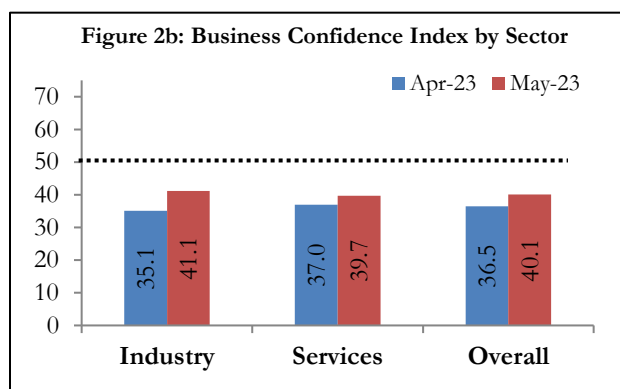
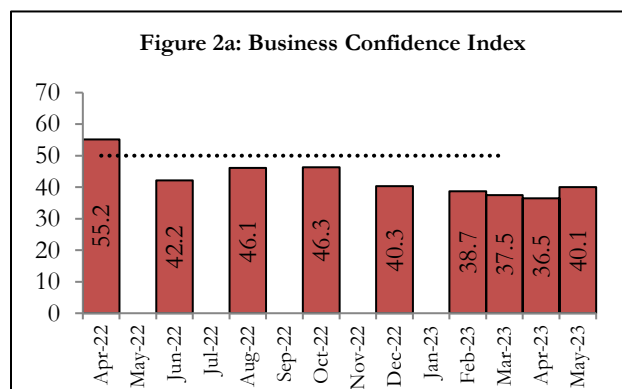
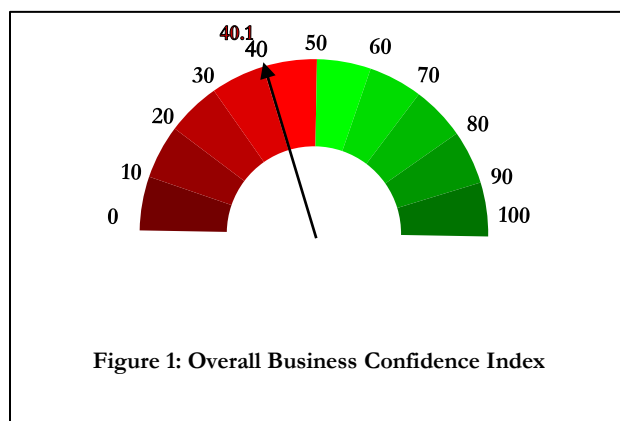


## State Bank of Pakistan's Business Confidence Survey\* – May 2023

[36<sup>th</sup> wave of Business Confidence Survey (BCS) conducted during May 1-9, 2023; with 515 firms surveyed]

### Overall Business Confidence

Business Confidence Index (BCI) increased for the first time after October 2022 in the current wave; however, it remained in the negative zone (**Figure 1 & 2a**) since June 2022. BCI increased by 3.6 points to 40.1 in May 2023 from 36.5 in the previous wave conducted in April 2023. The increase in BCI contributed by both the Industry and Services sectors. Industry Sector confidence increased by 6.1 points to 41.1, while Services Sector confidence increased by 2.7 points to 39.7 in May 2023 (**Figure 2b**).



BCS respondents' confidence on account of current as well as expected business conditions improved within negative zone in May 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 4.4 points to 36.7 in May 2023 over the last wave (**Figure 3**). This increase was derived by both Industry and Services sectors. Industry Sector CBCI improved by 7.3 points to 37.2 in May 2023. Similarly, the Services sector CBCI increased by 3.4 points to 36.5 in the current wave from 33.1 in April 2023.

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

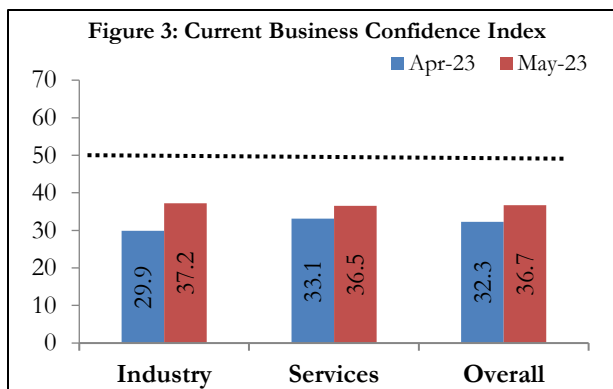
Overall percentage share of positive views (both positive and very positive) increased by 8.2 to 14.9 percent in the current wave, while negative views (negative and very negative) decreased by 9.4 percent to 55.2 in the current wave from 64.6 in the last wave. Moreover, neutral views increased by 1.2 percent to 29.9% in May 2023.

## Expected Business Confidence

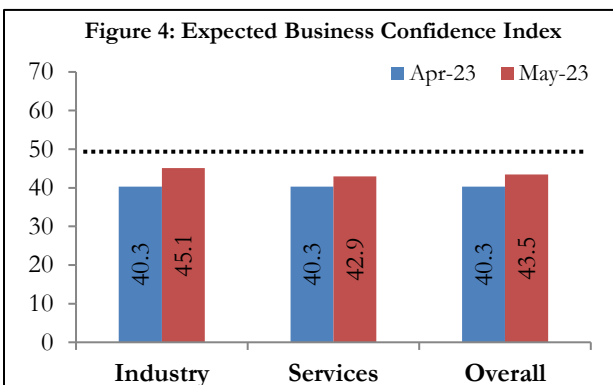
The Expected Business Confidence Index (EBCI) improved within the negative zone in May 2023 (**Figure 4**). EBCI increased by 3.2 points over the previous wave to 43.5 in the current wave. The increase was attributed to both the Industry as well as Services sectors. Industry Sector ECBI increased by 4.8 points to 45.1, while for Services Sector, it increased by 2.6 points to 42.9 in May 2023.

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

Overall percentage share of positive views (positive and very positive) increased by 4.2% to 19.3% in May 2023, whereas the share of neutral views increased by 3.1% to 41.5% in the current wave. On the other hand, negative views decreased by 7.3% to 39.1% in the current wave.



	Very Positive	Positive	Neutral	Negative	Very Negative
<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	
<b>Apr-23</b>					
Industry	0.5	4.9	29.1	44.6	20.9
Services	0.3	7.7	28.3	51.7	12.0
Overall	0.4	6.3	28.7	48.2	16.5
	6.7		28.7	64.6	

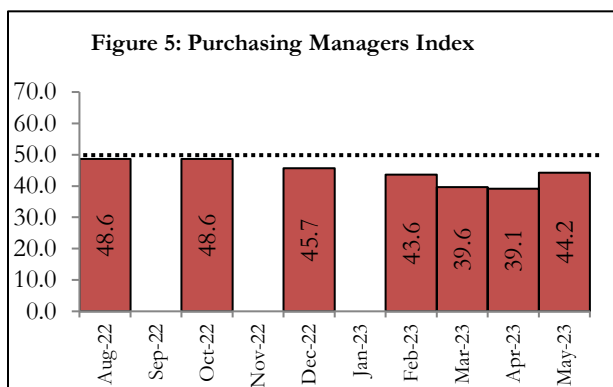


	Very Positive	Positive	Neutral	Negative	Very Negative
<b>May-23</b>					
Industry	0.4	21.6	40.1	33.9	4.1
Services	0.4	16.3	42.9	35.3	5.1
Overall	0.4	18.9	41.5	34.6	4.6
	19.3		41.5	39.1	
<b>Apr-23</b>					
Industry	0.7	13.7	40.5	36.0	9.0
Services	0.6	15.2	36.4	42.6	5.2
Overall	0.7	14.5	38.4	39.3	7.1
	15.1		38.4	46.4	

## Purchasing Managers Index

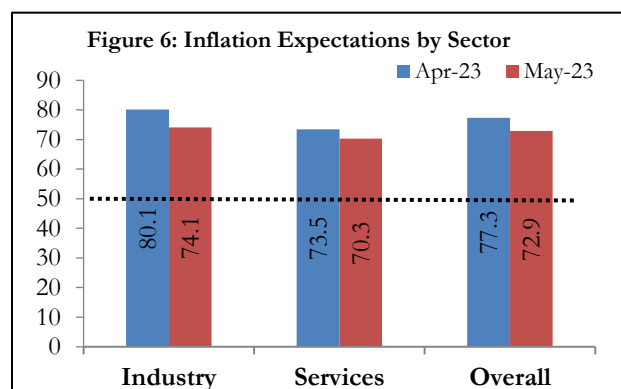
After observing a continuous declining trend during the last six waves, Purchasing Managers Index (PMI) improved by 5.1 points to 44.2 in the current wave of May 23 (**Figure 5**). However, it remained within the red zone.

PMI's disaggregation shows increase in indices of all of its components; (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.



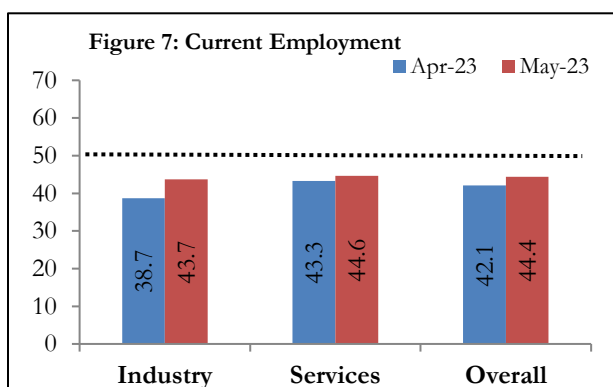
## Inflation Expectations

Overall index of Inflation Expectations (IE) decreased by 4.5 points to 72.9 in May 2023 from 77.3 in April 2023. This decrease is derived by both the Industry and the Services sectors. The Industry Sector expectations for inflation decreased by 6.0 points to 74.1 in May 2023; while the same for Services Sector decreased by 3.2 points to 70.3 (**Figure 6**).

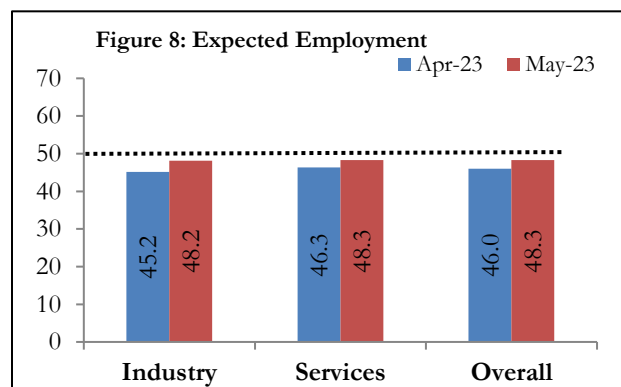


## Employment

The overall Current Employment Diffusion Index increased by 2.3 points to 44.4 in the current wave (**Figure 7**). This change was derived from both Industry and Services sectors. The current employment diffusion index for the Industry Sector increased by 5.0 points to 43.7 in May 2023 from 38.7 in the previous wave. Similarly, the Services Sector's current employment index improved by 1.4 points from 43.3 in April 2023 to 44.6 in the current wave.

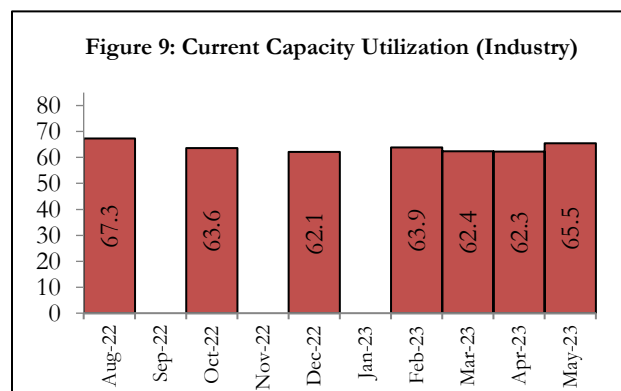


The Expected Employment Diffusion Index improved by 2.3 points to 48.3 in May 2023. This change is contributed by both the Industry and the Services sectors. The Industry Sector's Expected Employment Index increased by 3.0 points to 48.2, while for Services Sector, it improved by 2.0 points to 48.3 in May 2023 (Figure 8).



## Capacity Utilization

Average Current Capacity Utilization (ACCU)<sup>1</sup> by manufacturing sector (within industry sector) increased in the recent wave by 3.2 percent to 65.5 percent in May 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