

Bank of Albania
Monetary Policy Department



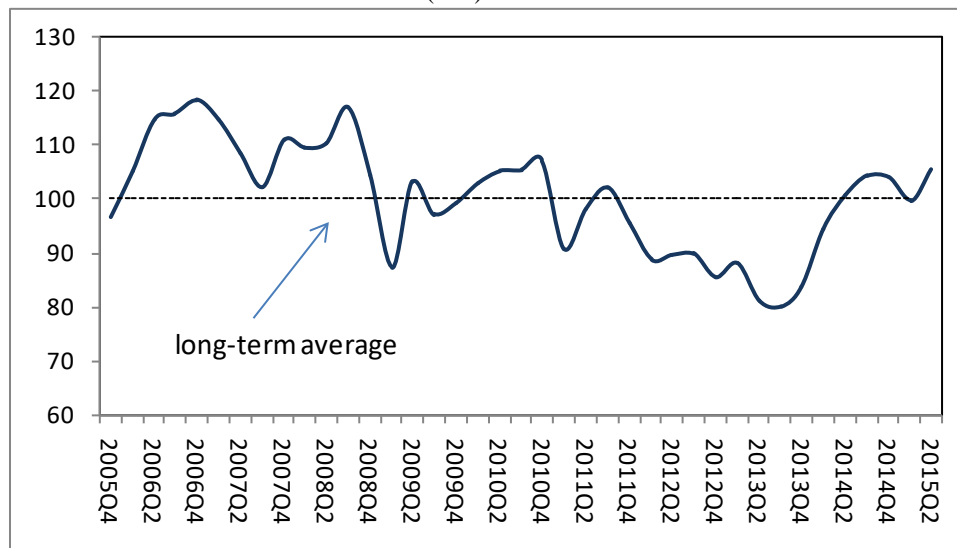
Business and Consumer Confidence Survey

2015 Q2

Economic Sentiment Indicator

Economic Sentiment Indicator (ESI) increased by 5.1 points in 2015 Q2. This development returned ESI to the upward trend, after the fall in 2015 Q1. ESI currently stands 4.8 points above the historical average. The improved ESI in the second quarter of 2015 was attributable to the increased confidence in industry and services and the increased consumer confidence. Conversely, the decreased confidence in construction and trade provided negative contribution to the aggregated indicator.

Chart 1 Economic Sentiment Indicator (ESI)

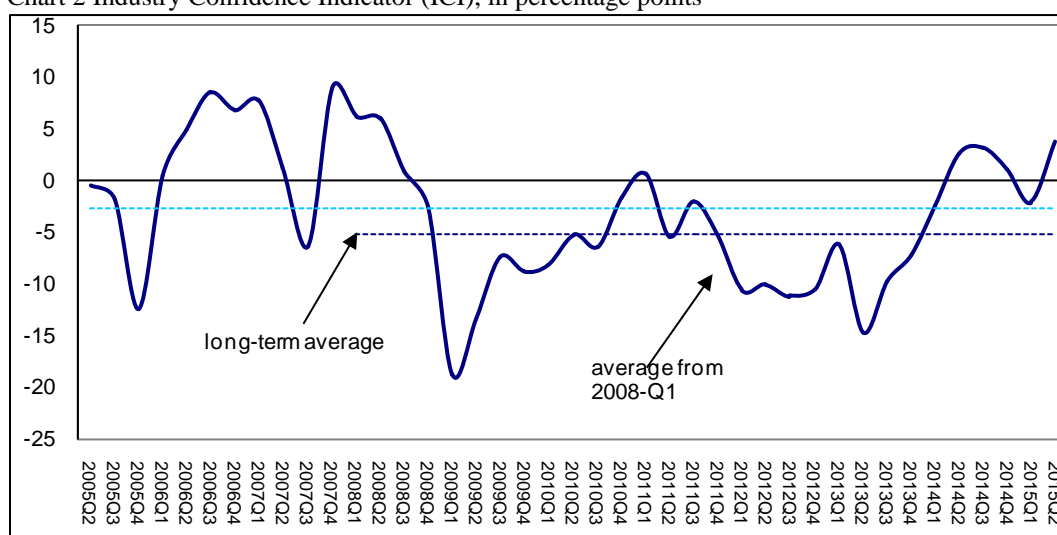


Source: Business and Consumer Confidence Survey, Bank of Albania.

Industry Sector

Industry Confidence Indicator (ICI) rose by 5.8 percentage points in the second quarter of 2015, after the fall for two consecutive quarters. The increase in ICI was mainly driven by the growth in the *balance of production* (by 10.4 percentage points), and the growth in the balance of *financial situation* (by 8 percentage points). In contrast, the increase in the balance of *inventories situation* provided negative contribution to ICI. The ICI stands 6.4 percentage points above the long-term average, and 8 percentage points above the average of 2008-2014 period.

Chart 2 Industry Confidence Indicator (ICI), 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:

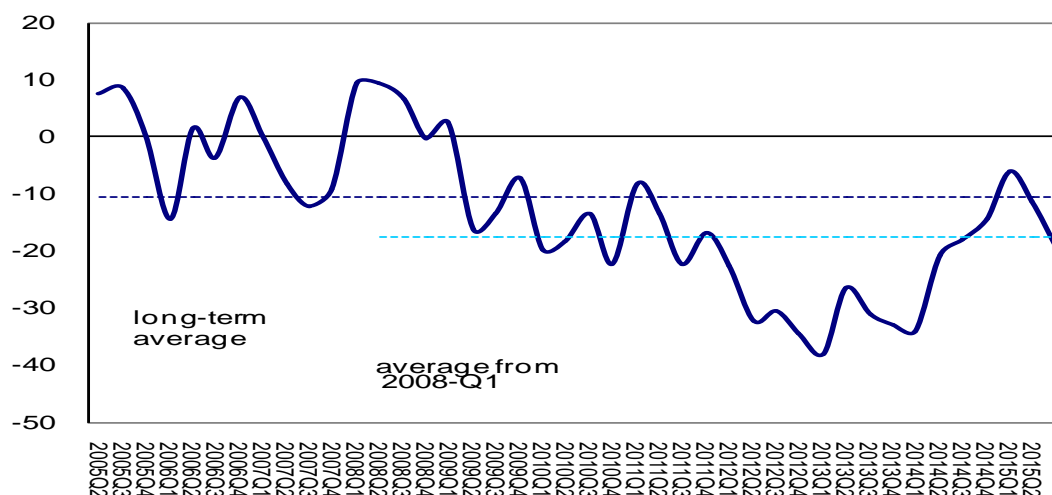
The balance of *economic situation* in Albania fell by 5 percentage points. Nevertheless, the assessment for the *overall situation of business* and for both the domestic and external *demand* improved in the second quarter. *Employment* balance increased by 0.8 percentage points. *Expectations* for the third quarter of 2015 are less optimistic compared to the current situation.

The *capacity utilisation rate* in industry stood at 75.1%, up by 7.3 percentage points in 2015 Q2. This rate is about 3.2 percentage points above the historical average. *Producer prices* were assessed as slightly up during the second quarter.

Construction sector

Confidence Indicator in Construction (CIC) fell by 8.1 percentage points in 2015 Q2. The performance of CIC was driven by the fall in its three composing balances. Hence, the *demand* fell by 9.2 percentage points, *production* dropped by 9.5 percentage points and the situation of *employment* fell by 5.6 percentage points. Currently, CIC is about 8.8 percentage points below its long-term average.

Chart 3 Confidence Indicator in Construction (CIC), 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:

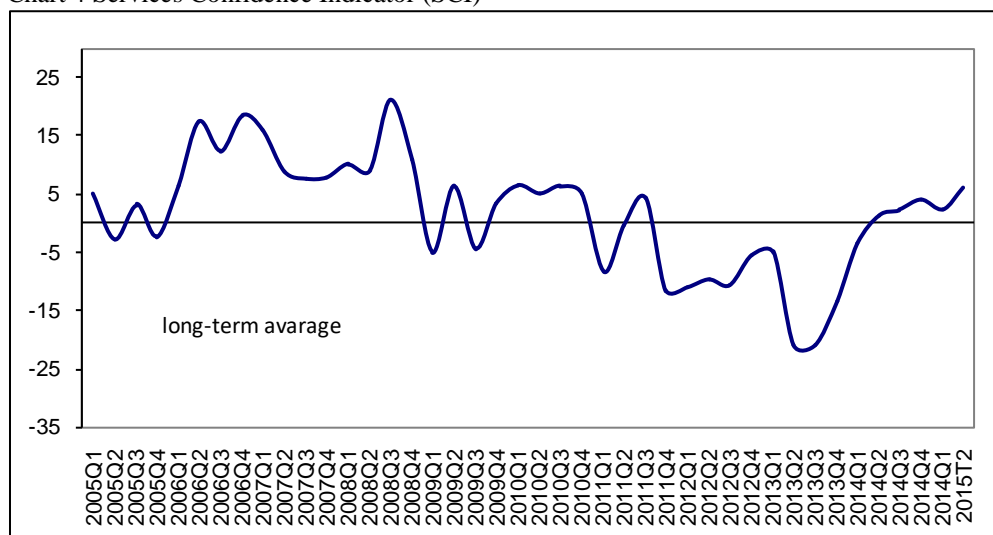
Businesses operating in construction assessed *the overall economic situation* in Albania and the *firm's overall situation* as downward during the second quarter. Also, businesses reported a fall in the *demand* and increase in *inventories*. These factors drove to the deterioration of the *financial situation* of this sector. *Producer prices* were slightly down.

The *production capacity utilisation* rate in construction stood at 60.1 % in the second quarter, about 4.4 percentage points below its historical average. Businesses assessed that the *insufficient demand* and *financial restrictions* provided the main impact on the production capacity utilisation rate. Most businesses (73%) report they will fill financial gaps through bank credit, while others (18%) through prepaid orders.

Services sector

Services Confidence Indicator (SCI) increased by 3.7 percentage points in the second quarter. The increased balance for the assessment of the *overall business situation* provided the main contribution to the improved SCI. Businesses operating in services sector assessed the *demand* and *financial situation* as *improved*.

Chart 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:

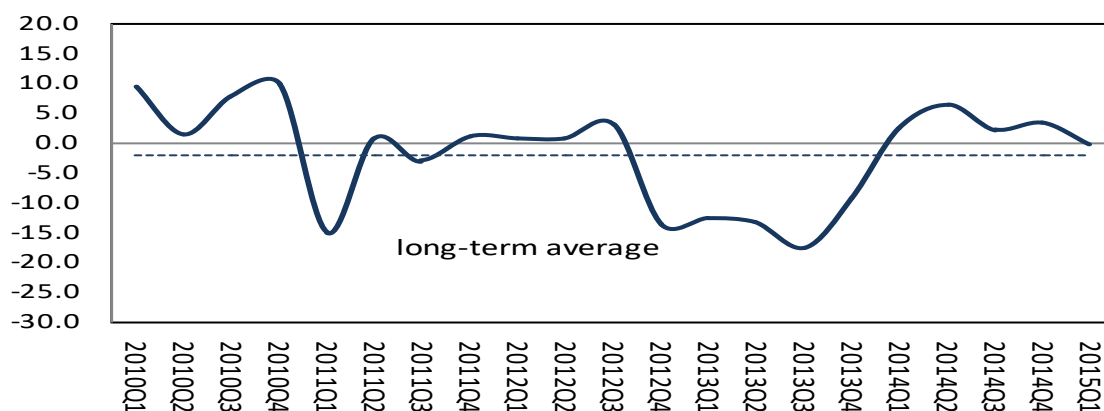
Businesses assessed the overall *economic situation* in Albania as downward, in contrast with the improved situation of their business. The respective balance fell by 6.3 percentage points. *Services prices* were assessed as unchanged from the previous quarter. Businesses operating in services sector assessed the employment situation in the second quarter as improved.

The *capacity utilisation rate* in this sector was 77.4%, about 3.4 percentage points higher than 2014 Q2, and 1.4 points higher than the historical average.

Trade sector

Confidence Indicator in Trade (CIT) fell by 1.4 percentage points in the second quarter of 2015. This fall was attributable only to the deteriorated situation of employment (the balance dropped by 9.2 percentage points). The two other components of TCI, balance of *financial situation* and the balance of *business situation*, increased by 0.1 and 4.9 percentage points, respectively.

Chart 5 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:

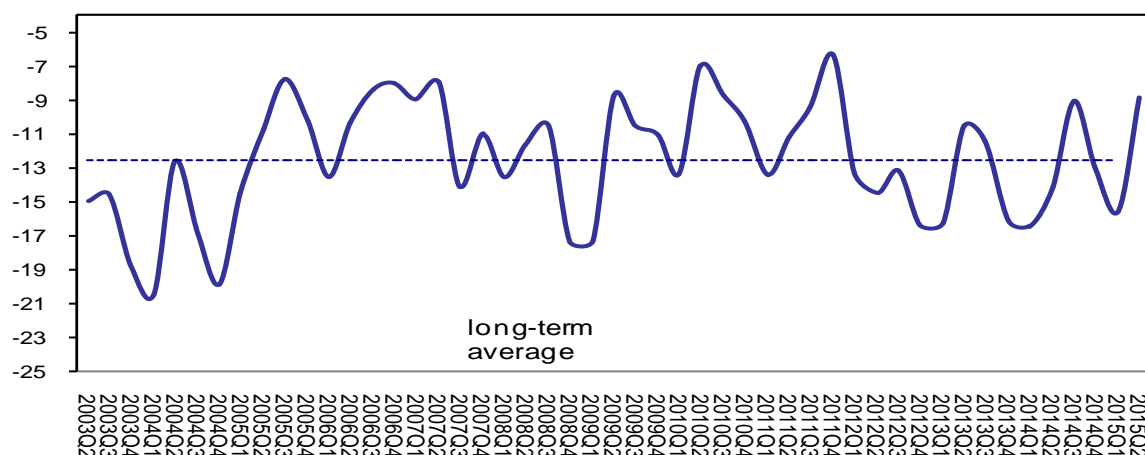
Businesses operating in the trade sector assessed the economic situation and the *demand* as slightly up in 2015 Q2. The respective balances increased by 0.1 and 0.8 percentage points, respectively.

The *capacity utilisation* rate in trade dropped in the second quarter, standing at 73.3%. This rate was 4.4 percentage points lower than a year earlier and 5.7 percentage points below the historical average.

Consumer confidence

Consumer Confidence Indicator (CCI) increased by about 6.8 percentage points in 2015 Q2. Currently, CCI stands 3.8 percentage points above the long-term average. The improved CCI reflected the improvement in its three composing balances. The balance of *major purchases* increased by about 13.9 percentage points. Consumers' expectations on the *financial situation* and the *overall economic* in Albania improved (+2.8 percentage points) and (+4.3 percentage points) for the next quarter.

Chart 6 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 assessed the *economic* and *financial situation* in Albania as improved in 2015 Q2. The balances increased by about 6.1 and 7.8 percentage points, respectively. After 10 years of negative assessments, in the quarter under review, the consumers are optimistic about the *employment situation* in the next half of year. *Unemployment rate* is expected to be lower in the second half of 2015. *Cost of living* was assessed as down, while savings balance increased considerably, by about 12.2 percentage points (a considerable high number of savers think that now is a good time to save). Expectations for *prices after 12 months* continue to be down. Inflation after one year is expected to be 1.3%, from 1.4% in the previous quarter.

Table 1 Confidence indicators by sectors*

	Values since 2002 Q2			2014			2015		Current situation	
	min.	average	max.	Q2	Q3	Q4	Q1	Q2	Conjectural**	Structural***
Industry	-18.7	-2.6	9.0	1.8	3.4	1.3	-1.4	3.8	↑	+
Construction	-37.8	-10.6	9.3	-17.9	-14.4	-5.7	-11.8	-19.5	↓	-
Services	-22.7	0.9	21.4	1.5	2.3	4.0	2.4	6.1	↑	+
Trade	-17.3	-1.6	9.7	6.5	2.3	3.4	0.0	-1.4	↓	+
Consumer	-20.5	-12.6	-6.4	-14.1	-9.1	-12.9	-15.6	-8.8	↑	+

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)*

	2014				2015	
	Q1	Q2	Q3	Q4	Q1	Q2
Demand						
Total	-8.6	-3.4	-0.9	0.0	-6.3	-4.7
Industry	-3.5	3.7	4.5	-0.1	-7.2	5.5
Construction	-26.4	-22.6	-17.9	-6.6	-17.5	-26.5
Services	-2.1	2.8	2.9	5.0	5.2	7.0
Trade	-2.2	2.4	6.9	1.9	-5.6	-4.8
Overall business situation						
Total	-7.5	2.5	4.7	2.8	-12.0	2.3
Industry	-26.9	-21.5	-11.7	-4.1	-11.9	-19.9
Construction	-2.1	1.3	2.1	0.6	-0.9	5.7
Services	-1.7	6.2	-1.3	-4.8	-9.7	-4.8
Trade	-9.5	-2.9	-1.6	-1.4	-8.6	-4.2
Production						
Total	-11.6	-5.0	-3.3	-0.7	-8.7	-7.9
Industry	-0.8	7.9	7.9	3.4	-3.7	6.7
Construction	-22.4	-18.0	-14.5	-4.7	-13.6	-22.4
Consumers						
Financial situation	-13.5	7.2	-4.0	-9.0	-13.5	-7.4
One-year-ahead prices, in %	1.5	1.3	1.6	1.8	1.4	1.3
Major purchases	-59.4	-58.0	-46.7	-53.9	-63.1	-49.2
Savings situation	-39.3	-41.0	-36.7	-46.6	-47.3	-35.1

Source: Consumer Confidence Survey, Bank of Albania.

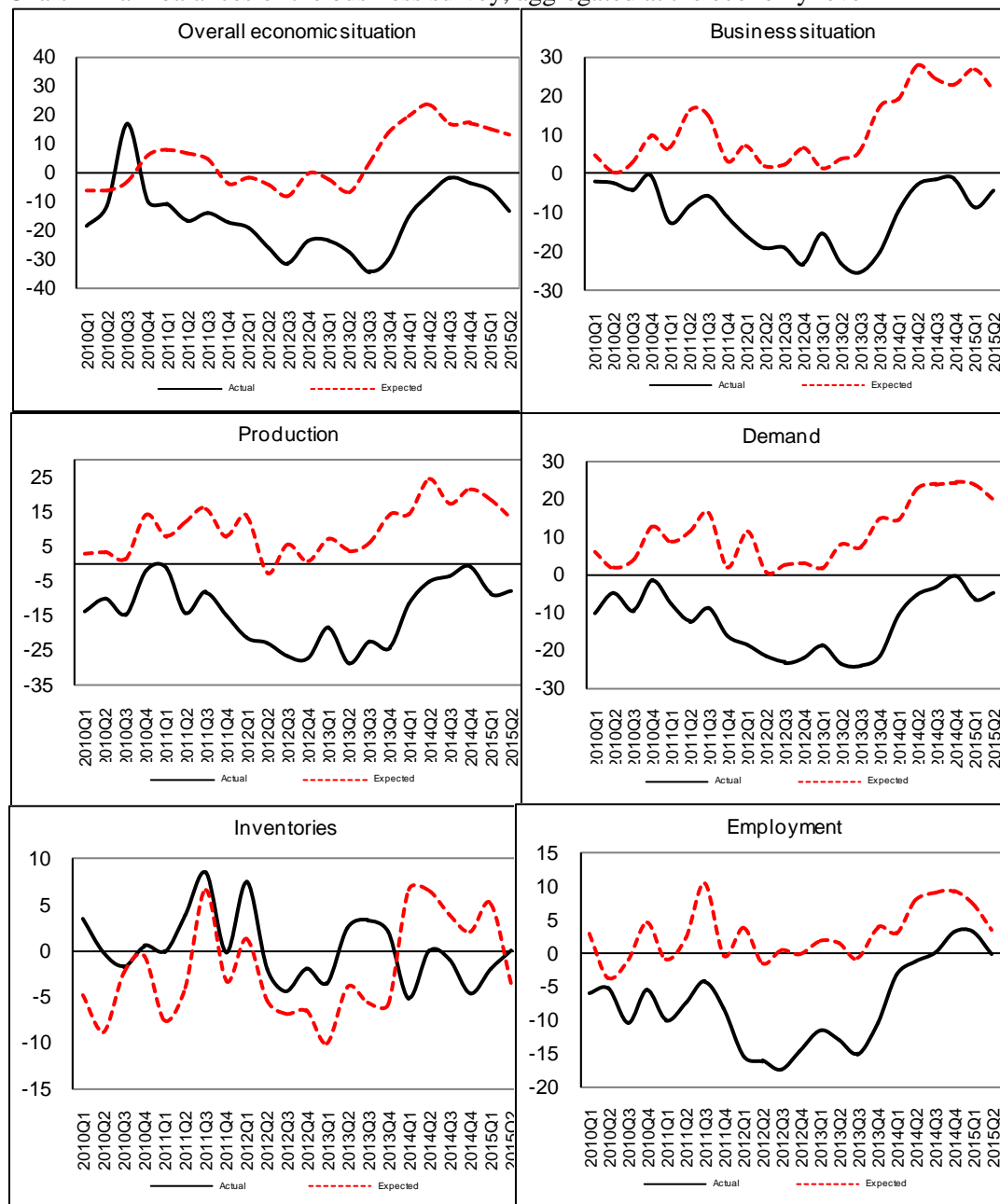
*) Excluding consumer indicators, the other balances are seasonally adjusted.

Chart 1 Key balances of the consumer survey



Source: Consumer Confidence Survey, Bank of Albania.

Chart 2 Main balances of the business survey, aggregated at the 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.