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Bank of Albania
Monetary Policy Department

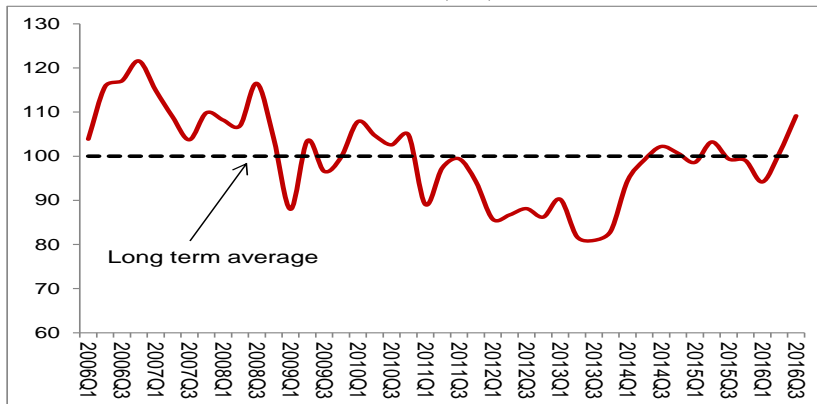


European Commission¹

Business and Consumer Confidence Survey 2016 Q3

Economic Sentiment Indicator (ESI) continued to improve its trend, rising with 8.5 points during 2016 Q3. Current level of ESI stands at 109.2; 9.2 points above long-term average. (Chart 1) The upward trend of ESI reflected the improvement of Business Confidence in all the sectors of the economy, whilst consumer confidence slightly declined during the quarter under review.

Chart 1. Economic Sentiment Indicator (ESI)



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

Industry Confidence Indicator (ICI) increased in 2016 Q3, by 8.6 percentage points. This indicator remains above the historic average by 12.2 percentage points. (chart 2). Dynamic of ICI is attributable to the improvement in two component balances: ² *order books* (increased by 13.8 percentage points) and *production* (by 12.4 percentage points). Meanwhile, *stock of inventories balance*³ increased by 0.5 percentage points and slightly contributed in curbing ICI's growth.

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 Order books' indicator signals the demand in relevant activities.

³ Increase of inventories is interpreted as a negative development for the business. When calculating ICI, the respective balance is multiplied by -1.

The balances not included in ICI calculation such as: *export order, financial situation, and production expectation for the up coming quarter*, improved in 2016 Q3. Also, *capacity utilization rate* in industry is assessed about 77.0%, 2.4 percentage points higher compared to the past quarter and 4.8 percentage points above its historic level.

The **Construction Confidence Indicator** (CCI) continued to grow in Q3. The level CCI was 11.2 percentage points higher compared to the past quarter, standing above its historic level (+4.8 percentage points) for the first time since 2011 Q1. (chart 3). The improved confidence in this sector is attributable to the improvement of the two compound balances: *construction activity performance* which significantly improved by 15.7 percentage points; and, *order books* which increased by 5.7 percentage points.

Other balances related to the *financial situation, employment and the expectations for the upcoming quarter*, improved as well. Businesses report having utilized their production capacity by 69.3%, 1.8 percentage points higher compared to the past quarter and about 4.8 percentage points higher than the historic average.

The **Services Confidence Indicator** (SCI) continued its upward trend in 2016 Q3. The SCI increased by 3.7 percentage points compared to the past quarter, standing 9.1 percentage points above its historic level. (see Chart 4) Improvement of the confidence in services is mainly attributable to the increase of the balance of: *demand*, by 5.6 percentage points, and *business performance*, up by 1.9 percentage points.

Other balances such as- financial situation, demand and employment performance' expectation for the up coming quarter- recorded positive dynamics in Q3. Also, the capacity utilization rate rose by 0.8 percentage points compared to the past quarter, standing at 78.6%. This rate is about 2.1 percentage points higher than its historic average.

Trade Confidence Indicator (TCI) rose by 14.2 percentage points in Q3, after the downward trend performance in H1. This strong positive dynamics, shifted the indicator above the historic average by 8.5 percentage points (chart 5). TCI's level reflected mainly the high growth of the *business performance* balance with 23.0 percentage points. Also, the other compound balance of TCI- *employment expectations for the up-coming quarter*- which continued to increase by 5.5 percentage points, contributed to the improvement.

The balances of the *financial situation and employment* as well as *expectations for business performance* for the next quarter also improved. Meanwhile, *the capacity utilisation rate* in trade stood at 74.6%, slightly increasing by 0.7 percentage points against the past quarter. However, this rate remains 3.6 percentage points below its historic level.

The **Consumer Confidence Indicator** (CCI) declined by 0.5 percentage points in 2016 Q3, after a slight improvement one quarter earlier. CCI performance remains volatile and the indicator stand by 1.8 percentage points below its historic average (chart 6). Balances which contributed to the downward side for CCI's value, are related to the questions on income and spending situation (balance fell by 2.8 percentage points) and question on major purchases (the balance fell by 1.3 percentage points). Meanwhile, the two other compound balances of CCI, general economic situation expected in the country

and the family expectations on financial situation slightly increased by 1.3 and 0.9 percentage points, respectively.

Other balances from the consumer confidence survey such as *major purchase in the future* and *current and expected saving situation* declined compared with the past quarter.

Chart 2. Industry confidence indicator

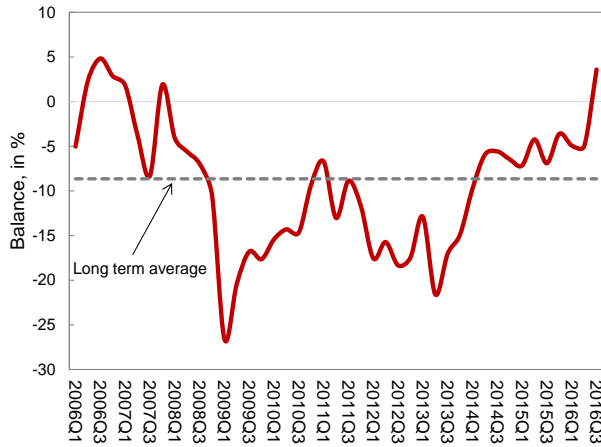


Chart 3. Construction confidence indicator

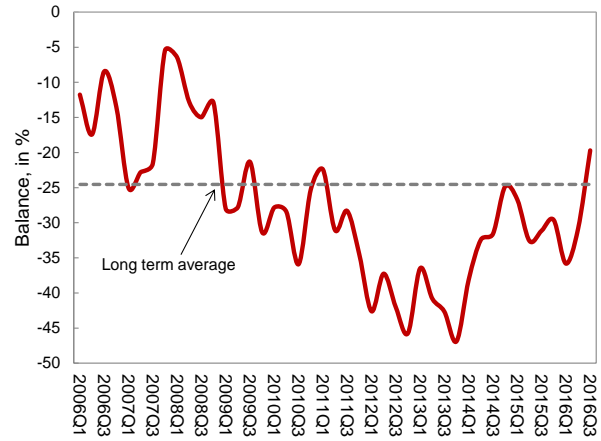


Chart 4. Services confidence indicator

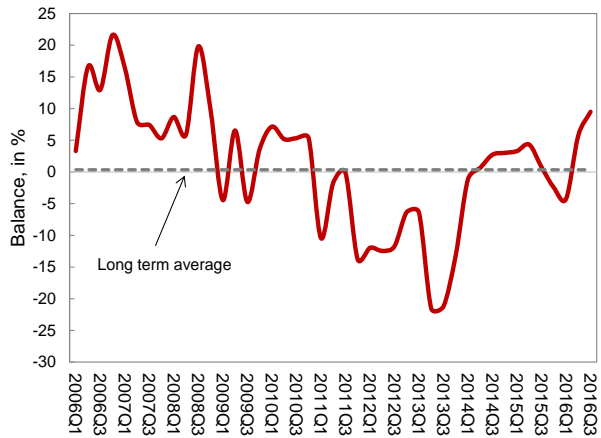


Chart 5. Trade confidence indicator

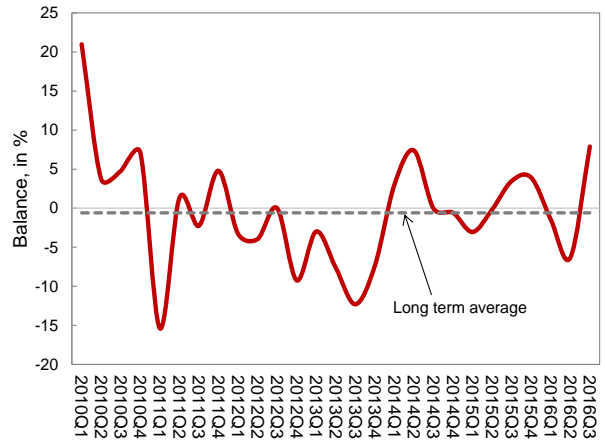


Chart 6. Consumer confidence indicator

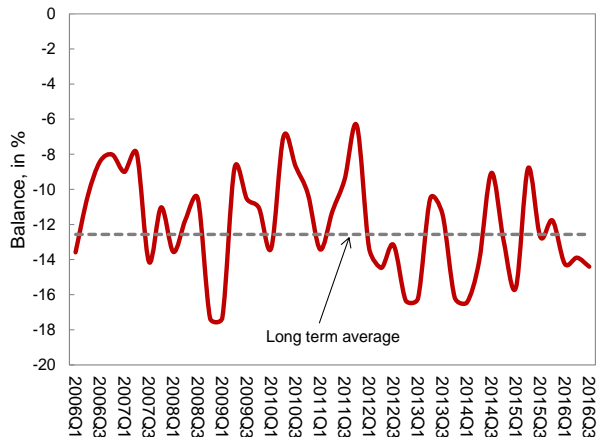


Table 1. Confidence indicators by sector*

	Values			2015			2016			Current situation	
	min.	av.	max	Q2	Q3	Q4	Q1	Q2	Q4	Conjectural**	Structural***
Industry	-26.6	-8.6	4.8	-4.2	-6.9	-3.6	-4.9	-5.0	3.6	↑	++
Construction	-46.9	-24.5	-5.5	-32.6	-31.1	-29.6	-35.8	-30.9	-19.7	↑	+
Services	-21.5	0.4	21.6	4.3	0.8	-2.4	-4.3	5.7	9.5	↑	+
Trade	-15.4	-0.6	21.0	-0.2	3.5	3.9	-1.4	-6.3	7.9	↑	++
Consumer	-20.5	-12.6	-6.4	-8.8	-12.7	-11.8	-14.2	-13.9	-14.4	↓	-

Source: Consumer Confidence Survey, 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)*

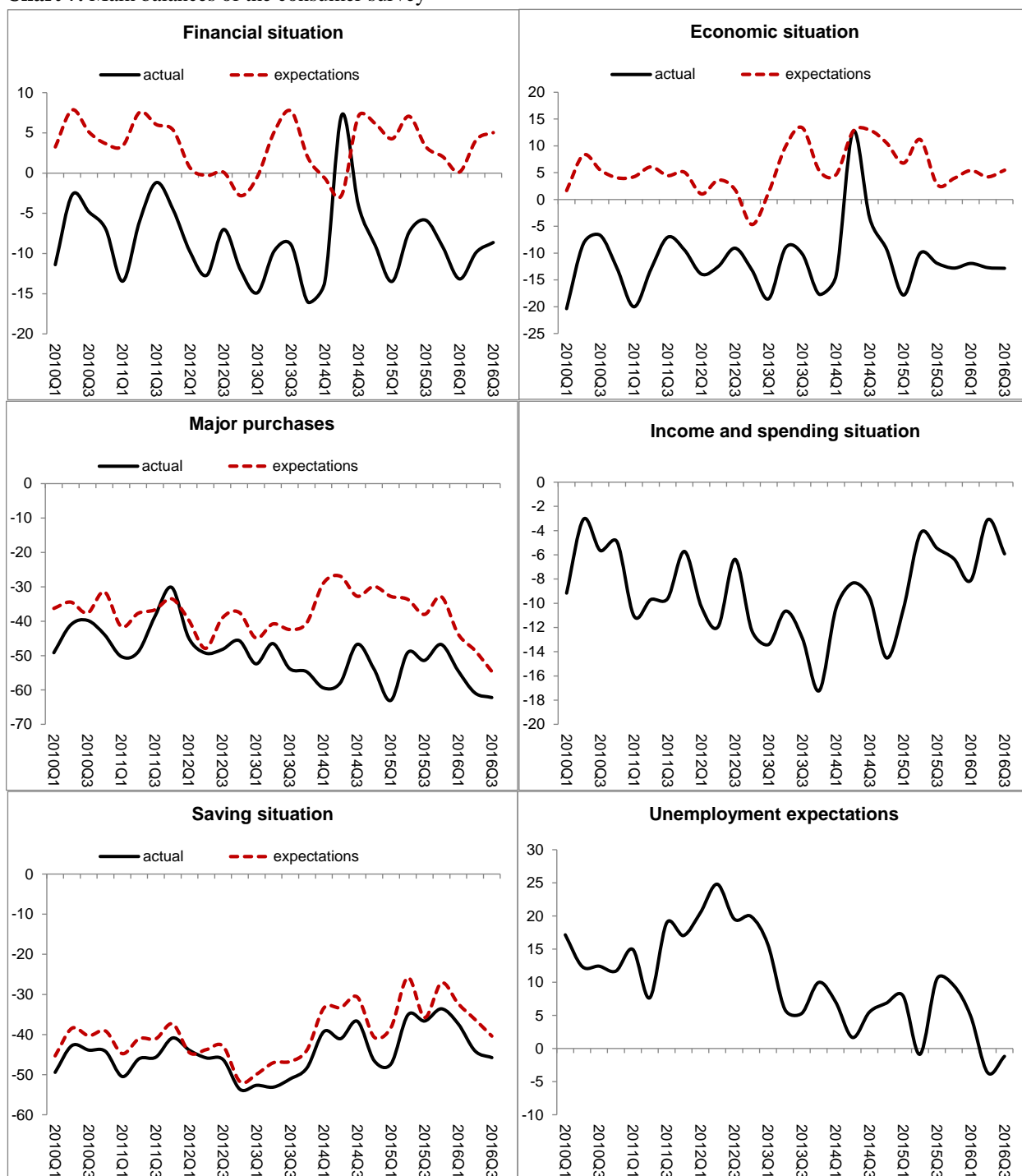
	2014		2015				2016		
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Industry									
Production over the past three months (question 1, ICI component)	5.7	2.2	-0.9	7.7	3.6	8.0	1.0	2.0	14.4
Order books (question 2, ICI component)	-22.7	-21.3	-18.7	-15.9	-18.6	-14.1	-17.8	-23.7	-9.9
Stock of finished products (question 4, ICI component)	-0.3	0.2	1.8	4.5	5.7	4.7	-2.0	-6.7	-6.3
Export order books (question 3)	7.5	8.7	1.6	4.7	7.6	6.9	4.5	-23.4	-5.1
Production, expectation (question 5)	25.6	26.3	28.0	20.2	24.2	18.2	20.1	33.6	37.7
Selling prices, expectation (question 6)	0.5	1.6	2.0	0.3	-1.5	1.5	2.1	5.7	2.3
Employment, expectation (question 7)	8.1	6.2	9.2	6.6	8.0	8.6	6.1	14.8	13.5
Financial situation (question 8)	1.8	-0.1	1.2	10.4	3.6	11.9	4.6	4.6	7.4
Capacity utilization rate (in %, question 10)	74.3	73.2	67.7	75.1	72.2	73.5	69.0	74.6	77.0
Construction									
Construction activity over the past three months (question 1, CCI component)	-14.8	-8.2	-12.6	-19.3	-16.1	-11.4	-26.3	-16.1	-0.4
Order books (question 3, CCI component)	-48.3	-41.5	-40.8	-45.8	-46.2	-47.9	-45.3	-45.7	-39.0
Employment, expectation (question 4)	4.2	8.5	2.5	-0.1	0.6	-1.9	-2.9	2.1	3.5
Prices, expectation (question 5)	-3.5	1.5	0.9	0.4	-3.8	-3.4	-0.9	-8.8	-3.2
Capacity Utilization rate (in %, question 6)	57.9	60.7	57.1	60.1	62.2	60.0	54.7	67.5	69.3
Employment over the past three months	-10.0	-5.7	-5.0	-9.7	-11.0	-5.4	-20.7	-5.0	0.7

(question7)									
Financial situation (question 8)	-19.4	-7.3	-7.1	-15.0	-13.8	-2.6	-24.5	-14.4	-3.2
Services									
Business performance over the past three month (question 1 SCI component)	1.5	1.5	0.7	3.3	0.9	-5.9	-5.5	6.2	8.1
Demand over the past three months (question 2, SCI component)	3.9	4.5	5.9	5.3	0.6	1.0	-3.0	5.3	10.9
Demand, expectations (question 3)	35.0	27.6	27.5	28.0	22.6	19.5	23.4	27.5	35.9
Employment evolution over the past three months (question 4)	6.9	9.3	7.4	3.2	11.3	0.5	4.8	4.1	2.3
Employment, expectation (question 5)	11.8	10.6	9.4	4.1	1.9	0.6	4.9	10.6	17.2
Prices, expectation (question 6)	6.1	7.4	7.5	1.0	-0.5	1.5	5.7	-0.7	0.4
Utilization Capacity rate (in %, question 7)	76.1	77.3	73.0	77.4	76.7	75.2	68.0	77.7	78.6
Financial situation (question 8)	1.8	7.0	2.5	5.5	3.6	-0.4	3.7	5.0	10.8
Trade									
Business performance over the past three month (question 1, TCI component)	-3.8	-3.4	-9.5	-4.0	1.8	2.0	-4.0	-16.1	6.9
Employment, expectation (question 5, TCI component)	3.7	2.2	3.4	3.6	5.2	5.8	1.1	3.4	8.9
Business situation, expectation (question 4)	23.7	17.8	24.0	19.9	21.8	30.1	23.5	26.9	32.3
Prices, expectation (question 6)	-0.6	10.8	7.5	8.0	3.4	0.0	1.1	-5.5	1.0
Capacity utilization rate (in %, question 8)	79.2	79.1	75.8	73.3	78.9	79.2	73.5	74.0	74.6
Financial situation (question 9)	2.2	9.1	-1.1	1.5	5.5	6.6	1.3	-6.6	4.2
Employment evolution over the past three months (question 10)	5.6	6.3	7.8	2.5	5.5	4.4	2.2	-5.4	2.2
Consumer									
Financial situation, expectation (question 2, CCI component)	7.1	6.1	4.3	7.1	3.3	2.0	0.1	4.2	5.0
Economic situation, expectation (question 4, CCI component)	12.9	10.5	6.8	11.2	2.8	3.9	5.4	4.2	5.5
Current major purchases (question 8, CCI component)	-46.7	-53.8	-63.1	-49.2	-51.4	-46.8	-54.4	-60.9	-62.2
Current financial situation (question 12, CCI component)	-9.6	-14.5	-10.4	-4.2	-5.5	-6.3	-8.1	-3.1	-5.9
Financial situation during the past 12 months (question 1)	-4.0	-9.0	-13.5	-7.4	-5.9	-9.2	-13.2	-9.8	-8.6
Current financial situation (question 3)	-3.5	-9.3	-17.8	-10.0	-11.9	-12.8	-11.9	-12.7	-12.8
Prices, expectation (question 6)	-1.1	7.4	-4.7	-15.7	4.7	7.0	-10.5	-20.5	-20.1
Unemployment, expectation. (question 7)	5.5	6.8	7.9	-0.9	10.5	9.5	4.9	-3.6	-1.2
Major purchases, expectation (question 9)	-32.7	-29.9	-32.8	-33.6	-38.0	-32.9	-43.7	-48.5	-54.6
Current savings (question 10)	-36.7	-46.6	-47.3	-35.1	-36.6	-33.6	-37.4	-44.1	-45.8
Savings, expectation (question 11)	-30.7	-40.7	-38.2	-25.8	-35.7	-27.1	-32.3	-36.2	-40.4

Source: Consumer Confidence Survey, 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: Consumers 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.