Bank of Albania

Business and Consumer Survey Results

April 2011

The net business and consumer survey results are scheduled for release on 15 July 2011.

Economic Sentiment Indicator

Economic Sentiment Indicator (ESI) fell by 7.3 pp in the first quarter of 2011.[1] Its current level (85.3) stays 14.7 pp below its long-term average.

The drop of confidence in services and the decline of consumer confidence contributed to the deterioration of ESI. On the other side, the rising trend of confidence in industry and the improvement of confidence in construction provided a positive contribution to ESI upsurge. Notwithstanding, their positive trend failed to offset the negative contribution of the other two components.

Chart 1: Economic Sentiment Indicator
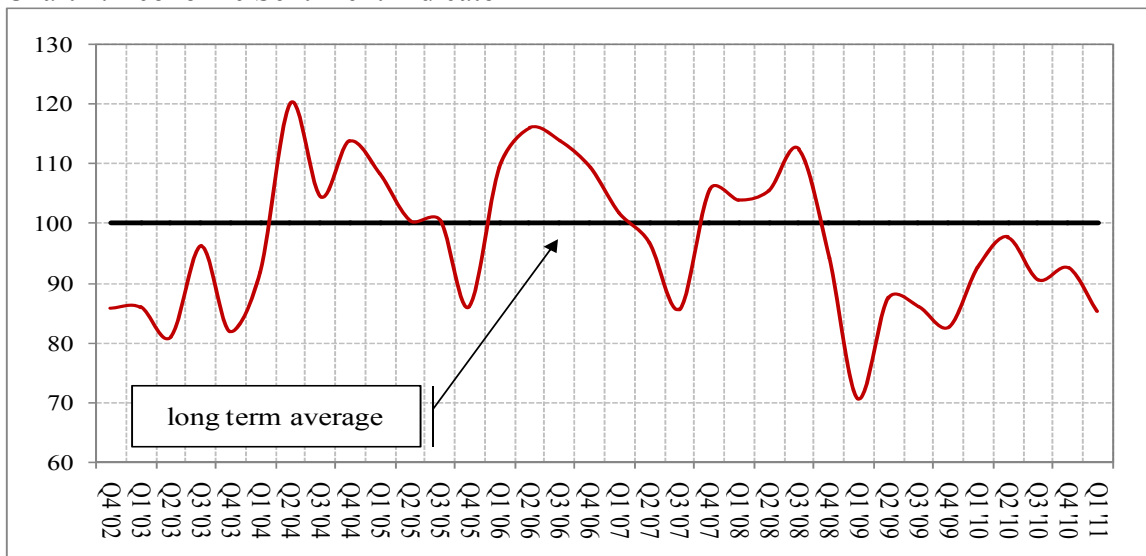
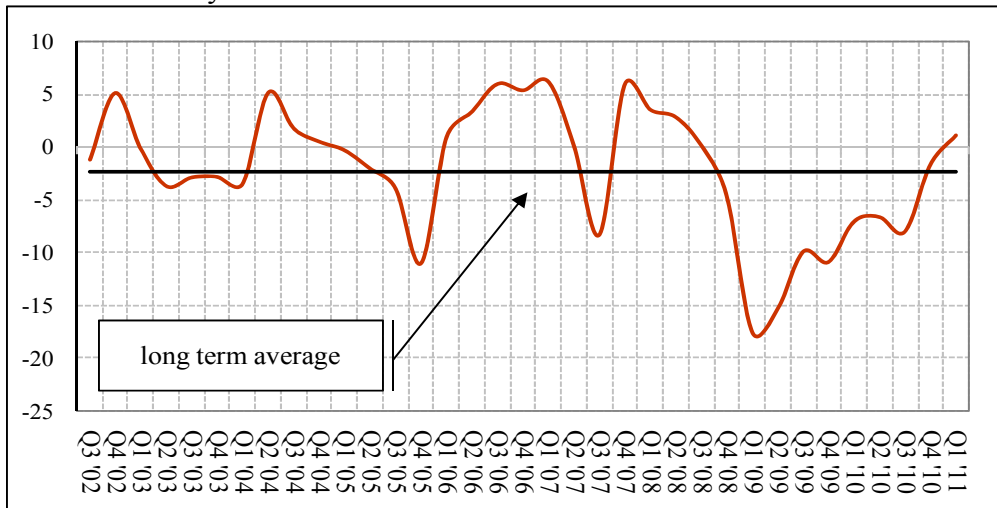Source: Business Confidence Survey and Consumer Confidence Survey, Bank of Albania

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[1] The methodological explanatory notes to 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_shqip_2301_1.pdf

Industry Sector

The Industry Confidence Indicator (ICI) rose by 2.8 pp in the first quarter of 2011, pursuing the upward trend marked in the previous quarter. ICI level stood, over this quarter, upper its long-term average, for the first time since the third quarter of 2008. The recovery of ICI attributes mainly to the rise in the balance of *industrial production* by 10.4 pp.[2]. The reduction of *inventories* (balance fell by -1.8 pp) provided a positive contribution to the increase of ICI. The drop in the balance of *employment* in this sector provided an adverse contribution to the general indicator of ICI for the first quarter of 2011.

Chart 2: Industry Confidence Indicator

Source Business confidence Indicator, 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 first quarter 2011, industry-related businesses assess that the *overall performance of the economy* and their *firm's situation* has being climbing. Their respective balances rose by 7.2 and 11.3 pp. Overall, the factors hampering the industry-related businesses' activity have provided a lower impact relative to the forth quarter of 2010. In particular, *security situation and public order, legal and institutional framework as well as the relationships with banks and financial sector have lowered their negative effect on business industry activity*. Businesses have assessed "*the presence of corruption and informal economy*" as the main factors hampering their normal activity.

Businesses state that total *demand* for their goods grew over this quarter. The increase in the balance of *foreign demand* was more pronounced than that of domestic demand. Industry-related businesses reported their production prices pursued the upward trend even over the first quarter of 2011. This rising trend was evident since the first quarter of

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[2] See Annex.

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2009. In line with the production demand and prices developments, the businesses financial balance appears improved in the first quarter of 2011.

Capacity utilization rate in industry rose by 2 pp form the quarter ahead, pointing to 70.7% in the first quarter of 2011. 85.6% of industry-related businesses consider that the current production capacity level is sufficient to meet the ordering contracts, which marked a slight fall. 14.3% of industry-related businesses consider that the current production capacity level is insufficient. 21.7% of businesses have conducted new investments mainly consisting of replacing the damaged equipment as well technological improvements.

Industry related *expectations* for the second quarter of 2011 are optimistic. They expect their *firm overall situation to improve*, increase of the industrial production related *demand* and *exports*. Also, 21.7% of businesses plan to conduct new investments, in replacing the damaged equipment, technological improvements and less in enlarging the producing capacities.

Construction Sector

Construction Confidence Indicator (CCI) rose by 3.4 pp in the first quarter of 2011, thus improving for the second quarter in succession. CCI positive improvements owed to the improved assessment of construction–related businesses regarding *demand and production*. The deterioration of unemployment situation failed to counter balance the upsurge positive effect in both other CCI components. CCI current level is somewhat approached to its long-term average and stands only 4.7 pp below its rate.

Chart 3: Construction Confidence Indicator
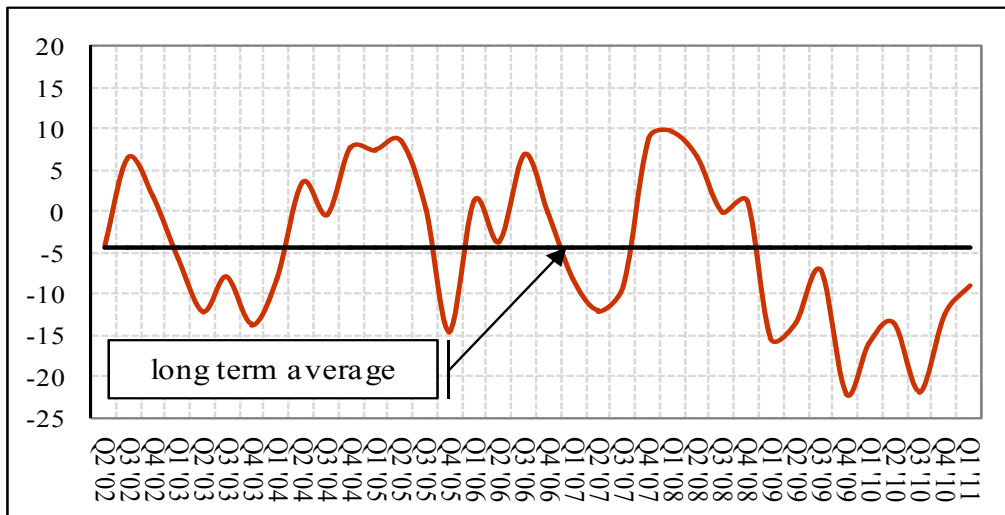
Source: Business Confidence Survey, Bank of Albania

<u>The following provides an analysis of selected indicators not included in the construction of the CCI:</u>

Construction-related businesses raised their assessment with regard to both the *overall economic performance* and *their firm's situation, in the first quarter of 2011*. The climbing of construction-related businesses' optimism owes to the less negative impact of problems related to *infrastructure*, *relationships with banks* and *financial sector*, as well as with the *legal and institutional framework*. Industry-related businesses assess at a higher degree the *political climate at home*, as the factor hampering their normal activity.

Notwithstanding the more optimistic assessment of production, construction-related businesses reported that the level of construction capacity utilisation, in the first quarter, pointed to 61.0%, about 6.6 pp below the long-term average. This rate, declining by 2.5 pp from the forth quarter of 2010, marked the lowest degree of capacity utilisation compared to the other sectors of economy. *The production prices* in construction are assessed at increasing in the first quarter 2011, pursuing the upturn recorded ion both previous quarters. *The construction inventories situation* is assessed decreasing, in the first quarter of 2011. Also, businesses' financial situation improved in the first quarter 2011 based on the construction-related businesses' opinion.

The balance of new investments, conducted during the previous half of year, rose by 22.0 pp, standing at the same level with the historical average. The investments conducted in this sector have been focused on the replacement of the damaged equipment and technological improvements.

Businesses' *expectations* with regard to different business aspects for the second quarter of 2011, however at a higher level than the assessment about the current situation, are decreasing compared to the expectations expressed in the forth quarter of 2010, by increasing the uncertainty regarding the persistence of confidence strengthening in the subsequent quarter.

Services Sector

Services Confidence Indicator (SCI) dropped by 8.6 pp in the first quarter of 2011. This drop pursued the fall started since the forth quarter of 2010, SCI declined by 2.8 pp during that period. Currently, SCI stands about 9.6 pp below its long-term average. The deterioration in SCI, in the first quarter of 2011, was negatively affected by all its constitutive balances. The fall in assessment of the business *overall situation* provided the main contribution to the drop of SCI. The respective balance marked the most pronounced downturn compared to the other balances, by -13.9 pp, respectively. Businesses' assessments about the *employment* situation and *their financial situation* affected in the same direction, but at a lower degree. Their balance fell by 3.6 and 8.2 pp, respectively.

Chart 4: Services Confidence Indicator
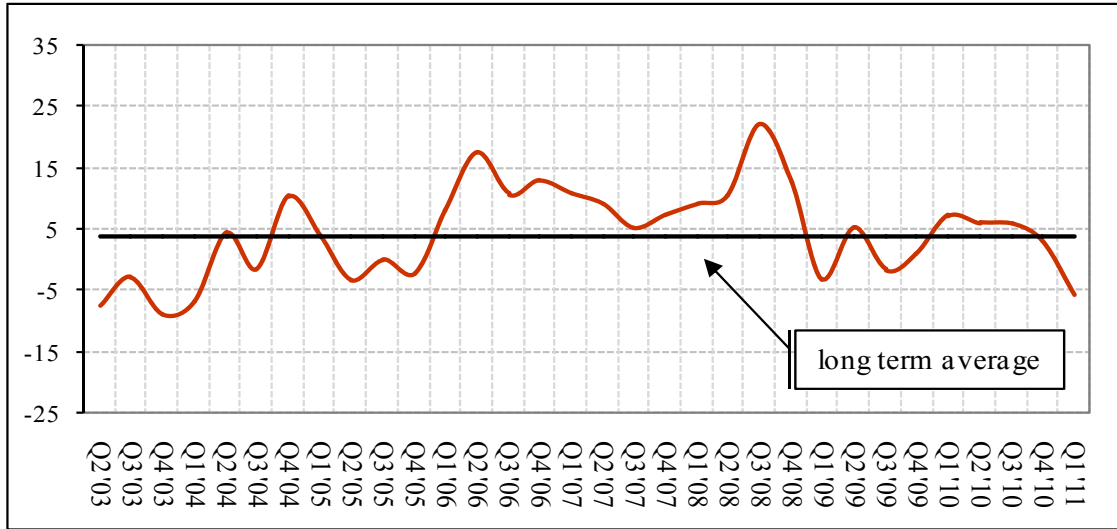
The following provides an analysis of selected indicators not included in the construction of the SCI:

In contrast to businesses' assessments about aspects related to their activity, *the overall economic situation* is estimated in improving. The respective balance rose by 1.3 pp in the first quarter of 2011. *The domestic political climate, public order and security situation at home* are assessed at a higher degree, as factors which hamper the normal conduction in services sector, in the first quarter of 2011. "*Relationships with banks*" is the only one factor recording an improvement in this quarter.

Demand in services sector has been falling in the first quarter of 2011. The respective balance dropped by 7.7 pp. *Capacity utilisation rate* resulted at 69.8% in the first quarter of 2011, about 2.3 pp lower relative to the quarter ahead and about 5.7 pp below its long-term average.

Service-related businesses are optimistic regarding the *overall economic situation* at home, for the first quarter of 2011, but pessimistic regarding their *firm aspects*. Expectations for *employment* and *demand* in the coming quarter and *investments* expectations over the coming half of year are on the fall.

Consumer Confidence

Consumer Confidence Indicator (CCI) persisted to fall in the first quarter of 2011 for the third consecutive drop. After it dropped by 1.7 and 1.6 pp in the third and forth quarter of 2010, CCI dropped by 3.1 pp in the first quarter of 2011, standing about 1.0 pp below its long-term average. The fall in the CCI owes mainly to the more negative assessment about the firm of large purchases and the deterioration of the current financial situation. Their balances fell by 6.4 and 6.2 pp, respectively. Also, the balance of expectations on the current financial situation in the coming quarter recorded a decline by 0.3 pp in the first quarter of 2011. The only one constitutive CCI components recording a slight improvement are the expectations for the economic situation, whose balance improved by 0.2 pp.

Chart 5: Consumer Confidence Indicator
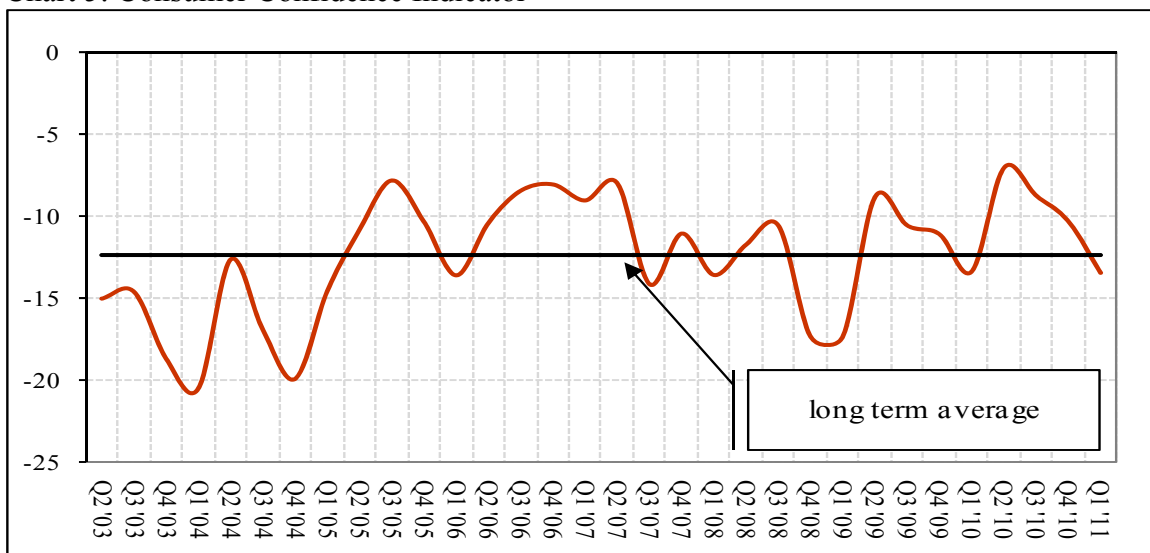
Source: Consumer Confidence Survey, Bank of Albania

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

Consumers' assessment of the current financial situation and the economic situation at home, decreased in the first quarter of 2011. The balances of these questions have been dropping by 6.5 and 7.1 pp, respectively. *Living cost* is assessed to have been increased in the first quarter of 2011 relative to the previous year, whereas *prices* are expected to rise in the next quarter, but to fall somewhat after one year.

Survey results of the first quarter of 2011 expect *unemployment* rate to increase in the next half of year. The respective balance pointed an increase by 3.3 pp.

Based on consumers' quantitative assessment of the *inflation rate after 12 months*, the expected rate pointed to +2.3%, 0.1 pp higher relative to that of the previous quarter.

Table 1: Confidence indicators by sector[*]

	Value since Q2-2002			2009		2010				2011	Current situation	
	min.	aver.	max.	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Conjectural**	Structural***
Industry	-17.5	-2.5	6.1	-9.9	-10.9	-7.1	-6.7	-8.0	-1.7	1.0	↑	+
Construction	-23.2	-4.1	10.2	-7.0	-21.9	-15.6	-13.6	-21.9	-13.4	-8.9	↑	-
Services	-9.2	4.0	22.4	-1.7	0.9	7.2	6.1	5.8	2.9	-5.6	↓	--
Consumer	-20.5	-12.6	-7	-10.5	-11.1	-13.4	-7.0	-8.7	-10.3	-13.4	↓	-

Source: Businesses and Consumers 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
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Table 2: Key balances of the sectors of economy *

	2010				2011	
	Q1	Q2	Q3	Q4	Q1	Q1-expecattions
Demand						
Total	-7.2	-5.8	-10.0	-4.0	-3.0	6.9
Industry	-8.5	-6.2	-11.2	-2.8	2.1	14.6
Construction	-20.8	-14.6	-22.3	-13.2	-7.3	-3.7
Services	7.8	3.5	3.7	4.0	-3.7	8.3
Firm's overall situation						
Total	-5.8	-5.8	-8.4	-5.8	-4.0	7.8
Industry	-11.2	-11.9	-9.2	-5.9	5.4	13.7
Construction	-14.6	-12.9	-23.0	-14.0	-6.2	4.3
Services	8.5	7.2	7.0	2.6	-11.3	5.4
Production						
Total	-11.4	-10.8	-14.6	-5.2	3.0	9.5
Industry	-9.2	-9.5	-10.0	-0.5	9.9	15.4
Construction	-13.7	-12.1	-19.2	-9.9	-3.9	3.6
Consumer						
Financial situation	-11.4	-2.7	-4.8	-7.0	-13.4	3.4
Prices after 1 year, in %	2.2	2.1	2.2	2.2	2.3	
Large purchases	-49.2	-41.1	-39.8	-43.9	-50.3	-41.6
Savings	-49.4	-42.8	-43.9	-44.2	-50.5	-44.7

Source: Businesses and Consumes Confidence Survey, Bank of Albania
*) Excluding the Consumer Confidence Index, the balances of other indices are seasonally adjusted.

Chart 6: Key balances of businesses confidence survey, aggregated at the economy level.
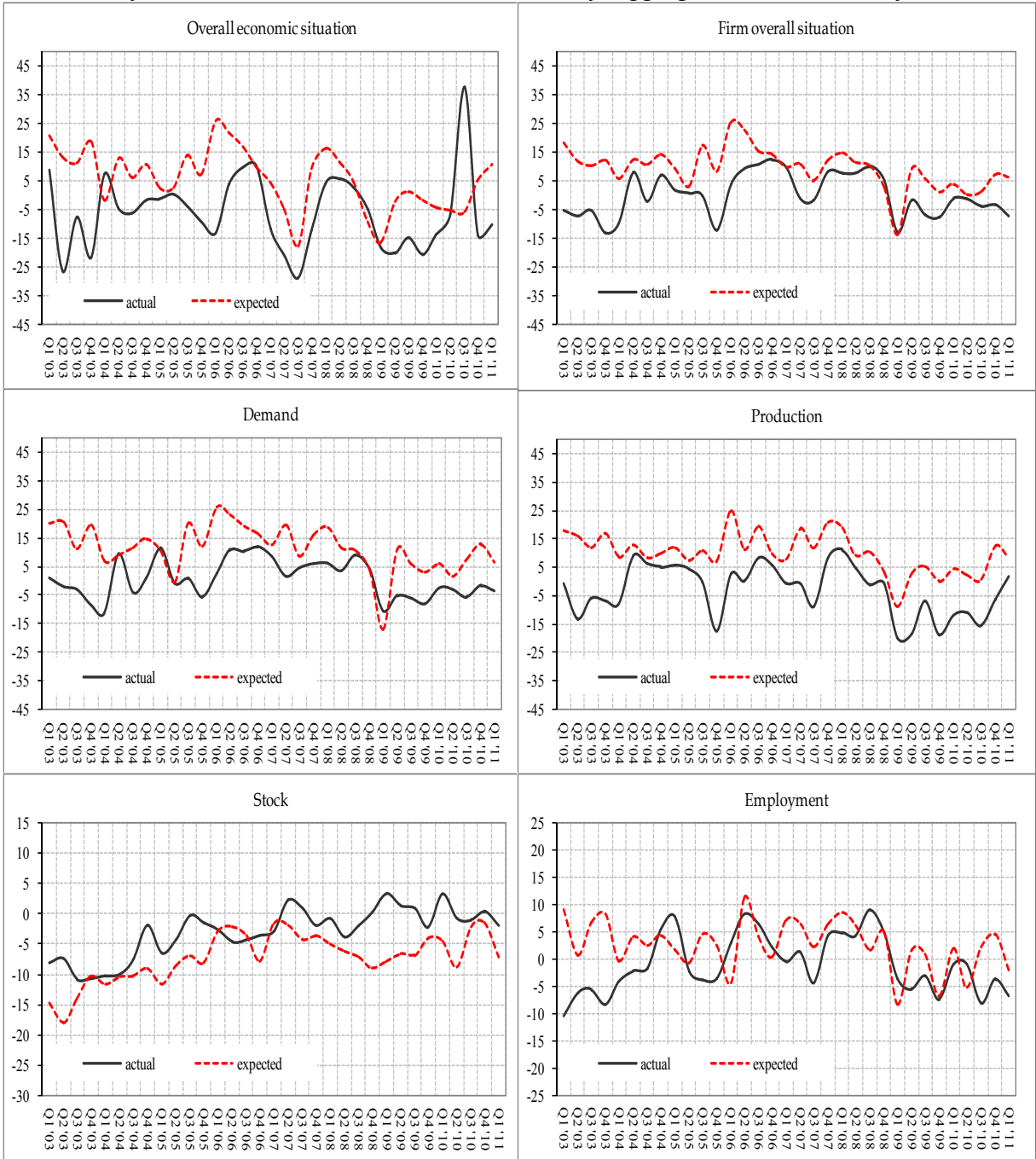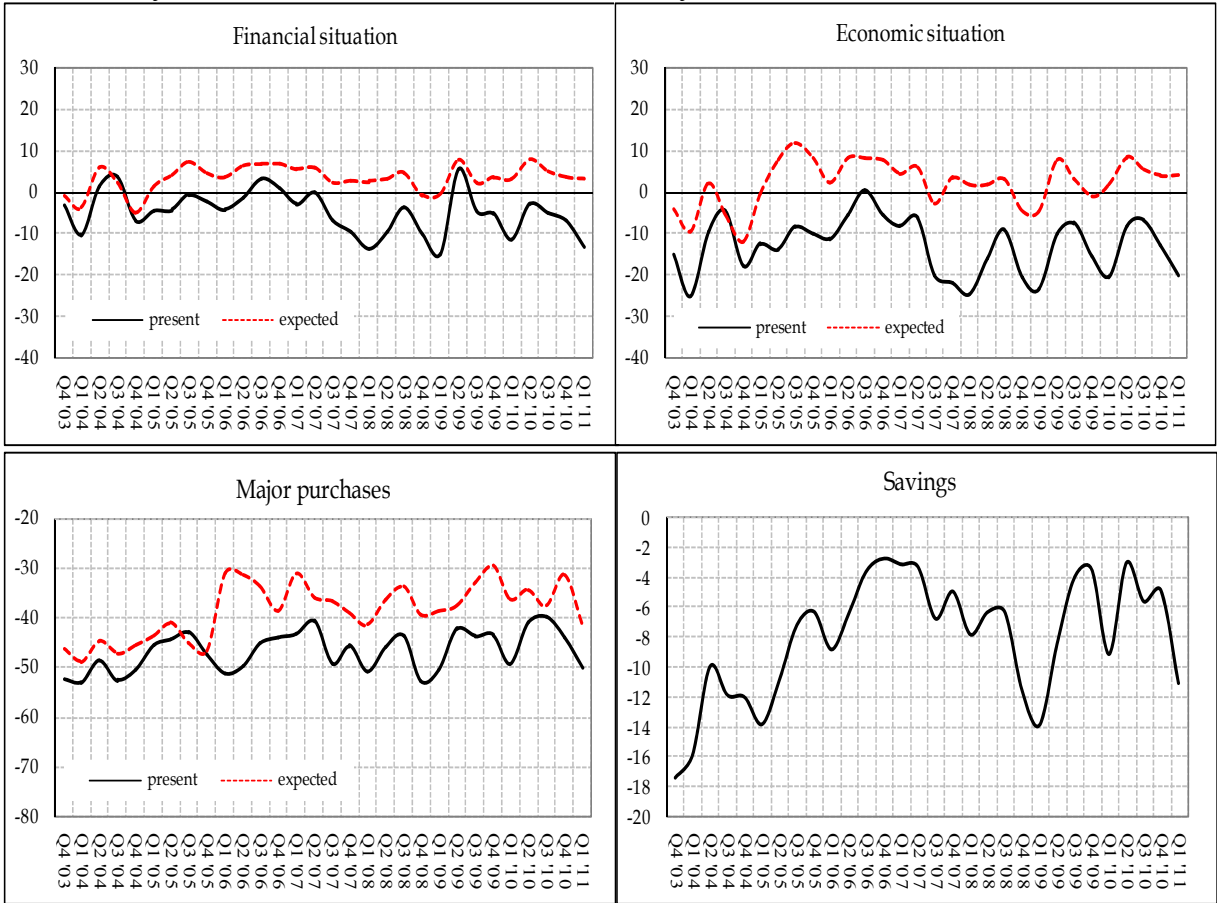
Chart 7: Key balances of consumer confidence survey

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.