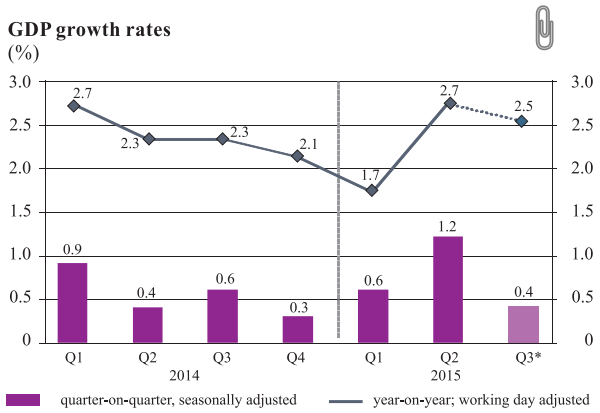
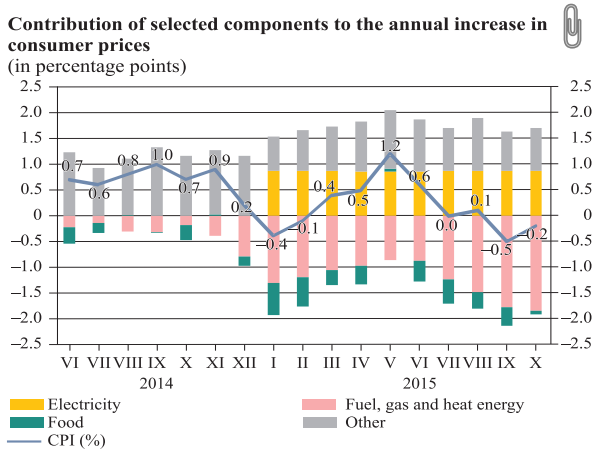
GDP posts moderate growth



Source: CSB. * – flash estimate.

According to the CSB flash estimate for the 3rd quarter of 2015, GDP posted a moderate growth of 0.4% quarter-on-quarter (seasonal effects excluded) and a relative advance of 2.5% year-on-year. Retail trade maintained good performance, while that of the energy sector was a positive surprise in the 3rd quarter. At the same time, several monthly indicators point to a possible slowdown of GDP growth. They reflect decreasing growth rates in manufacturing, which had grown rapidly in the 1st half of 2015, and in the transportation sector; sentiment indicators in construction have weakened somewhat as well. Economic growth is likely to depend on private consumption in the short run, with external demand becoming stronger in the medium term. Improvements in the labour market could keep boosting household disposable income, thus stimulating consumption. The reviving external demand and investment activity, a faster external demand growth, and improvement in household confidence indicators would help achieve a more dynamic economic growth.

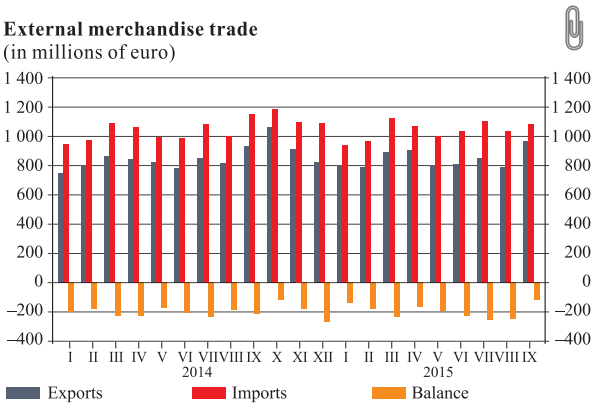
Reducing influence on inflation of commodity prices is weakening



Source: CSB.

Although food and energy prices kept the year-on-year inflation in a negative territory (-0.2%) in September, recent trends in world commodity markets are already reflected in month-on-month consumer price developments. For instance, in October, the decrease in fuel prices slowed, whereas prices of some food products started to elevate. Even though the cereal harvest had domestically been abundant, it did not facilitate a price decline, suggesting that either growing world prices or the domestic purchasing power could have played a role. The upward trend in year-on-year growth of CPI was supported by services prices (still well above 2% year-on-year) and prices of other tradable goods, which were broadly in line with the recent retail trade figures. It is expected that the resulting low base of world commodity prices, moderate economic growth (both domestic and global) as well as some increase in indirect taxes will contribute to higher inflation in 2016, with such components of core inflation as non-regulated services prices and non-energy industrial goods constituting a major part.

Latvian producers demonstrate sustained competitiveness



Source: CSB.

Despite the rapid month-on-month export growth (23.1%) in September largely driven by seasonal exports of cereal products, the good export performance both month-on-month and year-on-year should not be attributed solely to such one-off and global factors as historically highest harvest or global cereal price trends. Sustainability of the competitiveness of Latvian producers even in relatively unfavourable circumstances is also worth mentioning, as the month-on-month drop in hitherto growing exports of plastic products, mechanisms and appliances was compensated by an increase in exports of all other groups of goods. Future growth of goods exports will be determined not only by the development of external demand and competitiveness of Latvian entrepreneurs but also by investment targeted at increasing export capacity. Exporters shall focus on identifying the specific needs of clients and increasing the supply of niche products.