

A less dynamic labour market

In Luxembourg as in the euro area, the labour market is slowly but gradually losing momentum, and these trends are expected to continue over the coming quarters. However, labour shortages and an ageing population should cushion the impact of the economic downturn on unemployment.

While job creations remained relatively high in Luxembourg in autumn 2022, they have clearly entered a period of slowdown. This movement echoes companies' deteriorating employment expectations, which have been trending downwards since the beginning of the year in all sectors of activity. Monthly employment growth has been steadily weakening in recent months and, according to the latest STATEC forecast¹, this slowdown is expected to continue next year, with employment growth of 2.3% year-on-year, down from 3.4% growth in 2022.

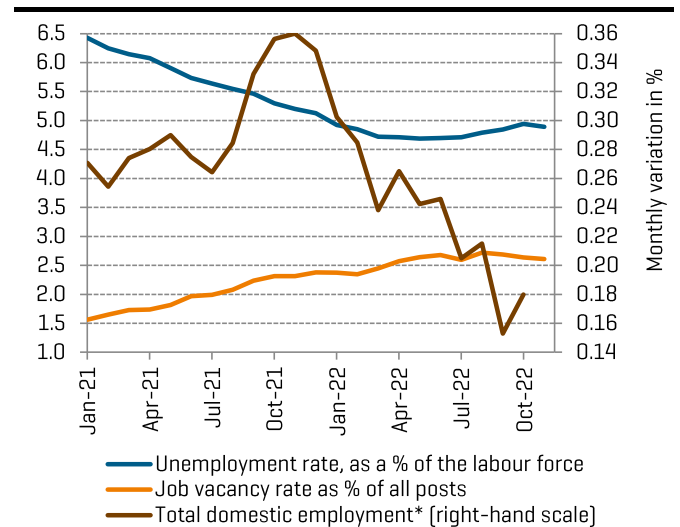
Over the last few months, the slowdown in employment has been mainly due to business services, accommodation and food service activities, construction and information and communication services. Retail is the only branch where workforce numbers picked up at the end of the year. However, business services are still the main recruiters, followed by health and social work, the financial sector, public administration and education.

After peaking in Q1 2022, the number of hours worked declined in the following two quarters. This was mainly due to construction [-2.6% over one year], the retail trade [-1.4%] and industry [-0.8%]. There was also a drop in overtime in Q2 and Q3, after a first quarter marked by record absenteeism rates due to illness [at 6.2%, due in particular to COVID infections linked to the Omicron variant].

Rise in unemployment to remain contained

Although unemployment remains low in the Grand Duchy, it has been on the rise since the summer. In November it reached 4.9% of the labour force. New registrations with ADEM had already started to rise at the beginning of the year (supported in particular by the influx of Ukrainian refugees from April onwards), but the outflow of unemployed people into employment remained relatively high. However, there has been a significant decline in this outflow since June. STATEC expects unemployment to rise to 5.1% of the labour force next year, up from an average of 4.8% in 2022. This increase may seem moderate in view of the low GDP growth, which would not even reach 2% per year in 2022 and 2023 (well below its historical average). The labour shortage and the large number of retirements [the ratio of the working age population to the total population appears to have peaked in 2020] should indeed cushion the impact of the economic slowdown on unemployment.

EMPLOYMENT, UNEMPLOYMENT AND JOB VACANCIES IN LUXEMBOURG



Sources: ADEM, IGSS, STATEC (seasonally adjusted data). *Series smoothed over three months.

The job vacancy rate reached a record high in mid-2022 but is trending downwards over the end of the year, both in Luxembourg and in the euro area. This decline is mainly due to accommodation and food service activities – where the number of job vacancies increased substantially in the second quarter after the health restrictions were lifted – and to construction. However, the decline is widespread across industries, with the exception of business services, where the vacancy rate rose again in Q3.

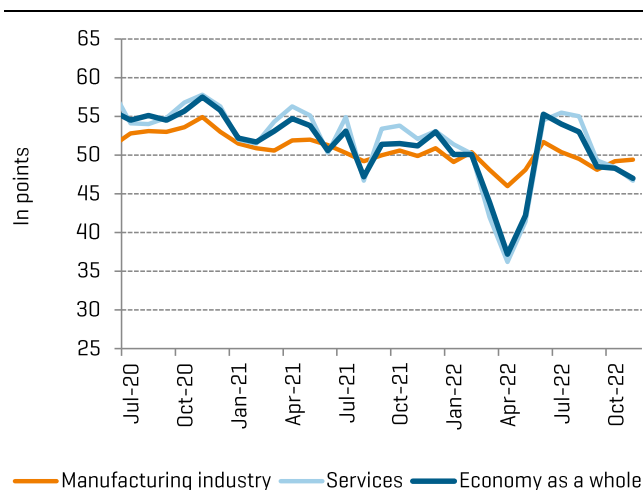
Employment is also slowing down in the euro area: +0.3% over a quarter in Q2 and Q3, down from +0.5% in Q1. In the third quarter, the decline was offset by a positive performance in Spain (+1.4% over a quarter) and France (+0.4%), but most countries are already seeing a slowdown in job creations (notably Germany +0.0%, down from +0.3% in Q2), or even a decline (Finland -0.8%, Portugal -0.2%, Italy -0.1%). The European Commission also expects employment to stabilise in 2023, when activity in the euro area is set to stagnate.

¹ See Note de conjoncture 2-2022:

<https://statistiques.public.lu/en/publications/series/note-conjoncture/2022/note-conjoncture-02-2022.html>

International

PMI INDEX OF ACTIVITY IN CHINA



Source: S&P Global [latest update: Nov. 2022]

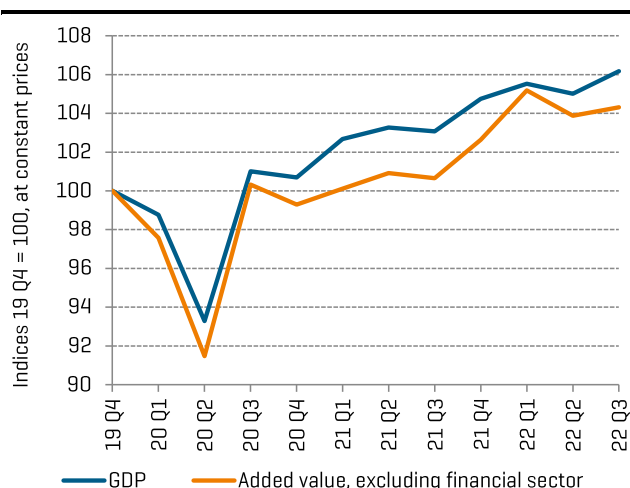
China still affected by pandemic

After falling sharply in the second quarter [-2.7% quarter-on-quarter] as a result of the lockdown measures ordered in many cities, Chinese GDP recovered significantly in the third quarter [+3.9%]. However, it is likely to fall again in the last quarter of 2022. PMI activity indices [based on surveys of purchasing managers] have fallen again over the last few months, dropping below the 50-point mark since September, i.e. below the threshold between expansion and contraction of activity. This decline comes after further lockdown measures over this period, which appear particularly damaging to services activity.

On the other hand, China has very recently taken a new direction in terms of pandemic management and has broken with its zero-COVID policy, undermined by the very high contagiousness of the Omicron variant and the protests against the extremely strict prevention measures. China now seems to be trying to strike a balance between health measures and economic growth. Nevertheless, surging infections over the latter part of 2022 appear to be still causing considerable disruption to people's mobility and activity.

Activity

GROSS DOMESTIC PRODUCT AND REAL VALUE ADDED IN LUXEMBOURG



Source: STATEC

Positive third quarter, mainly owing to the financial sector

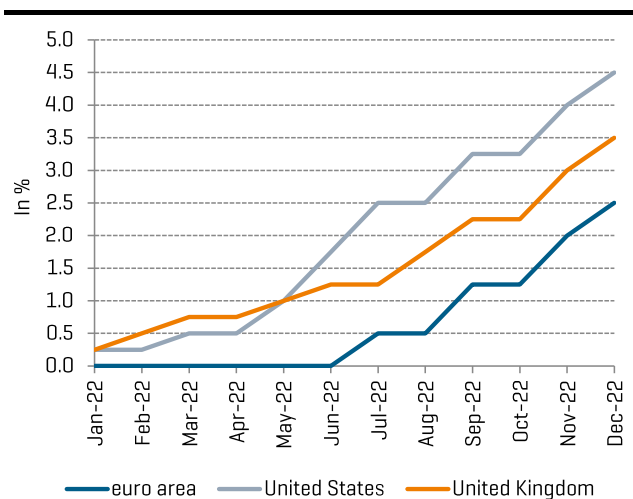
Luxembourg's GDP rebounded sharply in the third quarter [+1.1% over a quarter], a development that contrasts with the slowdown observed in the euro area over the same period [see November's Conjoncture Flash]. Nevertheless, this recovery owes much to the robust financial sector [where real value added rose by 2.6%], in turn due to isolated phenomena.

Value added in other branches is much less dynamic. It peaked in the first quarter of 2022 and has been relatively sluggish since then, marked by a deterioration in construction, industry and several service activities [transport, business services, health].

Based on these results, the growth carry-over for 2022 was 2.2% at the end of the third quarter. To achieve this, however, GDP would have to stabilise in the fourth quarter, which is far from certain given the downturn in the economic indicators already available.

Financial environment

MAIN POLICY RATES



Source: Macrobond

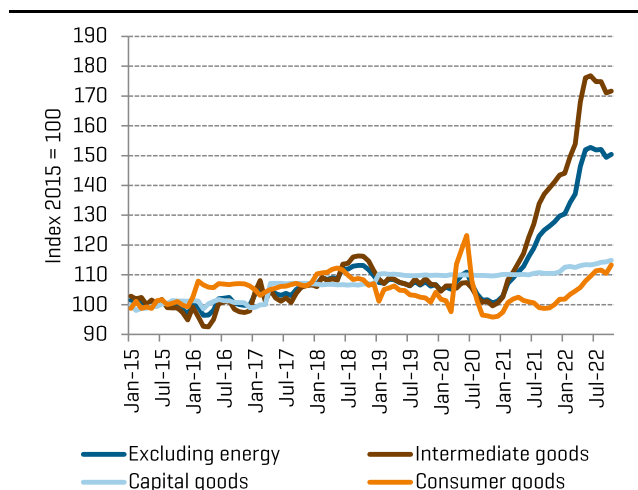
Rate rise set to continue

The European Central Bank, the Bank of England and the US Federal Reserve have slowed the magnitude of rate hikes, with increases of half a percentage point in December, compared with three quarters of a percentage point the previous month. While these decisions were widely anticipated, the tone has hardened regarding monetary policies next year. Central banks have indicated that several more rate hikes will be needed before inflation is brought down sustainably.

According to the ECB's new forecasts, inflation in the euro area will be higher than expected [+6.3% in 2023 compared to 5.5% in its September forecasts] and it could remain above the 2% target until 2025. The ECB believes that wage growth could be stronger than expected and that fiscal measures taken to bolster purchasing power will support demand. The tightening in monetary policy will therefore be prolonged in the euro area. Policy rates could be raised several times by half a percentage point and could also remain high [above 3%] for longer than expected.

Inflation 1/2

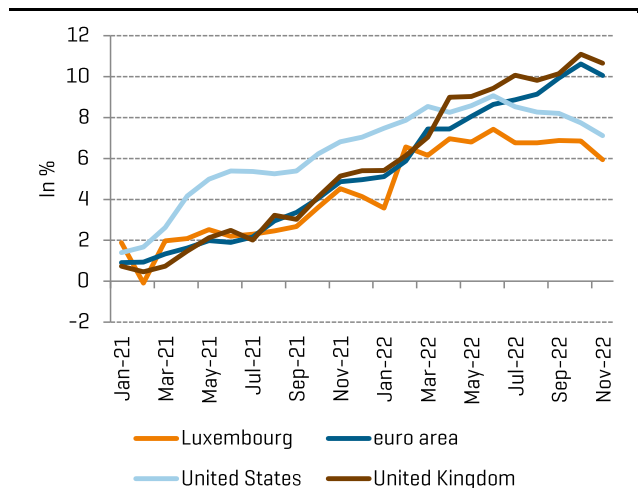
PRICE OF MANUFACTURING PRODUCTS



Source: STATEC

Inflation 2/2

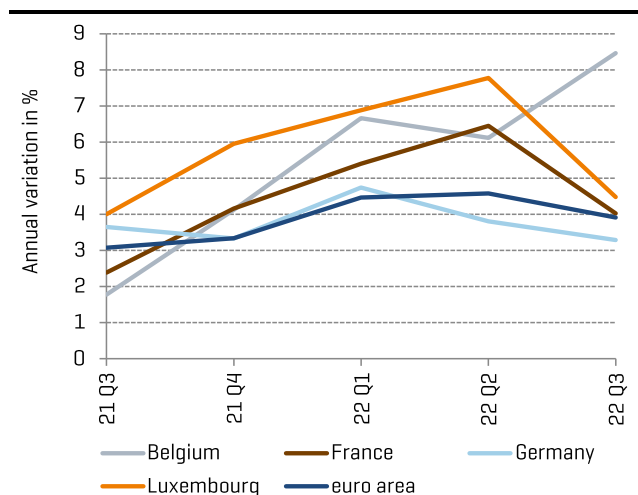
ANNUAL INFLATION RATE



Sources: STATEC, Macrobond

Labour market

COMPENSATION PER EMPLOYEE



Sources: STATEC, Eurostat

Turnaround in industrial prices in Luxembourg

Industrial output prices excluding energy are showing the first signs of a turnaround in the Grand Duchy, following a peak in June 2022. This reversal is mainly due to intermediate goods, which fell by 3% between June and October 2022. At product level, prices for steel goods and non-ferrous metals fell the most significantly, by 10% and 7% respectively between July and October 2022. This reflects the delayed effects of falling base metal prices on world markets. Some prices, however, are still trending upward, notably those linked to agricultural raw materials such as food and textiles (+5% and +4.5% respectively between June and October 2022).

In the euro area, industrial output prices fell by 1.9% in October 2022. This decrease, the first since May 2020, is the result of a slowdown in prices for energy goods, which fell particularly sharply in October [-6.7% over one month]. On the other hand, producer prices for capital goods and consumer goods continued to rise by +0.4% and +0.9% respectively.

Signs that inflation is running out of steam

Inflation in Luxembourg fell slightly below the 6% mark for the first time since February 2022, settling at 5.9% in November 2022 (compared to 6.9% in October 2022). This decline is mainly due to falling prices for oil products [-4.8% over one month] and for package tours [-26.7%].

Decreases in inflation compared to October were also observed in the euro area, the United States (-0.6 percentage points each) and the United Kingdom [-0.4 percentage points].

If these initial signs of a slowdown are confirmed in the coming months in the US, it is possible that the Federal Reserve decides to reduce the intensity and/or the frequency of key rate hikes. A slower pace of monetary tightening in the US would support the euro. This would help lower the prices for imports into the euro area and thus further curb inflation in Luxembourg.

Lower wage growth in Q3

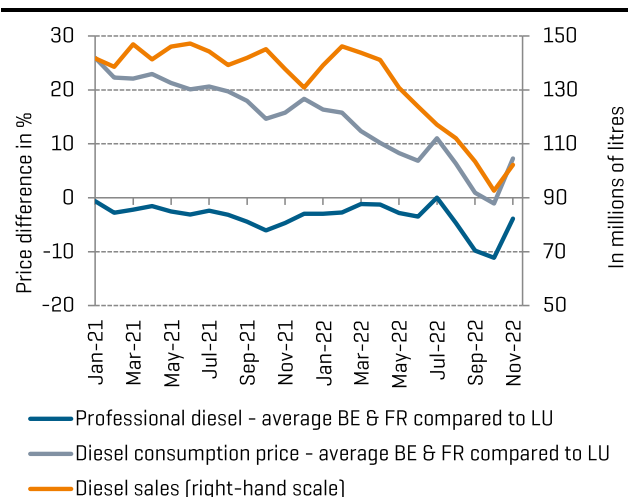
Compensation per employee (CPE) rose by 4.5% year-on-year in Luxembourg in Q3, breaking with the acceleration in previous quarters [+6.0% in Q4 2021, +6.9% in Q1 2022, +7.8% in Q2 2022]. STATEC forecasts CPE growth of 5.6% for 2023, almost entirely due to the increase in the sliding scale, and slightly higher than the increase forecast for the euro area [+5% according to the European Commission].

A more moderate increase in CPE in Q3 is also being seen in the euro area and in the neighbouring countries, with the exception of Belgium. The latter had the highest CPE growth in the euro area in Q3 2022, behind Lithuania and Slovakia.

In Luxembourg, CPE growth slowed in all sectors in Q3, with the exception of information and communication services. The strongest slowdown is in accommodation and food service activities (where lower recourse to short-time working boosted CPE at the beginning of the year) and in transport (where CPE were strongly bolstered in Q2 by an increase in bonuses and gratuities).

Energy

DIESEL PRICES AND SALES



Sources: Customs and Excise Administration, Macrobond, STATEC

Rebound in fuel sales in the offing?

Fuel sales remain below pre-Covid levels and declined 10% over the first 11 months of 2022. This decrease was due to diesel sales [-14%] while petrol sales have increased by 4% compared to 2021. The share of diesel in fuel sales has consequently fallen from 83% in 2020 to less than 75% in recent months.

This decline in diesel sales is mainly due to the pricing measures implemented in France, which are more favourable than in Luxembourg. In October, trade prices (excluding VAT) were thus 30 cents per litre more expensive than in France.

With Belgian subsidies coming to an end and French measures being gradually lifted from November, pump prices in Luxembourg are gradually becoming more attractive again. This already led to a rebound in diesel sales in November, which is expected to intensify in 2023. Luxembourg, French and Belgian trade prices should reach comparable levels from January onwards.

Trend chart

	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-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	-3.1	-0.5	-1.4	-3.3	0.1	-1.9	1.2	-3.8	...	-1.5	2.5
Construction output per working day, in volume	-1.8	-4.2	3.2	-5.0	-2.3	-0.6	0.6	-3.2	...	-1.1	-0.7
Turnover by volume of total retail trade	0.2	-5.9	-1.8	-4.2	0.2	-1.2	-0.7	...	...	-0.5	-0.8
Prices, wages											
Consumer price index (NCPI)	6.1	7.0	6.8	7.4	6.8	6.8	6.9	6.9	5.9	6.6	3.6
Underlying inflation	3.5	4.2	4.5	4.8	4.7	5.1	5.2	5.1	4.9	5.0	1.8
Oil product index	56.9	59.2	49.7	56.3	43.6	36.0	37.4	35.2	20.9	30.7	47.7
Industrial producer price index	24.8	30.3	32.8	30.1	29.7	25.9	22.3	22.3	...	23.5	20.7
Construction price index ¹	11.6	13.9	13.9	13.9	...	...	...	...	...	13.9	5.2
Average wage bill, per person (National accounts)	6.9	7.8	7.8	7.8	4.5	4.5	4.5	...	...	4.5	4.0
Foreign trade											
Exports of goods (volume)	-0.2	-8.5	1.5	-2.2	-10.6	6.2	0.8	...	...	-1.5	3.3
Imports of goods (volume)	8.2	7.3	4.9	3.4	1.8	10.4	9.6	...	...	7.1	1.0
Employment, unemployment											
Domestic number of employees	3.7	3.6	3.6	3.5	3.6	3.4	3.4	2.9	2.8	3.0	3.4
National employment	2.8	2.5	2.5	2.5	2.8	2.7	2.6	2.3	2.4	2.4	2.8
Unemployment rate [% of working population, seas. adj.]	4.7	4.7	4.7	4.7	4.7	4.8	4.8	4.9	4.9	4.9	5.3

Source: STATEC

¹ Estimations based on half-yearly data

Indicators

	Quarterly variation in %					
	2021 Q2	2021 Q3	2021 Q4	2022 Q1	2022 Q2	2022 Q3
Eurozone - real GDP growth (European Commission)	2.0	2.3	0.5	0.6	0.8	0.2
Luxembourg - real GDP growth (STATEC)	0.6	-0.2	1.6	0.7	-0.5	1.1
	Annual variation in %					
	2018	2019	2020	2021	Forecast 2022	Forecast 2023
Luxembourg - real GDP growth (STATEC)	1.2	2.3	-0.8	5.1	1.7	1.5
GDP at current prices 2021: EUR 72 295 million						
Minimum monthly salary (since 01/04/2022): EUR 2 313.38						
Current account balance (2022 Q2): EUR 610 million						
Resident population (01/01/2022): 645 397						
	Consumer price index (11/2022) - base January 1 st 1948: 970.00					
	Half-yearly average of the index linked to base as at January 1 st 1948 (11/2022) : 963.34					
	Estimated deadline for next salary indexation: 2023 Q1					

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