

Bank of Albania



Business and Consumer Survey Results

May 2010

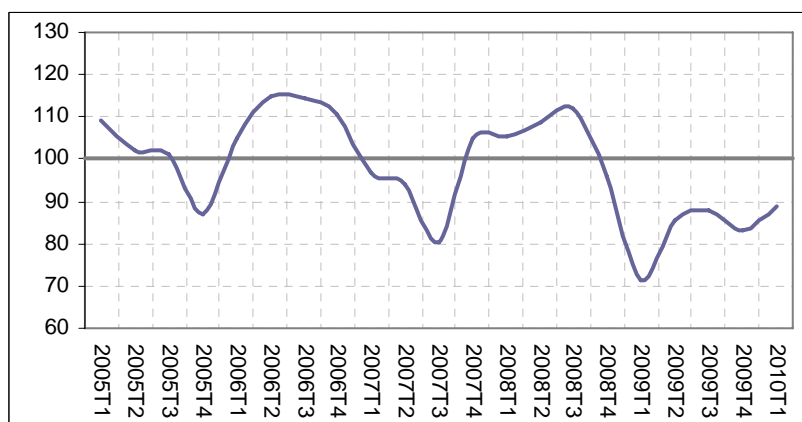
Future publication of business and consumer survey results scheduled for 16 August 2010.

Economic Sentiment Indicator

Economic Sentiment Indicator* (ESI) showed signs of improvement in Q1 2010, amounting to 89 (+5.7 percentage points). This level stands at 11 percentage points below its long-term average, maintaining similar behaviour to that of the last six months.

The rise in ESI was driven mainly by a positive turning point of confidence in construction and industrial sectors, as compared to their rather low level over the last four quarters. The business confidence in service sector stays almost at the same level as in the previous quarter, being close to but lower than its long-term average. On the other hand, the decreased consumer confidence has contributed negatively to the economic sentiment indicator.

Chart 1 Economic sentiment indicator



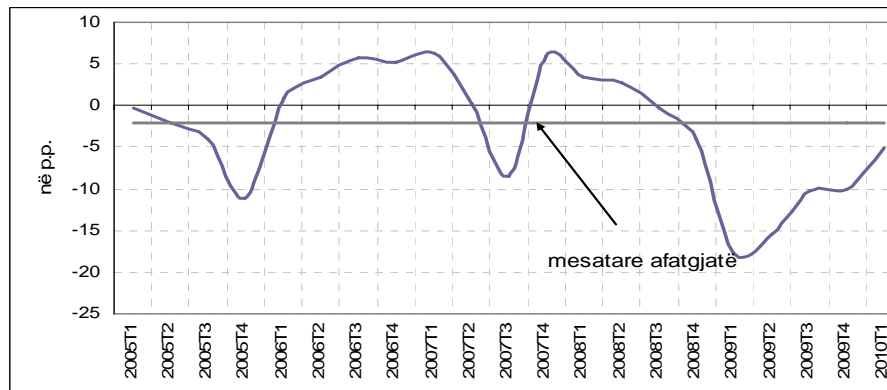
Source: Business and Consumer Confidence Survey, Bank of Albania

* The methodological explanatory notes on producing the Economic Sentiment Indicator (ESI), the Confidence Indicators (CI) and the balance indicator are found in the Annex or on Bank of Albania website at: http://www.bankofalbania.org/web/pub/metodologjia_vbb_vbk_shqip_2301_1.pdf

Industry Sector

Industrial Confidence Indicator (ICI) for Q1 2010 has increased by 5 percentage points. Following the decline in the last quarter of 2009, the ICI's upward trend as compared to the low record level of Q1 2009, seems to have restarted in the actual quarter. Its level has approached to but is still down 3.1 percentage points from its long-term average. The improved industrial confidence indicator in Q1 2010 has reflected the less negative assessment of *output* and *employment* and the decreased *inventories*. The balance of *inventory* is for the first time negative, after a positive value recorded over a one-year period.

Chart 2 Industrial Confidence Indicator



Source: Business Confidence Survey, Bank of Albania

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

Industrial business assessment of the *general economic situation* and *overall business activity*, albeit negative, is improved compared to the previous quarter. The difficulties encountered in finding new markets just because of the crisis and the concerns about legal and institutional framework are the main factors making the largest negative contribution to normal performance of industrial businesses.

Business assessment of the *domestic* and *external demand* is improved. Moreover, external demand has turned positive. Improved business assessment of the demand is also reinforced by improved balance of expected order contracts. Hence, capacity utilization rose to 68%, from 64.8% in the previous quarter.

Industrial *producer prices* based on Q1 2010 survey have continued their upward trend that had started since Q3 2009. Their balance has picked up by 3.9 percentage points.

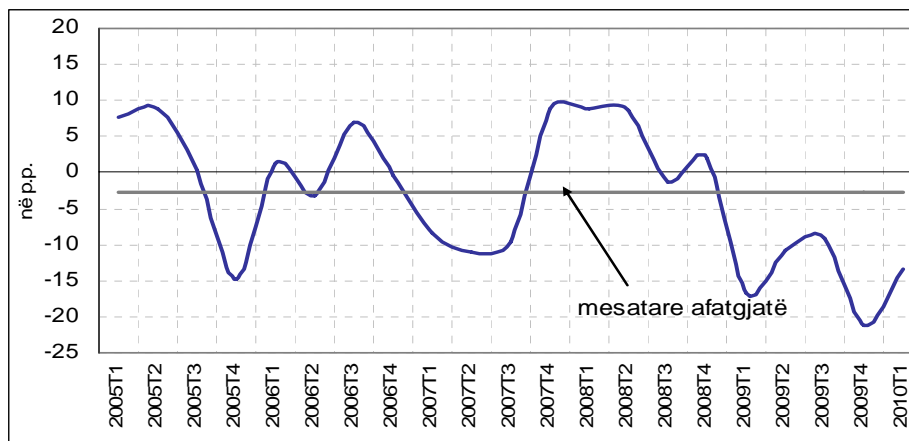
During the Q1 survey, businesses answered also questions about investments in the last six months and expectations for the next six months. The balance of new investments is still down. Specifically, 83.4% of businesses have not made any new investments; 89.5% of them have reported that they have not made any projection to carry out new investments over the next six months.

Business expectations for Q2 2010 are generally more optimistic than the assessment of the current situation, albeit downward as compared to previous quarter's expectations.

Construction Sector

Construction Confidence Indicator (CCI) rose by 7.7 percentage points in Q1 2010, however, down 10.7 percentage points from its long-term average. This development has broken the downward trend that was at record low level in the previous quarter. The increased indicator is due to positive developments in its three constituent elements. The *demand* and *employment* in construction sector are assessed as less negative; their balance has increased by 4.7 and 4.0 percentage points, respectively, though still negative. *Output* balance, though negative, rose by 14.3 percentage points compared to the previous quarter.

Chart 3 Construction Confidence Indicator



Source: Business Confidence Survey, Bank of Albania

The following provides an analysis of several indicators not included in the CCI components:

Construction business assessment of *general economic situation* for Q1 2010, although obviously upward compared to the last survey, is still negative (the net balance is -21.3%). In Q1 2010, construction businesses have stated that the legal framework and lack of construction permits have made a large negative contribution to normal performance of their activity. Regarding order contracts, about 51.7% of construction businesses have made a negative assessment.

Capacity utilization in construction for Q1 2010 pointed to 65.7%, up 4.5 percentage points from the previous quarter.

Construction businesses have assessed their *inventories* as upward and the *financial situation* as downward. Following a slight decline in Q4 2009, *producer prices* have continued to pick up over the surveyed quarter.

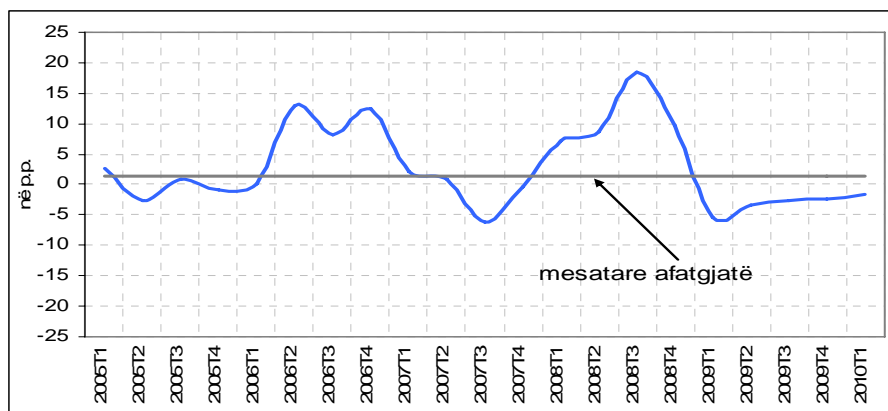
Based on the last survey, about 80% of construction businesses have not made any new investments over the last six months.

Expectations for Q2 2010 show improvement in construction sector, while producer prices are expected to fall marginally. Construction businesses are not expected to make new investments in technological equipment and structures over the next six months.

Services Sector

Service Confidence Indicator (SCI) rose marginally by 0.9 percentage points in Q1 2010. Its current level is still down 2.9 percentage points from its long-term average. The improved balances of *financial situation* and *employment*, seasonally adjusted, have played the primary role in increasing the aggregate indicator for the service sector. In the meantime, this sector's businesses have assessed the balance of the general economic situation as still negative.

Chart 4 Service Confidence Indicator



Source: Business Confidence Survey, Bank of Albania

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

Notwithstanding the negative assessment of the general economic situation, service sector's businesses have assessed their *activity* and the *demand* as positive for Q1 2010. Compared with the previous quarter, businesses have assessed in a higher degree the order, security and political situation, as factors that impede the normal performance of their activity. Moreover, the presence of informal economy and problems related to infrastructure are still regarded as impeding factors for businesses operating in the service sector.

About 64.8% of businesses state that they have not made new investments in the last six months, while 35.2% of them that have made new investments in the last six months state that they are concentrated mainly in equipment.

Capacity utilization in service sector pointed to 66.0% in Q1 2010, down 4.7 percentage points from the previous quarter*.

Producer prices are assessed as upward for Q1 2010. Their balance rose by 8.1 percentage points in the surveyed quarter, compared to Q4 2009.

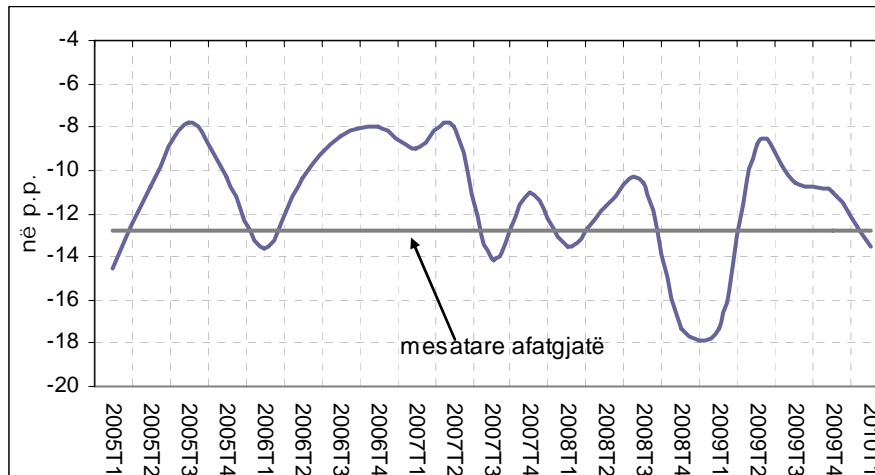
Service-related businesses *expect* recovery of *their activity* in the next quarter. *Expectations* regarding *employment* and *the demand* in this sector are also in line with that. The balance of expectations for *new investments* in the next six months has improved by about 11.5 percentage points compared to the previous six-month period.

Consumer Confidence

* Capacity utilization is the only quantitative question and not adjusted seasonally in Business Confidence Survey.

Consumer Confidence Indicator (CCI) fell by 2.4 percentage points in Q1 2010. Its level has been downward since Q3 2009, currently staying below its long-term average. Such decline was determined by deterioration of three, out of four constituent balances. Hence, the decline in the balance of expectation for the *general economic situation* (-2.8 percentage points), the *financial situation* (-3.0 percentage points) and the *savings situation* (-4.8 percentage points) have made a negative contribution, thus weakening the improvement marked in the balance of answers about major purchases (+0.9 percentage points).

Chart 5 Consumer Confidence Indicator



Source: Consumer Confidence Survey, Bank of Albania

The following presents an analysis of several indicators not included in the CCI components

The balances of consumers' answers about the current *financial situation* and the *general economic situation* have dropped by 8.5 and 11.5 percentage points, respectively. These indicators are currently standing below their historical average. After the pronounced increased balance of cost of living in the fourth quarter 2009, this indicator has somewhat improved in Q1 2010.

Consumer assessments of *employment* for the first six months of 2010 are still negative. About 46.5% of consumers anticipate unemployment rate rise, while 16.6% of them expect its decline. At aggregate level, the balance of answers about this question has deteriorated by 5.5 percentage points.

Based on consumer quantitative inflation expectations for the next 12 months*, the expected rate is +2.3%, up 0.1 percentage point from the previous quarter. Most of consumers (73%) asked about the next year's inflation rate expects it to be below 4%.

* Inflation expectations for Q2 2011

Table 1 Confidence indicators by sectors*

	Values since Q2-2002			2009				2010	Current situation	
	min.	ave.	max.	Q1	Q2	Q3	Q4	Q1	Conjectural	Structural
Industry	-17.4	-2.0	6.3	-17.4	-15.4	-10.3	-10.4	-7.1	↑	-
Construction	-21.5	-2.8	9.1	-16.3	-10.9	-9.0	-21.5	-17.1	↑	--
Services	-16.2	1.3	18.6	-5.5	-3.7	-2.4	-2.3	-0.6	↑	-
Consumers	-20.5	-12.8	-7.8	-17.3	-8.8	-10.5	-11.1	-13.4	↓	-

Source: Consumer Confidence Survey, Bank of Albania

*) The indicators, excluding the consumer confidence indicator, 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; and the situation is regarded as rather unsatisfactory (-) when the indicator is more than 1 standard deviation lower than the average.

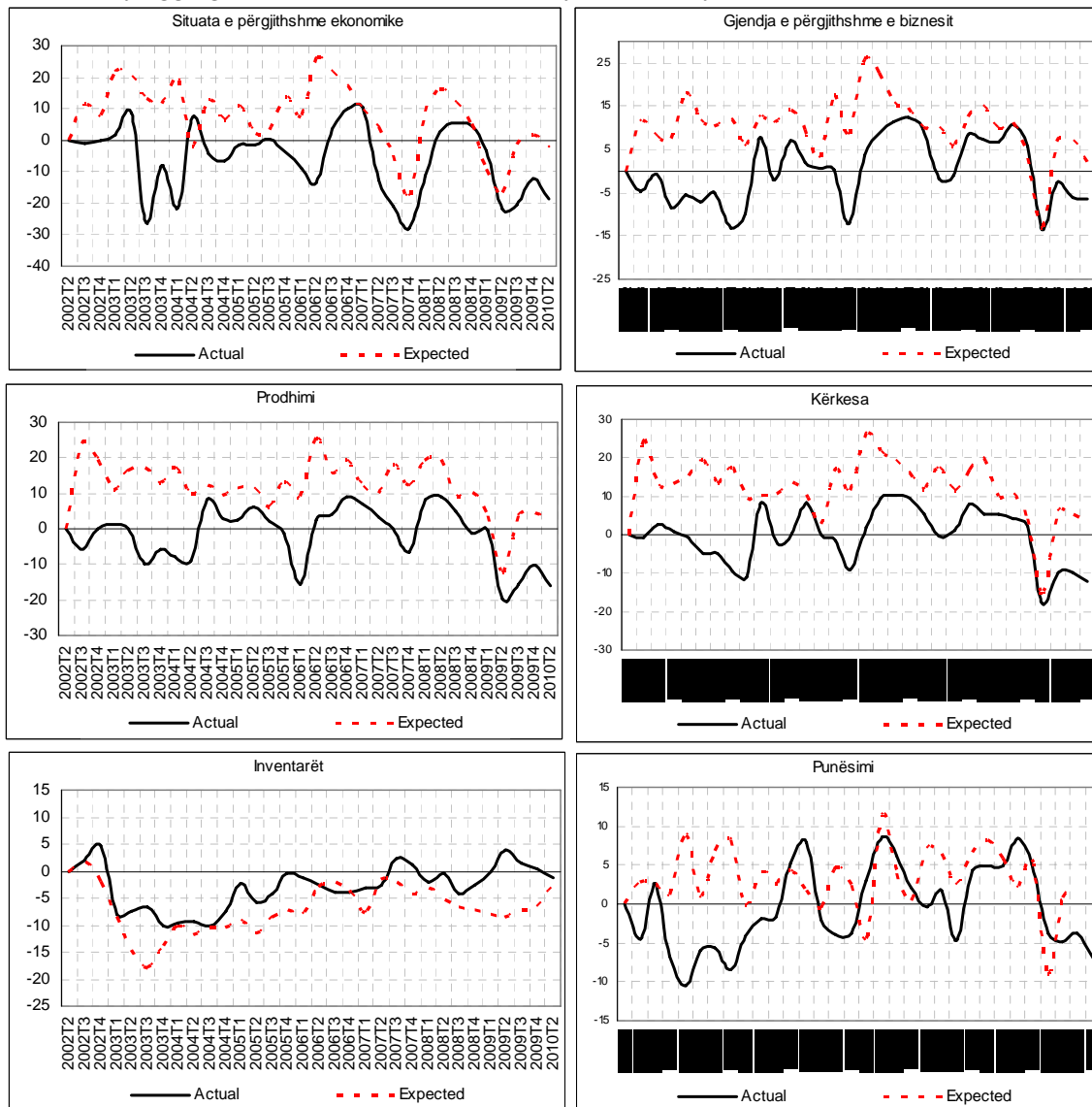
	2008		2009				2010	
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2 Expectations
Demand								
Total	5.2	4.1	2.3	-17.7	-9.9	-10.0	-12.3	3.0
Industry	1.8	-2.7	-6.0	-30.9	-25.0	-16.5	-15.1	5.0
Construction	12.4	0.2	5.4	-22.4	-9.3	-9.8	-27.3	-2.6
Services	1.5	14.7	7.6	0.2	4.6	-3.6	5.4	6.8
Firm's economic situation								
Total	6.9	10.9	5.8	-13.7	-2.6	-6.0	-6.5	1.5
Industry	1.9	-5.7	-7.5	-27.2	-27.4	-14.9	-15.2	5.7
Construction	6.9	-11.1	-1.0	-14.9	-4.2	-3.6	-20.7	-20.7
Services	8.4	26.3	13.0	-9.1	5.7	-4.4	2.8	1.8
Production								
Total	5.0	-1.2	-0.3	-19.8	-15.6	-10.3	-15.9	2.3
Industry	1.2	-6.3	-7.0	-27.2	-23.2	-14.3	-14.9	4.3
Construction	8.7	-1.4	3.8	-14.6	-13.9	-6.6	-20.4	-1.0
Consumers								
Financial situation	-3.8	-9.9	-15.0	5.5	-4.4	-5.0	-13.5	
Prices after one year, in %	2.4	2.3	2.0	1.7	2.0	2.2	2.3	
Major purchases	-43.7	-52.7	-50.5	-42.3	-43.8	-43.4	-42.5	
Savings	-6.4	-11.7	-13.8	-8.5	-4.1	-3.5	-8.3	

Source: Consumer Confidence Survey, Bank of Albania

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

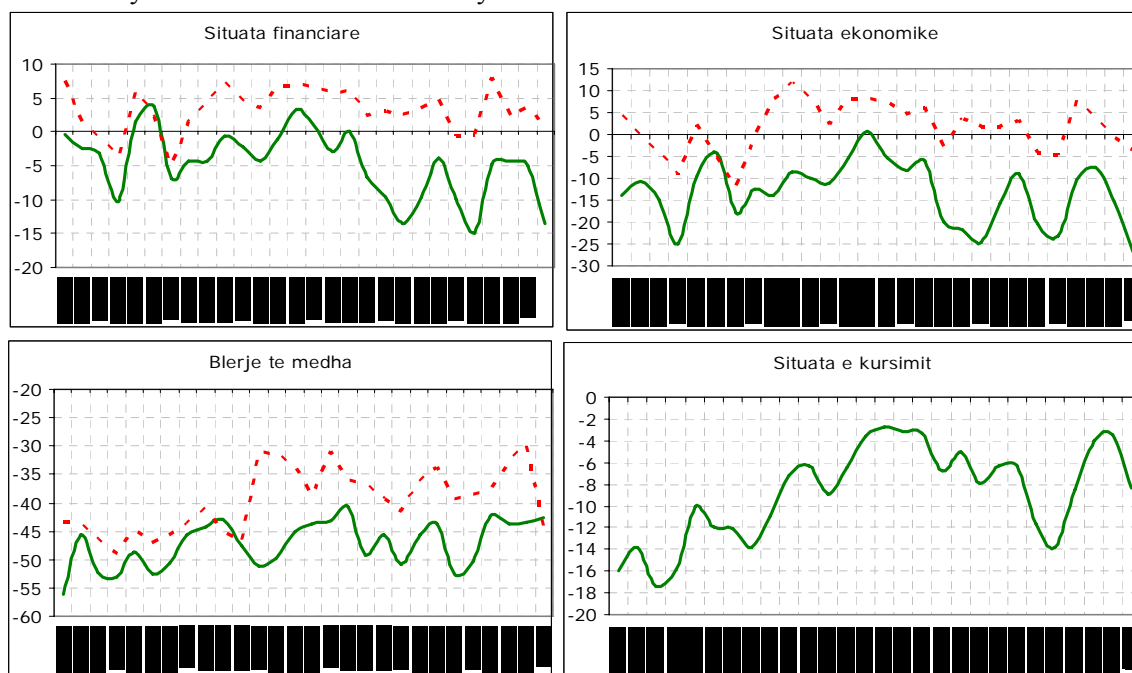
Table 2 Key balances of the sectors of the economy*

Chart 6 Key aggregate balances of business survey at economy level



Source: Business Confidence Survey, Bank of Albania

Chart 7 Key balances of consumer survey



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. It is estimated as a difference between the percentages of positive answers and the negative ones. The balance is in percentage points.

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

-Economic Sentiment Indicator (ESI) is made up of 13 balances used for producing the confidence indicators for the four economic sectors, weighted according to their economic activity. ESI tracks through a single indicator the sentiment on the country's economic activity obtained from both principal economic groups: businesses and consumers.