

ROMANIA | INSTANT COMMENT

Retail trade and services sentiment up in December

Economic Sentiment Indicator (ESI) for Romania improved in Dec-23 to 102.4 from 101.9 in Nov-23. This was driven by higher confidence in services and retail trade. Industry reported lower confidence, while construction improved marginally. The pan-European ESI was up in December, coming in at 102.4 from 101.9 in the previous month.

We expect the economy to regain some momentum in the final quarter of the year and ESI readings for the period are in line with this scenario. The average ESI for 4Q23 stands at 101.9, higher vs the average of 100.7 posted in the earlier quarter. Retail sales is seen returning to growth in 4Q23. Strong nominal wage growth combined with falling inflation, flat unemployment rate and ongoing job creation should offer some relief to consumers in the upcoming quarters.

For next year, we forecast a rebound in GDP expansion to 3.3% y/y vs 2.1% estimated for 2023 on the back of strengthening domestic demand. Investments should continue to support growth next year, albeit to a lower tune vs 2023, thanks to inflows of EU funds. Private consumption should be sustained by lagged effects from robust increases in real wages. The balance of risks to the 2024 growth outlook remains tilted to the downside due to prospective delays in EU funds absorption, weaker consumer confidence in the context of heavy elections calendar in 2024 and stickier-than-anticipated inflation.

Manufacturing confidence inched down to -0.3 in December from 0.0 in November. This development was driven by worse expected business production reported as orderbook level remained flat vs previous month and inventories were slightly lower.

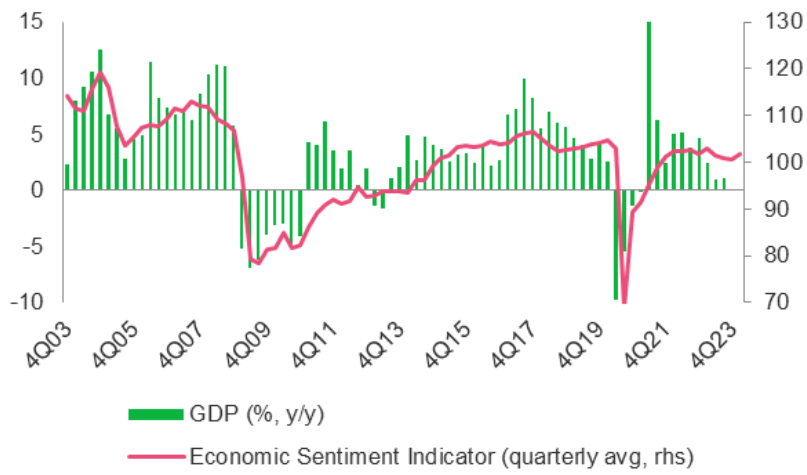
Services confidence increased to 5.6 from 4.3 in December on the back of stronger past demand and significantly higher expected demand reported. Past business situation, however, inched down.

Construction sentiment improved slightly in December to -6.4, from -6.7 in November, as builders' assessment of order book levels went up along with expected employment.

Retail trade confidence was up in December. Better future business activity expected as well as lower inventories reported are behind this evolution. Past business activity inched down in December.

Employment Expectations Indicator (EEI) rose to 106.2 in December from 102.5 in November, with all four sectors reporting better expected employment and with retail posting the biggest monthly change. Price increases are expected by managers in all sectors, except for services where are seen flat.

ESI vs GDP growth



Source: EC, NIS, BCR Research

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