

State Bank of Pakistan’s Business Confidence Survey* – February 2019

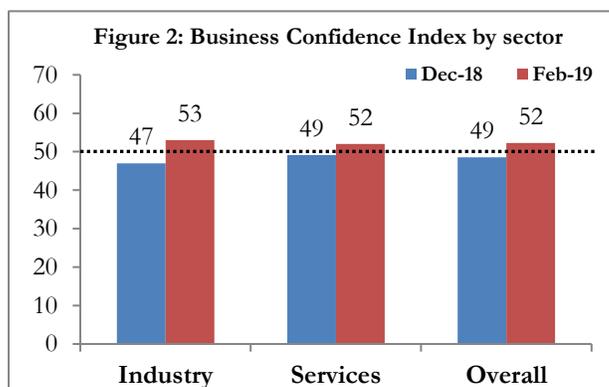
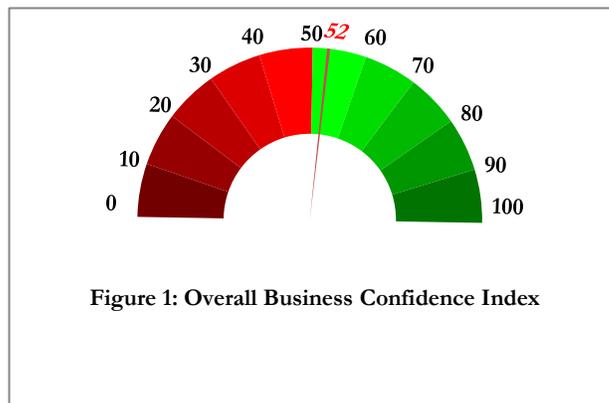
[This wave of Business Confidence Survey was conducted in February 2019; with 453 firms surveyed]

Overall Business Confidence

The overall business confidence in February 2019 improved to green zone, which shows predominance of optimistic views of business community about the economy (**Figure 1**). It indicates that negative views regarding business and economic conditions as prevailed in December 2018 have turned positive over the period.

This positive perception of businesses is slightly more pronounced for industry but can be witnessed for both industry and services sectors of the economy (**Figure 2**). In case of industry, the overall business confidence index has increased from 47 in December 2018 to 53 in February 2019; while that for services increased from 49 to 52 in the same period.

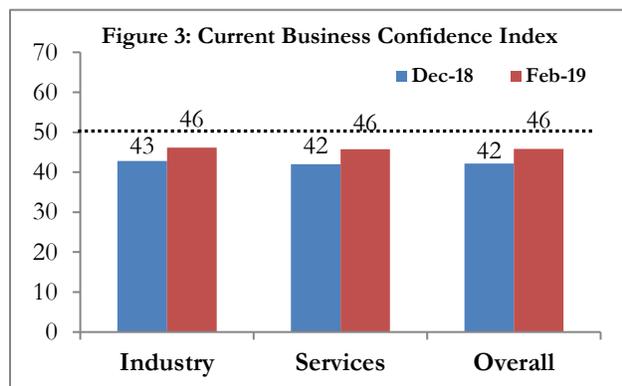
Our headline “Overall Business Confidence” is composed of two sub-indices of “Current Business Confidence” and “Expected Business Confidence”. The perceptions of respondents regarding both current and expected economic and business conditions have changed between the last two waves.



* SBP has been conducting the Business Confidence Survey (BCS) in collaboration with Institute of Business Administration (IBA) 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

Although the current business confidence index is still below 50, i.e. in red zone, it has improved for both the industry and services sectors (**Figure 3**). For industry, it has improved from a level of 43 in December 2018 to 46 in February 2019. Similarly, for the services sector it has changed from 42 to 46. For both the sectors regarding the current business conditions views remained pessimistic but with relatively lower intensity in the latest BCS wave.



If we dig deeper and look at the disaggregated distribution of responses (**Table 1**) we find that the movement has happened from negative and very negative towards positive views, while the share of neutral views also increased.

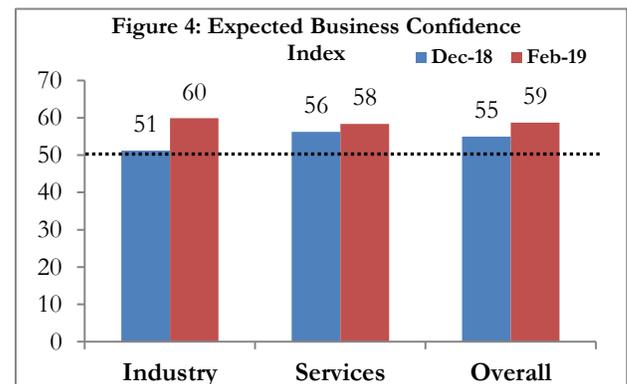
	Very Positive	Positive	Neutral	Negative	Very Negative
Feb-19					
Industry	4.7	20.5	39.9	24.5	10.4
Services	3.2	22.4	38.0	27.5	8.9
Overall	3.9	21.5	38.9	26.0	9.7
Dec-18					
Industry	6.6	16.7	34.4	25.7	16.6
Services	4.7	15.2	35.9	31.7	12.5
Overall	6.0	16.3	34.8	27.5	15.4

The percent share of positive views has increased from 16.3 in December 2018 to 21.5 in February 2019.

On the other hand, percent share of negative views has decreased from 27.5 to 26.0 between the last two waves. Further, very negative views have decreased from 15.4 percent in December 2018 to 9.7 percent in the latest wave of the survey.

The main driving factor for this considerable increase in the current business confidence are the positive views of survey respondents regarding the general economic conditions in the country over the last six months. There is also marginal appreciation in perceptions regarding production and employment over the last six months.

Expected Business Confidence



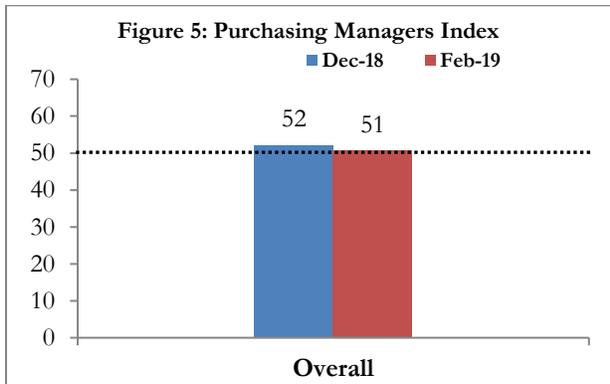
Turning to “expected business confidence”, we can see that there is a clear and pronounced increase in confidence in industry and services sectors (**Figure 4**). The expected business confidence which was already in positive territory with a value greater than 50 increased further in February 2019 (59). The increase in optimistic views is more prominent for the firms in industry (51 to 60).

In line with the case of current business confidence index, detailed analysis of expected business confidence results reveals similar movement from the shares of negative and very negative views to positive views from the last wave to the current wave of BCS conducted in February 2019 (**Table 2**).

Table 2: Expected Business Confidence (% Share)					
	Very Positive	Positive	Neutral	Negative	Very Negative
Feb-19					
Industry	9.1	36.3	42.2	10.2	10.4
Services	4.4	41.9	39.9	11.3	2.5
Overall	6.7	39.1	41.1	10.7	2.4
Dec-18					
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

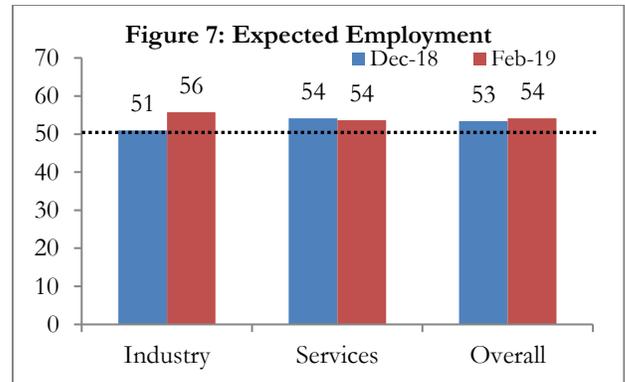
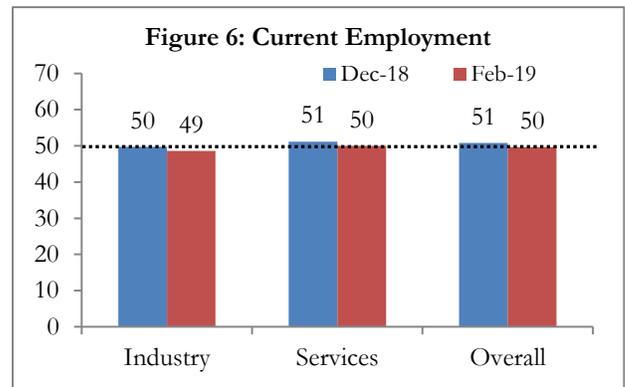
Purchasing Managers Index

Purchasing Managers Index (PMI) has decreased marginally in February 2019 to 51 from the previous level of 52 (Figure 5); this decrease was mainly caused by decline in business activities over the past six months reported by surveyed firms. However, it is still in the green zone reflecting slight positive views of business activity of responding firms over the last six months.



Employment

The current employment diffusion indices have turned positive for services and overall both sector firms, while for industry, it remained the same. However, the outlook for expected employment is improved; it has significantly improved for both industry and services sector firms between December 2018 and February 2019 (Figure 6 & Figure 7). This shows that the firms in our survey are expected 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.

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