

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

[34th wave of Business Confidence Survey (BCS) conducted during March 1-8, 2023; with 514 firms surveyed]

Overall Business Confidence

Business Confidence Index (BCI) declined further in March 2023 and reached lowest level since its inception in October 2017 (**Figure 1 & 2a**). BCI decreased by 1.2 points to 37.5 from 38.7 in the previous wave. The decrease in BCI contributed by both the Industry and Services sector. Industry sector confidence decreased by 1.9 points to 36.3, while Services sector confidence decreased by 0.9 point to 37.9 in March 2023 (**Figure 2b**).

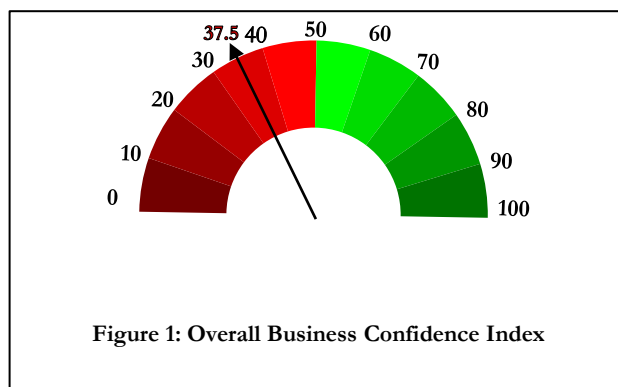
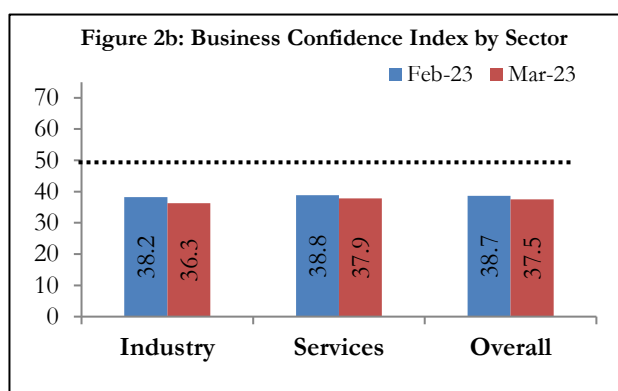
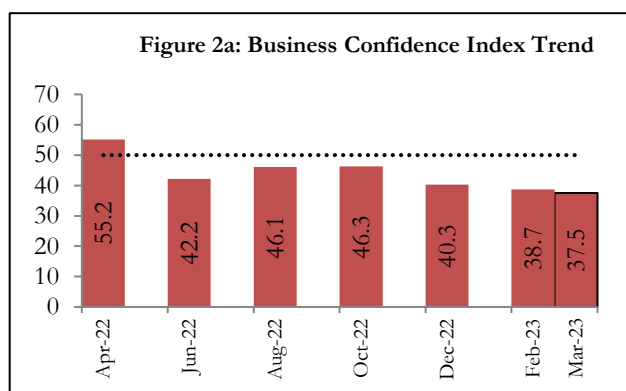


Figure 1: Overall Business Confidence Index



BCS respondents' confidence on account of both current and expected business conditions declined further in March 2023.

* 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. From February 2023, the frequency of the survey is being increased to monthly. 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 views of or as an endorsement by SBP.

Current Business Confidence

Overall Current Business Confidence Index (CBCI) decreased slightly by 0.1 point to 34.9 in March 2023 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 Industry sector, which fell by 2.7 points to 32.2 in March 2023. Contrarily, Services sector CBCI improved (within negative zone) by 0.8 point to 35.8 in the current wave from 35.0 in February 2023.

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

The overall percentage share of positive views (both positive and very positive) decreased by 3.4 points to 10.9 percent in the current wave, while negative views (negative and very negative) increased by 3.0 points to 62.9 in the current wave from 59.9 in the last wave. Moreover, neutral views increased by 0.3 point to 26.1 in March 2023.

Expected Business Confidence

The Expected Business Confidence Index (EBCI) decreased further within the negative zone in March 2023 (**Figure 4**). EBCI decreased by 2.3 points to 40.1 in the current wave over the previous wave. This is the lowest level since April 2020 when it was recorded at 38.2. The fall was attributed to decrease of 1.0 point in Industry sector and 2.8 points decrease in the 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 and very positive) decreased by 2.2 points to 17.2 in March 2023 whereas the share of neutral

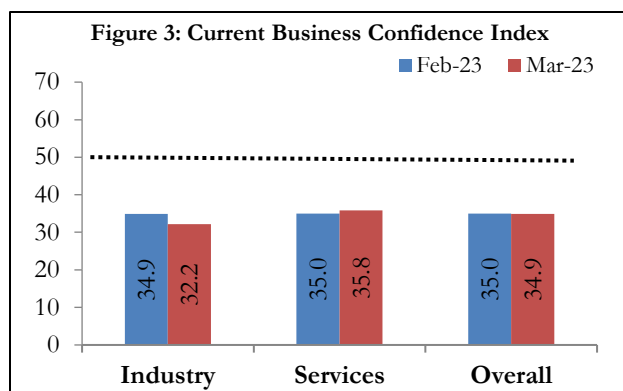


Table 1: Current Business Confidence (% Share)

	Very Positive	Positive	Neutral	Negative	Very Negative
Mar-23					
Industry	1.8	7.1	27.6	44.9	18.5
Services	0.5	12.5	24.6	54.6	7.8
Overall	1.1	9.8	26.1	49.8	13.2
	10.9		26.1	62.9	
Feb-23					
Industry	4.1	10.2	28.2	36.1	21.4
Services	2.8	11.5	23.4	47.4	14.9
Overall	3.4	10.8	25.8	41.8	18.1
	14.3		25.8	59.9	

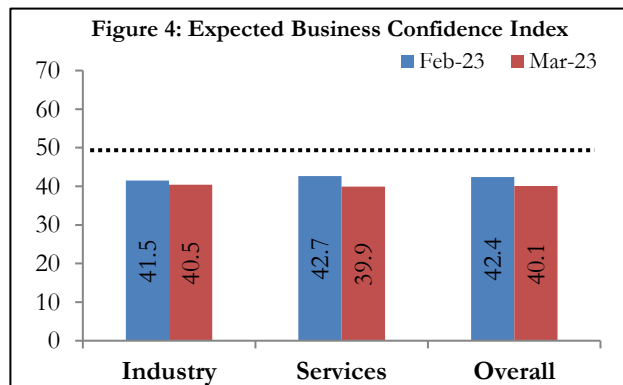


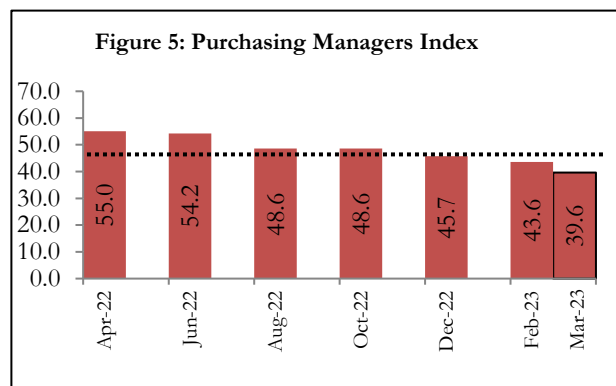
Table 2: Expected Business Confidence (% Share)

	Very Positive	Positive	Neutral	Negative	Very Negative
Mar-23					
Industry	1.4	16.3	34.9	37.4	10.0
Services	0.6	16.0	30.1	49.0	4.3
Overall	1.0	16.1	32.5	43.2	7.1
	17.2		32.5	50.3	
Feb-23					
Industry	2.1	16.6	38.0	31.7	11.5
Services	3.4	16.7	34.4	38.4	7.1
Overall	2.8	16.7	36.2	35.1	9.3
	19.4		36.2	44.4	

views decreased by 3.7 points to 32.5 in the current wave, while the negative views increased by 5.9 points to 50.3 in the current wave.

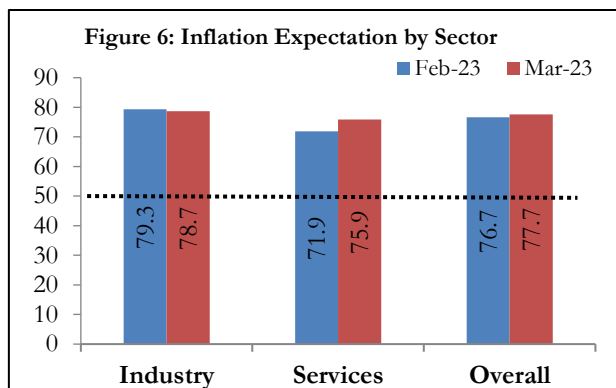
Purchasing Managers Index

Purchasing Managers Index (PMI) decreased for the 4th consecutive wave within the red zone. It fell by 4.0 points to 39.6 (lowest ever index) in March 2023 (**Figure 5**). PMI's disaggregation shows decrease in the indices of its all five components in the latest wave for the second time consecutively. The contributing factors are (a) index for firms' business activities, (b) total number of employees, (c) total orders booked, (d) quantity of raw material purchases, and (e) average supplier delivery times.



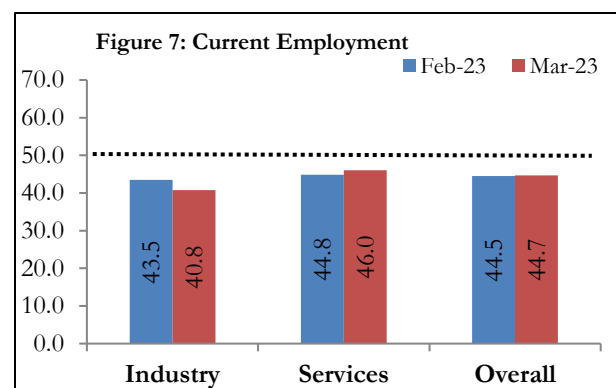
Inflation Expectations

Overall index of Inflation Expectations (IE) increased by 1.0 point to 77.7 in March 2023 from 76.7 in February 2023. This increase in inflation expectations is contributed by the Services sector. Inflation Expectation Index of Industry sector decreased by 0.6 point to 78.7 in March 2023 wave, whereas Services sector's IE index increased by 4.0 points to 75.9 in March 2023 (**Figure 6**) from 71.9 in the wave of February 2023.

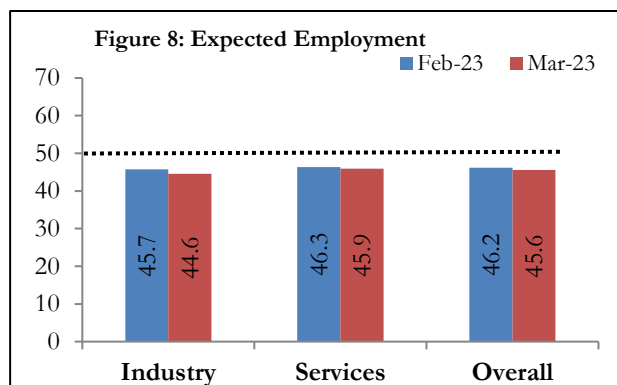


Employment

The overall Current Employment Diffusion Index slightly increased within negative zone by 0.2 point to 44.7 in the current wave (**Figure 7**). This change was derived by Services sector. The employment index for Services sector improved by 1.2 points to 46.0 in March 2023 from 44.8 in the previous wave. However, Industry sector current employment index fell by 2.7 points from 43.5 in February 2023 to 40.8 in the current wave.

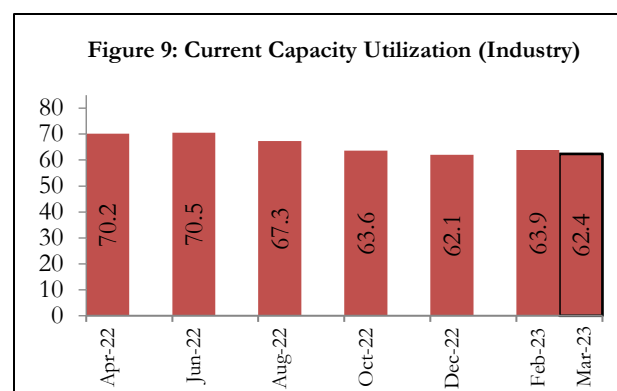


Expected Employment Diffusion Index declined by 0.6 points to 45.6 in March 2023, lowest level since April 2020 when it recorded at 44.1. This change contributed by both the Industry and the Services sector. Industry sector Expected Employment Index decreased by 1.1 points to 44.6 in the current wave, while Services sector index declined by 0.4 point to 45.9 in March 2023 (**Figure 8**).



Capacity Utilization

Average Current Capacity Utilization (ACCU)¹ by manufacturing sector (within industry sector) decreased in the recent wave by 1.5 percent to 62.4 from 63.9 percent in February 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