# A strong start to the year for Romanian retail sales remains yet to prove itself

At face value, a 3.8% month-on-month increase (5.1% year-on-year) in January represents a significantly stronger positive reaction from consumers that we'd expected, even following last year's sharp real wage growth. But uncertainties around the data still require some degree of caution, in our view

Bucharest, Romania

The breakdown shows that the increase was dominated by non-food sales, which rose by a whopping 8.0% MoM, translating into a 9.1% YoY increase. Fuel sales picked up by 1.1% YoY, while food sales advanced by 2.4%. Such a high concentration of growth in non-food items and the large spread versus food items growth is not unheard of, but still rather unusual. A potential explanation could be that consumers had more appetite for the January discounts this year, which could be the case should the February outturn prove weak.

However, on a more technical note, the data itself could be a potential contributor to the strong acceleration, as the base year was changed from 2015 to 2021. While this should not be a standalone issue, the still-needed refinements of the seasonal adjustment models – which the National Institute of Statistics has acknowledged for the GDP series – could potentially play a role. Admittedly, the YoY increase in the gross series, which doesn't strip away seasonal factors, shows even more substantial numbers and reinforces the broad message that last year's sharp wage growth plays an increasingly important role in consumers' decisions. But ultimately, we think that these numbers look too strong, too soon for a month when inflation picked up, and the tax burden increased. As such, we believe that downward revisions should not be excluded.

Coupled with the higher-than-expected inflation print in January, this sharp increase in private consumption complicates the outlook for the National Bank of Romania's easing cycle. Stronger-than-expected inflationary pressures from the demand channel are exactly what policymakers don't need right now. At this stage, however, we continue to expect the first 25bp rate cut in May and we keep our year-end inflation forecast unchanged at 4.7%. We also keep our GDP growth estimate at 2.8% for this year, as we don't have yet enough evidence to substantiate an eventual upward revision.

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