Bank of Albania

Monetary Policy Department
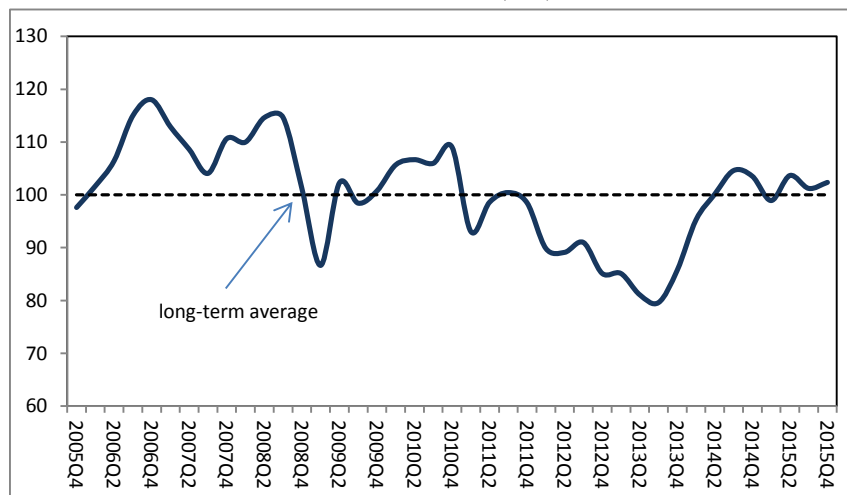
Business and Consumer Confidence Survey
2015 Q4

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Economic Sentiment Indicator

The Economic Sentiment Indicator (ESI) remained broadly unchanged in the fourth quarter of 2015, up only 0.1 percentage point from the third quarter. Currently, ESI stands at 102, or 2 points above the long-term average. During the fourth quarter, the performance of ESI was determined by opposing developments across the board. On the one hand, the improvement of confidence in *industry* and *construction* and, somewhat to a lesser extent, in *trade* and among *consumers* contributed to the improvement of ESI. On the other hand, the deterioration of confidence in *services* contributed negatively to the performance of ESI.

Grafik 1.   Economic Sentiment Indicator (ESI)

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

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Industry Sector

Industry Confidence Indicator (ICI) increased 4.2 percentage points in the fourth quarter, in contrast to the decrease in the third quarter. Irrespective of fluctuations over the quarters, the ESI has stood above the long-term average in the last two years. In the fourth quarter, the ESI improved driven by the increase in *production* (3.9 percentage points) and *financial situation* (7.9 points) and a slight decrease in *inventories*[1] (0.4 percentage points.

Grafik 2.   Industry Confidence Indicator (in percentage points)
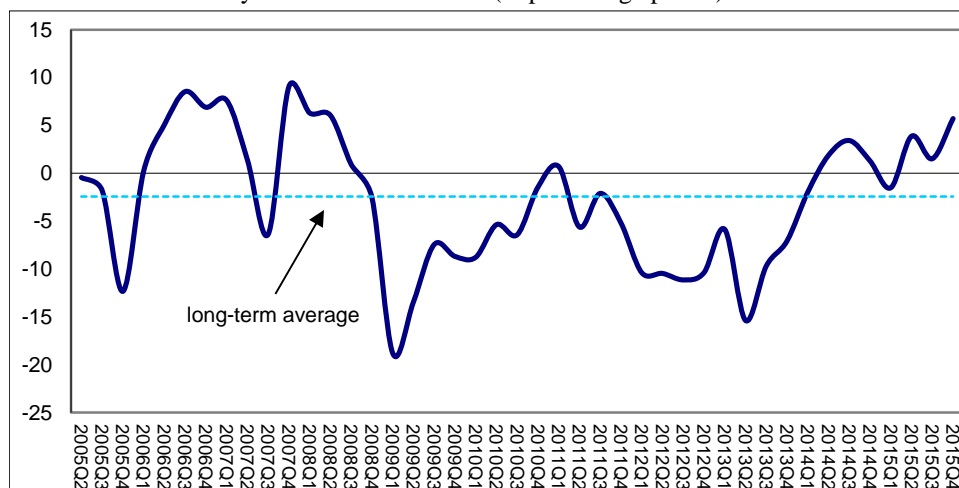
Source: Business Confidence Survey, Bank of Albania.

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

The *economic situation* in Albania and the *overall businesses situation* are assessed as improved in the fourth quarter of 2015. Respective balances increased by 6.8 and 4.7 percentage points. For the first quarter of 2016, firms expect that the economic situation will continue to improve, but not their business situation. Industry firms continue to assess the *presence of corruption* and *informal economy* and *electrical energy-related problems* as factors limiting their normal business activity.

During the fourth quarter, according to firms, *domestic demand* has been up (balance +8.5 percentage points) whereas *foreign demand* has been down (balance -0.3 percentage point).

The *capacity utilisation rate* in industry rose 1.4 percentage points from the third quarter, standing at 73.5%, or 1.7 points higher than the historic average rate in industry. *Producer prices* were assessed as slightly upward in the fourth quarter.

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[1] The decrease in inventories is interpreted as a positive development for the firms and the respective balance is multiplied by -1 when calculating the ICI.

Construction Sector

Construction Confidence Indicator (CCI) continued to improve in the fourth quarter, increasing 6.8 percentage points. Currently, the CCI stands 2.5 percentage points above the long-term average in this quarter. The three component balances of the CCI made positive contribution: *demand* surged 9.7 percentage points, *production* expanded 6 percentage points and *employment* improved 4.8 percentage points.

Grafik 3.   Construction Confidence Indicator (in percentage points)
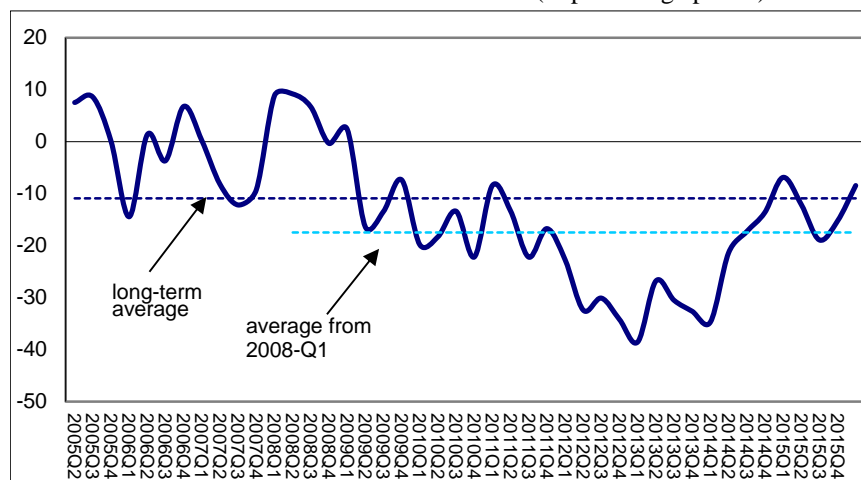
Source: Business Confidence Survey, Bank of Albania.

The following analyses selected indicators not included in the construction of the CCI:
The *economic situation* in Albania and the *general business situation* are estimated as improved by industry sector firms in the fourth quarter. This improvement is expected to persist in the first quarter of 2016.
Firms report that the main factors limiting their business activity are: the presence of *corruption* and the *legal and institution framework*.
The stock of *inventories* is assessed as downward in the fourth quarter. Firms continue to report declining *producer prices*, whereas the *financial situation* is assessed as improved in the fourth quarter of 2015.
While confidence in the construction sector and assessment on production improved, the *capacity utilisation rate* remains at low levels. In the fourth quarter, the firms utilised 60%, on average, of their production capacities, standing 4.4 percentage points lower than the historic average rate.

Services Sector

Services Confidence Indicator (SCI) fell 4.1 percentage points in the fourth quarter of 2015. Started in the previous quarter, the downtrend continued, resulting in the SCI falling below the historic average, for the first time since the first quarter of 2014. The decline in the SCI reflected more negative assessments by firms for two SCI components: *overall business situation* and *financial situation*. The overall situation of businesses showed stronger deterioration (balance fell 7.8 percentage points), whereas the assessment of

the financial situation deteriorated to a lesser extent (balance fell 5.4 percentage points). Conversely, the other component balance of the SCI, the estimated demand, increased slightly (balance increased 0.8 percentage points).

Grafik 4. Services Confidence Indicator (in percentage points)
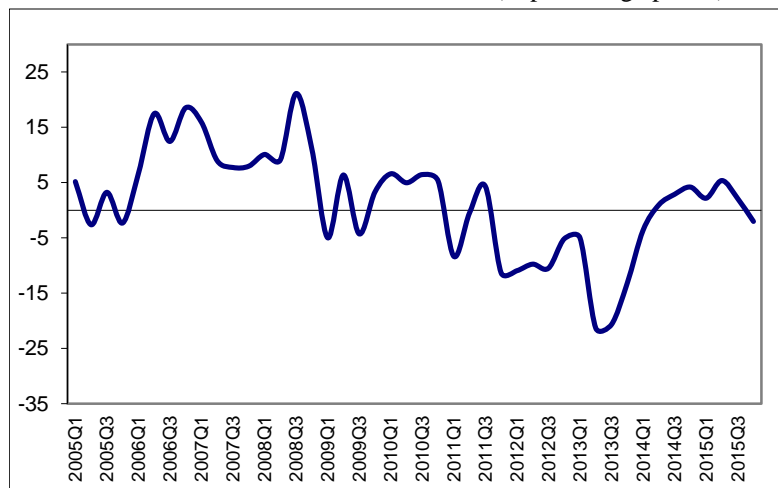
Source: Business Confidence Survey, Bank of Albania.

The following analyses selected indicators not included in the construction of the SCI:
The estimated balance of employment resulted as markedly deteriorated compared to the previous quarter (-9.9 percentage points). Firms employment expectations for the first quarter of 2016 suggest again a fall in employment (balance fell 2.3 percentage points). Also, firms reported that the factors with the most negative impact on their activity in the services sector remain *corruption, informal economy* and *legal and institutional framework.* Their assessment for the *economic situation* remained broadly flat (balance fell 0.1 percentage point), whereas the balance of expectations for this indicator in the next quarter deteriorated (-9.3 percentage points). The firm's prospect for *services prices* showed also a sharp drop in the fourth quarter.

The capacity utilisation rate for firms operating in the services sector resulted 75.2%, standing 2.1 percentage points below the rate in the same quarter in the previous year, and 0.9 percentage point below the historic average.

Trade Sector

Trade Confidence Indicator (TCI) increased slightly 0.5 percentage point compared to the previous quarter. The balances that contributed to the improvement of the TCI are the estimated *financial situation* (balance improved 2.6 percentage points, and overall *business situation* (balance improved 0.1 percentage point). On the other hand, the fall in the balance of employment by 1.3 percentage points decelerated the improvement of the TCI.

Grafik 5.   Trade Confidence Indicator (in percentage points)
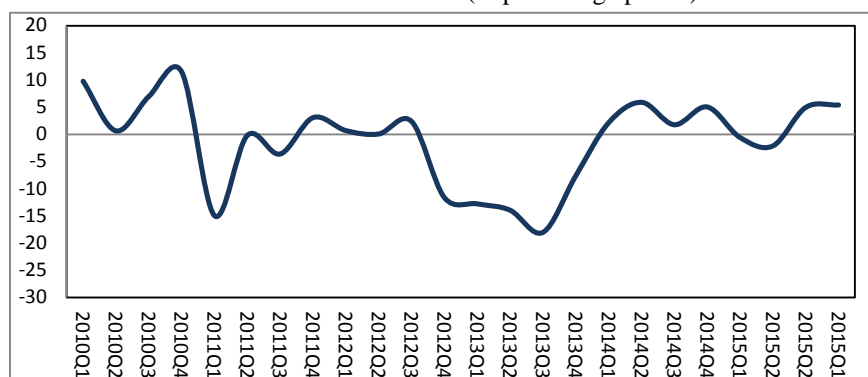
Source: Business Confidence Survey, Bank of Albania.

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

Firm's expectations and prospect about *demand* resulted as improved. Respective balances improved 3.8 and 9.3 percentage points. In the meantime, the estimated performance of prices in trade continued to trend down (balance fell 2.0 percentage points). Firms assess economic performance as improving in the fourth quarter (balance increased 1.3 percentage points), but they are less optimistic about the economic situation in the next quarter (balance fell 3.8 percentage points). Like in other sectors, firms operating in the trade sector identify *corruption and the informal economy* and the *legal and institutional framework* as main factors limiting their activity.

The *capacity utilisation rate* in trade continued to rise from 78.9% in the third quarter to 79.2% in the fourth quarter. Firms operating in the trade sector have utilised their capacities at a slightly higher rate compared to both the same period in the previous year (+0.1 percentage point), and the historic average rate (+0.5 percentage points).

Consumer confidence

Consumer Confidence Indicator (CCI) increased by around 0.9 percentage point in the fourth quarter of 2015, standing slightly above its long-term average. The CCI reflected diverging dynamics in its four component balances. The balance of *major purchases* increased 4.6 percentage points. Positive developments were also marked in the consumers' expectations about the overall *economic situation* in Albania (+1.2 percentage points). On the other hand, the deterioration of expectations about the *financial situation in the next quarter* (-1.2 percentage points) and the decline by 0.9 percentage point in the balance of *income/expenditure situation* contributed negatively to the level of the CCI.

Grafik 6.   Consumer Confidence Indicator (in percentage points)
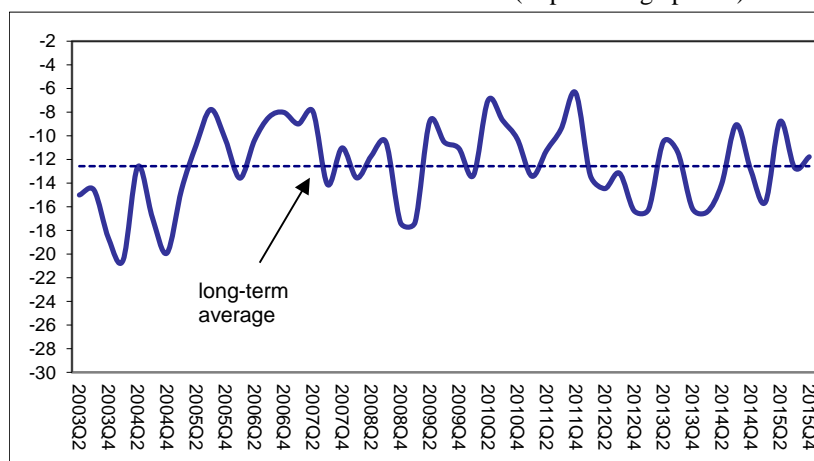
Source: Business and Consumer Confidence Surveys, Bank of Albania.

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

In the fourth quarter of 2015, consumers assessed the *present financial situation* of households and the *general economic situation* in Albania as downward by -3.4 and -0.9 percentage points, respectively. Consumers say that the cost of living has risen in the current quarter.

Consumers expect unemployment to fall in the next six months. Based on the one-year-ahead consumers' quantitative assessment, the expected inflation rate is 1.7%, or 0.1 percentage points lower than the one stated in the previous quarter.

Table 1 Confidence indicators by sector[*]

	Values since 2002 Q2			2014	2015				Current situation	
	min.	av.	max.	Q4	Q1	Q2	Q3	Q4	Conjectural**	Structural***
Industry	-18.8	-2.4	9.1	1.3	-1.5	3.9	1.5	5.7	↑	++
Construction	-38.5	-10.9	9.2	-6.9	-12.1	-18.9	-15.3	-8.4	↑	+
Services	-21.3	1	21.1	4.2	2.2	5.4	2.1	-2.0	↓	-
Trade	-18.0	-1.3	11.5	5.1	-0.6	-2.1	5.0	5.4	↑	+
Consumer	-20.5	-12.5	-6.4	-12.9	-15.6	-8.8	-12.7	-11.8	↑	+

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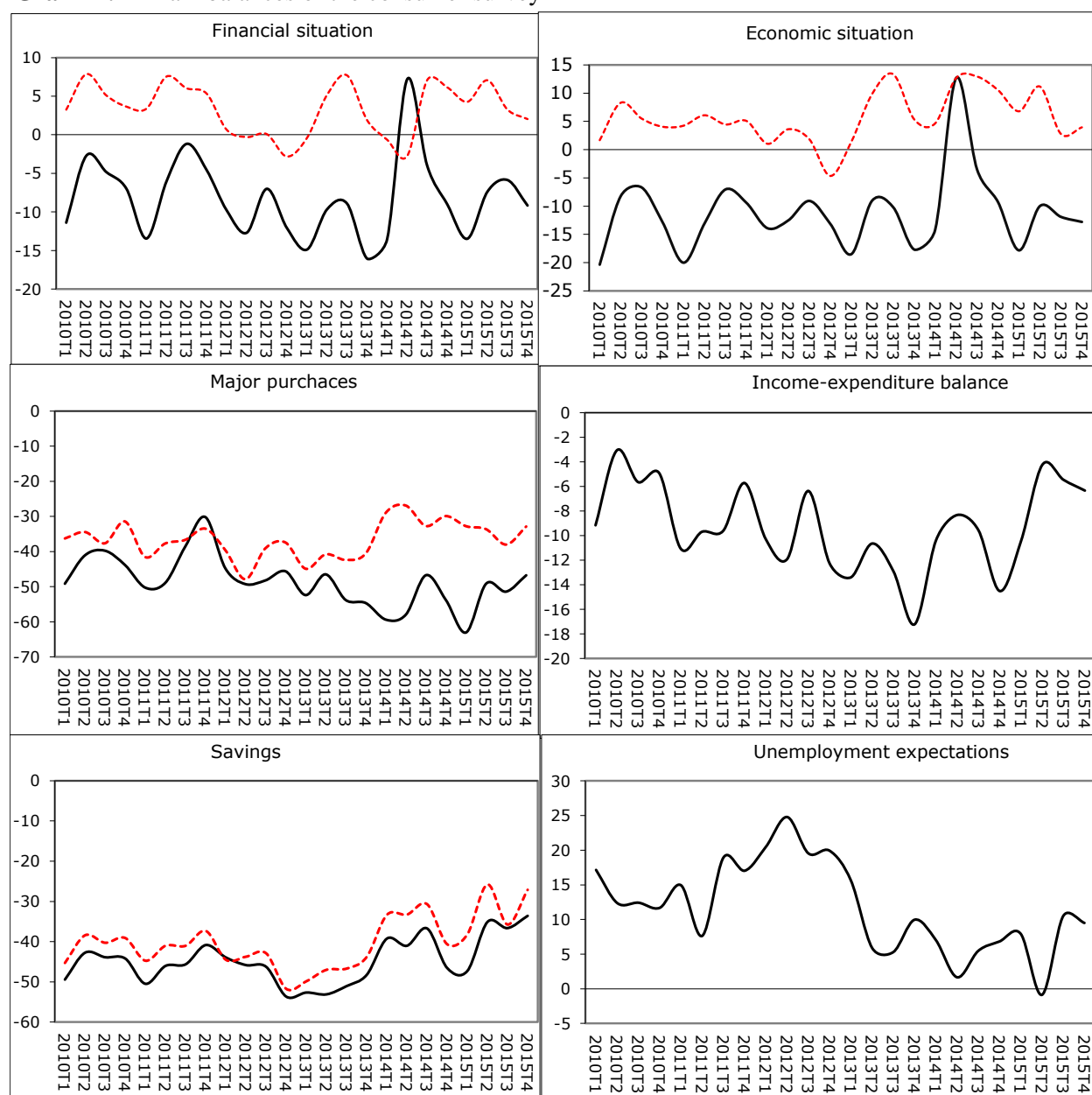
Table 2. Main balances of the sectors of the economy (in percentage points)*

	2014				2015			
	Q1	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**
Demand								
Total	-8.6	-3.3	-0.6	-0.3	-6.4	-4.6	-3.7	2.0
Industry	-3.7	4.0	4.3	0.0	-7.4	5.9	1.7	10.2
Construction	-26.4	-21.8	-17.1	-8.3	-17.5	-25.6	-20.1	-10.4
Services	-2.3	1.9	4.1	4.9	4.9	5.9	0.6	1.4
Trade	-2.0	2.8	6.3	2.1	-5.5	-4.4	3.1	7.0
Overall business situation								
Total	-9.7	-3.1	-1.7	-0.9	-8.8	-4.5	-2.7	-0.3
Industry	-7.5	2.7	4.5	2.7	-11.9	2.7	1.0	5.7
Construction	-27.1	-21.0	-10.6	-5.6	-12.2	-19.3	-16.6	-3.9
Services	-2.2	0.7	2.2	1.3	-1.2	4.9	1.5	-6.3
Trade	-2.1	5.3	-3.0	-1.9	-9.9	-6.2	3.2	3.3
Production								
Total	-11.6	-4.5	-3.4	-1.2	-8.6	-7.3	-4.7	0.3
Industry	-0.7	7.9	7.4	3.8	-3.5	6.7	5.8	9.6
Construction	-22.5	-16.9	-14.2	-6.2	-13.7	-21.3	-15.1	-9.1
Consumers								
Financial situation	-13.5	7.2	-4.0	-9.0	-13.5	-7.4	-5.9	-9.3
One-year-ahead prices, in %	1.5	1.3	1.6	1.8	1.4	1.3	1.8	1.7
Major purchases	-59.4	-58.0	-46.7	-53.9	-63.1	-49.2	-51.4	-46.8
Savings	-39.3	-41.0	-36.7	-46.6	-47.3	-35.1	-36.6	-33.6

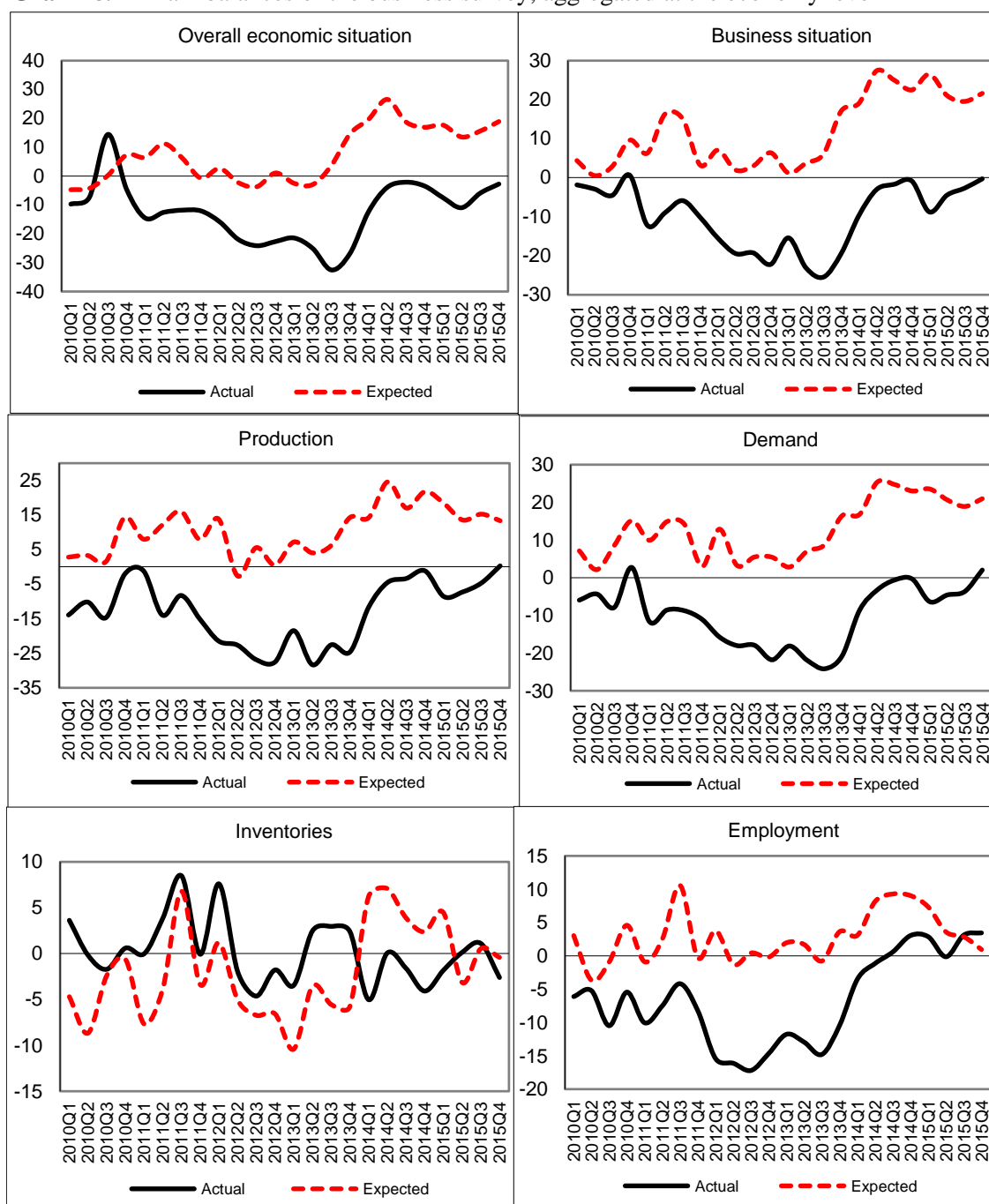Source: Business and Consumer Confidence Surveys, Bank of Albania.

) Excluding consumer, the balances are seasonally adjusted.

Grafik 7. Main balances of the consumer survey

Financial situation

Economic situation

Major purchaces

Income-expenditure balance

Savings

Unemployment expectations

Source: Consumer Confidence Survey, Bank of Albania.

Grafik 8.   Main balances of the business survey, aggregated at the economy level

Overall economic situation

Business situation

Production

Demand

Inventories

Employment

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, firms and consumers.