

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

[14<sup>th</sup> wave of Business Confidence Survey was conducted in December 2019; with 424 firms surveyed]

## Overall Business Confidence

The overall business confidence turned positive (after remaining in negative zone for the last four waves) from 48 in October 2019 to 52 in December 2019 (**Figure 1 & 1a**), which shows that pessimistic views of business community about the economy have turned positive, resulting in an increase in the level of Business Confidence Index (BCI).

The index of perception for both industry and services turned from negative to positive (**Figure 2**). In case of industry, the index increased significantly from 45 in October 2019 to 51 in December 2019, while for services it also increased substantially from 49 to 53 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 improved while still remaining in the negative zone, whereas the perceptions regarding economic and business conditions in the next six months improved further in the positive zone.

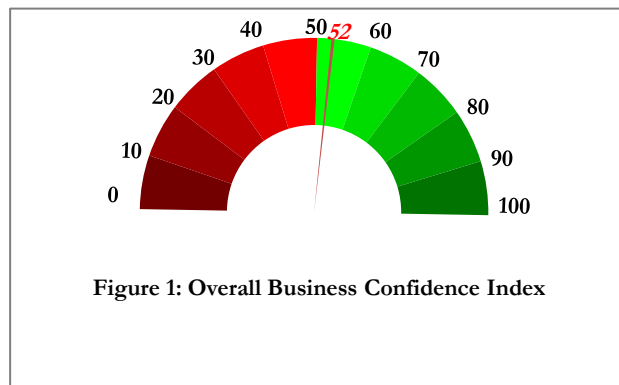


Figure 1: Overall Business Confidence Index

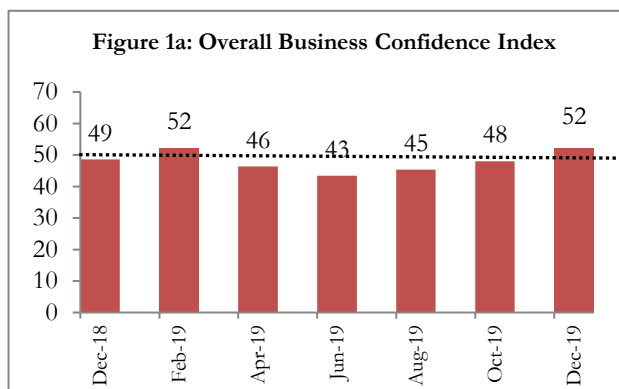


Figure 1a: Overall Business Confidence Index

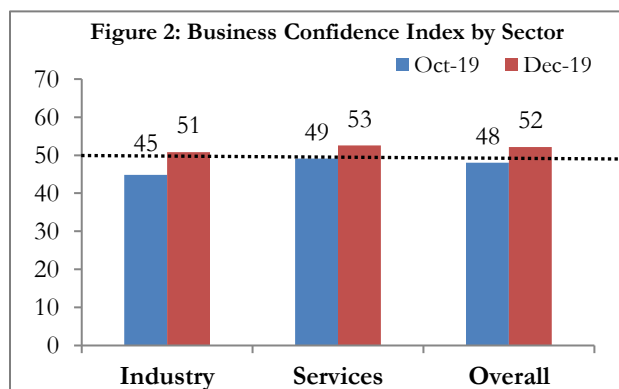
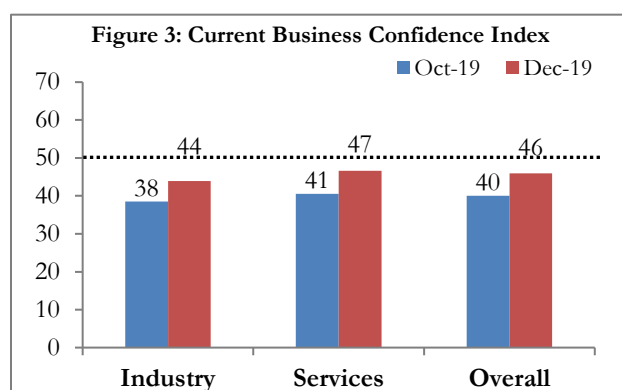


Figure 2: Business Confidence Index by Sector

\* SBP has been conducting the Business Confidence Survey (BCS) in collaboration with the Institute of Business Administration (IBA) 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), though still in negative territory has improved considerably from 40 in October 2019 to 46 in the current wave (**Figure 3**). This improvement in current business confidence is driven by both industry and services sectors. For industry, it has increased from 38 in October 2019 to 44 in December 2019, whereas for services it increased to 47 from 41.



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

	Very Positive	Positive	Neutral	Negative	Very Negative
<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
<b>Oct-19</b>					
Industry	3.1	15.4	34.7	25.8	21.0
Services	4.1	17.2	35.5	25.3	17.9
Overall	3.6	16.3	35.1	25.6	19.5

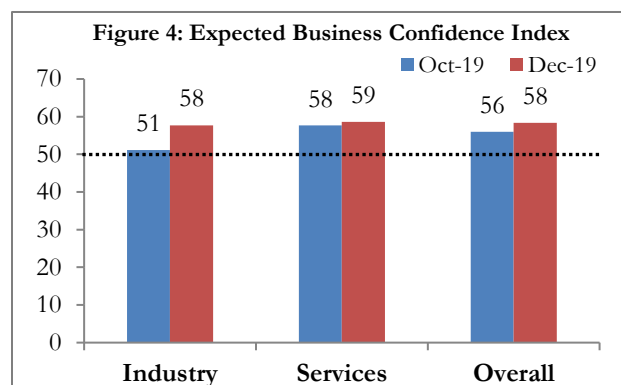
The overall percentage share of positive and very positive views has increased from 19.9 in October 2019 to 28.7 in December 2019. On the other hand, the percentage share of negative plus very negative

views has declined from 45.1 percent to 37.4 percent between the last two waves.

The main driving factor for this improvement in the CBCI is the increase in the positive views, decrease in the very negative and 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 increased to 58 in the current wave from 56 in October 2019 (**Figure 4**). There is a pronounced increase in expected business confidence of the industry sector from 51 in October 2019 to 58 in December 2019, while for the services sector EBCI also improved further from 58 to 59.



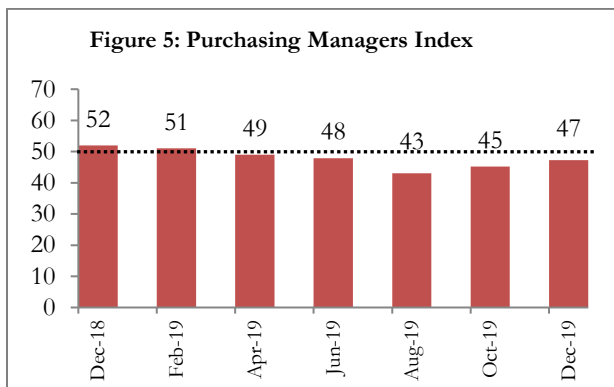
The disaggregation of EBCI results reveal shift from very negative, negative and neutral views to positive views between the last two waves of BCS (**Table 2**).

	Very Positive	Positive	Neutral	Negative	Very Negative
<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
<b>Oct-19</b>					
Industry	4.7	28.8	42.8	13.9	9.8
Services	6.8	34.7	45.2	9.0	4.3
Overall	5.8	31.7	44.0	11.5	7.0

The overall percentage share of positive and very positive views has increased from 37.5 in October 2019 to 45.7 in December 2019. Whereas the percentage share of negative plus very negative views has declined from 18.5 in October 2019 to 13.9 in December 2019.

### Purchasing Managers Index

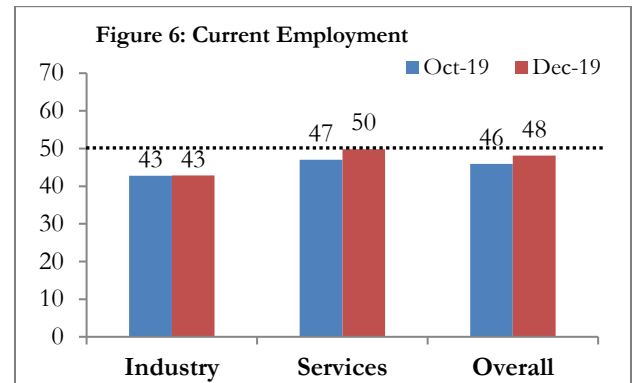
The Purchasing Managers Index (PMI) increased from 45 in October 2019 to 47 in December 2019 (Figure 5). PMI remains in the negative zone for the fifth consecutive wave. However, it has increased for the second consecutive time after falling to lowest level in August 2019.



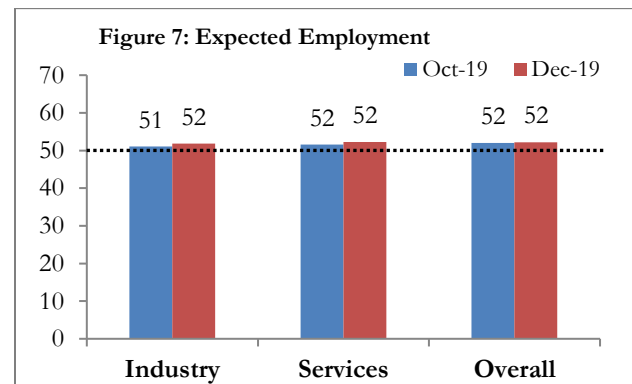
### Employment

The current employment diffusion index shows some moderate improvement but remains in the negative zone with the value of 48 in the current wave as compared to 46 in the last wave (Figure 6). For industry, it has remained at the same low level of

43 in the last two waves. However, for services it has improved from 47 in October 2019 to neutral level of 50 in December 2019.



Expected employment remained positive at the same level of 52 in December 2019 as in the previous wave. industry sector showed a slight positive change, whereas services sector firms are expecting to hire more employees in the next six months on more or less at same pace as of previous 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
<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
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