CONJONCTURE FLASH

Économie et prix

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

RECOVERY IN EMPLOYMENT BARELY TANGIBLE

Job creation accelerates slightly in Q2 but remains very low historically. A return to normality will not happen overnight.

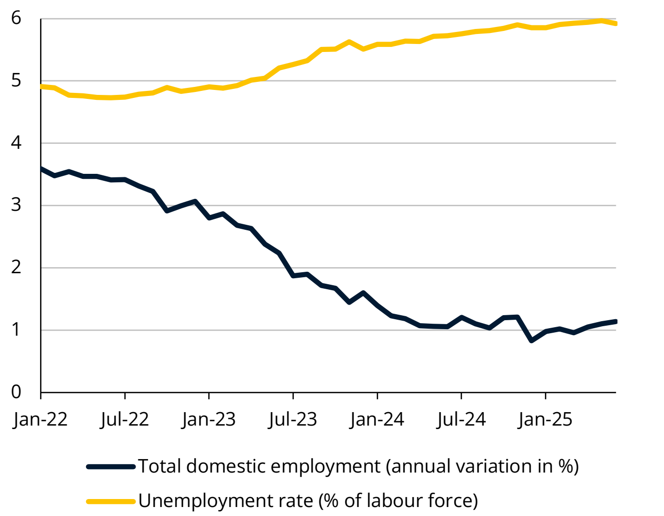
Initial figures available for the second quarter show a slightly stronger rise in employment than in the first three months of the year: +0.3% (quarterly variation), up from +0.2%, still low by historical standards. With growth acquisition at 0.9% in June,[1] this pace would still be sufficient to achieve the 1% increase that STATEC is forecasting for 2025 as a whole (June 2025 forecasts). But a further acceleration (to +0.4% per quarter) would be needed to reach the 1.5% forecast for 2026. It remains to be seen to what extent the persistently high level of labour hoarding might hinder a more dynamic recovery in employment.[2]

Public sector the main provider of jobs

In Q2, the public sector accounted for a large part of the growth in employment, i.e. 0.2 percentage points out of a total of 0.3%. Employment is increasing in health and social work and in the public administration sector (+0.8% each over a quarter), but also in education (+0.5%). In the private sector, it is above all transport (0.1 percentage points) and business services (+0.1 percentage points) which have underpinned growth in total employment, with construction continuing to make a negative contribution (-0.1 percentage points). The slight upturn in momentum between the first and second quarters is mainly due to business services, but also transport and the financial sector (the latter slowed sharply in recent quarters, and even stagnated in the first quarter, but grew a surprising +0.2% in the second quarter according to initial figures available).

Some of the most dynamic sectors are those with relatively low headcount (in descending order of quarterly growth): real estate activities (+2.7%), production and distribution of electricity, gas, steam and air conditioning, transport and other service activities, which include hairdressers and voluntary organisations (all three up 1.1% on the quarter). Conversely, employment fell further in construction (-0.9% over the quarter, after falling -0.6% in Q1), in activities of households as employers (-0.9%), in ICT (-0.2%) and in manufacturing (-0.1%). Since their last peaks, these four sectors have lost more than 7600 jobs (construction: -4600 since the end of 2022; industry: -1500 since the end of 2022; household activities: -900 since the end of 2017 and ICT: -600 since mid-2024[3]).

EMPLOYMENT AND UNEMPLOYMENT IN LUXEMBOURG



Sources: STATEC, national accounts (seasonally adjusted data)

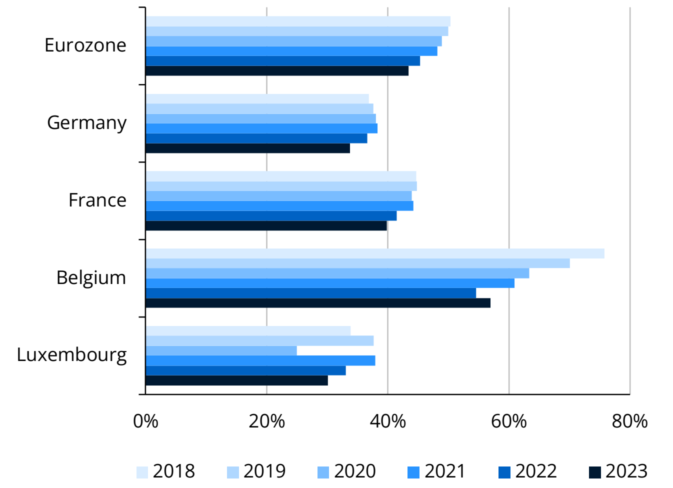
Outlook remains mixed

The outlook for recovery in the labour market, business surveys reveal, has recently improved in industry (+2.2 points in Q2 after falling -9.7 in Q1) and is slightly less negative in construction (-10.2 points after -16.2). In non-financial services (including retail), however, the trend remains downward. The upturn in job vacancies observed in Q1 did not continue in Q2, with fewer vacancies reported than in Q1, particularly in business services, transport, health and social work, and ICT. Unemployment, on the other hand, showed a slightly more favourable trend in mid-2025, falling to 5.9% of the labour force in June, down from 6.0% the previous month. However, there can be no talk of a downturn unless a trend is confirmed over several consecutive months.

[1] This is the annual growth rate that would be achieved if employment remained constant for the rest of the year.
[2] See STATEC, Note de conjoncture 1-2025, study 7.2 "Is the fall in labour productivity in Luxembourg influenced by labour hoarding?", pp. 78-88. The figures for the second quarter, in particular, show an upturn in labour hoarding in the services sector.
[3] However, a large part of this fall was due to reclassifications in other sectors of activity.

International

PROPORTION OF WAGE BILL IN DEFENCE SPENDING



Source: Eurostat (COFOG: Classification of the functions of government)

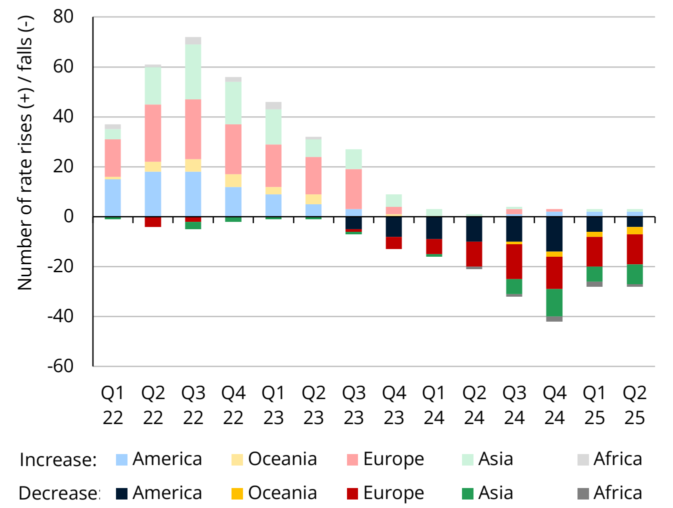
Defence: lower wage spending in Luxembourg

Military spending has recently become a major focus of attention. Following the NATO summit in The Hague in June, member countries pledged to increase defence spending from 2% to 5% of GDP by 2035. Luxembourg's neighbours currently allocate a much higher proportion of their budgets to defence, with Luxembourg spending 0.6% of its GDP in 2023 (0.8% of GNI), compared with 1.8% in France, 1.1% in Germany and 0.9% in Belgium, according to the most recent figures.

In addition, the proportion of Luxembourg's defence budget spent on personnel remuneration, the type of expenditure most likely to be reinjected into the national economy, is relatively low (30% in 2023), reflecting the country's limited number of troops. This highlights Luxembourg's current defence strategy, which gives priority to international partnerships. Transfers in the form of foreign military aid account for a considerable proportion of Luxembourg's defence spending (42% in 2023). Conversely, most military spending in Belgium is on wages (57% in 2023). France and Germany also spent more on wages (40% and 34% respectively in 2023) and less on foreign military aid (4% and 19% respectively) than Luxembourg.

Financial environment

NUMBER OF KEY RATE HIKES/CUTS



Sources: BRI, STATEC calculations

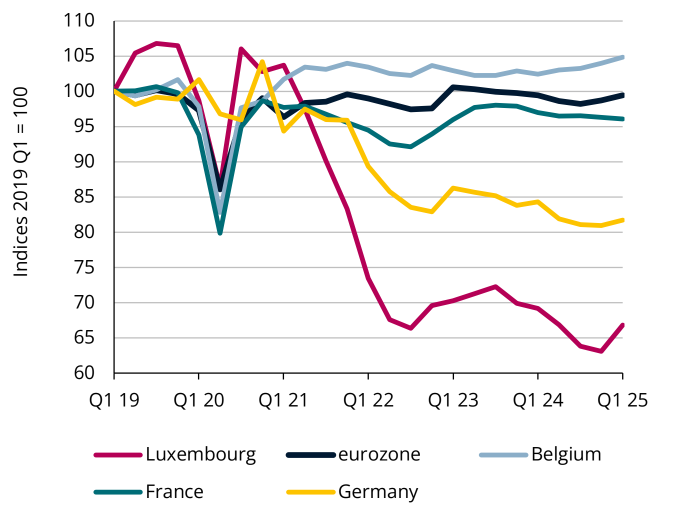
More rate cuts in Europe

The reduction in key rates continued in Q2. Europe's central banks (particularly the ECB) are by far the most active in monetary easing. The slowdown in inflation towards the 2% target in the eurozone has enabled the ECB to cut rates by 25 basis points at each meeting since last September, bringing the deposit rate to 2% (half the level it was in June 2024). The ECB is expected to pause the monetary easing cycle at its next meeting. In the UK, rates have been cut by 25 basis points per quarter since autumn 2024, reaching 4.25%. Inflation remains above 3% (linked to regulated prices and previous rises in energy prices) and is only expected to return to target next year. In the United States, the Fed has made no rate cuts this year against a backdrop of high inflation expectations (with the target rate remaining in the 4.25%-4.50% range). However, two reductions are likely by the end of 2025.

Brazil was one of the only countries to raise rates in the second quarter. The key rate reached 15% after a seventh consecutive rise, its highest level since 2006, in the face of stubbornly high inflation and unrealistic expectations. Japan's central bank, meanwhile, has remained reluctant in recent months to raise rates despite inflation exceeding 3%.

Activity

CONSTRUCTION GVA IN VOLUME



Source: Eurostat

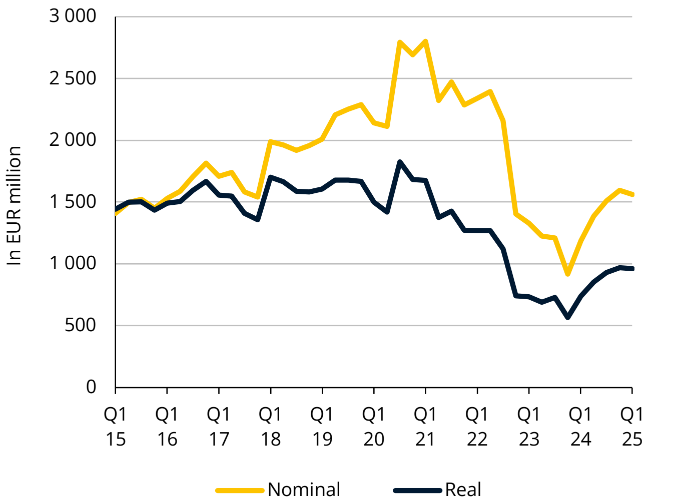
Construction activity increases at the start of 2025, but remains at low levels

After declining throughout 2024, gross value added (GVA) in volume terms in the construction sector finally took off again in the first quarter of 2025 (+6% over one quarter). This improvement is visible in all areas (building, civil engineering, specialised work). In the eurozone and in Germany, activity also increased in early 2025, albeit more moderately (previous falls were also less pronounced). On the other hand, construction activity in France continued to fall slightly.

Despite the positive trend at the start of the year, activity levels in Luxembourg remain low. As a result, GVA in volume terms is still 3% below the level of Q1 2024 and even 31% below that of 2019. Over this last period, Luxembourg saw the sharpest contraction in construction activity in the EU, ahead of Nordic countries (Finland and Denmark, -25% and -20% respectively) and German-speaking countries (Austria and Germany, -18% and -17% respectively). Changes in GVA mirror those in construction investment, particularly in housing. In fact, the trend in Luxembourg since 2022 has headed towards a decline in the latter. Residential investments rebounded strongly in Q1 2025 (+10% quarter-on-quarter) after a very weak Q4 but are still well below their level 3 years ago.

Property

HOME LOANS TO INDIVIDUALS



Sources: BCL, STATEC (seasonally adjusted data)
Note: Real loans are obtained by deflating nominal loans by house sale prices.

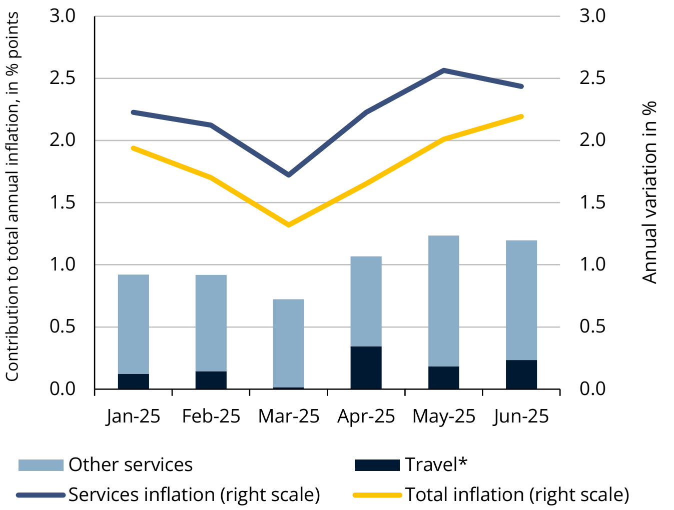
A (temporary?) halt to rise in mortgage lending

Home loans to individuals, which had been rising for a year, fell slightly in the first quarter of 2025 (-2%, seasonally adjusted data). However, this may be just a temporary blip in their ascent. In fact, there was also a downturn in housing transactions in early 2025, in contrast to a very sharp rise in the fourth quarter of 2024 (see June Flash). Moreover, more recent indicators point to a further rise in mortgage lending in the second quarter. In any case, mortgage amounts granted in the first quarter, offset by price movements, are still around 500 EUR million below what they were before the property crisis.

The recovery in mortgage lending seen so far has been helped by the widespread cuts in mortgage rates during 2024. In 2025, variable and fixed property rates began to diverge. Variable rates continued to fall, in line with movements in key rates, while fixed rates rose slightly. So, for the first time in around 2 years, long-term fixed mortgage rates are once again higher than variable rates.

Inflation

PRICE OF SERVICES



Source: STATEC
*Package holidays and air tickets.

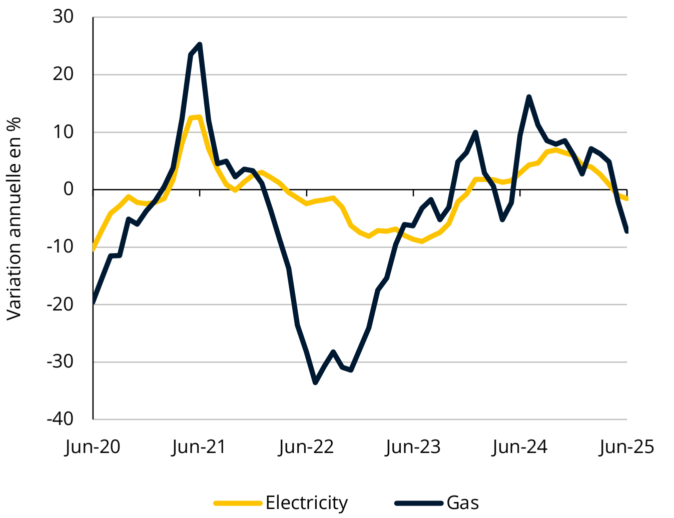
Travel has become more expensive

Inflation in services has risen in recent months in the Grand Duchy (to 2.4% in June, after 1.7% in March), mainly as a result of the indexation adjustment on 1 May 2025, but not exclusively. Travel in particular has contributed most to service inflation in recent months. With +7.4% growth year-on-year in the first 6 months of 2025 for package holidays (which include air travel, bus travel and cruises) and +5.8% for air tickets, these two items together contributed 0.2 percentage points to overall inflation in the first half of 2025.

In the eurozone as a whole, prices for services relating to tourist packages and accommodation rose by 4.9% over the first 6 months of 2025 (of which +4.9% for tourist packages and +4.3% for accommodation services), and by 3.4% for transport services. Over the same period, transport services rose particularly sharply in Slovakia (+14.3%), Malta (+13.1%) and Germany (+6.5%), while accommodation services were particularly expensive in Estonia (+14.6%), Croatia (+12.7%) and Greece (+9.3%).

Energy

ELECTRICITY AND GAS CONSUMPTION IN LUXEMBOURG



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

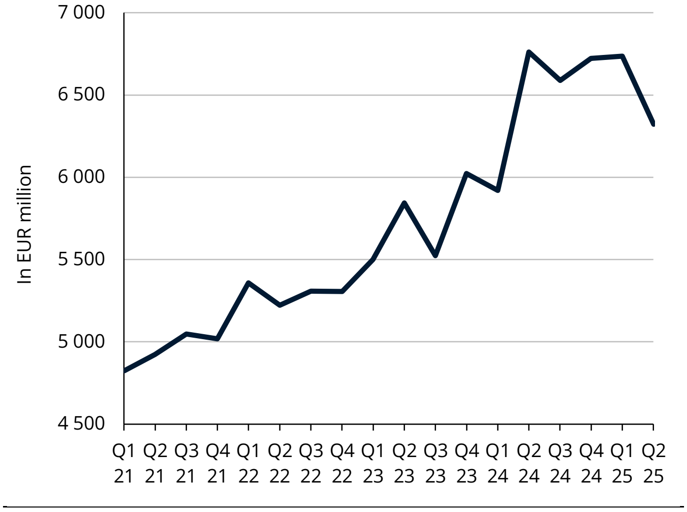
Rebound in gas and electricity consumption comes to an end

After rebounding in 2024 and early 2025, the trend in gas and electricity consumption seems to have reversed mid-year. Over the first six months of 2025, gas consumption rose by 1% compared with the same period in 2024, despite a fall in the second quarter. The rebound in 2024 was mainly driven by industry, with an increase of 12% compared to 2023, but this momentum has stabilised in 2025. Above all, it was the colder temperatures at the start of the year that led to an increase in gas consumption for heating. On the other hand, deliveries of heating oil fell by 2%, which could indicate a decline in the number of oil-fired boilers.

As for electricity, after rising by 2% in 2024, growth in consumption slowed to less than 1% in the first half of 2025, with a decline observed in recent months. The rise in prices for residential customers at the start of the year may have played a part in this slowdown, but probably only to a limited extent, as more than 80% of electricity consumption is by businesses.

Public finances

TAX RECEIPTS (EXCLUDING SOCIAL SECURITY CONTRIBUTIONS)



Sources: Public administration, STATEC (cash-basis data)

Fall in tax receipts

Tax receipts (excluding social security contributions) fell by 6% between the first quarter and the second quarter of 2025, bringing annual growth to just 3.5% over the first half as a whole (after rising +13.5% in 2024). Taxes on household income have been reduced by the adjustment of tax scales and by a fall in capital gains (linked to the turmoil on the financial markets). Corporate income tax, which had risen sharply in late 2024 and early 2025 driven by a few companies, has returned to a level close to that seen in Q3 2024. Registration fees, which also surged in the fourth quarter, are again being hit by low property transaction numbers. VAT receipts fell as a result of a special transaction which had a major positive impact at the end of 2024, before correcting itself at the beginning of 2025. From an accounting point of view, however, the transaction is neutral.

In its latest Note de conjoncture, STATEC forecasts a slowdown in the growth of total recorded revenues over 2025 and 2026 as a whole (to +4.6% and +4.1% respectively). The public balance should therefore be neutral in 2025 (0%) and then return to negative territory by 2026 (-0.9%).

Dashboard

	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-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	-2.0	-2.2	3.3	3.2	2.5	-2.7	0.2	...	...	-0.1	-2.3
Construction output per working day, in volume	-2.2	-1.9	-6.6	8.9	1.2	-0.8	0.1	...	...	0.2	-5.3
Turnover by volume of total retail trade	6.2	-2.1	2.8	3.3	-2.8	-3.4	6.2	4.7	...	2.2	-1.4
Prices, wages											
Consumer price index (NCPI)	1.0	0.8	1.0	1.9	1.7	1.3	1.7	2.0	2.2	2.0	2.4
Underlying inflation	1.8	1.6	1.5	1.8	1.8	1.5	2.0	2.3	2.3	2.2	2.4
Oil product index	-13.9	-12.6	-8.1	4.4	-0.1	-2.7	-6.1	-4.1	-1.0	-3.8	2.7
Industrial producer price index	-0.3	-0.4	-0.4	0.9	1.8	2.1	4.9	4.3	...	3.8	-11.5
Construction price index[1]	0.8	0.8	0.8	1.2	1.2	1.2	1.5	1.5	1.5	1.5	1.7
Average wage bill, per person (National accounts)	1.0	1.0	1.0	1.8	1.8	1.8	...	...	...	1.8	5.2
Foreign trade											
Exports of goods (volume)	-0.2	-6.9	0.4	1.5	3.6	-0.2	-0.3	...	...	0.9	1.0
Imports of goods (volume)	3.1	-2.1	-2.4	-10.6	-10.6	3.3	-5.3	...	...	-4.2	-1.7
Employment, unemployment											
Domestic number of employees	1.1	1.1	0.8	0.9	1.0	0.9	1.0	1.0	1.1	1.0	0.9
National employment	1.0	1.1	0.9	1.0	1.0	0.9	1.0	1.1	1.1	1.0	0.9
Unemployment rate (% of working population, seas. adj.)	5.8	5.9	5.9	5.9	5.9	5.9	5.9	6.0	5.9	5.9	5.7

Source: STATEC
Cvs - seasonally adjusted, CNT - quarterly national accounts.
[1] Estimates based on half-yearly figures

Indicators

	% change on previous quarter					
	2023 Q4	**2024 Q1**	**2024 Q2**	**2024 Q3**	**2024 Q4**	**2025 Q1**
Eurozone - Real GDP growth (European Commission)	0.1	0.3	0.2	0.4	0.3	0.6
Luxembourg - Real GDP growth (STATEC)	-0.7	1.3	0.5	-1.2	1.3	-1.0
	Annual variation in %					
	2021	**2022**	**2023**	**2024**	**Forecast 2025**	**Forecast 2026**
Luxembourg - Real GDP growth (STATEC)	6.9	-1.1	-0.7	1.0	1.0	2.0

GDP at current prices (2024)

EUR 86 104 million

Minimum monthly wage (01/05/2025)

EUR **2 703.74**

Next scheduled wage indexation:
Q3 2026

Consumer price index (06/2025)

1033.81

Index half-yearly average:
1024.27

Current account balance (Q1 2025)

EUR **883** million

Resident population (01/01/2025)

682 000

STATEC

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