# Retail trade developments

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**With the level of income gradually rising while that of consumer prices remaining nearly unchanged, the growth of retail trade was among major driving forces of the Latvian economy in 2015. The year-on-year rise in retail trade in goods other than fuel maintained rather stable positive values also in the first quarter of 2016. However, the contribution from sales of fuel to total retail trade started to shrink gradually already in the second half of 2015, with lower prices playing an ever decreasing role in boosting fuel consumption. What are the main characteristics and main factors driving current developments in retail trade?**

The price level does matter in the short run. In the longer run, the income level, lending developments as well as demographic trends and consumer habits are more important.

The abovementioned example of sales of automotive fuel suggests that the price level might have underpinned fuel consumption in 2015, while a decrease in other energy prices, such as heating, might have affected other retail trade on account of reduced energy bills. However, prices of oil products are on the reverse trend at the moment, and their negative effects on year-on-year changes in consumer prices are expected to fade gradually.

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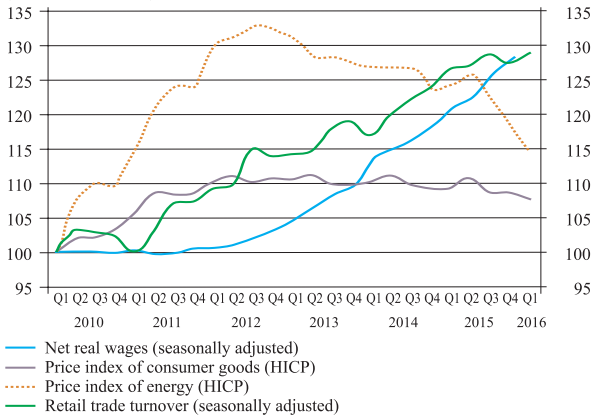
Retail trade developments in early 2016 might have partly been brought about by short-term or one-off factors. Among them, mention should be made of colder winter weather and an earlier flu season, which both seem to have induced specific purchases. In addition, bonuses paid out in December 2015 exceeded those of 2014. In the longer run, however, it is the income level that determines the trends in retail sales (see Figure).

**Growth of real net wages, retail trade turnover and consumer prices of selected groups of goods**
(Q1 2010 = 100%)




Sources: CSB, Eurostat and Latvijas Banka calculations.

In 2015 and early 2016, income was among the main factors influencing the sales of IT and communication products as well as household appliances and furniture. Lending in terms of consumer loans is reviving gradually; there is also some evidence of the growth of new mortgage loans, albeit from a low basis. Nevertheless, these trends are yet to strengthen retail sales in the course of 2016.

The combination of income and habits largely explains the robust growth in retail sales of food in real terms, as consumers' earnings tend to allow for a higher quality demand or healthier choices rather than an increase in physical consumption alone. The influence of changing habits on retail sales might be reflected by other examples, such as a steady rise in purchases made outside stores and markets, e.g. online shopping. The year-on-year growth of sales in this segment exceeded 30% in 2015 and in the first quarter of 2016 as well. This is where modern purchasing trends can be observed while probably contributing more to the redistribution between channels of retail trade than to the retail trade turnover.

In 2016, the growth of average wages is expected to slow somewhat as the positive impact of legislation on net wages is substantially weaker, and productivity improvements would contribute more. Thus, the effect of retail trade activities to GDP growth is expected to be smaller.