CONJONCTURE FLASH

Economy and prices

MONTHLY PUBLICATION ON THE STATE OF LUXEMBOURG'S ECONOMY – **JULY 2026**

MIXED SIGNALS IN THE LABOR MARKET

Unemployment continues to rise in Luxembourg, even as employment trends improve. The recovery in the private sector is benefiting cross-border workers the most. However, hiring prospects have been declining since the outbreak of war in Iran.

In Luxembourg, employment growth is expected to strengthen in the 2nd quarter of 2026 (+0.5% quarter-over-quarter) according to preliminary data available through June. This would mark a continuation of the recovery that began in late 2024. At +1.9% year-over-year in June, employment growth would far exceed the +0.6% recorded in December 2024, while remaining well below the growth rates of over 3% recorded in 2022 and before the outbreak of the COVID-19 crisis.

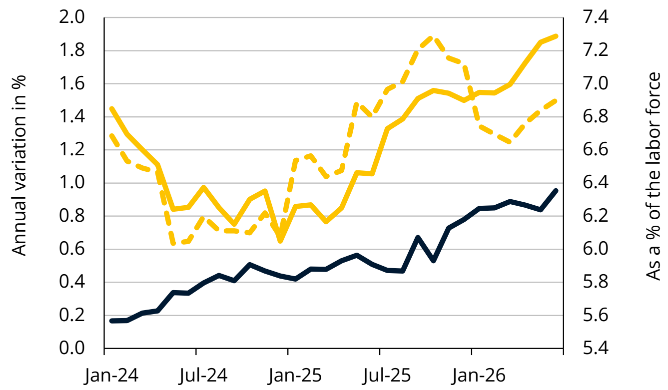
Despite this renewed momentum, the unemployment rate rose once again, reaching 6.4% of the labor force in June. It had begun to decline in the summer of 2025 (to 5.9% last August), before rebounding sharply. These seemingly contradictory trends stem in part from the relative weakness of the national job market and the growth of the labor force, potentially due to previously inactive individuals registering with ADEM (see the June 2026 Conjoncture Flash).

Sustained growth in cross-border employment

While cross-border employment gradually strengthened to 2.4% year-over-year in June 2026—reflecting a certain economic recovery—domestic employment (i.e., among residents) declined. After peaking at +1.9% year-over-year in October 2025, employment among residents slowed to +1.2% in March 2026, before rebounding slightly to +1.5% in June. This trend reflects fluctuations in workforce levels in public administration and education, a sector dominated by residents (nearly 90%) and the primary net creator of jobs over the past two years.

Cross-border employment, meanwhile, grew mainly driven by an acceleration in health care and social assistance. Non-residents accounted for two-thirds of the year-over-year net creation of salaried jobs in this sector (in April 2026, the most recent month for which this level of detail is available). Cross-border workers also benefited from the rebound in administrative and support services (particularly temporary staffing, reflecting improved prospects in construction, among other sectors), while the number of resident employees in this sector stagnated. In several sectors, the number of cross-border workers rose year-over-year in April, while the number of residents declined. The gap is widening most notably in construction and retail, and to a lesser extent in hospitality, manufacturing, and information and communication. Conversely, in financial and insurance activities, resident salaried employment is rising while that of non-residents is declining (continuing the upward trend in the share of residents observed for more than 10 years).

EMPLOYMENT AND UNEMPLOYMENT IN LUXEMBOURG



Sources: ADEM, STATEC (seasonally adjusted data)

In 2024 and 2025, growth in cross-border employment relied almost exclusively on the influx of French residents. French nationals continue to dominate the figures in early 2026, accounting for 90% of the increase in cross-border workers between December 2025 and April 2026 (based on seasonally adjusted figures). Belgian cross-border workers are also contributing to this trend, with their numbers on the rise again since the spring of 2025, and even German cross-border workers are showing a slight increase at the start of this year (particularly in health care and social services), following two years of decline.

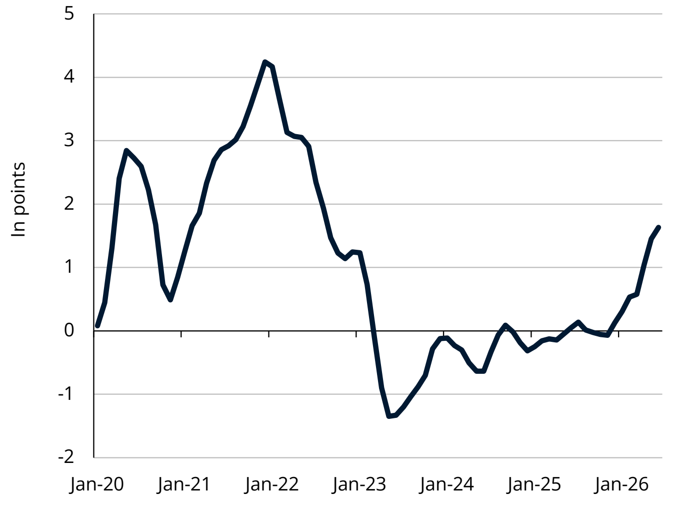
Is a slowdown in hiring on the horizon?

If employment were to maintain the growth pace of the 2nd quarter for the remainder of the year, the growth projected in the latest Note de conjoncture for 2026 (+1.7%, central scenario) would be slightly exceeded. However, over the past few months, hiring expectations derived from business surveys have deteriorated compared to the start of the year (i.e., before the outbreak of war in Iran), and this holds true for all sectors surveyed (the rate for construction continued to recover through May, before edging back slightly in June). Furthermore, the number of job openings reported to ADEM fell by nearly 7% in the 2nd quarter of 2026 (following a 4% increase in the 1st quarter).

STATEC

International

GLOBAL SUPPLY CHAIN PRESSURE INDEX



Source: Macrobond (3-month moving average)
Note: A value above (or below) 0 indicates increasing (or decreasing) supply chain pressures.

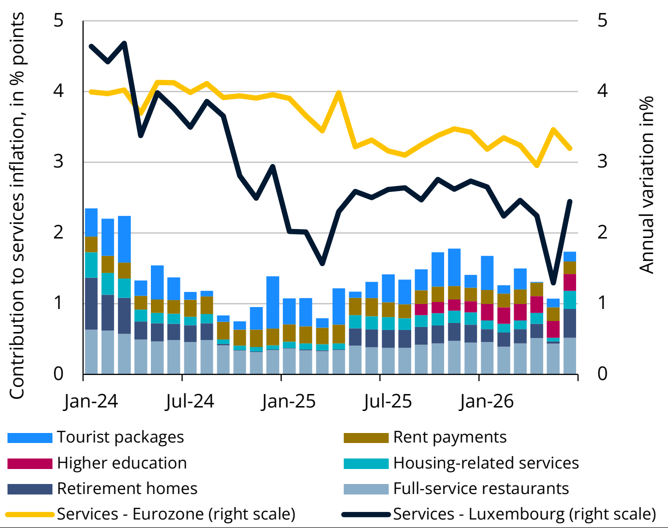
A resurgence of supply chain tensions

The war in Iran and the blockade of the Strait of Hormuz have reignited tensions in supply chains. These tensions are at their highest level since mid-2022, driven by a significant increase in the cost of maritime transport. Since the beginning of 2026, the maritime freight index for bulk commodities has risen by 17%. The cost of chartering container ships, up 7%, is also contributing to this price surge, which is disrupting global supply chains.

The blockade of the Strait of Hormuz, through which approximately one-fifth of global kerosene exports pass, has also sharply increased the cost of air freight, putting additional pressure on the supply chain. These tensions are further fueled by companies' precautionary stockpiling, as they seek to protect themselves against potential logistical disruptions. They will persist as long as the Strait of Hormuz remains effectively closed and could intensify considerably if attacks by Houthi rebels in the Red Sea escalate and restrict passage through the Strait of Bab el-Mandeb. In 2023–2024, disruptions in the Red Sea caused by Houthi rebel attacks had indeed forced shipowners to bypass the Bab el-Mandeb Strait via the Cape of Good Hope, which lengthened delivery times and increased logistics costs.

Inflation

INFLATION IN SERVICES



Sources: Eurostat, STATEC

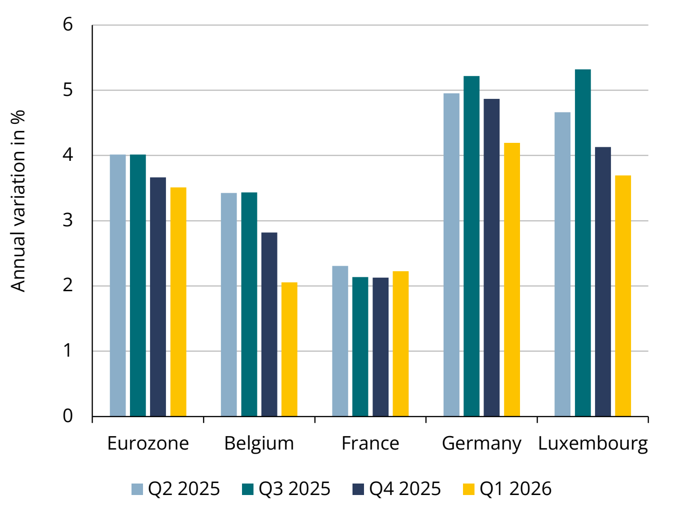
Inflation in services remains relatively low

Inflation in the services sector reached 2.4% in June, up from just 1.3% in May. The slowdown in annual inflation observed in May was primarily due to the waning effects of the May 2025 wage indexation. The most recent wage indexation in June 2026 once again pushed up inflation in services. The increase remains relatively moderate, however, compared to the 3.7% average in 2024 and even 3.8% in 2022, as well as to the rate observed in the euro area (3.2% in June). An indexation generally generates a limited increase in inflation in the short term, on the order of 0.2 percentage points during the two months following its implementation.

In June, restaurants, cafés, and similar establishments remained the main contributors to inflation in the services sector, although their contribution was lower than in the euro area. Next come retirement homes, housing maintenance, repair, and security services, higher education (following the doubling of tuition fees at the University of Luxembourg at the start of the 2025 academic year), rent actually paid for the primary residence, and tourist packages, whose prices remain particularly volatile.

Wages

AVERAGE WAGE COST



Sources: Eurostat, STATEC

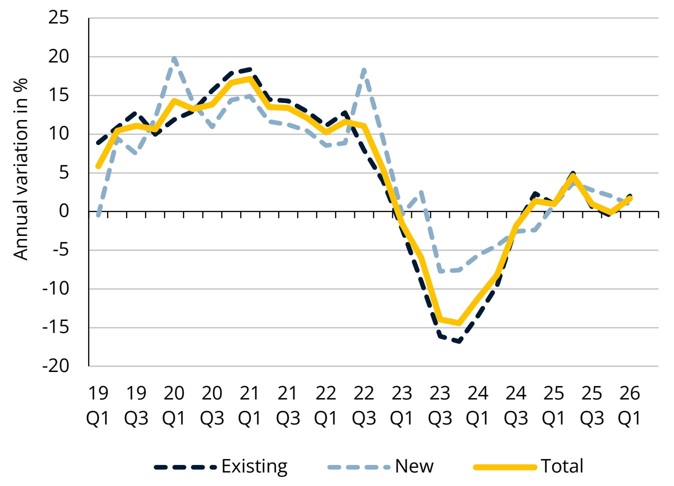
Widespread slowdown in average wage costs

In the 1st quarter of 2026, the average wage cost (AWC) per person slowed in both Luxembourg and the euro area. Germany and Belgium posted a fairly marked slowdown. France did not slow down but, on the other hand, recorded a more modest increase over the last four quarters.

In Luxembourg, the AWC rose by 3.7% year-over-year in the 1st quarter, according to the most recent data, following a 4.1% increase in the 4th quarter of 2025. While the main contributor to AWC growth remains the May 2025 indexation (as in previous quarters), the recent slowdown is primarily attributable to a smaller increase in base wages compared to previous quarters. This is particularly true for the non-market sector, whose contribution fell from 1.7 percentage points at the end of 2025 to 1.1 percentage points at the start of 2026, in line with the civil service wage agreement, which provided for a 2% wage increase in 2025 compared with 0.5% this year. The specialized, scientific, and technical services sector is an exception, with accelerating AWC (its contribution rising from 0.1 to 0.5 percentage points), following a particularly weak 4th quarter due to a decline in bonuses and gratuities. The increase in employer pension contributions has also contributed positively to the rise in AWC since the beginning of the year.

Real estate

REAL ESTATE PRICES IN LUXEMBOURG



Source: STATEC

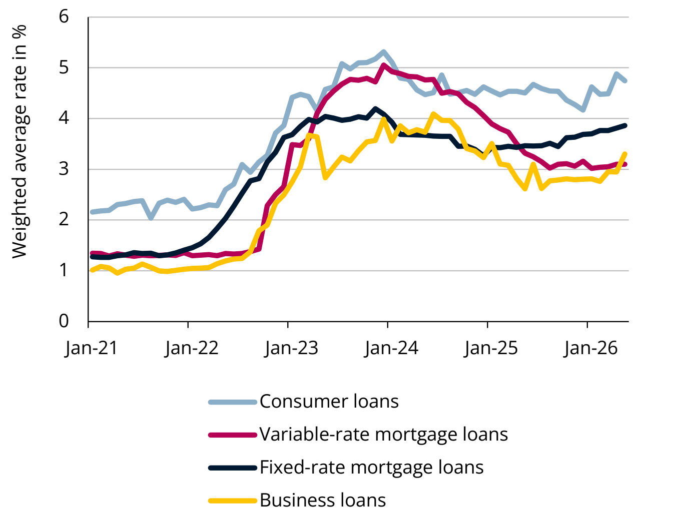
Housing prices are rising moderately

In the 1st quarter of 2026, housing prices resumed a slight upward trend, rising 1.7% year-over-year—close to the inflation rate (1.6%) and lower than wage growth. The number of real estate transactions increased by 3.3% year-over-year, but sales of new apartments remain well below their pre-crisis levels.

The methodology for calculating the hedonic price index has been adjusted: commute time now replaces distance from Luxembourg City as the location variable. This change has only a limited effect on the overall index (-0.2 percentage points on the annual change in real estate prices in the 1st quarter), but its impact is not negligible for certain market segments, notably off-plan apartments (VEFA), for which the rate of increase has been revised downward, and single-family homes, for which price growth has been revised upward. This new methodology was presented in the September 2025 "Housing in Figures" publication (pp. 20–23) and will be detailed in another publication to be released shortly. Once the effect of this change is neutralized, apartment prices appear to be fairly stable between the 4th quarter of 2025 and the 1st quarter of 2026. House prices, which had fallen the most since the mid-2022 peak, recorded a quarterly increase of 2.4%, however.

Financial sector

INTEREST RATES APPLIED TO NEW LOAN CONTRACTS



Source: BCL (seasonally adjusted data)

Interest rates are rising again

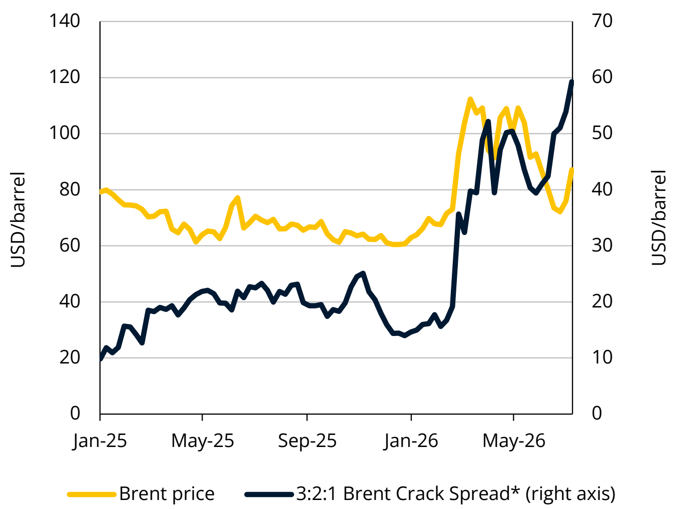
Interest rates on bank loans were almost all higher during the first five months of 2026, with the exception of variable-rate mortgages.

According to the bank lending survey, the worsening economic outlook has prompted banks to increase their margins on loans to businesses and households to cover the risk. The average rate on consumer loans thus reached 5%, the highest level since mid-2024. The rate on fixed-rate mortgage loans has been rising since February — reaching 3.9% — driven by the increase in long-term rates in the eurozone, which is itself linked to geopolitical tensions and expectations of higher inflation. By contrast, the variable rate on mortgage loans has stabilized since mid-2025 at around 3.1%, but it is expected to start rising again as early as June following the European Central Bank's increase in its key interest rate.

After rising in the 1st quarter, demand for new loans has been declining since then and is expected to fall further in the coming months due to interest rate hikes and banks' stricter lending criteria.

Energy

CRUDE OIL PRICES AND REFINING MARGINS



Source: Macrobond
*The "3:2:1 Brent Crack Spread" is an indicator used to estimate the refining margin for crude oil. It is based on the assumption that a refinery processes 3 barrels of crude oil to produce 2 barrels of gasoline and 1 barrel of diesel/heating oil.

Prices for refined products are soaring

With the outbreak of war in Iran, prices for refined products soared, initially following the sharp rise in crude oil prices. Since June, this correlation has weakened. While crude oil prices have retreated amid successive ceasefire announcements and the release of strategic reserves, refining margins remained high before rising sharply again.

This trend can be attributed to the severe disruptions currently affecting global refining capacity, due to two major geopolitical conflicts : the war in Iran and the conflict between Russia and Ukraine. For several weeks now, Ukraine has been systematically targeting Russian refineries, to the extent that it is estimated that more than half of the country's refining capacity is currently shut down. At the same time, the situation in the Strait of Hormuz continues to disrupt the flow of petroleum product supplies.

Against this backdrop, pressure on the refined products markets remains particularly high. European refineries have adjusted their production, notably by increasing kerosene output to offset the scarcity of imports from the Middle East.

Dashboard

	Oct-25	Nov-25	Dec-25	Jan-26	Feb-26	Mar-26	Apr-26	May-26	Jun-26	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	10.9	1.0	-3.4	-6.0	-10.3	-4.3	-6.3	...	...	-6.9	-0.4
Construction output per working day, in volume	2.0	4.4	-0.1	4.8	1.7	3.8	2.1	...	...	2.6	0.2
Turnover by volume of total retail trade	4.1	2.5	2.9	4.1	3.3	2.1	2.7	2.3	...	2.3	3.6
Prices, wages											
Consumer price index (NCPI)	2.7	3.0	3.1	1.3	1.3	2.4	3.1	2.3	2.2	2.5	2.0
Inflation excluding oil products	2.5	2.6	2.9	1.9	1.7	1.8	1.7	1.0	1.5	1.4	2.3
Oil product index	7.0	12.2	5.7	-9.2	-7.3	11.5	27.6	25.7	16.0	23.1	-3.8
Industrial producer price index	-2.7	-3.4	-3.7	-7.7	-8.4	-7.8	-5.4	-4.5	...	-5.9	4.0
Construction price index[1]	2.0	2.0	2.0	...	...	...	...	...	...	2.0	0.8
Average wage bill, per person (QNA)	4.2	4.2	4.2	3.4	3.4	3.4	...	...	...	3.4	3.4
Foreign trade											
Exports of goods (volume)	4.7	-2.7	11.5	-0.7	-4.5	7.4	2.4	...	...	1.8	-3.2
Imports of goods (volume)	27.9	3.1	5.4	9.9	16.8	-1.3	10.1	...	...	7.9	0.3
Employment, unemployment											
Domestic number of employees	1.5	1.5	1.4	1.5	1.5	1.5	1.7	1.8	1.8	1.8	0.9
National employment	1.9	1.8	1.7	1.3	1.3	1.2	1.4	1.4	1.5	1.4	1.3
Unemployment rate (% of labour force, seas. adj.)	5.9	6.1	6.2	6.2	6.2	6.3	6.3	6.2	6.4	6.3	5.9

Source: STATEC. SA – seasonally adjusted, QNA – Quarterly National Accounts. [1] Estimates based on semi-annual data

Indicators

	% change on previous quarter					
	2024 Q4	**2025 Q1**	**2025 Q2**	**2025 Q3**	**2025 Q4**	**2026 Q1**
Eurozone - Real GDP growth (European Commission)	0.4	0.7	0.1	0.3	0.2	-0.2
Luxembourg - Real GDP growth (STATEC)	1.1	0.4	0.5	1.2	0.0	0.0
	Annual variation in %					
	2022	**2023**	**2024**	**2025**	**Forecast 2026**	**Forecast 2027**
Luxembourg - Real GDP growth (STATEC)	-1.1	0.1	0.4	0.6	1.2	1.9

GDP at current prices (2025)

EUR **89 522** million

Monthly minimum wage (01/06/2026)

EUR **2 771.33**

Next scheduled wage indexation:
Q2 2027

Consumer Price Index (05/2026)

1 056.28

Half-yearly average of the index:
1,044.87

Current account balance (Q4 2025)

EUR **-47** million

Resident population (01/01/2026)

691,000

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