CONJONCTURE FLASH

Economy and prices

MONTHLY PUBLICATION ON THE STATE OF LUXEMBOURG'S ECONOMY – **MARCH 2024**

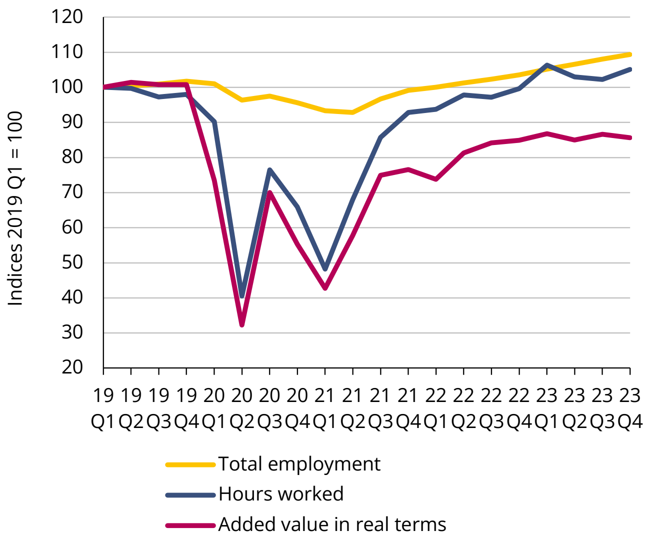
ACCOMMODATION AND FOOD SERVICE ACTIVITIES: A LUKEWARM POST-PANDEMIC RECOVERY

Value added in the accommodation & food service sector has recovered significantly after being severely affected by the pandemic. However, it is still struggling to return to pre-crisis levels, unlike employment in the sector, which has risen beyond it. Employment in the accommodation & food service sector remained buoyant towards the end of 2023 but the outlook for the current year is less favourable.

As in all European countries, the accommodation & food service sector in Luxembourg (hotels, restaurants and cafés) was severely affected by the pandemic. In 2020, value added in the sector fell by just over 40% in Luxembourg, on a par with most other eurozone Member States (with the notable exceptions of Malta and Cyprus, where it fell around 70%).[1] The first half of 2021 saw major restrictions imposed once again on the catering sector, resulting in a recovery in value added of just 9% – less than half that seen in the eurozone). With virtually all health restrictions lifted by spring 2022, activity returned to near-normal levels (+30% in Luxembourg and +40% in the eurozone over the year as a whole), although it did not return to pre-crisis levels (down 20% in Luxembourg and down 10% in the eurozone compared with 2019). Value added in the accommodation & food service sector in Luxembourg grew by 6% in 2023 but has stagnated since Q2 according to quarterly data (see adjacent graph).[2]

Employment in the accommodation & food service sector was much less affected during the pandemic than value added, largely due to the use of short-time work,[3] which enabled a large proportion of employees to remain in work. Hours worked, on the other hand, have fallen back in line with value added, although they have tended to increase more since the end of 2021. This could indicate a fall in productivity, but this finding is only provisional (value added data for 2022 and 2023 may be subject to significant subsequent revisions).

ACTIVITY AND EMPLOYMENT IN THE ACCOMMODATION & FOOD SERVICE SECTOR



Source: STATEC (National accounts – seasonally adjusted data)

Although the number of arrivals rose by 4% in accommodation establishments in Luxembourg last year, the number of overnight stays fell by 4%, especially during the second half of the year (when employment also tended to decline).[5]

Employment remained well oriented in 2023 but negative signals on the rise in recent months

Employment in the accommodation & food service sector as a whole remained relatively dynamic in 2023 (while most other sectors slowed – see below), but against a backdrop of contrasting sectoral trends. Employment evolutions were favourable in restaurants, for caterers and mass catering, but unfavourable for accommodation and licensed premises.[4]

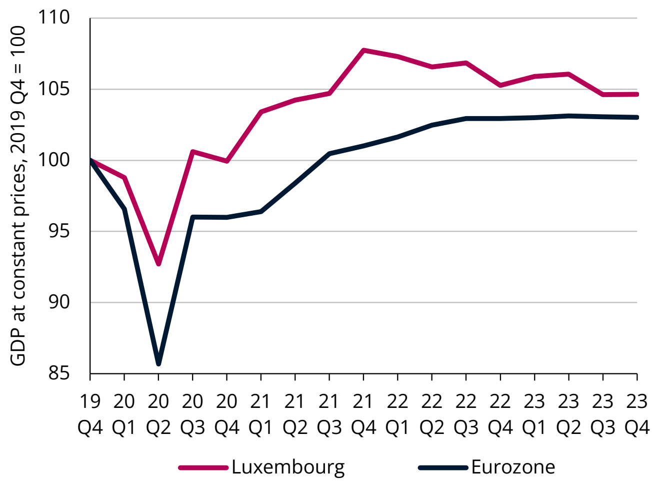
The buoyant employment situation in the accommodation & food service sector is unlikely to last this year. Hours worked have stabilised in recent quarters while the vacancy rate (job vacancies/number of positions occupied and to be filled) in this sector fell continuously throughout 2023,[6] a phenomenon also observed across the eurozone. According to business surveys, the food service industry has lost confidence since mid-2023 due in particular to more negative opinions about both recent and future demand.

[1] These two island states were particularly hard hit by the collapse in tourist arrivals by air.
[2] Detailed data of the accommodation & food service sector in other eurozone countries – whether for value added or employment – are not yet available for 2023 (they are aggregated with data on trade and transport).
[3] From March 2020 to mid-2021, companies in the sector had access to a special short-time work scheme introduced in response to the COVID-19 crisis.
[4] By late 2023, the workforce in hotel and catering was some 6% higher than pre-pandemic: +15% for caterers and mass catering and +9% in restaurants, but -3% for accommodation and -8% in licensed premises.
[5] Based on seasonally adjusted data.
[6] It reached 2.0% in Q4 2023, after peaking at 4.0% in Q2 2022.

STATEC

Activity

REAL GDP, LUXEMBOURG VS. EUROZONE



Sources: Eurostat, STATEC (seasonally adjusted data)

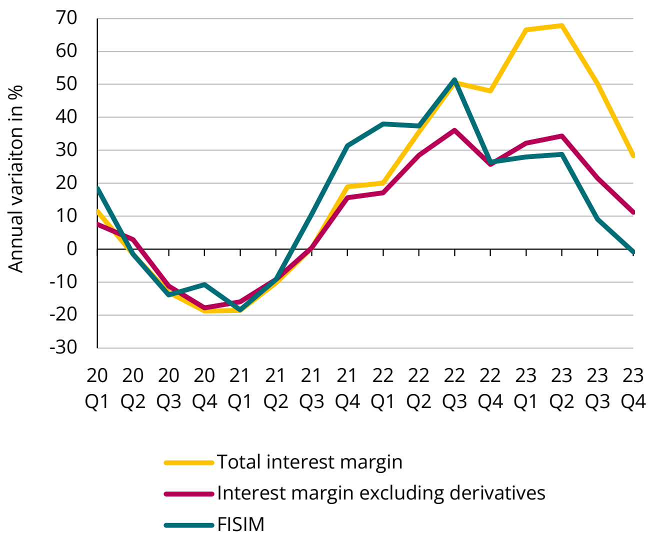
Recession confirmed in Luxembourg in 2023

Real GDP in Luxembourg stabilised in Q4 2023 (0.0% over one quarter, down 0.6% over one year). Based on data from previous quarters, it declined by 1.1% over the last year as a whole. Luxembourg was thus one of the eurozone countries to experience a recession in 2023, alongside Germany (-0.1%), Estonia (-3.1%), Ireland (-3.3%), Austria (-0.7%), Finland (-1.0%) and Lithuania (-0.3%).

This downturn in activity in Luxembourg in 2023 was largely due to the poor performance in the financial sector, where value added fell by 7% in real terms (due in particular to the effect of banking results as reported according to national accounting standards – see below). However, as a whole, the other branches of the economy have experienced a marked slowdown, with growth of just 0.7%, after a rise of 3.4% in 2022 (as has GDP in the eurozone, which rose by just 0.5% in 2023, after +3.5% in 2022). The outlook for Q1 2024 is slightly better, with business surveys showing a slight improvement in business confidence.

Financial sector

INTEREST MARGINS OF BANKS IN LUXEMBOURG



Sources: CSSF, STATEC (decumulated data)

Banking results boosted by interest income

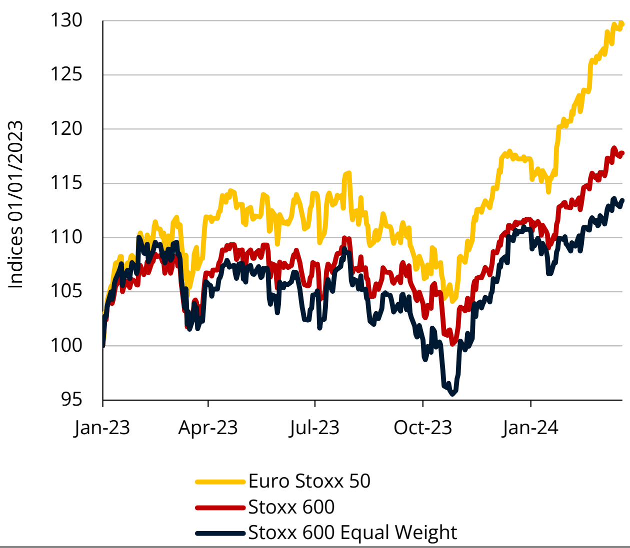
In 2023, net income in the Luxembourg banking sector grew an exceptional 67% year-on-year, largely as a result of a strong recovery in interest margins and a significant fall in provisions to cover risks (linked in 2022 to commitments to Russian counterparties).

Nearly 80% of banks saw their interest margins increase, with a total rise of 50% over the year. The interest margin is measured as the difference between received and paid interest on loans, deposits, receivables, derivatives and other financial assets. The latter are not negligible, as interest on derivatives and financial assets contributed to more than half the growth in margins in 2023.

Gross value added (GVA) for banks does not include interest on derivatives nor provisions for risks. Financial intermediation services indirectly measured (FISIM) taken into account in GVA are interest rate margins on loans and deposits from households and non-financial businesses. As a result, banks' GVA (at current prices) grew by just 8% in 2023 (after +20% in 2022). Excluding price effects (specifically in relation to interest rates), GVA fell by 9% in volume terms.

Financial environment

EUROPEAN STOCK MARKET INDICES



Source: Macrobond

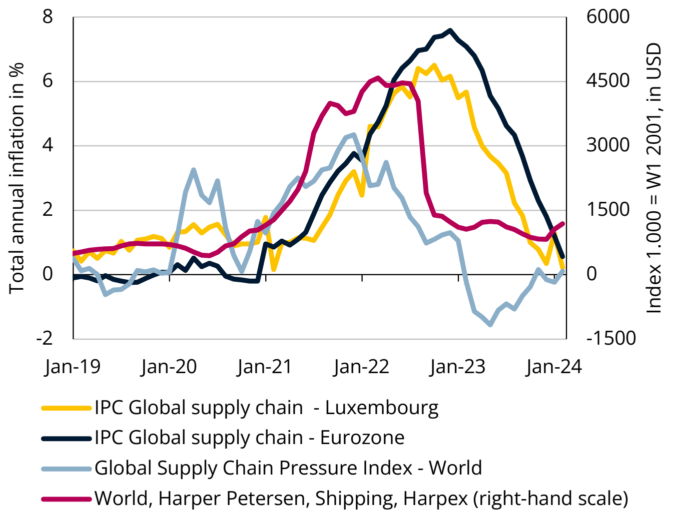
Stock markets continue to rise

European stock market indices have risen sharply since the European Central Bank last raised interest rates in September 2023. Over Q1 2024 (based on data observed up to 20 March), the Euro Stoxx 50 rose by 11% (+21% over one year) and the Stoxx 600 Europe by 5% (+15% over one year), with the latter reaching a record high. The indices were buoyed by expectations of a more accommodating monetary policy (against a backdrop of falling inflation), by the flight into assets linked to artificial intelligence and, above all, by the excellent performance of a number of stocks.

Strong growth in the valuations and capitalisations of a handful of companies may give rise to fears of a concentration of risk. The equal-weight Stoxx 600 index rose by just 2% in Q1 2024, illustrating the importance of the contribution made by large caps to the rise in the index. The eleven largest European companies by market capitalisation, known as the GRANOLAS, are GSK, Roche, ASML, Nestlé, Novartis, Novo Nordisk, L'Oréal, LVMH, AstraZeneca, SAP and Sanofi.

Inflation

INFLATION OF GOODS IN SUPPLY CHAINS



Sources: Eurostat, Macrobond, Calculations: STATEC

Note: The IPC global supply chains include the following consumer goods: furniture and furnishings, major household appliances, small household appliances, automobiles, motorbikes, bicycles, spare parts and accessories, telephone and fax equipment, IT equipment and articles and equipment for sports, camping and outdoor leisure.

Conflict in the Red Sea: little impact on inflation so far

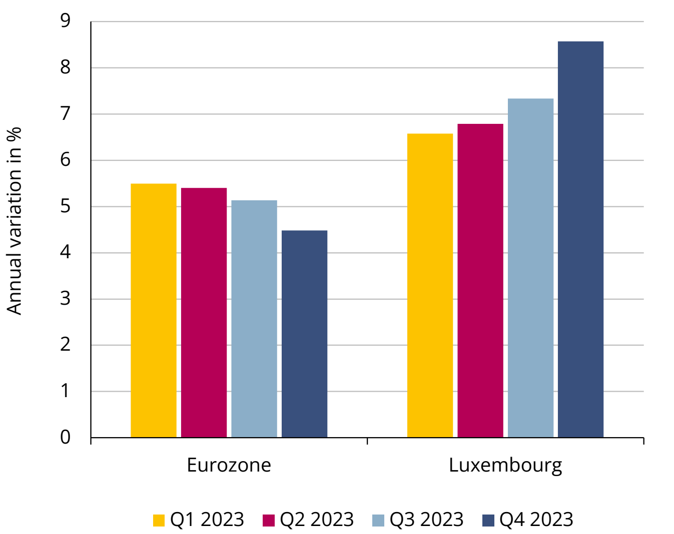
Pressure on global supply chains is rising as a result of the conflict in the Middle East. According to the Harpex index, the cost of maritime transport rose by 44% between December and February. This reflects the growing instability caused by Houthi attacks in the Red Sea.

This surge in freight prices is not unprecedented. One may remember the surge in shipping costs in 2021, following a shortage of containers and a broken-down vessel blocking the Suez Canal, a situation which normalized towards the end of 2022. However, unlike in 2021, current increases are not (yet) reflected in prices for goods integrated into global supply chains. This is due to the delay in passing freight costs on to consumer prices, but also to a much lower overall demand than in 2021 (the post-Covid year) and certain substitution effects (other means of transport/travel).

More generally, goods related to maritime transport account for a moderate share of the consumer price index. As a result, both the European Commission and Oxford Economics estimate that the impact of spiralling transport costs on inflation in the eurozone will be limited to around +0.3 percentage points.

Wages

COMPENSATION PER EMPLOYEE



Sources: Eurostat, STATEC

An acceleration in wage costs against a backdrop of indexation

In Luxembourg, nominal compensation per employee rose by 8.6% year-on-year in Q4 2023, continuing the growth observed in previous quarters. This contrasts with the trend in the eurozone, where wages have been slowing (+4.5% year-on-year in Q4 2023). However, a slowdown in compensation per employee is also likely in Luxembourg in 2024, due in particular to the compensation of the third index bracket from 2023 (via a reduction in employer contributions) and a lower increase in the sliding scale.

The increase in compensation per employee in Luxembourg in 2023 was mainly due to indexation. In Q4, the impact of the successive index brackets was 7.7 percentage points (out of total growth of 8.6% in compensation per employee). This impact increased over the year, while other factors, such as changes in base salary, contributed less.

In Luxembourg, the sectors with the strongest compensation per employee growth in Q4 included in particular those in which wage bargaining agreements had been concluded (e.g. the public sector), while construction and real estate activities saw weaker growth in line with the difficulties in those sectors.

Labour market

EMPLOYMENT TRENDS

	Eurozone			Luxembourg		
	2022	2023	23-22	2022	2023	23-22
	Change in %		*% pts*	*Change in %*		*% pts*
Real estate activities	2.8	1.6	-1.1	9.0	1.0	-8.0
Construction	3.2	1.5	-1.7	2.7	-0.9	-3.6
Information & Comm.	5.8	3.5	-2.3	4.4	1.4	-3.1
Business services	3.0	1.6	-1.4	4.7	2.4	-2.2
Industry	1.2	0.9	-0.3	2.0	0.2	-1.8
Commerce, Transp., Accomm. & food service activities	3.4	1.9	-1.5	3.4	2.8	-0.6
Financial sector	0.0	1.0	1.0	3.6	3.3	-0.4
Pub. adm., def., educ., health	1.6	1.4	-0.1	2.6	3.6	1.0
Total	**2.3**	**1.4**	**-0.8**	**3.4**	**2.2**	**-1.1**

Sources: Eurostat, STATEC

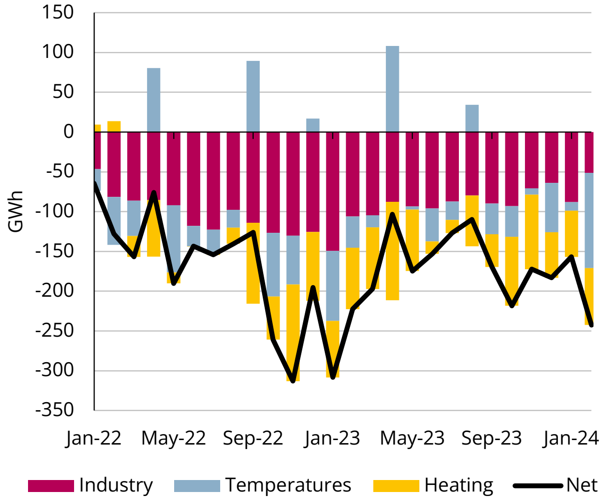
Marked slowdown in employment in Luxembourg

Last year, employment growth was still stronger in Luxembourg (+2.2%) than in the eurozone (+1.4%). However, the slowdown relative to 2022 was much more marked in Luxembourg in virtually all sectors. This was particularly the case for real estate and construction. Alongside construction, business services contributed most to the slowdown in Luxembourg (in the eurozone, it were construction and "trade, transport and accommodation and food service activities"). On the other hand, rising employment in public administration, defence, education and health largely underpinned overall workforce growth in 2023 (contributing 0.8 percentage point).

At the end of 2023, following a sharp slowdown, the pace of job creation in Luxembourg (with +0.4% over one quarter in Q4 or +1.7% over one year) was very similar to that of the eurozone (+0.3% over one quarter). Given the trajectory of GDP over the last few quarters and poor performance in other leading employment indicators (particularly job vacancies and overtime), the slowdown in employment is likely to continue through 2024.

Energy

GAS SAVINGS COMPARED TO THE 2016-2021 PERIOD



Sources: Creos, STATEC

Industry mainly responsible for gas savings in Luxembourg

As a result of the energy crisis, Luxembourg has considerably reduced its gas consumption since the beginning of 2022, with a 23% drop compared to the 2016-2021 period. This fall in consumption was mainly attributable (55%) to a decline in gas consumption in the industrial sector. However, the downward trend in manufacturing has stalled somewhat in recent months as a major conversion project in the glass industry reached completion.

Outside industry, gas is mainly used for heating, and the milder temperatures in 2022 and 2023 accounted for almost 15% of the fall in gas consumption. The remaining 30% are attributable to heating-related energy savings. These have risen since autumn 2022, coinciding with the latest hike in gas prices (before these were capped following the tripartite agreements) and the launch of campaigns to raise awareness at national and European levels.

Dashboard

	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	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	-6.3	-6.8	-5.5	-10.3	-3.9	-4.9	-2.4	...	...	-3.8	-3.3
Construction output per working day, in volume	-0.5	-1.2	6.6	-3.3	-1.9	-5.8	4.2	...	...	-1.6	3.5
Turnover by volume of total retail trade	3.1	-1.6	-2.5	-4.1	-0.3	-0.2	-5.1	...	...	-2.1	-2.1
Prices, wages											
Consumer price index (NCPI)	3.2	3.7	4.2	4.0	3.2	3.0	3.5	3.4	3.2	3.4	4.8
Underlying inflation	4.7	4.9	4.5	4.3	4.2	3.9	4.0	4.0	3.4	3.8	4.7
Oil product index	-17.4	-12.8	-1.3	-0.6	-10.8	-9.2	-4.4	-4.4	1.1	-2.6	4.8
Industrial producer price index	-3.8	1.9	1.6	1.6	-2.3	-1.3	-1.5	-2.7	...	-1.9	19.0
Construction price index[1]	12.3	9.3	9.3	9.3	6.4	6.4	6.4	...	...	6.4	15.9
Average wage bill, per person (National accounts)	6.8	7.3	7.3	7.3	8.6	8.6	8.6	...	...	8.6	2.9
Foreign trade											
Exports of goods (volume)	-0.9	4.6	-3.7	-1.2	2.5	-0.2	-5.3	...	...	-0.8	-5.2
Imports of goods (volume)	2.0	-1.5	2.0	-5.4	-1.9	-3.4	-5.7	...	...	-3.6	-15.7
Employment, unemployment											
Domestic number of employees	2.2	1.9	1.9	1.7	1.6	1.5	1.6	1.3	1.1	1.3	2.9
National employment	1.9	1.7	1.5	1.5	1.5	1.4	1.4	1.1	1.0	1.2	2.2
Unemployment rate (% of working population, seas. adj.)	5.2	5.2	5.3	5.5	5.6	5.7	5.5	5.6	5.6	5.5	4.9

Source: STATEC
[1] Estimates based on half-yearly data

Indicators

	% change on previous quarter					
	2022 Q3	**2022 Q4**	**2023 Q1**	**2023 Q2**	**2023 Q3**	**2023 Q4**
Eurozone - Real GDP growth (European Commission)	0.5	-0.1	0.1	0.1	-0.1	0.0
Luxembourg - Real GDP growth (STATEC)	0.3	-1.5	0.6	0.2	-1.4	0.0
	Annual variation in %					
	2019	**2020**	**2021**	**2022**	**2023**	**Forecast 2024**
Luxembourg - Real GDP growth (STATEC)	2.9	-0.9	7.2	1.4	-1.1	2.0

GDP at current prices (2023)	Minimum monthly wage (01/09/2023)	Consumer price index (02/2024)	Current account balance (Q3 2023)	Resident population (01/01/2023)
EUR **79 310** million	EUR **2 570.93**	**1 006.03**	EUR **2 687** million	**660 809**
	Next scheduled wage indexation: **Q4 2024**	Index half-yearly average: **999.69**		

STATEC

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