

State Bank of Pakistan's Business Confidence Survey* – April 2020

[16th wave of Business Confidence Survey was conducted in April 2020; with 112 firms surveyed]

Overall Business Confidence

The overall business confidence touched the lowest historical level of 38 in April 2020 from 49 in February 2020 (**Figure 1 & 1a**), which shows that pessimistic views of business community about the economy have increased substantially, resulting in a pronounced decline in the Business Confidence Index (BCI).

The perceptions of both industry and services sector deteriorated from being moderately negative to significantly negative (**Figure 2**) between the last two waves. In case of industry, the confidence index decreased significantly from 47 in February 2020 to 39 in April 2020, while for services, it also decreased substantially from 49 to 38 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. Furthermore, for the first time since start of this survey, the perceptions regarding economic and business conditions in the next six months showed a substantial decline and breached the negative zone (below 50).

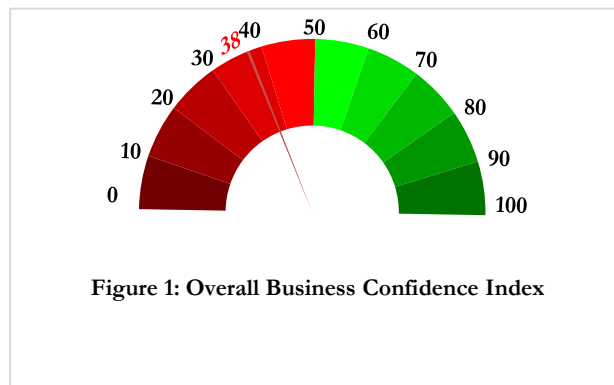
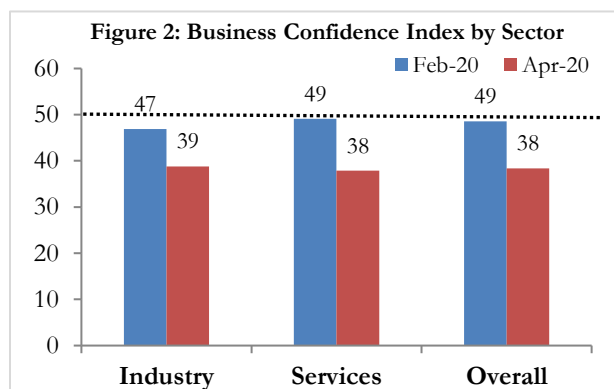
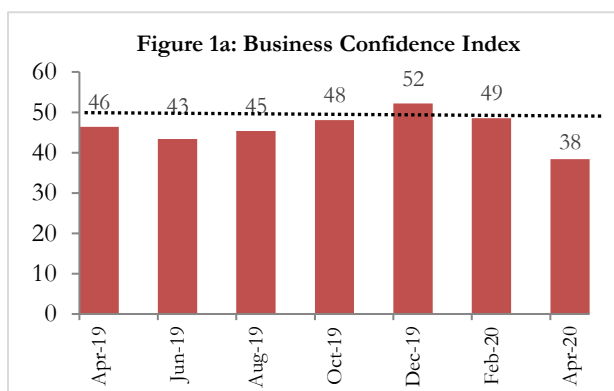


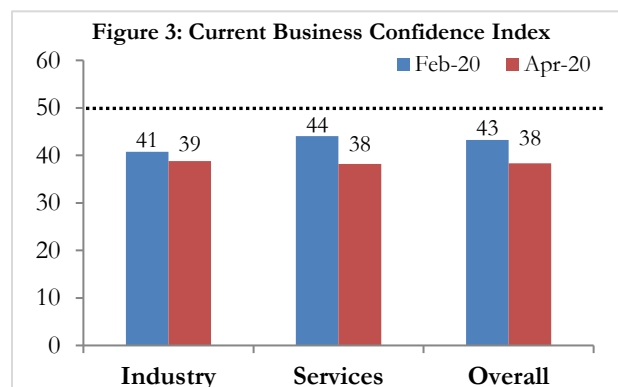
Figure 1: Overall Business Confidence Index



* 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. This 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) decreased further within negative zone from 43 in February 2020 to 38 in the current wave (**Figure 3**). This decline in current business confidence is driven by both industry and services sectors. For industry, index decreased from 41 in February 2020 to 39 in April 2020, whereas for services it decreased more to 38 from 44 in the last wave.



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

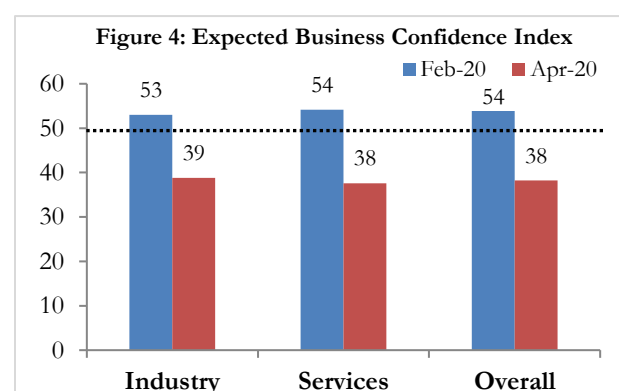
	Very Positive	Positive	Neutral	Negative	Very Negative
Apr-20					
Industry	1.9	20.0	32.9	21.9	23.3
Services	1.6	17.0	33.2	29.0	19.2
Overall	1.8	18.5	33.0	25.4	21.3
Feb-20					
Industry	2.4	17.5	36.8	27.5	15.8
Services	3.3	21.0	36.4	27.0	12.2
Overall	2.9	19.2	36.6	27.3	14.0

The overall percentage share of negative plus very negative views has increased from 41 in February 2020 to 47 in April 2020. On the other hand, the percentage share of positive plus very positive views has declined from 22 percent to 20 percent between the last two waves.

The main driving factor for this decline in the CBCI is the increase in the very negative views of survey respondents regarding general economic conditions in the country, their own production/sales and hiring of employees over the last six months.

Expected Business Confidence

The Expected Business Confidence Index (EBCI) has faced the highest fall to 38 in the current wave from 54 in February 2020 (**Figure 4**). The expected business confidence of the industry sector decreased significantly from 53 in February 2020 to 39 in April 2020, while for the services sector EBCI deteriorated from 54 to 38.



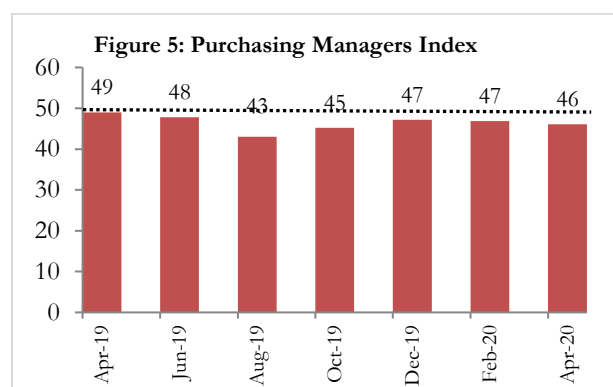
The disaggregation of EBCI results reveal a significant shift from very positive, positive and neutral views to negative and very negative views between the last two waves of BCS (**Table 2**).

	Very Positive	Positive	Neutral	Negative	Very Negative
Apr-20					
Industry	3.8	17.6	31.4	24.3	22.9
Services	0.8	16.1	34.1	30.6	18.4
Overall	2.3	16.9	32.7	27.5	20.6
Feb-20					
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

The overall percentage share of negative plus very negative views has increased from 20 in February 2020 to 48 in April 2020. Whereas the percentage share of positive views has declined from 31 in February 2020 to 17 in April 2020.

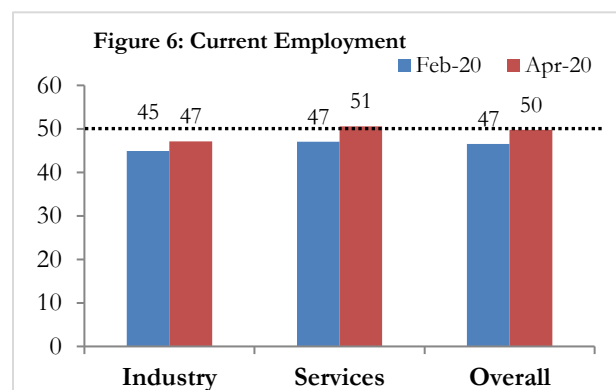
Purchasing Managers Index

The Purchasing Managers Index (PMI) in line with other indices also declined; however only slightly from 47 in February 2020 to 46 in April 2020 (**Figure 5**). It is important to note here that this is seventh consecutive wave of PMI in the negative zone.



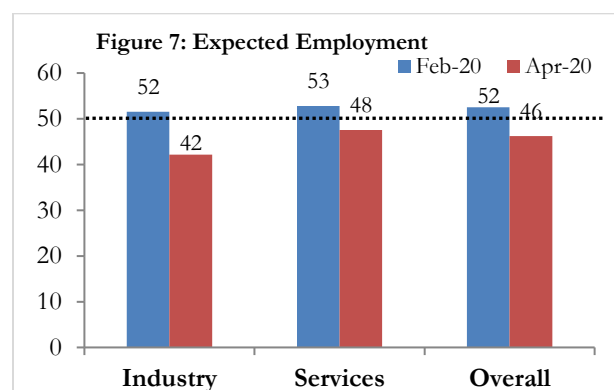
Employment

The current employment diffusion index showed slight improvement to 50 in the current wave as compared to 47 in the last wave (**Figure 6**). For industry, it remained in the negative zone; however, it increased from 45 in February 2020 to 47 in April



2020. For services sector, current employment index increased from 47 in the last wave to 51 in the current wave.

Expected employment deteriorated from 52 in February 2020 to 46 in the current wave. The expected employment index decreased for the services sector from 54 to 48, while for the industry sector it decreased significantly from 52 to 42 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