

## State Bank of Pakistan’s Business Confidence Survey\* – February 2020

[15<sup>th</sup> wave of Business Confidence Survey was conducted in February 2020; with 456 firms surveyed]

### Overall Business Confidence

The overall business confidence turned negative in February 2020 from a level of 52 in December 2019 to 49 (Figure 1 & 1a), which shows that optimistic views of business community about the economy have declined, resulting in a decline in the Business Confidence Index (BCI).

The index of perception for both industry and services turned from positive to negative (Figure 2) between the last two waves. In case of industry, the index decreased significantly from 51 in December 2019 to 47 in February 2020, while for services, it also decreased substantially from 53 to 49 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 perception of respondents regarding current economic and business conditions deteriorated further in the negative zone. In line with this, the perceptions regarding economic and business conditions in the next six months also showed a decline however they remained in the positive zone.

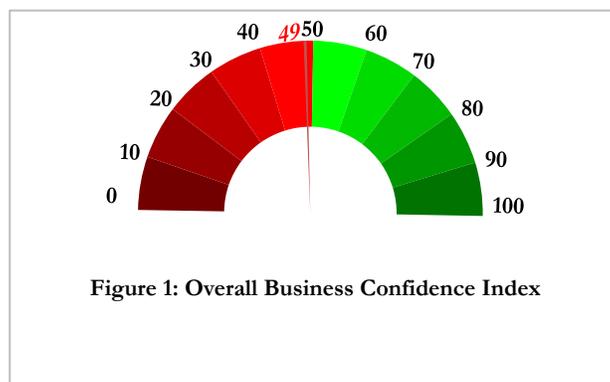


Figure 1: Overall Business Confidence Index

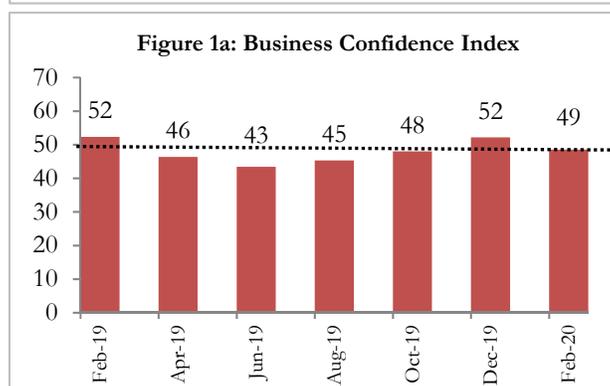


Figure 1a: Business Confidence Index

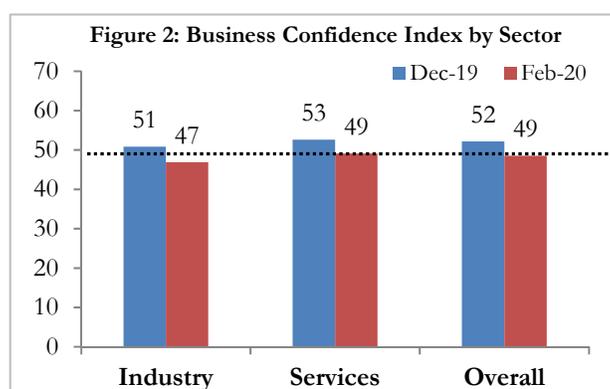
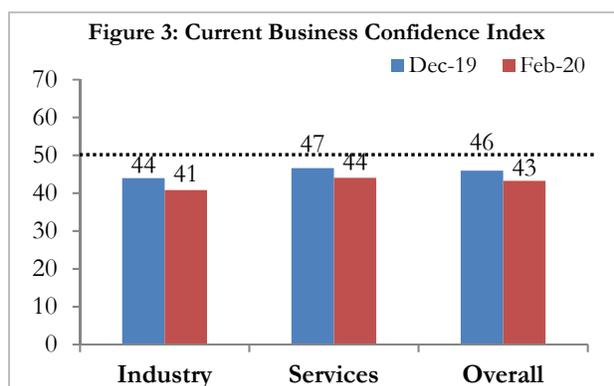


Figure 2: Business Confidence Index by Sector

\* SBP has been conducting the Business Confidence Survey (BCS) in collaboration with the Institute of Business Administration (IBA) 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 an endorsement by SBP.

## Current Business Confidence

The Current Business Confidence Index (CBCI) decreased further within negative zone from 46 in December 2019 to 43 in the current wave (**Figure 3**). This decline in current business confidence is driven by both industry and services sectors. For industry, it has decreased from 44 in December 2019 to 41 in February 2020, whereas for services it decreased to 44 from 47 in the recent wave.



Looking at the disaggregated distribution of responses (**Table 1**), there is a movement from very positive and positive views towards negative views, while the share of neutral views has increased.

	Very Positive	Positive	Neutral	Negative	Very Negative
<b>Feb-20</b>					
Industry	2.4	17.5	36.8	27.5	15.8
Services	3.3	21.0	36.4	27.0	12.2
Overall	2.9	19.2	36.6	27.3	14.0
<b>Dec-19</b>					
Industry	4.2	21.1	36.8	22.1	15.8
Services	5.6	26.5	31.1	22.3	14.5
Overall	4.9	23.8	33.9	22.2	15.2

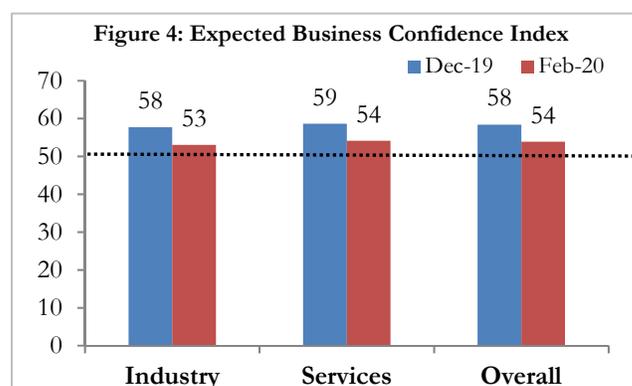
The overall percentage share of negative plus very negative views has increased from 37.4 in December 2019 to 41.3 in February 2020. On the other hand, the percentage share of positive views has declined

from 23.8 percent to 19.2 percent between the last two waves.

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

## Expected Business Confidence

The Expected Business Confidence Index (EBCI) has decreased to 54 in the current wave from 58 in December 2019 (**Figure 4**). The expected business confidence of the industry sector decreased from 58 in December 2019 to 53 in February 2020, while for the services sector EBCI deteriorated from 59 to 54. However, it remains in the positive zone.



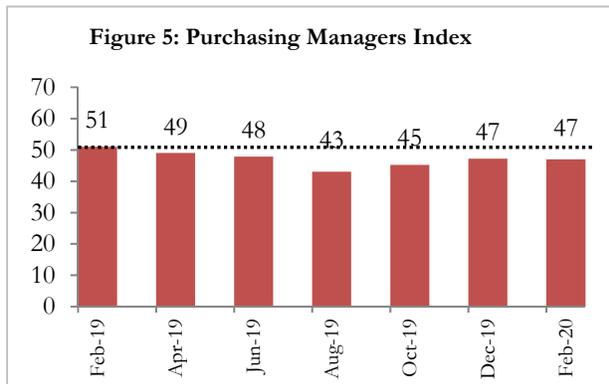
The disaggregation of EBCI results reveal shift from positive and very positive to negative views between the last two waves of BCS (**Table 2**).

	Very Positive	Positive	Neutral	Negative	Very Negative
<b>Feb-20</b>					
Industry	4.3	29.2	46.6	14.0	5.9
Services	3.6	33.1	43.7	15.7	4.0
Overall	3.9	31.2	45.1	14.9	4.9
<b>Dec-19</b>					
Industry	5.9	37.6	42.1	10.0	4.3
Services	5.2	42.5	38.9	8.5	5.0
Overall	5.6	40.1	40.5	9.2	4.7

The overall percentage share of negative plus very negative views has increased from 13.9 in December 2019 to 19.8 in February 2020. Whereas the percentage share of positive views has declined from 40.1 in December 2019 to 31.2 in February 2020.

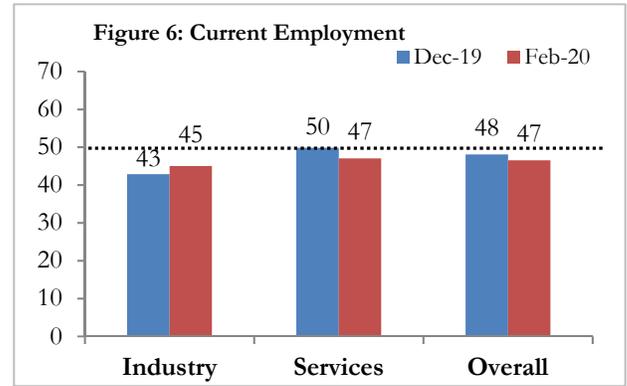
### Purchasing Managers Index

The Purchasing Managers Index (PMI) remained at the same level of 47 between the last two waves (Figure 5). It is important to note here that this is sixth consecutive wave of PMI in the negative zone.

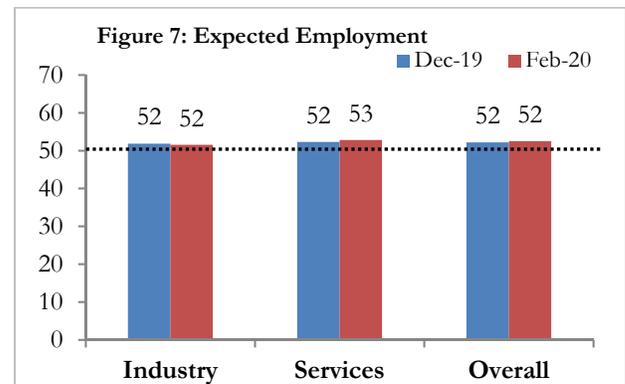


### Employment

The current employment diffusion index showed slight decline to 47 in the current wave as compared to 48 in the last wave (Figure 6). However, the trend is mixed for the two sectors. For industry, it has increased from 43 to 45 and for services, current employment index declined from 50 to 47 in the current wave.



Expected employment remained at the same level of 52 in February 2020 as in the previous wave. The expected employment index increased slightly for the services sector, while it remain at the same level for the industry sector between the two waves. Importantly, firms in both industry and services sector expect 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
<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