January 2012: mixed expectations in the industrial sector and pessimism in construction

In January 2012, the results of the National Bank of Romania's business survey point to divergent developments in key economic indicators across the industrial sector (with slightly brighter prospects only in terms of output and orders) and further unfavourable trends in the construction sector, mainly under the impact of seasonal factors.

Respondents' upbeat expectations on the output volume and the portfolio of orders in industry are highlighted by the balances of answers* calculated based on both the unadjusted series and the seasonally- and working day-adjusted data. However, mention should be made that the anticipated rise in the output volume is rather modest, as suggested by the relatively moderate balance of answers (+11 percent for the unadjusted series and +5 percent following the adjustment). Both output and orders in construction are seen sticking to their downward path, as indicated by the negative balance of answers (-18 percent and -34 percent respectively).

The downtrend in inventories of finished goods will persist in January for both sectors, although the decline will be less sharp in industry in month-on-month comparison, in light of the negative balance of answers halving to -8 percent. Pollees in the industrial sector foresee the stocks of raw materials to range within normal limits, while a slight surplus is anticipated in the construction sector.

Over the period, subdued demand will again act as a deterrent on the smooth running of activity in both sectors. This factor is mentioned by around 53 percent of respondents in the construction sector and almost 50 percent of those in manufacturing. Inter-company arrears will further depress construction sector activity, as reported by 64 percent of the respondents, while in the industrial sector this factor is cited by approximately 14 percent of all company managers. Relatively low negative influences will further come from the high lending rates applied by credit institutions, the movements in the exchange rate of the leu and the hardships in ensuring raw materials.

Company managers in industrial and construction sectors are expected to step up the payroll cuts in January, with the balances of answers reaching -28 percent (from -18 percent previously) and -72 percent (versus -41 percent in December 2011) respectively. As regards industry, a similar trajectory is also visible when looking beyond the seasonal influences.

Nearly 88 percent of the respondents in the industrial sector and 85 percent of those in the construction sector expect producer prices to remain unchanged in January. Linked with the low levels of the balances of answers (+3 percent and +1 percent respectively), they suggest that this indicator is highly likely to stay close to the December readings for both sectors. Stable prices in industry are foreseen in adjusted terms as well.

Investment is seen following a downward course in January in both industrial and construction sectors, with the balances of answers coming in at -23 percent and -21 percent respectively. The downward slope of investment in industry may even steepen judging by the visible worsening of the balance of answers. The decline in the profitability ratio of industrial companies will come to a halt and a marginal improvement cannot be ruled out, as suggested by the balance of answers reentering moderately positive territory. The profitability ratio of construction companies appears set to worsen further (-12 percent).

* The balance of answers shows the trend of the concerned indicator and is calculated as the difference between the weight of positive and that of negative answers in total answers. Unless otherwise indicated, the analysis is based on unadjusted data.