

On Consumer Prices in January 2025

Month-characteristic price changes can be observed in January

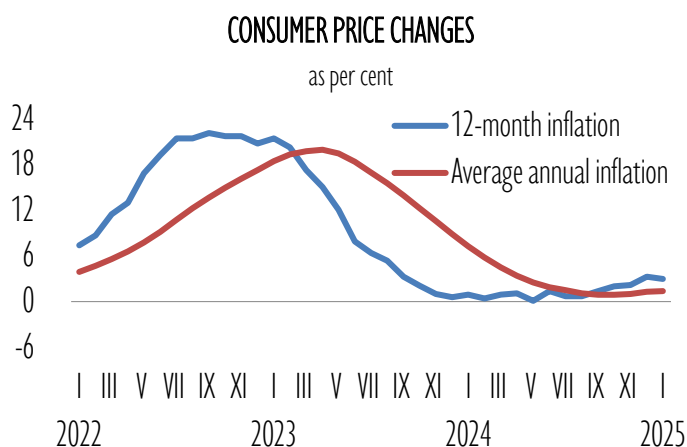
According to the Central Statistical Bureau, in January 2025, compared to December 2024, the consumer price level increased by 0.6%. For goods, it increased by 0.9%, but for services it decreased by 0.2%.

Traditionally, there is an increase in prices in January. This year, in January, there were monthly price changes, which were mainly influenced by changes in tax rates and tariffs, which have traditionally determined the increase in prices at the beginning of the year, as well as an increase in prices for food, fuel, and a decrease in prices for clothing and footwear.

The largest increasing impact in January was the increase in prices for housing-related energy resources, which together increased the total consumer price level by 0.5 percentage points. The largest impact was the increase in prices for electricity by 12.1% and natural gas by 3.9%. The increase in electricity prices was determined by the increase in the actual fee for maintaining capacity for households with the "Basic" tariff plan and a connection capacity of up to 25 amperes, with a decrease in the amount of state support in accordance with the regulations on the maximum permitted increase in tariffs for households. In turn, the increase in natural gas prices was determined by the increased excise tax rate on natural gas from January 1. Prices practically did not change for thermal energy—an increase of 0.1%, but decreased for solid fuel—by 1.3%.

A major impact in January was the increase in prices for food and non-alcoholic beverages by 0.6%, which increased the overall consumer price level by 0.2 percentage points. Food traditionally has a seasonal price increase in January, but it should be noted that this year, in January, the lowest increase in food prices was observed in this month over the past four years. The largest upward impact was also from the increase in prices for dairy products and meat, while the largest downward impact was from the decrease in prices for bread and cereals.

Global food prices fell for the second consecutive month in January—by 1.6% month-on-month, but by 6.2% year-on-year compared to January 2024. Price decreases in the sugar, vegetable oils, and meat categories more than offset the increase in prices for dairy products and cereals. The decline in the overall price index in January was mainly driven by a sharp decline in the sugar and vegetable oils price indices. The sugar price index reached its lowest level since October 2022 in January, driven mainly by improved global supply forecasts for the 2024/25 season, after favorable weather conditions in recent months in Brazil improved the outlook for the sugarcane harvest, which will be harvested from April 2025, and by the Indian government's decision to resume sugar exports after restrictions in place since October 2023. The decline in the vegetable oil price index was mainly driven by lower global palm oil prices, which fell from multi-year highs after seven months of continuous increases, mainly due to demand constraints. Meat prices fell more moderately in January, driven by price reductions for pork and sheep due to falling demand, and for chicken due to sufficient supplies, particularly from Brazil, where competitive feed prices supported production. Beef prices, on the other hand, increased on the back of continued strong demand from key markets. In turn, the price index for dairy products increased in January, driven by increases in cheese prices reflecting rising global import demand. In contrast, international butter prices continued to decline, despite rising demand from food processors in Europe and Oceania. International prices for skimmed milk and whole milk powder also declined, driven by a recovery in European production and weak domestic



and import demand. Cereal prices remained virtually unchanged for the second consecutive month in January. Wheat prices fell very slightly in January, with little price fluctuation during the month, driven by weak import demand, which led to a slowdown in export sales by several major exporters.

In January, fuel prices continued to rise by 3.4%, which increased the overall consumer price level by 0.2 percentage points. Prices rose more rapidly for diesel.

The average monthly price of Brent crude oil in January increased by 6.8% compared to December, and by the end of January, compared to the end of December, the price of Brent crude oil had increased by 2.8%. Oil prices experienced rapid fluctuations in January, with Brent crude oil rising to US\$82 per barrel in the first half of the month, its highest level in more than four months, but falling to US\$76 per barrel by the end of the month. The sharp rise in prices at the beginning of the month was caused by new US sanctions on the Russian energy sector. These sanctions, the most comprehensive to date, target major exporters, insurers, and more than 150 tankers, forcing major buyers such as India and China to urgently seek alternatives. Further support for the price rise was provided by falling US oil inventories, cold weather, and speculation that the US could tighten sanctions on Iran. Meanwhile, US tariff threats on oil suppliers, especially Canada, a major crude supplier to the US, rising US crude inventories, and geopolitical factors caused Brent crude futures to fall in the second half of the month, reflecting market concerns about potential supply disruptions and oversupply. Signals of slowing economic activity in China, the world's largest oil importer, also raised concerns about falling demand. Factory activity in China contracted in January after three months of growth, highlighting further risks to global oil consumption. In addition, the stabilization of oil production in Libya and uncertainty over future OPEC+ production decisions contributed to market caution.

The largest downward impact in January due to seasonal sales was the fall in prices for clothing and footwear (a decrease of 4.9%), which reduced the overall consumer price level by 0.3 percentage points.

In January, prices for services decreased by an average of 0.2%, which reduced the overall price level by 0.1 percentage points. In the services sector, the largest downward impact in January was on transportation services, which was mainly affected by a decrease in prices for international flights. In turn, the largest upward impact was on the increase in prices for housing-related services – housing management and waste collection, which was affected by an increase in the natural resource tax on household waste. The increase in prices for outpatient services due to the increase in the cost of dental services and the increase in the fee for issuing personal identification documents also had a significant impact.

In January 2025, compared to January of the previous year, consumer prices increased by 3%. The average annual inflation was 1.4%.

Price fluctuations in the world will continue to have a significant impact on price changes, as well as global developments, especially the geopolitical situation. At the same time, new tax changes in Latvia will have a major impact, both on the supply side in connection with the increase in taxes and tariffs, and on the demand side, with the increase in after-tax wages, which will increase the purchasing power of the population. In 2025, the average annual inflation rate will be higher than that observed in 2024 – within approximately 2%.