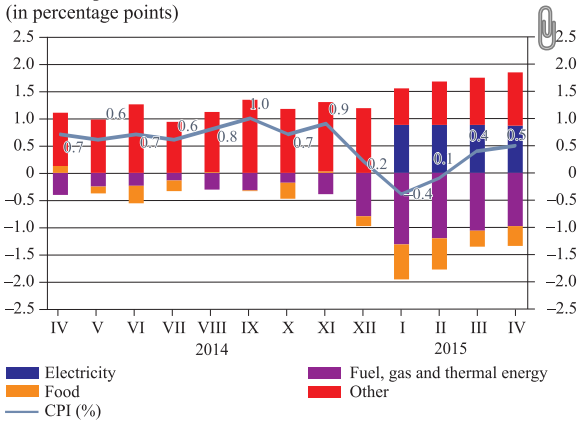
Annual inflation was stable in April

Contribution of selected components to the annual increase in consumer prices
(in percentage points)

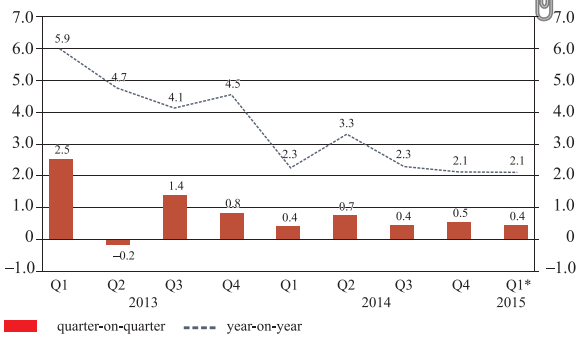


Source: CSB.

In April 2015, annual inflation did not change substantially and stood at 0.5%. A slight rise was caused by a more pronounced increase in seasonally fluctuating prices of goods. The uplift in oil prices in April compared with the average level in March was not sharp, and, except for some special sales, fuel merchants continued to gradually increase retail fuel prices, which on average went up by 0.3% in April. The rising global oil prices were offset by the food price trends, which were in part impacted by the European Union lifting its milk production quotas. However, the global trends in food prices were not fully reflected in the price dynamics of consumer goods in Latvia. As had been expected, the services price level remained stable, with the annual rise in non-administered services prices exceeding 2% in April and core inflation remaining at 1.5%.

GDP growth maintained by retail trade and impeded by energy sector

Real GDP growth rate
(%; seasonally adjusted)



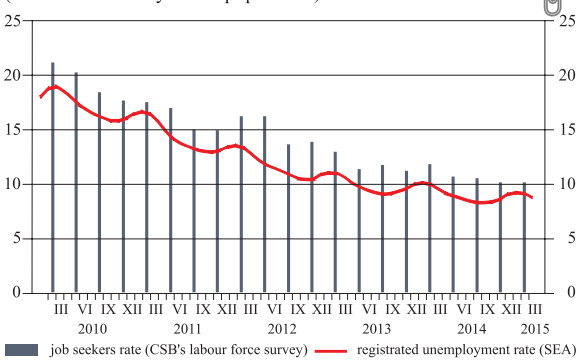
Source: CSB.
** flash estimate*

In the first quarter of 2015, GDP grew by 0.4% quarter-on-quarter (seasonally adjusted data) and 2.1% year-on-year (working day adjusted data). A positive annual growth of 4.2% was also recorded for manufacturing output in the first quarter. An important factor explaining the growth of industry could be the fact that in March manufacturing was partially resumed at *KVV Liepājas metalurgs*. In addition, several other enterprises are planning to start operation or to launch new production lines this year. One of the largest contributors to GDP growth has been retail trade, which grew by 7.5% in annual terms in the first quarter.

With the situation in the labour market gradually improving and disposable income increasing, consumer confidence is rising and has reached its highest point since 2007, which is also reflected in spending. Moreover, low fuel prices and household maintenance costs (lower bills because of warmer weather) have had a positive effect on the disposable income of households and consumption. However, the warm weather conditions in January and February had a fundamentally negative impact on the output of the energy sector, thus the contribution of the energy sector to GDP growth was expressly negative.

Labour market gradually becoming more favourable for employees

Unemployment
(% of economically active population)



Sources: CSB; SEA; Latvijas Banka calculations

As predicted earlier, unemployment continues to decrease in Latvia. At the beginning of 2015, 10.2% of economically active population were jobseekers. Despite a noteworthy annual drop of 1.7 percentage points, the proportion of jobseekers has changed very little over the last three quarters, with unemployment rate remaining slightly above 10%, i.e. close to its natural level. Both headline unemployment and natural level of unemployment are gradually decreasing and are likely to continue to go down in the future as well. A drop in natural unemployment will result from both better employment opportunities and active labour market policy measures like training programmes and competency development courses. Thus the situation of macroeconomic balance will last: wage rises will not significantly exceed labour productivity growth. The increase in the number of unemployment benefit recipients (to 40 thousand) reflects the largest number of registered short-term unemployed ever recorded. However, it does not point to a deteriorating situation in the labour market as the number of long-term unemployed was still larger. The EC consumer survey conducted in April indicates that the number of people in Latvia who expect a drop in unemployment has exceeded the number of people expecting an increase.