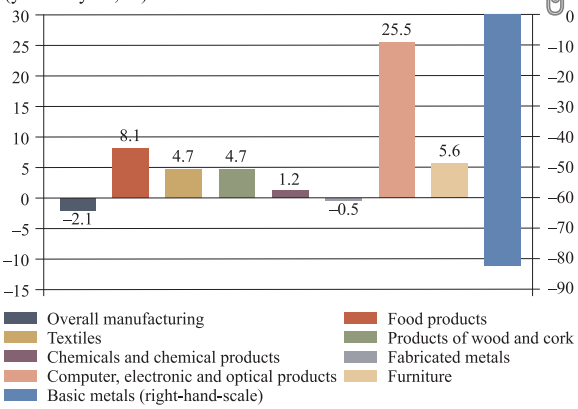
Substantial annual growth in the largest manufacturing sub-sectors

Changes in output of manufacturing and selected sub-sectors in the first 2 months of 2014
(year-on-year; %)



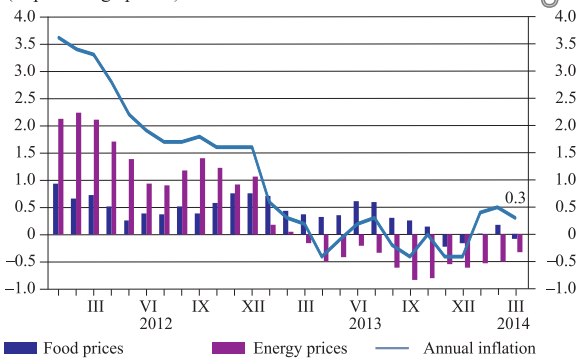
Source: CSB.

Manufacturing output grew 3.3% month-on-month (seasonally adjusted data) in February. Despite a minor overall annual drop of 0.6% in manufacturing (working day adjusted data), substantial annual growth was observed in manufacture of computers, electronic and optical products, and manufacture of non-metallic mineral products as well as in the largest manufacturing sub-sectors: manufacture of food products and wood products. The negative effect from the wind-up of *Liepājas Metalurgs* in the first half of 2013, a company which used to be by far the largest player in manufacture of basic metals, was still evident.

Moreover, the January plunge in manufacturing was adjusted from –17.3% to –9.9% month-on-month and from –11.3% to –3.5% year-on-year. The latest data release is based on revised value added weights to capture the structural changes affecting the weight of the basic metals sub-sector.

Annual inflation was 0.3% in March

Contributions of food and energy prices to annual inflation
(in percentage points)



Sources: CSB; Latvijas Banka calculations.

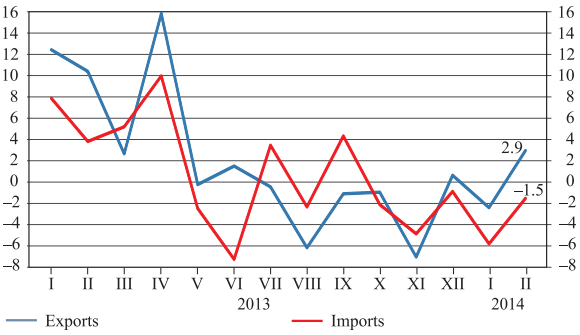
Annual inflation dropped to 0.3% in March. Seasonal factors (spring collections of clothing and footwear coming to shops) had an upward effect on the monthly inflation in March. Nevertheless, the price rise fell short of the 2013 level (e.g. vegetable prices even moved in the opposite direction as compared to the previous year), resulting in a minor decline in the annual inflation.

Despite the slight month-on-month drop in the oil prices and the postponement of the energy market liberalisation, the main inflation risks are related to the uncertainty surrounding both energy and global food price developments.

Consumer survey conducted by the European Commission indicates that inflation expectations are contained in Latvia. The percentage of respondents expecting substantial price increases in the nearest 12 months dropped in March, whereas the percentage of those anticipating minor or no changes rose. The low real inflation may have also played a role in this assessment.

Export growth has improved the foreign trade balance of Latvian goods

Growth rates for exports and imports of goods
(year-on-year; %)



Source: CSB.

In February 2014, foreign trade turnover of Latvian goods grew by 5.1% month-on-month. Exports and imports of goods increased by 7.9% and 2.8% month-on-month respectively, resulting in a slight improvement of the foreign trade deficit in goods. Despite the negative effect from the wind-up of *Liepājas Metalurgs*, the annual growth rate of goods exports reached 2.9% in February on account of an increase in the exports of agricultural and food products, wood, textile articles, electrical equipment, and building materials.

Within a month, exports of goods increased to almost all main trading partners, including Russia which is the third largest export partner. In 2013, 11.5% of all goods exports went to Russia and 0.9% to Ukraine. As concerns the impact of the events in Russia and Ukraine on exports, reactions from Latvian businesses have been mixed: some businesses have frozen a part of their output volumes for now and are expecting to find other markets. Others are even expanding their exports in those two countries, since some of the international players have left their markets, thus opening up trade opportunities.

The economic situation in the EU where Latvia sells over 70% of its total exports of goods is gradually improving, giving rise to expectations of a more robust external demand in these markets which could offset the potential negative effect from the conflict between Russia and Ukraine.