

## Romania: Economic sentiment signals deceleration in 2Q

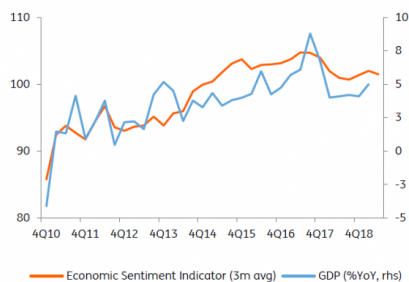
The Economic Sentiment Indicator (ESI) recovered in May, but for the first two months of the second quarter it was lower than in 1Q. Consumer confidence continued to improve, reaching a 20-month high but manufacturing hit a three-year low



Source: shutterstock

The broad ESI index inched higher to 101.8 in May from 101.2 in the previous month, even though confidence in the manufacturing sector- with the largest weight in the index of 40%- continued to decline.

Fig 1 A sequential deceleration in GDP growth in 2Q19



Source: EC, NIS, ING

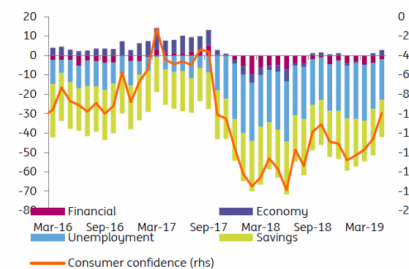
Fig 2 Industry sentiment weakens across the board



Source: EC, ING

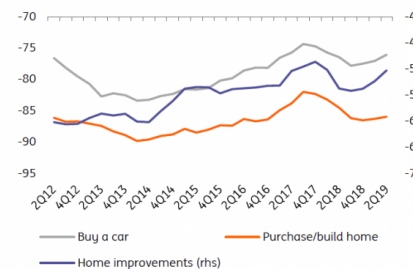
Dismal sentiment in industry is explained by the lower order book, build up of inventories and lower production expectations. Hence, external demand is still weighing on Romania's manufacturing sector, though recent data from abroad has shown some sign of bottoming out.

Fig 3 Consumers are happier for multiple reasons



Source: EC, ING

Fig 4 Consumers spend more, but cautious on housing



Source: EC, ING

Services morale (30% share in ESI) and consumer sentiment (20% weight) both inched up. Construction sentiment (5% share) reached a new post-crisis high supported by targeted government policies. Retailers (5% weight) were a bit less confident in May.

The confidence indicator points to some deceleration in GDP growth in the second quarter. After a positive GDP surprise in 1Q, we put our GDP forecast under review for an upward revision. We are waiting for the breakdown data due on 6 June before coming up with a new estimate.