CONJONCTURE FLASH

Economy and prices

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

INDUSTRY IN A BAD PATCH

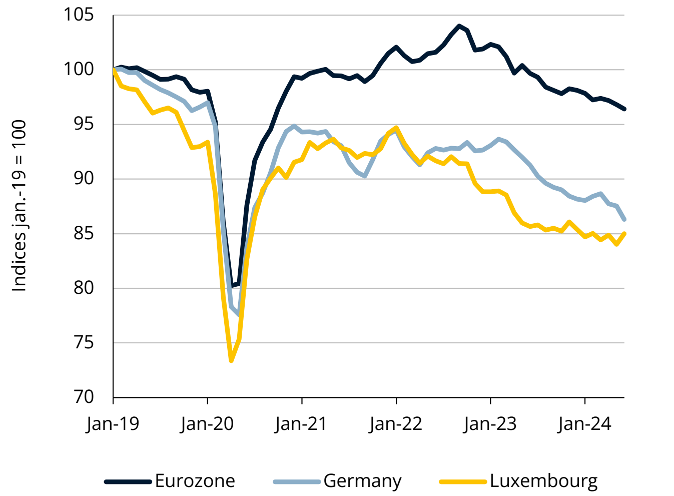
Industrial output in both the eurozone and Luxembourg has continued to trend downward. The business surveys for the third quarter do not hold out any hope of a recovery in the short term.

Eurozone industrial output continued its downward trend as the summer began. It fell by 0.3% over one month in July and was almost 4% down on last year over the first 7 months of 2024. This negative trend is relatively widespread across the various Member States, with the exception of some southern countries such as Spain (+0.1% over the first 7 months), Portugal (+0.6%) and Greece (+7.3%)[1]. Among the others, Germany (-5.2% over the same period) and Austria (-4.0%) stand out as the worst affected. The decline in Luxembourg was less pronounced than in the eurozone (-2.9%), but it came after an already mediocre year in 2023 (when output fell by 5.6% compared with just -2.1% in the eurozone).

For the eurozone as a whole, the fall in production is being felt most acutely in capital goods and durable consumer goods. This is due, among other things, to deteriorating results observed in the manufacture of machinery and equipment and in the automotive industry[2]. In addition, the downturn in construction activity[3] is certainly not unrelated to the falls in output seen in the mining and quarrying industries and in the manufacture of cement, bricks and tiles and certain metal and glass products. And generally speaking, most types of production have suffered a setback this year. The few exceptions include products that are not very sensitive to the economic cycle, such as shipbuilding, rail transport and aerospace – which, like in 2023, remain relatively dynamic – as well as weapons and munitions manufacturing.

Industrial employment in the eurozone nevertheless continued to rise over the first half of 2024 as a whole (+0.4% year-on-year), although it is slowing (following an increase of 0.9% in 2023). Most of the increase in the workforce over the first half of 2024 came from Spain and Italy, while the trend in other countries will be downward (like in Luxembourg, down 1.5% year-on-year) or at best stagnant. Given the fall in production recorded this year and the gloomy outlook heading into the fourth quarter (see below), there are fears of a later downward adjustment in industrial employment in the eurozone.

INDUSTRIAL OUTPUT



Source: Eurostat

No short-term improvement on the horizon

The signals sent out by industrial business surveys over the summer do not point to any short-term improvement in the eurozone as a whole. Both the European Commission harmonised industrial confidence indicator and the activity index (PMI survey) remained at low levels up to September, indicating a continued contraction in industrial activity[4].

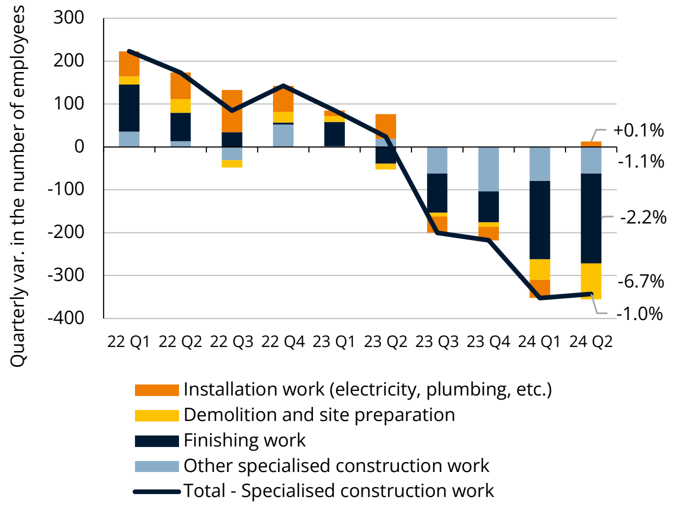
In Luxembourg, the industrial confidence indicator reached a low point in June 2023 and has since recovered slightly (coinciding with a still present but less pronounced deterioration in industrial output). However, over the most recent months, it shows a lot of volatility (sharp decline in July, clear rise in September), particularly for the production developments outlook (particularly among players in the metallurgy and metal products sector). Over the entire 3rd quarter, it was slightly down compared to the previous quarter, also reflecting a less favorable situation.

[1] Cyprus and Malta are also among those where industrial production has increased this year, but the weight of industry is only marginal there.
[2] Germany is seeing the production of its automobile industry fall by around 10% this year, a drop comparable to that recorded in all the other countries of the eurozone, but which has a greater impact on its overall result given the much more important weight of the automotive sector in German industry.
[3] Over the first 7 months of 2024, construction production in the eurozone fell by 1.2% (with declines of around 3 to 4% in Germany, France and the Netherlands).
[4] It should also be noted that in the September PMI survey, the eurozone services activity index also fell back into the contraction zone (at its lowest level in 8 months), suggesting an overall less buoyant climate.

STATEC

Construction

EMPLOYMENT IN SPECIALISED CONSTRUCTION WORK



Sources: IGSS, STATEC (seasonally adjusted data)

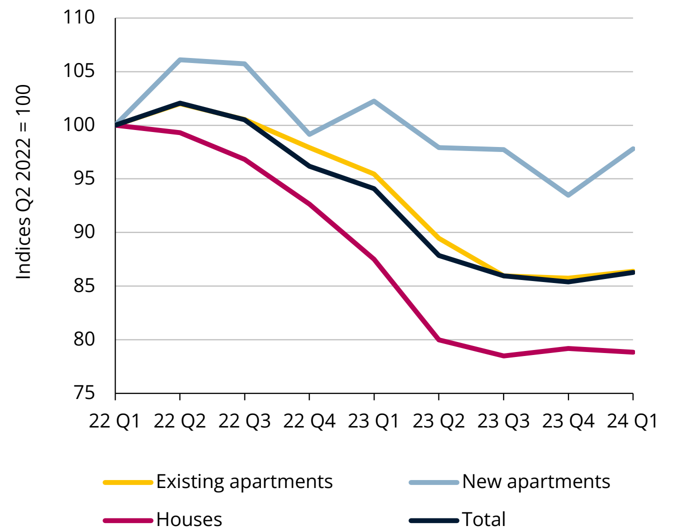
Issues in finishing

In the second quarter of this year, the number of employees in construction continued to fall at a similar rate than in the two previous quarters (-1.6%, or -760 employees over one quarter). While the fall is less pronounced than in previous quarters for building (-2.8% over one quarter, which is still substantial) and civil engineering (-0.1%), the downward trend in specialised construction work has accelerated further in the 1st and 2nd quarters. Employment in this sector was still slightly up in the first half of 2023, while employment in construction as a whole was already falling. With 340 fewer people employed in the second quarter, these specialised construction activities accounted for almost half of the decline in construction.

In specialised finishing work, sharp falls of 8% year-on-year were recorded in painting (-220 employees year-on-year in Q2) and tiling (-110). Job numbers fell by 6% year-on-year in joinery (-220 employees) and plastering (-50). For the construction industry as a whole, the decline in the number of employees is moderating since June (preliminary data available up to August).

Real estate

HOUSING PRICES



Source: STATEC

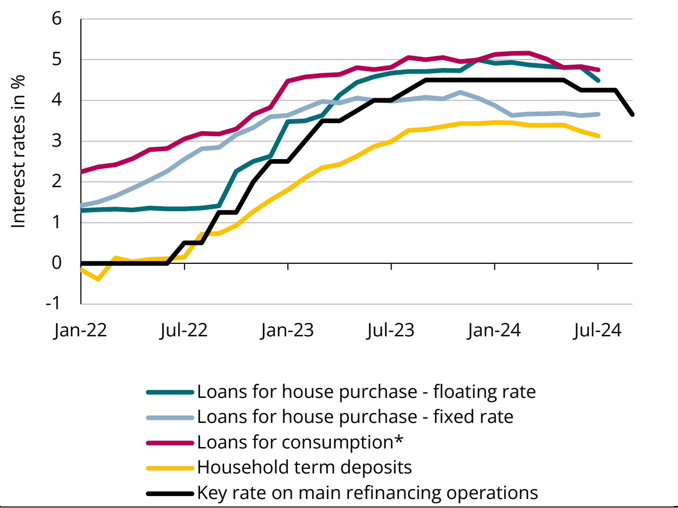
The beginning of a turnaround on the housing market

Sales prices for housing, which fell only slightly in Q1 (-0.7% quarter-on-quarter), rose by 1% in Q2 2024. This increase, the first since the downturn began in late 2022, is being driven mainly by apartment sales. It seems likely that housing prices (in total) have bottomed out and will continue to rise in the coming quarters. However, they are still well below their level of a year ago (-8.3%) and the peak reached in Q3 2022 (-15.5%).

The number of housing transactions, already up at the start of 2024, continues to rise. In addition to falling property prices, lower fixed mortgage rates are probably supporting this recovery. Over one year, the number of transactions rose by 26%, driven by sales of existing housing. Despite a slight increase, the number of transactions involving new apartments in Q2 was still lower than a year ago (reaching barely a quarter of the average level seen between 2015 and 2022).

Financial environment

INTEREST RATES IN LUXEMBOURG



Sources: BCL, ECB. * Initial rate fixing between 1 and 5 years, seasonally adjusted data.

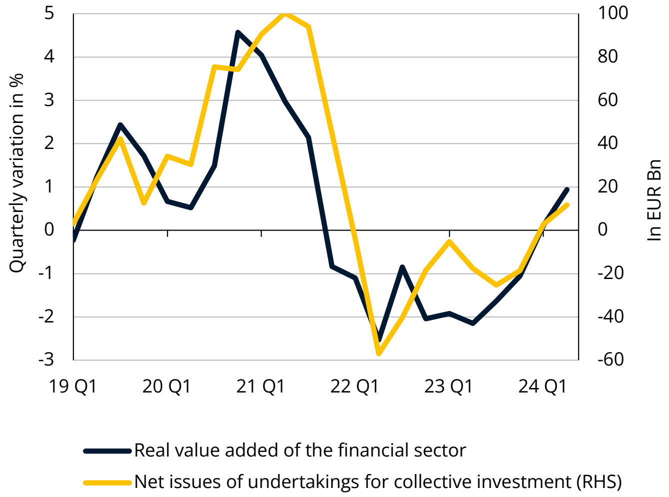
Less interest on rates

Rates on loans for house purchase in Luxembourg, which peaked at the end of 2023, are continuing to fall. In July, the average fixed rate was 3.7% (-0.3 percentage points over one year) and the floating rate was 4.5% (-0.2 percentage points). Fixed rates follow the long-term market rates and have already eased since early 2024 on foot of expectations of monetary easing, while floating rates adjust mainly when key rates are changed. This difference in interest rates is bolstering demand for fixed-rate mortgages, which accounted for 65% of new mortgages granted in July. Rates on consumer credit fell at the start of the year and have since stabilised, while rates on term deposits only started to fall in June.

After an initial reduction of 0.25 percentage points in its key rates in mid-June, the ECB cut its three key rates again in mid-September, albeit not to the same extent. The deposit facility rate was cut by 0.25 percentage points, while marginal lending facility rates and rates on the main refinancing operations were reduced 0.60 percentage points to be more responsive to banks' liquidity needs and limit the volatility of short-term money market rates. While fixed rates on home loans in Luxembourg already reflect this decrease, floating rates are set to fall in September and October.

Financial sector

VALUE ADDED IN THE FINANCIAL SECTOR AND NET ISSUES OF UCIS



Sources: STATEC - CSSF (three-quarter centred moving averages)

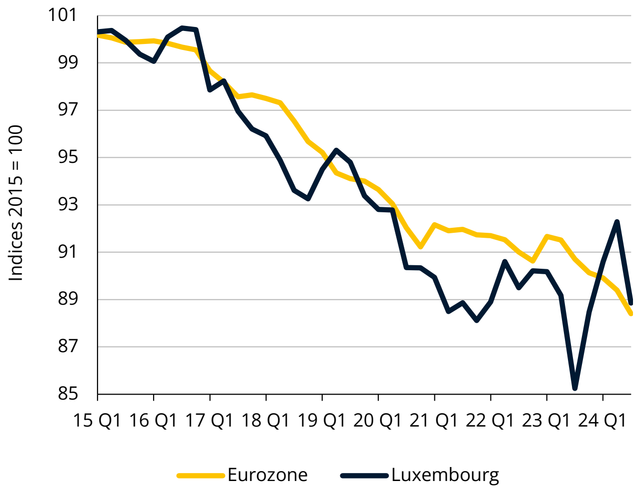
Rebound confirmed for funds and life insurance

The rebound begun in Q1 2024 is confirmed in the Luxembourg financial sector. In Q2, its value added rose 3.1% over one quarter in value terms and 0.2% in volume terms. Financial companies benefited from the recovery in assets and income linked to investment funds, as well as from life insurance premiums. Net assets of UCIs rose 7% year-on-year in Q2, boosted by valuations and a rebound in net issues. Life insurance premiums rose 35% over the same period, mainly due to products with guaranteed returns.

Growth in banks results (+25% year-on-year in Q2 alone) was underpinned by higher commissions on wealth and investment fund management and by lower staff and operating costs. Interest margins rose just 2% year-on-year (after ten quarters of double-digit increases), with high interest rates trending downwards. Fund management companies also benefited from the growth in fees but the restructuring of the activities of some large companies weighed on the overall result.

Inflation

PRICES FOR TELECOMMUNICATIONS EQUIPMENT AND SERVICES



Source: Eurostat

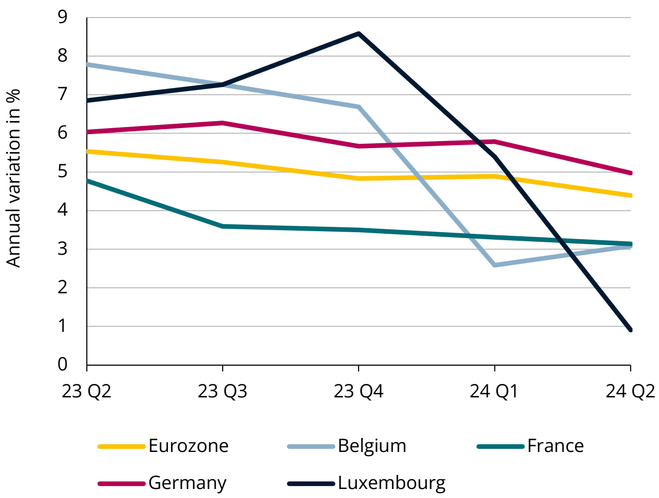
Telecoms prices continue to fall

Overall, consumer prices for telecommunications have fallen over recent years (down by 9% in the eurozone between 2015 and 2023). While some eurozone countries, including Belgium, Portugal and Spain, saw price rises over this period, prices were close to the average in Luxembourg, falling by 12%. Prices fell most sharply in the Netherlands (-27%), Italy (-23%) and Austria (-19%). However, these marked differences between countries seem to be partly due to methodological differences in the way quality changes are taken into account. Equipment in particular is now cheaper (down by 34% between 2017 and 2023), but prices for telephony services have also fallen (-2%).

In Luxembourg, prices for mobile telephony equipment have fallen the most (down by 39% between 2015 and 2023), followed by internet access providers (-24%) and fixed telephony equipment (-18%). On the other hand, the price index for mobile-telephony services rose slightly (+2% over the period as a whole), as did the fixed telecoms services index (+6%). However, these changes have had little impact on the overall price index, given that communications have a relatively small weight in it, accounting for just 2% of average household expenditure in 2023 (after peaking at 3% in 2015).

Wages

COMPENSATION PER EMPLOYEE



Sources: Eurostat, STATEC

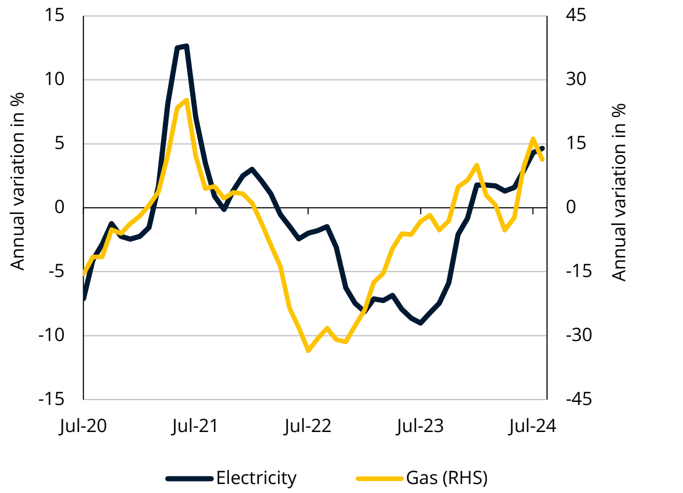
Pronounced slowdown in compensation per employee

In the eurozone, like in France and Germany, compensation per employee continues to slow gradually. In Q2 2024, it rose by 4.4% in the eurozone, still well above the long-term average of almost 2.5%. In Luxembourg and Belgium, compensation per employee slowed much more markedly in the first half of 2024, as a counterreaction to the strong increases due to automatic wage indexation in 2023.

In Luxembourg, indexation had an impact of 5.9 percentage points on compensation per employee growth in Q1 2024, compared with just 2.5 percentage points in Q2, as only the September index bracket still affects its annual growth. In addition, the reduction in employer contributions to offset the costs associated with this latest indexation is slowing growth. Transportation and storage is the main sector contributing to a slowing compensation per employee, due to a base effect (exceptionally high bonuses were paid out in Q2 2023).

Energy

ELECTRICITY AND GAS CONSUMPTION IN LUXEMBOURG



Sources: Eurostat, ENTSO (three-month moving average)

Rebound in gas and electricity consumption

After two years of energy crisis, which caused gas and electricity consumption to fall in 2022 and 2023, 2024 marks a turning point. Over the first eight months of the year, energy consumption rose by over 3% compared to the same period in 2023.

The recovery in gas consumption is attributable to industry, where consumption jumped by 14% over the first eight months of the year. This more than offset the fall in heating consumption (-2%), which was due in particular to a drop of around 5% in heating degree-days this year compared to 2023. Regarding electricity, the increase is partly due to the boom in electric vehicles, with new registrations up by over 20% over the first eight months of the year. However, this vigorous consumption growth will likely slow in 2025, as a 30% increase is expected in electricity consumer prices.

Dashboard

	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-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	-1.6	-4.3	-7.9	-0.7	-4.9	-1.3	-0.9	-0.6	...	-0.9	-6.8
Construction output per working day, in volume	5.1	-6.3	-7.8	-4.8	-5.8	-3.1	-4.6	-9.5	...	-5.8	-1.5
Turnover by volume of total retail trade	-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)	3.5	3.5	3.2	3.1	2.4	2.6	2.2	2.0	1.7	2.0	3.7
Underlying inflation	4.0	4.0	3.4	3.2	2.4	2.5	2.3	2.0	2.3	2.2	4.7
Oil product index	-4.4	-4.4	1.1	1.0	3.5	4.2	0.5	1.3	-8.4	-2.4	-10.8
Industrial producer price index	-9.4	-13.8	-13.5	-12.9	-10.2	-9.3	-8.6	-6.0	...	-8.0	0.7
Construction price index[1]	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)	8.6	5.4	5.4	5.4	0.9	0.9	0.9	...	...	0.9	6.9
Foreign trade											
Exports of goods (volume)	-6.8	0.5	1.3	-7.2	8.0	2.0	-3.5	-0.6	...	-0.8	1.0
Imports of goods (volume)	0.2	10.1	6.8	-14.3	7.6	-1.3	-4.7	6.3	...	-0.1	3.8
Employment, unemployment											
Domestic number of employees	1.6	1.3	1.1	1.0	0.9	0.9	0.9	1.1	0.8	0.9	1.9
National employment	1.4	1.1	0.9	0.9	0.9	0.9	0.9	1.1	0.9	0.9	1.7
Unemployment rate (% of working population, seas. adj.)	5.5	5.6	5.6	5.6	5.6	5.7	5.7	5.8	5.8	5.8	5.3

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	0.1	-1.1	0.1	0.7	0.6
	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	2.7

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 (08/2024)

1 017.63

Index half-yearly average:
1 011.23

Current account balance (Q2 2024)

EUR **2 503** million

Resident population (01/01/2024)

672 050

STATEC

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