## July 2009: Stalemate in Industrial Activity; Optimistic Prospects in Construction

According to the business survey conducted by the National Bank of Romania, industrial production is expected to remain broadly unchanged in July compared to June, whereas the seasonal factor has a favourable impact on the outlook in construction.

In regard to the volume of industrial output, a month-on-month change is less likely given that the balance of answers* is virtually nil. A rebound in activity is not anticipated even in the longer run, as the positive balance of answers concerning the total order portfolio declined more than eight times to a marginally positive level in July. By contrast, expectations remain favourable in the construction sector, as reflected by the significantly positive balances relative to output and orders (38 percent and 34 percent respectively).

Inventories of finished goods are likely to remain on a downward track in the industrial sector, as illustrated by the balance of answers standing at -14 percent. In construction, inventories appear set to increase, as suggested by the relatively high positive level of the balance of answers (13 percent). As for stocks of raw materials in industry, their level may fall slightly below normal limits, as illustrated by the negative, yet relatively low, balance of answers (-10 percent). With regard to the construction sector, stocks of raw materials are expected to range within normal limits, as pointed out by about 91 percent of total respondents.

Flagging demand is still the biggest challenge faced by companies, according to more than 42 percent of the pollees in industry and 54 percent of those in construction. Other factors depressing the activity in both sectors are the inter-company arrears, high lending rates and the depreciation of the *leu*.

Further personnel cuts are estimated for industry, at a faster pace than before, since the balance of answers reached as low as -36 percent. In construction, workforce may go up, as indicated by the 16 percentage point widening of the balance of answers to +44 percent, which may entail a likely step-up in the monthly dynamics.

Industrial producer prices appear to remain broadly unchanged month on month, as reported by almost 85 percent of the respondents. A slight increase is not out of the question, given the sign reversal seen in the related balance of answers (from -12 percent to +9 percent). In construction, the likelihood of prices remaining stable is even higher, with opinions citing flat prices accounting for 92 percent of total respondents.

In July, respondents foresee a stalemate of investment in industry and a potential (small) decline in construction. As far as the profitability ratio is concerned, the survey outcome points to another slight decrease in industry, whereas the construction sector may witness improved performance as a result of favourable weather conditions.

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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.