March 2013: Relatively Stable, yet Slightly Improved Longer-Term Outlook in the Industrial Sector; Recovery in the Construction Sector

In March 2013, the results of the National Bank of Romania's business survey do not show an improved performance of the key indicators in the industrial sector, yet the (moderately) optimistic expectations of the order portfolio and investment volume reveal the likelihood of a recovery over a longer-term horizon. The downward trend in construction will come to a halt, with the improved weather conditions also making a contribution to this end.

The growth rate of industrial output will slow down further; thus, the month-on-month change is likely to be marginal, as indicated by the decline to a close-to-zero level in the balance of answers[1] in the gross series, as well as in the seasonally and working-day adjusted data series. In contrast, the total number of orders will stay on a moderately upward path, owing also to external demand. A favourable outlook is seen in construction in terms of both output (balance of answers of +33 percent for the gross series and +22 percent for the adjusted data set) and order volume (+22 la sută).

In March, inventories of finished goods in industry and construction are expected to stick to the downward path, with the balances of answers standing at -24 percent and -14 percent, respectively. The stocks of raw materials are seen to range within normal limits in construction, the negative balance of answers in industry (-8 percent) being indicative of the likelihood of slightly lower levels in this sector.

In this month too, subdued demand will further hamper the smooth running of activity in both sectors under review. This factor is cited by around 49 percent of the respondents in the industrial sector and 53 percent of those in the construction sector. Inter-company arrears will continue to depress the activity in the construction sector according to 31 percent of the respondents and, to a smaller extent, in the industrial sector (12 percent). 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.

Over the period, additional staff cuts are envisaged by company managers in the industrial sector. Such an evolution is suggested by the further negative balances of answers in both gross and adjusted data series (-23 percent and -22 percent respectively). However, in construction, the downtrend in the number of employees will see a reversal (+22 percent and +6 percent respectively).

Producer prices in the industrial sector will post a similar level to that recorded in the preceding month, according to most pollees (balance of answers of +1 percent). In the construction sector, producer prices will increase marginally (balance of answers of +8 percent)

March is set to witness a possible pick-up in the investment in the industrial sector, given the over threefold increase in the positive balance of answers (up to 25 percent for the gross data series). This development is also supported by a structural component, as illustrated by an additional improvement in the balance of answers for the adjusted data set (up to 11 percent). In the construction sector, investment is estimated to stay on a downward course (balance of answer of -20 percent and -7 percent respectively). The respondents in the industrial sector foresee, in March as well, a slight decrease in profitability, according to the balances of answers for both data sets whose levels are -13 percent and -12 percent respectively. The resumption of activity in construction will lead to a slight recovery of economic performance (+12 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.