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EUROSISTEMA
CENTRAL BANK OF MALTA

BUSINESS AND CONSUMER SURVEYS

BOX 2: BUSINESS AND CONSUMER SURVEYS

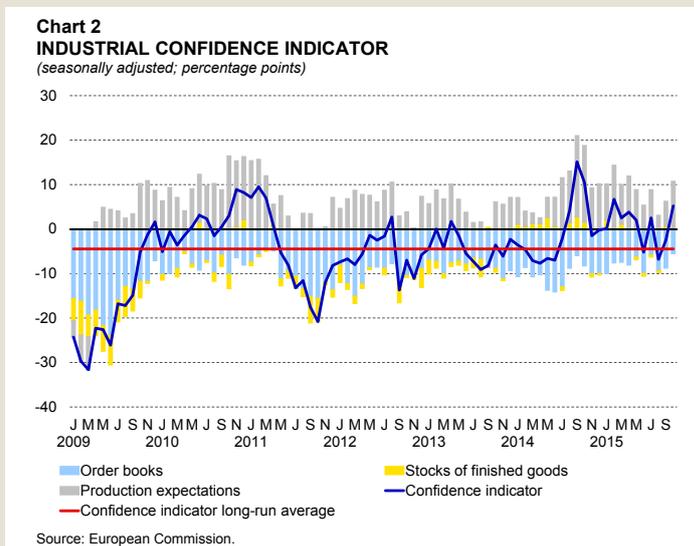
During the third quarter of 2015, the economic sentiment indicator (ESI) fluctuated slightly. It stood at 114 in September, the same level as in June and well above its long-term average of 101 (see Chart 1).^{1,2} The increase in industrial, consumer and retail confidence offset a fall in confidence in the service and construction sectors, resulting in a consistent ESI.



Going into the fourth quarter, the ESI rose further to 120 in October. Almost all sectors contributed to this pick-up, though confidence in the construction sector remained unchanged.

Industrial confidence exceeds long-run average³

Confidence in the industrial sector edged up from -5 in June to -3 in September. Although the index remained in negative territory, it exceeded the long-term average of -5 (see Chart 2). The industrial confidence indicator turned positive at the beginning of the following quarter, reaching 5 in October.



¹ The ESI summarises developments in confidence in five surveyed sectors (industry, services, construction, retail and consumers).

² Long-term averages are calculated over the entire period for which data are available. For the consumer and industrial confidence indicators, data became available in November 2002, while the services and construction confidence indicator data became available in May 2007 and May 2008, respectively. The long-term average of the ESI is computed from November 2002.

³ The industrial confidence indicator is the arithmetic average of the seasonally adjusted balances (in percentage points) of replies to a subset of survey questions relating to expectations about production over the subsequent three months, to current levels of order books and to stocks of finished goods.

Negative sentiment levels in the third quarter were primarily due to persistently weak order books, which were partially outweighed by positive responses about stocks of finished goods and production expectations.

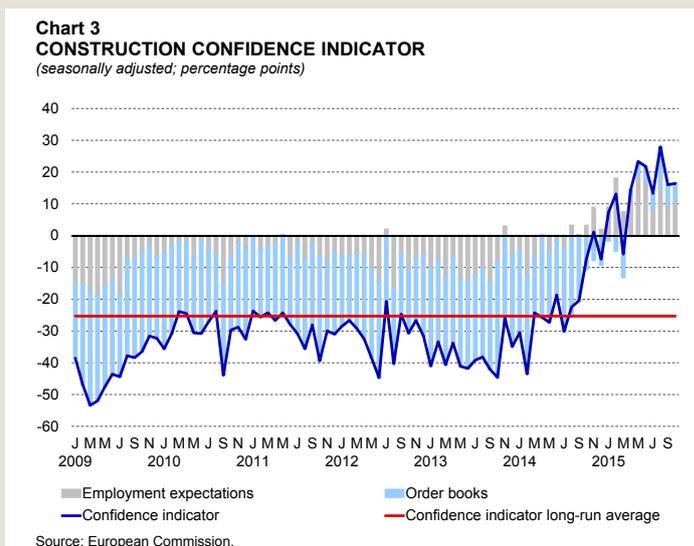
All sub-components of the indicator contributed to the overall rise observed during the third quarter. Between June and September, production expectations and order-book levels increased, whereas stock levels fell.⁴ Firms' assessments of order-book levels and stocks in September compared favourably with their respective long-term average. On the other hand, despite the rise in production expectations, the assessments remained below their long-term average. Similarly, all sub-components of the indicator contributed to the further rise in October.

From a sectoral perspective, during the third quarter significant improvements in confidence were seen among manufacturers of rubber and plastic products, in printing and reproduction of recorded material, and by manufacturers of chemicals and chemical products. The rise in the printing and chemical sectors was largely due to a more positive assessment of order-book levels and production expectations. In contrast, confidence significantly fell in the other non-metallic mineral products sector, which includes producers of glass and certain types of construction material, and in the beverages sector. Sentiment among firms producing computers, electronic and optical products remained stable at a relatively low level.

Additional survey data suggest that, on average, in September when compared with June, more respondents were expecting to increase both their labour complement and prices in the subsequent months.

Confidence in the construction sector decreases⁵

Sentiment in the construction sector fell during the third quarter of 2015. In September the confidence indicator stood at 16, compared with 22 three months earlier. Despite this fall, September's reading still stood considerably above the indicator's long-term average of -26 (see Chart 3). This indicator remained virtually unchanged in October.



⁴ A decline in stock levels indicates higher turnover and affects the overall indicator in a positive way. Such decreases are thus represented by positive bars in Chart 2.

⁵ The construction confidence indicator is the arithmetic average of the seasonally adjusted balances (in percentage points) of replies to two survey questions, namely those relating to order books and employment expectations over the subsequent three months.

The decline in confidence during the third quarter of 2015 was driven by respondents' employment expectations for the subsequent three months, when the balance of replies fell, though they remained positive. On the other hand, firms' assessment of order-book levels increased during the quarter. Additional survey data for September also indicate that, compared with June, a greater share of respondents anticipated higher selling prices for the subsequent three months.

Confidence in the services sector drops further, before recovering⁶

Confidence among firms in the services sector decreased to 22 in September, from 25 in June. Despite the drop, the indicator remained above its long-term average of 20 (see Chart 4). The indicator rebounded in October, when it reached 29.

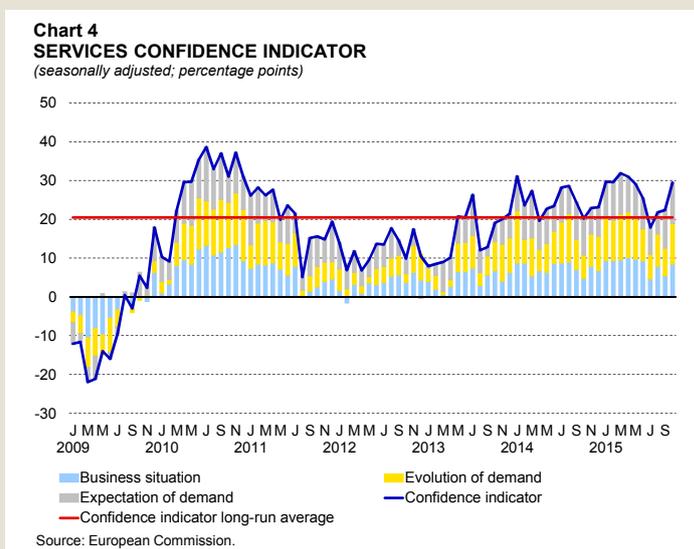
Two out of three sub-components of the services confidence indicator decreased in September when compared with three months earlier. Respondents' assessment of demand and of the business situation over the previous three months worsened. On the other hand, respondents' expectation of demand over the subsequent three months improved.

At a sectoral level, confidence dropped among firms in the accommodation sector, in legal and accounting services and in architecture and engineering activities, among others. In contrast, sentiment improved among firms involved in programming and broadcasting activities, management consultants and head offices, and in air transport. In these sectors, firms reported a more favourable business situation, a positive evolution of demand and brighter demand prospects.

Additional survey data indicate that, overall, in September a smaller share of respondents planned to increase their labour complement in the subsequent months when compared with June. Similarly, a smaller share of respondents expected selling prices to rise.

Consumer confidence remains broadly stable⁷

Consumer sentiment remained in positive



⁶ The services confidence indicator is the arithmetic average of the seasonally adjusted balances (in percentage points) of replies to survey questions relating to the business climate, the evolution of demand in the previous three months and demand expectations in the subsequent three months.

⁷ The consumer confidence indicator is the arithmetic average of the seasonally adjusted balances (in percentage points) of replies to a subset of survey questions relating to households' financial situation, their ability to save, the general economic situation and unemployment expectations over the subsequent 12 months.

territory, with the indicator standing at 1 in September, unchanged from three months earlier. The indicator thus remained well above its long-term average of -23 (see Chart 5). The index edged up further to 3 in the following month.

Almost all sub-components of the sentiment indicator improved in September when compared with June. On average, in September

consumers assessed the general economic prospects and their financial situation over the subsequent 12 months marginally more favourable compared with June. Consumers' savings expectations over the subsequent 12 months remained broadly unchanged. In contrast, a lower share of respondents expected unemployment to fall in the following year. All sub-components of the sentiment indicator stood above their respective long-term averages.

In addition, in September a smaller share of consumers expressed the intention to make major purchases over the subsequent 12 months. Consumers' price expectations also fell from the level in June; on balance, respondents expected prices to decrease slightly over the subsequent 12 months.

