

On Consumer Prices in January 2024

The level of consumer prices in January was affected by the increase in tax rates and tariffs

According to data from the Central Statistical Bureau (CSB), consumer prices in January 2024 increased by 0.8% compared to December 2023. Prices for goods rose by 1%, while prices for services increased by 0.3%.

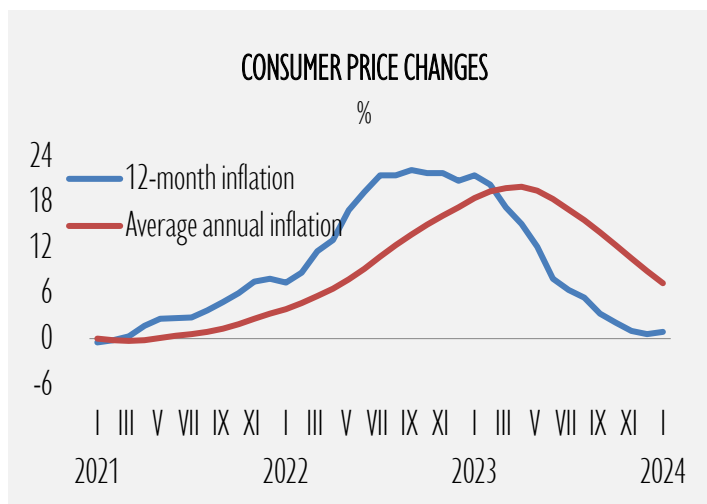
Typically, there is a moderate increase in prices in January, primarily due to the introduction of new tax rates and tariffs at the beginning of the year. This January, the price increase was the fastest for this month since 2012, driven by a larger rise in tax rates and tariffs compared to recent years.

The largest contributing factor to the overall increase in consumer prices in January was the 1.5% rise in food prices, which added 0.4 percentage points to the overall inflation rate. Food prices traditionally see a seasonal increase in January. This year, the price rise was also influenced by an increase in the VAT rate from 5% to 12% for fruits, vegetables, and berries specific to Latvia. Consequently, the most significant impact was seen in the prices of fresh vegetables and fresh fruits. Additionally, the increase in dairy product prices had a substantial effect, while the decrease in egg prices had the largest downward impact.

It is worth noting that global food prices continued to decline. In January, they fell by 1% over the month and decreased by 10.4% over the year. The drop in cereal and meat price indices more than offset the rise in the sugar price index, while prices for dairy products and vegetable oils remained practically unchanged. The sharpest price drop in January was for cereals, driven by strong competition among exporters and increased seasonal supplies from countries in the Southern Hemisphere. Overall, global grain prices were 18.6% lower than in January of the previous year. The meat price index fell for the seventh consecutive month, with prices declining for all types of meat except mutton. The decline was mainly due to weak global demand and increased supplies from major producing countries.

Meanwhile, the increase in the price index for milk powder and butter, largely driven by growing import demand from Asian buyers, was offset by a decline in prices for skimmed milk powder and cheese due to low demand for immediate deliveries. The rise in the price index for palm and sunflower oil, mainly due to seasonally lower output of palm oil in leading producing countries and increased import demand for sunflower oil, especially from Turkey, was counterbalanced by the drop in soybean and rapeseed oil prices due to strong supply prospects from South America and continued wide availability in Europe. After a sharp decline in the previous month, sugar prices rose slightly again in January, mainly due to concerns about the sugarcane harvest in Brazil in April, affected by low rainfall, and the slow start of the new season as well as unfavorable production prospects in the two leading exporting countries, Thailand and India. However, high supplies from the recently completed harvest, lower returns from ethanol sales in Brazil, and a weakening of the Brazilian real against the US dollar limited further increases in sugar prices. It should be noted that sugar prices remained 15.9% higher than in January of the previous year.

A significant impact in January came from the rise in prices of housing-related energy resources, which together increased the overall level of consumer prices by 0.3 percentage points. The most notable impacts were the price increases for electricity by 5.6% and natural gas by 12.2%. The increase in electricity prices was due to a rise in the tariff for the distribution system service, the end of state



support for partial compensation of its price increase, the implementation of new tariff values, and new rules regarding the maximum permitted increase in the tariff for households. The increase in natural gas prices was also driven by the new distribution system service tariffs that came into effect on January 1. Conversely, there was a slight decrease in prices for thermal energy by 0.2% and solid fuel by 0.9%.

Service prices rose by an average of 0.3% in January, contributing 0.1 percentage points to the overall price level increase. In the services sector, the biggest upward impact in January came from housing-related services, such as housing management and waste collection, which were affected by the increase in the natural resource tax on household waste. Higher prices for outpatient services, particularly due to increased costs for dental services, also had a significant impact. On the other hand, the largest downward effect came from a reduction in transportation service prices, mainly influenced by a decrease in international flight prices.

At the end of the promotions, the prices of personal hygiene and beauty care products increased by 6%, while the prices of alcoholic beverages rose by 1.1%. Together, these increases contributed 0.2 percentage points to the overall rise in consumer prices.

After a decline over the previous two months, fuel prices rose slightly in January by 0.6%, which did not significantly impact the overall level of consumer prices. The prices of both diesel and gasoline increased similarly.

Following a decrease from October to December of the previous year, world oil prices rose in January by an average of 2.4% over the month, ending at around 82 US dollars per barrel. The increase in oil prices was driven by concerns about potential supply disruptions due to escalating tensions in the Middle East, as well as improving demand prospects in major oil-consuming countries. This optimism was bolstered by data showing faster-than-expected growth in the US economy in the fourth quarter of the previous year, a series of stimulus measures in China, and the prospect of interest rate cuts in major economies.

The biggest downward effect in January, related to seasonal sales, was the fall in prices for clothes and shoes, which decreased by 4.9% and reduced the overall level of consumer prices by 0.3 percentage points.

In January 2024, compared to January of the previous year, consumer prices increased by 0.9%, while the annual average inflation rate was 7.3%.

Looking ahead, price changes will continue to be influenced mainly by fluctuations in global energy and food prices, along with other international developments. Inflation in Latvia will also be affected by various supply-side factors, such as increases in taxes and tariffs, as well as demand-side factors, which will be driven by rising wages. Overall, the average annual inflation in 2024 is expected to be around 2%.