

## Romania: Industry posts 5.0% growth in 2018

The full year performance looks decent, but developments from the second half of 2018 are not inducing optimism. We look for quasi-stagnation in 2019

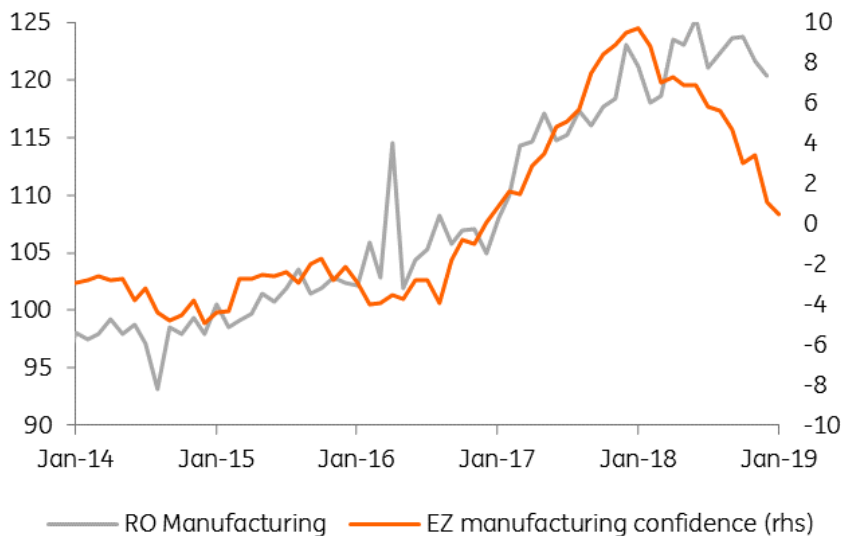


Source: shutterstock

The 5.0% advance in 2018, down from 8.6% in 2017, came almost entirely from the manufacturing sector, which expanded by 5.5% in 2018, decelerating from 9.2% year-on-year in 2017. Industrial activity in December 2018 actually contracted by 1.0% YoY, the first such contraction since May 2016.

**5.0%** Industrial production growth in 2018 vs 2017

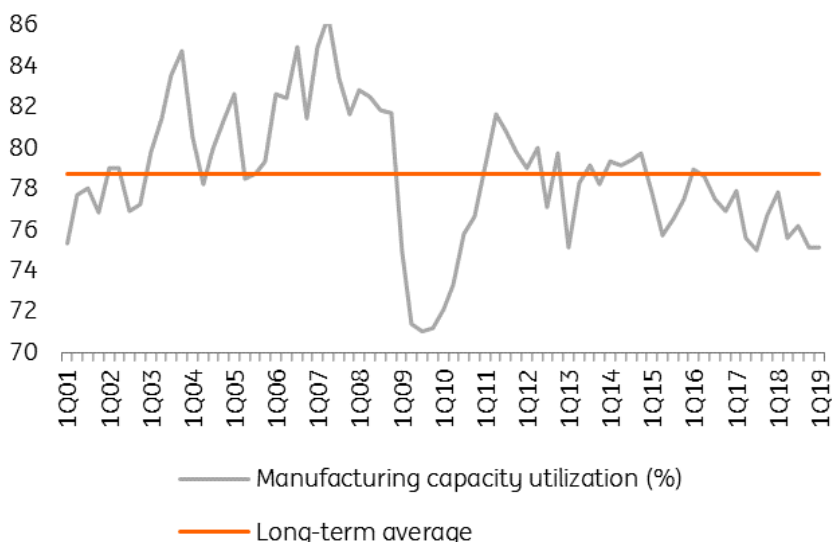
## An ampler correction in sight



Source: EC, NIS, ING

The slowdown in manufacturing from the second half of the year was quite obvious, with December 2018 posting the first contraction since May 2013 and the biggest since December 2010. Quarterly sequential growth doesn't look much better either. Manufacturing posted a second straight quarter of contraction in 4Q2019 amid contagion from the main export markets. Reported capacity utilisation for 1Q2019 stands at 75.1% in manufacturing, still below its long term average, suggesting limited scope for new investments in the sector.

## Capacity utilisation below average



Source: EC, NIS, ING

We have been [warning for some time](#) that a deterioration in the external environment will

start to bite. Domestic factors are expected to negatively weigh on competitiveness as the fixed cost base is expected to rise further due to higher utilities, IT&C and labour costs. Hence, we consider that it will be difficult for industrial activity to remain in expansionary mode in 2019 and quasi-stagnation looks to be an optimistic scenario.

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