS SURVEYS – EURO ZONE AND LUXEMBOURG



Sources: S&P Global, STATEC

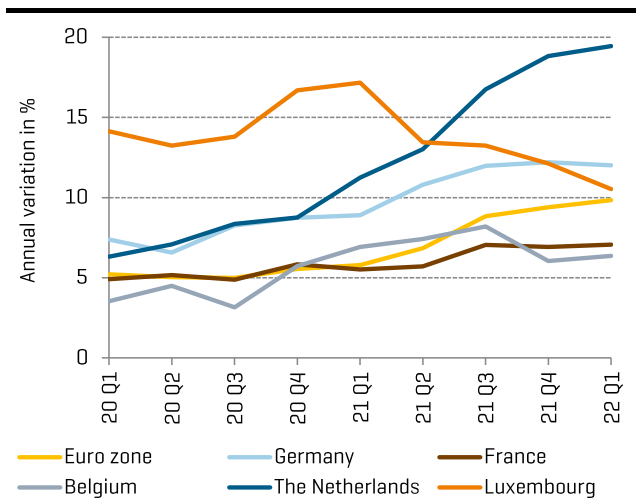
A blow to morale in June

After a slight decline in May, the PMI for the euro zone fell further in June to its lowest level in 16 months. This indicates a clear slowdown in activity at the end of the second quarter, affecting both industry and services, whereas the latter had been resilient in previous months. The related press release states, among other things, that sales by services are affected by "a decrease in consumer purchasing power".

In Luxembourg, the economic surveys also show a clear drop in business confidence in June. The latter had already fallen significantly for the retail trade since April, but the trend has now further increased. Construction and non-financial services, which showed no signs of weakness in previous months, also took a hit in June. This is particularly the case for legal and accounting activities, employment-related activities, investigation and security services and land transport.

Real estate

SALE PRICES OF HOUSING



Sources: Eurostat, STATEC

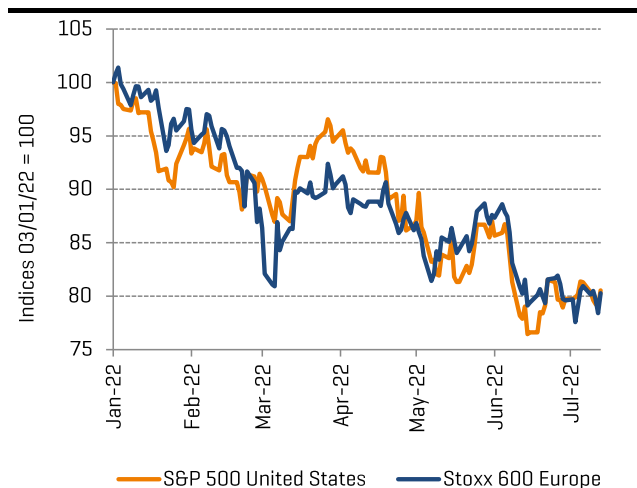
Slowdown in prices confirmed

House prices in Luxembourg rose by 10.5% year-on-year in the first quarter of 2022 (+11.0% for older homes, +8.6% for new homes). Sales prices in Luxembourg have accelerated significantly since 2018, growing roughly twice as fast as elsewhere in the euro zone over the past four years. However, the prices are now moderating in the Grand Duchy, while continuing to grow in the euro zone [close to +10% over one year in the first quarter]. Other member states also experienced double-digit increases in early 2022 – as much as 20% year-on-year in the Baltic States and the Netherlands, 15% in Slovakia, Slovenia and Ireland, and 13% in Austria and Portugal.

Interest rates on mortgages have been trending upward since the beginning of 2022. In May, they averaged 2.1% in Luxembourg and 1.8% in the euro zone [on loans at a fixed rate of 10 years or more], compared to 1.3-1.4% at the end of 2021. According to AtHome and Nexfin, 30-year fixed rates even reached 3.5% in July in Luxembourg. Variable rates remain low [around 1.3%] but will increase in the coming months as Central bank rates are raised.

Financial environment

STOCK MARKET INDICES



Source: Macrobond

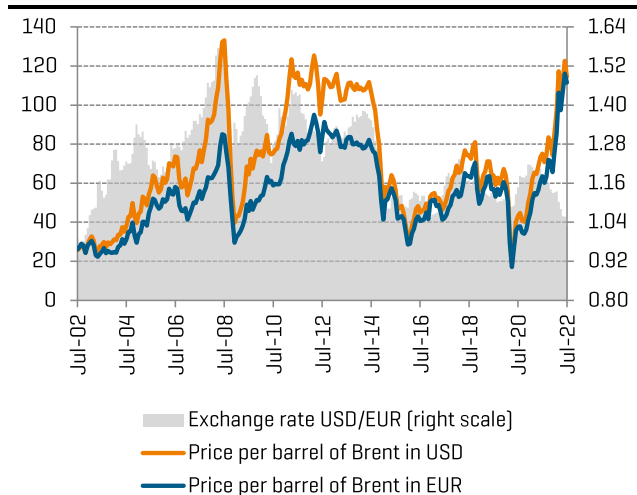
Stock markets fail to halt downward trend

In mid-July, the European and American stock market indices [Stoxx 600 and S&P 500] were down 20% since the beginning of the year. They seem to have more or less stabilised since mid-June, but this trend masks divergent variations among sectors and during each day, with volatility indices remaining twice as high as the average observed over the three years preceding the health crisis.

Investors are concerned about ever higher inflation and slower growth (or even recession) for advanced economies. In the US, higher than expected inflation in June [9.1% – a record since 1981] could lead to a further increase in leading rates, which would negatively impact growth. In Europe, monetary policy is beginning to tighten and gas supply problems are damaging growth prospects. In addition, the discovery of a new Omicron sub-variant in China has raised fears of a return to health restrictions that could impact global trade.

Energy prices 1/2

BRENT CRUDE OIL PRICE AND USD/EUR EXCHANGE RATE



Source: Macrobond

Note: In terms of data availability, July 2022 is the average between 1 July 2022 and 8 July 2022.

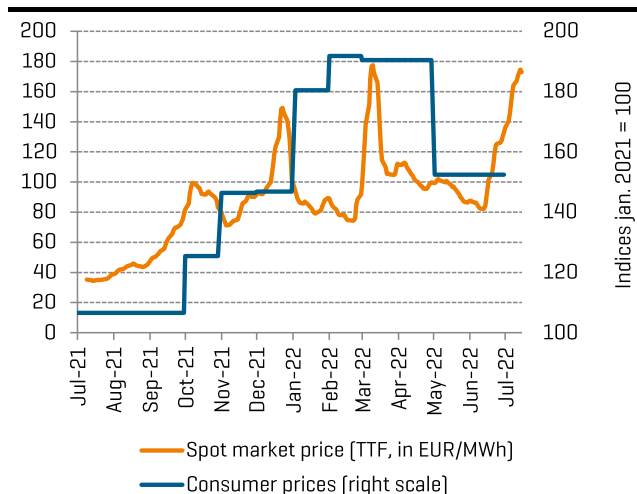
Brent crude oil at all-time high in euro terms

The price of a barrel of Brent crude oil continued to rise, reaching USD 123 in June 2022 (+68% year-on-year and +8% month-on-month), its highest level since March 2012. Over the same period, the price of Brent crude oil reached EUR 116 [+91% over one year and +9% over one month]. This price, the most expensive since the introduction of the euro, is due to the fact that the dollar is at historic highs against the euro. The price of Brent in dollars in June 2022 is comparable to that in April 2011, but expressed in euro it is 36% higher.

Since the beginning of July, the price of Brent crude has been on a downward trend, falling by 7% in dollars and 4% in euro compared to June. This is linked to a combination of factors, including fears of a slowdown in the global economy and the potential return of health restrictions in China, the largest importer of oil. On the other hand, if the euro continues to depreciate against the dollar, this will lessen the effect of the fall in the price of crude oil for European consumers.

Energy prices 2/2

GAS PRICES



Sources: Macrobond [7-day moving averages], STATEC [last CPI figures: June 2022]

Natural gas prices continue to rise across Europe

As the price of European gas slowly recovered from its historic spike after the start of the war in Ukraine, the European benchmark [TTF] rose again in late June 2022. After Russia cut supplies by 60% at the end of June, the German government activated the second phase of its national gas emergency plan. There is now widespread uncertainty surrounding gas supplies in Europe, exacerbated by real shortages. Gazprom has closed the Nord Stream 1 pipeline for maintenance until 21 July and it is uncertain whether the gas will be turned on again. The fall of the euro and gas workers' strikes in Norway are further destabilising the market and may lead to further price increases in the European market.

Consumer gas prices in Luxembourg, on the other hand, fell in May 2022 and have since stabilised. This is due to the temporary measures decided under the "Solidaritéitspakt" (tripartite agreement) which include the temporary abolition of the gas network contribution from May 2022 to the end of 2023.

Public finances

TAX RECEIPTS (CASH BASIS)

	2022 - 6 months	Evolution 2022/2021	
	In EUR Mio	In EUR Mio	In %
Household tax	4 126	502.0	13.9
VAT	2 461	206.0	9.1
Corporate tax	1 647	-11.0	-0.7
Excise duty	848	84.0	11.0
Subscription tax	678	66.0	10.8
Other	1 071	75.0	7.5
Total tax receipts	10 831	922.0	9.3

Sources: Tax authorities, IGSS, STATEC

Government revenues remain bolstered by inflation effects

In the first half of 2022, tax receipts rose 9.3% year-on-year. After rising sharply in Q1 [see Conjoncture Flash of April], taxes collected by the State in Q2 fell 2% quarter-on-quarter [seasonally adjusted data] but are up 6% on Q2 2021.

Inflationary pressures continue to boost VAT and household taxes [through wage indexation], which rose 7% and 14% respectively year-on-year in Q2. Excise duties, which were relatively low in the first half of 2021 due to the health crisis, have risen 2.7% year-on-year. From mid-April onwards, no autonomous excise duty has been collected on unleaded petrol and the excise duty rate for diesel fuel was significantly reduced [from EUR 90.5/1000L to EUR 26.4/1000L] under the tripartite agreement. Revenues from the subscription tax on company shares have been hit by falling stock markets since early 2022 and are down 6% quarter on quarter.

Trend chart

	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-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	0.7	1.0	8.1	1.4	2.9	-3.0	-0.4	...	...	-0.3	16.9
Construction output per working day, in volume	-0.9	-0.1	-8.1	5.8	5.7	-1.9	-3.8	...	...	-0.3	38.0
Turnover by volume of total retail trade	1.8	0.2	4.6	6.5	-5.7	-4.3	-7.0	...	...	-5.7	30.1
Prices, wages											
Consumer price index (NCPI)	3.6	4.5	4.1	3.6	6.6	6.1	7.0	6.8	7.4	7.1	2.3
Underlying inflation	1.8	2.2	2.3	1.4	4.2	3.5	4.2	4.5	4.8	4.5	1.1
Oil product index	48.5	60.0	46.9	48.7	51.7	56.9	59.2	49.7	56.3	55.0	30.9
Industrial producer price index	22.7	25.3	26.3	25.7	24.5	24.6	29.0	32.4	...	28.7	3.1
Construction price index ¹	9.3	9.3	9.3	11.6	11.6	11.6	13.9	13.9	13.9	13.9	5.2
Average wage bill, per person (National accounts)	5.2	5.2	5.2	7.0	7.0	7.0	...	...	...	7.0	1.6
Foreign trade											
Exports of goods (volume)	-5.7	0.7	1.8	1.9	2.0	-1.4	-3.9	...	...	-1.2	16.6
Imports of goods (volume)	15.6	1.7	1.9	6.5	4.6	6.4	7.6	...	...	6.2	21.4
Employment, unemployment											
Domestic number of employees	3.6	3.8	3.8	3.8	3.6	3.7	3.6	3.6	3.4	3.5	3.6
National employment	2.9	2.9	2.9	2.8	2.7	2.6	2.4	2.3	2.2	2.3	2.6
Unemployment rate [% of working population, seas. adj.]	5.3	5.2	5.1	4.9	4.9	4.7	4.7	4.7	4.7	4.7	5.9

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]	-0.4	-0.1	2.2	2.3	0.2	0.6
Luxembourg - real GDP growth [STATEC]	1.2	2.1	0.8	0.9	1.0	1.2
	Annual variation in %					
	2018	2019	2020	2021	Forecast 2022	Forecast 2023
Luxembourg - real GDP growth [STATEC]	2.0	3.3	-1.8	6.9	2.0	4.0
GDP at current prices 2021: EUR 73 313 million						
Minimum monthly salary (since 01/04/2022): EUR 2 313.38	Consumer price index (06/2022) - base January 1 st 1948: 961.51					
Current account balance (2022 Q1): EUR 440 million	Half-yearly average of the index linked to base as at January 1 st 1948 (06/2022) : 944.33					
Resident population (01/01/2022): 645 397	Estimated deadline for next salary indexation: April 2023					

STATEC

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

For further information:

Ferdy Adam
 Ferdy.Adam@statec.etat.lu
 (+352) 247-84217

Pauline Perray
 Pauline.Perray@statec.etat.lu
 (+352) 247-74236

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