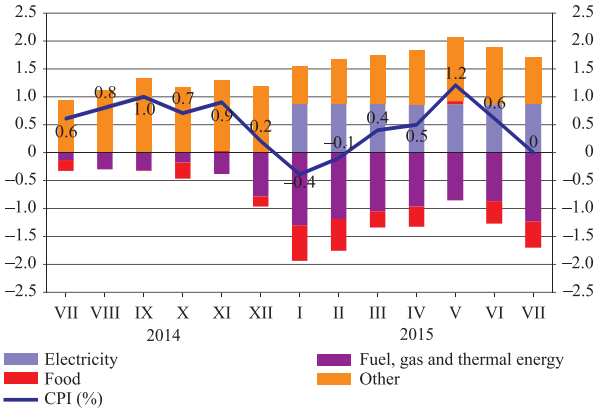
Annual inflation down in July

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



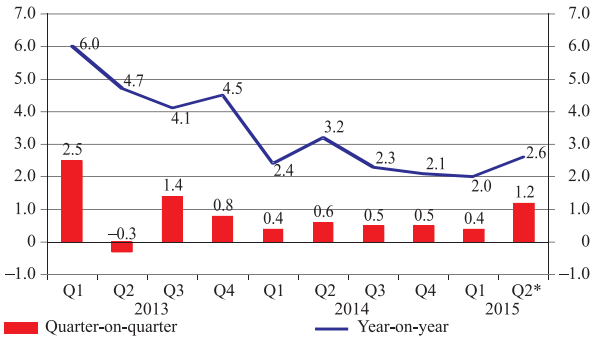
Source: CSB.

In July 2015, annual inflation dropped to 0.0%. This decline was determined by a decrease in energy and food prices as well as a larger than usual contraction of seasonally fluctuating prices.

The downward shift in oil prices in the global market in July was similar to the one in June, and fuel retail prices gradually decreased. As expected, heating prices continued to decline because the average heavy fuel oil price, and, consequently, that of natural gas, had been going down for an extended period. In July, natural gas tariffs for households dropped as well. The recent agreement on curtailing Iran's nuclear programme implies a possible increase in oil supply in 2016, which means that energy prices in Latvia could remain at the current level or even fall. Food prices continued to go down globally in July and were determined by lower dairy product and vegetable oil prices. Annual inflation in July was significantly decreased by a fall in seasonally fluctuating food prices (mostly vegetables), which exceeded the traditional July price contraction. As already on several occasions in 2015, seasonal effects on some groups of goods and services differed, both in downward and upward directions, from what was observed in previous years. Nevertheless, the July inflation data prevent any hasty conclusions on average annual inflation. However, some other factors, like the extension of Russian sanctions or eventual cautiousness of consumers, might retain their effect on inflation in the nearest quarters.

Rapid GDP growth in the second quarter

Real GDP growth rate
(%; seasonally adjusted)

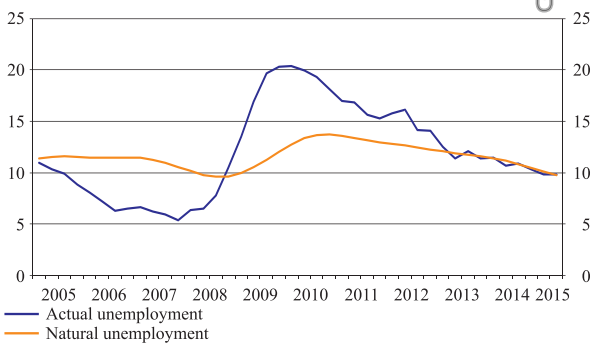


Source: CSB.
* Flash estimate.

Seasonally adjusted GDP increased by 1.2% quarter-on-quarter in the second quarter of 2015, which is the fastest quarterly GDP growth recently seen. According to working day adjusted data, GDP grew by 2.6% year-on-year. This rapid GDP growth was mainly on account of one-off factors in manufacturing, with the sector's output picking up 6.2% year-on-year. The factor of "KVV Liepājas metalurgs", where the strongest effect of resuming operation was particularly felt in the second quarter, was once again underpinning the success. The annual growth rate was positive in a substantial part of manufacturing subsectors, while negative growth was still observed in the majority of branches directly or indirectly exposed to the consequences of weak demand in Russia. However, the energy sector output also recovered somewhat after a very unsuccessful first quarter. Meanwhile, the GDP growth was curtailed by the performance of transport industry – the indicators of port and railroad operation were still gloomy.

Latvia returns to single-digit unemployment

Actual and natural unemployment in Latvia
(% of economically active population)



Source: CSB, Latvijas Banka staff calculations.*
* For the description of methodology, see Latvijas Banka Discussion Paper: Natural and Cyclical Unemployment in Latvia: New Insights from the Beveridge Curve Model.

For the first time in seven years, unemployment in Latvia has contracted below the 10% mark, standing at 9.8% of the economically active population in the second quarter of 2015. That is slightly less than in the euro area overall. However, it does not have a substantial impact on inflation, for the natural level of unemployment is also decreasing. This contraction is not a statistical phenomenon. The rest of the labour market indicators are also gradually improving, thus pointing to better employment opportunities. For instance, the share of economically inactive population who have lost hope of finding a job is undergoing a stable decline. The number of those who were forced to work part-time because they were unable to find a full-time employment has also gone down. The rise in employment is slow, and, as a consequence, the economic growth is taking place on account of productivity, which underpins a steady rise in wages.