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## ECONOMIC TRENDS: GDP GROWTH AND INDUSTRIAL PRICES

### GDP

New data published by the National Institute of Statistics provides information on the components that led to the result of the GDP in the 1st semester of the year. The Gross Domestic Product – gross series – estimated for the second quarter of 2024 reached 408039.7 million lei at current prices, up by 0.8% compared to the second quarter of 2023. For the first semester of 2024, GDP reached 756910.0 million lei at current prices, up by 0.7% compared to the first semester of 2023.

The following economic activities made positive contributions to the GDP growth in the first semester of 2024 compared to the first semester of 2023: Agriculture (+0.2%), which accounted for +1.8% of GDP formation and increased by 10.9%; Entertainment, cultural and leisure activities; Repair of household goods and other services (+0.2%) and whose volume of activity increased by 6.6%; Construction (+0.1%), with +5.4% as a share of GDP and whose volume of activity increased by 1.0%.

The following sectors made a negative contribution to GDP growth: Industry (-0.1%), with a share of +17.5% in GDP formation and whose volume of activity decreased by -0.6%, and Real estate (-0.1%) whose volume of activity decreased by -1.6%.

Net taxes on products, with a share of +8.8% in GDP formation, contributed +0.5% to GDP growth, their volume increasing by +5.4%.

In terms of GDP utilization, the increase was mainly due to Household final consumption expenditure, a volume that increased by +5.8%, contributing +3.7% to GDP growth. General government individual final consumption expenditure increased its volume by +1.3%, contributing +0.1% to GDP growth. Gross fixed capital formation increased by 6.0%, contributing +1.4% to GDP growth.

Net exports made a negative contribution to GDP growth (-3.5%) because of an increase in the volume of imports of goods and services, by +4.0%, correlated with a decrease in the volume of exports of goods and services by -3.3%. Thus, GDP growth for H1 2023 was up by 0.7% compared to H1 2023. Positive contributions were made by actual final consumption with 3.4% and gross fixed capital formation (1.4%) while changes in inventories and net exports of goods and services had negative contributions with (-0.6%) and (-3.5%) respectively. For the two components that had positive contributions, Gross Fixed capital formation slowed down to 3.4% growth (y/y) in Q2, while private consumption accelerated to 9.4% growth (y/y) in Q2.

### GDP in the EU and the US

In the second quarter of 2024, the European Union experienced a modest increase in Gross Domestic Product. Compared to the previous quarter, GDP growth in the EU increased by 0.2%. On a year-over-year basis, seasonally adjusted GDP in the euro area grew by 0.6%, while the broader EU saw a slightly higher increase of 0.8%. These figures mark a slight improvement from the first quarter of 2024, where GDP growth was recorded at 0.5% in the euro area and 0.7% in the EU.

In contrast, the United States exhibited stronger growth during the same period. GDP increased by 0.7% in the second quarter of 2024 compared to the first quarter, continuing its upward trend after a 0.4% increase in the first quarter. Year-over-year, the US GDP grew by 3.1%, up from 2.9% in the previous quarter, underscoring the stronger economic performance in the US compared to the EU.

Among EU member states, Poland recorded the most substantial GDP growth, with a 1.5% increase compared to the previous quarter. Greece and the Netherlands followed with increases of 1.1% and 1.0%, respectively. On the other hand, several countries experienced declines in GDP, with Ireland, Latvia, and Austria seeing the largest decreases, ranging from -1.0% to -0.4%.



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Romania's GDP increased by 0.7% in H1 24 driven by household consumption and fixed capital formation. The EU saw a GDP rise of 0.8% while the US grew faster at 3.1% YoY.

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Examining the components of GDP, household final consumption expenditure in the euro area decreased slightly by 0.1%, while it increased by 0.1% in the EU. This follows a stronger performance in the previous quarter when consumption rose by 0.3% in the euro area and 0.4% in the EU. Government final consumption expenditure, however, showed stronger growth in the second quarter, rising by 0.6% in the euro area and 0.7% in the EU. Gross fixed capital formation, a key indicator of investment, decreased by 1.8% in the EU. Trade also played a notable role in the GDP dynamics. Exports increased by 1.4% in both the euro area and the EU, a rise from the previous quarter's figures. Imports grew at a slower pace, with increases of 0.5% in the euro area and 0.6% in the EU, marking a positive contribution of trade to GDP.

When considering contributions to overall GDP growth, household final consumption expenditure had a negligible impact, contributing 0.0 percentage points (pp) to growth in both regions. Government expenditure made a small positive contribution of 0.1 pp. However, the gross fixed capital formation had a negative impact, detracting 0.4 pp in the EU. Meanwhile, the balance of exports and imports contributed positively, with net exports adding 0.4 pp in the EU.

In summary, while the EU showed modest economic growth in the second quarter of 2024, it was outpaced by the United States. Trade played a positive role in supporting GDP growth, while investment presented a significant drag on the overall economic performance.

### Industrial Producer Prices in Romania

The industrial producer prices in Romania continued to show significant growth in July 2024. Overall, prices increased by 2.1% compared to June 2024, and by 2.6% when compared to July 2023. This rise in prices was seen both in the domestic and the external markets. Domestic market prices grew by 2.7% compared to June 2024, indicating rising internal production costs. In comparison, the external market saw a more moderate price increase of 0.4%, signaling relatively lower price pressures.

The energy sector experienced the most significant price increase, up by 6.3% compared to June 2024 and by 3.2% year-over-year. The manufacture of beverages sector saw an increase as well (+8.4%) compared to July 2023, reflecting increased production costs for alcoholic and non-alcoholic beverages adding on new taxes for these categories. The production of pharmaceuticals saw a considerable year-over-year increase of 18.5% as well.

The coal extraction sector saw the most dramatic decrease, with prices dropping by 20.5% compared to July 2023. This reflects reduced demand for coal as cleaner energy alternatives gain traction. The prices for oil and natural gas extraction also fell by 10.7% year-over-year. The metallurgical industry, which includes the production of metals and alloys, experienced a decline of 5.5% compared to July 2023.

Romania's industrial producer prices in July 2024 show a clear upward trend, particularly driven by the energy, beverage, and pharmaceutical sectors. These industries are seeing strong demand both domestically and internationally, which is reflected in their rising prices. However, certain traditional sectors like coal extraction, oil and gas, and metallurgy are experiencing price declines, possibly due to reduced demand and shifts towards more sustainable energy solutions.

Without significant changes in the global economic landscape, Romania is likely to experience continued increases in industrial producer prices through the end of 2024. Therefore, in the coming months, the industrial producer prices are likely to increase by an additional 1.5% to 2.0%, depending on the performance of key sectors such as energy, capital goods, and basic manufacturing. These sectors will be critical drivers of overall price trends.

### Industrial Producer Prices in the EU

In July 2024, industrial producer prices saw notable changes both within the euro area and across the European Union (EU). According to the first estimates from Eurostat, industrial producer prices rose by 0.8% in both regions compared to June 2024. This increase follows a previous rise of 0.6% in June, indicating a steady upward trend in prices over the summer months. However, on an annual basis, industrial producer prices decreased. Compared to July 2023, prices dropped by 2.1% in the euro area and by 1.9% across the EU. This decline reflects a longer-term cooling of industrial price growth, driven primarily by changes in energy prices and other key industrial goods.

Breaking down the data by main industrial groupings, several trends emerge for July 2024 compared to June. In the broader EU, Energy prices increased by 2.5%, although slightly lower than the euro area's growth. Intermediate goods and non-durable consumer goods remained stable, while durable consumer goods decreased by 0.1%. Prices in total industry excluding energy decreased by 0.1%.

At national level, the highest monthly increases in industrial producer prices were recorded in Bulgaria (+3.6%), Greece (+2.9%), and Romania (+2.7%). These countries saw sharper increases compared to others, likely due to regional energy dynamics or domestic factors. Conversely, the largest decreases were observed in Sweden (-0.9%), Finland (-0.7%), and Austria (-0.2%).

On a year-over-year basis, the industrial producer price dynamics differed significantly. Energy prices decreased by 5.9%, a slightly smaller drop compared to the euro area but still indicative of significant declines in energy-related costs. Capital goods prices increased by 1.5%, and non-durable consumer goods rose by 0.9%, demonstrating growth in sectors related to everyday products and long-term investments. At the country level, the largest annual decreases in industrial producer prices were recorded in Slovakia (-18.9%), Luxembourg (-6.7%), and Latvia (-6.0%). These substantial declines suggest a regional divergence in price trends, possibly influenced by local economic conditions or industry-specific factors. On the other hand, the highest price increases were seen in Ireland (+6.1%), Romania (+2.7%), and Portugal (+2.0%), where domestic industrial sectors experienced stronger demand and higher input costs.

To summarize, industrial producer prices in July 2024 reflected both short-term increases and long-term decreases. The energy sector remains the primary driver of price fluctuations, particularly in monthly data. However, the overall decline in prices over the past year highlights the easing of cost pressures in key industrial sectors. Countries like Bulgaria, Greece, and Romania showed the most substantial monthly growth, while Slovakia, Luxembourg, and Latvia faced the steepest annual declines. Moving forward, energy dynamics and global market conditions will continue to shape the evolution of industrial producer prices in the euro area and the EU.

Looking ahead, industrial producer prices in the euro area and the EU are expected to increase at a moderate pace in the coming months, primarily driven by energy and consumer demand. However, the annual trend may remain flat or slightly negative as energy prices stabilize. Overall, expect monthly increases in the range of 0.5% to 0.8% for the next quarter, with significant regional variations depending on country-specific factors.