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INSIGHTS INTO Q1 2024

Insights into GDP

In Q1 2024, the seasonally adjusted GDP increased by 0.4% in the euro area and by 0.5% in the EU compared with the same quarter of the previous year after +0.2% in the euro area and +0.3% in the EU in the previous quarter. In the US, the GDP increased by 2.9% compared with the same quarter of the previous year.

Within the Member States, the highest top three increases were in Malta (+4.6%), Croatia (+3.9%), Cyprus (+3.4%) while the largest decreases were in Ireland (-5.9%), Estonia (-2.1%), and Austria (-1.3%) compared with the same quarter of the previous year.

The decomposition of GDP growth of the EU area by expenditure aggregates indicates that, in the first quarter of 2024, the household final consumption expenditure increased by 0.2%, the government final consumption expenditure increased by 0.1%, the gross fixed capital formation decreased by 1.5%, exports increased by 1.0% while imports decreased by 0.3%. In terms of contribution to GDP growth, the breakdown of the components shows that the household final consumption expenditure had +0.1 pp, the government final expenditure +0.0 pp, the gross fixed capital formation was negative (-0.3 pp), changes in inventories (-0.1 pp), exports minus imports +0.6 pp.

In Romania, the seasonally adjusted GDP in Q1 2024 increased by 1.8%, while the unadjusted series by 0.1% compared to the same quarter of 2023. In current prices for Q1 2024, the GDP estimation by National Institute of Statistics (unadjusted series) summed up to 339,404.00 million RON, increasing in real terms by 0.1% compared with Q1 2023.

In terms of what industries contributed to the GDP increase in Q1 in Romania, Information and communication had an increase of +0.2%, with a share of 8.9% in GDP and with an activity volume that increased by 2.0%; Shows, culture and recreation activities; repair of households goods and other services +0.2%, with a share in GDP of 2.6% and an increase in activity volume by 7.0%; Public administration and defense; social insurance of public sector; education; health and social assistance +0.1%, with a share of 15.0% in GDP and activity volume that increased by 0.9%; Net taxes on products +0.6%, with a share in GDP of 8.3% and with an increase in volume by 6.0%. A negative contribution was recorded by Industry -0.2%, with a share in GDP of 18.3%, and a decrease in activity volume by 1.1%.

The EU and euro area are likely to see modest but steady GDP growth (0.8% -1% growth in 2024), driven by household consumption and exports. Energy sector deficits may continue to pose challenges. In Romania, household consumption expenditure and gross fixed capital formation (investments) will continue to push the GDP growth in our current estimations to an average of 2% for this year.

Euro Area and Romania's Annual Inflation Overview

As of May 2024, the Euro area annual inflation rate (HICP - Harmonized Index of Consumer Prices) has stood at 2.6%, a slight increase from the 2.4% recorded in April 2024. The key components influencing the inflation rate include services, food, alcohol & tobacco, non-energy industrial goods, and energy.



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Q1 Growth, Inflation and Construction trends. Inflationary pressures and sectoral performance across Europe and Romania.

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On a close analysis of components, Services recorded the highest annual inflation rate at 4.1% in May 2024, up from 3.7% in April 2024. Services hold the largest weight in the HICP, accounting for approximately 44.9% of household final monetary consumption expenditure in the Euro area. The significant contribution of services to the overall inflation is primarily due to their large share in consumer spending and their relatively high price stability compared to other components. Food, Alcohol and Tobacco experienced an annual inflation rate of 2.6% in May 2024, slightly down from 2.8% in April 2024. Despite making up only 19.5% of the HICP, the prices in this category are highly volatile and can significantly impact the headline inflation rate. Seasonal variations, supply chain disruptions, and changes in agricultural yields are factors influencing the prices of food, alcohol, and tobacco. Non-energy industrial goods saw an inflation rate of 0.7% in May 2024, down from 0.9% in April 2024. This component constitutes approximately 25.7% of the HICP. The lower inflation rate in this category reflects relatively stable manufacturing costs during this period. Energy prices increased by 0.3% in May 2024, reversing the negative inflation rate of -0.6% seen in April 2024. Although energy only accounts for 9.9% of the HICP, its prices are highly susceptible to geopolitical events, regulatory changes, and shifts in global demand and supply.

Each component's weight in the HICP affects its impact on the overall inflation rate. Services, due to their substantial weight, have the most significant influence on the headline inflation, followed by non-energy industrial goods, food, alcohol & tobacco, and energy. The volatility of food and energy prices can lead to noticeable fluctuations in the overall inflation rate despite their lower weights. In Romania, the annual inflation rate in May 2024 was 5.1% (YoY), down from 5.9% in April. The HICP-based annual inflation rate in May 2024 was 5.8% (YoY) from 6.2% the previous month.

The same analysis on components for Romania shows that the Food, Alcohol and Tobacco component dropped significantly from 17.1% in May 2023 to 1.7% in May 2024 with a continuous decrease each month. The Non-energy Industrial Goods component exhibited fluctuations but maintained a relatively high level, starting at 7.7% in May 2023, peaking around 12% in September 2023, and slightly stabilizing at 11.1% in May 2024. The stability at high levels indicates persistent inflationary pressures in the non-energy industrial sector. Energy prices showed significant volatility, starting at a negative -6.4% in May 2023, dropping to a negative rate in mid-2023 (-8.0% in June 2023), and slightly going to 1.0% in May 2024 after peaking in February 2024 at 3.4%. The fluctuations reflect the volatile nature of energy markets, influenced by global oil prices and geopolitical factors. Services remained relatively stable with minor fluctuations, starting at 9.9% in May 2023 and ending at 8.4% in May 2024, peaking around 10.6% in August 2023.

Over the past 12 months, Romania has seen a general decline in inflation across most HICP components, especially in food prices and overall consumer prices. Non-energy industrial goods and services have shown relative stability, while energy prices remain volatile, reflecting global market trends. Further reduction in overall inflation is expected if current trends continue, particularly in food prices. Our current estimations put HICP at 5.4% at year end.

Production in construction

In the EU, the production in construction decreased by 2.7% for construction of buildings, increased by 2.8% for civil engineering, and decreased by 1.5% for specialized construction activities. Among Member States for which data are available, the largest annual decreases in production in construction were recorded in Belgium (-9.3%), Poland (-6.0%), and Slovenia (-5.3%). The highest increases were observed in Hungary (+15.6%), Romania (+13.2%), and Portugal (+6.8%).

In Romania, compared to March 2023, the construction work increased by 8.0% but, during the first four months, the volume decreased by 2.6% compared to the same period last year. The breakdown of the most important components for a year-on-year comparison shows that the volume increased for engineering activities with a rise of 16.9%, non-residential buildings (+14.4%), and residential buildings (+1.2%). The mixed performance in the construction sector indicates potential volatility. The decline in building construction might be offset by growth in civil engineering projects.

Key Takeaways

1. GDP Growth

- Q1 2024 GDP rose 0.4% in the Euro area and 0.5% in the EU, up from the previous quarter
- The US GDP increased by 2.9% year-over-year
- Romania's GDP grew by 1.8%, driven by Information and Communication, Public Administration, net taxes, while Industry declined

2. Inflation

- Euro Area inflation was 2.6% in May 2024, up from 2.4% in April. Services drove Euro area inflation at 4.1%
- Romania's inflation fell to 5.1% in May from 5.9%, mainly due to lower Food, Alcohol and Tobacco prices

3. Construction Sector

- EU construction decreased by 2.7%, with civil engineering up 2.8%
- Romania's construction grew by 8%, led by engineering and non-residential buildings

Looking ahead

1. GDP growth - Euro area and EU expected to grow 0.8%-1% by 2024, driven by consumption and exports, Romania projected to grow around 2%, supported by consumption and investments, despite industrial challenges.
2. Inflation - Euro area inflation likely to remain stable with minor fluctuations in services and energy. Romania's inflation expected to decline to 5.4% by year-end, driven by lower food prices.
3. Construction sector - EU construction may stay volatile, with civil engineering growth offsetting building declined. Romania likely to increase growth especially in engineering projects.