

State Bank of Pakistan’s Business Confidence Survey* – April 2021

[22nd wave of Business Confidence Survey was conducted in April 2021; with 467 firms surveyed]

Overall Business Confidence

Overall business confidence remained in the positive zone for the 5th consecutive wave, though the value of the index was lower in the latest BCS wave as compared with the previous one. The index decreased from 60 in February 2021 to 58 in April 2021 (**Figure 1 & 2a**). This fall in the index during current wave of BCS is driven by both the industry and services sectors (**Figure 2b**), although their sentiments continued to be higher than the benchmark of 50.

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 continued to move into the positive zone but relatively in lower intensity from previous wave. As far the expectations regarding economic and business conditions in the next six months are concerned, a slight decrease was witnessed after remaining constant during the last four waves.

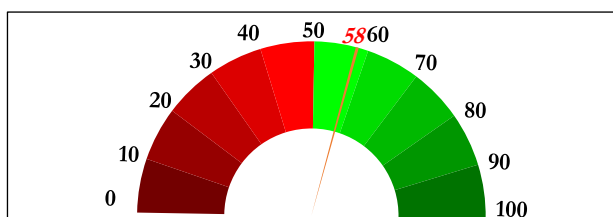
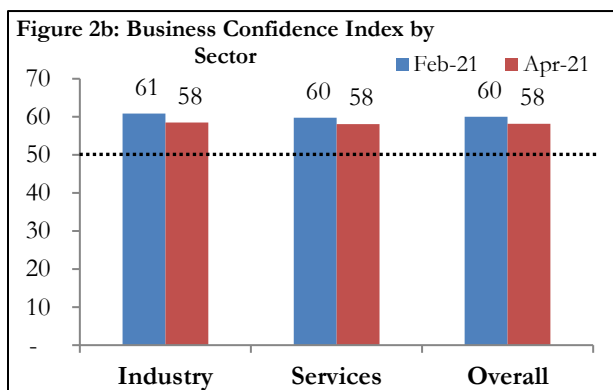
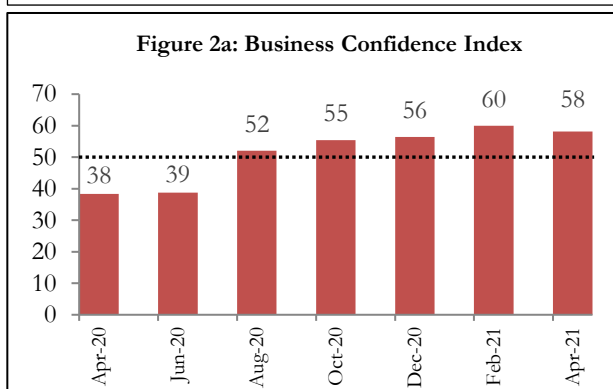


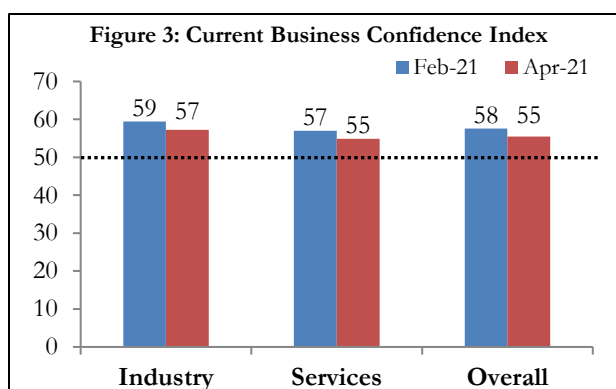
Figure 1: Overall Business Confidence Index



* 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) decreased by 3 points to 55 in April 2021 over February 2021 wave (**Figure 3**). This change in CBCI was driven by both industry and services sector. The industry sector CBCI decreased by 2 points from 59 in February 2021 to 57 in the current wave. Similarly the services sector confidence decreased by 2 points from 57 in February 2021 to 55.



Looking at the distribution of responses (**Table 1**), there is a significant decrease in positive views and an increase in negative views, while the share of neutral views has increased in the current wave.

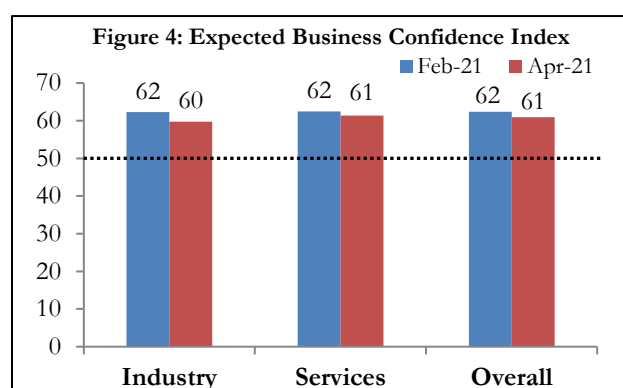
Table 1: Current Business Confidence (% Share)					
	Very Positive	Positive	Neutral	Negative	Very Negative
Apr-21					
Industry	9.9	31.3	40.5	14.3	4.0
Services	7.2	31.4	37.6	21.1	2.6
Overall	8.6	31.4	39.1	17.7	3.3
Feb-21					
Industry	8.6	39.5	36.6	11.6	3.7
Services	7.4	38.5	33.1	16.5	4.4
Overall	8.0	39.0	34.8	14.1	4.1

The overall percentage share of positive and very positive views has decreased from 47 in February 2021 to 40 in April 2021. On the other hand, the percentage share of negative and very negative opinions has increased by 3 percent to 21 in April 2021 over the last wave.

The main driving factors for this decrease in the CBCI are increase in the negative views of survey respondents about general economic conditions in the country and their production/sales over the last six months.

Expected Business Confidence

The Expected Business Confidence Index (EBCI) decreased slightly in April 2021 after remaining same for the last four waves at 62 (**Figure 4**).



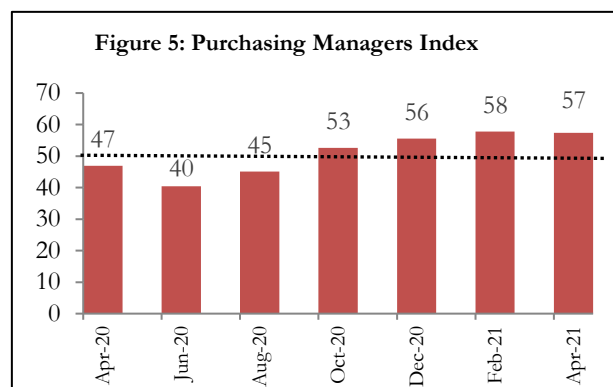
The disaggregation of EBCI results reveals a decrease in positive views and an increase in negative views during April 2021 wave (**Table 2**), while the neutral views have increased in the current wave.

Table 2: Expected Business Confidence (% Share)					
	Very Positive	Positive	Neutral	Negative	Very Negative
Apr-21					
Industry	8.9	37.0	41.1	10.4	2.7
Services	6.0	44.4	39.8	8.6	1.2
Overall	7.4	40.7	40.4	9.5	1.9
Feb-21					
Industry	7.5	43.8	40.4	6.9	1.4
Services	4.9	49.9	37.0	6.4	1.7
Overall	6.2	46.8	38.7	6.7	1.6

The overall percentage share of positive views (positive plus very positive) has decreased by 5 percentage point to 48 in April 2021. Contrarily, the percentage share of negative views has increased from 8 percent to 11 percent during the last two waves.

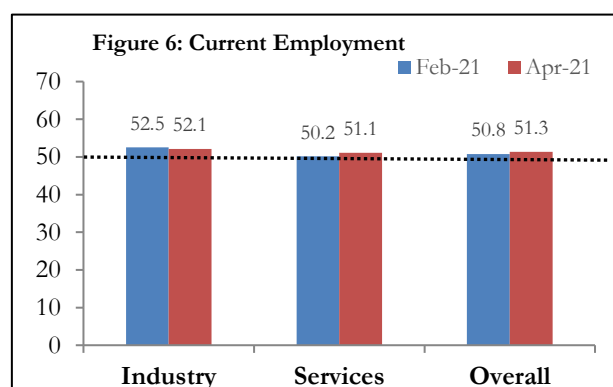
Purchasing Managers Index

An upward trend was observed in Purchasing Managers Index (PMI) since June 2020, however after reaching its highest level in the last wave, it decreased slightly in the latest wave. PMI decreased from 58 in February 2021 to 57 in April 2021 (**Figure 5**). This decrease in PMI is driven by decrease in the firm's business activities and firm's total ordered books in the recent wave.

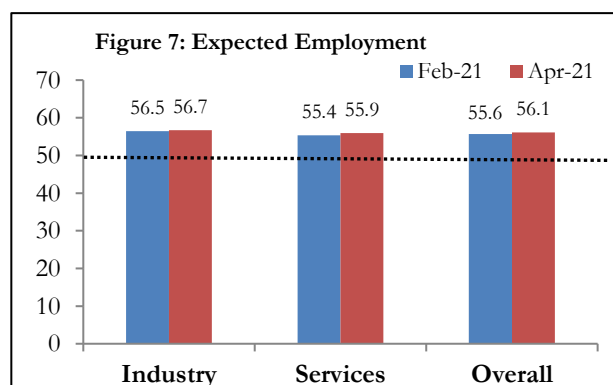


Employment

The current employment diffusion index slightly improved within green zone with the level of 51.3 in the current wave (**Figure 6**). However, the change in current employment by both sector remained contrary; the industry sector decreased from 53 in February to 52 in the current wave. While the services sector moved upward to 51 in April 2021 from 50 in February 2021.

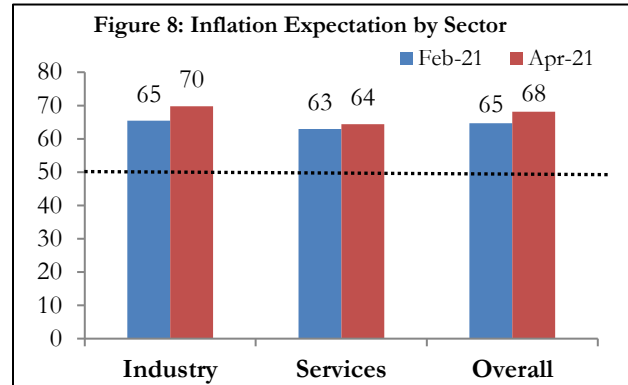


Similarly, expected employment index also slightly improved to 56.1 in April 2021. The disaggregation of employment index results reveals an increase in industry sector by one point to 57, while the services sector increased from 55 to 56 in the current wave (**Figure 7**).



Inflation

Overall inflation expectations increased by 3 points from 65 in February 2021 to 68 in April 2021, highest level since October 2019. Sector wise inflation expectations reveals that respondents from both sector are expecting inflation to increase with higher intensity in the latest wave over the previous wave. Inflation expectation of industry sector uptick by 5 points to 70 in current wave while service sector respondents see a slight surge of one point to 64 in April 2021 wave (**Figure 8**).



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