

## State Bank of Pakistan's Business Confidence Survey\* – June 2023

[37<sup>th</sup> wave of Business Confidence Survey (BCS) conducted during June 1-8, 2023; with 451 firms surveyed]

### Overall Business Confidence

Business Confidence Index (BCI) increased in the second consecutive wave; however, it remained within the negative zone since June 2022 (**Figure 1 & 2a**). The BCI increased by 3.6 points to 43.7 in June 2023. This increase is contributed by both the Industry and Services sectors. Industry Sector confidence increased by 3.1 points to 44.2, while Services Sector confidence increased by 3.9 points to 43.6 in June 2023 (**Figure 2b**).

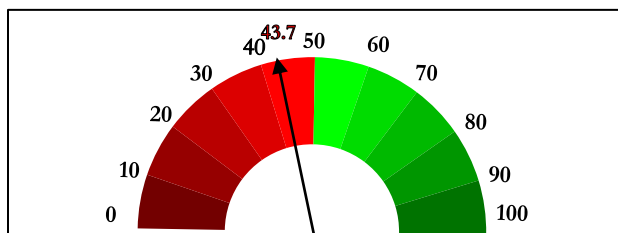
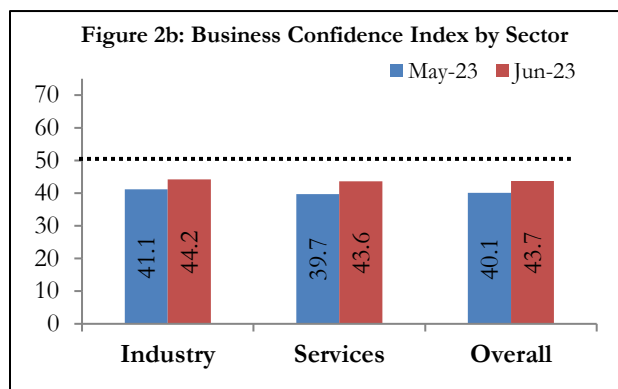
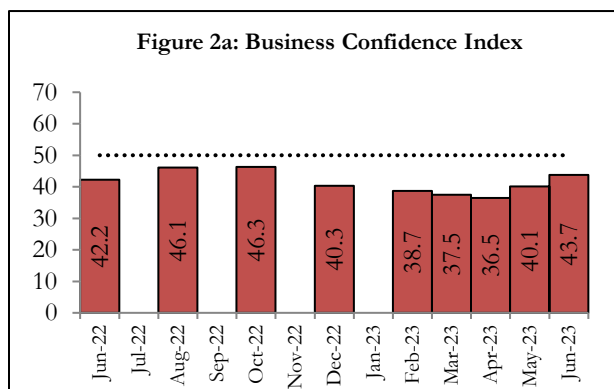


Figure 1: Overall Business Confidence Index



BCS respondents' confidence on account of current as well as expected business conditions improved within negative zone in June 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) increased by 2.9 points to 39.6 in June 2023 over the last wave (**Figure 3**). This increase was derived by both Industry and Services sectors. Industry Sector CBCI improved by 2.7 points to 39.9 in June 2023. Similarly, the Services sector CBCI increased by 2.9 points to 39.4 in the current wave from 36.5 in the wave of May 2023.

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

Overall percentage share of positive views (both positive and very positive) increased by 4.8 percent to 19.7 percent in the current wave, while negative views (negative and very negative) decreased by 2.6 percent to 52.6 in the current wave from 55.2 in the last wave. Moreover, neutral views also decreased by 2.2 percent to 27.7% in June 2023.

## Expected Business Confidence

The Expected Business Confidence Index (EBCI) improved further in June 2023 for third consecutive wave (**Figure 4**). However, it remained in the negative zone. It increased by 4.4 points over the previous wave to 47.9. Both Industry and Services sectors were the contributors for this increase. Industry Sector ECBI increased by 3.3 points to 48.4, while for Services Sector, it increased by 4.9 points to 47.8 in June 2023.

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

Overall percentage share of positive views (positive and very positive) increased by 8.7 percent to 28.0 percent in June 2023. On the other hand, the share of neutral as well as

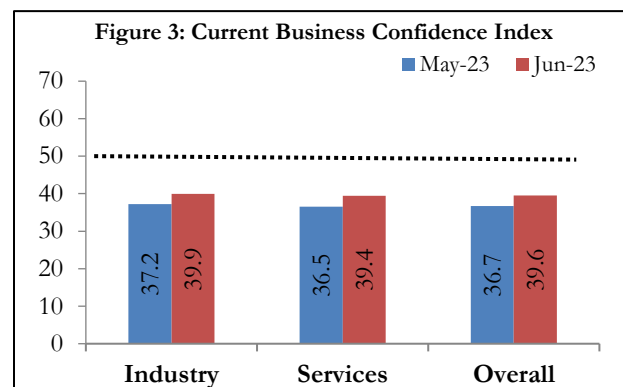


Table 1: Current Business Confidence (% Share)					
	Very Positive	Positive	Neutral	Negative	Very Negative
<b>Jun-23</b>					
Industry	4.6	14.9	28.2	40.3	12.0
Services	0.7	19.2	27.2	42.9	10.1
Overall	2.6	17.1	27.7	41.6	11.0
	19.7		27.7	52.6	
<b>May-23</b>					
Industry	0.9	14.8	29.3	42.1	12.9
Services	0.8	13.3	30.5	41.9	13.5
Overall	0.9	14.0	29.9	42.0	13.2
	14.9		29.9	55.2	

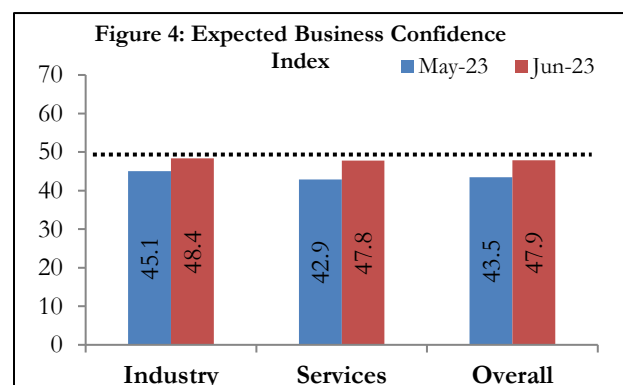


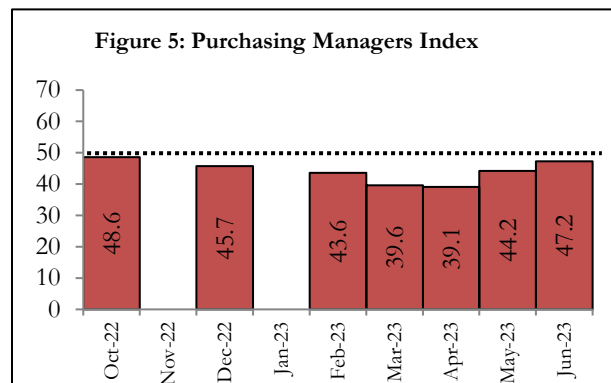
Table 2: Expected Business Confidence (% Share)					
	Very Positive	Positive	Neutral	Negative	Very Negative
<b>Jun-23</b>					
Industry	4.6	24.2	36.1	30.2	4.9
Services	1.2	25.9	38.3	31.7	2.8
Overall	2.9	25.1	37.2	31.0	3.8
	28.0		37.2	34.8	
<b>May-23</b>					
Industry	0.4	21.6	40.1	33.9	4.1
Services	0.4	16.3	42.9	35.3	5.1
Overall	0.4	18.9	41.5	34.6	4.6
	19.3		41.5	39.1	

negative views decreased by 4.3 percent each to 37.2 percent and 34.8 percent respectively in the current wave.

## Purchasing Managers Index

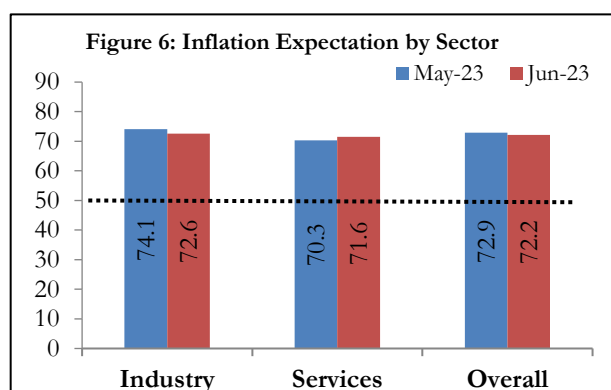
The Purchasing Managers Index (PMI) improved by 3.0 points in the current wave of June 23 in addition to 5.1 points in the previous wave (Figure 5). However, it remained within the red zone.

PMI's disaggregation shows increase in indices of all of its components. The highest rise was observed in the total orders booked (6.6 points). The components of PMI 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.



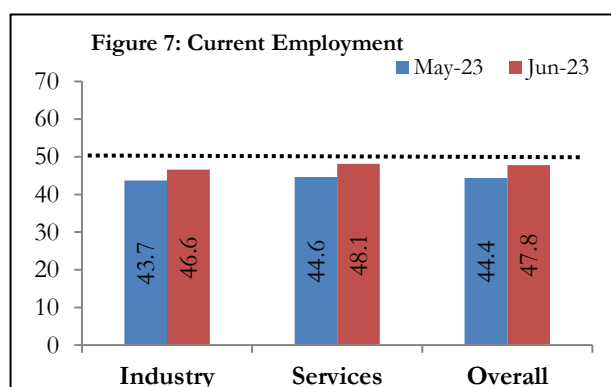
## Inflation Expectations

Overall index of Inflation Expectations (IE) decreased for the third consecutive wave. It fell by 0.7 points to 72.2 in June 2023 from 72.9 recorded in May 2023. This decrease is mainly driven by the Industry Sector that recorded a decrease of 1.5 points to 72.6 in June 2023. However, IE for Services Sector increased by 1.3 points to 71.6 (Figure 6) in this wave.

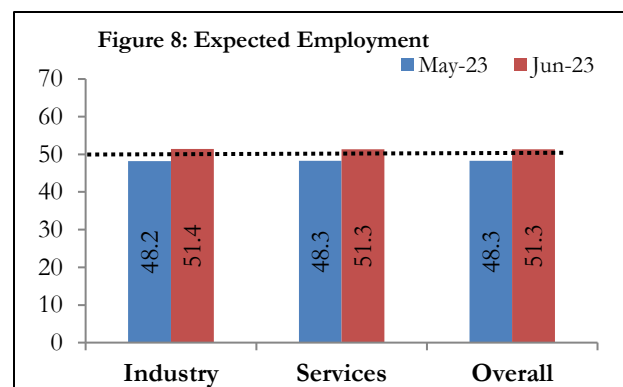


## Employment

The Current Employment Diffusion Index increased by 3.4 points to 47.8 in the current wave (Figure 7). This positive change was contributed by both Industry and Services sectors. The Current Employment Diffusion Index for the Industry Sector increased by 2.9 points to 46.6 in June 2023 from 43.7 in the previous wave. Similarly, the Services Sector's Current Employment Index improved by 3.5 points from 44.6 in May 2023 to 48.1 in the current wave.

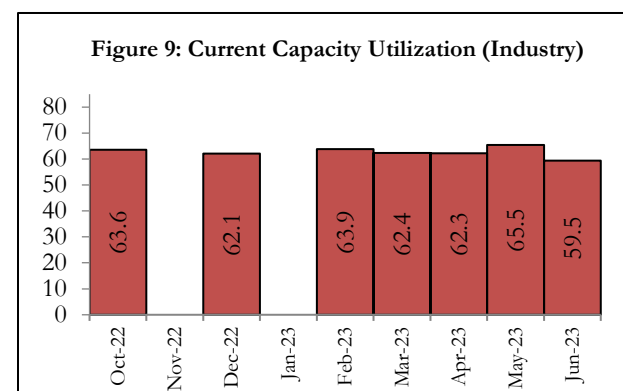


The Expected Employment Diffusion Index improved by 3.0 points to 51.3 in June 2023. This change is contributed by both the Industry and the Services sectors. The Industry Sector's Expected Employment Index increased by 3.2 points to 51.4 in June 2023 wave, while for Services Sector, it improved by 3.0 points to 51.3 in June 2023 (**Figure 8**).



## Capacity Utilization

Average Current Capacity Utilization (ACCU)<sup>1</sup> of manufacturing sector (within industry sector) decreased in the recent wave by 6.0 percent to 59.5 percent in June 2023.



<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.

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
<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