

Bank of Albania
Monetary Policy Department



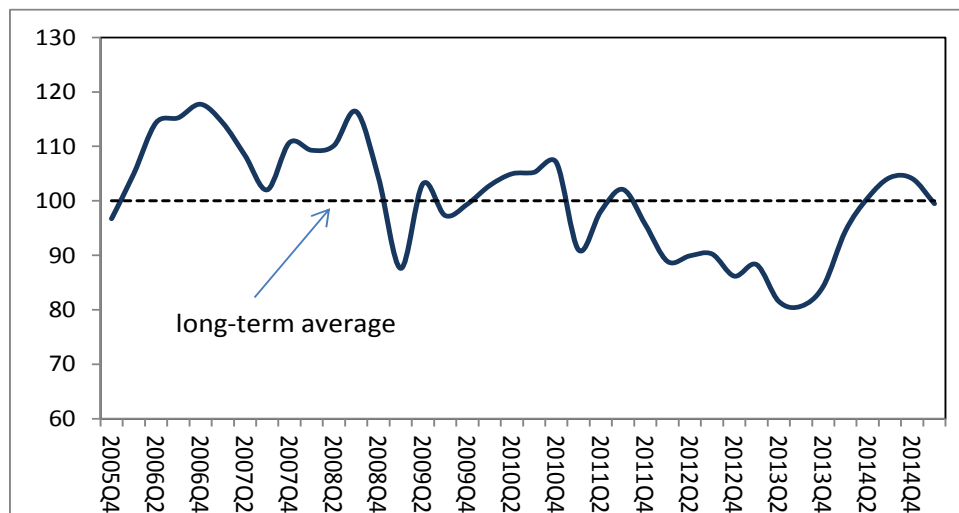
Business and Consumer Confidence Survey

2015 Q1

Economic Sentiment Indicator

Economic Sentiment Indicator (ESI) fell by 4.6 points in the first quarter of 2015. The fall decelerated the uptrend registered since the fourth quarter of 2013. While above the historical average during the three previous quarters, ESI currently stands 0.5 points below the long-term average. Its fall in the first quarter of 2015 was determined by the worsened confidence across all sectors of the economy and among consumers.

Chart 1 Economic Sentiment Indicator

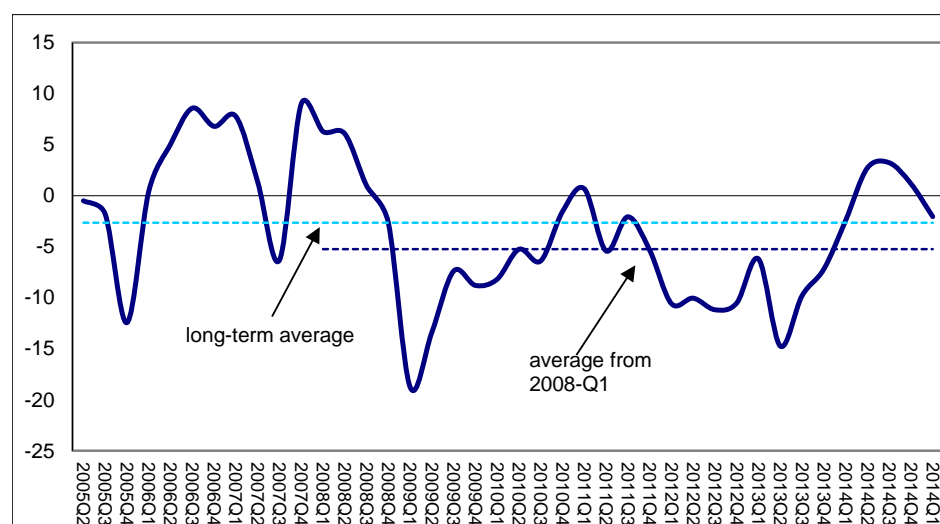


Source: Business and Consumer Confidence Surveys, Bank of Albania.

Industry Sector

Industry Confidence Indicator (ICI) fell in the first quarter of 2015, for the second consecutive quarter. It fell by 3.2 percentage points mainly driven by the drop in the *balance of production* (by 8.5 percentage points). The drop in the balance of *financial situation* made a smaller contribution to the fall (the balance was down 1.3 percentage points); meanwhile, the situation of *inventories* remained almost unchanged from the previous quarter. Notwithstanding the negative developments in the last two quarters, the ICI stands above the long-term average and above the period 2008-2014.

Chart 2 Industry Confidence Indicator (in p.p.)



Source: Business Confidence Survey, Bank of Albania.

The following analyses selected indicators not included in the construction of the ICI:

According to businesses assessment, the *economic situation* and *firm's overall situation* worsened during the first quarter of 2015. The respective balances dropped 6.7 and 14.1 percentage points. Businesses assessed both domestic and external *demand* as downward. Expectations for the second quarter of 2015 are optimistic relating to the *firm's overall situation*, *exports growth* and *new orders*.

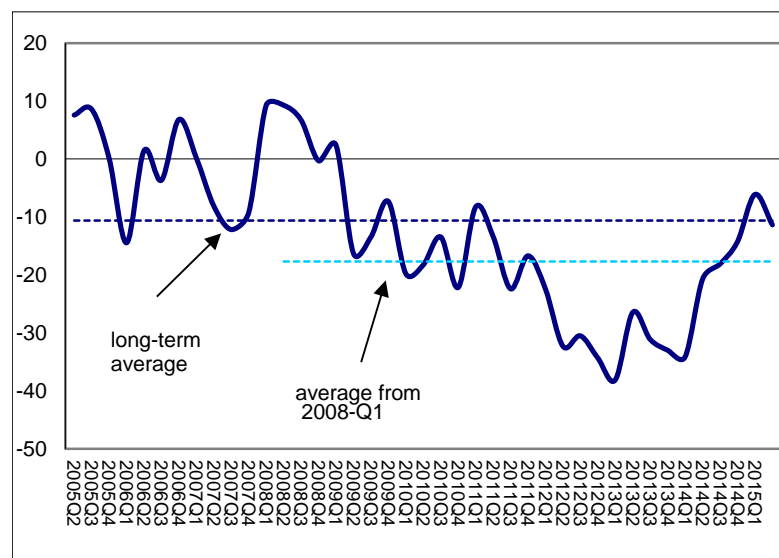
The *capacity utilisation rate* in industry stood at 67.7% in the first quarter of 2015, around 4 percentage points lower than the historic rate. *Producer prices* were assessed as slightly up in the first quarter.

The balance of *new investment* carried out by industry firms during the last six-month period has improved. These investments continue to be made mainly for purchasing new equipment, and less for investments in structures.

Construction Sector

After the gradual improvement in 2014, the Construction Confidence Indicator (CCI) fell by 5.2 percentage points during the first quarter of 2015. It currently stands close to the historical average. During the first quarter of 2015, the CCI fell due to the decline in *demand* and *production*. The balance of the situation of *employment* improved somewhat, contributing positively to the aggregated indicator.

Chart 3 Construction Confidence Indicator (in p.p.)



Source: Business Confidence Survey, Bank of Albania.

The following analyses selected indicators not included in the construction of the CCI:

The *overall economic situation* in Albania and *firm's overall situation* were assessed as downward during the quarter, in contrast to the upward assessment for some past quarters. While demand fell, inventories increased. *Producer prices* were slightly down for the third consecutive quarter. Meanwhile, the balance of the *financial situation* remains unchanged from the previous quarter.

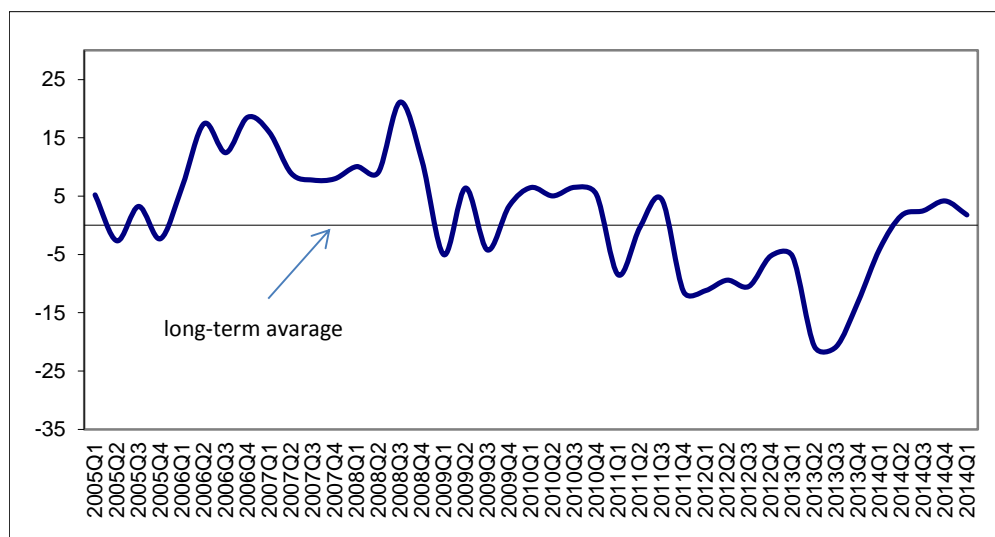
The *capacity utilisation rate* in construction is 57% or 3.6 percentage points lower than in the previous quarter. Most businesses (67%) report they will fill financial gaps through bank credit, while others (19%) through prepaid orders.

The balance of *new investments* during the previous six-month period was up and businesses expect an increase in investments during the next six-month period.

Services Sector

Services Confidence Indicator (SCI) discontinued the uptrend in the first quarter of 2015, falling 2.4 percentage points. It fell due to the worsened balances of the *firm's overall situation* and *financial situation*. The balance of *demand* remained unchanged compared to the previous quarter.

Chart 4 Services Confidence Indicator (SCI)



Source: Business Confidence Survey, Bank of Albania.

The following analyses selected indicators not included in the construction of the SCI:

The overall *economic* situation, as assessed by businesses operating in the services sector, improved and *services prices* are assessed as slightly down in the first quarter of 2015.

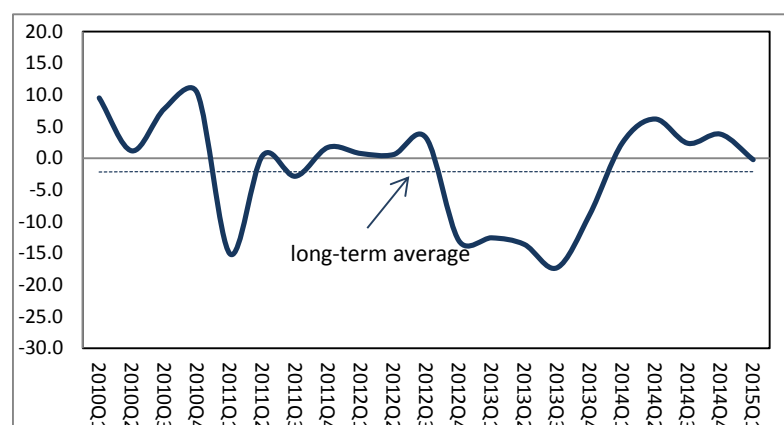
The *capacity utilisation rate* was 73%, down 4.4 percentage points from the previous quarter. Currently, it stands above the historical average of the series.

The balance of *new investments* fell slightly in the first quarter of 2015, but it stands significantly above the historical average, starting in the first quarter of the previous year.

Trade Sector

Trade Confidence Indicator (TCI) dropped 4 percentage points in the first quarter of 2015. The worsened assessment of businesses on firms' *financial situation* and *overall situation* contributed to the worsening of the TCI. Respective balances dropped 10.8 and 6.7 percentage points. The third component of the TCI, *situation of employment*, improved in this quarter.

Chart 5 Trade Confidence Indicator (TCI)



Source: Business Confidence Survey, Bank of Albania.

The following analyses selected indicators not included in the construction of the TCI:

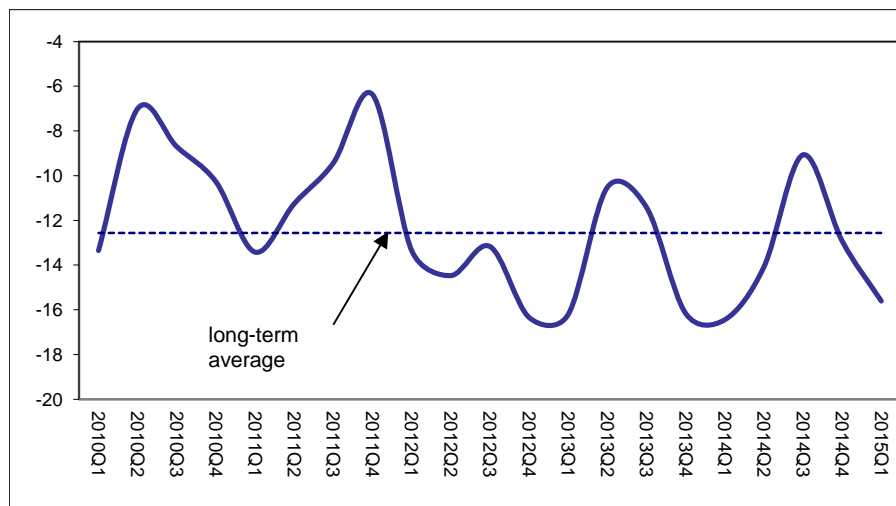
Businesses operating in the trade sector assessed the *economic situation* as downward in general in the first quarter of 2015. The respective balance dropped 6.9 percentage points compared to the last quarter of 2014. At the same time, the assessment for *demand* decreased by 7.9 percentage points in the quarter under review. In line with the sluggish demand and the worsened business situation, trade firms assessed the *prices* of goods in this sector as downward.

The *capacity utilisation rate* in trade registered 75.8%, about 3.3 percentage points lower than in the previous quarter, and 3.4 percentage points lower than the average recorded during the past four years.

Consumer Confidence

Consumer Confidence Indicator (CCI) fell 2.7 percentage points in the first quarter of 2015, confirming the downtrend that had started in the previous quarter. This fall in the TCI reflected the worsened balance of *major purchases*, which dropped 9.2 percentage points. Consumers' expectations on the domestic *financial and economic situation* contributed to the deterioration of confidence. On the other hand, the balance of *spending/income* improved slightly, during the quarter under review, thus contributing positively to the CCI.

Chart 6 Consumer Confidence Index (CCI)



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

The following analyses selected indicators not included in the construction of the CCI:

Consumers assess the economic and financial situation in Albania as worsened in the first quarter of 2015. Their expectations for *unemployment* in the next six-month period are pessimistic. This balance increased by 1.1% (an increase in the balance implies an increase in the expected unemployment). Consumers also perceived an increased *cost* of living, whereas the balance of *savings* was slightly down. In the first quarter of 2015, one-year-ahead inflation expectations fell to 1.4%, compared to 1.8% in the previous quarter.

Table 1 Confidence indicators by sector *

	Values since 2002 Q2			2014				2015	Current situation	
	min.	av.	max.	Q1	Q2	Q3	Q4	Q1	Conjectural**	Structural***
Industry	-18.7	-2.7	9.0	-2.4	2.7	3.2	1.2	-2.1	↓	+
Construction	-37.8	-10.6	9.3	-20.7	-18.1	-14.3	-6.13	-11.4	↓	-
Services	-22.7	0.8	21.4	-4.0	1.7	2.5	4.2	1.8	↓	+
Trade	-17.3	-1.7	9.7	2.4	6.2	2.4	3.8	-0.2	↓	+
Consumer	-20.5	-12.5	-6.4	-16.4	-14.1	-9.1	-12.9	-15.6	↓	-

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

*) Excluding the consumer confidence indicator, the other indicators are calculated based on seasonally-adjusted balances.

**) Situation as 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. Main balances of the sectors of the economy (in percentage points)*

	2013	2014				2015
	Q4	Q1	Q2	Q3	Q4	Q1
Demand						
Total	-20.7	-8.6	-3.1	-0.9	-0.3	-6.4
Industry	-14.2	-3.5	4.7	4.6	-1.2	-7.2
Construction	-38.5	-26.1	-22.8	-17.9	-6.8	-17.3
Services	-12.3	-2.3	2.8	3.0	5.0	4.9
Trade	-17.8	-2.5	2.9	6.9	1.8	-6.0
Overall business situation						
Total	-19.9	-9.9	-2.7	-1.5	-1.3	-9.1
Industry	-12.7	-7.2	2.7	4.6	2.4	-11.7
Construction	-35.8	-26.4	-22.0	-11.8	-4.1	-11.5
Services	-14.0	-3.2	1.7	2.4	0.9	-2.2
Trade	-17.3	-2.7	6.6	-1.2	-4.3	-10.9
Production						
Total	-24.7	-12.1	-4.0	-3.4	-1.2	-9.2
Industry	-8.2	-2.4	10.4	7.4	3.0	-5.4
Construction	-41.1	-21.8	-18.3	-14.3	-5.5	-13.0
Consumers						
Financial situation	-16.0	-13.5	7.2	-4.0	-9.0	-13.5
One-year-ahead prices, in %	2.3	1.5	1.3	1.6	1.8	1.4
Major purchases	-54.7	-59.4	-58.0	-46.7	-53.9	-63.1
Savings	-48.3	-39.3	-41.0	-36.7	-46.6	-47.3

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

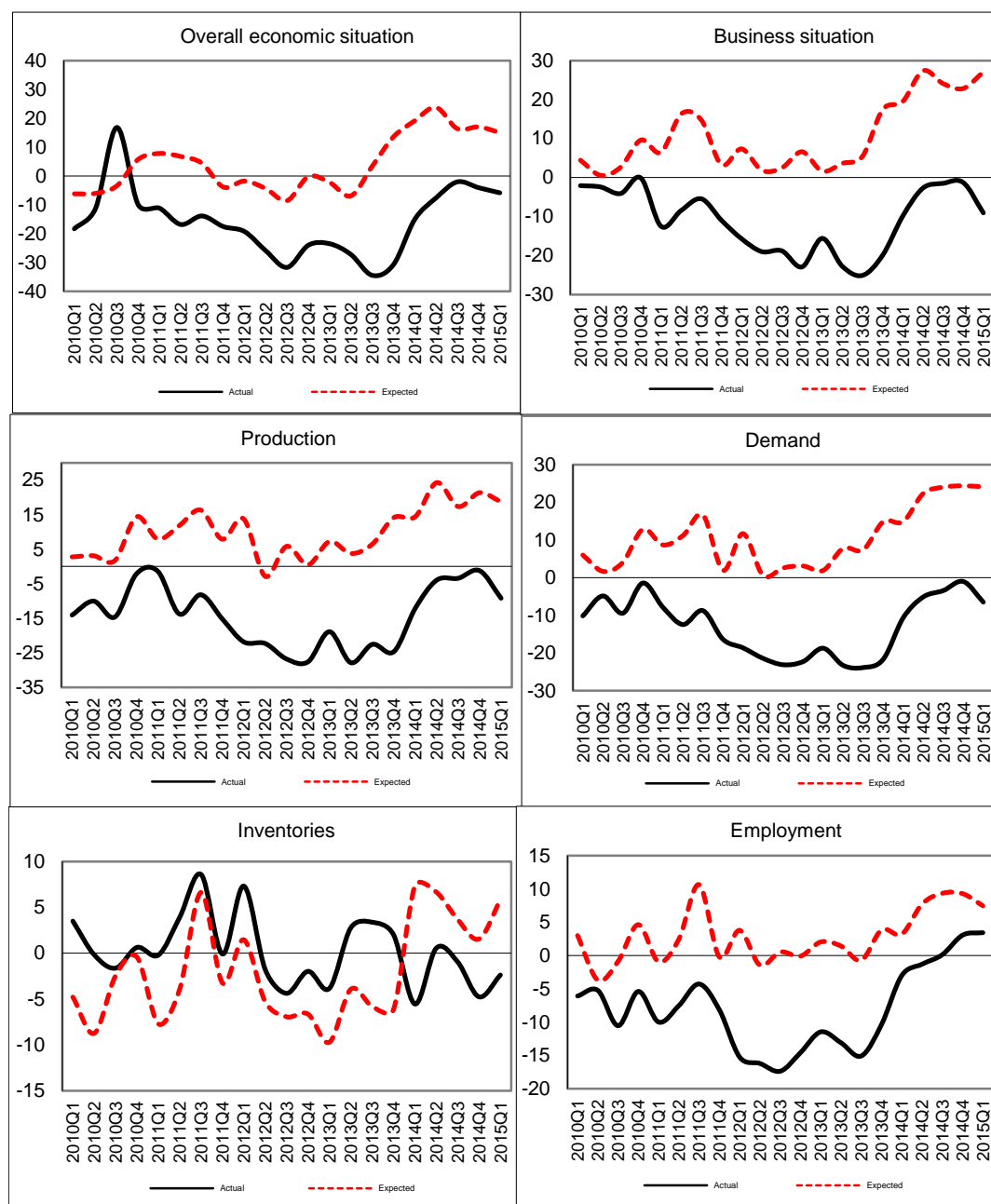
*) *Excluding consumers' sector, the balances are seasonally adjusted.*

Chart 7 Main 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

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 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 the highest correlation with the reference series (the series of real data 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. 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.