June 2012: Overall stable expectations in industry; optimism in construction

In June 2012, the results of the National Bank of Romania's business survey outline a picture similar to that in the previous month, in the case of industry, and an improvement of the key economic indicators across the construction sector, which is however partially attributed to the favourable weather conditions.

Industrial output is likely to post a weaker performance compared with May, against the backdrop of the gross series of the balance of answers[1] indicating a stagnation (-1 percent) in this sector and the seasonally- and working day-adjusted series showing even a slight contraction. This outlook will apply to a longer-term horizon, given that output and the volume of orders are expected to follow parallel trends. The construction sector is expected to renew its expansion during the upcoming months, in view of the high levels of the positive balances of answers for output and orders.

The slight uptrend in inventories of industrial finished goods will persist, taking into account the moderately positive level of the balance of answers (+7 percent), with around 71 percent of the total specialised operators foreseeing no change. The construction sector is estimated to maintain roughly the same level as recorded in May for this indicator (balance of answers: +2 percent). The stocks of raw materials are estimated to range within normal limits for industry and to post slight deficits in the construction sector.

Subdued demand will continue to act as a deterrent on the smooth running of activity in both sectors, as cited by 40 percent of respondents in industry and 49 percent of those in the construction sector. Inter-company arrears will further depress construction sector activity, as reported by 61 percent of the respondents, while in the industrial sector this factor is cited by approximately 12 percent of all company managers. Relatively low negative influences are foreseen to 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.

No additional payroll adjustments are expected in industry, as suggested by the high ratio of respondents (73 percent) sharing this opinion, as well as by the balance of answers staying close to zero. However, this estimation should be seen as seasonally driven, taking into account that the adjusted series of the balances of answers points to a slight reduction in staff numbers. In construction, the hiring rate is seen to post a slowdown (with the positive balance of answers decreasing substantially to 23 percent in June from 42 percent in May). This trend further incorporates seasonal components – the adjusted balance of answers hints to a stagnation of the indicator.

Around 90 percent of the respondents in the industrial and construction sectors expect producer prices to remain unchanged in June. Mention should be made, however, that increases are likely to occur in industry, albeit of very low intensity, given the moderately positive balance of answers (6 percent for the gross series and 7 percent for the adjusted series).

Investment will see a rebound in both sectors, but its growth pace will not be significantly fast – the balance of answers stayed relatively moderate (+14 percent), despite a sizeable increase, in the case of industry, and increased modestly (+6 percent), for the construction sector. In addition, seasonal factors will bring a material influence – adjusted estimations for June place industry close to a standstill and indicate a decrease in construction. The profitability ratio is anticipated to post a certain decline in the case of industrial companies and to take an upward trend in construction, with this optimistic outlook being attributed, to a large extent, to the seasonal factor.

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[1] 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.