

# State Bank of Pakistan’s Business Confidence Survey\* – December 2018

[This wave of Business Confidence Survey was conducted in December 2018; with 454 firms surveyed]

## Overall Business Confidence

The overall business confidence in December 2018 has shown some improvement as compared to the previous wave. However, it is still in the red zone, which shows slight predominance of pessimistic views of business community about the economy (Figure 1).

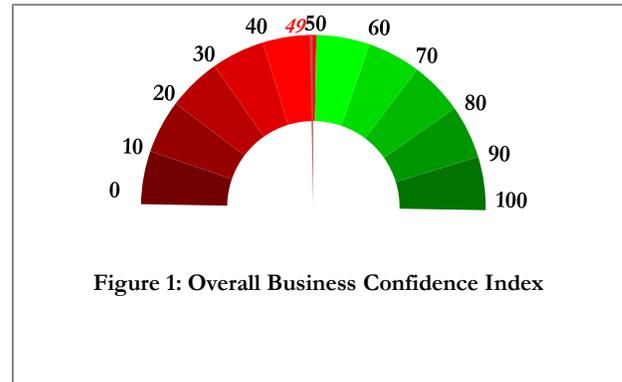


Figure 1: Overall Business Confidence Index

The negative perception of businesses is marginally more pronounced for industry but can be witnessed for both industry and services sectors of the economy (Figure 2). In case of the industrial sector, the overall business confidence index has actually decreased from 48 in October 2018 to 47 in December 2018. However, for services it has increased from 46 to 49 during the same period.

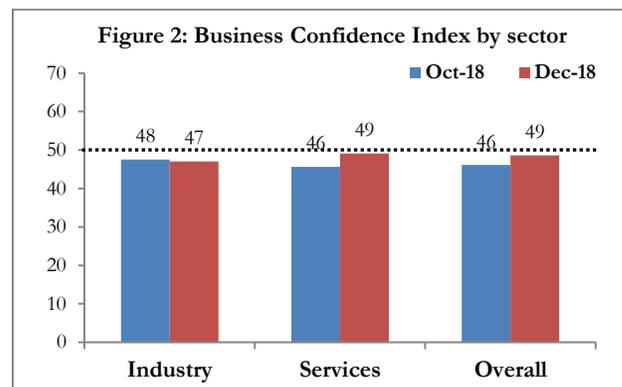


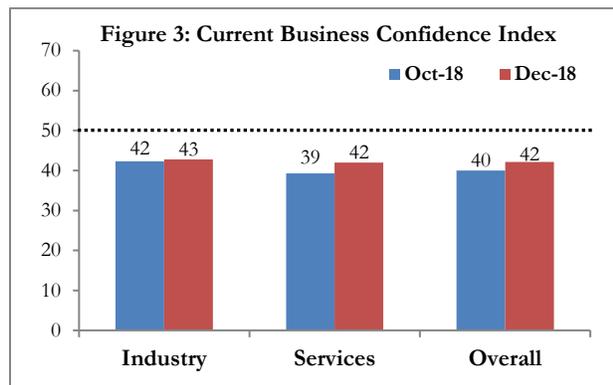
Figure 2: Business Confidence Index by sector

Our headline “Overall Business Confidence” is composed of two sub-indices of “Current Business Confidence” and “Expected Business Confidence”. The perceptions of respondents regarding both current and expected economic and business conditions have changed between the last two waves.

\* SBP (in collaboration with IBA) has been conducting the Business Confidence Survey (BCS) since October 2017 at a bi-monthly frequency to obtain the views of senior managers of large companies in the industry and services sector. The survey provides information to SBP regarding the perceptions of company managers about current and expected business conditions and major factors affecting these conditions. It covers their views on production, hiring of employees, demand for credit and general economic conditions. SBP disseminates the results of BCS for general information only. These are opinions of businesses and may not be considered either as SBP views or as endorsement by SBP.

## Current Business Confidence

The current business confidence index (**Figure 3**) continues to be in the negative territory for both industry and services. However, there is slight improvement for both sectors since the last wave. For industry, it has increased from 42 in October 2018 to 43 in December 2018. Similarly, for the services sector it has increased from a level of 39 to 42. It means that despite the fact that pessimistic views regarding the current business conditions still dominate the optimistic ones, there are some improvements in the sentiments.



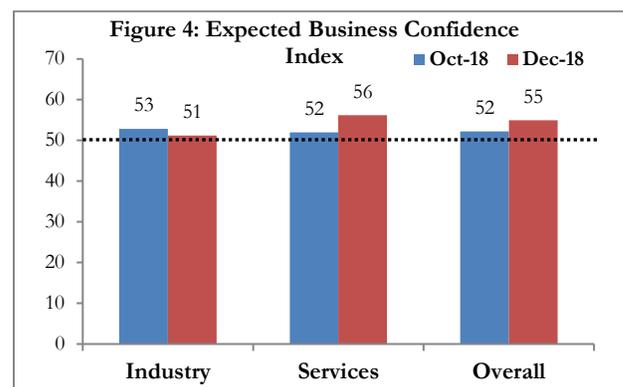
If we dig deeper and look at the disaggregated distribution of responses (**Table 1**) we find that some movement has happened from neutral views towards very positive views between the last two waves.

	Very Positive	Positive	Neutral	Negative	Very Negative
<b>Dec-18</b>					
Industry	6.6	16.7	34.4	25.7	16.6
Services	4.7	15.2	35.9	31.7	12.5
Overall	6.0	16.3	34.8	27.5	15.4
<b>Oct-18</b>					
Industry	4.2	18.0	35.9	26.3	15.5
Services	2.3	13.3	38.3	31.3	14.7
Overall	3.6	16.6	36.7	27.9	15.3

The percent share of neutral views has declined from 37 in October 2018 to 35 in December 2018. On the other hand, percent share of very positive views has increased from 4 percent to 6 percent between the last two waves.

The main driving factor for this considerable decline in the current business confidence over the last few waves is the negative and the strong negative views of survey respondents regarding the general economic conditions in the country over the last six months. There is also marginal deterioration in perceptions regarding production and employment over the last six months for the industrial sector firms.

## Expected Business Confidence



The “expected business confidence” (**Figure 4**) paints a mixed picture. While, we see an increase in expected business confidence for services, there is a minor decline in the perceptions for industry. The share of services sector firms having positive views of the economy and business conditions in the next six months is higher in December 2018 compared to October 2018 which is reflected in the increase of index (56 vs. 52).

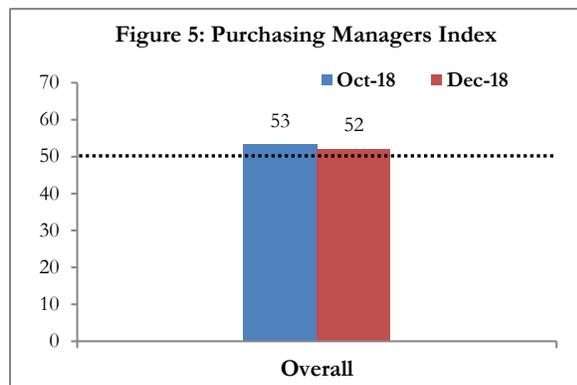
A detailed analysis of results reveals a visible improvement from neutral views to positive

and very positive views in case of services. However, in case of industry the movement is away from positive views (**Table 2**).

<b>Table 2: Expected Business Confidence (% Share)</b>					
	Very Positive	Positive	Neutral	Negative	Very Negative
<b>Dec-18</b>					
Industry	6.7	25.6	42.2	17.1	8.5
Services	7.7	33.7	36.8	19.3	2.4
Overall	7.0	28.0	40.6	17.7	6.7
<b>Oct-18</b>					
Industry	4.7	32.7	39.5	15.3	7.8
Services	2.8	30.0	44.4	17.7	5.1
Overall	4.1	31.9	41.0	16.0	7.0

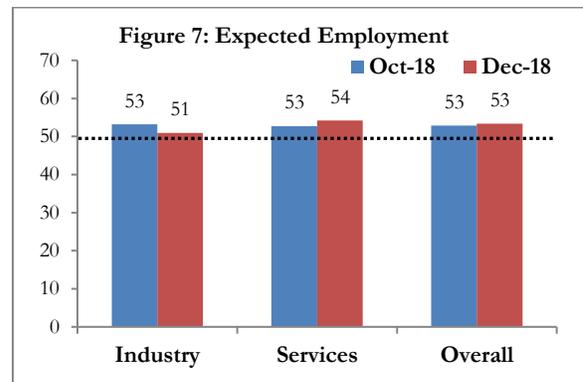
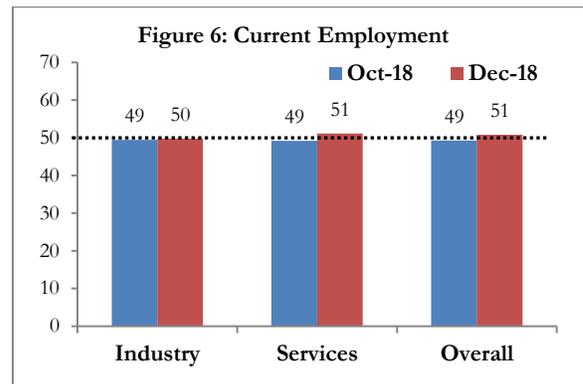
### Purchasing Managers Index

Purchasing Managers Index (PMI) declined marginally in December 2018 to 52 from the level of 53 in October 2018 (**Figure 5**); however, it is still in the green zone reflecting positive business activity of responding firms over the last six months.



### Employment

The current employment diffusion index has turned neutral for industry and barely positive for the services sector. Furthermore, the outlook for expected employment is still positive even though it has declined for industry. For services sector firms, the expected employment has improved a little between October and December 2018 (**Figure 6 & Figure 7**). This shows that the firms in our survey in particular in the services sector are still planning to hire more employees in the next six months.



## Business Confidence Survey (BCS) Notes

### **1. Computation of the Diffusion Index**

The results of Business Confidence Survey (BCS) are reported in the form of Diffusion Index (DI). The Diffusion Index shows the general tendency of respondents about a certain aspect of a particular survey. The questionnaire for this survey offers following five types of options to the respondents for their views on each question.

<b>Sr. No.</b>	<b>Answer Options</b>	<b>Assigned score</b>
1	PP = Very positive	1
2	P = Positive	0.5
3	E = Unchanged/neutral	0
4	N = Negative	-0.5
5	NN = Very negative	-1

On the basis of these five options, the Diffusion Index is computed in the following two steps:

Step 1: Net Response (NR) is computed as below:

$$NR = \{(1.00 * PP) + (0.50 * p) + (-0.50 * N) + (-1.00 * NN)\}$$

Step 2: The diffusion index is computed as follows:

$$DI = (NR + 100)/2$$

### **2. How to interpret the index?**

The diffusion index ranges from the minimum value of 0 to the maximum value of 100 i.e. a value of 50 is indicative of neutrality, 0 no confidence and 100 indicates extreme confidence. So in general:

- DI > 50 indicates that Positive views are more than Negative views;
- DI = 50 indicates that Positive views and Negative views are equal;
- DI < 50 indicates that Positive views are less than the Negative views

We report diffusion index for each question; the composite indices such as Current Business Confidence Index (CBCI), Expected Business Confidence Index (EBCI), Business Confidence Index (BCI) and Purchasing Managers Index (PMI) are averages of selected questions. In addition, overall economy wide indices are computed by taking weighted average of industry and services sector indices. The weight assigned to each sector is based on its share in the Non-Agricultural GDP.

3. *Questions used for different Indices*

Index	Question description
<b>Current Business Confidence Index</b>	- The general <i>economic conditions</i> in the country over the <b>past six months</b> have
	- Excluding normal seasonal changes, your <i>production</i> over the <b>past six months</b> has
	- Excluding normal seasonal changes, the <i>total number of employees</i> at your firm over the <b>past six months</b> has
<b>Expected Business Confidence Index</b>	- You expect the general <i>economic conditions</i> in the country in the <b>next six months</b> to
	- Excluding normal seasonal changes, you expect your <i>production</i> in the <b>next six months</b> to
	- Excluding normal seasonal changes, you expect the <i>total number of employees</i> at your firm in the <b>next six months</b> to
<b>Business Confidence Index</b>	- The general <i>economic conditions</i> in the country over the <b>past six months</b> have
	- You expect the general <i>economic conditions</i> in the country in the <b>next six months</b> to
	- Excluding normal seasonal changes, your <i>production</i> over the <b>past six months</b> has
	- Excluding normal seasonal changes, you expect your <i>production</i> in the <b>next six months</b> to
	- Excluding normal seasonal changes, the <i>total number of employees</i> at your firm over the <b>past six months</b> has
	- Excluding normal seasonal changes, you expect the <i>total number of employees</i> at your firm in the <b>next six months</b> to
<b>Purchasing Manager Index</b> (for industry only)	- Excluding normal seasonal changes, your <i>production</i> over the <b>past six months</b> has
	- Excluding normal seasonal changes, the <i>total number of employees</i> at your firm over the <b>past six months</b> has
	- Excluding normal seasonal changes, your <i>total order books</i> over the <b>past six months</b> have
	- In the <b>past six months</b> , the <i>quantity of raw material purchases</i> has
	- Average <i>supplier delivery times</i> over the <b>past six months</b> has