

Bank of Albania

Monetary Policy Department



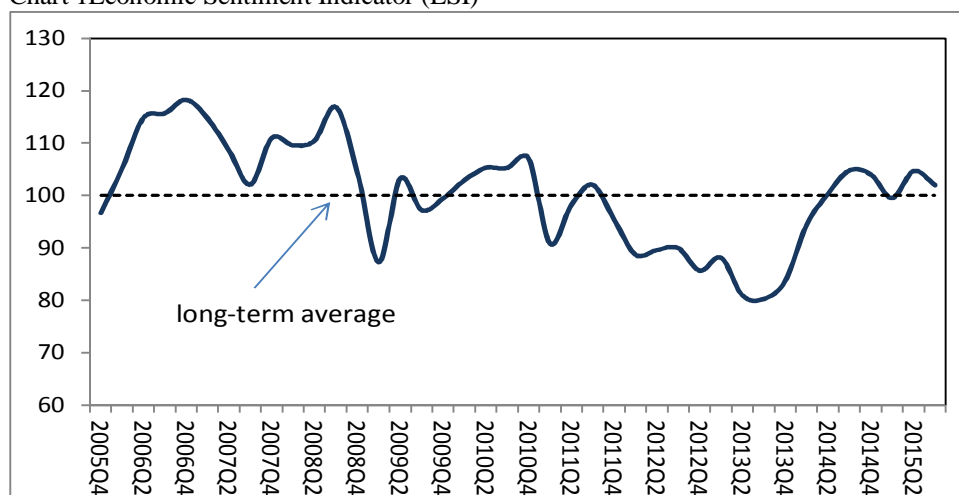
Business and Consumer Confidence Survey

2015 Q3

Economic Sentiment Indicator

Economic Sentiment Indicator (ESI) stood at 102 during Q3 of 2015, fell by 2.7 points from the previous quarter. ESI fluctuated around its long-term average during 2015. Currently, it stands 2 points above this average. The indicator performance in Q3 was negatively affected by the downward confidence in the services industry and from the downward consumer confidence. On the other hand, increased confidence in construction and trade sectors gave a positive contribution in this quarter, but it was insufficient to offset the downward of confidence in other sectors.

Chart 1 Economic Sentiment Indicator (ESI)

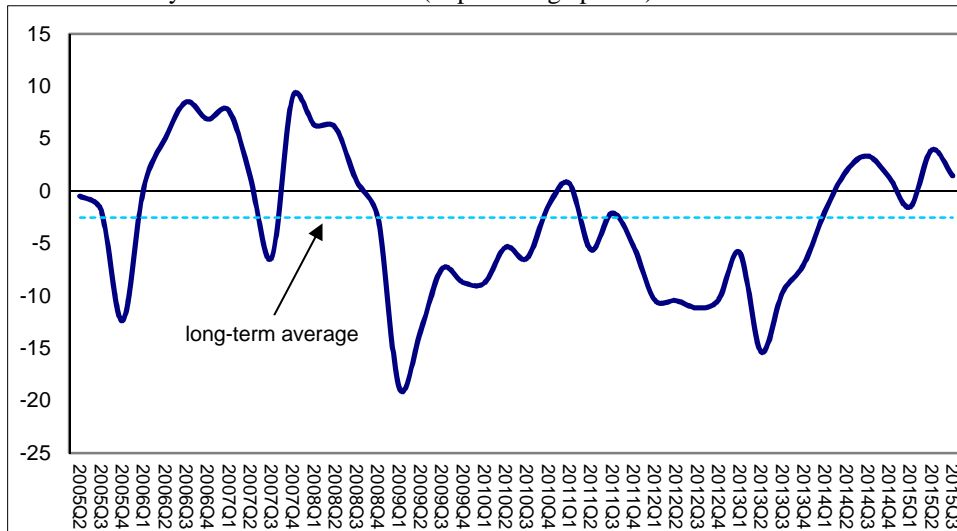


Source: Business and Consumer Confidence Surveys, Bank of Albania.

Industry Sector

Industry confidence indicator (ICI) fell by 2,5 percentage points in Q3, after its growth by 5.4 percentage points in Q2. The ICI is currently 4 percentage points above its long-term average. The fall of ICI in the third quarter reflected the lowest evaluation of businesses for the three components: Production (the balance fell by 1 p.p.), financial situation (the balance fell by 2.4 p.p. and inventories (the balance increased by 2.4 percentage points, which shows the collection of the inventories).

Chart 2 Industry Confidence Indicator (in percentage points)



Source: Business Confidence Survey, Bank of Albania.

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

The economic situation in 2015 Q3 is assessed as improved by the industry businesses and is expected to improve further in 2015 Q4. Respective balances rose by 6.1 and 3.6 percentage points. Assessment for the overall situation resulted less optimistic. The balance for the assessment of the current situation fell by 1.5 percentage points, while expectations for the next quarter fell by 0.7 percentage points. Also, the evaluation of the domestic demand was lower than in the previous quarter; the balance of this indicator fell by 4.6 percentage points. Meanwhile, businesses assessed the demand for exports up. The balance of this indicator rose 4.1 percentage points.

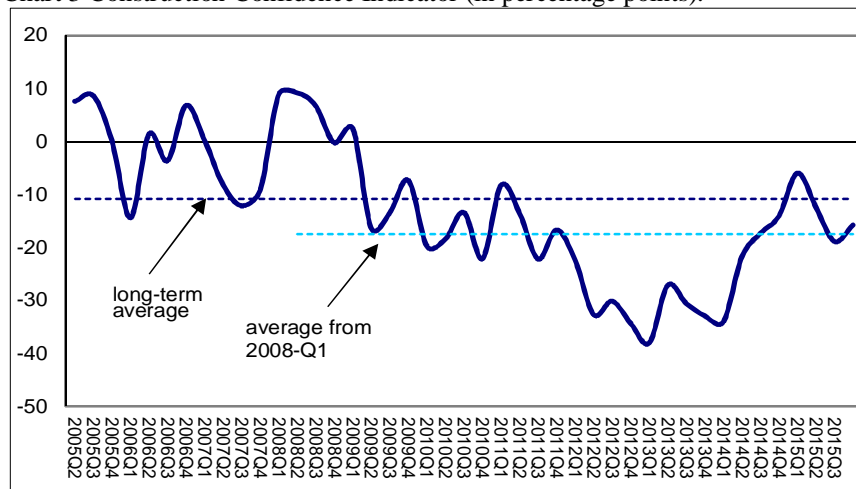
Capacity utilization rate in industry fell by 2.9 percentage points compared with the second quarter. Currently, this ratio stands at 72.2%, almost at the level of its historical average. Producer prices are assessed as falling in the third quarter.

The balance of the question on the performance of new investments during the last six months fell compared with the results of 2015 Q1. Nevertheless, its level stood above its historical average during 2015.

Construction Sector

Construction Confidence Indicator (CCI) improved by 3.1 percentage points in the third quarter. Currently, it stands higher than the average for the period 2008-2015 but remains below the series historical average. Confidence in construction increased driven by increased estimates for demand and production. Respective balances rose by 4.9 and 5.8 percentage points. The third component of CCI, employment, provided a negative contribution. The balance of business assessments for employment fell by 1.3 percentage points in the third quarter.

Chart 3 Construction Confidence Indicator (in percentage points).



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, as well as the overall business situation was estimated as slightly improved by the businesses operating in the construction sector. Business expectations for these aspects in Q4 are slightly more optimistic than the assessment for the current situation. With the highest increase in the balance of production, businesses report a slight accumulation of inventories in Q3. Financial situation is assessed as improved in Q3, whilst the producer prices are assessed downward.

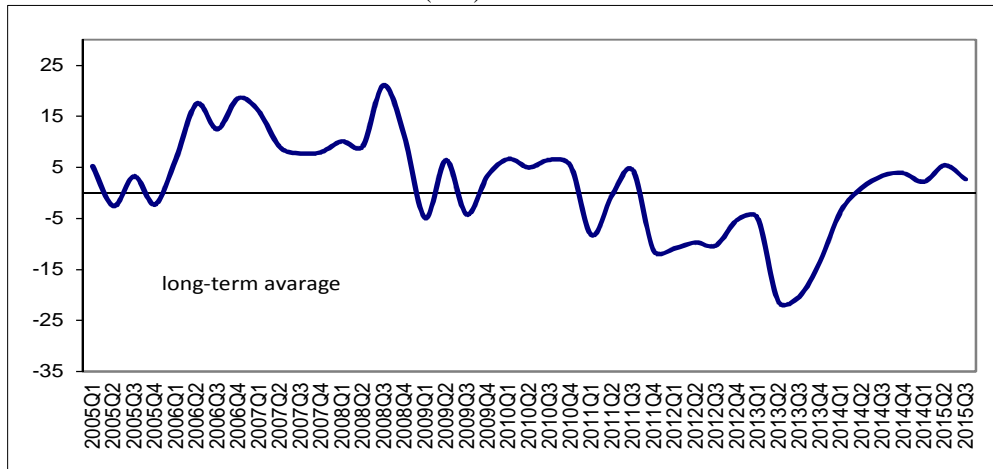
Capacity utilization rate in construction continued the upward trend of the previous quarter, increasing by 2 percentage points in Q3. Currently this ratio stands at 62.2%. Despite the positive developments during the last two quarters, construction is the only sector with the capacity utilization rate standing below its long-term average.

Business improved the assessments regarding the new investments conducted during the last six months. The respective balance improved for the second consecutive half of year, and stands significantly above its historical average.

Services Sector

Services Confidence Indicator (SCI) fell by 2.7 percentage points in the third quarter. The performance of this indicator reflected the fall of three of its component balances: overall business situation, demand, and the assessed financial situation. Among SCI components, demand fell markedly.

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:

Businesses operating in the services sector assess a better performance of employment during 2015 Q3. They were more optimistic concerning the overall economic situation, an indicator which is evaluated as slightly improved (+1.1 percentage points). Concerning prices of services, businesses say they will increase in the fourth quarter.

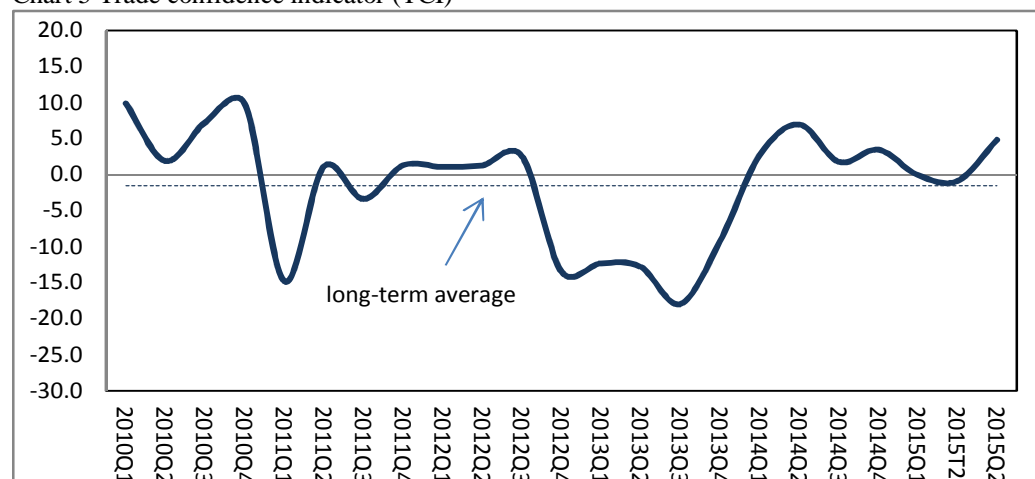
Capacity utilization rate in services amounted to 76.7% , 0.6 percentage points higher than in the same quarter a year, ago and the historical average.

The balance of new investments fell sharply during the past six months compared with the results of the first quarter of the year and also compared with its historical average. Expectations for investments in the next six months continued their downward trend based on the results of this survey.

Trade Sector

Trade Confidence Indicator (TCI) improved its tendency in 2015 Q3, up by 5.7 percentage points. This was a result of the increased balances of the three constituent components of TCI: the overall situation of business, employment and the assessed financial situation. The improvement of the overall business situation provided the main contribution to the performance of TCI, the respective balance rose by 7.7 percentage points.

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:

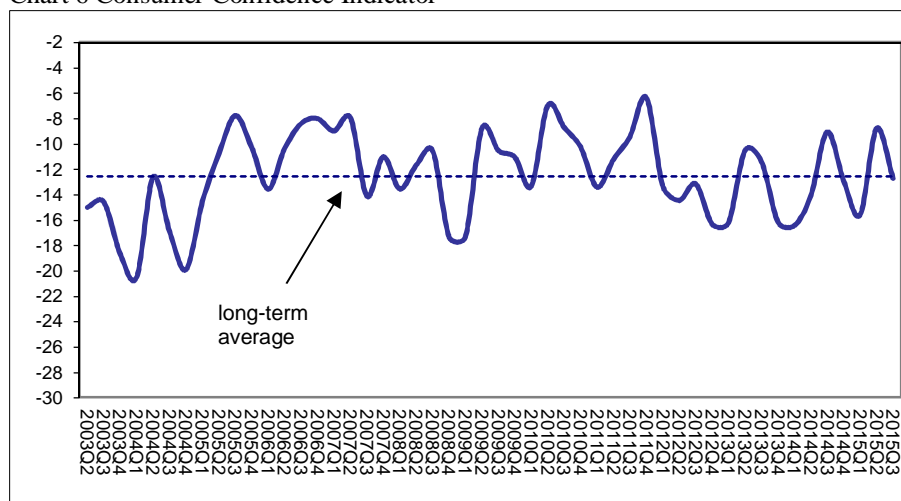
The demand balance in trade indicator increased by 7.0 percentage points. Meanwhile, businesses reported price decline associated with commercial activity in Q3. Similar to service sector businesses, those operating in the trade sector have estimated an improved overall performance of the economy in the quarter under review.

Capacity utilization rate in trade increased by 5.6 percentage points in Q3, resulting to be 78.9% from being 73.3% in the previous quarter. Capacity utilization in trade remains slightly above the historical average, but below the rate marked a year ago in the same period.

Consumer Confidence

Consumer Confidence Indicator fell by 3.9 percentage points in 2015 Q3, standing close to its long term average. This fall, which reflected the deterioration of the four components of the aggregated component indicators, was mainly driven by the deterioration of the consumer expectations for the overall economic situation in Albania (-8.4 percentage points) and their financial situation in the next quarter (-3.8 percentage points). The decrease in balance of the expenses / income and also the major purchases situation had a similar, though lower, impact.

Chart 6 Consumer Confidence Indicator



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

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

Consumer expectations for unemployment in the next six months are pessimistic. The balance of major purchases rose 11.4 percentage points. Consumers perceive a decrease in the cost of living and an improvement of their financial situation in the quarter under review. However, the saving balance recorded a slight decrease of 1.5 percentage points. In terms of expected one-year-ahead inflation, consumers expect it will rise to 1.8% from 1.3% in Q2.

Table 1 Confidence indicators by sector*

	Values since 2002 Q2			2014		2015			Current situation	
	min.	av.	max.	Q3	Q4	Q1	Q2	Q3	Conjectural**	Structural***
Industry	-18.8	-2.5	9.0	3.4	1.4	-1.5	3.9	1.5		+
Construction	-38.0	-10.8	9.2	-14.1	-5.9	-12.4	-18.9	-15.7		-
Services	-21.4	1	21.1	3.3	3.8	2.1	5.3	2.6		+
Trade	-18.0	-1.5	9.9	1.8	3.5	0.0	-0.9	4.9		+
Consumer	-20.5	-12.5	-6.4	-9.1	-12.9	-15.6	-8.8	-12.7		-

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 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.

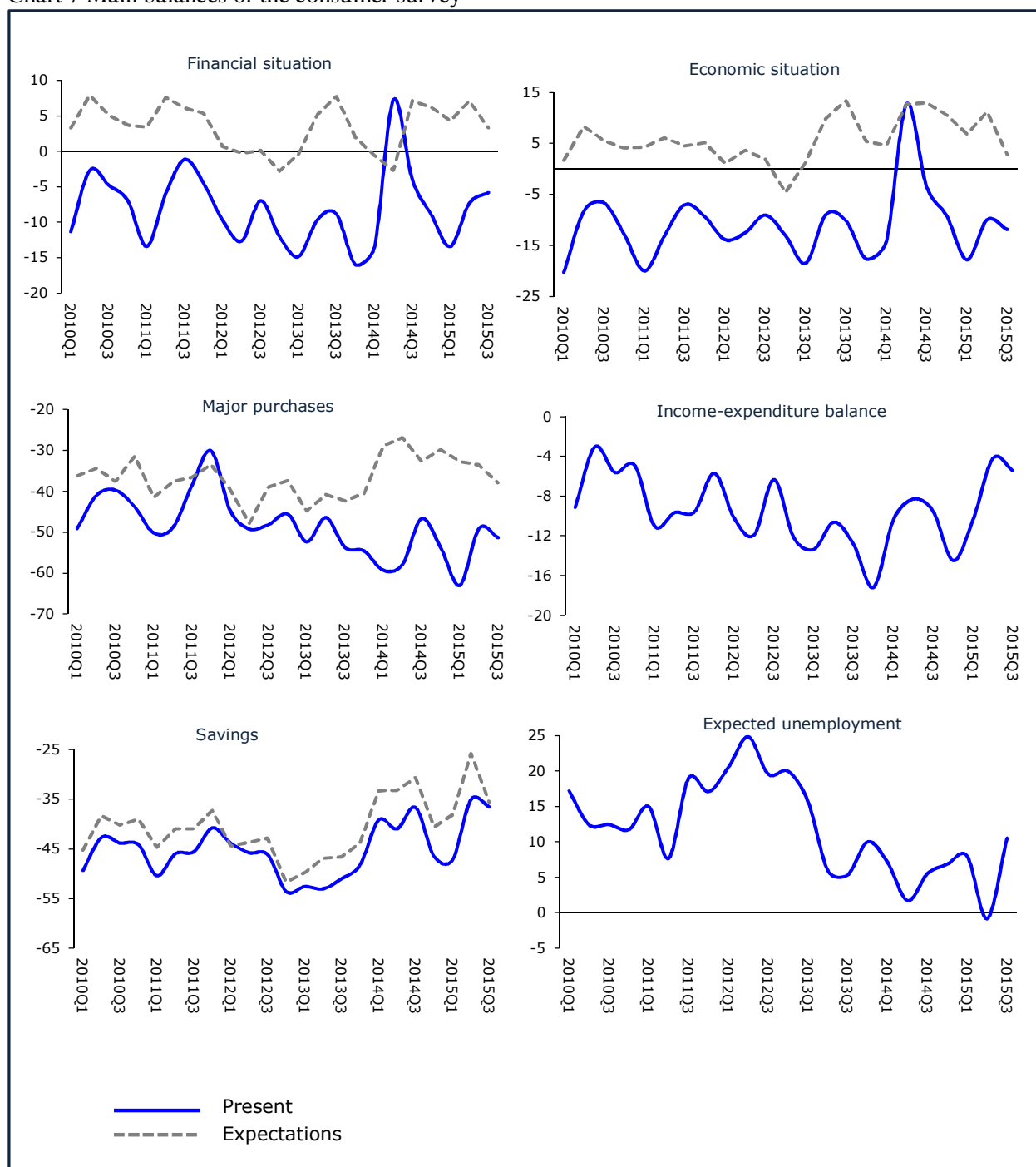
Main balances of the sectors of the economy (in percentage points)*

	2014				2015		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Demand							
Total	-8.7	-3.2	-0.9	-0.1	-6.5	-4.3	-3.9
Industry	-3.5	4.1	4.1	-0.1	-7.1	6.0	1.4
Construction	-27.0	-21.9	-17.8	-6.8	-18.2	-25.7	-20.8
Services	-2.3	2.1	4.0	4.7	4.9	6.2	0.6
Trade	-2.0	3.0	6.3	1.9	-5.5	-3.9	3.0
Overall business situation							
Total	-9.4	-2.8	-1.7	-1.4	-8.6	-4.1	-2.7
Industry	-6.9	2.3	4.2	2.8	-11.3	2.2	0.7
Construction	-27.1	-21.1	-11.7	-4.2	-12.3	-19.4	-17.7
Services	-2.3	0.7	3.1	0.4	-1.3	4.9	2.6
Trade	-1.4	7.0	-2.4	-4.7	-9.5	-4.1	3.6
Production							
Total	-12.0	-4.5	-3.5	-0.7	-9.1	-7.2	-4.8
Industry	-1.0	8.1	7.6	3.7	-3.9	7.0	6.0
Construction	-23.0	-17.0	-14.5	-5.1	-14.2	-21.4	-15.5
Consumers							
Financial situation	-13.5	7.2	-4.0	-9.0	-13.5	-7.4	-5.9
One-year-ahead prices, in %	1.5	1.3	1.6	1.8	1.4	1.3	1.8
Major purchases	-59.4	-58.0	-46.7	-53.9	-63.1	-49.2	-51.4
Savings	-39.3	-41.0	-36.7	-46.6	-47.3	-35.1	-36.6

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

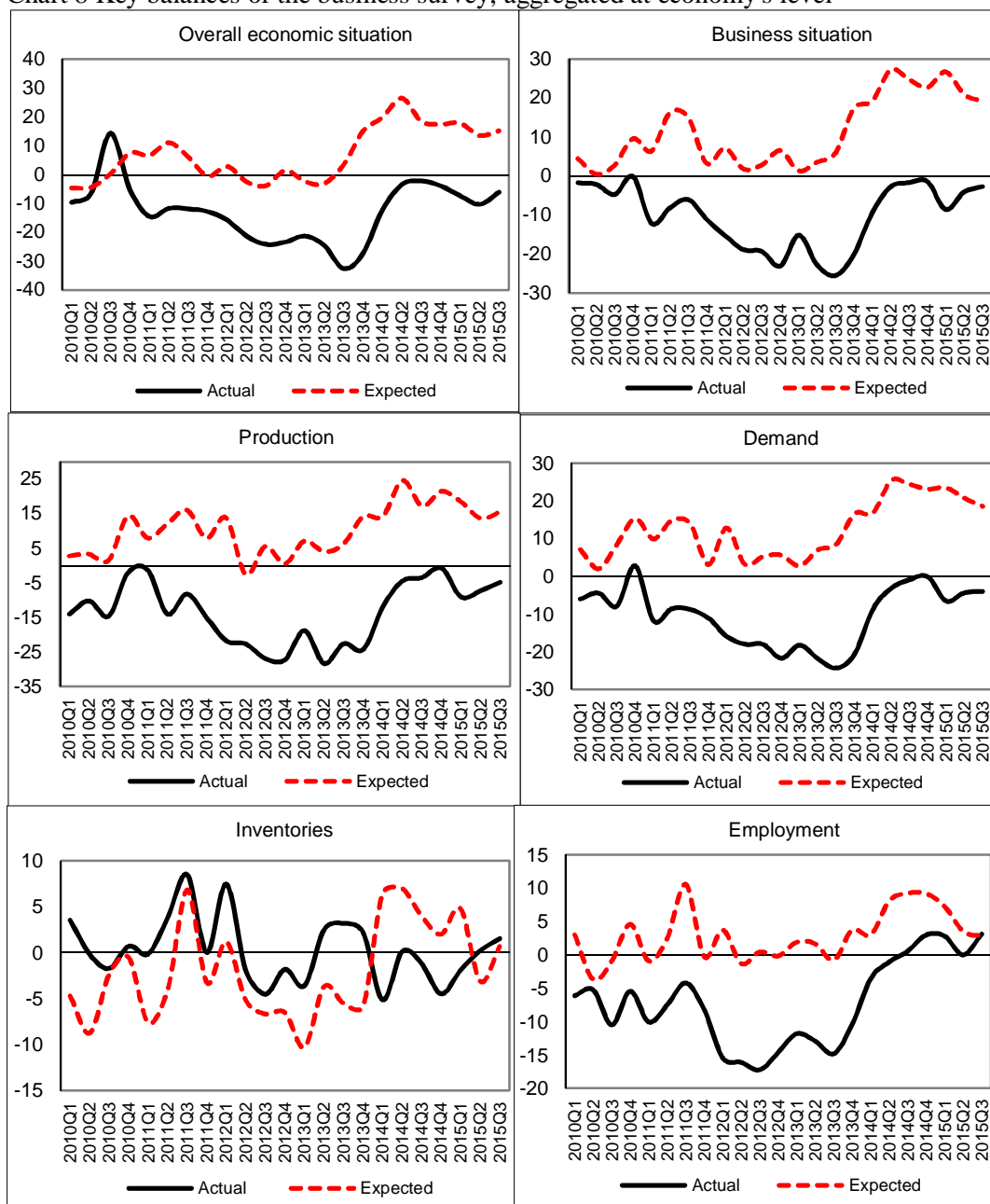
*) Excluding consumer, the balances are seasonally adjusted.

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.