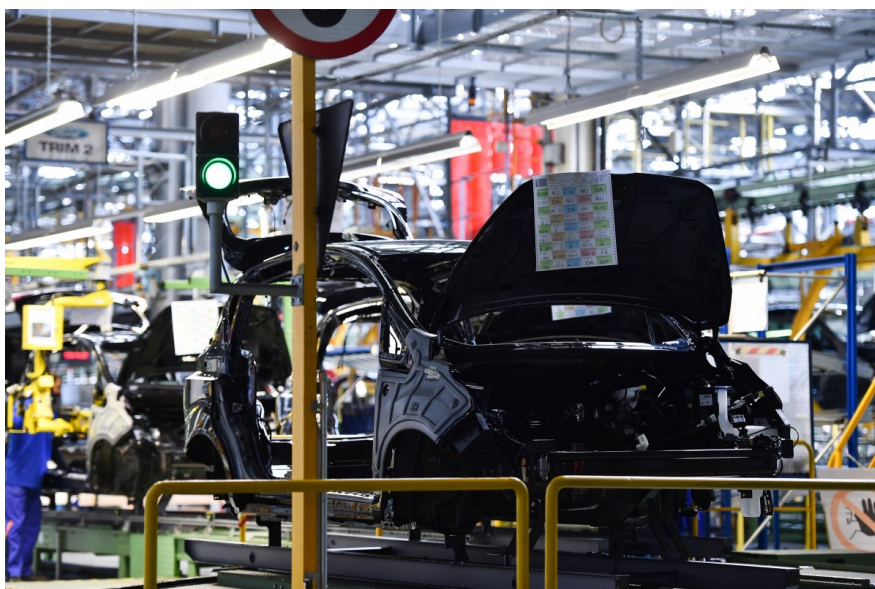


Romania: Third consecutive quarterly contraction in industry

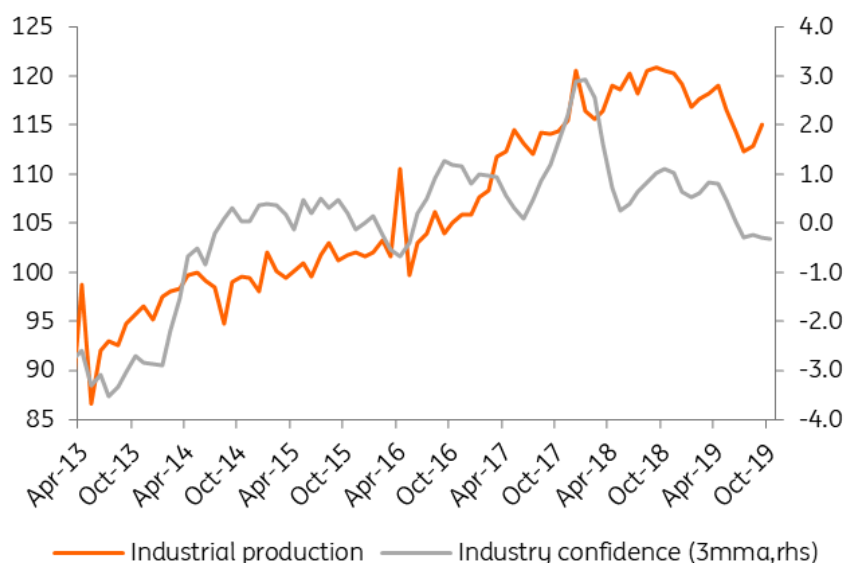
Industrial production decreased by 2.7% in the third quarter with manufacturing posting another contraction of 3.0%. It's quickly becoming obvious the problems the Romanian industry is facing aren't temporary



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

January-September industrial production in Romania contracted by -2.2% versus the similar period last year. High-frequency data offers hard evidence of trouble in the trade sector of the economy as the industry contracted on all fronts in the first three quarters of 2019. -2.3% in mining, -1.6% in manufacturing and -2.4% in energy.

Confidence still inching lower

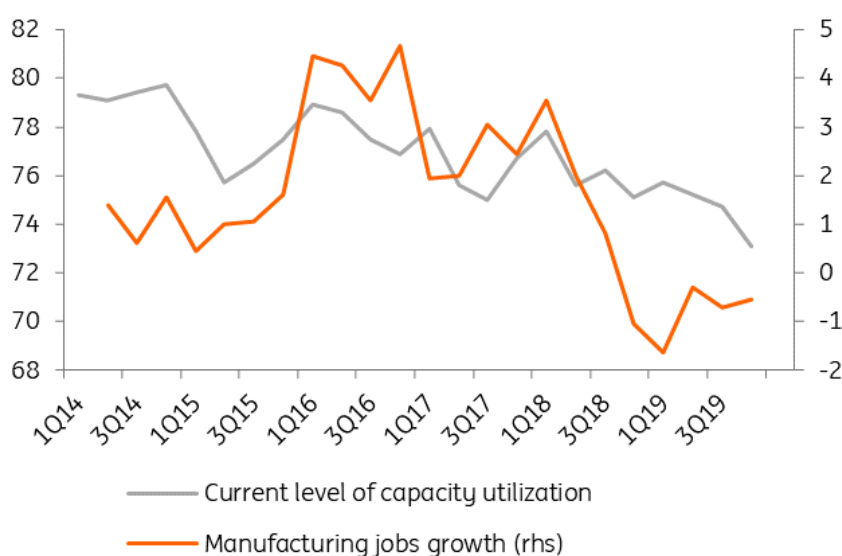


Source: NIS, EC, ING

Zooming in on 3Q19, the story only gets worse as the contraction rates versus the previous quarter have increased to -5.6% in mining, -3.0% in manufacturing and -6.5% in energy. In fact, what saved the day in September was the mining sector which improved by 6.7% versus the previous month, probably on the back of stockpiling for the winter season.

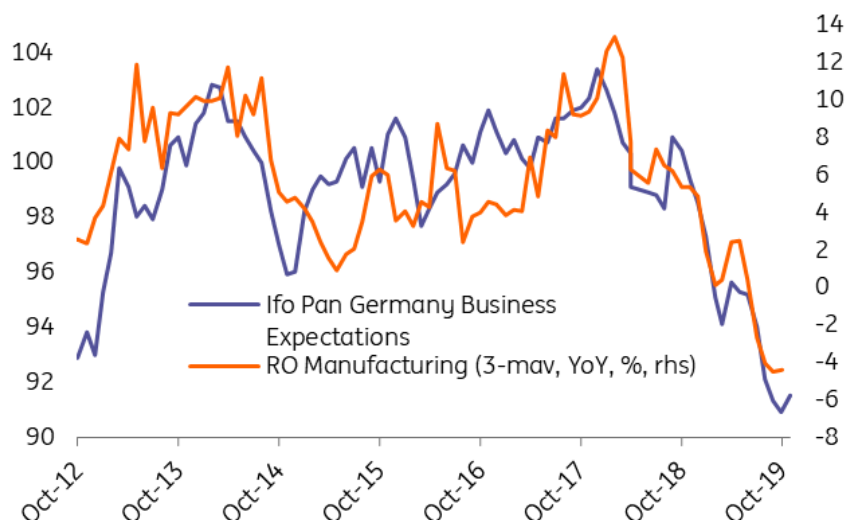
With three consecutive quarters of contraction, it's obvious the problems the Romanian industry is facing aren't temporary. To confirm that, job creation in the manufacturing sector has been negative for more than a year now. As of September 2019, over 24000 jobs have been lost compared to September 2018, most of them in areas sensitive to external demand like automotive and textiles, with the latter also sensitive to the recurrent increase of the minimum wage.

Capacity utilisation decreasing



Source: NIS, ING

External context remains weak



Source: IFO Institute, NIS, ING

The contagion from falling external demand is in full swing now and inventory build-up is becoming too costly, hence, capacity utilisation is decreasing.

For now, the industry's poor shape hasn't seemed to have spread to other sectors. Consumers still look generally optimistic and while services are showing some signs of weakness, there are no alarm bells just yet. Net exports are still likely to be a drag on growth while the construction sector roars ahead.

All things considered, we maintain our forecast of 0.5% for third-quarter sequential GDP growth.

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