

State Bank of Pakistan’s Business Confidence Survey* – February 2021

[21st wave of Business Confidence Survey was conducted in February 2021; with 427 firms surveyed]

Overall Business Confidence

An upward trend was observed in overall business confidence for the last four consecutive waves and BCS reached to its highest level in the latest wave. The overall business confidence index increased further to 60 in February 2021 from 56 in December 2020 (**Figure 1 & 1a**) showing persistence of positive business sentiments. This improvement was driven by both the services and industrial sectors.

Especially, the services sector showed significant increase in the current wave. Business confidence index for services improved by 5 points in February 2021 and reached highest level (60) since December 2017 (**Figure 2**). The index for industry increased by 1 point in February 2021 and reached a new high (61) since inception of the survey.

The headline index “Overall Business Confidence” is comprised of two sub-indices; “Current Business Confidence Index (CBCI)” and “Expected Business Confidence Index (EBCI)”. The opinion of participants of BCS on account of both current conditions reached its highest level. As far the expectations regarding economic and business conditions in the next six months are concerned, they maintained their previous level.

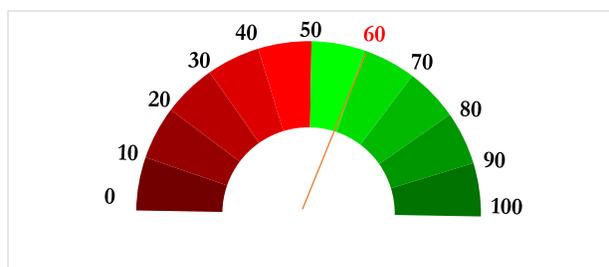


Figure 1: Overall Business Confidence Index

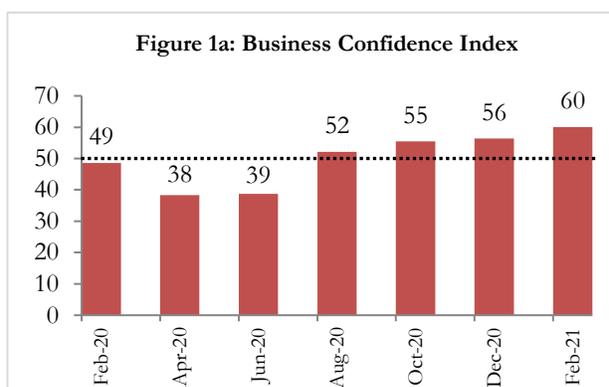


Figure 1a: Business Confidence Index

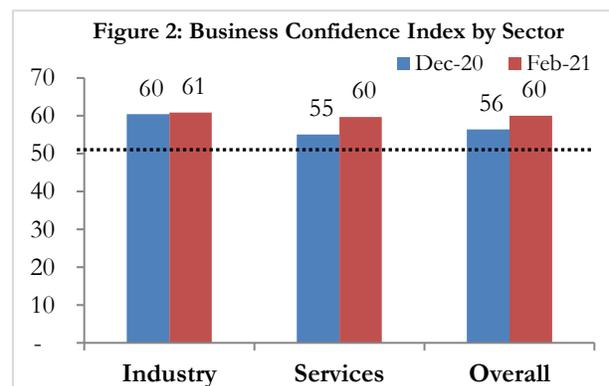


Figure 2: Business Confidence Index by Sector

* 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. April 2020 wave of BCS was conducted online due to COVID-19 led lockdown in the country instead of all other waves that were conducted through telephone. 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) improved by 7 points to 58 in February 2021 over December 2020 wave (**Figure 3**). This change in CBCI was mainly driven by services sector, which showed a significant increase of 8 points and reached to 57 in current wave. The industry sector improved by 2 points from 57 in December 2020 to 59 in the current wave of BCS.

Looking at the disaggregated distribution of responses (**Table 1**), there is a significant shift from negative and very negative views to positive views, while the share of neutral views remained almost same in the current wave.

The overall percentage share of positive and very positive views has increased from 38 in December 2020 to 47 in February 2021. On the other hand, the percentage share of negative and very negative views has decreased by 9 percent to 18 in February 2021 in the last wave.

The main driving factors for this improvement in the CBCI are increase in the positive views of survey respondents about general economic conditions in the country, their production/sales, and hiring of employees over the last six months.

Expected Business Confidence

The Expected Business Confidence Index (EBCI) maintained its level for the fourth consecutive wave (**Figure 4**). The disaggregation of EBCI results reveals a decline in both positive and negative views during February 2021 (**Table 2**), while the neutral views has increased in the current wave.

The overall percentage share of positive views has decreased from 54 in December 2020 to 53 in February 2021. Similarly, the percentage share of negative views also decreased from 10 percent to 8 percent during the last two waves.

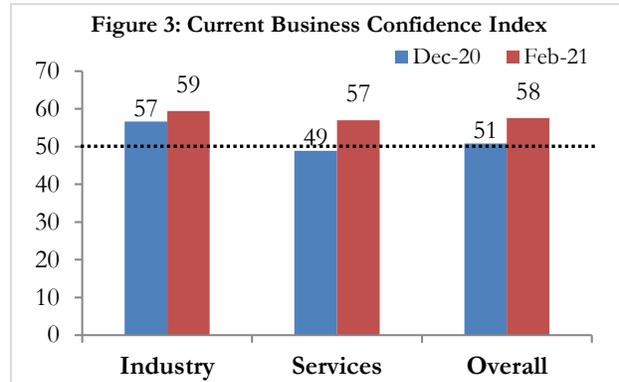


Table 1: Current Business Confidence (% Share)

	Very Positive	Positive	Neutral	Negative	Very Negative
Feb-21					
Industry	8.5	39.4	36.7	11.7	3.6
Services	6.3	39.0	31.5	18.2	5.1
Overall	7.4	39.2	34.1	14.9	4.4
Dec-20					
Industry	9.1	33.9	35.9	16.6	4.5
Services	4.0	29.0	33.3	25.9	7.7
Overall	6.6	31.4	34.6	21.3	6.1

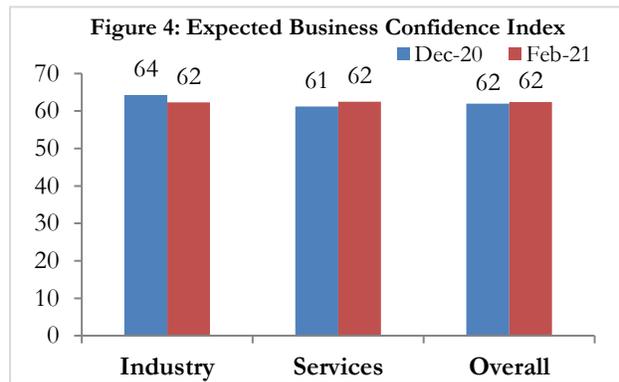
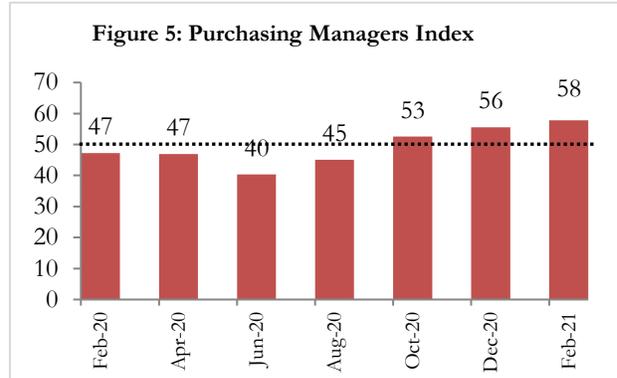


Table 2: Expected Business Confidence (% Share)

	Very Positive	Positive	Neutral	Negative	Very Negative
Feb-21					
Industry	7.5	43.8	40.4	6.9	1.4
Services	4.9	49.9	37.0	6.4	1.7
Overall	6.2	46.8	38.7	6.7	1.6
Dec-20					
Industry	11.4	43.2	37.7	6.5	1.2
Services	4.7	49.1	34.2	10.4	1.7
Overall	8.0	46.1	35.9	8.4	1.4

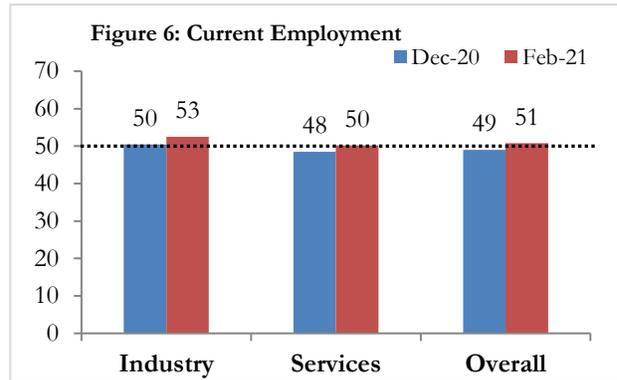
Purchasing Managers Index

An upward trend continued in Purchasing Managers Index (PMI) since June 2020, which reached its highest level, PMI increased significantly from 56 in December 2020 to 58 in February 2021 (**Figure 5**). This increase in PMI is driven by increase in the firm’s business activities, firm’s total order books, and purchases of raw material in the recent wave.

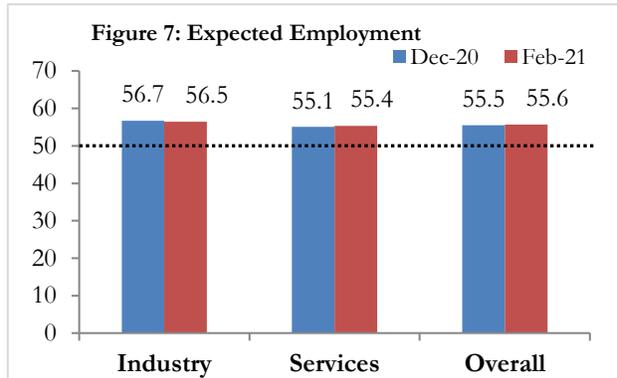


Employment

The current employment diffusion index improved further and entered into green zone with the level of 51 in the current wave (**Figure 6**). The change in current employment by both sector improved: the industry sector index from 50 in December to 53 in the current wave and the services sector increased to 50 in February 2021 from 48 in December 2020.



Expected employment index almost remain same in positive zone during February 2021 BCS wave. The disaggregation of expected employment index, both in services and industry, also nearly remain unchanged in the current wave (**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