



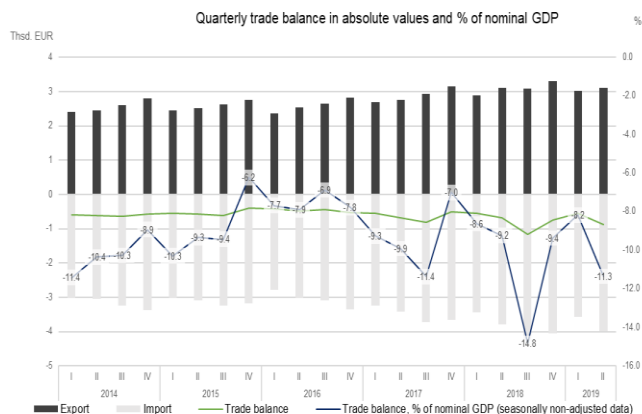
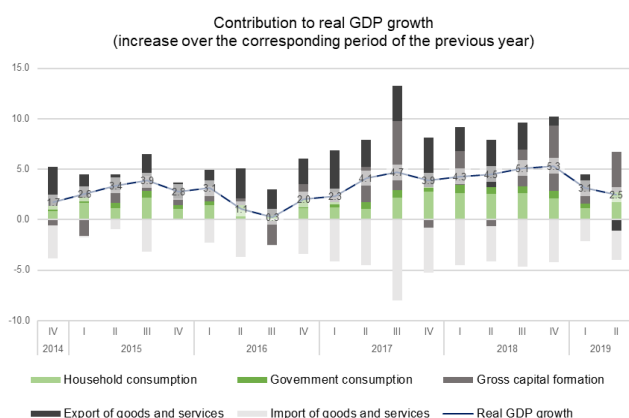
Fiskālās disciplīnas
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Quarter II of 2019 monitoring of macroeconomic indicators

The both Real and Nominal GDP growth in 2019Q2 was about 0.7pp lower than forecasts, endorsed in June 2019. The largest contribution to GDP growth in 2019Q2 was driven by growth in gross capital formation (4% quarter-on-quarter, household consumption growth of 2.2%, however, exports in the second quarter has fallen by 1.1%. With exports declining to Latvia's main trading partners, the quarterly trade balance in absolute values and % of nominal GDP also worsened in the second quarter to -11.3%, which is the third-worst since 2017.

Macroeconomic indicator (seasonally adjusted)	2017 actual data				2017	2018 actual data				2018	2019		Forecast (25.06.2019) ¹			Quarter II, 2019 in comparison to forecast
	I	II	III	IV		I	II	III	IV		I	II	2019	2020	2021	
Real GDP growth	2.3%	4.1%	4.7%	3.9%	3.8%	4.3%	4.5%	5.1%	5.3%	4.6%	3.1%	2.5%	3.2%	2.8%	2.8%	lower than forecasted
Nominal GDP growth	4.5%	7.3%	8.3%	7.0%	6.9%	8.4%	8.4%	9.2%	9.8%	8.8%	7.0%	5.7%	6.4%	5.6%	5.3%	lower than forecasted
Inflation (CPI)	3.2%	3.1%	2.9%	2.6%	2.9%	2.0%	2.4%	2.9%	2.9%	2.5%	2.9%	3.3%	2.8%	2.5%	2.1%	excess
GDP deflator	2.2%	3.3%	3.5%	2.9%	3.0%	3.9%	3.6%	4.0%	4.4%	4.0%	3.7%	3.0%	3.1%	2.7%	2.4%	lower than forecasted

Source: CSB, FDC, MoF.



Advantages of economic growth in 2019Q2

The main contributor to the export growth of services at the beginning of 2019 has been so-called other services. Transportation together with travel, other business services, and computer and IT have been the leading sectors in services export in 2019Q2. Export growth for all sectors, except for financial services, was positive in 2019Q1, compared to 2018Q1. Financial services volume decreases by 4.1%.

Overall, consumer price growth in June 2019 is moderate and is at a level of 3%. Compared to June 2018, consumer prices in the food and non-alcoholic beverages segment increased to 4.1%, while in the electricity, gas and other fuel materials consumer prices rose by 4.9%.

Average capacity utilization in manufacturing remains high (above 75%), capacity utilization for small enterprises has repeatedly reached its maximum (70%) since 2010. In 2019Q2, in all manufacturing industries, (except for food-and-drinks and consumer goods) capacity utilization has been 77% or higher.

In June 2019, the seasonally adjusted unemployment rate reached 6.5%. The total registered unemployment rate in June has dropped to 6%, while this year in March it was 6.6%.

Since September 2018, the largest decrease in the number of registered unemployed has been observed in Latgale region (from 15% in Jun 2018 to 14% in Jun 2019), but it is still the highest compared to other regions and cities of Latvia.

Disadvantages of economic growth in 2019Q2

Industrial output has been slowly improving in the electricity and gas supply, since declining in early 2019. In April and May 2019, there was a slowdown in the mining and quarrying sector, which may be related to a possible reduction in the construction sector in the coming years. Manufacturing output growth was slower in the 2Q 2019 compared to the corresponding period of the previous year and was about 2.2%. Several manufacturing sectors experienced a drop in output in the second quarter of 2019, including -0.6% in wood products (except furniture), -0.4% in chemical products and -0.4% in non-metallic mineral products. Growth in other sectors was moderate at 1% in the manufacture of food products and 0.6% in the manufacture of fabricated metal product.

The rail and road freight growth continued to fall in 2019Q2 after reduction started in 2019Q1, the total reduction in 2Q was about 8.6%. The contribution of Latvian ports to the growth of cargoes turnover sharply decreased in 2019Q2 (total decrease of 10%). The largest turnover contraction was observed in the Port of Riga (-9.5%) compared to the corresponding period of 2018. All ports except Ventspils (grew about 0.4%) experienced a decline in cargoes turnover in 2Q 2019.

The labor shortage problem in 2019 continuously increases across all sectors, with a slight decrease in the services and retail sectors. In 2019Q2 the highest labor shortage has been observed in the manufacturing sector - in April 26% of enterprises have claimed that labor shortage is restricting their business development.

The average gross wage continues to rise both in the public and private sectors compared to the corresponding period of the previous year - growth for 2018 was 7.8%.

¹ https://fiscalcouncil.lv/27062019_macroeconomic_forecast_endorsement