

## GEA Industrial Bulletin No. 1/2005

*The results presented in the bulletin are based on the interpretation of the answers to the GEA Economic Conjuncture Questionnaire 1/2005 sent to a representative sample of Romanian firms. The database from which the sample was selected was provided by the Businessmen's Association of Romania (AOAR) and the Chamber of Commerce and Industry of Romania and Bucharest. The questionnaire was delivered during 15 December 2004 - 15 January 2005. The bulletin resulted from the work of a GEA team consisting of Liviu Voinea and Laura Simionescu, with the support of Daniel Daianu, Dragos Pislaru, Luisa Grosu, and Mr. Cristian Parvan (AOAR).*

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### GEA Index of Industrial Confidence

The Index of Industrial Confidence (GEA Index) is calculated as an average of 3 sub-indicators: expectations regarding the evolution of the production (P), current volume of orders (C), and current volume of stocks (S). It is a standard methodology recommended by OECD and used by Eurostat.

The contribution of GEA stands in its application on a representative sample and especially in the quarterly public announcement of the results and their interpretation.

**GEA index = (P+C-S)/3**

where P, C and S are the conjectural balance (the difference between positive and negative evolutions) reported to the total number of respondent companies on each of the 3 variables.

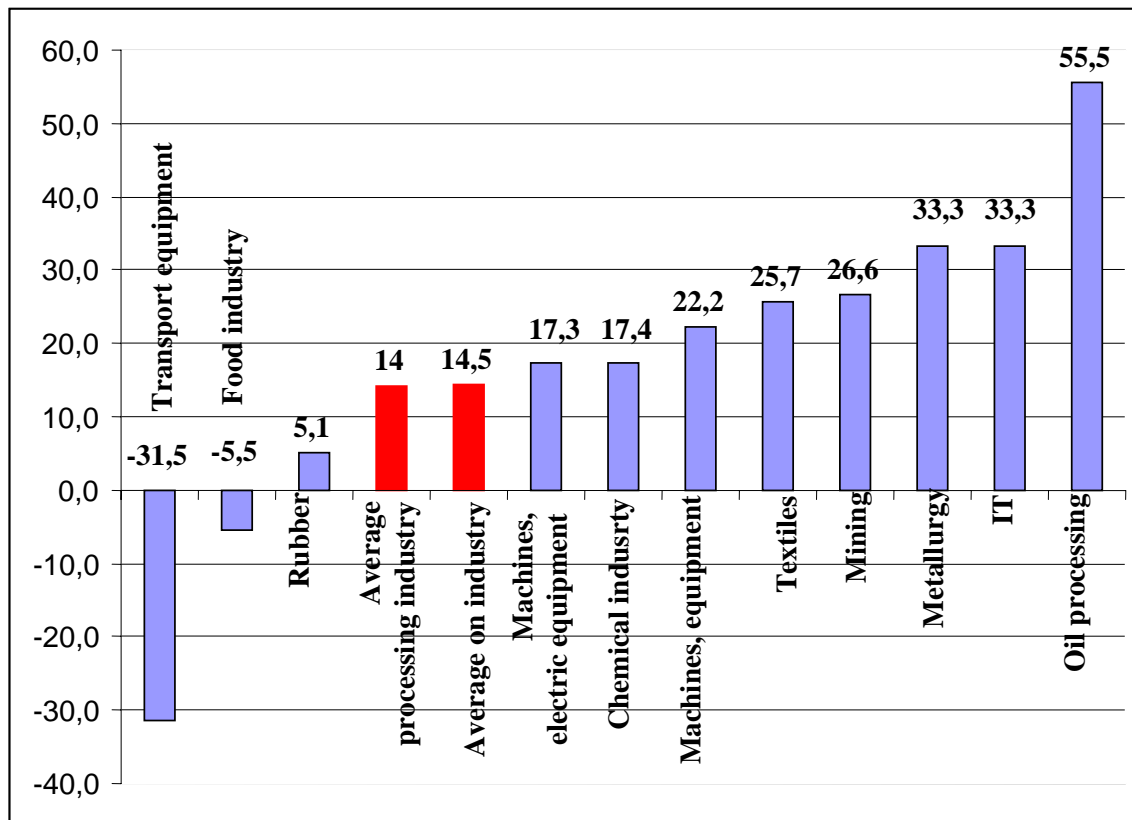
**GEA index – Quarter I 2005 = 14.5 (on a scale from –100 to +100)**

Starting the next quarter, it will be possible to compare the GEA Index of Industrial Confidence against the previous period. For now, we can only appreciate its value in absolute figures. **It is an encouraging result that shows a moderate trust in the evolution of the Romanian economy for the first quarter of 2005.** By comparison, the same indicator calculated monthly, not quarterly, indicates –7 for Hungary or –4 for the average of the EU (according to Eurostat; by comparison, the index calculated by INSSE for Romania in December 2004 was +6).

## The most optimistic expectations: oil processing, IT and metallurgy

Based on industrial sectors, there are important variations of GEA Index of Industrial Confidence. **The sectors with the most optimistic expectations are oil processing, information technology and metallurgy.** The oil processing and metallurgy benefit from favorable evolutions of prices for the main products at international scale, while the industry of information technology has started to expand for quite a while. **Predictions above the average refer to the machines and equipment industry, electric machines and devices, textile and chemical industries.** These branches are actually Romania's main exporting industries, so we can say that there are optimistic expectations regarding the favorable evolution of Romanian exports in the first quarter of 2005.

**GEA Index of Industrial Confidence**



However, below average expectations are registered especially in the sector of road transport vehicles (this forecast also appears in the BNR Conjecture Bulletin 12/2004) and in the food industry, the latter probably reflecting a cyclic contradiction after the expansion during winter holidays period.

## The evolution of industrial output volume

Output volume	Increases (%)	Constant (%)	Drops (%)	Balance
Q4 2004	57,1	31,2	11,8	+ 45,3
Q1 2005	53,5	32,4	14,1	+ 39,4

The volume of industrial production will increase in Q1 2005, but probably with a slower momentum than in Q4 2004, considering the decrease of the conjunctural balance.

It is remarkable the way the companies evolve during the 2 quarters. Thus, only 69.1% of the companies that registered an increased output in Q4 of 2004 expect an increased production in Q1 2005.

On the other hand, 50% of the companies whose production dropped in Q4 2004 expect resurgence in Q1 2005.

## Orders cover 4.33 months of production

The orders cover on average, at the level of the entire industry, 4.33 months of production. However, the standard deviation for this answer is very high (4.48), which means major fluctuations from case to case. 34.5% of companies have orders that cover less than a month of production, while 16.5% have orders that cover one year of production.

## Weighted predictions regarding the evolution of prices

	Q4 2004 vs. Q4 2003	Q4 2004 vs. Q3 2003
<b>Acquisition prices evolution</b>	Have increased with a value between 10-15%	Have increased with a value between 3-5%
<b>Production prices evolution</b>	Have increased with a value between 10-15%	Have increased with less than 1%

**On the whole, in 2004, the increase of production prices accurately reflected the increase of acquisition prices. In Q4 2004, the pace of price increases dropped, significant industries like textiles, machines and equipment, metallurgy, experienced increases under 1%.**

**The most important increases were registered by the food and beverages industry (39% of companies augmented their production prices by 1% to 5%, and 22% by more than 5%) and the oil processing (increases by more than 5%).**

	Q1 2005 vs. Q4 2004
<b>Predictions on the evolution of production prices</b>	Will increase with less than 1%

The weighted expectations regarding price increases in Q1 2005 (below 1% on average) could be determined by the appreciation of the currency exchange rate. Among the industrial sectors, the only one in which the companies that are expecting major increases of production prices have a significant weight, is the textile industry, where 31% of firms expect price hikes exceeding 5%. **The fact that the predictions for the increase of production prices are weighted, although the price increases for utilities are well known (productive inputs), may lead to two conclusions.** Either other components of the production price will drop, which is difficult to accomplish on short term, or, more likely, the profit margin of producers will decrease.

### The effect of the ROL appreciation upon competitiveness

Significantly more companies consider that the appreciation of the ROL has a negative effect on their competitiveness, than those that consider it having a positive influence. The companies that regard as favorable the appreciation of the ROL are oriented mainly towards the domestic market, while the companies that are disadvantaged by the appreciation of the ROL are mostly export oriented. Among respondent companies, the balance of those that have improved their domestic competitive position during the last year was of 55.3%, while the balance of those that improved their foreign competitive position was only of 41.2%. Furthermore, 72% of the companies which declared that the appreciation of the ROL has had a positive influence improved their domestic competitive position, but only 46% of the same companies also improved their foreign competitive position.

	Positive influence	Neutral / No answer	Negative influence	Balance
<b>The effect of the ROL appreciation on competitiveness</b>	29,4%	24,7%	45,9%	-16,5

**The export-oriented industries are the worst hit by the appreciation of the ROL:** the difference between those which responded that the appreciation has had a positive influence and those that considered it having a negative influence is **-20.7 for the textiles and clothing industry and -37.5 for the machine and equipment industry.** The two industries combined give more than half Romania's exports. **Metallurgy, balance -54.4, and the computing industry, balance -33.3, are also very affected. However, industries that are oriented towards the domestic market or rely heavily on imports have positive scores: +22.2 the food industry, +33.3 the oil processing industry, +28.4 the chemical industry.**

**Nonetheless, the damages caused by the appreciation of the ROL might be overcome by some exporters. A total 52.6% of the companies which consider the appreciation of the ROL as negative have managed to improve their foreign competitive position,** which means that practically half of exporters have either resorted to alternative sources

to increase foreign competitiveness, or diminished their profit margins to stay competitive.

## Methodological aspects

The sampling has resulted from the application of 3 criteria: industrial sector, turnover, location. 170 valid answers have been analyzed, leading to the following sample structure:

Industrial sector	%
Machines and equipment	14,1
Machines and electrical devices	13,5
Textiles	12,9
Chemical industry	12,4
Road transport vehicles	11,2
Food and beverages	10,6
Rubber processing	7,6
Metallurgy	6,5
Information technology	3,5
Radio/TV equipments	2,9
Mineral extracting industry	2,9
Oil processing	1,8

Turnover (Euro)	%
Under 100.000	4,1
Between 100.001 – 1.000.000	18,2
Between 1.000.001 – 10.000.000	47,1
Between 10.000.001 – 50.000.000	22,4
Over 50.000.000	8,2

Number of employees	%
Below 49 employees	15,3
Between 50 and 249 employees	27,6
Over 250 employees	57,1

