

State Bank of Pakistan’s Business Confidence Survey* – April 2019

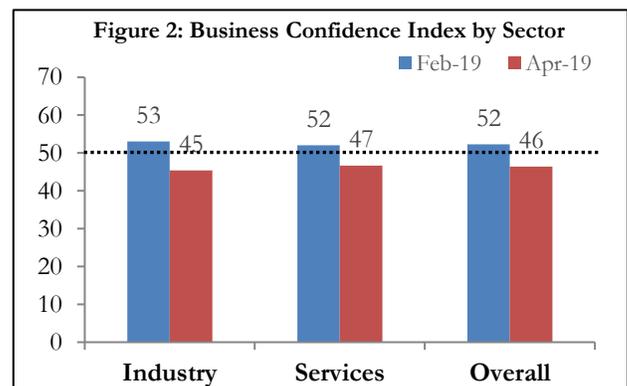
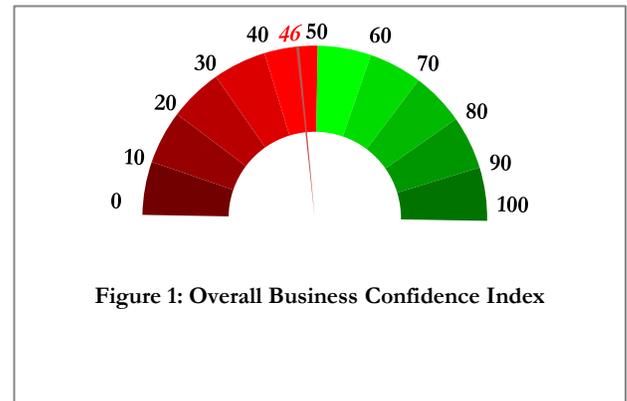
[This wave of Business Confidence Survey was conducted in April 2019; with 446 firms surveyed]

Overall Business Confidence

The overall business confidence in April 2019 declined to red zone, which shows predominance of pessimistic views of business community about the economy (**Figure 1**). It indicates that positive views regarding business and economic conditions prevailing in February 2019 have changed to negative over the period.

The change in perception from positive to negative of the businesses is more pronounced for industry but can be witnessed for services also (**Figure 2**). In case of industry, the overall business confidence index has decreased from 53 in February 2019 to 45 in April 2019; while that for services decreased from 52 to 47 in the same period.

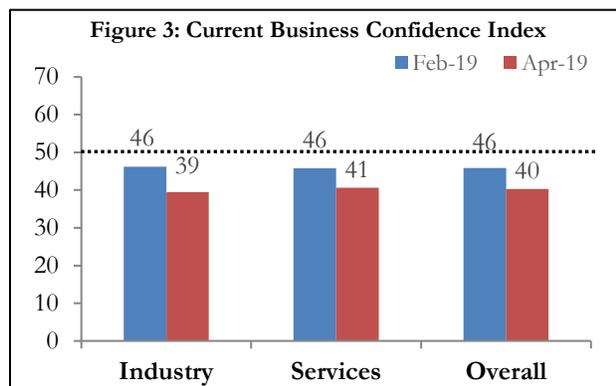
Our headline “Overall Business Confidence” is composed of two sub-indices of “Current Business Confidence” and “Expected Business Confidence”. The perceptions of respondents regarding both current and expected economic and business conditions have worsened between the last two waves.



* SBP has been conducting the Business Confidence Survey (BCS) in collaboration with 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. 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 SBP views or as endorsement by SBP.

Current Business Confidence

The current business confidence index has remained in negative zone for the last five waves including the current one. (**Figure 3**). For industry, it has declined from a level of 46 in February 2019 to 39 in April 2019. Similarly, for the services sector it has changed from 46 to 41. For both the sectors views regarding the current business conditions remained pessimistic but with relatively higher intensity in the latest BCS wave.



If we dig deeper and look at the disaggregated distribution of responses (**Table 1**) we find that the movement has happened from Positive views towards negative and very negative views, while the share of neutral views decreased.

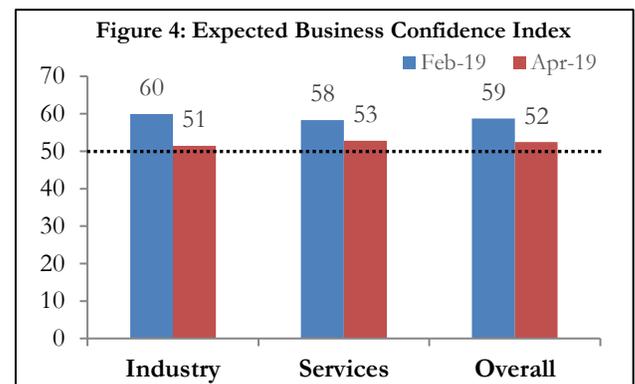
	Very Positive	Positive	Neutral	Negative	Very Negative
Apr-19					
Industry	4.3	15.8	34.7	23.7	21.5
Services	2.6	16.5	34.5	33.7	12.7
Overall	3.5	16.1	34.6	28.7	17.1
Feb-19					
Industry	4.7	20.5	39.9	24.5	10.4
Services	3.2	22.4	38.0	27.5	8.9
Overall	3.9	21.5	38.9	26.0	9.7

The overall percent share of positive views has decreased from 21.5 in February 2019 to 16.1 in April 2019. On the other hand, percent share of negative views has increased from 26.0 percent to

28.7 between the last two waves and the very negative views' share has increased significantly from 9.7 to 17.1 percent in the latest wave of the survey.

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

Expected Business Confidence



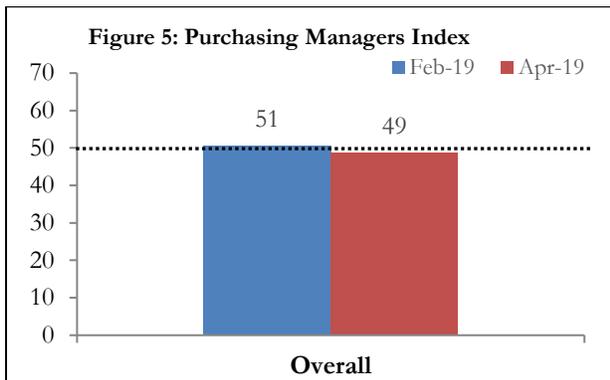
Turning to the “expected business confidence”, we can see that there is a clear and pronounced decrease in confidence in industry and services sectors (**Figure 4**). The expected business confidence which was in positive territory with a value of 59 decreased in April 2019 to 52. This decline in optimistic views is more prominent for the firms in industry (60 to 51).

In line with the case of current business confidence index, detailed analysis of expected business confidence results reveals movement from the shares of positive and very positive views to negative and very negative views from the last wave to the current wave of BCS conducted in April 2019 (**Table 2**).

Table 2: Expected Business Confidence (% Share)					
	Very Positive	Positive	Neutral	Negative	Very Negative
Apr-19					
Industry	5.2	28.9	40.5	17.3	21.5
Services	4.4	30.5	40.7	20.4	4.0
Overall	4.8	29.7	40.6	18.8	6.1
Feb-19					
Industry	9.1	36.3	42.2	10.2	10.4
Services	4.4	41.9	39.9	11.3	2.5
Overall	6.7	39.1	41.1	10.7	2.4

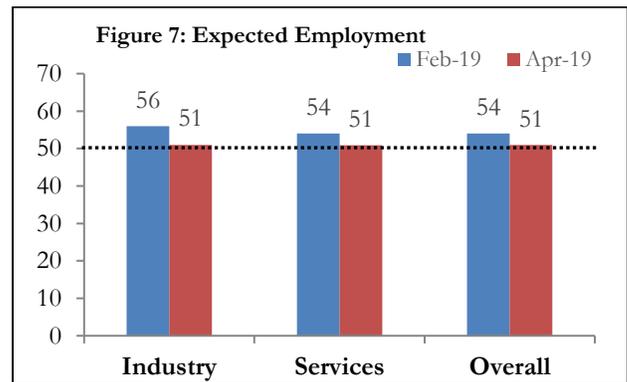
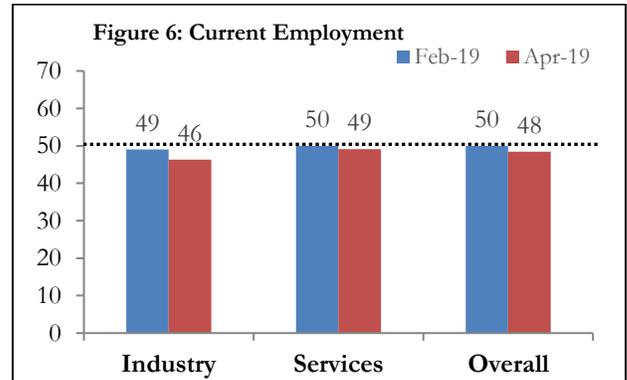
Purchasing Managers Index

Purchasing Managers Index (PMI) has decreased to negative zone in April 2019 to 49 from the previous level of 51 (Figure 5); this decrease was mainly caused by slowdown in business activities over the past six months reported by industry firms.



Employment

The current employment diffusion indices have turned negative for both the industry and services. Similarly, the outlook for expected employment has also declined; however it remained in positive zone for both industry and services sector firms between February 2019 and April 2019 (Figure 6 & Figure 7). This shows that the firms in our survey are expected to hire more employees in the next six months but at a lower level than anticipated back in February 2019.



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