

## Romania: Industry slows in May

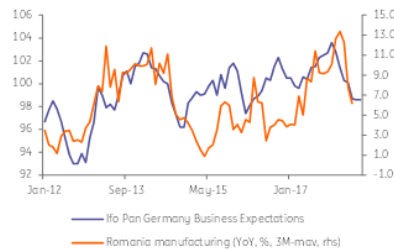
Industrial production growth decelerated from 6.1% YoY in April to 3.6% in May. Still, industry is likely to post a sequential expansion in 2Q18 after a QoQ contraction in 1Q18



Source: shutterstock

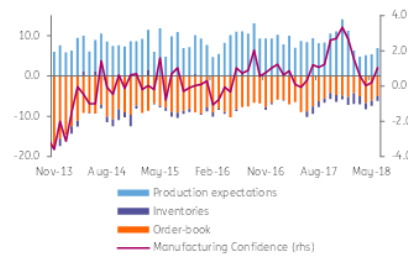
Manufacturing led the slowdown after a deceleration from 7.8% in April to 3.6% YoY in May. This reflects leading indicators such as German Ifo, and sluggish confidence. There was a stabilisation in external soft data in May, coupled with a pick-up in Romanian manufacturing morale in June driven by improving order books, including for export, and better production expectations.

**Fig 1 External demand show stabilisation signs**



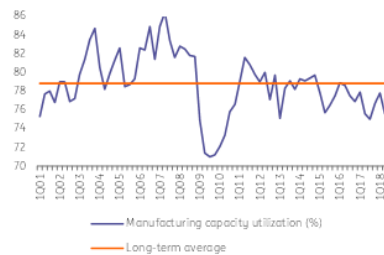
Source: Bloomberg, NIS, ING

**Fig 2 Confidence is improving on higher export orders**



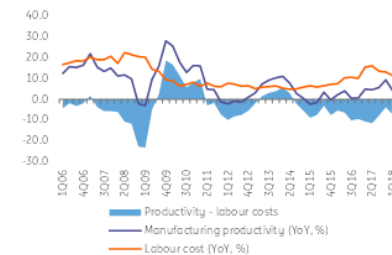
Source: EC, ING

**Fig 3 Capacity utilisation remain below average**



Source: EC, ING

**Fig 4 Labour market, wage policy - competitive threats**



Source: Eurostat, NIS, ING

Summing-up, the GDP growth prospects for the second quarter look a bit better and could alleviate NBR worries of a more prolonged soft patch. The NBR could hike rates again at its 3 October meeting, provided RON depreciation pressure does not force the central bank to frontload the move for the 6 August meeting.

We expect growth for the whole year to slow from 6.9% YoY in 2017 to 3.5% in 2018. This is likely to lead to more significant budget revision but not at the July review - the government's growth expectations are even more optimistic than the 5.5% assumption used for budget planning (according to the deputy PM, cited by Bloomberg).

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