

Bank of Albania

Monetary Policy Department



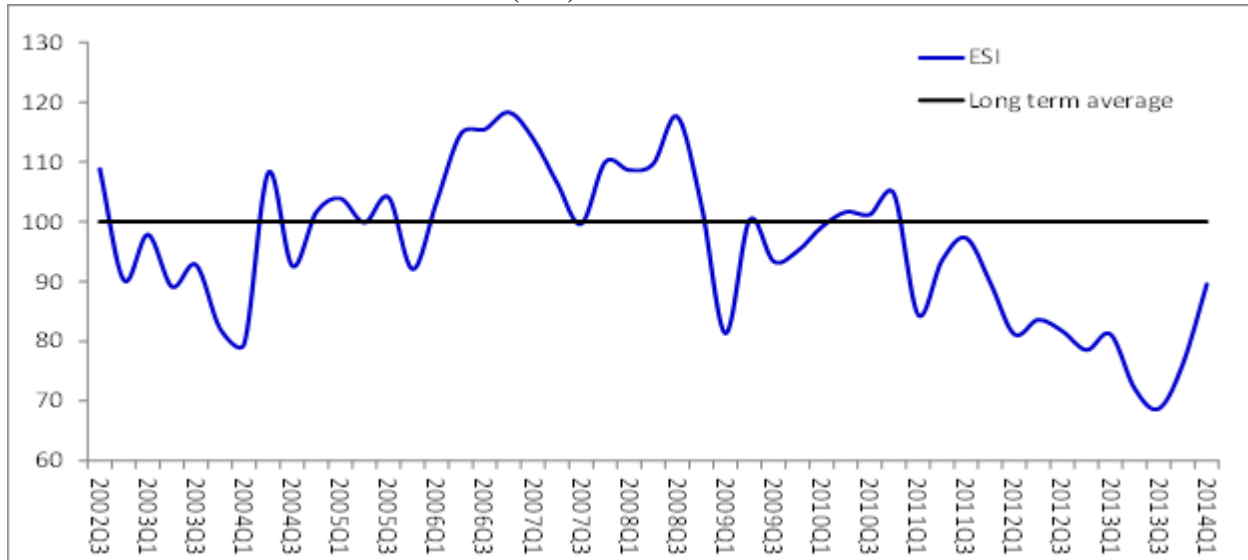
Business and Consumer Confidence Survey

2014 Q1

Economic Sentiment Indicator (ESI)

First quarter 2014 confidence survey results show that Economic Sentiment Indicator has continued to improve since 2013 Q4. While ESI stands at 89.6, markedly increasing by 13.4 points from the previous quarter, it continues to stand below the historical average of 100 (See Chart 1). The ESI improved thanks to the increased confidence in all sectors of economy, excluding the consumer confidence that remained almost unchanged compared to the previous quarter.

Chart 1 Economic Sentiment Indicator (ESI)

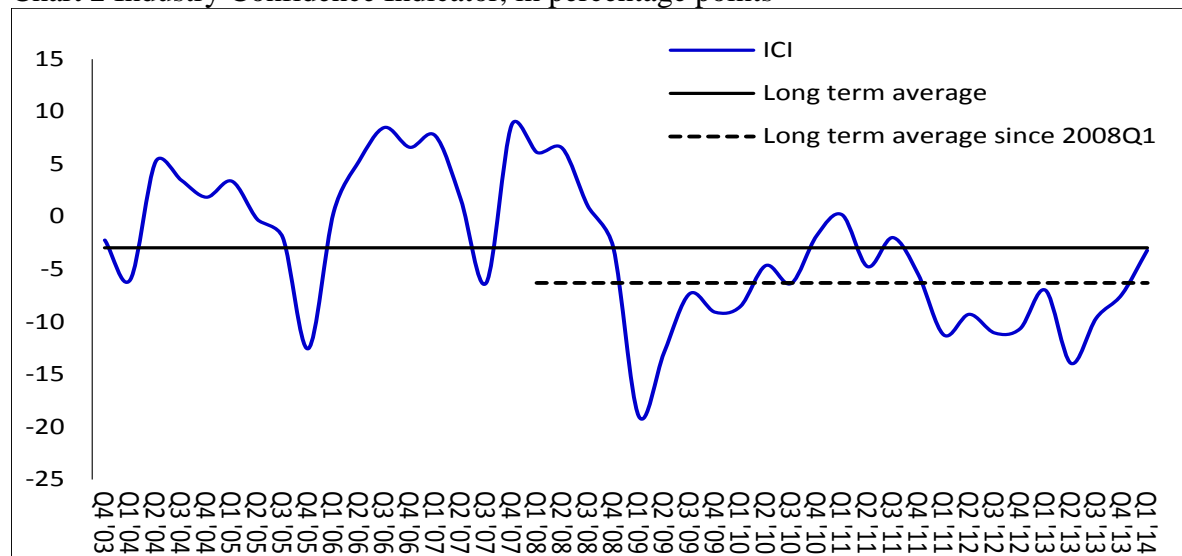


Source: Business and Consumer Confidence Survey, Bank of Albania.

Industry sector

Industry Confidence Indicator (ICI) improved by 4.2 percentage points in 2014 Q1. The raise in *production* balance and the improved *financial situation* of business in this sector affected positively the increase of ICI. Also, the decrease in *inventories situation* provided a positive contribution to the overall situation of ICI. Currently, ICI is about 0.2 percentage points below its long-term average, and about 3.1 percentage points above the average of 2008-2013 period.

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:

Overall economic situation is assessed as improved at the beginning of 2014. The respective balance increased considerably, by about 25.2 percentage points. On the other hand, businesses operating in the industry sector assess that the *economic activity of their companies* has improved slightly in the period under review.

Both the domestic and external demand are assessed as upward during the current quarter. The balances changed by +10.2 and +11.6 percentage points, respectively. Albeit these developments, *prices* of goods sold by industry businesses are reported downward during the period under review, and the *financial situation* of businesses is assessed as improved.

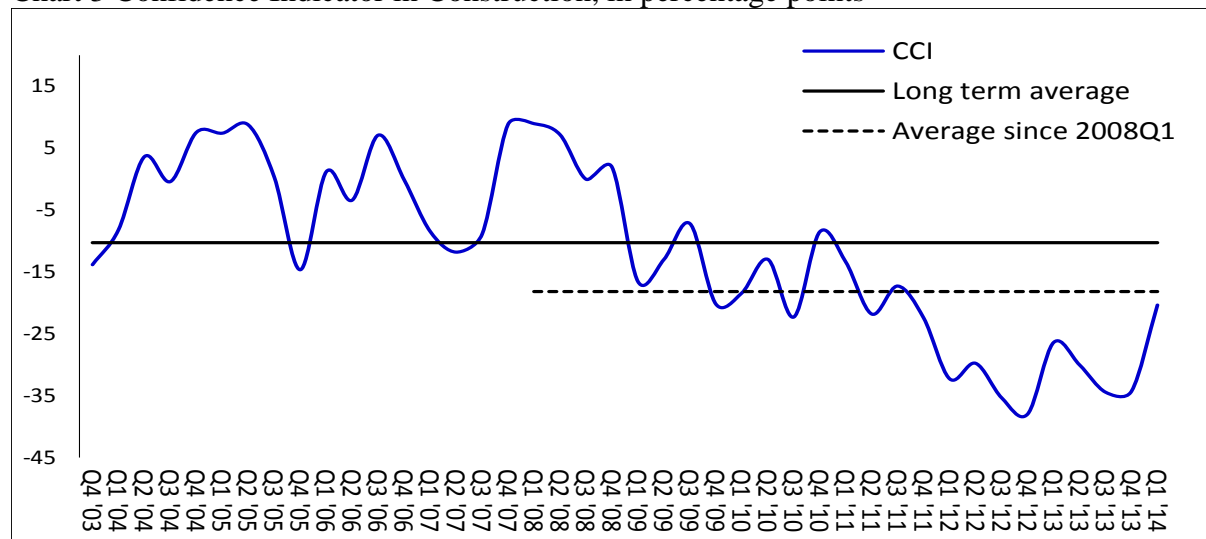
Capacity Utilisation Rate in industry stood at 70.9%, down by about 5.7 percentage points, compared to the previous quarter. *Capacity Utilization Rate* in this sector stands only 0.9 percentage points below the long-term average.

About 37.7% of the surveyed businesses in the industry sector report to have carried out investments during the past six months, mainly in the renovation of technological equipment. About 70% of businesses do not expect to carry out new investments in the next six months. Industry sector's expectations are optimistic regarding the second quarter of 2014. In particular, the expectations balances about the *economy situation*, *business situation* and *demand* in the second quarter increased by 0.4, 3.1 and 7.5 percentage points, respectively.

Construction sector

Confidence Indicator in Construction (CIC) was up by 13.9 percentage points in the first quarter of 2014. The improved CIC was driven by the positive developments in its three composing balances. Businesses operating in construction assessed as improved the *demand* (+12.8 percentage points), *production* (+17.7 percentage points) and *employment* situation (+11.3 percentage points). Currently, CIC is about 10.1 percentage points below its long-term average, and about 2.2 percentage points below the average of 2008-2013 period.

Chart 3 Confidence Indicator in Construction, 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 CIC:

The overall economic situation at home and the overall situation of business were assessed as improving during the first quarter of 2014. Also, the *demand* in construction sector is assessed as upward, by about 12.8 percentage points. *Stock* of houses is assessed to have been reduced considerably during this period, thus helping improve the *financial situation* of businesses in this sector. *Producer prices* in construction were assessed downward in 2014 Q4.

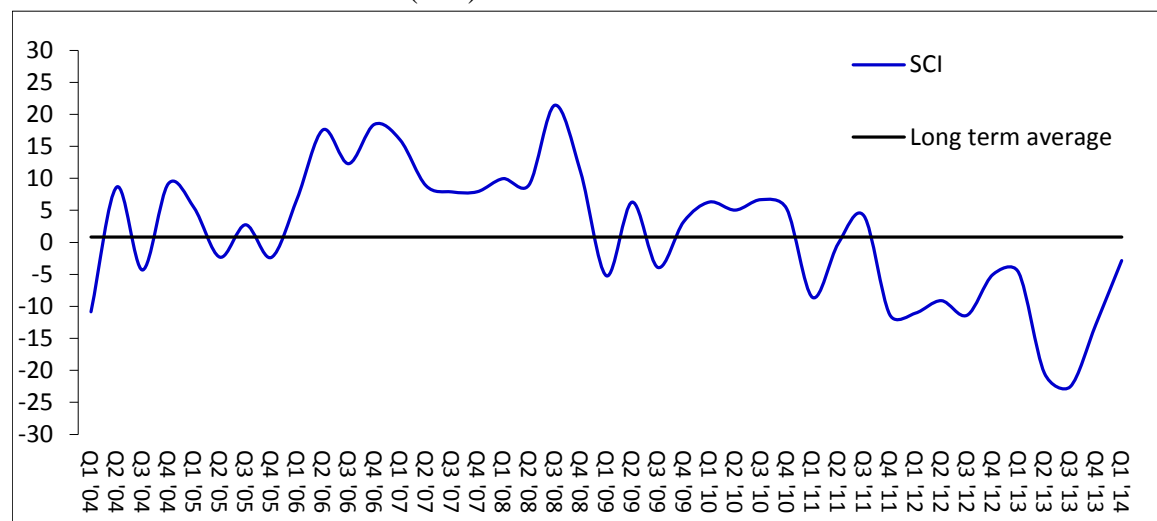
Businesses operating in the construction sector (about 34.9% of total) report to have carried out investments during the previous six months, mainly in technological equipment. The expectations for investments for the next six month are not optimistic in this sector.

The production capacity utilisation rate in construction was about 55.8%. This rate is down by 6.9 percentage points compared to the previous quarter, and about 10.2 below the historical average.

Services sector

After the increase turning point in 2013 Q4, Services Confidence Indicator (SCI) continued to improve in the first quarter of 2014. SCI level increased by 10 percentage points compared to the previous quarter, and stands 3.7 percentage points below its historical average. The SCI increase was mainly driven by the raise in the *business' overall situation* (+12.7 percentage points) and the increase in the *demand* (+11.4 percentage points). The increase in the *financial situation* (+5.7 percentage points) provided a contribution to the same direction, but at a lower degree.

Services Confidence Indicator (SCI)



Source: Business Confidence Survey, Bank of Albania.

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

Enterprises operating in services have assessed the *overall domestic economic situation* as improved. The assessments for the *employment situation* improved as well. Related to the question about the main factors that have hampered the activity development in services sector, the businesses have assessed *the “legal and institutional framework”* and *“the public order and security situation”* as the most important ones.

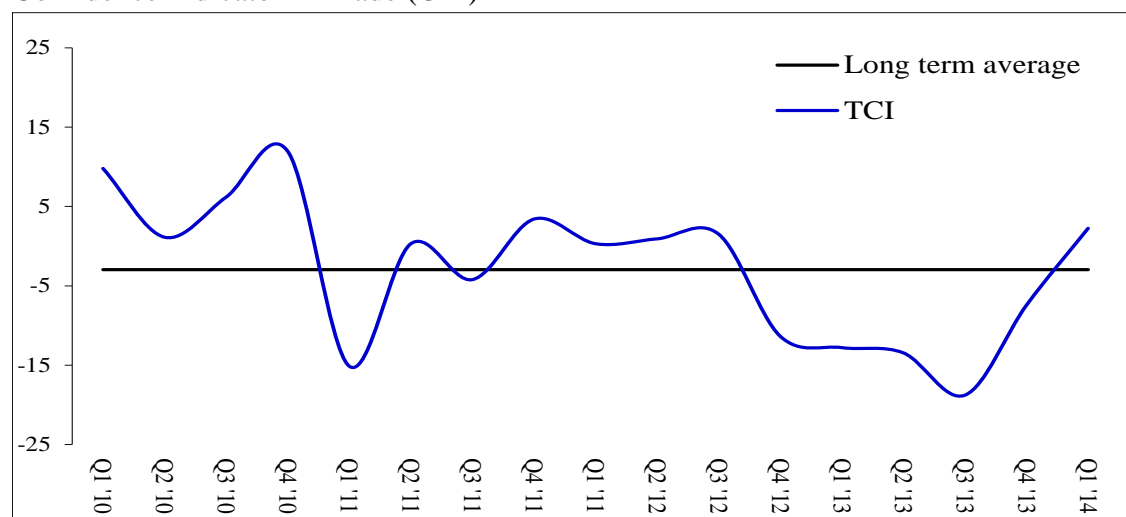
In line with the optimist assessments for the *demand*, the situation in new *investments* is also improved. Businesses operating in services appear optimistic also for the *expectations for demand, opportunities for employment and the overall situation of business* in the second quarter of 2014.

The capacity utilisation rate reported by the businesses in 2014 Q1 is 71.4%, about 5 percentage points lower than the long-term average¹.

Trade sector

Confidence Indicator in Trade (CIT) increased for the second consecutive quarter in 2014 Q1. Currently, CIT is about 5.2 percentage points above the long-term average. The improved CIT was driven by the businesses' increased assessments of three of its components: *employment situation* (+6.6 percentage points), the *business financial situation* (+10.8 percentage points) and the *overall business situation* (+11.6 percentage points).

Confidence Indicator in Trade (CIT)



Source: Business Confidence Survey, Bank of Albania.

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

Overall economic situation at home is assessed considerably better by businesses operating in trade compared to the previous quarter (balance +14.2 percentage points). The increased business confidence in trade was also shown in their upward assessment for the *demand* (balance +15.8 percentage points).

¹ Capacities utilisation rates are reported not adjusted seasonally.

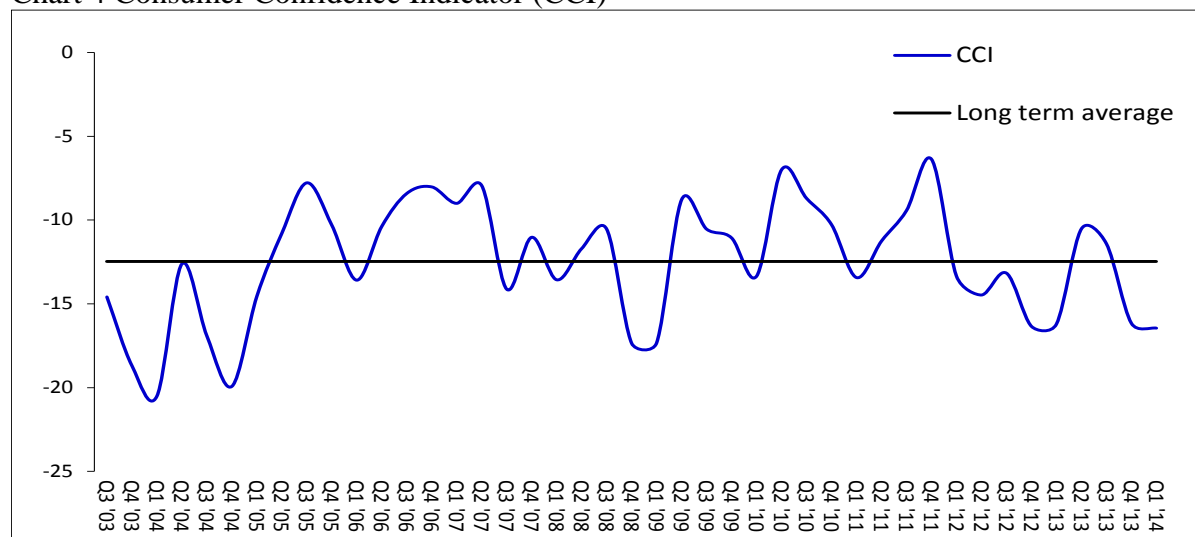
The balance of question about new investments during the last six-month period increased considerably in 2014 Q1. Similarly, businesses expect an increase in investments during the second half of 2014.

Contrary to the optimistic assessments for the first quarter, businesses operating in trade, appear more contained in their expectations regarding the economic performance in 2014 Q2. Also, capacity utilisation rate in trade was 76.7%, about 2.8 percentage points below its long-term average.

Consumer confidence

Consumer Confidence Indicator (CCI) decreased slightly by about 0.3 percentage points in 2014 Q1. Currently, CCI stands about 4.0 percentage points below the historic average. Consumers' expectations for the *financial situation* in the next quarter fell by about 2.5 percentage points. Their assessment for the *major purchases* situation in 2014 Q1 was also in the same direction. Moreover, the expectations for the *overall economic situation* provided a slight downward contribution to the aggregated CCI. The only one component providing a positive contribution is the *income and expenses balance*, whose level was up by 6.8 percentage points.

Chart 4 Consumer Confidence Indicator (CCI)



Source: Consumer Confidence Survey, Bank of Albania.

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

Consumers' expectations for the *employment* in the next six-months appear somewhat improved. The current balance fell by 2.9 points (higher balance shows higher expected unemployment). Consumers' savings increased by 9 percentage points in the first quarter.

Consumers perceive a lower living cost in the first quarter of 2014, and expect it to be lower in the next quarter. Expectations for *inflation* after one year fell by about 0.7 percentage points, compared to the previous quarter.

Table 1: Confidence indicators by sectors *

	Values since 2002 Q2			2013				2014	Current situation	
	min.	average	max.	Q1	Q2	Q3	Q4	Q1	Conjectural**	Structural***
Industry	-19.0	-3.0	8.7	-7.0	-14.0	-9.6	-7.4	-3.2	↑	-
Construction	-38.0	-10.8	8.9	-26.4	-30.0	-34.4	-34.3	-20.4	↑	-
Services	-22.6	0.8	21.4	-4.7	-20.4	-22.6	-12.8	-2.8	↑	-
Trade	-18.8	-3.0	12.0	-12.8	-13.4	-18.8	-7.4	2.2	↑	+
Consumer	-20.5	-12.4	-6.4	-16.2	-10.5	-11.4	-16.2	-16.4	↓	-

Source: Consumer Confidence Survey, Bank of Albania.

*) Excluding consumer indicator, 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.

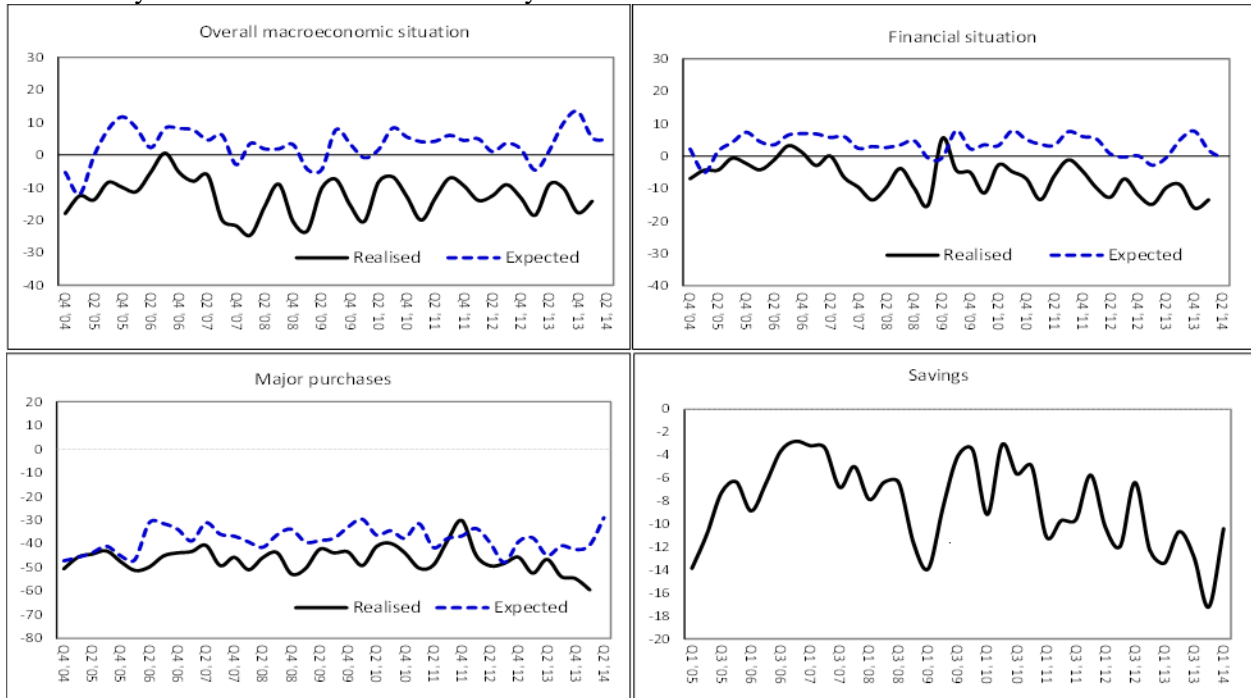
Table 2: Key balances of the sectors of the economy (in percentage points) *

	2013				2014	
	Q1	Q2	Q3	Q4	Q1	Q2
Demand						
Total	-15.3	-20.2	-23.7	-18.4	-6.0	15.3
Industry	-15.5	-14.4	-12.0	-14.8	-4.6	22.8
Construction	-31.8	-34.5	-41.7	-38.8	-26.0	5.9
Services	-9.3	-17.6	-20.1	-12.7	-1.3	14.1
Trade	-15.8	-18.5	-24.8	-17.6	-1.8	20.6
Overall business situation						
Total	-11.5	-23.5	-25.7	-18.3	-8.2	19.2
Industry	-14.9	-18.3	-14.5	-11.4	-10.5	20.1
Construction	-30.2	-30.3	-36.6	-36.4	-26.5	13.1
Services	-4.1	-22.5	-24.9	-13.9	-1.2	19.6
Trade	-15.3	-18.8	-27.6	-14.7	-3.1	22.6
Production						
Total	-21.3	-27.1	-24.8	-26.4	-14.7	12.0
Industry	-12.6	-17.5	-10.2	-8.6	-4.7	23.7
Construction	-28.2	-34.5	-36.3	-40.3	-22.6	2.8
Consumers						
Financial Situation	-14.9	-9.7	-8.9	-16.0	-13.5	-0.6
One-year-ahead prices, in %	2.2	2.0	2.2	2.3	1.5	
Major purchases	-52.4	-46.5	-53.8	-54.7	-59.4	-29.0
Savings situation	-52.7	-53.1	-51.1	-48.3	-39.3	-33.4

Source: Consumer Confidence Survey, Bank of Albania

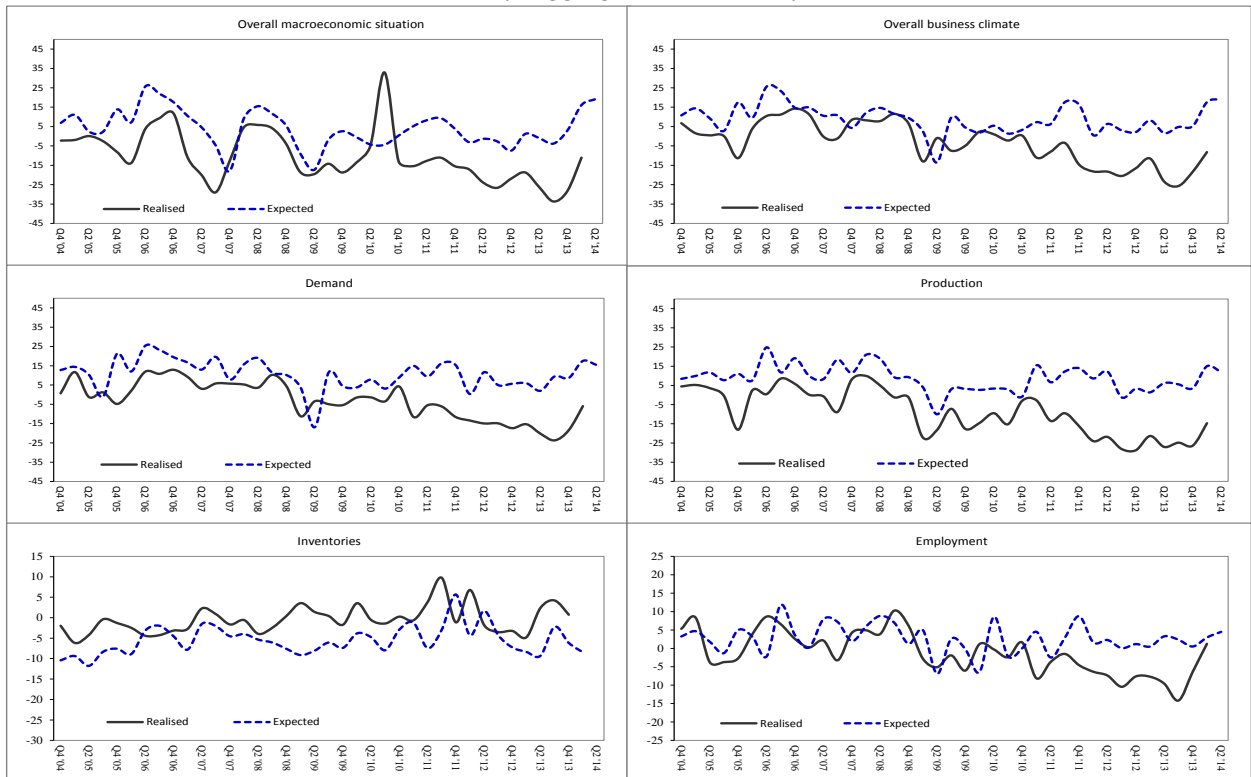
*) Excluding consumer indicators, the other balances are seasonally adjusted.

Chart 5 Key balances of the consumer survey



Source: Consumer Confidence Survey, Bank of Albania.

Chart 6 Main balances of businesses survey, aggregated at economy level



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 calculated as simple average of seasonally adjusted balances, of the indicators with the highest correlation in the reference series (series of the real economy data).

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.