January 2018

Bank of Albania
Monetary Policy Department
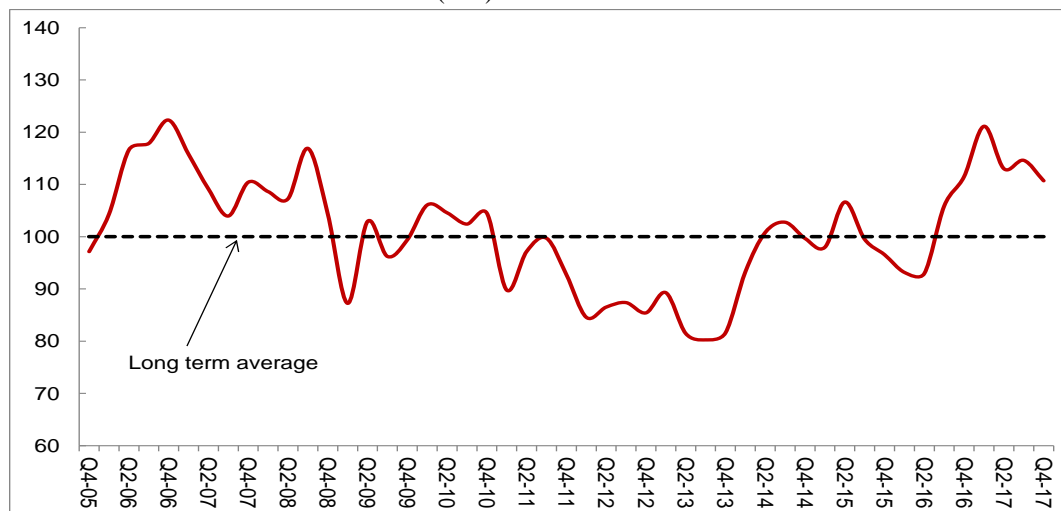
European Commission[1]

Business and Consumer Confidence Survey
2017 Q4

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The Economic Sentiment Indicator (ESI) was down by 3.9 points in 2017 Q4, standing at around 110.7. The lower ESI reflected the fall in confidence indicators in construction, trade and industry and the fall in consumer confidence. On the other hand, confidence in services improved during the quarter under review. The Economic Sentiment Indicator remains above the long-term average (*see Chart 1*).

Chart 1 Economic Sentiment Indicator (ESI)

Source: Business and Consumer Confidence Survey, Bank of Albania.

Industry Confidence Indicator (ICI) fell by 2.5 percentage points in 2017 Q4. The Industry Confidence Indicator stands around 7.4 percentage points above its historical average, albeit the fall for the second successive quarter (*see Chart 2*). The performance of ICI reflected the fall in its two composing balances: *order books*, by 6.4 percentage points, and *production,* by 1.9 percentage points. While the other ICI

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[1] Confidence surveys are co funded by the European Union. As of May 2016, confidence surveys are conducted under the harmonisation programme of the European Commission. Relevant methodological changes for this transition are explained in the Methodology Comment: Transition to the Harmonized Confidence Survey Programme, published on the website of the Bank of Albania.

composing balance, *inventories*, improved slightly (-0.7 percentage point).[2] The other balances of the survey: *ordering books from exports* an*d expectations on employment in the next quarter* were down. Also, the *capacity utilisation rate* fell by 1.4 percentage points in 2017 Q4, standing close to its historical average, around 72.3%. However, this rate is above the rate in the same period a year earlier. The balances of *financial situation* and *expectations on production in the next quarter* were up in the quarter under review.

The **Construction Confidence Indicator** (CCI) fell by 12.4 percentage points, after the increase for three successive quarters. This fall shifted CCI around 5.3 percentage points below its historical average (*see Chart 3*). The two CCI composing components, *construction activity* and *order books* fell by 14.8 percentage points and 10.0 percentage points, respectively. Among the other balances, the balance of *expectations on employment in the next quarter* was down. Meanwhile, the *capacity utilisation rate* continued to fall, standing at 59.0%. This rate is around 3.3 percentage points lower than in the previous quarter, and 5.1 percentage points below its historical average. Nevertheless, the enterprises operating in construction sector assessed to have used their capacities at a slightly higher rate, compared with the same period in the previous year. The balance of *financial situation* improved during 2017 Q4.

The **Services Confidence Indicator** (SCI) increased by 2.5 percentage points during the fourth quarter. The SCI level stands around 12.6 percentage points above its historical average *(see Chart 4)*. The improved SCI was attributable to the increase by 5.3 percentage points in the balance of the *business situation development*. In contrast, the other SCI composing component, the balance of *demand* was slightly down by 0.3 percentage point. The other balances of the survey: the *financial situation, employment* and *expectations on demand in the next quarter* were up. Meanwhile, the balance of *expectations on employment for the next quarter* was down. The *capacity utilisation rate* fell by 3.0 percentage points in the fourth quarter, standing at around 70.0%. This rate remains below the level in the same period a year earlier, and below the historical average of capacity utilisation from enterprises in services.

Trade Confidence Indicator (TCI) fell by 9.9 percentage points in 2017 Q4, shifting by around 1.5 percentage points below its historical average (see *Chart 5*). The lower TCI was mainly affected by the fall in the balance of *business activity development* (-14.8 percentage points), and at a lower degree, by the fall in the balance of *employment expectations for the next quarter* (-4.9 percentage points). Also, the balance of the *financial situation* is assessed to be down. Meanwhile, the *capacity utilisation rate* continued to fall for the third successive quarter, standing at 67.1%. The dynamic during the quarter shifted the capacity utilisation rate in trade around 9.6 percentage points below its historical average, and around 3.1 percentage points below the level of 2016 Q4. The balances of *employment* and *expectations on business activity in the next quarter* show more improved trends.
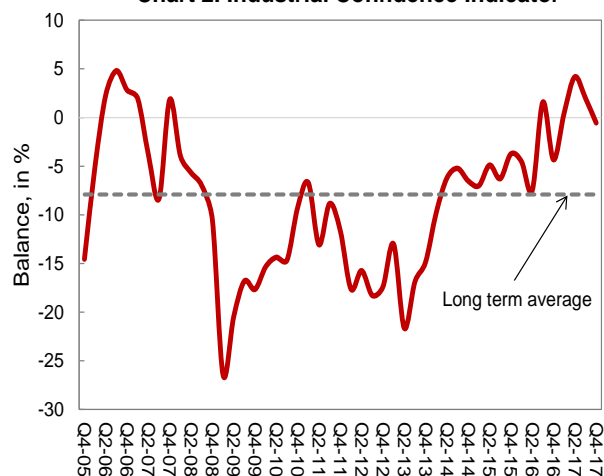
Consumer Confidence Indicator (CCI) fell by 0.7 percentage point in 2017 Q4, stopping the increase in the two previous quarters. The CCI remains around 3.7 percentage points above the historical average *(see Chart 6).* The fall in the three composing balances determined the CCI dynamics: *the domestic expected general economic situation* (-3.2 percentage points), *the households' expected financial situation* (-2.7 percentage points) and the *income* and *spending situation* (-2.2 percentage points). Meanwhile, the
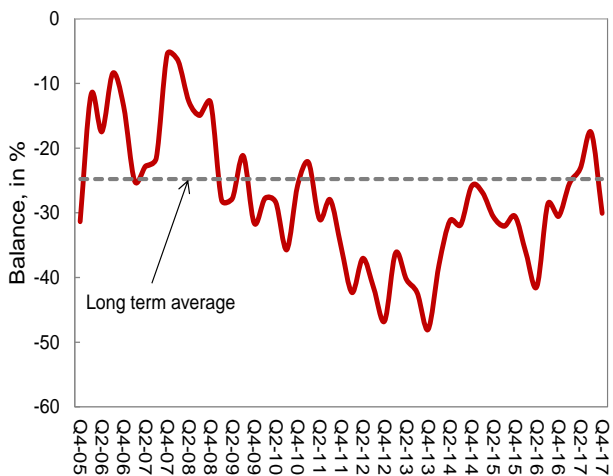
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[2] The decrease in inventories is interpreted as a positive development for enterprises. When calculating ICI, the respective balance is multiplied by -1.

other CCI composing balance – *major purchases*– increased by 5.2 percentage points, affecting upward the direction of the indicator.
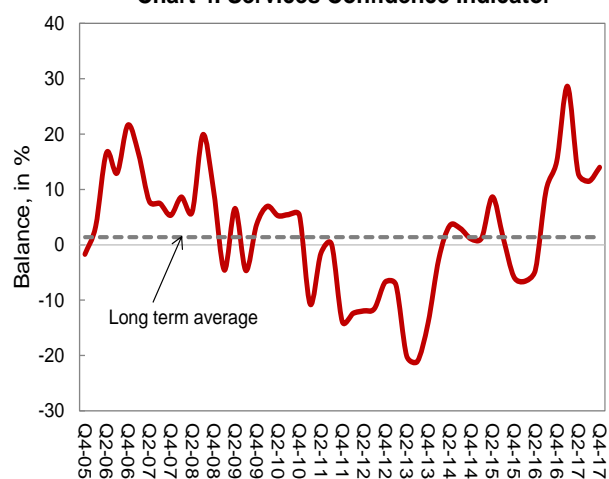
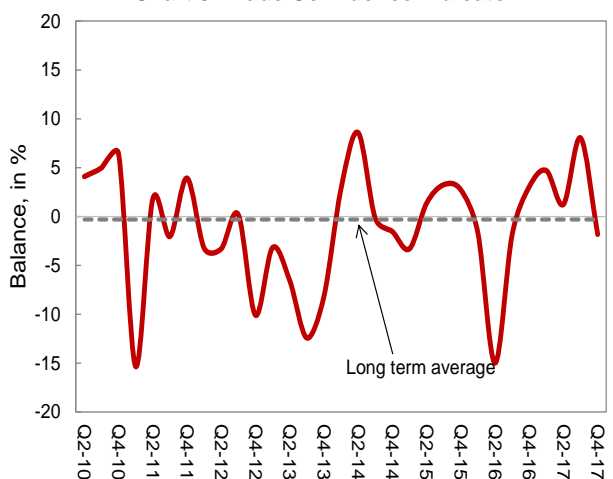**Chart 2. Industrial Confidence Indicator**
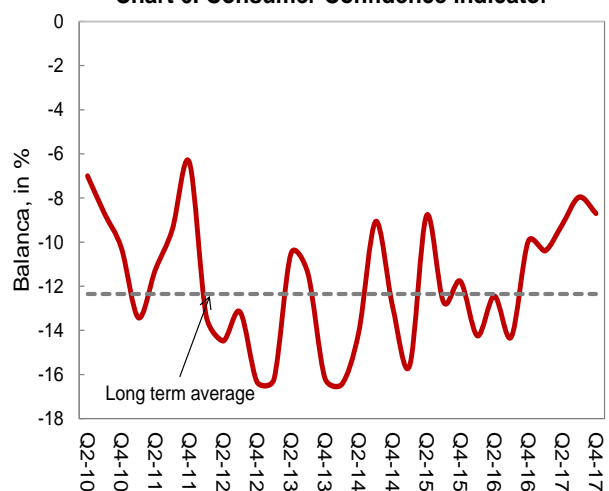
Chart 3. Construction Confidence Indicator

Chart 4. Services Confidence Indicator

Chart 5. Trade Confidence Indicator

Chart 6. Consumer Confidence indicator

Source: Business and Consumer Confidence Survey, Bank of Albania.

Table 1 Confidence indicators by sector[*]

	Values			2016		2017				Current situation	
	min.	av.	max.	Q3	Q4	Q1	Q2	Q3	Q4	Conjectural**	Structural***
Industry	-26.4	-7.9	4.8	1.6	-4.3	0.5	4.2	2.0	-0.5	↓	++
Construction	-48.0	-24.8	-5.5	-28.7	-30.5	-25.4	-23.1	-17.6	-30.0	↓	-
Services	-21.1	1.4	28.6	9.8	15.1	28.6	12.9	11.5	14.0	↑	++
Trade	-15.3	-0.3	21.1	-1.9	3.0	4.7	1.2	8.0	-1.8	↓	-
Consumer	-20.5	-12.4	-6.4	-14.3	-10.0	-10.4	-9.2	-8.0	-8.7	↓	++

Source: Business and Consumer Confidence Survey, Bank of Albania

*) *Excluding the consumer confidence indicator, the other indicators are calculated based on seasonally-adjusted balances. The minimum, average and maximum balances are calculated starting from: 2002 Q2 for the confidence indicators in industry and construction; 2002 Q4 for the confidence indicators in services; 2010 Q1 for the confidence indicators in trade; and 2003 Q2 for the consumer confidence indicators. **) Situation compared to the previous quarter. ***) The situation for each indicator is considered as highly satisfactory (+ +) when the index is more than 1 standard deviation higher than the average; satisfactory (+) when the index is less than 1 standard deviation higher than the average; unsatisfactory (-) when the index is less than 1 standard deviation lower than the average; and highly unsatisfactory (--) when the index is more than 1 standard deviation lower than the average.*
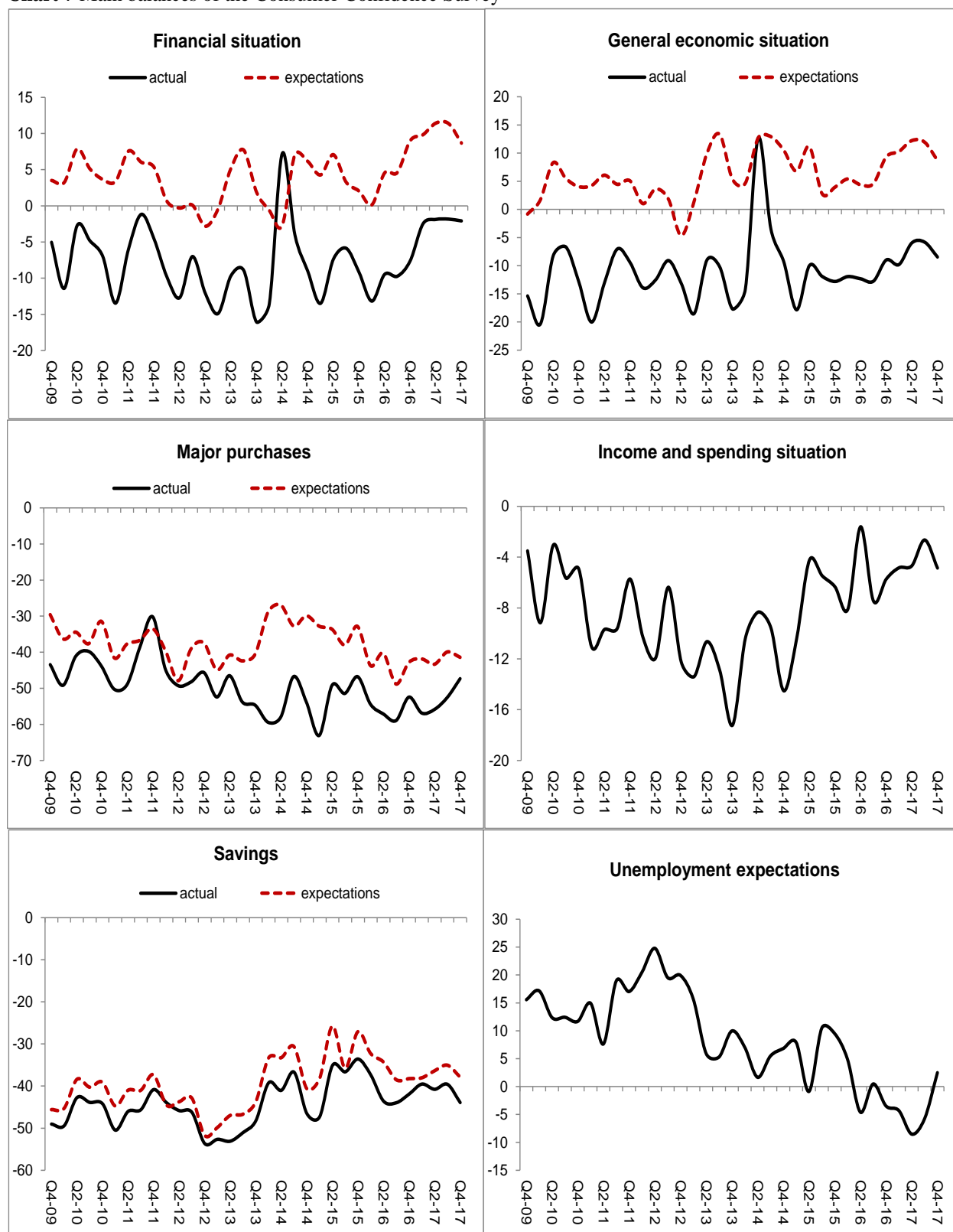
Table 2 Main balances of the sectors of the economy (in percentage points)*

	2015	2016				2017			
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Industry									
Production over the past three months *(question 1, ICI component)*	7.0	1.0	-2.2	18.8	-2.7	12.6	13.7	13.1	11.2
Order books *(question 2, ICI component)*	-13.6	-18.3	-31.6	-18.7	-19.1	-12.0	-3.8	-6.6	-13.0
Stock of finished products *(question 4, ICI component)*	4.6	-3.7	-11.3	-4.7	-8.8	-0.8	-2.6	0.6	-0.2
Export order books (question 3)	5.7	4.5	-27.0	-8.6	-12.6	-10.6	-8.5	-4.5	-11.1
Production expectations *(question 5)*	18.5	20.0	25.5	39.0	29.2	35.2	38.0	30.3	34.2
Selling prices expectations *(question 6)*	1.5	2.1	-5.3	1.5	-3.4	3.4	5.2	0.1	2.0
Employment expectations *(question 7)*	9.5	6.5	9.1	12.6	-0.6	14.6	13.5	16.0	11.5
Financial situation (question 17)	11.4	3.2	-3.6	7.7	1.9	19.5	19.0	10.8	13.9
Capacity utilization rate *(in %, question 13)*	72.1	71.7	72.7	74.1	68.7	74.9	74.4	73.7	72.3
Construction									
Building activity over the past three months *(question 1, CCI component)*	-15.0	-25.2	-23.0	-10.8	-9.7	-8.2	-6.5	2.1	-12.7
Order books *(question 3, CCI component)*	-46.2	-47.3	-59.7	-46.5	-51.3	-42.7	-39.7	-37.4	-47.4
Employment expectations *(question 4)*	-0.8	-2.3	0.6	6.3	-3.2	5.4	12.0	13.5	7.6
Prices expectations *(question 5)*	-3.4	-0.9	-15.3	-5.3	-7.3	-1.7	-1.2	-7.1	-5.4
Capacity utilization rate *(in %, question 7)*	58.6	58.2	61.2	64.3	58.8	62.1	63.4	62.3	59.0
Employment over the past three months *(question 8)*	-7.3	-19.2	-11.0	-7.5	-4.3	-5.5	1.4	-1.0	1.7
Financial situation *(question 9)*	-4.8	-23.1	-19.4	-11.4	-14.6	-13.6	-8.9	-10.5	-4.9
Services									
Business situation development over the past three months *(question 1, SCI component)*	-9.8	-8.3	-7.5	8.9	16.6	27.4	11.9	10.5	15.7
Demand over the past three months *(question 2, SCI component)*	-1.7	-5.0	-1.7	10.7	13.6	29.8	14.0	12.5	12.2
Demand expectations *(question 3)*	17.7	24.5	22.9	32.0	34.2	21.7	22.8	36.7	37.1

Employment over the past three months *(question 4)*	-1.6	4.3	0.6	7.4	8.6	7.9	5.1	1.3	8.8
Employment expectations *(question 5)*	0.7	5.5	4.8	11.7	10.9	6.2	9.3	12.3	10.6
Prices expectations *(question 6)*	1.5	5.7	-0.3	3.9	4.4	-0.2	2.6	0.0	-1.5
Capacity utilization rate *(in %, question 9)*	73.7	71.8	74.9	76.8	77.6	80.0	71.6	72.9	70.0
Financial situation *(question 10)*	-1.3	3.2	9.0	15.0	19.3	28.8	6.4	8.4	19.7
Trade									
Business activity development over the past three months *(question 1, TCI component)*	0.6	-4.5	-30.3	-4.3	2.1	6.5	1.9	9.2	-5.6
Employment expectations *(question 5, TCI component)*	4.9	1.2	0.3	0.5	4.0	2.9	0.6	6.8	2.0
Business activity expectations *(question 4)*	29.6	22.4	16.8	24.2	20.1	16.0	44.9	31.9	40.8
Prices expectations *(question 6)*	0.0	1.1	-9.9	0.6	1.7	0.7	-6.0	0.5	-0.6
Capacity utilization rate *(in %, question 8)*	77.2	75.1	74.1	70.6	70.2	71.2	71.0	69.7	67.1
Financial situation *(question 9)*	6.4	-0.1	-10.9	-8.2	-5.3	9.1	-5.0	5.6	-0.6
Employment over the past three months *(question 10)*	2.8	2.7	-4.4	1.6	1.6	-0.9	2.4	-3.2	2.2
Consumer									
Financial situation expectations *(question 2, CCI component)*	2.0	0.1	4.5	4.6	9.0	9.8	11.4	11.4	8.7
General economic situation expectations *(question 4, CCI component)*	3.9	5.4	4.4	4.6	9.3	10.3	12.2	12.0	8.7
Major purchases *(question 8, CCI component)*	-46.8	-54.4	-57.1	-58.9	-52.4	-56.8	-55.8	-52.5	-47.3
Income and spending situation *(question 12, CCI component)*	-6.3	-8.1	-1.6	-7.5	-5.7	-4.8	-4.7	-2.7	-4.9
Current financial situation *(question 1)*	-9.2	-13.2	-9.5	-9.7	-7.6	-2.5	-1.9	-1.8	-2.1
Current general economic situation *(question 3)*	-12.8	-11.9	-12.3	-12.7	-9.0	-9.8	-5.9	-5.8	-8.5
Prices expectation *(question 6)*	7.0	-10.5	-16.9	-15.5	-11.2	-16.5	-25.7	-19.6	-9.3
Unemployment expectations *(question 7)*	9.5	4.9	-4.6	0.5	-3.5	-4.3	-8.5	-5.8	2.5
Major purchases expectations *(question 9)*	-32.9	-43.7	-40.3	-48.8	-42.8	-41.9	-43.3	-39.9	-41.4
Current savings *(question 10)*	-33.6	-37.4	-43.6	-44.0	-41.9	-39.5	-40.8	-39.6	-43.9
Savings expectations *(question 11)*	-27.1	-32.3	-34.3	-38.5	-38.3	-38.1	-36.4	-35.1	-37.9

Source: Business and Consumer Confidence Survey, Bank of Albania. *) Excluding the consumer sector and the questions on prices in all the sectors, balances are seasonally adjusted.*

Chart 7 Main balances of the Consumer Confidence Survey

Financial situation

actual — expectations

General economic situation

actual — expectations

Major purchases

actual — expectations

Income and spending situation

Savings

actual — expectations

Unemployment expectations

Source: Consumer Confidence Survey, Bank of Albania

Annex

Methodological notes

Balance is the most frequently used indicator in aggregating the qualitative data from surveys. It is calculated as the difference between the percentages of positive and negative answers. The balance is expressed in percentage points

Confidence Index (CI) is constructed for each sector and is calculated as the simple average of seasonally-adjusted balances of indicators that have the highest correlation with the reference series (the series of real data of the economy).

Economic Sentiment Indicator (ESI) is constructed based on the same balances use for constructing CIs for each sector (industry, construction, services, trade and consumer), aiming to capture the domestic economic activity. Before aggregating ESI, these balances are standardized and weighted.