

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

[This wave of Business Confidence Survey was conducted in June 2019; with 451 firms surveyed]

Overall Business Confidence

The overall business confidence in June 2019 declined from 46 in April 2019 to 43 (Figure 1), which shows that pessimistic views of business community about the economy have further increased, resulting in the lowest level of Business Confidence Index (BCI) since its inception in October, 2017.

The index of perception remained in the negative zone for both industry and services (Figure 2). In case of industry, the index has decreased from 45 in April 2019 to 41 in June 2019; while that for services decreased from 47 to 44 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 both current and expected economic and business conditions have worsened between the last two waves.

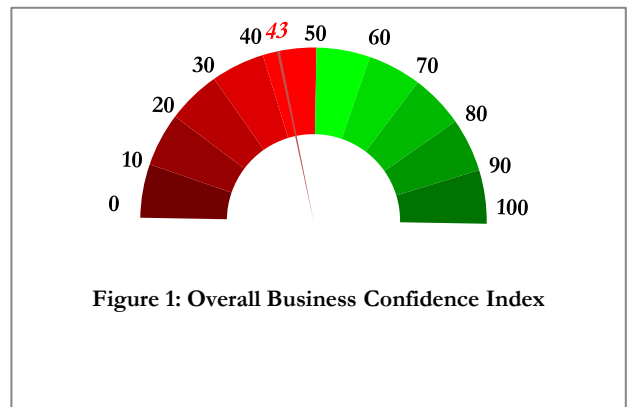


Figure 1: Overall Business Confidence Index

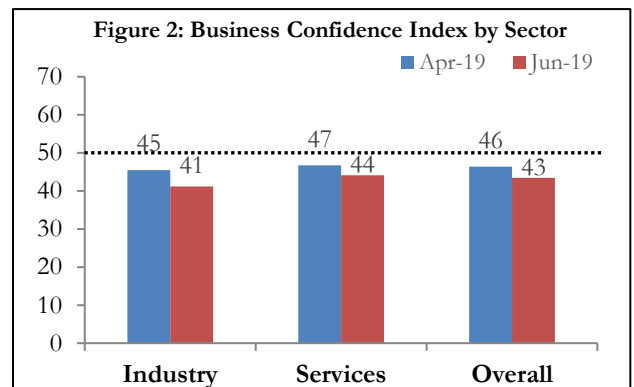
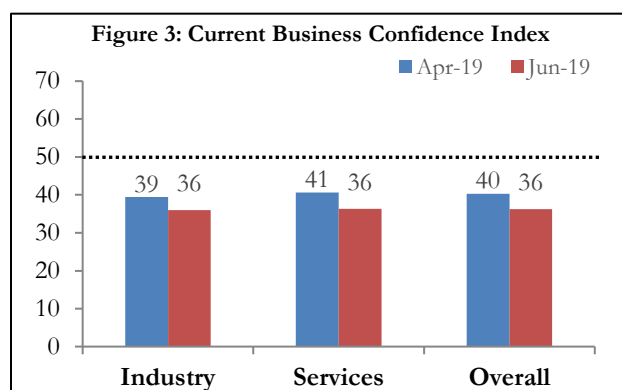


Figure 2: Business Confidence Index by Sector

* SBP has been conducting the Business Confidence Survey (BCS) in collaboration with 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

The CBCI has declined from 40 in April 2019 to 36 in the current wave. It is worthy to note here that it has remained in negative zone for the last six waves including the current one (**Figure 3**). The decline in the CBCI is more pronounced for the services sector, but can be observed for industry as well. For industry, it has declined from a level of 39 in April 2019 to 36 in June 2019. Similarly, for the services sector it has significantly declined from 41 to 36.



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

	Very Positive	Positive	Neutral	Negative	Very Negative
Jun-19					
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
Apr-19					
Industry	4.3	15.8	34.7	23.7	21.5
Services	2.6	16.5	34.5	33.7	12.7
Overall	3.5	16.1	34.6	28.7	17.1

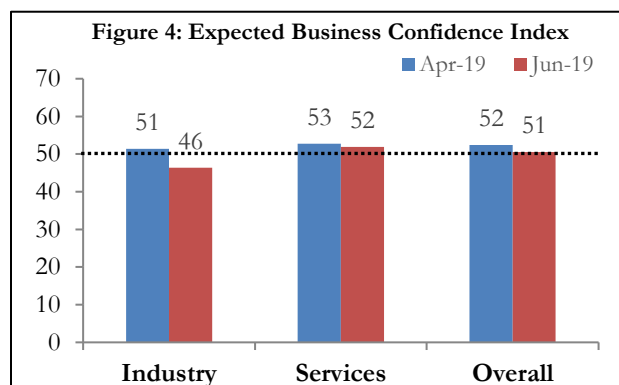
The overall percentage share of positive views has decreased from 16.1 in April 2019 to 10.7 in June 2019. On the other hand, the percentage share of very negative views has increased significantly from

17.1 percent to 24.8 between the last two waves and the neutral views' share has increased from 34.6 to 37.7 percent in the latest wave of the survey.

The main driving factor for this considerable decrease in the CBCI is the negative views of survey respondents regarding the general economic conditions in the country over the last six months. There is also a significant decline in the perception of respondents regarding production and employment over the last six months.

Expected Business Confidence

Turning to the EBCI, parallel to the movements in CBCI, it also shows decrease, though the index is still in the positive zone (**Figure 4**). However, we see a pronounced decrease of confidence in the industry sector where EBCI moved from positive to negative zone in June 2019; the value of EBCI declined from 51 in April 2019 to 46 in the current wave. Although, the EBCI for services decreased from 53 to 52 during the same period, it remained in the positive zone.

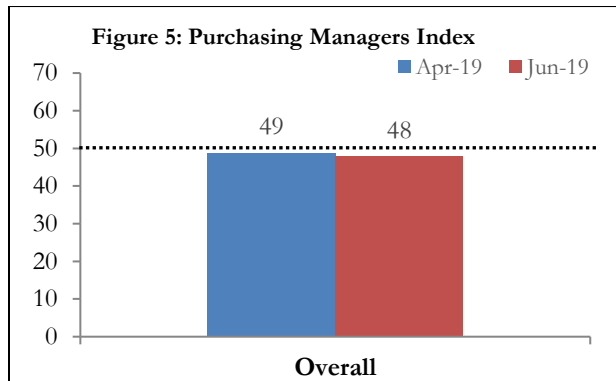


A detailed analysis of the EBCI results reveal movement from the share of positive views to very negative views from the last wave to the current wave of BCS (**Table 2**).

	Very Positive	Positive	Neutral	Negative	Very Negative
Jun-19					
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
Apr-19					
Industry	5.2	28.9	40.5	17.3	21.5
Services	4.4	30.5	40.7	20.4	4.0
Overall	4.8	29.7	40.6	18.8	6.1

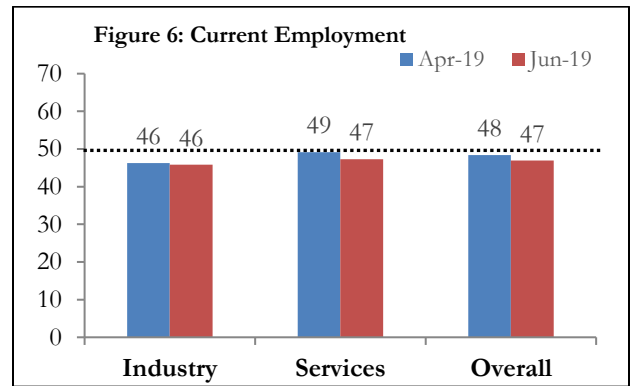
Purchasing Managers Index

Purchasing Managers Index (PMI) has also shown a decrease from 49 in April 2019 to 48 in the current wave (**Figure 5**); this decrease was mainly caused by slowdown in business activities over the past six months reported by industry sector firms.

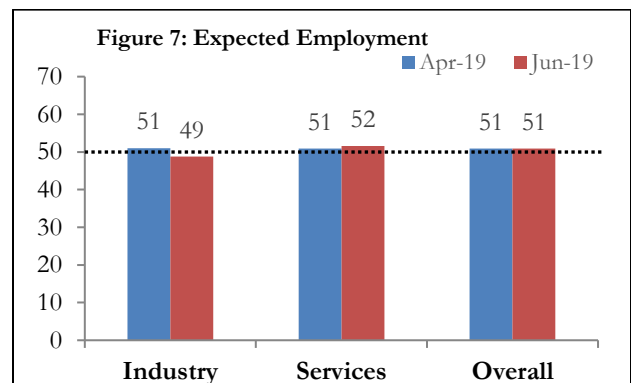


Employment

The Current Employment diffusion index have decreased further within the negative zone from 48 in April 2019 to 47 in the current wave (**Figure 6**).



The overall outlook for the expected employment, however, has remained constant between the two waves. The breakdown of expected employment by economic activity shows interesting results; the firms in the industry sector are expecting to decrease their employment in the next six months, while the services sector firms are still expecting to hire more employees in the next six months (**Figure 7**).



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