# Monitoring of Macroeconomic Indicators for Quarter II of 2024

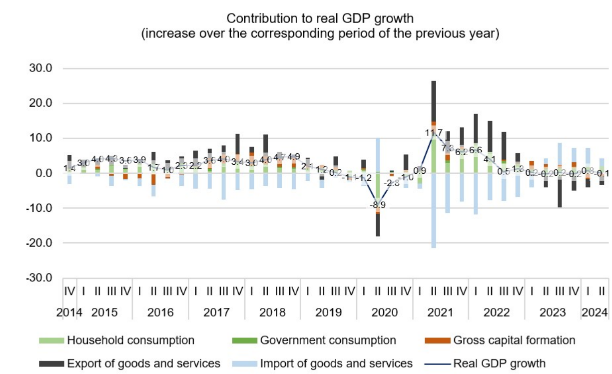
Fiskālās disciplīnas padome

As reported by the Central Statistics Bureau (CSB), in the second quarter of 2024, the gross domestic product (GDP) at constant prices decreased by 0.1% (seasonally and calendar-adjusted data). Compared to the previous quarter, the decline was 0.9%. In nominal terms, GDP growth in the second quarter was 3.4% year-on-year, while quarter-on-quarter growth was 0.6%. In terms of GDP expenditure approach, the largest contributions to growth came from government consumption (+1.6%) and household consumption (+0.4%). On the other hand, exports (-2.4%) and investments (-1%) had negative impacts on GDP. From a production perspective, education (+6.7%), healthcare (+6.5%), ICT (+5.6%), and public administration (+5.1%) made the most significant positive contributions, while transport, storage (-7.8%), and finance and insurance (-8.2%) recorded the largest declines. The manufacturing industry has now faced eight consecutive quarters of contraction, with a 2.3% decline observed in the second quarter of this year.

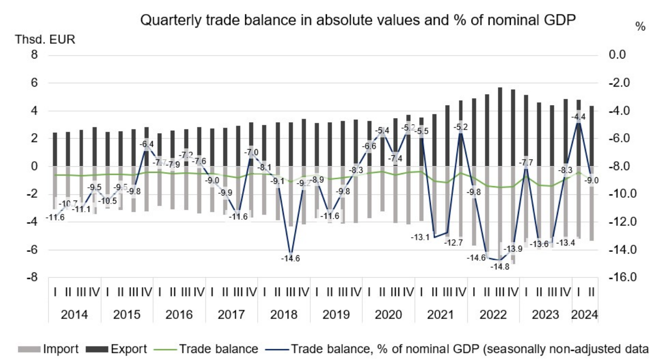
| Macroeconomic indicator (seasonally adjusted) | 2023 actual data | | | | 2023 | 2024 actual data | | | | 2024 | Forecast (10.06.2024[1]) | | | | | 2024 comparison to forecast * |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | I | II | III | IV | | I | II | III | IV | | 2024 | 2025 | 2026 | 2027 | 2028 | |
| **Real GDP growth** | 0.2% | -0.2% | 0.2% | -0.2% | **-0.3%** | 0.8% | -0.1% | - | - | - | **1.4%** | **2.9%** | **2.8%** | **2.6%** | **2.3%** | ↓ -1.0 pp |
| **Nominal GDP growth** | 10.8% | 6.1% | 2.8% | 3.1% | **5.1%** | 2.8% | 3.4% | - | - | - | **3.8%** | **5.9%** | **5.5%** | **5.4%** | **5.1%** | ↓ -0.7 pp |
| **Inflation (CPI)** | 19.6% | 11.6% | 5.0% | 1.2% | **8.9%** | 0.8% | 0.8% | - | - | - | **1.2%** | **2.2%** | **2.5%** | **2.5%** | **2.5%** | ↓ -0.4 pp |
| **GDP deflator** | 10.9% | 6.3% | 2.5% | 3.2% | **5.4%** | 2.2% | 3.4% | - | - | - | **2.4%** | **2.9%** | **2.7%** | **2.7%** | **2.7%** | ↑ 0.4 pp |

*Source: CSB, FDC, MoF.*

**2024 MoF's forecast compared to the mean of quarters I-II: ↑ higher than forecasted in percentage points (pp) ↓ below forecast (pp) ↕the forecast fulfilled.*




*Source: CSB*




*Source: CSB*

**Economic growth forecasts** have been revised downward following the results of the first half of the year. Projections for 2024 now range from 0.8% (SEB Bank[2]) to approximately 2% (Citadele Bank[3]), with the average estimate from various forecasters[4] suggesting growth of around 1.5% for the year. Compared to the forecasts published in the first quarter, the current outlook is more conservative, particularly as Swedbank and SEB Bank have significantly lowered their growth estimates for this year.

**Inflation** in the second quarter remained unchanged from the first quarter, at 0.8%. A stabilizing factor within the inflation structure was the decline in consumer prices for housing maintenance, although service prices rose significantly, primarily driven by wage increases. Since September 2023, inflation in Latvia has been below the average levels of both the European Union and the Eurozone. In the second quarter, inflation in the Eurozone stood at 2.5%, exceeding Latvia's rate by 1.7 percentage points. In Latvia, service prices rose by 5% in the second quarter, while goods prices declined by 0.7%. A similar trend is evident in the Eurozone, where service prices are increasing more rapidly than goods prices. Latvia finds itself in an exceptional position with one of the lowest inflation rates in the EU; however, the country has not been able to avoid the common Eurozone challenge of a sharp rise in service prices, which is closely linked to wage growth trends.

**Exports remain in decline**, though at a slower pace than before. In the second quarter of this year, Latvia's goods exports fell by 5.3% compared to the second quarter of 2023. Exports to EU countries decreased by 1.2%, to CIS countries by 1.8%, and to other countries by 2.3%. This marks five consecutive quarters of decline in Latvian exports; however, the rate of decline has slowed since 2023. Exports to key trading partners improved, with an increase of 2.3% to Estonia and a sharp rise of 17.7% to the United Kingdom. Conversely, exports to Lithuania (-3.2%), Germany (-2.8%), and Sweden (-10.2%) continued to fall, albeit at a slower rate. In contrast, the decline in trade intensified with Denmark (-5.7%) and Russia (-19.3%) in the second quarter. According to monthly data from the Bank of Latvia, the export of services has been in decline since September 2023. June data show a 1.6% reduction in service exports; however, the situation is starting to stabilize, with the decline becoming less pronounced. In June, there was a slight increase in transport service exports (+1.9%), though travel services (-0.3%) and other unclassified services (-3.3%) continued to decrease.

**The transport sector** was among the weakest in this quarter. Cargo turnover at Latvian seaports declined by 11.5% compared to the second quarter of the previous year, with the largest drop (-11%) observed at the Port of Ventspils. In contrast, land transport cargo volumes increased by 4%. Specifically, rail transport cargo decreased by 2.7% in the second quarter, while road transport cargo saw a 6.6% rise.

**Industrial production volume decreased by 4.6%** in the second quarter, compared to the same period in 2023. In June 2024 alone, the decline was 5.5% year-on-year. Mining and quarrying, with a growth of 10.8%, made the largest positive contribution to industrial output in the second quarter. However, this was insufficient to offset the declines in the electricity and gas supply sector (-9.8%) and the manufacturing industry (-4.2%).

**The output of the manufacturing industry decreased by 2.6%** in the second quarter of 2024, although the decline is slowing, and the overall situation is stabilizing. Among the largest manufacturing sectors in the national economy, production continued to fall in wood and wood processing products (-3.7%), finished metal products (-12.2%), and other manufacturing categories (-19.6%). The production of building materials decreased by 1.9%, marking the smallest decline since the first quarter of 2023. The food industry saw a slight increase of 1.9%. The structure of the manufacturing industry is diverse, with 13 of the 20 observed sub-sectors experiencing declines, while seven saw growth. In

[1] Makroekonomikas prognozes Vidēja termiņa budžeta ietvaram 2024.-2028. gadam | Fiskālās disciplīnas padome (fdp.gov.lv)
[2] (Analītika | SEB
[3] Finance Latvia
[4] SWEDBANK, SEB, IMF, EK, OECD, Citadele Banka

the second quarter, the most significant increases were seen in the equipment and device repair sub-sector (+26.4%), metal production (+23.6%), and the production of chemicals and related products (+19.7%). The largest declines were observed in the production of equipment, mechanisms, and work machines not classified elsewhere (-25.8%), other manufacturing (-19.6%), and leather and leather products (-15.5%).

**The construction industry** continued its decline in the second quarter, extending the downward trend that began in the first quarter of this year. The volume of construction output fell by 1.5% in the second quarter. The largest decrease was observed in building construction (-15.8%) and specialized construction works (-1.5%), while engineering construction saw an increase of 18.6%. Overall, construction costs rose by 2.3% in the second quarter compared to the same period in 2023. Among the cost components, the most significant increases were seen in workers' wages (+6.3%) and the rental of machinery and equipment (+3.2%), while the prices of construction materials remained unchanged.

**Retail sales.** After minimal growth in the previous two quarters, retail sales declined by 0.5% in the second quarter of this year. This drop was primarily driven by a 2.8% decrease in food retail turnover, which was not fully compensated by a slight increase in non-food goods sales (+0.5%) and a 1.6% rise in fuel retail turnover.

**Lending** in the household and mortgage loan segments has rebounded following initial signals from the ECB regarding potential interest rate reductions. According to data from the Bank of Latvia, new loans to households for home purchases increased by 11% in the second quarter compared to the same period last year. This marks the first increase after several consecutive quarters of declining mortgage lending. During the same period, consumer loans to households rose by 14%, while other household loans surged by 44%. In contrast, new loans to companies (non-financial corporations) decreased by 1% compared to the second quarter of last year.

**The actual unemployment** rate, according to CSB data, stood at 6.9% in the second quarter, a decrease of 0.3 percentage points compared to the first quarter. However, the economically inactive population remains significant at 30.9%. Youth unemployment rose to 16.9%, highlighting challenges in youth employment and the alignment of education with labor market demands. The employment rate in Latvia was 64.3%, lower than in other Baltic countries, such as Estonia (69.7%) and Lithuania (66.3%), indicating structural issues within the labor market. Despite stagnation and even recession in several sectors of the economy, it is important to note that unemployment remains low, while pressure to increase wages persists.

**Wage growth** slowed slightly compared to previous quarters and is no longer in double digits; however, it remained strong in the second quarter, reaching 9%. In the public sector, wages rose by 12.4%, while in the private sector, the increase was significantly slower at 8.3%. The overall average gross salary in the country was 1,671 euros. In the public sector, it reached 1,743 euros, while in the private sector it was 99 euros lower, at 1,644 euros, highlighting a notable disparity between public and private sector wages. The imbalance between wage growth and productivity has been repeatedly highlighted in PEAK[5] productivity reports from the University of Latvia think tank. The IMF[6] has also conducted an in-depth study, concluding that income convergence for Latvian residents' lags behind that of other Baltic countries. Furthermore, labor productivity, particularly in the manufacturing sector, remains relatively low, driven by weak investment flows and a high proportion of low-productivity and underdeveloped innovative companies within the national economy.

[5] Latvijas Produktivitātes ziņojums (lu.lv)
[6] Republic of Latvia: Selected Issues (imf.org)