

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

[18th wave of Business Confidence Survey was conducted in August 2020; with 380 firms surveyed]

Overall Business Confidence

The overall business confidence recovered significantly from 39 in June to 52 in August. The index came back in the positive zone after remaining in the negative zone for the last three waves (**Figure 1 & 1a**), which shows that views of business community about the economy have turned positive, resulting in a visible increase in the Business Confidence Index (BCI).

The perceptions of both industry and services sectors improved from being significantly negative to becoming positive (**Figure 2**) between the last two waves. In case of industry, the confidence index increased from 36 in June 2020 to 51 in August 2020, while for services, it increased from 40 to 52 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. However, the perceptions regarding economic and business conditions in the next six months showed significant improvement in the current wave with a high index value in the positive territory after remaining in the negative zone for the last two waves.

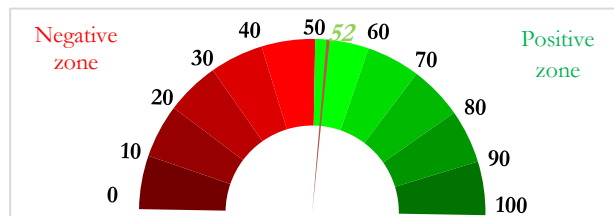
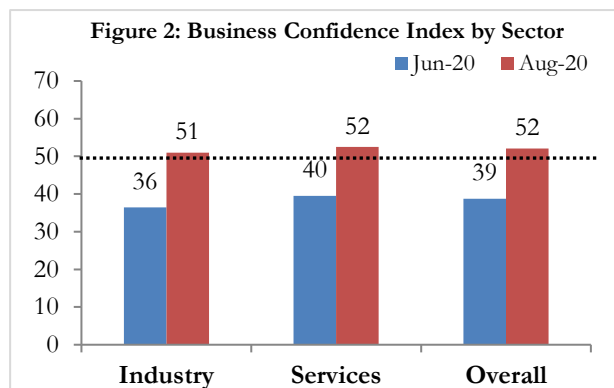
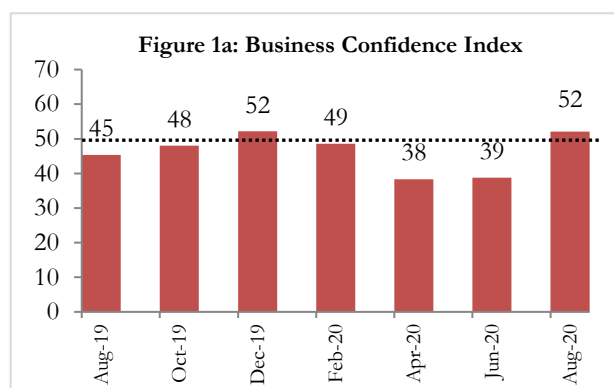


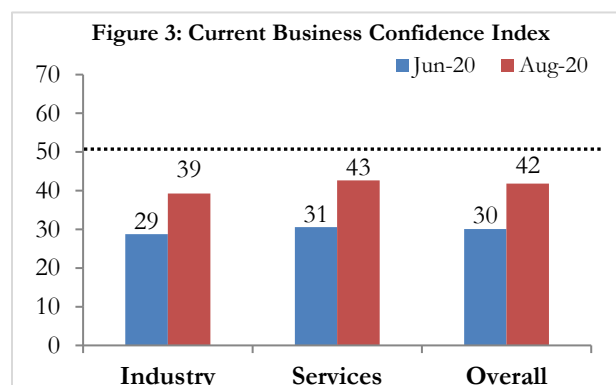
Figure 1: Overall Business Confidence Index



* 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. 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 significantly within negative zone from 30 in June 2020 to 42 in the current wave (**Figure 3**). This improvement in current business confidence is driven by both industry and services sectors. For industry, CBCI increased from 29 in June 2020 to 39 in August 2020, whereas for services it increased to 43 from 31 in the last wave.



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

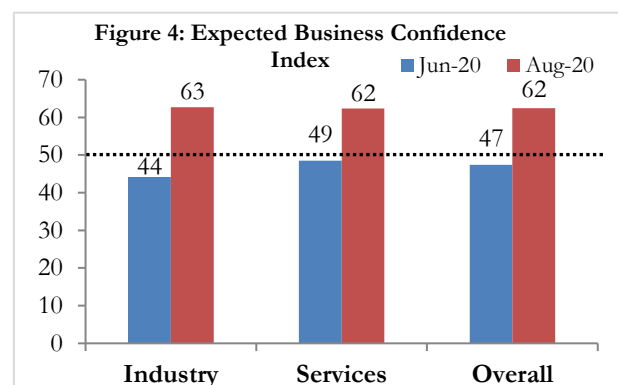
| | Very Positive | Positive | Neutral | Negative | Very Negative |
|---------------|---------------|----------|---------|----------|---------------|
| Aug-20 | | | | | |
| Industry | 2.6 | 14.1 | 37.3 | 29.7 | 16.2 |
| Services | 3.5 | 16.8 | 41.6 | 22.7 | 15.3 |
| Overall | 3.1 | 15.5 | 39.4 | 26.2 | 15.8 |
| 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 |

The overall percentage share of negative plus very negative views has decreased from 59 in June 2020 to 42 in August 2020. On the other hand, the percentage share of positive plus very positive views has increased from 6 percent to 18 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, 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 47 in June to 62 in the current wave (**Figure 4**). The expected business confidence of the industry sector increased substantially from 44 in June 2020 to 63 in August 2020, while for the services sector EBCI increased notably from 49 to 62.



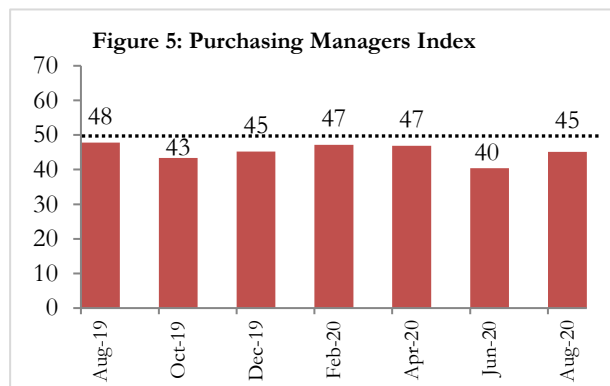
The disaggregation of EBCI results reveal a significant shift from negative and very negative views towards positive and very positive views between the last two waves of BCS (**Table 2**).

| | Very Positive | Positive | Neutral | Negative | Very Negative |
|---------------|---------------|----------|---------|----------|---------------|
| 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 |
| 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 |

The overall percentage share of negative plus very negative views has decreased significantly from 32 in June 2020 to 8 in August 2020. Whereas the percentage share of positive and very positive views has improved notably from 23 in June 2020 to 52 in August 2020.

Purchasing Managers Index

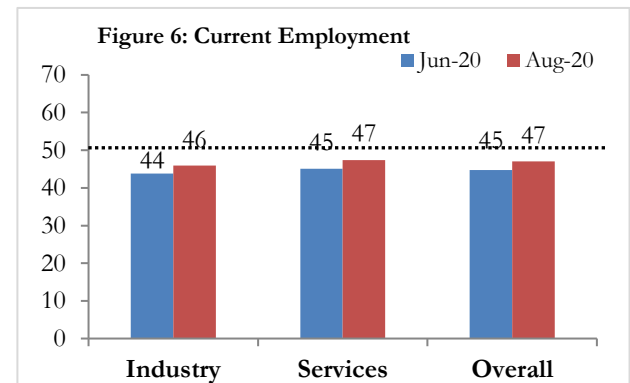
The Purchasing Managers Index (PMI) in line with other indices also improved from 40 in June 2020 to 45 in August 2020 while remaining in the negative zone (**Figure 5**). It is important to note here that this is the eighth consecutive wave of PMI in the negative zone.



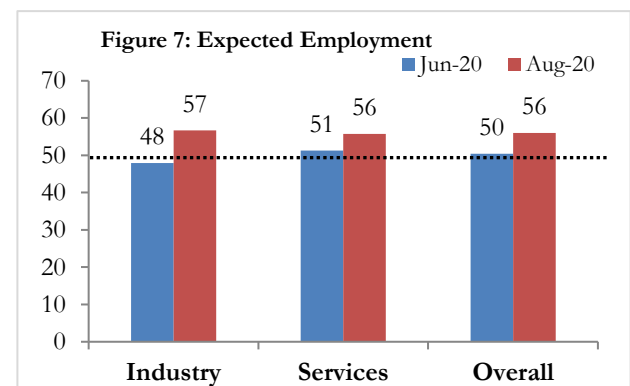
Employment

The current employment diffusion index showed slight improvement to 47 in the current wave as compared to 45 in the last wave (**Figure 6**). For industry, it remained in the negative zone but

increased from 44 in June 2020 to 46 in August 2020. For services sector, current employment index increased from 45 in the last wave to 47 in the current wave.



Expected employment improved significantly from 50 in June 2020 to 56 in the current wave. The expected employment index increased significantly for the industry sector from 48 to 57, while for the services sector it increased from 51 to 56 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 |