

**Bank of Albania**  
Monetary Policy Department



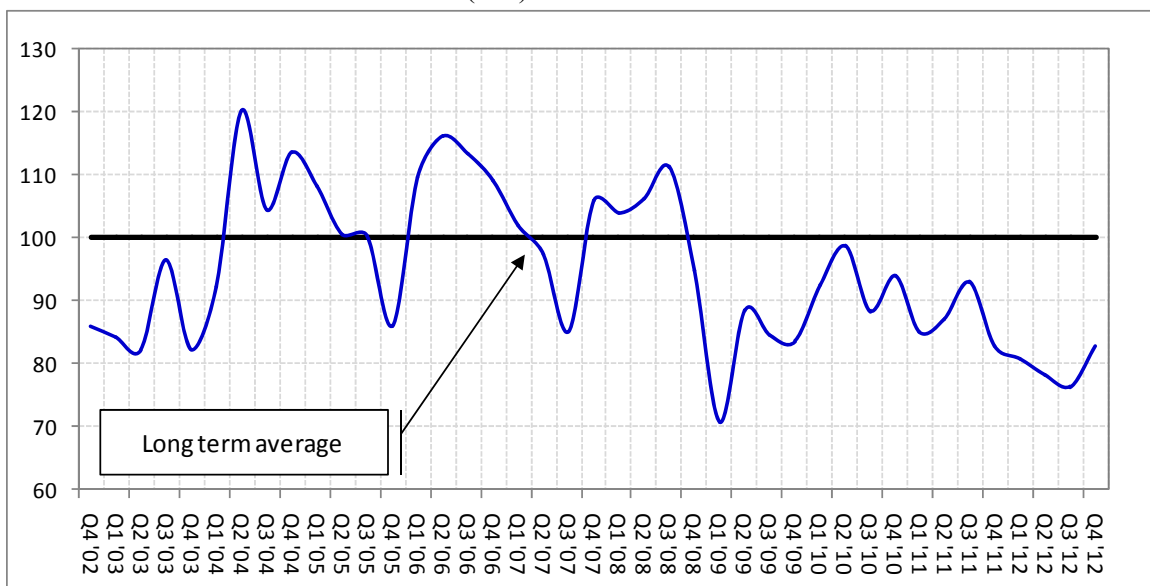
**Business and Consumer Confidence Survey Results**

**2012 Q4**

**Economic sentiment indicator**

Economic Sentiment Indicator (ESI) improved by 6.5 percentage points in 2012 Q4 from the previous quarter. This improvement comes after the persistent ESI fall during four previous quarters. At present, the ESI stands at 82.8, about 17.2 below its long-term average. ESI improved mainly owing to the significant improvement of confidence in the *services* sector. The improved confidence in the *industry* sector contributed in the same direction, but to a lesser extent. On the other hand, the downward confidence in the *construction* sector and that of *consumers* contributed negatively to the actual ESI levels.

Chart 1 Economic Sentiment Indicator (ESI)

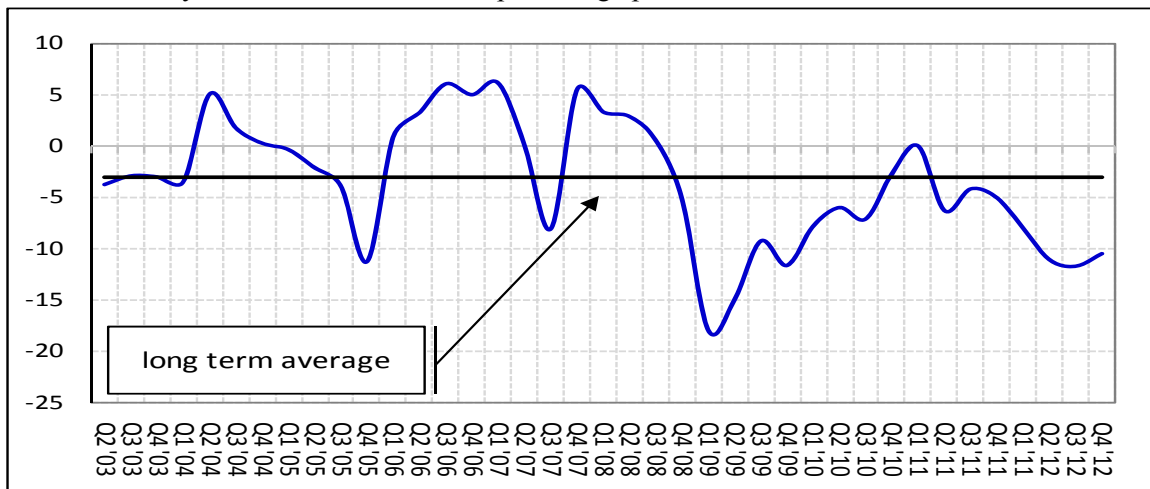


Source: Business and Consumer Confidence Survey, Bank of Albania

## Industry sector

Industry Confidence Indicator (ICI) improved by about 1.2 percentage points in 2012 Q4. This is the first improvement of the ICI since 2011 Q4. At present, the ICI stands about 7.3 percentage points below the long-term average. In the period under review, the ICI improved as businesses assessed *production* and the situation of *employment* less negatively. On the other hand, higher *inventories* contributed negatively to the actual ICI.

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 assessed positively almost all aspects related to their activity. Their assessment of the *overall performance of the economy* and the *firms' overall situation* improved in the 2012 Q4. Businesses expectations for the economy and their situation in the upcoming quarter improved as well.

The balances of *domestic demand* and *foreign demand*, which had been downward since 2011 Q4, improved in 2012 Q4. Hence, the domestic demand is assessed to have improved 3.4 percentage points, whereas foreign demand improved 12.5 percentage points. The businesses expectation about demand in the period ahead also improved, though to a lesser extent. In contrast to the previous quarter, *inventories* increased. Businesses expect production and inventories to fall in the first quarter of 2013

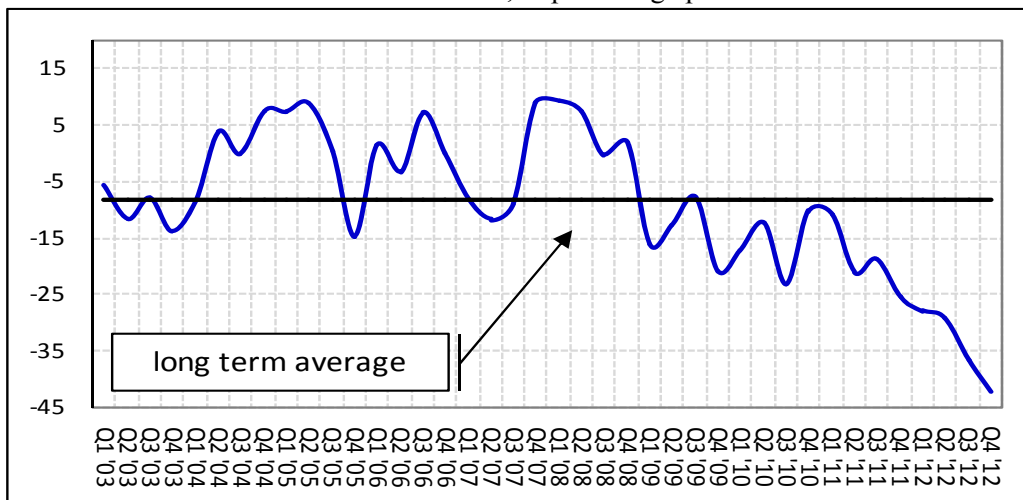
According to the businesses opinion, *industrial producer prices* continued their downtrend during 2012 Q4.

The *capacity utilisation rate* in industry surged 3.1 percentage points settling at 71.1%, in the period under review. This rate stands 0.5 percentage points above its long-term average.

## Construction sector

Construction Confidence Indicator (CCI) fell about 5.6 percentage points, in 2012 Q4. It actually stands about 34 percentage points below the long-term average, reaching historic minimum CCI levels. The CCI deteriorated following the worsening of two of its constituent balances; assessment for *demand* (-8.7 percentage points) and for *production* (-8.5 percentage points). The construction sector businesses assessed *employment* as improved slightly (0.3 percentage points) during 2012 Q4, hence impacting positively on the confidence indicator of this sector.

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:

In 2012 Q4, the assessment of construction-related firms about the *firms' overall situation* and of *the overall economic situation* continued the downtrend. The relevant balances dropped 8.2 and 4.7 percentage points from 2012 Q3. On the other hand, expectations for the quarter ahead increased 6.2 and 5.4 percentage points, respectively. Construction sector expectations for *demand* and *production* in 2013 Q1 are optimistic.

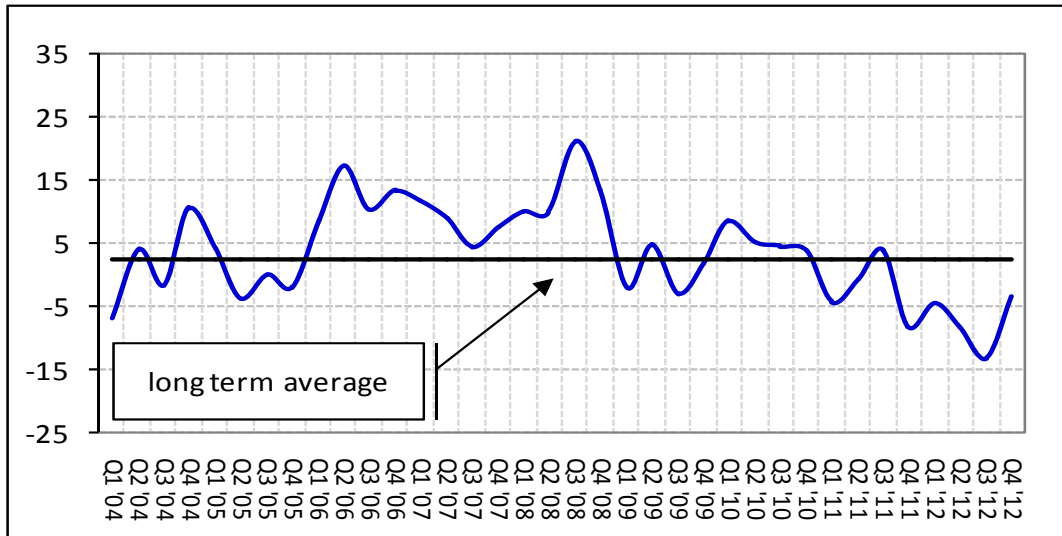
*Producer prices* in construction were assessed as downward in 2012 Q4. Downward demand contributed to the deterioration of the *financial situation* of the construction-related firms. In the period under review, this balance fell 4 percentage points.

The *capacity utilisation rate* was slightly up by 2.8 percentage points; however, it remains below its long-term average, 5.8 percentage points.

## Services sector

Services Confidence Indicator (SCI) improved significantly 2012 Q4. After the pronounced fall of the businesses confidence in the services sector during 2012 Q3, this indicator surged by 9.7 percentage points in 2012 Q4. The SCI improved as businesses assessment of three of its components: *overall situation of the business*, *employment* and *financial situation*, improved as well. The actual SCI, however, currently stands about 5.9 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:

Businesses in the services sector assessed that the *overall economic situation* improved by about 13.6 percentage points during 2012 Q4 and is expected to do so 2013 Q1. In this period, businesses in the services sector assessed that the current and expected *demand* for their services improved. While improving, the actual level of balances for the current and expected *demand* stands below the long-term average.

The positive performance of demand was reflected in the assessment by the services sector businesses of the *economic situation*, whose balance surged by about 10.5 percentage points.

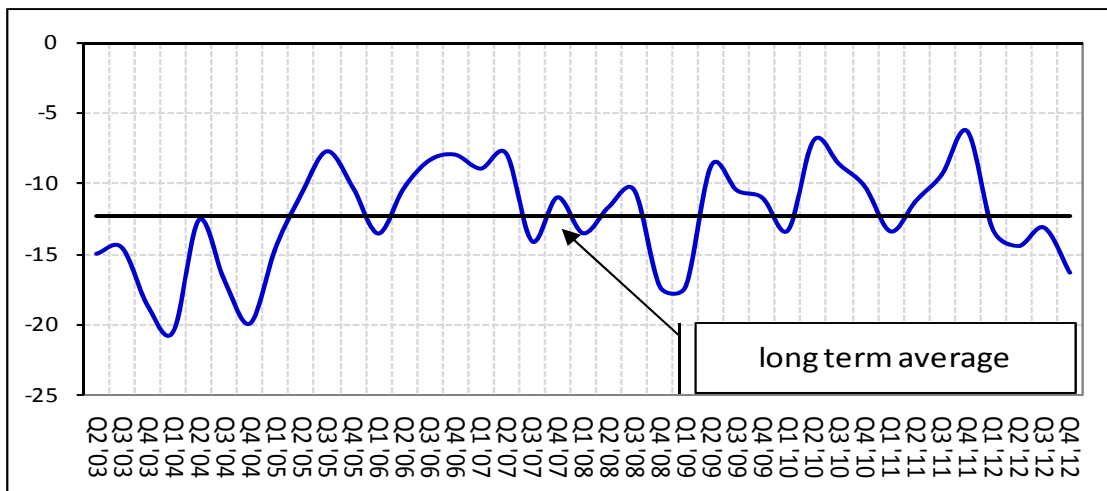
The *capacity utilisation rate* in the services sector reached 74.1%<sup>1</sup>. This rate stands 0.7 percentage points below the all-time average.

<sup>1</sup> In contrast to the balance of qualitative questions, the capacity utilisation rate is not adjusted for the seasonality.

## Consumer confidence

Consumer confidence deteriorated in 2012 Q4. Following a slight increase in 2012 Q3 (+1.3 p.p.), the Consumer Confidence Indicator (CCI) dropped 3.2 percentage points. The current indicator stands 4.1 percentage points below the long-term average. The CCI fell due to the decline of the balance for *financial situation outlook* (-2.9 p.p.), *economic situation outlook* (-6.5 p.p.) and *situation of income and expenditure* (-5.9 p.p.). On the other hand, the improved balance of *major purchases* provided a small positive contribution (+ 2.6 percentage points) to the CCI.

Chart 5 Consumer Confidence Indicator



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 Q4, the consumers assessed the *households' financial situation* and the *overall economic situation in Albania* as downward. The respective balances fell 5.1 and 34.1 percentage points, respectively. The consumers assessed the *cost of living* as upward in 2012 Q4 against 2012 Q3 and a year earlier. They expect the *unemployment rate* to remain almost unchanged in the upcoming six months, from the previous quarter.

Based on the one-year-ahead consumers' quantitative assessment, the expected inflation rate is 2.4% or 0.2 percentage points higher than the one stated in the previous quarter.

**Table 1. Confidence indicators by sector\***

	Values since 2002 Q2			2012				Current situation	
	min.	av.	max.	Q1	Q2	Q3	Q4	Conjectural**	Structural***
Industry	-11.7	-3.1	6.1	-8.0	-11.0	-11.7	-10.4	↑	--
Construction	-42.4	-7.6	9.2	-27.9	-29.3	-36.8	-42.4	↓	--
Services	-13.2	2.4	21.0	-4.5	-8.4	-13.2	-3.5	↑	-
Consumer	-20.5	-12.1	-6.3	-13.3	-14.5	-13.2	-16.3	↓	--

Source: Consumer Confidence Survey, Bank of Albania

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

\*\*) Situation compared to the previous quarter.

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

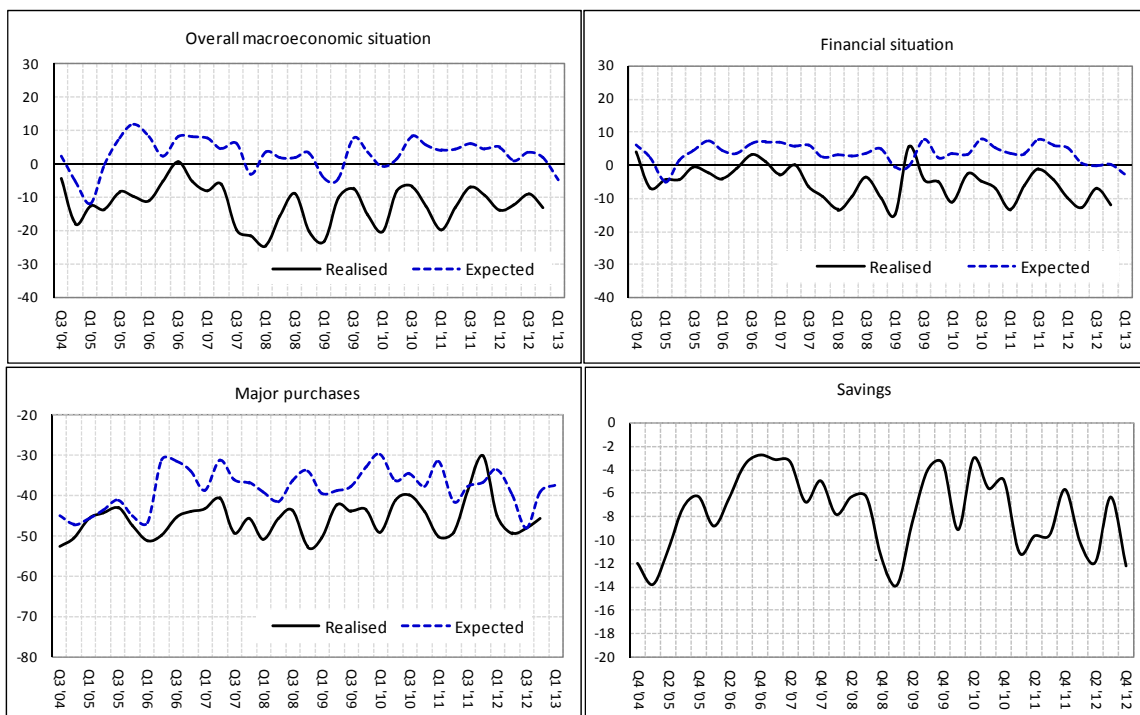
**Table 2. Key balances of the sectors of the economy (in percentage points) \***

	2011				2012				2013
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1 - expectations
<b>Demand</b>									
<b>Total</b>	-5.6	-12.1	-9.9	-18.6	-14.9	-21.4	-24.7	-25.2	4.3
Industry	-0.3	-7.0	-5.0	-8.8	-13.7	-19.2	-19.2	-15.8	4.9
Construction	-12.0	-27.3	-22.7	-30.6	-27.0	-32.1	-42.1	-50.8	-0.4
Services	-4.6	-2.1	-2.2	-16.3	-4.1	-12.8	-12.9	-9.0	8.5
<b>Overall business situation</b>									
<b>Total</b>	-5.5	-11.6	-7.9	-17.1	-14.8	-22.3	-27.7	-26.0	6.0
Industry	2.6	-7.3	-2.3	-8.2	-10.1	-19.2	-24.3	-21.5	3.2
Construction	-10.0	-24.5	-19.8	-28.0	-25.1	-33.3	-43.0	-47.7	1.1
Services	-9.1	-3.1	-1.7	-15.0	-9.1	-14.5	-15.9	-8.7	13.8
<b>Production</b>									
<b>Total</b>	0.6	-13.4	-9.2	-17.2	-18.7	-22.2	-27.9	-30.3	2.2
Industry	7.0	-8.5	0.6	-7.7	-9.7	-16.7	-19.8	-16.1	5.7
Construction	-5.8	-18.3	-19.0	-26.7	-27.6	-27.8	-36.0	-44.5	-1.4
<b>Consumers</b>									
Financial situation	-13.4	-6.0	-1.2	-4.6	-9.8	-12.7	-7.0	-12.1	-2.8
One-year-ahead prices, in %	2.3	2.0	2.2	2.2	2.4	2.1	2.2	2.4	
Major purchases	-50.3	-49.0	-38.6	-30.1	-44.8	-49.3	-48.2	-45.6	-37.4
Savings	-50.5	-46.0	-45.6	-40.9	-43.9	-45.8	-46.3	-53.7	-51.7

Source: Consumer Confidence Survey, Bank of Albania

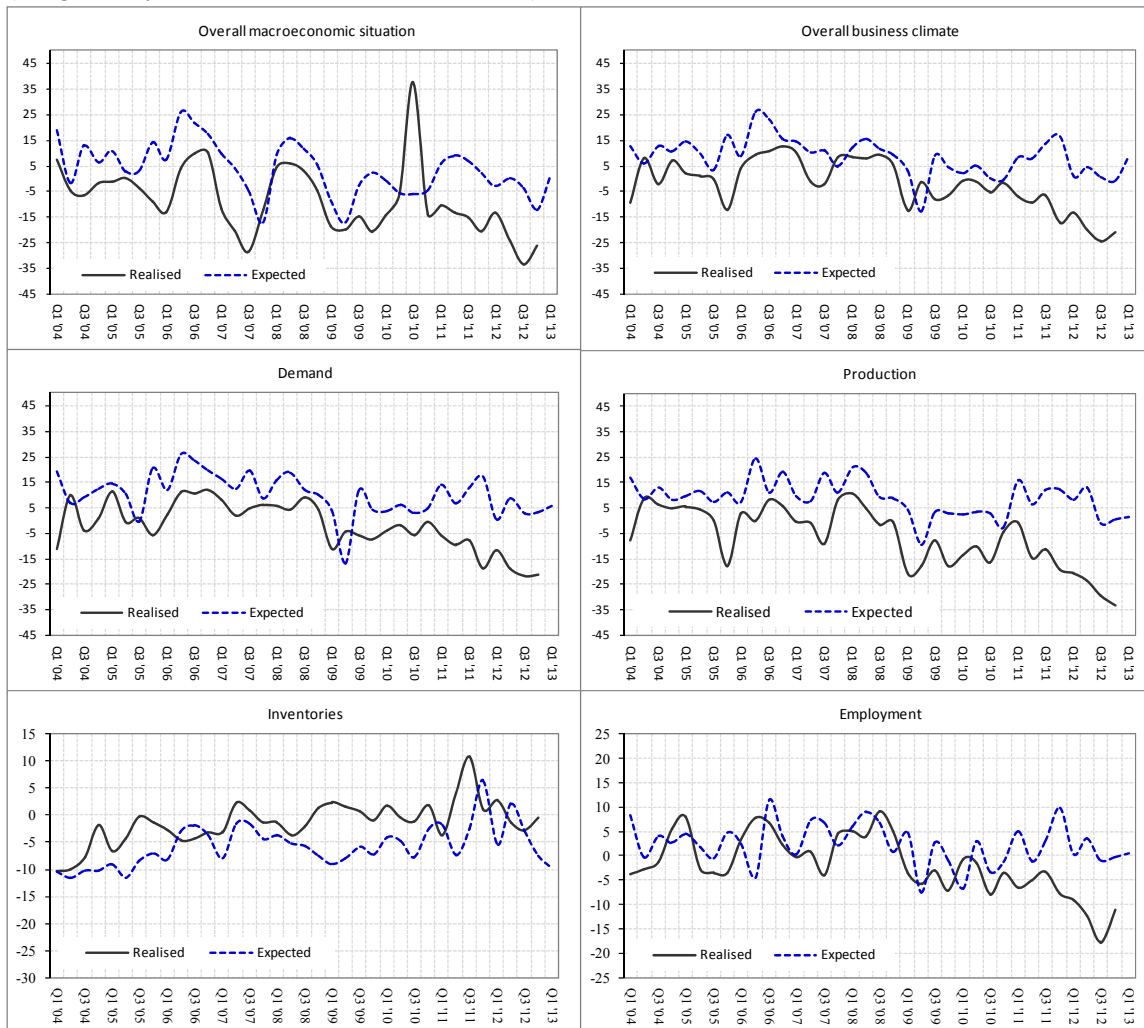
\*) Excluding consumer indicators, the other balances are seasonally adjusted.

**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 share of sectors to the GDP)



Source: Business Confidence Survey, Bank of Albania.



## **Annex**

### **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.