

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

[19th wave of Business Confidence Survey was conducted in October 2020; with 358 firms surveyed]

Overall Business Confidence

The overall business confidence improved further by 3 points and reached two years high (from 52 in August 2020 to 55) in October 2020, remaining in positive zone for second consecutive wave (**Figure 1 & 1a**), which shows optimistic views of business community regarding enhancement in economic activities in Pakistan. Resultantly, Business Confidence Index (BCI) increased in October 2020.

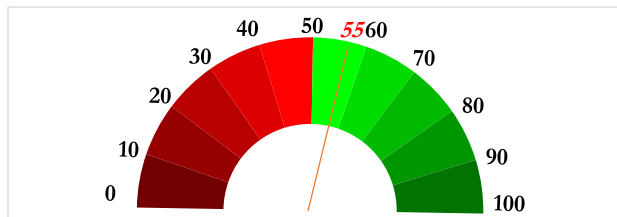
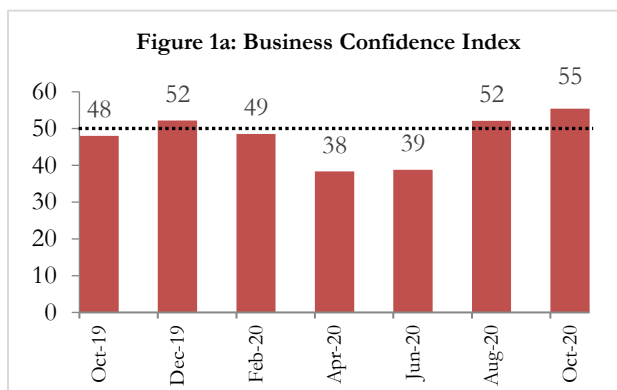
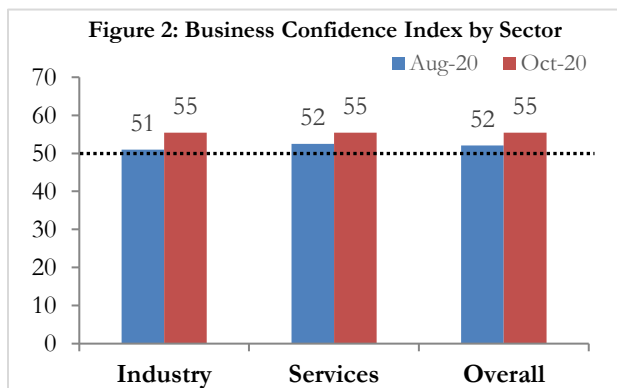


Figure 1: Overall Business Confidence Index

The perceptions of both the industry and services sectors further improved in positive zone (**Figure 2**). Business confidence index for industry increased from 51 in August 2020 to 55 in October 2020; and for services sector firms from 52 to 55.



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 current economic and business conditions moved upward, though still in negative zone. The expectations regarding economic and business conditions in the next six months remained same in the positive area.



* 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 further within negative zone from 42 in August 2020 to 49 in the current wave (**Figure 3**). This improvement in current business confidence was derived from both industry as well as services sectors. CBCI of industry sector increased significantly from 39 in August 2020 to 51 in October 2020, which shows the shifting of perceptions of businesses from negative zone to positive zone since June 2018. As far as services sector is concerned, it increased from 43 in August 2020 to 48 in current wave.

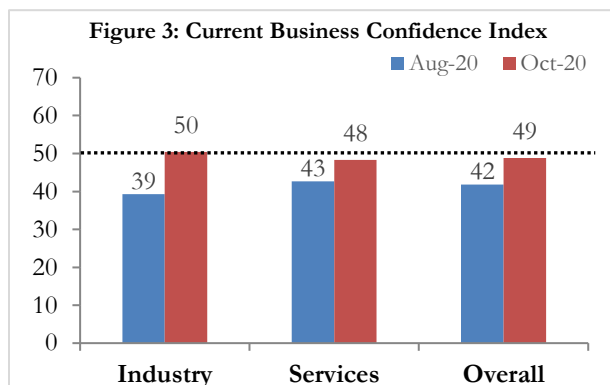
Looking at the disaggregated distribution of responses (**Table 1**), there is a movement from both very negative and negative views towards positive views, while the share of neutral views has slightly decreased in current wave.

The overall percentage share of negative and very negative views has decreased from 42 in August 2020 to 31 in October 2020. On the other hand, the percentage share of positive and very positive views has increased from 19 percent to 31 percent between the last two waves.

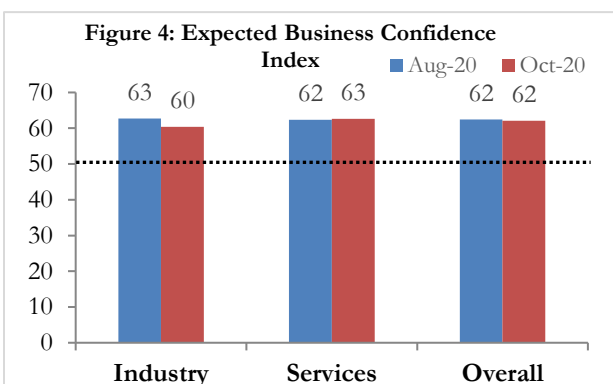
The main driving factor for this improvement in the CBCI is the decrease in the very negative views of survey respondents regarding general economic conditions in the country, their own production/sales and hiring of employees over the last six months.

Expected Business Confidence

The Expected Business Confidence Index (EBCI) remained same at 62 in October 2020 as in the last wave (**Figure 4**). The expected business confidence of the industry sector slightly decreased from 63 in August 2020 to 60 in October 2020, while for the services sector EBCI increased from 62 to 63.



	Very Positive	Positive	Neutral	Negative	Very Negative
Oct-20					
Industry	6.6	23.7	43.0	18.0	8.6
Services	6.5	24.5	33.7	26.1	9.2
Overall	6.6	24.1	38.4	22.0	8.9
Aug-20					
Industry	2.6	14.1	37.3	29.7	16.2
Services	3.5	16.8	41.6	22.7	15.3
Overall	3.1	15.5	39.4	26.2	15.8



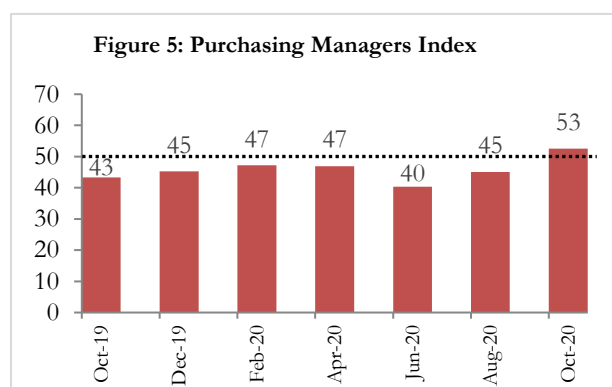
The disaggregation of EBCI results reveals a minor shift from positive and very positive views towards negative and very negative views between the last two waves of BCS (**Table 2**).

The overall percentage share of negative plus very negative views has increased from 8 in August 2020 to 10 in October 2020. Whereas the percentage share of positive views has decline from 52 in August 2020 to 50 in October 2020.

Table 2: Expected Business Confidence (% Share)					
	Very Positive	Positive	Neutral	Negative	Very Negative
Oct-20					
Industry	7.0	40.6	42.0	7.9	2.6
Services	8.8	43.7	38.3	7.7	1.5
Overall	7.9	42.1	40.1	7.8	2.1
Aug-20					
Industry	7.4	44.8	40.4	6.0	1.4
Services	5.6	46.9	39.8	6.5	1.2
Overall	6.5	45.9	40.1	6.2	1.3

Purchasing Managers Index

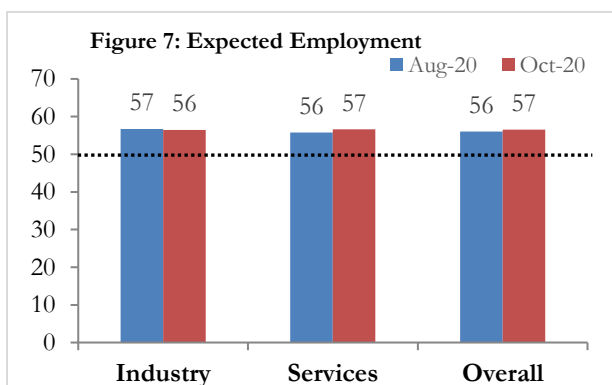
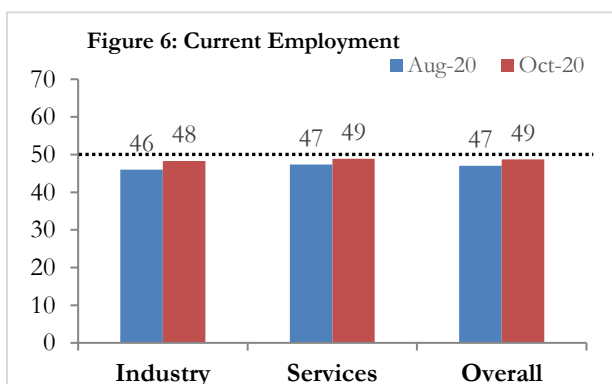
After remaining in negative zone for the last eight waves, Purchasing Managers Index (PMI) entered in the green zone. PMI increased significantly from 45 in August 2020 to 53 in October 2020 (**Figure 5**). Increase in the firm's business activities, surge in firm's total order books, and rise in purchasing of raw material by the firms are the main factors for this increase in PMI in the recent wave.



Employment

The current employment diffusion index showed an improvement of two points to 49 in the current wave as compared to 47 in the previous wave (**Figure 6**). For both industry and services sectors it remained in the negative zone but improved slightly.

Expected employment improved from 56 in August 2020 to 57 in the current wave. For industry, the expected employment index decreased from 57 to 56, while for the services sector it increased from 56 in August 2020 to 57 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