ROMANIA | INSTANT COMMENT

Higher input prices due to Middle East war

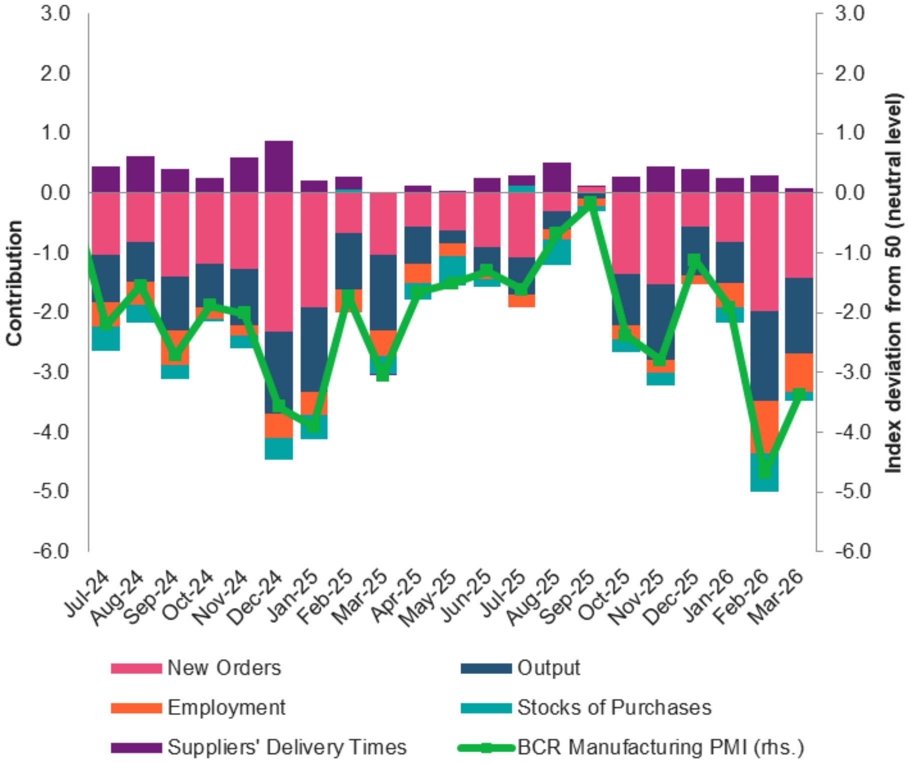
The BCR Romania Manufacturing PMI signaled a milder contraction in March, rising to 46.6 from 45.3 in February. The improvement reflects positive directional contributions from nearly all components, with the exception of suppliers' delivery times, whose negative impact remains relatively modest. Demand continues to be one of the key problems for domestic manufacturing activity. The conflict in the Middle East appears to be affecting the sector more visibly through higher input costs for now, with only limited pass-through to output prices. The external environment continues offer a glimmer of optimism: flash reading of the S&P Global Germany Manufacturing PMI printed a 45-month high in March, rising to 51.7 from 50.9 previously.

Looking at the full first quarter, the average PMI stands at 46.7 vs 47.9 in the last quarter of 2025. Industrial output began 2026 on a very weak footing, posting a -3.3% monthly decline in January, according to data from the National Institute of Statistics. This drop follows 2025 as a whole, which marked the third consecutive year of contraction in Romania's industrial production. Despite the challenging global backdrop, there is still some potential for a modest rebound in 2026. However, significant downside risks remain, particularly those stemming from rising cost pressures linked to the energy shock triggered by the Middle East conflict. The weak start to the year further undermines the growth prospects for 2026. Even so, improving expectations for external demand could support a rebound in industrial output and help restore growth momentum over the course of the year. Substantial EU security investments and Germany's fiscal stimulus for infrastructure and defense spending are expected to boost European industrial production. In addition, base effects may start to play a more significant role, particularly considering the sharp and prolonged weakness in industrial output observed over the last three years. Some support could also come from domestic consumption in the second half of the year, if inflation and wage growth evolve in line with expectations.

The Output Index showed a softer pace of contraction this month, reflecting subdued demand conditions and some reports of uncertainty linked to the Middle East conflict. The index for new orders also improved slightly, though it continued to indicate a contraction overall. The broader market environment has made customers more cautious about their spending, a trend that extends to new export orders as well. Business expectations continued to indicate overall optimism, though concerns about future demand conditions and inflation, linked to the ongoing conflict, led to a slight decline in the index. A lack of demand continues to be reflected in employment, backlogs of work and stocks of finished goods. Suppliers' delivery times lengthened this month with stock shortages and delays on the delivery linked to the war in the Middle East.

Input price inflation accelerated in March, marking the second-strongest pace on record. Suppliers reportedly raised their price lists, citing upward pressure stemming from the conflict in the Middle East. Panel members also widely noted increased fuel and transportation costs. Although part of the rise in input costs was passed on to customers, the acceleration in output price inflation was more moderate.

BCR Romania Manufacturing PMI breakdown



Source: S&P Global, BCR Research

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