

Bank of Albania
Monetary Policy Department



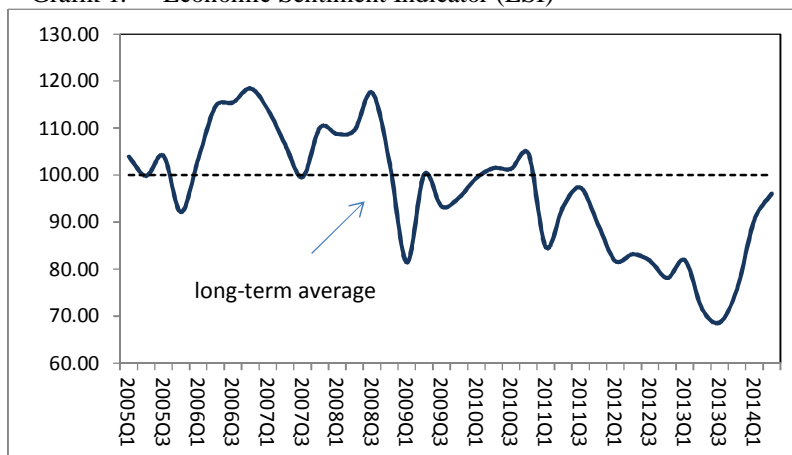
Business and Consumer Confidence Survey

2014 Q2

Economic Sentiment Indicator

The Economic Sentiment Indicator (ESI), which quantifies business and consumer confidence, rose by 5.6 points in 2014 Q2, keeping on the positive developments of the previous two quarters. The improved ESI was attributable to the enhanced confidence in all constituent sectors, and mainly to the increase in the sectors of industry, trade and services, and the improved consumer confidence. Confidence in the construction sector also made a positive, albeit small, contribution to the improvement of the ESI. The latter currently stands at 96.1, or 5.6 points below the long-term average of 100.

Grafik 1. Economic Sentiment Indicator (ESI)



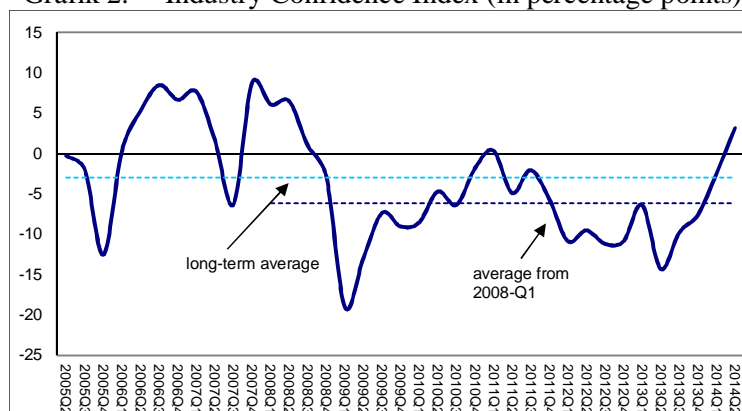
Source: Business and Consumer Confidence Surveys, Bank of Albania.

Industry sector

Industry Confidence Index (ICI) improved by 5.6 percentage points in 2014 Q2. For the first time since 2011, the ICI stood above its long-term average (by 6.1 percentage points) in 2014 Q2, and around 9.3 percentage points above the past five years' average. The improved ICI was positively affected by the

considerable increase in the balance of *production* and the improved *financial situation* in industry firms. On the other hand, the higher *inventories* contributed negatively to the general ICI level.¹

Grafik 2. Industry Confidence Index (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:

The overall economic situation improved during 2014 Q2. Its respective balance increased by around 6.4 percentage points. Firms operating in the industry sector also reported improved *economic activity* during the quarter under review.

Domestic and external *demand* improved during 2014 Q2; their balances improved by +8.7 and +7.1 percentage points, respectively. In line with the growth of demand in the current quarter, firms reported a slight *price* rise, which has, in turn, improved their *financial situation*.

Capacity utilisation rate in industry stood at 71.6%, improving by around 0.8 percentage points from 2014 Q1. Industry's capacity utilisation stood almost around the same level as its long-term average.

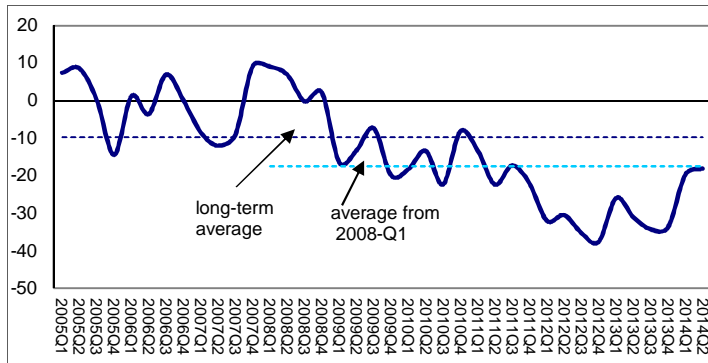
Industry sector's expectations about 2014 Q3 are optimistic. The balances of expectations about the *economic situation*, *firm's situation* and *demand*, in particular, increased by 11.7, 13.2 and 9 percentage points, respectively.

Construction sector

Construction Confidence Index (CCI) improved slightly by around 1.7 percentage points in 2014 Q2. Despite the improvement in the last two quarters, the current CCI stands around 7.6 percentage points below its long-term average and around 0.2 percentage points below the past five years' average. Construction-related firms reported improved balances of *demand* (+2.6 percentage points) and *production* (+3.5 percentage points). Firms' assessment of the current *employment* situation (-0.9 percentage points) impacted the CCI negatively over the quarter under review.

Grafik 3. Construction Confidence Index (in percentage points)

¹ The inventories are aggregated with the opposite sign in the ICI.



Source: Business Confidence Survey, Bank of Albania.

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

The overall economic situation in Albania and firm's overall situation improved in 2014 Q2. Housing stock increased during this period, driving the construction firms' financial situation to slightly deteriorate. Producer prices in construction were assessed as downward in 2014 Q2.

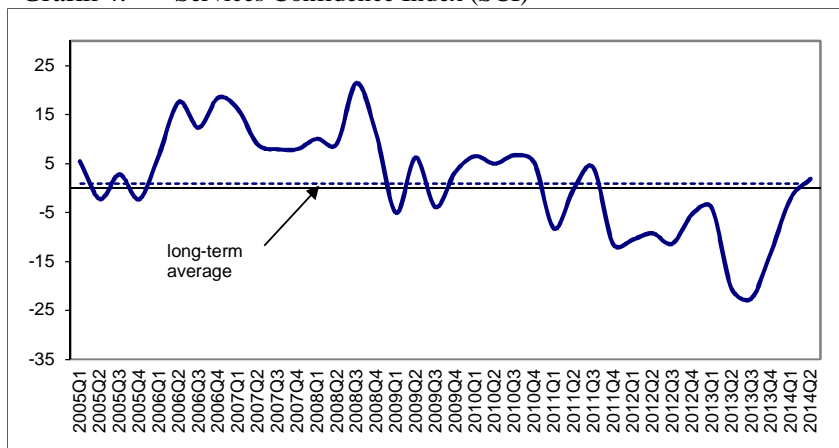
The capacity utilisation rate in the construction sector was around 56.6%, up around 0.8 percentage points from Q1, but around 9 percentage points below the historical average.

Construction-related firms expect positive developments for 2014 Q3. They particularly expect improved *production* and *demand* due to the optimistic expectations about the overall economic situation in Albania.

Services sector

Services Confidence Index (SCI) continued to improve for the third consecutive quarter in 2014 Q2. It improved by 3.9 percentage points, standing 1 percentage point above the historical average for the first time since 2011 Q3. The improved SCI was attributable to the increase in the three constituent balances: *firm's overall situation* (+2.4 percentage points), *demand* (+3.8 percentage points) and *financial situation* (+5.6 percentage points).

Grafik 4. Services Confidence Index (SCI)



Source: Business Confidence Survey, Bank of Albania.

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

Services sector enterprises assessed that Albania's *overall economic situation* improved, with its balance increasing by 4.0 percentage points. The balance of expected economic situation for Q3 also increased to almost the same extent. Service businesses assessed that employment situation also improved in Q2 (+1.5 percentage points).

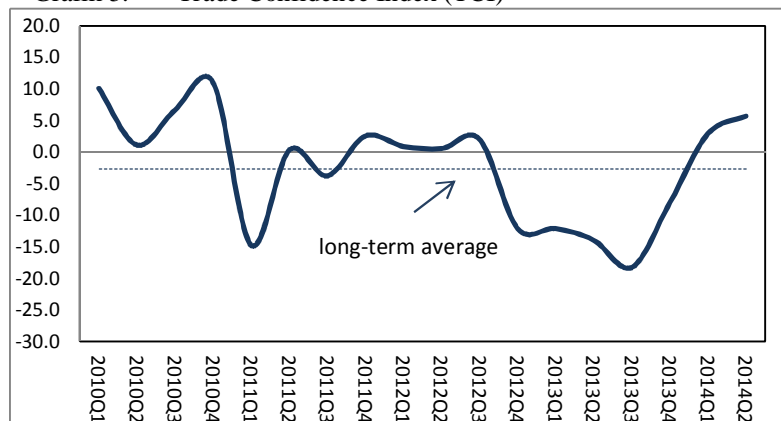
Businesses reported lower prices for their services in Q2. The balances for the latter have been downward during the last two years.

After a marked fall in Q1, capacity utilisation rate reported by businesses rose by 2.6 percentage points in Q2, accounting for 74.1% of total capacities. However, this ratio is about 1 percentage point lower than in 2013 Q2 and about 2.1 percentage points below the historical average of the series.

Trade sector

Trade Confidence Index (TCI) continued to improve in 2014 Q2, following two quarters of growth. It currently stands 8.4 percentage points above the long-term average. The more optimistic assessment of the *overall business situation* and *employment* situation determined the improvement in the confidence index. On the other hand, *financial situation*, the third component, made a slight negative contribution to the TCI.

Grafik 5. Trade Confidence Index (TCI)



Source: Business Confidence Survey, Bank of Albania.

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

During Q2, the trade sector demand was assessed as increased, with the respective balance increasing by 2.6 percentage points. At the same time, the balance for sale prices fell sharply by 21 percentage points in Q2, contributing negatively to the financial situation.

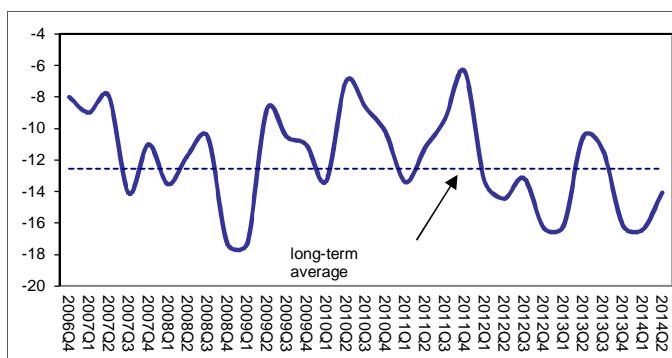
Albania's overall economic situation in Q2 was assessed to be almost at the same level as in Q1 (+0.1 percentage point change in the balance). This situation is expected to improve significantly in Q3, with the balance of expectations rising by 12.8 percentage points.

Capacity utilisation rate in trade was 77.6%, about 1 percentage point higher than in the previous quarter but 1.7 percentage points below the long-term average.

Consumer confidence

Consumer confidence improved in 2014 Q2, rising 2.4 percentage points from Q1. Despite the improvement, consumer confidence remains below the historical average (by 1.5 percentage points in Q2). The more optimistic expectations about the *economic situation* and the assessment of *major purchases* and *income-expenditure* balances contributed positively to the improvement of the consumer confidence index. On the other hand, the decline in the balance of expectations about the *financial situation* in 2014 Q3 contributed negatively to the relevant index.

Grafik 6. Consumer Confidence Index (CCI)



Source: Consumer Confidence Survey, Bank of Albania.

The following provides an analysis of selected indicators not included in the construction of the Consumer Confidence Index:

Consumer expectations about *unemployment* over the next six months are slightly more optimistic than a quarter earlier, with the current balance falling by 5.4 percentage points (the lower balance shows that unemployment is expected to fall). Inflation expectations fell for the second consecutive quarter and, currently, consumers expect the one-year-ahead inflation to be 1.3%. With regard to *savings*, respondent consumers reported lower savings in Q2, after the increase in the related balance for three consecutive quarters.

Table 1 Confidence indicators by sector *

	Values since 2002 Q2			2013			2014		Current situation	
	Min.	Av.	Max.	Q2	Q3	Q4	Q1	Q2	Conjectural**	Structural***
Industry	-19.0	-2.9	8.8	-14.3	-9.8	-7.6	-2.5	3.2		-
Construction	-37.6	-10.3	9.1	-31.1	-34.3	-33.8	-19.8	-18.1		-
Services	-22.7	0.8	21.4	-20.6	-22.7	-13.1	-2.1	1.8		-
Trade	-18.3	-2.6	11.1	-14.0	-18.3	-8.0	2.9	5.7		+
Consumer	-20.5	-12.4	-6.4	-10.5	-11.4	-16.2	-16.4	-14.1		-

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

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

**) The situation compared to the previous quarter.

***) The situation for each indicator is considered as highly adequate (+ +) when the index is more than 1 standard deviation higher than the average; the situation is considered as adequate (+) 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.

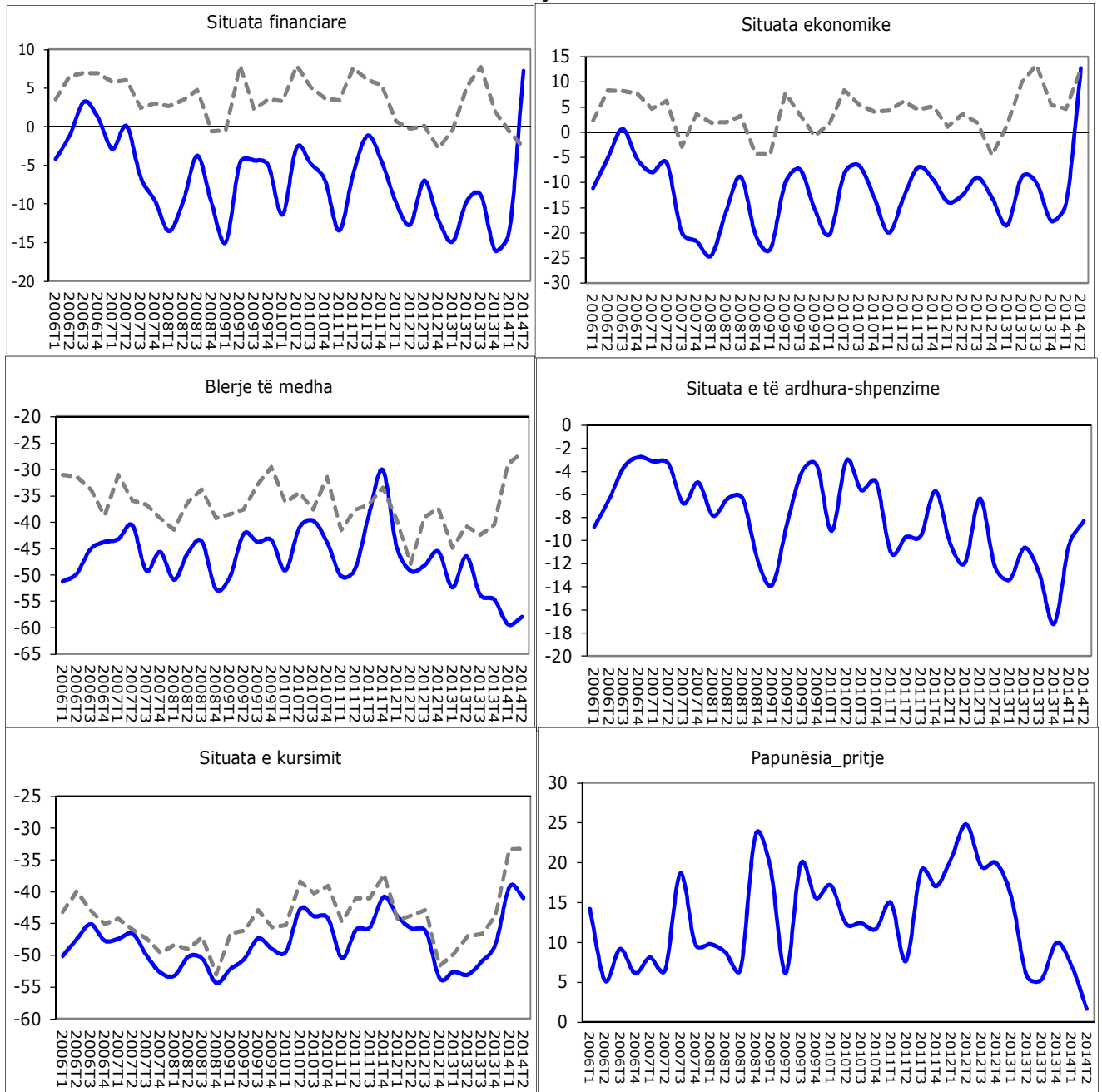
Table 2 Main balances of the economy sectors (in percentage points)*

	2013			2014		
	Q2	Q3	Q4	Q1	Q2	Q3 - Expectations
Demand						
Total	-22.1	-24.5	-20.7	-7.9	-3.4	22.3
Industry	-15.3	-12.1	-14.4	-3.9	4.8	33.5
Construction	-35.8	-41.7	-38.1	-25.1	-22.5	14.4
Services	-18.0	-20.1	-12.9	-0.7	3.2	18.9
Trade	-19.1	-24.1	-17.6	-1.8	0.8	36.8
Firm's overall situation						
Total	-25.1	-32.4	-28.2	-10.7	-4.1	28.4
Industry	-22.5	-29.6	-33.7	-10.7	-4.2	31.5
Construction	-32.4	-39.5	-39.1	-25.2	-16.6	19.1
Services	-26.0	-34.4	-23.6	-5.0	-1.0	26.3
Trade	-19.5	-26.2	-16.3	-2.1	5.7	36.8
Production						
Total	-27.3	-23.0	-24.3	-12.5	-3.4	25.6
Industry	-18.8	-10.1	-8.8	-3.1	11.7	33.8
Construction	-35.7	-35.8	-39.9	-22.0	-18.5	17.4
Consumers						
Financial Situation	-9.7	-8.9	-16.0	-13.5	7.2	-2.7
One-year-ahead prices, in %	2.0	2.2	2.3	1.5	1.3	
Major purchases	-46.5	-53.8	-54.7	-59.4	-58.0	-26.9
Savings situation	-53.1	-51.1	-48.3	-39.3	-41.0	-33.3

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

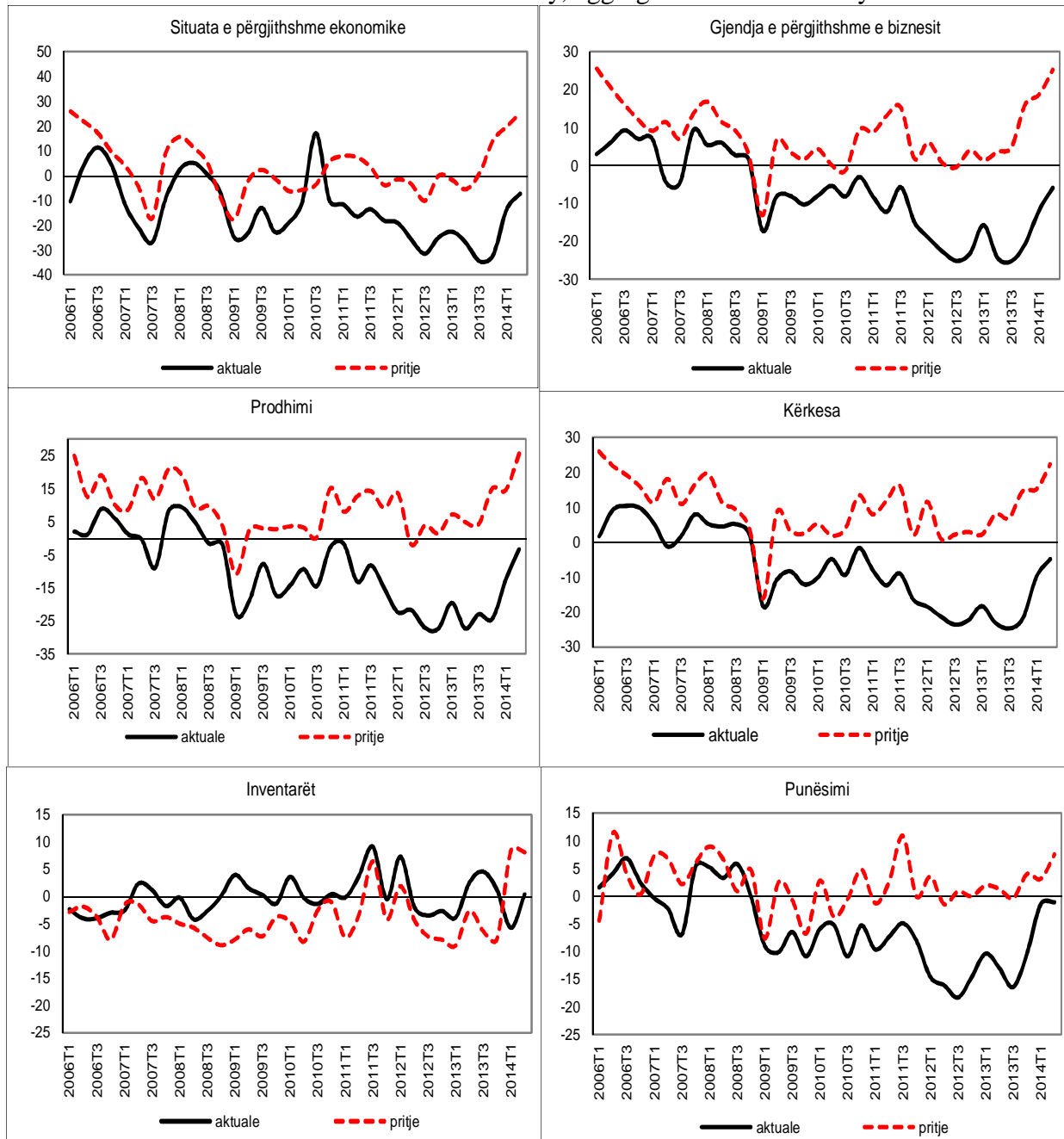
*) Excluding consumers, the balances are seasonally adjusted.

Grafik 7. Main balances of the consumer survey



Source: Consumer Confidence Survey, Bank of Albania.

Grafik 8. Main balances of the business survey, aggregated at the economy level



Source: Business Confidence Survey, Bank of Albania.

Annex

Methodological notes

- **Balance** is the most frequently used indicator in aggregating the qualitative data from surveys. It is calculated as the difference between the percentages of positive answers and negative ones. The balance is expressed in percentage points.
- **Confidence Index** (CI) is constructed for each sector and is calculated as the simple average of seasonally adjusted balances of the indicators that have the highest correlation with the reference series (the 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 according to their 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.