State Bank of Pakistan's Business Confidence Survey[*] – June 2020

[17th wave of Business Confidence Survey was conducted in June 2020; with 367 firms surveyed]

Overall Business Confidence

The overall business confidence in June was 39, marginally higher than historical lowest at 38 in April 2020 **(Figure 1 & 1a)**, which shows that pessimistic views of business community about the economy remain elevated resulting in low level of Business Confidence Index (BCI).

The perceptions of the industry sector deteriorated further within negative territory (**Figure 2**) between the last two waves, whereas services sector perceptions only improved slightly. In case of industry, the confidence index decreased from 39 in April 2020 to 36 in June 2020, while for services, it increased from 38 to 40 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. However, the perceptions regarding economic and business conditions in the next six months showed considerable improvement though remained in the negative zone.
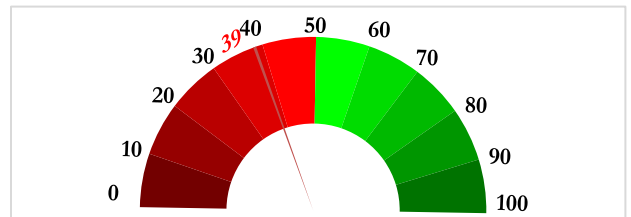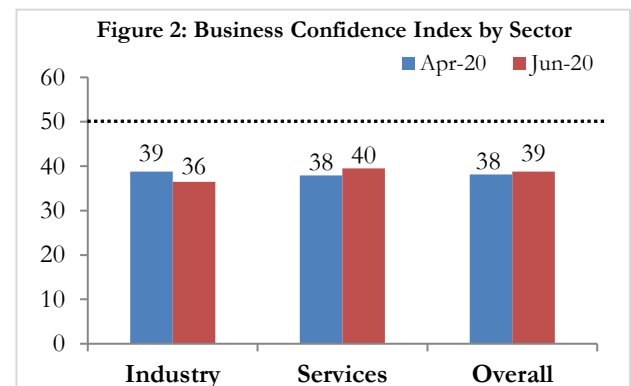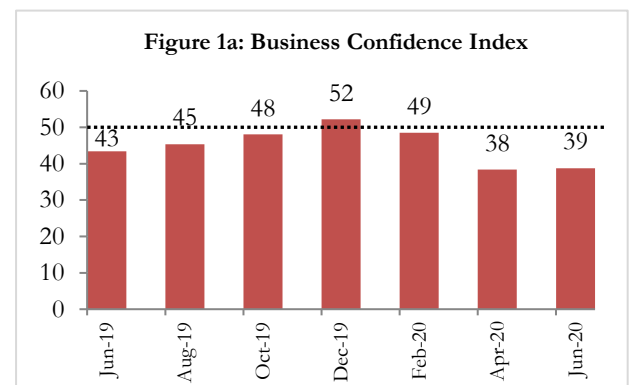

Figure 1: Overall Business Confidence Index

Figure 1a: Business Confidence Index

Figure 2: Business Confidence Index by Sector

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[*] 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) reached the lowest historical level decreasing further within negative zone from 38 in April 2020 to 30 in the June wave (**Figure 3**). This decline in current business confidence is driven by both industry and services sectors. For industry, index decreased significantly from 39 in April 2020 to 29 in June 2020, similarly for services it decreased to 31 from 38 in the last wave.

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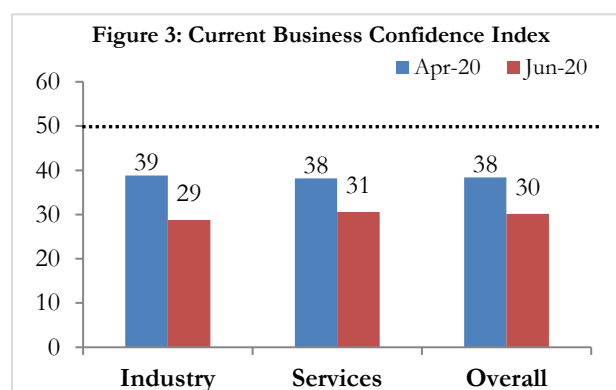
Looking at the disaggregated distribution of responses (**Table 1**), there is a movement from positive views towards negative and very negative views, while the share of neutral views has increased slightly.

Table 1: Current Business Confidence (% Share)					
	Very Positive	Positive	Neutral	Negative	Very Negative
Jun-20					
Industry	1.2	4.1	33.0	31.9	29.8
Services	1.7	5.1	36.5	27.1	29.6
Overall	1.5	4.6	34.7	29.5	29.7
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

The overall percentage share of negative plus very negative views has increased from 47 in April 2020 to 59 in June 2020. On the other hand, the percentage share of positive plus very positive views has declined from 20 percent to 6 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 improved significantly from 38 in April to 47 in the current wave (**Figure 4**). The expected business confidence of the industry sector increased from 39 in April 2020 to 44 in June 2020, while for the services sector EBCI increased from 38 to 49. However, expectations remain in the negative zone.

Figure 4: Expected Business Confidence Index
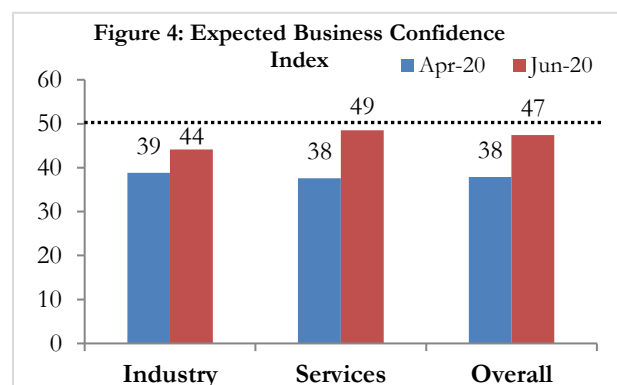
The disaggregation of EBCI results reveal a shift from negative and very negative views towards neutral, and positive views between the last two waves of BCS (**Table 2**).

Table 2: Expected Business Confidence (% Share)					
	Very Positive	Positive	Neutral	Negative	Very Negative
Jun-20					
Industry	1.6	19.0	45.0	23.1	11.2
Services	3.4	25.9	41.0	20.5	9.1
Overall	2.5	22.5	43.0	21.8	10.2
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

The overall percentage share of negative plus very negative views has decreased from 48 in April 2020 to 32 in June 2020. Whereas the percentage share of positive views has improved from 19 in April 2020 to 25 in June 2020.

Purchasing Managers Index

The Purchasing Managers Index (PMI) in line with other indices also declined further; and registered lowest level of 40 in June 2020 from 46 in April 2020 (**Figure 5**). For the second consecutive wave PMI has decreased within the negative zone. Furthermore, this wave experienced the largest percentage decline in PMI since the start of BCS


Figure 5: Purchasing Managers Index
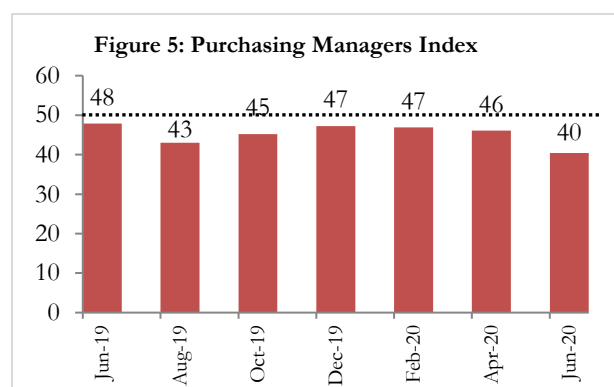
Employment

The current employment diffusion index showed significant decline to 45 in the current wave as compared to 50 in the last wave (**Figure 6**). For

industry, it decreased further from 47 in April 2020 to 44 in June 2020 in the negative zone. For services sector, current employment index decreased from 51 in the last wave to 45 in the current wave.

Figure 6: Current Employment
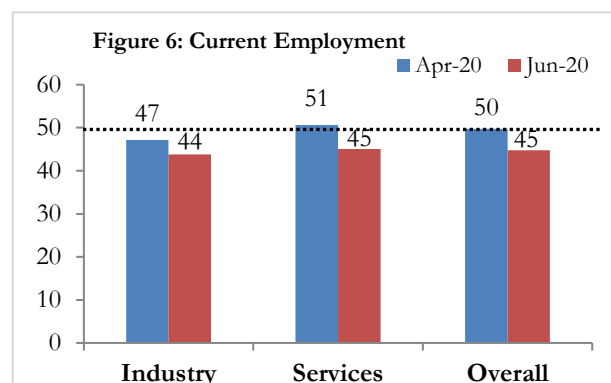
In contrast to current employment, expected employment improved from 46 in April 2020 to 50 in the current wave. The expected employment index increased for the services sector from 48 to 51, while for the industry sector it increased significantly from 42 to 48 in the current wave (**Figure 7**).

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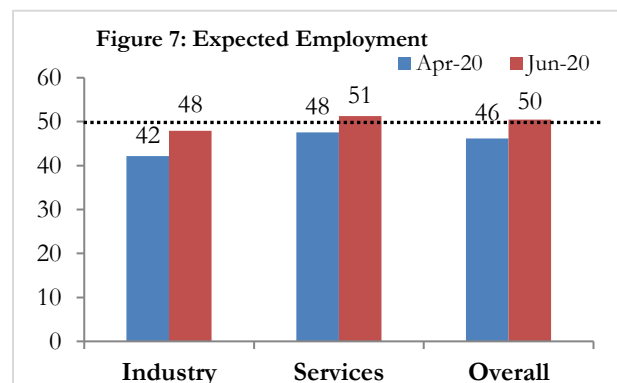
Business Confidence Survey (BCS) Notes

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
	- 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
	- 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
	- 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
	- 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