State Bank of Pakistan's Business Confidence Survey* – October 2019

[This wave of Business Confidence Survey was conducted in October 2019; with 400 firms surveyed]

Overall Business Confidence

The overall business confidence in October 2019 improved from 45 in August 2019 to 48 **(Figure 1)**, which shows that pessimistic views of business community about the economy have marginally decreased, resulting in an increase in the level of Business Confidence Index (BCI). However, it remained in the negative zone.

The index of perception for both industry and services improved but remained in the negative zone (**Figure 2**). In case of services, the index increased from 46 in August 2019 to 49 in October 2019, while for industry it increased from 43 to 45 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 remained negative whereas they were positive regarding economic and business conditions in the next six months.
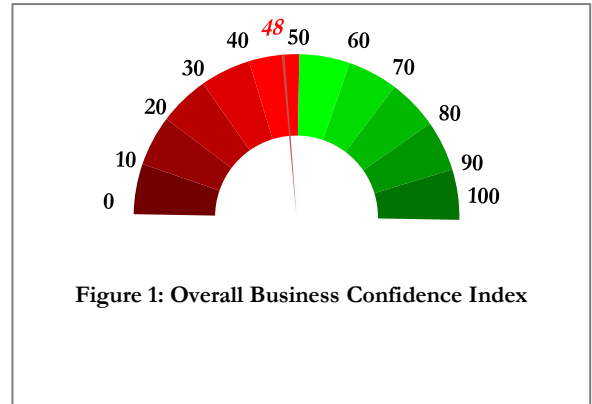

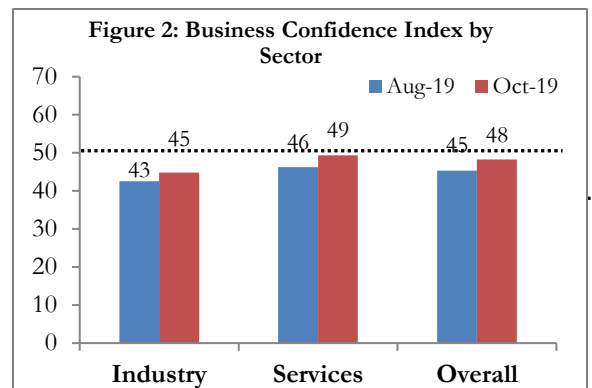Figure 1: Overall Business Confidence Index

Figure 2: Business Confidence Index by Sector

Current Business Confidence

The CBCI has increased from 37 in August 2019 to 40 in the current wave (**Figure 3**). The improvement in the CBCI is derived from both industry and services sectors. For services, it has increased from 37 in August 2019 to 41 in October 2019, whereas for industry it increased to 38 from 36.

Figure 3: Current Business Confidence Index
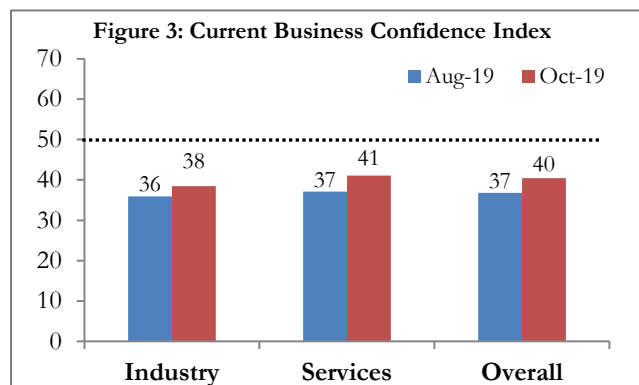
Looking at the disaggregated distribution of responses (**Table 1**), there is a slight movement from very negative views towards positive views, share of very positive views has increased slightly whereas neutral views have marginally declined.

Table 1: Current Business Confidence (% Share)					
	Very Positive	Positive	Neutral	Negative	Very Negative
Oct-19					
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
Aug-19					
Industry	3.0	11.3	35.4	27.0	23.3
Services	1.3	14.7	37.5	24.4	22.2
Overall	2.1	13.0	36.4	25.7	22.7

The overall percentage share of positive views has increased from 13.0 in August 2019 to 16.3 in October 2019. On the other hand, the percentage share of very negative views has declined from 22.7 percent to 19.5 and the share of neutral views has decreased from 36.4 to 35.1 percent between last two waves of the survey.

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

Expected Business Confidence

Turning to the Expected Business Confidence Index, EBCI increased to 56 in the current wave as compared to 54 in August 2019 (**Figure 4**). However, we see a pronounced increase of confidence in the services sector where EBCI for services moved from a positive level of 55 to 58. While EBCI for industry increased from 49 to 51, entering in the positive zone after two waves.

Figure 4: Expected Business Confidence Index
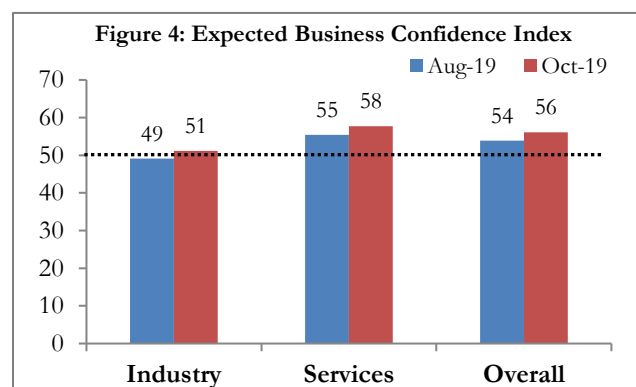
The details of EBCI results reveal slight shift from negative and very negative views to positive views between the last two waves of BCS (**Table 2**).

Table 2: Expected Business Confidence (% Share)					
	Very Positive	Positive	Neutral	Negative	Very Negative
Oct-19					
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
Aug-19					
Industry	5.1	24.5	41.9	18.5	9.9
Services	4.1	34.8	44.1	12.5	4.4
Overall	4.6	29.7	43.0	15.5	7.1

The overall percentage share of positive and very positive views has increased from 34 in August 2019 to 38 in October 2019. Whereas the percentage share of negative and very negative views has declined from 23 in August 2019 to 19 in October 2019.

Purchasing Managers Index

The Purchasing Managers Index (PMI) increased from 43 in August 2019 to 45 in October 2019 (**Figure 5**). PMI remains clearly in the negative zone but has increased from previous wave for the first time after eight waves.

Figure 6: Current Employment

Figure 5: Purchasing Managers Index
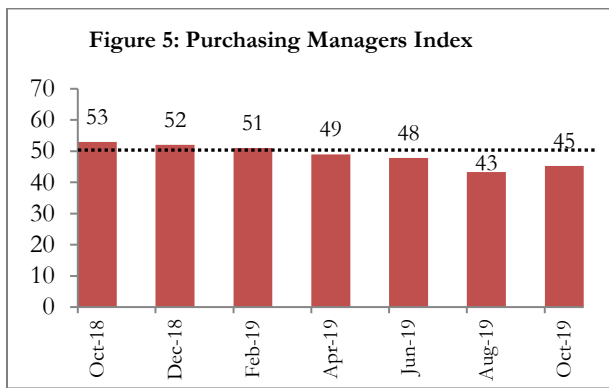
Employment

The current employment diffusion index shows some moderate improvement but remain in the negative zone with the value of 46 in the current wave as compared to 44 in the last wave (**Figure 6**).
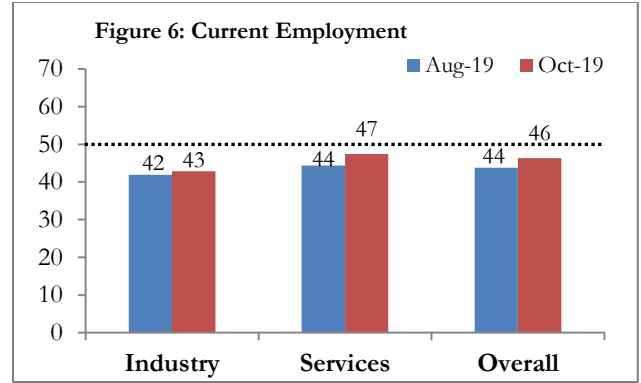
In line with current employment, expected employment also improved and increased to 52 in October 2019 as compared to 51 in the previous wave. Both services and industry sector firms are expecting to hire more employees in the next six months. (**Figure 7**).

Figure 7: Expected Employment
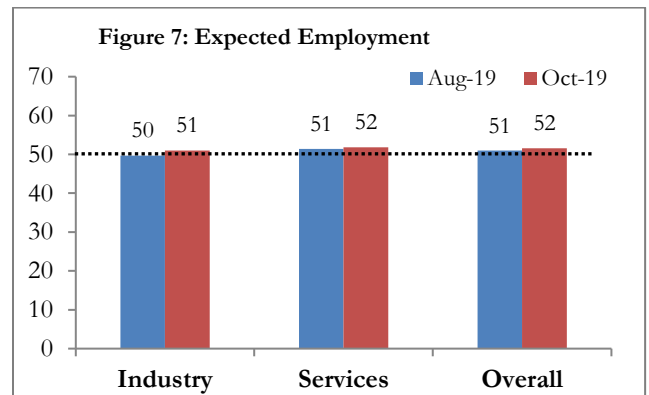
Business Confidence Survey (BCS) Notes

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