Bank of Albania
Monetary Policy Department
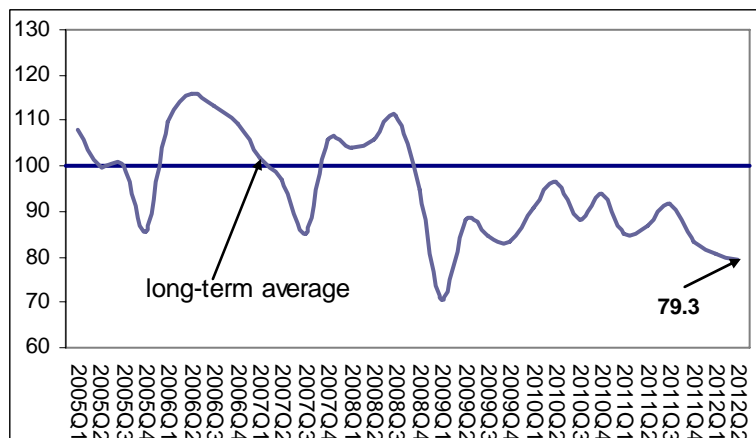
Business and Consumer Confidence Survey Results

2012 Q2

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Economic Sentiment Indicator

Economic Sentiment Indicator (ESI) fell by 1.3 percentage point in 2012 Q2. The ESI downward trend, which was experienced during the last three quarters, has been reduced gradually. The current ESI stands considerably below its long-term average (see Chart 1). The worsened confidence in all economy sectors drove the ESI down. The decreased confidence *of consumer*, in *services* and *industry* provided the main contribution to the fall in ESI. The reduced confidence in *construction* provided the same effect, albeit at a lower degree.

Chart 1 Economic Sentiment Indicator

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

Industry sector

Industry Confidence Indicator (ICI) decreased by 1.8 percentage points in 2012 Q2. After the fall by 3.6 percentage points in 2012 Q1, currently, ICI stands 7.4 percentage points below its long-term average. The worsening of the ICI during 2012 Q1 was triggered by a more pessimistic assessment of industry-related firms of *production* and *employment*. On the other side, lower *inventories* provided a positive contribution to ICI calculation.

Chart 2 Industry Confidence Indicator (in percentage points)
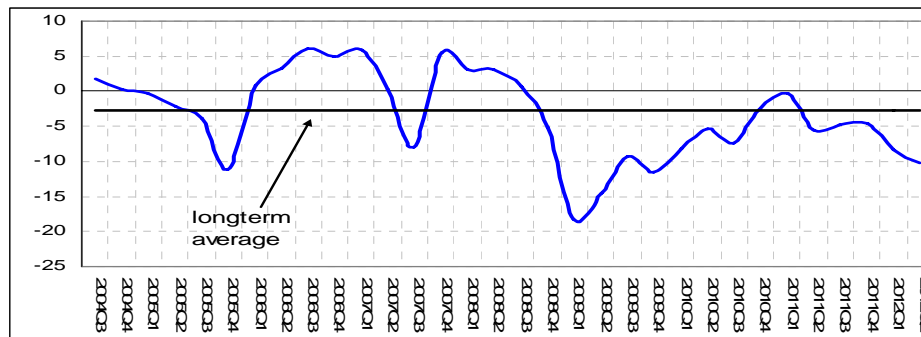
Source: Business Confidence Survey, Bank of Albania.

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

Industry related-firms reported a fall in all aspects related to their activity. They assess that the *overall performance of the economy* and *their firms' overall situation* worsened in 2012 Q2. The balances dropped by 3.8 and 8 percentage points, respectively.

The pronounced fall in the *domestic* and *foreign* demand balance, recorded in 2012 Q1, persisted in 2012 Q2 as well. Domestic demand dropped at a higher level (-5.7 percentage points), compared to foreign demand (-2.1 percentage points). Although businesses reported a downward demand, *inventories* reduced in 2012 Q2, thus reflecting the higher fall in industrial production.

According to businesses' opinions, *industrial producer prices* during 2012 Q2 pursued the downward trend started in 2011 Q1.

Capacity utilization rate in industry pointed to 68.3%, dropping by 0.8 percentage point, in 2012 Q2. This rate stands 2.4 percentage points below its long-term average.

Industry-related firms *expect the total demand, industrial production* and *overall economy situation* to worsen in 2012 Q3.

Construction sector

Construction Confidence Indicator (CCI) continued to fall (by 0.7 percentage point) in 2012 Q2, but at slower paces compared to the previous quarter. Its current level at -28.6 percentage points (the lowest historical value) stands 22.3 percentage points below its long-term average. The pronounced fall in the balance for the assessment of *demand* in this sector by 4.4 percentage points deteriorated the CCI. On the other side, the balance for the assessment *of production* and current *employment* improved slightly during the period in review. Their improvement, by 0.6 and 1.8 percentage points, respectively, contributed positively to the confidence indicator, but it didn't balance the drop in demand.

Chart 3 Construction Confidence Indicator (in percentage points)
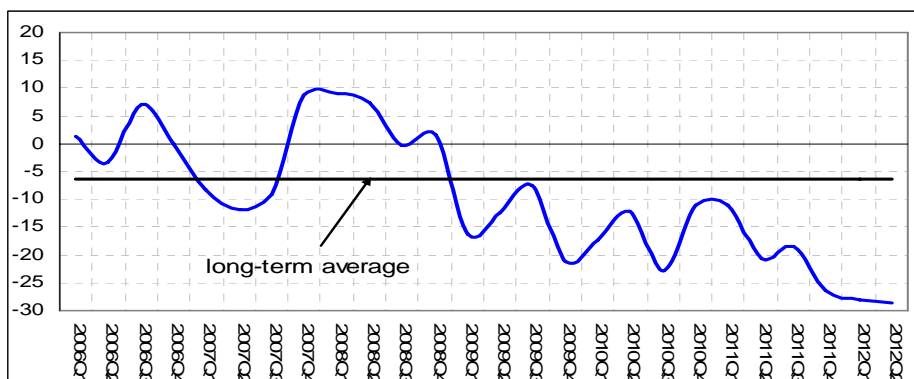
Source: Business Confidence Survey, Bank of Albania.

<u>The following provides an analysis of selected indicators not included in the construction of the CCI:</u>
Construction-related firms lowered the assessment of their firms' *overall situation* and of *the overall economic situation* in 2012 Q2. The respective balances continue to record considerably lower rates compared to their historical averages. Notwithstanding the slight positive assessment in production, the pessimism concerning *demand* is reflected on the lower assessment of construction-related firms' *financial situation*. According to construction-related firms' opinions, inventories situation remained unchanged, compared to 2012 Q1.

Capacities utilisation rate in construction continued to fall in 2012 Q2. It pointed to 55.1, standing about 11.3 percentage points below the long-term average, and about 3.2 percentage points lower than in 2012 Q1.

Construction-related firms continue to appear pessimistic related to 2012 Q3. They decreased their assessments about the *overall economy situation*, the *firms'* o*verall situation*, *demand*, *production* and *employment*.

Services sector

Services Confidence Indicator (SCI) dropped in 2012 Q2. After the increase in 2012 Q1, this indicator fell by 2.7 percentage points in 2012 Q2, standing at the same level of the previous year-end. The current rate of this indicator (-7.4 percentage points) stands 10.5 percentage points below its long-term average. The deteriorated assessment of services-related firms regarding the *overall situation* and *employment* drove the SCI down. The *financial situation* of services-related firms remained unchanged.

Chart 4 Services Confidence Indicator (in percentage points)
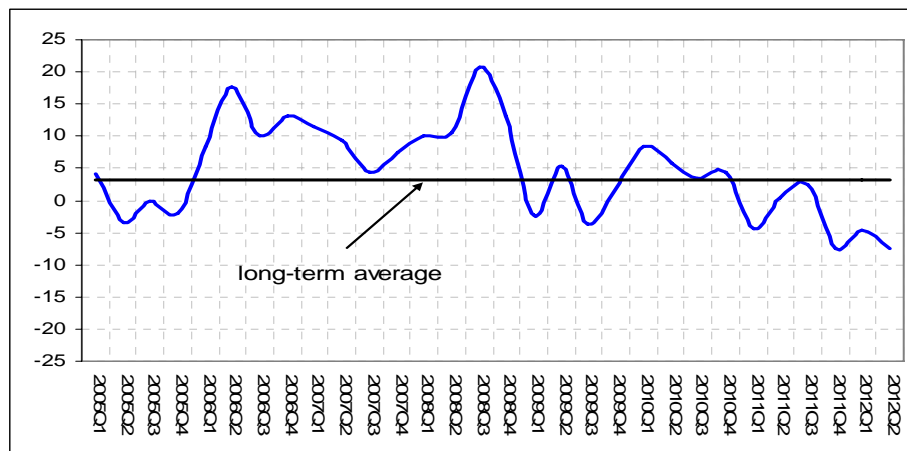
Source: Business Confidence Survey, Bank of Albania.

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

Services-related firms' sentiment worsened considerably about their firms' *overall situation,* in 2012 Q2. Their assessment of the *current demand* at home decreased as well. The respective balances dropped by 10.7 and 8.7 percentage points, in 2012 Q2.

Capacity utilisation rate in the services sector was 74.8%, increasing by 3.5 percentage points compared to 2012 Q1. This rate stands at its long-term average. Demand provides the major contribution to the restriction on capacities.

Services-related firms' *expectations* appear pessimistic for 2012 Q3. Hence, they expect a fall in the *demand*, *employment* and *investments*. Services-related firms expect their *firm's overall situation* and *overall economic situation* to deteriorate in 2012 Q3.

Consumer Confidence

Consumer Confidence Indicator (CCI), fell by 1.1 percentage points in 2012 Q2, pursuing the downward trend started since 2011 Q4. The CCI worsened due to the fall in all its constituent balances in 2012 Q2. The balance on *major purchases* dropped considerably, by 4.5 percentage points. In addition, the decline by 1.6 percentage points in *savings* and by 0.9 percentage points in expectations for the *financial situation* provided the same effect on CCI. On the other side, consumers appear somewhat optimistic about the future economic situation. The balance of expectations regarding the *overall economic outlook* in Albania rose by 2.6 percentage points for 2012 Q3.

Chart 5 Consumers Confidence Indicator (in percentage points)
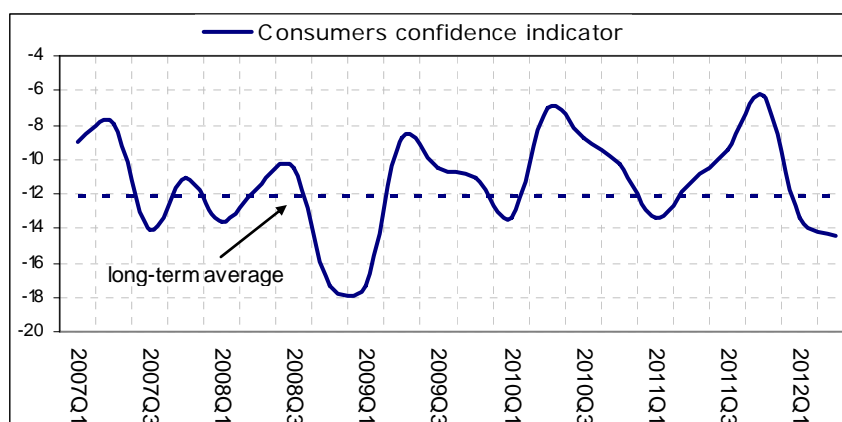
Source: Consumer Confidence Survey, Bank of Albania.

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

Consumers' assessment regarding the *households' financial situation* declined during 2012 Q2. The respective balance dropped by 2.9 percentage points, compared to 2012 Q1. On the other hand, the *overall economic situation* at home increased slightly.

Consumers report an increased *average cost of living* during 2012 Q2 compared to 2012 Q1 and to the previous year. Consumers expect *unemployment rate* to increase, tracing the upward trend started since 2011 Q2.

Based on consumers' quantitative assessment of inflation rate after 12 months, the expected rate is 2.1%, 0.25 percentage point lower compared to the inflation rate stated in the previous quarter.

Table 1: Confidence indicators by sectors[*]

	Values since 2002 Q2			2011		2012		Current situation	
	min.	aver.	max.	Q3	Q4	Q1	Q2	Conjectural**	Structural***
Industry	-18.2	-2.7	6.2	-4.9	-4.7	-8.3	-10.1	↓	--
Construction	-26.3	-6.4	9.1	-18.4	-26.3	-27.9	-28.6	↓	--
Services	-9.2	3.1	20.7	2.5	-7.5	-4.7	-7.4	↑	--
Consumer	-20.5	-12.1	-6.3	-9.4	-6.4	-13.3	-14.5	↓	-

Source: Consumer Confidence Survey, 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 satisfactory (--) 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		
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3-expectations
Demand									
Total	-10.5	-2.6	-5.6	-11.9	-10.7	-18.1	-14.8	-21.1	2.2
Industry	-11.0	-2.9	-0.2	-7.0	-6.0	-7.8	-13.5	-19.2	6.7
Construction	-23.2	-10.4	-11.8	-26.4	-23.1	-31.5	-26.7	-31.0	-4.9
Services	2.7	5.6	-4.8	-2.2	-3.2	-14.8	-4.3	-13.0	4.6
Firm's overall situation									
Total	-9.8	-4.3	-5.8	-11.2	-8.1	-17.0	-15.1	-21.8	1.1
Industry	-9.9	-5.6	2.2	-6.7	-2.9	-7.6	-10.5	-18.6	2.3
Construction	-23.7	-11.6	-10.3	-24.2	-19.0	-28.9	-25.3	-32.9	0.3
Services	4.3	4.2	-9.2	-2.7	-2.3	-14.5	-9.3	-14.1	0.6
Production									
Total	-15.1	-4.4	0.0	-12.0	-9.4	-18.1	-19.1	-20.6	-1.3
Industry	-10.2	-0.7	6.2	-6.2	-0.7	-8.0	-10.5	-14.1	-0.6
Construction	-20.1	-8.1	-6.1	-17.7	-18.0	-28.2	-27.7	-27.1	-2.1
Consumer									
Financial situation	-4.8	-7.0	-13.4	-6.0	-1.2	-4.6	-9.8	-12.7	-0.3
Prices after 1 year, in %	2.2	2.2	2.3	2.0	2.2	2.2	2.4	2.1	
Major purchases	-39.8	-43.9	-50.3	-49.0	-38.6	-30.1	-44.8	-49.3	-47.9
Savings	-43.9	-44.2	-50.5	-46.0	-45.6	-40.9	-43.9	-45.8	-43.7

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

Financial situation

Economic situation

Major purchases

Savings
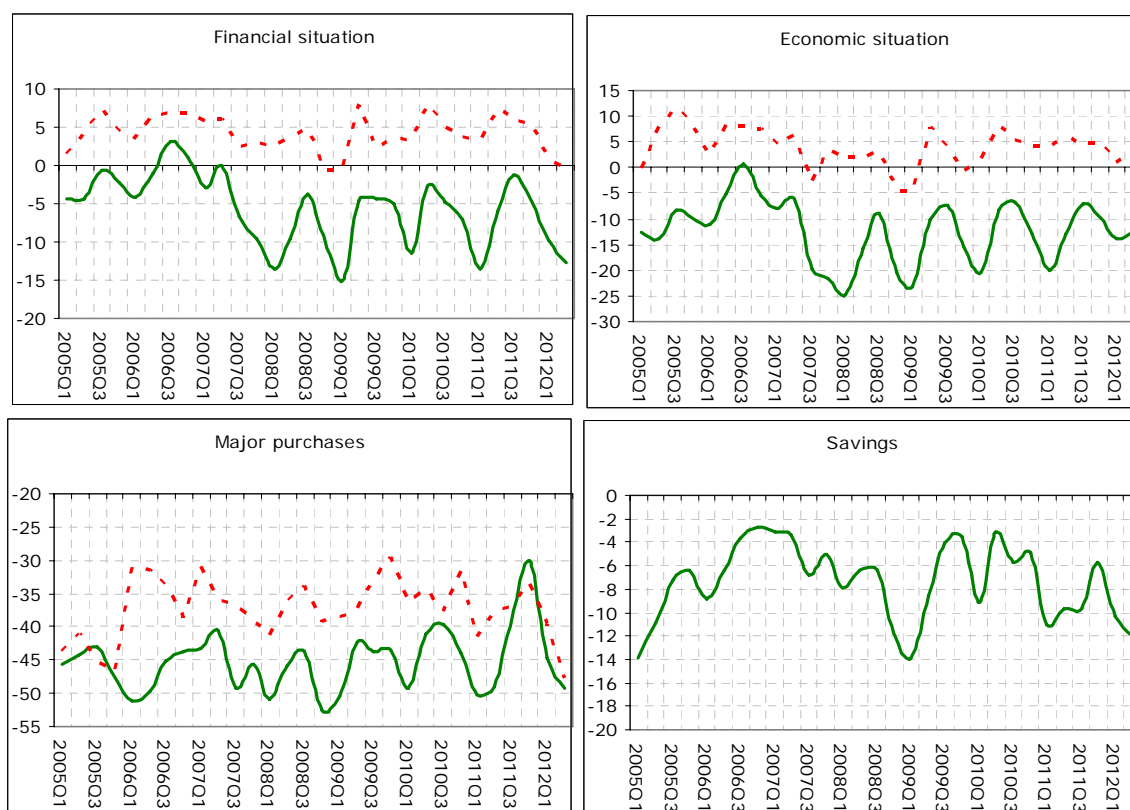
Source: Consumer Confidence Survey, Bank of Albania.

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

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.