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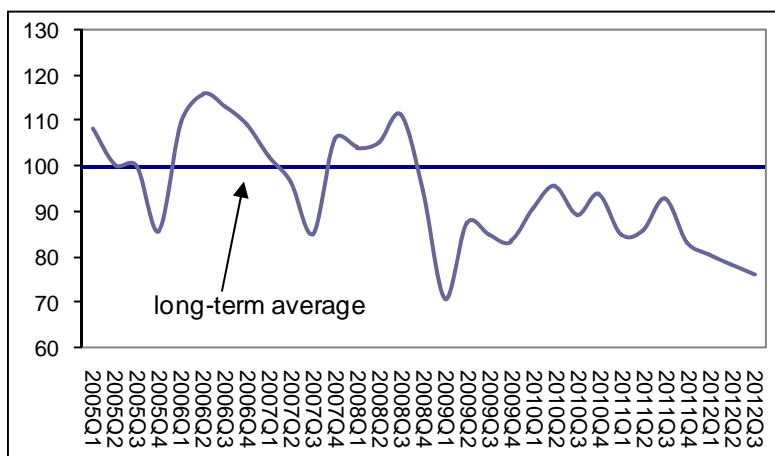
Business and Consumer Confidence Survey Results

2012 Q3

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Economic sentiment indicator

Economic Sentiment Indicator (ESI) fell by 2.3 percentage points in 2012 Q3, settling at 76.1. The fall in ESI was driven by the decrease of businesses confidence, whereas the consumer confidence improved slightly. Following a more prononuced fall in 2011 Q4, the ESI has fallen slightly but persistently during the first three quarters of 2012. The current ESI stands considerably below its long-term average. The decreased consumer confidence in *construction* and *services* provided the main contribution to the fall in ESI. Confidence in *industry* decreased at lower rates, hence contributing less to ESI fall. The improvement of *consumer* confidence provided a small positive contribution to ESI formation durign 2012 Q3.

Chart 1 Economic sentiment indicator

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

Industry

The Industry Confidence Indicator (ICI) fell by 1.4 percentage points in 2012 Q3. It pursued the downtrend that had started in 2011 Q4. The current ESI stands 9 percentage points below the long-term average. During the third quarter, the worsening of the ICI was driven 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)
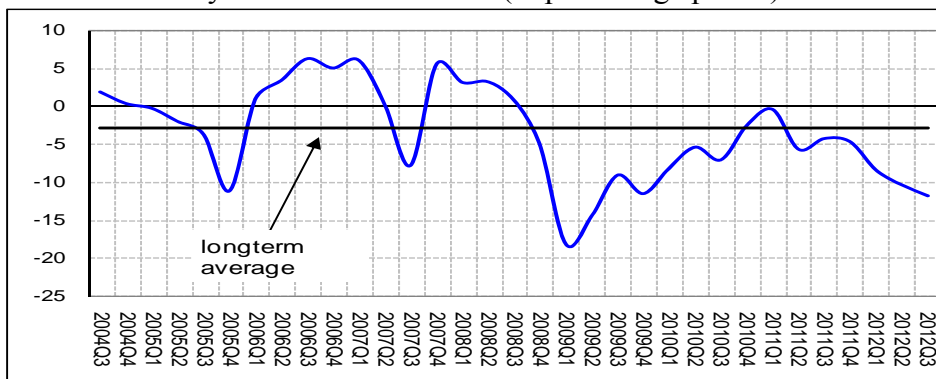
Source: Business Confidence Survey, Bank of Albania.

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

Industry related-firms reported a decline across almost all aspects related to their activity. They assess that the *overall performance of the economy* and their *firms' overall situation* worsened in 2012 Q3. The balances dropped by 16.3 and 4.9 percentage points, respectively.

The *domestic demand* and *foreign demand* continued their downtrend that had started in 2011 Q4. In contrast to the previous quarter, the foreign demand fell more pronouncedly (-3.1 percentage points) than the domestic demand (-0.1 percentage points). Although businesses reported a downward demand, *inventories* reduced in 2012 Q3, thus reflecting the higher fall in industrial production.

According to businesses opinion, during 2012 Q2, *industrial producer prices* were up after falling for three consecutive quarters.

The industrial *capacity utilization* rate remained almost unchanged settling at 68% (-0.2 p.p.) in the period under review. This rate stands 2.6 percentage points below its long-term average.

Industry-related firms *expect* the total *demand, overall economy* and *business situation* to worsen in 2012 Q4 compared with expectations reported in the previous survey for 2012 Q3. Industry-related firms are more optimistic about *foreign* demand, *production* and *employment* in the upcoming quarter.

Construction

In 2012 Q3, the Construction Confidence Indicator (CCI) fell about 6 percentage points. Currently, it stands about 30 percentage points below the long-term average, reaching its all-time low. The CCI worsened as all its three components fell; *demand* (-8.6 p.p.), *production* (-4.9 p.p.), *employemt* (-3.9 p.p.).

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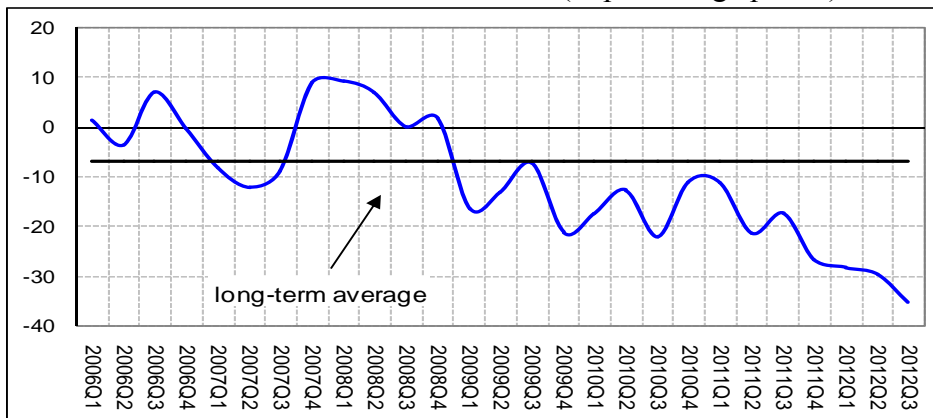
Source: Business Confidence Survey, Bank of Albania.

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

Construction-related firms lowered the assessment of their firms' *overall situation* and of the *overall economic situation* in 2012 Q3. The respective balances fell 4.4 and 7.1 percentage points from 2012 Q2.

The downtrend of *producer prices* in the construction sector stopped in 2012 Q2. In the third quarter, they were reported as slightly upward. However, the decrease of demand has contributed to the worsening of their *financial situation*. The balance of the latter dropped 2 percentage points.

The *capacity utitilisation* rate for construction was slightly up 1.7 percentage points, but it continues to remain considerably below the long-term average, 9 percentage points. The asseessment for new *investments* by construction firms reached the lowest values during 2012 Q3.

For 2012 Q4, construction firms continue to be pesimitsic about the *overall economic situation*. Their expecations for *demand*, *production* and *employment* appear slightly improved from expectations for 2012 Q3 in the previous survey.

Services

In 2012 Q3 the Services Confidence Indicator (SCI) fell by 6 percentage points. The current indicator stands considerably below the long-term average and has reached its lowest level. The SCI worsened due to the worsening of businesses assessment of *overall economic situation, financial situation* and *employment*. The asssessment of the overall situation fell modestly 2.2 percentage points compared with the more pronounced fall 7.6 percentage points of balances related closely to their business situation (*employment* and *finanical situation*).

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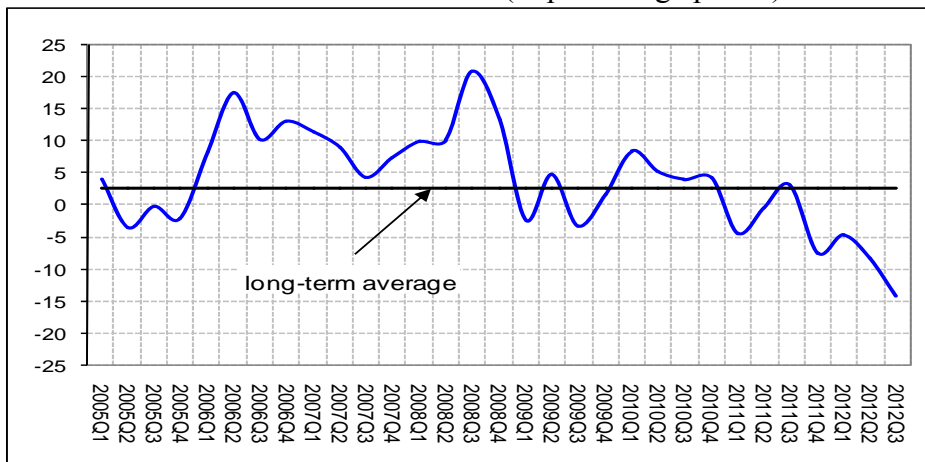
Source: Business Confidence Survey, Bank of Albania.

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

Service-related firms assessed the *overaell economic situation* as worsened. Its balance dropped about 10 percentage points in 2012 Q3. On the other hand, the balance of *demand* for service-related firms decreased only 0.4 percentage points. *Prices* in the services sector were downward for the second consecutive quarter, during the quarter under review.

Capacity utilisation rate in the services sector was slightly up 0.9 percentage points reaching 75.7%, as high as the long-term average. Firms have considered the lack of

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capital adequacy as the main driver which has limited the full utlilisation of their capacities.

Firms' expectations for 2012 Q4 are pesimistic, in terms of both aspects related to their business activity and the overall economic situation.

Consumer confidence

In 2012 Q3, the Consumer Confidence Indicator (CCI) fell 1.3 percentage points. Although improved, this indicator continues to remain below its historic average (0.93 percentage points). Durign this quarter, the consumer confidence improved as three of its components improved. The *savings and expenditures* balance improved significantly, surging 5.6 percentage points. *Major purchases* and *finanical outlook* improved as well, but to a lower extent, 1.1 and 0.4 percentage points, respectively. The higher inclination of consumers to save is accompanied by worsened expectations on the *economic situation* outlook. The balance of the latter dropped 1.8 percentage points in 2012 Q3.

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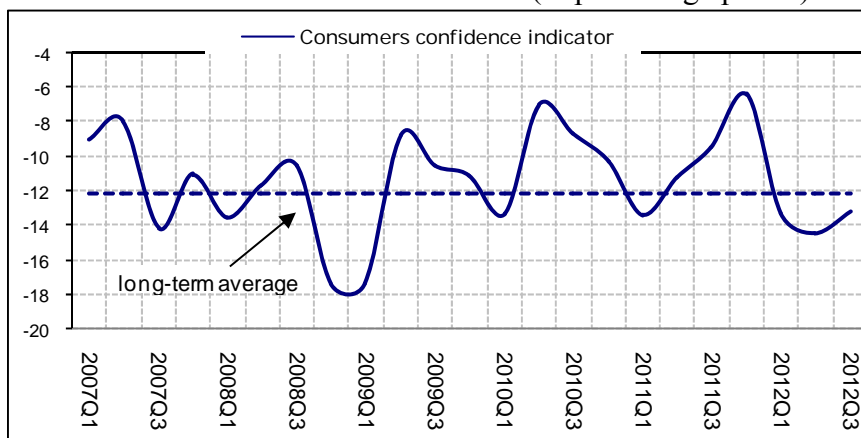
Source: Consumer Confidence Survey, Bank of Albania.

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

In 2012 Q3, consumers' assessment regarding the *households' financial situation* and *the overall economic situation at home* was upward. The relevant balances surged 5.7 and 3.4 percentage points, respectively. Consumers state that the *cost of living* fell in the current quarter. They also expect *unemployment* to fall in the upcoming six months.

Based on one-year-ahead consumers' quantitative assessment, the expected of inflation rate is 2.2 %, which is 0.1 percentage point higher compared to the inflation rate in the previous quarter.

Table 1 Confidence indicators by sector[*]

	Values since 2002 Q2			2011	2012			Current situation	
	min.	av.	max.	Q4	Q1	Q2	Q3	Conjectural**	Structural***
Industry	-18.2	-2.9	6.2	-4.8	-8.5	-10.5	-11.9	↓	--
Construction	-35.26	-6.9	9.1	-26.5	-28.2	-29.4	-35.3	↓	--
Services	-14.0	2.8	20.6	-7.5	-4.6	-8.3	-14.0	↓	--
Consumer	-20.5	-12.1	-6.3	-6.4	-13.3	-14.5	-13.2	↑	-

Source: Consumer Confidence Survey, Bank of Albania.

*) Excluding consumer indicators, 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 highly satisfactory (+ +) when the index is more than 1 standarddeviation higher than the average; the situation is considered as satisfactory (+) when the index is less than 1 standarddeviation higher than the average; the situation is considered as unsatisfactory (-) when the index is less than 1standard deviation lower than the average; and the situation is considered as highly unsatisfactory (--) when the index ismore than 1 standard deviation lower than the average.

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

	2010	2011				2012			
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4-expectations
Demand									
Total	**-2.9**	**-5.7**	**-12.3**	**-9.8**	**-18.4**	**-15.0**	**-21.6**	**-24.6**	**1.2**
Industry	-3.0	-0.4	-7.3	-5.4	-7.9	-13.8	-19.5	-19.6	2.7
Construction	-10.4	-12.1	-27.3	-21.5	-31.7	-27.1	-32.1	-40.8	-2.7
Services	4.7	-4.5	-2.2	-2.6	-15.7	-4.0	-13.0	-13.4	3.6
Overall business situation									
Total	**-13.2**	**-10.6**	**-13.9**	**-15.6**	**-19.4**	**-13.5**	**-24.8**	**-34.3**	**-12**
Industry	-5.7	-3.2	-17.0	-12.4	-18.2	-13.3	-18.2	-34.5	-9.4
Construction	-12.8	-11.4	-19.1	-21.5	-26.3	-22.0	-31.8	-36.1	-17.6
Services	-15.6	-12.4	-10.6	-13.8	-16.6	-9.6	-23.5	-33.4	-10.2
Production									
Total	**-4.4**	**-0.2**	**-12.8**	**-8.0**	**-18.3**	**-19.4**	**-21.5**	**-26.6**	**2.7**
Industry	-0.6	6.0	-6.9	0.2	-8.0	-10.7	-14.8	-20.3	7.1
Construction	-8.2	-6.4	-18.7	-16.2	-28.5	-28.2	-28.1	-33.0	-1.7
Consumers									
Financial situation	-7.0	-13.4	-6.0	-1.2	-4.6	-9.8	-12.7	-7.0	0.1
Prices after one year, in %	2.2	2.3	2.0	2.2	2.2	2.4	2.1	2.2	
Major purchases	-43.9	-50.3	-49.0	-38.6	-30.1	-44.8	-49.3	-48.2	-39.1
Savings	-44.2	-50.5	-46.0	-45.6	-40.9	-43.9	-45.8	-46.3	-42.9

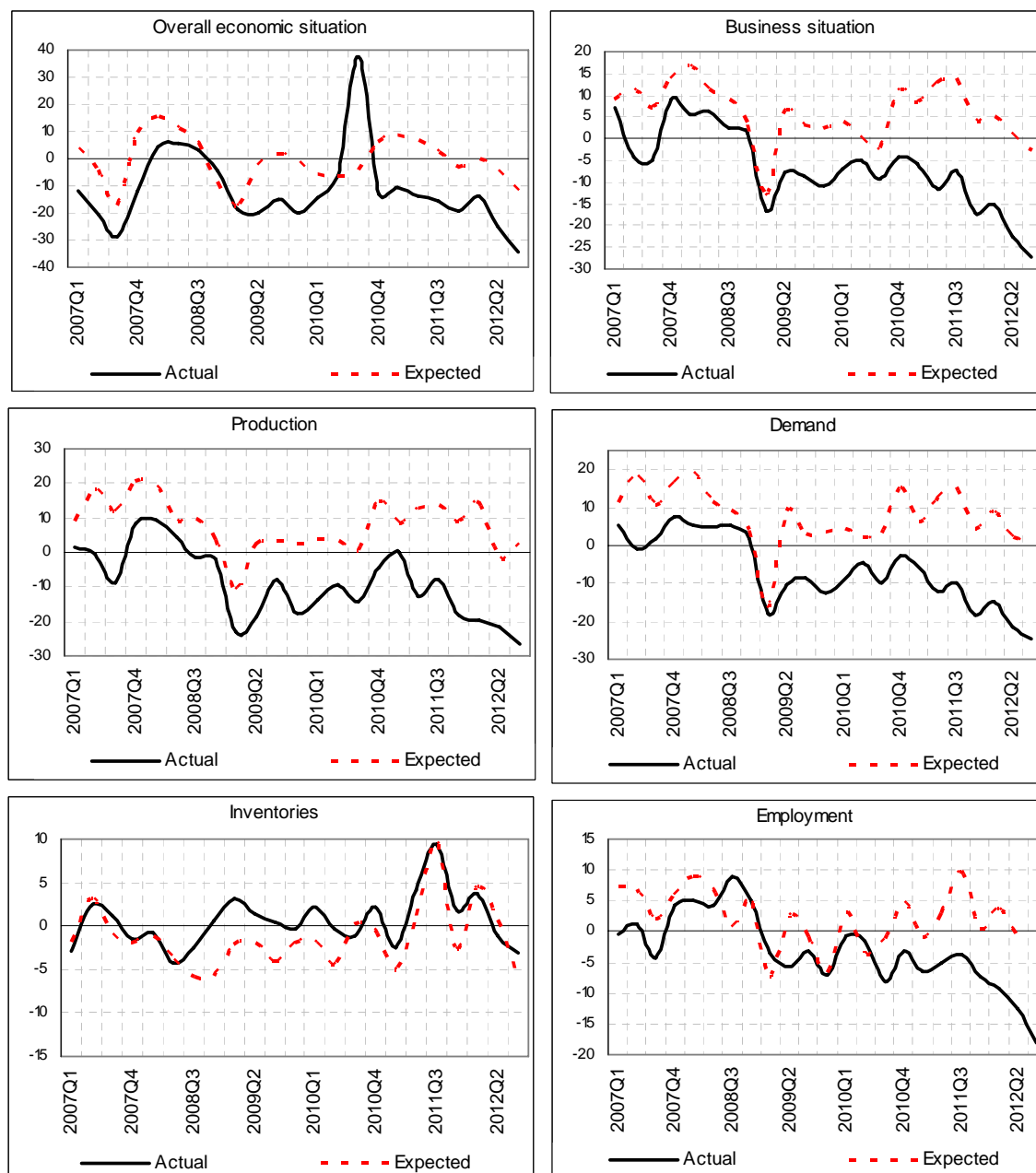Source: Consumer Confidence Survey, Bank of Albania.

*) Excluding consumer indicators, the other indices are calculated based on seasonally adjusted balances.

Chart 6: Key balances of the consumer survey
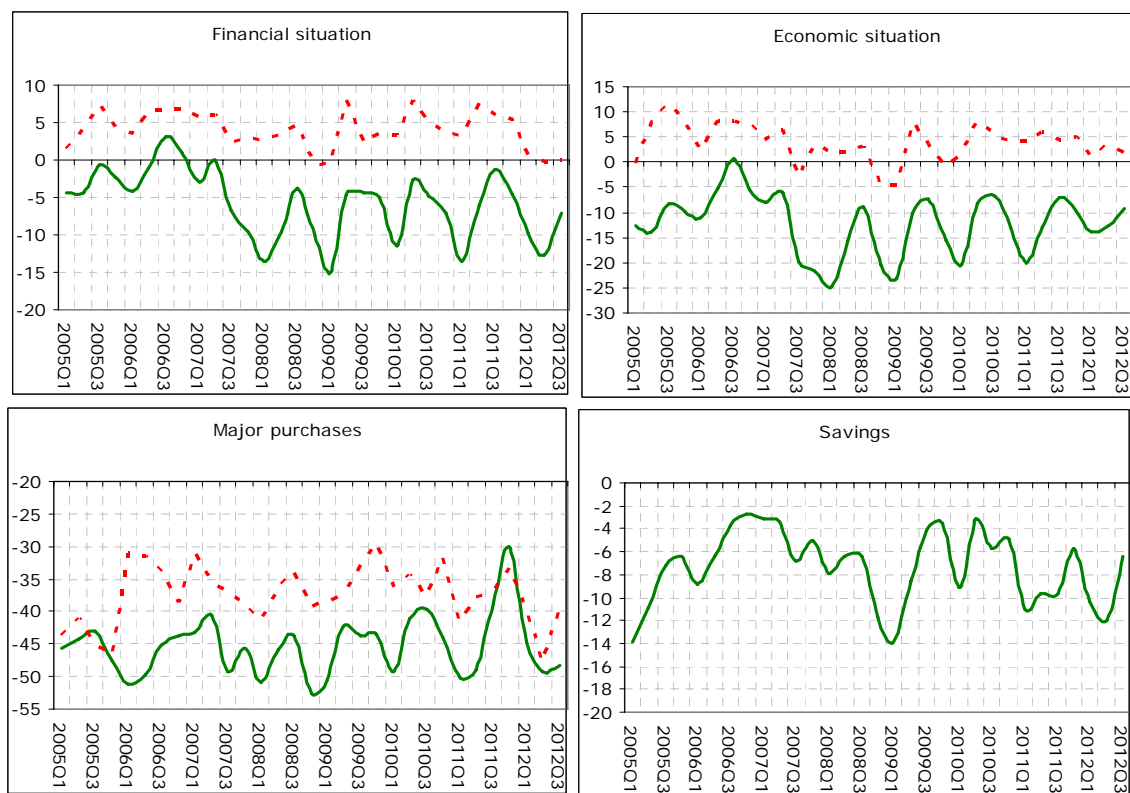
Source: Consumer Confidence Survey, Bank of Albania.

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

Source: Business Confidence Survey, Bank of Albania.

Annex

Explanation of the methodology

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 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. Through a single indicator, it tracks the sentiment on the country's economic activity obtained from the two principal economic groups: businesses and consumers.