

Romania: Retail sales growth at 3-year low

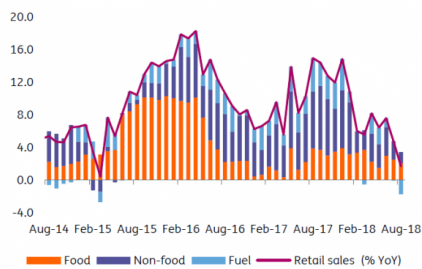
Retail sales decelerated in August to 1.7% year-on-year from 4.7% previously, the slowest pace since March 2015, as higher oil prices took a toll



Source: shutterstock

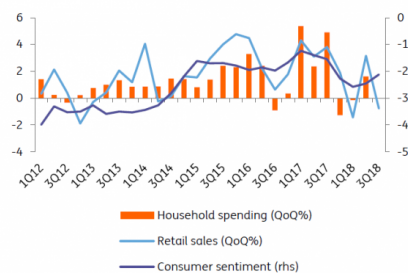
All major components slowed down, with less volatile non-food sales at 3.7% YoY versus 6.0% in July, the slowest pace since August 2015. This is somewhat surprising as consumer confidence rebounded in August and improved further in September to a one-year high.

Fig 1 Sharp slowdown in retail sales ...



Source: NIS, ING

Fig 2 ...a bad omen for 3Q18 GDP growth



Source: EC, NIS, ING

The sharp rise in retail confidence in September, combined with a further improvement in consumer sentiment, could suggest some recovery in consumption for the month, maybe boosted by the back-to-school effect. Even if September comes in strong, it's rather unlikely that household spending for the third quarter will post a sequential expansion in 3Q18, weighing on GDP growth for the quarter. Still, retail sales data is rather volatile and subject to important revisions, as are the quarterly Romanian GDP figures.

While soft data improved in the third quarter across the board- with the exception of confidence for the services sector- high-frequency hard data hasn't confirmed this improvement so far, with retail sales weak for the first two months of 3Q18 and soft industrial production for July. Hence, our 1.2% quarter-on-quarter projection for GDP growth in 3Q18 could be a bit on the optimistic side. The growth picture is becoming more challenging for the fiscal outlook, especially as weaker retail sales are endangering the targeted budget revenues.