

Bank of Albania

Monetary Policy Department



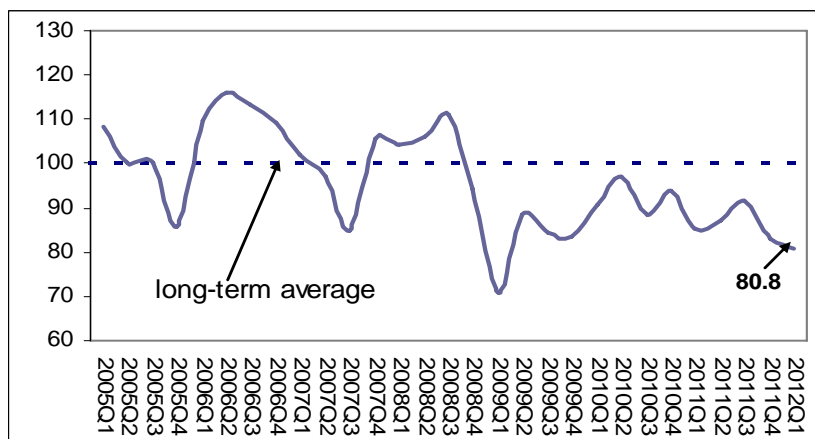
Business and Consumer Confidence Survey Results

2012 Q1

Economic Sentiment Indicator

Economic Sentiment Indicator (ESI) fell by 2.5 points in 2012 Q1, which is lower compared to the pronounced fall by 8.2 points in 2011 Q4. The current ESI stands at 80.8, considerably below its long-term average (see Chart 1). The marked decrease of *consumer* confidence provided the main contribution to the fall in ESI. The downward confidence in *industry* and *construction* provided the same effect, although to a lesser extent. On the other side, the upward confidence in *services* in 2012 Q1 provided positive contribution to ESI change.

Chart 1: Economic sentiment indicator

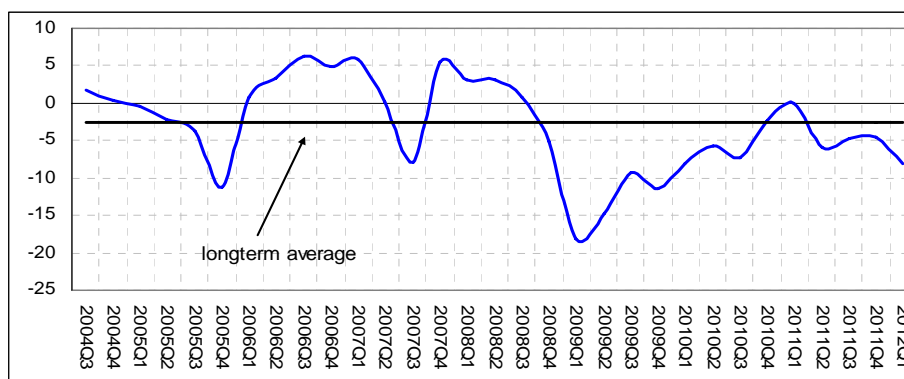


Source: Business and Consumer Confidence Survey, Bank of Albania.

Industry sector

Industry Confidence Indicator (ICI) decreased by 3.5 percentage points in 2012 Q1. Currently, ICI stands 5.4 percentage points below its long-term average. The worsening of the ICI, during 2012 Q1, was affected by a more pessimist assessment of *production* and *employment* by industry-related firms. Also, inventories in 2012 Q1 provided negative contribution to ICI change.

Chart 2: Industrial confidence indicator (in percentage points)



Source: Business Confidence Survey, Bank of Albania.

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

Industry related-firms assessed the *overall performance of the economy* in 2012 Q1 more optimistically compared to 2011 Q4. The balance of this question rose by 5.2 percentage points. Industry-related firms' assessment of their *overall economic situation* worsened in 2012 Q1; the respective balance dropped 2.0 percentage points from 2011 Q4.

Industry-related firms assessed that all the other aspects closely correlated to their activity declined. Businesses assessed that *demand*, which had been stable during the last three quarters, fell in 2012 Q1. This fall was reflected on *inventories* and deteriorated *financial situation* of the industry-related firms. Also, demand for *exports* was assessed as declining in 2012 Q1.

According to businesses' opinions, *industrial producer prices*, during 2012 Q1, remained almost similar to the previous quarter.

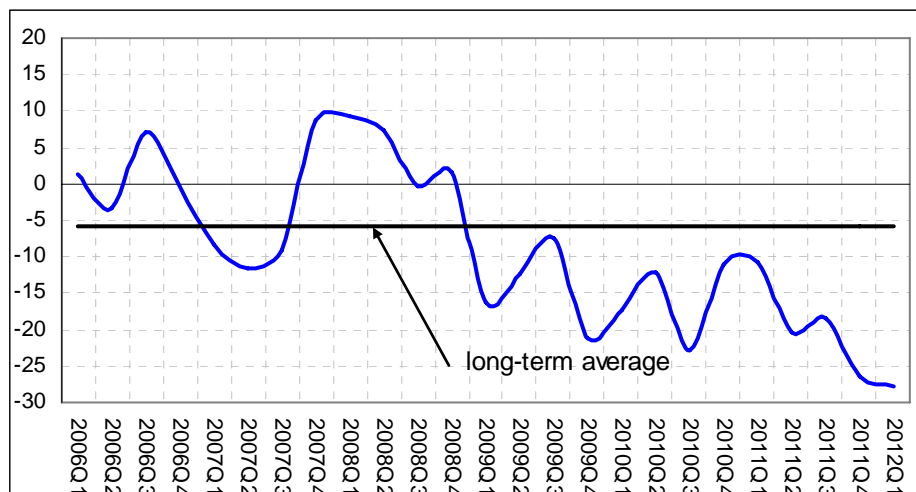
Capacity utilization rate in the industry pointed to 69%, dropping by 2.2 percentage points from the previous quarter. This rate stands 1.7 percentage points below its long-term average.

Industry- related firms *expect* domestic demand to increase and foreign demand to decrease in 2012 Q2. Also, industry- related firms expect industrial production to increase in 2012 Q2.

Construction sector

Construction Confidence Indicator (CCI) continued to fall (by 1.4 percentage points) in 2012 Q1, but at slower pace than in the previous quarter. Its current level at -27.9 percentage points (the lowest historical value) stands 22.1 percentage points below its long-term average. The pronounced fall of *employment*-assessment balance in this sector was the only driver to the deterioration of CCI. Its fall by 10.3 percentage points was not offset by the improved current *demand* balance by 5.4 percentage points. On the other hand, *production* situation in construction is assessed to be almost at the same level as in 2011 Q4.

Chart 3: Construction confidence indicator (in percentage points)



Source: Business Confidence Survey, Bank of Albania.

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

Construction-related firms improved the assessment of both their *overall business situation* and the *overall economic situation* in Albania in 2012 Q1. However, their balances are lower than their historical average. The more optimistic assessment of the *demand* is also reflected on the higher assessment of construction-related firms' *financial situation*. Nevertheless, their balances level stand below the long-term average. According to construction-related firms' opinions, *production prices* dropped in 2012 Q1.

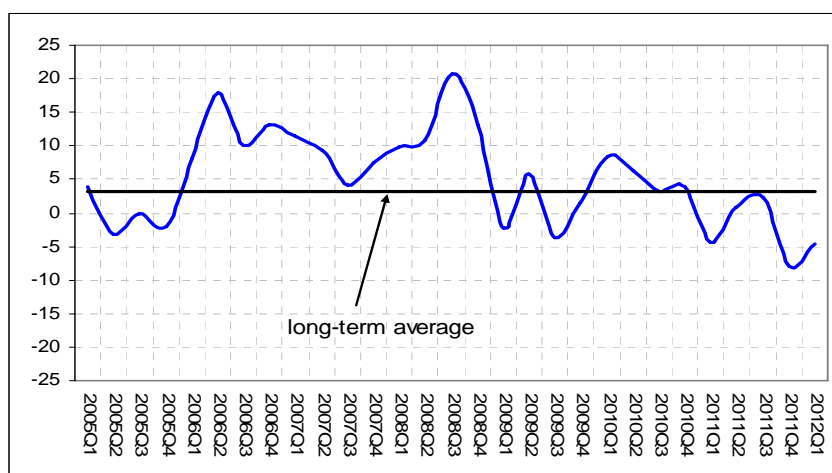
Capacities utilisation rate in construction continued to fall, recording the lowest historical value 58.3% in 2012 Q1. This rate is about 8.5 percentage points below the long-term average and about 4.2 percentage points lower from 2011 Q4.

Construction-related firms appear more optimistic for 2012 Q2; the assessment of the *overall economic situation*, the *firms' overall situation*, *demand* and *production* is improved.

Services sector

Services Confidence Indicator (SCI) increased in 2012 Q1. After the marked fall of businesses confidence in services during 2011 Q4, this indicator rose by 3.2 percentage points in 2012 Q1, although it remained below the long-term average. The SCI improved due to the improved assessment of services-related firms regarding the three constituent components: *overall situation*, *employment* and *financial situation*. However, the current SCI level stands about 8 percentage points below its long-term average.

Chart 4: Services confidence indicator (in percentage points)



Source: Business Confidence Survey, Bank of Albania.

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

Services-related firms improved their sentiment of the *overall economic situation* of Albania, in 2012 Q1. While their assessment regarding the *overall business situation* improved as well, it was contained.

The balances increased by 8.4 and 5.8 percentage points, respectively in 2012 Q1.

Following the pronounced drop in 2011 Q4, services-related firms' assessment of the *demand* increased markedly in 2012 Q1. The net balance of responses on demand rose by 11.3 percentage points, but it still remains below its long-term average. The significant quarterly improvement of the demand was not considerably reflected on the assessment of services-related firms about the *financial situation*, whose balance increased only by 0.3 percentage points.

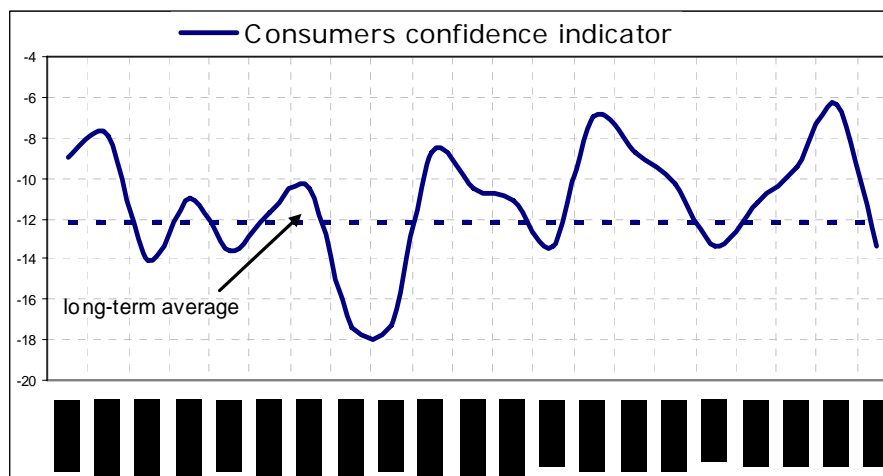
Capacity utilisation rate in the services sector was 71.3%, implying a modest increase by 0.5 percentage points, compared to 2011 Q4. The still-low level of capacities utilisation rate (3.7 percentage points below the long-term average) owes primarily to the insufficient demand and the financial limitations of services-related firms.

Services-related firms' *expectations* appear more optimistic for 2012 Q2. Hence, they expect the *demand* for services to increase and *their firms' overall situation* to improve.

Consumer Confidence

Consumer Confidence Indicator (CCI), after the improvement in the two previous quarters, fell in 2012 Q1. While the CCI improved by about 3.1 percentage points in 2011 Q4, it dropped by about 7.0 percentage points in 2012 Q1. The CCI worsened due to the decline in all its constituent balances in 2012 Q1. The balance of responses on *major household purchases* dropped considerably, by 14.6 percentage points. In addition, the downturn by 4.6 percentage points in *savings–expenses* balance provided the same effect on CCI. While the majority of consumers cover their expenses by their income, the number of consumers who borrow to cover expenses increased compared to 2011 Q4. Consumers appear pessimistic about the future economic and financial situation. The balance of expectations regarding the *overall economic outlook* in Albania and the expectations for the *households' financial situation* in 2012 Q2 dropped 4.0 and 4.7 percentage points, respectively, in 2012 Q1.

Chart 5. Consumer confidence indicator (in percentage points)



Source: Consumer Confidence Survey, Bank of Albania.

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

Consumers' assessment regarding their *households' financial situation* and the *overall economic situation* continued to be negative during 2012 Q1. The balances declined 5.2 and 4.5 percentage points, respectively, compared to 2011 Q4. The *average living cost* is assessed to have lowered compared to the previous quarter. Also, consumers expect the *unemployment rate* to rise over the upcoming 6-month period.

Based on consumers' quantitative assessment regarding the *one-year-ahead inflation expectations*, the expected rate is 2.4%, or 0.2 percentage points higher compared to the inflation rate stated a quarter earlier.

Table 1: Confidence indicators by sectors*

	Values since 2002 Q2			2011			2012	Current situation	
	min.	aver.	max.	Q2	Q3	Q4	Q1	Conjectural**	Structural***
Industry	-18.0	-2.6	6.0	-6.0	-4.8	-4.5	-8.0	↓	-
Construction	-26.2	-5.8	9.2	-20.5	-18.5	-26.5	-27.9	↓	--
Services	-9.2	3.3	20.9	0.8	2.3	-7.8	-4.7	↑	--
Consumer	-20.5	-12.1	-6.3	-11.3	-9.4	-6.4	-13.3	↓	-

Source: Consumer Confidence Survey, Bank of Albania

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

**) Situation compared to the previous quarter

***) 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.

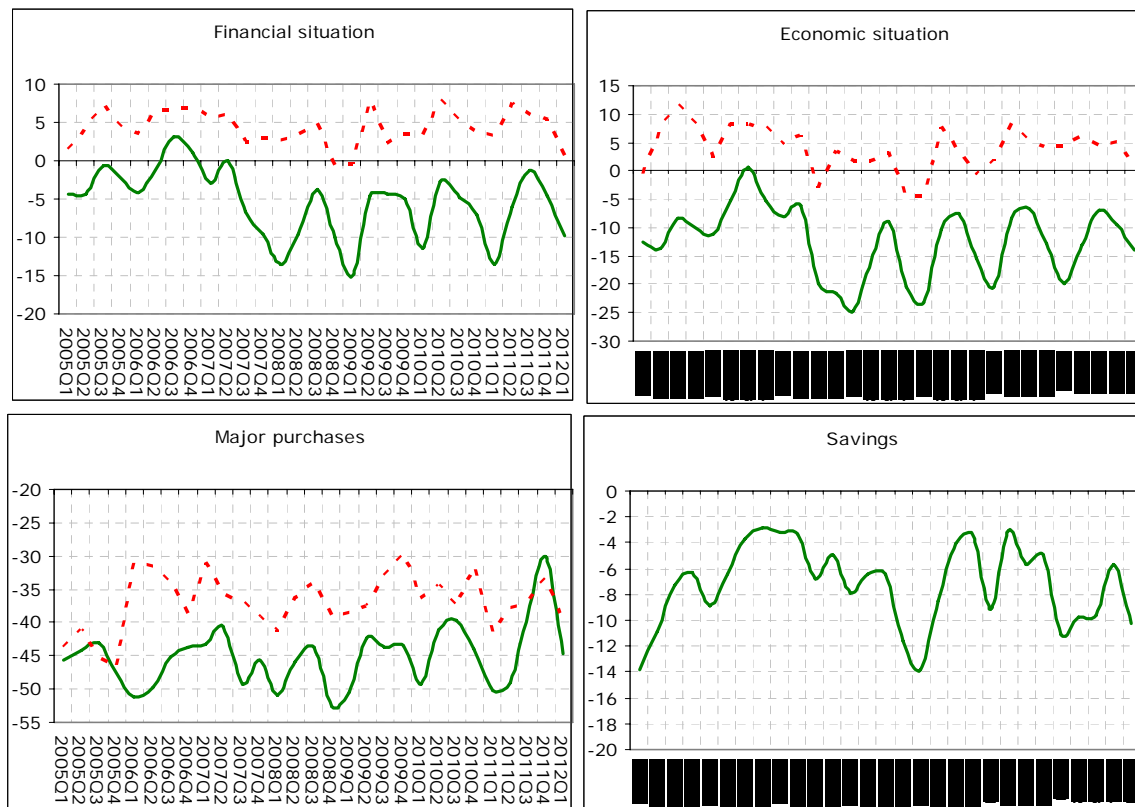
Table 2: Key balances of the sectors of the economy (in percentage points) *

	2010			2011				2012	
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	T2-Expectations
Demand									
Total	-5.0	-11.1	-2.8	0.5	-7.9	-6.0	-7.7	-12.8	-16.8
Industry	-12.5	-23.2	-10.6	-11.5	-26.5	-23.0	-31.8	-26.4	4.6
Construction	3.4	2.6	5.5	-4.1	-2.8	-3.2	-14.9	-3.6	7.7
Services	-4.7	-10.6	-2.7	-5.0	-12.4	-10.7	-18.1	-14.3	9.7
Firm's overall situation									
Total	-9.7	-9.8	-5.6	3.1	-8.0	-2.6	-7.5	-9.5	11.6
Industry	-11.1	-23.8	-11.7	-9.6	-24.8	-19.0	-29.1	-24.6	0.92
Construction	6.7	4.2	3.7	-9.1	-2.3	-2.4	-15.0	-9.2	2.82
Services	-4.7	-9.8	-4.5	-5.2	-11.7	-8.0	-17.2	-14.4	5.1
Production									
Total	-6.6	-10.2	-0.6	6.8	-7.0	-0.6	-7.9	-9.8	18.2
Industry	-10.5	-20.2	-8.3	-6.1	-17.2	-18.2	-28.5	-27.8	10.9
Construction	-8.5	-15.2	-4.4	0.3	-12.1	-9.4	-18.2	-18.8	14.5
Consumer									
Financial situation	-2.7	-4.8	-7.0	-13.4	-6.0	-1.2	-4.6	9.8	-9.8
Prices after 1 year, in %	2.1	2.2	2.2	2.3	2.0	2.2	2.2	2.4	...
Major purchases	-41.1	-39.8	-43.9	-50.3	-49.0	-38.6	-30.1	-44.8	-39.6
Savings	-42.8	-43.9	-44.2	-50.5	-46.0	-45.6	-40.9	-43.9	-44.5

Source: Consumer Confidence Survey, Bank of Albania.

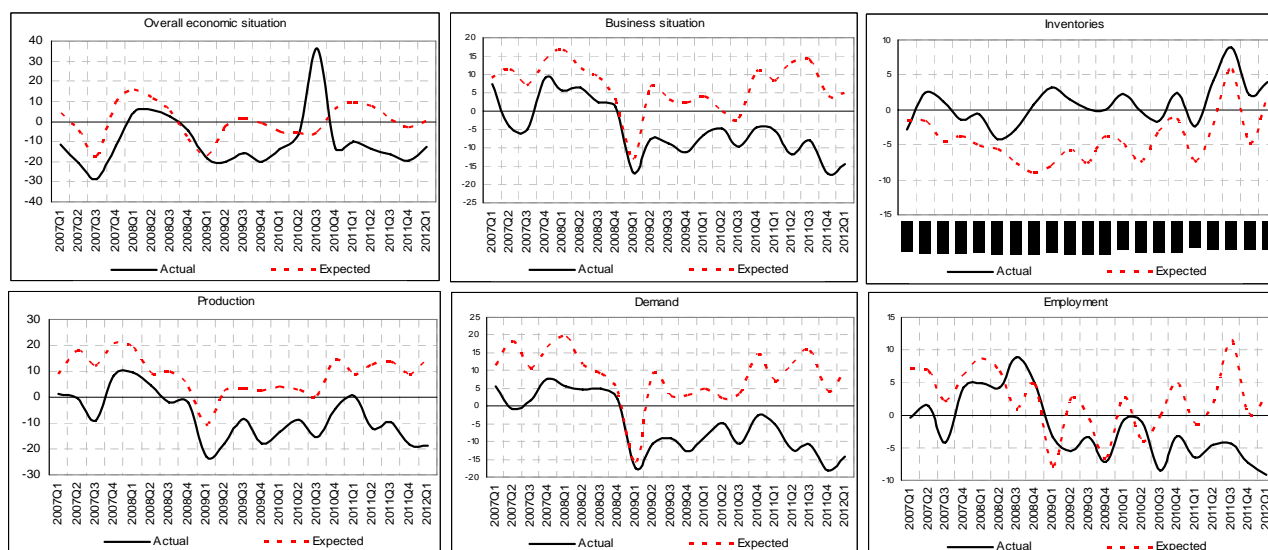
*) Excluding the Consumer Confidence Index, the other balances are seasonally adjusted.

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 sectors in GDP)



Source: Business Confidence Survey, Bank of Albania.

Annex

Methodological notes

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

-Confidence Indicator (CI) is constructed for each sector and 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) that are 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.