

On Consumer Prices in December 2020 and 2020

The level of consumer prices in 2020 was affected by the fall in demand due to the Covid-19 crisis

According to the data of the Central Statistical Bureau (CSB), in December 2020, compared to November 2020, the level of consumer prices remained unchanged. The average price level for goods decreased by 0.3%; however, the price level for services increased by 0.5%. The largest impact on price changes provided the fall in prices for clothing and footwear (by 3.7%), as well as the rise in prices for fuel (by 3%).

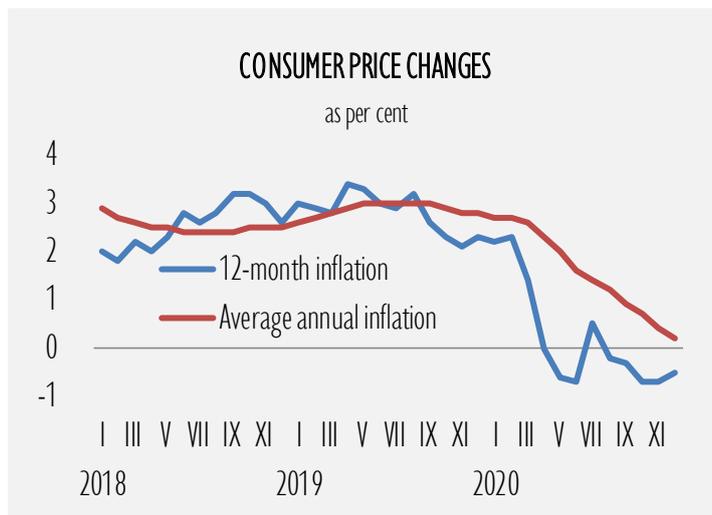
In December 2020, compared to December 2019, the average consumer price level decreased by 0.5 percent.

The largest impact on the consumer price level during the year provides the fall in fuel prices due to the drop in world oil prices. In Latvia, fuel prices decreased by 11.9% in January-December, which reduced the overall consumer price level by 0.7 percentage points. World oil prices fell by 23% annually, primarily driven by a sharp drop in oil prices in March 2020, when prices fell 55% to USD 22 a barrel during the month. In April 2020, world oil prices continued to fall - on average, the price of Brent oil declined by 21% during the month, falling to USD 19 per barrel in the second half of the month. Additionally, the price of WTI oil fell even to a negative value due to inability to store stocks of supply. The fall in oil prices was affected by the decline in energy demand due to the Covid-19 pandemic, as well as the ongoing crude oil price war between Saudi Arabia and Russia. The situation was changed by the easing of measures restricting the spread of Covid-19 and the agreement between OPEC and its partners to reduce oil production, when oil prices rose again to USD 46 per barrel in May-August 2020. Although oil prices declined slightly in September-October 2020, driven mainly by demand concerns as more countries imposed quarantine measures on Covid-19, prices peaked in the last months of the year, approaching USD 52 per barrel in hopes of higher post-vaccination economic activity and the OPEC + agreement on a slower increase in oil production.

The fall in prices for heat, gas, electricity, and solid fuels reduced the overall consumer price level by 0.6 percentage points. The decline in prices for heat and natural gas was influenced by falling world oil prices. Prices for heat energy did not change or either decreased every month (however, in December 2020, an increase was observed); overall, prices for heat and energy declined by 9% annually. The sharpest fall in heat prices was observed in August 2020 due to the tariff reduction in Riga. Additionally, tariffs for natural gas were reduced from 1 January and 1 July 2020; overall, the price of natural gas declined by 16.7% during the year. Electricity prices also declined by 2.7% due to higher hydropower development and falling demand due to the Covid-19 crisis.

The fall in prices for clothing and footwear (a decrease of 2.9%), primarily driven by falling demand, also exerted a negative effect on the price level, reducing the overall consumer price level by 0.2 percentage points. At the same time, it represented the sharpest decline in annual terms since 2009.

The largest upward effect provided the rise in prices for services (by 1.6%), which increased the overall consumer price level by 0.5 percentage points. The increase can primarily be attributed to higher prices for outpatient services due to higher prices for dental services, an increase in patient contributions to GPs (general practitioners) from 1 January 2020, and higher prices for specialist medical services, as well as catering and leisure and cultural services (cinemas, theatres and concerts, television subscription fees, participation in leisure and sports events). The sharpest declines in prices



were for rental housing, transport and accommodation services due to the impact of the Covid-19 restrictions and motor insurance.

Food prices also rose, driven by a sharp increase in prices at the beginning of the year and an uncharacteristic rise in July 2020. Food prices rose by 1.1% over the year, which increased the overall consumer price level by 0.2 percentage points. The largest upward effect provided the price increases for bread and cereals, meat, chocolate and other sweets, coffee, cheese, cottage cheese, and other dairy products. However, the consumer price level was negatively affected by price declines for potatoes, fresh vegetables, and fresh fruit. Changes in food prices are largely determined by fluctuations in world prices. World food prices rose sharply in June-December 2020 (reaching the level of December 2014), following a sharp fall in prices in February-May 2020, mainly due to declining demand due to the Covid-19 pandemic. World food prices rose by 6.5% over the year. The sharpest increases were in vegetable oils, which were affected by declining world supply stocks and strong import demand. Also, cereal prices rose sharply in August-October 2020 due to strong global demand, concerns about production opportunities in the southern hemisphere, and dry weather, which adversely affected sowing in many parts of Europe, North America, and the Black Sea region. The sharpest fall in prices was observed for meat (i.e., prices declined throughout the year except in December 2020). Prices for pork fell as German output declined due to Chinese import restrictions on Germany; beef prices declined due to weak demand in the US. Also, prices for poultry fell, primarily driven by low demand from China and Saudi Arabia.

Prices for alcoholic beverages and tobacco products increased by 1.6% due to the increase in the excise duty rate, which increased the overall price level by 0.1 percentage points. The largest impact in this category provided the rise in prices for cigarettes and spirits.

Overall, the average annual inflation in Latvia in 2020 reached 0.2%, which was significantly lower than in 2019. Consumer prices will continue to fall in the coming months, as the demand, due to measures introduced to contain the spread of the virus, will remain low. As the pandemic recedes, consumer prices will stabilize; it is anticipated that in 2021 the average annual inflation will be higher than in 2020. At the same time, the consumer price level will be determined by global price fluctuations.