

Fall in activity impacts employment

The decline in economic activity is more marked in Luxembourg than in the euro area this year. This applies not only to the financial sector, where employment has held up rather well, but also to other sectors where staff numbers have been much more affected.

Over the first two quarters of 2023, Luxembourg's real GDP is down as compared to last year [-1.7%]. This result was largely due to the poor performance of the financial sector [down 6% over the same period for real value added], which was affected in particular by lower volumes of loans to households and businesses, weak net issuance in investment funds and a decline in life insurance premiums. On the other hand, the financial sector value added in current prices held up well, benefiting in particular from favourable price effects linked to the rise in interest rates [banks' interest margins rose by some 65% year-on-year in the first half of 2023, according to CSSF data¹], as did the number of employees in the sector [up by almost 4% year-on-year over the same period²].

Apart from the financial sector, however, the majority of the other branches of the Luxembourg economy are also showing a tendency to slow down³ - to a greater or lesser extent - for real value added; this is having an impact on the evolution of the workforce. Compared with trends in the euro area as a whole, three sectors in particular stand out negatively on the Luxembourg side: transport, information and communication services (ICT) and construction.

For transport⁴, various economic indicators demonstrate a recovery which is continuing in the euro area, largely influenced by the rise in freight and passenger transport. In Luxembourg, on the other hand, air freight has tended to decline since 2022⁵ and thus weighs on the added value of the sector, where job creation has slowed significantly since Q2 2023. For ICT, added value had experienced double-digit growth in 2021 and 2022 in Luxembourg, but the last quarters show a certain stagnation while it continues to progress in the euro area. Employment in this branch is growing much more slowly this year in Luxembourg [+2.6% over one year in the first half of 2023⁶] than in the euro area [+4.1% over the same period]. Finally, for construction, value added in volume shows a decline of around 6% over one year as of the first half-year 2023 in Luxembourg [compared to an increase of 0.4% in the euro area]. The residential construction sector is particularly affected, with a turnaround in real estate market indicators relatively more marked in Luxembourg than in the rest of Europe [see below].

EMPLOYMENT AND UNEMPLOYMENT IN LUXEMBOURG



Sources: IGSS, ADEM, STATEC

The number of workers in the construction industry has been declining in Luxembourg since the start of the year and job seekers from this sector are contributing significantly to the rise in unemployment.

Fewer jobs created and more unemployment

Unemployment has in fact resumed an upward trend in Luxembourg since the start of the year and this trend has increased over recent months. This contrasts with the unemployment rate observed in the euro area, which is tending to stabilise and does not yet show signs of an upward turn [in particular, because it continues to fall in Spain and Italy]. All things considered, employment is slowing down in the euro area [see the September Conjoncture Flash] and is returning to an annual increase of 1%, a threshold below which unemployment historically tends to rise. By comparison, in Luxembourg, an annual increase in employment of around 2.5% is roughly required for unemployment to stabilise. However, this rate has not been reached since spring 2023 and continues to weaken with Q4 on the horizon.

¹ However, part of the interest received by banks is not taken into account in the calculation of GVA according to the rules of national accounting [in particular interest on derivatives].

² The data available for Q2 and Q3, however, show a slowdown.

³ Excluding the financial sector, value added in volume increased by 0.4% year-on-year in the first half of 2023 (after an increase of 3.5% over the whole of 2022).

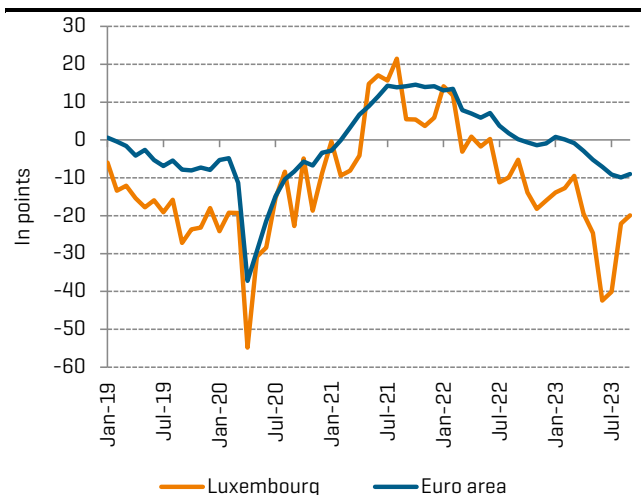
⁴ For this branch, quarterly national accounts data are not directly available for all euro zone countries, but only in an aggregate bringing together trade, transport and Horeca.

⁵ On the other hand, it outperformed in 2020 and 2021 during the health crisis.

⁶ Seasonally adjusted quarterly data also show stagnation in employment in this sector since the Q2 2023.

Activity

CONFIDENCE INDICATORS IN INDUSTRY



Sources: European Commission, STATEC (seasonally adjusted data)

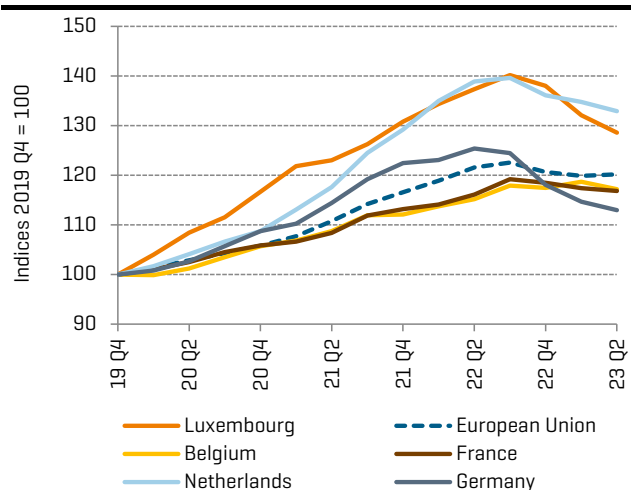
Recent upturn in confidence in industry

Luxembourg's industrial production shows a sharp decline this year, of around -6% compared to 2022 over the first seven months, i.e. one of the lowest figures in the euro area [along with the Baltic States and Netherlands]. More than a third of this decline comes from energy production and distribution, with the other main negative contributions coming from machinery and equipment, the textile industry and the manufacturing of metal products.

The confidence of Luxembourg manufacturers has fallen more sharply than that of their euro area counterparts in 2022 and in the first half of 2023. Nevertheless, it has picked up significantly since last August, owing to falling inventories and a better outlook for production in the rubber and plastics, metal products, foodstuffs and machinery and equipment sectors. In the euro area, industrial sentiment also rose very slightly at the end of Q3, both in the surveys coordinated by the European Commission and those of purchasing managers [Manufacturing PMI index].

Real estate

SALES PRICES OF HOUSING



Source: Eurostat

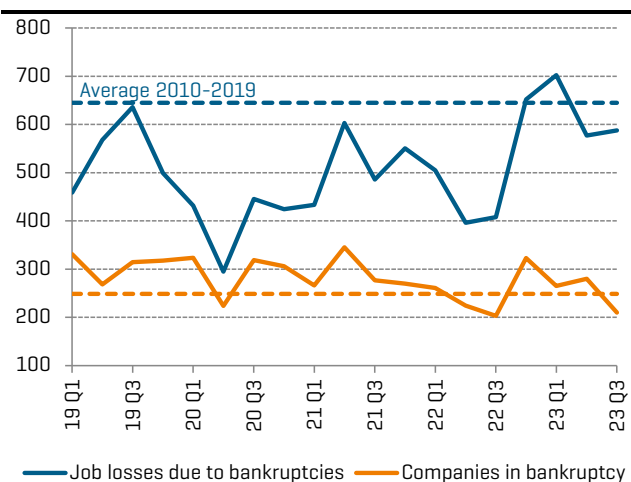
Luxembourg real estate among the most affected in the EU

The fall in demand on the real estate market due in particular to rising borrowing costs, can be seen both in Luxembourg and in the European Union. The number of housing transactions fell by more than 10% year-on-year in the second quarter of 2023 in each of the 12 European countries for which data is available. Besides Finland, Luxembourg is the country with the sharpest fall [-45%, compared with an average fall of around 25%]. At national level, transactions of flats under construction are the most affected [-63%].

This decline has caused a fall in house prices in several EU countries. Luxembourg [-6.4% year-on-year in Q2] displayed one of the sharpest corrections, comparable to that seen in the Scandinavian countries. Germany is ranked at the bottom, with house prices falling -10%. While some countries have not experienced a fall in prices over the same period, they are nonetheless showing signs of a slowdown. With regard to the trend between the Q1 and Q2 2023, Luxembourg [-2.7%] and the neighbouring countries [between -0.5% and -1.5%] are showing a fall in selling prices, but there are signs of a recovery in other EU countries, such as Denmark, Spain and Italy in particular.

Labour market

BANKRUPTCIES AND ASSOCIATED JOB LOSSES IN LUXEMBOURG



Source: STATEC (seasonally adjusted data)

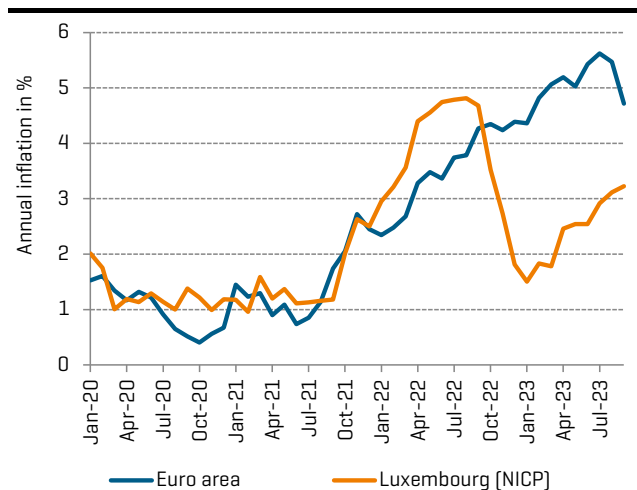
Bankruptcies having a greater impact on jobs

While business support measures following the Covid-19 crisis had helped to reduce the number of bankruptcies in the euro area, this number has risen sharply in recent quarters [+25% year-on-year in the first half of 2023]. On the one hand, this increase reflects a return to normal in some countries [notably France, Netherlands and Germany], while in others States, such as Spain, there has been a sharp rise [up 36% year-on-year].

In Luxembourg, the number of bankruptcies remained relatively stable [and close to its historical average]. At the crossroads of 2022 and 2023 it had increased significantly but has declined somewhat since then. On the other hand, the job losses associated with these bankruptcies have risen sharply over the same period [up 50% year-on-year in the first 3 quarters of 2023]. They are particularly high in the construction industry [cumulative around 700 job losses over the first three quarters], in accommodation and food service activities [-300 jobs], wholesale and retail trade [-250] and transport [-160].

Inflation 1/2

SERVICES INFLATION



Sources: Eurostat, STATEC

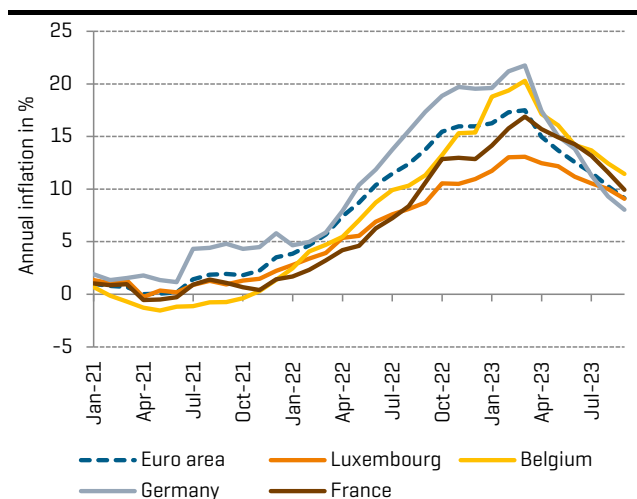
Free access to certain services curbs inflation in Luxembourg

Over the last quarters, services inflation in the Grand Duchy remains well below that observed in the euro area, despite three wage indexations in 2023. Together with Finland, Cyprus, France and Greece, Luxembourg is experiencing services inflation below 4% in September 2023, compared to 4.7% in the euro area and 8 to 9% in most Eastern European member states.

One of the main reasons is that school canteens and day-care centres have been free since the start of the 2022 school year, while public transport has been free since March 2020. Transport prices have notably increased substantially in the euro area in recent months. Other items of expenditure, such as vehicle maintenance and repair or fast food and takeaways, will also make a much smaller contribution to services inflation in 2023 in Luxembourg than in the rest of the euro area (while the opposite was true in previous years). The impact of free school canteens and day-care centres will gradually fade over the last quarter of 2023.

Inflation 2/2

FOOD INFLATION



Source: Macrobond

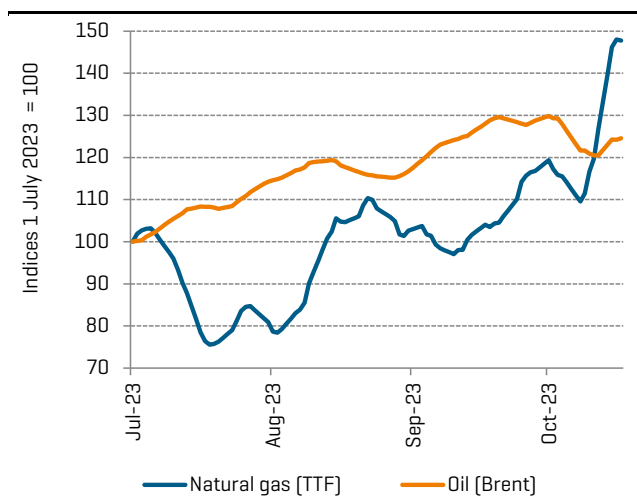
Lower rise in food prices in Luxembourg

Since mid-2022, Luxembourg has the lowest food inflation in the euro area, with a peak of just 13% year-on-year in spring 2023 (compared with over 17% in the euro area). This lower rise in prices in the Grand Duchy compared with the euro area can be witnessed for almost all the major food categories. Bread and cereals show the biggest difference, with inflation peaking at 14.5% in April in Luxembourg, which is lower than in the neighbouring countries: 15.8% in France (in April), 22% in Belgium (in January) and 24.6% in Germany (in February). But prices of confectionery, meat and dairy products are also rising much less dramatically in Luxembourg than in the euro area and neighbouring countries.

Since March, food prices have increased at a slower pace in all euro area countries (except Cyprus). In the euro area and Luxembourg, dairy products, meat, bread, cereals and vegetables are the main contributors to this fall in food inflation.

Energy

SPOT PRICES FOR OIL AND GAS



Source: Macrobond (moving averages over 7 days)

Energy markets under pressure

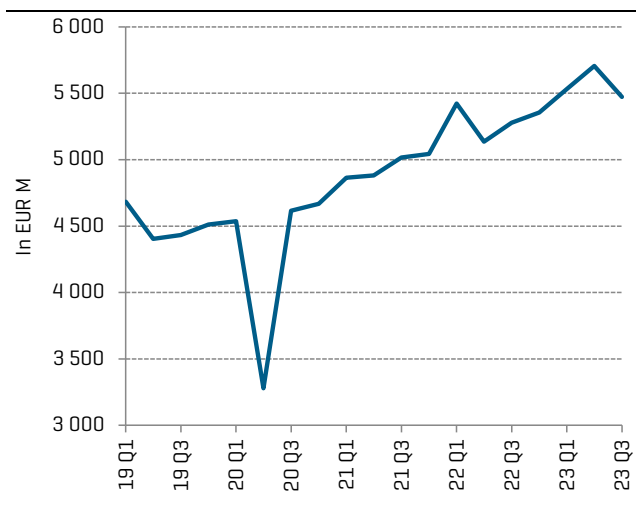
Speculation about the potential impact of the conflict between Hamas and Israel has pushed up world energy prices. The price of Brent resumed its rise, after easing slightly at the beginning of October, and has since remained above USD 90 per barrel.

Despite record levels of gas storage in Europe this winter, gas prices have soared after a major Israeli gas field was shut down two days after the conflict began. Gas prices on Europe's benchmark exchange have risen by more than 30% since 6 October and have almost doubled since their low point in July.

An escalation of the conflict risks disrupting the steady flow of oil from the region and rekindling volatility on world energy markets. If the conflict were to spread to Iran, the United States could step up sanctions, putting further pressure on an already undersupplied oil market.

Public finances

TAX RECEIPTS [CASH BASIS]



Sources: Tax authorities, STATEC [seasonally adjusted data]

Tax revenues decline in the 3rd quarter

After rising sharply in the first half of the year, tax revenues fell in Q3 [-4.1% quarter-on-quarter on a seasonally adjusted basis, +5.6% over one year for the first nine months of the year]. Taxes collected on businesses have been declining since Q2 [-25% between Q1 and Q3], reflecting the general slowdown in activity. For households, tax withheld on capital income fell sharply in Q3 [-25% between Q2 and Q3].

Revenues from subscription tax, linked to the assets of investment funds, rose again slightly (+0.8% in Q3, following +2.3% in Q2) but are likely to be affected by the recent downturn in the stock markets. After a significant rise in Q2, excise duties on tobacco declined as a result of the change in excise rates and the subsequent fall in products put up for sale from July onwards. Revenues from registration fees on real estate transactions fell less sharply than in the previous three quarters [-3.2% in Q3 compared with -20% on average over the previous three quarters].

Trend chart

	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-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	-8.8	-3.0	-1.4	-7.3	-7.1	-6.7	-6.8	...	...	-6.9	-1.6
Construction output per working day, in volume	-11.8	0.3	-2.1	0.8	-2.6	-0.5	-1.0	...	...	-1.3	-1.6
Turnover by volume of total retail trade	-2.6	-2.5	-5.6	-4.6	-4.2	-0.8	-2.0	...	...	-2.3	-1.9
Prices, wages											
Consumer price index (NCPI)	4.8	4.3	3.6	3.7	3.6	3.2	3.7	4.2	4.0	4.0	6.8
Underlying inflation	4.8	4.8	4.7	4.9	4.8	4.7	4.9	4.5	4.3	4.6	5.0
Oil product index	3.9	-3.5	-11.4	-13.5	-13.9	-17.4	-12.8	-1.3	-0.6	-5.0	39.0
Industrial producer price index	17.7	13.0	9.7	2.2	-1.5	-3.9	-7.0	-6.6	...	-5.9	28.5
Construction price index ¹	14.1	14.1	14.1	12.3	12.3	12.3	...	...	...	12.3	13.9
Average wage bill, per person (National accounts)	6.4	6.4	6.4	6.3	6.3	6.3	...	...	...	6.3	8.3
Foreign trade											
Exports of goods (volume)	2.0	-1.3	0.1	0.9	-4.0	0.1	6.6	...	...	0.8	-6.1
Imports of goods (volume)	3.9	3.1	2.0	-8.1	-4.2	-5.9	-5.7	...	...	-5.3	-6.5
Employment, unemployment											
Domestic number of employees	2.9	3.0	2.7	2.7	2.4	2.2	1.9	1.9	1.5	1.7	3.3
National employment	2.3	2.4	2.3	2.3	2.1	1.9	1.7	1.6	1.3	1.5	2.4
Unemployment rate [% of working population, seas. adj.]	4.9	4.9	4.9	5.0	5.0	5.2	5.3	5.3	5.5	5.4	4.8

Source: STATEC

¹ Estimations based on half-yearly data

Indicators

	Quarterly variation in %					
	2022 Q1	2022 Q2	2022 Q3	2022 Q4	2023 Q1	2023 Q2
Eurozone - real GDP growth (European Commission)	0.7	0.8	0.3	-0.1	0.1	0.1
Luxembourg - real GDP growth (STATEC)	0.0	-0.2	0.0	-2.1	0.6	-0.1
	Annual variation in %					
	2019	2020	2021	2022	Forecast 2023*	Forecast 2024*
Luxembourg - real GDP growth (STATEC)	2.9	-0.9	7.2	1.4	1.5	2.5
GDP at current prices 2022: EUR 77 529 million						
Minimum monthly salary (since 01/09/2023): EUR 2 570.93						
Current account balance (2023 Q2): EUR 1 347 million						
Resident population (01/01/2023): 660 809						

* Forecast from the Note de Conjoncture 1-23 (June 2023)

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