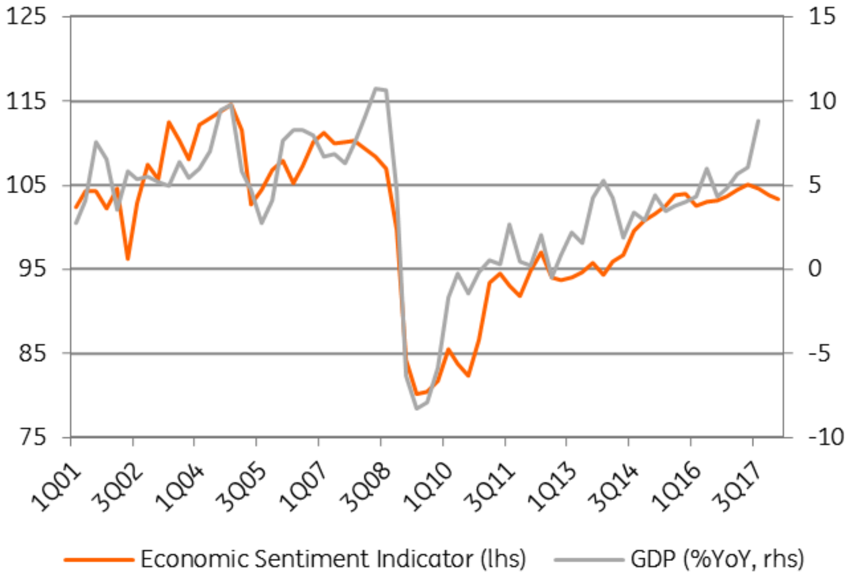
Romania: ESI drops at the start of the year

The Economic Sentiment Indicator (ESI) was weaker in January, with softer confidence for all three major components: industry, services and consumer

Source: shutterstock

The most important component, confidence for the industry eased from its highest levels post-GFC reached in December due to lower order books due to expected decline in external demand and an expected decline in production. Services sentiment saw a pullback as well. Consumers sentiment declined further, continuing its downtrend since it reached all-time high in Mar-17, with the never-ending political noise and government changes likely weighing in. The morale improved for construction and retail, sectors with low weight in the broad index.

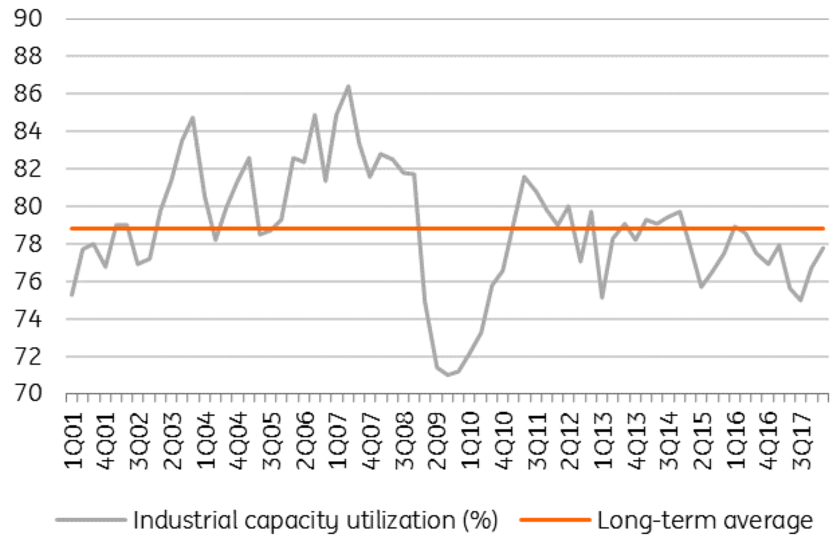
Soft data points south for GDP growth



Source: EC, NIS, ING

The capacity utilisation for industry spiked quite significantly in 1Q18 and it is nearing its long-term average, which offers hope for private investments to pick up and offset the expected slowdown in consumption. At the same time, labour is increasingly cited as a factor limiting production, which, without structural reforms to unleash untapped labour supply, limits the potential growth.

Capacity utilization might lead to a pick-up in investments



Source: EC, ING

With soft data pointing south, the risk balance is tilted to the downside for our above-consensus

GDP growth call of 4.7% for 2018 versus the 4.1% Bloomberg median.

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