Romania: Industrial contraction worsens

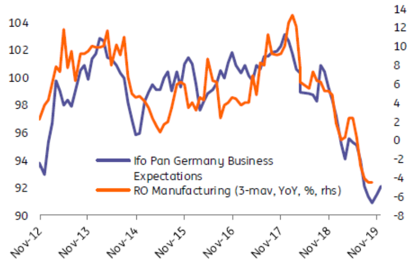
Industrial production shrank by 7.7% year-on-year in October, the biggest annual drop since April 2009. There appears to be no light at the end of the tunnel

Car bodies on the production line at a Ford factory in Craiova, Romania

January-October industrial production contracted by 2.8% versus the similar period in 2018. High frequency data suggests a deepening slump in the tradable sector of the economy. Today's industrial data show annual contraction on all fronts: mining (-4.4%), energy (-8.3%) and - most important – manufacturing (-6.6%). The auto industry contracted by -3.8% YoY as weak external demand persisted. The auto sector remains in positive territory year-to-date, posting a 2.4% advance versus the same period of 2018.

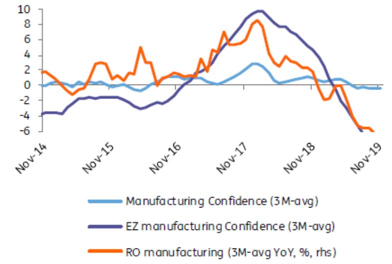
We came to the conclusion in our latest Directional Economics that Romania is one of the most vulnerable CEE countries to the German slowdown. This is due to its peripheral role in the German value chain, the low bargaining power of Romanian exporters due to their size, labour intensive exports and fast wage rises and relative real FX appreciation versus peers over recent years.

Fig 1 Manufacturing tracking German sentiment ...



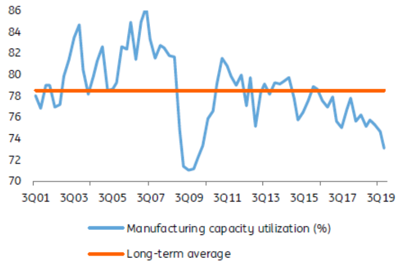
Source: IFO Institute, NIS, ING

Fig 2 ... and Eurozone manufacturing sentiment



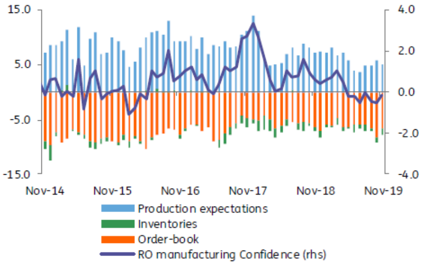
Source: IFO Institute, NIS, ING

Fig 3 Cutting capacity utilization on weak demand



Source: EC, ING

Fig 4 Signs of bottoming out from order book



Source: EC, ING

Lagged contagion effects from softer demand from main trading partners are likely to persist for a while. Still, we are comfortable with our 3.6% GDP growth forecast for the full year.