

Bank of Albania.
Monetary Policy Department



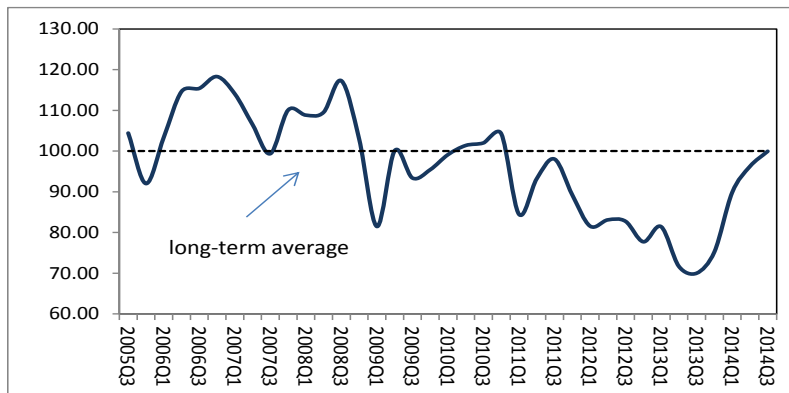
Business and Consumer Confidence Survey

2014 Q3

Economic Sentiment Indicator

Economic Sentiment Indicator (ESI) improved by 3.7 percentage points in the third quarter of 2014. Currently, ESI stands at 100, which is its long-term average. The positive developments in this indicator were determined by the improved confidence in *industry*, *construction* and *services* sectors, and the improved *consumers'* confidence in the third quarter. Conversely, the downward confidence in the *trade* sector provided negative contribution to ESI's improvement.

Chart 1 Economic Sentiment Indicator

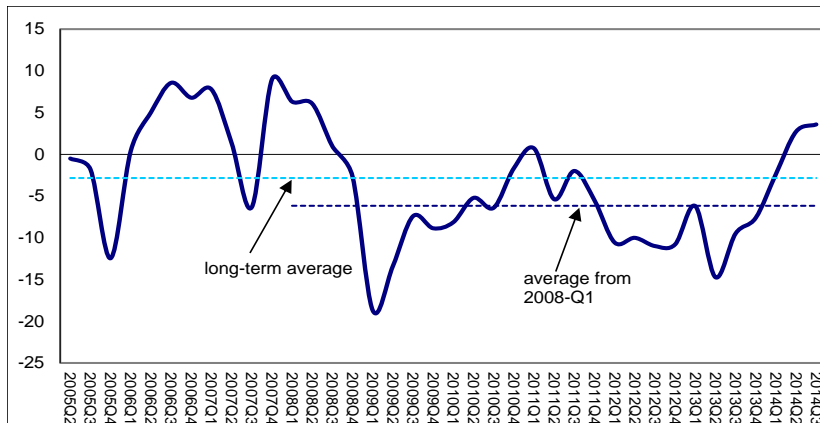


Source: Business and Consumer Confidence surveys, Bank of Albania.

Industry

Industry Confidence Indicator (ICI) improved by 0.9 percentage points in the third quarter. In this quarter, the ICI remained above its long-term average (by 6.5 percentage points), and around 9.4 percentage points above the past five years' average. The improvement of the *financial situation* balance and the reduction of *inventory* stock contributed to overall ESI's improvement. However, the balance of production, which has trended up since the second quarter of 2013, contributed negatively to ESI's improvement in this quarter.

Chart 2 Industry Confidence Indicator (in percentage points)



Source: Business Confidence Survey, Bank of Albania.

Following is an analysis of selected indicators not included in the construction of the ICI:

The *overall economic situation* improved during the third quarter of 2014. Its respective balance increased by around 8.2 percentage points. Firms operating in the industry sector reported improved *economic activity of their firm* during the quarter under review.

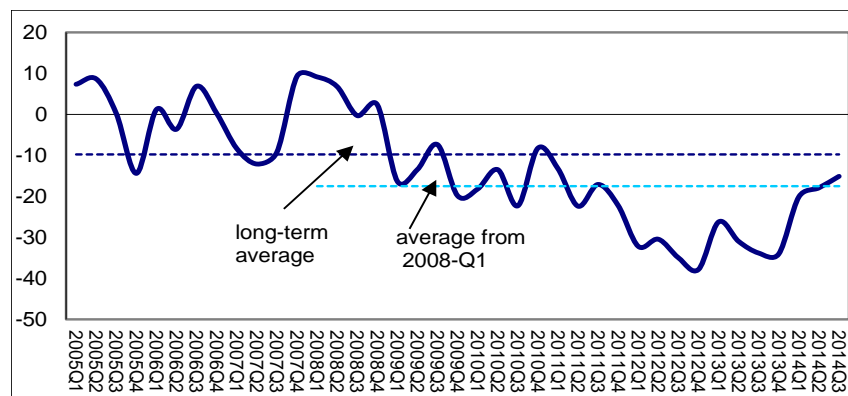
Domestic demand was assessed as slightly up during the current quarter (+0.6 p.p.). Foreign demand, however, was assessed as slowing down from the previous quarter (-3.6 p.p.), although its balance remains positive. Firms operating in the industry sector assess production prices as upward in the third quarter of the year.

Capacity utilisation rate in industry stood at 74.32%, improving by around 2.7 percentage points from the previous quarter, being above its long-term average. The level of *investments* in industry fell compared to the year start.

Construction

Construction Confidence Indicator (CCI) improved slightly by around 2.8 percentage points in the third quarter. This indicator has been improving since the first quarter of 2014. Currently, the CCI stands about 4.5 percentage points below the long-term average, but 7.6 percentage points above the average of the past five years. The CCI improved thanks to the improvement of its three constituent balances. Thus, the firms' assessment of the current situation of *demand*, *production* and *employment* improved by 3.6, 2.8 and 2 percentage points, respectively, from the second quarter.

Chart 3 Construction Confidence Indicator (in percentage points)



Source: Business Confidence Survey, Bank of Albania.

Following is an analysis of selected indicators not included in the construction of the CCI:

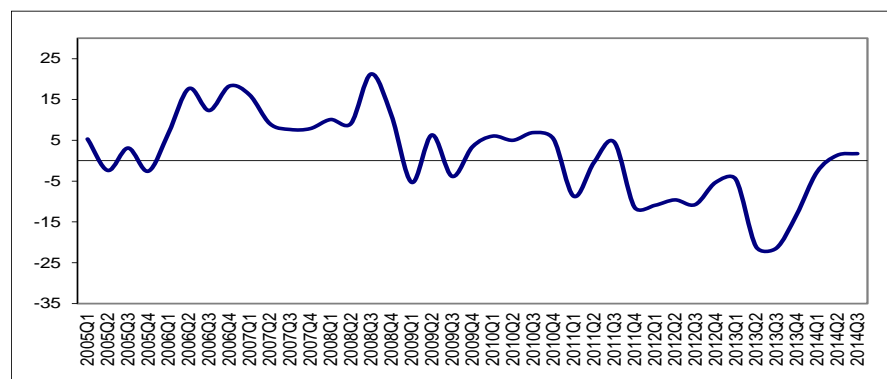
The overall economic situation in Albania and firm's overall situation improved in the third quarter. The stock of available housing units was assessed as slightly higher during the period, while the financial situation of businesses was assessed as downward. Producer prices in construction were assessed as upward in the third quarter.

The capacity utilisation rate in the construction sector stood at 57.9%, up around 1.3 percentage points from the first quarter, but around 7.4 percentage points below the historical average. Firms in the construction sector assess the level of investments as downwards compared to the first quarter.

Services

Services Confidence Indicator (SCI) increased 0.4 percentage points in the third quarter. Since the fourth quarter of 2013, the SCI has been trending up and currently stands around 1 percentage point above its all-time average. In the third quarter, the SCI increased driven mainly by the increase in the balance of *overall business situation* (+1 percentage point). The contribution of the other two components was insignificant; namely the balance of *demand* and *financial situation* increased by 0.1 percentage point.

Chart 4 Services Confidence Indicator



Source: Business Confidence Survey, Bank of Albania.

Following is an analysis of some indicators that are not included in the construction of the SCI:

Service sector enterprises have assessed Albania's *overall economic situation* as improving, with the respective balance increasing by 3.1 percentage points. Expectations for this situation, though higher than the assessment for the current situation, are downward from the second quarter. Meanwhile, firms' expectations are more optimistic about the *situation of their business* in the fourth quarter; the respective balance surged by 18 percentage points.

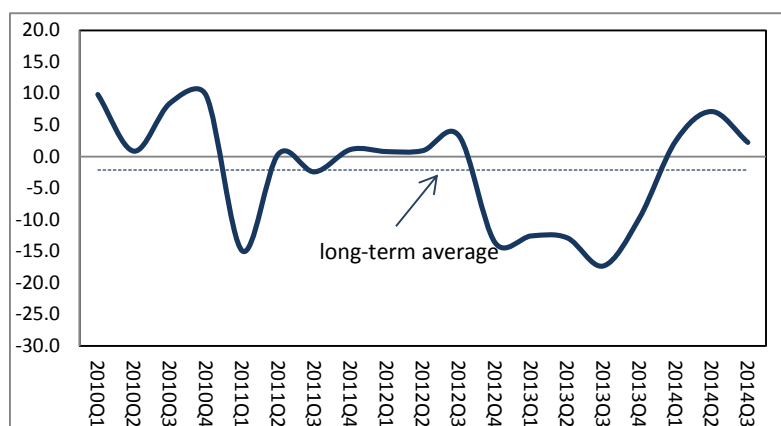
Firms assess the *prices of their services* as slightly up during the third quarter. The balance of prices in services has recorded a downward trend in the last two years.

Firms have used 76.1% of their capacity, approximately at the same level of the long-term average of this indicator. The balance of new investments during the last six months improved, after the pronounced hike in the fourth quarter of 2013. Currently, the value of this balance stands significantly higher than its long-term average.

Trade

The Trade Confidence Indicator (TCI) fell by around 5 percentage points in the third quarter, affected negatively by the drop in the balance of *firm's situation* and balance of *employment*. The third component of the indicator, the *financial situation*, did not change from the level it recorded in the second quarter. The TCI level, which increased in the last three quarters, stands 4.4 percentage points above its long-term average.

Chart 5 Trade confidence indicator



Source: Business Confidence Survey, Bank of Albania.

Following is an analysis of some indicators not included in the construction of the TCI:

The overall situation of the economy is assessed as improved by firms operating in the trade sector. Its balance surged 10.5 percentage points from the second quarter. The assessment for *demand* in this sector improved; the balance changed +6.3 percentage points in the third quarter from the second one. The

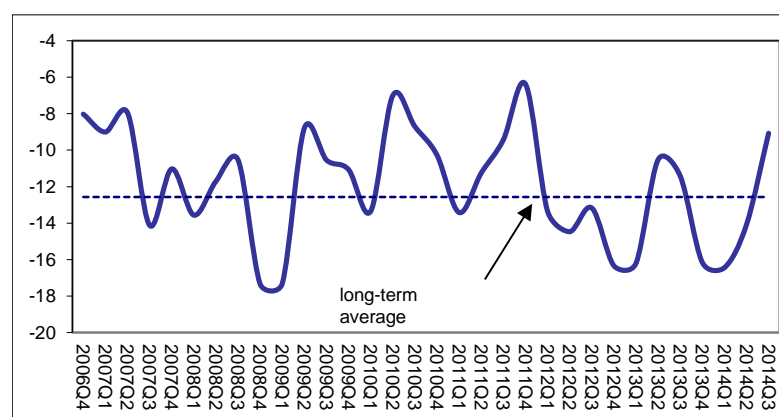
balance of *prices* was assessed as being up from the past quarter. The balance of *new investments* fell compared to the previous six months.

Capacity utilisation rate in trade is 79.2%, around 1.5 percentage points higher than in the previous quarter. Currently, this rate stands very close to the long-term average.

Consumer Confidence

Consumer Confidence improved in the third quarter of 2014, being upward for two consecutive quarters. Consumer Confidence Indicator (CCI) was up by 5 percentage points, after having increased 2.4 percentage points in the second quarter. Currently, the CCI stands at 3.5 percentage points above the long-term average. The CCI increased mainly driven by the improvement of the balance of expectations for the consumers' *financial situation* and improvement of the balance of *major purchases*. The balance of expectations for the *overall situation of the economy* was almost unchanged from the previous quarter, whereas the balance of *income-expenditure* fell in this quarter.

Chart 6 Consumer Confidence Index



Source: Consumer Confidence Survey, Bank of Albania

Following is an analysis of selected indicators not included in the construction of the CCI:

Consumers' expectations on *unemployment* six months ahead are almost unchanged from the previous quarter. Overall, the balance of unemployment has been trending down from the first quarter of 2013 (the decline in this balance points to downward expected unemployment). Inflation expectations were slightly up in the third quarter, posting 1.6% from 1.3% in the first quarter. Compared to the long-term average, inflation expectations stand 0.5 percentage point lower. Consumers report an improvement of the situation of *savings* in the third quarter.

Table 1 Confidence indicators by sector*

	Values since 2002 Q2			2013		2014			Current situation	
	min.	av.	max.	Q3	Q4	Q1	Q2	Q3	Conjectural**	Structural***
Industry	-18.7	-2.8	9.0	-9.5	-7.6	-2.4	2.7	3.6	↑	+
Construction	-37.8	-10.6	9.3	-33.8	-34.0	-20.1	-17.9	-15.1	↑	-
Services	-22.7	0.8	21.4	-21.4	-13.3	-2.8	1.3	1.7	↑	+
Trade	-17.3	-2.1	9.7	-17.3	-9.7	2.5	7.2	2.3	↓	+
Consumer	-20.5	-12.4	-6.4	-11.4	-16.2	-16.4	-14.1	-9.1	↑	++

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) *

	2013			2014		
	Q2	Q3	Q4	Q1	Q2	Q3
Demand						
Total	-22.1	-24.0	-21.8	-10.4	-5.0	-3.6
Industry	-15.3	-11.9	-14.5	-4.08	4.8	5.4
Construction	-35.8	-40.9	-38.2	-25.8	-22.4	-18.8
Services	-18.5	-19.1	-12.8	-1.3	2.6	2.7
Trade	-18.7	-24.2	-17.3	-2.6	1.5	7.9
Overall business situation						
Total	-24.2	-24.8	-20.9	-12.4	-5.8	-1.4
Industry	-19.3	-14.1	-11.8	-9.4	3.1	5.6
Construction	-30.3	-36.9	-36.1	-26.3	-21.5	-11.9
Services	-23.0	-23.3	-14.7	-1.6	1.2	2.2
Trade	-22.7	-24.7	-20.4	-10.0	-2.5	-1.1
Production						
Total	-27.7	-22.6	-24.3	-12.6	-3.7	-3.4
Industry	-20.1	-9.3	-8.6	-3.0	10.5	8.3
Construction	-35.3	-35.9	-40.0	-22.1	-18.0	-15.2
Consumers						
Financial situation	-9.7	-8.9	-16.0	-13.5	7.2	-4.0
One-year-ahead prices, in %	2.0	2.2	2.3	1.5	1.3	1.6
Major purchases	-46.5	-53.8	-54.7	-59.4	-58.0	-46.7
Savings	-53.1	-51.1	-48.3	-39.3	-41.0	-36.7

Source: Consumer Confidence Survey, Bank of Albania

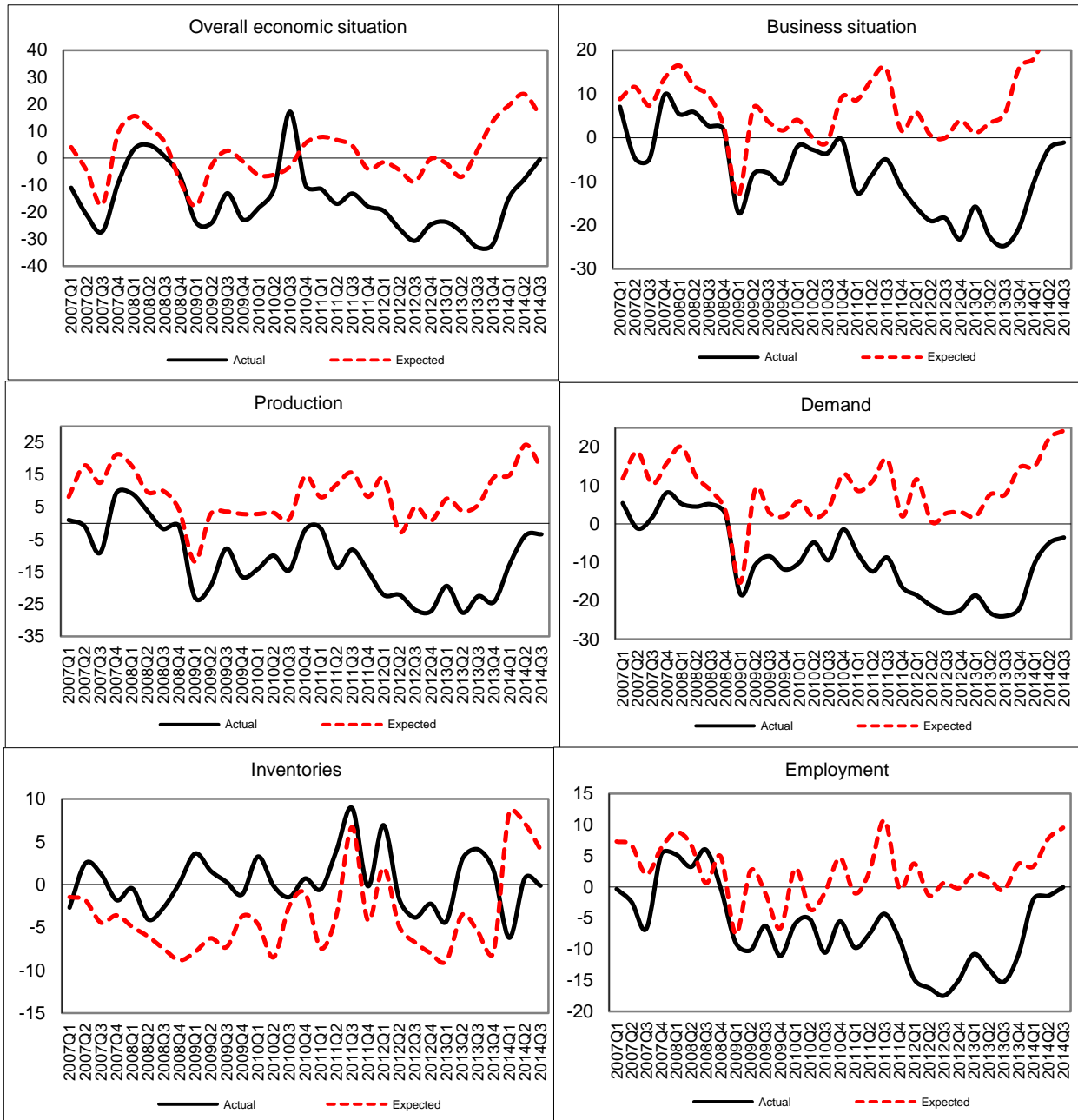
*) Excluding consumer indicators, the balances are seasonally adjusted.

Chart 7 Key balances of the consumer survey



Source: Consumer Confidence Survey, Bank of Albania

chart 8 Key balances of the business survey, aggregated at economy's level



Source: Business Confidence Survey, Bank of Albania.

ANNEX

Notes on methodology

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 and negative answers. 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 indicators that have higher correlation with the reference series (the series of real data 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.