

- Euro area inflation at 1.1% in December 2016
- Euro area unemployment at 9.8 % in November 2016
- FDI accumulated in Lithuania and Latvia on decline in 2016

1 Key economic indicators

Key economic indicators of Lithuania							
Variable / Date	2014	2015	2016	2016			
				Q1	Q2	Q3	Q4
Real sector							
Real GDP, yoy, %, sca	3.5	1.8	-	2.5	2.1	1.7	-
Nominal GDP per capita, EUR thou., nsa	12500	12900	-	3000	3400	3600	-
Industrial production index, yoy, %, ca	0.3	4.5	-	5.7	-0.9	2.6	1.6 (Nov)
Volume index of construction production, yoy, %, ca	16.9	-3.5	-	-17.4	-14	-11.3	-
Retail trade, deflated turnover, yoy, %, ca	5.5	5.5	-	6.6	6.4	6.9	7.8 (Nov)
Gross fixed capital formation, yoy, %, sca	3.7	4.7	-	-0.5	0.2	-3.2	-
Prices							
GDP deflator, sca	1	0.2	-	-1	0.1	2	-
HICP, eop, yoy, %	-0.1	-0.2	-	0.8	0.4	0.6	1.1 (Nov)
PPI, eop, yoy, %	-10.5	-7.9	-	-9.9	-6.8	-0.6	1.3 (Nov)
House price index, yoy, %, eop	5.3	3.3	-	3.4	3.4	-	-
Labour market							
Minimum wage, EUR, biannual, eop	290	325	380	350		380	
Unemployment rate, sa, LFS, %, sa	10.7	9.1	-	8.5	5.2	7.6	7.9 (Nov)
Real labour productivity per hour worked, yoy, %, nsa	1.9	-0.9	-	-2.2	-0.5	-2.4	-
External trade & external position							
Exports of goods, yoy, %, sca	3.5	-0.4	-	4.1	2.9	3.7	-
Imports of goods, yoy, %, sca	3.3	6.2	-	2.4	1.1	1.8	-
Current account balance, % of GDP, sca	-1.92	-0.65	-	1.79	0.07	1.61	-
FDI inflow, % of GDP, nsa	0	2.1	-	-6.1	0.4	0.2	-
Economic sentiments							
Economic sentiment indicator, SA	101.5	105.7	111	105.4	103.7	107	111
Industrial confidence indicator, SA	-7.9	-7.6	0.6	-9.5	-12.6	-5.6	0.6
Construction confidence indicator, SA	-12.4	-26.4	-21.3	-25.6	-29.3	-27.2	-21.3
Retail confidence indicator, SA	1.6	15.1	8.1	13.8	7.1	10.1	8.1
Services Confidence Indicator, SA	-3.9	6.4	14.9	11.3	10.2	12.1	14.9
Consumer confidence indicator, SA	-14.4	-5.6	-4.7	-8.2	-8.1	-8.3	-4.7

[Source: Eurostat, Bank of Lithuania, author's calculations]

2 Economic news of past week

Russian inflation down to 5.4 %	The annual price index fell more than estimated by economists to 5.4 percent in December from 5.8 percent a month earlier. That's less than half the level a year earlier and matches the lower end of the central bank's forecast, for 2016. Delivering on the forecast will boost credibility for a central bank, that's been stingy with rate cuts through much of Russia's longest, recession this century. (Bloomberg.com)
Eurozone PMI at 54.9 in December up from 53.7 in November	The eurozone manufacturing sector ended 2016 on a high note. At 54.9 in December, up from 53.7 in November. The average for the final quarter (54.0) was solidly above that for the third quarter (52.1) and signaled the fastest growth since the second quarter of 2011. Price pressures intensified during December. Higher import costs resulting from the depreciation of the euro, combined with increased global commodity prices, led to the sharpest inflation of average purchasing costs for over five-and-a-half years. (Markit.com)
Euro area inflation at 1.1% expected in December	Euro area annual inflation is expected to be 1.1% in December 2016, up from 0.6% in November 2016, according to a flash estimate from Eurostat. Energy is expected to have the highest annual rate in December (2.5%, compared with -1.1% in November), followed by services (1.2%, compared with 1.1% in November), food, alcohol & tobacco (1.2%, compared with 0.7% in November) and non-energy industrial goods (0.3%, stable compared with November). (Eurostat)
Euro area unemployment at 9.8 % in November 2016	The euro area seasonally-adjusted unemployment rate was 9.8 % in November 2016, stable compared to October 2016 and down from 10.5 % in November 2015. This is the lowest rate recorded in the euro area since July 2009. (Eurostat)
Euro area volume of retail trade - 0.4% m-o-m	In November 2016 compared with October 2016, the seasonally adjusted volume of retail trade fell by 0.4% in the euro area (EA19) and by 0.1% in the EU-28. In November 2016 compared with November 2015 the calendar adjusted retail sales index increased by 2.3% in the euro area and by 3.4% in the EU28. (baltic-course.com)
Volume of retail trade grew in all three Baltic states	Lithuania's retail trade volume rose by 7.8% in November 2016 compared with a year ago. Latvia's retail sales increased by an annual 4.6% and Estonia posted a 6.5% growth rate. M-o-m, retail sales inched up by 0.1% in Lithuania, rose by 1.3% in Latvia and were up by 1.7% in Estonia. Across the EU, the volume of retail trade grew by 3.4% over the year, but edged down by 0.1% over the month. (baltic-course.com)
FDI accumulated in Lithuania decreases by EUR 470.7 mln.	Based on provisional data, the FDI flow in Lithuania in III quarter 2016 was positive and amounted to EUR 17.3 mln. Over the first three quarters of 2016, FDI in Lithuania was on the decrease and the negative investment flow amounted to EUR 470.7 mln. (baltic-course.com)
FDI accumulated in Latvia decreases EUR 211.6 mln in 2016	Compared to 2015, foreign direct investment accumulated in Latvia has decreased EUR 211.59 mln. One of the main reasons was the decision by Swedbanki to reduce its share capital by EUR 367.85 mln as part of optimization of Swedbank Group's capital structure. Stockholm School of Economics in Riga study indicates that the situation with investor protection in Latvia did not improve last year. Half of investors interviewed for the study said they were not planning additional investment in Latvia at the moment. (baltic-course.com)

3 Economic insights

On 28th September 2016 OPEC unexpectedly agreed to outline a deal to cut production. Their first agreement to reduce production in 8 years. The agreement was only possible, as Saudi Arabia agreed to exempt Iran from capping their production. On the follow-up meeting on 9th December the OPEC agreed to curtail oil production from 33.8 mln barrels per day to 32.5 mln barrels per day. Russia appears to commit to reduction by cutting its production by 300 thousand barrels per day. This send clear signals in spot markets.

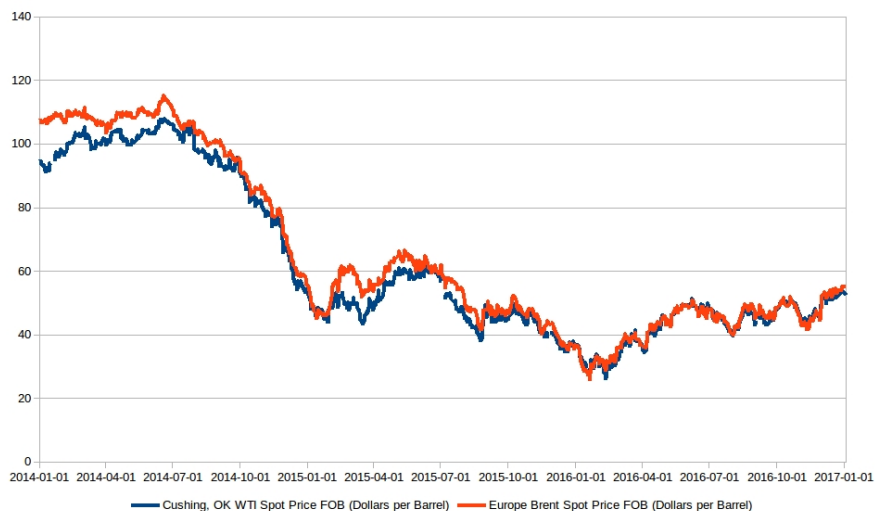


Figure 1: Spot Prices - Crude Oil in Dollars per Barrel. Source: EIA.gov

3rd January compared to 28th September spot prices of Europe Brent were up by 21 % and over a year the Brent increases by 52 % (from \$ 36 in January 2015). Increasing oil prices transmitted into higher energy prices, as reflected by HICP estimates in eurozone. On 4th January 2017 Eurostat estimated, that euro area inflation will by 1.1 % in December 2016, up from 0.6 % in November, with energy prices manly contributing to the growth.

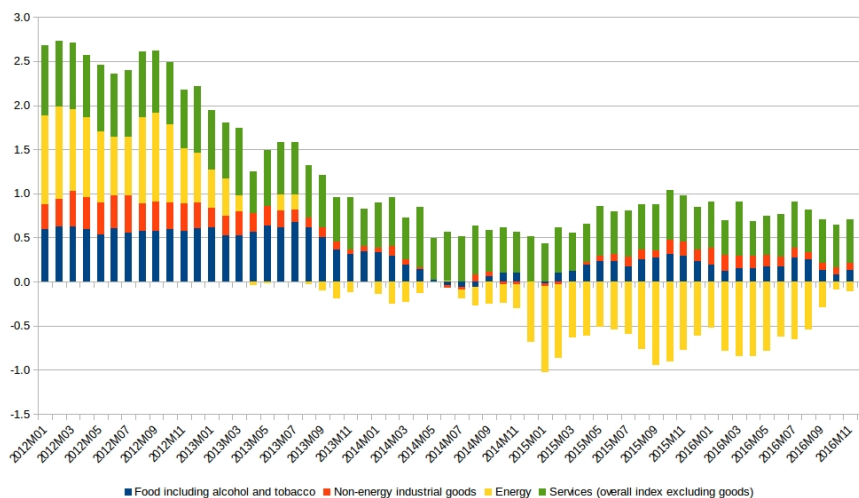


Figure 2: Contributions to inflation growth in euro area. Source: Eurostat, author's calculations

An increased euro area PMI of 54.9 in December compared to 53.7 in November signaled a strength-

ening manufacturing sector in all economies observed by IHS Markit institute. On January 9th 2017 Eurostat revealed, that the eurozone seasonally-adjusted unemployment rate was 9.8 % in November 2016, stable compared to October 2016 and down from 10.5 % in November 2015. This was the lowest rate recorded in the euro area since July 2009. These news fill fuel the discussion in the euro area on when the ECB is to taper its quantitative easing. And although 1.1 % inflation in last December is still well below the ECB's goal of just under 2 percent, given a robust recovery, ECB may be urged to taper sooner than later.