

Romanian retail sales confirm economic slowdown

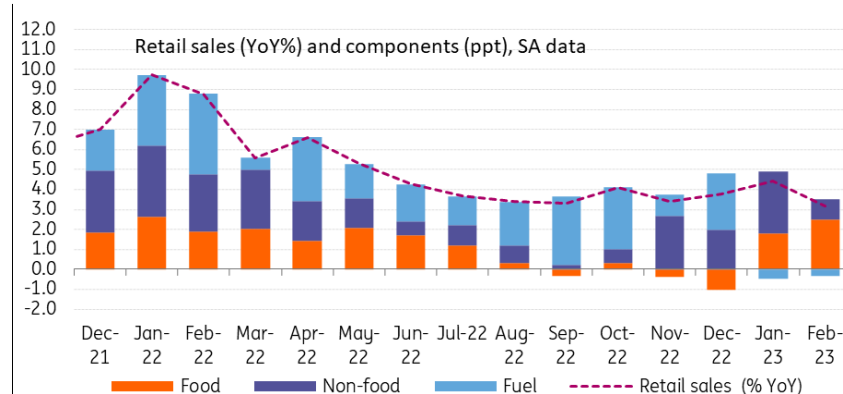
Private consumption in Romania seems to finally be showing credible signs of a slowdown. We are not overly worried about the data, as it largely matches our expectations for quarterly GDP growth to be almost flat in the first quarter. The question is whether the labour market will be resilient enough to provide a backstop to this slowdown



February 2023 retail sales data reveal a deceleration to 3.2% year-on-year growth in seasonally adjusted terms. Maybe more importantly, it also marked the second consecutive month of contraction versus the previous month, as sales declined by 0.6% in February after declining by 0.1% in January as well. The non-food component was the driving force behind February's slowdown, contracting by 3.2% in monthly terms (+2.2% YoY), while food and fuel sales remained in positive territory in both monthly and annual terms.

These developments have been largely anticipated, as a rebalance of the growth drivers from consumption towards investment was expected for 2023 and 2024.

Retail sales flattening at low levels

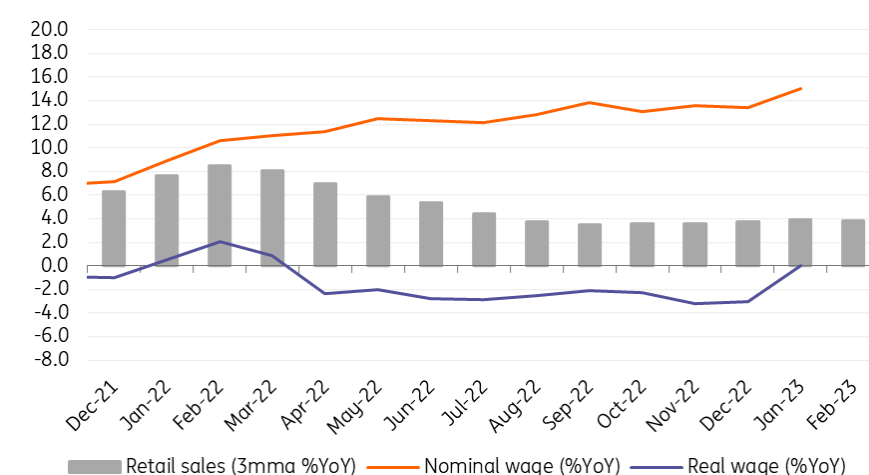


Source: NSI, ING

These figures are not overly surprising, but confirm expectations of an economic slowdown. They also match the trends we've been seeing for a while now in lending activity where the stock of personal loans trends towards very low single-digit growth, but also in budget revenue dynamics which is some 5.0% below the plan after the first quarter of 2023.

The strength of the labour market will, in our view, be key to how consumers behave in the coming months. Wage data for January show quite a strong momentum as wage growth averaged 15.0%, but we're not jumping to conclusions here as there is other data as well (hiring intentions, job creation) which largely offsets the wage story. Overall, while we do expect to see more signs of a somewhat looser labour market, average wage growth will likely exceed inflation in 2023 and provide a strong backstop for consumption. It will, however, take a couple of quarters before consumers gain more confidence and start to feel the positive real wage growth. Until then, cautiousness will prevail.

Retail sales and wage growth



Source: NSI, ING

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