December 2012: Worsened Outlook for Both Sectors, Largely on the Back of Seasonal Factors

In December, the results of the National Bank of Romania's business survey point to a worsening of the outlook for the industrial and construction sectors, yet the fewer working days play a major role.

As far as output is concerned, the industrial sector is likely to fare worse, with growth coming to a halt (the balance of answers* turned slightly negative to -4 percent), and the construction sector will paint a similar picture (-43 percent). Following the adjustment of the series of balances of answers to the seasonal factors and the number of working days, industrial output will remain however on an upward trend, with a possible slender pick-up, whereas activity in construction will further stand still. Worth noting is also the significant strength of the seasonal factor in industry as regards the order portfolio and future exports. Thus, the reversal of the trend in the order portfolio, as illustrated by the unadjusted series of balances of answers (-6 percent against +21 percent in November), fails to be confirmed by the adjusted data, which point towards a further moderate uptrend (15 percent). In the construction sector, the order portfolio looks set to increase (moderately in terms of the unadjusted data, but sharply by the adjusted data: 11 percent and 35 percent respectively).

Inventories of finished goods appear set to stay on a somewhat downward path, with the balance of answers remaining at -9 percent, and the share of respondents envisaging steady inventories still high at 71 percent. In the construction sector, this indicator will be little changed, as revealed by 81 percent of total company managers (the balance of answers is nil). 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 December too, subdued demand will further hamper the smooth running of activity in both sectors under review. This factor is cited by approximately 40 percent of the respondents in the industrial sector and 52 percent in the construction sector. Inter-company arrears will continue to depress the activity in the construction sector according to 37 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 the high lending rates applied by banks and the movements in the exchange rate of the leu.

Staff cuts are anticipated to gain momentum in both sectors under review, with markedly lower negative balances of answers of -26 percent in the industrial sector and -58 percent in the construction sector. The explanation for this development lies only partially with the seasonal factors.

Roughly 92 percent of the pollees in the industrial sector and nearly all of those in the construction sector anticipate that producer prices will remain unchanged in December. In the former sector though, the slightly positive balance of answers (6 percent in terms of both adjusted and unadjusted data) is indicative of a (very remote) likelihood of price hikes.

Capital investment will further see a rise in industry at a moderate pace in terms of unadjusted data (10 percent), but at a faster pace according to adjusted data (a twofold increase in the positive balance of answers to 19 percent). In the construction sector, capital expenditure is expected to decline further (-43 percent), due solely to the seasonal factor (the adjusted balance of answers remained positive at 29 percent). Profitability rate of industrial and construction companies is likely to worsen at a swifter pace month on month (the balances of answers widened to -15 percent and -38 percent respectively). The adjusted data series also reveals unfavourable prospects, but expectations are far more moderate: -4 percent in the industrial sector and -16 percent in the construction sector.

* 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.