

Bank of Albania



Business and Consumer Survey Results February 2009

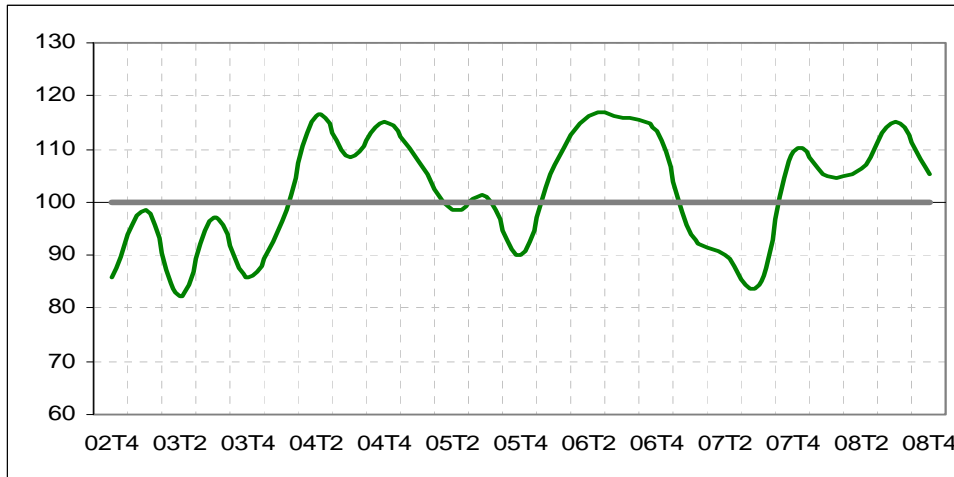
Future publication of business and consumer survey results scheduled for May 15, 2009

Economic indicator

During the fourth quarter of 2008 the Economic Sentiment Indicator (ESI) fell by 10 percentage points, to 105.3. The sentiment indicator, which had risen respectively by 2 and 9 percentage points over the second and the third quarter of the past year, now stands at 4 percentage points above its long-term average.

The fall of the economic sentiment indicator over the last quarter of 2008 was determined by the decline in three out of four sectors, whose balances compose the ESI. During the fourth quarter of 2008 the confidence indicators edged down both in the industry and the service sectors. Confidence also worsened among consumers. Unlike other sectors, construction confidence indicator rose, making a positive contribution to the overall economic indicator performance. The industry confidence indicators and consumer confidence indicators now stand below their long-term average.

Chart 1: Economic sentiment indicator

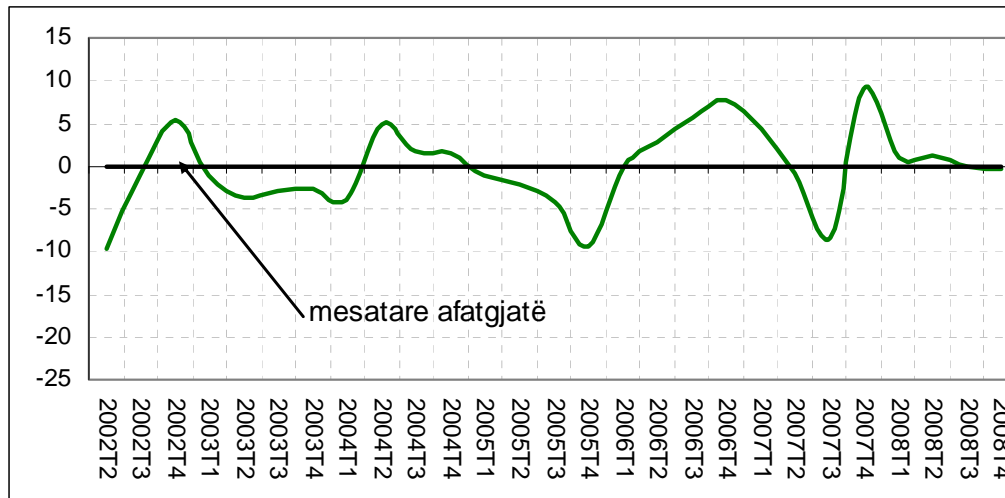


Source: Business and consumer confidence indicators survey, Bank of Albania

Industry sector

In the fourth quarter of 2008 the *Industry confidence indicator* (ICI) continued the slightly falling trend since the preceding quarter. Confidence indicator, which had declined by 1.2 percentage points over the third quarter of 2008, fell by 0.3 percentage points over the last quarter of the year, mainly due to the deterioration of the employment situation. In the meantime, improved business assessments of the industrial production and reduced inventory over the fourth quarter of 2008 contributed positively to the industry confidence indicator.

Chart 2: Industry confidence indicator



Source: Business confidence survey, Bank of Albania

The following presents the analysis of some indicators not included in the ICI components

Business assessments of the domestic demand and export demand decreased over the fourth quarter of 2008, compared to the previous quarter. The overall business situation and the country's economic performance are deemed as downward by the industry businesses, compared to the preceding survey. The concerns related to electrical power and presence of informal economy are the main factors that have negatively impacted on the business activity.

Production capacity utilization fell over the fourth quarter of 2008, compared to the third quarter. Capacity utilization rate for total industry was 72.4% in the fourth quarter of 2008. It was higher for consumer goods industry and manufacturing industry and lower for capital goods industry (73.8%, 73.1% and 70.3% respectively).

Order contracts are presented as negative and in decline, compared to the previous survey. Current production capacity is estimated as sufficient, taking into account the current demand and expectations for order contracts in the coming quarter.

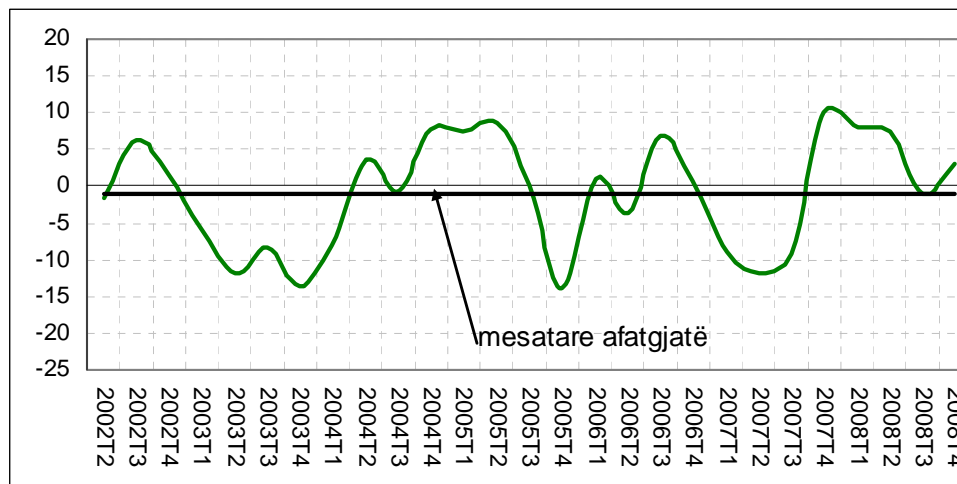
Industry production prices continue their downward trend since the second quarter of 2008.

Business expectations for the first quarter of 2009 are falling, in line with business assessments of the current situation; prospects for economic situation and exports are negative and downward. The expected domestic demand, production and the expected business activity, though at positive levels, are falling compared to the last survey.

Construction sector

Construction confidence indicator (CCI) rose by 4 percentage points in the fourth quarter of 2008 and now stands above its long-term average. The positive and upward assessments of building businesses related to the demand and output for the fourth quarter of 2008 determined the increase in the confidence indicator. Concerning business assessments of employment situation, the respective balance continues negative since the last quarter.

Chart 3: Construction confidence indicator



Source: Business confidence survey, Bank of Albania

The following provides the analysis of some indicators not included in the CCI components

Though the economic performance of the country over the fourth quarter of 2008 is assessed as negative and downward since the last survey, building businesses have

regarded the overall situation of their activity as improved. The presence of informal economy and obstacles in the legal and institutional framework constitute the main concerns the building firms have been mostly faced with.

Inventories are assessed as upward in the fourth quarter of 2008. The capacity utilization of construction businesses is reported at the level of 70 percent for the third consecutive survey. Given the current demand and expectations for future orders, 76 percent of businesses assess the current capacity of their output as sufficient.

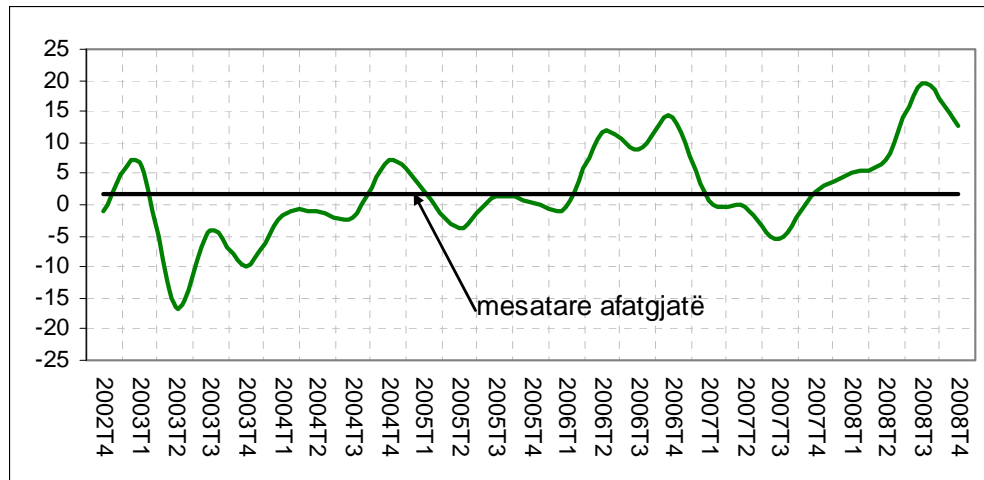
Producer prices, though positive, have significantly dropped compared to the last survey.

Construction sector's business expectations for the demand, overall business situation, and production are optimistic for the first quarter of 2009. However, there is anticipated a decline in the general economic climate, reduction in inventory and improvement in the employment situation. The overall price level is expected to slightly rise, but however, it remains at low levels compared to the long-term average.

Service sector

Service confidence indicator (SCI) dropped by 7 percentage points over the fourth quarter of 2008. However, it is obviously above its long-term average. The drop in the confidence indicator was caused by a less optimistic assessment of the three component indicators: the general economic performance, employment situation and financial situation.

Chart 4: Service confidence indicator



Source: Business confidence indicator, Bank of Albania

The following presents the analysis of some indicators not included in the SCI components

The demand is assessed as downward in the fourth quarter of 2008. Also, the assessments of the overall business situation, though positive, have become less optimistic compared to the last survey. Businesses regard the concerns about electrical power and infrastructure as the main factors that have impeded the normal development of their activity.

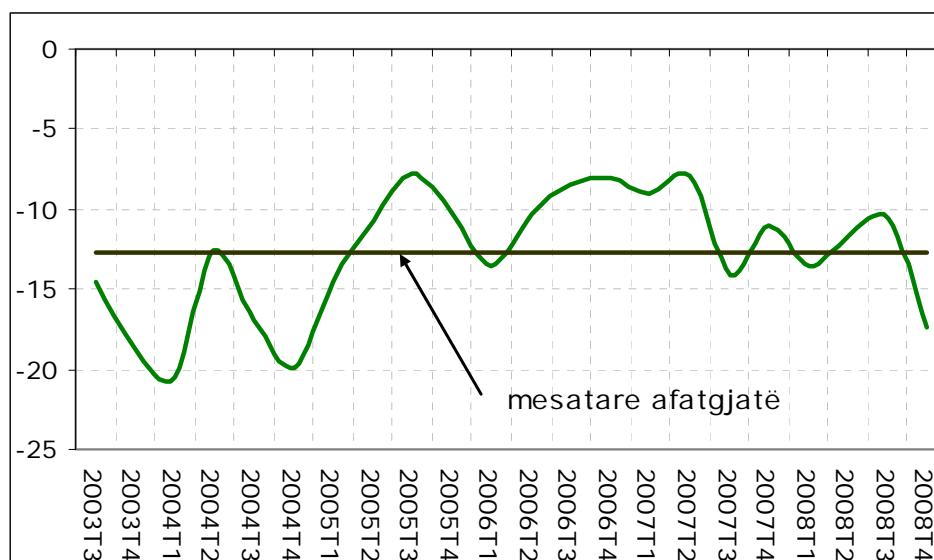
Capacity utilization rate has edged down to 73.6% in the fourth quarter of 2008, from 80% it was in the preceding quarter. Most of businesses (64%) assess the current capacity as satisfactory, whereas 19% of them assess excessive capacity relative to current demand and current year prospects.

Expectations of service sector's firms are slightly more pessimistic, compared to their assessment of the referring quarter. Expectations on the economic performance and the overall state of their business are negative for the first quarter of 2009. Expectations on the demand for the coming quarter are positive, but downward in comparison with the previous surveys.

Consumer confidence

Following the increase over two consecutive quarters, the Consumer Confidence Indicator (CCI) declined over the fourth quarter of 2008. The value of this indicator now stands below its long-term average. The fall of confidence indicator was caused by pessimistic consumer expectations for their financial and economic situation over the first quarter of 2009, and by negative assessment of major purchases and savings condition over the fourth quarter of 2008.

Chart 5: Consumer confidence indicator



Source: Consumer confidence survey, Bank of Albania

The following presents the analysis of some indicators that are not included in the CCI components

Consumers have assessed the financial and economic situation for the fourth quarter of 2008 as negative and downward. The cost of living is assessed as more improved, though the respective balance has recorded negative values even for this survey.

Consumers expect cutting of the overall price level after a quarter and after one year. They anticipate that unemployment will rise over the first half of 2009. 49% of consumers responded that unemployment will rise over the current year.

Table 1: Confidence indicators by sectors *

	Values since Q2-2002			2007	2008				Situation	
	Min.	Aver.	Max.	Q4	Q1	Q2	Q3	Q4	Conjectural**	Structural***
Industry	-9.7	-0.2	9.1	9.1	0.9	1.2	0.0	-0.3	↓	-
Construction	-14.0	-1.1	10.1	10.1	8.2	7.4	-0.9	3.1	↑	+
Services	-16.5	1.7	19.6	2.0	5.1	7.0	19.6	12.7	↓	++
Consumers	-20.5	-12.9	-7.8	-11.0	-13.6	-11.7	-10.5	-17.4	↓	--

*) The indicators, excluding the consumer confidence one, are calculated from the seasonally adjusted balances.

***) The situation compared to the previous quarter.

***) The situation for each indicator is regarded as very satisfactory (+ +), when the indicator is more than 1 standard deviation higher than the average; the situation is regarded as satisfactory (+) when the indicator is less than 1 standard deviation higher than the average; the situation is regarded as unsatisfactory (-) when the indicator is less than 1 standard deviation lower than the average; the situation is regarded as rather unsatisfactory (--) when the indicator is more than 1 standard deviation lower than the average.

Table 2: Main balances of the economy sectors*

	2007		2008				Expectation Q1-09
	Q3	Q4	Q1	Q2	Q3	Q4	
Demand							
Total	4.1	8.1	4.2	4.2	8.5	6.3	5.2
Industry	0.9	12.0	1.5	-0.5	-0.9	-3.4	5.7
Construction	-5.2	12.1	4.3	11.4	1.9	7.4	6.2
Services	9.4	5.0	4.9	2.2	14.4	8.7	4.6
Firm's economic situation							
Total	-1.9	14.0	7.0	6.9	8.9	8.2	2.8
Industry	-9.4	18.0	-3.4	-0.4	-5.9	-2.4	1.0
Construction	-9.4	7.7	5.7	7.0	-11.4	-0.3	12.0

Services	3.9	9.5	10.7	9.1	22.9	15.4	-0.9
Employment							
Total	-3.4	9.7	3.8	2.2	11.1	6.7	5.7
Industry	-10.2	9.8	3.2	0.3	2.5	-5.1	4.3
Construction	-13.3	9.4	4.2	4.1	-3.7	-2.2	0.7
Services	3.3	9.5	3.8	1.9	20.6	14.4	8.4
Production							
Total	-10.3	10.8	11.0	3.5	-3.6	2.4	6.6
Industry	-11.6	14.0	3.2	-1.6	-7.2	-0.5	4.6
Construction	-9.5	8.7	16.0	6.8	-1.2	4.2	7.9
Consumers							
Financial situation	-6.6	-9.6	-13.5	-9.7	-3.8	-9.9	-0.6
Cost of living	-9.0	-8.1	-4.6	-6.6	-21.1	-12.4	-12.1
<i>Prices after 1 year</i>	34.8	27.9	25.2	21.1	23.0	17.3	
Major purchases	-49.2	-45.7	-50.9	-45.8	-43.7	-52.7	-39.3
Savings	-50.0	-52.8	-53.2	-50.3	-50.6	-54.4	-53.1

*) Excluding the consumer indicator, the balances are seasonally adjusted.