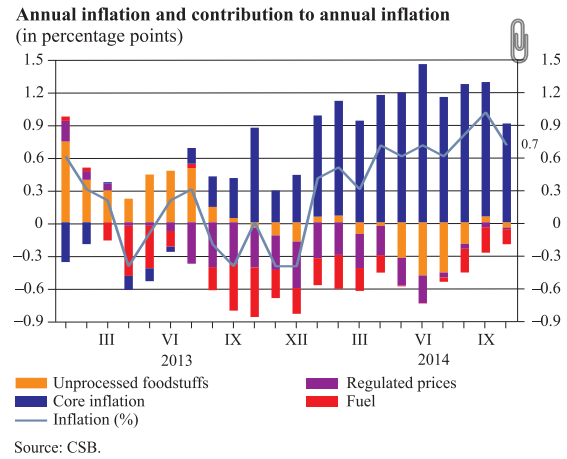
## 0.7% inflation in October



Source: CSB.

In October, the average monthly consumer price level remained unchanged, while the annual inflation dropped to 0.7%. The average rise in consumer prices was impeded by the fuel prices due to oil prices dropping more rapidly than the value of the dollar was rising; however, this average consumer price rise was supported by the prices of seasonal items, some services and more expensive heating energy under the impact of increasing natural gas prices. Although the so-called Russian embargo effect did not have significant influence on overall inflation in August and September, it may have retained its impact on the level of food prices in October. In some groups of food products in which the prices went down rather notably in September (e.g. milk products) the decrease, although to a smaller extent, continued. Many of the changes in consumer prices seen in September which were atypical or excessive for the season and economic conditions were no longer evident or smoothened out in October.

In 2015, inflation is expected to be higher overall than in 2014, with the contribution of energy prices playing the most important role due the electricity market liberalisation in 2015.

## Annual growth at 2.2% in the third quarter

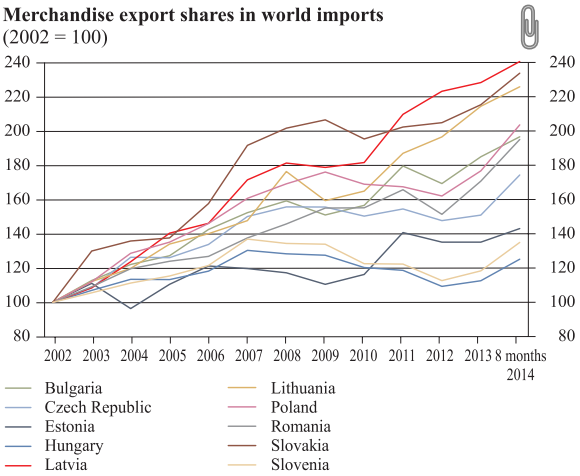
Source: CSB.
** flash estimate*

The Latvian economy continues on the path of growth. According to the flash estimate, GDP grew by 0.4% quarter-on-quarter (seasonally adjusted data) and by 2.2% year-on-year (seasonally adjusted data) in the third quarter.

Owing to the growing household income and, possibly, to the good tourism season, retail trade turnover posted a rise in the third quarter. In July and August, activity in the real estate sector grew substantially acting as a stimulus for construction of housing, which in turn led to a slight annual growth in construction sector's value added in the third quarter as well. Moreover, the manufacturing data confirm some growth in the third quarter, duly accounting for the developments in external markets. The impact of Russian sanctions in manufacturing is not felt at the macroeconomic level but only by some enterprises in certain branches.

Currently, the growth is primarily based on domestic consumption, whereas in the future, the ability and desire of entrepreneurs to push up investment will play an increasingly important role in enhancing the growth also via exports.

## External trade retains moderate yet positive growth



Source: WTO and Latvijas Banka staff calculations.

A positive growth rate is retained in Latvia's external trade, notwithstanding even the continuing political instability in its eastern neighbouring countries and the resulting low external demand. In the first nine months of 2014, goods exports expanded by 2.0%, while imports dropped 1.1% year-on-year. In September, the value of goods exports remained almost unchanged, dropping by a mere 0.3% annually. A positive annual growth rate was maintained in exports of food products, wood and articles of wood, products of the chemical industry, plastic products, construction materials, machinery and electrical equipment. In September, exports grew substantially to almost all of the CIS countries but most notably to Russia, Belarus, Uzbekistan and Kazakhstan. The September month-on-month rise in exports to Russia notwithstanding, a 2.7% year-on-year decrease in the respective exports was recorded for the first nine months of the current year. According to the operational information of the World Trade Organisation, Latvian export market shares in global imports are continuing to expand, testifying to Latvia's ability to react flexibly to a drop in demand for some groups of goods and in certain countries.