

Bank of Albania
Monetary Policy Department



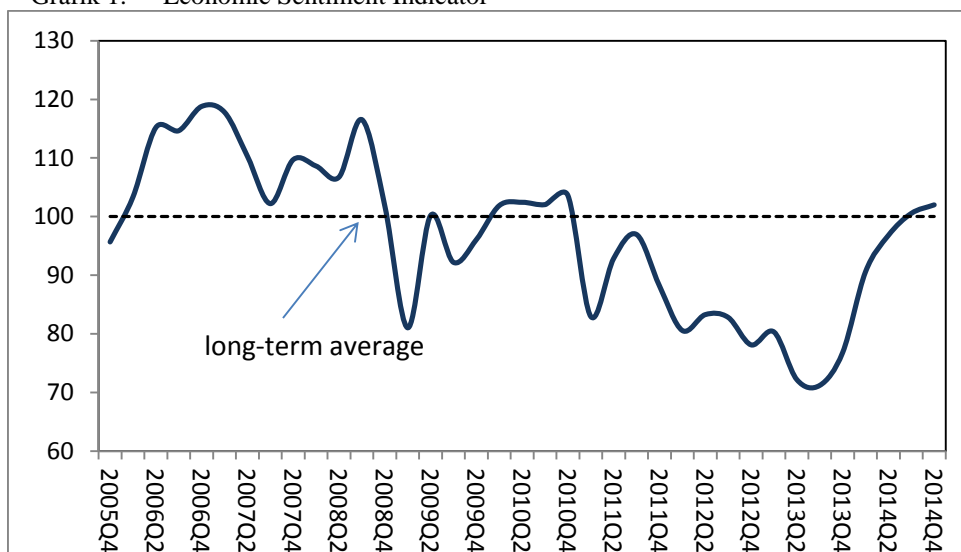
Business and Consumer Confidence Survey

2014 Q4

Economic Sentiment Indicator

Economic Sentiment Indicator (ESI) continued to improve for the fifth consecutive quarter, increasing by 1.6 points in 2014 Q4. The improved ESI during this quarter was attributable to the enhanced confidence in the sectors of *construction*, *services* and *trade*. Conversely, the lower confidence in the *industry* sector and worsened *consumer* confidence made a negative contribution to the aggregate ESI. The latter currently stands 1.5 points above the historical average for the first time in four years (since 2010 Q4).

Grafik 1. Economic Sentiment Indicator

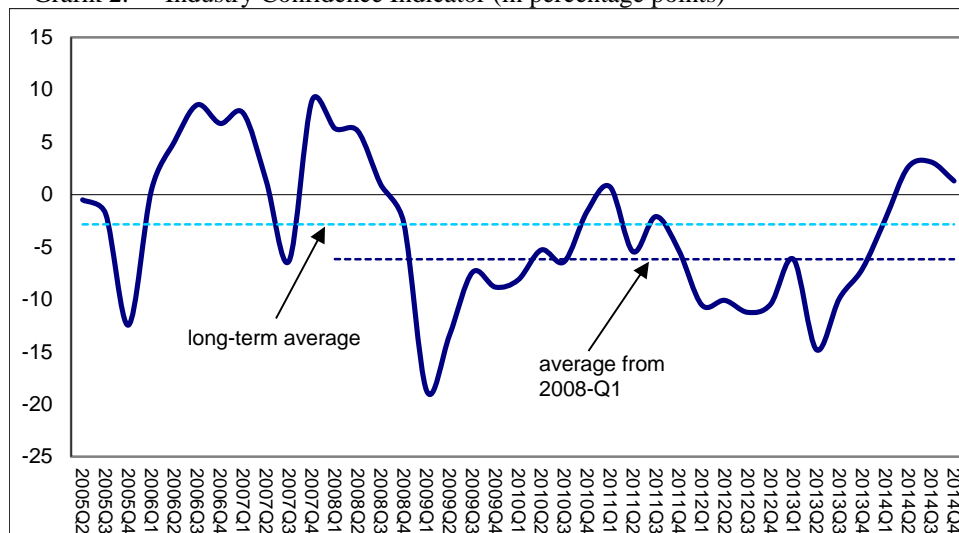


Source: Business and Consumer Confidence Survey, Bank of Albania.

Industry Sector

Industry Confidence Indicator (ICI) fell 1.8 percentage points in 2014 Q4. It continued to remain above its long-term average (by 4 percentage points) and around 7.3 percentage points above the past five years' average. The performance of the ICI was negatively affected by the lower balance of *production* (-3.8 percentage points) and the slightly worsened *financial situation* of industry businesses (-1.8 percentage points). On the other hand, the lower *inventories* made a slight positive contribution to the general ICI level.¹

Grafik 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.

The overall economic situation worsened during 2014 Q4. Its respective balance fell around 1.5 percentage points. Businesses operating in the industry sector reported worsened *economic activity of their firm* during the quarter under review.

Domestic demand was assessed as downward in 2014 Q4, whereas *external demand* saw improvement. Their respective balances changed by -4.9 and +2.4 percentage points. Businesses reported a slight drop in *prices* of their products.

Capacity utilisation rate in industry stood at 73.2%. Despite worsening by around 1.1 percentage points from the previous quarter, industry's capacity utilisation rate stood above its long-term average.

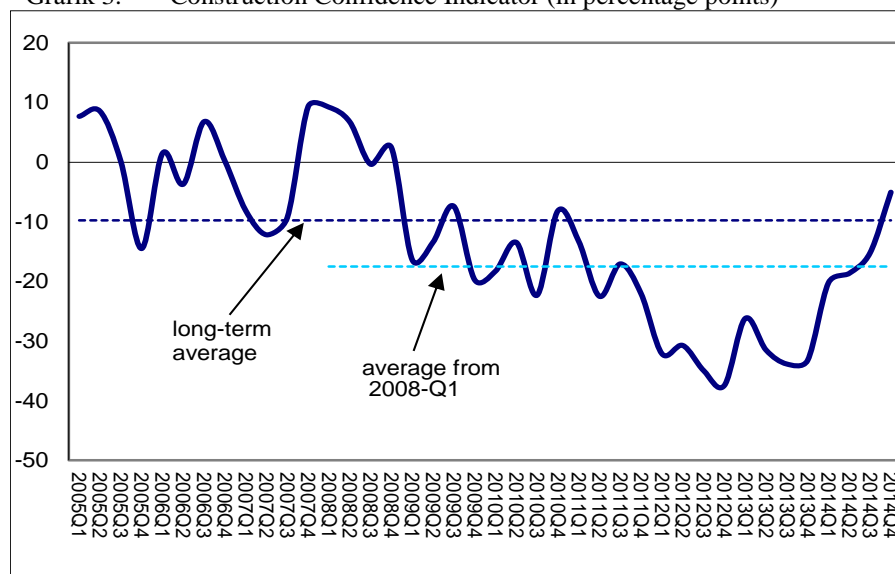
Industry sector's expectations for 2015 Q1 are less optimistic than in the previous quarter.

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

Construction Sector

Construction Confidence Indicator (CCI) improved by around 10 percentage points in 2014 Q4. The CCI has shown signs of improvement since 2013 Q4. It currently stands around 5.7 percentage points above the long-term average and around 17.7 percentage points above the past five years' average. Construction businesses reported improvement in the three constituent balances of the CCI. The balances of *demand*, *production* and *current employment situation* improved by 13.5, 12 and 5 percentage points, respectively, in 2014 Q4.

Grafik 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:

The overall economic situation in Albania and firm's overall situation improved in 2014 Q4. Housing stock was assessed as downward during this period, driving the construction businesses' financial situation to improve considerably. Producer prices in construction were assessed as almost similar to the previous quarter.

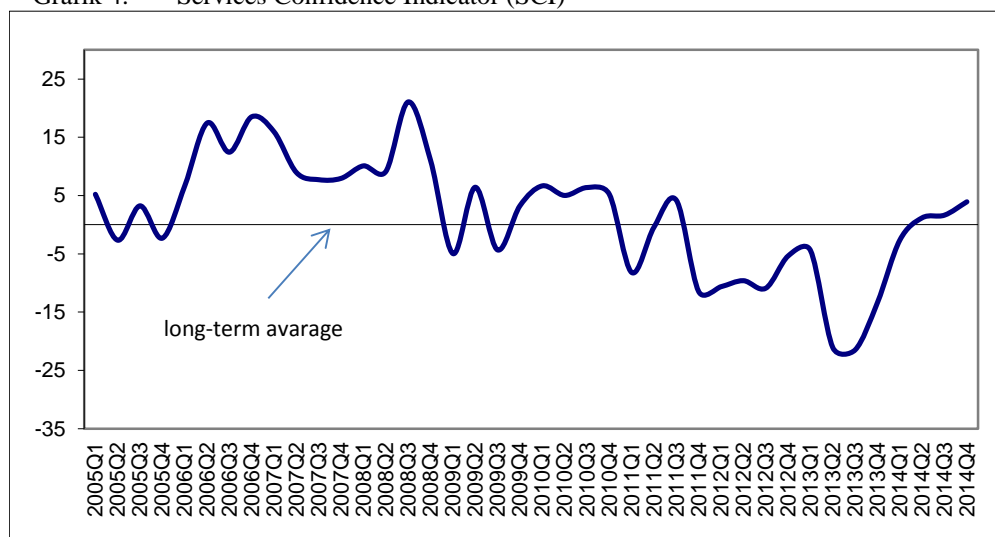
Capacity utilisation rate in the construction sector was around 60.72%, up around 2.9 percentage points from Q3, but around 4.75 percentage points below the historical average.

Construction businesses appear optimistic about 2015 Q1. They particularly expect positive developments in *production* and *demand* in the construction sector.

Services Sector

Services Confidence Indicator (SCI) continued to improve, increasing by 2.3 percentage points in 2014 Q4. Businesses operating in the services sector appeared optimistic about *demand* and *financial situation*. Their respective balances rose 2.3 and 5.7 percentage points. Conversely, services businesses appeared less optimistic about the firm's *overall situation*, whose balance fell 1.1 percentage points.

Grafik 4. 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:

Informal economy and *legal framework and law enforcement* were listed as the main factors affecting the performance of services businesses' activity. Businesses operating in the services sector were less optimistic about *the overall economic situation* in Albania. Its balance dropped by 6.7 percentage points in 2014 Q4, whereas the balance of expectations for 2015 Q1 rose slightly by 1 percentage point.

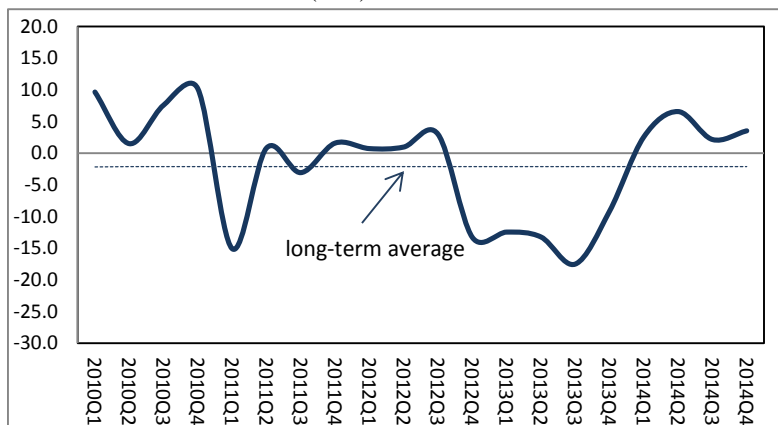
For the second consecutive quarter, businesses assessed the *prices for their services* as higher in Q4, following the downward trend in the past two years.

Capacity utilisation rate stood at 79.1%, up 1.3 percentage points from 2014 Q3 and 0.3 percentage points from 2013 Q4. It stands above the historical average of the series.

Trade Sector

Trade Confidence Indicator (TCI) rose slightly by around 1.5 percentage points in 2014 Q4, after the fall recorded in Q3. The improved TCI was positively affected by businesses' improved assessment of their *financial situation*. Conversely, *the firm's overall situation* was assessed as worsened from the previous quarter; its respective balance fell 3.4 percentage points. The third component of the TCI, *employment situation*, remained unchanged from the previous quarter, hence making no contribution to the indicator.

Trade Confidence Indicator (TCI)



Source: Business Confidence Survey, Bank of Albania.

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

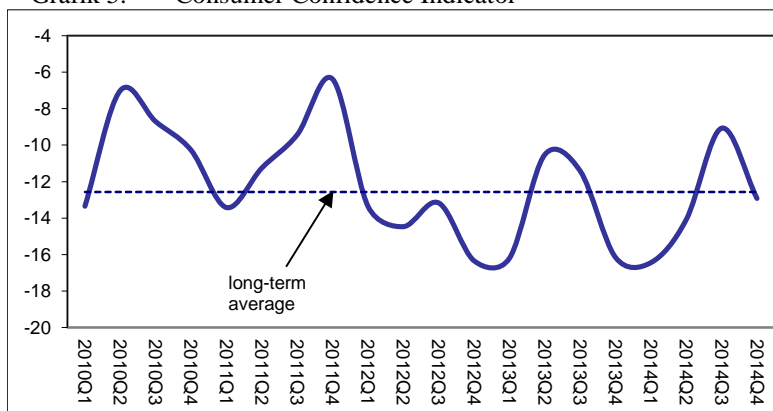
The overall economic situation was assessed as downward by businesses operating in the trade sector. Its balance dropped by 1.3 percentage points from 2014 Q3. The assessment of *demand* in trade fell 4.8 percentage points. The balance of *prices* in trade rose in 2014 Q4.

Capacity utilisation rate in trade stood at 79.4%, almost similar to Q3 and 3.6 percentage points lower than in 2013 Q4.

Consumer Confidence

Consumer Confidence Indicator fell 3.9 percentage points in 2014 Q4, following two quarters of improvement. This fall reflected the worsening of the four constituents of the aggregate indicator, mainly the worsened balance of *spending/income* and *major purchases*. Expectations for Albania's *financial and economic situation* also made a negative contribution, albeit to a lesser extent.

Grafik 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 Consumer Confidence Indicator:

Consumer expectations for *unemployment* in the next six months are pessimistic. Its balance rose 1.4% (an increased balance points to upward expected unemployment). Consumers also perceived an increased *cost of living* and worsened *financial situation* in 2014 Q4, whereas the balance of *savings* recorded the sharpest fall by 10 percentage points. Expectations for inflation after one year increased to 1.8% in 2014 Q4, from 1.6% in the previous quarter, remaining however below the long-term average.

Table 1 Confidence indicators by sector *

	Values since 2002 Q2			2013	2014				Current situation	
	min.	av.	max.	Q4	Q1	Q2	Q3	Q4	Conjectural**	Structural***
Industry	-18.7	-2.8	9.0	-7.1	-2.4	2.6	31	1.3	↓	+
Construction	-37.8	-10.6	9.3	-33.2	-20.2	-18.7	-15.2	-5.0	↑	+
Services	-22.7	0.8	21.4	-13.4	-2.7	1.2	1.6	3.9	↑	+
Trade	-17.3	-2.1	9.7	-9.2	2.6	6.6	2.2	3.5	↑	+
Consumer	-20.5	-12.4	-6.4	-16.2	-16.4	-14.1	-9.1	-12.9	↓	-

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

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

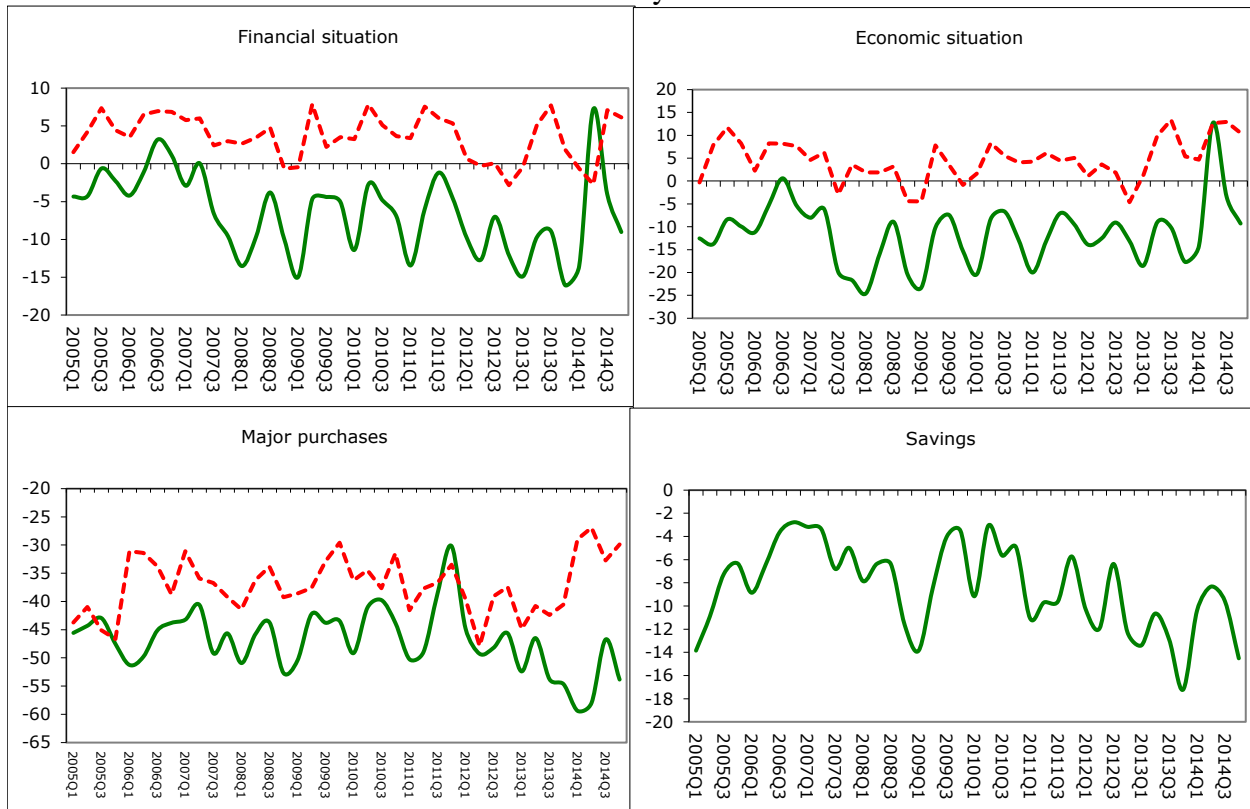
Table 2 Main balances of the sectors of the economy (in percentage points)*

	2013		2014			
	Q3	Q4	Q1	Q2	Q3	Q4
Demand						
Total	-24.3	-21.1	-10.4	-5.4	-4.0	-0.3
Industry	-12.7	-13.3	-4.2	4.6	4.5	-0.3
Construction	-40.9	-37.3	-25.7	-23.3	-18.9	-5.4
Services	-19.3	-12.5	-1.3	2.5	2.4	4.7
Trade	-24.9	-17.4	-2.9	2.7	7.0	2.2
Overall business situation						
Total	-25.5	-19.7	-9.5	-2.8	-1.9	-0.9
Industry	-15.1	-11.5	-8.4	2.8	4.5	3.6
Construction	-37.1	-34.8	-26.6	-22.3	-12.2	-2.9
Services	-24.0	-14.5	-0.9	1.0	1.3	0.2
Trade	-25.7	-17.	-2.2	6.9	-1.4	-4.8
Production						
Total	-23.1	-23.6	-12.3	-4.2	-4.0	0.03
Industry	-10.1	-7.7	-3.0	10.5	7.4	3.6
Construction	-36.126	-39.4	-21.7	-18.9	-15.4	-3.5
Consumers						
Financial situation	-8.9	-16.0	-13.5	7.2	-4.0	-9.0
One-year-ahead prices, in %	2.2	2.3	1.5	1.3	1.6	1.8
Major purchases	-53.8	-54.7	-59.4	-58.0	-46.7	-53.9
Savings	-51.1	-48.3	-39.3	-41.0	-36.7	-46.6

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

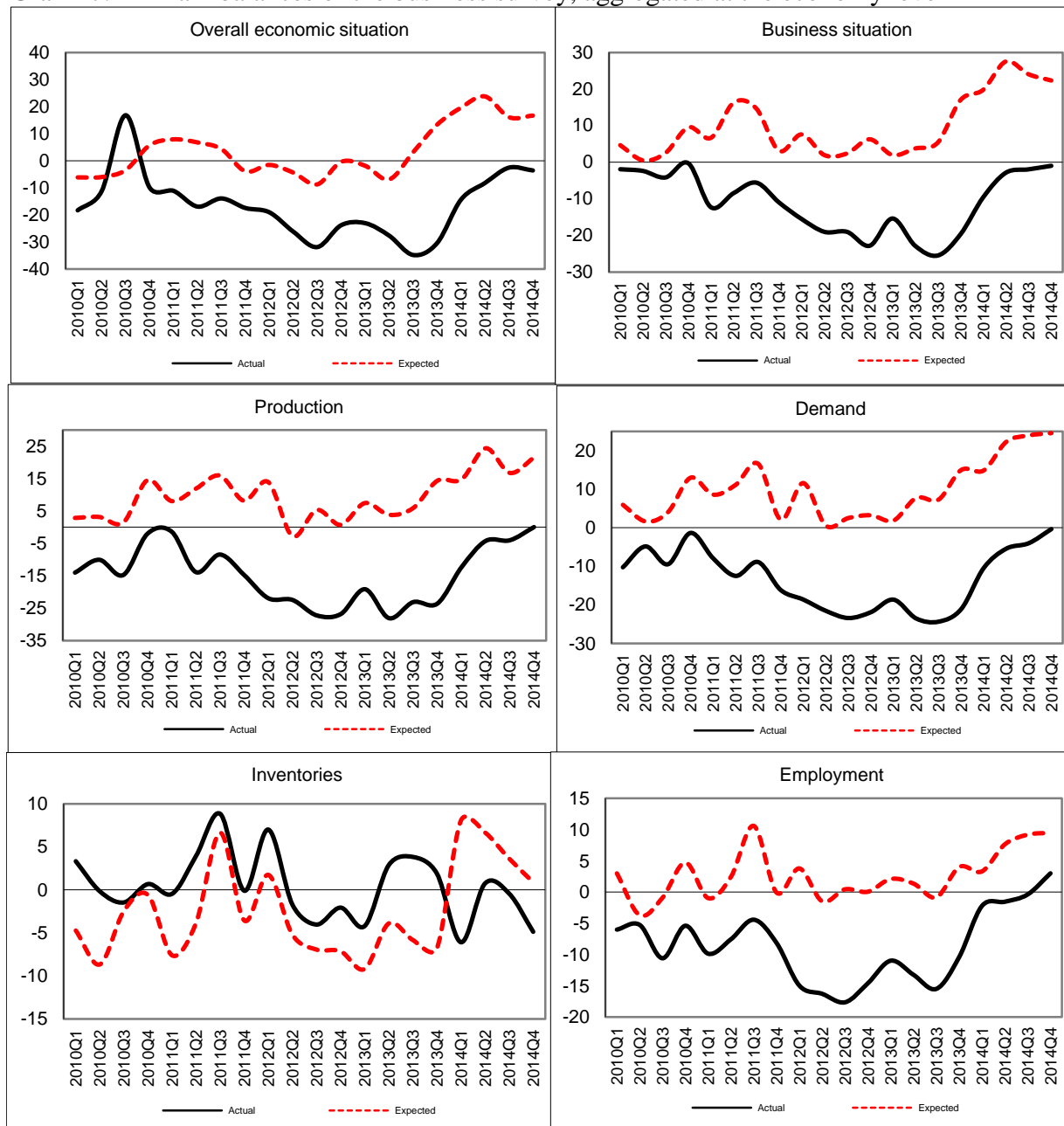
*) Excluding consumers, the balances are seasonally adjusted.

Grafik 6. Main balances of the consumer survey



Source: Consumer Confidence Survey, Bank of Albania.

Grafik 7. 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 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 Indicator (CI)** is constructed for each sector and is calculated as the simple average of seasonally-adjusted balances of 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 calculate the confidence indicators for the four sectors, weighted by economic activity. Through a single indicator, the ESI tracks the sentiment on the country's economic activity, obtained from the two principal economic groups, businesses and consumers.