

Bank of Albania



Business and Consumer Survey Results

November 2009

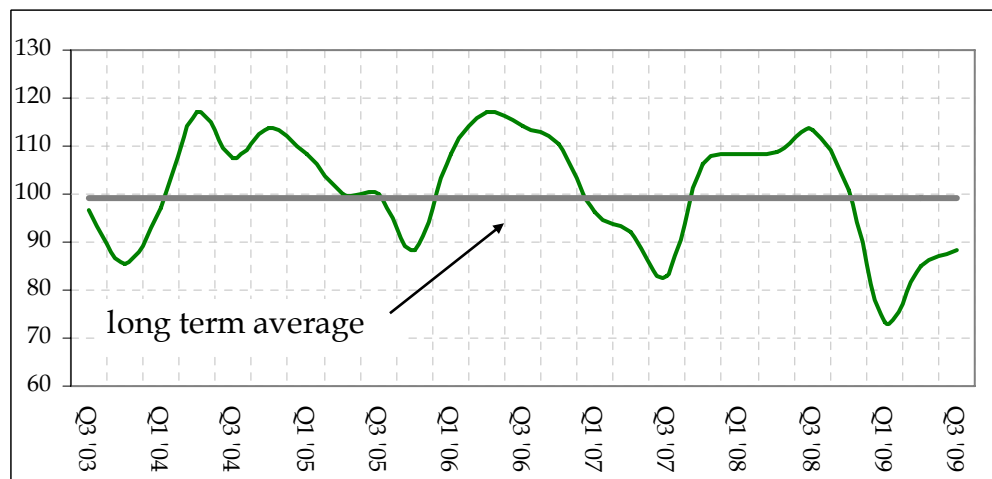
The next confidence survey results are scheduled for release on 15 February 2010

Economic Sentiment

The Economic Sentiment Indicator* (ESI) rose by 3.6 points to 88.5 in the third quarter of 2009 vis-à-vis the previous one. This represents the second consecutive quarterly increase of this indicator, which marked its lowest historical value in the first quarter of the present year. The current ESI stands 11.5 points below its long-term average.

The ESI has improved owing to the combination of different developments of its components. The higher confidence in the industry and construction sectors has offset the fall of consumer confidence, providing a net positive contribution to the ESI during the third quarter. Confidence in the services sector has provided a minor contribution to the ESI. However, the confidence indicators of the three sectors of economy remain below their long-term average.

Chart 1 Economic Sentiment Indicator



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

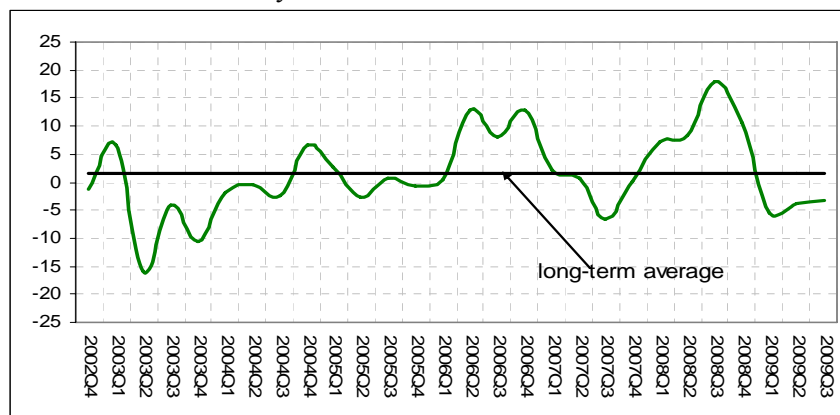
* The methodological explanatory notes to the way the Economic Tendency Indicator (ETI), the Confidence Indicators (CIs) and the balance indicators are produced may be found in the annex or on the Bank of Albania website at:

http://www.bankofalbania.org/web/pub/metodologjia_vbb_vbk_anglisht_2426_1.pdf

Industry Sector

The Industry Confidence Indicator (ICI) rose by 6.2 percentage points in the third quarter of 2009 vis-à-vis the preceding one. The ICI change in the first and second quarters of 2009 was -14.4 and +2.2 percentage points, respectively. The ICI is 8.3 percentage points below its long-term average. Businesses' assessment of *industrial production*, whose balance rose by 11.7 percentage points, provided the main contribution to the increase of the general industry indicator. The balance of industry-related businesses' assessments of the *employment* situation, albeit still negative, began to go upward following the pronounced downward trend since the last quarter of 2008. *Inventories* are assessed to have slightly dropped in the present quarter, providing a small but positive contribution to the ICI increase.

Chart 2 Industry Confidence Indicator



Source: Business Confidence Survey, Bank of Albania

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

Industry-related businesses used their production capacities more intensely in the third quarter of 2009 than in the preceding one (to 68 percent from 66 percent). Businesses assess that the *economy* in general and their *business activity* have performed better, although the balances* of responses to these questions remain at negative levels. Businesses have also stated that almost all the factors that hold back their business activity have had a lower level of significance over this quarter.

Businesses reported a slight increase of *domestic demand* and an improved level of *orders* in the third quarter of 2009, although the balance of the latter remains negative. The balance of *export orders* has increased for the second consecutive quarter, following the pronounced decline in the first quarter of 2009. However, it still remains negative. *Industrial producer prices* have been increasing in the current quarter.

Businesses assess that the investments made during April to September 2009 have fallen relative to the previous half's survey. 76.5 percent of businesses state that they have not made any new investments. 89 percent of businesses that have made investments state that they concentrated them in new technology equipment and 11 percent in new structures.

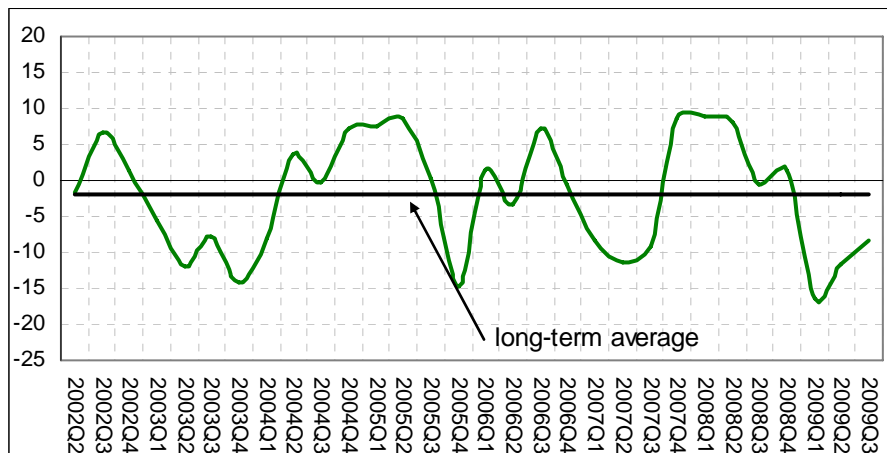
Industry-related businesses *expect* the performance of their *activity* and the *economy* in general to improve in the last quarter of 2009. In the meantime, businesses do not expect changes in the *industrial production* level, *demand* and *employment*.

* See Annex.

Construction Sector

The Construction Confidence Indicator (CCI) rose by 3.4 percentage points in the third quarter of 2009 vis-à-vis the preceding one. The aggregated indicator in this sector has improved owing to the positive developments in its constituent components. The higher balance of *production*, which rose by 9.5 percentage points relative to the preceding quarter, provided the main contribution to the improvement of the CCI. *Demand* in construction has been less negative in the current quarter. Its balance rose by 1.2 percentage points relative to the second quarter. *Employment situation* worsened slightly by 0.6 percentage points in the third quarter compared to the second quarter of 2009. Although the CCI marked positive developments in the third quarter, it remains below its long-term average.

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:

Construction-related businesses assess that the *performance of the economy* in general, despite having improved considerably from the preceding quarter, remained negative in the third quarter of 2009 (-14.4 percent from -22.9 percent in the second quarter). Construction's capacity utilisation increased to 68.9 percent, up by 2.2 percentage points from the second quarter of 2009. Corruption and informal economy and relations with banks are among the key factors to have adversely affected their activity.

Inventories decreased slightly in the third quarter of 2009. Businesses report a pronounced rise in *producer prices* (the balance increased by 10.5 percentage points relative to the second quarter of 2009). Businesses report a more deteriorated *financial situation* than in the previous quarter. Its balance dropped to -3.1 percent from -2.2 percent the previous quarter.

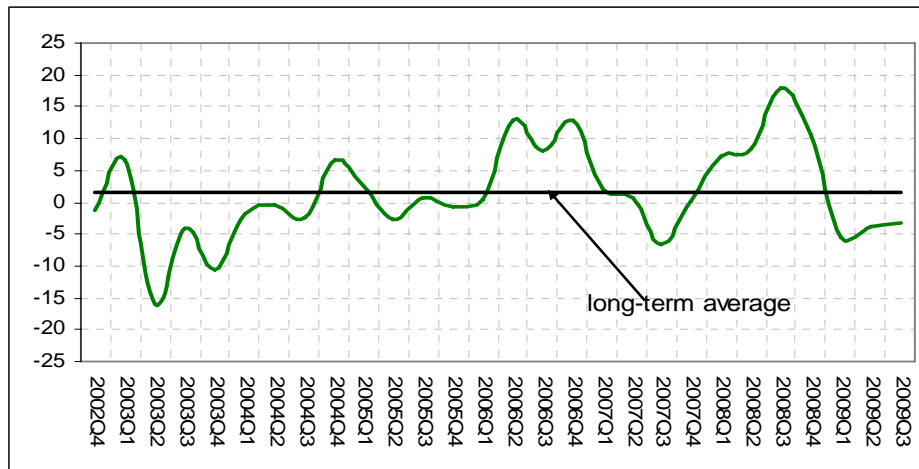
Investments in the construction sector fell during the period from April to September 2009. The balance dropped by 2.1 percentage points relative to the previous half. Construction-related businesses mainly invested in technology equipment.

As regards the last quarter of 2009, businesses expect an overall improvement of their activity and production, while the *expectations* of new investments in the next six months are negative.

Services Sector

Services Confidence Indicator (SCI) rose slightly by 0.6 percentage points in the third quarter of 2009. Actually, SCI remains 4.7 percentage points below its long-term average. Businesses have improved their assessments of the *performance of economy* and the *employment* situation in their sector. Their balances increased by 5.6 and 3 percentage points relative to the second quarter of 2009. However, their improvement was counterbalanced by the negative assessment of their financial situation (the balance dropped by 6.7 percentage points).

Chart 4 Services Confidence Indicator



Source: Business Confidence Survey, Bank of Albania

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

Despite the improved assessment of the performance of economy in general, services-related businesses have stated that their activity has slightly deteriorated in the third quarter of 2009. Businesses have ranked the informal economy and demand as the key factors to have hampered the normal activity of services during the current quarter.

Businesses state that demand for services fell in the third quarter of 2009. The capacities have been used at 76 percent compared with 80 percent in the third quarter of 2008.

Producer prices have increased for the second consecutive quarter; however, the services-related businesses do not report an improved financial situation.

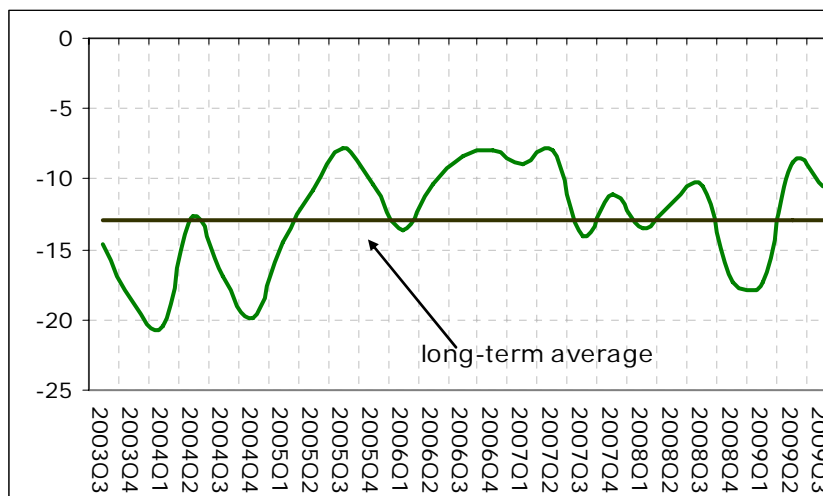
With respect to investments during the last six months, 69 percent of businesses state that no new investments have been made.

Services-related businesses *expect* a slight improvement of the situation in this sector in the last quarter of 2009.

Consumer Confidence

Consumer Confidence Indicator dropped slightly by about 1.8 percentage points in the third quarter of 2009 vis-à-vis the preceding one. The Consumer Confidence Indicator, albeit negative, is 2.2 percentage points above its long-term average. The negative performance of the aggregated indicator was triggered by the combination of reverse direction developments in its four constituent components. More precisely, the balances of consumer expectations regarding *general economic situation* and *their financial situation* for the last quarter of 2009 provided a negative contribution to the Consumer Confidence Indicator. The balance of *major purchases*, which dropped by 1.5 percentage points compared with the previous quarter, provided a negative contribution as well. The balance of *savings*, albeit negative, attested to a positive performance increasing by 4.5 percentage points.

Chart 5 Consumer Confidence Indicator



Source: Consumer Confidence Survey, Bank of Albania

The following provides the analysis of some indicators not included in the Consumer Confidence Indicator:

Consumers assess that their *current financial situation* worsened in the third quarter of 2009. Its balance dropped by 9.9 percentage points relative to the previous quarter. On the other hand, consumers assess that the *overall economic situation* in the country improved during the third quarter of 2009.

According to the consumer's quantitative expectations on *inflation after 12 months*, they expect the inflation rate to be 2.0 percent, about 0.3 percentage points higher than the previous quarter. At the same time, consumer's expectations balances (qualitative) concerning prices a quarter ahead and after one year marked positive values as well. With respect to the unemployment level over the next six months, about 45.4 percent of consumers expect it to increase (compared to 35.9 percent in the previous survey) and about 15.4 percent expect it to fall (compared to 27.7 percent in the previous survey).

Table 1 Confidence indicators by sector*

	Values since Q2-2002			2008		2009			Situation	
	min.	aver.	max.	Q3	Q4	Q1	Q2	Q3	Conjectural**	Structural***
Industry	-18.2	-1.5	6.0	0.2	-3.7	-18.2	-15.9	-9.8	↑	--
Construction	-16.5	-1.9	8.9	-0.6	1.5	-16.5	-11.6	-8.2	↑	--
Services	-15.9	1.6	17.9	17.9	10.6	-5.6	-3.7	-3.2	↑	-
Consumer	-20.5	-13.1	-7.8	-10.5	-17.4	-17.3	-8.8	-10.5	↓	-

Source: Consumer Confidence Survey, Bank of Albania

*) Excluding the Consumer Confidence Indicator, the balances of other indicators are seasonally adjusted.

**) The situation compared with 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 considered as satisfactory (+) when the indicator is less than 1 standard deviation higher than the average; the situation is considered as unsatisfactory (-) when the indicator is less than 1 standard deviation lower than the average; and the situation is considered as highly unsatisfactory (--) when the indicator is more than 1 standard deviation lower than the average.

Table 2 Key balances of the sectors of economy*

	2008				2009			Expectations
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Demand								
Total	6.0	4.1	7.6	5.4	-11.0	-4.6	-8.0	6.9
Industry	3.7	1.2	-2.5	-5.9	-29.9	-25.5	-16.7	3.4
Construction	6.2	11.2	0.6	6.9	-23.1	-10.6	-9.4	1.6
Services	6.7	1.6	13.9	8.1	0.4	4.6	-4.6	10.4
Firm's Economic Situation								
Total	9.0	6.2	10.3	5.6	-12.0	-3.5	-6.8	8.1
Industry	-1.6	1.2	-5.5	-6.3	-28.3	-27.9	-15.1	4.2
Construction	6.4	7.0	-9.7	-2.4	-15.0	-4.1	-2.0	3.1
Services	13.1	7.3	24.5	13.0	-5.7	4.2	-6.5	11.6
Production								
Total	11.8	5.0	-2.2	-1.2	-18.9	-18.6	-8.2	4.7
Industry	5.3	0.3	-5.4	-6.5	-27.6	-24.6	-12.9	0.7
Construction	16.0	8.0	-0.1	2.2	-13.4	-14.7	-5.2	7.2
Consumer								
Financial situation	-13.5	-9.7	-3.8	-9.9	-15.0	5.5	-4.4	2.2
Prices after 1 year	25.2	21.1	23.0	17.3	9.5	-0.3	17.8	
Major purchases	-50.9	-45.8	-43.7	-52.7	-50.5	-42.3	-43.8	-32.9
Savings	-53.2	-50.3	-50.6	-54.4	-52.2	-50.6	-47.4	-42.9

Source: Consumer Confidence Survey, Bank of Albania

*) Excluding the consumer sector, the balances of other sectors are seasonally adjusted.

Chart 6 Key aggregate balances at the economy level

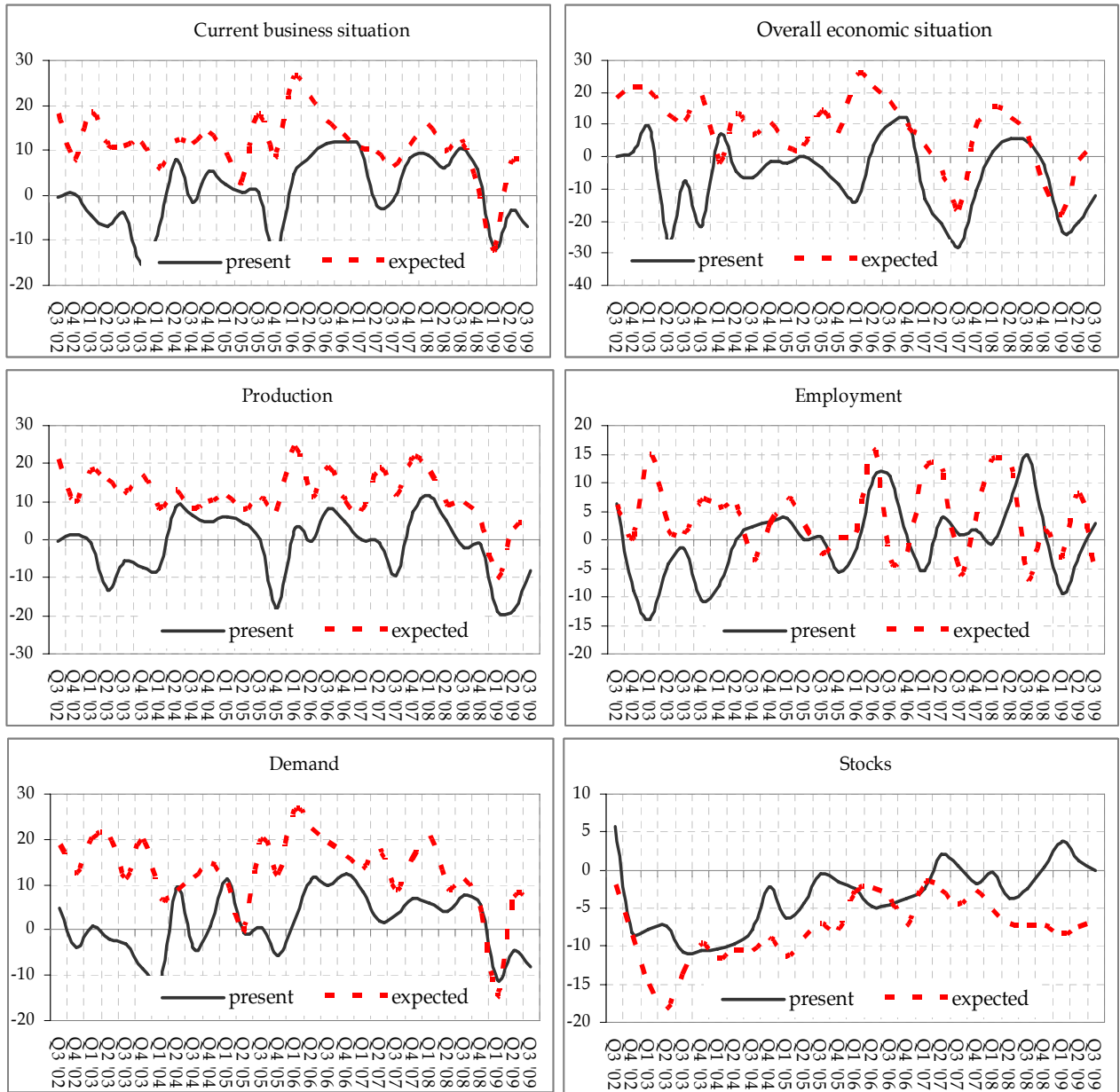
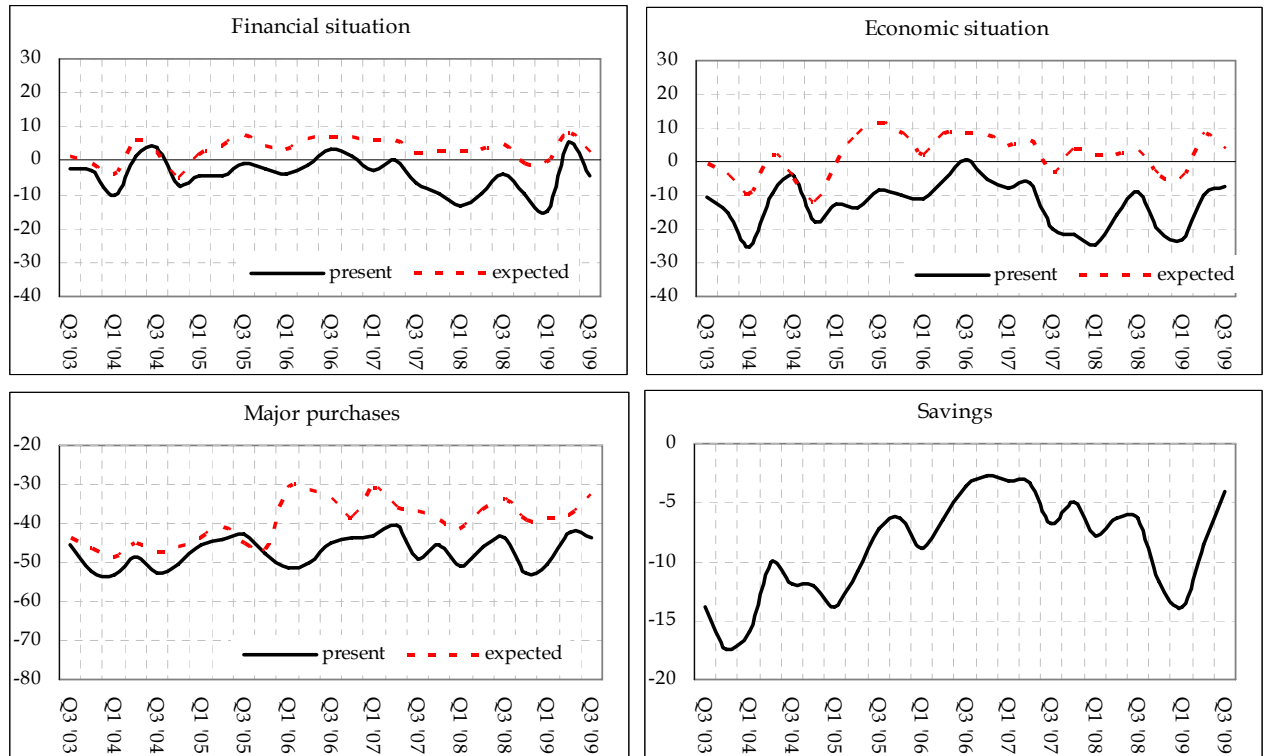


Chart 7 Key consumer balances



ANNEX

Methodological Explanatory Notes

-Balance is the traditional method of aggregating and quantifying the qualitative information in surveys. It is the difference between positive and negative answering options. The balance is measured as percentage points.

-Confidence Indicators (CIs) are produced for each of the surveyed sector and are calculated as the simple average of seasonally adjusted balances of indicators, which have the highest coincident correlation with the reference series (the real data series of the economy).

-Economic Tendency Indicator (ETI) is made up of 13 balances used for the construction of confidence indicators for the four economic sectors, weighted based on their economic activity. The purpose of the 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.