

Baltic economic outlook

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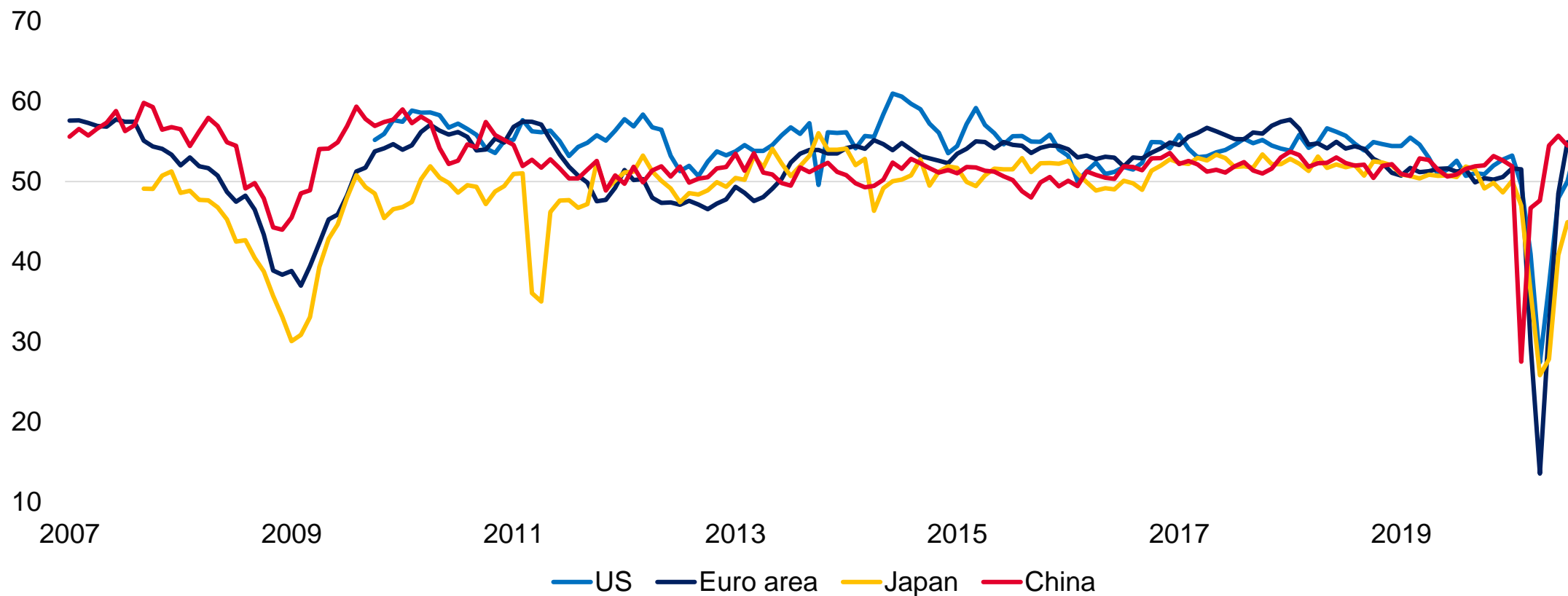
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Global economy

The global economic sentiment is rebounding, but recovery is incomplete

IHS Markit Composite PMI



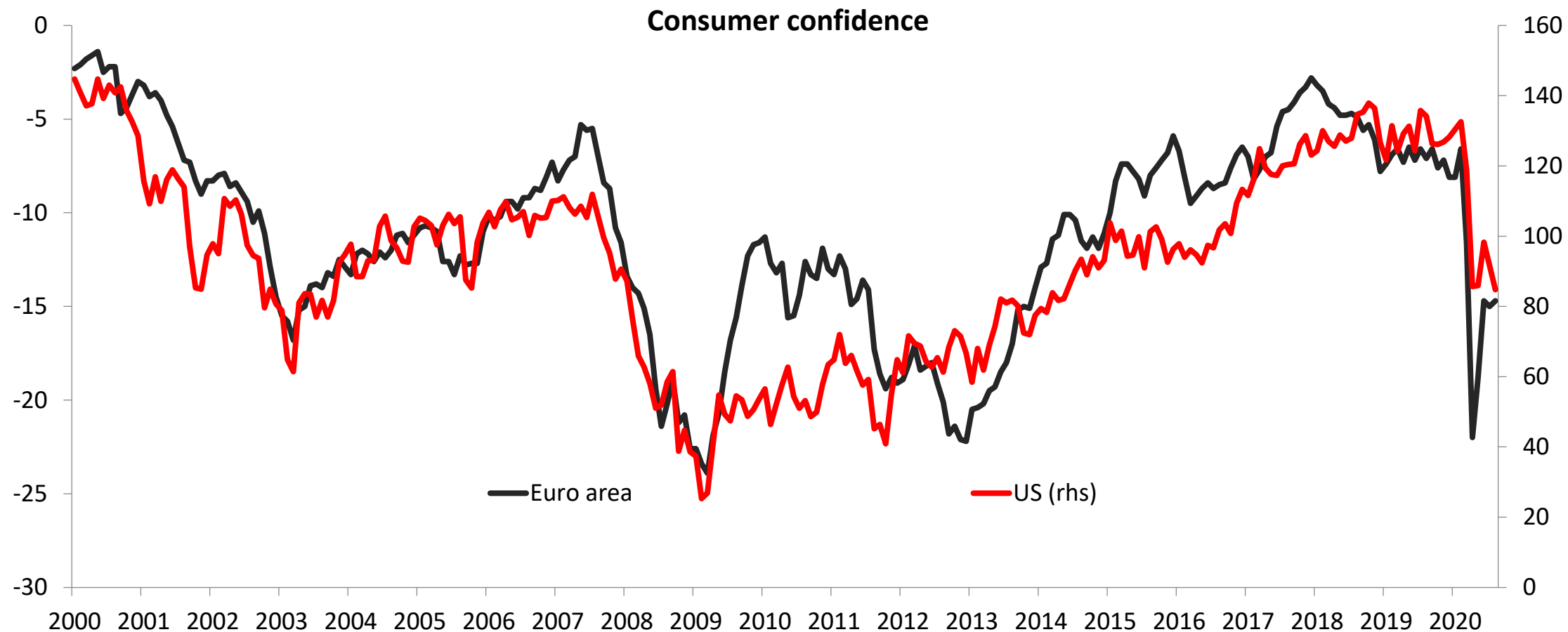
World trade

Industrial orders are recovering from the fall in the spring and world trade is stabilizing



Consumer confidence

US and euro area consumer sentiment remains significantly below previous levels



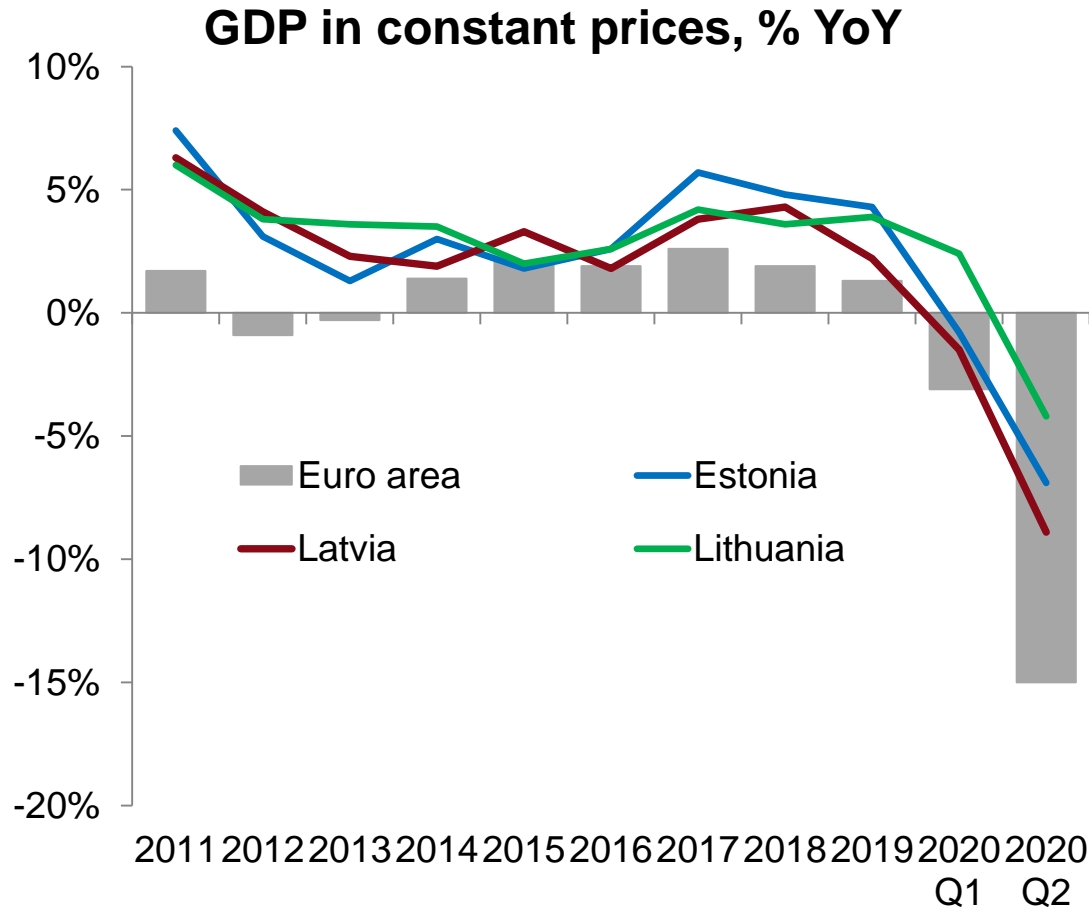
Source: DG ECFIN, Bloomberg

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Baltic region

Economic shock in the Baltics has been less severe than in euro area as a whole



GDP in Baltics in Q2 2020, % YoY

Estonia

- Construction +12.3%
- Public services +1.0%
- Trade, tourism and transport -14.1%
- Manufacturing -18.9%
- Arts and entertainment -22.5%

Latvia

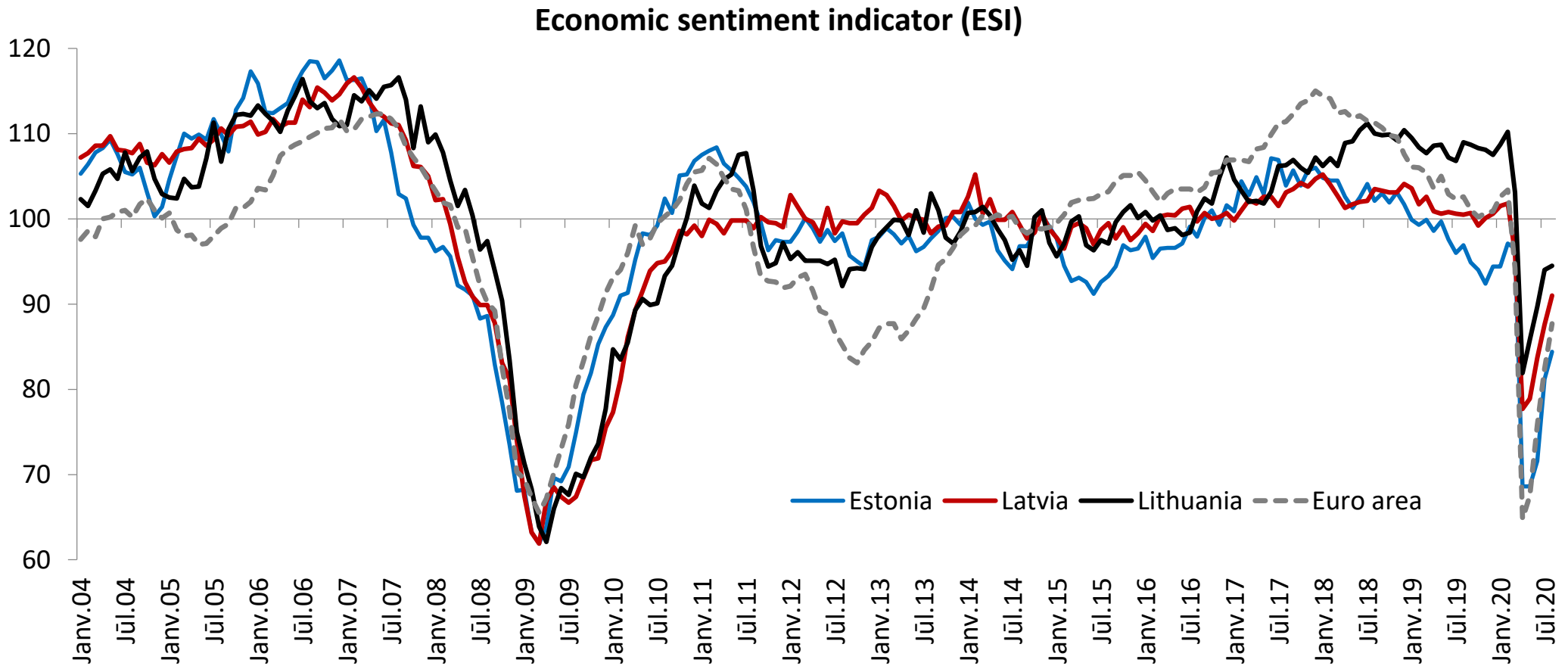
- Construction -0.6%
- Public services -1.5%
- Manufacturing -6.9%
- Trade, tourism and transport -19.8%
- Arts and entertainment -38.4%

Lithuania

- Public services -1.2%
- Construction -3.4%
- Manufacturing -5.2%
- Trade, tourism and transport -6.3%
- Arts and entertainment -15.9%

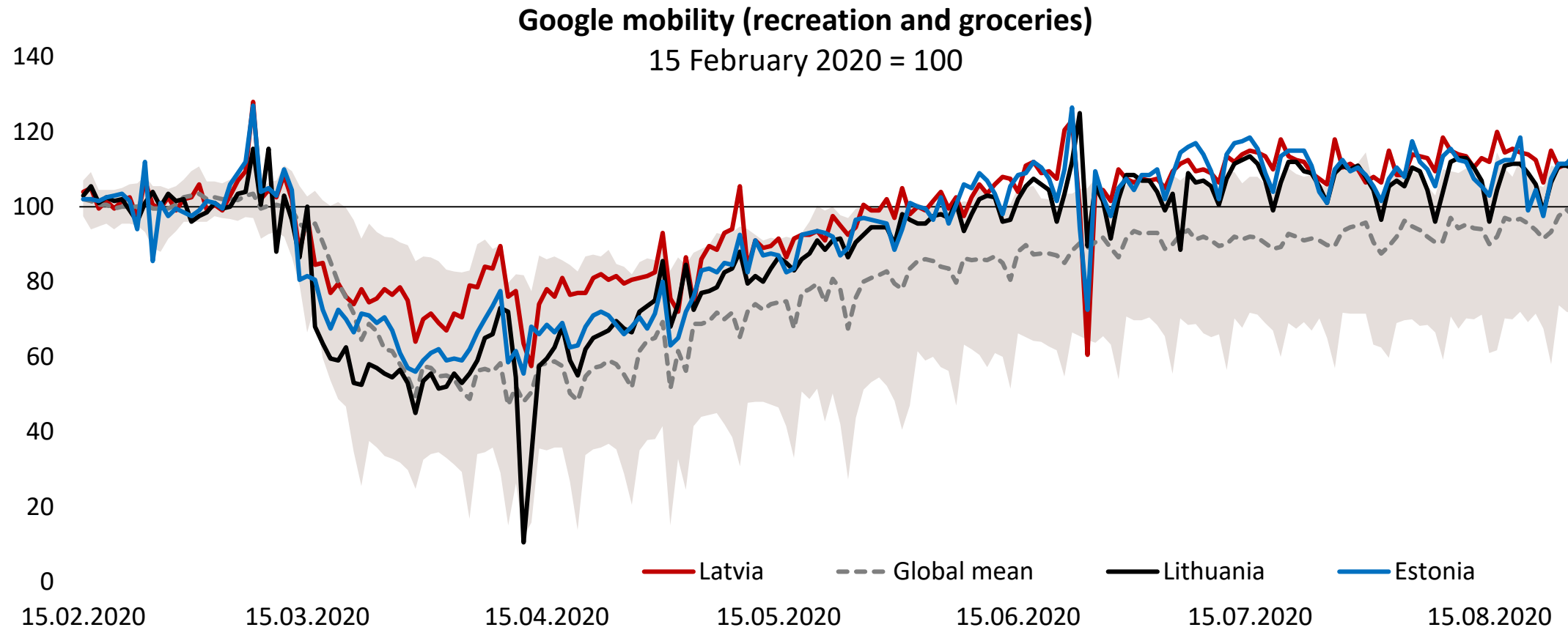
Economic sentiment

After the sharp decline, business sentiment in the Baltics is improving, but is still in negative territory



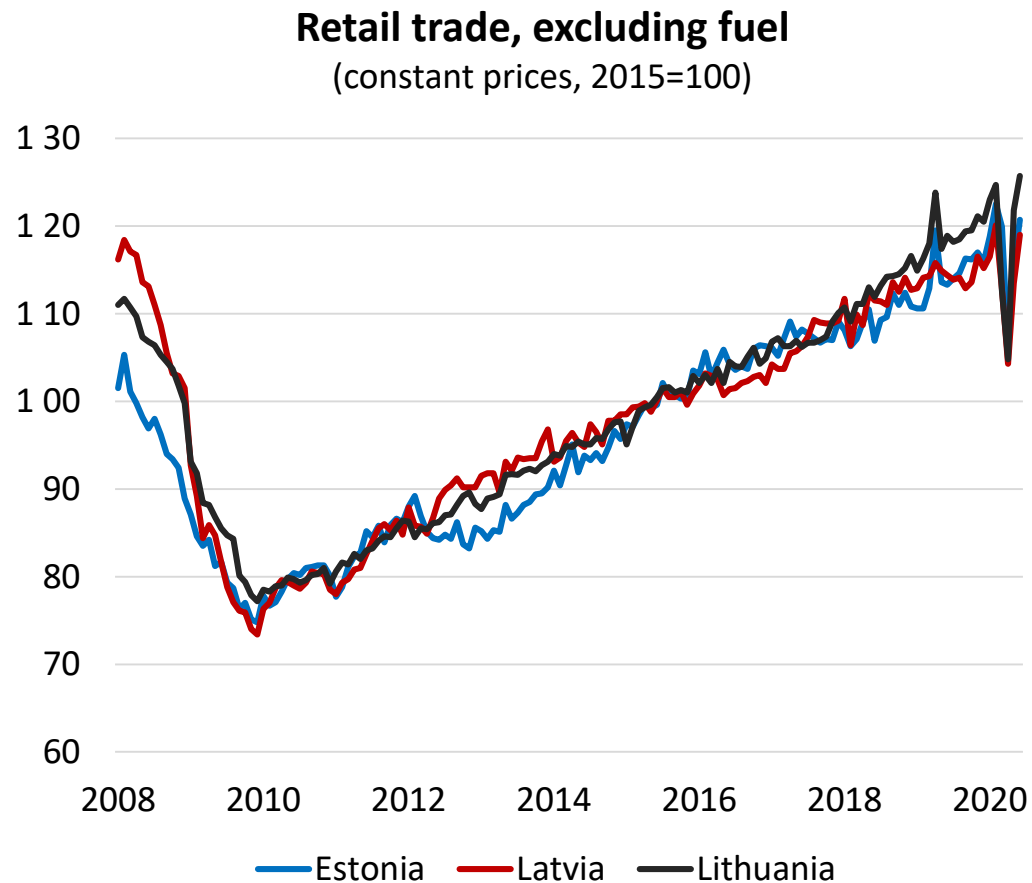
Mobility

Mobility indicators in the Baltics are ahead of most countries in the world



Retail trade

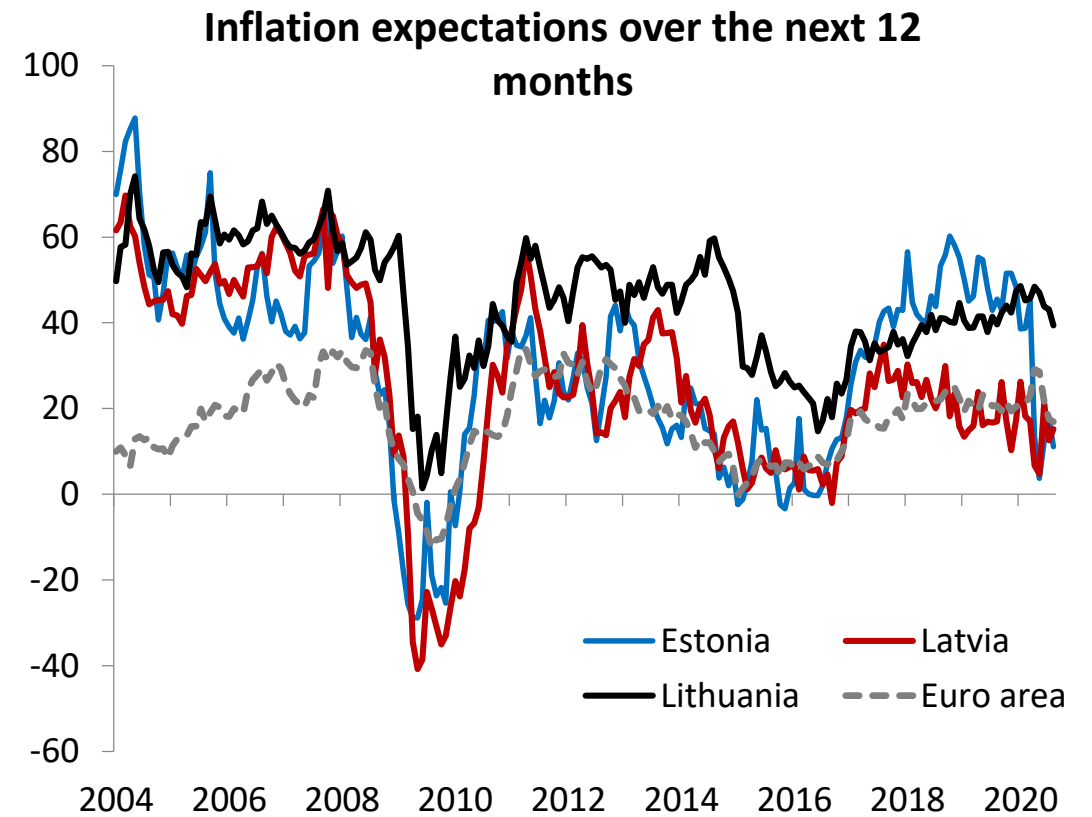
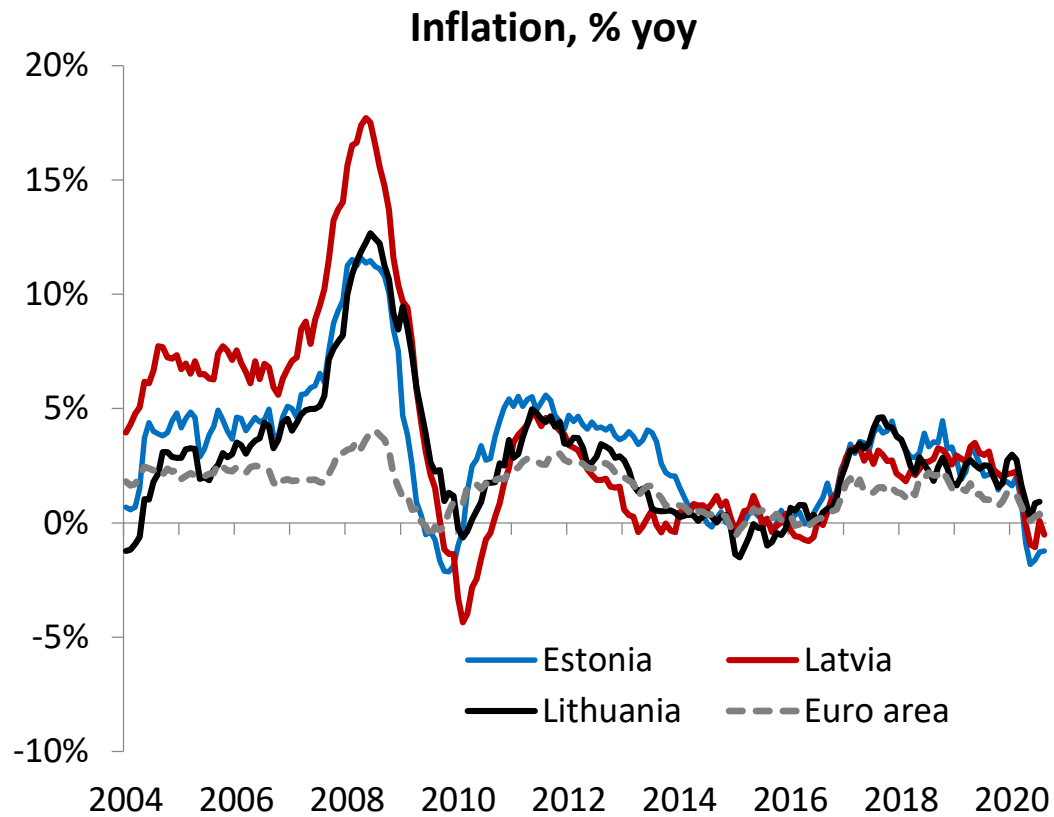
Unexpectedly rapid V-shape recovery in retail trade



- ❑ Retail sales in the Baltics are experiencing a very rapid V-shape recovery
- ❑ Trade is only part of private consumption
- ❑ In many service sectors, turnover lags behind pre COVID-19 level
- ❑ During COVID-19 pandemic households have significantly increased savings in commercial banks
- ❑ Part of the increase in consumption during the summer could be the deferred demand from the spring months
- ❑ Rising unemployment and declining wage growth is a risk to the sector's growth in the second half of the year

Inflation

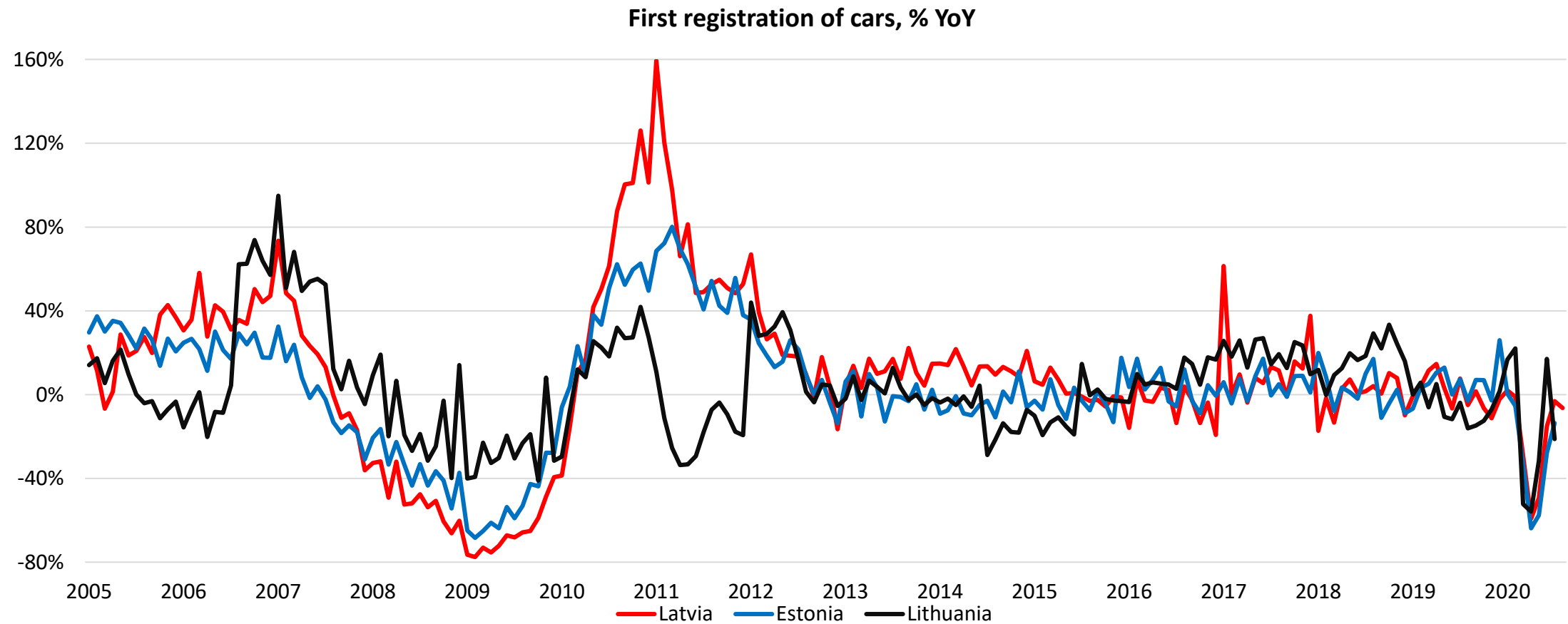
The COVID-19 shock has reduced consumer price inflation in the Baltics



Source: Eurostat, DG ECFIN

Car market

Car market has also recovered, but the number of registrations is below the previous level



Source: CSDD, Lithuania Statistics, Estonia Statistics

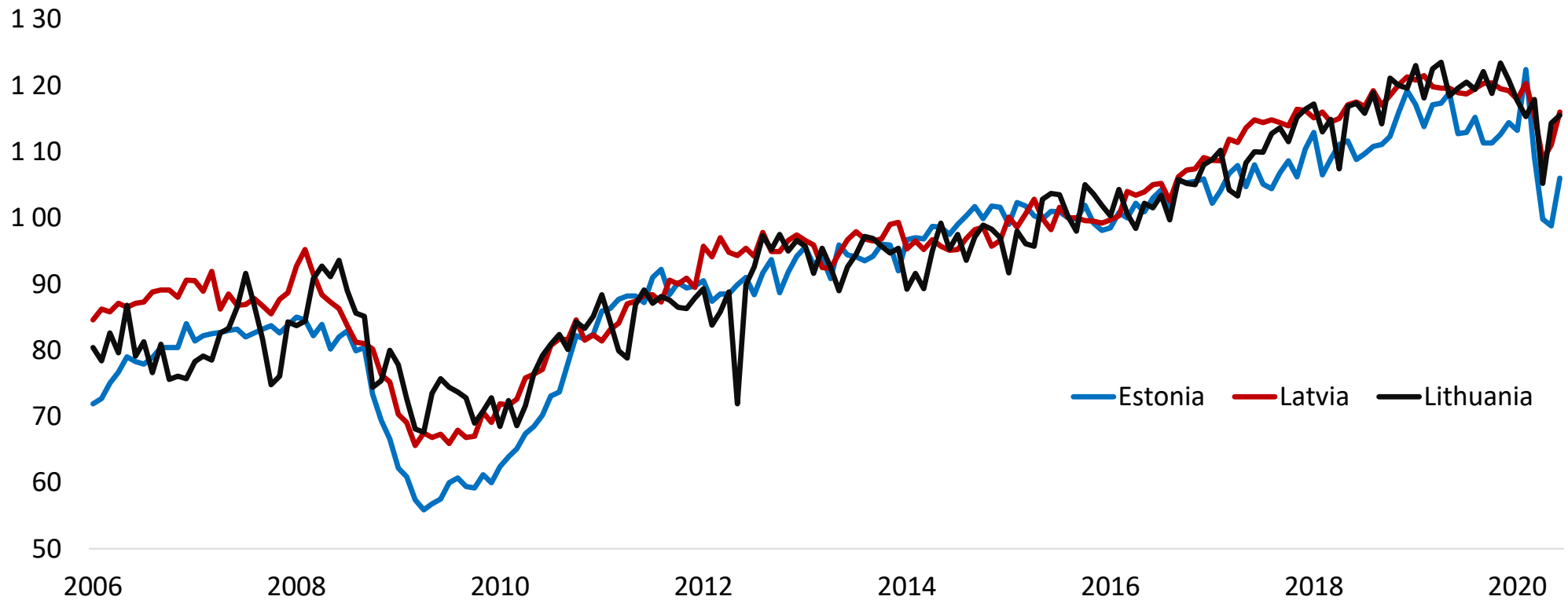
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Manufacturing

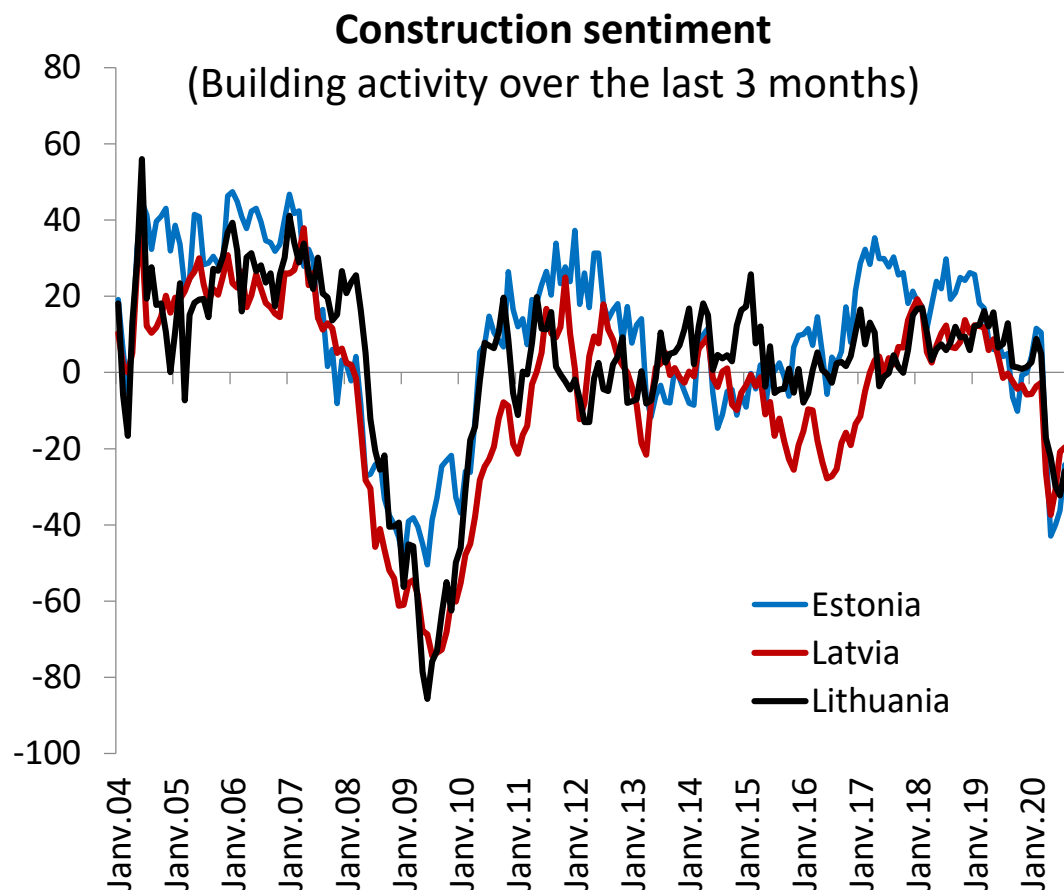
Industrial recovery is lagging behind trade and consumption

Manufacturing output
(constant prices, 2015=100)



Construction

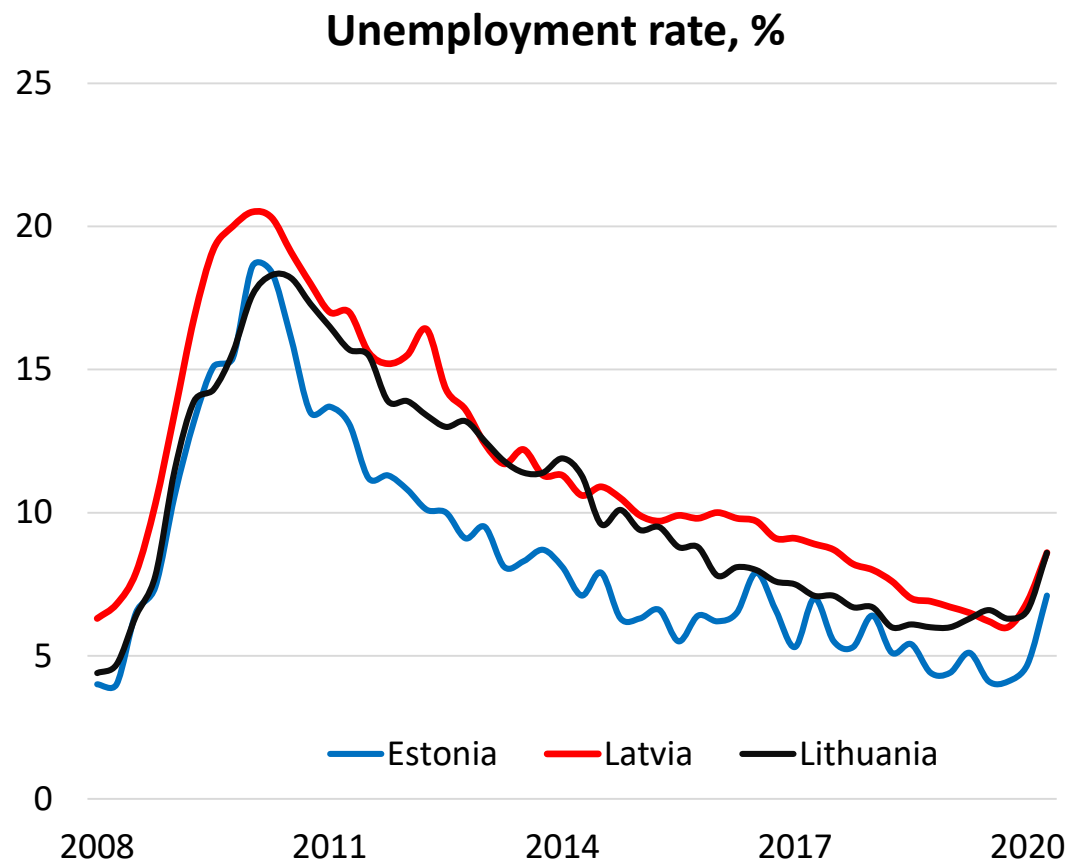
The slowdown in private investment is having a negative impact on the construction industry



- ❑ The COVID-19 shock did not directly affect the construction industry
- ❑ Uncertainty and the economic downturn are having a negative impact on private sector investment plans
- ❑ Lending in the spring months has been slow
- ❑ Builders' sentiment has deteriorated significantly and indicates a decline in construction volumes in the second half of the year
- ❑ In 2021, large amounts of funds from the EU Reconstruction Fund will flow into construction
- ❑ In the medium term, overheating could become a risk again especially if the implementation of large EU-funded projects coincides with increased demand from the private sector

Labour market

Increase in unemployment has been less than expected



- ❑ The increase in the unemployment rate in the Baltics has been lower than expected and is similar among all three countries
- ❑ Short-term employment support programs have helped curb rising unemployment
- ❑ Wage growth in Latvia and Estonia has slowed significantly
- ❑ Employment expectations are improving in all sectors, but they are still negative
- ❑ The number of vacancies has increased since mid-April, but lag behind the previous level

Conclusions

The Baltic region is recovering from the COVID-19 shock, but uncertainty remains

- ❑ The Baltic economy reached its lowest point in mid-April.
- ❑ The economic recovery has so far been much stronger than expected.
- ❑ Domestic consumption is leading economic recovery.
- ❑ Retail sales returned to positive growth in June, but the situation in the services sector is less encouraging.
- ❑ Exports and production lag behind consumption, but the situation in foreign markets is improving.
- ❑ In the second quarter, the decline in GDP in the Baltics was significantly smaller than in the euro area as a whole.
- ❑ The key to the Baltic's success was rapid virus containment, strong public finances, timely support for the economy and balanced economic development in previous years.
- ❑ The sectors hardest hit, tourism and leisure, will only be able to return to previous levels when a vaccine or effective treatment for COVID-19 is available.
- ❑ The decline in GDP in the Baltic region in 2020 will not exceed 5% and economic losses will be lower than in other countries.
- ❑ Economic growth in the Baltics in 2021 in the Baltics will be in the range of 3-5%.
- ❑ The economic recovery both in the world and in the Baltics is still incomplete.
- ❑ Since June, improvements in short-term economic performance have slowed significantly.
- ❑ Strong fiscal and monetary stimulus measures continue to support the economy. Financial markets remain optimistic.
- ❑ The eurozone has slipped into deflation and consumers do not expect inflation to rise in the near future.
- ❑ The biggest risk to economic recovery is the possible second wave of COVID-19.

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