July 2016

Bank of Albania
Monetary Policy Department

European Commission[1]

Business and Consumer Confidence Survey[2]
2016 Q2

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Economic Sentiment Indicator (ESI) improved by 6.2 points in 2016 Q2, after the fall by 5.3 points in 2016 Q1[3]. ESI currently stands at almost the long-term average 100. The improvement of ESI was determined by the increase of confidence in the services and construction sectors, and the slight increase of consumer confidence. Conversely, the weakening confidence in the trade sector and industry provided negative contribution to ESI's improvement.

Chart 1 Economic Sentiment Indicator (ESI)
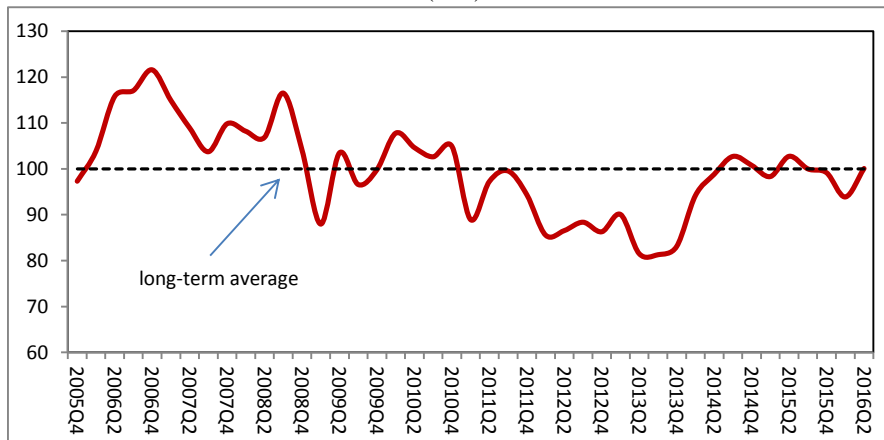
Source: Business and Consumer Confidence Surveys, Bank of Albania.

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[1] From May 2016, Bank of Albania conducts the Harmonised Confidence Surveys, under the Joint Harmonised EU Programme Business and Consumer Surveys for EU member and candidate countries. The European Union jointly finances this program.
[2] The methodological changes arising from the participation in this programme are explained in "Methodological comment - Transition to the Harmonised Confidence Surveys Program":
https://www.bankofalbania.org/web/Methodological_comment_ndash_transition_to_the_Harmonized_Confidence_Survey_Programme_7565_2.php
[3] Construction of ESI and other confidence indicators according to the new methodology did not bring any change to the dynamics of series, and is based on the unweighted results from surveys. The Methodological comment provides more detailed explanations.

Industry Confidence Indicator (ICI) continued to fall in 2016 Q2, by around 0.8 percentage points, compared to the previous quarter. However, its level remains above the historic average by 2.9 percentage points *(See Chart 2)*. Dynamic of ICI is attributable to the fall in two component balances: *production* fell by 0.8 percentage point and *orders by* 6.7 percentage points. Meanwhile, the other compounding balance, *stock of inventories*[4]*,* fell by 5.2 percentage points, providing contribution in the improvement of ICI.

The **Construction Confidence Indicator** (CCI) improved by 4.2 percentage points in 2016 Q2. Notwithstanding the higher level, CCI currently stands 7.4 percentage points below the historic average level and slightly below the average for the period 2008 – 2016 Q1, by around 1.3 percentage points (*See Chart 3*). The improved confidence in this sector reflected the increase in the balance of *construction activity* by 9.3 percentage points. In contrary, the other CCI compounding balance, *order books*, slightly fell by 0.9 percentage points.

The **Services Confidence Indicator** (SCI) reflected strong positive dynamics in 2016 Q2, up by 10.2 percentage points, compared to the previous quarter. The SCI stands around 5.3 percentage points above the historic average level (*see Chart 4)*. The more improved confidence in services reflected the highest balances of its compounding balances: assessment of business situation (the balance increased by 12.3 percentage points) and the *demand* (the balance increased balance by 8.1 percentage points).

Trade Confidence Indicator (TCI) fell by 5.5 percentage points. TCI stands 6.7 percentage points below the historic average *(see Chart 5)*. The considerable fall in the balance of *business situation* by 12.9 percentage points, while the other compounding balance of confidence – *employment expectations for the next quarter* – slightly improved by 1.9 percentage points.

The Consumer Confidence Indicator (CCI) slightly improved in 2016 Q2, by 0.3 percentage point, but it continued to remain 1.4 percentage points below its historic average *(see Chart 6)*. The compounding balances – *income and spending situation* and *expected financial situation of households* increased by 5.0 and 4.0 percentage points, respectively. In contrary, the balances of *major purchases* and the expectations for the general economic situation contributed to the fall of CCI. Their balances fell 6.5 and 1.2 percentage points, respectively.

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[4] 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.
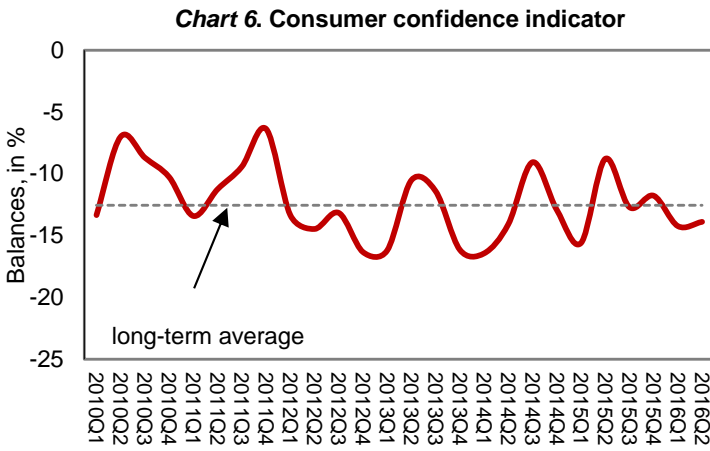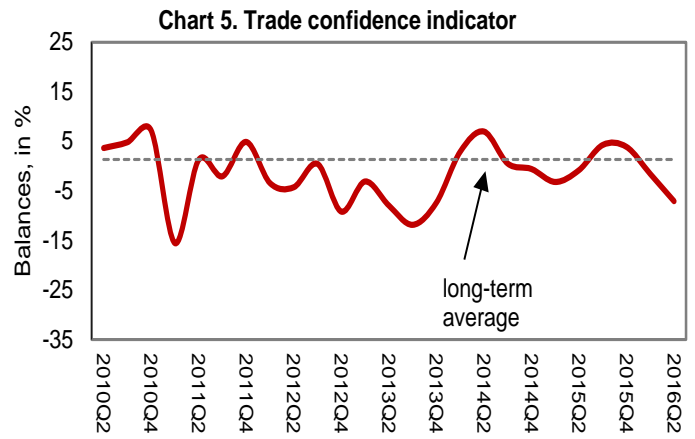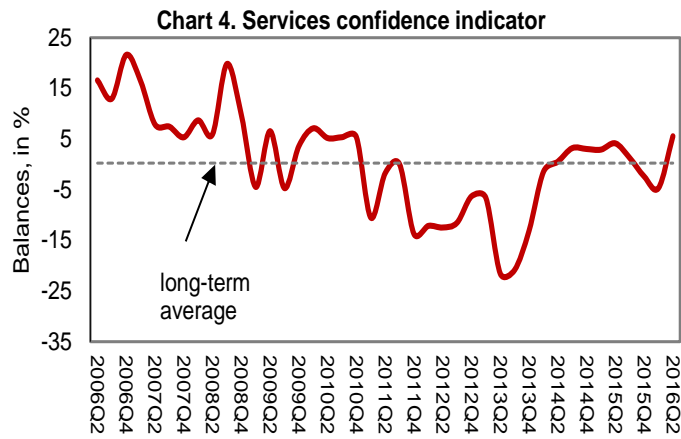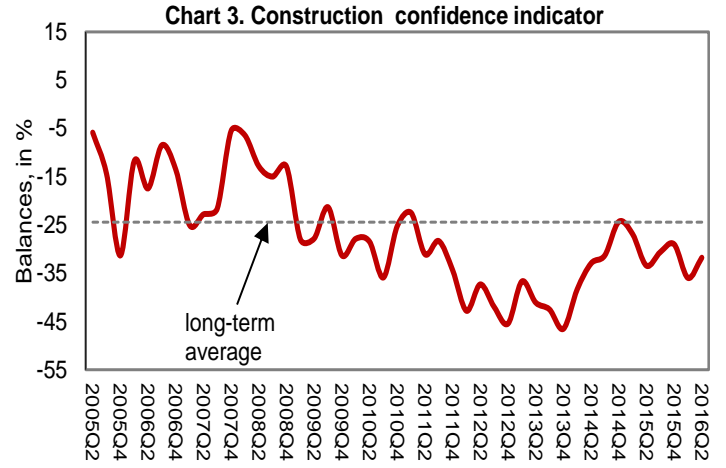
Chart 2. Industry confidence indicator

Balances, in %

long-term average

2006Q2 2006Q4 2007Q2 2007Q4 2008Q2 2008Q4 2009Q2 2009Q4 2010Q2 2010Q4 2011Q2 2011Q4 2012Q2 2012Q4 2013Q2 2013Q4 2014Q2 2014Q4 2015Q2 2015Q4 2016Q2

Chart 3. Construction confidence indicator

Balances, in %

long-term average

2005Q2 2005Q4 2006Q2 2006Q4 2007Q2 2007Q4 2008Q2 2008Q4 2009Q2 2009Q4 2010Q2 2010Q4 2011Q2 2011Q4 2012Q2 2012Q4 2013Q2 2013Q4 2014Q2 2014Q4 2015Q2 2015Q4 2016Q2

Chart 4. Services confidence indicator

Balances, in %

long-term average

2006Q2 2006Q4 2007Q2 2007Q4 2008Q2 2008Q4 2009Q2 2009Q4 2010Q2 2010Q4 2011Q2 2011Q4 2012Q2 2012Q4 2013Q2 2013Q4 2014Q2 2014Q4 2015Q2 2015Q4 2016Q2

Chart 5. Trade confidence indicator

Balances, in %

long-term average

2010Q2 2010Q4 2011Q2 2011Q4 2012Q2 2012Q4 2013Q2 2013Q4 2014Q2 2014Q4 2015Q2 2016Q2

Chart 6. Consumer confidence indicator

Balances, in %

long-term average

2010Q1 2010Q2 2010Q3 2010Q4 2011Q1 2011Q2 2011Q3 2011Q4 2012Q1 2012Q2 2012Q3 2012Q4 2013Q1 2013Q2 2013Q3 2013Q4 2014Q1 2014Q2 2014Q3 2014Q4 2015Q1 2015Q2 2015Q3 2015Q4 2016Q1 2016Q2

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Table 1 Confidence indicators by sector[*]

	Values			2015			2016		Current situation	
	min.	av.	max.	Q2	Q3	Q4	Q1	Q2	Conjectural**	Structural***
Industry	-26.6	-8.7	4.9	-5.0	-6.2	-3.4	-5.1	-5.8	↓	+
Construction	-46.5	-24.4	-5.5	-33.4	-30.6	-29.0	-35.9	-31.8	↑	-
Services	-21.6	0.3	21.6	4.1	1.3	-2.4	-4.7	5.5	↑	+
Trade	-15.5	-0.4	20.8	-0.8	4.3	3.9	-1.6	-7.1	↓	-
Consumer	-20.5	-12.5	-6.4	-8.8	-12.7	-11.8	-14.2	-13.9	↑	-

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

*) Excluding the consumer confidence indicator, the other indicators are calculated based on seasonally-adjusted balances. The minimum, average and maximum balances are calculated from 2002 Q2 for the confidence indicators in industry and construction. For the confidence indicators in services since 2002 Q4. For the confidence indicators in trade since 2010 Q1, and the consumer confidence indicators since 2003 Q2.

**) Situation compared to the past 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	
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Industry								
Production over the past three months *(question 1, ICI component)*	7.3	2.6	-1.2	5.6	5.7	8.4	0.6	-0.2
Order books *(question 2, ICI component)*	-22.3	-21.2	-18.8	-16.6	-18.0	-13.8	-17.9	-24.6
Stock of finished products *(question 4, ICI component)*	0.0	0.2	1.8	4.0	6.2	4.7	-2.1	-7.3
Export order books *(question 3)*	7.7	8.8	1.1	4.8	7.9	7.1	3.8	-23.2
Production, expectation *(question 5)*	25.9	26.3	27.7	20.2	24.8	18.1	19.6	33.4
Selling prices, expectation *(question 6)*	0.5	1.6	2.0	0.3	-1.5	1.5	2.1	5.7
Employment, expectation *(question 7)*	8.1	6.0	9.5	6.5	8.0	8.5	6.4	14.6
Construction								
Construction activity over the past three months *(question 1, CCI component)*	-14.2	-7.2	-13.1	-20.7	-15.1	-10.2	-26.9	-17.6
Order books *(question 3, CCI component)*	-48.3	-41.5	-40.6	-46.1	-46.2	-47.8	-45.0	-45.9
Employment expectation *(question 4)*	4.2	8.5	2.5	-0.1	0.6	-1.9	-2.9	2.1
Prices, expectation *(question 5)*	-3.5	1.5	0.9	0.4	-3.8	-3.4	-0.9	-8.8
Services								
Assessment of business situation over the past three months *(question 1, SCI component)*	2.1	1.5	0.1	3.3	1.5	-5.9	-6.2	6.2
Demand over the past three months *(question 2, SCI component)*	4.3	4.6	5.7	5.0	1.0	1.1	-3.2	4.9
Demand, expectation *(question 3)*	35.5	27.4	27.5	27.7	23.2	19.2	23.4	27.2
Employment evolution over the past three months *(question 4)*	6.5	9.4	7.4	3.5	10.9	0.6	4.9	4.4

Employment, expectation *(question 5)*	11.9	10.6	9.4	3.9	2.2	0.4	4.9	10.3
Prices, expectation *(question 6)*	6.1	7.4	7.5	1.0	-0.5	1.5	5.7	-0.7
Trade								
Business situation over the past three month *(question 1, TCI component)*	-2.9	-3.4	-9.8	-4.9	3.1	2.0	-4.3	-17.2
Employment, expectation *(question 5, TCI component)*	3.9	2.2	3.4	3.3	5.5	5.8	1.1	3.0
Inventory of products *(question 2)*	6.9	5.4	-6.0	9.4	8.3	1.6	1.8	-6.5
Business situation, expectation *(question 4)*	23.7	17.9	24.1	19.6	21.7	30.3	23.7	26.5
Prices, expectation *(question 6)*	-0.6	10.8	7.5	8.0	3.4	0.0	1.1	-5.5
Consumer								
Financial situation of households, expectation *(question 2, CCI component)*	7.1	6.1	4.3	7.1	3.3	2.0	0.1	4.2
General economic situation, expectation *(question 4, CCI component)*	12.9	10.5	6.8	11.2	2.8	3.9	5.4	4.2
Current major purchases *(question 8, CCI component)*	-46.7	-53.8	-63.1	-49.2	-51.4	-46.8	-54.4	-60.9
Situation of income and expenses *(question 12, CCI component)*	-9.6	-14.5	-10.4	-4.2	-5.5	-6.3	-8.1	-3.1
Current financial situation *(question 1)*	-4.0	-9.0	-13.5	-7.4	-5.9	-9.2	-13.2	-9.8
Current economic situation *(question 3)*	-3.5	-9.3	-17.8	-10.0	-11.9	-12.8	-11.9	-12.7
Prices, expectation *(question 6)*	-1.1	7.4	-4.7	-15.7	4.7	7.0	-10.5	-20.5
Unemployment over the next 12 months *(question 7)*	5.5	6.8	7.9	-0.9	10.5	9.5	4.9	-3.6
Major purchases, expectations *(question 9)*	-32.7	-29.9	-32.8	-33.6	-38.0	-32.9	-43.7	-48.5
Current savings *(question 10)*	-36.7	-46.6	-47.3	-35.1	-36.6	-33.6	-37.4	-44.1
Savings, expectation *(question 11)*	-30.7	-40.7	-38.2	-25.8	-35.7	-27.1	-32.3	-36.2

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

*) Excluding the consumer sector, the questions on prices in all sectors and the question for inventories in the trade sectors, balances are seasonally adjusted.

Chart 7 Main balances of the consumer survey
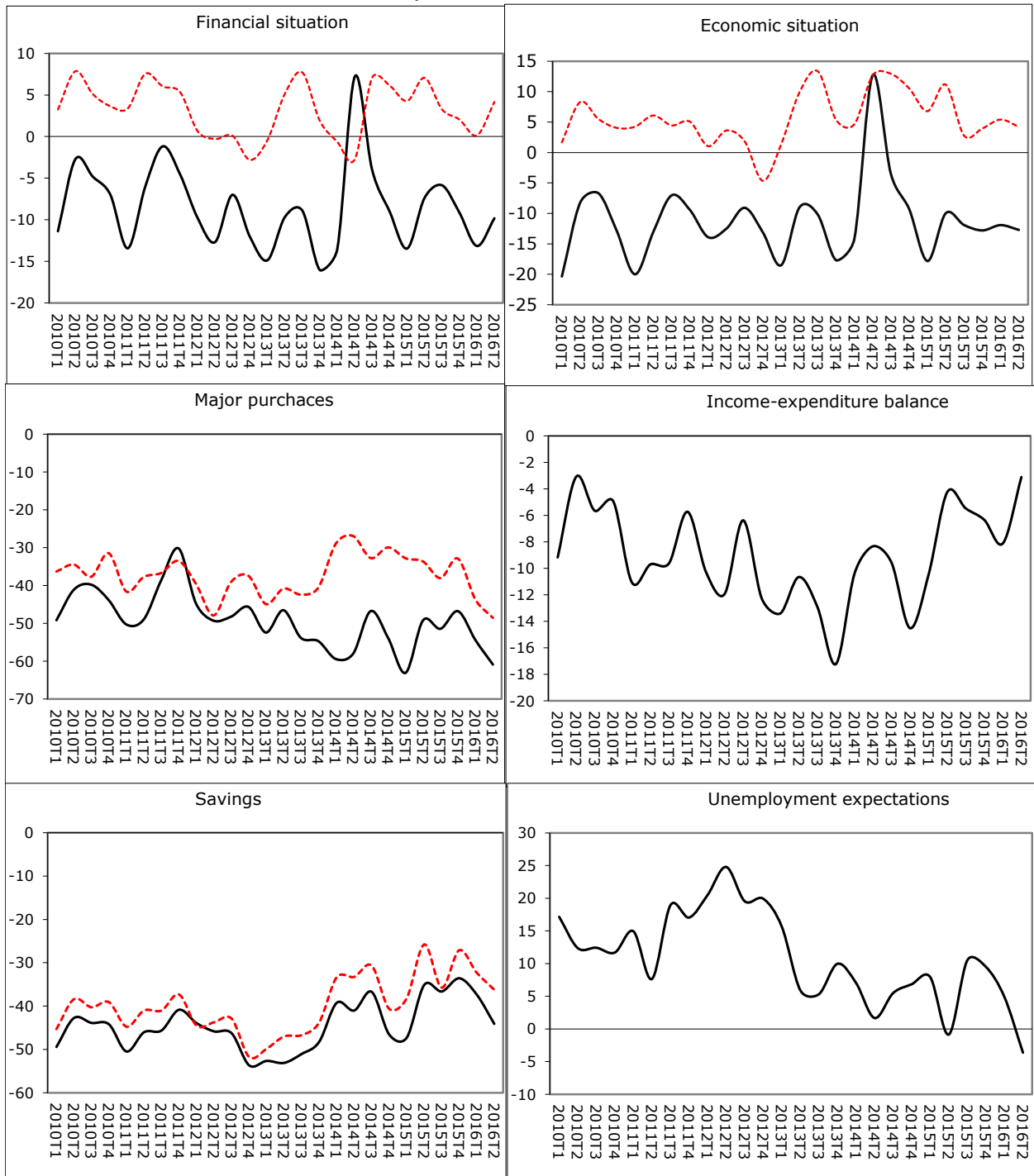
Source: Consumer Confidence Survey, Bank of Albania.

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.