

Bank of Albania

Monetary Policy Department



Business and Consumer Survey Results

August 2010

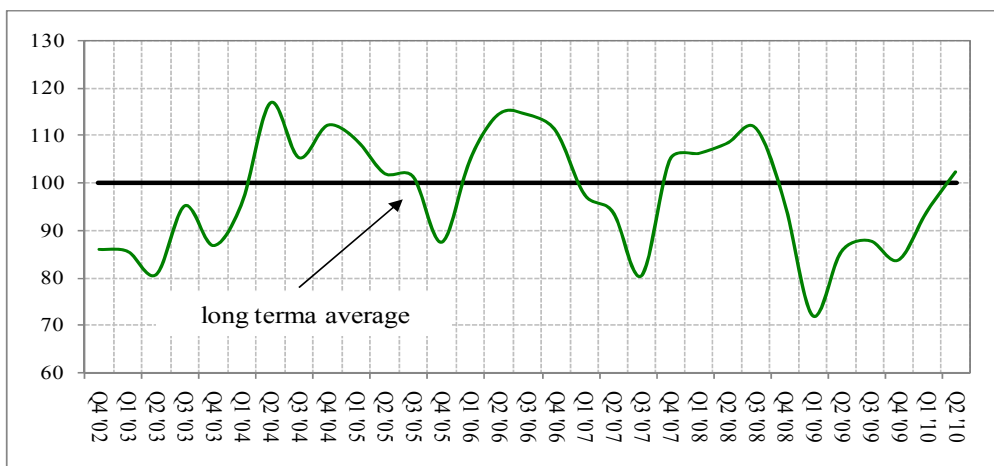
Future publication of business and consumer survey results scheduled for November 15, 2010

Economic Sentiment Indicator

The Economic Sentiment Indicator¹ (ESI) showed signs of improvement in Q2 2010, recording 102.3 (+8.4 percentage points). Over this period, the ESI stood at about 2.3 percentage points above its long-term average, while it had been below the long-term average since Q4 2008.

The rise in ESI was driven by a positive turning point in all the surveyed sectors, as compared to their rather low level over the last four quarters. The improved consumer confidence indicator and the boosted confidence in services, construction and industrial sectors have positively contributed to the economic sentiment indicator.

Chart 1 Economic sentiment indicator



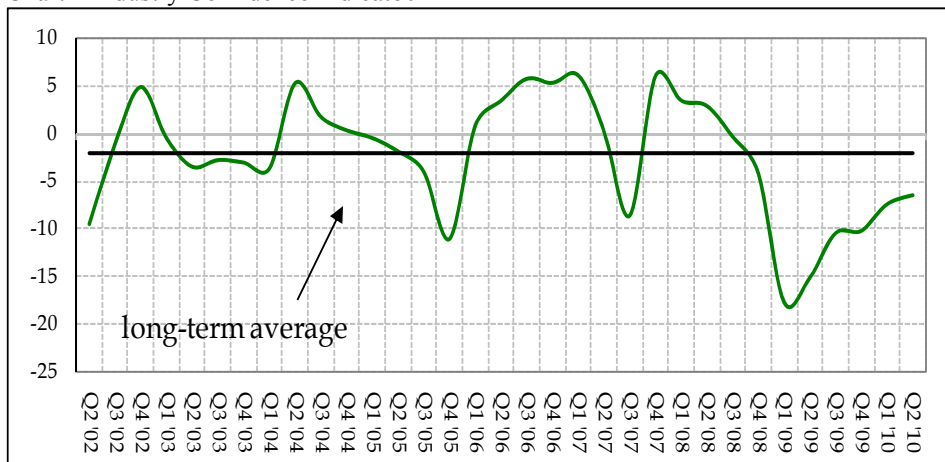
Source: Business and Consumer Confidence Survey, Bank of Albania

Industry Sector

¹ 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

During Q2 2010, the Industry Confidence Indicator (ICI) increased slightly by about 0.9 percentage point. Notwithstanding the gradual improvement over the last two quarters, the ICI's level has remained below the long-term average, with a margin of 4.3 percentage points. Improved industrial confidence indicator in Q2 2010 was due to less negative assessment of the *employment situation*. Rise in *inventories made a negative* contribution, while business assessment of *industrial output* remained almost at the same level as in the previous quarter.

Chart 2 Industry 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 overall economy, albeit negative, has continued to improve for the second consecutive quarter (the balance of answers to this question rose by 3.2 percentage points²). In the meantime, the performance of *overall business activity* in the industrial sector was assessed as negative for Q2 2010. The corresponding balance fell by about 1.4 percentage point. The difficulties encountered in finding new markets, the presence of informal economy and the concerns related to legal framework and its enforcement are the main factors that have impacted on such performance.

Industrial businesses have assessed the *domestic demand* as less negative in Q2 2010. *External demand*, following a significant improvement in Q1, was rated somewhat more negatively in the surveyed quarter. *Industrial producer prices*, based on Q2 2010 survey, have continued the upward trend that had begun since Q3 2009.

Capacity utilization in the industrial sector rose to 69.0% in Q2 2010, but still down 2.0 percentage points from its historical average.

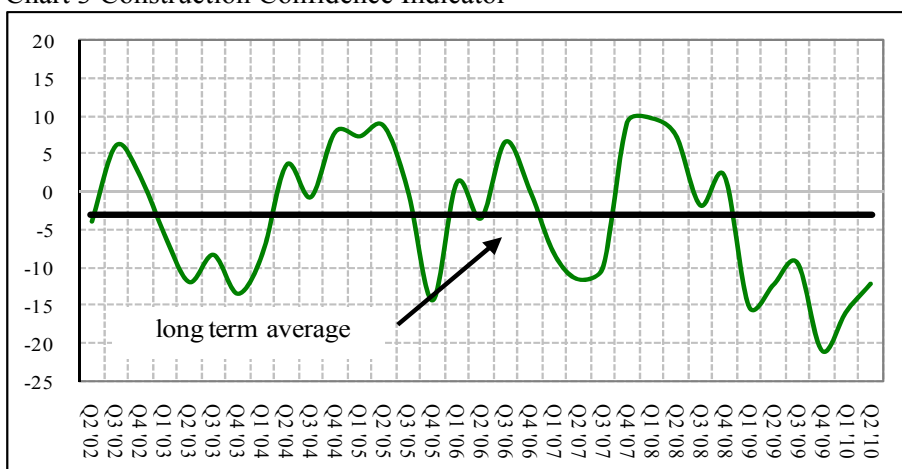
Industrial business expectations for Q3 2010 are more optimistic compared to their assessment of the current situation. This sector's businesses expect improvement of the domestic and external demand for Q3 2010.

Construction Sector

² See the Annex

Construction Confidence Indicator (CCI) rose by 3.7 percentage points in Q2 2010, standing at about 8.9 percentage points below its long-term average. Improved aggregate indicator of this sector was due to positive developments in all its constituent elements. The improved balance of the *demand*, up by 7.6 percentage points, made the largest contribution in this regard. The balances of production and employment in construction sector are assessed as less negative in the surveyed quarter. They rose by 2.8 and 0.7 percentage points, respectively, although at negative levels.

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*, although improved in comparison with the previous survey, is still at low negative levels (net balance is -19.6%). In Q2 2010, businesses have reported that the informal economy and lack of construction permits have impeded the normal performance of construction-related activity.

Capacity utilization in construction for Q2 2010 pointed to 69.0%, up 3.3 percentage points from Q1 2010 and up 0.8 percentage point from its historical average.

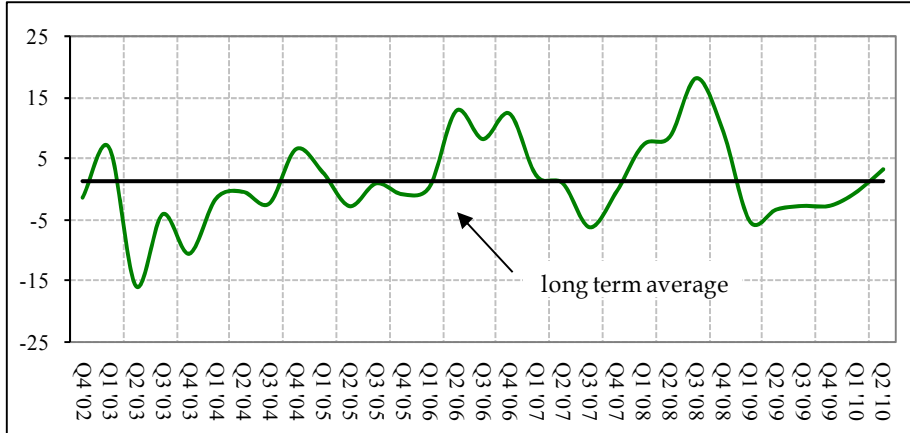
Construction businesses have assessed their *inventories* as downward. In the same line, even the businesses' *financial situation* is assessed as less negative. *Producer prices* have picked up in the surveyed quarter, although at lower paces than in the last three quarters.

Business expectations for the general economic situation and for their economic activity for Q3 2010 continue to be negative, although at a lower level than in the last survey. Construction businesses expect increased demand and decreased inventories for the next quarter. In the meantime, producer prices are expected to pick up in the months ahead.

Services Sector

In Q2 2010 the Service Confidence Indicator (SCI) rose by 3.7 percentage points. For the first time since the last quarter of 2008, its level stays above its long-term average. Improved aggregate indicator for the service sector is due to upward assessment of *economic situation* and *employment* in this sector; the balances rose by 13.0 and 0.3 percentage points, respectively, compared to the first quarter of the year. Also, the financial situation of this sector's businesses is assessed as positive (the balance pointed to 2.2 percentage points).

Chart 4 Services Confidence Indicator



Source: Business Confidence Survey, Bank of Albania

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

Service sector's businesses reported lower *economic activity* and *demand* in this sector. They have assessed the lack of private and public managing policies for this sector as the main factors impeding the normal performance of their activity. Moreover, the presence of informal economy and the concerns related to infrastructure are still regarded as impeding factors for businesses operating in the service sector.

In Q2 2010, *capacity utilization* in service sector pointed to 76.9%, up 9.0 percentage points from the previous quarter and up 1.2 percentage point from the historical average.

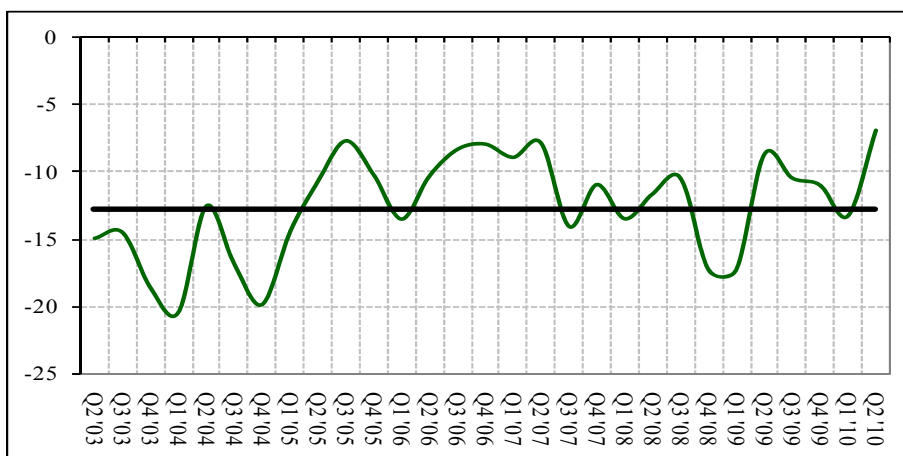
Service prices are assessed somewhat lower than in the previous quarter. Their balance pointed to 7.1 percentage points in Q2 2010, versus 10.6 percentage points in Q1 2010.

Service-related business *expectations* for the general economic situation and the overall state of their business for Q3 2010 are less optimistic. Also, the demand and employment in this sector are expected to fall in the next quarter.

Consumer Confidence

In Q2 2010, Consumer Confidence Indicator (CCI) interrupted the downward trend that had started since Q2 2009. CCI rose by 6.3 percentage points compared to the previous quarter. It has currently settled at about 5.8 percentage points above its long-term average. The boosted consumer confidence was determined by improvement in its four constituent balances. The balance of expectation for the general economic situation and the financial situation of households continued to record positive values in this quarter. Also, the balances of savings and major purchases improved marginally, though still negative.

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' responses about the general economic situation and the current financial situation of households improved by 12.1 and 8.7 percentage points, respectively, compared to the previous quarter. They are currently below their historical average. Meanwhile, consumers perceived an increased average cost of living for Q2 2010.

Customers' assessments of employment for next six months are still negative. About 39.6% of consumers anticipate unemployment rate rise, while 20.6% of them expect its decline. At aggregate level, the balance of responses to this question turns out as improved by about 4.8 percentage points compared to first quarter of the year.

In Q2 2010, customers' quantitative expectations for inflation after 12 months³ settle around 2.1%, down 0.1 percentage points from the previous quarter. Most of consumers asked about inflation rate after one year, anticipated that it will be below 4%.

³ Inflation expectations for Q2 2011

Table 1 Confidence indicators by sector *

	Values since Q2-2002			2009				2010		Present situation	
	Min.	Aver.	Max.	Q1	Q2	Q3	Q4	Q1	Q2 10	Conjectural **	Structural***
Industry	-17,7	-2,2	6,1	-17,7	-15,1	-10,5	-10,2	-7,4	-6,5	↑	-
Construction	-21,0	-3,2	9,7	-15,1	-12,3	-9,4	-21,0	-15,8	-12,1	↑	--
Services	-15,9	1,2	18,3	-5,3	-3,3	-2,7	-2,7	-0,5	3,3	↑	+
Consumer	-20,5	-12,8	-7,0	-17,3	-8,8	-10,5	-11,1	-13,4	-7,0	↑	++

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.

Table 2 Key balances of the sectors of the economy*

	2009				2010		
	Q1	Q 2	Q3	Q4	Q1	Q2	Q3 Expectations
Demand							
Total	-10,3	-4,6	-7,8	-7,0	-2,5	-2,3	-0,9
Industry	-30,7	-24,7	-16,5	-15,8	-8,1	-5,6	2,9
Construction	-18,8	-12,9	-11,0	-26,2	-21,4	-13,9	-0,4
Services	-0,1	5,4	-3,6	4,8	8,2	4,1	-2,2
Firm's economic situation							
Total	-3,5	-9,5	-2,4	-3,1	-5,8	-5,9	-1,2
Industry	-27,6	-26,5	-15,2	-15,8	-11,0	-12,5	0,7
Construction	-13,6	-5,4	-4,0	-20,4	-14,6	-10,5	-2,7
Services	-9,6	8,6	-6,2	2,2	8,9	7,2	-1,1
Production							
Total	-19,4	-17,3	-9,7	-18,6	-11,0	-9,5	2,1
Industry	-27,9	-22,7	-14,7	-14,4	-8,8	-9,1	6,6
Construction	-13,9	-13,8	-6,5	-21,2	-12,5	-9,7	-0,7
Consumers							
Financial situation	-15,0	5,5	-4,4	-5,0	-11,4	-2,7	
Prices after one year, in %	2,0	1,7	2,0	2,2	2,2	2,1	
Major purchases	-50,5	-42,3	-43,8	-43,4	-49,2	-41,1	
Savings	-13,9	-8,5	-4,1	-3,5	-9,2	-3,1	

Source: Consumer Confidence Survey, Bank of Albania

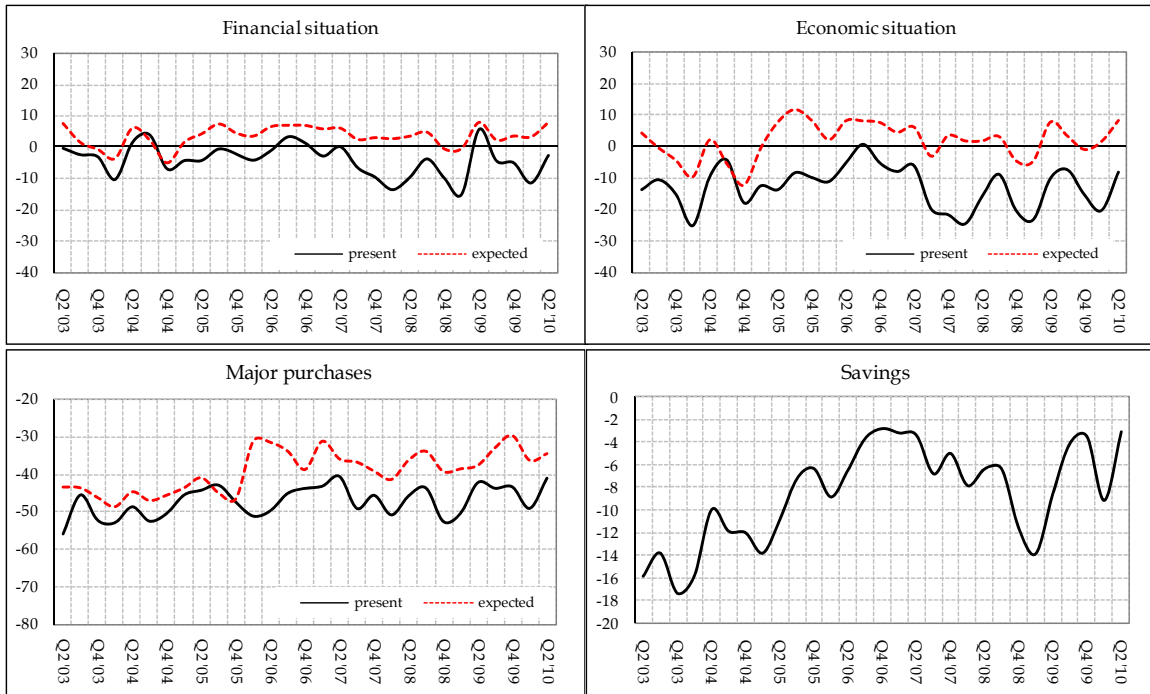
*) The balances, excluding the consumer confidence, are seasonally adjusted.

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 the two principal economic groups, businesses and consumers.