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Bank of Albania
Monetary Policy Department

European Commission[1]

Business and Consumer Confidence Surveys
2016 Q4

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Economic Sentiment Indicator (ESI) continued the upward trajectory during 2016 Q4. The ESI level is 118.6, 9.4 points above the level recorded in the 2016 Q3 and about 18.6 points above the long-term average *(Chart 1)*. ESI intensified the upward trend reflecting the improvement of confidence in the services and construction sectors, as well as the improvement of the consumer confidence. Meanwhile, indicators of confidence in industry and trade fell slightly compared to the third quarter.

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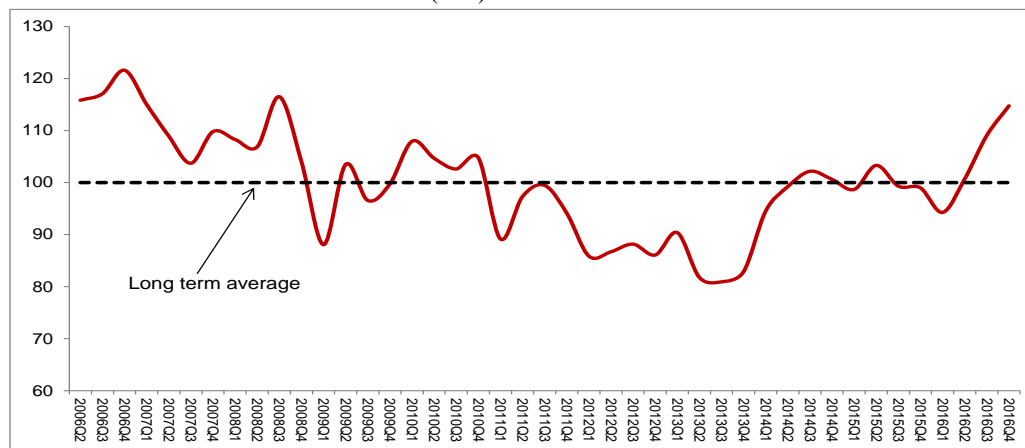
Source: Business and Consumer Confidence Surveys, Bank of Albania.

Industry Confidence Indicator (ICI) fell by 3.3 percentage points in 2016 Q4. However, the indicator remains 8.4 percentage points above the historical average *(Chart 2)*. The balance of *production* and *order books* fell by 6.3 and 4.5 percentage points, respectively, thus determining the ICI's direction.

Meanwhile, the decline by 0.9 percentage point of the other component balance, *stocks of inventories*[2], led to the improvement of ICI.

The balances not included in ICI such as: *export orders*, *expectation for production* and *employment in the next quarter*, decreased during 2016 Q4. Firms operating in the industry sector *utilized the capacities* on average at 73.4%, or 3.6 percentage points lower than in the previous quarter, but remaining above the historical average of 72.4%. Meanwhile, the balance of the firms' *financial situation* has improved.

The **Construction Confidence Indicator** (CCI) continued its upward trend during 2016 Q4, resulting in about 2.5 percentage points above the level in the past quarter and 7.2 percentage points above the historical average (*Chart 3*). The improved confidence in this sector is attributable to the improvement of the two balances: *construction activity* and *order books,* which increased by 4.3 and 0.6 percentage points, respectively.

Other balances related to the *employment* and the *financial situation* continued to increase, whilst the balance of *employment expectations for the next quarter* was downward. *Capacity utilization rate* in the construction sector is estimated on average at 65.6%, or 3.7 percentage points lower than in the previous quarter. However, this rate stands 5.6 percentage points above the level of the previous year and 1.0 percentage point above the historical average.

The **Services Confidence Indicator** (SCI) continued its upward trend in 2016 Q4 (+13.2 percentage points). SCI stands significantly above its historical level by about 22.5 percentage points (*Chart 4*). Improvement of confidence in services is mainly attributable to the increase of its two balances: *business situation* (+16.7 percentage points) and *demand* (+9.6 percentage points).

Also, firms operating in the services sector assess that the balances of *financial situation* and *employment* have increased. *Expectations for demand* and *employment for the upcoming quarter* increased during the fourth quarter. *Capacity utilization rate is estimated* on average at 80.6%, or 2.0 percentage points higher than in the previous quarter and 4.1 percentage points above the historical average.

Trade Confidence Indicator (TCI) fell by 1.6 percentage points during 2016 Q4, but remains above its historical level by 6.3 percentage points (*Chart 5*). This performance was determined mainly by the decline of one of its balances: *employment expectation for the next quarter* by 3.4 percentage points. Meanwhile the other balance, *business situation* resulted slightly higher, (+0.1 percentage points) compared to the previous quarter.

Employment balance improved during 2016 Q4, whilst other balances related to the *financial situation* and *expected business situation for the next quarter,* decreased. *Capacity utilization rate,* in average terms, stands at 74.6%, unchanged from 2016 Q3, remaining 3.6 percentage points lower than its historical average.

The Consumer Confidence Indicator (CCI) improved its dynamics during 2016 Q4, increasing by 4.8 percentage points. As a result, CCI stands 3.0 percentage points above its historic average (*Chart 6*). All four balances contributed to the upward side of the CCI'S value during 2016 Q4: - *major purchases* (+7.4

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[2] Decrease of inventories is interpreted as a positive development for the firm. When calculating ICI, the respective balance is multiplied by -1.

percentage points); *general economic situation expected in the country* (+5.5 percentage points); *expected financial situation of households* (+4.5 percentage points); *income and spending situation* (+1.7 percentage points).

Other balances that increased during 2016 Q4 are: *major purchases in the future, and current and expected saving* situation.

Chart 2. Industrial Confidence Indicator

Long term average
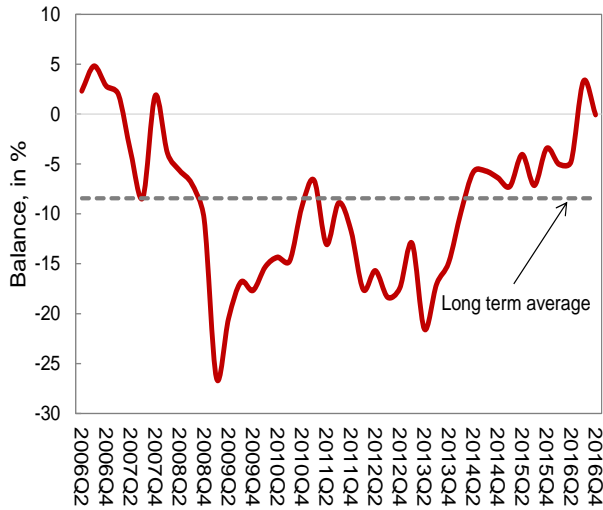
Chart 3. Construction Confidence Indicator

Long term average
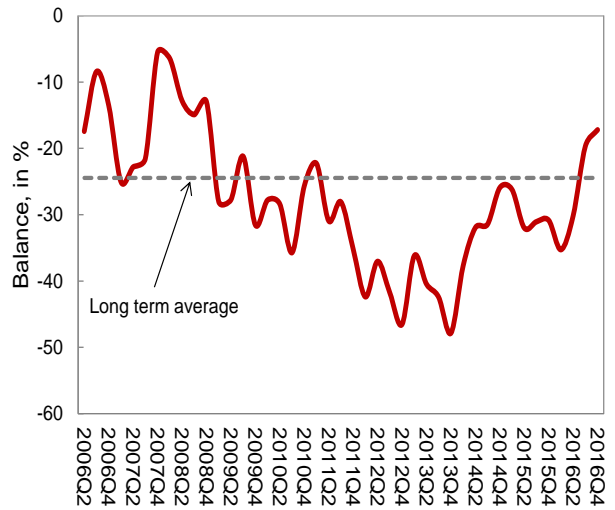
Chart 4. Services Confidence Indicator

Long term average
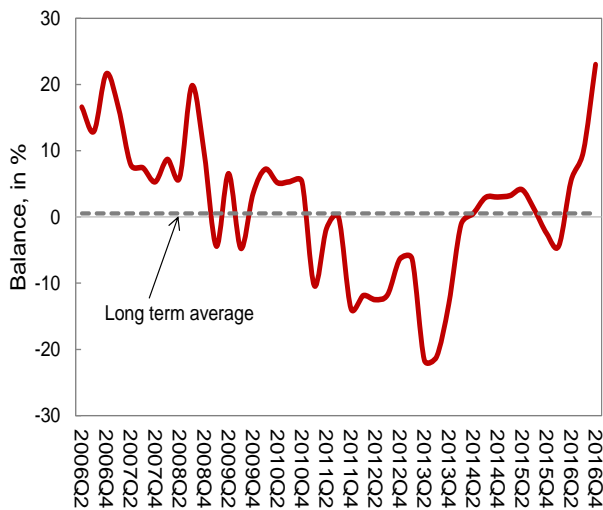
Chart 5. Trade Confidence Indicator

Long term average
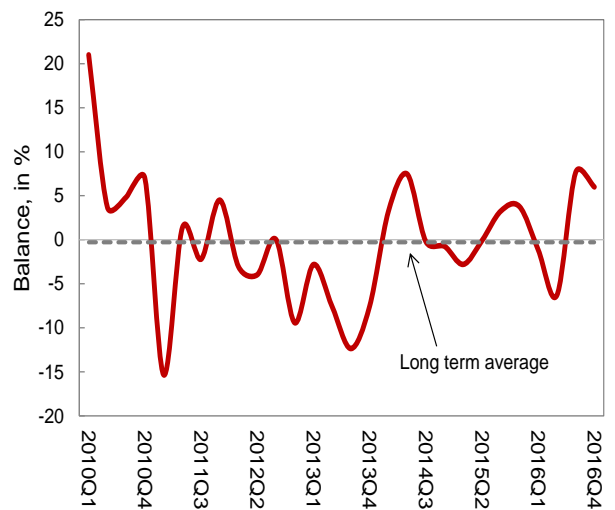
Chart 6. Consumer Confidence indicator

Long term average

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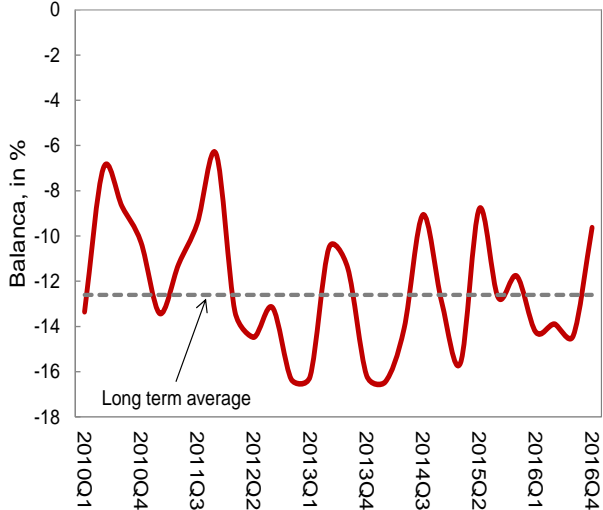
Table 1. Confidence indicators by sector[*]

	Values			2015		2016				Current situation	
	min.	av.	max.	Q3	Q4	Q1	Q2	Q3	Q4	Conjectural**	Structural***
Industry	-26.4	-8.4	4.8	-7.1	-3.4	-5.0	-4.8	3.3	-0.1	↓	++
Construction	-47.8	-24.5	-5.5	-31.1	-30.8	-35.8	-30.2	-19.7	-17.2	↑	+
Services	-21.6	0.5	21.6	1.1	-2.5	-4.3	5.5	9.9	23.0	↑	++
Trade	-15.3	-0.3	21.0	3.3	3.8	-1.1	-6.3	7.6	6.0	↓	+
Consumer	-20.5	-12.6	-6.4	-12.7	-11.8	-14.2	-13.9	-14.4	-9.6	↑	+

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 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)*
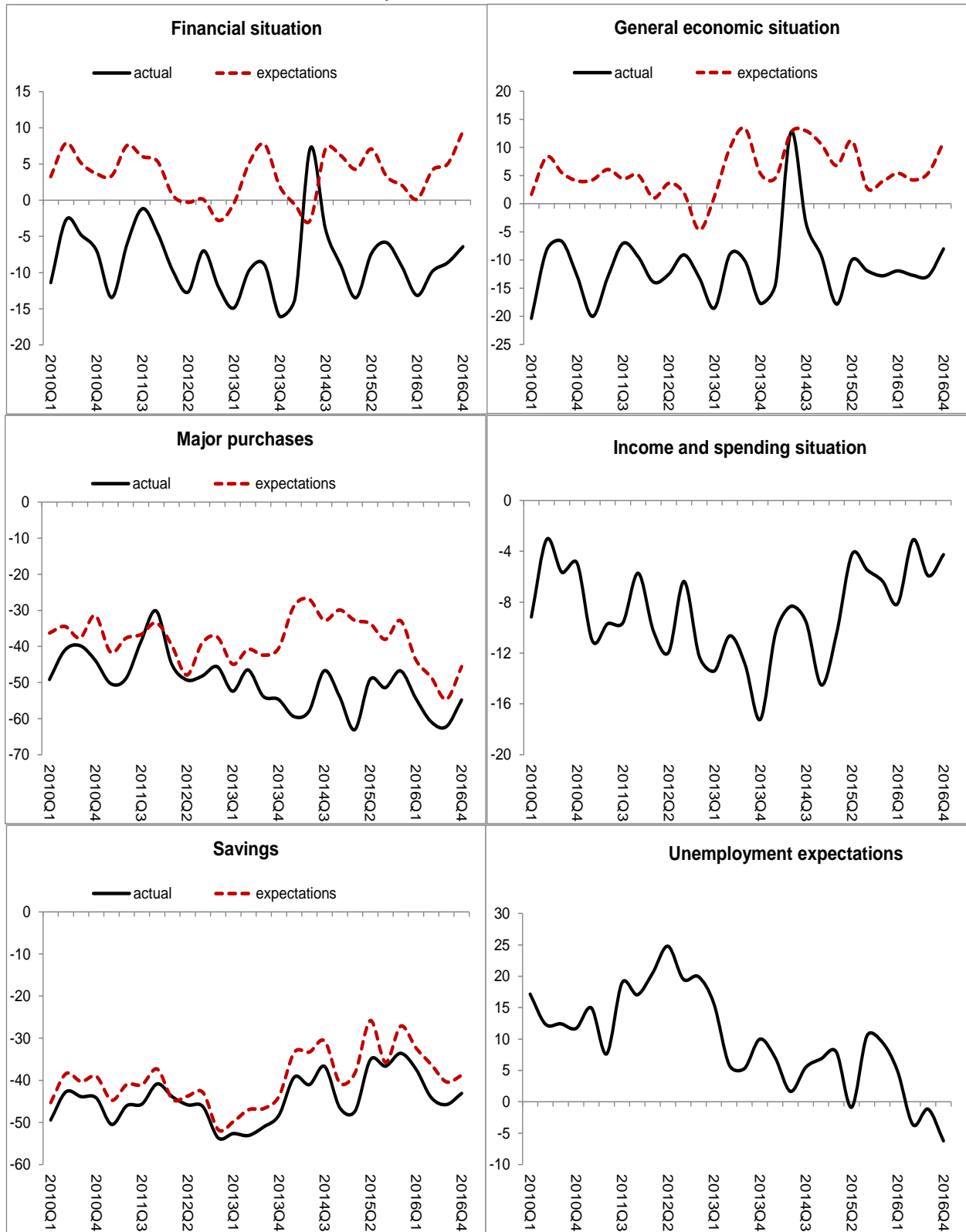
	2014	2015				2016			
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Industry									
Production over the past three months *(question 1, ICI component)*	2.3	-1.0	7.8	3.4	8.2	0.9	2.1	14.2	7.9
Order books *(question 2, ICI component)*	-21.5	-18.9	-15.3	-18.9	-14.2	-18.0	-23.0	-10.5	-15.0
Stock of finished products *(question 4, ICI component)*	-0.1	1.9	4.6	5.9	4.3	-2.0	-6.6	-6.1	-6.9
Export order books (question 3)	8.0	1.9	5.3	7.5	6.0	4.8	-22.6	-5.2	-6.6
Production, expectations *(question 5)*	26.9	28.0	20.2	23.3	19.3	20.0	33.6	36.2	33.5
Selling prices, expectations *(question 6)*	1.6	2.0	0.3	-1.5	1.5	2.1	5.7	2.3	0.9
Employment, expectations *(question 7)*	6.5	9.3	6.4	7.7	9.2	6.2	14.4	13.2	9.8
Financial situation *(question 8)*	-0.4	1.2	9.8	4.6	11.3	4.7	4.0	8.6	13.2
Capacity utilization rate *(in %, question 10)*	73.2	67.7	75.1	72.2	73.5	69.0	74.6	77.0	73.4
Construction									
Construction activity over the past three months *(question 1, CCI component)*	-10.2	-11.6	-18.4	-15.8	-13.7	-25.2	-15.0	-0.2	4.1
Order books *(question 3, CCI component)*	-41.6	-40.8	-45.6	-46.3	-48.0	-45.3	-45.4	-39.1	-38.5
Employment, expectations *(question 4)*	8.5	2.7	0.0	0.3	-1.9	-2.7	2.3	3.1	-0.3
Prices, expectations *(question 5)*	1.5	0.9	0.4	-3.8	-3.4	-0.9	-8.8	-3.2	-7.1
Capacity utilization rate *(in %, question 6)*	60.7	57.1	60.1	62.2	60.0	54.7	67.5	69.3	65.6
Employment over the past three months *(question 7)*	-5.8	-4.9	-9.7	-11.1	-5.4	-20.6	-4.9	0.7	6.2
Financial situation (question 8)	-7.6	-7.0	-14.6	-14.0	-3.2	-24.3	-13.9	-3.4	-2.0
Services									
Business performance over the past three months *(question 1, SCI component)*	1.5	0.4	3.1	1.4	-5.9	-5.8	6.0	8.7	25.3
Demand over the past three months *(question 2, SCI component)*	4.5	6.0	5.1	0.8	0.9	-2.9	5.0	11.0	20.7
Demand, expectations *(question 3)*	27.8	27.3	27.9	22.6	19.7	23.2	27.5	36.0	34.3

Employment over the past three months *(question 4)*	8.5	7.6	3.0	12.4	-0.6	5.0	3.8	3.5	9.9
Employment, expectations *(question 5)*	10.8	9.5	3.8	1.8	0.9	4.9	10.3	17.1	12.0
Prices, expectations *(question 6)*	7.4	7.5	1.0	-0.5	1.5	5.7	-0.7	0.4	0.0
Capacity utilization rate *(in %, question 7)*	77.3	73.0	77.4	76.7	75.2	68.0	77.7	78.6	80.6
Financial situation *(question 8)*	6.7	2.5	5.3	4.2	-0.9	3.7	4.8	11.5	23.8
Trade									
Business performance over the past three months *(question 1, TCI component)*	-3.8	-9.1	-4.1	2.0	1.6	-3.5	-16.3	7.0	7.1
Employment, expectations *(question 5, TCI component)*	2.3	3.5	3.9	4.5	6.0	1.2	3.7	8.2	4.9
Business situation, expectations *(question 4)*	18.5	23.8	19.9	21.0	31.1	23.3	26.8	31.4	28.8
Prices, expectations *(question 6)*	10.8	7.5	8.0	3.4	0.0	1.1	-5.5	1.0	-0.3
Capacity utilization rate *(in %, question 8)*	79.1	75.8	73.3	78.9	79.2	73.5	74.0	74.6	74.6
Financial situation *(question 9)*	9.0	-1.2	1.5	5.9	6.0	1.4	-6.5	4.8	4.2
Employment over the past three months *(question 10)*	5.8	8.4	1.8	6.1	3.9	2.8	-6.2	2.9	6.2
Consumer									
Financial situation, expectations *(question 2, CCI component)*	6.1	4.3	7.1	3.3	2.0	0.1	4.2	5.0	9.6
Economic situation, expectations *(question 4, CCI component)*	10.5	6.8	11.2	2.8	3.9	5.4	4.2	5.5	11.0
Current major purchases *(question 8, CCI component)*	-53.8	-63.1	-49.2	-51.4	-46.8	-54.4	-60.9	-62.2	-54.8
Current financial situation *(question 12, CCI component)*	-14.5	-10.4	-4.2	-5.5	-6.3	-8.1	-3.1	-5.9	-4.3
Financial situation during the past 12 months *(question 1)*	-9.0	-13.5	-7.4	-5.9	-9.2	-13.2	-9.8	-8.6	-6.4
Current economic situation *(question 3)*	-9.3	-17.8	-10.0	-11.9	-12.8	-11.9	-12.7	-12.8	-8.0
Prices, expectations *(question 6)*	7.4	-4.7	-15.7	4.7	7.0	-10.5	-20.5	-20.1	-13.9
Unemployment, expectations *(question 7)*	6.8	7.9	-0.9	10.5	9.5	4.9	-3.6	-1.2	-6.2
Major purchases, expectations *(question 9)*	-29.9	-32.8	-33.6	-38.0	-32.9	-43.7	-48.5	-54.6	-45.6
Current savings *(question 10)*	-46.6	-47.3	-35.1	-36.6	-33.6	-37.4	-44.1	-45.8	-43.1
Savings, expectations *(question 11)*	-40.7	-38.2	-25.8	-35.7	-27.1	-32.3	-36.2	-40.4	-38.8

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

Financial situation

actual ——— expectations -----

(line chart, y-axis from -20 to 15, x-axis 2010Q1 to 2016Q4)

General economic situation

actual ——— expectations -----

(line chart, y-axis from -25 to 20, x-axis 2010Q1 to 2016Q4)

Major purchases

actual ——— expectations -----

(line chart, y-axis from -70 to 0, x-axis 2010Q1 to 2016Q4)

Income and spending situation

(line chart, y-axis from -20 to 0, x-axis 2010Q1 to 2016Q4)

Savings

actual ——— expectations -----

(line chart, y-axis from -60 to 0, x-axis 2010Q1 to 2016Q4)

Unemployment expectations

(line chart, y-axis from -10 to 30, x-axis 2010Q1 to 2016Q4)

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.