CONJONCTURE FLASH

Economy and prices

MONTHLY PUBLICATION ON THE STATE OF LUXEMBOURG'S ECONOMY – **APRIL 2025**

TURBULENCE ON THE FINANCIAL MARKETS

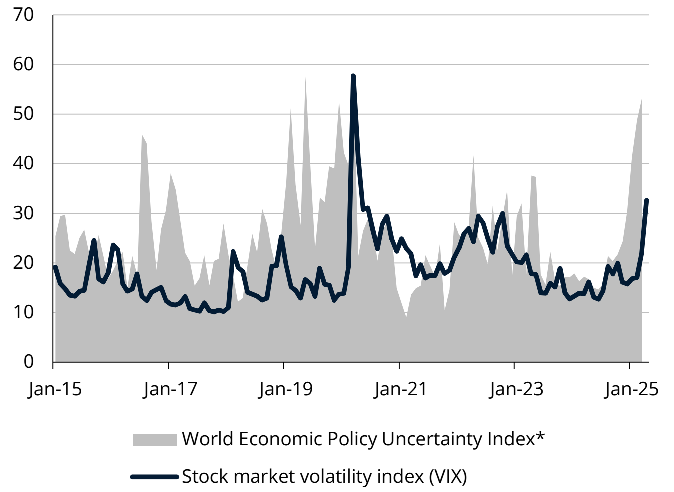
The waves of announcements regarding changes to tariffs are destabilising stock markets. However, the eurozone's financial centres appear to be less affected for the time being as investors choose to reallocate their assets to European shores. Luxembourg could benefit significantly from financial inflows.

At the beginning of April, the US President outlined his "America First" trade policy by announcing a massive increase in tariffs. The so-called "Liberation Day" tariffs sent a shock waves through financial markets, fuelling inflationary fears (particularly in the United States) and a slowdown in growth. Since, there has been a succession of reversals and retaliatory measures, exacerbating uncertainty for investors. This is reflected by the sharp rise in volatility indices for equities, bonds and currencies on the world's leading markets. The fear index (VIX), which measures the volatility of the S&P 500, rose to levels not seen since the beginning of the pandemic.

During the first half of April, commodity prices and equity valuations fell (irrespective of the sector or origin of the listed companies). In this stock market debacle, the eurozone also suffered but to a lesser degree. The Euro Stoxx 50 rallied after the announcement of a 90-day pause in so-called '"reciprocal tariffs", while other major benchmark indices continued their downward trend. The European stock market index thus posted a modest increase of 5.6% over the first four months of 2025, while the US S&P 500 fell by 6% and Japan's Nikkei 225 dropped by 10%. The euro appreciated against the currencies of its main trading partners, with the eurozone's nominal effective exchange rate reaching its highest levels since the creation of the zone. Demand for sovereign bonds rose in the eurozone but fell for US Treasuries - the traditional safe haven when risk rises - due to a degree of mistrust of US debt and automatic selling by some hedge funds.

Divergent monetary policies have also taken shape on either side of the Atlantic. The European Central Bank (ECB) has lowered its key interest rates once again. For the ECB, the conditions remain ripe for further rate cuts in the short term. Inflation imported from the United States and the additional costs associated with the potential destabilisation of supply chains should be offset by the strengthening of the euro and disinflation imported from China. In the United States, the Fed is betting on the status quo, with the tariff shock expected to lead to increases in inflation and unemployment. The projected rise in inflation across the Atlantic could prevent the Fed from easing monetary policy in 2025. The US key rate would therefore remain restrictive, while the European key rate would fall back into neutral territory.

UNCERTAINTY AND VOLATILITY INDICES



Source: Macrobond (monthly average)
*Weighted average of composite indices for 71 countries, based on media coverage of economic uncertainty and surveys of professionals.

Positive outcome for Luxembourg's financial centre?

The loss of confidence in US financial assets could lead investors to favour assets in stable European countries. Luxembourg-domiciled investment funds recorded net asset inflows of EUR 60 billion in Q1, a record for the last four years[1]. Investment fund management is central to the country's business and its trade in financial services[2]. Luxembourg could gain market share if exchange-traded funds (ETFs) investing in US equities - which are mainly domiciled in Ireland - experience investor withdrawals. Demand and supply of loans to businesses and households should benefit from a cut in key ECB interest rates.

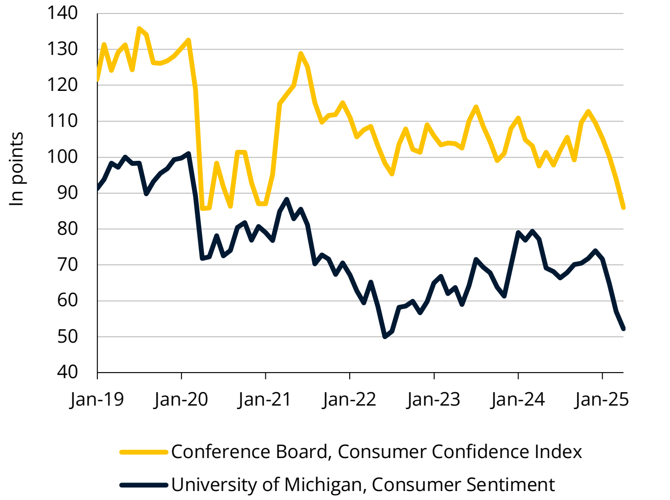
Value added in real terms in the financial sector[3] could therefore be boosted by an upturn in net issuance in funds and lending volumes, while being supported by a favourable price effect (fall in interest rates and stock market valuations).

[1] However, fund assets suffered a negative value effect in March.
[2] More than half of the value added of the financial sector and three quarters of exports of financial services are directly or indirectly linked to investment funds.
[3] The value added of the financial sector must be deflated to calculate real GDP.

STATEC

International

HOUSEHOLD SENTIMENT IN THE UNITED STATES



Sources: as stated

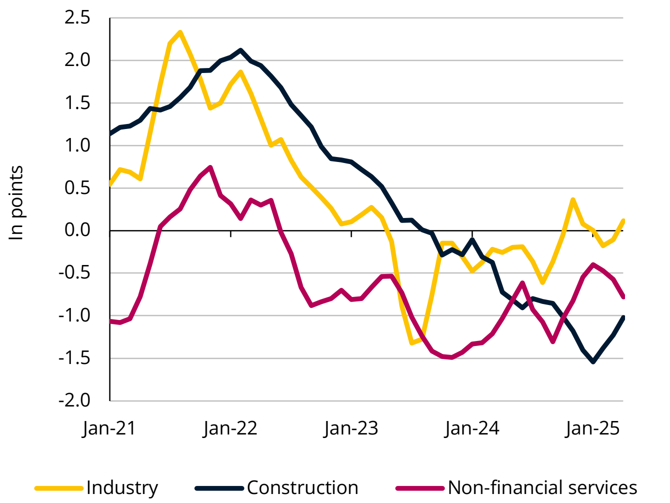
US consumers worried about inflation

While US policy decisions are unsettling financial markets, they also seem to be affecting the morale of US consumers. The consumer sentiment index compiled by the University of Michigan, which peaked last December, fell in April for the fourth consecutive month, returning to its lowest level since mid-2022. The households surveyed reported a fall in their view of the economic climate, as well as a clear upward trend in inflation expectations. Their one-year inflation expectations rose to 6.5% in April, the highest level since 1981, in the wake of the announced increases in US tariffs. Another reference household survey, the Conference Board Consumer Confidence Index, painted a similar picture.

In its latest forecasts published on 22 April, the International Monetary Fund revised its outlook for 2025 and 2026 significantly downwards, particularly for the United States. The US economy is set to expand by just 1.8% in 2025 (down 0.9 percentage points on the IMF's January forecasts) and 1.7% in 2026 (down 0.4 percentage points).

Activity

BUSINESS CONFIDENCE INDICATOR



Source: STATEC - economic surveys (seasonally adjusted data, smoothed over 3 months)

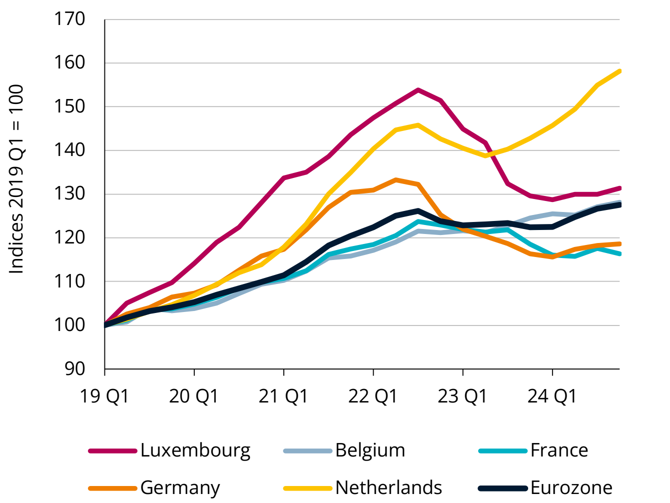
Mixed signals for business confidence

The business surveys conducted among Luxembourg companies have delivered mixed signals in recent months. In the industrial sector, business confidence shows no clear trend at the start of 2025, but it is broadly in line with its long-term value (equivalent to 0 in the graph). Since the start of the year, this indicator has shown a slight upturn across all manufacturers in the eurozone, particularly in Germany, France and Belgium. In the construction sector, the morale of Luxembourg's contractors - although still historically low - seems to have bottomed out, buoyed by more favourable opinions about order books and employment prospects. In the non-financial services sector, on the other hand, confidence deteriorated slightly between February and April in Luxembourg (the situation is similar in the eurozone), mainly as a result of downgrades in demand forecasts. Surprisingly, however, the employment outlook for these service companies has recovered sharply in recent months.

Household confidence fell fairly sharply in March and April, both in Luxembourg and in the eurozone. Above all, it was opinions on the general economic climate that plummeted, probably due to the unsettled international economic situation.

Real estate

SALES PRICES OF HOUSING



Source: Eurostat

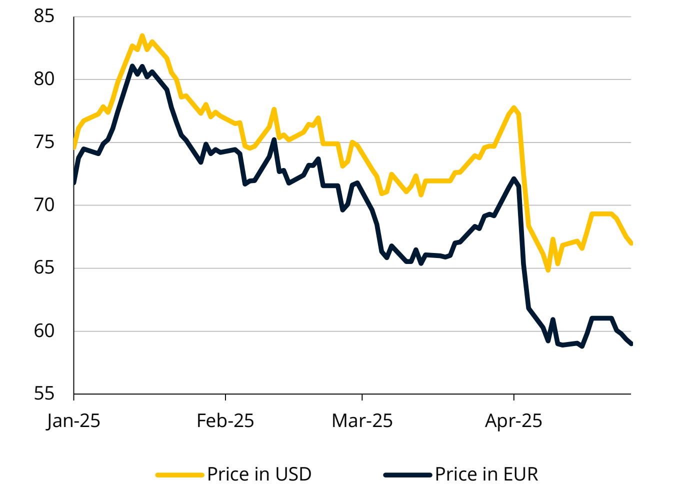
Property prices recovering

In Q4 2024, housing prices in Luxembourg rose by 1.1% over one quarter. An increase has been observed for both houses and existing apartments, while prices for new apartments have remained stable (the price fall in 2023 was the smallest in this segment, see Logement en chiffres no. 17). Housing prices are showing annual growth for the first time since the end of 2022 (+1.4% year-on-year in Q4 2024), but their level remains well below the peak reached in Q3 2022 (by around 15%).

In the eurozone, prices have also been rising again in recent quarters, benefiting in particular from the fall in mortgage rates. Sales prices rose by 4.2% year-on-year in Q4 2024 and are already slightly above their peak in autumn 2022. However, trends vary considerably across the eurozone. In some countries, property sales prices have not yet recovered significantly (e.g. Finland, France). In other countries, such as Luxembourg and Germany, prices are rising again slowly. The Iberian countries and the Netherlands (among others) have seen sharp price rises (over 10% year-on-year).

Inflation

BRENT CRUDE OIL PRICES IN USD AND EUR



Source: Macrobond (daily data)

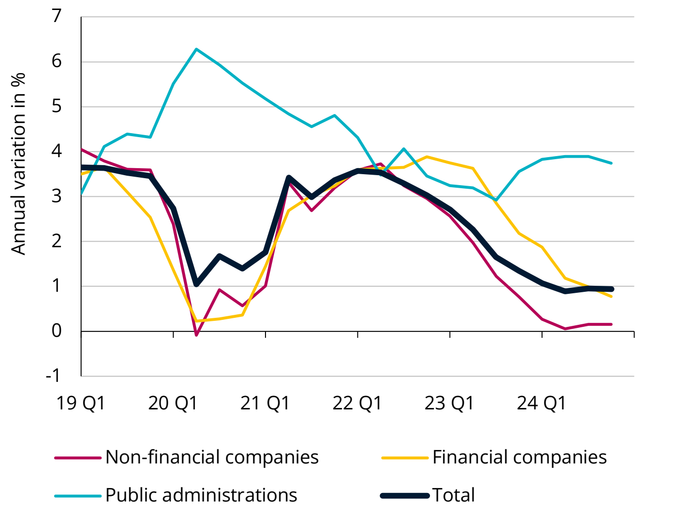
Major fall in oil prices

The day after "Liberation Day", when the US President unveiled his plans for new tariffs, the price of a barrel of oil plummeted and has remained at relatively low levels ever since. While the uncertainty surrounding US policy pushed up the price of gold (as a safe-haven asset), the price of black gold suffered from the deteriorating outlook for global activity and trade. Between 1 and 25 April 2025, the price of a barrel of Brent crude oil fell by 14% in USD terms (down 18% in EUR terms), given the simultaneous depreciation of the dollar (from 0.93 USD/EUR to 0.88 USD/EUR over this period).

This trend in the price of Brent crude has already been reflected in the price of petroleum products, with the price of heating oil falling by 8.9% over this period, diesel by 5.7%, Super 95 oct. by 5.0% and Super 98 oct. by 4.0%, pulling the inflation rate down to 1.7% in April 2025 according to an initial estimate. Despite the decline, this rate of inflation is sufficient to trigger a new indexation, with a 2.5% increase in wages, salaries and pensions coming into effect from 1 May 2025.

Labour market

TRENDS IN DOMESTIC PAID EMPLOYMENT BY SECTOR



Sources: IGSS, STATEC (sectoral perspective)

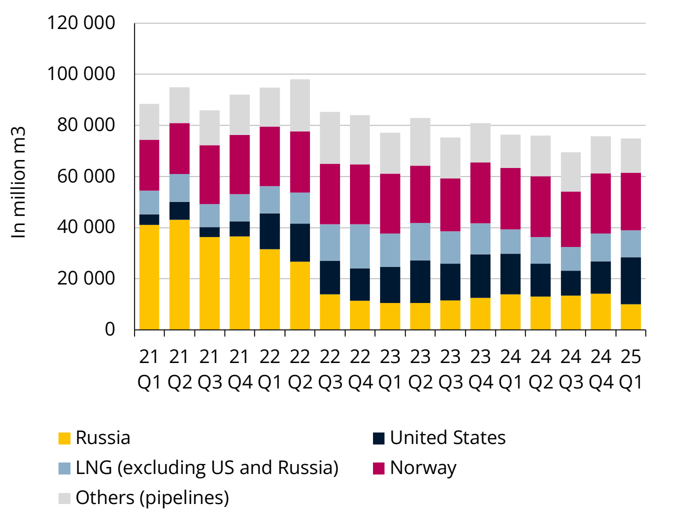
Employment growth stabilises at a low level

After a sharp slowdown that began in 2022, employment growth has stabilised at around 1% year-on-year over the last three quarters of 2024 (and in Q1 2025 according to preliminary data). A number of leading employment indicators point to a recovery in employment over the coming months: overtime hours recovered slightly over the last two quarters of 2024, temporary employment picked up slightly in Q4 2024, the employment outlook is more optimistic in business surveys (after six consecutive quarters of decline) and the unemployment rate has stabilised at 5.9% since November 2024.

The evolution in employment in the non-financial private sector shows a slight improvement (+0.2% year-on-year over the last two quarters of 2024, after 0.1% in Q2 2024). This sector had been the driving force of employment in the past, accounting for almost three-quarters of job creation before the COVID crisis. This slight improvement towards the end of the year is mainly due to a smaller fall in employment in the construction industry (-3.5% in Q1 2025, after -5.4% in Q2 2024). Data on employment flows also show a fall in contract terminations in Q4 2024 (-2.4% over one quarter), while the recovery in recruitment remains timid (+1.2%). Public administration remains the most dynamic sector, with employment growth close to 4% year-on-year, while employment in the financial sector continues to slow at the end of 2024.

Energy

GAS IMPORTS INTO THE EU



Source: Bruegel

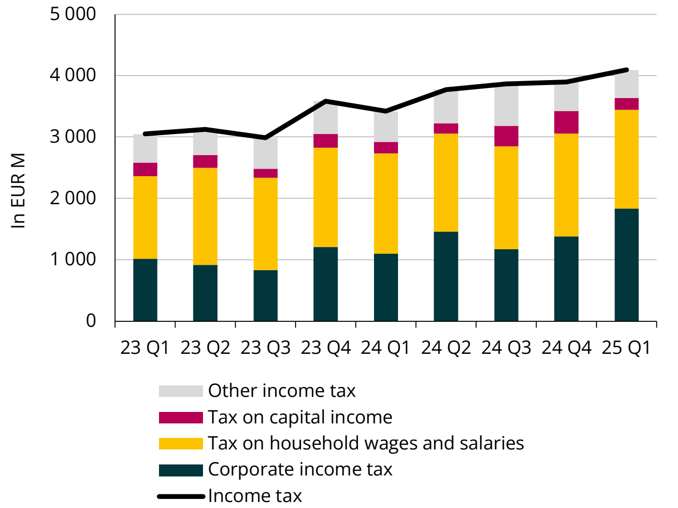
US gas imports up in Q1

Imports of natural gas from the United States reached a record level in Europe in Q1 2025. After a slight decline in the second half of 2024, the EU imported more than 18 bn m^3 of US gas in the first three months of the year, representing around a quarter of its total gas imports.

Sometimes mentioned as a potential lever for reducing Europe's trade surplus with the United States in order to ease tensions with the US President, this surge in imports is probably not driven by political considerations. It was primarily due to high gas prices on the European market at the start of the year (although prices have since fallen back), which made LNG (liquefied natural gas) deliveries particularly attractive to US exporters and priced out some Asian LNG buyers. The United States is now the European Union's second-largest supplier of natural gas, behind Norway, which supplied 30% of European gas demand. Even after the end of gas transit through Ukraine at the beginning of the year, Russian gas has not completely disappeared from Europe. Supplies continue to flow via a pipeline through Turkey and in the form of LNG.

Public finances

CORPORATE AND HOUSEHOLD INCOME TAX



Sources: Tax authorities, STATEC (seasonally adjusted data)

Revenues boosted by corporation tax

Public revenues collected in Q1 rose by an impressive 14% year-on-year (+1.3% quarter-on-quarter on a seasonally adjusted basis). This growth is largely due to corporation tax, which jumped by 60% year-on-year and by 33% between the last quarter of 2024 and Q1 2025, inflated by the tax balances of some companies relating to previous years. Note that the rate of the corporate income tax has been cut by one percentage point since January.

Household income tax fell by 6.5% over the quarter due to a drop in capital income and the effect of the adjustment to the tax scale.

In addition, VAT revenues fell by 7% over the quarter (after having risen by 14% in 2024), registration duties and excise duties on fuels fell again (by -14% and -8% respectively over the quarter), while excise duties on tobacco continued to rise (+7%).

Dashboard

	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	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	-0.6	-10.6	0.6	-2.0	-2.1	3.2	3.0	2.9	...	3.0	-3.1
Construction output per working day, in volume	-9.4	4.3	-2.7	-2.2	-1.9	-6.6	8.1	1.2	...	0.6	-2.8
Turnover by volume of total retail trade	-0.4	-2.5	5.2	6.6	-2.1	2.8	3.7	5.6	-4.7	1.3	2.2
Prices, wages											
Consumer price index (NCPI)	2.0	1.7	1.3	1.0	0.8	1.0	1.9	1.7	1.3	1.7	3.2
Underlying inflation	2.0	2.3	2.3	1.8	1.6	1.5	1.8	1.8	1.5	1.7	3.5
Oil product index	1.3	-8.4	-14.9	-13.9	-12.6	-8.1	4.4	-0.1	-2.7	0.4	-0.8
Industrial producer price index	-5.7	-3.9	-2.4	-0.7	-0.7	-0.7	-0.3	0.6	...	-0.1	-12.3
Construction price index[1]	1.3	1.3	1.3	0.8	0.8	0.8	...	...	...	0.8	6.4
Average wage bill, per person (National accounts)	1.3	1.3	1.3	0.6	0.6	0.6	...	...	...	0.6	3.7
Foreign trade											
Exports of goods (volume)	0.4	-12.9	-4.6	-0.3	-7.1	0.4	-1.2	0.7	...	-0.1	-1.3
Imports of goods (volume)	10.9	-8.5	3.5	5.1	-1.7	-1.2	-10.8	-10.6	...	-7.6	6.5
Employment, unemployment											
Domestic number of employees	1.1	1.0	0.9	1.1	1.1	0.8	0.9	1.0	0.9	0.9	1.1
National employment	1.1	1.0	1.0	1.1	1.2	1.0	0.9	1.0	0.9	0.9	1.0
Unemployment rate (% of working population, seas. adj.)	5.7	5.8	5.8	5.8	5.9	5.9	5.9	5.9	5.9	5.9	5.6

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

Indicators

	% change on previous quarter					
	2023 Q3	2023 Q4	2024 Q1	2024 Q2	2024 Q3	2024 Q4
Eurozone - Real GDP growth (European Commission)	0.0	0.0	0.3	0.2	0.4	0.2
Luxembourg - Real GDP growth (STATEC)	0.7	-0.4	0.6	0.7	-0.9	1.4
	Annual variation in %					
	2021	2022	2023	Forecast 2024	Forecast 2025	Forecast 2026
Luxembourg - Real GDP growth (STATEC)	6.9	-1.1	-0.7	1.0	2.5	2.4

GDP at current prices (2024)

EUR **86 104** million

Minimum monthly wage (01/01/2025)

EUR **2 637.79**

Next scheduled wage indexation:
May 2025

Consumer price index (03/2025)

1 020.58

Index half-yearly average:
1 012.69

Current account balance (Q4 2024)

EUR **3 679** million

Resident population (01/01/2024)

672 050

STATEC

For further information
Press office | +352 247-88455 | press@statec.etat.lu
statistics.lu