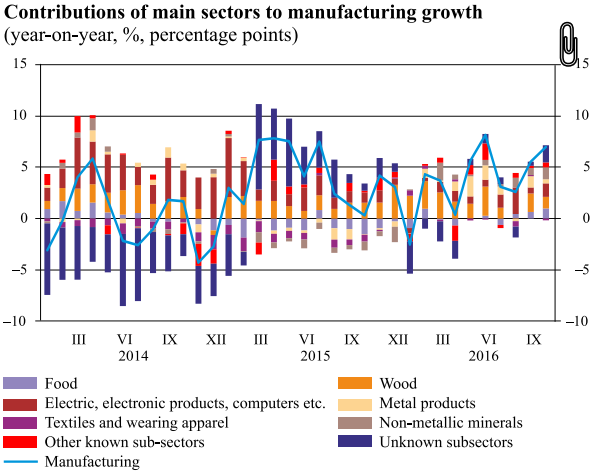
Manufacturing output continues to rise despite weak demand

Contributions of main sectors to manufacturing growth
(year-on-year, %, percentage points)



Source: CSB.

In October, the manufacturing output grew by 0.8%, whereas its annual growth was an impressive 7.0%, reversing the slump of the last year. Of late, the performance of food industry has become better; recent performers, including the manufacture of non-metallic minerals (construction materials) and computer and electronic and optical equipment, have been joined by the manufacture of electrical equipment this month. The manufacturing output is expected to grow by remarkable 4% in view of the weak demand. Despite the slow growth of foreign demand, an increase in output was determined by sales abroad, while the domestic demand in 2016 declined partly due to the slump in construction, the primary customer of building material producers. The future looks quite bright, the output growth is likely to sustain owing to domestic demand in 2017, and construction activity is expected to pick up as a result of the improved availability of EU funds.

Latvian exports sluggish in complex circumstances

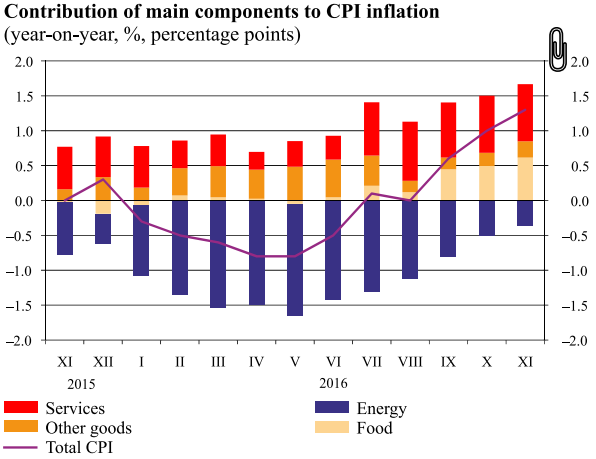
Merchandise export and import growth
(year-on-year; %)

Source: CSB.

In the first ten months of this year, goods exports have declined by 1.7%. A positive contribution was made by agricultural and food products, chemicals, wood products, construction materials, transport vehicles and furniture. Exports of mineral products, mechanisms and electrical equipment, base metals and textiles contributed negatively. In 2016 overall, the growth of goods exports will be close to the last year's level, whereas real exports of goods have posted a moderate increase. This fact deserves mention, since in the last couple of years the economic sanctions on and by Russia and the weakening of growth in Latvia's partner countries have posed challenges to export growth. Notwithstanding the increasing risks of protectionist policies globally, the economic activity in external markets is expected to pick up next year.

Inflation starting to go up

Contribution of main components to CPI inflation
(year-on-year, %, percentage points)



Source: CSB.

The consumer price level in November was by 0.2% higher than in October and increased by 1.3% year-on-year. As expected, the rise in inflation was mostly on account of agricultural and food prices as well as energy prices. These developments begin to find their reflection in the costs of several sectors and influence the final consumption prices.

External factors exerting influence on inflation are currently coupled with domestic factors. Excise tax rates increased in 2016 and will continue to rise in 2017, some other tax changes may affect prices. This year, the trend of rising prices in telecommunications is becoming more pronounced. Inflation next year will go up under the impact of both costs (including indirect impact of costs on core inflation) and faster growth of the economy provided that the absorption of EU funds improves.