12 May 2020
Snap

Romania: trade balance and wage data confirm the slowdown

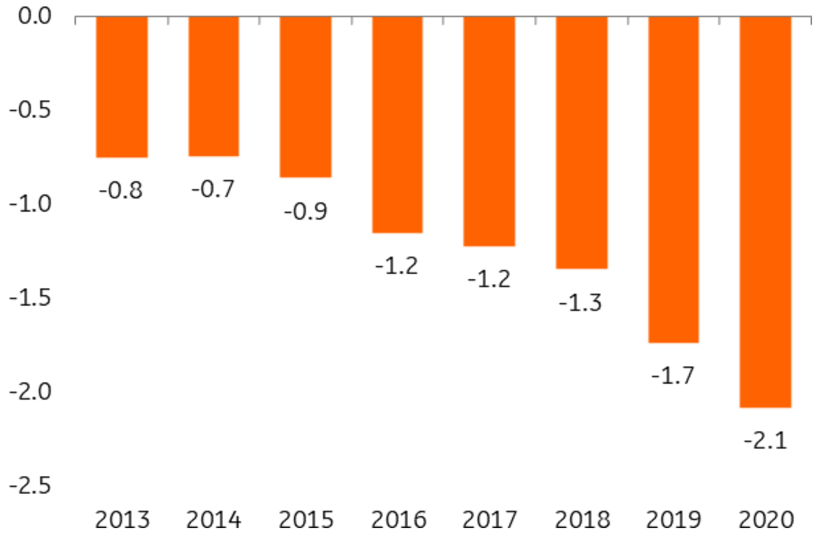
After last week's retail sales, yesterday's trade balance and today's wage data, there is only one piece missing to confirm the slowdown: 1Q GDP due this Friday

Last week, retail sales showed that Romanian consumption has been contracting since February. In March, the trade balance also started to show signs of a slowdown. Due to its inherent rigidity, we were expecting a bit more of a lag in the wage data to confirm the current trends, but the labour market already seems to have been affected.

Trade balance: widening set to reverse

Seen in isolation from the current pandemic, the first quarter trade balance data could look like business as usual for the Romanian economy: another EUR4.45 billion has been added to the trade deficit, almost 20% (EUR733 million) more than in 1Q2019. Even if we zoom in on March, the deficit continued to expand, widening by 43% compared to March 2019.

First quarter trade gap as % of GDP



Source: NIS, ING

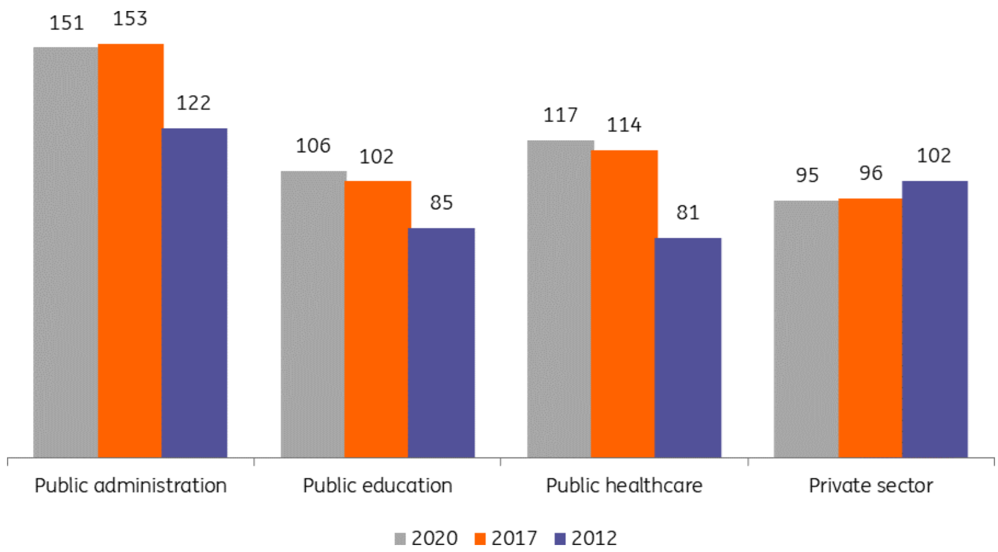
A closer look reveals, however, that exports contracted by 2.6% in the first quarter and by 11.3% in March alone, the food sector being the only one to have expanded during this time. Due to its dependence on the eurozone markets (where almost 80% of Romania's exports go), the export sector was affected by the external slowdown a touch earlier than the imports, mimicking the Covid-19 spread from western to eastern Europe. Imports also slowed down in March, but only by 1.8%YoY, due likely to the increased imports of medical supplies but also to specific sector dynamics (a good part of March imports were probably ordered in January-February).

We believe that the first quarter has marked a turning point in Romania's trade balance dynamics. We expect imports to contract faster than exports in the coming few months with the recovery first visible in the export sector, as we expect the eurozone economy to start recover before Romania's.

Wages: inertia at work but not for long

At 7.1%, the annual increase in average net wages in March remained relatively robust but there are some caveats. While this is the lowest rate since early 2015, most of the pay rises were probably negotiated in late 2019/early 2020. What's more, most of the people taken out of the calculation of the average wage growth are likely to be lower income earners.

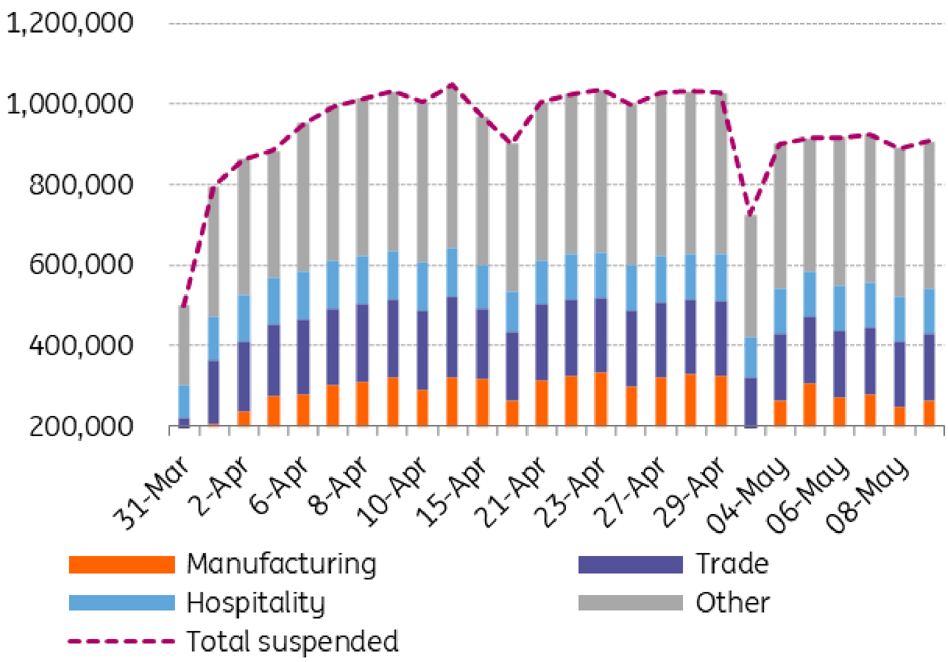
March wages as percentage of average wage (%)



Source: NIS, ING

Starting in late March, the Romanian Ministry of Labour has been publishing data on the employment dynamics of suspended and terminated working contracts. The up-to-date data paints a somewhat gloomier picture than initially envisaged, though nobody really expected it to be much better. The number of suspended contracts has stabilised somewhere close to 1 million (active employees at the end of Feb-2020 were 5.6 million). This is broadly in line with what the government has estimated as a maximum number, but what is slightly more worrying in our view is that despite more and more companies resuming activity, the overall number didn't really drop significantly.

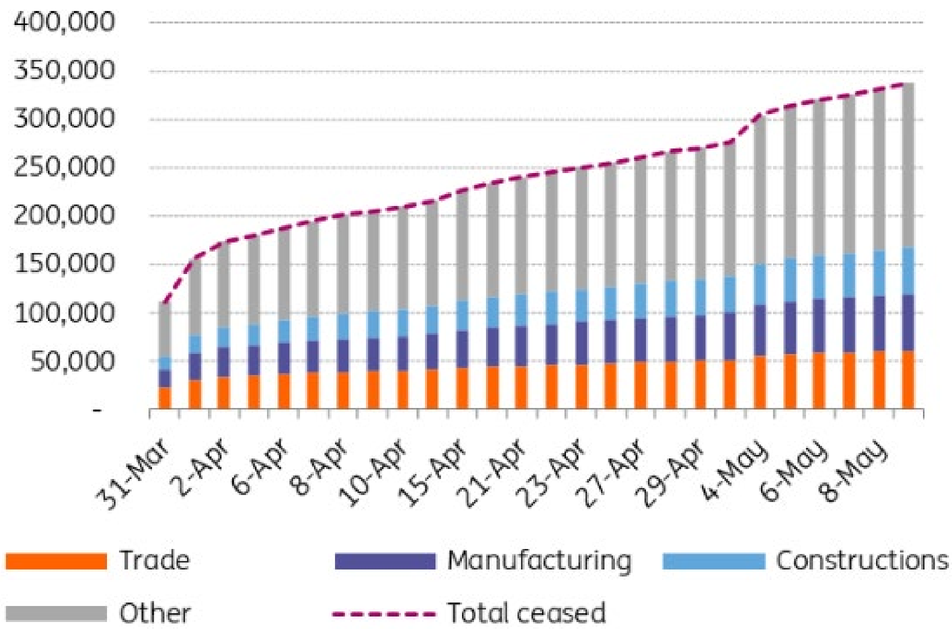
Suspended contracts



Source: NIS, ING

Terminated contracts have been steadier and more gradual, reaching close to 350k, basically doubling the number of unemployed people at the end of Feb-2020.

Terminated contracts



Source: NIS, ING

The data we have so far both on trade and the labour market is still consistent with our main forecasts for 2020: a 6.6% GDP contraction, lower inflation and a very difficult budgetary situation. On the latter, we need to admit that our current deficit forecast of 7.9% of GDP is starting to look optimistic.

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