

Luminor

Get used to
flat prices

Pēteris
Strautiņš

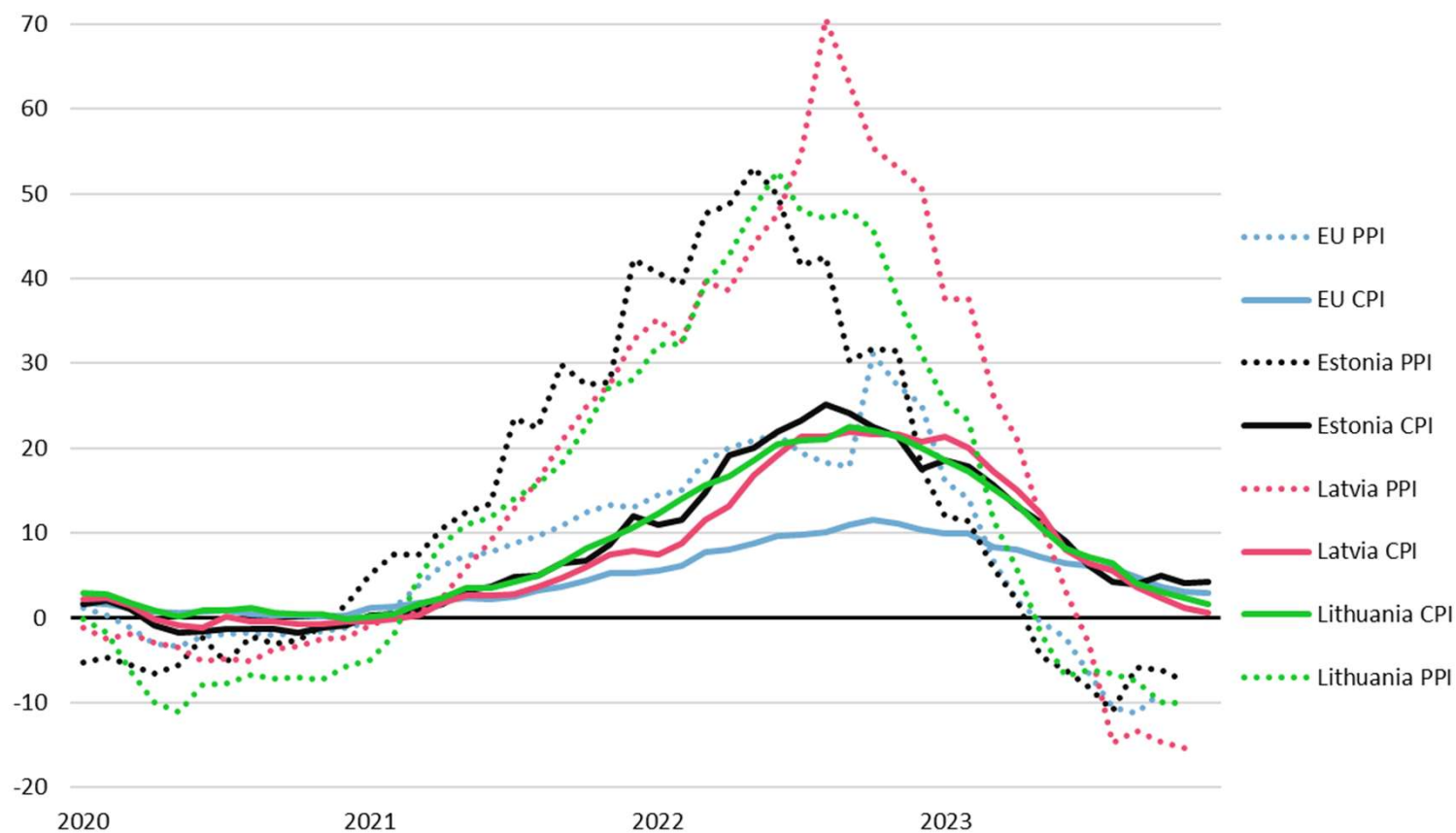
16.01.2024



**Forget about the
inflation, for a while**

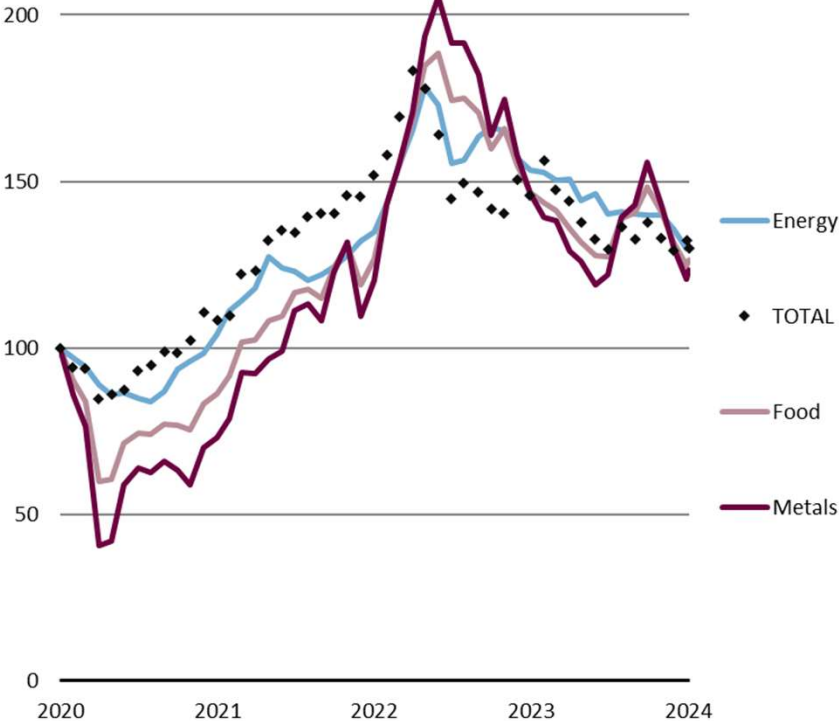
Disinflation lavine is moving forward

Producer prices in internal market and consumer prices, y/y, %

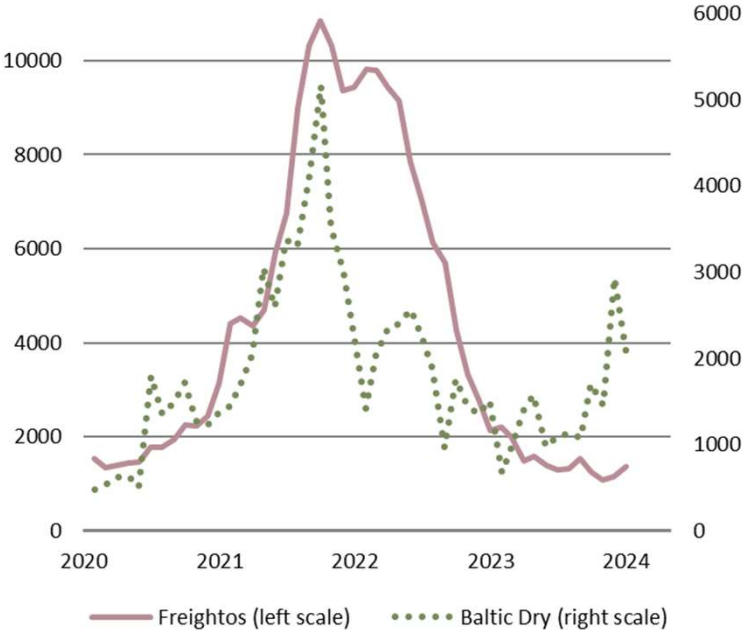


Inflation came from abroad, it is going the same way

S&P GSCI index and subindices, 01.01.2020=100, in EUR terms



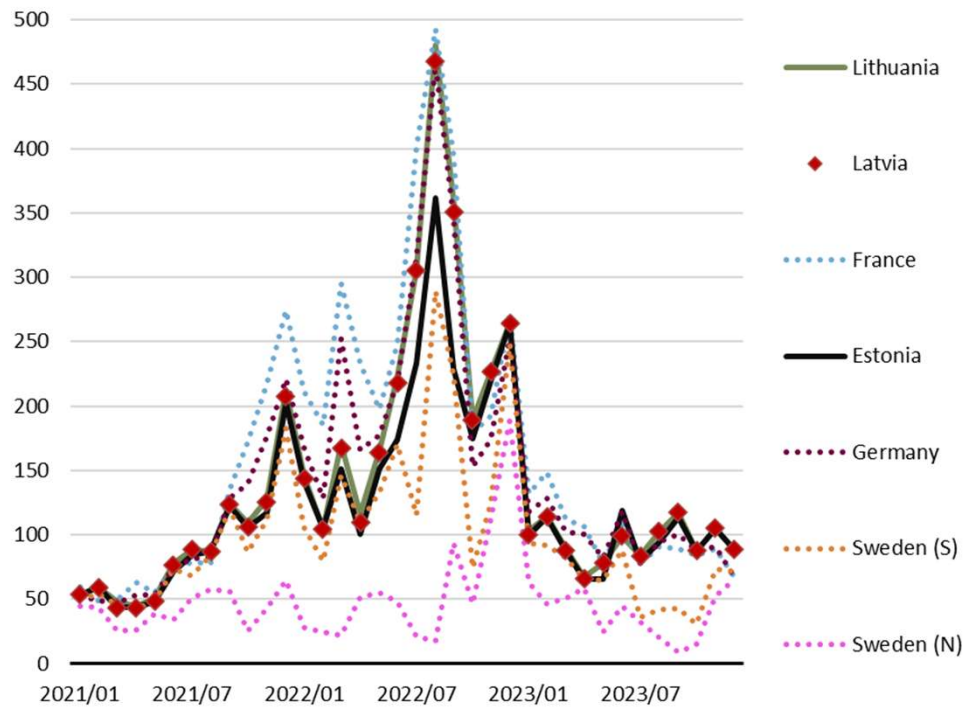
Freightos Global container shipping index and Baltic Dry



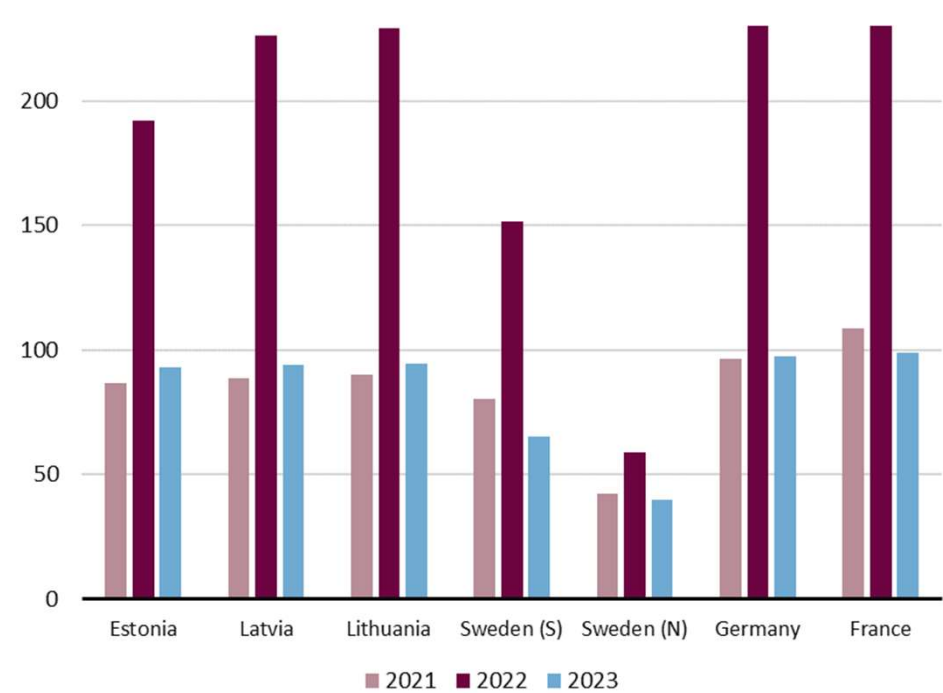
Source: Bloomberg

Electricity prices are half-normal

Electricity prices, EUR per MWh, months

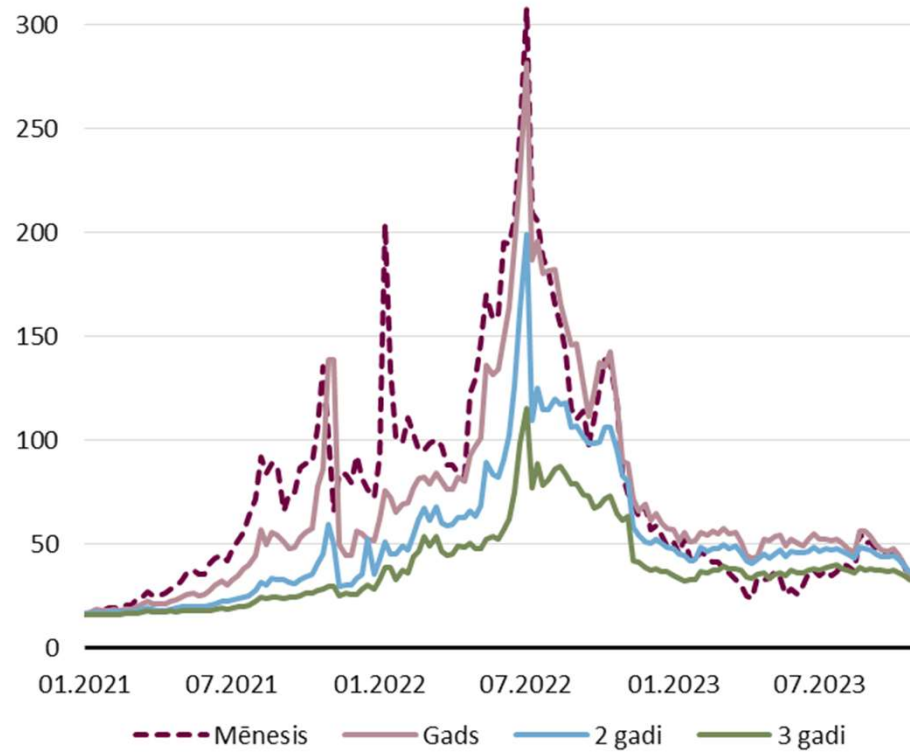


Electricity prices, EUR per MWh, annual averages



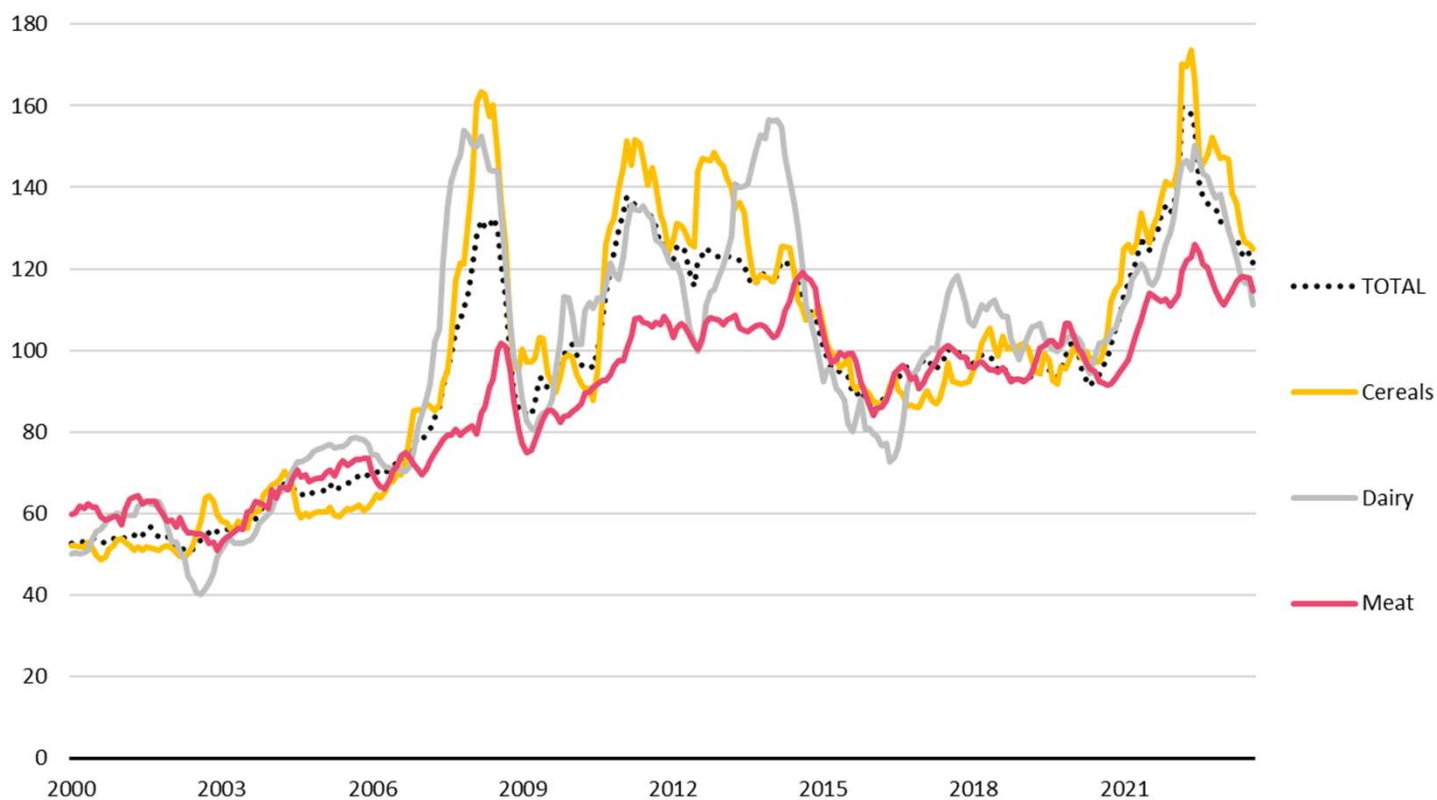
Gas prices are mostly reasonable

European gas price indices (TTF) since January 2021, various periods



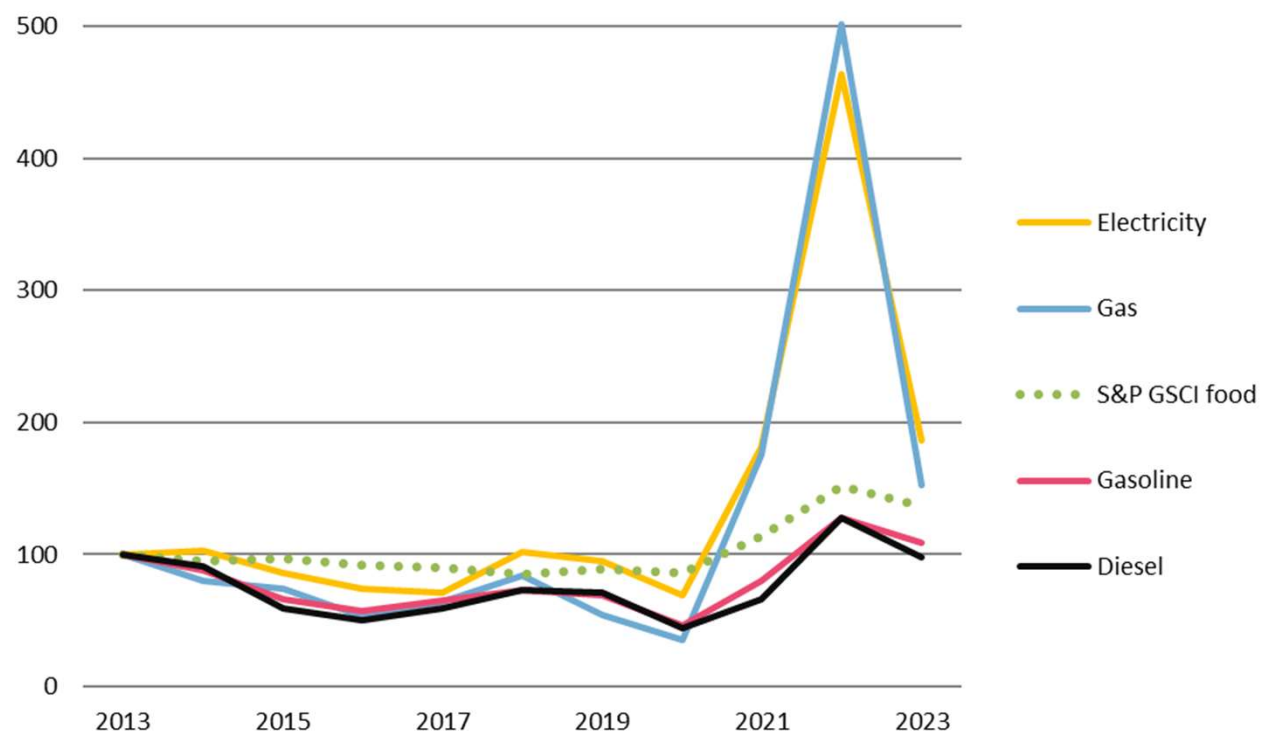
In the great scheme of history global food prices are back to trend

FAO food price index and subindices in this century



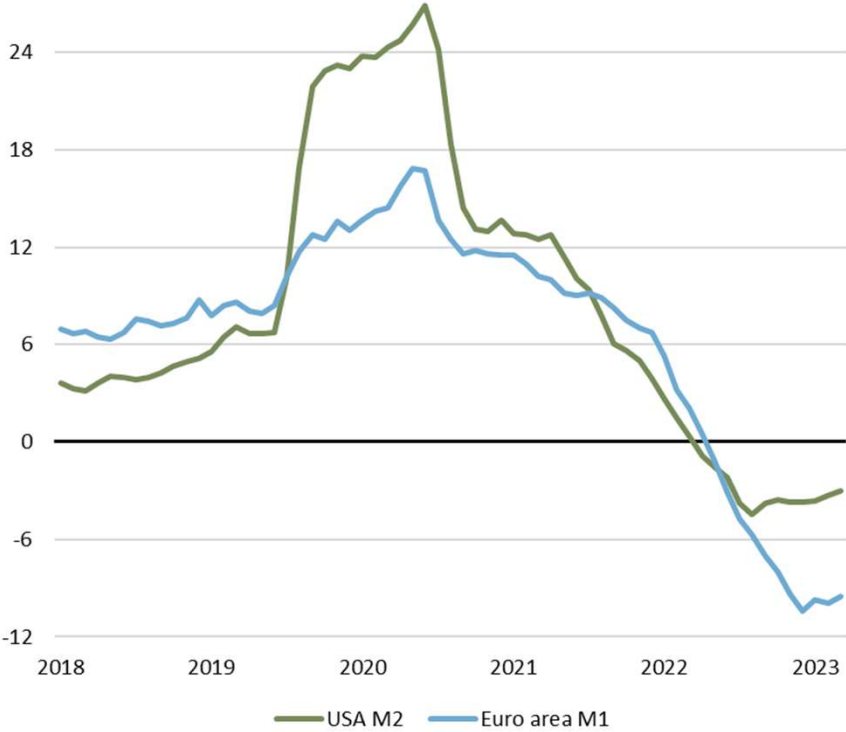
The overall picture of commodity decade

Index, annual averages, 2013 = 100, in EUR terms

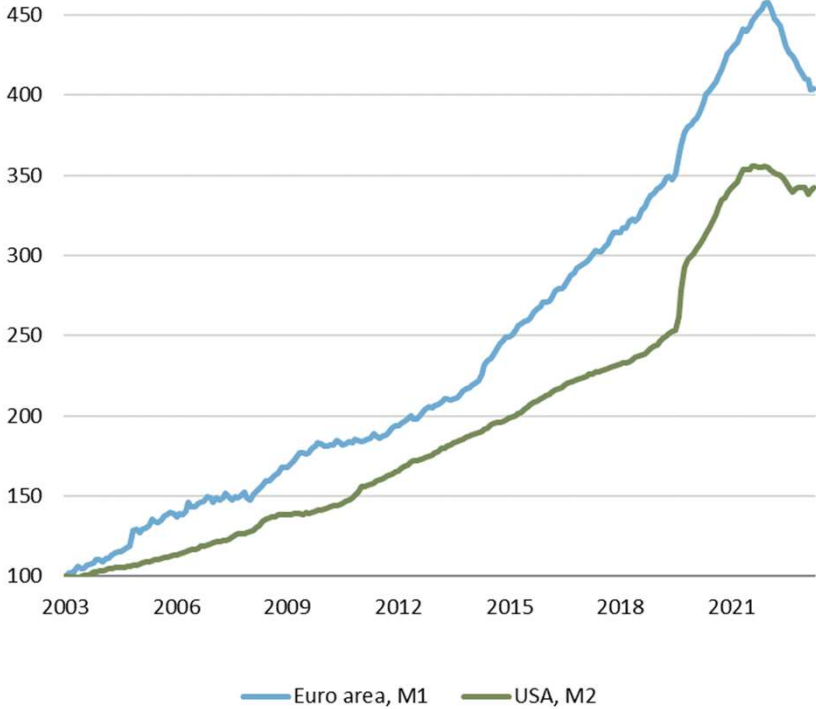


Inflation (and deflation!) can indeed be a monetary phenomenon

Annual change of broad money indicators, y/y, %



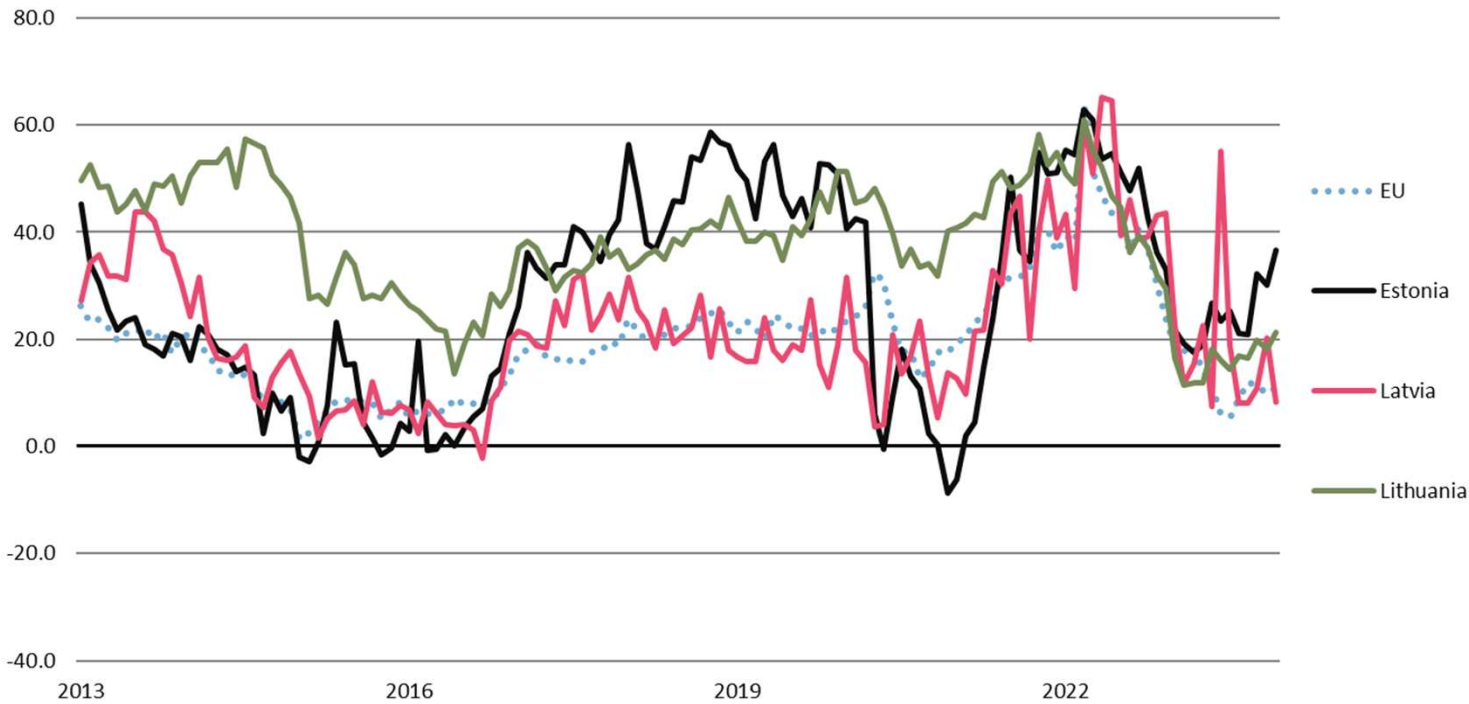
Broad money volume, 01.2023=100



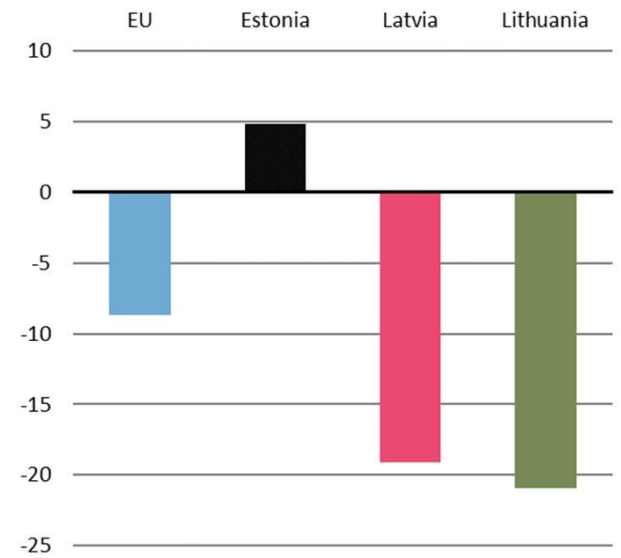
Source: Bloomberg

Inflation is mostly over in the minds of Baltic consumers

Inflation expectations of Baltic residents since 2013
Monthly surveys, +/- 100 point scale



Inflation expectations in December 2023 vs average since 2002

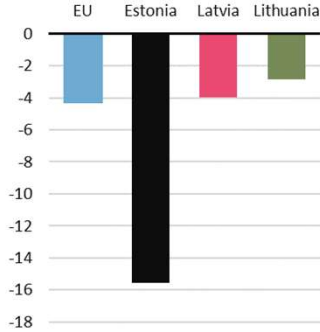


The same can be said about producers, not so much about service companies

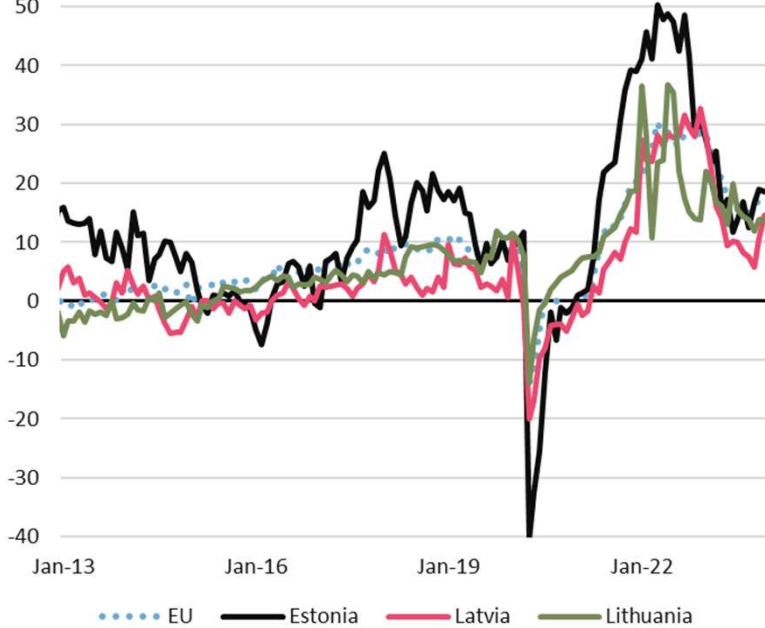
Manufacturing selling price expectations
Monthly surveys, +/- 100 point scale



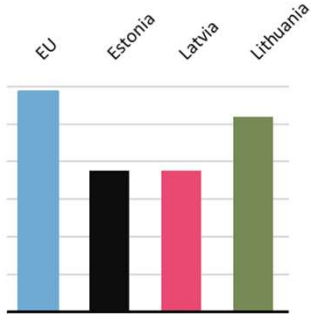
December 2023 vs average since 2002



Service sector selling price expectations
Monthly surveys, +/- 100 point scale



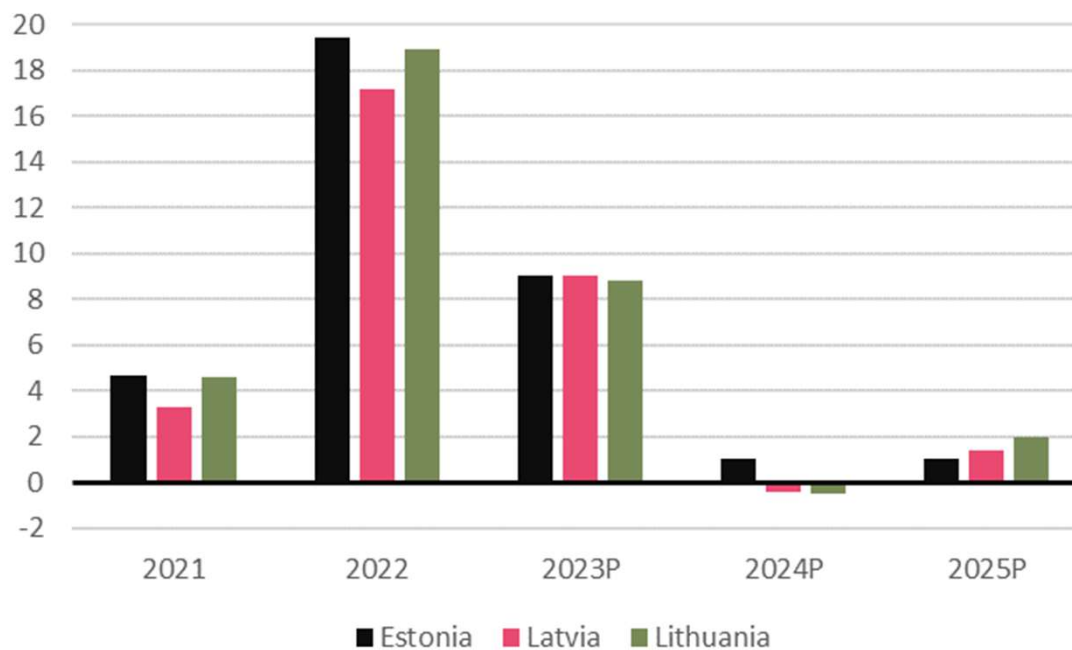
December 2023 vs average since 2002



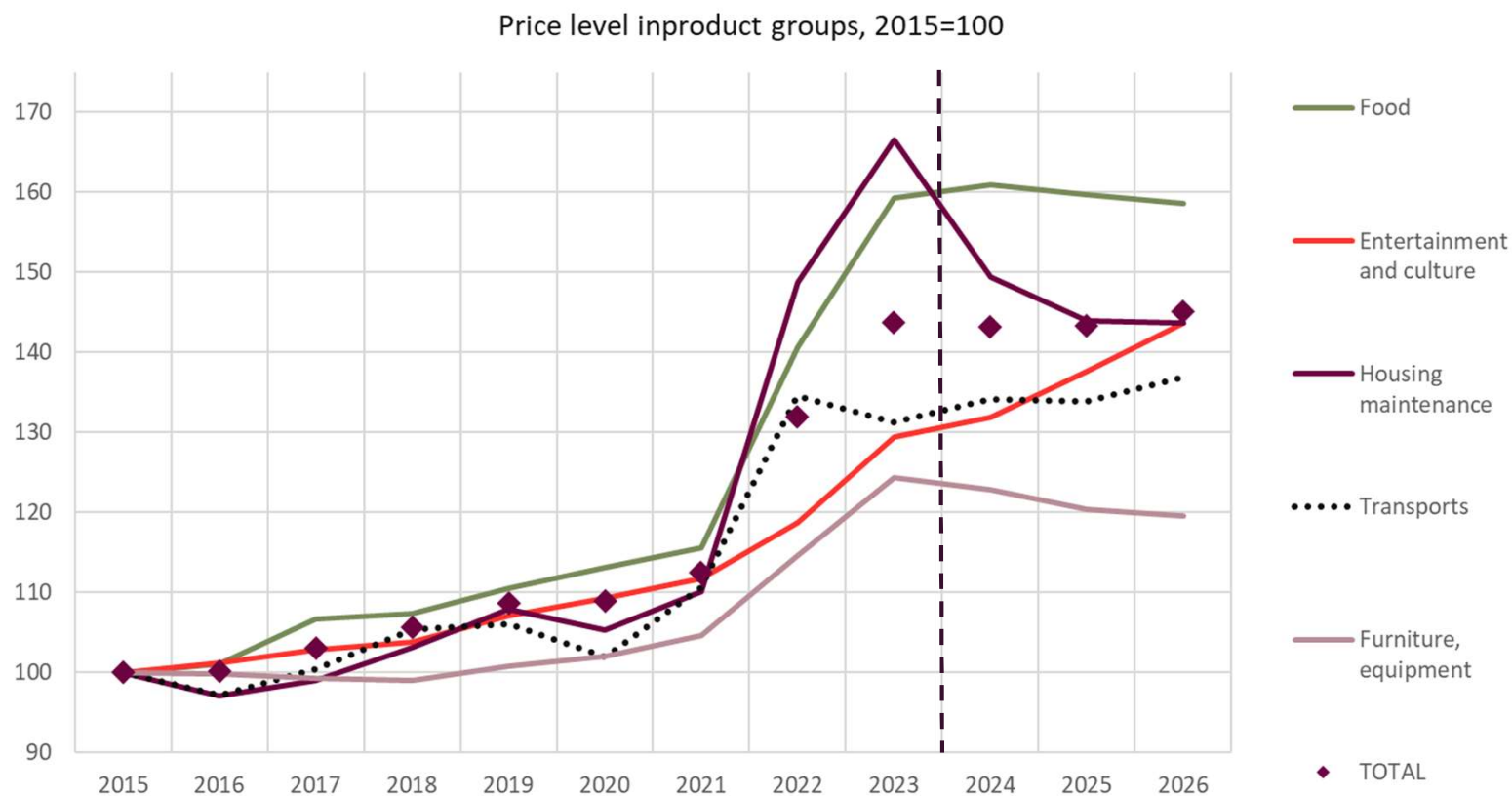
Source: European Commission, Luminor calculations

Thus we expect rather flat price level in 2024,
gradual upward movement later

Consumer prices, fact and Luminor forecast, %

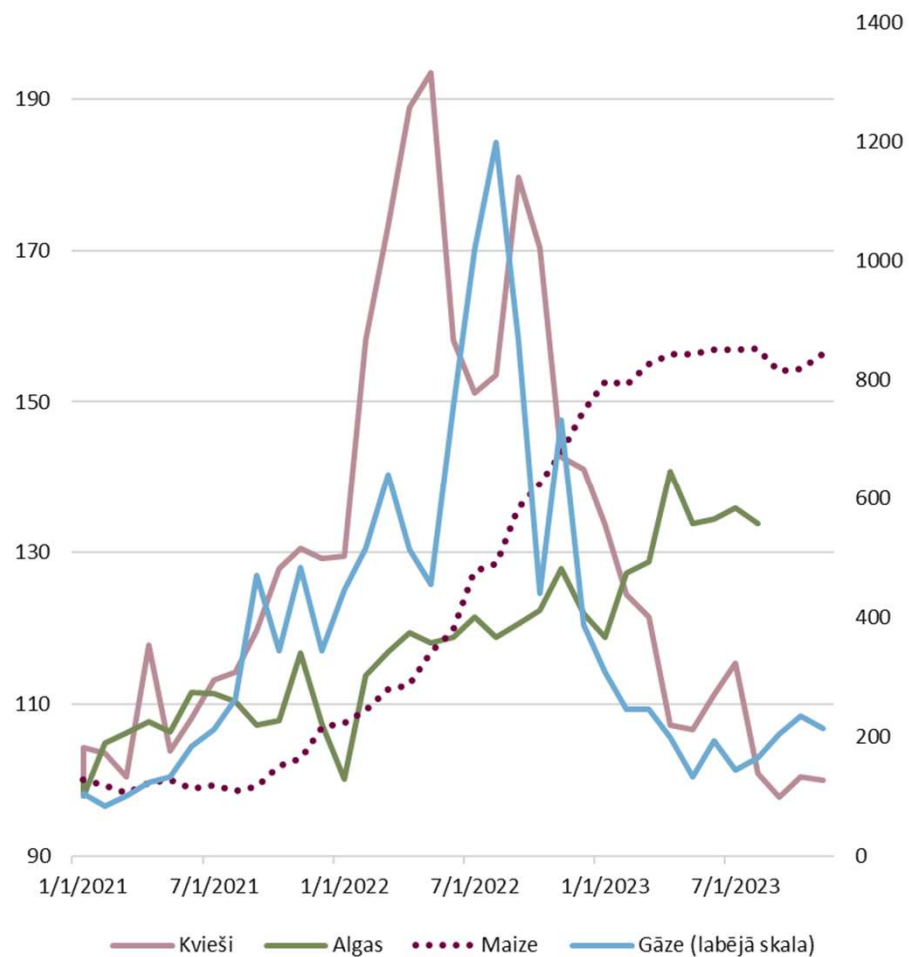


How might prices change for key product groups?



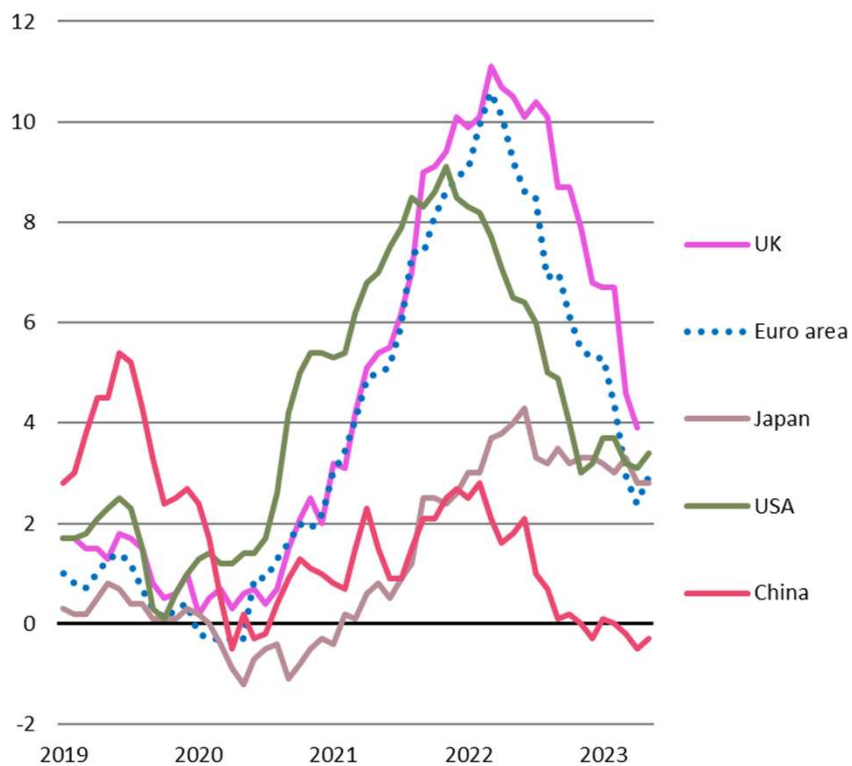
Example – food product that might become cheaper again. Hopefully

Bread price and production costs, 01.01.2021=100

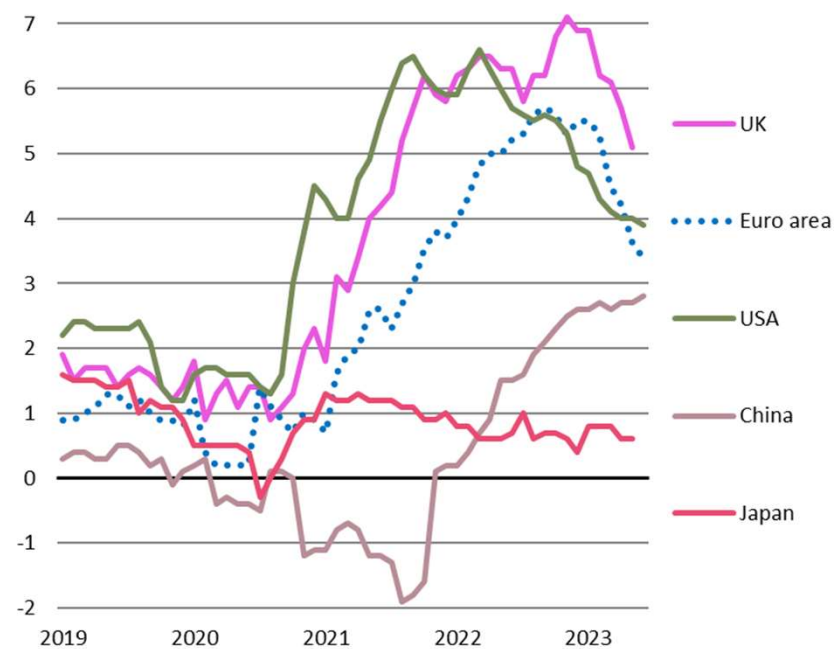


Inflation is going down also elsewhere

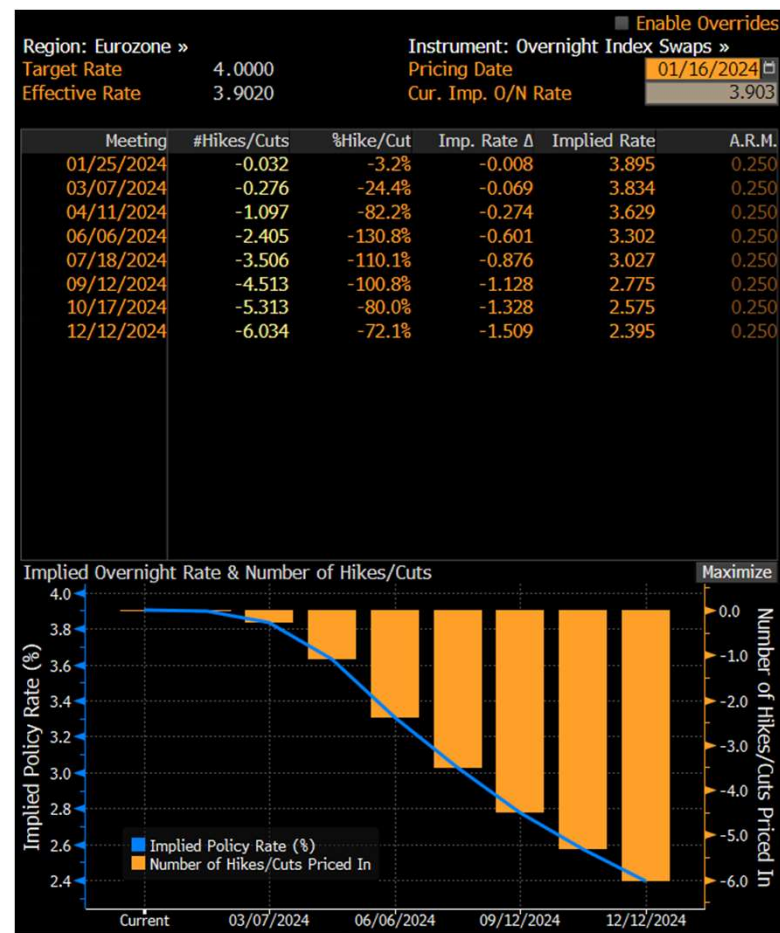
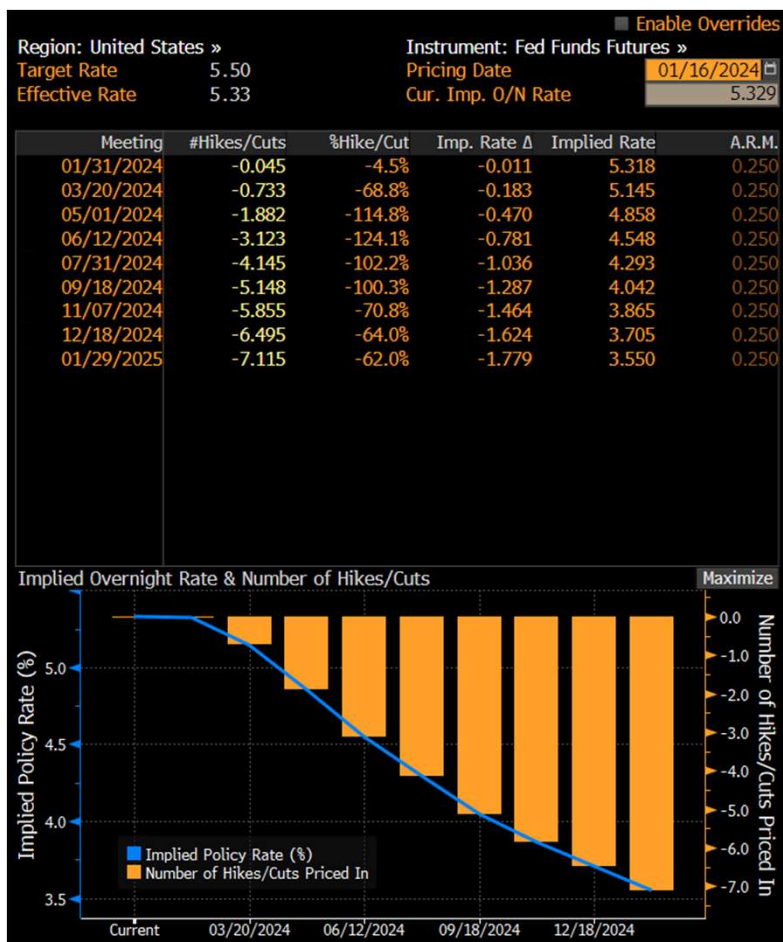
Annual consumer price changes, %



Core inflation, %

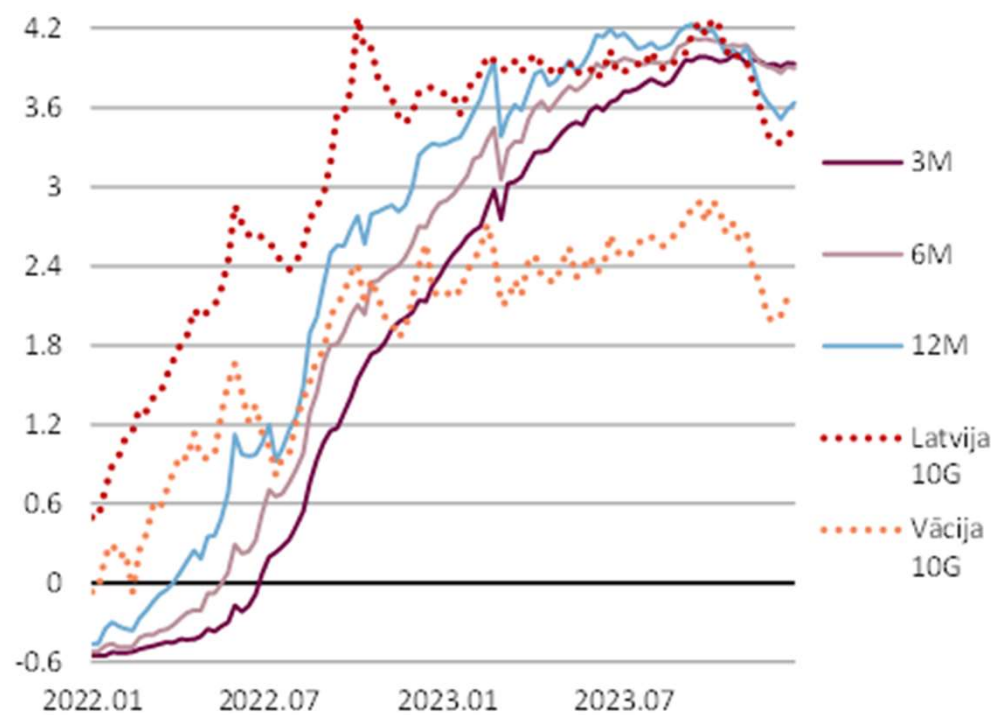


Latest market forecasts about monetary policy



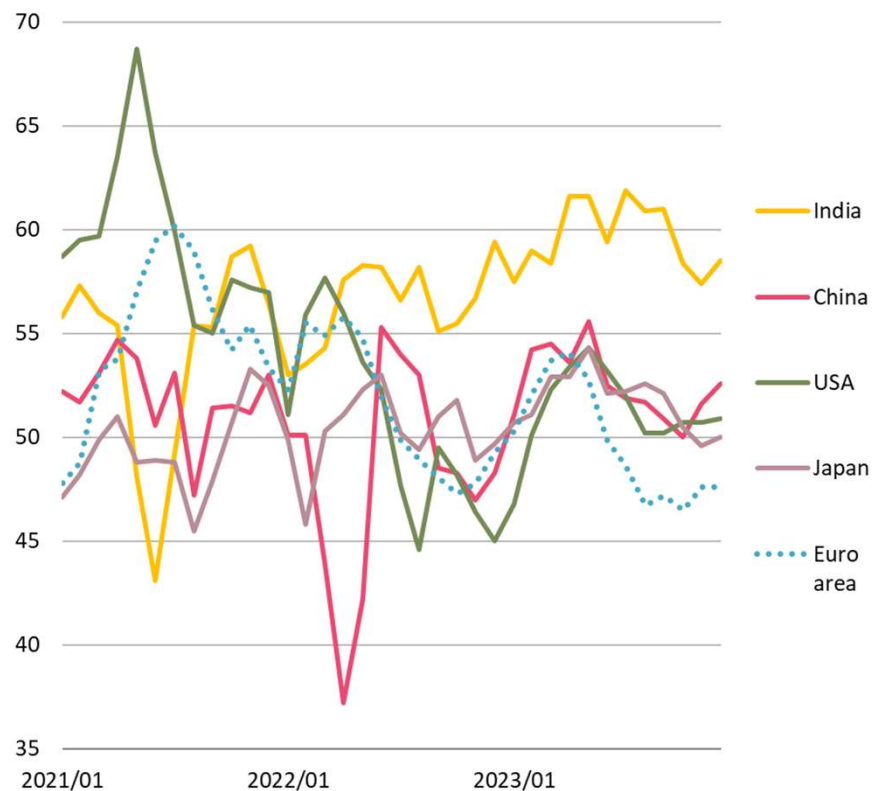
Borrowing costs are coming down

Euribor, German and Latvian 10Y bon yields, %

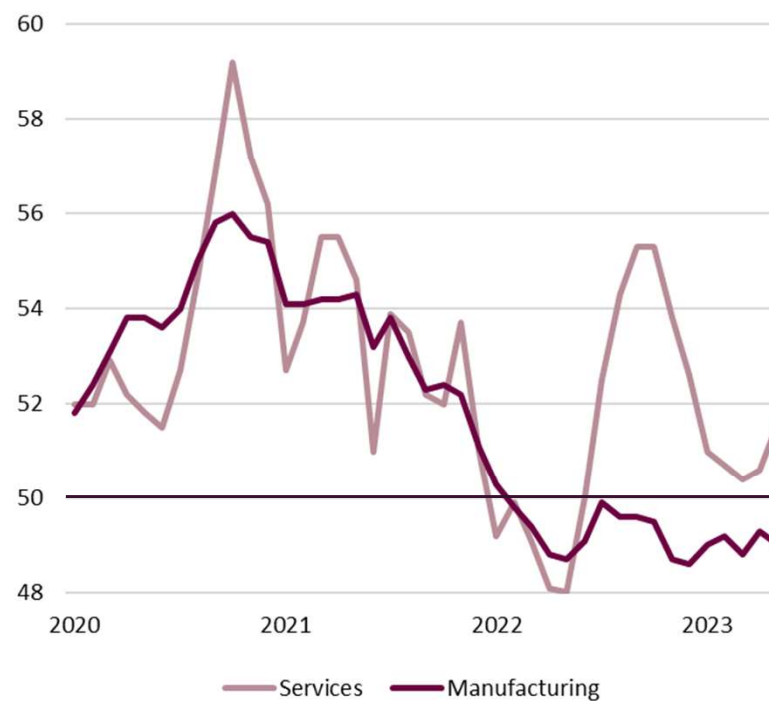


The price of moderate inflation is weakish growth outlook

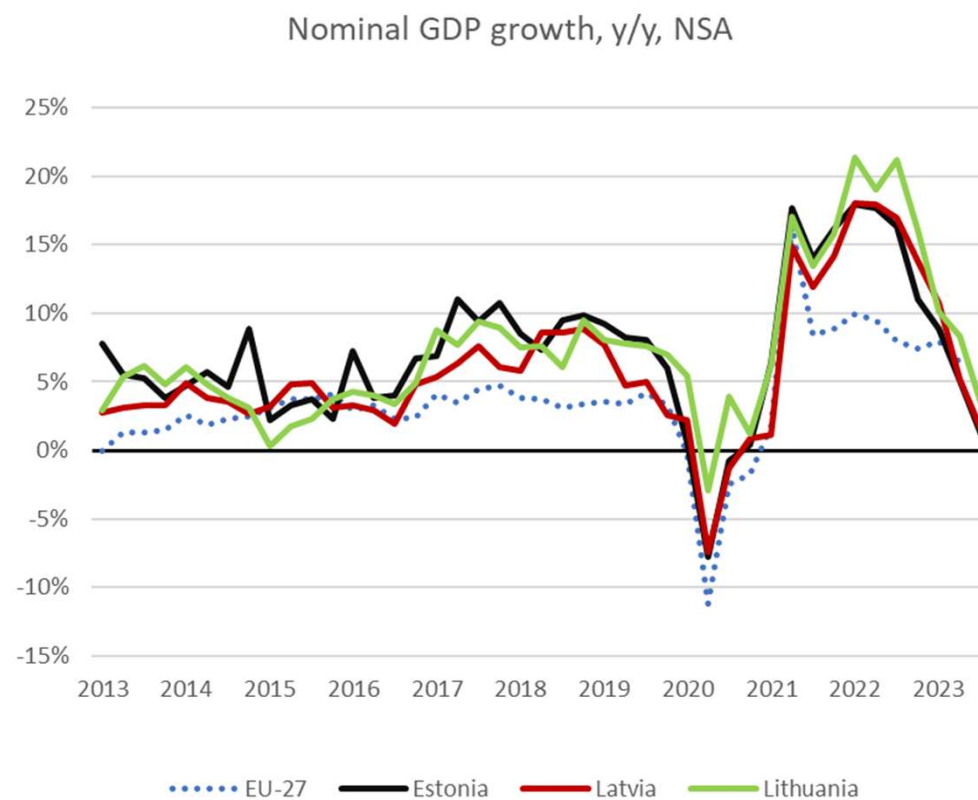
Total PMI indices since 2021 – states and regions



World manufacturing and service PMIs since August 2020



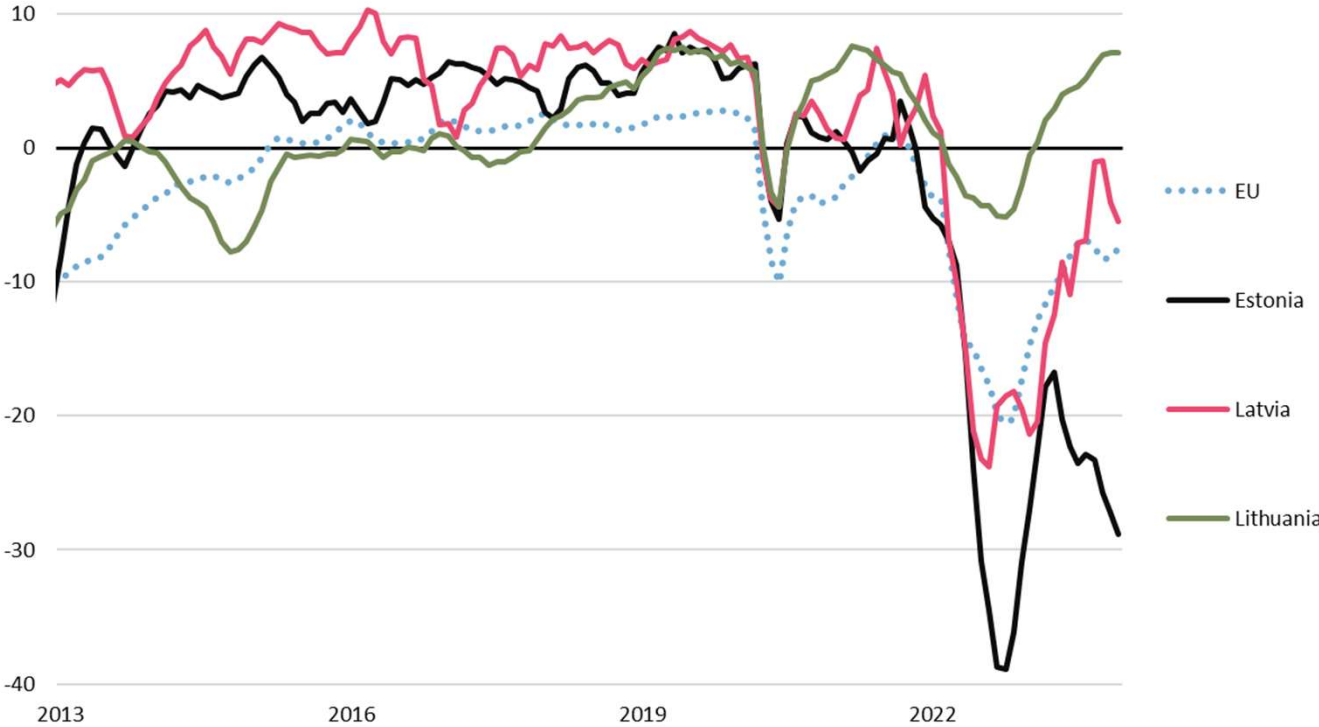
In money terms, economy will grow very slowly in 2024, if at all



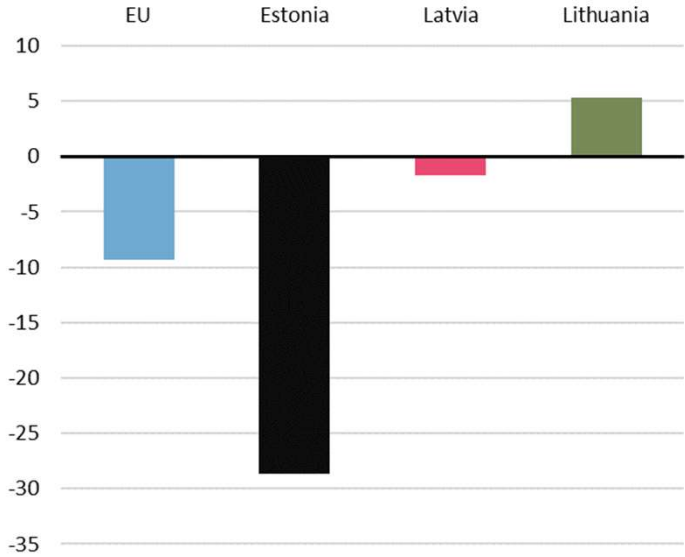
**There will be money to
spend. What about desire?**

Consumers appreciate the stabilization of prices

Expectations of Baltic consumers about their finances over the next 12 months, Three month average, +/- 100 point scale

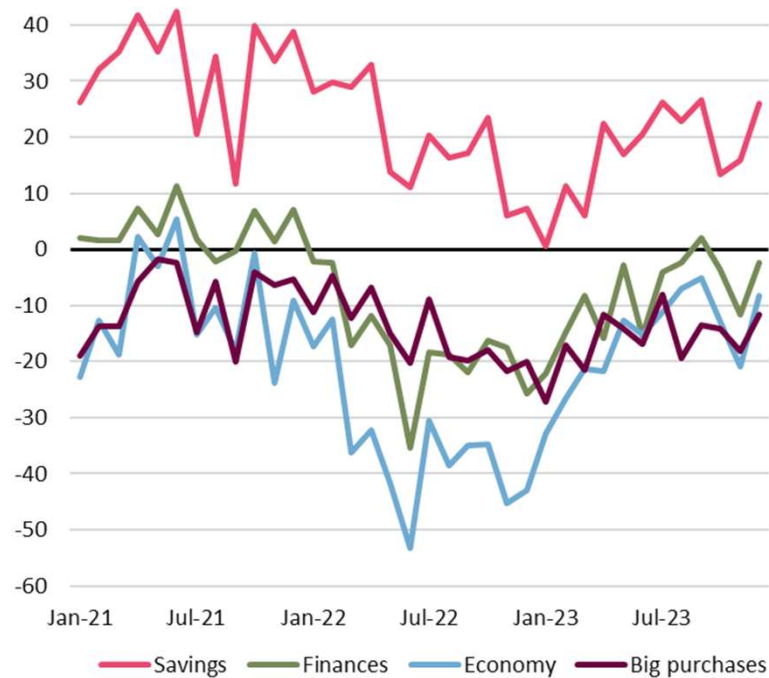


Index level in December 2023 vs average since 2002

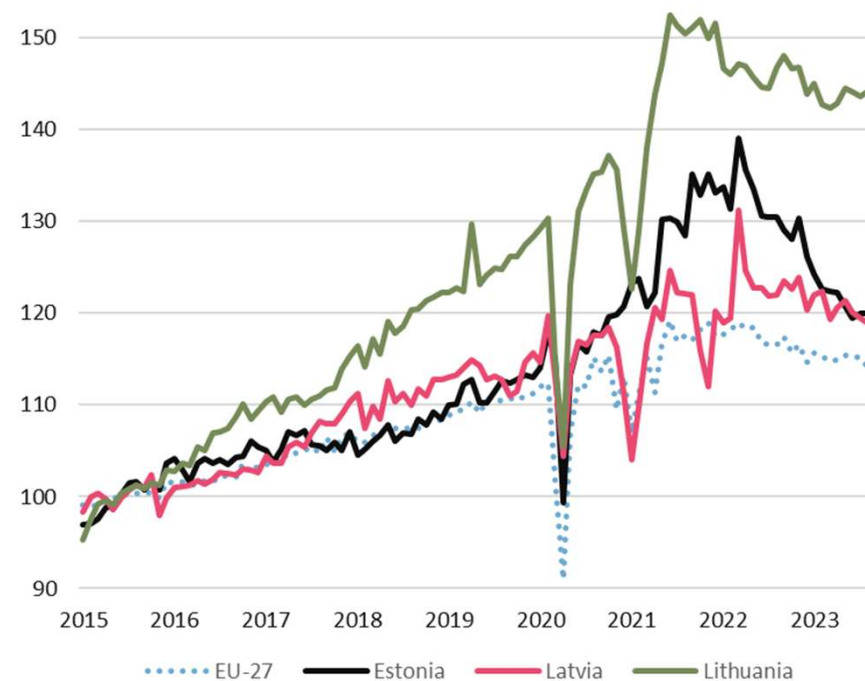


The mood is mostly improving, but not the willingness to spend

Consumer forecasts about their personal finances, economy for the next 12 months vs average since 2002, index, +/-100 point scale

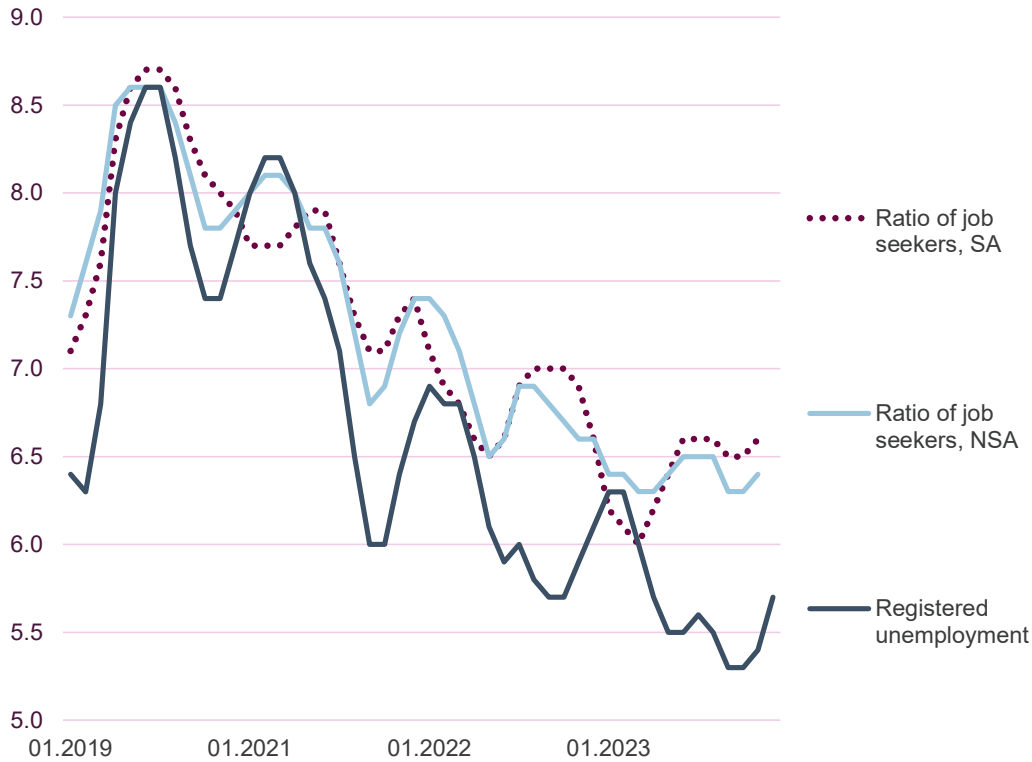


Retail turnover, 2015=100

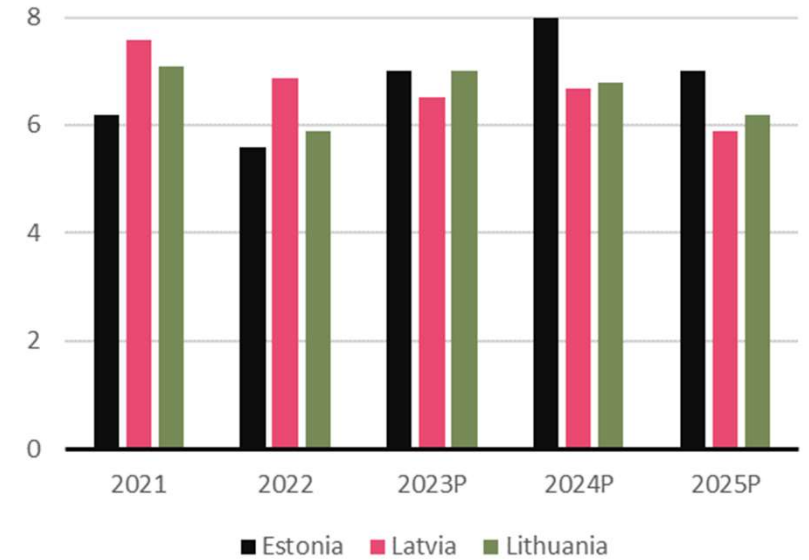


Unemployment level is flatlining

Unemployment since 2019, various measurements, %

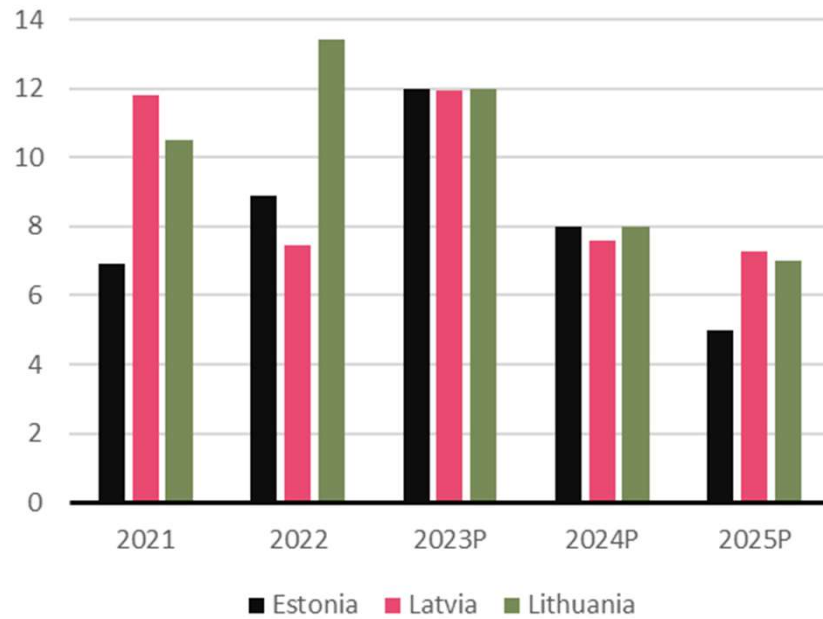


Ratio of job seekers, %

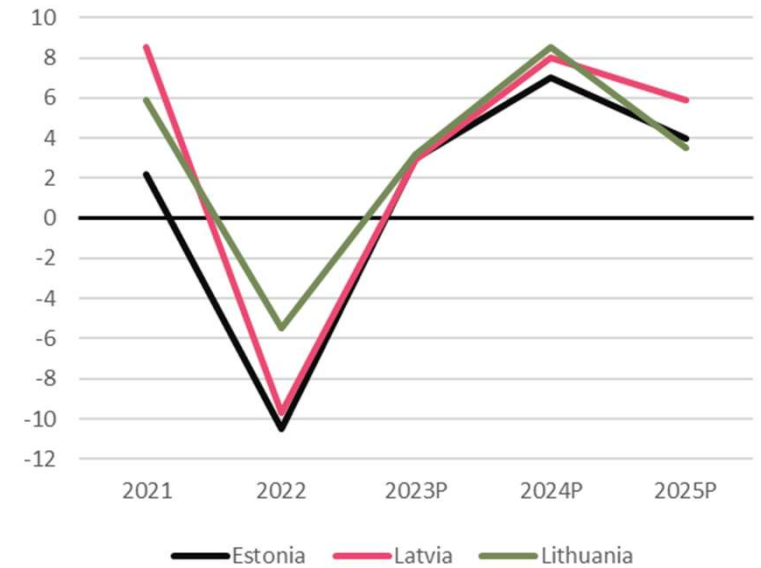


Money can buy different amounts of real happiness

Nominal wage growth, fact and Luminor forecast, %



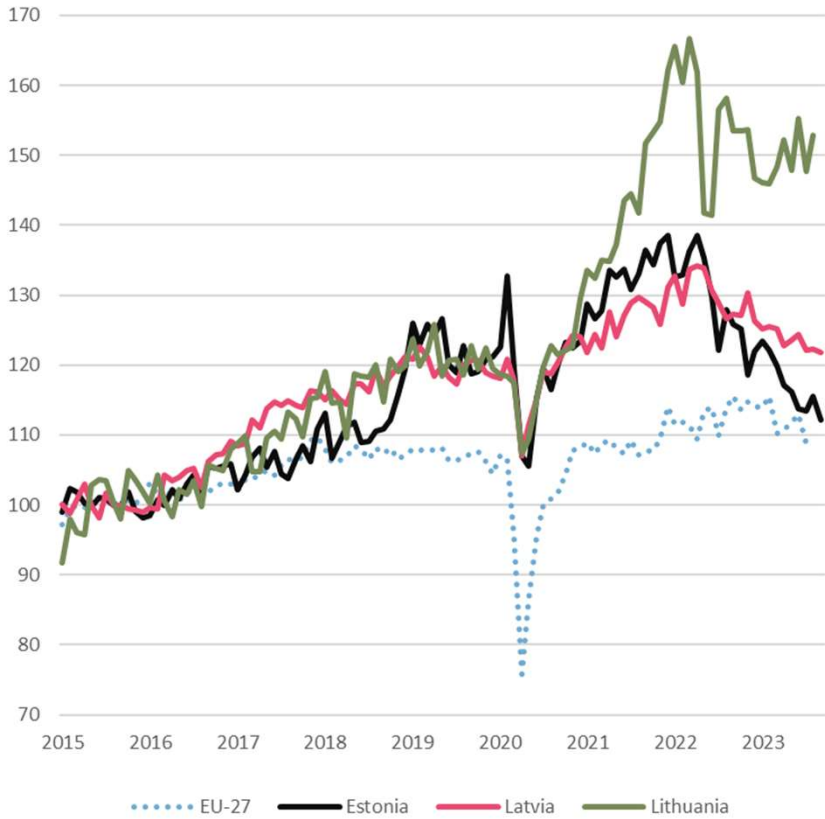
Real wage growth, fact and Luminor forecast, %



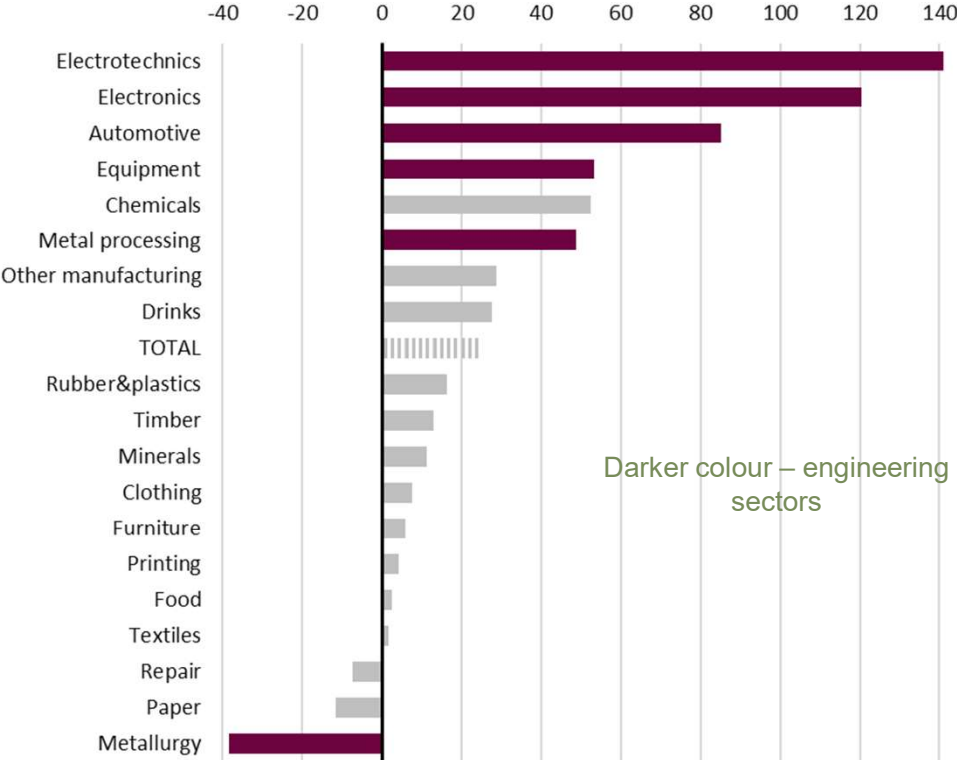
**Exporters are
struggling
against the wind**

Recent manufacturing performance is modest, but at least the structure is changing

Manufacturing output, 2015=100, SA



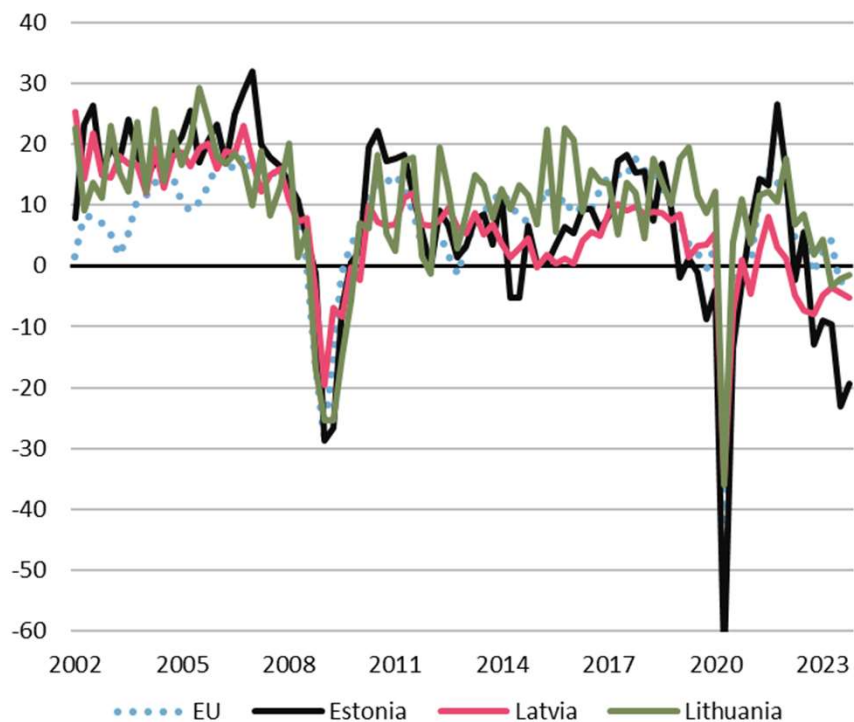
Manufacturing output in Latvia in 2023 vs 2015, change, %



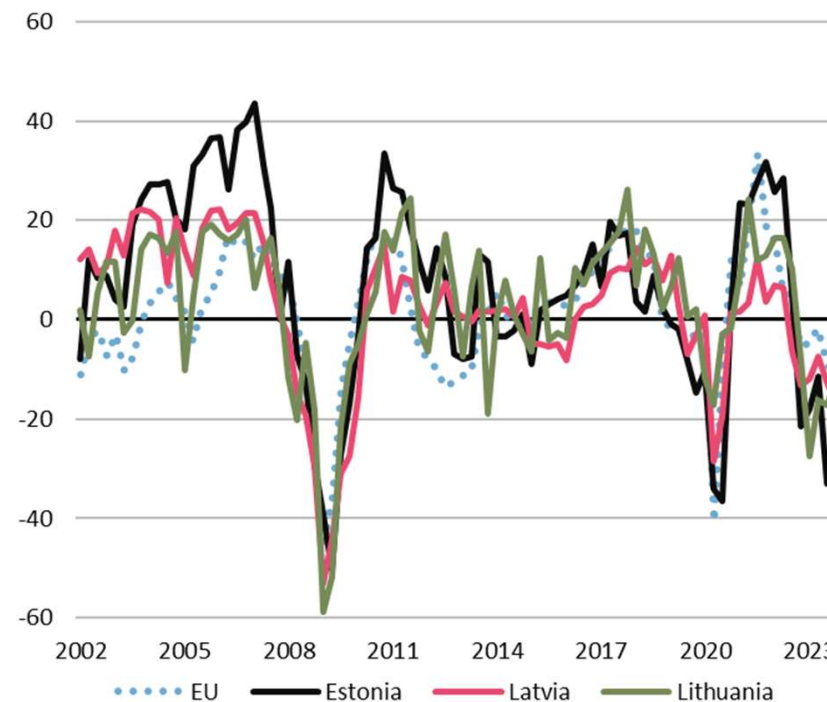
Darker colour – engineering sectors

Merchandise export markets are rather cool

Export expectations about the next few months, monthly manufacturing survey, +/- 100 point scale

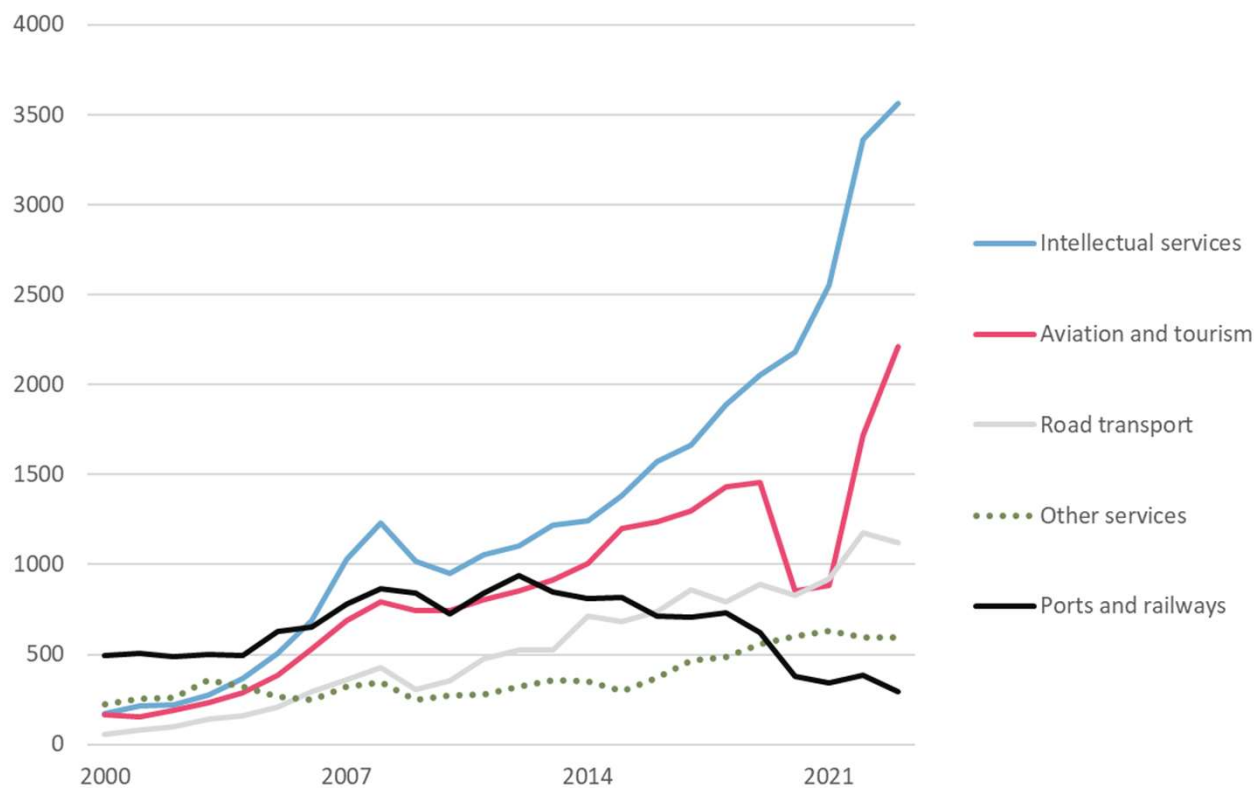


New orders, quarterly manufacturing survey, +/- 100 point scale



Service export story is much better

Main service exports since 2000, mEUR, includes forecast for Q4, 2023



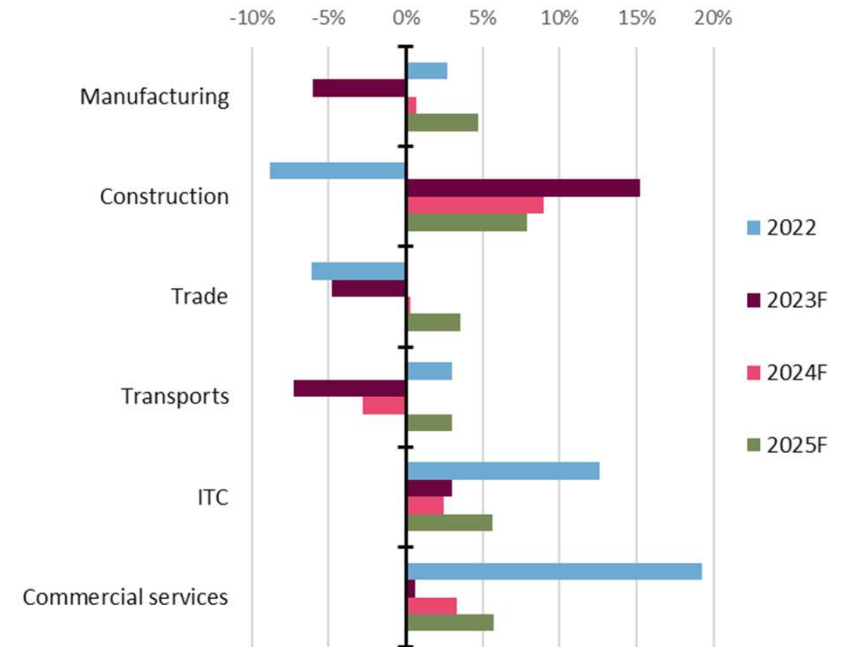
**The sum of joys
and sorrows - GDP**

Crazy twenties

GDP from expenditure aspect, 2018-2026

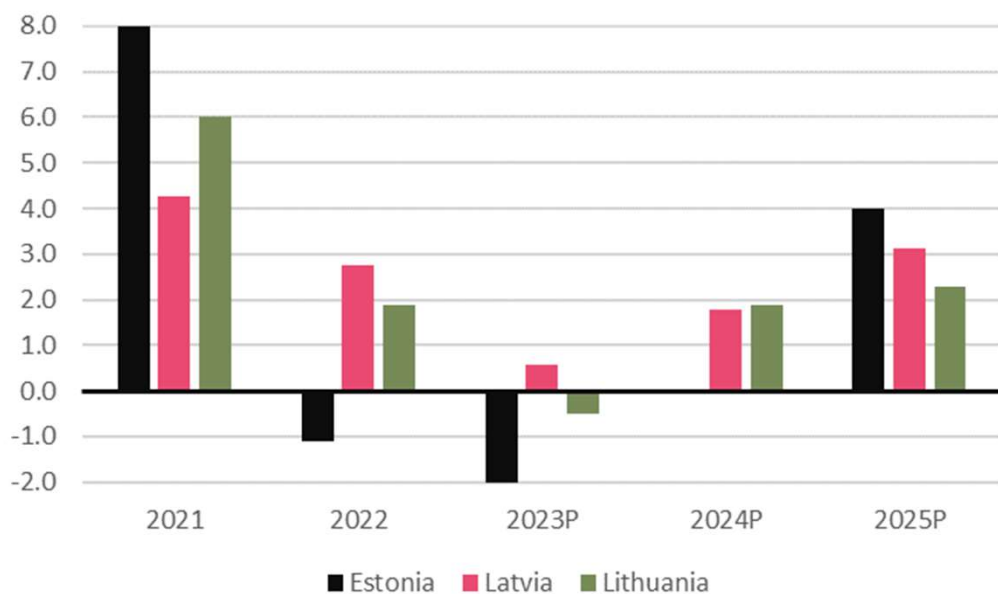


Change of value added in sectors, 2022-2025, fact and forecast



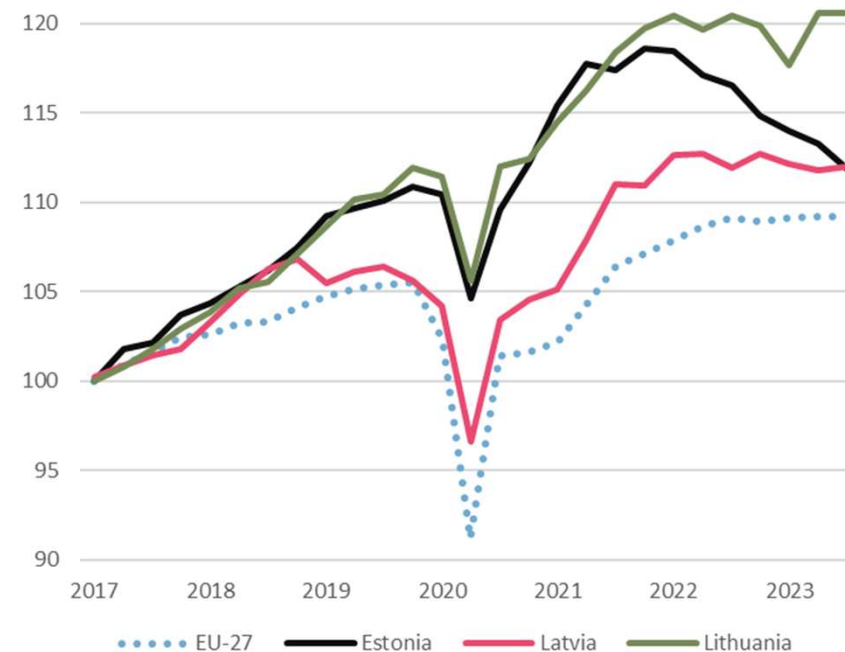
The economy is mostly acting according to Luminor's plan

GDP growth, fact and Luminor forecast%



Source: Eurostat data and Luminor forecast

Q1, 2017=100, SA



Source: Eurostat

Luminor

Thank
you!

