

Bank of Albania



Business and Consumer Confidence Survey Results

November 2010

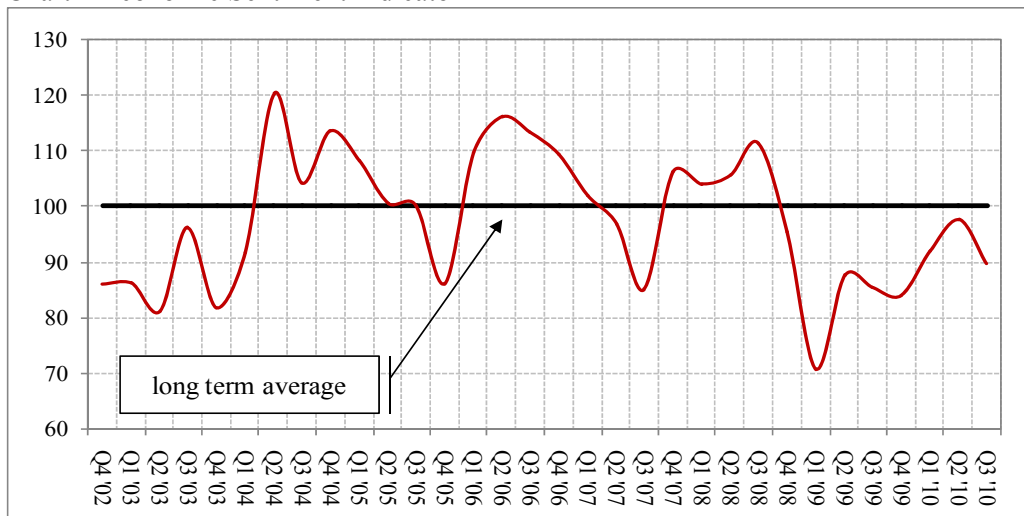
The next business and consumer survey results are scheduled for release on 15 February 2011.

Economic Sentiment Indicator

Economic Sentiment Indicator¹ (ESI) fell by 6.2 points in the third quarter of 2010. After improving in the first and second quarter of 2010, when the ESI stood very close to its long-term average (100), it currently stands at 89.6, 10.4 points below its long-term average.

The worsening of the ESI in the third quarter owes primarily to the pronounced decline of confidence in the construction sector. Industry and consumer confidence worsened as well but at more moderate levels than in construction. Services sector continues to attest to a higher level of confidence in the third quarter compared to the other sectors, although the business confidence in this sector fell slightly vis-à-vis the second quarter of 2010.

Chart 1 Economic Sentiment Indicator



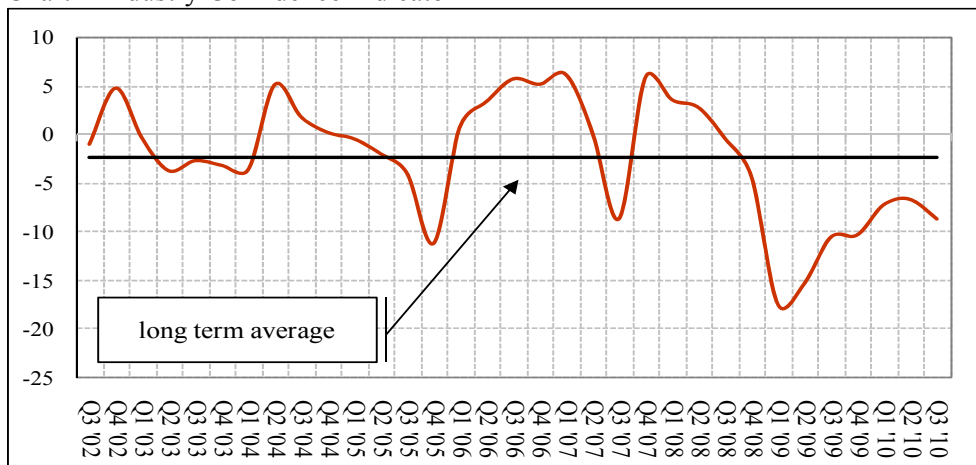
Source: Business Confidence Survey and Consumer Confidence Survey, Bank of Albania

¹ The methodological explanatory notes to the way the Economic Sentiment Indicator (ESI), 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

Industry Confidence Indicator (ICI) fell by 2.0 percentage points in the third quarter of 2010, the first fall after 5 consecutive quarters with upward figures. Currently, the ICI stands 6.3 percentage points below its historical average. The decline in the ICI owes mainly to the more negative assessment of businesses regarding *employment situation*. *Industrial production* assessment is also downward, although at more moderate rates. The decline in *inventories* is the sole component to have contributed positively to the ICI in the third quarter of 2010. The balance of inventories had increased in the preceding quarter.

Chart 2 Industry Confidence Indicator



Source: Business Confidence Survey, Bank of Albania

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

Industry - related businesses assessment of the *overall performance of the economy* did not change substantially in the third quarter of 2010 vis-à-vis the previous quarter. On the other hand, *the overall business situation* improved compared to the previous quarter; it's balance² rose by 2.9 percentage points in the third quarter. The improved confidence in the *overall business situation* owes to factors related to improved infrastructure and better order and safety situation. On the other hand, businesses continue to assess at a higher degree the negative impact of the legal framework and its enforcement, relations with banks and the absence of export contracts on their activity at a higher level in the third quarter of 2010.

Businesses assessed that both domestic demand and export demand have fallen over the third quarter of 2010. Total *demand balance* in industry has pursued an upward trend since the first quarter of 2009 when it recorded the lowest historical value. *Industrial producer prices* maintained their upward trend that had commenced in the third quarter of 2009. *Capacity utilization rate* in industry rose 1.0 percentage point during the third quarter of 2010 to 70 percent. The actual capacity utilization rate of manufacturing businesses stands at similar levels as its average in the last four years.

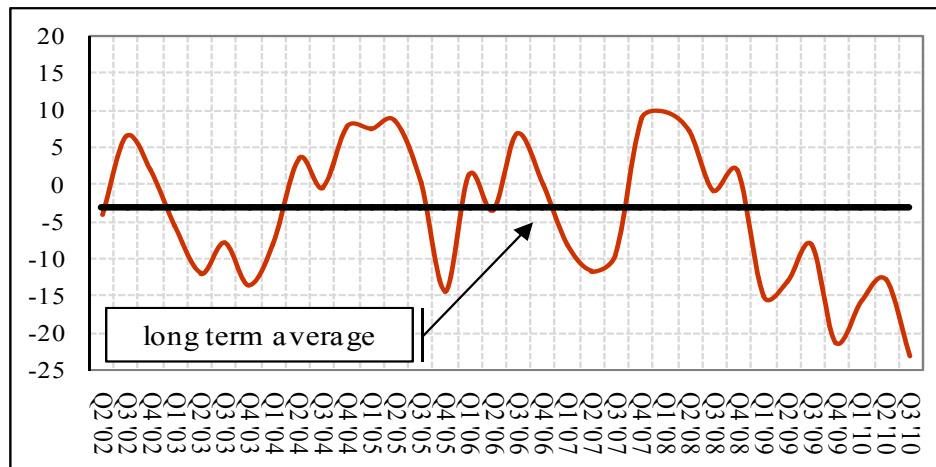
Industry - related businesses are more optimistic regarding the expected performance of domestic *demand*, *production* and *overall business situation* in the last quarter of 2010, although the performance of overall economy is expected to be less optimistic.

² See Annex.

Construction Sector

Construction Confidence Indicator (CCI) fell by 10.2 percentage points in the third quarter of 2010, recording the lowest historical value of -23.2 percentage points. The CCI stands 19.7 percentage points below its long-term average. The worsening of this aggregated indicator owes to the decline in its three constituent balances at almost the same extent. After showing signs of improvement in the second quarter, construction firms' assessment of *production*, *demand* and *employment* points to their decline in the following quarter.

Chart 3 Construction Confidence Indicator



Source: Business Confidence Survey, Bank of Albania

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

Construction - related businesses assess that *the overall economy situation* posted a modest decline in the third quarter of 2010. Its balance fell 2.2 percentage points compared to the previous quarter. On the other hand, their assessment concerning *overall business situation* fell more pronouncedly (balance fell by 11.5 percentage points). Construction - related businesses report that the informal economy and the lack of construction permits remain the two factors to have provided an adverse contribution to their normal activity over the second quarter of 2010.

Capacity utilization rate in construction fell in the third quarter of 2010 after an increase in the previous quarter. It currently stands at 63.1 percent, down by 4.8 percentage points from the historical average and 5.9 percentage points from the average capacity utilization rate in economy in the second quarter of 2010.

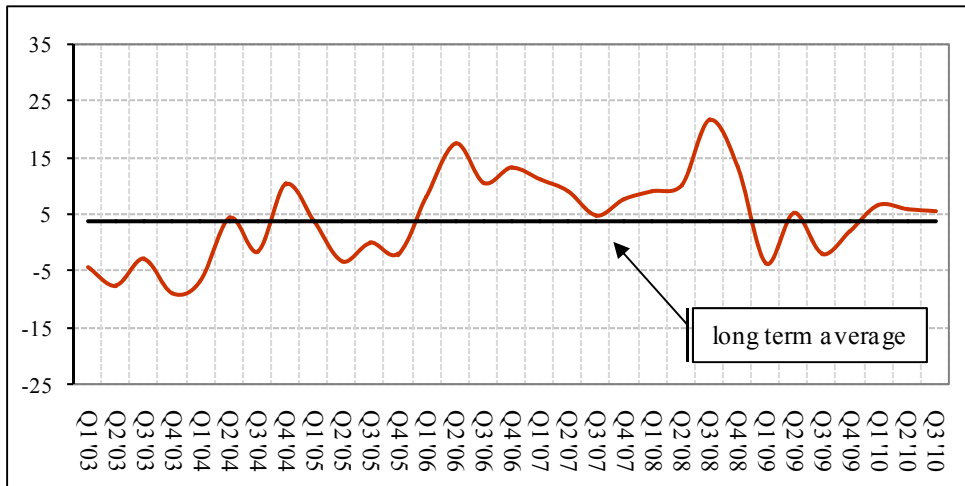
According to construction-related businesses, *inventories* remained at similar levels in the third quarter of 2010. In the meantime, the general fall of demand was reflected in worsened financial situation, though the balance of producer prices increased during this quarter.

Construction-related businesses *expectations* for the fourth quarter of 2010 with regard to the *overall economic situation* and for their *specific economic activity* continue to be negative. At the same time, producer prices are also expected to fall slightly.

Services Sector

Services Confidence Indicator (SCI) fell slightly by 0.4 percentage points in the third quarter of 2010 compared to the previous quarter. SCI currently stands 1.5 percentage points above its long - term average. This trend has been maintained for three consecutive quarters. The improved balance of *financial situation*, seasonally-adjusted, could not entirely offset the worsened balance of *current employment situation* in this sector. Services-related businesses' assessment on *the firm's general economic activity* was positive and almost similar to the previous quarter's level.

Chart 4 Services Confidence Indicator



Source: Business Confidence Survey, Bank of Albania

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

In addition to the optimistic assessment of *the firm's general economic activity*, services-related businesses have also reported as improved the *overall economic situation*. For the first time since the last quarter of 2002, all businesses involved in the survey reported that the *overall economic situation* improved over the third quarter of 2010. Moreover, in the third quarter of 2010, businesses have assessed at a lower degree the infrastructure and energy problems impeding their normal activity. The lack of management strategies and contracts were considered as factors that have hampered the normal activity in services sector.

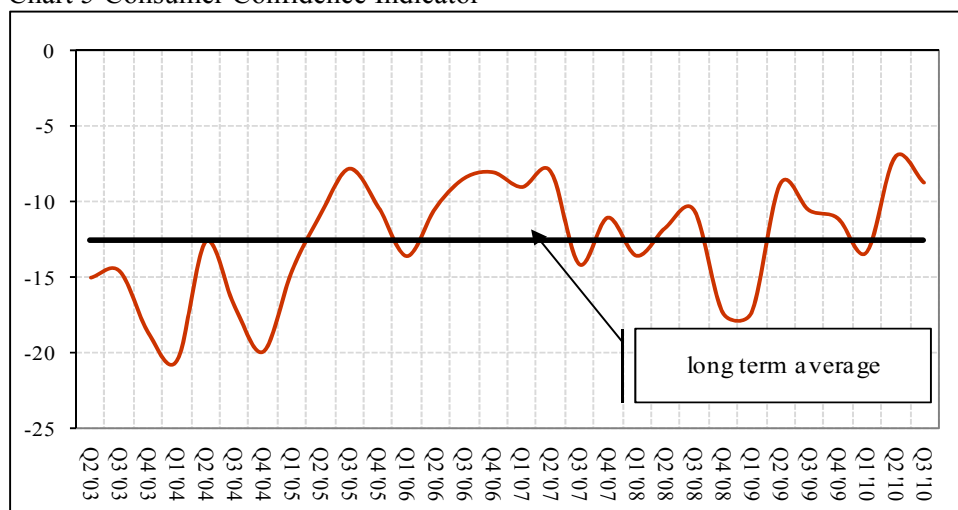
Capacity utilization rate in the services sector stood at 75.0 percent in the third quarter of 2010, down by 1.9 percentage points compared to the previous quarter and about 0.8 points below the long-term average.

Service-related businesses expect their *activity* to recover in the last quarter of 2010. In the same way, *employment situation* and *demand* in this sector are expected to improve.

Consumer Confidence

Consumer Confidence Indicator (CCI) fell slightly by 1.7 percentage points in the third quarter of 2010. Despite the quarterly fall, consumer confidence indicator currently stands 3.9 percentage points above its long-term average. The decline in the aggregated CCI owes to the combination of the reverse performance of its four constituent balances. The declining balances of responses on households' *current financial situation* (-2.6 percentage points), *expected economic situation* (-2.8 percentage points) and *financial situation* (-2.8 percentage points) contributed negatively on the aggregated indicator. Improvement in the *major purchases balance* (+1.3 points) was not sufficient to offset the negative contribution of the three foregoing balances.

Chart 5 Consumer Confidence Indicator



Source: Consumer Confidence Survey, Bank of Albania

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

Consumers continued to provide a negative assessment regarding their *current financial situation*. The latter's balance fell by 2.1 percentage points in the third quarter of 2010 compared to the previous quarter. Although the consumers' assessment of the *current economic situation* improved by 1.6 percentage points versus the second quarter, it still remains in negative territory. Consumers perceived an increased average living cost in the third quarter of 2010 compared to the previous quarter but lower compared to the previous year.

Consumers expect *unemployment* level in the following six months to remain at a similar level as in the last survey. About 38.9 percent of consumers expect unemployment to increase, while 18.9 percent of them expect it to be lower.

Based on consumers' quantitative assessments of the *annual inflation rate after 12 months*, the expected rate is +2.2 percent or 0.1 percentage points higher than their expected rate in the previous quarter. About 77.2 percent of consumers expect the annual inflation rate after 12 months to range between 2-4%.

Table 1 Confidence Indicators by sector*

| | Value since Q2 2002 | | | 2009 | | | | 2010 | | | Current situation | |
|--------------|---------------------|-------|------|-------|-------|-------|-------|-------|-------|-------|-------------------|---------------|
| | min. | aver. | max. | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Conjectural** | Structural*** |
| Industry | -17.4 | -2.3 | 6.2 | -17.4 | -15.3 | -10.5 | -10.3 | -7.2 | -6.6 | -8.6 | ↓ | - |
| Construction | -23.2 | -3.5 | 9.8 | -15.1 | -13.1 | -8.2 | -21.4 | -15.8 | -12.9 | -23.2 | ↓ | -- |
| Services | -9.1 | 4.0 | 21.8 | -3.6 | 5.2 | -1.9 | 1.9 | 6.5 | 5.8 | 5.5 | ↓ | + |
| Consumer | -20.5 | -12.6 | -7 | -17.3 | -8.8 | -10.5 | -11.1 | -13.4 | -7.0 | -8.7 | ↓ | ++ |

Source: Business and Consumer Confidence Survey, Bank of Albania

*) Excluding the Consumer Confidence Index, the balances of other indices are seasonally adjusted.

**) The situation compared to the previous quarter.

***) The situation for each index is regarded as very satisfactory (+ +) when the index is more than 1 standard deviation higher than the average; the situation is considered as satisfactory (+) when the index is less than 1 standard deviation higher than the average; the situation is considered as unsatisfactory (-) when the index is less than 1 standard deviation lower than the average; and the situation is considered as highly unsatisfactory (--) when the index is more than 1 standard deviation lower than the average.

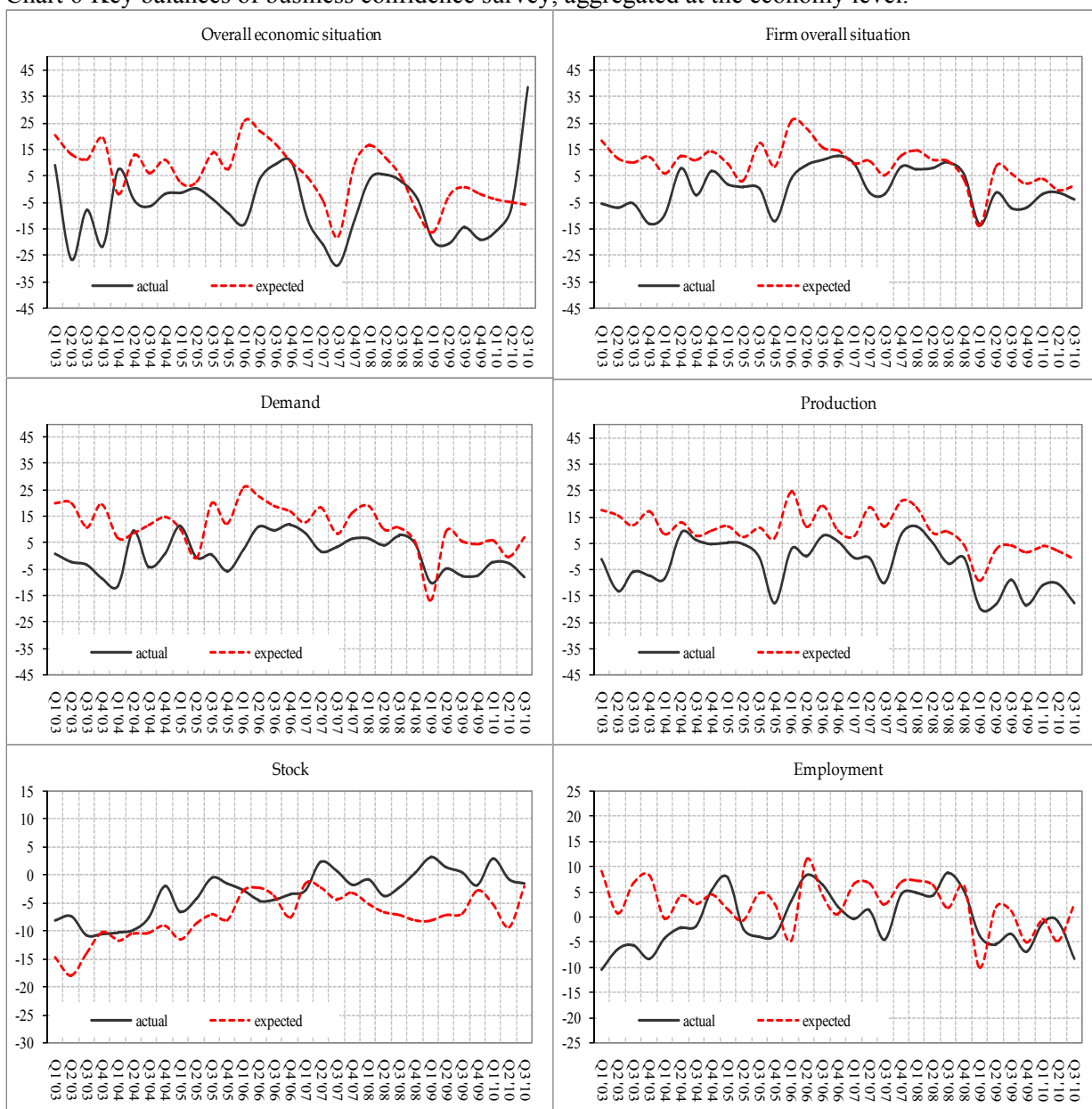
Table 2 Key balances of the sectors of economy*

| | 2009 | | | | 2010 | | | |
|---------------------------|-------|-------|-------|-------|-------|-------|-------|-------------------|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 - Expectations |
| Demand | | | | | | | | |
| Total | -16.3 | -11.0 | -10.0 | -12.8 | -6.8 | -5.4 | -11.5 | 5.6 |
| Industry | -30.1 | -25.1 | -16.2 | -16.2 | -7.5 | -6.2 | -12.4 | 7.8 |
| Construction | -18.7 | -13.0 | -10.1 | -27.2 | -21.2 | -13.8 | -23.2 | -2.9 |
| Services | 0.0 | 5.2 | -3.7 | 5.0 | 8.2 | 3.8 | 1.1 | 11.8 |
| Firm's overall situation | | | | | | | | |
| Total | -13.4 | -1.5 | -7.1 | -6.9 | -1.8 | -1.2 | -3.9 | 1.4 |
| Industry | -27.1 | -26.3 | -15.8 | -15.6 | -11.0 | -12.2 | -9.3 | 4.0 |
| Construction | -13.7 | -6.8 | -2.6 | -20.2 | -14.8 | -12.0 | -23.5 | -10.7 |
| Services | -9.1 | 8.5 | -6.6 | 2.0 | 7.2 | 7.1 | 7.0 | 6.3 |
| Production | | | | | | | | |
| Total | -19.3 | -16.3 | -9.9 | -16.1 | -9.4 | -8.6 | -14.8 | 2.4 |
| Industry | -27.7 | -22.9 | -14.6 | -14.4 | -8.7 | -9.4 | -11.1 | 8.4 |
| Construction | -14.1 | -15.1 | -5.2 | -21.2 | -12.6 | -11.1 | -21.8 | -6.7 |
| Consumer | | | | | | | | |
| Financial situation | -15.0 | -4.7 | -4.4 | -5.0 | -11.4 | -2.7 | -4.8 | 5.1 |
| Prices after 1 year, in % | 2.0 | 1.7 | 2.0 | 2.2 | 2.2 | 2.1 | 2.2 | |
| Large purchases | -50.5 | -42.3 | -43.8 | -43.4 | -49.2 | -41.1 | -39.8 | -37.6 |
| Savings | -52.2 | -50.6 | -47.4 | -49.0 | -49.4 | -42.8 | -43.9 | -40.3 |

Source: Business and Consumer Confidence Survey, Bank of Albania

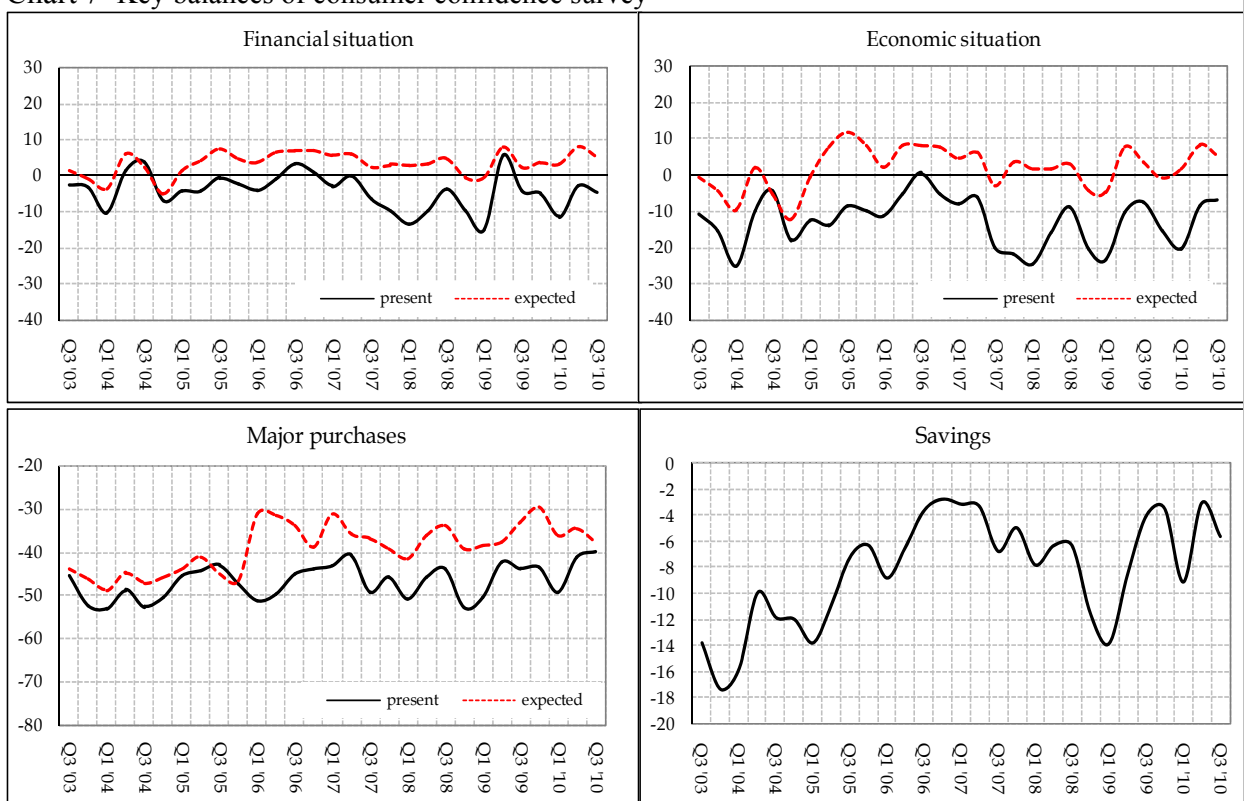
*) Excluding the Consumer Confidence Indicator, the balances of other indices are seasonally adjusted.

Chart 6 Key balances of business confidence survey, aggregated at the economy level.



Source: Business Confidence Survey, Bank of Albania

Chart 7 Key balances of consumer confidence 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 of the surveyed sectors and are calculated as the simple average of seasonally adjusted balances of those indicators, which have the highest concurrent correlation with the reference series (the real data series of the economy).

-Economic Sentiment Indicator (ESI) is made up of 13 balances used for the construction of confidence indicators for the four economic sectors, weighed 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.