

Romania: Economic confidence softens

Coupled with weaker confidence in the Eurozone, the Economic Sentiment index for Romania decreased from 102.7 to 102.3 in October



Source: Shutterstock

The main driver for the pull-back in the Economic sentiment index (ESI) was manufacturing confidence, tracing the recent disappointing readings for sentiment indicators out of Germany and Western Europe.

Romanian manufacturers are citing lower order book levels and expected production for the weak morale, despite a decrease in inventories. For the fourth quarter, the manufacturers are reporting lower capacity utilisation. There is also a minor increase in the percentage of total surveyed reporting labour as a factor limiting production.

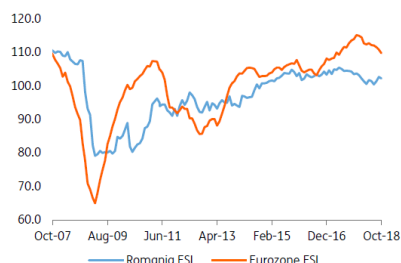
Services sentiment rebounded in October, after 3Q18 was the worst quarter since 1Q15, as both current and the expectations component improved, but this was not enough to offset the decrease in manufacturing confidence. Retail sector confidence declined on lower past sales and expectation despite lower stocks.

The sentiment came in better for construction on better order books and employment expectations. Constructors are reporting for the fourth quarter a decrease in operating number of

months ensured by the current backlog.

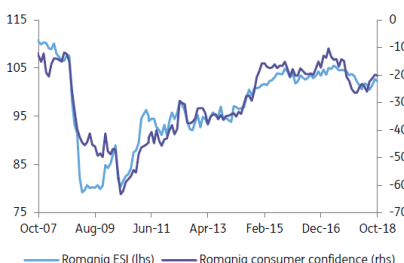
Consumer confidence decline from one year high as the unfavourable outlook for jobs and savings outweighed the improved economic outlook and financial situation. In terms of investment over the next twelve months, consumers are looking to increase spending on home improvement, intentions to buy a house stagnated, while car purchasing intentions decreased.

Fig 1 Recoupling to the downside?



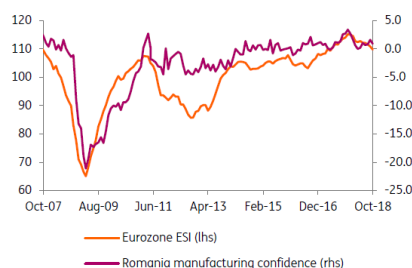
Source: EC, ING

Fig 2 ...after being decoupled by consumer confidence



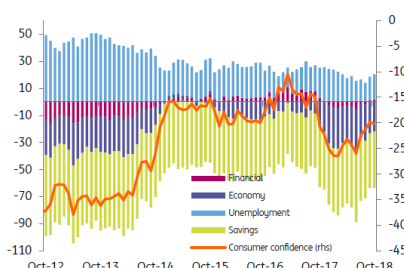
Source: EC, ING

Fig 3 ...as manufacturing is driven by external demand



Source: EC, ING

Fig 4 ...while consumer confidence heading back south?



Source: EC, ING

While high-frequency data didn't support the third-quarter sentiment index increase for the first two months of the quarter, the below expectation 3Q18 Eurozone growth print adds to our concerns about downside risks to our GDP forecast of 1.1% QoQ expansion.

The decline in Eurozone ESI for October adds to reasons for being cautious on outlook. Hence, with 3Q18 GDP data for Romania due for release after the next Romanian central bank meeting scheduled for 6 November, we see the central bank waiting for additional information ahead of deciding to hike the key rate again.

Author

Ciprian Dascalu

Chief Economist, Romania

+40 31 406 8990

ciprian.dascalu@ing.com