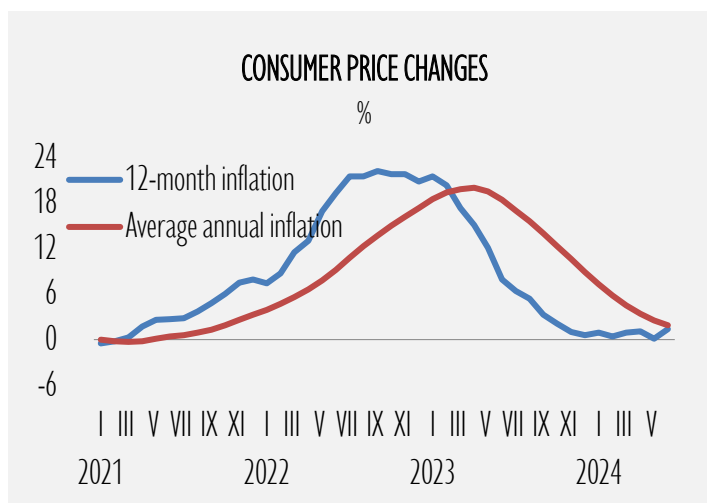


On Consumer Prices in June 2024

Unusual Price Decline Observed in June

According to data from the Central Statistics Office, consumer prices in June 2024 decreased by 0.1% compared to May. Prices for goods fell by 0.6%, while prices for services increased by 1.2%.

June typically sees a rise in prices, primarily due to seasonal increases in food prices. This year, while food prices did contribute to the overall increase, the month experienced an atypical price decrease largely due to a drop in energy resource prices. Last year, a sharp drop in prices in June was attributed to reduced thermal energy tariffs. Before that, such a price drop in June was only observed in 2015.



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The most significant dampening effect in June was a 4.1% decrease in fuel prices, marking the second consecutive month of decline. This reduction lowered the overall consumer price level by 0.3 percentage points, with both diesel and gasoline prices decreasing similarly.

The monthly average price of Brent oil fell by 0.2% in June compared to May. However, by the end of June, Brent oil prices had risen by 6%, increasing from \$77 per barrel at the start of the month to \$86 per barrel by the end. This rise occurred despite increased U.S. crude and gasoline inventories, which raised concerns about demand in the world's largest oil consumer. Market forecasts from OPEC, the International Energy Agency, and the U.S. Energy Information Administration pointed to strong oil demand growth in the second half of the year. Additionally, escalating tensions in the Middle East, particularly between Israel and Hezbollah, as well as ongoing Ukrainian drone attacks on Russian oil infrastructure, impacted oil supply.

Prices for housing-related energy resources continued to decrease in June, contributing to a 0.15 percentage point reduction in the overall consumer price level. The largest impact came from a 3.9% drop in thermal energy prices, driven by tariff reductions in several municipalities. Solid fuel prices decreased slightly by 0.3%. Conversely, electricity prices rose by 1.4%, influenced by higher stock exchange prices and increased tariffs linked to those prices.

Promotions led to a 6.6% decrease in prices for personal hygiene and beauty care products in June, reducing the overall consumer price level by 0.1 percentage points. Additionally, prices for clothes and shoes fell by 1.7% due to seasonal offers, contributing to a 0.1 percentage point reduction in the overall consumer price level.

The largest increasing effect in June was a 1.2% rise in service prices, which added 0.3 percentage points to the overall consumer price level. Key contributors included higher transportation service prices, particularly international flights, as well as increases in complex leisure services (e.g., package tours), accommodation, water supply, sewerage, telecommunications (Internet access and mobile services), and catering services.

Food prices increased by 0.6% in June, contributing an additional 0.2 percentage points to the overall consumer price level. This small price increase aligns with typical seasonal patterns. Notably, prices for potatoes, meat, fresh fruit, and coffee rose significantly, while prices for fresh vegetables decreased.

It should be noted that global food prices remained unchanged in June after rising over the previous three months, but they fell by 2.1% compared to June 2023. In June, increases in the price indices for vegetable oils, sugar, and dairy products offset the decline in the cereal price index, while the meat price index remained relatively stable.

The most notable price increase in June was for vegetable oils. All types of vegetable oil saw price hikes, except for rapeseed oil, which remained nearly unchanged. This surge was driven by increased import demand, particularly from the biofuel sector, and a reduced export supply from the Black Sea region. After three months of sharp declines, the sugar price index rose in June due to lower-than-expected harvest results in Brazil in May. This raised concerns about the potential impact of prolonged dry weather on future sugar production. The dairy price index also continued to rise, with all types of dairy products, except cheese, experiencing price increases. This was due to stable global demand, reduced supplies in Western Europe, and seasonally lower production in Oceania.

The meat price index remained largely unchanged in June, similar to May. The drop in poultry meat prices was nearly balanced by moderate price increases in sheep, pork, and beef. The decline in poultry meat prices was primarily due to abundant supplies from leading producers, while the rise in prices for pork, beef, and sheep meat was driven by high import demand. Conversely, the cereal price index experienced the most significant drop in June, with prices falling for all types of cereals due to seasonal harvesting and improved harvest prospects in major exporting countries.

In June 2024, consumer prices increased by 1.4% compared to June 2023, with an annual average inflation rate of 1.9%. Looking ahead, price changes will continue to be influenced by fluctuations in global energy and food prices, as well as broader global developments. Inflation in Latvia will also be impacted by supply-side factors such as changes in taxes and tariffs, and demand-side factors like rising wages. For 2024, the average annual inflation is expected to be between 1% and 1.5%.