

Bank of Albania
Monetary Policy Department

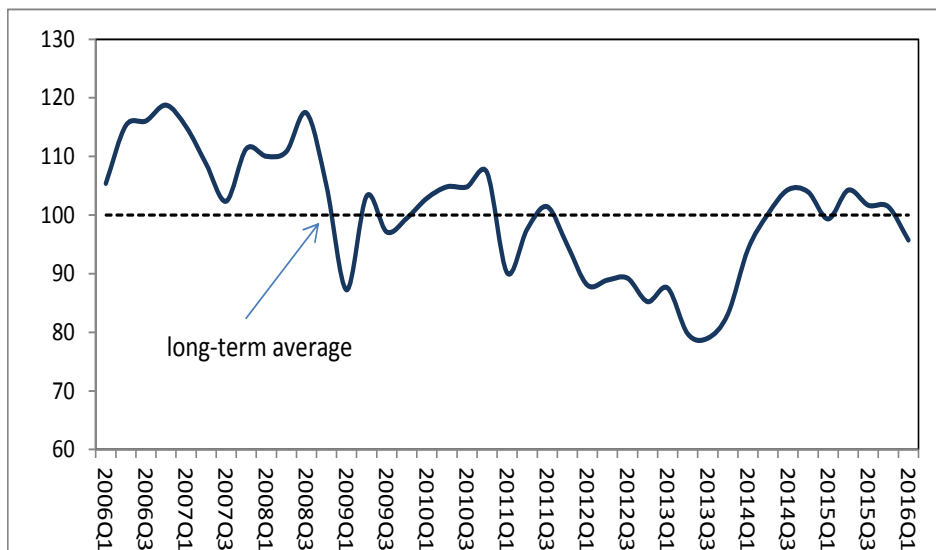


Business and Consumer Confidence Survey
2016 Q1

Economic Sentiment Indicator

The Economic Sentiment Indicator (ESI) fell by 5.7 percentage points in 2016 Q1, descending below the historic average level for the first time after three quarters. In this quarter, the performance of ESI was determined by the fall in confidence across all the sectors forming it, with confidence in construction recording the most pronounced fall.

Chart 1 Economic Sentiment Indicator



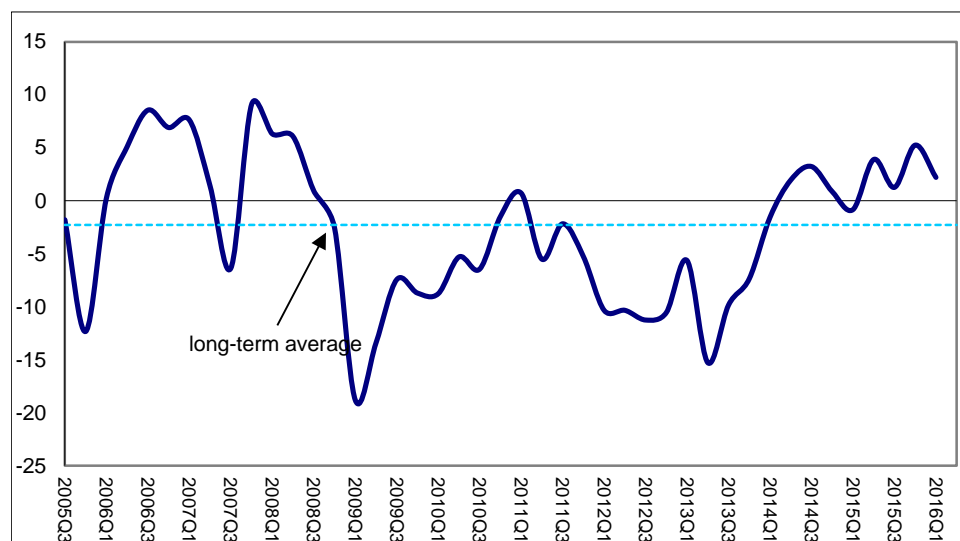
Source: Business and Consumer Confidence Surveys, Bank of Albania.

Industry

Industry Confidence Indicator (ICI) fell by 3 percentage points in 2016 Q1. Although the ICI has been fluctuating throughout the quarters, since the beginning of 2015, its level has remained above the historic average. Currently, the ICI stands 4.5 percentage points above the average level. In 2016 Q1, the fall in

the ICI was determined by the fall in three component balances: *production* fell by 8.1 percentage points, *financial situation* fell by 7.7 percentage points, and stock of *inventories*¹ rose by 6.6 percentage points.

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:

The balances of questions on how firms assess the *economic situation at home* and the *overall business situation* fell 9.7 and 5.8 percentage points, respectively. Firms’ expectations on the *overall business situation* in the second quarter have improved slightly (balance rose by 1.3 percentage points).

Demand registered the most pronounced drop in 2016 Q1, by 12.4 percentage points. Also, demand from *exports* is assessed to have reduced (balance fell 2.6 percentage points). For 2016 Q2, firms expect a slight recovery of *demand* (balance improved 0.3 percentage point). The balance of the question on *new investments* made during the past six months rose by 16.1 percentage points in this quarter. For the second consecutive quarter, firms have assessed *producer prices* as slightly upward.

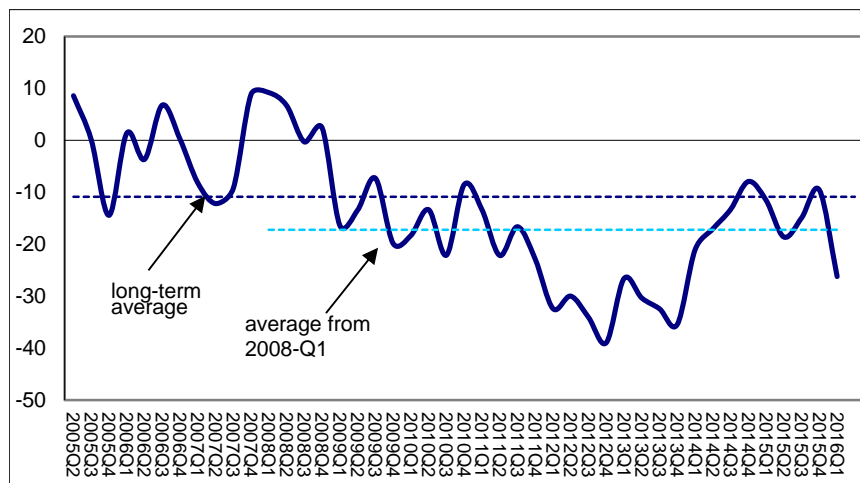
The *capacity utilisation rate* in industry stood at 69.0% in the 2016 Q1, or 2.9 lower than the historic average level. In 2016 Q1, firms operating in the industry sector have used their capacities less than in 2015 Q4 (by 4.6 percentage points) and somewhat more than in 2015 Q1 (by 1.2 percentage points).

Construction

After increasing for two quarters, the Construction Confidence Indicator (CCI) fell by 16.7 percentage points during 2016 Q1. It currently stands below the historic average level by 15.4 percentage points and below the average for the period 2008 - 2015 by 9.0 percentage points. The drop in the CCI was dictated by the performance of three balances forming it: *demand*, *production* and *employment* situation, which fell by 20.0, 15.5 and 14.4 percentage points, respectively.

¹ The accumulation in inventories is interpreted as a negative development for the firms and the respective balance is multiplied by -1 when calculating the ICI.

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:

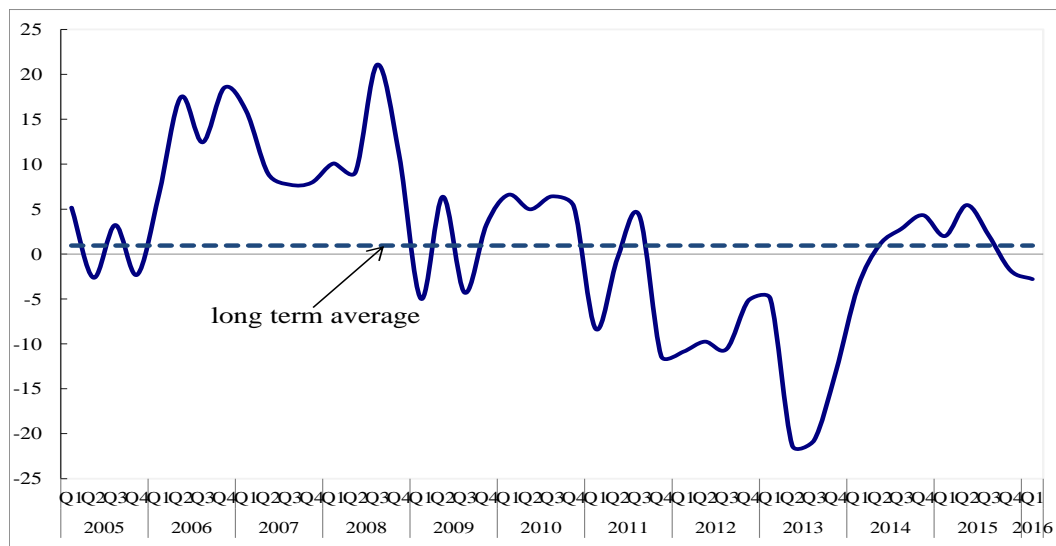
During 2016 Q1, all business aspects in the construction sector are assessed as downward. The balance of the *overall business situation* registered the most pronounced drop, by 23 percentage points. Expectations on the overall business situation in 2016 Q2 are also downward. The balance of the *financial situation* fell by 21.2 percentage points in 2016 Q1. In line with the fall in *demand*, the situation of the stock of *inventories* is assessed as upward in this quarter. Meanwhile, the balance of the question on new investments made in the past six months decreased by 13.8 percentage points; however, expectations for the next six months increased by 5.7 percentage points. Producer prices were reported as upward in the construction sector.

The *capacity utilisation rate* in the construction sector in the period under review continued to decline, ranging around 54.7%, or 9.5 lower than the historic average level.

Services

The Services Confidence Indicator (SCI) continued the downward trend in 2016 Q1, standing 1.0 percentage point lower than in the previous quarter. Although the fall resulted as somewhat more decelerated in the period under review, the SCI stands 3.7 below the historic average level. The SCI continued the downward trend driven by the fall in two balances forming it: *demand* (balance fell by 5.3 percentage points) and *overall business situation* (balance fell 1.7 percentage points). Conversely, the other balance forming the SCI, the *financial situation* improved (+4.1 percentage points); however, it was unable to halt the SCI's fall.

Chart 4 Services Confidence Indicator (in p.p.)



Source: Business Confidence Survey, Bank of Albania.

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

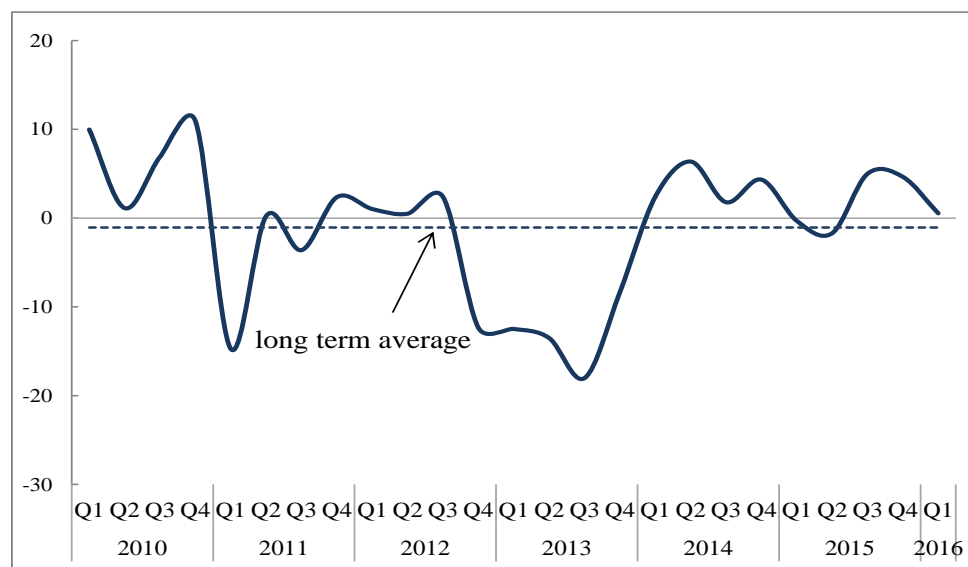
Firms' expectations for *demand* and *overall business situation* in 2016 Q2 improved. Respective balances rose by 4.3 and 2.7 percentage points. The balance of questions on the *estimated and expected performance of the economy at home* fell by 2.4 and 4.9 percentage points respectively. Meanwhile, businesses assessed *services prices* as upward in 2016 Q1.

The capacity utilisation rate by the firms operating in the services sector ranged around 68.0% in 2016 Q1, dropping markedly, 7.2 percentage points, from the previous quarter. This is the lowest capacity utilisation rate registered in this sector since 2007, standing 8.1 percentage points below the historic average level.

Trade

Trade Confidence Indicator (TCI), although falling 4.1 percentage points in 2016 Q1, continued to fluctuate above the long-term historic average. The three balances forming it contributed to the fall in the TCI in the quarter under review. The balances of *financial situation* and *overall business situation* fell more markedly, 5.8 percentage points and 5.7 percentage points, respectively. Meanwhile, the balance of *employment* fell slightly, around 0.7 percentage point.

Chart 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.

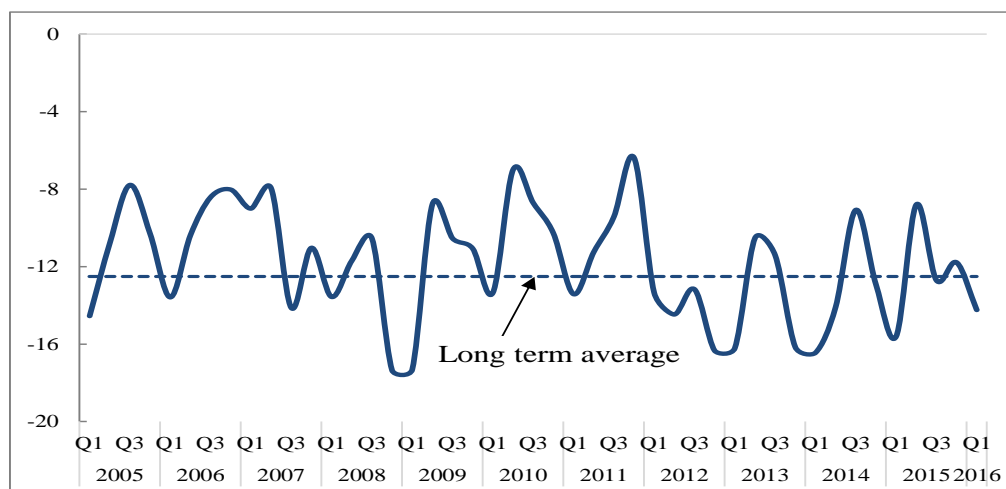
Assessments and expectations of firms in the survey resulted as deteriorated for all the aspects related to their activity. Thus, the balance of *assessed* and *expected* demand by firms fell by 7.3 percentage points and 3.0 percentage points, respectively. Also, the balances fell for the question on *actual performance of the economy at home* (by 3.1 percentage points), and *expected performance* (by 1.6 percentage points). Firms continue to assess as downward the performance of prices (balance fell 1.0 percentage point) in 2016 Q1. However, they expect them to rise in 2016 Q2 (balance increased 1.1 percentage points).

The *capacity utilisation rate in trade* fell 5.7 percentage points, ranging around 73.5% in 2016 Q1. The firms' capacity utilisation rate was 5.2 percentage points lower than the historic average level and 2.3 lower than the rate in the same period in the previous year.

Consumer confidence

The Consumer Confidence Indicator (CCI) fell 2.5 percentage points in 2016 Q1, after a slight improvement in 2015 Q4. Developments in CCI components continued to be reflected in a volatile dynamics of the indicator, shifting it again below the long-term average. The CCI reflected the deterioration in three of the balances forming it: - *major purchases*, *expected financial situation of households* and *income/spending situation*. The lower CCI level is dictated mainly by the drop in the balance of *major purchases* by 7.6 percentage points, and to a lesser extent by the lower balances of *expected financial situation of households* (-1.9 percentage points) and of the *income/spending situation* (-1.8 percentage points). Meanwhile, the other balance forming CCI, *overall economic situation at home over the next quarter* rose by 1.5 percentage points, again making small contribution to the upward CCI.

Chart 6 Consumer Confidence Indicator (in p.p.)



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 *financial situation of households* as deteriorated during 2016 Q1 from the previous quarter. In the meantime, they perceive as slightly improved the *overall economic situation at home for the quarter under review*, reflected in the improvement of the balance by 0.9 percentage point. Also, consumers say that the *unemployment rate* is expected to fall over the next six months.

Consumers perceive lower *average cost of living* in the first quarter. In addition, the balance of *expected consumer prices* over the next three months and over the next 12 months, recorded a significant decline. Consumers expect the *one-year-ahead inflation* to range around 1.33%, which is 0.35 percentage point lower than in the previous quarter.

Table 1 Confidence indicators by sector *

	Values since 2002 Q2			2015				2016	Current situation	
	min.	av.	max.	Q1	Q2	Q3	Q4	Q1	Conjectural**	Structural***
Industry	-18.8	-2.3	9.1	-0.8	3.9	1.3	5.2	2.2	↓	+
Construction	-39	-10.9	9.2	-11.5	-18.6	-14.9	-9.6	-26.2	↓	--
Services	-21.3	1	21.1	2.2	5.5	2.1	-1.8	-2.8	↓	-
Trade	-18.0	-1	11.5	-0.3	-1.7	5.0	4.6	0.5	↓	+
Consumer	-20.5	-12.5	-6.4	-15.6	-8.8	-12.7	-11.8	-14.2	↓	-

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.

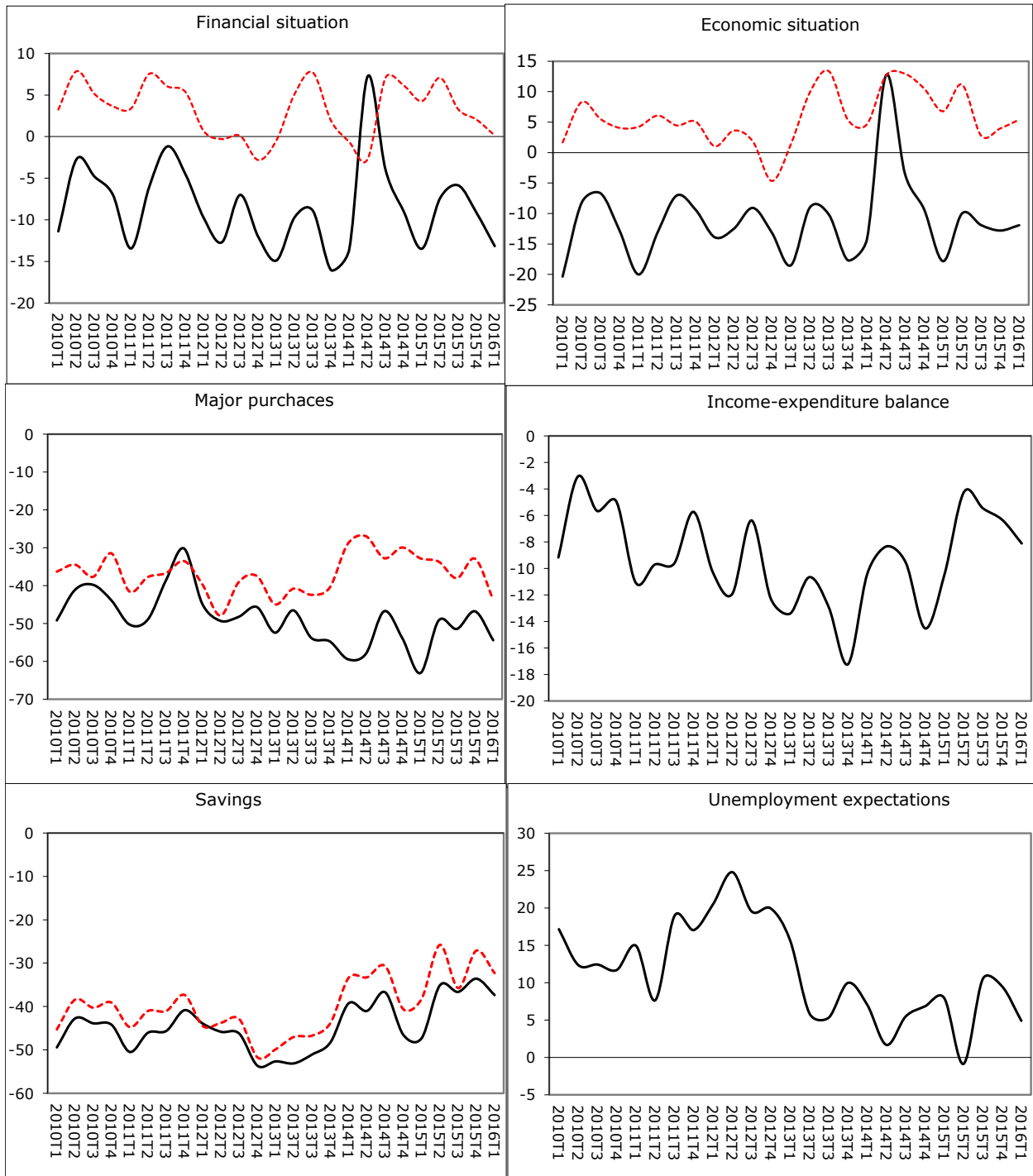
Table 2. Main balances of the sectors of the economy (in percentage points)*

	2014			2015				2016
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Demand								
Total	-3.2	-0.5	-1.3	-5.4	-4.6	-3.6	0.9	-10.4
Industry	3.8	4.2	-2.0	-4.9	5.6	1.5	7.9	-4.5
Construction	-21.5	-16.8	-9.4	-17.0	-25.3	-19.7	-11.5	-31.6
Services	1.9	4.2	4.7	4.9	6.0	0.8	1.2	-4.1
Trade	2.8	6.3	1.3	-4.7	-4.5	3.1	5.9	-1.4
Overall business situation								
Total	-2.9	-2.0	-1.4	-8.0	-4.4	-3.1	-0.8	-9.9
Industry	2.2	4.1	1.5	-9.6	2.0	0.5	4.3	-1.5
Construction	-20.8	-11.2	-5.2	-12.0	-19.1	-17.2	-3.5	-26.5
Services	0.7	2.1	1.4	-1.3	4.9	1.4	-6.1	-7.7
Trade	6.0	-3.0	-3.2	-9.2	-5.6	3.1	2.0	-3.7
Production								
Total	-4.5	-3.2	-2.6	-7.1	-7.4	-4.6	-1.3	-13.1
Industry	7.5	7.2	2.7	-1.6	6.2	5.4	8.4	0.3
Construction	-16.6	-13.7	-7.9	-12.7	-21.0	-14.6	-11.0	-26.5
Consumers								
Financial situation	7.2	-4.0	-9.0	-13.5	-7.4	-5.9	-9.3	-13.2
One-year-ahead prices, in %	1.3	1.6	1.8	1.4	1.3	1.8	1.7	1.3
Major purchases	-58.0	-46.7	-53.9	-63.1	-49.2	-51.4	-46.8	-54.4
Savings	-41.0	-36.7	-46.6	-47.3	-35.1	-36.6	-33.6	-37.4

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

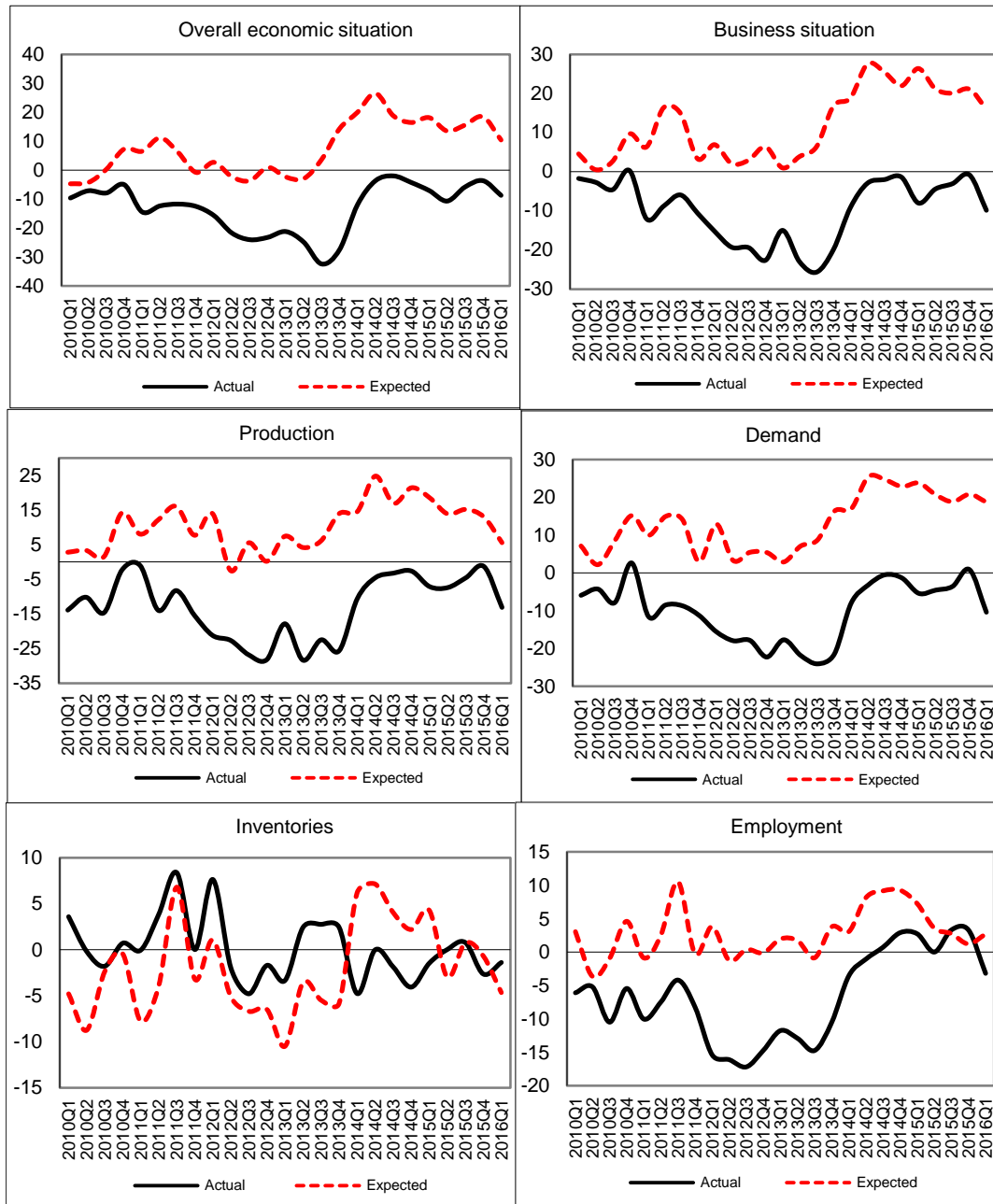
*) Excluding consumer, the balances are seasonally adjusted.

Chart 7 Main balances of the consumer survey



Source: Consumer Confidence Survey, Bank of Albania.

Chart 8 Main balances of the business survey, aggregated at economy 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, firms and consumers.