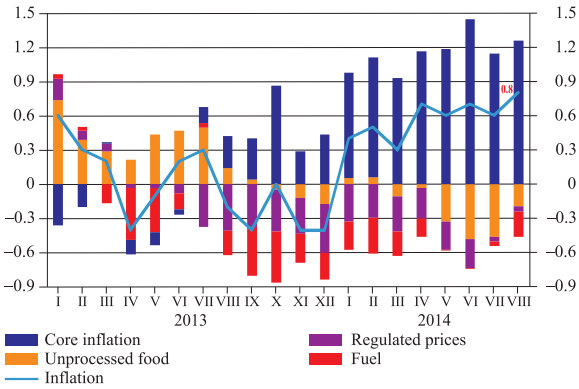
## Inflation in August 0.8%

**Annual inflation and contribution to the annual inflation**
(%; percentage points)



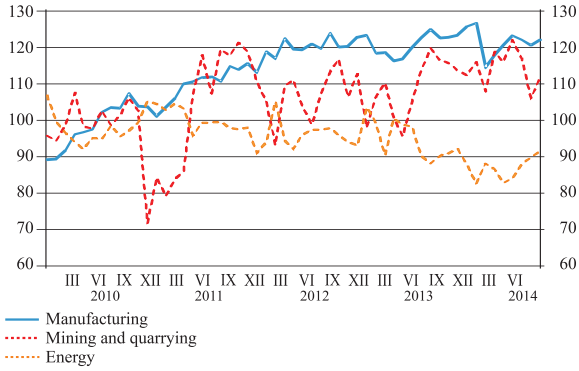

Source: CSB.

In August the annual inflation grew slightly to 0.8%, while the month-on-month changes were negative with -0.6%. Inflation trends in Latvia were determined by several developments: seasonal factors, the drop in oil prices and the strengthening of the U.S. dollar as well as the influence of Russian sanctions which was, however, not very pronounced. The fall in oil prices in the global market is reflected in the 2% drop in fuel prices. The strengthening of the US dollar meanwhile somewhat overshadows the effect of the oil price reduction. The seasonal factors were most pronounced in the prices of vegetables as well as discount sales of footwear, whereas in the sales of wearing apparel the prices of the new season began to dominate, therefore the average price level grew in this group of goods.

Further trends in price development will be determined by the drop in world food prices resulting from the favourable weather conditions as well as the impact of geopolitical factors.

## So far, manufacturing has managed to avoid the negative impact of geopolitical developments

**Volume indices of industrial production**
(2010 = 100; seasonally adjusted)



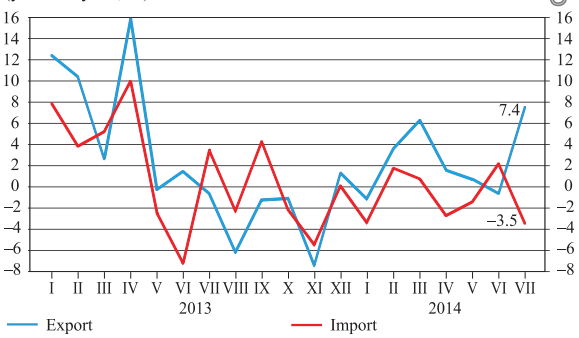

Source: CSB.

In July 2014 the volume of output in manufacturing grew by 1.2% (seasonally adjusted data). Year-on-year, the volume of output continued to diminish by 2.6%. Manufacturing growth is still experiencing the positive effects of positive growth rates in the manufacture of food products (+3.3%), of wood (+12.3%), of computer, electronic and optical products (+54.5%), as well as of chemicals (+21.9%). Substantial negative annual growth rates persist in the manufacture of wearing apparel (-20.4%) and machinery and equipment (-20.0%). After a longer interval, positive growth rates are observed in the electricity and gas supply sector (+4.9%).

The main topicality of the month related to Latvian manufacturing is the economic sanctions introduced by Russia; however, their direct impact on Latvian goods exports remains rather small from the macroeconomic point of view. On the list of exporters subject to sanctions there are only a few enterprises with sales above two million euro in Russia, and for none of them Russia is the main market. However, there are some enterprises with a turnover of less than two million euro whose proportion of sales in Russia is high. At the same time, the government has developed particular instruments to help limiting the negative consequences of these sanctions.

## The Latvian external trade data held a pleasant surprise in July

**Growth rates of exports and imports of goods**
(year-on-year; %)




Source: CSB.

Despite the negative political and economic background, in July the Latvian external trade turnover of goods increased by 7.8% month-on-month, with the export and import of goods increasing by 9.0% and 6.9% respectively. Annually the export value of goods has risen by 7.4% while the import value of goods has dropped by 3.5%. The year-on-year growth has been fastest in the products of wood and manufacture of chemical products, building materials, transport vehicles, as well as machinery and mechanical appliances; electrical equipment sectors. However, the drop in the demand in Russia and fluctuations of the rouble as well as the slow and uneven growth in the euro area countries had a negative impact on exports of Latvian goods.

In the longer run, a significant role in preserving Latvian ex-Undiport growth will be played by increased competitiveness, investments in productivity of enterprises, development of innovative products as well as finding new markets.