

Romanian retail sales: Living in the moment(um)

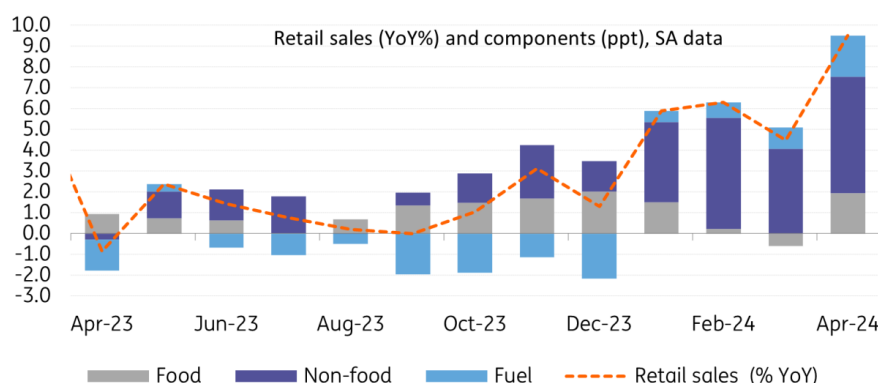
Romanian consumers remained anything but hesitant to spend their real wage gains, setting the stage for a strong quarter on the consumption front. With real incomes continuing to rise this year and credit activity blossoming, the momentum is set to continue in the near term



People on Calea Victoriei, Bucharest

Retail sales growth came in at 0.8% month-on-month in April, following last month's upwardly revised 1.0% MoM growth (from 0.7% initially). This marks a strong start to the quarter for retailers, which comes just after the first quarter's 5.1% sequential growth, one of the strongest on record. Looking at the monthly breakdown, food sales picked up significantly, growing 2.3% (0.1% in March) while non-food sales expanded at a slower but still solid pace of 0.7% (0.1% in March). Meanwhile, fuel sales contracted 2.2%, following the first quarter's steady gains.

Non-food items continue to bring the strongest contribution to growth



While April's solid numbers look largely in line with expectations - given the support from strong real wage growth and credit activity - we are nevertheless surprised by how this series of consecutive strong releases brings upward revisions to the table as well. It had been our view for a long time that consumers would act on their wage gains in a visible manner in early 2024. But the magnitude of the positive response, one of the strongest sequential gains on record, leaves us pondering how this will shape growth and the policy implications ahead.

On growth, this strong start to the second quarter (and our expectations for still-robust gains in the coming months) cements the view that private consumption will be a strong tailwind for growth this year and a source of upside risks. That said, at least at this stage, some pockets of weakness in the services and industrial sectors are still keeping us from revising up our rather cautious 2.8% GDP growth projection for this year.

Concerning the demand pressures on inflation, this result, on top of the already existing momentum, and at a time when wage growth is still in double digits, keeps the upside risks very much alive. Such positive reactions from consumers are set to keep firms confident in their pricing power, especially as they are preparing for next year's likely increase in the tax burden.

For the National Bank of Romania, this feeds into their discomfort about engaging in a policy easing cycle. Upside risks on the rate-cutting cycle remain as long as wages, credit and deficits continue to rise at their current pace. We think that all three have limited room for cooling down this year and policymakers will not be able to deliver anything more than a very cautious easing cycle.

Summing up, there are upside risks for both growth and the interest rate path. On growth, we think it is sensible to leave some balancing room as other parts of the economy might not perform as strongly and also for downside risks stemming from the geopolitical arena. Rates-wise, we maintain our forecast for only two 25 basis point rate cuts this year and three cuts in 2025, with clear risks of backloading these cuts more into next year.

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