

Romanian retail sales see a stronger-than-expected start to the year

A whopping 6.5% year-on-year increase after the first two months of 2024 shows that Romanian consumers are anything but hesitant to enjoy last year's real wage gains. For now, we're maintaining our full-year 2.8% GDP growth forecast due to negative developments in the construction sector and cautiousness around the statistical data

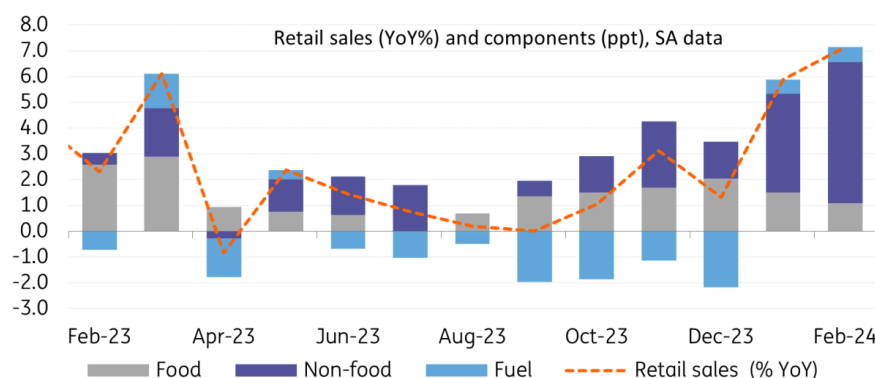


Agri-food market,
Bucharest

Retail sales growth came in at 0.6% month-on-month in February, following last month's upwardly revised 4.6% MoM growth (from 3.8% initially). Looking at the MoM breakdown, food sales growth almost stagnated, inching up 0.2% (from 1.5% in January) while the expansion in non-food sales cooled significantly to 0.9% (8.6% in January). Meanwhile, at 1.8%, fuel sales growth moderated (from 2.3% in January) but nevertheless remained robust.

While February's monthly growth numbers look largely in line with expectations, it's the upward revision in the already very strong January outturn that astounds us. Such large sequential increases are a rather rare occurrence and they usually tend to follow large previous declines. Overall, the average yearly growth in retail sales stood at 6.5% for the first two months of the year. For context, retail sales picked up 1.8% in 2023 and 4.8% in 2022.

Non-food items bring the lion's share of growth contribution



While we are still unsure about how sound the data behind this whopping increase actually is (as we explained in last month's note), it's clear that the upward trend in private consumption early in the year is stronger than we had expected. In our view, these numbers still look too strong, too soon – but from a directional point of view, the positive response of consumers is in line with the persistent wage growth in the economy and stronger credit activity.

Concerning inflationary pressures, these developments are not ideal as they increase firms' confidence in their pricing power abilities further down the line. Moreover, this happens in a context where firms are still adjusting to the latest fiscal package and are likely planning for an additional tax burden next year. As such, these demand pressures add to the upside risks to inflation in the short to medium term. By extension, they also add to the already mild upside risks to our 6.00% year-end call for the National Bank of Romania's key rate.

At this stage, we are not changing any of our major forecasts. On growth, the impact for the first quarter is still uncertain as the strength of the retail sector is set to be at least partially counterbalanced by the significant weakness of the construction sector over the same period. As such, we think it would be too early to revise our growth forecast, and we maintain our call for 2.8% growth for this year.

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