

State Bank of Pakistan's Business Confidence Survey – August 2018

The State Bank of Pakistan (SBP) has started conducting the Business Confidence Survey (BCS) from FY18 at a bi-monthly frequency to obtain the views of senior managers of large companies in the industry and services sector. The survey provides information to SBP regarding the perceptions of company manager's regarding current and expected business conditions and major factors affecting these conditions. It covers both present views on production, hiring of employees, demand for credit and economic conditions, as well as their outlook. In the August 2018 wave of BCS, 444 firms successfully completed the survey.

Overall Business Confidence

The overall business confidence was positive in the economy as reported by the companies contacted during the August 2018 wave of the survey (**Figure 1**). This shows that neutral views regarding business and economic conditions as prevailed in June 2018 have turned positive over the period.

This positive perception of businesses is slightly more pronounced for services but can be witnessed for both industry and services sector of the economy (**Figure 2**) where the overall business confidence index has increased from 50 to 54 for industry and from 51 to 55 in the services sector.

Our headline “Overall Business Confidence” is composed of two sub-indices of “Current Business Confidence” and “Expected Business Confidence”. The perceptions of respondents regarding both current and expected economic and business conditions have changed between the last two waves.

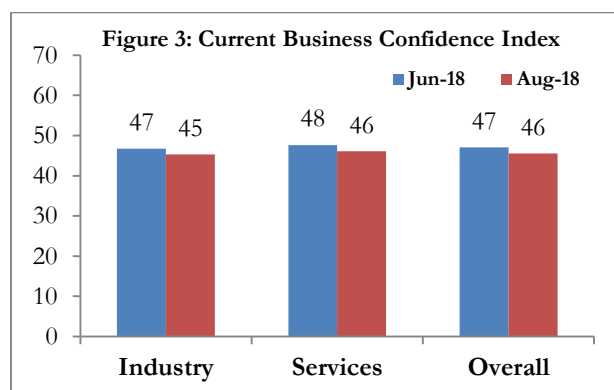
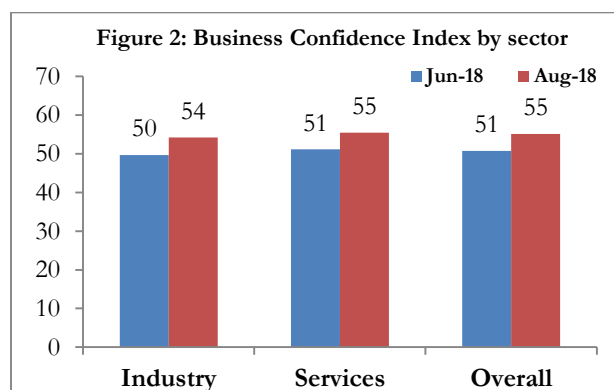
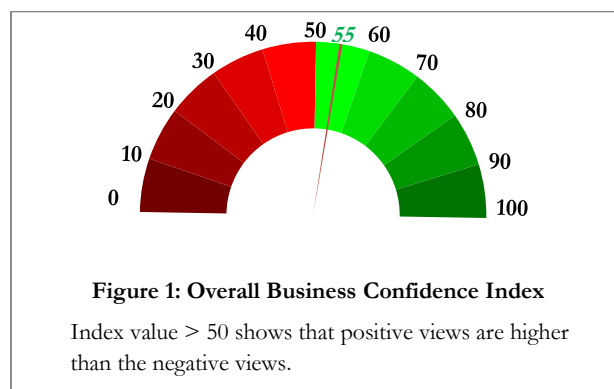


Table 1: Current Business Confidence (% Share)					
	Very Positive	Positive	Neutral	Negative	Very Negative
Aug-18					
Industry	2.5	26.2	38.4	23.0	10.0
Services	3.7	24.0	38.6	21.3	12.3
Overall	2.9	25.4	38.4	22.4	10.8
Jun-18					
Industry	6.7	22.7	35.8	20.6	14.2
Services	5.9	24.8	36.6	19.5	13.2
Overall	6.4	23.4	36.1	20.2	13.9

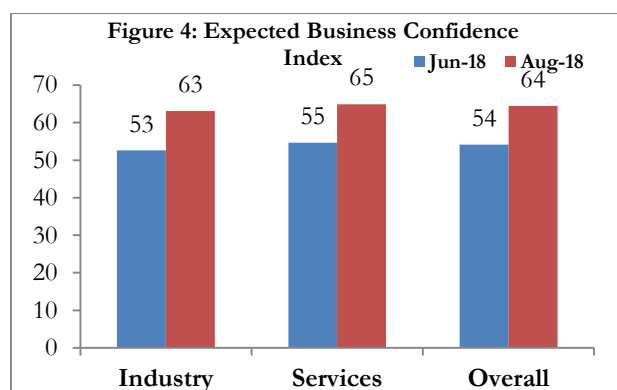


Table 2: Expected Business Confidence (% Share)					
	Very Positive	Positive	Neutral	Negative	Very Negative
Aug-18					
Industry	5.2	44.8	36.9	11.0	2.1
Services	7.8	53.1	32.5	5.5	1.1
Overall	6.1	47.7	35.4	9.1	1.7
Jun-18					
Industry	4.1	29.7	46.6	16.3	2.9
Services	4.9	41.7	34.8	15.3	3.3
Overall	4.3	33.2	43.2	16.0	3.0

Current Business Confidence

The current business confidence index (**Figure 3**) has declined for both the industry and services sectors. For industry, it has declined from a level of 47 in June 2018 to 45 in August 2018. Similarly, for the services sector it has changed from 48 to 46. For both the sectors pessimistic views regarding the current business conditions dominate the optimistic ones in the latest BCS wave of August 2018.

If we dig deeper and look at the disaggregated distribution of responses (Table 1) we find that the biggest movement has happened from very positive and very negative views towards neutral and moderate positive and negative views.

The percent share of strong positive views has declined from 6 in June 2018 to 3 in August 2018. Similarly, share of strong negative views have declined from 14 percent to 11 percent between the two waves. On the other hand, percent share of positive, neutral and negative views have increased by 2 percent each over the same period.

The main driving factor for this decline in the current business confidence is the views of survey respondents regarding the general economic conditions in the country over the last six months. There is also some marginal deterioration in perceptions regarding production and employment.

Expected Business Confidence

Turning to “expected business confidence” (Figure 4), we can see that there is a clear and pronounced increase in both services and industry. Furthermore, the share of firms having positive views of the current economic and business environment and for economy and business conditions in the next six month is significantly higher in August 2018 compared to June 2018 (64 vs. 54).

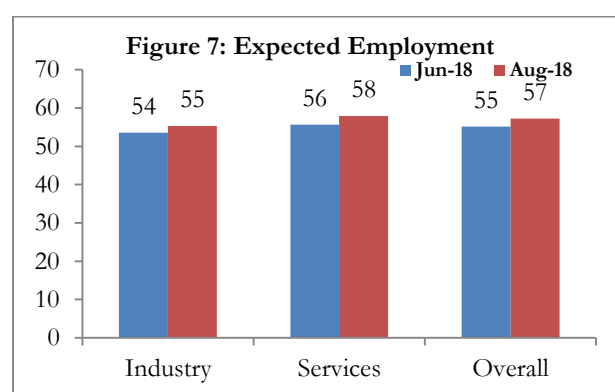
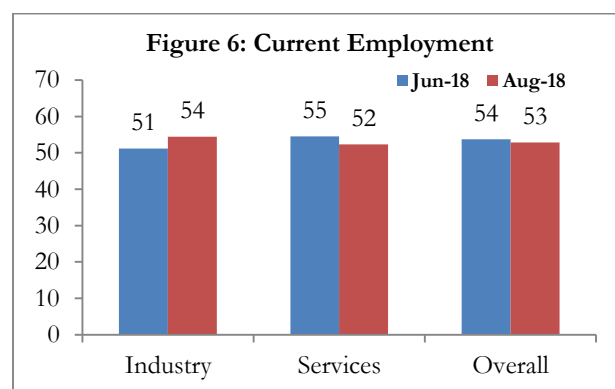
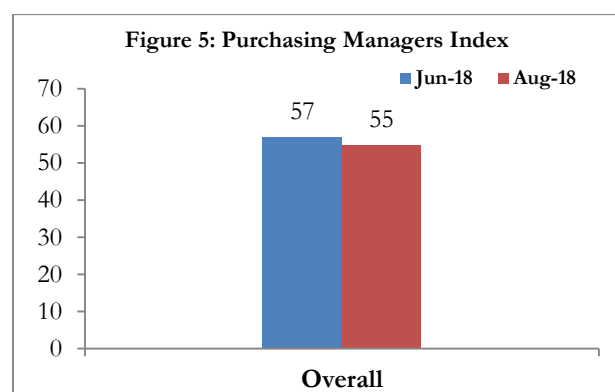
Contrary to the case of current business confidence index, detailed analysis of results (Table 2) reveal different pattern of movement from shares of neutral, moderately negative and strong negative views towards moderately positive and strong positive views; from the last wave in June 2018 to the current wave of BCS conducted in August 2018. There is a significant positive shift in the perception of businesses regarding future economic and business conditions.

Purchasing Managers Index

In addition to compiling the three business confidence related indices, Purchasing Managers Index (PMI) is also computed in line with best international practices for each wave of BCS. PMI (Figure 5) has actually declined marginally in August 2018; however it is clearly in the positive zone reflecting the robust business activity of responding firms over the last six months.

Employment

The outlook for both current and expected employment is positive even though it has declined marginally for services sector firms between June and August 2018 (Figure 6 & Figure 7). Encouragingly, firms in our survey are planning to hire more employees in the next six months. This is a positive sign for the growth and employment prospects for the new fiscal year.



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

On the basis of 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 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