

Consumption declines in Q4

Households consumed less at the end of 2022, impacting in particular the results of retail chains. The outlook for consumption remains weak for early 2023.

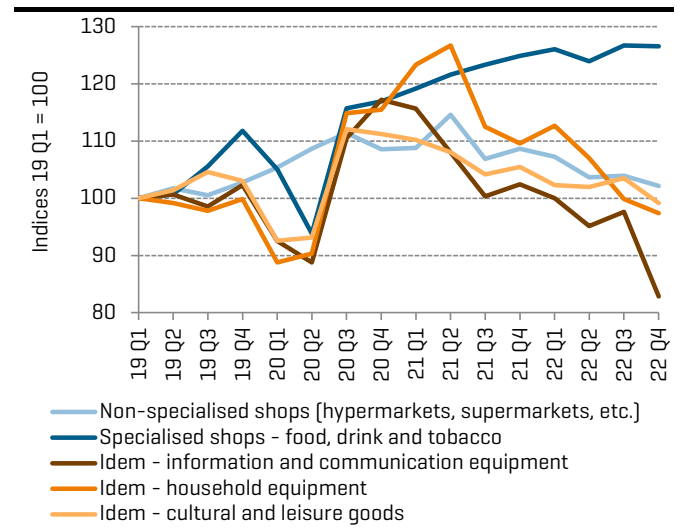
After seven consecutive quarters of growth, household consumption fell in the last quarter of 2022. This decline can also be seen across most euro-area member states, but it was particularly strong in Luxembourg [-2.2% in real terms over a quarter, against -0.9% in the euro area].

In general, the decline in consumption in Europe mainly affected non-durable goods and, to a lesser extent, semi-durable goods.¹ Durable goods held up better, due in particular to a recovery in car purchases in several countries (especially Germany). Although the same trends were also observed in Luxembourg, consumption of services declined [-2.3% over a quarter] while holding up well elsewhere. Lower spending on services is particularly noticeable in catering, property management and financial services. In terms of goods purchases, most of the decline was in fuels, liquid fuels (including gas and heating oil),² motor vehicles, alcoholic beverages, clothing and furniture. However, these results are still based on partially estimated data, in particular regarding the consumption split between residents and non-residents.³

Lower retail sales

Regardless, declining consumption has also been reflected in lower turnover volumes across the retail sector, with turnover decreasing in almost all retail categories in Q4 2022 (especially for specialist high-tech stores). For some categories, the trend was already downward in previous quarters, as things returned to normal after the pandemic. General retail chains (hypermarkets and supermarkets) indeed benefited from the closure of restaurants and the development of teleworking during lockdown.

TURNOVER IN REAL TERMS BY TYPE OF RETAILER (LUXEMBOURG)



Source: STATEC (seasonally adjusted data)

The pandemic also spurred purchases of IT and communication products, capital goods (e.g. for home-based teleworking) and leisure goods (e.g. sports equipment). The strong inflationary surge in early 2022 also dampened consumption, however, with households restricting purchases in certain areas.

The retail confidence indicator⁴ has deteriorated significantly since Q2 2022. It stagnated at extremely low levels in Q4 2022 and early 2023. On the other hand, after bottoming out last September, morale among Luxembourg's consumers has recovered considerably due to a more optimistic outlook regarding both the economic situation and their own financial situation. However, there is no guarantee that this movement will boost consumption in Q1 2023, with households indicating low purchasing intentions over this period along with a renewed interest in saving (no doubt linked to rising interest rates).

¹ Non-durable goods include food products, recreational consumer products such as tobacco or alcohol, pharmaceutical, chemical and cosmetic products, and energy. Semi-durable goods include textile articles, clothing and small office supplies for example.

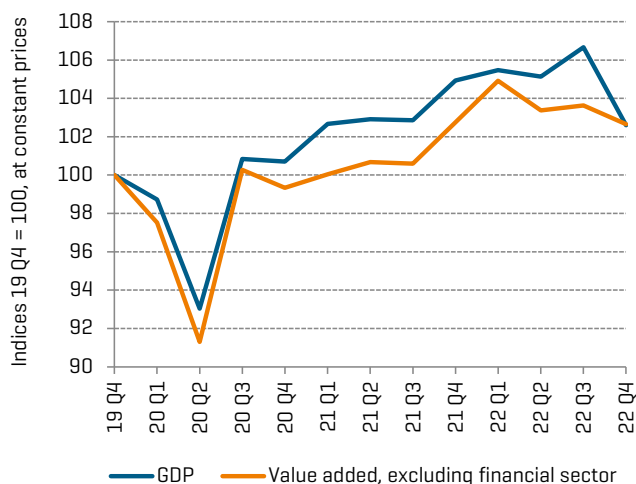
² Rising energy bills due to the war in Ukraine may have had an impact on consumption of these products. Also, temperatures were relatively high in October and November 2022.

³ Spending by non-residents is counted as exports (and not as consumption).

⁴ This indicator is based on answers to three questions in monthly business surveys: recent sales trends, stock levels and sales prospects over the next three months.

Activity

REAL GROSS DOMESTIC PRODUCT AND VALUE ADDED IN LUXEMBOURG



Source: STATEC

Sharp decline in GDP in late 2022

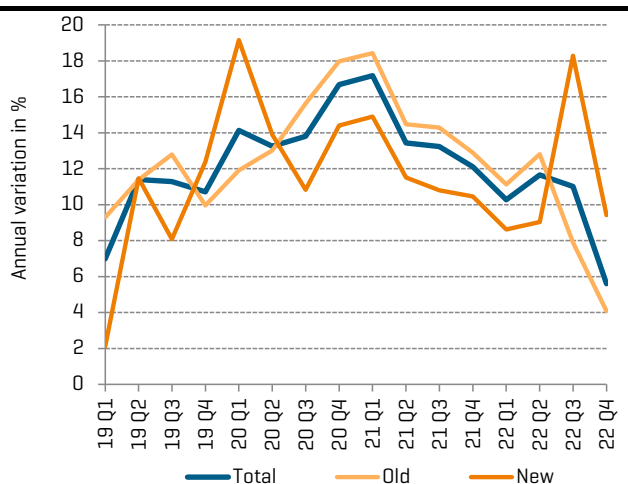
Luxembourg's real GDP fell sharply in Q4, down 3.8% over one quarter [down 2.2% over one year]. This was in stark contrast to the stagnation recorded elsewhere in the euro area over the same period. The sharp fall in Luxembourg's GDP in late 2022 was largely due to the financial sector [down 10.8% over one quarter]. Although the sector made a considerable contribution to the third-quarter rise in GDP, this was mainly due to isolated, non-permanent phenomena [particularly among banks], resulting in a backlash in the fourth quarter.

However, activity in other branches was also down overall, with the exception of predominantly non-market sectors [administration, education, health and social work]. Business services [-3.2% quarter-on-quarter] and information and communication services [-3.7%] put a particular strain on the overall result.

Private consumption and investment also declined, as did the foreign trade balance [mainly via financial services].

Real estate

HEDONIC INDICES OF REAL ESTATE PRICES IN LUXEMBOURG



Source: STATEC

Sales prices of housing down in Q4 2022

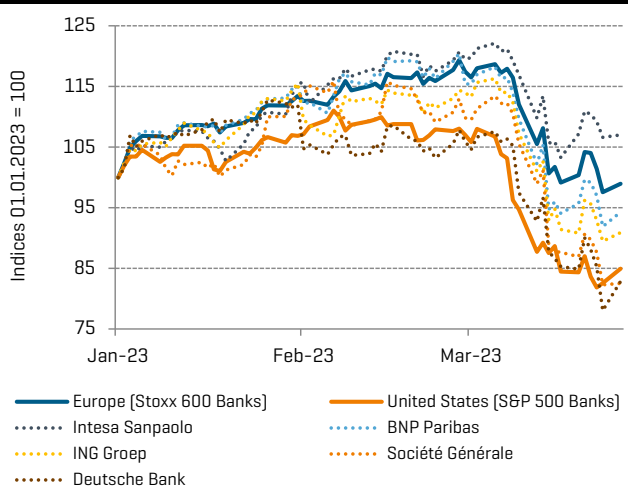
The slowdown in year-on-year house price growth is continuing and strengthening: it stood at +5.6% in Q4, down from 11% in Q3 2022. The house price index fell -1.4% quarter-on-quarter in Q4 2022, a first since 2015.

Already on a downward trend since Q2 2022, the number of transactions fell further, reaching a historic low at the end of the year [in both new and existing properties]. This probably reflects a decline in demand [mortgage volumes have fallen sharply in recent months], a trend that is likely to continue as borrowing costs rise, and thus selling prices are pushed down.

The decline is particularly marked for existing properties [-1.9% over a quarter]. After peaking in Q3 2022 [mainly due to a change in contract specification], new apartment prices also fell in Q4 [-0.3% quarter-on-quarter, and even -6% for flats acquired for investment purposes].

Financial sector

BANK STOCK INDICES



Source: Macrobond

Note: the banks represented are among the 10 largest banks in Luxembourg in terms of assets

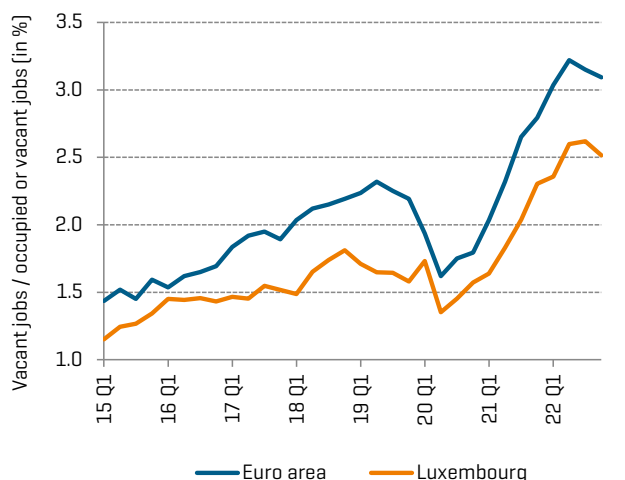
Market distrust of banks

The banking sector has posted heavy losses on the stock market since 9 March, following news of difficulties at several US banks, fuelling fears among customers and investors about the ability of banks to cope with losses in asset value as interest rates rise. As at 27 March, bank stock indices were down 21% over one month in the US [-22% over one year] and down 15% over one month in Europe [+6% over one year]. The major international banks active in Luxembourg followed the trend with more or less marked declines.

The liquidation of Silvergate Bank on 8 March [linked to problems with crypto-currencies], followed by news of difficulties at Silicon Valley Bank, led to panic and a bank run, pushing it into bankruptcy and rocking other American regional banks. Investor distrust then turned to Credit Suisse [already in trouble for the last two years], following an announcement by its main shareholder, and spread to euro-area banks. Most US and Swiss banks are not subject to the same prudential rules and rate hike stress tests than euro-area banks. Central banks have confirmed their support for banks, while continuing to tighten monetary policy and raise key interest rates.

Labour market

JOB VACANCY RATE



Source: Eurostat (Nace Rev.2: B-S), seasonally adjusted data

Job vacancy rates declining

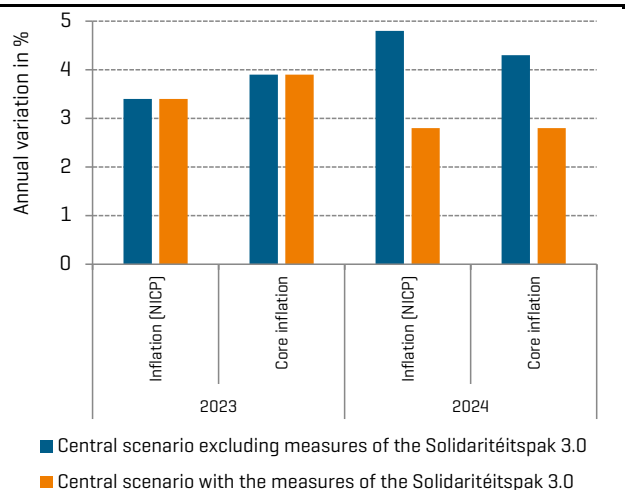
After peaking in the summer of 2022, the job vacancy rate, which is the ratio of vacancies over all jobs, has started to decline in almost all euro-area countries, including Luxembourg, and in all sectors except industry.

The most marked decline was in accommodation and food service activities, which experienced a strong labour demand following the reopenings after the COVID crisis. However, levels still stayed globally above pre-crisis levels up to Q4. Business services have the largest recruitment difficulties. In Luxembourg, 7.1% of jobs are unfilled in Q4 (4.5% in the euro area), particularly in accounting and management, with more than 2 000 vacancies (one third of the drop in vacancies in late 2022 was due to temporary work).

Although still at historically high levels in late 2022, job vacancies are expected to decline further in 2023. In fact, employment is slowing and companies' hiring prospects remain relatively weak. The unemployment rate stabilised at just under 5%.

Inflation 1/2

INFLATION FORECASTS WITH AND WITHOUT THE SOLIDARITEITSPAK 3.0



Source: STATEC

Note: Only measures limiting increases in gas and electricity prices are taken into consideration in this analysis.

Inflation forecasts fall for 2024

STATEC has updated its latest inflation forecasts to include measures on gas and electricity prices under the Solidaritéitspak 3.0 agreement signed at the end of the tripartite negotiations in March 2023.

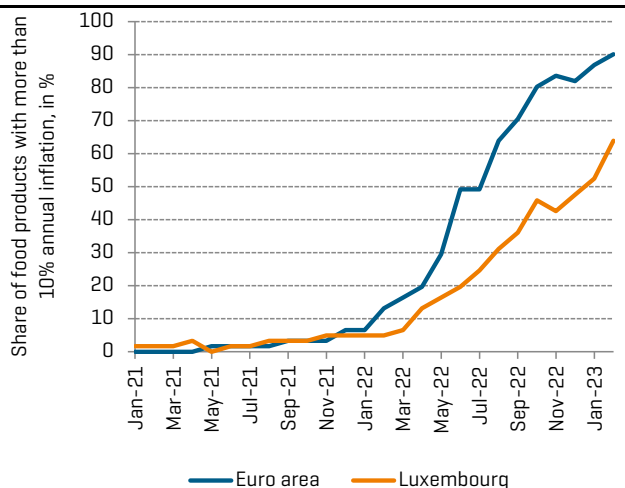
These measures prevent expected increases in gas and electricity prices of 37% and 78% respectively in 2024. This should avoid the inflationary shock predicted by STATEC for early 2024.

The new forecast still assumes an inflation rate of 3.4% in 2023, but this has been revised to 2.8% for 2024 (from 4.8% previously). Core inflation is expected to slow further, from 3.9% in 2023 to 2.8% in 2024 (down from 4.3% previously), due to the cap on electricity prices.

After the April 2023 wage indexation, STATEC forecasts the next index bracket in Q4 2023, with a further payment in Q4 2024.

Inflation 2/2

FOOD PRODUCTS WITH MORE THAN 10% ANNUAL INFLATION



Source: STATEC

Food prices soar

In Luxembourg, more and more food products are experiencing particularly high price increases. This inflationary fever is also affecting other countries in the euro area, in which the number of food products with more than 10% annual variation is skyrocketing.

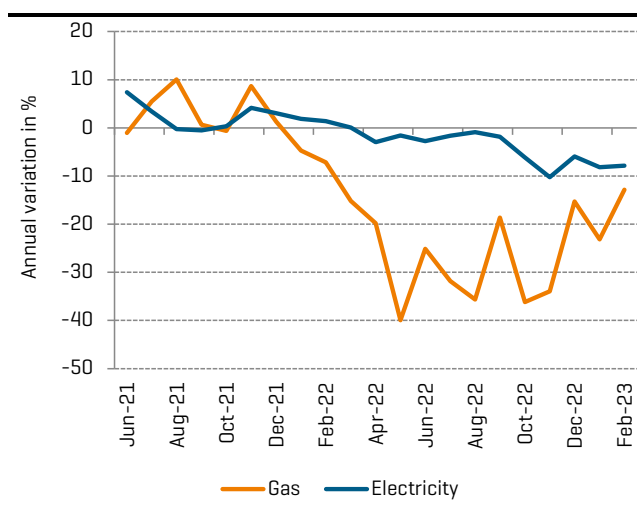
This surge in consumer food prices is the result of the delayed passing on of soaring energy, agricultural and industrial commodity prices.

In February 2023, inflation in food and non-alcoholic beverages in Luxembourg reached an all-time high of +13% year-on-year, making up just over a third of total inflation (4.3%). In the euro area, annual inflation in food and non-alcoholic beverages reached 17% in the same month, its highest level since the introduction of the single currency. It also accounted for about one third of total inflation (8.5%).

Energy

Drop in energy consumption

GAS AND ELECTRICITY CONSUMPTION



Sources: Creos, ENTSOE

In 2022, gas and electricity consumption fell by 21% and 3% respectively as compared to 2021. While the increases in market prices of gas and electricity were relatively comparable (in terms of magnitude and timing), gas consumption fell more quickly and more sharply than electricity consumption.

Wholesale gas prices were passed on to consumers rapidly (+57% in 2022 compared to 2021), providers purchasing most of their supplies on the markets a few months in advance. In industry, some companies were able to switch from gas to other energy carriers, thus reducing gas consumption.

Electricity consumption has fallen significantly since the end of 2022 [-7% year-on-year in Q4]. The less pronounced decline in electricity consumption in 2022 compared to gas could indicate that electricity is more difficult to substitute. Moreover, electricity prices for private individuals have remained constant since 1 February 2022 (up 3% on 2021), which does not encourage reduced use.

Trend chart

	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	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	-3.3	0.0	-1.8	1.2	-1.9	-1.6	-6.0	-7.6	...	-5.0	3.1
Construction output per working day, in volume	-2.0	0.7	-0.1	0.2	-3.0	-0.2	15.4	-10.1	...	0.6	-2.7
Turnover by volume of total retail trade	-4.1	0.1	-0.7	4.7	-3.1	-2.2	-7.3	-1.7	...	-4.0	4.2
Prices, wages											
Consumer price index (NCPI)	7.4	6.8	6.8	6.9	6.9	5.9	5.4	4.8	4.3	4.8	4.8
Underlying inflation	4.8	4.7	5.1	5.2	5.1	4.9	4.6	4.8	4.8	4.7	2.7
Oil product index	56.3	43.6	36.0	37.4	35.2	20.9	15.8	3.9	-3.5	4.8	49.2
Industrial producer price index	30.1	29.7	25.9	22.6	22.9	20.2	19.0	15.5	...	18.2	25.8
Construction price index ¹	13.9	14.9	14.9	14.9	15.9	15.9	15.9	...	...	15.9	9.3
Average wage bill, per person (National accounts)	7.8	5.6	5.6	5.6	2.0	2.0	2.0	...	...	2.0	6.2
Foreign trade											
Exports of goods (volume)	-4.1	-12.9	2.6	-1.3	-2.1	-1.3	-9.4	...	...	-4.2	0.3
Imports of goods (volume)	1.1	1.6	8.9	1.1	-9.1	1.3	-0.9	...	...	-3.2	6.5
Employment, unemployment											
Domestic number of employees	3.5	3.6	3.4	3.4	3.3	3.2	3.4	2.9	3.0	3.1	3.5
National employment	2.5	2.8	2.7	2.6	2.6	2.6	2.7	2.3	2.5	2.5	2.7
Unemployment rate [% of working population, seas. adj.]	4.7	4.7	4.8	4.8	4.9	4.9	4.8	4.9	4.8	4.9	5.0

Source: STATEC

¹ Estimations based on half-yearly data

Indicators

	Quarterly variation in %					
	2021 Q3	2021 Q4	2022 Q1	2022 Q2	2022 Q3	2022 Q4
Eurozone - real GDP growth (European Commission)	2.3	0.6	0.6	0.9	0.4	0.0
Luxembourg - real GDP growth (STATEC)	-0.1	2.0	0.5	-0.3	1.5	-3.8
	Annual variation in %					
	2019	2020	2021	2022	Forecast 2023	Forecast 2024
Luxembourg - real GDP growth (STATEC)	2.3	-0.8	5.1	1.5	2.2	3.2
GDP at current prices 2022: EUR 78 130 million						
Minimum monthly salary (since 01/02/2023): EUR 2 447.07	Consumer price index (02/2023) - base January 1 st 1948: 975.67					
Current account balance (2022 Q4): EUR -1 058 million	Half-yearly average of the index linked to base as at January 1 st 1948 (02/2023) : 967.46					
Resident population (01/01/2022): 645 397	Estimated deadline for next salary indexation: April 2023					

For further information:

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