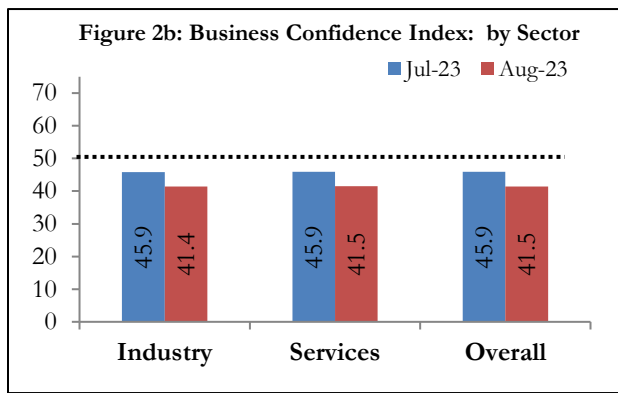
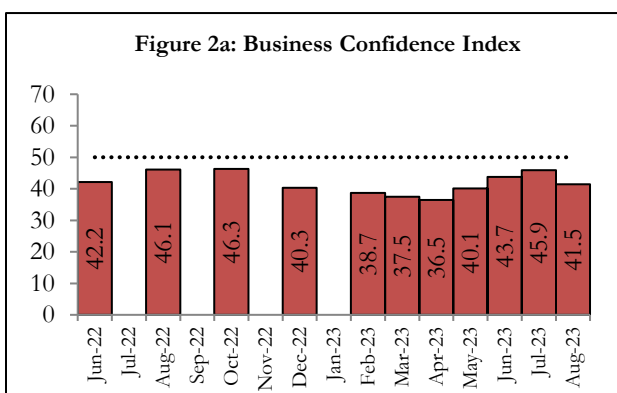
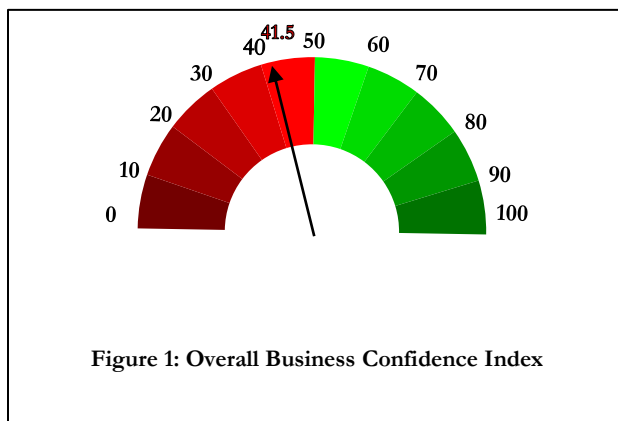


State Bank of Pakistan's Business Confidence Survey* – August 2023

[39th wave of Business Confidence Survey (BCS) conducted during August 01-08, 2023; with 540 firms surveyed]

Overall Business Confidence

After observing an upward trend during the last three waves, Business Confidence Index (BCI) fell by 4.4 points to 41.5 in August 2023 from 45.9 in July 2023. It is pertinent to mention here that BCI remained within the negative zone since June 2022. **(Figure 1 & 2a)**. This decrease is contributed by both the Industry and Services sectors, which fell by 4.5 and 4.4 points respectively **(Figure 2b)**.



It has also been observed that respondents' confidence on account of current as well as expected business conditions deteriorated within negative zone in August 2023.

* SBP has been conducting the Business Confidence Survey (BCS) in collaboration with the Institute of Business Administration (IBA) since October 2017 to obtain the views of senior managers of large companies in the Industry and Services sector. From February 2023, the frequency of the survey has been increased to monthly from bi-monthly. The survey provides information 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 views of or as an endorsement by SBP.

Current Business Confidence

Overall Current Business Confidence Index (CBCI) decreased by 3.6 points to 37.0 in August 2023 over the previous wave (**Figure 3**). Services sector is the major driver for the decrease in CBCI for the current wave, which fell by 4.1 points to 36.7 in the current wave from 40.8 in the previous wave. However, the Industry sector CBCI decreased by 2.0 points to 37.8 in the current wave from 39.8 in the wave of July 2023.

The disaggregation of responses shows an increase in the negative views, while the neutral and positive views decreased in the current wave (**Table 1**).

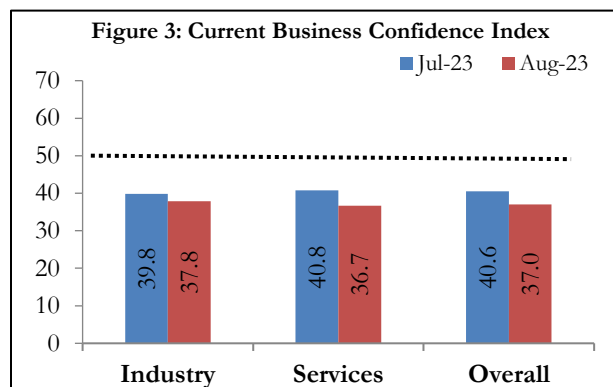
Overall percentage share of negative views (both negative and very negative) significantly increased by 4.6 percent to 55.8 percent in the current wave. On the other hand, positive views (positive and very positive) decreased by 2.2 percent to 17.7 percent in the current wave from 19.9 percent in the last wave. Moreover, neutral views also decreased by 2.4 percent to 26.5 percent in August 2023.

Expected Business Confidence

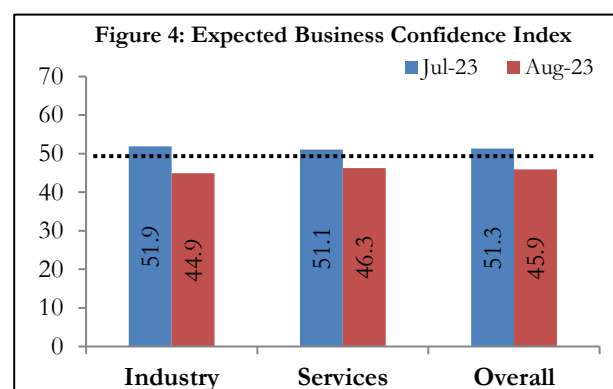
The Expected Business Confidence Index (EBCI) also deteriorated in August 2023 (**Figure 4**) after witnessing a rising trend during the last four consecutive waves. The EBCI decreased by 5.4 points from 51.3 in July 2023 to 45.9 in August 2023. Both Industry and Services sectors were the contributors for this downward change whose EBCI fell by 7.0 and 4.8 points respectively.

The disaggregation of responses shows an increase in the negative as well as neutral views, while the positive views decreased in the current wave (**Table 2**).

Overall percentage share of negative views (negative and very negative) increased by 9.2 percent to 37.5 percent while share of neutral



	Very Positive	Positive	Neutral	Negative	Very Negative
Aug-23					
Industry	1.4	15.7	27.1	44.1	11.6
Services	1.1	17.1	25.8	39.4	16.5
Overall	1.3	16.4	26.5	41.8	14.1
	17.7		26.5	55.8	
Jul-23					
Industry	0.8	18.1	30.6	40.4	10.1
Services	0.6	20.2	27.3	45.5	6.4
Overall	0.7	19.2	28.9	43.0	8.2
	19.9		28.9	51.2	



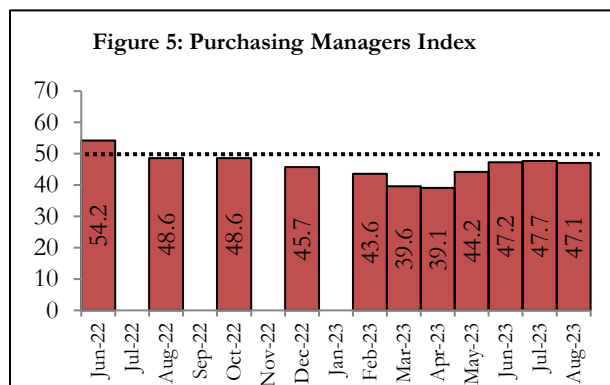
	Very Positive	Positive	Neutral	Negative	Very Negative
Aug-23					
Industry	0.6	18.7	43.3	34.5	2.9
Services	1.7	23.9	36.7	33.1	4.6
Overall	1.2	21.3	40.0	33.8	3.7
	22.5		40.0	37.5	
Jul-23					
Industry	1.0	32.9	41.1	22.7	2.3
Services	0.9	35.9	31.4	30.0	1.7
Overall	0.9	34.4	36.3	26.4	2.0
	35.4		36.3	28.3	

views increased by 3.7 percent to 40.0 percent in August 2023. On the other hand, positive views significantly decreased by 12.9 percent to 22.5 percent.

Purchasing Managers Index

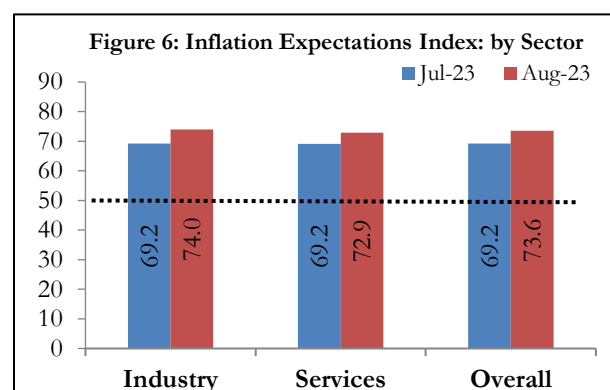
After showing a rising trend during the last three waves, Purchasing Managers Index (PMI) slightly declined by 0.6 points and reached 47.1 in August 2023. PMI was last seen in the positive zone in June 2022 (**Figure 5**).

PMI's disaggregation shows decrease in indices of three out of its five components in August 2023. The highest fall of 4.3 points was observed in the *firms' business activities* followed by *quantity of raw material purchases* and *total number of employees*. On the other hand, the *total orders booked* and *average supplier delivery times* increased by 1.7 points and 3.5 points respectively in the current wave of the survey.



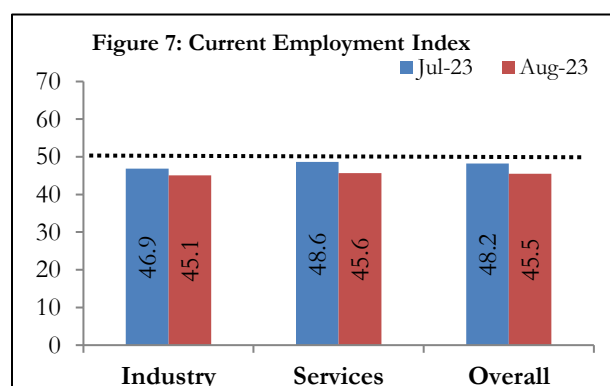
Inflation Expectations

After witnessing declining trend in overall index of Inflation Expectations (IE) during the last five waves, it resurged by 4.4 points and reached 73.6 in August 2023. Both the Industry and the Services sectors contributed the increase in overall IE. Industry sector witnessed an increase of 4.8 points and the Services sector expectations of inflation increased by 3.8 points in the current wave (**Figure 6**).

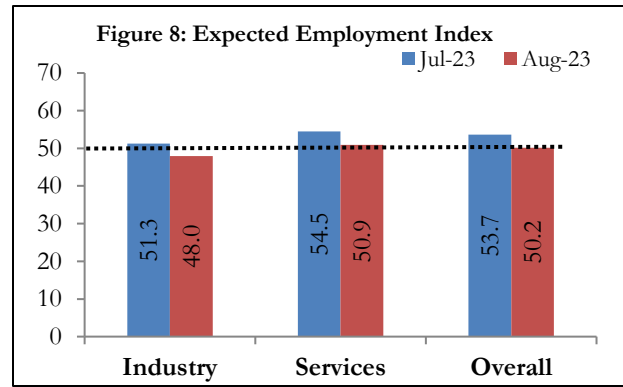


Employment

The Current Employment Diffusion Index fell by 2.7 points to 45.5 in current survey from 48.2 in the previous survey wave (**Figure 7**) on account of decrease in both the Industry and the Services sectors. The Current Employment Diffusion Index for the Industry sector decreased by 1.8 points in August 2023 from the previous wave. Services sector's Current Employment Index also deteriorated by 3.0 points from the previous wave.

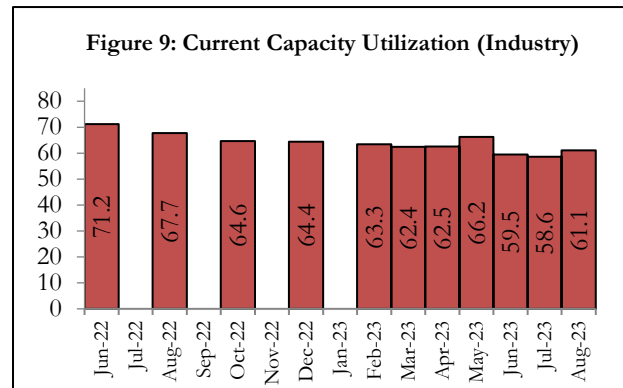


The Expected Employment Diffusion Index also showed similar behavior and fell by 3.5 points to 50.2 in current month from 53.7 in July 2023. This deterioration is contributed by both Services and Industry sectors. The Industry sector recorded a decrease of 3.3 points while the Services Sector's Expected Employment Index decreased by 3.6 points to in the current wave (**Figure 8**).



Capacity Utilization

Average Current Capacity Utilization (ACCU)¹ of Manufacturing sector (within Industry sector) increased by 2.5 percent to 61.1 percent in August 2023.



¹ 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.

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

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
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 sector 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