

IMPROVEMENTS IN SERVICES

Business sentiment in the non-financial services sector has been trending upwards in recent months, both in Luxembourg and in the eurozone as a whole. However, this renewed optimism is not yet reflected in hiring activity.

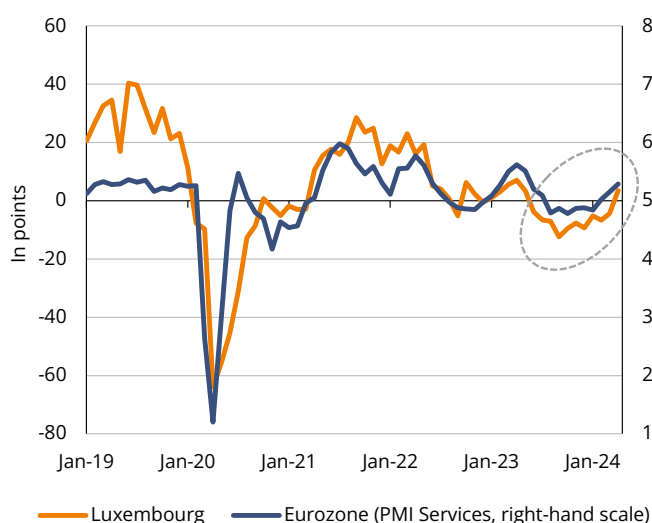
The outlook for non-financial service companies seems to be improving. In Luxembourg, morale among these companies hit a low point last September. It has since recovered, albeit timidly at first, but more noticeably at the onset of spring. The confidence indicator, which provides an overview of managers' opinions of demand and their company's situation, reached its highest level in a year in April 2024.¹

A recovery is noticeable mainly in transport services, accommodation and catering, publishing, head office and management consultancy activities, rental activities, employment-related activities² and administration and business support services. Sectors where the economic climate remains less favourable include real estate, postal and courier services, legal and accounting services, and personal services. The proportion of companies reporting lack of demand weighing on their business fell slightly to 26% in early Q2 (after peaking at 30% in Q4 2023).

Despite its upturn, the confidence indicator, which reached 3.5 points in April 2024, has remained well below its historical average of close to 15 points. As a result, the recent improvement corresponds rather to the beginning of a convalescence than a recovery. It is worth noting that value added in volume terms for these non-financial services was marked by a sharp slowdown in 2023 (+0.2%, down from +5.5% in 2022), mainly in information services and some business services (specialised, scientific and technical activities), and even by a decline in retail and transport (for the second year running).

The results for Luxembourg are very much in line with those for the eurozone, where business surveys in the services sector have also pointed to an upturn in business sentiment in recent months, as has the corresponding PMI index. By contrast, European surveys in the manufacturing sector indicate that activity continued to contract in early 2024.

CONFIDENCE INDICATOR IN NON-FINANCIAL SERVICES



Sources: HCOB, S&P Global PMI, STATEC (latest data: April 2024)

Upturn in employment not yet visible

While the economic outlook for the services sector appears to be brightening, the employment outlook for companies in the sector remains gloomy. These have deteriorated sharply in Luxembourg since mid-2023 and on into spring 2024. Employment in non-financial market services slowed significantly over 2023 as a whole, with growth of just 2.4% (compared to +4% in 2022). This slowdown, which partly mirrors the slowdown in value added, is mainly the result of lower job creation in business services, information and communication, real estate and retail.

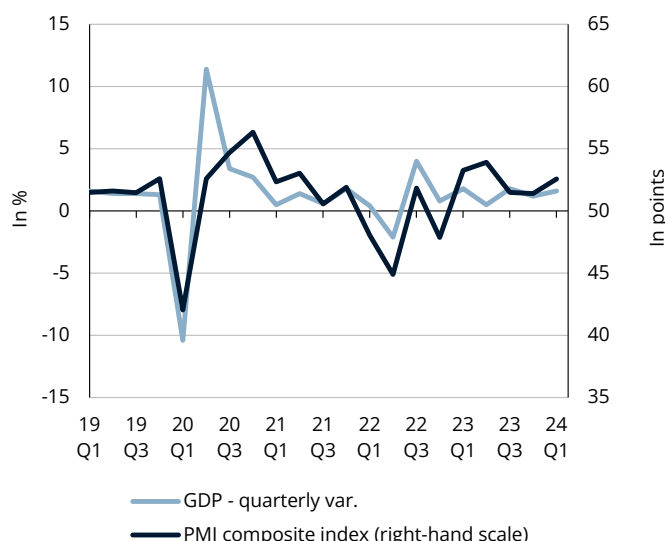
Although more optimistic about their business performance, companies are not yet showing any signs of improvement in their hiring decisions, which makes a further slowdown in employment in 2024 as a whole more than likely.

¹ The confidence indicator is calculated based on three questions in the business survey: developments in the company's situation over the last three months, trends in demand over the last three months and outlook for demand over the next three months.

² These include temporary employment agencies and recruitment agencies.

International

INDICATORS OF ECONOMIC ACTIVITY IN CHINA



Source: Macrobond

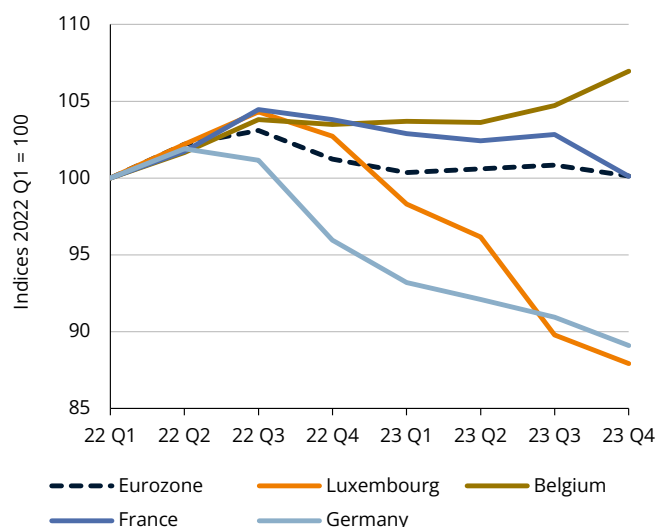
China: growth and imbalances

The Chinese economy was fairly dynamic in the early part of 2024. In the first quarter, GDP grew by 1.6% over one quarter (+5.3% over one year), up from +1.2% in the last quarter of 2023. Activity was largely sustained by industry, in terms of both production and investment, spurred by government energy transition subsidies. Public spending has also boosted investment in other types of infrastructure.

However, China is still facing a number of major challenges. First, the real estate sector, which continues to show signs of weakness (added value in volume terms for real estate was down by more than 5% and property investment by almost 10% year-on-year in Q1). Morale is stagnating at historically low levels among Chinese consumers, whose savings are massively channelled into property, and consumer spending remains sluggish. As a result, consumer prices remain lacklustre with inflation unlikely to exceed 1% in 2024 as a whole.

Real estate

SALES PRICES OF HOUSING



Sources: STATEC, Eurostat

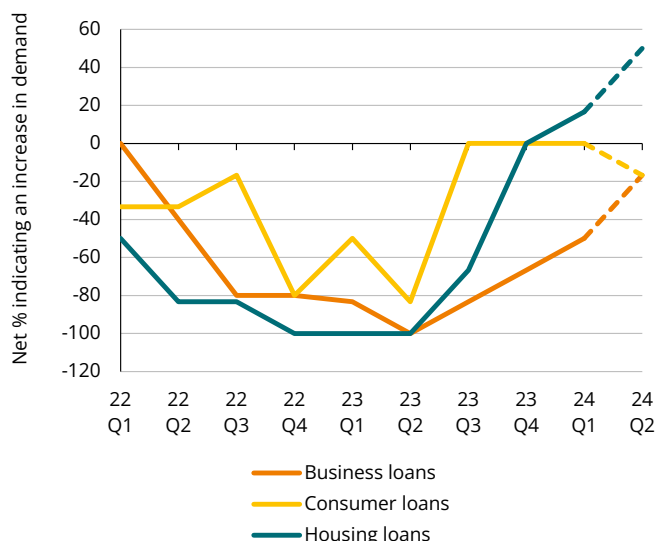
Decline in property already exceeds 15% in Luxembourg

In the eurozone, property sales prices fell by 0.7% quarter-on-quarter in Q4 2023, after rising very slightly in previous quarters, due in particular to more negative trends in some key countries (France, Germany and Spain). Property prices in Luxembourg declined for the fifth consecutive quarter, falling by 2.1% in Q4 2023. The drop from the most recent peak in Luxembourg was 15.7%, the steepest in the eurozone (-2.9% across the area as a whole) along with Germany (-12.6%). Sales prices in Luxembourg fell by 9.1% in 2023, far more than the last drop during the financial crisis in 2009 (-1.1%). Property prices fell in Scandinavian and western European countries in 2023 but merely slowed in countries in the south and east of the continent.

Of all the European countries for which data is available, Luxembourg also recorded the sharpest fall (-43% year-on-year) in property transactions in 2023. Transaction numbers in Luxembourg have been very low since the start of 2023 and show no signs of recovery. Transactions of apartments under construction, already in sharp decline in 2022, were particularly hard hit, falling to just 571 in 2023, around one-fifth of the levels recorded between 2015 and 2019.

Financial sector

OPINIONS ON DEMAND FOR LOANS IN LUXEMBOURG



Source: ECB (bank lending survey)

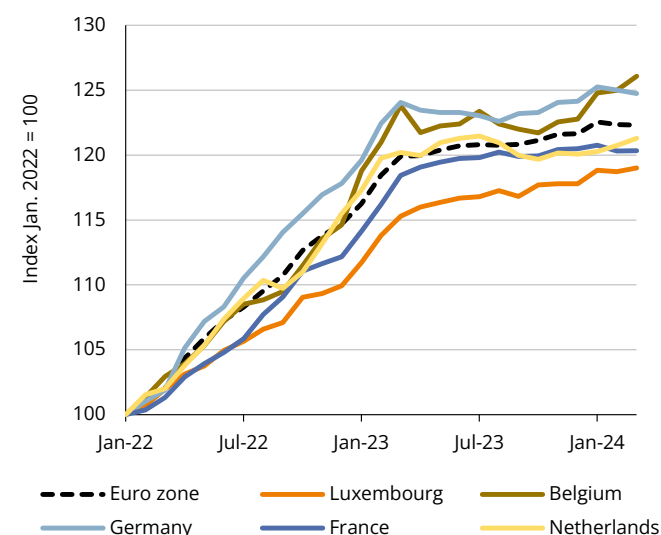
Demand for loans remains weak

According to the banks surveyed in April's bank lending survey, demand for business loans in Luxembourg and the eurozone fell further in Q1 2024 and is expected to remain weak in Q2. The main reasons given were falling investment and high interest rates. Demand for consumer loans is on the rise again in the eurozone, but not in Luxembourg. More banks are observing a recovery in demand for mortgages, anticipating growth in Q2 in Luxembourg and the eurozone alike.

The number of new loans granted to businesses continued to fall in the first two months of 2024 (-42% year-on-year in Luxembourg, -5% in the eurozone). New consumer loans fell by 9% in Luxembourg but rebounded by 8% in the eurozone. Although up 15% over the quarter, new mortgages remain weaker in Luxembourg than last year (down 12% year-on-year). What's more, the uptick was mainly due to debt restructuring, while outstanding loans continued to fall (-0.6% over one quarter, -1.3% over one year). New loans and outstanding mortgages continued to contract across the eurozone.

Inflation

CONSUMER PRICES FOR FOOD PRODUCTS



Source: Macrobond

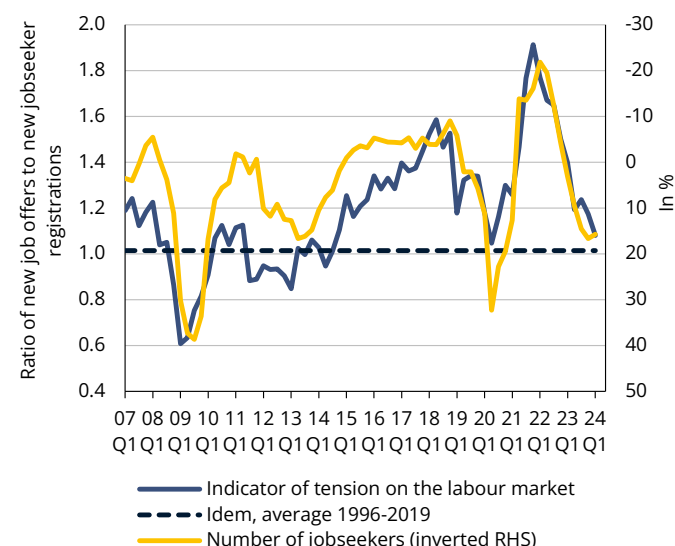
Food inflation moderately lower

Overall, food inflation continues to slow in Europe, with Luxembourg, Belgium and the Netherlands being the only countries where it has risen slightly in recent months. However, in early 2024, prices in Luxembourg for some foodstuffs began falling, including flour and other cereal-based products, milk, fresh vegetables and honey. On the other hand, prices for other goods are still rising sharply, particularly olive oil, chocolate, other sugar- and cocoa-based products, and fortified wines. Trends are similar in the eurozone, due in particular to the continued fall in world cereal prices (-20% year-on-year in March 2024, after falling by 15% already in 2023, according to the FAO) and energy prices, and to the sharp rise in cocoa prices (+180% year-on-year in March 2024, according to S&P).

However, despite this upward trend, Luxembourg has one of the lowest levels of food inflation in Europe: up 19% between January 2022 and March 2024, against +22.3% in the eurozone. Beside government measures on energy prices, other factors explain this disparity. The price of olive oil in particular has risen sharply especially in southern countries (following poor harvests), contributing six times more to food inflation in the eurozone (0.77 percentage points of 2.0) than in Luxembourg (0.13 percentage points of 3.0) in March 2024.

Labour market

TENSION INDICATOR ON THE LABOUR MARKET



Sources: ADEM, STATEC

Is the stabilisation in unemployment only temporary?

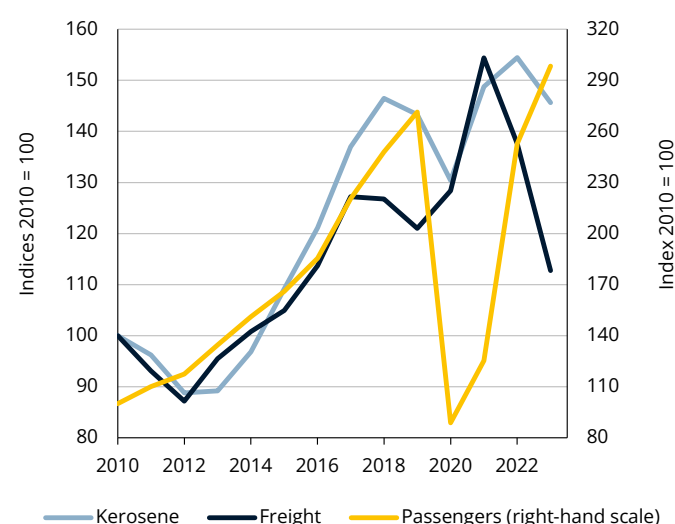
Unemployment rose sharply since last spring, but has tended to stabilise since the end of 2023, at around 5.6% of the labour force (up to March 2024).

However, this stabilisation is likely to be temporary, as there is currently little evidence of any short-term improvement in the labour market. An increase in job schemes (whose participants no longer count as unemployed) of 6% since last November, accounting for around 250 people, may have contributed to stabilising the unemployment rate. In addition, as the employment trend remained unfavourable over this period, a discouragement phenomenon may be a factor in the slowdown in unemployment claims with ADEM.

The indicator of tension on the labour market (new job vacancies as a proportion of new jobseeker registrations) is also continuing to deteriorate. Trends in this indicator generally foreshadow unemployment trends (with a lead of 2 quarters over the period 2005-2019). In particular, new job vacancies fell by more than 10% between Q3 2023 and Q1 2024, especially in business services, retail and hospitality.

Energy

AIR TRANSPORT AND KEROSENE DELIVERIES IN LUXEMBOURG



Sources: Air Navigation Administration, STATEC

Kerosene consumption down in 2023

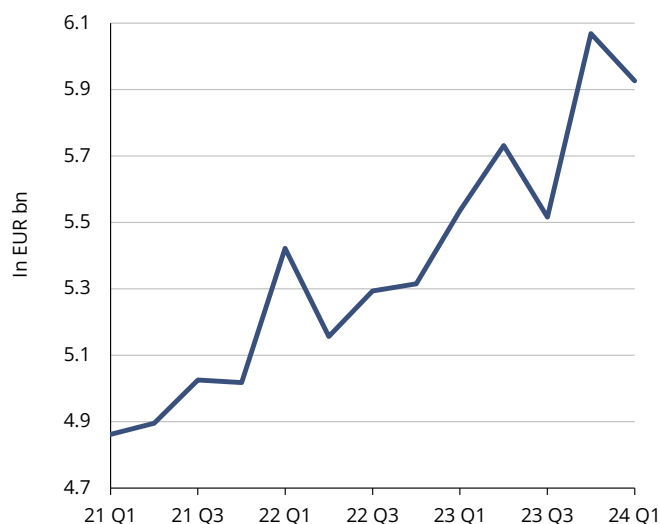
Despite the record number of almost five million passengers passing through Luxembourg airport last year, kerosene consumption in Luxembourg (which accounts for more than 15% of the country's final energy consumption) fell by 6% in 2023. The decline is attributable to the fact that air freight volumes continued to fall in 2023 (-18%, down from -11% in 2022), a far cry from the record level reached in 2021 during the pandemic.

However, this downward trend in air freight now seems to be easing. While the decline in 2023 was concentrated on the first three quarters, early 2024 saw a stabilisation in tonnage transported, with a fall of just 1% year-on-year in the first quarter.

By international comparison, the decline in air freight was more pronounced in Luxembourg than in most other European countries, although trends were mixed. Volumes in Germany in particular fell by just 7%, while numbers in France even rose by 12%.

Public finances

TAX RECEIPTS (EXCLUDING SOCIAL SECURITY CONTRIBUTIONS)



Sources: Tax authorities, STATEC (seasonally adjusted data)

Tax revenue falls slightly in early 2024

Taxes collected by the State in Q1 2024 rose by 8.4% year-on-year but were 2.3% lower than in the final quarter of 2023 (on a seasonally adjusted basis). This decline stems mainly from excise duties on tobacco (these are highly volatile with changes in taxation) and taxes on household and corporate income, each of which recorded exceptional growth in the last quarter of 2023.

Compared with the first quarter of 2023, the main contributors to the increase in revenues are taxes on household income (+14.5% year-on-year), revenues from VAT (+8.3%), which was raised on 1 January 2024, corporate income tax (+8.5%) and subscription tax (+6.0%), which is benefiting from the rise in asset valuations in investment funds.

On the other hand, taxes levied on fuels fell by 0.3% over the year (in line with falling diesel sales). Registration fees rose in Q1 (+45% over one quarter) but are still well below levels seen a year earlier (-25% over one year).

Dashboard

	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-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	-6.8	-5.5	-10.3	-3.9	-4.9	-2.4	-4.4	-8.3	...	-5.1	-6.1
Construction output per working day, in volume	-1.2	6.6	-3.3	-1.9	-5.8	4.2	-6.6	-7.7	...	-3.6	0.3
Turnover by volume of total retail trade	-1.6	-2.5	-4.1	-0.3	-0.2	-14.8	-13.5	-11.2	...	-13.4	-2.0
Prices, wages											
Consumer price index (NCPI)	3.7	4.2	4.0	3.2	3.0	3.5	3.4	3.2	3.1	3.2	4.2
Underlying inflation	4.9	4.5	4.3	4.2	3.9	4.0	4.0	3.4	3.2	3.5	4.7
Oil product index	-12.8	-1.3	-0.6	-10.8	-9.2	-4.4	-4.4	1.1	1.0	-0.8	-4.0
Industrial producer price index	1.9	1.6	1.6	-2.3	-1.3	-1.5	-2.4	-0.9	...	-1.6	16.5
Construction price index ¹	9.3	9.3	9.3	6.4	6.4	6.4	...	...	...	6.4	15.9
Average wage bill, per person (National accounts)	7.3	7.3	7.3	8.6	8.6	8.6	...	...	...	8.6	2.9
Foreign trade											
Exports of goods (volume)	4.6	-3.7	-1.2	2.5	-0.2	-5.3	-0.2	2.3	...	-0.9	-4.2
Imports of goods (volume)	-1.5	2.0	-5.4	-1.9	-3.4	-5.7	-2.5	-6.6	...	-5.0	-7.6
Employment, unemployment											
Domestic number of employees	1.9	1.9	1.7	1.6	1.5	1.6	1.3	1.1	0.9	1.1	2.7
National employment	1.7	1.5	1.5	1.5	1.4	1.4	1.1	1.0	0.9	1.0	2.2
Unemployment rate (% of working population, seas. adj.)	5.2	5.3	5.5	5.5	5.7	5.5	5.6	5.6	5.6	5.6	4.9

Source: STATEC, Seasonally adjusted, quarterly national accounts

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	0.0	0.0	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)



EUR 79 310 million

Minimum monthly wage
(01/09/2023)



EUR 2 570.93

Next scheduled wage
indexation:
Q4 2024

Consumer price index
(03/2024)



1008.17

Index half-yearly average:
1000.72

Current account
balance
(Q4 2023)



EUR 1 465 million

Resident population
(01/01/2024)



672 050

STATEC

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