

## November 2013: Moderating Optimism in Industry; Generally Negative Outlook in Construction

In November, the company managers participating in the National Bank of Romania's business survey reveal a moderation of the favourable developments in key indicators across the industrial sector, with similar conclusions being drawn after looking at the adjusted series of the balances of answers\*. Managers of construction firms further expressed downbeat expectations over their activity, mainly because of the worsening weather conditions.

Industrial output looks set to experience a slower rate of increase over the previous month, as reflected by both gross and adjusted series of the balances of answers (the positive balances declined significantly to as low as 7 percent and 10 percent respectively). The same outlook is taking shape as far as the orders portfolio is concerned, largely on the back of the halt in the rising trend of export orders – the balance of answers relative to the first indicator dropped from 29 percent to 4 percent and fell slightly below nil in the case of the second.

Construction activity is expected to stay on a moderately downward path, due solely to the worsening weather conditions (the adjusted balance of answers entered positive territory, hinting at possible structural rebounds). The orders portfolio is likely to recover moderately, as suggested by both series of the balances of answers.

The respondents foresee the inventories of finished goods remaining on a slightly upward course in the industrial sector, with the balance of answers remaining moderate at +5 percent. In the construction sector however, the inventories of finished goods will keep contracting (-9 percent). A similar picture for both sectors is provided after removing the impact of seasonal factors. Inventories of raw materials are anticipated to range within normal limits in both sectors under review, but a meagre shortfall in construction is likely.

Over the period, subdued demand will continue to stymie the smooth running of activity in these sectors. This factor is cited by around 45 percent of the respondents in the industrial sector and by 59 percent of those in the construction sector. Inter-company arrears are seen dampening the economic activity according to one-half of the respondents in the construction sector and about 9 percent in the industrial sector. Relatively low negative influences are expected to come from the high lending rates applied by banks, the movements in the exchange rate of the leu and the hardships encountered by companies in acquiring raw materials.

November could see a renewed wave of redundancies in both sectors – the negative balances of answers show significantly lower reading than in the previous month.

About 95 percent of the polled in the industrial sector and 93 percent the construction sector foresee producer prices to remain unchanged month on month in November, whereas the related balances of answers were close to nil at 1 percent and 3 percent respectively.

The industrial company managers participating in the survey anticipate a moderate growth rate of capital investment, while the respondents in the construction sector expect the downward drift to become less sharp. Profitability rate is foreseen to decrease somewhat in the industrial sector, but its downturn in the construction is expected to fall more sharply.

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\* 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.