

## State Bank of Pakistan's Business Confidence Survey\* – August 2021

[24<sup>th</sup> wave of Business Confidence Survey (BCS) conducted in August 2021; with 503 firms surveyed]

### Overall Business Confidence

Business Confidence Index (BCI) remained in the green zone for the seventh consecutive wave; however, its value was lower in August 2021 wave, compared with the previous wave. It decreased to 61 in August 2021 from 64 in June 2021 (Figure 1 & 2a). Both the industry and services sectors contributed to this decrease (Figure 2b).

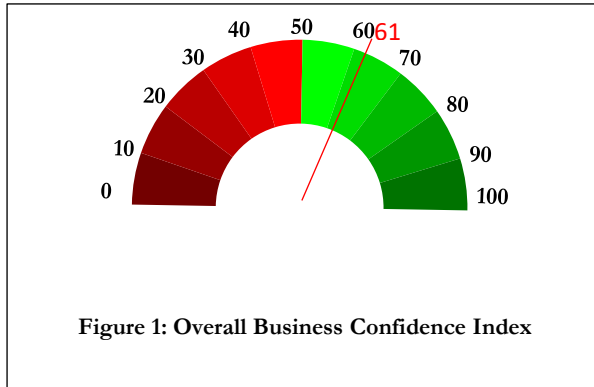
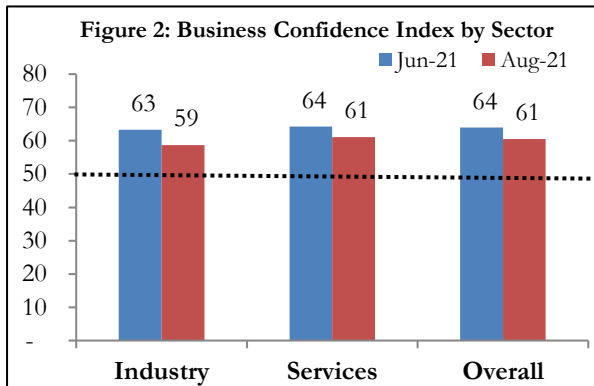
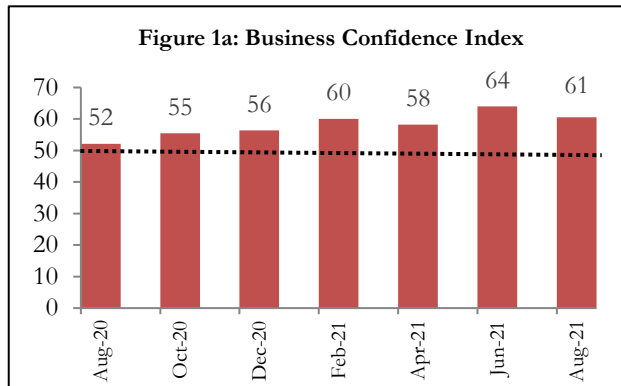


Figure 1: Overall Business Confidence Index



The views of respondents of BCS on account of current economic and business conditions continued to be in the positive zone for the 7<sup>th</sup> consecutive wave. As far as the expectations regarding economic and business conditions in the next six months are concerned, positive views decreased as compared to the last wave.

\* 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

Current Business Confidence Index (CBCI) decreased by two points to 59 in August 2021 from 61 in the previous wave (**Figure 3**). This change in CBCI was contributed by both industry and services sectors. The industry sector CBCI decreased by three points from 61 in June 2021 to 58 in the current wave. Similarly, the services sector confidence decreased by one point from 61 in April 2021 to 60 in the latest wave.

The disaggregation of responses (**Table 1**) shows some movement from positive views to negative views and the share of neutral views remained same in the current wave.

The overall percentage share of positive and very positive views has decreased by 3 points to 47 in August 2021 from 50 in June 2021. In contrast, the percentage share of negative and very negative views has increased by 3 points to 17 in August 2021 from 14 in the last wave.

The major factors for this decrease in CBCI are; decrease in the positive views of survey respondents about general economic conditions in the country, their production/sales, and employment over the last six months.

## Expected Business Confidence

The Expected Business Confidence Index (EBCI) also decreased in August 2021 by 5 points from 67 to 62, however remained within positive zone for last seven waves (**Figure 4**).

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

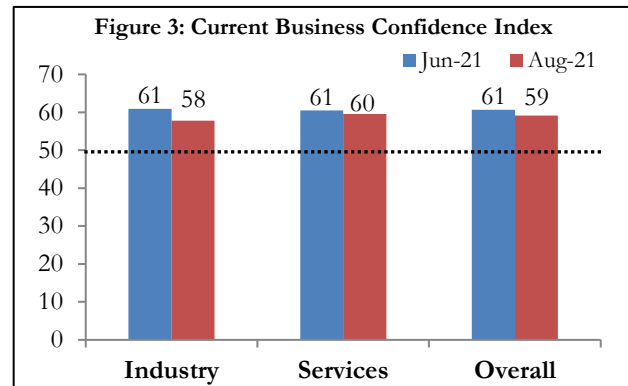


Table 1: Current Business Confidence (% Share)					
	Very Positive	Positive	Neutral	Negative	Very Negative
<b>Aug-21</b>					
Industry	8.8	36.2	37.2	13.1	4.8
Services	7.3	41.5	34.5	15.3	1.3
Overall	8.1	38.8	35.8	14.2	3.1
<b>Jun-21</b>					
Industry	9.4	42.6	33.5	11.4	3.1
Services	9.0	39.8	37.9	10.6	2.6
Overall	9.2	41.2	35.7	11.0	2.9

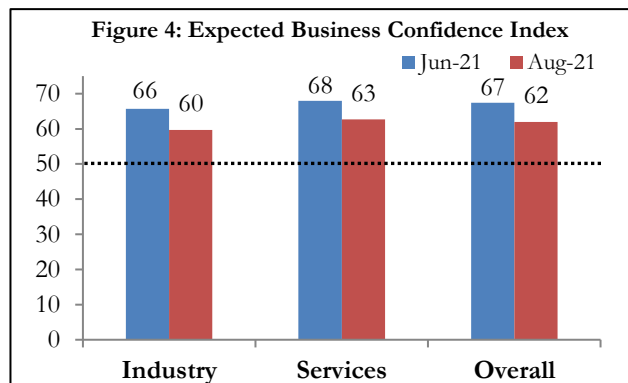
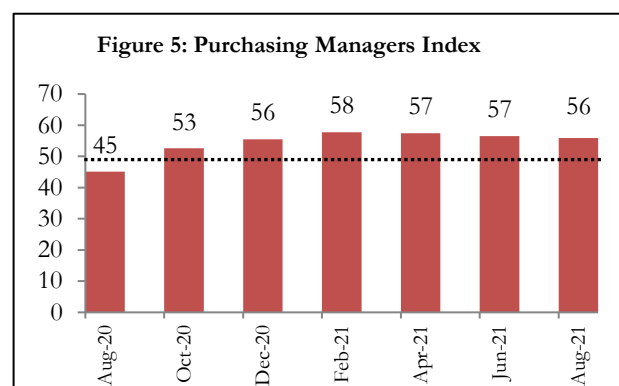


Table 2: Expected Business Confidence (% Share)					
	Very Positive	Positive	Neutral	Negative	Very Negative
<b>Aug-21</b>					
Industry	5.8	44.7	35.0	11.5	3.0
Services	5.8	48.8	36.3	8.5	0.6
Overall	5.8	46.8	35.6	10.0	1.8
<b>Jun-21</b>					
Industry	9.9	51.0	32.5	5.1	1.5
Services	14.5	47.7	33.7	3.4	0.8
Overall	12.2	49.4	33.1	4.2	1.1

The overall percentage share of positive views (positive plus very positive) has decreased by 9 point to 53 in August 2021. In contrast, the percentage share of negative views has increased by 6 points in August 2021 to 12 percent in current wave.

### Purchasing Managers Index

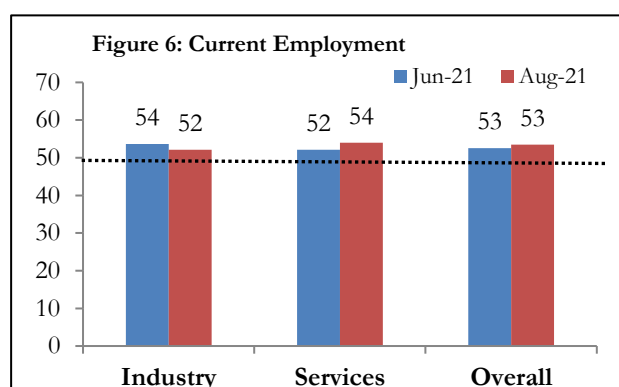
After remaining constant at 57 during the last two waves, Purchasing Managers Index (PMI) decreased slightly by one point to 56 in August 2021 from 57 in June 2021 (**Figure 5**). This change is attributed to its components; firm production, total number of employees, total orders booked, and quantity of raw material purchases. While the supplier delivery times contrarily improved in August 2021.



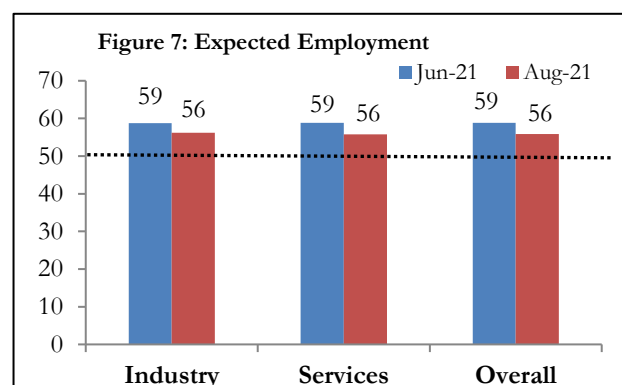
### Employment

The current employment diffusion index remained same at 53 in the current wave (**Figure 6**).

Interestingly, services sector employment improved while industry sector employment decreased. The services sector employment index increased from 52 in June 2021 to 54 in the current wave while the industry sector employment decreased from 54 in June 2021 to 52 in August 2021.

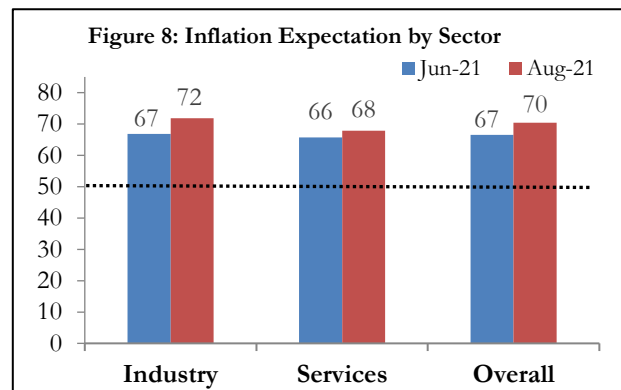


Expected employment diffusion index decreased by 3 points to 56 in August 2021. This decrease in is shared by both sectors (industry and services). Expected employment index for both sectors (industry and services) decreased from 59 to 56 in the current wave. This implies that both sector's employment is expected to increase but with lower margin than it was expected in the previous wave (**Figure 7**).



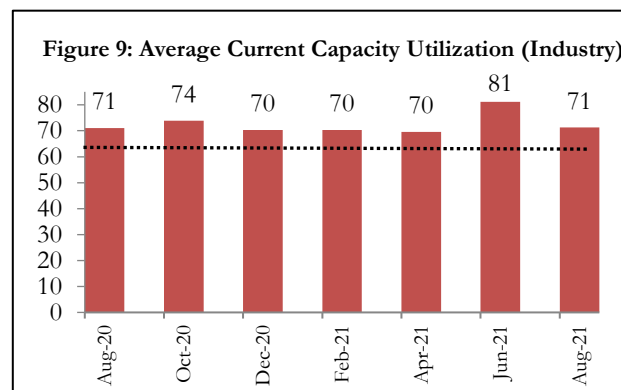
## Inflation

Overall inflation expectations index increased by 3 points to 70 in August 2021. This increase in inflation expectation was perceived in both sector (industry and services). Inflation expectation index of industry sector increased by 5 points to 72 in current wave while service sector respondents' inflation index increase by 2 points to 68 in August 2021 (**Figure 8**).



## Capacity Utilization

Capacity utilization measures percentage of total capacity that is actually being achieved in a given period. Average Current Capacity Utilization (ACCU) from industry sector shows a reduction of 10 percent compared to previous wave. ACCU decreased from 81 percent to 71 percent implying lower utilization of capacities of respondent firms.



## **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.

<b>Sr. No.</b>	<b>Answer Options</b>	<b>Assigned score</b>
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
<b>Current Business Confidence Index</b>	- The general <i>economic conditions</i> in the country over the <b>past six months</b> have
	- Excluding normal seasonal changes, your <i>production</i> over the <b>past six months</b> has
	- Excluding normal seasonal changes, the <i>total number of employees</i> at your firm over the <b>past six months</b> has
<b>Expected Business Confidence Index</b>	- You expect the general <i>economic conditions</i> in the country in the <b>next six months</b> to
	- Excluding normal seasonal changes, you expect your <i>production</i> in the <b>next six months</b> to
	- Excluding normal seasonal changes, you expect the <i>total number of employees</i> at your firm in the <b>next six months</b> to
<b>Business Confidence Index</b>	- The general <i>economic conditions</i> in the country over the <b>past six months</b> have
	- You expect the general <i>economic conditions</i> in the country in the <b>next six months</b> to
	- Excluding normal seasonal changes, your <i>production</i> over the <b>past six months</b> has
	- Excluding normal seasonal changes, you expect your <i>production</i> in the <b>next six months</b> to
	- Excluding normal seasonal changes, the <i>total number of employees</i> at your firm over the <b>past six months</b> has
	- Excluding normal seasonal changes, you expect the <i>total number of employees</i> at your firm in the <b>next six months</b> to
<b>Purchasing Manager Index</b> (for industry only)	- Excluding normal seasonal changes, your <i>production</i> over the <b>past six months</b> has
	- Excluding normal seasonal changes, the <i>total number of employees</i> at your firm over the <b>past six months</b> has
	- Excluding normal seasonal changes, your <i>total order books</i> over the <b>past six months</b> have
	- In the <b>past six months</b> , the <i>quantity of raw material purchases</i> has
	- Average <i>supplier delivery times</i> over the <b>past six months</b> has