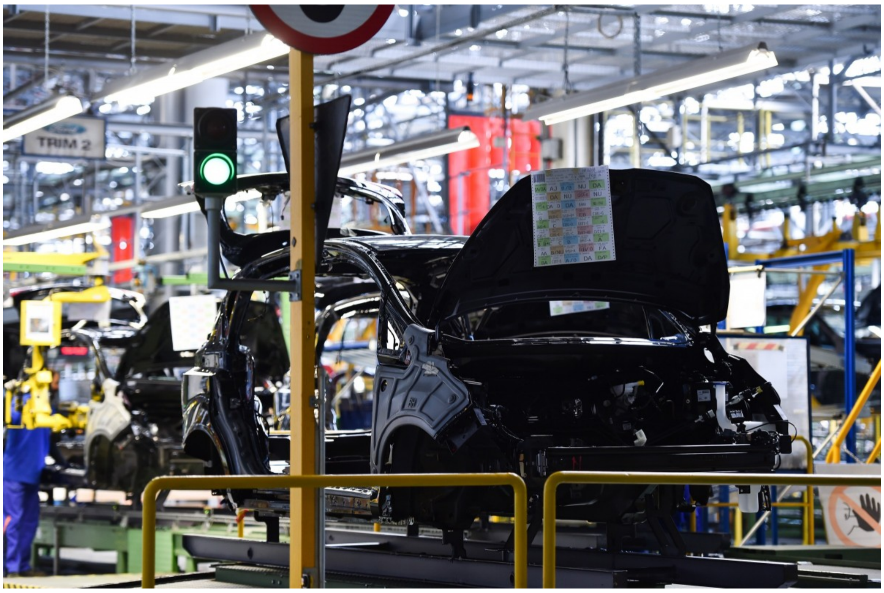
Romania: Robust wage advances in September

The annual increase in average net wages remained strong in September: +14.7%, accelerating from 14.1% in August. However, signs of weakness in the job market are begining to appear

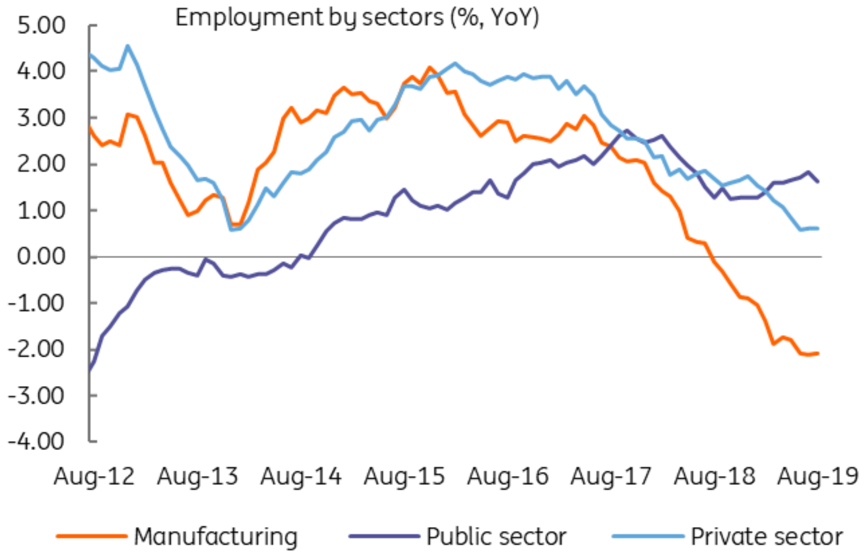


Car bodies on the production line at a Ford factory in Craiova, Romania

September has been another good month for most Romanian employees. Average wages advanced by 15.3% for those working in the private sector and by “only” 12.7% in the public sector. Hence, we could say it is business as usual for the labour market front. However, the mild economic slowdown that the economy is seeing has started to leave some traces, as indicated by sectorial employment dynamics.

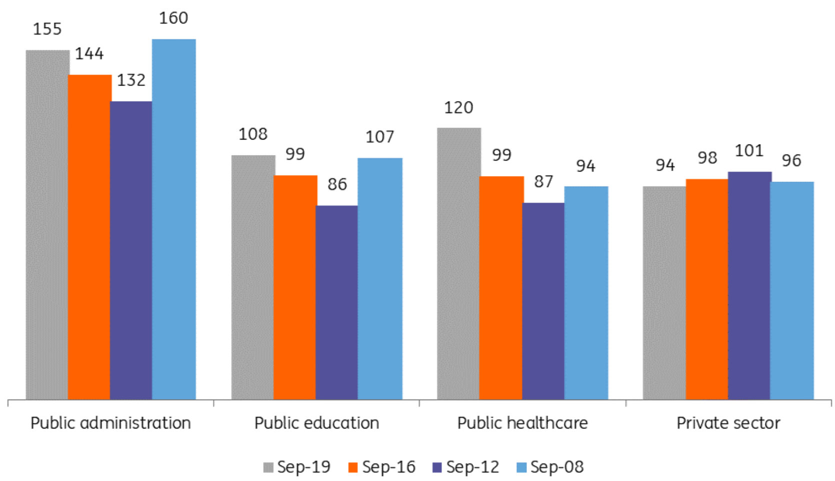
The manufacturing sector, which employs over 1.1 million people - and is the largest economic sector by number of employees - has been losing jobs for more than a year now. As of September 2019, over 24,000 jobs had been lost since September 2018, most of these in areas sensitive to external demand such as automotive and textiles. The latest industrial production numbers (as of August 2019) are also showing that 2019 will likely be a year of contraction.

Employment dynamics



Source: NIS, ING

Sectorial wages as a % of average wage

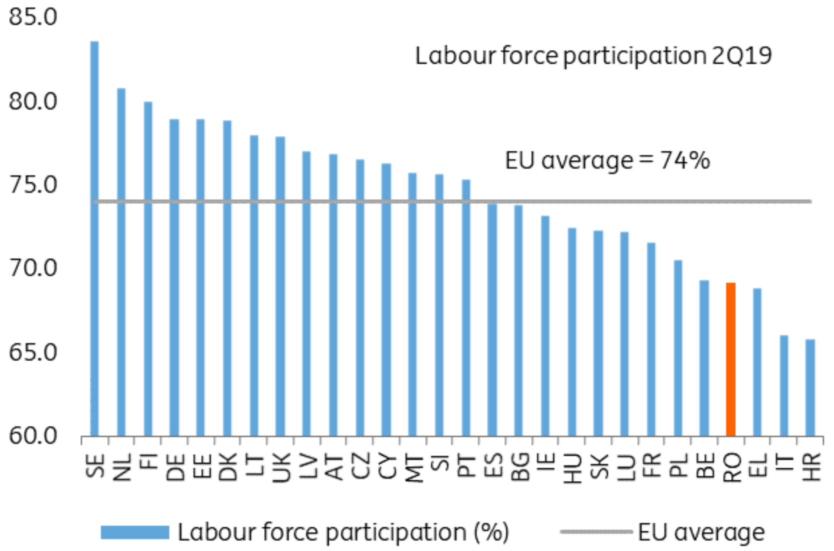


Source: NIS, ING

For now, however, industry's contractionary signals don't seem to have spread to other sectors. Consumers still look generally optimistic, as indicated both by sentiment indicators and by hard data (more here). Services are showing some signs of weakness but nothing alarming yet, while the construction sector roars ahead, posting above 20% annual growth numbers.

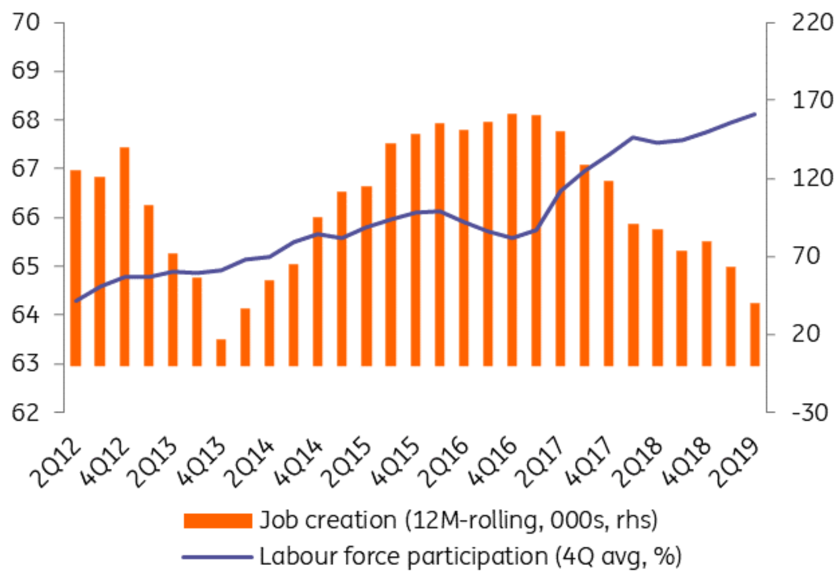
The current state of the job market is not exclusively a product of economic growth, but rather a mix of factors ranging from migration to public sector policies and absence of structural reforms to improve the participation rate.

Participation rate remains among the lowest in EU…



Source: Eurostat, ING

…as the improvements have been very slow



Source: Eurostat, ING

Looking ahead, the question is whether 2020 will be another year of double-digit wage rises. We tend to believe it will be, with the much-needed fiscal consolidation probably delayed by the electoral agenda. However, some freeze in public sector bonuses and a stricter hiring policy will likely be employed as tools of first resort in the budget rebalancing process. A more serious fiscal consolidation might not come before the general elections scheduled for late 2020, unless concerns about the rating outlook start to mount.

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