

## On Consumer Prices in May 2023

## In May, price changes were affected by the conclusion of state aid to compensate for the increase in energy resource prices

According to the data of the Central Statistical Bureau (CSB), in May 2023, compared to April, the level of consumer prices increased by 1.2%. It rose by 1.3% and 1.1% for goods and services, respectively.

On average, the month of May is characterized by a very minor price increase or a decline. As in the previous year, this year's price increase in May was also more rapid than typical for this month, which was influenced by the end of state support for energy resource price reduction from May 1, 2023. The increase

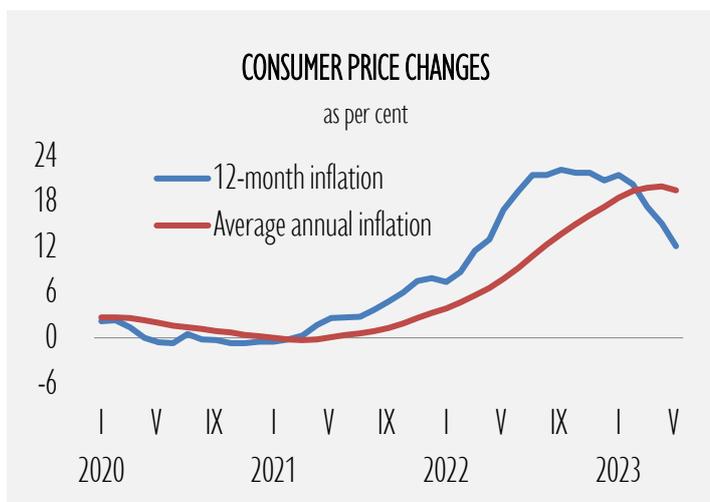
in prices for energy resources related to housing had the largest positive effect in May, which increased the overall level of consumer prices by 1.3 percentage points, which was determined by the increase in prices for electricity - by 28% and heat energy - by 8.4%. On the other hand, the positive effect was mitigated by the drop in prices for natural gas by 26.6%, opening the natural gas market to households from May 1, 2023. For the sixth consecutive month, the price of solid fuel also decreased, in May – by 2.8%.

A 1.1% increase in prices for services had a major impact in May, which elevated the overall level of consumer prices by 0.3 percentage points. The largest positive effect yielded the price increase for accommodation services, which was influenced by the World Ice Hockey Championship in Riga. Price increases for outpatient and catering services, water supply and sewerage services, as well as garbage collection also had a significant impact.

Also, a significant price increase in May for personal hygiene products and beauty care products by 4.3%, which increased the overall price level by 0.1 percentage points, was observed.

The largest negative effect on the consumer price level in May yielded the decline in fuel prices, which fell for the third consecutive month. Fuel prices decreased more rapidly in May than in March and April - by 5.2%, which reduced the overall level of consumer prices by 0.4 percentage points. Prices fell for both diesel and gasoline. After the rise in the previous month, world oil prices experienced a sharp decline in May - an average of 9% during the month, with the price of Brent oil falling to \$72 per barrel at the beginning of the month, which was determined by concerns about the recession and the decrease in demand for crude oil under the influence of central banks' decisions to continue raising interest rates. Oil prices fluctuated during the month, reaching \$78 a barrel in the second half of the month on concerns that OPEC+ could consider further production cuts at a meeting on June 4 and after data publication on a decline in US crude inventories. However, Brent fell back to \$72 a barrel at the end of the month after weak Chinese economic data showed a slower-than-expected recovery in crude demand in China, following conflicting announcements by Saudi and Russian officials on OPEC+ plans to cut oil output, and pending a decision on raising the US national debt ceiling, which would allow the US to avoid default.

The sharp rise in prices has halted for food. Food prices decreased by 0.1% in May this year, which had not seen a price decline since August 2021. The largest negative effect provided the price drop for fresh vegetables and fruit, while the largest positive effect yielded the price increase for pork, dairy products and eggs. It should be noted that, after a slight increase in April, the prices of food products in the world decreased significantly again in May. In May 2023, they decreased by 2.6% during the



month. However, during the year, a decrease of 21.3% was observed. The decrease in prices in May was caused by a significant drop in the prices of vegetable oils, cereals, and dairy products, partially offset by the increase in the prices of sugar and meat. Vegetable oils saw the sharpest price decline, with their price index hitting its lowest level since October 2020 and down 48% year-on-year, continued to be driven by weak global import demand and ample export supplies. Prices continued to decrease in May for all major types of cereals except rice. Wheat fell by 3.5%, driven by the prospect of ample global supplies in the upcoming 2023/2024 season and the extension of the Black Sea Grain Initiative. In general, grain prices in the world were 25% lower than in May of the previous year. The decline in the dairy price index in May was driven by a sharp decline in cheese prices, mainly due to the ample export opportunities provided by seasonally high milk production in the Northern Hemisphere. On the other hand, milk powder prices increased after 10 months of consecutive decline, which was determined by the increase in demand in North Asia and the seasonally decreasing amount of milk supplies in Oceania. Butter prices also rose slightly as falling European prices due to high export availability failed to offset rising prices for supplies from Oceania. On the other hand, sugar prices rose for the fourth month in a row, as concerns about 2023/2024 increased, as well as lower than previously expected availability in the 2022/2023 season of the year was observed. However, favorable conditions for the sugarcane harvest in Brazil and lower oil prices prevented a larger increase in monthly prices. Among meat products, world prices continued to rise in May due to a decrease in the supply of cattle for slaughter, as well as pork due to increased demand for supplies from Brazil. Poultry prices rose for a second consecutive month, driven by continued high demand for imports, particularly from Asia, and concerns about possible short-term supply problems due to widespread bird flu outbreaks. On the other hand, sheep meat prices decreased due to the availability of exports from Oceania.

In May 2023, compared to May of the previous year, consumer prices increased by 12.1%. Annual average inflation was 19.5%.

In the future, the main influence on price changes will continue to be related to energy resource and food price fluctuations in the world, and their secondary effect on the prices of industrial goods and services will also be observed. Taking into account the uncertain geopolitical situation and the base effect of inflation dynamics, in 2023, overall average annual inflation is expected to be within 9%.