



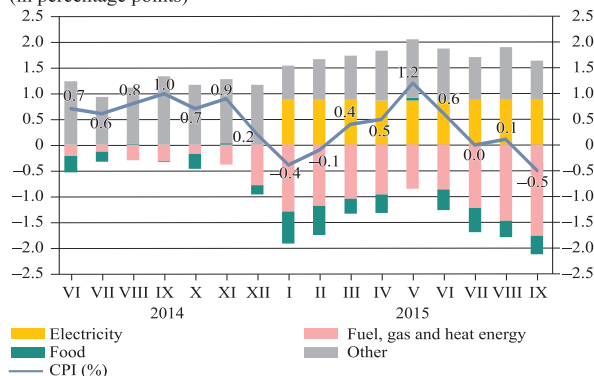
**LATVIJAS BANKA**  
**MONTHLY NEWSLETTER**

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**OCTOBER 2015**

## Consumer price level down year-on-year

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

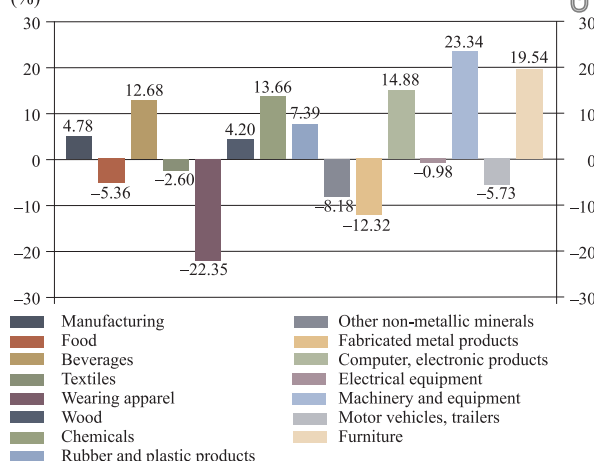


Source: CSB.

households to use the rest of their financial resources for the purchase of goods and services they would otherwise consume less.

## Industrial production increased year-on-year in August

Growth of real manufacturing output, year-on-year growth rates in August 2015 (%)

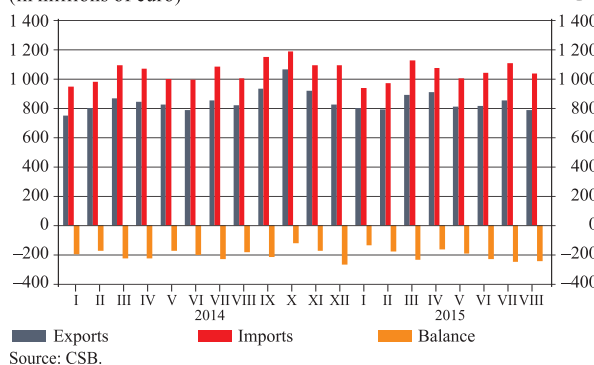


Source: CSB.

for the season. As a result, a record high volume of electricity was generated in comparison with August of the past few years.

## Latvian exports resist unfavourable external factors

External merchandise trade  
(in millions of euro)



Source: CSB.

sanctions most directly. However, irrespective of the reduced exports to Russia, several enterprises of the sector expect an increased turnover and exports this year.

In September, the consumer price level was lower than a year ago, and annual inflation was  $-0.5\%$ . The world energy prices continued to bring down inflation. September saw the characteristic seasonal price trends, e.g. a drop in fruit and potato prices, rising prices for wearing apparel and footwear as well as for education services. In case of wearing apparel and footwear, the price rise was smaller than usual and became one of the factors reducing annual inflation. However, under the conditions of low headline inflation, a higher than usual pick-up in book and stationery prices accompanied the increased prices of education services in September and even already in August. This could serve as one of the examples where a merchant could use the so-called consumption expenditure redistribution effect, i.e. lower spending for food and energy motivates

The volume of manufacturing output at constant prices has posted a good performance this year with a  $5.9\%$  increase in the first eight months and  $4.8\%$  year-on-year growth in August. The overall decline in production output in August (by  $3.0\%$  month-on-month) was primarily determined by a substantial drop in the volume of output in the food industry, which is hardly a surprise, as it is simply a return to the level of previous months; a positive "maverick" was actually July. Meanwhile, growth was notable in the chemical industry and manufacture of furniture. The so-called hi tech branches – production of computers and optical equipment, machinery and electrical equipment – continue to post good performance, which constantly improves and attains new output records on a regular basis.

It is worth mentioning that August was a very good month for the energy sector, which showed growth by  $7.3\%$  month-on-month and  $12.4\%$  year-on-year. Cogeneration plants were operated in August which was a little unusual

In the first eight months of this year, Latvia's exports of goods retained a slight growth of  $1.8\%$  year-on-year, posting a rise in exports of optical and medical equipment, chemical industry products, wood products and furniture as well as machinery and electrical equipment. The reduced demand in the Russian market was compensated by increased exports to European countries.

In August 2015, the export value of goods dropped by  $3.7\%$  year-on-year. Exports are still adversely affected by several factors: the sanctions imposed by Russia; geopolitical situation; worsening of the trade conditions along with the global downslide of prices; increasing competition and continuing weak demand in external markets. The food and agriculture industry is suffering from the Russian



	Reporting period	Data (%)
<b>Gross Domestic Product (GDP)</b>		
Real GDP (year-on-year growth)	2015 Q2	2.7
Real GDP (quarter-on-quarter growth; seasonally adjusted)	2015 Q2	1.2
<b>Public Finances</b>		
General government budget expenditure (since the beginning of the year, year-on-year growth)	2015 IX	6.2
Tax revenue (since the beginning of the year; year-on-year growth)	2015 IX	4.4
<b>Consumer price changes</b>		
Consumer Price Index CPI (year-on-year growth)	2015 IX	-0.5
Consumer Price Index HICP (year-on-year growth)	2015 IX	-0.4
12-month average inflation (HICP)	2015 IX	0.3
09.10.2015 <a href="#">Consumer price level down year-on-year</a> 		
<b>Foreign trade</b>		
Exports (year-on-year growth)	2015 VIII	-3.7
Imports (year-on-year growth)	2015 VIII	3.3
13.10.2015 <a href="#">August data are ruthless - Latvian exports shrinking</a> 		
<b>Balance of payments</b>		
Current account balance (ratio to GDP)	2015 Q2	-2.4
Foreign direct investment in Latvia (net flows; ratio to GDP)	2015 Q2	1.8
<b>Industrial output</b>		
Working day-adjusted manufacturing output index (year-on-year growth)	2015 VIII	4.8
06.10.2015 <a href="#">Manufacturing growth slows in August</a> 		
<b>Retail trade turnover</b>		
Retail trade turnover at constant prices (year-on-year growth)	2015 VIII	5.4
<b>Labour market</b>		
Registered unemployment (share in working age population)	2015 IX	8.3
Job seekers rate (share in working age population)	2015 Q2	9.8
<b>Monetary indicators</b>		
Resident deposits (year-on-year growth)	2015 VIII	7.9
28.09.2015 <a href="#">Another baby step forward in lending</a> 		

Sources: Treasury, Central Statistical Bureau of the Republic of Latvia, and Latvijas Banka data.

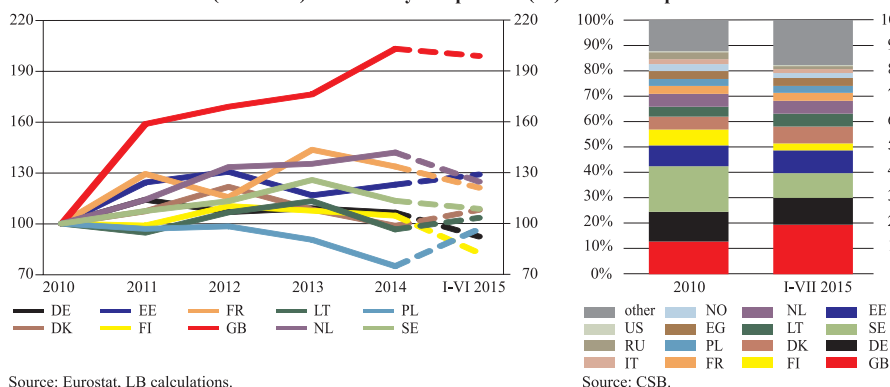
## Exports of wood: contribution to total exports and changes



**Daina Pelēce**  
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Forests cover 52% of Latvia's territory and the forest industry has historically been one of the most important economic sectors in Latvia. Although the contribution of the forest industry to Latvia's economic growth and exports has changed significantly within the last fifty years, wood is still mentioned among Latvia's main export goods. Most of the forest industry output, about 75%, is exported. The contribution of articles of wood\* to the overall national balance of exports reached a record-high at 43% in 1999 and 2000. Despite the fact that the exports of wood were increasing in the post-crisis period, the share of wood in Latvia's overall exports

**Chart 1. Market shares (2010=100) and country composition (%) of woods exports**



contracted to 17% in 2012. Nevertheless, in the most recent years the contribution of the forest industry to exports grew again and exports of articles of wood accounted for almost 21% of Latvia's total exports in the first half of 2015.

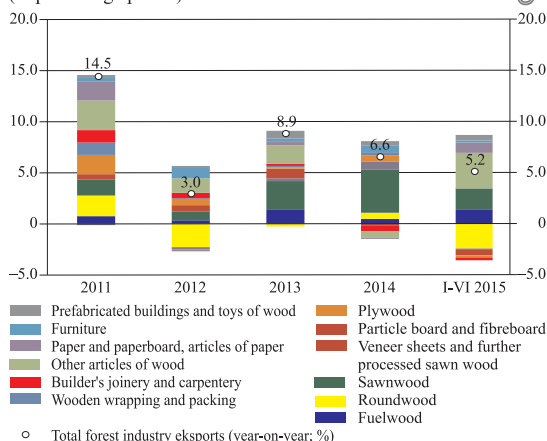
Preprocessing output consisting of fuelwood, chips, roundwood and sawnwood accounts for the bulk of the forest industry exports. The contribution of preprocessed wood to exports has been contracting on an annual

basis since 2000, with the share of further processed wood (pellets, briquettes, veneer sheets, boards, plywood, wooden wrapping and packing), furniture and artisan goods growing steadily.

Major export destinations for Latvia's wood products are the United Kingdom (in 2015, 19.6% of all exports of wood, except furniture), Germany (10.6%), Sweden (9.4%) and Estonia (6.3%). Within the last five years, the most significant growth of market shares for the exports of wood was reported in the case of the United Kingdom and Netherlands (see Chart 1). This year market shares have resumed growth even in those trade partner states where they were previously shrinking, i.e. in Poland, Lithuania, Denmark and Estonia. Market shares are expanding primarily on account of the exports of sawnwood, board, plywood, pellets and other articles of wood.

Despite the low activity in the construction sector of the EU member states, the export growth of the articles of wood remains positive. Before the crisis, woodworking industry was considered a low value added sector, whereas Latvia's wood exports of today

**Chart 2. Contributions of changes in forest industry outputs to annual growth rates (in percentage points)**



have been experiencing quality changes for quite some time: the growth of the woodworking industry is primarily underpinned by expanding export opportunities, based on both, innovations and technology upgrades as well as resource efficiency and full life cycle of materials. An increasingly larger number of preprocessing companies continue with further processing and transform part of their outputs into higher added value articles. Woodworking was one of the primary drivers of manufacturing and exports in 2014 and the tendency continues this year as well. In the first half of 2015, the forest industry exports grew by 5.2% year-on-year. This year's export growth was supported by the increasing exports of fuelwood, sawnwood, other articles of wood, articles of paper, furniture and prefabricated buildings (see Chart 2). The shrinking export growth rate for the articles of wood can be explained by the weak external market activity.

If we look at the prospects for the development of the forest industry exports, they seem promising. The so-far more or less steady growth of the forest industry exports, the stabilisation of the global prices on wood and the restart of lending growth in Europe suggests further recovery in the construction sector of the European countries. Considering that many

European economies have announced national assistance programmes for the use of environment-friendly fuel and the growing public awareness of the environmental protection matters, the market for wood pellets and briquettes could also continue to expand.

\* According to the combined nomenclature of goods the forest industry outputs include wood and articles of wood, wooden furniture, prefabricated buildings, articles of paper and paperboard.