

Bank of Albania



Business and Consumer Survey Results February 2011

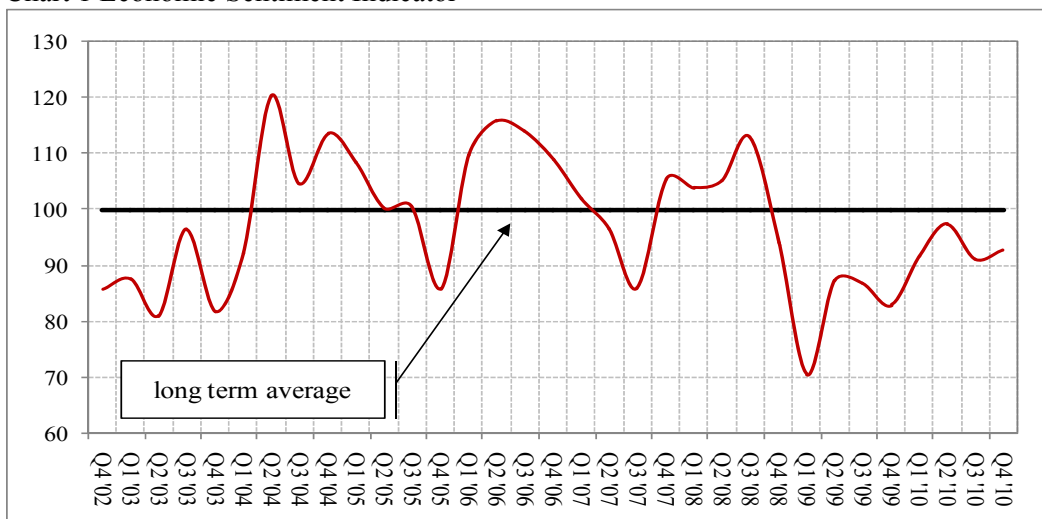
The next business and consumer survey results are scheduled for release on 15 April 2011.

Economic Sentiment Indicator¹

Economic Sentiment Indicator² (ESI) rose by 1.6 pp to 92.8 in the last quarter of 2010. After falling in the third quarter of 2010, its current level approached the long-term average again and stood 7.2 pp below it.

The recovery of confidence in industry and construction contributed to the increase of the ESI in the last quarter of 2010. Their confidence indicators rose by 5.5 and 7.3 pp, respectively. The recovery of confidence in manufacturing offset the decline of confidence in services and the deterioration of consumer confidence. Confidence in these two sectors fell by 2.2 and 1.6 pp, respectively.

Chart 1 Economic Sentiment Indicator



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

¹ Starting from the first release of 2011, the Economic Tendency Indicator (ETI) will be termed Economic Sentiment Indicator (ESI), in order to obtain a better approximation to the European Commission's methodology and designations.

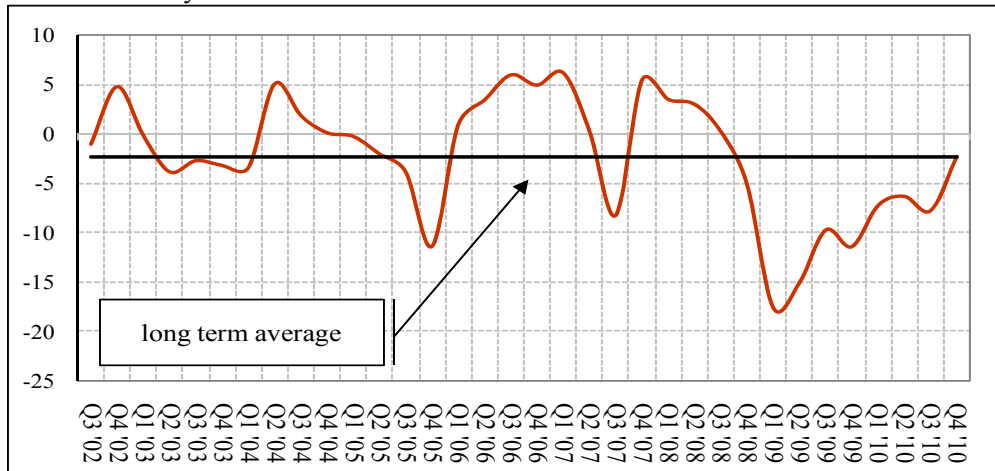
² The methodological explanatory notes to the way the Economic Sentiment Indicator (ESI), the Confidence Indicators (CIs) and the balance indicators are produced may be found in the annex or on the Bank of Albania website at:

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

Industry Sector

After experiencing a slight fall in the third quarter, Industry Confidence Indicator (ICI) rose by 5.5 pp in the last quarter of 2010. In general, the ICI has been pursuing an upward trend after hitting the record low in the first quarter of 2009. The recovery in the last quarter attributes to the rise in the balance of *industrial production* and *employment*³. The third ICI component, *inventories*, increased slightly, hence providing an adverse contribution to the general indicator. The current ICI stands at almost similar levels as its long-term average.

Chart 2 Industry Confidence Indicator



Source: Business Confidence Survey, Bank of Albania

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

According to the survey results of the last quarter of 2010, industry-related businesses assess that the *overall performance of the economy* and their *firm's situation* has improved. Their respective balances rose by 2.9 and 1.7 pp. The improved optimism owes to the less negative assessment of factors related to the presence of informal economy and other business-related specific factors. However, businesses state that the legal and institutional framework and relations with banks continue to represent the main factors hampering their normal activity.

Businesses state that total *demand* for their goods grew in the last quarter of 2010. The increase in the balance of *domestic demand* was more pronounced than that of foreign demand. Industrial *producer prices* rose continuously in the last quarter of 2010. Their balance has been pursuing an upward trend since the first quarter of 2009. *Capacity utilization rate* in industry rose slightly by about 1.3 pp to 68.7% in the last quarter of 2010. 87% of industry-related businesses consider that the current production capacity level is sufficient to meet the ordering contracts.

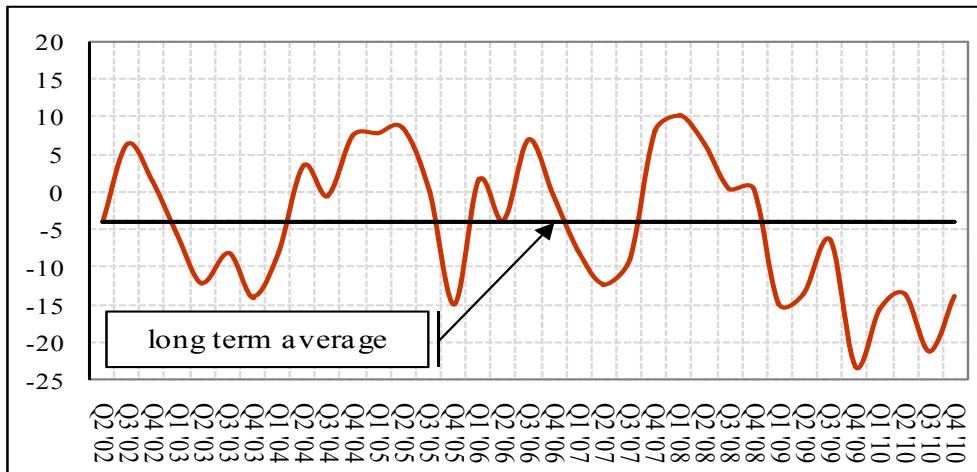
Industry-related business *expectations* for the first quarter of 2011 are optimistic. They expect *demand*, *production* and their *firm's overall situation* to continue to improve in the coming quarter.

³ See Annex.

Construction Sector

Confidence in construction improved substantially in the last quarter of 2010. Construction Confidence Indicator (BCI), which has fluctuated considerably since the first quarter of 2009, rose by 7.3 pp in the last quarter of 2010. It currently stands 9.7 pp below its long-term average. The recovery of the BCI in this quarter owes to the improvement in its three constituent balances: *demand, production and employment*.

Chart 3 Construction Confidence Indicator



Source: Business Confidence Survey, Bank of Albania

The following provides an analysis of selected indicators not included in the construction of the BCI:

Construction-related businesses state that the *overall economic performance* and their *firm's situation* have improved; their respective balances increased at similar rates in the last quarter of 2010. The recovery of confidence in the construction sector attributes to the less negative perception about the presence of informal economy and other construction-related concerns, like the acquirement of construction permits.

Capacity utilization in construction rose by 0.4 pp to 63.5% in the last quarter of 2010. It currently stands 4.3 pp below its long-term average. *Producer prices* rose in the last quarter of 2010. Construction-related businesses also report improved *financial situation* during this quarter.

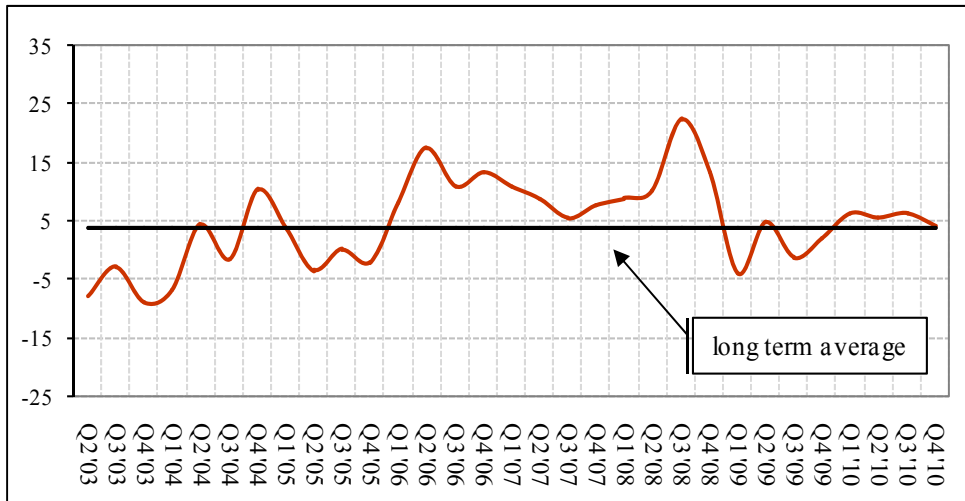
According to business opinions, *inventories* in construction increased in the last quarter of 2010. Despite the higher demand balance, the increase in the production balance was even more pronounced.

Construction-related businesses expect that the upward tendency in the *overall economic performance* and their *firm's situation* will persist in the first quarter of 2011. *Production* in construction is expected to increase in the first quarter in line with the expected growth in *demand*. *Producer prices* are expected to continue to rise slightly.

Services Sector

Services Confidence Indicator (SCI) dropped by about 2.2 pp in the last quarter of 2010. The SCI remains in positive ground (+4.7%), albeit lower, and almost equal to its long-term average. Service businesses state that the *firm's overall economic activity* and *business financial situation* was positive but downward compared to the previous quarter (down by 3.9 and 3.3 pp, respectively). The improved balance of the *current employment situation* did not offset the adverse developments in the other two SCI components.

Chart 4 Services Confidence Indicator



Source: Business Confidence Survey, Bank of Albania

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

After providing a highly optimistic assessment in the third quarter of 2010, services businesses downgraded their assessment of the *overall economic situation* at home in the last quarter. The *legal framework and its enforcement*, and *relations with banks* are ranked among the main factors to hamper the normal activity in the services sector. They provided a similar assessment of *public order and security*, *infrastructure concerns* and *political situation at home* as in the previous quarter.

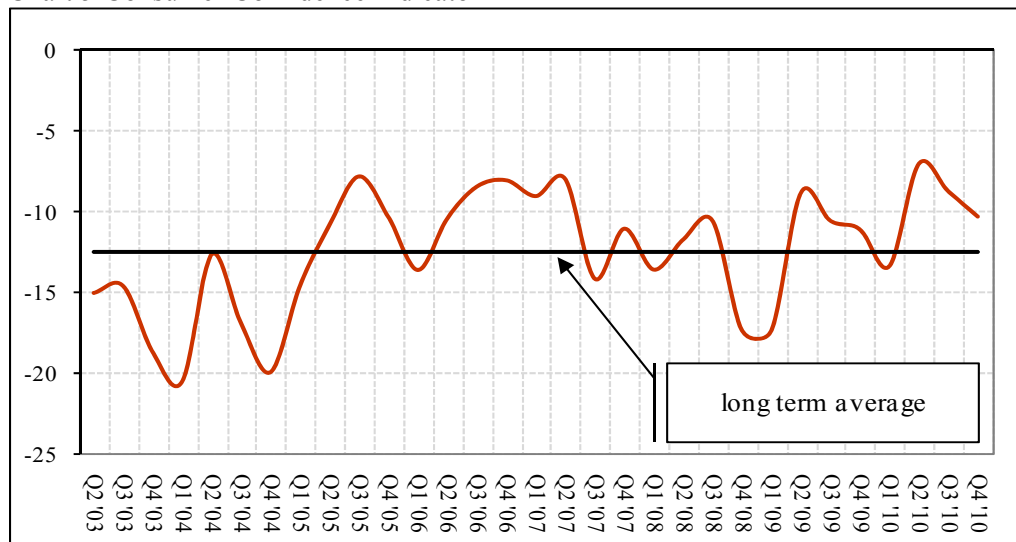
Capacity utilization rate in the services sector stood at 72.1% in the last quarter of 2010, down by about 2.9 pp from the previous quarter and 3.6 pp below its long-term average. Business rank *insufficiency of demand* and *financial constraints* they are faced with as the main factors that hamper the full utilization of capacities. *Getting a bank loan* is considered the best option to cope with financial constraints.

Service-related businesses *expect* their *firm's overall economic situation* to recover in the first quarter of 2011. Expectations for *employment* and *demand* in this sector are also on the rise.

Consumer Confidence

After deteriorating in the third quarter of 2010, Consumer Confidence Indicator (CCI) fell by 1.6 pp in the fourth quarter. Despite the second consecutive drop, it currently stands about 2.2 pp above its long-term average. The drop in the CCI owes mainly to the adverse developments in three out of its four components. The decline in the balance of responses on *large household purchases* (-4.1 pp), *the expected economic situation* (-1.4 pp) and *financial situation* (-1.4 pp) provided a negative contribution to the aggregated indicator. The improvement in the balances of responses on *the current financial situation* (+0.7 pp) 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 selected indicators not included in the construction of the CCI:

Consumers stated that their *current financial situation* deteriorated further in the last quarter of 2010. Its balance fell by about 2.2 pp compared to the previous quarter. After improving slightly in the third quarter, consumers' assessment of the *current economic situation* deteriorated by about 6.2 pp in the last quarter. In addition to the almost unchanged expectations for consumer prices after 3 and 12 months, the living cost remained at similar levels as in the previous quarter.

Consumer expectations for *unemployment* in the next half of the year resulted more pessimistic than in the previous survey. The current survey results show that 36.8% of consumers expect unemployment to increase, while 16.4% expect it to fall.

Based on consumers' quantitative assessment of the *annual inflation rate after 12 months*, the expected rate is +2.2%, almost similar as stated in the previous quarter. About 80.2% of respondent consumers expect annual inflation rate after 12 months to range between 0-4%.

Table 1 Confidence indicators by sector*

	Value since Q2-2002			2009			2010				Current situation	
	min.	aver.	max.	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Conjectural**	Structural***
Industry	-17.5	-2.5	6.2	-15.0	-9.7	-11.4	-7.2	-6.3	-7.7	-2.3	↑	+
Construction	-23.2	-4.1	10.2	-13.6	-6.3	-23.2	-15.5	-13.4	-21.1	-13.8	↑	--
Services	-9.2	4.0	22.4	4.9	-1.3	1.9	6.2	5.6	6.2	4.1	↓	+
Consumer	-20.5	-12.6	-7	-8.8	-10.5	-11.1	-13.4	-7.0	-8.7	-10.3	↓	+

Source: Business and Consumer Confidence Survey, Bank of Albania

*) Excluding the Consumer Confidence Index, the balances 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				
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q4-Expectations
Demand								
Total	-11.2	-8.0	-14.2	-7.2	-5.6	-9.3	-4.9	13.4
Industry	-25.1	-14.5	-17.8	-7.7	-6.1	-10.4	-4.8	13.9
Construction	-13.4	-8.0	-29.1	-21.0	-14.2	-20.9	-14.8	13.0
Services	4.8	-1.5	4.2	7.1	3.4	3.6	4.8	13.4
Firm's overall situation								
Total	-8.5	-7.4	-12.1	-6.0	-6.0	-7.6	-6.2	9.2
Industry	-25.9	-15.3	-16.8	-10.7	-11.7	-8.8	-7.1	10.1
Construction	-6.7	-1.6	-22.0	-14.2	-11.9	-22.4	-16.7	14.0
Services	7.2	-5.4	2.5	6.9	5.7	8.3	4.5	3.5
Production								
Total	-19.2	-7.6	-20.0	-10.7	-10.3	-14.0	-7.2	12.7
Industry	-28.1	-22.	-13.0	-16.3	-9.1	-8.7	-9.3	-2.4
Construction	-13.6	-16.2	-2.2	-23.6	-12.3	-12.0	-18.2	-12.1
Consumer								
Financial situation	-4.7	-4.4	-5.0	-11.4	-2.7	-4.8	-7.0	3.7
Prices after 1 year, in %	1.7	2.0	2.2	2.2	2.1	2.2	2.2	
Large purchases	-42.3	-43.8	-43.4	-49.2	-41.1	-39.8	-43.9	-31.5
Savings	-50.6	-47.4	-49.0	-49.4	-42.8	-43.9	-44.2	-39.1

Source: Business and Consumer Confidence Survey, Bank of Albania

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

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

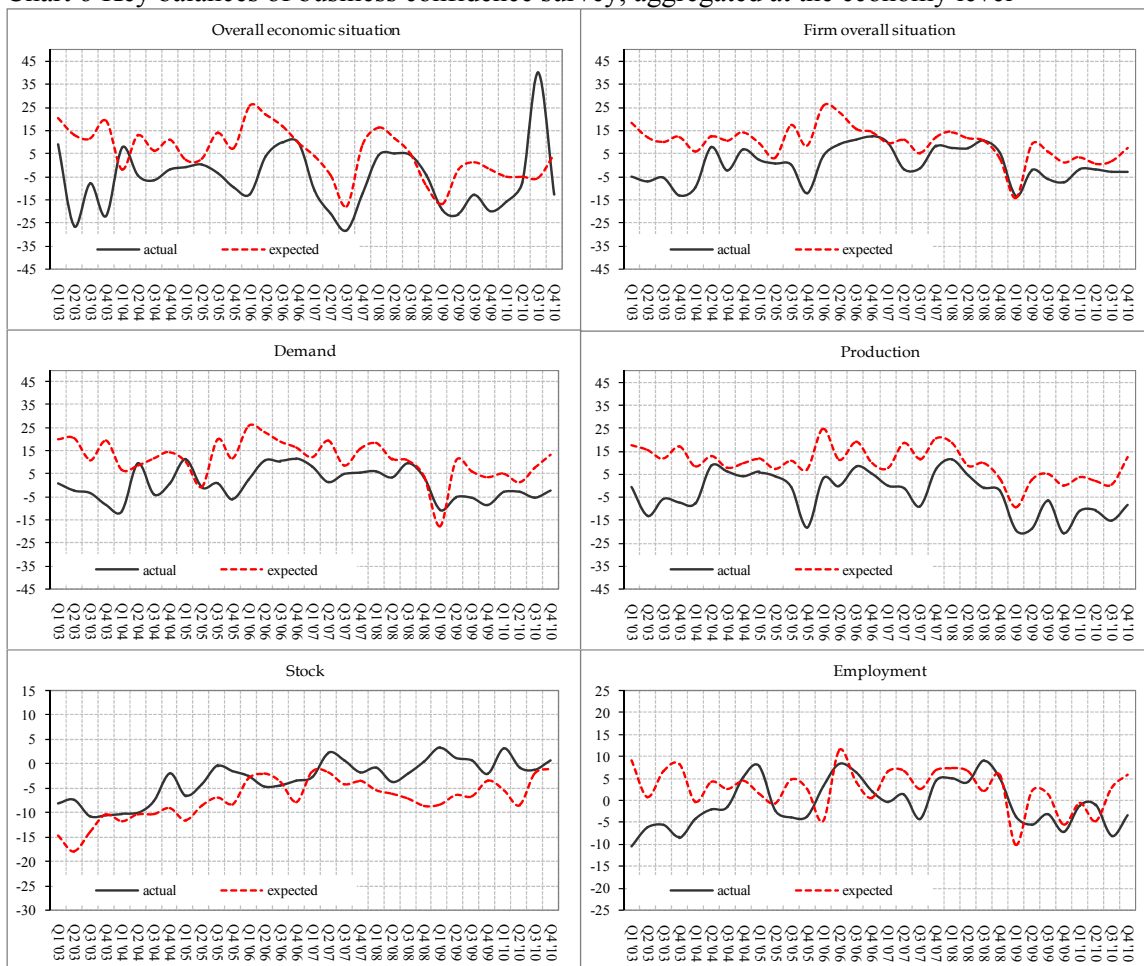
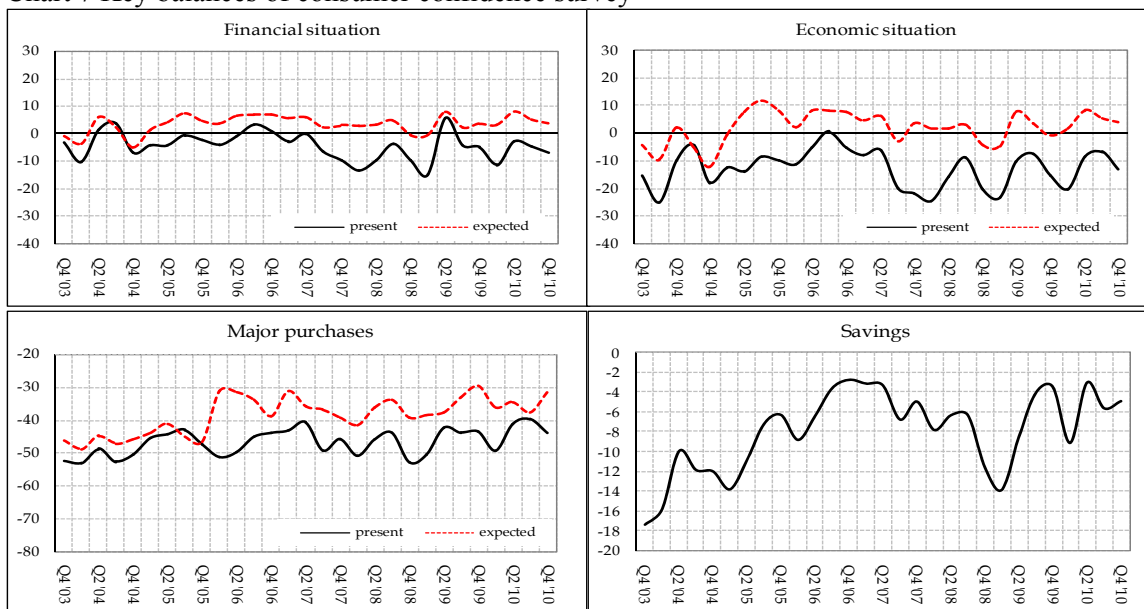


Chart 7 Key balances of consumer confidence survey



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 percentage of positive and negative answers. 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. The ESI tracks through a single indicator the sentiment on the country's economic activity obtained from the two principal economic groups, businesses and consumers.