State Bank of Pakistan's Business Confidence Survey* – October 2018

[This wave of Business Confidence Survey was conducted in October 2018; with 421 firms surveyed]

Overall Business Confidence

The overall business confidence in October 2018 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 as prevailed in August 2018 have turned negative over the period.
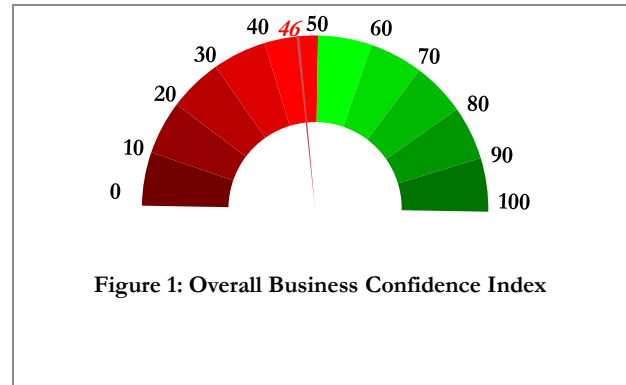

Figure 1: Overall Business Confidence Index

This negative perception of businesses is slightly more pronounced for services but can be witnessed for both industry and services sectors of the economy (**Figure 2**). In case of industries, the overall business confidence index has decreased from 54 in August 2018 to 48 in October 2018; while that for services declined from 55 to 46 in the same period.
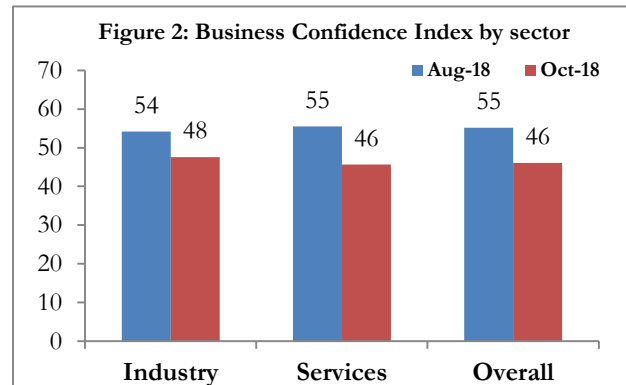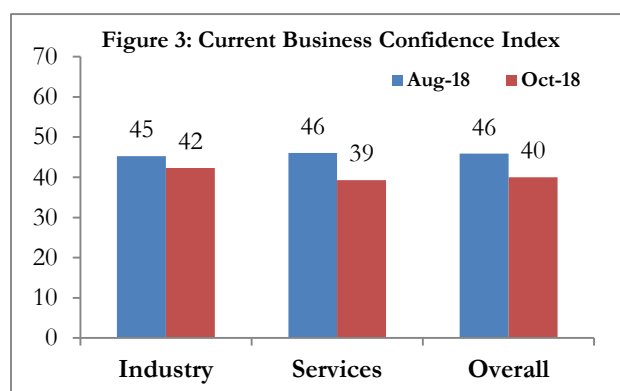
Our headline "Overall Business Confidence" is composed of two sub-indices of "Current Business Confidence" and "Expected Business Confidence". The perceptions of respondents regarding both current and expected economic and business conditions have changed between the last two waves.

Figure 2: Business Confidence Index by sector

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 45 in August 2018 to 42 in October 2018. Similarly, for the services sector it has changed from 46 to 39. For both the sectors pessimistic views regarding the current business conditions clearly dominate the optimistic ones in the latest BCS wave.

Figure 3: Current Business Confidence Index

(Industry: Aug-18 = 45, Oct-18 = 42; Services: Aug-18 = 46, Oct-18 = 39; Overall: Aug-18 = 46, Oct-18 = 40)
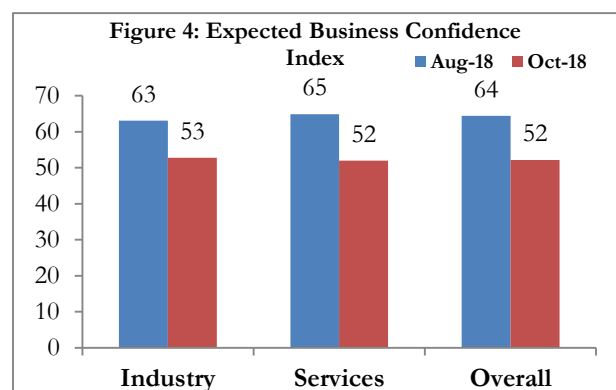
If we dig deeper and look at the disaggregated distribution of responses (**Table 1**) we find that the biggest movement has happened from positive views towards negative and very negative views.

Table 1: Current Business Confidence (% Share)

	Very Positive	Positive	Neutral	Negative	Very Negative
Oct-18					
Industry	4.2	18.0	35.9	26.3	15.5
Services	2.3	13.3	38.3	31.3	14.7
Overall	3.6	16.6	36.7	27.9	15.3
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

The percent share of positive views has declined from 25 in August 2018 to 17 in October 2018. On the other hand, percent share of negative views has increased from 22 percent to 28 percent between the last two waves. Further, very negative views have increased from 11 percent in August 2018 to 15 percent in the latest wave of the survey.

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

Expected Business Confidence

Figure 4: Expected Business Confidence Index

(Industry: Aug-18 = 63, Oct-18 = 53; Services: Aug-18 = 65, Oct-18 = 52; Overall: Aug-18 = 64, Oct-18 = 52)

Turning to "expected business confidence" (**Figure 4**), we can see that there is a clear and pronounced decline in both services and industry. However, the expected business confidence is still in positive territory with a value greater than 50. Having said that, the share of firms having positive views of the economy and business conditions in the next six months is significantly lower in October 2018 compared to August 2018 (52 vs. 64).

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

Table 2: Expected Business Confidence (% Share)					
	Very Positive	Positive	Neutral	Negative	Very Negative
Oct-18					
Industry	4.7	32.7	39.5	15.3	7.8
Services	2.8	30.0	44.4	17.7	5.1
Overall	4.1	31.9	41.0	16.0	7.0
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

Purchasing Managers Index

Purchasing Managers Index (PMI) has actually declined marginally in October 2018 to 53 from the previous level of 55 (**Figure 5**);

Figure 5: Purchasing Managers Index
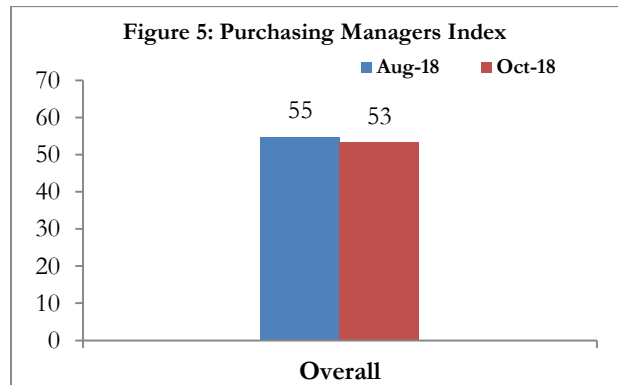
however, it is still in the green zone reflecting slight positive business activity of responding firms over the last six months.

Employment

The current employment diffusion index has turned negative for both industry and services sector firm. However, the outlook for expected employment is still slightly positive even though it has declined for both industry and services sector firms between August and October 2018 (**Figure 6 & Figure 7**). This shows that the firms in our survey are still planning to hire more employees in the next six months.

Figure 6: Current Employment

Figure 7: Expected Employment
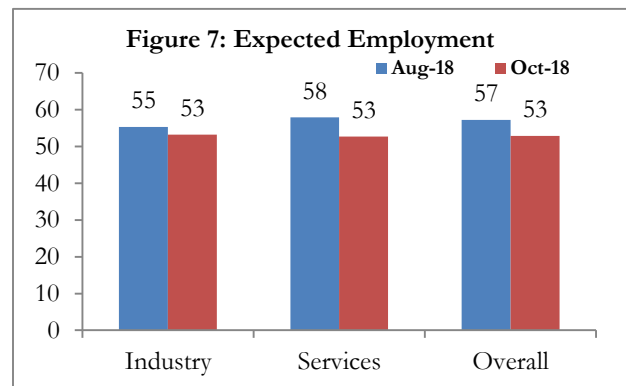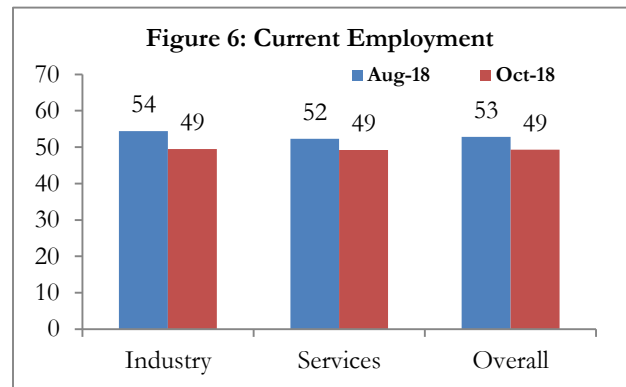
Business Confidence Survey (BCS) Notes

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 *economic conditions* in the country over the **past six months** have
	- Excluding normal seasonal changes**, y**our *production* over the **past six months** has
	- Excluding normal seasonal changes, the *total number of employees* at your firm over the **past six months** has
Expected Business Confidence Index	- You expect the general *economic conditions* in the country in the **next six months** to
	- Excluding normal seasonal changes, you expect your *production* in the **next six months** to
	- Excluding normal seasonal changes, you expect the *total number of employees* at your firm in the **next six months** to
Business Confidence Index	- The general *economic conditions* in the country over the **past six months** have
	- You expect the general *economic conditions* in the country in the **next six months** to
	- Excluding normal seasonal changes, your *production* over the **past six months** has
	- Excluding normal seasonal changes, you expect your *production* in the **next six months** to
	- Excluding normal seasonal changes, the *total number of employees* at your firm over the **past six months** has
	- Excluding normal seasonal changes, you expect the *total number of employees* at your firm in the **next six months** to
Purchasing Manager Index (for industry only)	- Excluding normal seasonal changes, your *production* over the **past six months** has
	- Excluding normal seasonal changes, the *total number of employees* at your firm over the **past six months** has
	- Excluding normal seasonal changes, your *total order books* over the **past six months** have
	- In the **past six months**, the *quantity of raw material purchases* has
	- Average s*upplier delivery times* over the **past six months** has