

Bank of Albania



Business and Consumer Survey Results May 2009

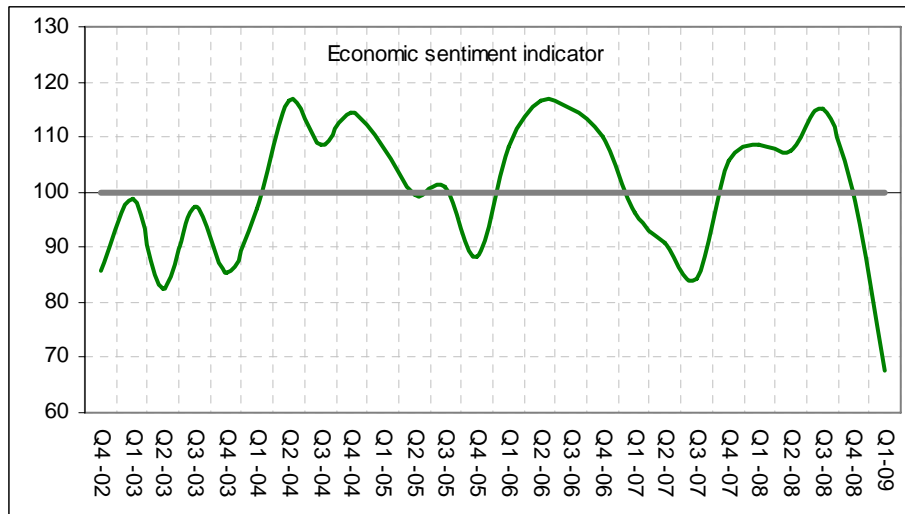
Next publication of confidence surveys results scheduled for 14 August 2009

Economic sentiment

The Economic Sentiment Indicator (ESI) dropped by 33 percentage point during the first quarter of 2009, to 67.5. The current value of the economic sentiment indicator stands below its long-term average. The current fall of ESI is more pronounced compared to the decline in the fourth quarter of 2008, when the indicator fell by 15 percentage points, nevertheless standing close to its historical average value.

The fall of the economic sentiment indicator in the first quarter reflects the deterioration of almost all its component indicators, excluding consumer confidence indicators which appear at the same levels as the previous quarter. According to the businesses opinions, the services and construction sectors have recorded the most highlighted fall in first quarter of 2009.

Chart 1: Economic Sentiment Indicator

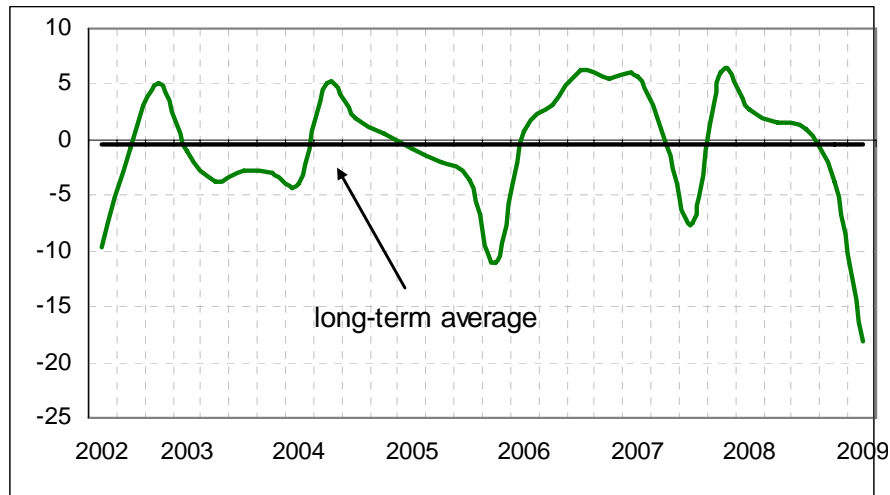


Source: Businesses and consumers confidence survey, Bank of Albania

Industry Sector

The *industrial confidence indicator* (ICI) reveals a drop of the production activity during the first quarter of 2009. The confidence indicator, after the slight decline in the previous quarter, fell by 14.3 percentage points in the current quarter. The fall of industry indicator is due to the decline of its three component balances: the business assessment for the current production, the employment and the inventories. The assessment on the production growth has incurred the deepest fall among the three components.

Chart 2: Industry Confidence Indicator



Source: Businesses and consumers confidence survey, Bank of Albania

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

Businesses assessment for the overall *economy performance* over the first quarter of 2009 incurred the most pronounced fall, its balance decreased with 40 percentage points. The assessment on the *overall business activity* over the first quarter appears pessimistic as well (the balance decreased with 21 percentage points). Production prices, which remained unchanged in the fourth quarter of 2008, have decreased slightly during the current quarter.

Domestic demand and *exports demand* have fallen over the first quarter. More than half of industry businesses (55%) have declared that *orders* were lower than the normal during the first quarter. About 74 % of businesses have declared to not have carried out any investment in the last six months.

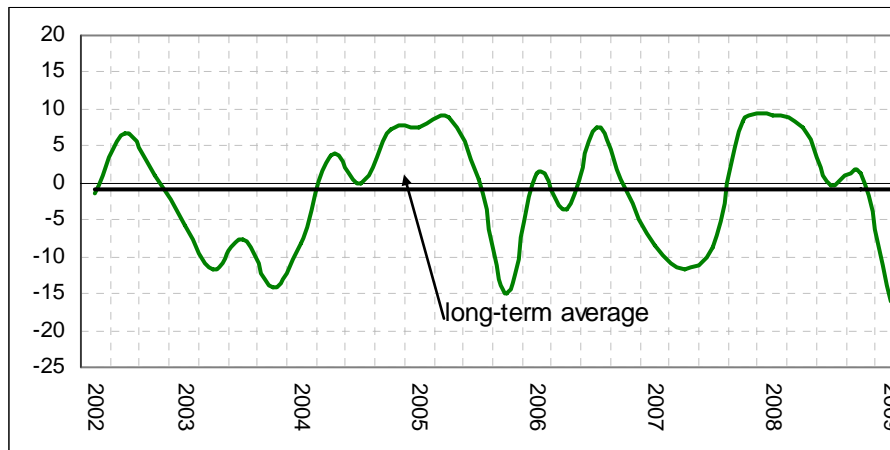
Production capacity utilization of industry businesses fell by 10 percentage points in the first quarter, compared to the fourth quarter of 2008, recording the value of 61.8 %. Capacity utilization results higher for consumer goods industry and manufacturing industry, 62.4% and 62.5%, respectively and lower for capital goods industry at 56.4%, respectively.

Expectations related to various indicators of industry activity, for the second quarter of 2009 and for the conduction of investments, in the next six months are negative.

Construction sector

Construction sector activity, according to the opinions provided from businesses, is assessed to have dropped during the first quarter of 2009. *Construction confidence indicator* (CCI), which summarizes the activity in this sector, fell by 17.5 percentage points. In the fourth quarter 2008, CCI rose by 2 percentage points. The current value of CCI stands under its historical average. The negative assessments regarding the demand, production and employment in this sector provided by the construction businesses, dictated the fall of this indicator.

Chart 3: Construction Confidence Indicator



Source: Businesses and consumers confidence survey, Bank of Albania

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

Businesses assessment on the *economy performance* in general and on the *performance of constructing activity* during the first quarter 2009 is negative and downward since the previous survey. The evaluation for the business performance was significantly improved in the fourth quarter of 2008. Currently, 56% of construction businesses assess as insufficient the orders recorded in the first quarter.

Balance of inventories, after the increase in the fourth quarter of 2008 is assessed as decreasing in the first quarter of this year. At the same time, the *production prices* of construction firms after the fall in the fourth quarter of 2008, recorded an increase in the first quarter 2009.

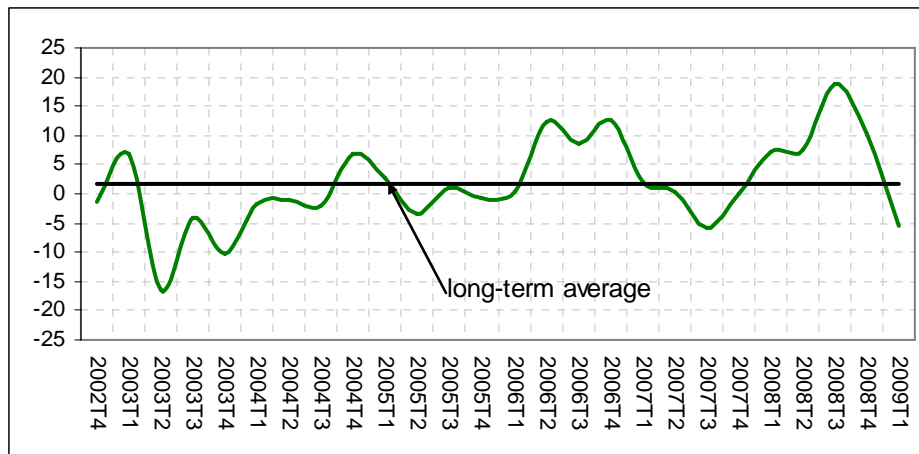
According to the last survey, 75% of construction businesses have carried out no *investments* in technology equipment during the last 6-month period.

Expectations regarding the second quarter reveal a similar view with the current situation, where the majority of activity indicators are expected to deteriorate.

Service sector

Over the first quarter 2009, *service confidence indicator* (SCI) dropped by 15.8 percentage points compared to the previous quarter. This fall was due to the negative assessment of the three component indicators: the overall *economic* performance, *employment* situation and *financial* situation. The current value of SCI results under its long-term average.

Chart 4: Service Confidence Indicator



Source: Businesses and consumers confidence survey, Bank of Albania

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

The demand in service sector continued the downward trend since the preceding quarter. In the same time the overall business situation is assessed as negative; the net balance dropped by 19 percentage points compared to the fourth quarter of 2008. The problems regarding public order and security, political situation, as well as corruption and informal economy are listed among the factors that have impeded the normal development of their activity.

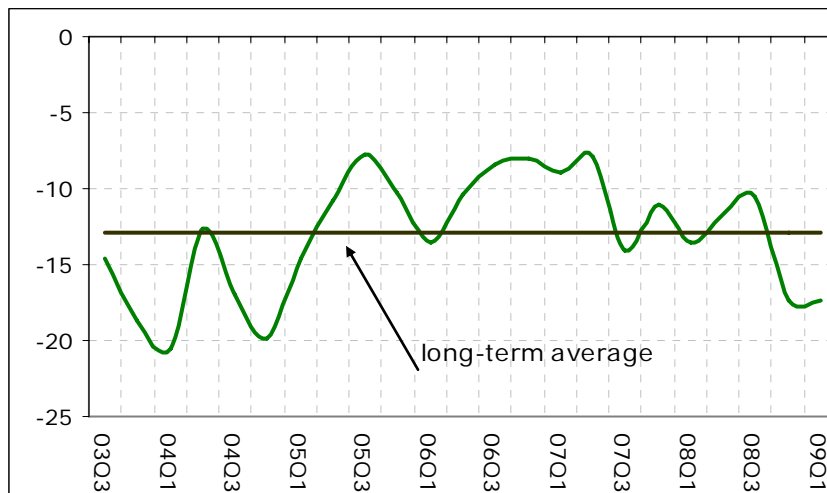
Capacity utilization rate has edged down to 67.2 % in the first quarter 2009 from 73.6 % resulting in the preceding quarter.

Expectations of service sector's firms for the next quarter are more pessimistic than the assessments declared for the first quarter of 2009. Expectations on the economic state and the overall performance of the business are negative during the second quarter of 2009. Expectations for the demand and employment situation are also negative.

Consumer confidence

The *consumer confidence indicator* recorded a slight improvement, by increasing at 0.1 percentage point in the Q1 – 09 compared to the Q4 – 2008. The slight improvement in this indicator was dictated from the balance improvement on the situation of main purchases and the expectations on the financial situation for the next quarter. At the same time consumer' expectations for the overall economic situation and the current financial state have had a negative impact on the indicator. Consumer confidence indicator stands below its long-term average, similarly to the previous quarter.

Chart 5: Consumer Confidence Indicator



Source: Businesses and consumers confidence survey, Bank of Albania

The following presents the analysis of some indicators not included in the CCI:

Consumers have assessed *the financial and economic situation* as negative and in decline over the first quarter of 2009. The balance of *average cost of living* continues to record negative values.

Consumers' expectations regarding inflation after *12 months*, in the first quarter, stand at 2.02 %.

Consumers' expectations regarding the overall price level continue the declining trend since the previous survey. About 46% of consumers expect unemployment to increase over the next half of 2009 while about 18 % expect it to decrease.

Table 1: Confidence indicators by sector*

	Values since Q2-2002			2008				2009	Situation	
	min.	aver.	max.	T1	T2	T3	T4	T1	Conjectural	Structural***
Industry	-9.7	-0.2	9.1	2.8	1.6	0.9	-3.7	-18.0	↓	--
Construction	-14.0	-1.1	10.1	9.1	7.6	-0.3	1.4	-16.1	↓	--
Services	-16.5	1.7	19.6	7.1	7.6	18.9	10.3	-5.5	↓	-
Consumer	-20.5	-12.9	-7.8	-13.6	-11.7	-10.5	-17.4	-17.3	↑	--

Source: Consumer confidence survey, Bank of Albania

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

**) The situation compared to the previous quarter.

***) The situation for each indicator is regarded as considerably satisfactory (+ +), when the indicator is more than 1 standard deviation higher than the average; the situation is considered 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				2009	Expectati on
	T3	T4	T1	T2	T3	T4	T1	T2-09
Demand								
Total	3.9	6.8	5.5	4.3	8.3	5.1	-11.5	-16.6
Industry	0.9	10.3	3.0	-0.1	-0.8	-5.3	-30.7	-22.4
Construction	-5.2	10.3	6.2	11.4	1.8	5.6	-22.9	-9.9
Services	9.1	4.1	5.9	2.3	14.1	8.1	-0.3	-18.0
Firm's economic situation								
Total	-2.5	8.8	8.4	7.5	8.7	6.2	-12.4	-13.9
Industry	-8.6	15.1	-1.4	-0.3	-5.0	-5.6	-28.0	-22.2
Construction	-10.4	7.2	5.4	9.2	-12.6	-0.9	-15.5	-5.3
Services	3.1	7.8	12.8	9.1	23.0	13.2	-6.2	-15.4
Employment								
Total	-3.2	4.2	4.7	3.2	10.3	4.8	-3.8	-9.6
Industry	-9.7	7.0	4.2	0.7	3.0	-8.0	-21.7	-17.9
Construction	-12.2	7.5	4.6	4.5	-2.5	-4.1	-12.8	-13.6
Services	3.0	1.8	5.0	3.3	18.6	12.9	5.8	-5.1
Production								
Total	-9.0	8.0	12.2	3.8	-2.1	-0.5	-18.4	-11.1
Industry	-9.7	9.2	5.4	-0.9	-5.2	-5.6	-27.3	-18.8
Construction	-8.6	7.3	16.5	6.9	-0.1	2.8	12.6	-6.1
Consumers								
Financial situation	-6.6	-9.6	-13.5	-9.7	-3.8	-9.9	-15.0	-0.5
Living cost	-9.0	-8.1	-4.6	-6.6	-21.1	-12.4	20.4	-13.3
Prices after 1 year	34.8	27.9	25.2	21.1	23.0	17.3	9.5	
Major purchases	-49.2	-45.7	-50.9	-45.8	-43.7	-52.7	-50.5	-38.6
Savings	-50.0	-52.8	-53.2	-50.3	-50.6	-54.4	-52.2	-46.6

Sources: Consumer confidence survey, Bank of Albania

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