

October 2012: Generally Favourable Prospects in Industry and Deteriorated Expectations in Construction

In October, the results of the National Bank of Romania's business survey point to a positive evolution in the outlook for the industrial sector, but optimism is lower in the construction sector.

Industrial output will continue its upward trend, as suggested by the high reading of the balance of answers* in terms of both unadjusted and adjusted data for seasonal factors and the number of working days (38 percent and 31 percent respectively). This trend is likely to be further manifest over the longer term, given the estimated rise in the order portfolio in the industrial sector, underpinned by external demand – the improved outlook is also revealed by the adjusted data. Output in the construction sector is expected to be similar to that recorded in September, given that the balance of answers went down to +4 percent (unadjusted series) and 80 percent of total pollees foresee no fluctuations in the output volume. In addition, the adjusted series reveals a slightly deteriorated prospect (-6 percent). The upward path in the order portfolio is expected to moderate, given the halving of the positive balance of answers (to 14 percent).

Inventories of finished goods will post a marginal change in both industrial and construction sectors, with the balances of answers standing at +2 percent and 0 percent respectively. The stocks of raw materials are anticipated to range within normal limits in the industrial sector and to post again a slim shortage in the construction sector.

In October too, subdued demand will further hamper the smooth running of activity in both sectors under review. This factor is cited by approximately 37 percent of the respondents in the industrial sector and 51 percent in the construction sector. Inter-company arrears will continue to depress the activity in the construction sector according to 45 percent of the respondents and, to a smaller extent, in the industrial sector, as reported by 12 percent of the participants. Relatively low negative influences are expected to come from high bank lending rates and the movements in the exchange rate of the leu.

New staff cuts are anticipated for both sectors under review. The magnitude of this process is, however, relatively small in the industrial sector, given the moderately negative balance of answers of -14 percent, but somewhat more pronounced in the construction sector in view of an almost threefold deterioration in the negative balance of answers to -35 percent. A similar conclusion can be drawn after adjusting the balance-of-answers data.

Approximately 85 percent of the pollees in the industrial sector will apply no changes to producer prices in October; nevertheless, the likelihood of (moderate) increases across the sector cannot be ruled out, given the positive balance of answers (+12 percent). In the construction sector, the growth rate of prices is anticipated to speed up (the positive balance of answers quadrupled up to 39 percent).

Investment in industry will further follow an upward trend, which could become steeper, as suggested by the advance in the positive balance of answers (to 20 percent). In the construction sector, the trend in investment will still be moderately headed downwards (to -7 percent). In the industrial sector, the profitability rate will further improve (as indicated by the balance of answers standing at +16 percent). In the construction sector, however, the profitability rate will probably see a new decrease (-12 percent).

* 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.