

## Romanian industry enters contraction zone

Driven by lower external demand, industrial production shrank 1.7% YoY in May while manufacturing contracted 2.5%

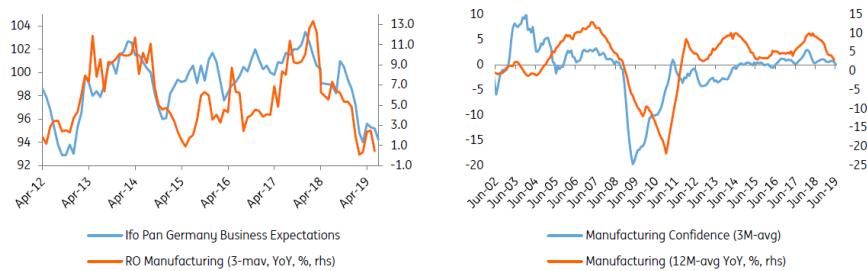


Source: Pixabay

The Romanian manufacturing sector is well integrated into the global value chain and is feeling the lagged effects from the slump in German industry over the recent quarters.

There has been some stabilisation in terms of manufacturing confidence in June driven by higher order books and lower inventories, though production expectations for the three months ahead continued to decline.

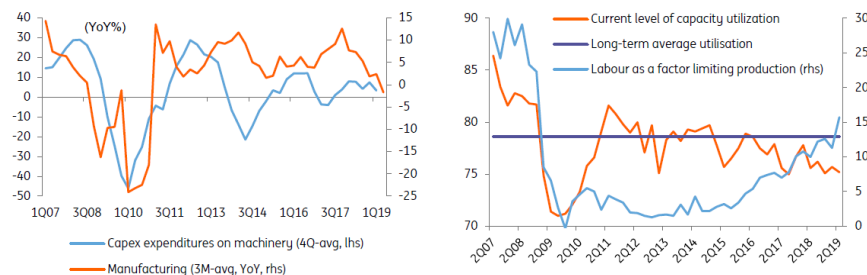
## Tentative signs of bottoming from external demand / Sluggish manufacturing confidence



Source: NIS, Bloomberg, ING / EC, NIS, ING

Capex spending on machinery doesn't point to an improvement in manufacturing. This is not a surprise since capacity utilisation continued to decrease and stays well below the historical average. Other structural factors affecting production include the lack of available labour supply as indicated by the percentage of the companies in manufacturing reporting labour as a factor limiting production which reached post-crisis highs.

## No sign of important investments... due to existing spare capacity, labour constrains



Source: NIS, ING / EC, ING

Economic confidence deteriorated just a bit in the second quarter versus the first quarter, as better consumers morale and optimism in the construction sector partially offset softer reports across manufacturing, services and retail sectors. Soft data has been backed by high frequency hard data so far.

Sequential GDP growth in the second quarter is shaping up to be rather weak, at best. Unless we are stunned (again) by the buildup in inventories, we should not rule out a sequential GDP contraction.