

RECOVERY UNDER THREAT

Second-quarter GDP growth in the eurozone provided further evidence of the recovery observed in the previous quarter. However, more negative signals are beginning to emerge as we enter the summer (including in Luxembourg), pointing to a less buoyant climate than previously expected.

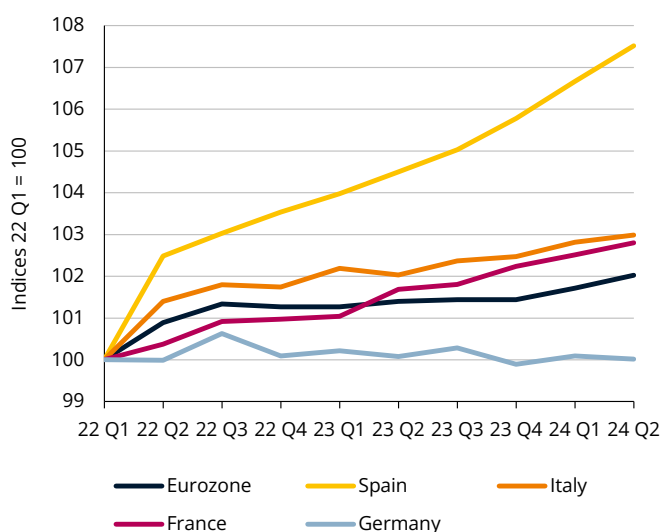
In Q2 2024, GDP in the eurozone increased by 0.3% over one quarter, posting the same performance as in Q1. Thus, the eurozone is once again in a recovery phase in the first half of the year, after experiencing a period of stagnation that began in mid-2022 and continued until the end of 2023.

However, the results vary from one Member State to another and, in particular, from one heavyweight to another. Among the heavyweights, Spain remains in the lead (+0.8% over one quarter in both Q1 and Q2), buoyed by exports (especially services, thanks to high tourist numbers) and the various components of domestic demand (private and public consumption, investment). In Q2, Spain contributed to almost 30% of the growth recorded in the eurozone, even though its GDP represents only around 10% of that of the monetary union. At the back of the pack is Germany, where GDP fell again in Q2 (-0.1% over the quarter, after +0.2% in Q1). The eurozone's leading economy¹ is said to have suffered a marked downturn in investment² (machinery and equipment, construction), while its industrial output is still offering no signs of recovery, and its exports have fallen back (after improving in Q1). France and Italy are in the middle of the pack (with results very close to those for the eurozone as a whole)³.

Signs of a slowdown in business surveys

The increase in activity experienced in the first part of 2024 may not last. More recently, the results of business surveys have tended to deteriorate. The economic sentiment indicator for the eurozone (European Commission) fell in June and July - for both industry and services - as did the PMI indices⁴. However, the results of the August PMI survey, which have already been released, point to a further increase in activity, but this is essentially reflected in the French services sector (which may have benefited from a temporary "Olympic Games" effect). In Luxembourg, confidence indicators also deteriorated sharply in July in industry (to the lowest level for seven months), retail trade (also at the lowest level for seven months) and other non-financial services (at the lowest level for ten months), whereas they had tended to recover in the first half of the year. In the construction industry, on the other hand, Luxembourg contractors have become slightly more optimistic in recent months, although their morale remains below its long-term average⁵ (and well below its level at the start of 2022).

MAIN ECONOMIES OF THE EUROZONE - REAL GDP



Source: Eurostat (seasonally adjusted data).

In addition to the marked geopolitical tensions (and the absence of any tangible signs of a way out of the crisis in the Russia/Ukraine and Israel/Hamas conflicts), the international climate remains tarnished by uncertainties about the economic outlook of the world's two leading economic powers. In the United States, the publication of disappointing employment data at the beginning of August and the significant fall in the ISM manufacturing activity index contributed to the panic on the financial markets (see below) and rekindled fears of a recession. Better-than-expected results for retail sales and new jobless claims then tempered these concerns. In China, Q2 was characterised by a marked slowdown in GDP (+0.7% over the quarter, compared with +1.4% on average over the previous three quarters), and the PMI indices contracted in June and July, pointing to modest growth in activity in industry and services in Q3.

¹ Germany is also Luxembourg's leading export market, for both goods and services.

² https://www.destatis.de/EN/Press/2024/07/PE24_289_811.html

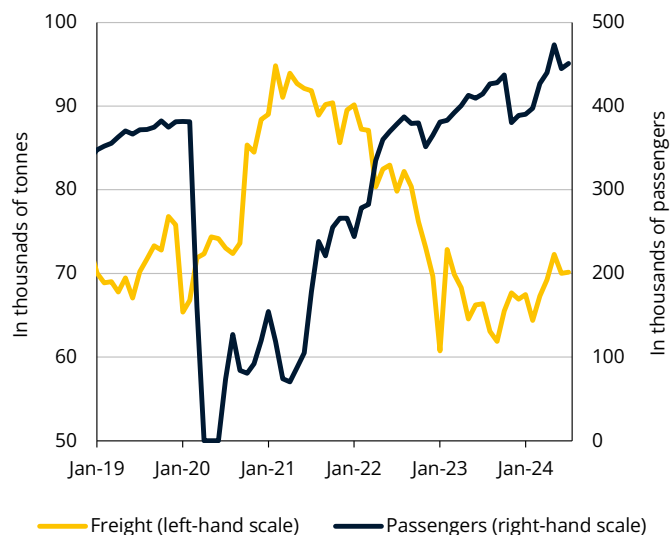
³ There was also a marked recovery in GDP in the Netherlands, the eurozone's fifth largest economy, with a quarter-on-quarter increase of +1.0% (after -0.3% in Q1), thanks mainly to the exports of goods (chemical industry products, food and drink, and machinery and equipment).

⁴ <https://www.pmi.spglobal.com/>

⁵ It hit a low in April 2024 and gradually recovered over the following three months. It reached -19.0 points in July, compared with a long-term average of -15 points (and a record high of +35 points in February 2022).

Activity

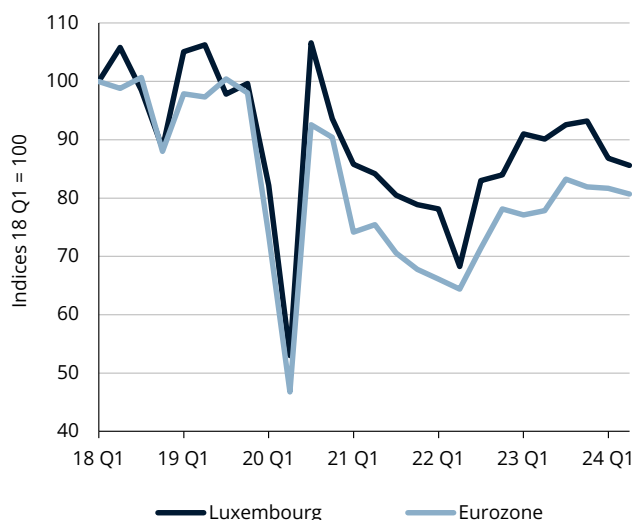
AIR TRAFFIC AT FINDEL AIRPORT



Sources: ANA, STATEC (seasonally adjusted data)

Consumption

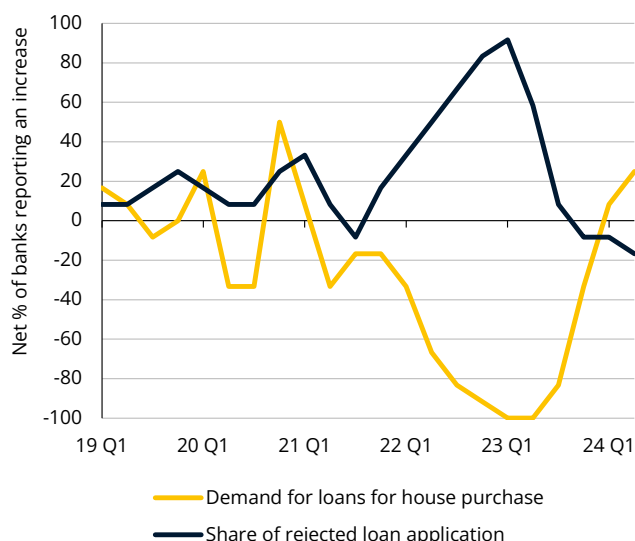
NEW REGISTRATIONS OF PRIVATE CARS



Sources: ACEA, SNCA, STATEC (seasonally adjusted data)

Real estate

BANK LENDING SURVEY



Sources: ECB, STATEC (data smoothed over 2 quarters)

Tailwinds benefit air transport

The number of passengers transported by air plummeted during the pandemic, but has since gradually recovered. In Luxembourg, numbers returned to their pre-pandemic level in 2022 and exceeded this level in 2023 (+10% compared to 2019), unlike in neighbouring countries where passenger numbers remain below pre-pandemic figures (-18% in Germany, -9% in Belgium and -5% in France). Despite a slight dip at the turn of 2023 and 2024, the number of passengers registered in Luxembourg has since resumed an upward trajectory (with an increase of around 8% over one year in the first seven months of 2024) and should exceed the 5 million mark this year (which would represent a doubling in the space of 10 years).

In the freight sector, Luxembourg benefited from a relatively high level of activity during the pandemic (especially compared with France and Germany), but this declined sharply in 2022 and more or less stabilised in 2023. At the start of 2024, Luxembourg's air freight traffic was back on a slight upward trend, recording an increase of around 3% on the previous year (over the first seven months).

Vehicle registrations struggling in Luxembourg

Over the first half of 2024 as a whole, passenger car sales rose by 4% year-on-year in the eurozone. The results vary from one Member State to another, with sales particularly buoyant (year-on-year) in Germany, Austria and the southern European countries. However, sales are in decline in the Netherlands, Belgium, Finland and Luxembourg (where they are down by around 5% compared with the first half of 2023). On the basis of seasonally adjusted data - see graph opposite - a peak appears to have been reached at the end of 2023 (although well below the levels seen before the pandemic) and has since given way to a decline.

In the commercial vehicle sector, Luxembourg registrations also lagged well behind the European trend in the first half of the year: -30% year-on-year for vans (compared with +15% in the EU), -40% for trucks (+3% in the EU). Only bus registrations bucked the trend (+42% in Luxembourg compared with +30% in the EU).

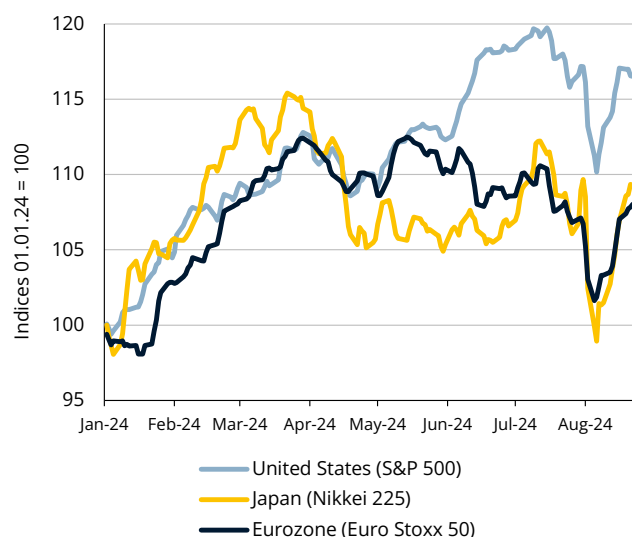
Mortgages recover

According to the bank lending survey, net demand for housing loans in Luxembourg has increased over the last two quarters, after almost three years of decline. At the same time, the proportion of applications rejected is falling. In the eurozone, banks have also reported an upturn in applications and, as in the Grand Duchy, they expect this trend to continue in Q3.

The amount of loans granted for residential property in Luxembourg rose by 9% year-on-year in Q2. This increase is entirely attributable to mortgages to non-developers, which grew strongly, while mortgages to developers collapsed in the first half of 2024 (the latter generally represent a minor share of all residential lending). Seasonally adjusted data indicates that the low point for mortgages granted to non-developers was reached in Q4 2023, and that it has been rising ever since. This echoes the rebound observed in property transactions over the same period (see Conjoncture Flash of July).

Financial environment

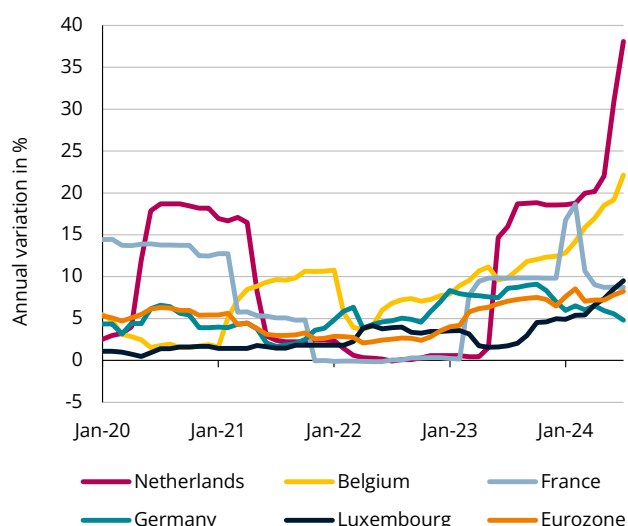
STOCK MARKET INDICES



Source: Macrobond (data in EUR, moving averages over three days)

Inflation

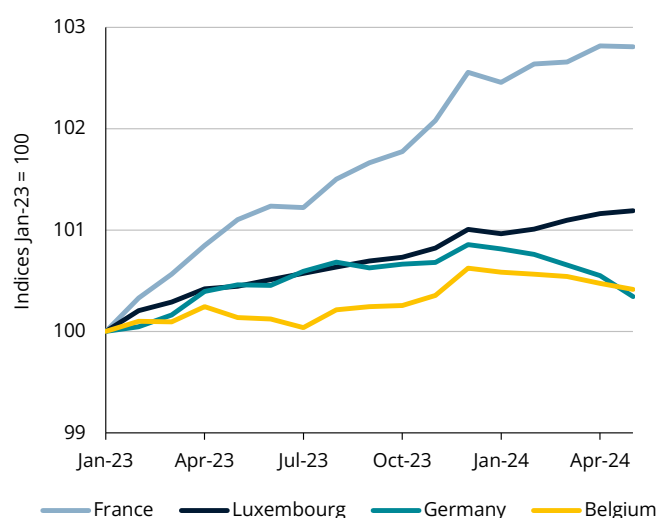
CONSUMER PRICES - TOBACCO



Source: Eurostat

Labour market

PAID EMPLOYMENT IN LUXEMBOURG BY COUNTRY OF RESIDENCE



Sources: IGSS, STATEC (seasonally adjusted data)

Roller-coaster ride for stock markets in August

Equity markets were extremely volatile, with a massive sell-off in the wake of the monetary policy meetings of the US Federal Reserve (Fed) and the Bank of Japan on 31 July. Three days later, the Japanese stock market index fell by 20%, while the benchmark American and European indices lost 6%. The fear index (VIX) reached a peak not seen since the pandemic.

These corrections are the result of two main factors: the Bank of Japan's surprise rate hike and the publication of disappointing US employment data, which heightened fears of recession against a backdrop of high interest rates. The downturn was amplified by the yen's sharp appreciation (linked to the rise in key interest rates), which led to the unwinding of carry trades (in which investors had borrowed in yen to invest in higher-yielding foreign assets). The Euro Stoxx was also caught up in the turmoil, having already lost ground since June due to political tensions in France (the European index is made up of 40% French companies).

However, valuations are recovering in all regions and sectors, supported overall by growth in corporate earnings.

Tobacco prices increase, especially in neighbouring countries

Tobacco prices have risen sharply in some eurozone countries in recent months. At 38%, the Netherlands recorded the biggest year-on-year rise in July, followed by Belgium (+22%), Latvia (+13%) and Luxembourg (+9.5%). This trend is mainly due to higher tobacco taxes in these countries. Excluding taxes, growth would have been between 2.5% and 6.0% in these four countries. In Luxembourg, as in France (+8.5%), the trend in tobacco prices over the last twelve months remains close to the European average (+8.3%).

However, the price of a packet of cigarettes remains much higher in France and Belgium (at around EUR 12 for a standard packet of 20 cigarettes, compared with EUR 9 in the Netherlands and EUR 8 in Germany), while prices remain comparatively very low in Luxembourg (EUR 6). The price gap with neighbouring countries, especially France, has widened considerably over the last seven years. This trend has a positive impact on Luxembourg's public revenues, via the excise duties levied on tobacco, which doubled between 2017 and 2023 (moreover, they have exceeded duties levied on road fuels since 2022), thanks in particular to sales to non-residents.

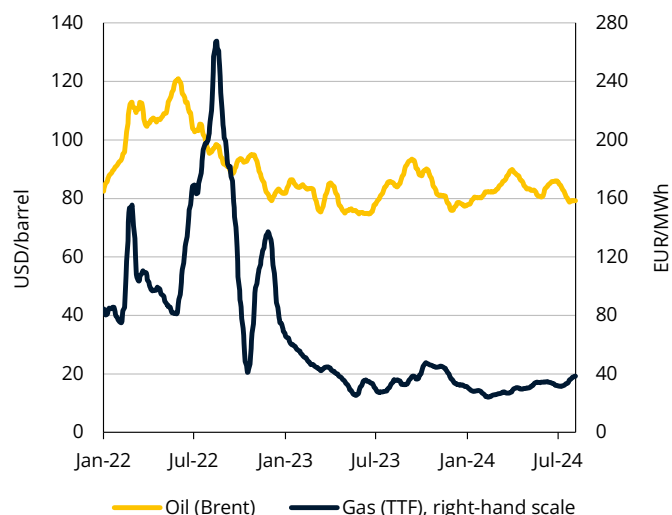
Decline in German and Belgian cross-border employment

The loss of employment momentum has varied since the start of the year depending on the country in which employees live. The number of cross-border workers from France and Luxembourg continues to rise, but at a slower rate, while the number of cross-border workers from Germany and Belgium has fallen (by -0.5 and -0.2% respectively between the end of 2023 and May 2024). Last year, the extent of the slowdown among cross-border workers (+2.2% after +4.0% in 2022) was more marked than that observed for residents (+1.7% after +2.6%), as cross-border employment reacts more strongly to cyclical fluctuations - and in this case to the fall in GDP in 2023. But the relative attractiveness of Luxembourg also depends on working conditions (gross salaries and taxation, access to teleworking, commuting times, etc.). In 2023, growth among French cross-border workers (+3.2%) remained slightly below its average for the last decade, while the rate of increase for German and Belgian nationals has more than halved (to just over 1%). Cross-border workers remain slightly dominant in the new jobs created last year (51%).

According to the preliminary data available up to July, there has been a slight recovery in cross-border employment (the trend is less clear for residents).

Energy

SPOT PRICES FOR OIL AND GAS



Source: Macrobond (moving averages over 14 days)

Oil and gas prices less volatile in 2024

Compared with the energy crisis in 2022, oil and gas prices have been relatively stable since mid-2023, despite persistent geopolitical tensions in Ukraine and the Middle East.

Gas prices have not risen above the 40 EUR/MWh mark in 2024, and appear to be less affected by events in Russia and Ukraine. However, it should be pointed out that the EU has significantly reduced its consumption (by 14% in 2022 and 8% in 2023) and has diversified its sources of gas supply. As a result, Europe has been able to reduce its imports of Russian gas by more than 70% compared with 2021. Storage facilities are well supplied as autumn approaches, with a fill level reaching almost 90%.

The price of oil has remained confined to a range of USD 70 to 90 per barrel, despite the unrest in the Middle East and OPEC+'s attempts to reduce production in order to boost prices. This fall in OPEC+ supply was more than offset by production increases in the United States, Canada, Brazil and Guyana.

Dashboard

	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-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	-5.5	-1.6	-4.3	-7.9	-0.9	-5.2	-1.4	...	...	-2.4	-4.9
Construction output per working day, in volume	-6.0	5.1	-6.3	-7.8	-4.7	-5.8	-2.9	...	...	-4.5	-1.0
Turnover by volume of total retail trade	-0.4	-0.4	-2.8	4.3	5.7	1.3	3.9	1.7	0.8	2.1	-0.2
Prices, wages											
Consumer price index (NCPI)	3.0	3.5	3.5	3.2	3.1	2.4	2.6	2.2	2.0	2.3	3.5
Underlying inflation	3.9	4.0	4.0	3.4	3.2	2.4	2.5	2.3	2.0	2.3	4.8
Oil product index	-9.2	-4.4	-4.4	1.1	1.0	3.5	4.2	0.5	1.3	2.0	-14.7
Industrial producer price index	-9.5	-9.4	-16.0	-15.7	-15.1	-12.1	-11.3	-10.6	...	-11.4	4.8
Construction price index ¹	6.4	6.4	4.0	4.0	4.0	1.7	1.7	1.7	...	1.7	12.3
Average wage bill, per person (National accounts)	8.7	8.7	5.2	5.2	5.2	...	...	...	...	5.2	6.6
Foreign trade											
Exports of goods (volume)	0.5	-6.9	0.3	1.1	-7.9	7.2	2.0	-2.5	...	2.1	-0.2
Imports of goods (volume)	3.3	0.5	9.4	6.3	-15.0	6.6	-0.1	-6.4	...	-0.1	3.5
Employment, unemployment											
Domestic number of employees	1.6	1.6	1.3	1.1	1.0	0.9	0.7	0.7	0.9	0.8	2.1
National employment	1.4	1.4	1.1	0.9	0.9	0.9	0.5	0.5	0.7	0.5	1.9
Unemployment rate (% of working population, seas. adj.)	5.7	5.5	5.6	5.6	5.6	5.6	5.7	5.7	5.8	5.7	5.2

Source: STATEC
seasonally adjusted, quarterly national accounts
1 Estimates based on half-yearly data

Indicators

	% change on previous quarter					
	2023 Q1	2023 Q2	2023 Q3	2023 Q4	2024 Q1	2024 Q2
Eurozone - Real GDP growth (European Commission)	0.0	0.1	0.0	0.0	0.3	0.3
Luxembourg - Real GDP growth (STATEC)	0.3	0.3	-1.3	0.0	0.5	-
	Annual variation in %					
	2020	2021	2022	2023	Forecast 2024	Forecast 2025
Luxembourg - Real GDP growth (STATEC)	-0.9	7.2	1.4	-1.1	1.5	3.0

GDP at current prices
(2023)



EUR 79 310 million

Minimum monthly wage
(01/09/2023)



EUR 2 570.93

Next scheduled wage
indexation:
Q4 2024

Consumer price index
(07/2024)



1005.87

Index half-yearly average:
1009.29

Current account
balance
(Q1 2024)



EUR 1 717 million

Resident population
(01/01/2024)



672 050

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