

Romanian consumers catch a breath amid spending marathon

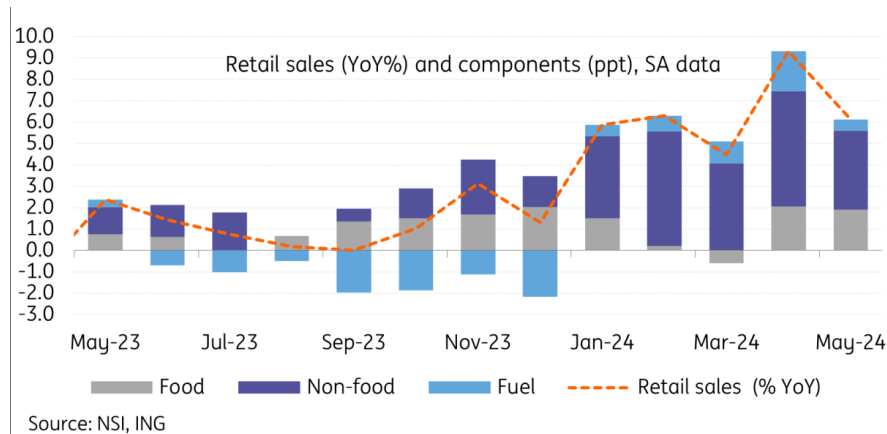
Small signs of moderation in Romania's strong consumer momentum seen so far this year aren't giving rise to too much concern. Consumption is set to remain robust this quarter and for the rest of the year. Further stabilisation signs, if they continue, are likely to bring the National Bank of Romania more comfort in easing the pressure on activity



Agri-food market, Bucharest. Food sales have shown decent growth at 1.2% MoM

Romanian retail sales contracted -0.4% month-on-month in May, following April's downwardly revised 0.6% MoM growth (from 0.8% initially). This marks a moderation of the fairly strong start to the second quarter in April, which followed the first quarter's whopping 5.1% sequential growth, one of the strongest on record. Looking at the monthly breakdown, food sales grew quite decently at 1.2% MoM (2.7% in April). Meanwhile, non-food sales contracted 1.2% (0.4% in April) and fuel sales contracted at a slower pace of 1.0% (-2.4% in April).

Non-food contribution moderates in May but still continues to be the key growth driver



Up until May, the strong response from consumers to the real wage gains they have seen for more than a year had surpassed our already positive expectations. Apart from continuing to grow strongly, retail data also brought upward revisions to previous releases, which left us pondering what the implications for growth and policy would be.

Today's data brings some much needed equilibrium to the table. The small monthly contraction seen in May was accompanied by the first small downward revision in a while, and this took place after consumption reached impressive levels anyway. What's more is that the key correction in May's data came from non-food items, precisely where the previous spending spree was concentrated. If that doesn't provide the first sign of a broader consumer fatigue trend – which we don't expect – then further signs of a consolidation towards a greater equilibrium in consumption patterns are likely to be welcomed by policymakers.

The reason we continue to expect consumption to remain robust relies primarily in the wage dynamics, which we anticipate will remain in double digits for another year. This should place consumers in a context where they feel real wage gains for a sustained number of consecutive quarters, providing a boost to spending confidence.

Concerning policy and forecasting implications, today's result does not change the picture materially – other than perhaps keeping upside risks more in check. Still, the January-May year-on-year growth in retail sales remains at a strong 6.5%, and these demand pressures on inflation are likely ranking quite high on the National Bank of Romania's radar.

Such a positive overall reaction from consumers is likely to keep firms confident in their pricing power, especially as they prepare for next year's likely increase in the tax burden. On top of that, with fiscal policy set to remain quite stimulative ahead, upside risks for overall internal demand and prices can't be ignored. At this stage, we continue to stick to our forecasts of 2.8% GDP growth in 2024 and 4.2% year-end inflation.

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