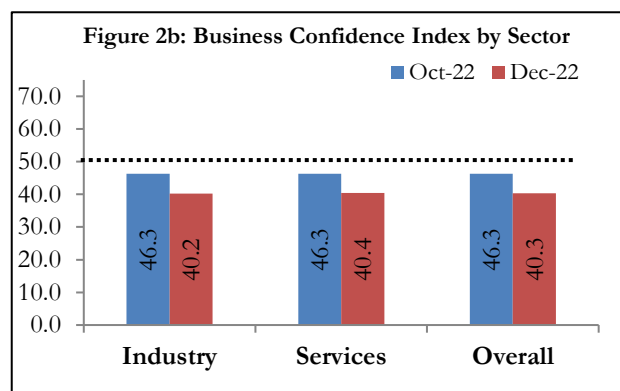
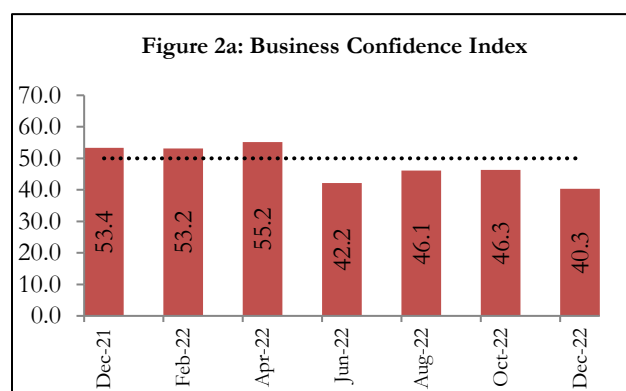
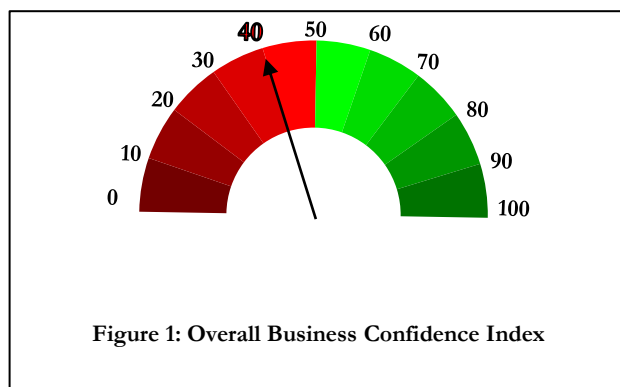


## State Bank of Pakistan's Business Confidence Survey\* – December 2022

[32<sup>nd</sup> wave of Business Confidence Survey (BCS) conducted during December 19-27, 2022; with 532 firms surveyed]

### Overall Business Confidence

Business Confidence Index (BCI) significantly declined in December 2022 (**Figure 1 & 2a**) by 6.0 points to 40.3 from 46.3 in the previous wave. This is the lowest level since June 2020 when it recorded at 38.8. The decrease in BCI contributed by both the Industry and Services sector. Industry sector's confidence decreased by 6.1 points to 40.2 while, Services sector confidence decreased by 5.9 points to 40.4 in December 2022 (**Figure 2b**).

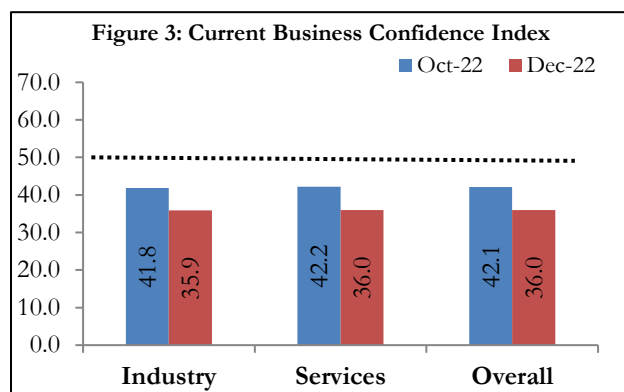


BCS respondents' confidence on account of both current and expected business conditions declined significantly in December 2022.

\* 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 6.1 point to 36.0 in December 2022 over the last wave (**Figure 3**). This is the lowest level since June 2020 when it was recorded at 30.1. This decrease was derived by CBCI of Services sector and Industry sector. Industry sector CBCI decreased by 6.0 points to 35.9 in the current wave from 41.8 in October 2022; while Services sector CBCI declined by 6.2 points to 36.0 in December 2022.



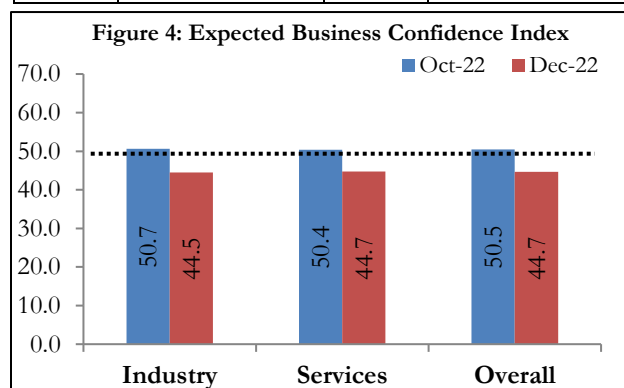
The disaggregation of responses (**Table 1**) shows decline in positive & neutral views and increase in negative views during the current wave.

The overall percentage share of positive views (both positive and very positive) fell by 7.3 points to 12.5 percent in the current wave, while negative views (negative and very negative) increased by 10.8 points to 55.5 in the current wave from 44.7 in last wave. However, neutral views declined by 3.4 points to 32.0 in December 2022.

Table 1: Current Business Confidence (% Share)					
	Very Positive	Positive	Neutral	Negative	Very Negative
<b>Dec-22</b>					
Industry	3.6	9.4	31.4	37.9	17.6
Services	2.3	9.7	32.5	40.7	14.8
Overall	3.0	9.5	32.0	39.3	16.2
	12.5		32.0	55.5	
<b>Oct-22</b>					
Industry	2.4	16.3	37.0	34.8	9.5
Services	3.0	18.0	33.9	35.3	9.9
Overall	2.7	17.1	35.4	35.0	9.7
	19.8		35.4	44.7	

## Expected Business Confidence

The Expected Business Confidence Index (EBCI) noticeably decreased in December 2022 and entered in red zone after a period of three waves. EBCI decreased by 5.8 points to 44.7 in December 2022 over the last wave (**Figure 4**). The fall was attributed to decrease of 6.2 points within Industry sector and 5.6 points decrease in Services sector.

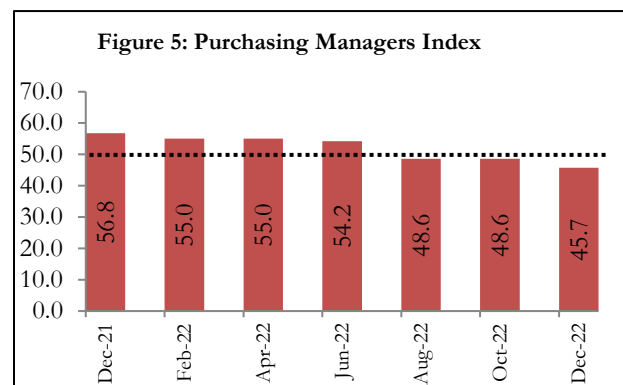


The disaggregation of EBCI shows decrease in positive as well as neutral views, while the negative views (negative and very negative) increased in the current wave (**Table 2**). The overall percentage share of positive views (positive plus very positive) has decreased by 9.0 points to 22.1 percent in December 2022 and the share of neutral views decreased by 2.4 points to 40.2 in the current wave, while negative views increased by 11.4 points to 37.6 in the current wave.

Table 2: Expected Business Confidence (% Share)					
	Very Positive	Positive	Neutral	Negative	Very Negative
<b>Dec-22</b>					
Industry	4.7	18.5	38.0	27.8	11.0
Services	2.6	18.4	42.5	28.3	8.2
Overall	3.6	18.5	40.2	28.0	9.6
	22.1		40.2	37.6	
<b>Oct-22</b>					
Industry	2.6	28.0	43.2	21.6	4.5
Services	2.1	29.5	42.1	20.6	5.8
Overall	2.4	28.8	42.6	21.1	5.1
	31.1		42.6	26.2	

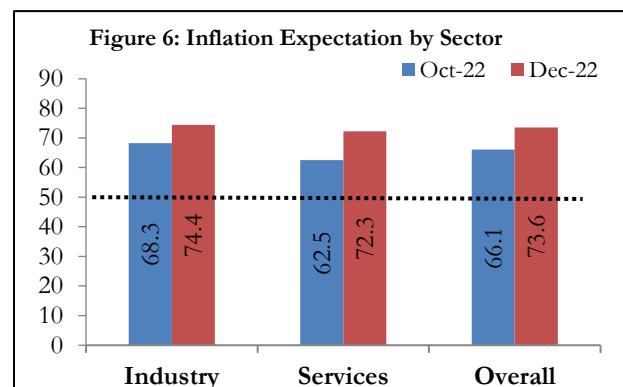
## Purchasing Managers Index

Purchasing Managers Index (PMI) decreased further within the red zone in December 2022 wave. PMI fell by 2.9 points to 45.7 in December 2022 from 48.6 in October 2022 (**Figure 5**). PMI's disaggregation shows decrease in the indices of four out of five components in the latest wave. The negative contributing factors are (a) index for firms' business activities, (b) total number of employees, (c) total orders booked, (d), and quantity of raw material purchases; while the fifth component, average supplier delivery times, improved by 1.4 points in current wave.



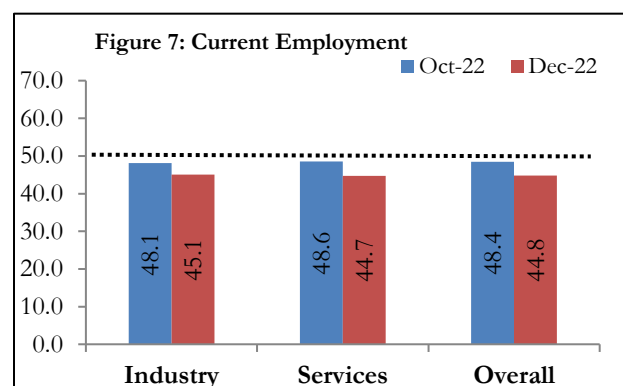
## Inflation Expectations

Overall index of Inflation Expectations (IE) increased by 7.5 points to 73.6 in December 2022 from 66.1 in October 2022. This raise in inflation expectations is contributed by both the Services and Industry sector. Inflation Expectation Index of Industry sector increased by 6.1 points to 74.4 in December 2022 wave, whereas Services sector's IE index increased by 9.8 points to 72.3 in December 2022 (**Figure 6**) from 62.5 in the wave of October 2022.

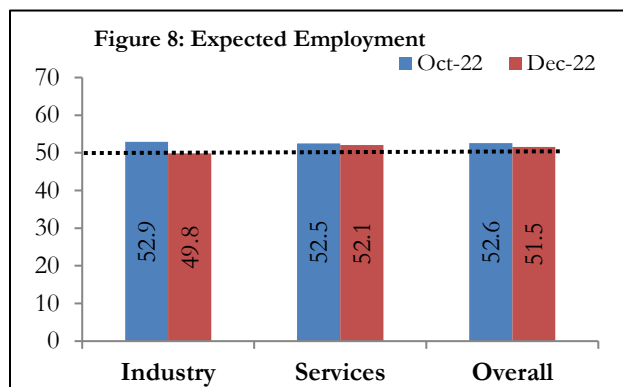


## Employment

The overall Current Employment Diffusion Index decreased by 3.6 points to 44.8 in the current wave (**Figure 7**). This change was derived by both the Industry and Services sectors. The employment index for Industry sector fell by 3.0 points to 45.1 in December 2022 from 48.1 in the previous wave. Similarly, Services sector current employment index decreased by 3.9 points from 48.6 in October 2022 to 44.7 in the current wave.

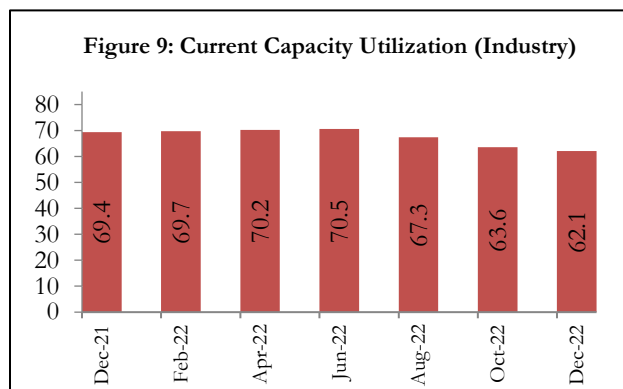


Expected Employment Diffusion Index declined by 1.1 point to 51.5 in December 2022. This change was mainly contributed by Industry sector that decreased by 3.1 points to 49.8 in the current wave. However, Services sector index marginally declined by 0.4 point to 52.1 in December 2022 (**Figure 8**).



## Capacity Utilization

Average Current Capacity Utilization (ACCU)<sup>1</sup> decreased further by 1.5 percent to 62.1 in December 2022 from 63.6 percent in October 2022.



<sup>1</sup> ACCU measures percentage of total capacity being utilized by Industry sector.

## **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

Based on 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 sector 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