

## State Bank of Pakistan’s Business Confidence Survey\* – August 2019

[This wave of Business Confidence Survey was conducted in August 2019; with 375 firms surveyed]

### Overall Business Confidence

The overall business confidence in August 2019 improved from 43 in June 2019 to 45 (Figure 1), which shows that pessimistic views of business community about the economy have decreased a little, resulting in a slight increase in the level of Business Confidence Index (BCI). However, it clearly remains in the negative zone.

This pattern is witnessed in perceptions for both industry and services (Figure 2). In case of industry, the index has increased from 41 in June 2019 to 43 in August 2019; while that for services increased from 44 to 46 during the same period.

The headline index for “Overall Business Confidence” is composed of two sub-indices; “Current Business Confidence Index (CBCI)” and “Expected Business Confidence Index (EBCI)”. The perceptions of respondents regarding current economic & business conditions have almost remain the same; while perceptions regarding expected economic & business conditions have improved between the last two waves.

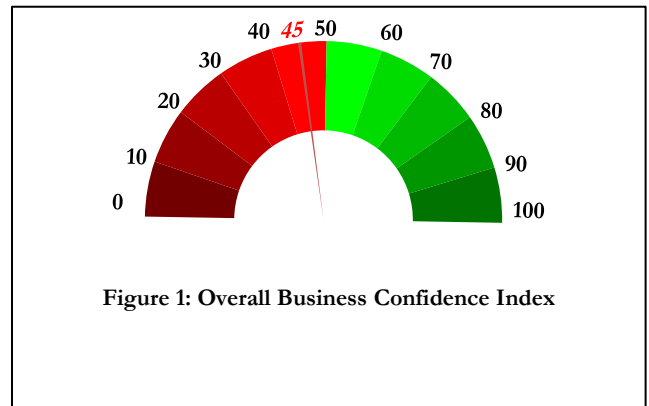


Figure 1: Overall Business Confidence Index

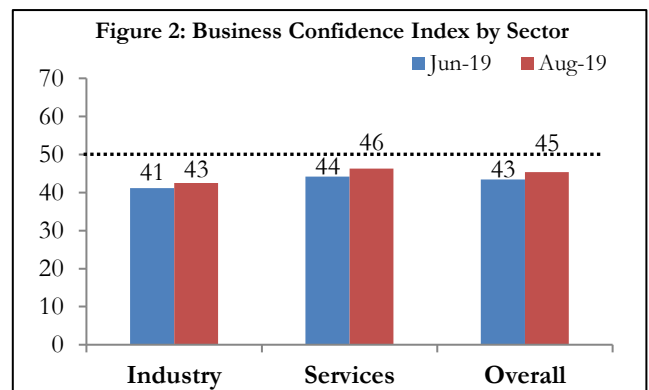
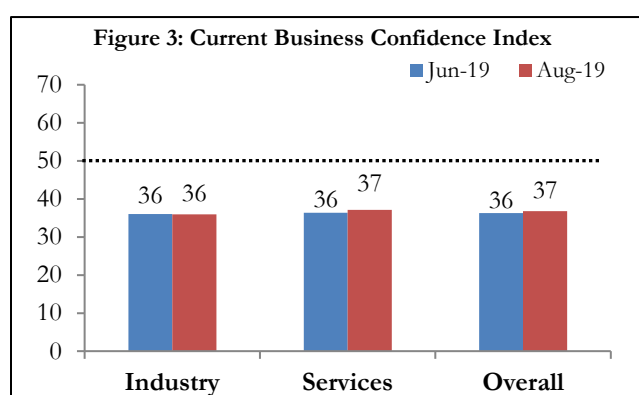


Figure 2: Business Confidence Index by Sector

\* SBP has been conducting the Business Confidence Survey (BCS) in collaboration with the Institute of Business Administration (IBA), Karachi 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 CBCI almost remain the same, only increasing marginally from 36 in June 2019 to 37 in the current wave. It has remained in the negative zone for the last seven waves including the current one (**Figure 3**). The marginal improvement in the CBCI is derived solely from the services sector, as industry sector confidence remained at the same level of 36 for the last two waves. For the services sector, it has increased from a level of 36 in June 2019 to 37 in August 2019.



Looking at the disaggregated distribution of responses (**Table 1**), we find that share of both positive and negative views have increased slightly, while share of very positive, neutral and very negative views have decreased slightly from the last wave to current wave.

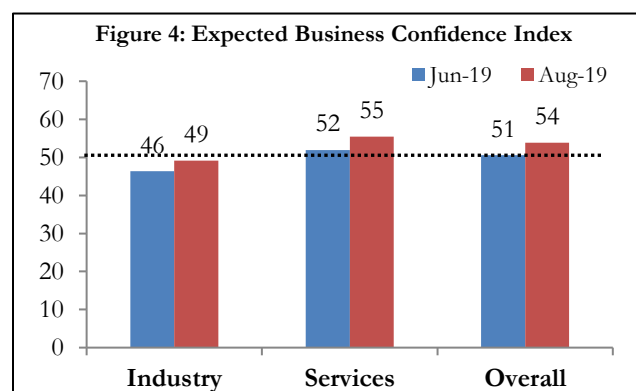
	Very Positive	Positive	Neutral	Negative	Very Negative
<b>Aug-19</b>					
Industry	3.0	11.3	35.4	27.0	23.3
Services	1.3	14.7	37.5	24.4	22.2
Overall	2.1	13.0	36.4	25.7	22.7
<b>Jun-19</b>					
Industry	3.8	10.0	38.3	22.1	25.7
Services	3.1	11.4	37.1	24.6	23.8
Overall	3.5	10.7	37.7	23.3	24.8

The overall percentage share of positive views has increased from 10.7 in June 2019 to 13.0 in August 2019. On the other hand, the percentage share of very negative views has decreased from 24.8 percent to 22.7 between the last two waves and the neutral views' share has decreased from 37.7 to 36.4 percent in the latest wave of the survey.

The main driving factor for this slight improvement in the CBCI is the decrease in the very negative views and increase in the positive views of survey respondents regarding the general economic conditions in the country over the last six months.

## Expected Business Confidence

Turning to the EBCI, contrary to direction in the movements in CBCI, it shows further increase within the positive zone (**Figure 4**). However, this pronounced increase of confidence is mainly driven by the services sector where EBCI moved from 52 to 55 in August 2019. The EBCI for industry remained in negative zone but it also increased from 46 to 49 in the last two waves. The overall value of EBCI increased from 51 in June 2019 to 54 in the current wave.



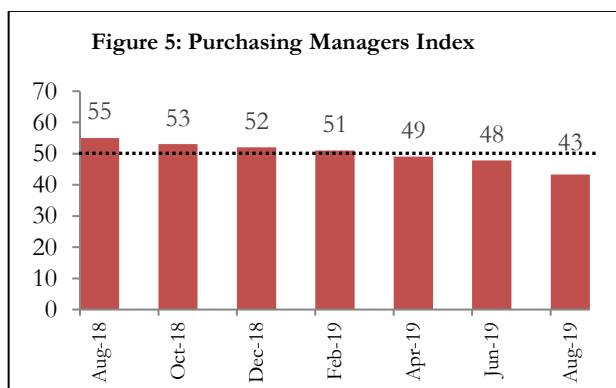
A detailed analysis of the EBCI results reveal movement from the share of negative and very negative views to positive views from the last wave to the current wave of BCS (**Table 2**).

	Very Positive	Positive	Neutral	Negative	Very Negative
<b>Aug-19</b>					
Industry	5.1	24.5	41.9	18.5	9.9
Services	4.1	34.8	44.1	12.5	4.4
Overall	4.6	29.7	43.0	15.5	7.1
<b>Jun-19</b>					
Industry	5.0	21.1	41.5	19.0	25.7
Services	5.7	28.2	42.9	14.6	8.6
Overall	5.4	24.6	42.2	16.8	11.0

The overall percentage share of positive views has increased from 24.6 in June 2019 to 29.7 in August 2019. On the other hand, the percentage share of very negative views has decreased from 11.0 percent to 7.1 between the last two waves.

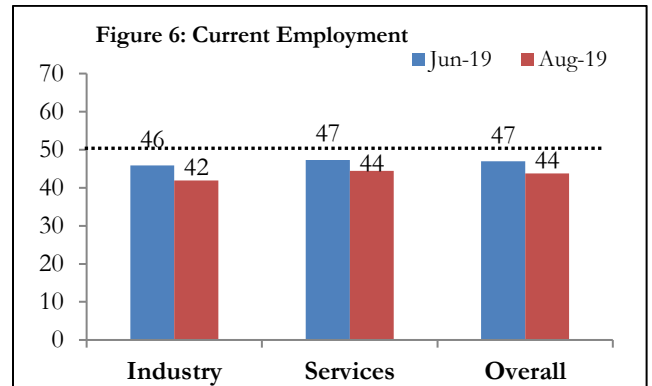
### Purchasing Managers Index

The Purchasing Managers Index (PMI) has declined from 48 in June 2019 to 43 in the current wave and reached the lowest level since the inception of BCS (Figure 5); this decrease is caused by slowdown in business activities, significant decrease in total order books and quantity of raw material purchases over the past six months as reported by industry sector firms.

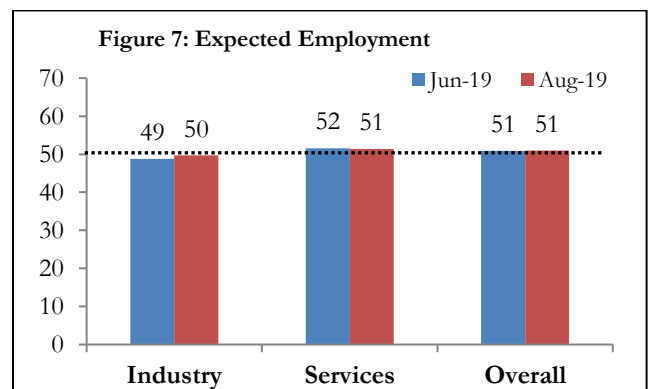


### Employment

The Current Employment diffusion index has decreased significantly within the negative zone from 47 in June 2019 to 44 in the current wave (Figure 6). This implies that employment has reduced further between the last two waves and this decline is more pronounced in the industry sector.



The overall outlook for the expected employment, however, has remained constant between the last two waves. However, there are some minor differences in the two sectors (Figure 7). This is important in light of the above discussion on the current employment situation in both sectors.



## 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.

Sr. No.	Answer Options	Assigned score
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