

**Bank of Albania**  
Monetary Policy Department



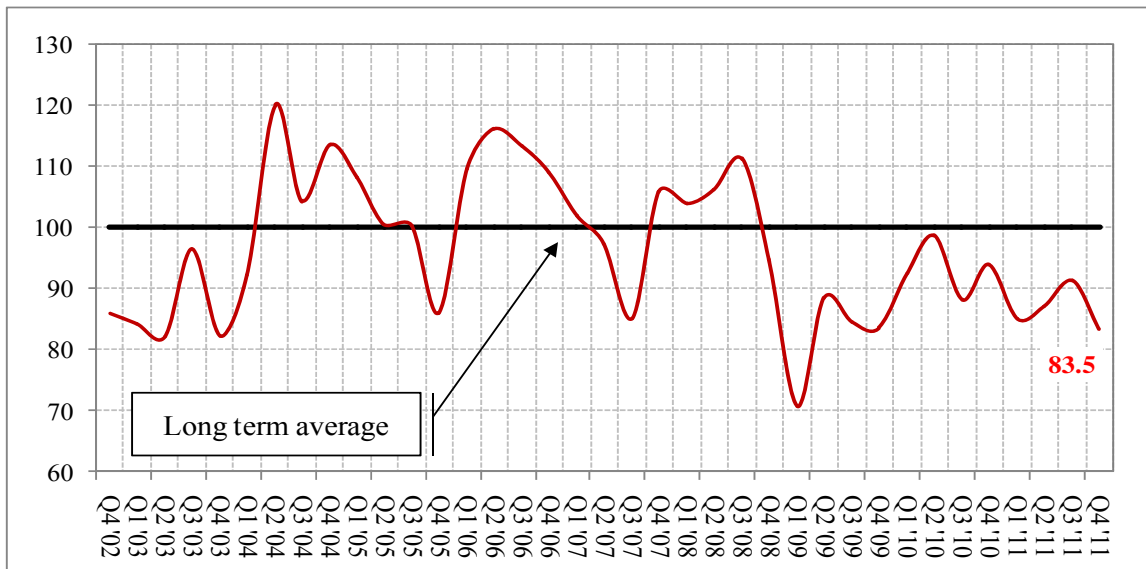
**Businesses and Consumers Confidence Survey Results**

**2011 Q4**

**Economic Sentiment Indicator (ESI)**

Economic Sentiment Indicator (ESI) fell by 7.9 percentage points in 2011 Q4 to 83.5. This fall subsided the rise of the ESI in 2011 Q2 and Q3. In 2011 Q4, the ESI was 16.5 percentage points below its long-term average. The worsened confidence in the sectors of *construction* and *services*, which was not offset by the slight improvement of confidence in the sector of *industry*, contributed markedly to the deterioration of the ESI. On the other hand, *consumer* confidence improved in 2011 Q4, hence providing a positive contribution and somehow smoothing the negative impact of the worsened businesses confidence.

Chart 1 Economic Sentiment Indicator

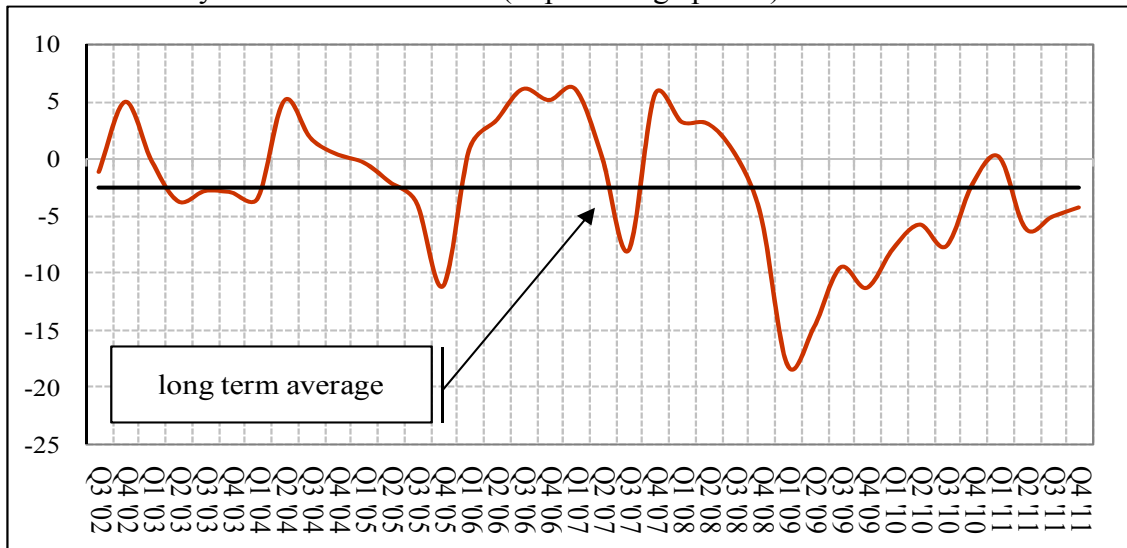


Source: Businesses and Consumers Confidence Survey, Bank of Albania

## Industry Sector

Industry Confidence Indicator (ICI) rose slightly by 0.8 percentage points in 2011 Q4. Industry-related firms' assessments of different aspects of their business have shown opposite tendencies in 2011 Q4. The improvement of the ICI was primarily influenced by a positive turn in industry-related firms' assessments of their *employment* situation, whose balance had dropped significantly in the previous quarter. The decline in *inventories* in Q4 also provided a slight, but positive, contribution to the calculation of the ICI. On the other hand, the lower balance of industrial *production* affected the ICI adversely.

Chart 2 Industry Confidence Indicator (in percentage points)



Source: Businesses Confidence Survey, Bank of Albania

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

Industry-related firms assess that *the overall performance of the economy* and their *firms' overall situation* worsened in 2011 Q4. Both these balances have recorded a pronounced downward trend since 2011 Q2. It is also noted that industry-related firms' assessment of the overall economic situation is more pessimistic than that of their firms' overall situation.

Businesses state that *demand* for industrial products during 2011 Q4 remained almost similar to the previous quarter. The historical performance of this balance over the course of 2011 provides evidence for the pronounced fall of demand in Q2 and its slight recovery in Q3 and Q4. Industry-related firms report that *foreign demand* for industrial products fell in 2011 Q4.

According to business opinions, industrial *producer prices* dropped in 2011 Q4. Consistent with the performance of demand and producer prices, industry-related firms' *financial situation* deteriorated in 2011 Q4.

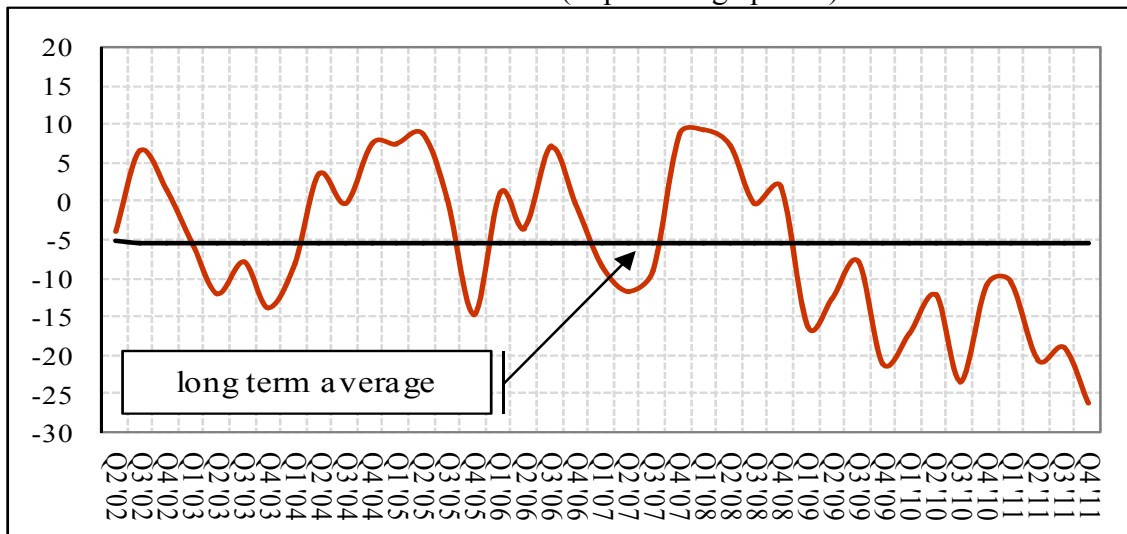
*Capacity utilization rate* in industry dropped 1.2 percentage points from the previous quarter to 71.2% in 2011 Q4. This rate currently stands only 0.5 percentage points above its long-term average. About 83% of industry-related firms state that their production capacities are sufficient in light of the actual demand and expected orders. Along the same line, 25% of industry-related firms provided a positive assessment regarding their *investments*, compared to 21% in 2011 H1.

Firms in the industry sector *expect* industrial production to increase slightly in 2012 Q1, driven by the growth in export demand. Their expectations for 2012 Q1 regarding the growth of *domestic demand*, their *firms' overall situation* and *employment opportunities* are pessimistic.

### Construction Sector

Construction Confidence Indicator (CCI) fell by about 7.2 percentage points in 2011 Q4. Confidence in the construction sector deteriorated progressively over the course of 2011, reaching in Q4 an all-time low of -26.2%. The deterioration of the CCI in 2011 Q4 attributed to the negative assessment provided for all its constituent balances. Construction-related firms continued to provide a negative assessment of *demand* and *production*. Their respective balances fell by about 9.0 percentage points each. These two components of the CCI have received their lowest assessment since their first measurement. *Employment* in the construction sector continues to be assessed negatively. Its net balance fell by about 3.5 percentage points in 2011 Q4. The current CCI level is highly below its long-term average. At the end of 2011 Q4, the CCI stood about 20.9 percentage points below its long-term average.

Chart 3 Construction Confidence Indicator (in percentage points)



Source: Businesses Confidence Survey, Bank of Albania

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

Construction-related firms lowered their assessment of *the overall economic situation in Albania* and continued to provide a negative assessment of their *firms' overall situation*. As in the previous quarter, the pronounced worsening of confidence in the construction sector was driven by the negative impact of concerns related to other factors, *such as the lack of construction permits, corruption and informal economy*. Concerns related to the *legal framework and its application, infrastructure, public order and safety*, and the *internal political situation* are assessed at a lower level by the construction-related firms as factors hampering their normal activity.

In addition to the negative assessment regarding *production*, the construction firms have reported that the *capacity utilization rate* in the construction sector was about 62.5% in 2011 Q4, about 4.6 percentage points below its long-term average. Compared to the previous quarter, the capacity utilization rate in construction dropped by 4.4 percentage points. In 2011 Q4, about 78.4% of the construction firms stated that the current capacity utilization rate is sufficient considering the level of demand and orders for the next 12 months. The rest, about 21.6%, of the construction firms stated that this rate is insufficient. Construction firms continue to consider the *insufficient demand* and *financial constraints* as the key factors hampering the capacity utilization in construction. With respect to financial constraints, the respondent firms to the 2011 Q4 survey report that they will mainly overcome them through *bank loans* and *prepayment of orders*. In 2011 Q4, construction-related firms reported a slight decline in *inventories*. Their *financial situation* is, however, assessed as negative and at all-time lows, being also affected by the fall in prices in Q4.

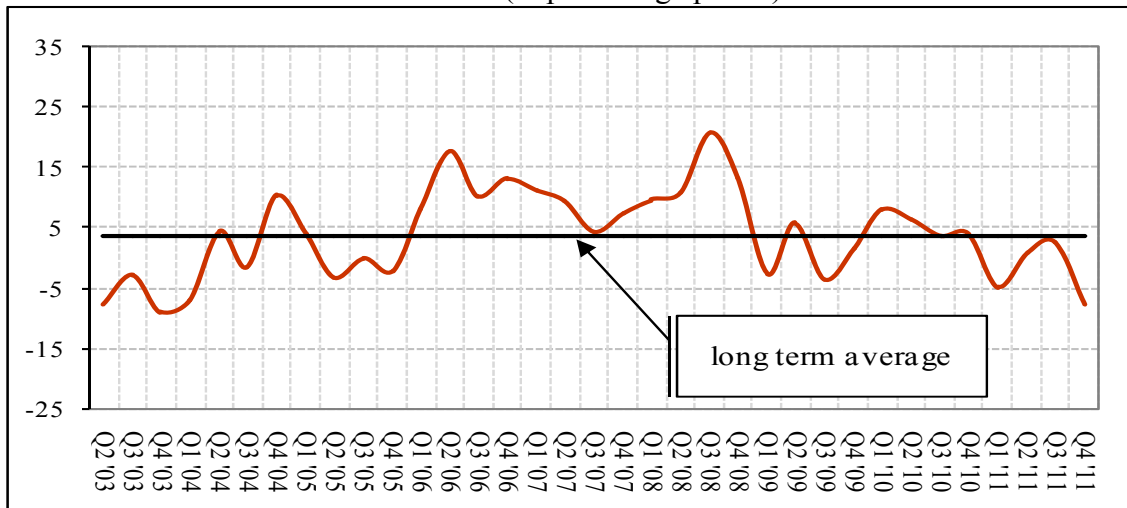
In light of the negative assessments of the different aspects of the situation in construction, firms in this sector (about 82.2%) report that they did not make any new investments in the second half of 2011. About 71% of businesses making investments during this period state that they mainly invested in technological appliances.

Construction-related firms' *expectations* regarding different business aspects, such as *production, demand and employment*, in 2012 Q1 are negative. About 85.4% of construction firms do not expect to make any new investments in the first half of 2012.

## **Services Sector**

Services Confidence Indicator (SCI) recorded a pronounced fall by 10.4 percentage points in 2011 Q4, reaching the all-time low since its first measurement. The SCI worsened in 2011 Q4 after two quarters when confidence in this sector had improved. It currently stands 11.4 percentage points below its long-term average. The SCI worsened due to the lower assessments of services-related firms regarding the three constituent components: *firms' overall situation, employment and financial situation*.

Chart 4 Services Confidence Indicator (in percentage points)



Source: Businesses Confidence Survey, Bank of Albania

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

Services-related firms' sentiment of the *overall economic situation in Albania* has fallen for the second consecutive quarter. This fall was, however, more contained in 2011 Q4 than the fall of their assessment regarding their *firms' overall situation*. Their respective balances fell by 5.1 and 13.4 percentage points.

After recording a slight fall in Q3, services firms' assessment of *demand* fell sharply in 2011 Q4. The net balance of responses on demand dropped by 12.3 percentage points. The fall of demand, coupled with the pronounced fall in services *prices*, led to the deterioration of services-related firms' *financial situation* in 2011 Q4.

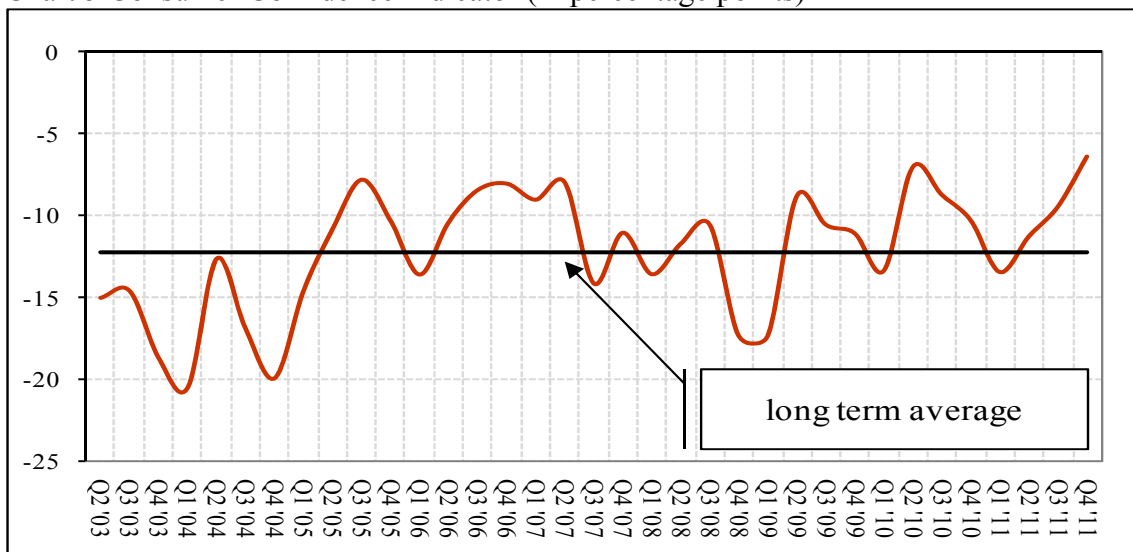
*Capacity utilization rate* in the services sector was 70.8% in 2011 Q4, down 7.7 percentage points from Q3 and 1.3 percentage points from 2010 Q4. 91.4% of services-related firms state that the current capacity utilization rate is sufficient in light of the actual level of demand the future orders. Hence, new investments made in 2011 H2 and the plans for possible investments over 2012 stand at very low levels.

Services-related firms' *expectations* remain pessimistic for 2012 Q1. They expect *demand* for services to fall and *their firms' overall situation* to deteriorate. The expectations regarding the deterioration of *the economic situation* are less pessimistic than the expectations regarding aspects closely related to their activity.

## Consumer Confidence

Consumer Confidence Indicator (CCI) continued to improve in 2011 Q4 for the third consecutive quarter. After improving by about 1.8 percentage points in Q3, the CCI improved by about 3.1 percentage points in 2011 Q4, primarily due to the improved balance of responses on *large household purchases*. The latter's net balance rose by 8.5 percentage points. In addition, the improved situation in *savings* and the expectations for the *future economic outlook* contributed positively to the improvement of the CCI. On the other hand, the balance of expectations regarding the *households' financial situation* in 2012 Q1 recorded a slight fall by about 0.7 percentage points q-o-q, hence providing a negative contribution to the CCI.

Chart 5 Consumer Confidence Indicator (in percentage points)



Source: Consumers 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 households' financial situation* and *the overall economic situation in Albania* worsened in 2011 Q4 compared to the improvement in the previous two quarters. *The average cost of living* is reported to have improved in 2011 Q4 compared to the previous quarter and the same quarter in 2010. Consumers expect *prices* to rise in 2012 Q1 and over the next 12 months. They also expect *the unemployment rate* to increase over the next 6 months.

Based on consumers' quantitative assessment of the inflation rate after 12 months, the expected rate is 2.2%, similar to the inflation rate stated in the previous quarter.

Table 1 Confidence indicators by sector\*

	Values since 2002 Q2			2011				Current situation	
	min.	aver.	max.	Q1	Q2	Q3	Q4	Conjectural**	Structural***
Industry	-18.0	-2.6	6.0	0.1	-6.1	-5.1	-4.3	↑	-
Construction	-26.2	-5.8	9.2	-10.4	-20.6	-19.0	-26.2	↓	--
Services	-9.2	3.3	20.9	-4.8	0.9	2.7	-7.8	↓	--
Consumer	-20.5	-12.1	-6.3	-13.4	-11.3	-9.4	-6.4	↑	+

Source: Businesses and Consumers Confidence Surveys, Bank of Albania

\*) Excluding the Consumer Confidence Indicator, the other indices are calculated based on seasonally adjusted balances.

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

\*\*\*) The situation for each indicator is considered 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.

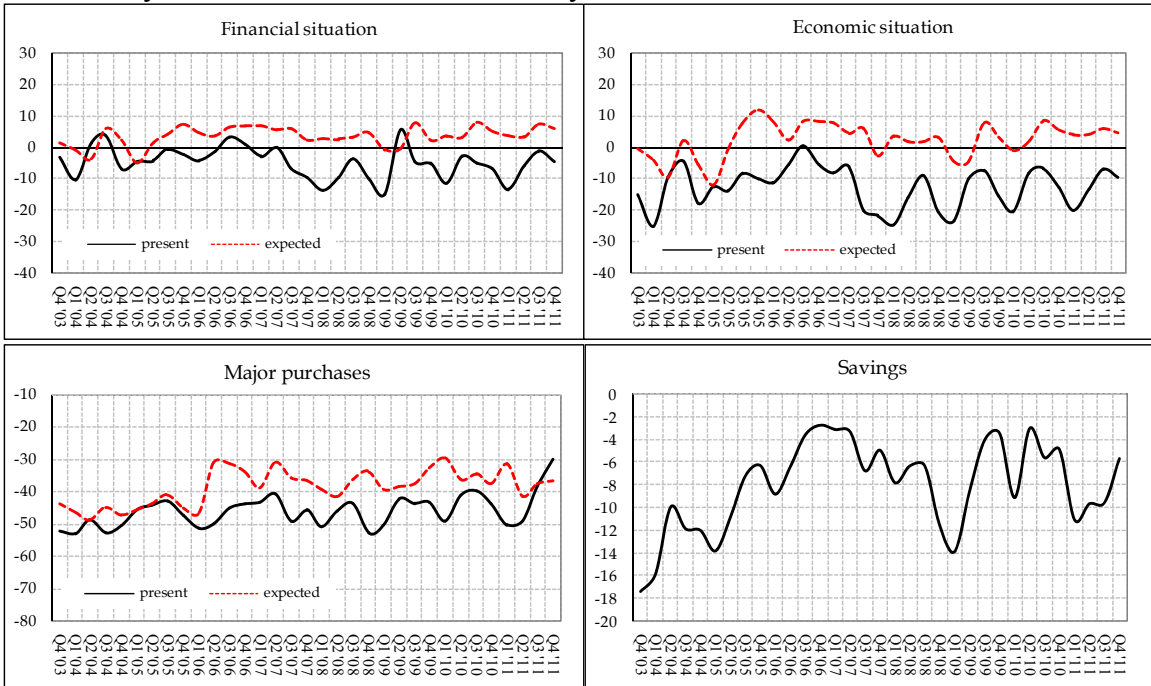
Table 2 Key balances of the sectors of the economy (in percentage points)\*

	2010				2011				Q1-Expectations
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
<b>Demand</b>									
Total	-3.1	-2.1	-6.9	-0.8	-4.3	-10.0	-9.3	-18.8	2.5
Industry	-9.6	-5.1	-11.5	-2.5	0.8	-8.0	-6.6	-7.3	19.8
Construction	-23.3	-12.7	-23.4	-11.1	-10.2	-26.9	-23.3	-32.3	0.4
Services	8.4	3.7	2.2	4.6	-3.1	-2.6	-3.6	-15.9	-1.8
<b>Firm's overall situation</b>									
Total	-1.0	-0.7	-5.5	-2.0	-7.2	-9.2	-6.7	-17.5	2.2
Industry	-12.7	-9.8	-9.9	-5.5	3.6	-8.3	-2.9	-7.5	12.9
Construction	-16.4	-11.2	-24.6	-11.9	-8.2	-25.0	-19.9	-29.2	-0.3
Services	9.8	7.0	4.9	3.7	-9.9	-2.1	-1.7	-15.1	0.1
<b>Production</b>									
Total	-13.3	-9.1	-17.0	-5.1	-0.2	-13.5	-12.1	-20.2	6.6
Industry	-11.0	-7.0	-10.7	-0.4	7.7	-7.7	-1.1	-7.7	15.6
Construction	-14.8	-10.5	-21.1	-8.1	-5.3	-17.3	-19.2	-28.2	0.8
<b>Consumer</b>									
Financial situation	-11.4	-2.7	-4.8	-7.0	-13.4	-6.0	-1.2	-4.6	5.3
Prices after 1 year, in %	2.2	2.1	2.2	2.2	2.3	2.0	2.2	2.2	...
Large purchases	-49.2	-41.1	-39.8	-43.9	-50.3	-49.0	-38.6	-30.1	-33.5
Savings	-49.4	-42.8	-43.9	-44.2	-50.5	-46.0	-45.6	-40.9	-37.9

Source: Business and Consumer Confidence Surveys, Bank of Albania

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

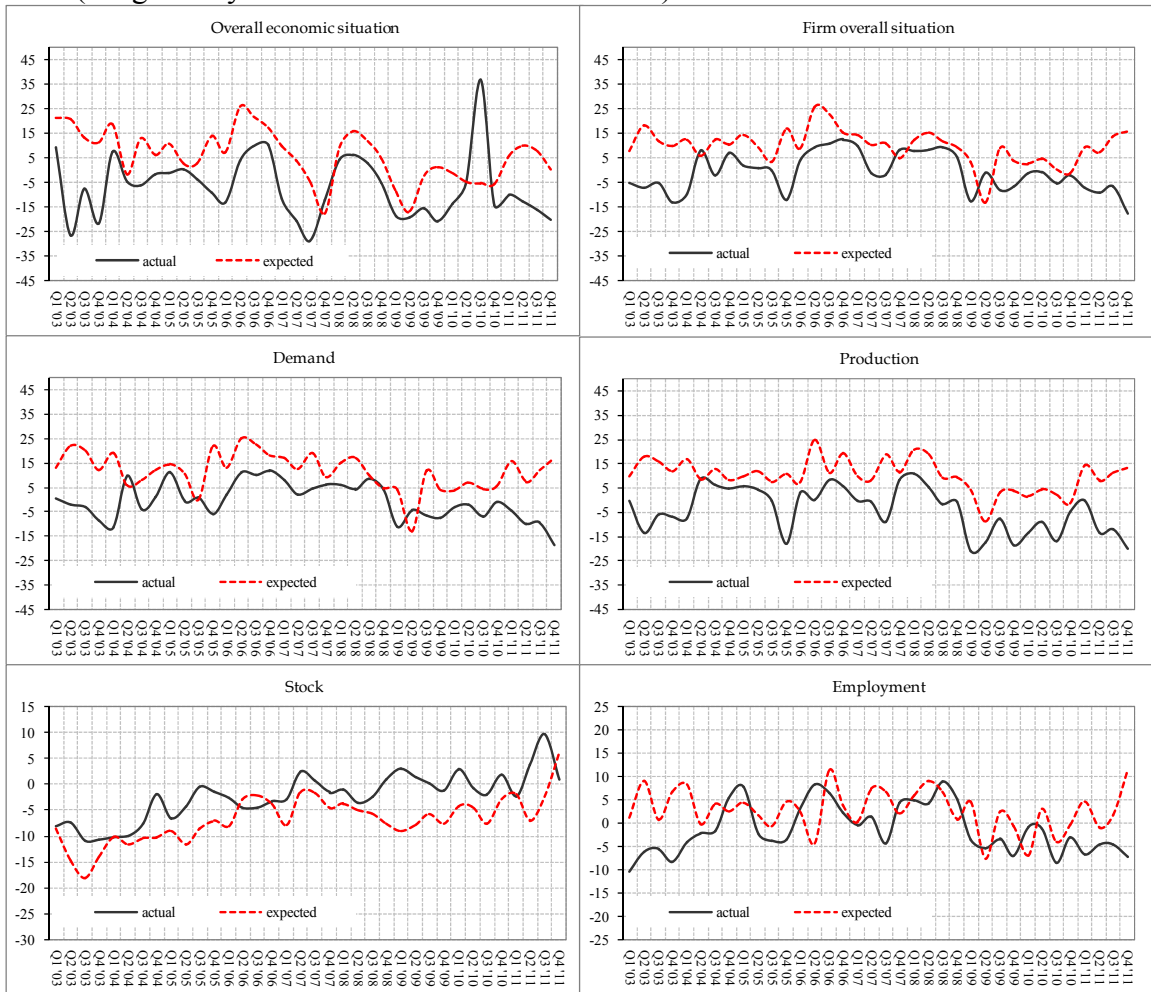
Chart 6 Key balances of the consumer survey



Source: Consumer Confidence Survey, Bank of Albania



Chart 7 Key balances of the Business Confidence Survey, aggregated at the economy level (weighted by the shares of the sectors in GDP)



Source: Business Confidence Survey, Bank of Albania

## **Annex**

### **Methodological Explanatory Notes**

**-Balance** is the most frequently used indicator in aggregating the qualitative data from the surveys. It is measured as the difference between the percentage of positive and negative answers. The balance is expressed in percentage points.

**-Confidence Indicator (CI)** is constructed for each sector and it is measured as the simple average of the seasonally adjusted balances of those indicators that have the highest correlation with the reference series (real data series of the economy).

**-Economic Sentiment Indicator (ESI)** aggregates all the balances (13) used to measure the confidence indicators for the four sectors, weighted by 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.