



Bank of Albania
Monetary Policy Department

Business and Consumer Confidence Survey

Methodological explanatory notes
(July 2008)

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List of abbreviations:

BCS	Business Confidence Survey
CCS	Consumer Confidence Survey
ETI	Economic Tendency Indicator
ICI	Industry Confidence Indicator
CCI	Construction Confidence Indicator
SCI	Services Confidence Indicator
CCI	Consumer Confidence Indicator
EC	European Commission

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1. General features

Starting from the year 2002, the Bank of Albania has, in collaboration with the Statistics Institute, conducted the Business Confidence Survey (BCS) and the Consumer Confidence Survey (CCS), aiming at assessing different aspects of businesses and households' economic activity. BCSs and CCSs are conducted on a quarterly basis. The questionnaires of both surveys contain qualitative questions¹, which provide information about the companies and households' assessment of their past and expected economic developments.

The BCS questionnaire consists of 30 questions grouped in the following 7 main categories (see Annex 1, Business Survey - Questionnaire):

- general business climate (questions 1-2);
- firm's general activity (questions 3-11);
- turnover (questions 12-13);
- producer prices (questions 14-15);
- labour market (questions 16-21);
- competition and financial situation (questions 22-23); and
- use of production capacities (questions 24-31).

The CCS questionnaire consists of 15 questions grouped in the following 4 main categories (see Annex 1, Consumer Survey - Questionnaire):

- financial situation (questions 1-2);
- general economic situation (questions 3-5.2);
- expectations of price performance (questions 6.1-7);
- spending and savings (questions 8-13).

The main purpose of BCS and CCS surveys is to collect complete and timely information on the country's economic developments. The information collected from the surveys is later used to construct indicators of special sectors of the economy and the Economic Tendency Indicator. These indicators provide wider information, which is useful to both the internal decision-making process at the central bank and to the different economic agents. The use of confidence survey results allows the construction of time series, which do not only complete the set of the existing official data, but also enable the construction of indicators which approximate the official information that is published later and may be subject to revision. Confidence survey results are not subject to revision, given that the collection of information for each phase in the survey ends with the termination of the given phase. The survey data are useful not only for making economic analyses, but also for forecasting different economic indicators, hence assisting the Bank of Albania decision-making process.

The Bank of Albania has collaborated with the INSTAT for determining the sampling features, including the survey's geographical coverage. At present, the INSTAT covers

¹ Qualitative questions call from the respondent for a response in the form of an opinion, perception or judgement on past or expected developments in different aspects, in contrast to quantitative questions which require a number from the respondent.

the field surveying of businesses and consumers and the collection of questionnaires. The checking process, the entry and the processing of survey results are carried out by the Bank of Albania. The qualitative information obtained from the survey responses is first aggregated at a sector level and later, at an economy-wide level (see part 3.5). The qualitative changes in the questionnaires and in the data aggregation methodology have aimed at providing better approximation to the questionnaires and methodology applied by the European Commission.

The results of BCS and CCS surveys are only a reflection of the tendency of indicators as perceived by producers and households. They do not reflect the Bank of Albania opinions. The aggregate indicators of different sectors and the economy as a whole do not substitute for the official quantitative statistics.

2. Collecting and processing the data

2.1 *Sampling*

The sample design in a survey relates to the selection of respondents to be interviewed. The selection of respondents is based on one or several required characteristics, with the intention to ensure better representativeness of the population or units at a regional or national level.

The sample design of enterprises and households is based on the principle of better representativeness of the population. With respect to the consumer survey, the sampling was based on the data of the general census of the population and housing in 2001 by the INSTAT. The business survey sampling was based on the business register used by the INSTAT while conducting the Structural Survey of Economic Enterprises (SSEE).

The BCS and the CCS use a fixed panel of businesses² and households during each survey phase. The current sample of the business and consumer survey includes 680 and 1200 units, respectively.

2.2 *Data aggregation*

The data aggregation begins with the aggregation of responses to each question. The latter are counted and then they are expressed as percentages of the total number of responding firms. For instance, in questions with three alternative options, P denotes the share reporting an increase; N denotes the share reporting a decrease and E denotes the share reporting no change, expressed as a percentage to total responses derive the following vector:

² The sampling of the BCS is almost fixed, given that it is revised to exclude those businesses, which do not respond or have closed their activity. They are replaced by other businesses similar in size and nature of economic activity. The revision process is limited; the replacement of businesses does not exceed 10% of the fixed panel over a year.

$X = (P, E, M)$ where $P + N + E = 100$

2.3 Calculation of balances

The calculation of balances is the traditional method of aggregating and quantifying the qualitative information in surveys. Balances are the difference between positive and negative answering options, measured as percentage points. If a question has three alternative options, “positive” (“up”, “improve”, “more”, etc.), “neutral” (“unchanged”, “as much”, “adequate”) and “negative” (“down”, “decline”, “less”), the balance is calculated as:

$$B = P - N$$

where,

B denotes the balance of the individual question;

P denotes the percentage of respondents having chosen the option “positive”; and

N denotes the percentage of respondents having chosen the option “negative”.

In the case of questions with five options, i.e. (“very much higher”, “up”, “unchanged”, “down” and “fall sharply”), the balances are calculated on the basis of weighted averages. Denoting PP and NN as “very much higher” and “fall sharply”, balances are calculated as:

$$B = (PP+1/2P) - (1/2N+NN)$$

Where $PP+P+E+N+NN=100$

It is clear from the expressions above that balance values range from -100, when all respondents choose the negative option (or the most negative one in the case of five-option questions), to +100, when all respondents choose the positive (or the most positive) option.

After balances have been calculated for each business questionnaire question, they are seasonally adjusted before seasonally adjusted series are processed further. Consumer questionnaire questions are not seasonally adjusted, given that the series of this survey do not show significant seasonal performance.

3. Calculation of aggregate confidence indicators

Based on the detailed results –balances of each question- are calculated a set of composite indicators. First, for each of the surveyed sector (industry, construction and services) are produced confidence indicators (CIs), which combine the balance of questions for each individual sector. CIs are calculated as the simple average of seasonally adjusted balances³ -but not standardised ones- of specific questions chosen

³ Except for Consumer Confidence Indicator, which is constructed as the simple average of seasonally non-adjusted balances.

from the questionnaire in each individual sector. CIs provide information on economic developments in the different sectors. Second, the results for the four surveyed sectors (industry, construction, services and consumers) are aggregated into the Economic Tendency Indicator (ETI), whose purpose is to track the overall economic activity at home.

Each confidence indicator is calculated as the simple arithmetic average of the seasonally adjusted balances⁴ of answers to specific questions chosen from the full set of questions in each individual survey. The selection of questions was guided by the aim of achieving an as highly as possible coincident correlation of the confidence indicator with a reference series. Gross domestic product by sectors and the sales index have been used as reference series. The balance series are not standardised prior to their aggregation.

Based on the complete set of balance series underlying the individual confidence indicators, the ETI is constructed, with the difference that the balance series are standardised prior to their aggregation⁵.

3.1 Industrial Confidence Indicator

The industrial confidence indicator is the arithmetic average of the balances (in percentage points) of the answers to the questions on production expectations, employment, order books and stocks of finished products (the last with inverted sign). Balances are seasonally adjusted.

Questions (see Annex for the complete questionnaire):

Q.10 How has your firm's production developed over the past....? It has...

1. increased
2. remained unchanged
3. decreased

Q.12 How has demand (turnover) changed over the past....? It has...

1. increased
2. remained unchanged
3. decreased

Q.16 How has your firm's total employment changed over the past....? It has...

1. increased
2. remained unchanged
3. decreased

⁴ Excluding consumer survey balances, which are not seasonally adjusted.

⁵ The purpose of standardisation of balances (subtract the average and then divide it by the standard deviation) is to avoid the possibility that balances/series with the highest amplitude dominate the aggregate indicator.

3.2 Construction Confidence Indicator

The construction confidence indicator is the arithmetic average of the balances (in percentage points) of the answers to the questions on production, demand and employment. Balances are seasonally adjusted.

Questions (see Annex for the complete questionnaire):

Q.10 How has your firm's production developed over the...? It has...

1. increased
2. remained unchanged
3. decreased

Q.6 How has demand for your firm's goods and services developed over the...? It has....

1. increased
2. remained unchanged
3. decreased

Q.16 How has your firm's total employment changed over the...? It has...

1. increased
2. remained unchanged
3. decreased

3.3 Services Confidence Indicator

The services confidence indicator is the arithmetic average of the balances (in percentage points) of the answers to the questions on business climate, employment and financial situation. Balances are seasonally adjusted.

Questions (see Annex for the complete questionnaire):

Q.3 How has your firm's general situation developed over the...? It has...

1. increased
2. remained unchanged
3. decreased

Q.16 How has your firm's total employment changed over the...? It has...

1. increased
2. remained unchanged
3. decreased

Q.23 How has your firm's financial situation developed over the...? It has

1. improved
2. remained unchanged

3. deteriorated

3.4 Consumer Confidence Indicator

Consumer confidence indicator is the arithmetic average of the balances (in percentage points) of the answers to the questions on the expected financial situation, the expected economic situation and purchase and savings opportunities. Balances are not seasonally adjusted.

Questions (see Annex for the complete questionnaire):

Q.2 How do you expect the financial position of your household to change over the next quarter? It will...

1. get a lot better
2. get a little better
3. stay the same
4. get a little worse
5. get a lot worse

Q.4 How do you expect the general economic situation in this country to develop over the quarter? It will...

1. get a lot better
2. get a little better
3. stay the same
4. get a little worse
5. get a lot worse

Q.9 Do you think that now it is the right moment for people to make major purchases (such as furniture, electrical/electronic devices, etc.)?

1. yes, it is the right moment now
2. it is neither the right moment nor the wrong moment
3. no, it is not the right moment now. It would be better later

Q.13 Which of these statements best describes the current financial situation of your household?

1. we are running into debt
2. we are having to draw on our savings
3. we are just managing to make ends meet on our income
4. we are saving a little
5. we are saving a lot

3.5 Economic Tendency Indicator

The purpose of the Economic Tendency Indicator (ETI) is to track the performance of economic activity through a single indicator instead of two indicators obtained from the two main economic groups, business and consumers. The ETI is made up of 13 balances used for the construction of confidence indicators for each individual sector. The weights assigned to the four economic sectors are based on the contribution of the sectors of industry, services and construction on the country's GDP. The weight of services has been kept unchanged from the share used by the European Commission in constructing the ESI (*Economic Sentiment Index*). The weights by sectors are as follows:

Industry	18.24%
Construction	15.44%
Services	46.32%
Consumers	20.00%

The sectors' weights are equally divided between questions. The balance for each specific question goes through the standardisation process, after it has been seasonally adjusted. The exact calculation of the ETI on the basis of its component series can be summarized by the following steps (the balance of each individual question has been previously calculated):

(1) Standardisation

For each component/balance (j) is calculated the average (for each t period):

$$\bar{X}_j = \frac{1}{T} \sum_{t=1}^T X_{jt}$$

For each component is measured the standard deviation, S_j :

$$S_j = \sqrt{\frac{1}{T-1} \sum_{t=1}^T (X_{jt} - \bar{X}_j)^2}$$

The standardised component is calculated:

$$\frac{X_{jt} - \bar{X}_j}{S_j}$$

(2) Weighting

Based on the weights assigned to each of the above-mentioned sectors is computed the weighted indicator:

$$Z_t = \frac{\sum_j w_j Y_{jt}}{(\sum_j w_j)_t}$$

where $(\sum_j w_j)_t$ is the sum of the weights at time t. In case for each time t all questions are available, the denominator is 100. If not, it is equal to the sum of questions available at time t.

(3) Economic Tendency Indicator - ETI

The weighted average in each period, the previous and the current one, is computed. Then, it is calculated the standard deviation of the weighted indicator for each period.

The ETI is calculated using the following formula:

$$TTE = \left(\frac{Z_t - \bar{Z}}{S_z} \right) * 10 + 100$$

4. Publication of survey results

The survey results are published 45 calendar days following the reference quarter (see Annex 2), on the 15th day (or the closest business day following) of the second month of the following quarter. The publication calendar is available on Bank of Albania website at: www.bankofalbania.org/publikime/vrojtimet

Annex 1

A. Business survey – Questionnaire⁶

1. How do you consider the performance of the economy in the country in the present quarter? It has...

1. increased
2. remained unchanged
3. decreased

2. How do you expect the performance of the economy to develop in the next quarter? It will...

1. increase
2. remain unchanged
3. decrease

3. How has your firm's general situation developed in the present quarter? It has...

1. increased
2. remained unchanged
3. decreased

4. How do you expect your firm's economic activity to change in the next quarter? It will...

1. increase
2. remain unchanged
3. decrease

5. Rank the following factors which affect your firm's activity: (choose from 1-5 for each factor, where 1 is the least important and 5 is the most important):

- | | |
|--------------------------------------|-----------|
| a. legal and institutional framework | 1 2 3 4 5 |
| b. relation with banks | 1 2 3 4 5 |
| c. internal political climate | 1 2 3 4 5 |
| d. order and safety in the country | 1 2 3 4 5 |
| e. infrastructure-related issues | 1 2 3 4 5 |
| f. energy-related issues | 1 2 3 4 5 |
| g. corruption and informal economy | 1 2 3 4 5 |
| h. other (specify) | 1 2 3 4 5 |

6. How has demand for your firm's goods and services developed in the present quarter? It has...

1. increased
2. remained unchanged
3. decreased

7. How do you expect demand for your firm's goods and services to change in the next quarter? It will...

1. increase
2. remain unchanged
3. decrease

⁶ Services questionnaire excludes questions on production and inventory.

8. In case you conduct export activity, how have your export orders for your goods and services developed? They have...

1. increased
2. remained unchanged
3. decreased

9. How do you expect the export orders for your goods and services to change in the next quarter? They will...

1. increase
2. remain unchanged
3. decrease

10. How has your firm's production developed? It has...

1. increased
2. remained unchanged
3. decreased

11. How do you expect your firm's production to develop in the next quarter? It will...

1. increase
2. remain unchanged
3. decrease

12. How has demand (turnover) changed over the present quarter? It has...

1. increased
2. remained unchanged
3. decreased

13. How do you expect the demand (turnover) for your firm's services to change? It will...

1. increase
2. remain unchanged
3. decrease

14. How have the prices you charge changed? They have...

1. increased
2. remained unchanged
3. decreased

15. How do you expect the prices you charge to change? They will...

1. increase
2. remain unchanged
3. decrease

16. How has your firm's total employment changed? It has...

1. increased
2. remained unchanged
3. decreased

17. How do you expect your firm's total employment to change? It will...

1. increase
2. remain unchanged

3. decrease
18. Which of the following groups of workers does your firm lack the most?
 1. trained workers
 2. managers/supervisors
 3. other
19. How has the level of gross wage (average per employee) changed? It has...
 1. increased
 2. remained unchanged
 3. decreased
21. How do you expect the level of gross wage (average per employee) to change? It will...
 1. increase
 2. remain unchanged
 3. decrease
22. How has your competitive position in the domestic market developed over the past quarter? It has...
 1. improved
 2. remained unchanged
 3. deteriorated
23. How has your firm's financial situation developed? It has...
 1. improved
 2. remained unchanged
 3. deteriorated
24. How has production capacity developed compared to the previous quarter? It has...
 1. improved
 2. remained unchanged
 3. deteriorated
25. At what capacity is your company currently operating (as a percentage of full capacity)?
The company is currently operating at ____ % of full capacity.
26. Considering your current order books and the expected change in demand over the 12 coming months, how do you assess your current production capacity?
The current production capacity is...
 1. more than sufficient
 2. sufficient
 3. not sufficient
27. How have your orders developed?
 1. more than sufficient (more than normal)
 2. sufficiently (normal for the period)
 3. not sufficiently (less than normal)
28. How do you expect orders to develop over the next quarter?
 1. more than sufficient (more than normal)
 2. sufficiently (normal for the period)

3. not sufficiently (less than normal)

29. How many months of production (service) are assured by your current overall order books?
Our production (service) is assured for _____ months.

30. What main factors are currently limiting your firm's production?

1. none
2. insufficient demand
3. shortage of labour force
4. shortage of material/equipment/space
5. financial constraints
6. other factors, specify _____

31. How will your firm cope in case of financial constraints?

1. banking loans
2. non-bank institution loans
3. third-party loans
4. pre-paid orders
5. other, specify _____

B. Consumer survey - Questionnaire

1. How has the financial situation of your household changed over the present quarter compared to the previous one? It has...

1. got a lot better
2. got a little better
3. stayed the same
4. got a little worse
5. got a lot worse

2. How do you expect the financial position of your household to change over the next quarter? It will...

1. get a lot better
2. get a little better
3. stay the same
4. get a little worse
5. get a lot worse

3. How do you think the general economic situation in the country has changed over the present quarter compared to the previous one? It has...

1. got a lot better
2. got a little better
3. stayed the same
4. got a little worse
5. got a lot worse

4. How do you expect the general economic situation in the country to develop over the next quarter? It will...

1. get a lot better

2. get a little better
3. stay the same
4. get a little worse
5. get a lot worse

5.1. How has the average living cost changed over the present quarter compared to the previous one? It has...

1. increased a lot
2. increased moderately
3. increased slightly
4. stayed about the same
5. decreased

5.2. How has the average living cost changed over the present quarter compared to a year ago? It has...

1. increased a lot
2. increased moderately
3. increased slightly
4. stayed about the same
5. decreased

6.1. How do you think prices will change in the next three months? They will...

1. rise more rapidly
2. rise at the same rate
3. rise at a slower rate
4. stay about the same
5. fall slightly

6.2. How do you think prices will change in the next twelve months? They will...

1. rise more rapidly
2. rise at the same rate
3. rise at a slower rate
4. stay about the same
5. fall slightly

7. How much do you think prices will change in the next twelve months? They will...

1. rise by 0-2%
2. rise by 2-4%
3. rise above 4%
4. fall

8. How do you think the level of unemployment will change in the next six months? It will...

1. increase sharply
2. increase slightly
3. remain the same
4. fall slightly
5. fall sharply

9. Do you think that now it is the right moment for people to make major purchases (such as furniture, electrical/electronic devices, etc.)?

1. yes, it is the right moment now

2. it is neither the right moment nor the wrong moment
 3. no, it is not the right moment now. It would be better later
10. Compared to the past three months, do you expect to spend more or less money on major purchases (furniture, electrical/electronic devices, etc.) over the next three months? I will spend...
1. much more
 2. a little more
 3. about the same
 4. a little less
 5. much less
11. In view of the general economic situation, do you think that now is...?
1. a very good moment to save
 2. a fairly good moment to save
 3. not a good moment to save
 4. a very bad moment to save
12. Over the next three months, how likely is it that you save any money?
1. very likely
 2. fairly likely
 3. not likely
 4. not at all likely
13. Which of these statements best describes the current financial situation of your household?
1. we are running into debt
 2. we are having to draw on our savings
 3. we are just managing to make ends meet on our income
 4. we are saving a little
 5. we are saving a lot

Annex 2

Calendar of business and consumer surveys for the year 2009

Date made available to Monetary Policy Department	Indicator	Reference period	Publication date	Time lag from reference period	Unit conducting the field survey
20 January	BCI	Q4 - 2008	16 February	46 days	INSTAT
20 January	CCI	Q4 - 2008	16 February	46 days	INSTAT
20 April	BCI	Q1 - 2009	15 May	45 days	INSTAT
20 April	CCI	Q1 - 2009	15 May	45 days	INSTAT
20 July	BCI	Q2 - 2009	14 August	44 days	INSTAT
20 July	CCI	Q2 - 2009	14 August	44 days	INSTAT
20 October	BCI	Q3 - 2009	16 November	46 days	INSTAT
20 October	CCI	Q3 - 2009	16 November	46 days	INSTAT