

# Latvian economy cycle heatmap

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Quarterly the Council, similarly to other EU member states' independent fiscal institutions, prepares the Latvian economy [cycle heatmap](#).

Observations from 2000 1st quarter till 2021 1st quarter available in MS Excel format [here](#).

Labour market. Despite the severe economic impact of Covid-19, average wages continued to grow in the first quarter of 2021, reaching an increase of 9.5% compared to the first quarter of the previous year. This situation is partly explained by the increase in the volume of work for certain groups of employees and the related increase in wages for additional workload. However, wage growth was not homogeneous across sectors. In I quarter of this year compared to the first quarter of 2020, wages and salaries continued to decrease in the accommodation sector (-0.7%), in the air transport sector (-3.7%) and in various service providers (information services, labour search, etc.), wages decreased by 16% in computer, electronic and optical equipment production. At the same time, an increase in wages was observed in the water transport sector (+64%), a decrease of wages stopped in the catering services, which was severely affected by the crisis, wages and salaries even increased by 3.2%. In the first quarter, the unemployment rate was fixed at 8%, while the employment rate was 62%.

The balance between employment and unemployment rates shows relatively small negative fluctuations in the labour market during the Covid-19 period, which were positively affected by state support programs and the possibility for entrepreneurs, not to lay off the staff. The unemployment rate persists at the average level of 8% since the first quarter of 2020, despite the relatively large number of vacancies - almost 21.5 thousand in I quarter at this year. The share of job vacancies by type of activity shows that at the end of the first quarter, 6% of vacancies were in mining and 4% in construction, which can be explained by seasonality. The share of vacancies was relatively high in public administration at 5% and in health and social care at 3%.

Capacity utilization in the first quarter was at the level of 73% and on a quarterly basis, it can be concluded that it has been slowly increasing, however, don't reach the pre-crisis level. Lack of demand is mentioned as a business limiting factor by an average of 36% of companies in the manufacturing, construction and services sectors. However, the importance of limiting factors varies depending of sector. The main factor limiting activity in construction in the first quarter was the unfavourable weather. The main limiting factor in production was lack of demand in production, while in the service sector, in addition to weak demand, financial difficulties and other factors also limited activity.

After a slight improvement in the second half of 2020, the economic sentiment indicator fell to 88.8% in the first quarter due to the recurrence of the Covid-19 outbreak. In general, throughout the Covid-19 period, economic sentiment can be described as one of the most significant destabilizing factors and reflects a long period of uncertainty.

Comparing the I quarter of this year with the first quarter of the previous year, the volume of issued loans decreased by 1.8% or 173.8 mln. euro. However, comparing the first quarter of 2021 with the fourth quarter of 2020, it can be seen that the volume of issued loans has slightly increased by 1.2% or 110 mln. euro. Of which loans to non-financial institutions increased by 3%, while loans to households decreased by 0.2%, mainly due to a decline in consumption and other kind of loans. However, the amount of mortgage loans to households has slightly increased (+ 0.5%). Latvia's foreign trade balance was negative by -4.7% of GDP in the first quarter, at the same time this is the best rate of the last 20 years. Despite the Covid-19 crisis, exports increased by 8.7% in the first quarter of this year compared to the first quarter of 2020, while imports increased by 3.9% over the same period.

The current account deficit in the first quarter of this year was -0.6% of GDP. Overall, the current account balance in recent years can be described as sustainable and robust, in line with the EU Early Warning Mechanism.

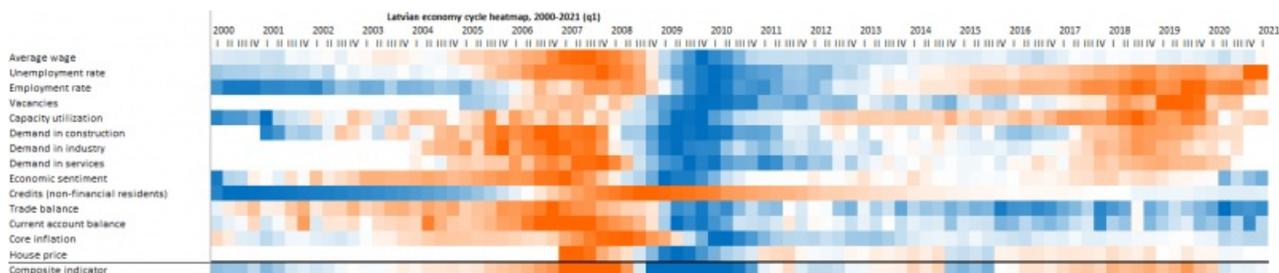
The core inflation rate has remained unchanged since the third quarter of 2020 and remains at 0.7%, but given the expected return to economic activity, it can be assumed that it reflects only the economic situation under the constraints of Covid-19 and will start to rise as economic activity returns.

In the first quarter, the real estate market experienced low activity, which is related to the second outbreak of Covid-19 and the high uncertainty period. Low activity is also reflected in the slow rise in house prices. In the first quarter of 2021, compared to the corresponding period of the previous year, the house price index increased by 2.8%.

The composite heat index of the economy in the first quarter is -0.1. Negative index values have been observed since the second quarter of 2020. The Covid-19 crisis has caused the economy to cool down, but it has not been as dramatic as the global financial crisis, as governments around the world and in Latvia have provided economic and social support programs.

Although there is a very cautious trend of improving the index, the overall situation in the first quarter of this year indicates the existing instability, despite some positive signals. The development of the situation in the coming quarters will have a decisive impact on the type of trajectory that will develop.

The heatmap



Source: *Central Statistical Bureau, Bank of Latvia, Eurostat, FDC calculations*

<https://www.fdp.gov.lv/en/publications-and-reports/monitoring/siltuma-karte>