November 2012: Less Optimism in Industry and Deteriorated Expectations in Construction

According to the National Bank of Romania's November business survey, the outlook for the industrial sector is likely to be less favourable, whereas economic indicators are expected to worsen in the construction sector.

Industrial output will see a slower monthly growth rate, as suggested by the balance of answers[1] in terms of both unadjusted and adjusted data for seasonal factors and the number of working days (in both cases the balance of answers saw an about threefold deterioration, yet it remained positive at 14 percent and 10 percent respectively). The order portfolio in the industrial sector is also expected to record a slower pace of increase (visible in the case of both series), this trend being mainly attributed to external demand. The expectations of construction companies deteriorated in terms of both output and orders, particularly due to the adverse weather conditions – the balance of answers related to output in the construction sector turned negative (-26 percent, unadjusted series), while the adjusted series reveal a relative stagnation in the construction activity (+4 percent).

Inventories of finished goods will narrow marginally, given that the balance of answers turned negative (-9 percent for both series), yet the share of respondents anticipating the stability of stocks remains high at 73 percent. In the construction sector, this indicator will remain unchanged, according to 81 percent of the respondents (balance of answers: -1 percent). The stocks of raw materials are anticipated to range within normal limits in the industrial sector and to post again slim shortages in the construction sector.

Subdued demand will further hamper the smooth running of activity in both reviewed sectors. This factor is cited by approximately 37 percent of the respondents in the industrial sector and 53 percent in the construction sector respectively. Inter-company arrears will continue to depress the activity in the construction sector according to 38 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.

In November, new staff cuts are anticipated for both sectors under review. The magnitude of this process will be relatively small in the industrial sector, given the moderately negative balance of answers of -10 percent, but more pronounced in the construction (balance of answers of -45 percent). A similar conclusion can be drawn after adjusting the balance-of-answers data.

Approximately 88 percent of the pollees in the industrial and construction sectors will apply no changes to producer prices in November. Nevertheless, the likelihood of a moderate increase in this indicator across the two sectors cannot be ruled out, given the further moderately positive balances of answers (5 percent and 7 percent respectively). The adjusted series reveal similar trends.

Investment growth in industry will be slower, as suggested by the halving of the balance of answers (+10 percent) and the increase to 66 percent in the share of respondents anticipating this indicator to stagnate. In the construction sector, the trend in investment will follow a sharper downtrend, as showed by the five-time deterioration in the negative balance of answers to -35 percent. Unlike the previous month, in the industrial sector, the profitability rate is not expected to improve, but will probably worsen somewhat, as indicated by the balance of answers declining slightly below 0 (from +16 percent to -4 percent). In the construction sector, the profitability rate will follow a steeper downward path (as revealed by the doubling of the negative balance of answers to -23 percent).

[1] 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.