

# Bank of Albania



## Business and Consumer Survey Results

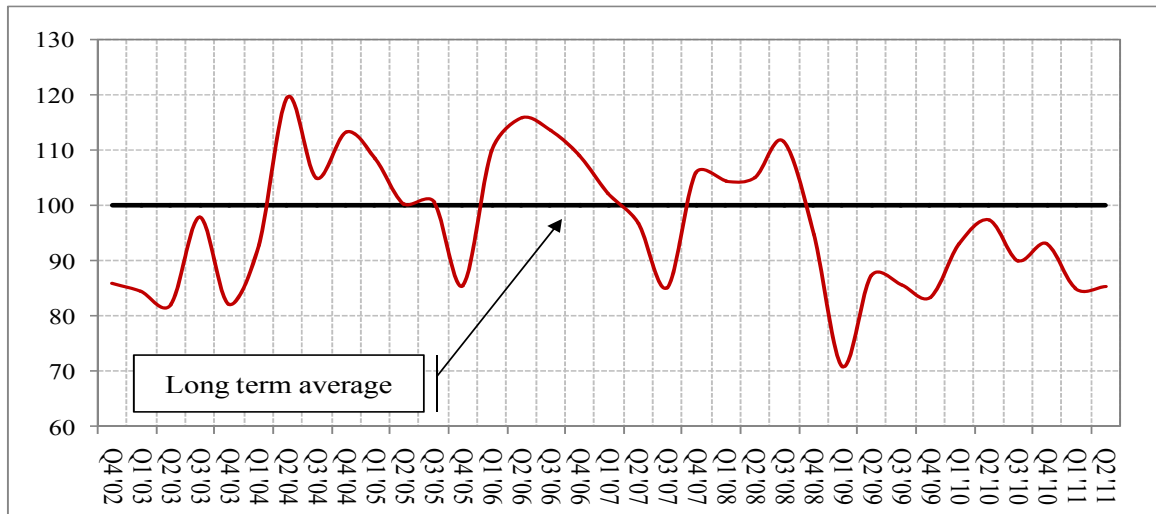
July 2011

### Economic Sentiment Indicator<sup>1</sup>

Economic Sentiment Indicator (ESI) has picked up slightly by about 0.4 pp in the second quarter of year 2011. Its current level (85.4) is about 14.6 pp below its long-term average.

The current level of ESI was determined by the developments of its components in opposite directions. The decline of confidence in construction and industry impacted negatively on ESI. On the other hand, the increase of consumer and services confidence provided a positive contribution to ESI.

Chart 1 Economic Sentiment Indicator



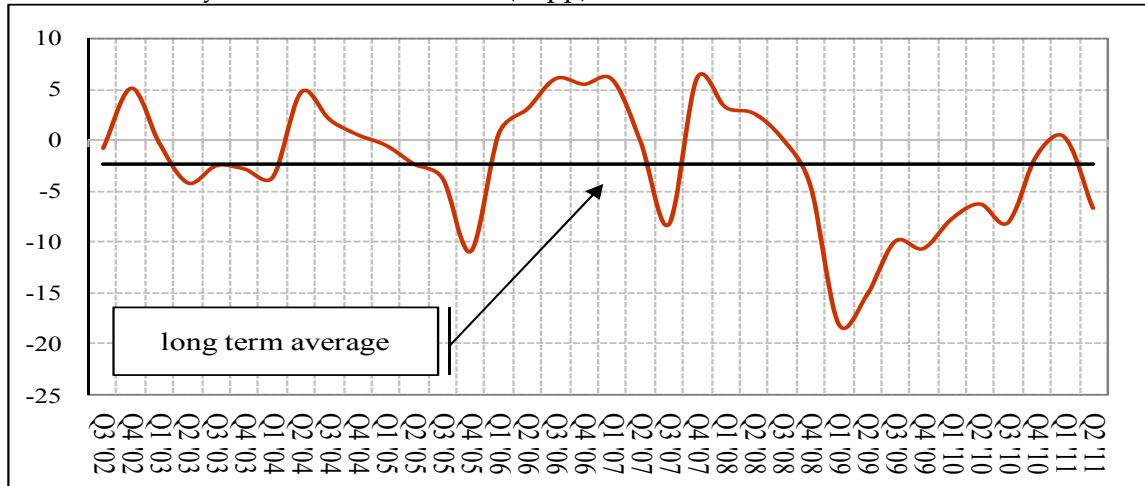
Source: Business Confidence Survey and Consumer Confidence Survey, Bank of Albania.

### Industry Sector

<sup>1</sup> Starting since the second quarter of year 2011, two amendments are made in the business confidence indicators: (i) the sample, based on which the Services Confidence Indicator (SCI) is built up, increased in 200 enterprises which operate in this sector, excluding trading; (ii) with regard to the trade, it is constructed a new sample and it is being working to build up a specific confidence indicator.

The Industry Confidence Indicator (ICI) fell by 6.9 pp in the second quarter of year 2011, after the increase of the two successive quarters. During this quarter, ICI level stays at about 4.3 pp below its long-term average. The worsening of ICI is mainly attributable to the decrease in the *industrial production*, whose balance dropped by -17.3 pp. The rise of *inventories* (balance increased by 6.2 pp) also provided a negative contribution to ICI. On the other side, the slight improvement by about 2.6 pp in the balance of *employment situation* in industry provided a positive contribution to the aggregate indicator.

Chart 2. Industry Confidence Indicators (in pp)



Source: Business Confidence Indicator, Bank of Albania.

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

Industry-related business assess that the *performance of the economy* and the *overall situation of their businesses* has been dropping in the second quarter of 2011. The balances fall respectively by 14.9 and 13.2 pp, relative to the previous quarter. Generally, all factors restricting the activity of industry related enterprises have provided a higher impact relative to the first quarter of 2011. Particularly, *security situation and public order, the legal and institutional framework* and *the relationships with banks and financial sector* increased the negative impact on the industry-related businesses activity. Business assess that " *the existence of corruption and informal economy*" is the key factor which restricts their normal activity over this quarter.

During the second quarter of year 2011, *the domestic and foreign demand* for industry –related products has been declining. Industry-related business has reported a stoppage of the *output price rise* during the second quarter of 2011. Relevant balance pointed to 9.4% from 19.9% in the previous quarter. This development follows the consecutive upsurge in the *prices balance of output* noted since the first quarter of 2009. In line with the developments in the demand of and prices of output, the industry-related business’s financial situation worsened in the second quarter of year 2011.

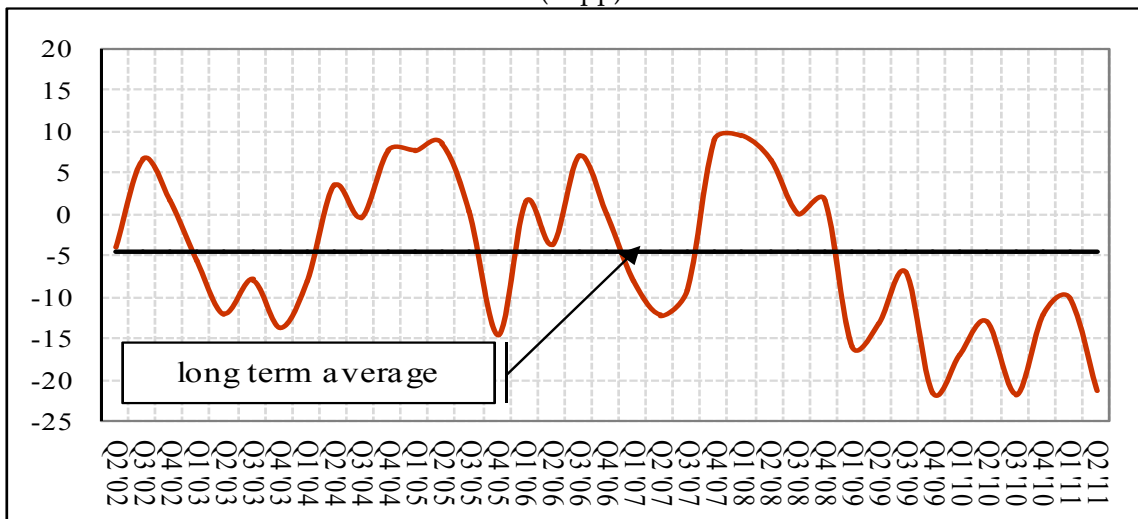
Capacity utilization rate in industry rose by 2.2 pp from the previous quarter, pointing to 72.9% in the second quarter of 2011. About 76.6% of this sector-related business considers that the current production capacity level is sufficient considering the ordering contracts, which have recorded a slight fall. On the other hand 10.9% of businesses deem that the current rate of capacities utilization is insufficient.

Industry sector expectations for the third quarter of year 2011 are optimistic. Businesses in this sector expect a recovery of *the overall business situation*, an increase of the *domestic and foreign demand* and a reduction of *inventories*. Also, businesses forecast a growth of *output* and of the *employment rate* in the third quarter of 2011.

### Construction sector

Construction Confidence Indicator (CCI) fell by 11.2 pp in the second quarter of 2011. The confidence in this sector deteriorated, after the improvement in the two previous quarters. The negative developments in CCI were mainly influenced by the decrease in *the output situation* and *demand*. The slight decrease of the *employment situation* in this sector also provided a negative contribution to the aggregated indicator. Current CCI rate is 16.9pp lower than its long term average.

Chart 3 Construction Confidence Indicator (in pp)



Source: Business Confidence Survey, Bank of Albania.

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

Construction-related businesses decreased their evaluation regarding *the overall economic situation* and their *overall business situation*. The fall of optimism of the construction-related businesses is attributable to the negative impact of problems related to *infrastructure, relationships with banks and the financial sector, as well as the legal and institutional framework*. Energy supply problems have restricted to a higher degree the industry related businesses normal activity.

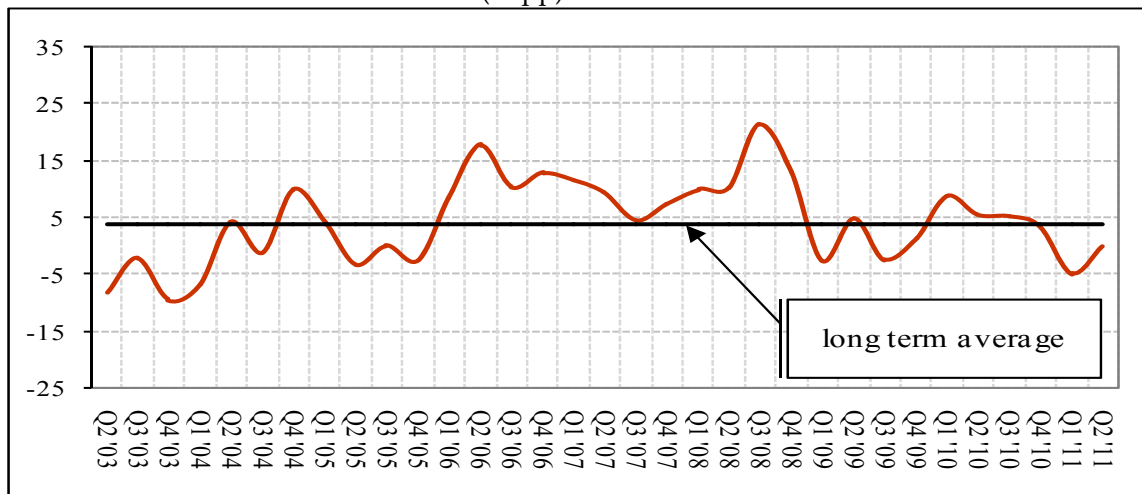
Notwithstanding the negative evaluation of output situation, construction-related business reported that the rate of constructing capacities *utilization* in the second quarter of 2011 is 66.2%, only 0.8 pp below its long-term average. This utilization rate is about 5.2 pp higher compared with the previous quarter. Over the second quarter of 2011, construction-related businesses state a slowness of *output prices* increase and a climbing of *inventories situation*. *Financial situation* of businesses also worsened in the second quarter of 2011, based on construction-related businesses assessments.

*Expectations* for the third quarter of 2011, are optimistic compared to the evaluation of the current situation. Although, compared to the expectations of the previous quarter they are declining.

### Services Sector

Services Confidence Indicator (SCI) increased by 4.7 pp over the second quarter of 2011. The SCI recovery during the second quarter is attributable to the positive developments in its three composite balances. The lesser negative evaluation of the *overall business situation* provided the main contribution to the SCI improvement. The above balance pointed to -3.6%, from -9.4% in the previous quarter. The positive evaluation of services regarding the *employment* and *their financial situation* contributed to the improvement of the aggregated indicator. These balances pointed to 2.0% and 1.1% respectively, increasing both by about 4.1 pp, compared with the previous quarter. Currently, SCI level stays at about 3.9 pp below its long-term average.

Chart 4 Services Confidence Indicator (in pp)



Source: Business confidence Survey, Bank of Albania.

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

Services-related businesses evaluated negatively the *overall economic situation at home* over the second quarter of 2011. The specific balance dropped by about 7.1 pp compared with the previous quarter. *The political climate at home* is considered, for the second consecutive quarter,

as the main factor for the normal development of the services business. Other factors, such as *legal and institutional framework, energy supply problems, corruption and informal economy* had a lower impact on restricting the activity of services compared with the previous quarter.

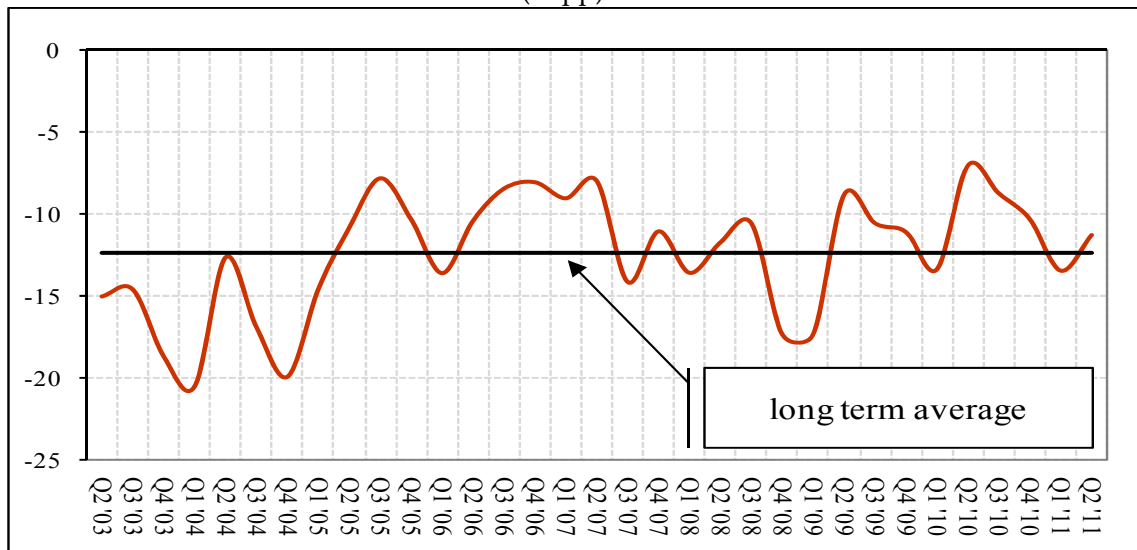
*Demand* in the services sector continued to be negatively assessed over the second quarter of 2011. Its balance pointed to -3.0%, almost at a similar level compared with that of the previous quarter. Following the estimation for a rise of *services prices* in the previous quarter, a halt in their growth trend has materialized. These balances pointed to +2.9%, from +6.1% respectively in the previous quarter. *Capacities utilization rate*, over the second quarter, reached 74.6%. This ratio is about 4.8 pp higher than in the previous quarter and about 0.5 pp below its long-term average

Business expectations regarding the *overall economic situation* at home are positive. Further, businesses in this sector remain positive concerning both *the firm's economic activity* and *the demand* in the next quarter.

### Consumer Confidence

Consumer Confidence Indicator (CCI) increased to 2.2 pp over the second quarter of 2011. The improvement of the index during this quarter is mainly affected by the positive assessment of consumer expectations regarding the *financial situation of families* in the forthcoming quarter. The balance pointed to 7.6%, increasing by about 4.2 pp, compared with the previous quarter. Also, the recovery by about 1.8 pp of the balance of expectations on the *overall economic situation* in the third quarter of 2011 added to the overall improvement of CCI. Despite noting a slight improvement in the current quarter, balances concerning *the purchases of major items* and *the current financial situation of families* continue to be negative. Consumers assess that this is not a good time to carry out purchases in large amounts.

Chart 5 Consumer Confidence Indicators (in pp)



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 *families' financial situation* and the *overall economic situation at home* resulted less negative compared with the previous quarter. The respective balances pointed to -6.0 and -13.1%, improving by about 7.4 and 6.9 p.p. The assessment of the *average living cost* in the second quarter 2011 has fallen relative to the previous quarter. *Prices* are expected to drop in the forthcoming quarter and to rise to some degree in the next 12-month period. Consumers expect *unemployment rate* to increase during the second half of year.

Based on quantitative evaluations of consumers on the *inflation rate* after 12 months, the expected inflation rate stands at 2.0%, about 0.3 pp lower than in the previous quarter.

Table 1 Confidence indicator by sectors\*

	Values since Q2-2002			2010				2011		Current situation	
	min.	aver.	max.	Q1	T2	Q3	Q4	Q1	Q2	Conjectural**	Structural***
Industry	-18	-2.5	6.1	-7.7	-6.2	-8.1	-1.5	0.3	-6.6	↓	-
Construction	-21.8	-4.9	9.4	-16.9	-12.9	-21.8	-12.0	-10.2	-21.4	↓	--
Services	-9.5	3.6	21.3	8.6	5.4	5.1	3.5	-4.8	-0.2	↑	-
Consumer	-20.5	-12.4	-7.0	-13.4	-7.0	-8.7	-10.3	-13.4	-11.3	↑	+

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

\*) Excluding the Consumer Confidence Index, the balances are seasonally adjusted.

\*\*) The situation compared with the previous quarter.

\*\*\*) The situation for each indicator 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\*

	2010				2011		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3-expectations
<b>Demand</b>							
Total	-2.9	-2.8	-6.5	-1.0	-4.0	-10.6	10.7
Industry	-9.5	-6.1	-11.2	-2.2	1.1	-8.8	22.3
Construction	-22.6	-13.5	-22.8	-12.0	-9.3	-27.7	-2.2
Services	8.4	3.3	2.7	4.5	-3.1	-3.0	13.3
<b>Business' overall situation</b>							
Total	0.7	-1.9	-3.9	-3.0	-6.7	-10.5	13.7
Industry	-12.1	-10.5	-9.4	-6.3	4.2	-8.9	21.5
Construction	-16.1	-12.3	-22.2	-13.7	-7.8	-26.2	1.9
Services	12.5	5.6	6.4	3.0	-9.4	-3.6	16.9
<b>Production</b>							
Total	-13.2	-10.1	-15.5	-5.8	0.0	-14.5	11.1
Industry	-11.0	-8.6	-10.2	0.5	8.0	-9.3	20.9
Construction	-14.7	-11.1	-19.0	-9.9	-5.1	-17.8	4.8
<b>Consumers</b>							
Financial situation	-11.4	-2.7	-4.8	-7.0	-13.4	-6.0	7.6
Prices after 1 year in %	2.2	2.1	2.2	2.2	2.3	2.0	2.0
Large purchases	-49.2	-41.1	-39.8	-43.9	-50.3	-49.0	-37.7
Savings	-49.4	-42.8	-43.9	-44.2	-50.5	-46.0	-41.0

Source: Consumer Confidence Survey, Bank of Albania.

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

Chart 6 Key balances of Consumer Confidence Survey

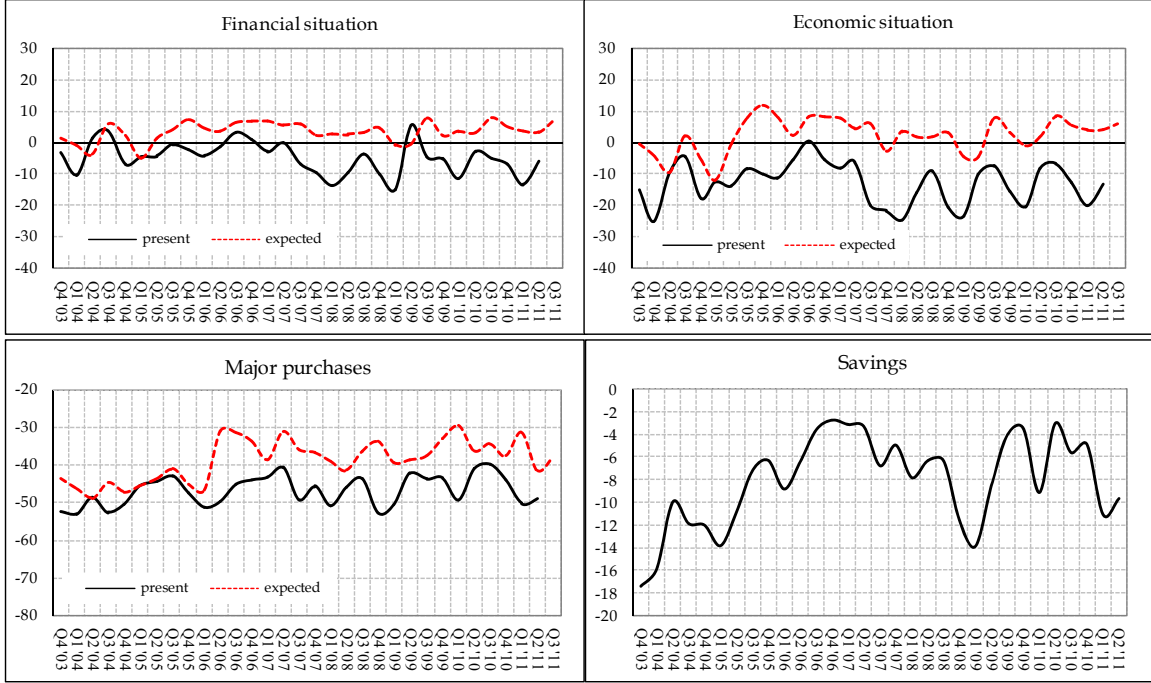
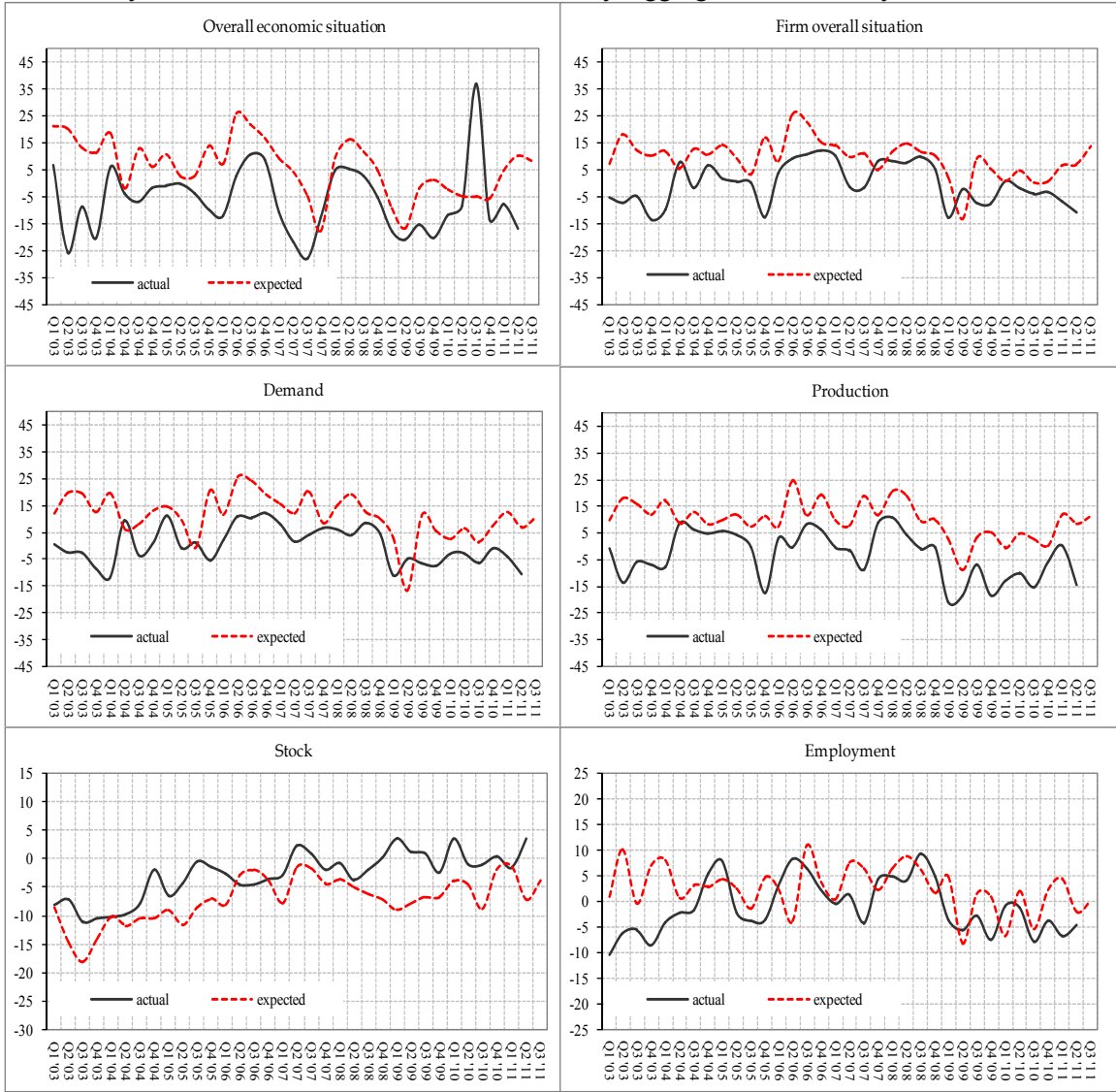




Chart 7 Key Balances of Business Confidence Survey, aggregated at economy level



## 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 presented in percentage points.

- **Confidence Indicator** (CI) is produced for each of the surveyed sectors and is 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.