

Bank of Albania



Business and Consumer Survey Results

February 2010

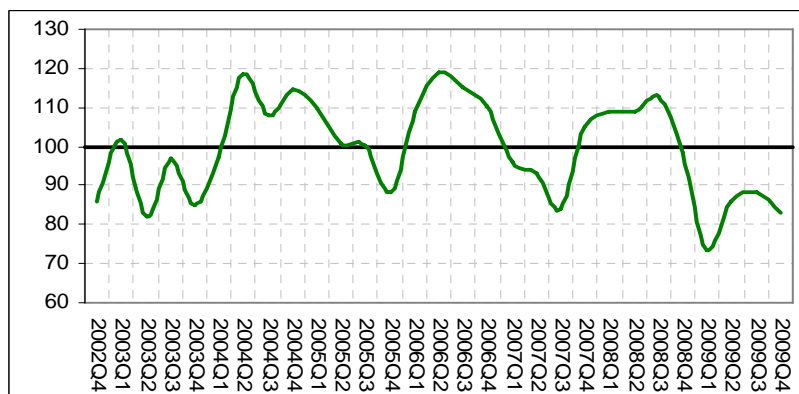
The next confidence survey results are scheduled for release on 14 May 2010.

Economic Sentiment

The Economic Sentiment Indicator* (ESI) fell to 83.2 (-5.1 percentage points) in the fourth quarter of 2009, after an increase during the two previous quarters. The current ESI level has moved away from its long-term average, standing 16.8 points below it.

A fall of confidence in the construction sector provided the main contribution to the deterioration of the economic sentiment indicator. The confidence drop in the industry and services, and the worsening of consumer confidence, affected also negatively the ESI performance, albeit at a lower rate when compared to the construction sector. During the fourth quarter of the year, the domestic and external demand was assessed negatively and in decline, at the economy level. Orders have decreased in the fourth quarter of 2009. Similarly, capacity utilization has declined again in the fourth quarter of 2009, recording a rate of 65.6 percent.

Chart 1. Economic Sentiment Indicator.



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

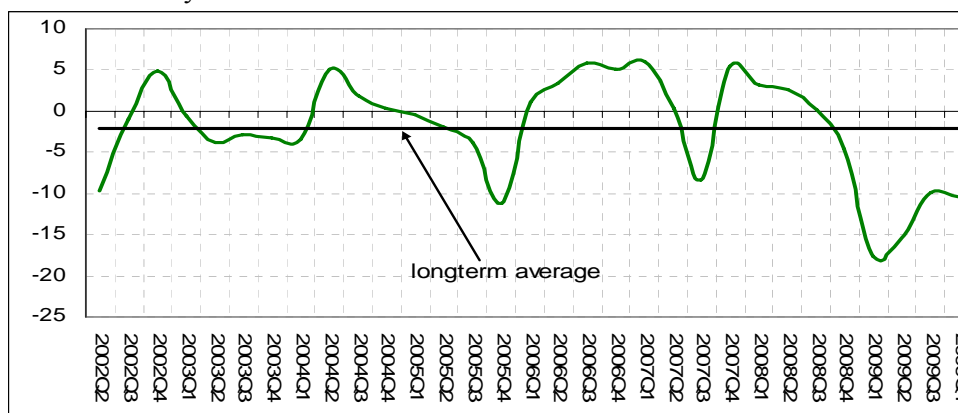
* The methodological explanatory notes on constructing the Economic Tendency Indicator (ETI), the Confidence Indicators (CIs) and the balance indicators may be found in the annex or on the Bank of Albania website at:

http://www.bankofalbania.org/web/pub/metodologjia_vbb_vbk_shqip_2301_1.pdf

Industry sector

The Industry Confidence Indicator (ICI) dropped by 0.6 percentage points during the fourth quarter of 2009. This development interrupted the positive developments in the industry confidence indicator recorded during second and third quarter of year 2009. ICI increased by respectively 2.3 and 5.6 percentage points during these quarters, after a considerable fall of 13 percentage points in the first quarter of this year. Currently, ICI stays at 8.4 percentage points below its long-term average. The industry confidence indicator declined in the fourth quarter of 2009 mainly because of the negative evaluation of the businesses *industrial production*. Similarly, the rise of *inventories* contributed negatively on the aggregate confidence indicator for this sector. On the other hand, their assessment of the *employment* situation, despite providing a positive contribution to the ICI, failed to offset the negative developments of the other two components.

Chart 2. Industry Confidence Indicator.



Source: Business Confidence Survey, Bank of Albania

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

Industrial businesses' evaluation on the *general economic performance* and on the *general activity of their business* has recorded a fall in the fourth quarter of 2009 (balances of responses for these questions dropped by respectively 3.8 and 0.6 percentage points*). The factors related to the legal and institutional framework as well as the relationship with banks, are ranked amongst those having the highest negative impact on the normal performance of industrial businesses.

Capacity utilization was plummeted to the 64.8 percent level in the fourth quarter of 2009, showing a 6.4 percentage point drop with regards to its historical average.

In the fourth quarter of 2009, after a substantial improvement in the previous two quarters businesses reported a fall of the *domestic and external demand* and a deterioration of *orders*. The balance of *industrial producer prices* has been increasing in the current quarter, for the third subsequent quarter. However, the balance of the financial situation has plunged by 1.3 percentage points.

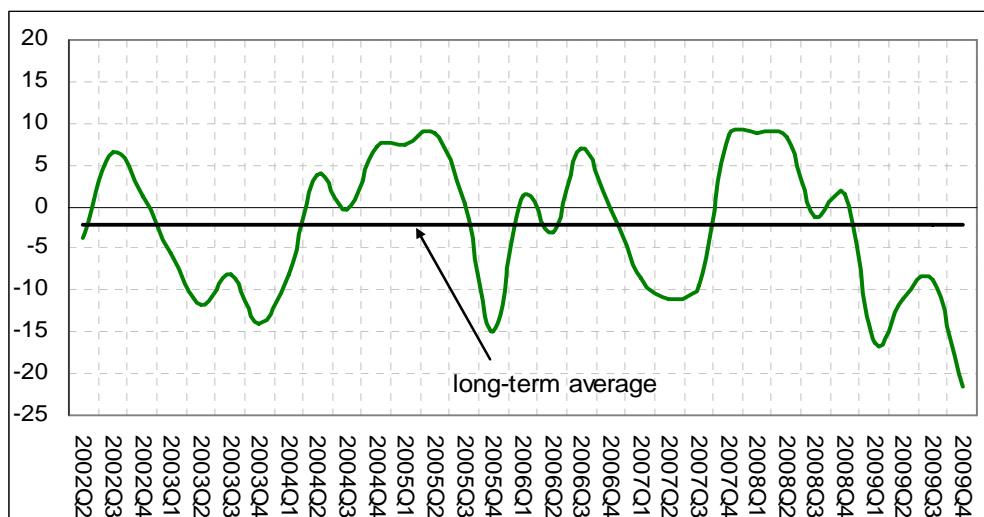
For the first quarter of 2010, businesses expect an improvement of the industrial production and demand, even though the expectations about the economic situation at home have been on the downside.

* See Annex.

Construction sector

The Construction Confidence indicator (CCI) recorded a drop of 12.8 percentage points during the fourth quarter of 2009. CCI recorded the lowest historical value since measurement started on the second quarter of 2002. The deterioration of the aggregated indicator for the construction sector owed to the negative developments present in all its components. The drop of the *demand balance* by 17.6 percentage points in quarterly terms provided the primary negative contribution. Likewise, the *production performance* recorded a negative assessment in the fourth quarter of 2009. The balance of this indicator fell by 15.2 percentage points compared to the third quarter of year. The *employment* situation is negatively assessed in the fourth the quarter of year, registering a decrease of 5.2 percentage points with regards to the previous quarter.

Chart 3 Construction Indicator Confidence



Source: Business Confidence Survey

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

The construction-related businesses' assessments regarding the performance of economy in general during the fourth quarter recorded a considerable decline. This indicator dropped by 19.3 percentage points reaching the -34.9 level. Construction's *capacity utilization* in the fourth quarter of 2009 pointed to 61.2 percent, about 7.6 percentage points lower than in third quarter of year. The factors related to the legal and institutional framework as well as the corruption and informal economy are those ranked to have the highest negative impact on the normal performance of construction-related businesses,

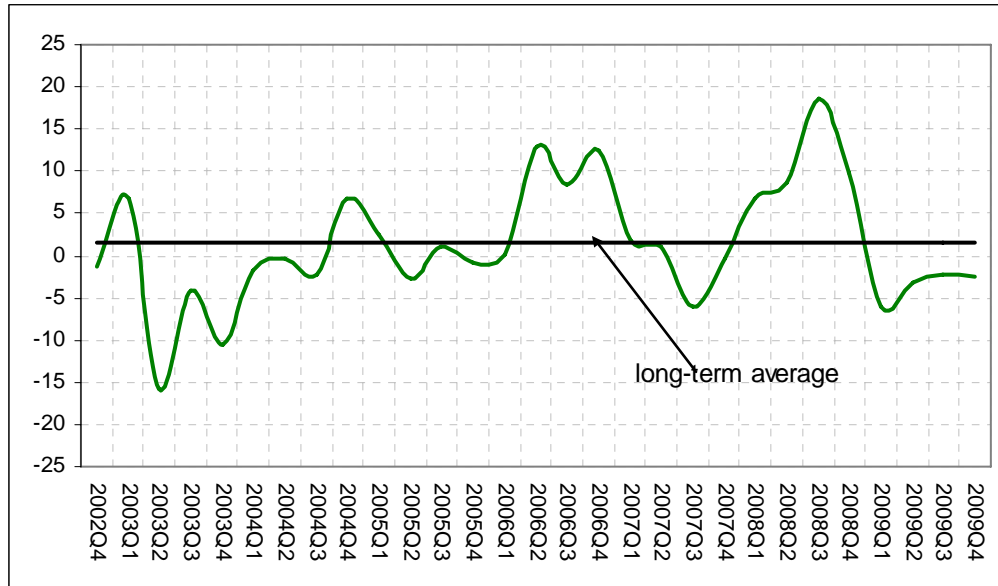
Inventories decreased slightly in the fourth quarter of 2009. Businesses report a rise in producer prices during the fourth quarter of 2009, albeit at a lower rate than in the previous quarter. With regards to the *financial situation*, businesses report an accelerated deterioration when compared to the previous quarter. This indicator fell at -15.5 percent from -4.0 percent in the previous quarter.

Businesses *expectations* regarding the performance of both, the economy in general and their specific activity during the first quarter of year 2010 are on the downside.

Services sector

Services Confidence Indicator (SCI) fell slightly by 0.2 percentage points in the fourth quarter of 2009, currently staying 3.9 percentage points below its long-term average. The seasonally adjusted improvement of the *financial situation* balance was not sufficient enough to fully compensate for the drop in the general economic situation and *employment* balances.

Chart 4. Service Confidence Indicator.



Source: Business Confidence Survey, Bank of Albania

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

Despite the more negative estimations about the general economic situation, service sector businesses evaluate positively both *their activity and the demand*, in the fourth quarter. Businesses, compared to the previous quarter, consider the relationships with banks on a lower level as a factor hindering their normal activity. The informal economy situation continues to be qualified as an impeding factor, but it is assessed at a lower rate than in the previous quarter.

Services capacities' utilization pointed to 70.7 percent, in the fourth quarter of 2009, about 5.7 percentage points lower compared to the third quarter of 2009.

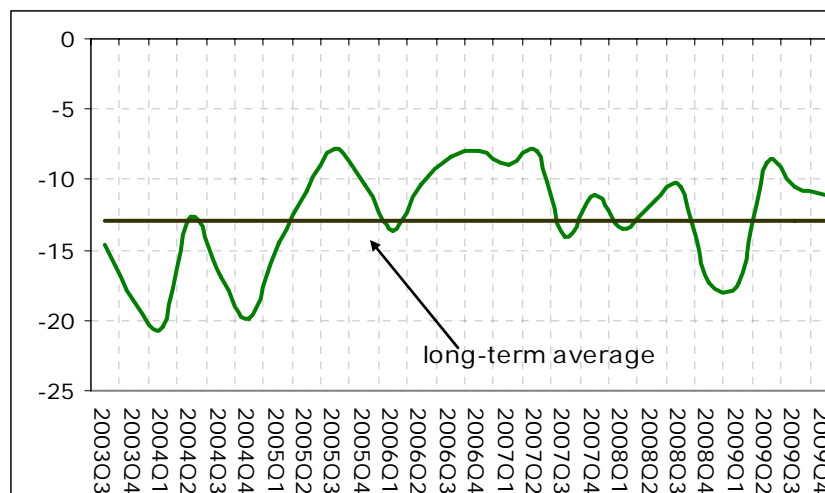
Producer prices have been decreasing in the fourth quarter of 2009. The respective balance recorded a slight fall by 1.2 percentage points in the referring quarter relative to the third quarter of 2009.

Services-related businesses expectations reveal a lower assessment regarding the economic situation in general and the business state, during the first quarter of 2010. The demand and employment in this sector are expected to fall in the forthcoming quarter.

Consumer Confidence

Consumer Confidence Indicator (CCI) was reduced slightly by about 0.5 percentage points in the fourth quarter of 2009. The Consumer Confidence Indicator, albeit in negative territory, is about 1.7 percentage points above its long-term average. The negative performance of the aggregated indicator was triggered by a combination of different developments of its four defining components. More precisely, the balance of consumer expectations regarding the *general economic situation* for the first quarter of 2010 provided a negative contribution to the Consumer Confidence Indicator (the balance fell by about 4.3 percentage points compared to the previous quarter); the expectations' balance for the *financial situation*, during the first quarter of 2010 provided a contributed positively on the CCI movement. The *balance of savings* and of *major purchases* showed improvements, which, although at negative overall levels, managed a positive growth of respectively 0.6 and 0.3 compared to the previous quarter.

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 Indicator:

Consumers' *current financial situation* was negatively assessed during the fourth quarter. This indicator dropped slightly by 0.6 percentage points relative to the previous quarter. The *overall economic situation* at home is assessed negatively during the fourth quarter; the balance lost 7.9 percentage points compared to the third quarter of 2009.

Consumers point to a growth of the average living costs during the fourth quarter. The net balance rose by about 14.0 percentage points compared to the previous year. Consumers also state a growth of living costs compared to the same period of previous year, albeit, at a lower rate vis-à-vis the previous quarter.

According to the consumers' quantitative expectations on *inflation after 12 months*, they expect the inflation rate to be +2.2 percent, about 0.2 percentage points higher than the previous quarter. Regarding the unemployment level over the next six months, about 42.5 percent of consumers expect it to increase (compared to 45.4 percent in the previous survey) and about 18.9 percent expect it to decrease (compared to 15.4 percent in the previous survey). These shifts led to an improvement by 4.2 percentage points in the unemployment balance.

Table 1 Confidence indicators by sector *

	Values since Q2-2002			2008		2009			Situation	
	min.	aver.	max.	Q4	Q1	Q2	Q3	Q4	Conjectural**	Structural***
Industry	-17.6	-2.0	6.1	-4.6	-17.6	-15.4	-9.8	-10.5	↓	--
Construction	-16.4	-2.2	8.9	1.5	-16.4	-10.9	-8.9	-21.6	↓	--
Services	-15.8	1.4	18.6	9.8	-5.9	-3.3	-2.3	-2.5	↑	-
Consumer	-20.5	-13.1	-7.8	-17.4	-17.3	-8.8	-10.5	-11.1	↓	-

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 mean; the situation is considered as satisfactory (+) when the indicator is less than standard deviation higher than the mean; the situation is considered not satisfactory when the indicator is less than 1 standard deviation from the mean; and the situation is regarded as highly unsatisfactory (-) when the indicator is more than standard deviation lower than the mean.

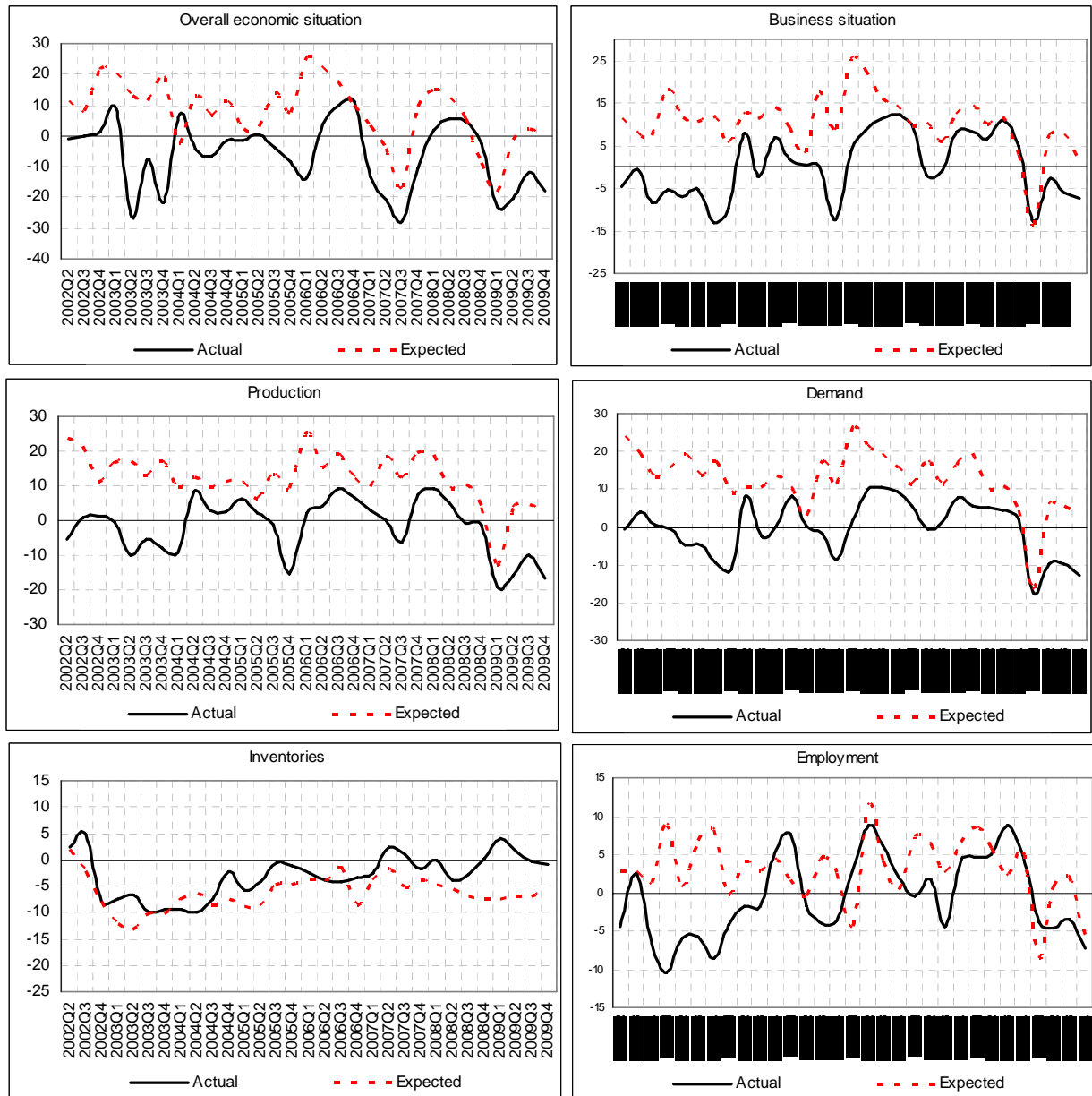
Table 2 Key balances of the sectors of economy*

	2008			2009				2010
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1- Expectations
Demand								
Total	5.2	4.4	2.0	-17.5	-9.8	-9.7	-12.8	3.5
Industry	1.7	-2.0	-6.5	-30.4	-24.8	-16.1	-16.1	6.4
Construction	12.3	0.4	5.6	-22.8	-9.3	-9.5	-27.1	-2.8
Services	1.6	14.8	7.0	0.6	4.7	-3.6	4.7	6.9
Company's Economic Situation								
Total	1.9	-5.1	-8.2	-27.8	-26.9	-14.6	-15.2	1.6
Industry	6.9	-11.3	-1.0	-14.6	-4.3	-3.9	-20.8	6.2
Construction	7.9	26.4	11.7	-7.2	5.1	-4.5	1.2	-1.9
Services	6.6	11.0	4.9	-12.7	-2.9	-6.0	-7.4	1.8
Production								
Total	5.0	-0.9	-1.1	-19.3	-15.8	-9.9	-16.8	2.4
Services	1.3	-6.0	-7.8	-26.7	-23.4	-13.6	-15.8	5.0
Construction	8.6	-1.0	2.6	-13.5	-14.1	-6.3	-21.8	-1.5
Consumer								
Financial situation	-9.7	-3.8	-9.9	-15.0	5.5	-4.4	-5.0	3.5
Prices after 1 year	21.1	23.0	17.3	9.5	-0.3	17.8	13.3	
Major purchases	-45.8	-43.7	-52.7	-50.5	-42.3	-43.8	-43.4	-29.6
Savings	-50.3	-50.6	-54.4	-52.2	-50.6	-47.4	-49.0	-45.6

Source: Consumer Confidence Survey, Bank of Albania

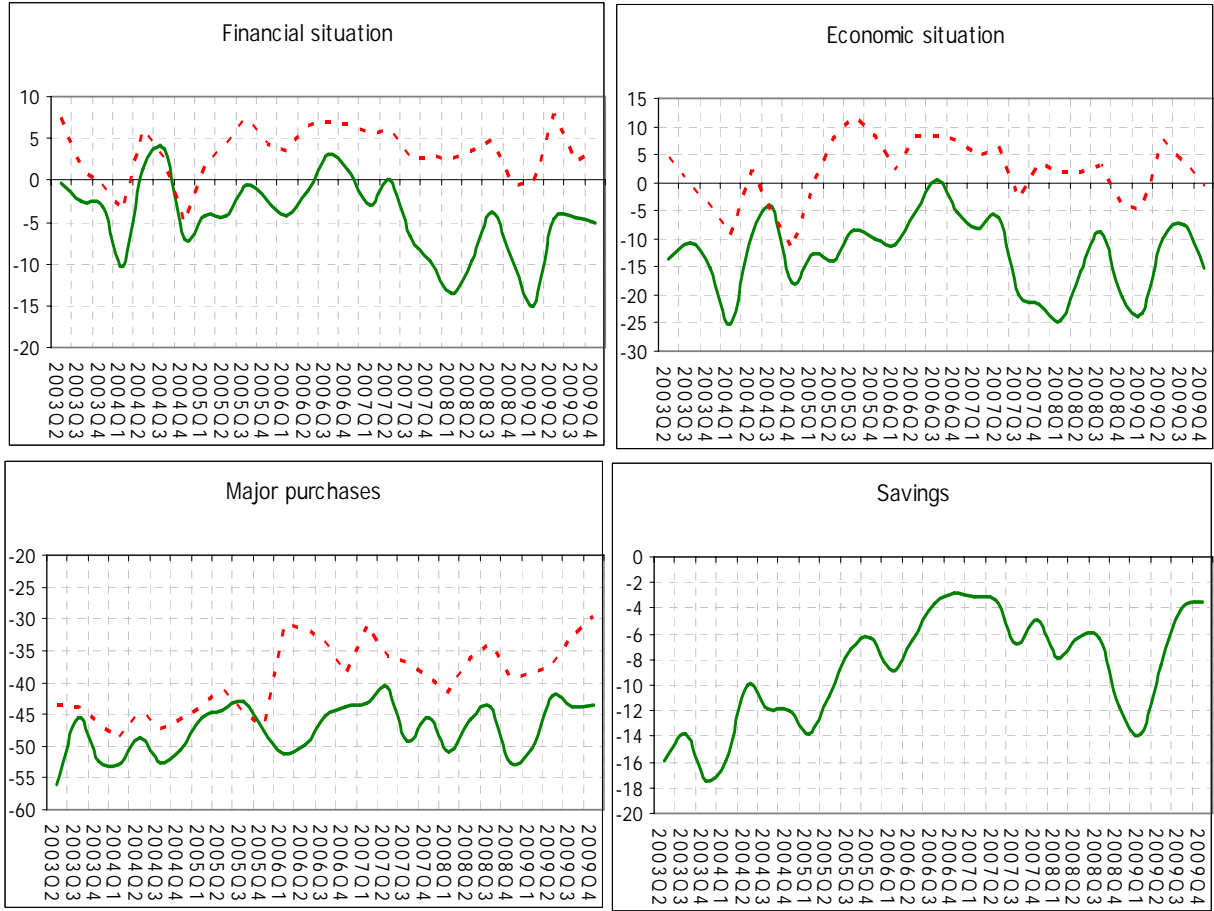
*) Excluding the consumer sector, the balances of other sectors are seasonally adjusted.

Chart 6 Key aggregated balances at economy level



Source: Business Confidence Survey, Bank of Albania

Chart 7 Key consumer balances



Source: Consumer Confidence Survey, Bank of Albania

Annex

Methodological Explanatory Notes

-Balance is the indicator more frequently employed in aggregating the qualitative data from surveys. That is considered as the difference between the percentages of positive answers with the negative ones. The balance is measured as percentage points.

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

-Economic Tendency Indicator (ETI) is made up of all 13 balances used for the construction of confidence indicators for the four economic sectors, weighted according to their economic activity. ETI tracks through a single indicator the sentiment on economic activity derived from the two main economic groups, businesses and consumers.