

Manufacturing remains sluggish

Luxembourgish industrial output fell back in the first quarter of 2023 and the signals sent by economic surveys do not suggest any recovery in activity in Q2. Producer prices, which rose very sharply last year, have also slowed markedly.

In Q1 2023, manufacturing output per working day in Luxembourg fell by 4.7% over one year (the March figures are still provisional). This result is much lower than that recorded in the euro area over the same period [+0.2%], supported mainly by Germany [+0.8%] and Spain [+1.4%] where the automotive industry rebounded, while for most other countries the results were negative.

For Luxembourg, the decrease of more than 4% compared to the beginning of last year is mainly due to four categories: energy production and distribution [-9%, undoubtedly in response to falling consumption in this sector], manufacture of building materials [-35%, certainly reflecting the marked deterioration in construction activity], the textile industry [-15%] and the paper, cardboard and printing industry [-22%].

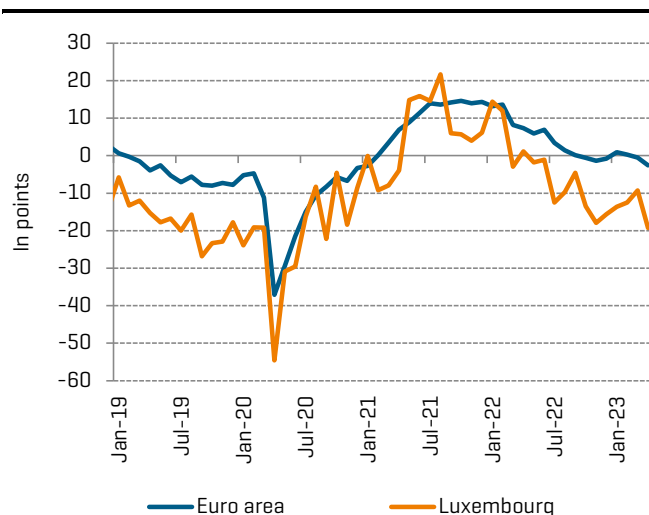
Metallurgical production (notably steel and primary processing of steel and non-ferrous metals) declined in 2022 but the results for early 2023 indicate a net recovery. On the other hand, glass and plastic products continued to trend downward in early 2023.

No improvement in sight for Q2

In general, economic surveys (based on data recorded up to April) point to trends that were still unfavourable for industrial activity in early spring 2023. However, morale among Luxembourg's manufacturers picked up somewhat in Q1, but fell back again in April, particularly in terms of opinions on order books and the outlook for production.

Supply difficulties have largely faded, contributing (alongside the fall in some commodity prices) to a marked slowdown in producer prices, which should continue over the next few months.

CONFIDENCE INDICATORS IN INDUSTRY



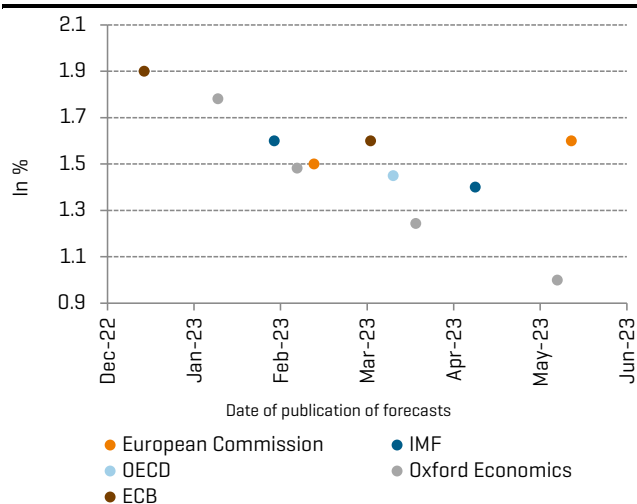
Sources: Eurostat, STATEC (last updated April 2023)

In March 2023, producer prices were up by just 10% over one year, much lower than in Q2 2022 (around +30% over one year). Although there are fewer supply difficulties, demand remains weak: more than 50% of the surveyed manufacturers reported demand difficulties at the start of Q2, lower than in Q1 (60%) but much higher than in late 2021/early 2022 (when they were only around 20%).

However, employment in the sector continued to grow steadily over the first months of the year, but this could not last, as the outlook for industrial hiring (gathered in the economic surveys) continued to deteriorate up until April. The proportion of companies citing recruitment difficulties has also fallen (to around 20%) after peaking in Q3 2022 (at 30%).

International

EURO-AREA GDP GROWTH FORECASTS FOR 2024



Sources: See graph

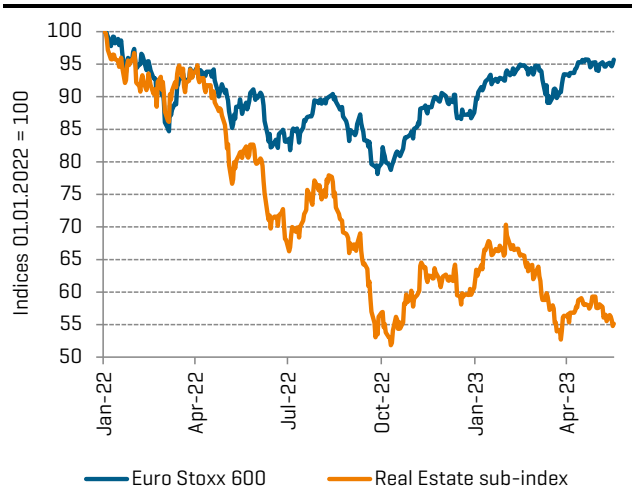
Growth revised upwards for 2023, downwards for 2024

Better than expected economic activity, inflation and labour market indicators in late 2022, early 2023 [see Conjoncture Flash of April] prompted international organisations to slightly upgrade their forecasts for euro-area growth in 2023 [with higher than expected growth carry-over]. Growth in activity is nevertheless set to remain modest, with growth of 0.8% to 1.1% forecast for the year [compared to 0.7% to 0.9% in the February projections].

On the other hand, several downside risks weigh on the recovery forecast for 2024: delayed impact of tighter lending terms, deteriorating foreign trade, tensions on sovereign debts, escalation of the war in Ukraine and persistently high inflation. Most forecasts have thus been revised downwards for next year, except those of the European Commission [published on 15 May] which are much more optimistic than the others [for 2023 and 2024]. The predictions vary from 1.0% to 1.6% growth for 2024 [against a range of 1.5% to 1.9% last winter].

Financial environment

EUROPEAN STOCK MARKET INDICES



Source: Macrobond

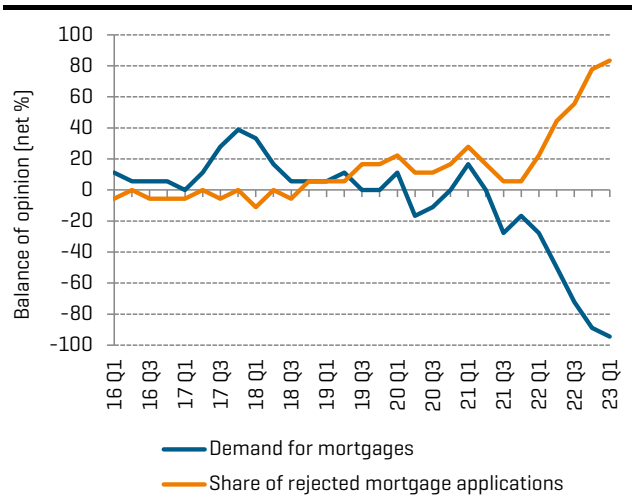
Falling real estate valuations on the stock market

Although the European stock index Euro Stoxx 600 has been on an upward trajectory since late 2022, its recovery was disrupted in March by setbacks in the banking sector and it has been stabilising since. In mid-May, it nevertheless posted a 10% increase over one year. The sector in the index with the biggest drop over the last 12 months is real estate [-32%] which is suffering from rising interest rates, falling transactions and a downturn in house prices.

Real estate funds domiciled in Luxembourg account for 5% of non-money market funds under management and 13% of European real estate funds. Assets in these funds rose six-fold between 2012 and 2021 in Luxembourg [three-fold in the euro area] but have fallen sharply since late 2022 (down EUR 13 billion between September 2022 and March 2023). The deteriorating outlook for the real estate market and the massive withdrawals of UK funds have prompted the European Central Bank to examine the situation in the euro area and urge management companies to strengthen their liquidity management tools to limit the risks of disruption of financial stability.

Real estate

MORTGAGE APPLICATIONS IN LUXEMBOURG



Source: ECB (bank lending survey), moving average over three quarters

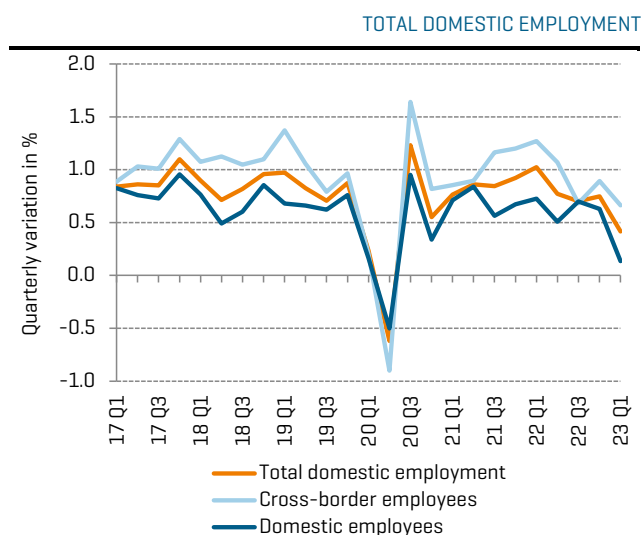
Mortgages fall sharply

After years of low interest rates and relatively easy access to credit, mortgage rates have been rising sharply since 2022. In early 2023, they rose more than 2 percentage points in the space of a year. Banks have also tightened mortgage lending terms, a trend that already started with the health crisis and which has intensified since.

These developments have had direct consequences on the number of mortgages demanded and secured by households. On the one hand, their borrowing capacity is reduced, and on the other hand, some households may be putting off purchasing a home until interest rates drop, which is expected in 2024, especially as property prices are now falling.

In the bank lending survey, more and more banks report a drop in mortgage applications and the balance of opinions has deteriorated markedly since Q2 2022. In addition, the proportion of unsuccessful loan applications is increasing for all seven banks surveyed in Luxembourg. Overall, new mortgage loans granted to households fell by around 35% over one year in Q1 2023.

Labour market



Sources: IGSS, STATEC [seasonally adjusted data]

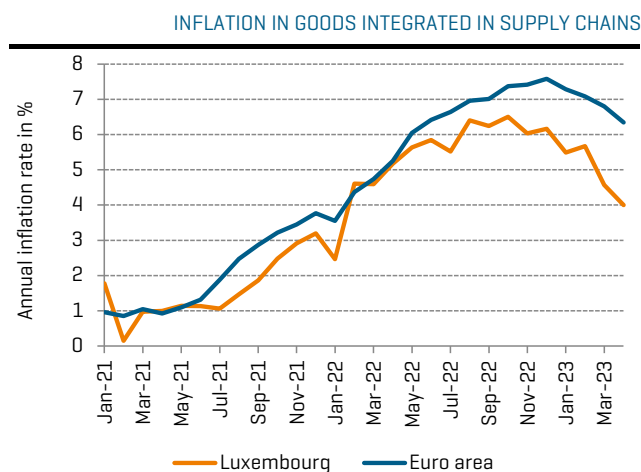
Weak growth in employment in Q1 2023

While employment has been slowing slightly, the first quarter of 2023 brought a more pronounced slowdown, with only +0.4% over one quarter (provisional data), down from +0.8% in the last quarter of 2022.

This change is due mainly to a sharp slowdown in business services (from +0.9% over one quarter in Q4 2022 to +0.2% in Q1 2023, particularly in temporary work, commonly used in construction) and in construction itself (from +0.3% to -0.1%). This slowing trend can also be seen in most other sectors, with the exception of accommodation and food services and health. This weakening in employment seems to be more pronounced among residents (from +0.6% to +0.2%) than among cross-border commuters (from +0.9% to +0.7%).

Conversely, employment in the euro area in early 2023 was better than expected, up 0.6% over one quarter (first estimate), from +0.3% over the last two quarters of 2022. This development could be linked to solid economic performance in southern countries in Q1 2023 (GDP was up by 1.6% over one quarter in Portugal, by 0.5% in Spain and by 0.5% in Italy), in particular following a strong recovery in tourism.

Inflation 1/2



Sources: STATEC, Eurostat. Calculations: STATEC.

Note: The Global Supply Chains CPI includes the following consumer goods: furniture and fixtures, major household appliances, small household appliances, motor vehicles, motorcycles, bicycles, spare parts and accessories, telephone and fax equipment, computer and sports equipment, camping and outdoor leisure goods and equipment.

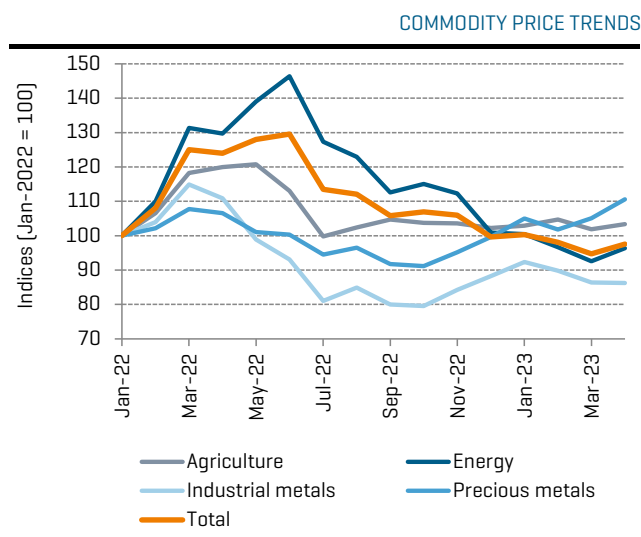
Supply chains ease

After peaking at the start of the year, inflation in non-energy industrial goods fell back to 5.4% in April 2023 in the Grand Duchy, its lowest level for six months. In the euro area, the inflation rate in April 2023 was lower than in March (6.2% against 6.6%).

This slowdown was widespread in Luxembourg and the euro area where respectively 60% and 74% of products recorded a lower inflation rate in April 2023 than in March 2023 (against 40% and 26% respectively a year earlier).

In general, this easing is due to the recovery in global production and in particular the end of the zero-Covid policy in China. Since December, in both the Grand Duchy and in the euro area, there has been a sharp decline in inflation of consumer goods whose production is highly integrated into supply chains.

Inflation 2/2



Source: Macrobond

Less pressure on commodity prices

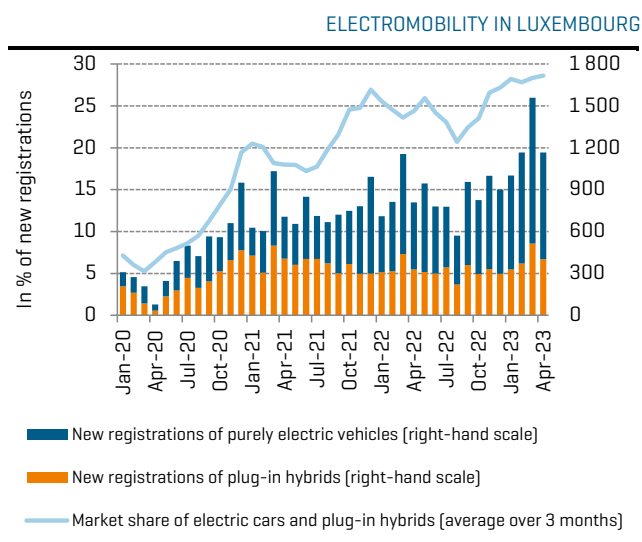
In April 2023, prices for all commodity categories were below or close to levels in January 2022. Rising precious metal prices, fuelled by hedging by investors worried about the default risk in the United States, are an exception.

Energy prices have fallen sharply since peaking in June 2022, as tensions over energy supply ease in Europe. The price of agricultural raw materials has stabilised since the second half of 2022, close to levels seen before the war in Ukraine.

Industrial metals, on the other hand, have lost around 15% of their value compared to January 2022. This reflects lower industrial demand amid a slowing global economy. However, this trend could be reversed as the Chinese economy recovers.

Energy

Electromobility continues to expand



Source: SNCA

From January to April, registrations of fully electric cars rose more than 55% year-on-year, and these cars now account for almost 20% of all new registrations in Luxembourg. However, new registrations of plug-in hybrid cars have remained relatively stable since the end of 2020. Their market share even decreased slightly compared to the previous two years, reaching only 9% in the first four months of 2023.

The decoupling between the market shares of fully electric cars and plug-in hybrids is not as marked within the European Union (13% for the former and 10% for the latter in 2022). This can be explained by the expiry of subsidies in Luxembourg for plug-in hybrids at the end of 2021, while fully electric cars have continued to benefit from subsidies of up to EUR 8 000.

In general, the automotive sector seems to be recovering after a difficult period marked by a shortage of microchips. Registrations rebounded by 18% in the first four months of this year compared to 2022.

Trend chart

	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-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	-1.8	1.2	-2.0	-1.6	-6.3	-8.2	-3.0	...	...	-5.8	3.7
Construction output per working day, in volume	0.2	0.5	-1.7	1.2	15.9	-11.9	0.6	...	...	0.4	-0.9
Turnover by volume of total retail trade	-0.2	5.0	-3.0	-1.6	-1.3	-2.5	-3.1	-4.3	...	-3.4	0.4
Prices, wages											
Consumer price index (NCPI)	6.8	6.9	6.9	5.9	5.4	4.8	4.3	3.6	3.7	3.9	6.6
Underlying inflation	5.1	5.2	5.1	4.9	4.6	4.8	4.8	4.7	4.9	4.8	4.0
Oil product index	36.0	37.4	35.2	20.9	15.8	3.9	-3.5	-11.4	-13.5	-9.6	56.0
Industrial producer price index	25.9	22.5	23.0	20.3	19.0	17.3	13.1	9.8	...	13.3	25.0
Construction price index ¹	14.9	14.9	15.9	15.9	15.9	...	...	...	...	15.9	9.3
Average wage bill, per person (National accounts)	5.6	5.6	2.0	2.0	2.0	...	...	...	...	2.0	6.2
Foreign trade											
Exports of goods [volume]	2.0	-1.5	-1.2	-1.5	-10.5	1.4	-2.0	...	...	-3.8	2.0
Imports of goods [volume]	8.4	1.3	-8.6	0.7	-3.1	2.8	-0.4	...	...	-0.3	3.6
Employment, unemployment											
Domestic number of employees	3.4	3.4	3.3	3.2	3.4	2.8	3.0	2.7	2.5	2.7	3.5
National employment	2.7	2.6	2.5	2.5	2.6	2.2	2.3	2.1	2.2	2.2	2.7
Unemployment rate [% of working population, seas. adj.]	4.8	4.8	4.9	4.9	4.8	4.9	4.9	4.9	4.9	4.9	4.8

Source: STATEC

¹ Estimations based on half-yearly data

Indicators

	Quarterly variation in %					
	2021 Q4	2022 Q1	2022 Q2	2022 Q3	2022 Q4	2023 Q1
Eurozone - real GDP growth [European Commission]	0.6	0.6	0.9	0.4	0.0	0.1
Luxembourg - real GDP growth [STATEC]	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 01/04/2023]: EUR 2 508.24	Consumer price index [04/2023] - base January 1 st 1948: 987.60					
Current account balance [2022 Q4]: EUR -1 058 million	Half-yearly average of the index linked to base as at January 1 st 1948 [04/2023] : 972.61					
Resident population [01/01/2023]: 660 809	Estimated deadline for next salary indexation: Q3 2023					

For further information:

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

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