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dun & bradstreet

BETTER DATA. BETTER INSIGHT. BETTER PERFORMANCE

PAKISTAN BUSINESS OPTIMISM INDEX® | Q3, 2022

In today's rapidly evolving world of business, understanding the economic and business outlook at a macro and micro level is essential for businesses and governments to respond to the ever-changing environment in a proactive manner.

D&B's quarterly published Business Optimism Index (BOI) Report is a leading indicator of economic and business performance. BOI measures the business pulse and sentiments underpinning the economic and business performance of the country.

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1. D&B's BUSINESS OPTIMISM INDEX (BOI)

D&B's Business Optimism Index (BOI), Global Credentials over the years

HISTORY OF D&B BUSINESS OPTIMISM INDEX

STARTED IN EARLY 1920'S
- British & German Trade Associations
- French Statistics Offices

BY THE1990'S, survey is conducted globally.
- D&B conducts surveys in USA, India, Singapore and Australia

IN 2008, D&B partners with Qatar Financial Center Authority and introduces Qatar Optimism Index

IN 2009, D&B partners with National Commercial Bank Saudi Arabia to launch the Saudi Business Optimism Index

IN 2011, D&B partners with Department of Economic Development (Government of Dubai) for introducing Dubai Business Confidence Index

IN 2013-14, D&B partners with Government of Sharjah & Ajman and launches Sharjah & Ajman Optimism Index respectively

IN 2019, D&B launches Pakistan Business Optimism Index

2. INTRODUCTION

D&B Pakistan conducted the Business Optimism Index (BOI) survey for Q3, 2022 (July 2022 – September 2022), from 1st July to 31st September 2022. The objective of the survey is to gauge current business sentiments in Pakistan along with business performance expectations in the upcoming quarter. This report also entails a comparison of business sentiments of the current quarter (Q3, 2022) vis-à-vis corresponding quarter last year (Q3, 2021).

Pakistan's BOI for Q3, 2022 declined of 1.2% from the previous quarter. The BOI was 126.7 points vis-à-vis 128.3 points in Q2, 2022. However, the BOI reduced by 17% YoY with the BOI of Q3, 2021 being 154.2.

The index has declined on account of ongoing economic and political uncertainty. The country's YoY inflation rate was reported at 24.9% in July, 27.3% in August, and lastly it reduced to 23.2% in September.

Due to political uncertainty, high inflation coupled with increasing interest rate and low FX reserves caused the PKR to depreciate against the USD.

The overall BOI reduced for the current quarter on account of a lower BOI score for large companies. For Q3, 2022 the large companies BOI declined to 137.3 points, a decrease of 2.6% from the previous quarters 141.1 points. Meanwhile the BOI for SME companies was 110.7 points indicating an increase of 1.4%.

The lower overall score for SME's can be attributed to a higher impact of macro-economic factors that these businesses encounter combined with higher impact of monsoon floods. Meanwhile large companies have a higher BOI comparatively due to having economic and fiscal guards in place such as access to easier financing options, sizable market-share, economies of scale, and proper risk management systems. It is to note that the Large companies BOI decreased Q-o-Q exhibiting that the economic conditions are now impacting the future outlook of large companies as well.

For more information on past BOI publications please visit:

https://dnbsame.com/perspectives/knowledge-capital/

DISCLAIMER: This research was conducted through an extremely volatile economic period which the business community may not have fully incorporated into their forecasts.

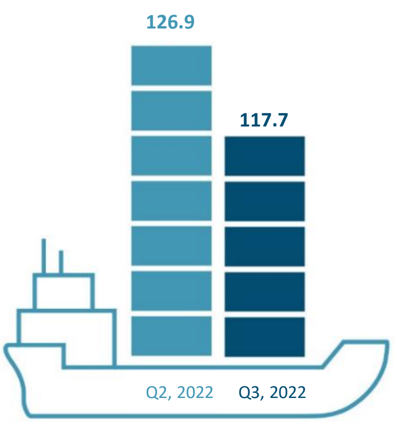
3. EXCERPT OF RESULTS

The Pakistan Business Optimism Index (BOI) registered at **126.7 points in Q3, 2022** from **128.3 points in Q2, 2022** a slight decrease of **1.2%** . For a yearly comparison, the **BOI of Q3 2021 registered at 154.2** indicating a YoY decline of **17.8%**. With worsening economic conditions, the BOI has gradually decreased with varying magnitudes Quarter-on-Quarter.

Due to **Hyperinflation** and **Monsoon floods**, the service sector retains its higher rank in optimism and trading remains the lowest in comparison.

Of all sectors, Services' sector remained most optimistic with a 2.7-point increase from last quarter. The optimism can be attributed to growing demand of **tech-services** and higher revenues via **devalued PKR** from exports proceeds.

The Exporter's index plunged by 7.2% Q-o-Q. On average, trading exporters lost the most optimism this quarter on the back of decreasing margins due to global inflation. Service/Manufacturing exporters, on the-other-hand are optimistic on account of increased revenues resulting from PKR depreciation and rising demand of tech-services globally. **USA, UK, Germany** exhibit the highest export traffic.



Large business BOI decreased in Q3, 2022 to **137.3 points, compared to 141.1 points** in Q2, 2022. This is mainly attributed to the **economic conditions** and **Monsson floods** plunging demand.

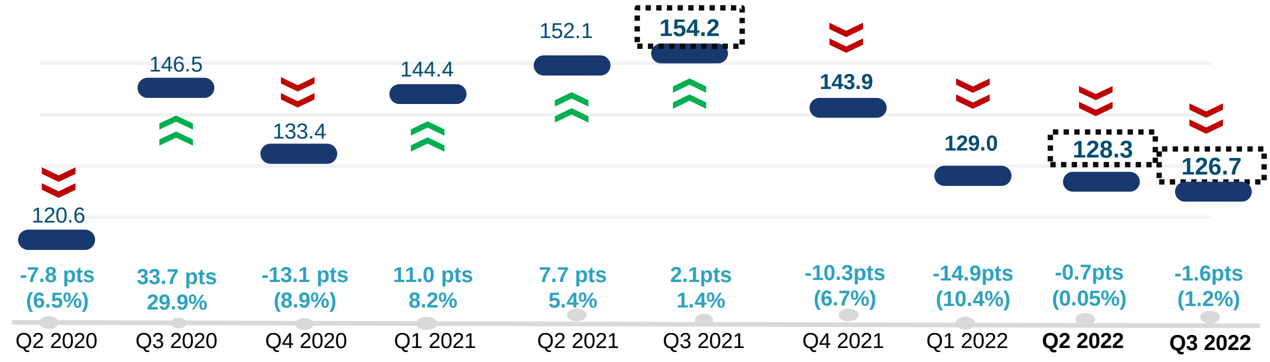
Over 22% of respondents consider **global factors such as the Ukraine Russia war followed closely by frequent rise in inflation/interest rate.**

High import duties as well as increased input costs due to the depreciated PKR are pinching margins further. Many respondents commented that they **were uncertain in their demand projections** due to hyper-inflation and the global recession.

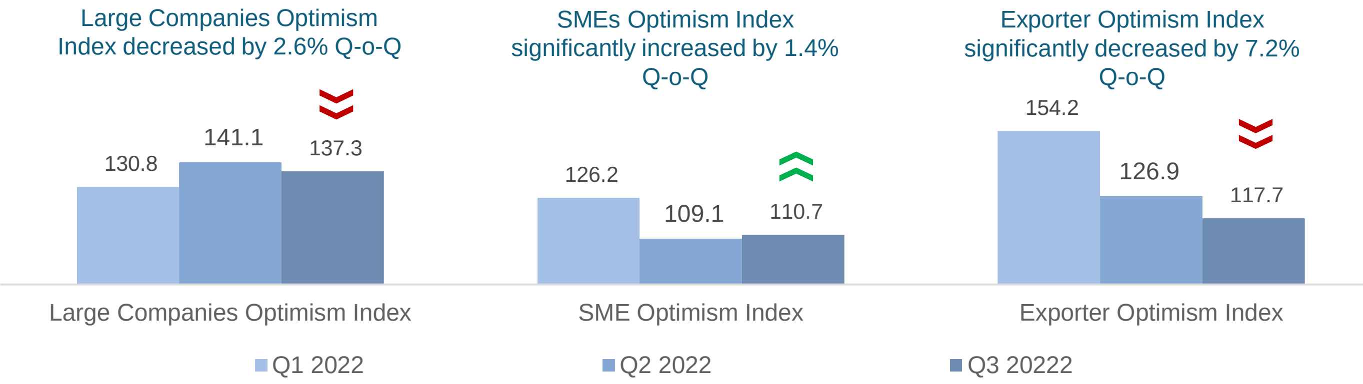
Note:
*BOI above 100 points indicates **'Optimism'** while below 100 points indicates **'Pessimism'***
Values may not add up to 100% at certain places due to rounding off

4. OVERALL BOI

The Pakistan Business Optimism Index (BOI) registered at 126.7 points in Q3 2022 from 128.3 in Q2 2022 a decrease of 1.6 points (1.2%). Where as Q3 2021 registered a BOI of 154.2, a YoY decrease of 27.5 points (17.8%)

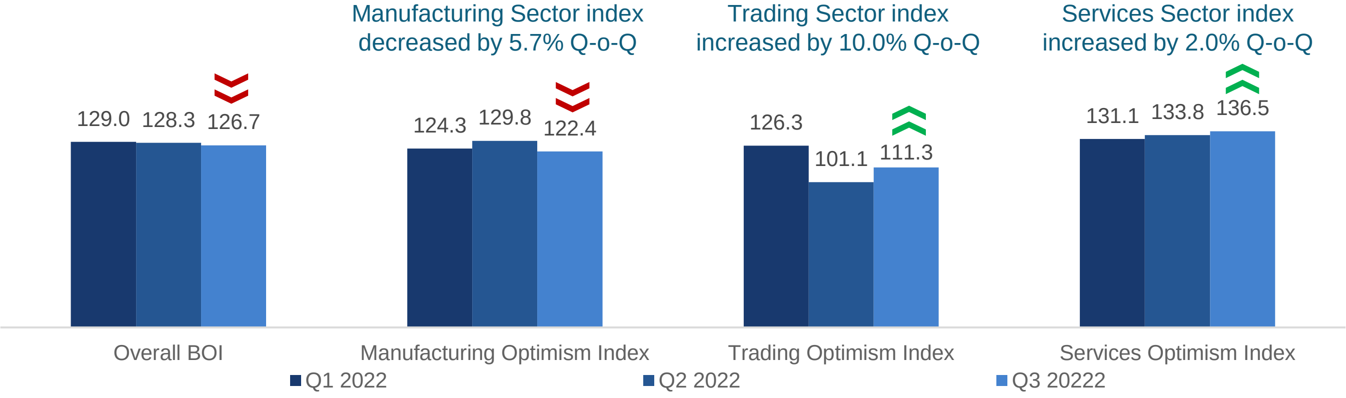


INDEX-WISE COMPARISON



Large companies and Exporter optimism decreased whereas SME optimism remained stable although both remain higher in absolute terms. Large companies are now facing higher input costs on account of higher import duties, dollar rate fluctuations and general pessimism due to political conditions. Whereas exporting is hindered due to global supply chain disruptions on the back of the Ukraine Russia war.

SECTOR-WISE COMPARISON



The service sector retained their rank in high optimism at 136.5 even showing a 2% increase Q-o-Q, where as trading optimism increased by the highest margin at 10.0%. Lastly Manufacturing remained relatively stable with a decrease of 5.7%

__Note:__
Values may not add up to 100% at certain places due to rounding off

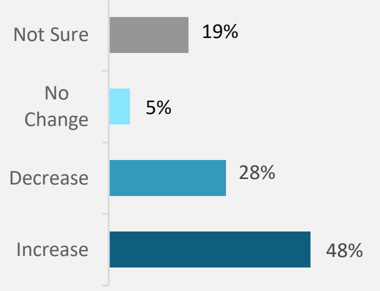
5. FORECAST BUSINESS OUTLOOK (Q3, 2022)

The Net Balance (NB) scores for all parameters have remained relatively stable with slight increases in Q3 2022 vis-à-vis Q2 2022 however employment size plunged by almost 50%, the highest decrease in any quarter from the previous year.

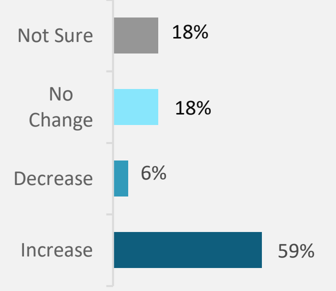
Parameters	*Net Balance (NB)					
	Q3, 2021	Q4, 2021	Q1, 2022	Q2, 2022	Q3, 2022	Q4, 2022
Sales Revenue	77%	70%	54%	40%	14%	20%
Selling Prices	34%	42%	41%	26%	51%	53%
Sales Volume	72%	66%	53%	39%	16%	20%
Employment Size	39%	44%	30%	20%	31%	17%
Profits	63%	65%	51%	29%	11%	15%

*(% positive responses - % negative responses)

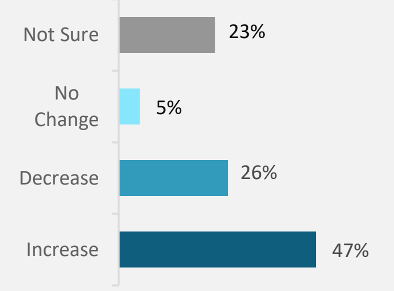
SALES REVENUE



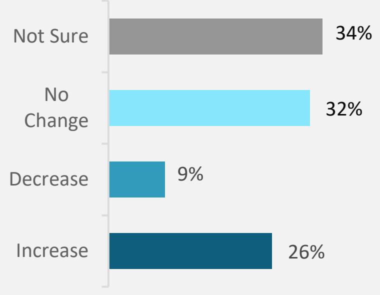
SELLING PRICES



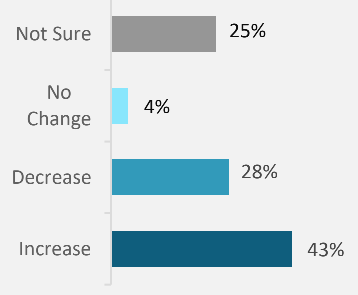
VOLUME SOLD



SIZE OF EMPLOYEES



PROFITS



- **59%** Businesses are worried that their cost and selling price will increase **due to inflation**
- **Size of employment** has been forecasted at an **all time low** at **17%** on a Y-o-Y basis indicating a very low optimism
- Contrarily, profits have **remained stable, increasing slightly**.

Majority of the businesses had increased their employment size in the last quarter even as economic conditions worsened paired with lowered overall optimism. However, in this quarter a steep reversal was witnessed with only employment size being the factor with a deep plunge maybe due to cost saving measures.

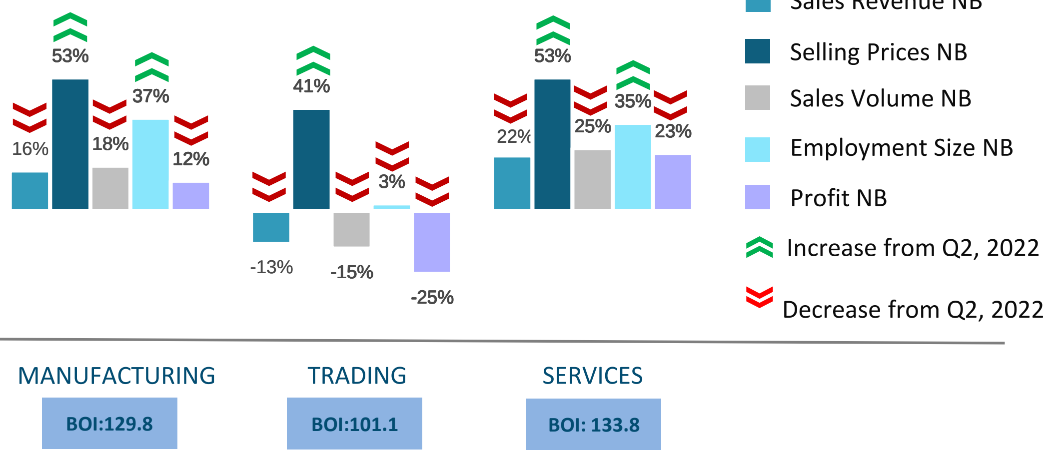
__Note:__
Net Balance (NB) = % positive responses - % negative responses
Values may not add up to 100% at certain places due to rounding off

6. SECTOR-WISE OUTLOOK

On a quarter-on-quarter basis, manufacturing exhibits the largest drop in BOI due to decrease in sales, sales volume and profits (by 13%, 56%, and 58% respectively). The services sector still retains its lead in optimism vis-à-vis all factors except in employment size.

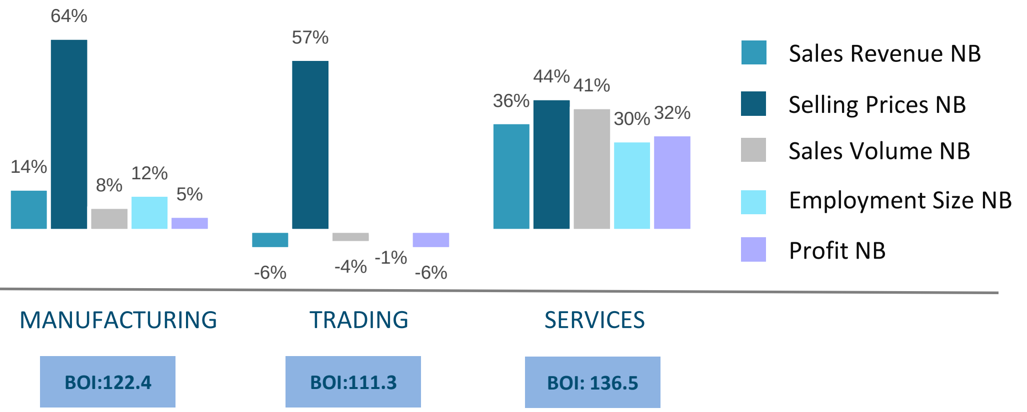
SECTOR WISE NET BALANCES (NB) FOR KEY BUSINESS METRICS (Q3, 2022)

Services sector remained the most optimistic sector for Q3, 2022



SECTOR WISE NET BALANCES (NB) FOR KEY BUSINESS METRICS (Q4, 2022)

Trading sector increased the most in optimism from the previous quarter



Net Balance (NB): (% of positive responses - % of negative responses)

The **trading sector** has remained **pessimistic** over most of their factors due to pinched margins from higher input costs because of monsoon floods, higher import duties, and dollar rate fluctuations. However, compared to last quarter, all factors have increased except employment size

- Nearly all factor forecasts have exhibited a decrease in manufacturing sector except for selling prices which have been increased due to inflation.
- The service sector, however, showed an increase in all factors save for employment depicting its confidence in their business due to high demand of different services such as technology and software, education, and restaurants.
- Lastly, employment count decreased through out the board.

Note:
Net Balance (NB) = % positive responses - % negative responses
Values may not add up to 100% at certain places due to rounding off

7. CURRENT AND FORECAST BUSINESS SITUATION Q3, 2022 & Q4, 2022

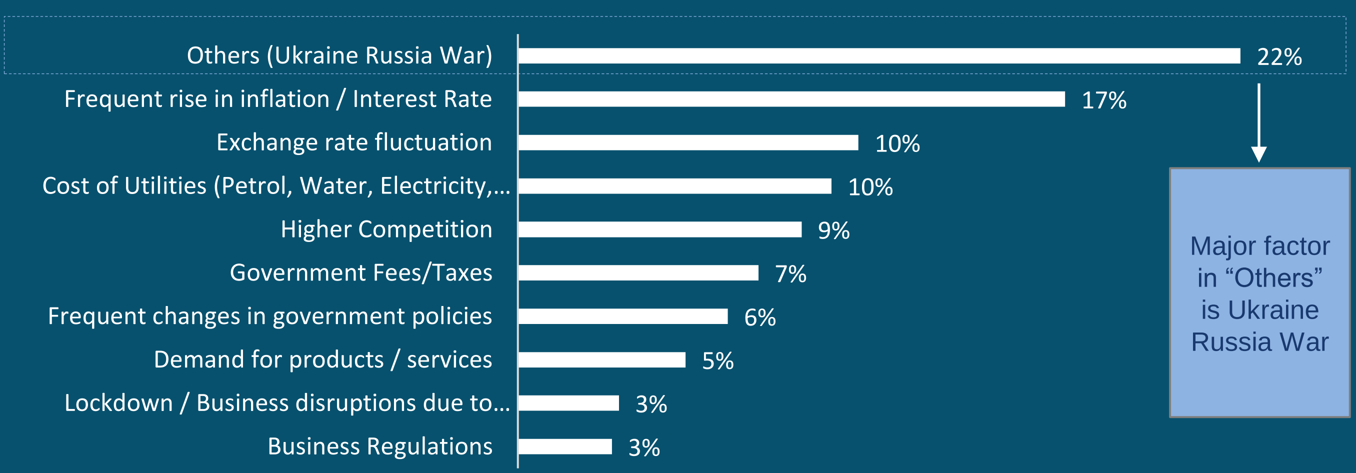
The business situation forecast directly correlates to the previous subfactors discussed; consequently, forecasting a **5% increase** in optimism via net balance (NB). The increased forecast of business situation is on the back of optimistic forecasts of the services sector.

CURRENT BUSINESS SITUATION (Q3, 2022)

FORECAST BUSINESS SITUATION (Q4, 2022)

8. KEY BUSINESS CHALLENGES (Q3, 2022)

22% of businesses reported 'Others' factors of which the majority indicated that the Russia Ukraine war has disrupted their supply chain planning and execution. Following challenges were inflation (17%) and currency fluctuation (10%) relating to the increase in cost of business and decreasing of profit margins.



With the increase in uncertainty and the second highest challenge being the rise in inflation and interest rate with the 23.2% Y-o-Y Consumer Price Index (CPI) in September 2022 businesses are anxious about their demand projection and the cost of business. Several macroeconomic and political factors are creating volatility in the PKR exchange rate which impacts input costs which are already rising.

With the 're-opening' of the world after the pandemic, 'Covid-19' related factors have been removed from the top of the key business challenges after 3 consecutive quarters.

Note:
Net Balance (NB) = % positive responses - % negative responses
Values may not add up to 100% at certain places due to rounding off

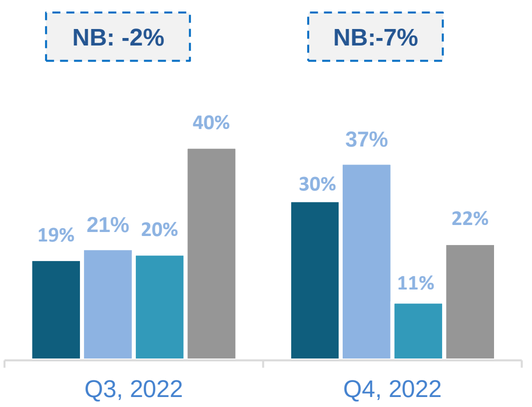
9. SME BUSINESS OUTLOOK

The SME BOI was reported at 110.7 points, registering an increase of 1.6 points (1.4%) from 109.1 points in the last quarter. The Net Balance (NB) scores for SMEs remained lower than that for large companies for all parameters perhaps due to SMEs having less safeguards than their larger counterparts. Some large businesses commented that the demand for their product would always grow which may also explain the difference.

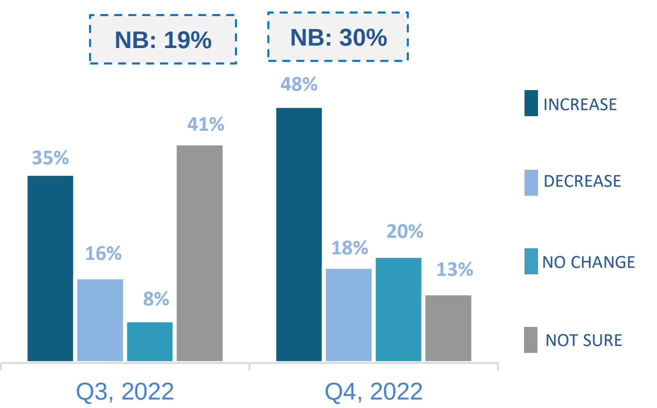
Parameters	*Net Balance (NB)					
	Q3, 2021	Q4, 2021	Q1, 2022	Q2, 2022	Q3, 2022	Q4, 2022
Sales Revenue	76%	70%	54%	40%	3%	-1%
Selling Prices	35%	42%	41%	18%	31%	51%
Sales Volume	72%	66%	50%	38%	4%	-2%
Employment Size	31%	43%	28%	20%	7%	1%
Profits	62%	65%	42%	29%	-5%	-7%

(% positive responses - % negative responses)

SME Forecast Business Situation For Q2, 2022 and Q3, 2022



SME Forecast Export Performance For Q3, 2022 and Q4, 2022



- Net Balance (NB) scores for SMEs, across all parameters, increased for the upcoming quarter of 2022 compared to Q3, 2022.
- Both Large and SMEs consider the Russia Ukraine war, frequent rise in inflation/interest rate, and exchange rate fluctuations to be the main impediment to business.
- Tech related SME's, more specifically exporters of software services, are far more optimistic from their peers due to the high domestic/global demand for their services and increased profits due to PKR devaluation.
- Large businesses with reliance on global supply chains are worried due to the disruptions caused by the global recession whereas businesses with reliance on local supply chains are worried due to monsoon floods.

SME Optimism Index Q3 2022

110.7 pts

1.6 pts q-o-q

Large Companies Optimism Index Q3 2022

137.3 pts

-3.8 pts q-o-q

Note:
Net Balance (NB) = % positive responses - % negative responses
Values may not add up to 100% at certain places due to rounding off

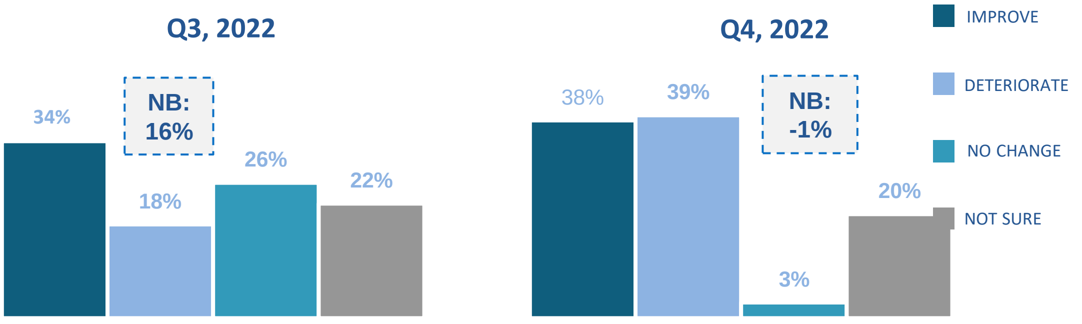
10. EXPORTERS' BUSINESS OUTLOOK

Exporters' Optimism Index stands at 117.7 points in Q3, 2022, down by 9.2 points (7.2%) q-o-q. This quarter continued the declining trend of the previous trend noting the decreasing optimism of exporters on a yearly basis due to the global recession and supply chain in lieu of the Ukraine Russia war and despite the optimism from service exporters.

Parameters	*Net Balance (NB)					
	Q3, 2021	Q4, 2021	Q1, 2022	Q2, 2022	Q3, 2022	Q4, 2022
Sales Revenue	78%	64%	62%	**62%**	0%	1%
Selling Prices	42%	35%	52%	**33%**	64%	51%
Sales Volume	73%	63%	63%	**62%**	9%	-3%
Employment Size	48%	64%	36%	**64%**	31%	23%
Profits	67%	59%	65%	**56%**	4%	0%

*(% positive responses - % negative responses)

Exporters' Forecast Business Situation



Exporter optimism fell under the pressure of hyperinflation on the back of global economic recission via the Russia/Ukraine war as well as global supply chain disruptions since the previous quarter. Global demand curbed tremendously therefore trading exporters were affected the most due to the nature of their products as well pinching margins. However, software and tech exporter optimism grew tremendously due to the global demand and revenue of their products and services.

TOP 3 CURRENT EXPORT DESTINATIONS*

The USA registered as the top export destination due to software services. UAE and China were replaced by UK and Germany Q-o-Q.

USA 15% | UK 14% | GERMANY 08%

** As a proportion of respondents that are exporters*

TOP 3 NEW EXPORT DESTINATIONS**

For new exporters South Africa became the top new target replacing USA Q-o-Q though it remained the second highest destination. On the other hand, Germany replaced UAE from last quarter.

SA 13% | USA 09% | GERMANY 08%

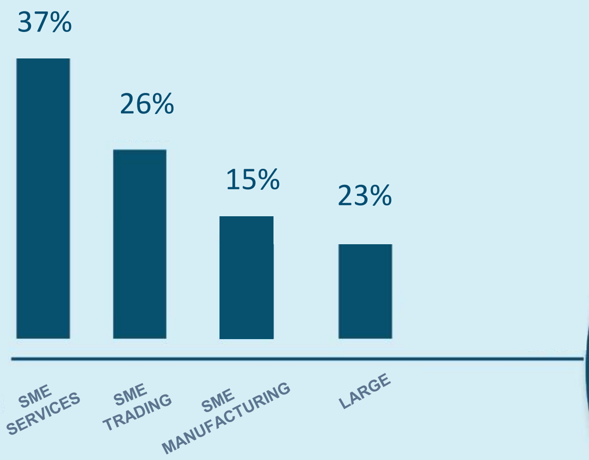
*** As a proportion of respondents 'willing to export to new markets'*

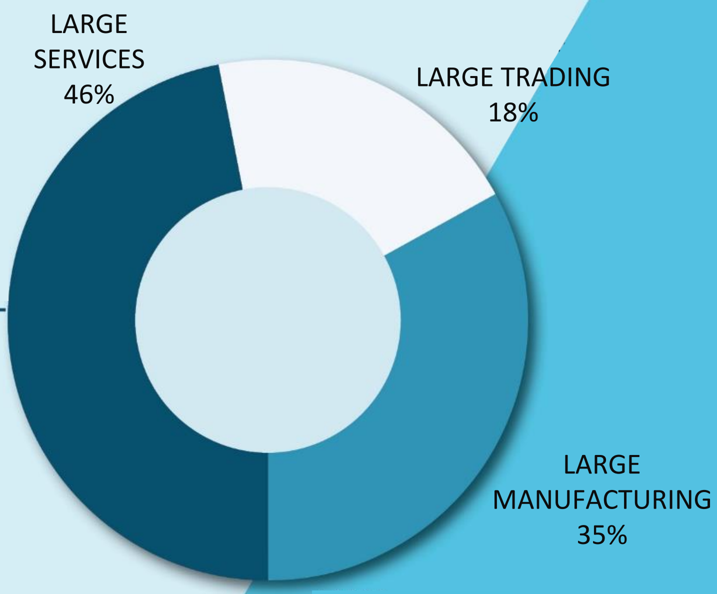
USA, UK, UAE have remained the highest export destinations on a yearly basis followed by Germany, China, and Canada.

**** China, Kingdom of Saudi Arabia(KSA), and Qatar, also show some weights of the current export destinations.*

Note: *Values may not add up to 100% at certain places due to rounding off South Africa (SA), United States of America (USA), Germany*

12. SAMPLE ALLOCATION AND METHODOLOGY





- The quarterly business survey for Q3, 2022 highlights 90% confidence level with a 5% margin of error
- Respondents are from various cities of Pakistan
- Survey was conducted from 1st September 2022 to 30th September 2022

ABOUT

The D&B Business Optimism Index (BOI) measures the pulse of the business community and provides an outlook of business sentiments in Pakistan. The report serves as an indicator to assess the level of current economic activity and outlook of businesses for the next quarter. Over time, the index is expected to emerge as a leading indicator of turning points in economic activity.

PERIOD OF STUDY

For the purpose of the survey, each quarter is defined as follows:

- Q1 is the period between Jan and Mar
- Q2 is the period between Apr and Jun
- Q3 is the period between Jul and Sep
- Q4 is the period between Oct and Dec

METHODOLOGY

- The sample includes a mix of small, medium, and large enterprises and has adequate representation from the Manufacturing, Trading, and Services sectors in proportion to their respective value-added contribution to Pakistan's GDP.
- The sample was then weighted for SME and Large companies as per their contribution to the GDP i.e. 60% for Large companies and 40% for SMEs.
- In order to gauge 'business outlook' or expectations, the quarterly survey focuses on key indicators, including Sales Revenue, Selling Prices, Sales Volume, Employment Size, and Profits. Respondents are asked to indicate if they expect an 'increase', 'decrease' or 'no change' in these parameters.

BUSINESS OPTIMISM INDEX CALCULATIONS

The Business Optimism Index (BOI) is calculated as a weighted average score of the following 'business outlook' indicators:

SELLING PRICES | SALES VOLUME | NO OF EMPLOYEES | PROFITS

For each indicator, 'resulting scores' are calculated using the net balance method:

(% OF POSITIVE RESPONSES - % OF NEGATIVE RESPONSES) + 100

For the Composite Business Optimism Index, the resulting scores are multiplied with their corresponding weights to arrive at a weighted average index score. Taking account of the economy's composition by firm size, the index is weighted by the relative contributions of SMEs and large businesses to Pakistan's GDP. The final result is the following index calculation:

OVERALL INDEX = 60% * (LARGE COMPANIES INDEX) + 40% * (SME INDEX)

BOI is classified in the following three groups:

BOI < 100, BUSINESS EXPECTATIONS ARE NEGATIVE
BOI = 100, BUSINESS EXPECTATIONS ARE STABLE
BOI > 100, BUSINESS EXPECTATIONS ARE POSITIVE

WE HOPE THAT D&B BUSINESS OPTIMISM INDEX SURVEY WILL BE INSTRUMENTAL IN ASSISTING OUR READERS IN BUSINESS DECISION MAKING. WE LOOK FORWARD TO YOUR FEEDBACK.

To email your comments – please write to eag@dnbpk.com with "Feedback" in the subject line.

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