

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

[40th wave of Business Confidence Survey (BCS) conducted during September 01-07, 2023; with 657 firms surveyed]

Overall Business Confidence

Business Confidence Index (BCI) decreased further by 2.2 points to 39.2 in September 2023 in addition to 4.4 points fall in August 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 3.4 and 1.8 points respectively in September 2023 **(Figure 2b).**

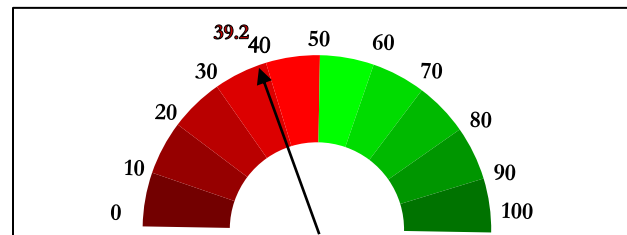
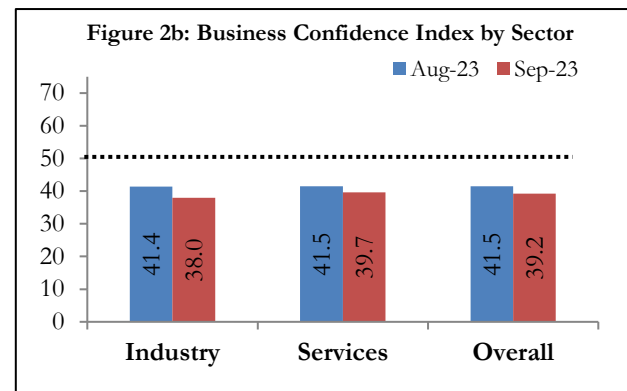
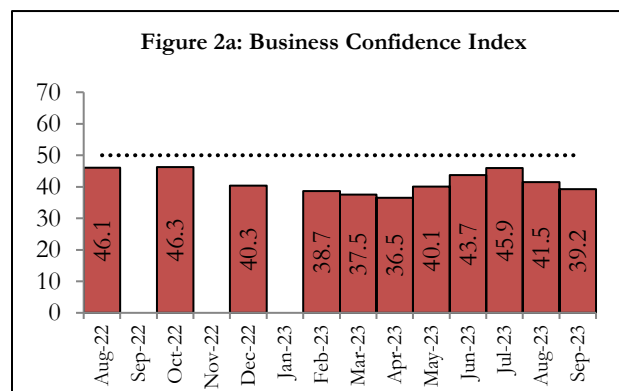


Figure 1: Overall Business Confidence Index



It has also been observed that respondents' confidence on account of current as well as expected business conditions deteriorated further in September 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 1.3 points to 35.7 in September 2023 over the previous wave (**Figure 3**). Industry sector is the major contributor for the decrease in CBCI for the current wave, which fell by 3.3 points to 34.5 in the current wave. However, the Services sector CBCI slightly decreased by 0.6 points to 36.1 in the current wave.

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 2.6 percent to 58.4 percent in the current wave. On the other hand, positive views (positive and very positive) decreased by 2.0 percent to 15.7 percent in the current wave from 17.7 percent in the last wave. Moreover, neutral views also decreased by 0.6 percent to 25.9 percent in September 2023.

Expected Business Confidence

The Expected Business Confidence Index (EBCI) also decreased in September 2023 (**Figure 4**). The EBCI decreased by 3.1 points to 42.8 in the current wave. Both Industry and Services sectors were the contributors for this downward change whose EBCI fell by 3.5 and 3.0 points respectively.

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

Overall percentage share of negative views (negative and very negative) increased by 8.1 percent to 45.6 percent. On the other hand, share of neutral views significantly decreased by 5.5 percent to 34.5 percent in September 2023, while positive views decreased by 2.6 percent to 19.9 percent in the same period.

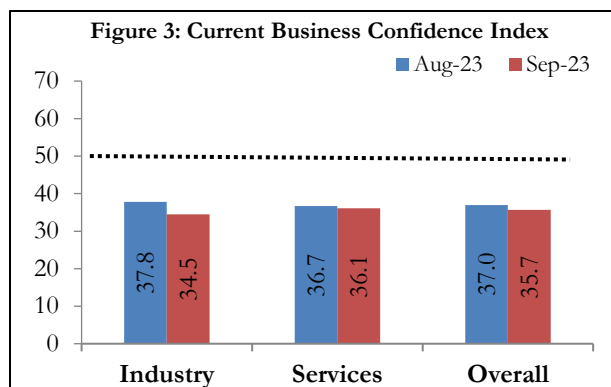


Table 1: Current Business Confidence (% Share)					
	Very Positive	Positive	Neutral	Negative	Very Negative
Sep-23					
Industry	1.1	14.3	24.8	41.3	18.6
Services	2.2	13.9	27.0	39.9	17.0
Overall	1.6	14.1	25.9	40.6	17.8
	15.7		25.9	58.4	
Aug-23					
Industry	1.4	15.7	27.1	44.1	11.6
Services	1.1	17.1	25.8	39.4	16.5
Overall	1.3	16.4	26.5	41.8	14.1
	17.7		26.5	55.8	

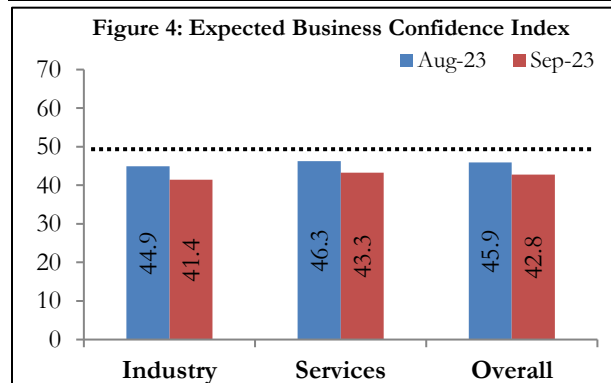
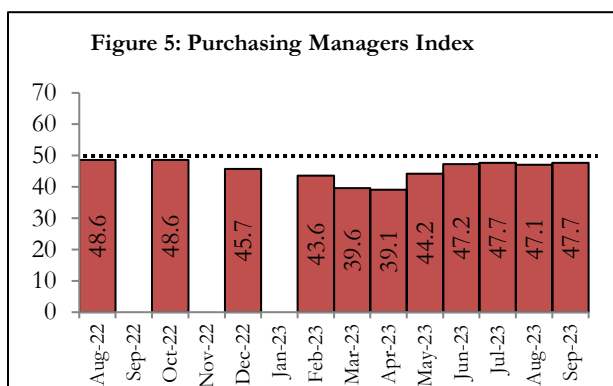


Table 2: Expected Business Confidence (% Share)					
	Very Positive	Positive	Neutral	Negative	Very Negative
Sep-23					
Industry	0.5	18.2	35.8	37.6	7.9
Services	1.8	19.3	33.1	41.7	4.1
Overall	1.1	18.8	34.5	39.7	6.0
	19.9		34.5	45.6	
Aug-23					
Industry	0.6	18.7	43.3	34.5	2.9
Services	1.7	23.9	36.7	33.1	4.6
Overall	1.2	21.3	40.0	33.8	3.7
	22.5		40.0	37.5	

Purchasing Managers Index

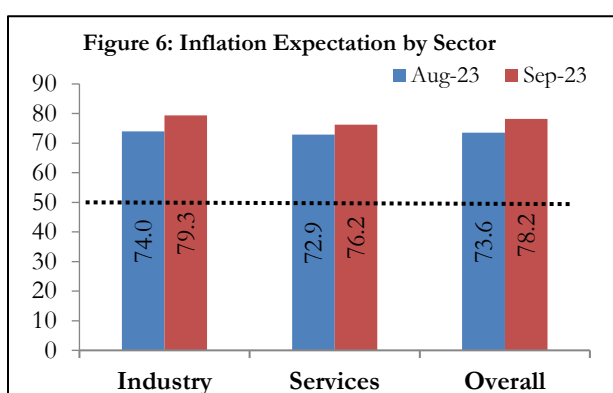
Purchasing Managers Index (PMI) slightly improved by 0.6 points to 47.7 (same level of July 2023) in September 2023. PMI was last seen in the positive zone in June 2022 (**Figure 5**).

PMI's disaggregation shows improvement in indices of three out of its five components in September 2023. The highest increase of 3.0 points was observed in the *quantity of raw material purchases* followed by *average supplier delivery times* and *firms' business activities*. On the other hand, *total number of employees* and the *total orders booked* decreased by 1.5 points and 1.6 points respectively in the current wave of the BCS survey.



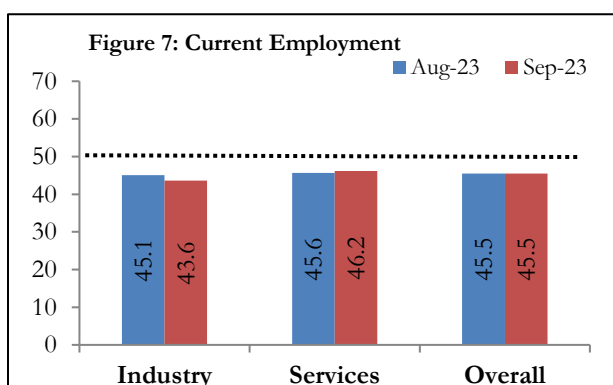
Inflation Expectations

Inflation Expectations (IE) increased further by 4.6 points and reached 78.2 in September 2023, highest level since June 2022 when recorded at 78.4 level. Both the Industry and the Services sectors contributed the increase in overall IE. Industry sector witnessed an increase of 5.3 points and the Services sector expectations of inflation increased by 3.3 points in the current wave (**Figure 6**).



Employment

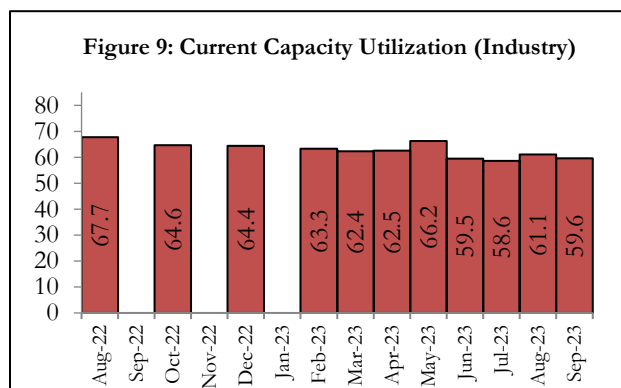
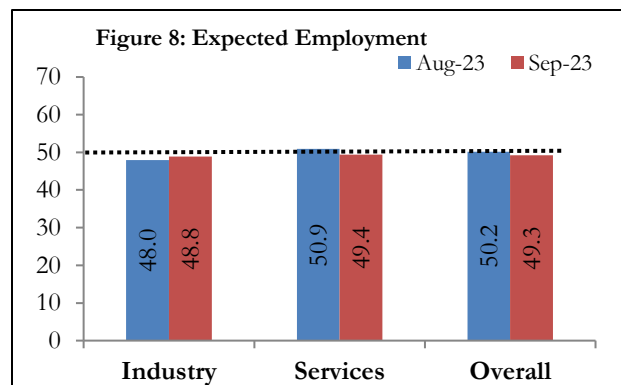
The Current Employment Diffusion Index remained same at 45.5 in the current survey wave (**Figure 7**) on account of decrease in the Industry and a slight increase in the Services sectors. The Current Employment Diffusion Index for the Industry sector decreased by 1.5 points in September 2023 from the previous wave. Services sector's Current Employment Index marginally increased by 0.5 points from the previous wave.



The Expected Employment Diffusion Index fell by 0.9 points to 49.3 in the current wave. This deterioration is contributed by Services sector. The Industry sector recorded an increase of 0.9 points in September 2023 while the Services Sector's Expected Employment Index decreased by 1.5 points in the current wave (**Figure 8**).

Capacity Utilization

Average Current Capacity Utilization (ACCU)¹ of manufacturing sector (within Industry sector) decreased by 1.5 percent to 59.6 percent in September 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