

Romania | Instant Comment

ESI deteriorates across all its components in November

Economic Sentiment Indicator (ESI) decreased for a second month in a row to 83.1 in November, from 86.9 in October. ESI decline intensified at the end of the autumn, in line with renewed business and mobility restrictions. We note that the recent constraints have been milder relative to CEE peers and enacted by the local administrations depending on the level of the infection rate.

Employment Expectations Indicator (EEI) fell to 93.2 in November from 96.1 in October.

We expect 0.0% q/q real GDP growth in 4Q20 due to weaker external demand, offsetting the domestic improvement suggested by our high frequency index in the first half of the quarter. We revised down our 2020 GDP forecast to -5.2% from -4.7%, amid lighter COVID-19 restrictions in Romania and the resiliency of the labour market so far. We downgraded the expected recovery in 2021 to +2.7% from +3.9% previously due to the significant carry-over effect of 4Q20 real GDP for next year's growth numbers, with the risk balance tilted to the downside given the weak fiscal position. We revised upwards our 2022 economic growth forecast to +4.5% from +3.7% on larger expected EU inflows.

The sharpest decline was reported for services confidence as this sector was affected the most by recent measures announced by authorities (-7.6 points to -23.6). Expected demand in the sector over the next three months deteriorated sharply.

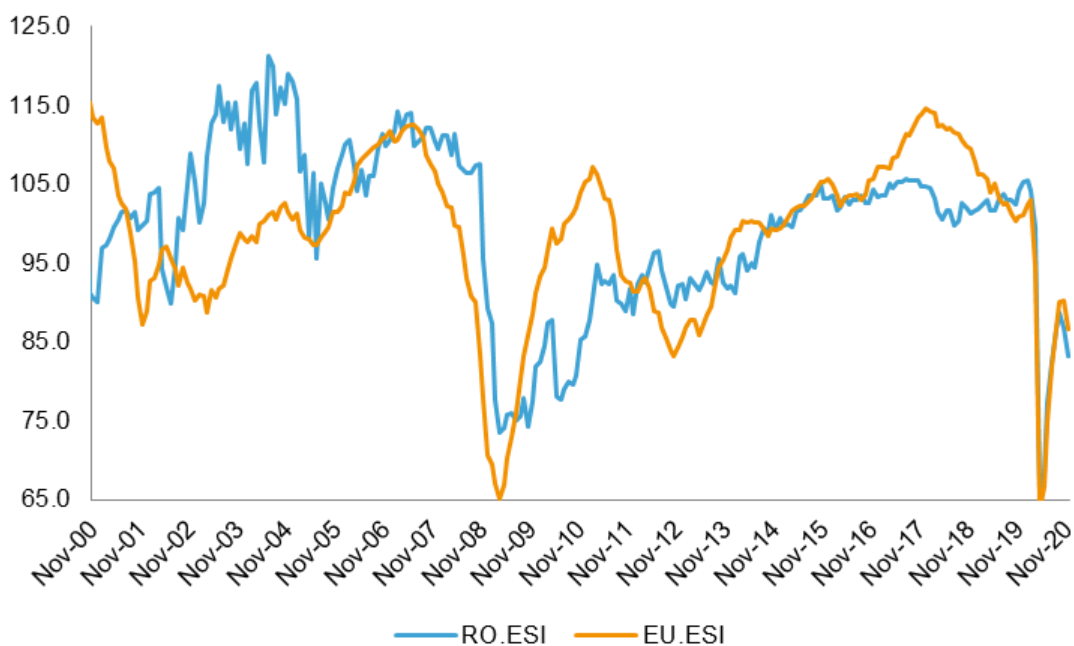
Manufacturing sentiment was somewhat more resilient, dropping by -0.8 points to -8.1. The assessment of the order book levels improved on the back of domestic demand as export order books were reported unchanged vs. previous month. At the same time, inventories declined. Nevertheless, the improvement in the two subcomponents was not enough to offset the impact from the deterioration in production expectations for the months ahead, most likely as order backlogs are run down and the future output is expected to align with the weaker demand.

Industrial investment survey carried out in October/November shows that real investments in manufacturing is expected to decrease by -9% in 2020 and -36% in 2021. Outlook for investments in the Romanian industry for 2021 is the worst in the EU, according to the EC survey, though historically there is some negative reporting bias likely linked to the poor general capitalisation levels of the Romania companies which affects the medium-term investment plans. Weak investment outlook could also be explained by the reported levels of capacity utilisation in the manufacturing at 69.3% in 4Q20, just shy of all-time low reached in 3Q20.

Retail sentiment lost -3.9 points in November to -2.3. The morale of construction managers fell by -3.8 points to -14.7.

The EC did not report the consumer confidence indicator for Romania since April 2020.

Economic sentiment indicator: Romania synchronized with the EU



Source: EC, BCR Research

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