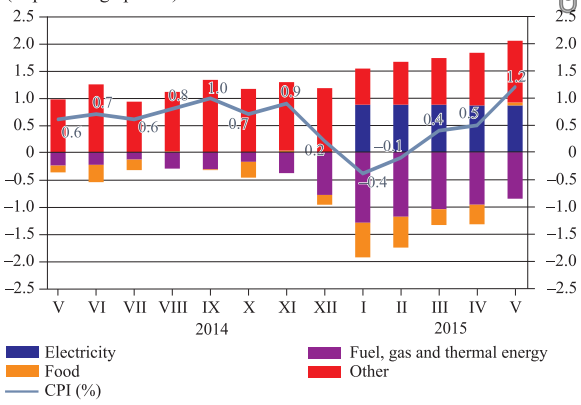
Annual inflation rose in May, indicating sustained demand

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

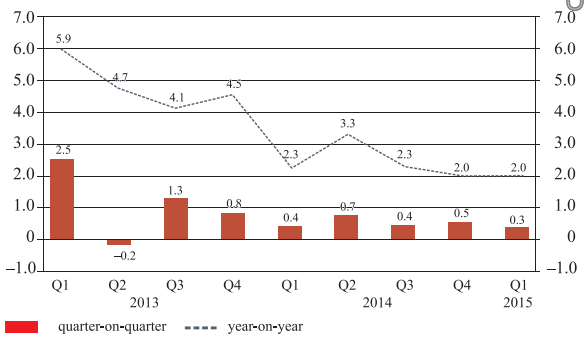


Source: CSB.

In May 2015, the annual inflation rose, reaching 1.2%. The rise was mostly due to price hikes in some core inflation goods and services groups. As the uplift in oil prices in May compared to the April average was a little faster, fuel retailers continued to raise prices gradually. The Food and Agriculture Organization's agricultural and food price index dropped also in May, primarily in dairy and cereal goods groups in which stocks were formed. In Latvian food retail, May was characterised by a faster than seasonally typical rise in the prices of fruit and, slightly, in vegetable and potato prices, whereas the prices of dairy products, for example, dropped in line with the world price trends. In May, core inflation grew slightly more than expected, which can be only partially explained by the Latvian Presidency of the Council of the European Union, because of which the prices of accommodation services might have risen more than usually. Yet the prices for wearing apparel, vehicles and in almost all groups of goods and services related to leisure and culture grew faster on average than in May. Moreover, prices grew for technological goods related to both home improvement and leisure and culture, and also for communication services. In these cases, the effect of the small-scale market could have been worn out (competing for a market share by using prices), and a gradual rise in income may be motivating merchants and service providers to raise the price level, which indicates the effect of sustainable demand.

GDP growth stable and moderate in the first quarter of 2015

Real GDP growth rate
(%; seasonally adjusted)

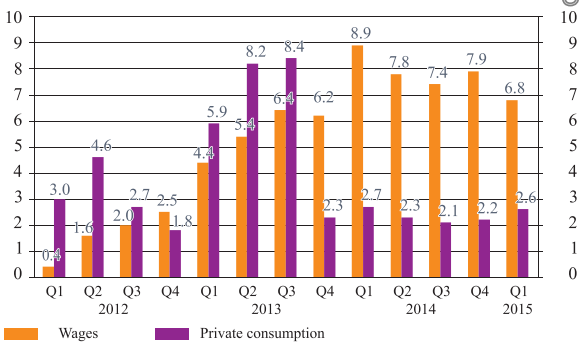


Source: CSB.

Seasonally adjusted GDP grew by 0.3% quarter-on-quarter and by 2.0% year-on-year (working day adjusted) in the first quarter of 2015. As previously expected, private consumption was the main driver behind growth rising 2.6% year-on-year. Along with the further increase in average wages, consumption was stimulated also by other factors. Among them were improved consumer confidence, a warmer winter with relatively lower heating expenses, and falling fuel prices. Due to geopolitical background, investors were more cautious last year, and investment decreased by 0.9% year-on-year also in the first quarter of the current year. Real exports of goods and services grew by 2.7% in the first quarter, which, along with the decline in imports by 1.8%, was an important positive net export contribution to GDP growth of 2.7 percentage points. Amidst high external uncertainty, exporters have to search for new markets and improve competitiveness in the existing ones. Recent data show that exports of goods continued to grow also in April, by 7.0% annually in nominal terms. Moreover, in April, ten Latvian dairy producers obtained the permission to export their output to China, and in summer they will be joined by four fish processing enterprises.

Annual wage growth gradually decreasing

Annual growth rate of average net real wages and real private consumption
(%)



Source: CSB.

As expected, the annual gross wage growth has slightly diminished from 6.6% in the fourth quarter of 2014 to 6.1% in the first quarter of 2015, which means some slow-down also compared to the 2014 average. Annual inflation remained low, tax burden also continued to diminish slightly, and the year-on-year rise in net real wages determining purchasing power is faster than that of gross wages (6.8%). The majority of enterprises surveyed in the second quarter of 2015 do not consider labour force shortages a crucial limiting factor for entrepreneurship. This indicator dropped year-on-year in manufacturing, services, and construction; quarter-on-quarter, it has slightly increased only in manufacturing. Shortages of labour force thus do not exert pressure on wages, which in turn means that the wage pressure on inflation will not increase.