CONJONCTURE FLASH

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MONTHLY PUBLICATION ON THE STATE OF THE LUXEMBOURG ECONOMY

Substantial aid packages for households and businesses

Twice already this year, the social partners have come together to agree on measures intended to reduce the cost of the energy crisis. While these measures are set to weigh on public finances, they will also help to maintain the purchasing power of the most needy households and the investment and hiring capacity of businesses. These measures are expected to have a positive impact on GDP and employment, especially in 2023.

In its forecasts in Note de Conjoncture 2-22 (to be released 5 December), STATEC included, as usual, all public measures affecting the economy in 2022 and 2023 ("Energiedësch", tripartite agreements of March and September 2022 and carbon tax). STATEC's contribution is to evaluate the impact (specifically the multiplier effects) of these measures.

In decreasing order, the main measures are as follows:[1]

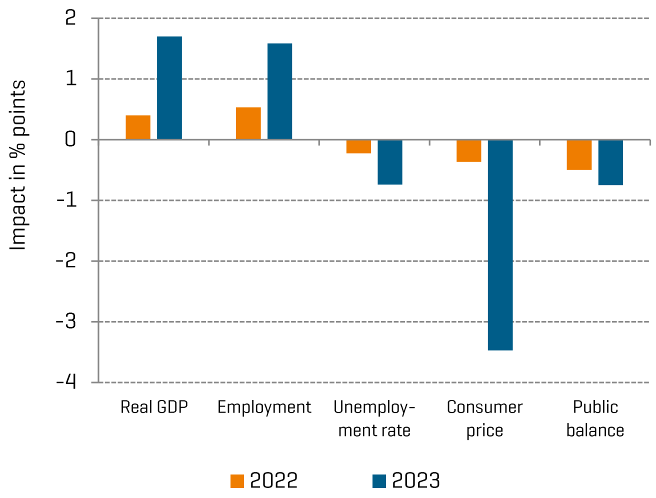
- Energy tax credit (EUR 495 million);
- Gas price increases frozen at +15% for households from October 2022 (EUR 470 million);
- VAT rate temporarily cut by one percent (standard, intermediate and reduced rate: EUR 270 million);
- Transfers to businesses affected by the energy crisis (EUR 185 million);
- Electricity price cap for households (EUR 110 million);
- Reduction in fuel and solid fuel of 7.5 cent per litre (EUR 77 million).

Ex ante, these measures are costing the state EUR 1.7 billion (700 million in 2022 and 1 billion in 2023).[2] The benefits of these measures pass down to economic stakeholders mainly as follows:

- The sliding wage scale system and inflation are restricted by capping energy prices (and, to a lesser extent) cutting VAT;
- Transfers to households and tax reductions;
- Aid for businesses affected by rising energy prices.

Compared to the inflation forecast excluding measures, the sliding wage scale system will fall 1.4% in 2022 and 4% in 2023, which will have a huge impact on employment (+1.6% in 2023), by reducing labour costs. Other measures directly support household purchasing power (particularly low-income households through the tax credit, cash transfers and the energy price cap). In total, these two measures will increase real disposable income and private household consumption by 1.5% in 2023. Measures aimed at businesses whose profitability has been affected by the energy crisis (and meeting the criteria listed in the bill) should give substantial impetus to investment in machinery and equipment (+4%).

IMPACT OF MEASURES TO ADDRESS THE ENERGY CRISIS



Source: STATEC

Uncertainties persist over future energy price trends

In total, owing to measures essentially aimed at boosting domestic demand, real GDP growth will rise about 0.5 percentage points in 2022 and 1.5 percentage points in 2023. The favourable effects on other variables, primarily employment and unemployment, should mean that the measures will be partly self-financing, by about one third.

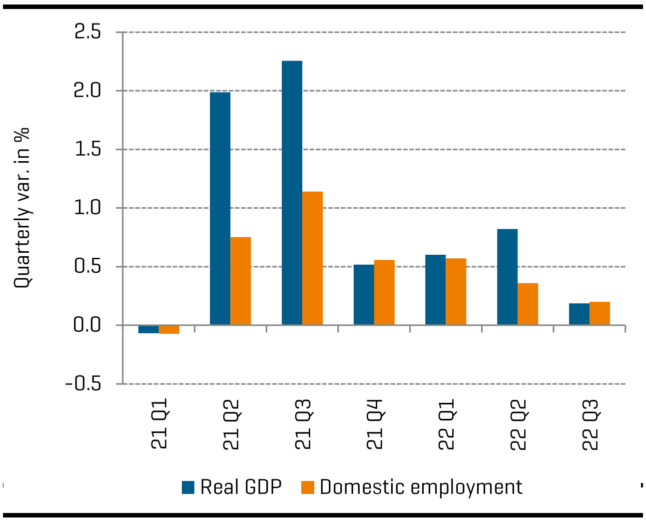
However, these figures should be treated with caution. The counterfactual excluding measures was drawn up in early September, when energy prices were on a different trajectory (especially gas) for 2023. If prices start rising again, these measures could cost the state more (ex ante). On the other hand, if gas prices fall, perhaps even further than at present, the ex ante budgetary cost will be lower. At the same time, the simulated impact on the sliding wage scale system would be less, as would the effects on activity and employment.

[1] These include direct and indirect shifts in the sliding wage scale which have no direct cost but instead reduce public expenditure.

[2] STATEC's evaluation differs in two respects from the amounts set out in the bill: direct aid to businesses is lower because gas prices have fallen back since summer and the cost of the VAT cut was also adjusted downwards (by approximately EUR 50 million).

International

GDP AND EMPLOYMENT IN THE EURO AREA



Source: Eurostat (seasonally adjusted data)

Slowdown (followed by recession) in the euro area

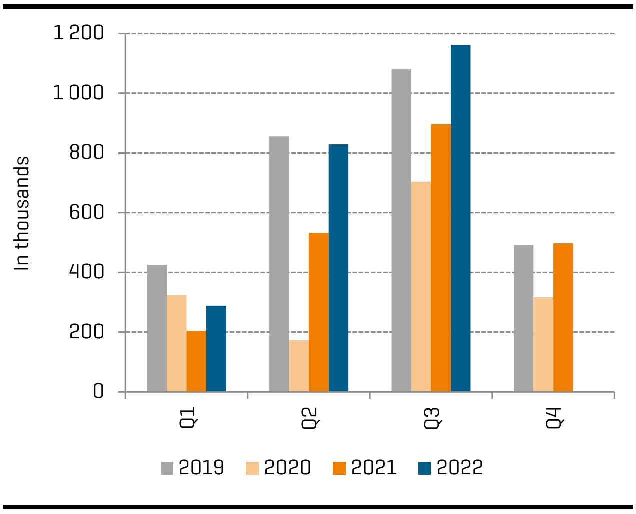
In Q3 2022, euro area GDP rose 0.2% over one quarter (+1.7% over one year). This indicates a sharp slowdown in activity over the summer, a trend that has also been observed in employment (already stalling in Q2) and that reflects a considerable deterioration in economic surveys over the period.

This slower GDP growth can be seen in many member states, some of which have even recorded a downturn (Latvia, Slovenia, Netherlands, Belgium, Austria and Finland). In contrast, Germany, the euro area's economic powerhouse, outperformed, growing +0.4% (compared to just +0.1% in Q2) due to better-than-expected figures on private consumption and investments in equipment.

The European Commission's autumn forecasts (published 11 November) project that GDP will dip 0.5% across the euro area in Q4 and again in Q1 2023 (-0.1%), meaning that a recession is looming.

Activity

OVERNIGHT STAYS IN ACCOMMODATION ESTABLISHMENTS



Source: STATEC

A good summer for tourism

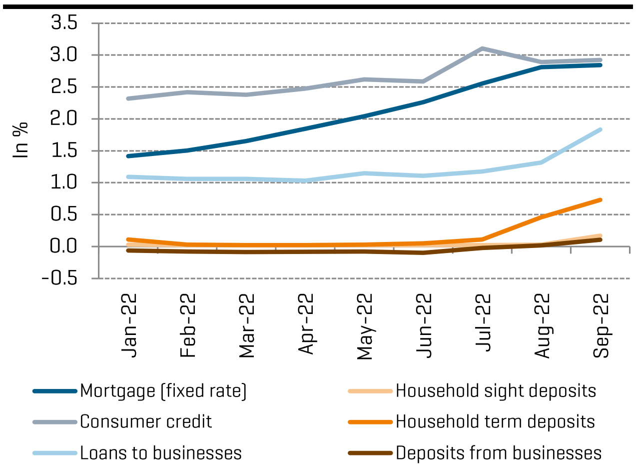
The number of overnight stays in accommodation establishments continues to rise in Luxembourg in 2022 and to recover from the sharp post-pandemic contraction. In Q3 2022, overnight stays even exceeded pre-Covid levels (Q3 2019).

The rise in overnight stays is rather due to rising tourist numbers than longer stays. In terms of accommodation type, campsites saw the strongest increase in overnight stays in Q3. In terms of nationality, the rise in Dutch tourists was particularly marked (almost twice as many overnight stays in July as last year). The weather, much milder this year, no doubt also contributed to these good results.

In the European Union, tourist numbers increased generally more in countries with large tourist industries, particularly in Spain and Malta. Alongside these countries, Luxembourg is one of the states where tourist numbers grew the most in Q3.

Financial sector 1/2

INTEREST RATES ON LOANS AND DEPOSITS IN LUXEMBOURG



Source: BCL
NB: Outstanding deposit rate and rate on new loans. Consumer credit rate seasonally adjusted.

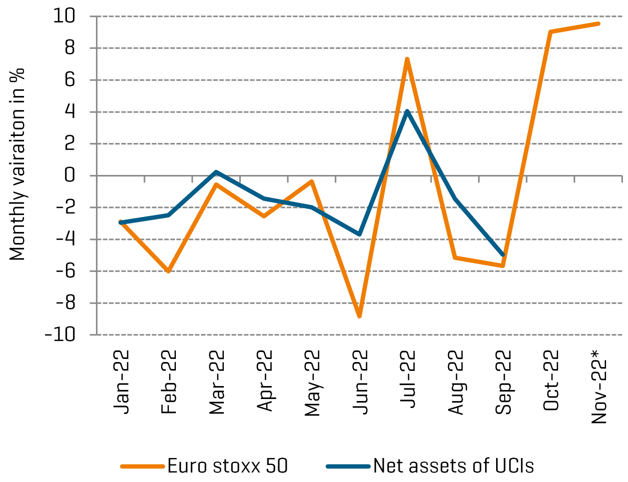
Loan and deposit rates rise

In September, rates on new consumer loans for households rose 0.5 percentage points over one year (from 2.6% to 3.1%) and those on new business loans rose 0.8 percentage points (from 1.0% to 1.8%). Fixed-rate mortgages of 10 years or more rose significantly, reaching 3% on average in September (+1.4 percentage points over one year), while variable rates averaged 1.4%, half the fixed rate. With such a gap between the two, variable-rate loans have become more attractive. The share of these in new mortgages granted rose from 34% in late 2021 to almost 60% in September 2022. The volume of new variable-rate loans thus rose almost 50% over one year, while fixed-rate loans fell 38%. Consumer loans granted in Q3 were up 2.8% over one year, while new business loans contracted by 3.1%.

On the other hand, deposit rates also rose from 0.1% to 0.7% between January and September 2022 for term deposits for households and from -0.1% to 0.6% for term deposits for businesses.

Financial sector 2/2

ASSETS OF LUXEMBOURG UNDERTAKINGS FOR COLLECTIVE INVESTMENT



Sources: CSSF, Macrobond (end-of-month data). * As at 25 November 2022.

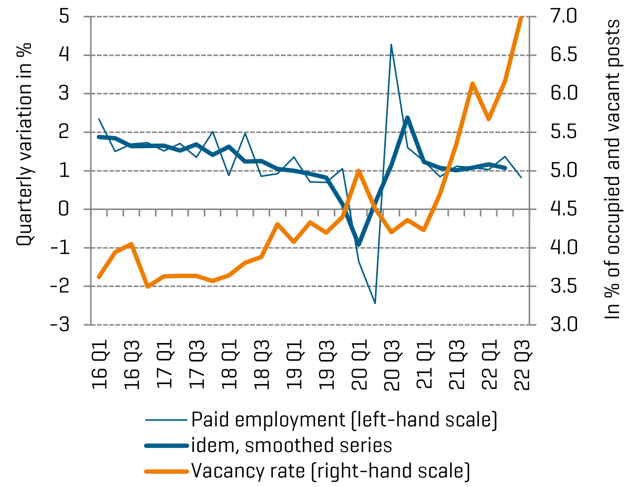
Investment fund assets set to rise in Q4

Affected by the turbulence on the stock markets in early 2022, assets under management of undertakings for collective investment in Luxembourg collapsed over the first three quarters of 2022 (-10% over one year in September). Write-downs account for 80% of the drop in investment fund assets, the remaining 20% being due to net outflow. The upswing in the stock markets observed from mid-October onwards should have a positive impact on assets of undertakings for collective investment.

Stock exchange valuations rose again as inflation dipped in the United States, boosting hopes of a slowdown in tougher monetary policies. The rise in stock valuations benefited all sectors, while not quite reaching the levels seen at the start of the year except the oil and gas industry (+28% since early 2022) and commodities (+5%) where prices rose strongly. The slowdown in euro-area activity, the energy crisis and the problems linked to the zero-Covid policy in China could, however, weigh on the markets in the coming months.

Labour market

BUSINESS SERVICES



Sources: STATEC, IGSS, ADEM (seasonally adjusted data)

Business services drive employment in the Grand Duchy

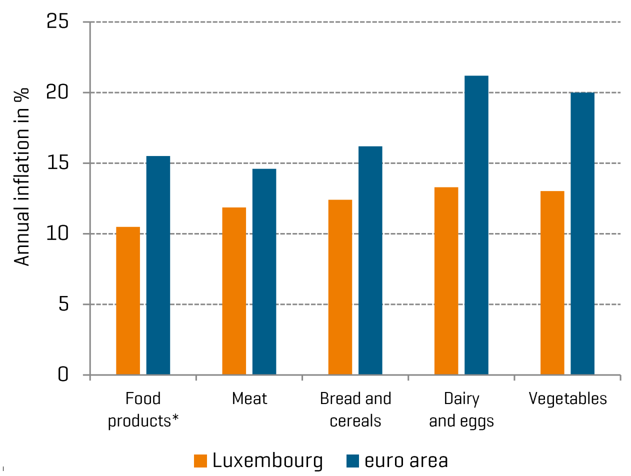
Business services have largely sustained employment in Luxembourg, accounting for a quarter of job creations over the past 25 years. In Q3 2022, almost 90 000 persons worked in these sectors (18% of total employment).

In 2022, these sectors continued to hire at a sustained pace (+4.4% over one year over the first nine months of the year or an extra 3 400 employees), particularly in head office activities and management consultancy (+9.6%), veterinary activities (+9.0%) and rental activities (+7.4%). In absolute terms, however, legal and accounting activities (which include the Big Four) created the most jobs, about 1 100 over the period.

Since early 2021, the vacancy rate in these services has exploded, particularly as regards the number of vacancies in accounting and management. The vacancy rate reached a record high of 7.0% in Q3 2022, in contrast to other sectors where it has tended to decline since the summer.

Inflation

FOOD INFLATION IN OCTOBER 2022



Source: STATEC. * Food and non-alcoholic beverages

Food prices soar

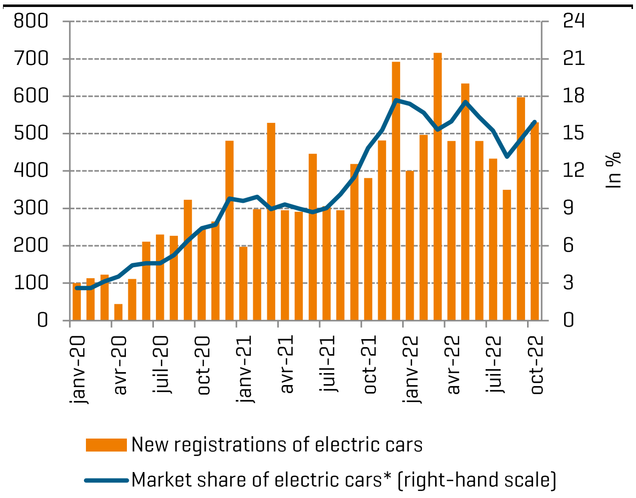
Food prices (excluding alcoholic beverages) rose 11% in Luxembourg in October 2022, accounting for about one fifth of general inflation (7%). The rise was even more marked in the euro area (+15% over one year in October 2022, a record high), accounting for almost one quarter of total inflation (11%). This is a significant increase on March 2022 (start of the war in Ukraine), when food accounted for just a tenth of inflation.

In the Grand Duchy, the products contributing the most to food inflation were meat (+12% over one year), bread and cereal (+12%), dairy products and eggs (+13%) and vegetables (13%). Comparable trends have been observed across the euro area.

Pressure on fertiliser prices, unpredictable weather conditions and the delayed knock-on effect of soaring energy and metal prices in the first semester contributed to this rise in food inflation. The dissipation of these impacts as well as negative baseline effects should dampen inflation in 2023.

Energy

REGISTRATIONS OF ELECTRIC CARS IN LUXEMBOURG



Source: SNCA
* Moving average over 3 months

Electromobility loses momentum

Over the first 10 months of 2022, new car registrations fell 6.5% over one year in Luxembourg (-8.0% over the same period across the euro area as a whole). While registrations of fully-electric cars rose 50% over the period, their market share seems to be stagnating since late 2021 (it is about 16% in the current year).

This stagnant market share could be due to microchip supply bottlenecks – which have affected the entire automotive industry – as electric vehicles use more of them than conventional cars.

This shortage seems to be abating now, however, and new car registrations have risen since August, as has the proportion of electric cars. At 1 October 2022, fully-electric cars accounted for 3% of the total number of vehicles in Luxembourg.

Trend chart

	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	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	2.9	-3.1	-0.5	-1.4	-3.3	0.1	-2.0	1.7	...	0.1	3.6
Construction output per working day, in volume	5.4	-1.8	-4.2	3.2	-5.0	-2.3	-1.6	0.7	...	-0.9	-2.1
Turnover by volume of total retail trade	-6.1	0.2	-5.9	-1.8	-4.2	0.2	-1.2	-0.7	...	-0.5	-0.8
Prices, wages											
Consumer price index (NCPI)	6.6	6.1	7.0	6.8	7.4	6.8	6.8	6.9	6.9	6.8	2.9
Underlying inflation	4.2	3.5	4.2	4.5	4.8	4.7	5.1	5.2	5.1	5.1	1.5
Oil product index	51.7	56.9	59.2	49.7	56.3	43.6	36.0	37.4	35.2	36.1	37.6
Industrial producer price index	24.4	24.8	30.3	32.8	30.0	29.7	25.9	...	...	28.5	11.0
Construction price index[1]	11.6	11.6	13.9	13.9	13.9	...	...	...	...	13.9	5.2
Average wage bill, per person (National accounts)	6.9	6.9	7.8	7.8	7.8	...	...	...	...	7.8	12.3
Foreign trade											
Exports of goods (volume)	2.5	-0.2	-8.5	1.5	-2.2	-10.6	6.2	0.8	...	-1.5	3.3
Imports of goods (volume)	4.8	8.2	7.3	4.9	3.4	1.8	10.4	9.6	...	7.1	1.0
Employment, unemployment											
Domestic number of employees	3.6	3.7	3.6	3.6	3.5	3.6	3.4	3.2	3.3	3.3	3.2
National employment	2.9	2.8	2.5	2.5	2.5	2.8	2.7	2.4	2.6	2.6	2.6
Unemployment rate (% of working population, seas. adj.)	4.8	4.7	4.7	4.7	4.7	4.7	4.8	4.9	4.9	4.9	5.4

Source: STATEC
[1] Estimations based on half-yearly data

Indicators

	Quarterly variation in %					
	2021 Q2	2021 Q3	2021 Q4	2022 Q1	2022 Q2	2022 Q3
Eurozone - real GDP growth (European Commission)	2.0	2.3	0.5	0.6	0.8	0.2
Luxembourg - real GDP growth (STATEC)	0.6	-0.3	1.7	0.7	-0.5	-
	Annual variation in %					
	2018	2019	2020	2021	Forecast 2022	Forecast 2023
Luxembourg - real GDP growth (STATEC)	1.2	2.3	-0.8	5.1	2.0	4.0

GDP at current prices 2021: EUR 72 295 million
Minimum monthly salary (since 01/04/2022): EUR 2 313.38
Current account balance (2022 Q2): EUR 610 million
Resident population (01/01/2022): 645 397

Consumer price index (10/2022) - base January 1st 1948: 971.97
Half-yearly average of the index linked to base as at January 1st 1948 (10/2022) : 960.72
Estimated deadline for next salary indexation: 2023 Q1

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