



BETTER DATA. BETTER INSIGHT. BETTER PERFORMANCE



PAKISTAN BUSINESS OPTIMISM INDEX[™]

Q4, 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



2. INTRODUCTION

D&B Pakistan conducted the Business Optimism Index (BOI) survey for Q4, 2022 (October to December), from 1st to 31st December. The objective of the survey was to gauge current business sentiments in Pakistan along with business performance expectations for the upcoming quarter. This report also entails a comparison of business sentiments of the current quarter (Q4, 2022) vis-à-vis corresponding quarter last year (Q4, 2021).

Pakistan's BOI increased significantly by 16.3% to 147.3 points in Q4, 2022 from 126.7 points in Q3, 2022. Annually, the BOI increased marginally by 2.36% from 143.9 points in Q4, 2021.

Pakistan's year-over-year inflation rate was recorded at 26.6% in October, 23.8% in November, and 24.5% in December 2022. Despite this and the challenging global economic outlook, the index has shown an improvement.

The overall BOI for the current quarter rose due to an improvement in overall business optimism for both large companies as well as SMEs. The BOI for large companies climbed to 154.1 points, marking an increase of 12.3% from the previous quarter's 137.3. While the BOI for SMEs was 137 points, a 23.8% increase from the previous quarter's score of 110.7. SMEs have consistently noted a lower BOI score compared to large companies. Our survey indicates that larger companies are more optimistic that the demand for their products/services will continue to grow. On the other hand, SMEs tend to excessively worry about the tumultuous political and economic situation.

For more information on past BOI publications please visit:

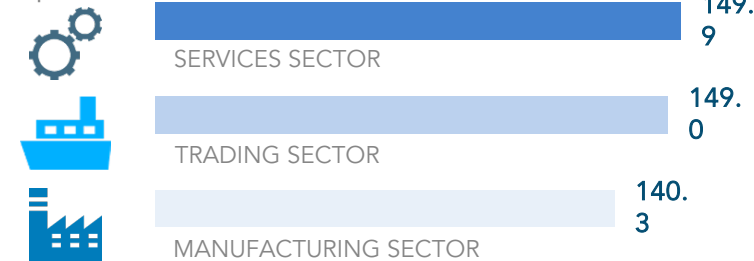
<https://dnbsame.com/perspectives/knowledge-capital/>

3. EXCERPT OF RESULTS

The Pakistan Business Optimism Index (BOI) for Q4, 2022 was 147.3 points, rising from 126.7 in Q3, 2022, representing a growth of 16.3%. In contrast, the BOI for Q4, 2021 was 143.9, reflecting a modest year-on-year increase of 2.36%.

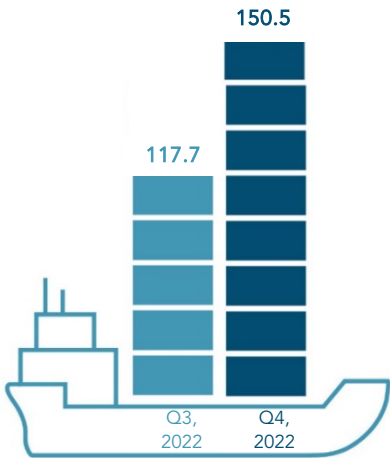


This quarter witnessed a notable increase in optimism for all sectors, driven by seasonal projections and an uptick in demand.



The Service sector BOI ranked the highest, retaining its lead for the fourth consecutive quarter. This can be attributed to the rising global demand of tech-services, potentially coupled with increased revenues vis-à-vis the devaluation of the PKR.

This quarter witnessed a surge in the Exporter BOI with a quarterly increase of 27.9%, landing it at 150.5 points. Software and digital services exporters remained the most optimistic, driven by growing global demand. Although, other exporters also gained confidence due to seasonal sales and increasing international demand, resulting in higher orders received. The USA, UK, UAE were top export destinations.



The BOI for large businesses increased to 154.1 points this quarter, compared to the previous quarter’s 137.3. Similarly, the SME BOI also increased this quarter to 137 points, from the previous quarter’s 110.7. This rise can be attributed to growing domestic and global demand paired with business expansion plans for the near future.

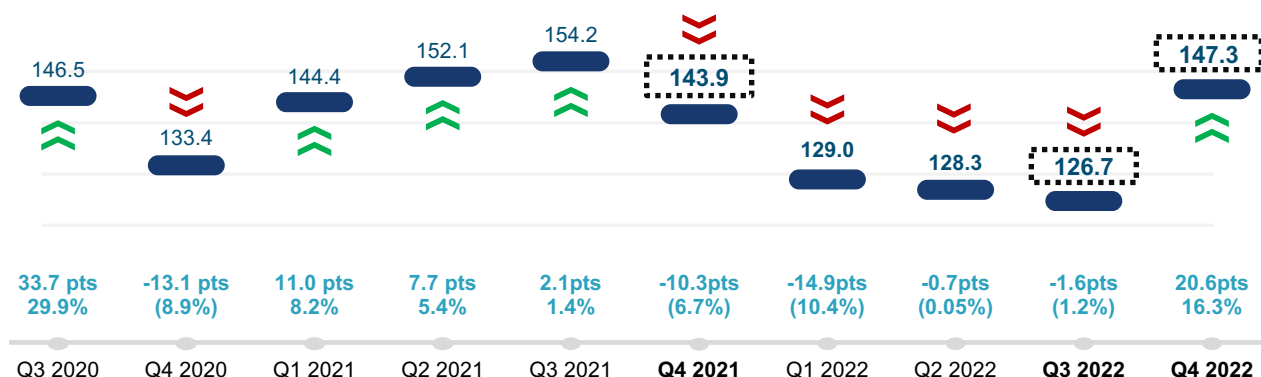
15% of businesses consider the fluctuations in exchange rate as well as frequent rise in inflation and interest rate to be the biggest factor that hinders growth.

Additionally, some businesses are pessimistic as bans on imports, impediments in opening letter of credits (LC’s), and lack of raw inputs which have affected their operations.

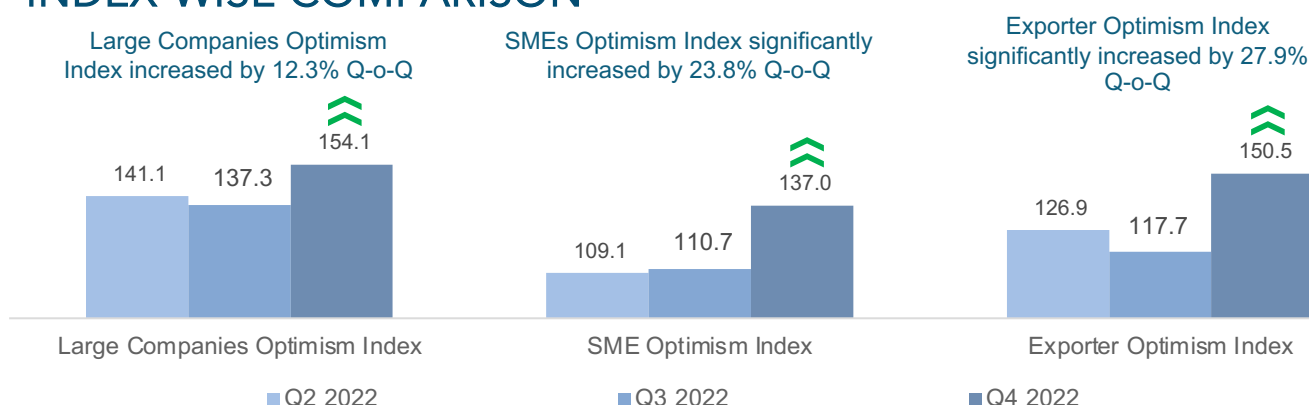
Note:
BOI above 100 points indicates ‘Optimism’ while below 100 points indicates ‘Pessimism’
Values may not add up to 100% at certain places due to rounding off

4. OVERALL BOI

The BOI for Q4, 2022 rose significantly by 16.3% from the previous quarter to 147.2 points. Notably, this marks a reversal of a four-quarter decline, with the BOI for Q4, 2022 being the highest in the past year.



INDEX-WISE COMPARISON



The BOI increased across the board, with Q4, 2022 BOI ranking the highest in the last 3 quarters for all indexes. Exporter BOI exhibited the largest quarterly surge of 27.9% as a result of higher order quantities reported by exporters. SME BOI followed close with a quarterly rise of 23.8% on the back of business expansion plans and revamped marketing strategies. Lastly, the large companies BOI showed a modest quarterly increase of 12.3%. Though its quarterly increase was the lowest, the large companies BOI remains the highest-ranked in absolute terms-

SECTOR-WISE COMPARISON



This quarter witnessed a significant rise in the BOI for all sectors of the economy. Most notably was the 33.8% quarterly surge in the trading BOI for Q4, 2022 after several quarters of borderline pessimism. The manufacturing BOI followed, with a rise of 14.6%. Lastly, the service BOI also modestly improved by 9.8%.

Note:

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

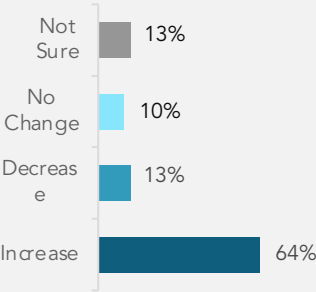
5. FORECAST BUSINESS OUTLOOK (Q1, 2023)

For Q1, 2023, Net Balance (NB) projections have rebounded remarkably, surpassing Q4, 2022 levels. Sales revenue, sales volume, and profit recorded the most substantial improvements, driven by optimistic demand projections and business expansion plans.

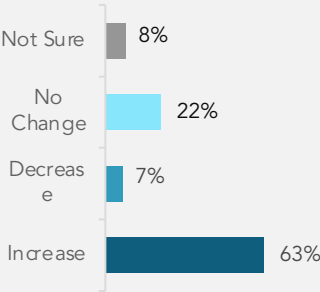
| Parameters | *Net Balance (NB) | | | | | |
|-----------------|-------------------|----------|----------|----------|----------|----------|
| | Q4, 2021 | Q1, 2022 | Q2, 2022 | Q3, 2022 | Q4, 2022 | Q1, 2023 |
| Sales Revenue | 70% | 54% | 40% | 14% | 20% | 51% |
| Selling Prices | 42% | 41% | 26% | 51% | 53% | 56% |
| Sales Volume | 66% | 53% | 39% | 16% | 20% | 52% |
| Employment Size | 44% | 30% | 20% | 31% | 17% | 29% |
| Profits | 65% | 51% | 29% | 11% | 15% | 51% |

*(% positive responses - % negative responses)

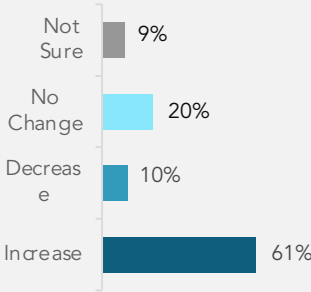
SALES REVENUE



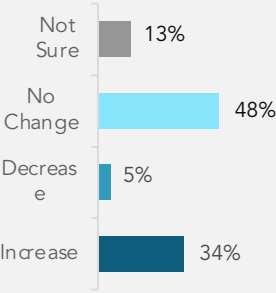
SELLING PRICES



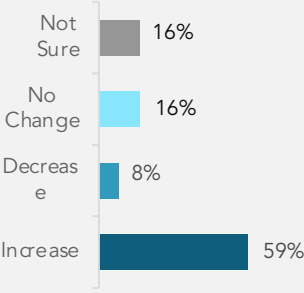
VOLUME SOLD



SIZE OF EMPLOYEES



PROFITS



- **56%** of businesses plan to increase their prices next quarter on account of **inflation**
- **Employment projections have rebounded** after the previous quarter's slump indicating a rise in employment rate next quarter
- **Profit projections surged considerably** due to an increase in revenue, prices, and volume

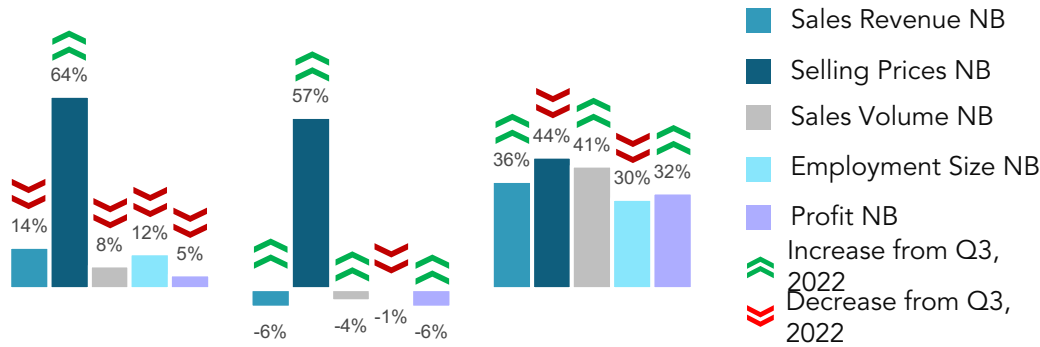
After two of the weakest quarters, businesses are now optimistic in their profit projections. Increased selling prices combined with optimism in future sales volumes have resulted in this positive outlook. Furthermore, respondents quoted plans for expanding business operations which may have further contributed to this growth.

6. SECTOR-WISE OUTLOOK

The trading sector shows the most significant rise in its BOI, surging by 33.8% to 149 points. Manufacturing follows the trend rising by 14.6% to 140.3 points. Lastly, the service sector showed a modest rise of 9.8% to 149.9. However, service sector retains its lead in optimism for this quarter.

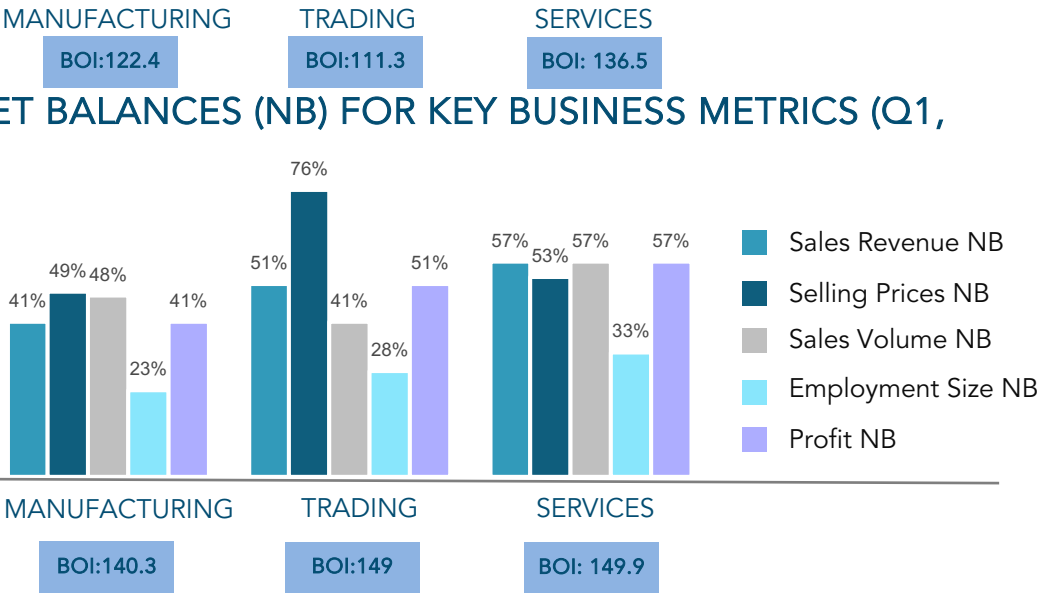
SECTOR WISE NET BALANCES (NB) FOR KEY BUSINESS METRICS (Q4, 2022)

Services sector remained the most optimistic sector for Q4, 2022



SECTOR WISE NET BALANCES (NB) FOR KEY BUSINESS METRICS (Q1, 2023)

Trading sector increased the most in optimism in Q1, 2023



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

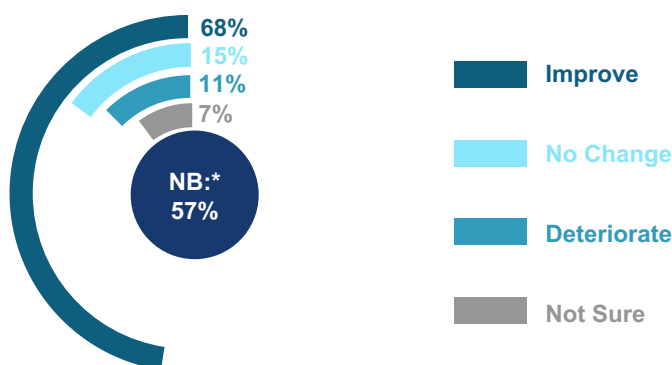
The trading sector rallied significantly after borderline-pessimism of the previous quarter. Net balances rose across all parameters with the highest being selling prices attributed to inflation and import bans. Despite the rise in selling prices, traders were optimistic in their demand projections.

- The manufacturing sector followed the trend with an increase in all parameters except selling prices which declined from 64% last quarter to 49% this quarter.
- Both the trading and manufacturing sectors were optimistic in their domestic and international demand projections as a result of winter sales in the next quarter.
- Despite its modest quarterly rise, the service sector maintains its lead in BOI. The sectors dominance is primarily driven by surging international demand for software and digital services. Meanwhile the trend is also bolstered by robust local demand for restaurants, education, and hotels.

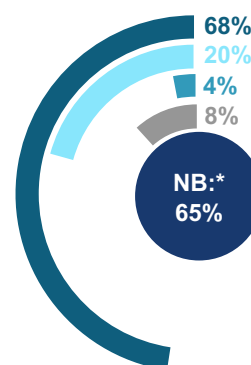
Note:
Net Balance (NB) = % positive responses - % negative responses
Values may not add up to 100% at certain places due to rounding off

7. CURRENT AND FORECAST BUSINESS SITUATION Q4, 2022 & Q1, 2023

The current and forecast business situations are extremely optimistic with almost 70% of respondents stating that their business has improved. The current business optimism is a result of increased domestic and international orders while the forecast optimism considers even higher demand supported by business expansion plans.



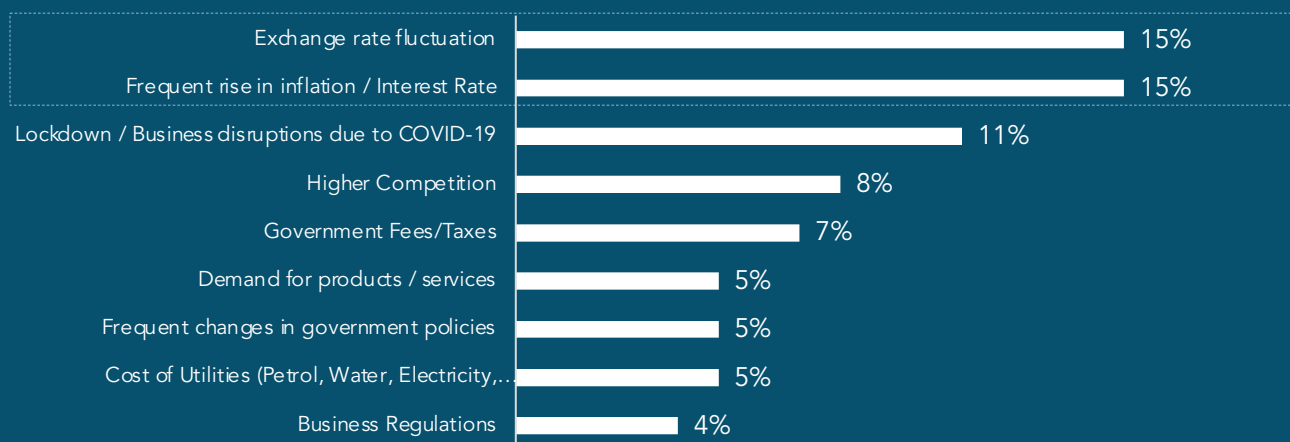
CURRENT BUSINESS SITUATION (Q4, 2022)



FORECAST BUSINESS SITUATION (Q1, 2023)

8. KEY BUSINESS CHALLENGES (Q4, 2022)

Amidst several factors that affect business operations, both positively and negatively, our survey asked what were the key business challenges respondents faced that hindered their operations for Q4, 2022.



15% of businesses think that both exchange rate fluctuation and frequent rise in inflation/interest rate are significant factors impacting their operations. These increase input costs, with exchange rate fluctuations heavily impacting import-heavy businesses, whereas inflation impacts costs universally and dampens demand. The YoY CPI was 24.5% in the month of December 2022.

Surprisingly, after 2 quarters of no Covid-19 related factors, this quarter notes the 4th highest factor that disrupts business is Lockdown / business disruptions due to Covid-19 at 11%.

9. SME BUSINESS OUTLOOK

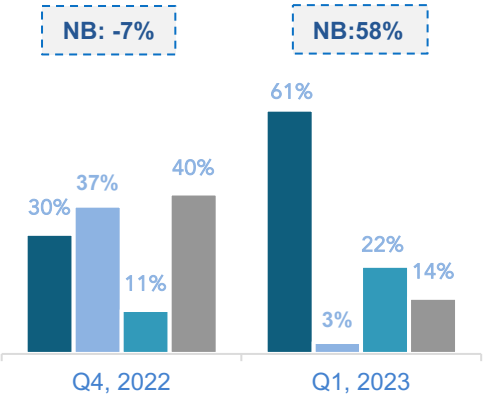
The SME BOI was 137 points, a rise of 23.8% from the previous quarter’s 110.7. The Net Balances witnessed an increase across all parameters, but sales revenue, sales volume, and profits noted the largest surge. This rally was fueled by optimistic demand projections, growth in margins, revamped marketing strategies, and plans for expanding operations.

| Parameters | *Net Balance (NB) | | | | | |
|-----------------|-------------------|----------|----------|----------|----------|----------|
| | Q4, 2021 | Q1, 2022 | Q2, 2022 | Q3, 2022 | Q4, 2022 | Q1, 2023 |
| Sales Revenue | 70% | 54% | 40% | 3% | -1% | 41% |
| Selling Prices | 42% | 41% | 18% | 31% | 51% | 58% |
| Sales Volume | 66% | 50% | 38% | 4% | -2% | 45% |
| Employment Size | 43% | 28% | 20% | 7% | 1% | 7% |
| Profits | 65% | 42% | 29% | -5% | -7% | 38% |

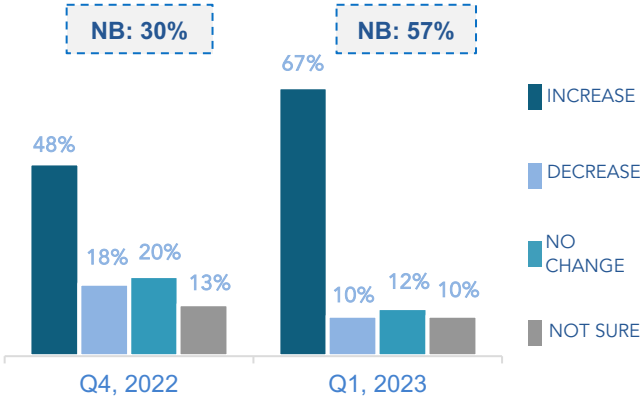
*(% positive responses - % negative responses)



SME Forecast Business Situation
For Q4, 2022 and Q1, 2023



SME Forecast Export Performance
For Q4, 2022 and Q1, 2023



- SMEs indicated a rise in optimism evident by higher Net Balances across all parameters for the upcoming quarter of Q1, 2023 as compared to last quarter.
- The most significant increases in net balances were in sales revenue, up by 40%, sales volume, up by 43%, and profits, up by 31%. Respondents expressed optimism for the upcoming quarter, driven by a surge in order quantity for the current quarter, coupled with robust seasonal demand projections.
- Large companies have consistently outperformed SMEs in optimism, which persists in the current quarter. Our survey indicates that SMEs are more susceptible to stress over Pakistan’s political/economic situation.
- SMEs have raised prices, citing the need to sustain and enhance their profits.

SME Optimism Index
Q4, 2022

137 pts
+26.3 pts q-o-q

Large Companies Optimism Index
Q4, 2022

154.1 pts
+16.8 pts q-o-q

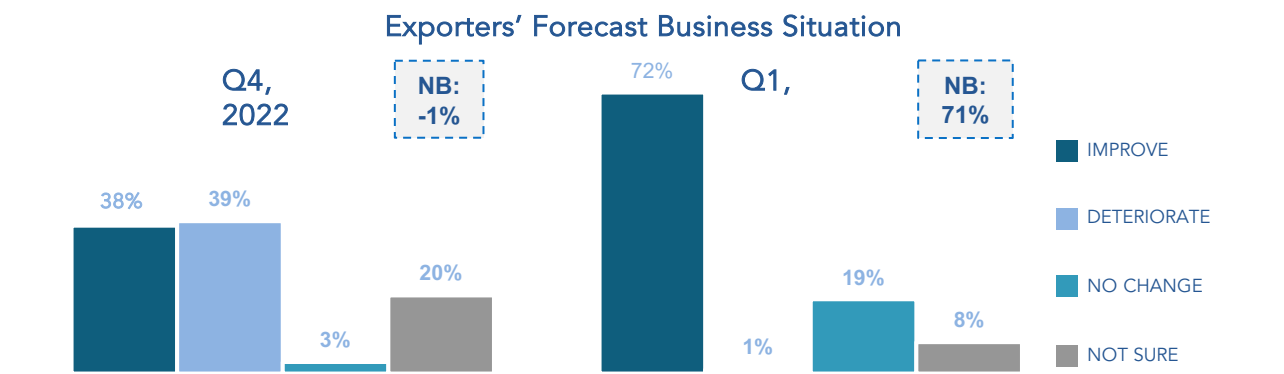
Note:
Net Balance (NB) = % positive responses - % negative responses
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10. EXPORTERS' BUSINESS OUTLOOK

The Exporters' BOI stood at 150.5 points, a healthy rise from last quarter's 117. Sales revenue, sales volume, and profit observed the highest gains in Net Balances. Despite strained global supply chains, Exporters grew optimistic in their demand projections owing to a surge of international orders this quarter.

| Parameters | *Net Balance (NB) | | | | | |
|-----------------|-------------------|----------|----------|----------|----------|----------|
| | Q4, 2021 | Q1, 2022 | Q2, 2022 | Q3, 2022 | Q4, 2022 | Q1, 2023 |
| Sales Revenue | 64% | 62% | 62% | 0% | 1% | 51% |
| Selling Prices | 35% | 52% | 33% | 64% | 51% | 66% |
| Sales Volume | 63% | 63% | 62% | 9% | -3% | 56% |
| Employment Size | 64% | 36% | 64% | 31% | 23% | 27% |
| Profits | 59% | 65% | 56% | 4% | 0% | 53% |


*(% positive responses - % negative responses)




Leading the rally, service exporters responded with the highest optimism, particularly in technology, digital and outsourcing (developers) services. The trading exporters followed the trend due to increased orders for leather, rice, surgical equipment, and general trades. On the other hand, manufacturers were optimistic owing to increased orders for textile, leather, pharmaceutical, and agricultural products. This led to a 70% surge in the Net Balance for exporters' forecast business situation.

TOP 3 CURRENT EXPORT DESTINATIONS*


The USA registered as the top export destination with the highest traffic in software and IT services, followed very closely by the UK and UAE.



USA
19%




UK
18%




UAE
18%

TOP 3 NEW EXPORT DESTINATIONS**


Australia was the highest export destination that businesses were planning to expand into replacing last quarter's South Africa. It was followed closely by Canada and China



Australia
11%



Canada
10%



China
9%

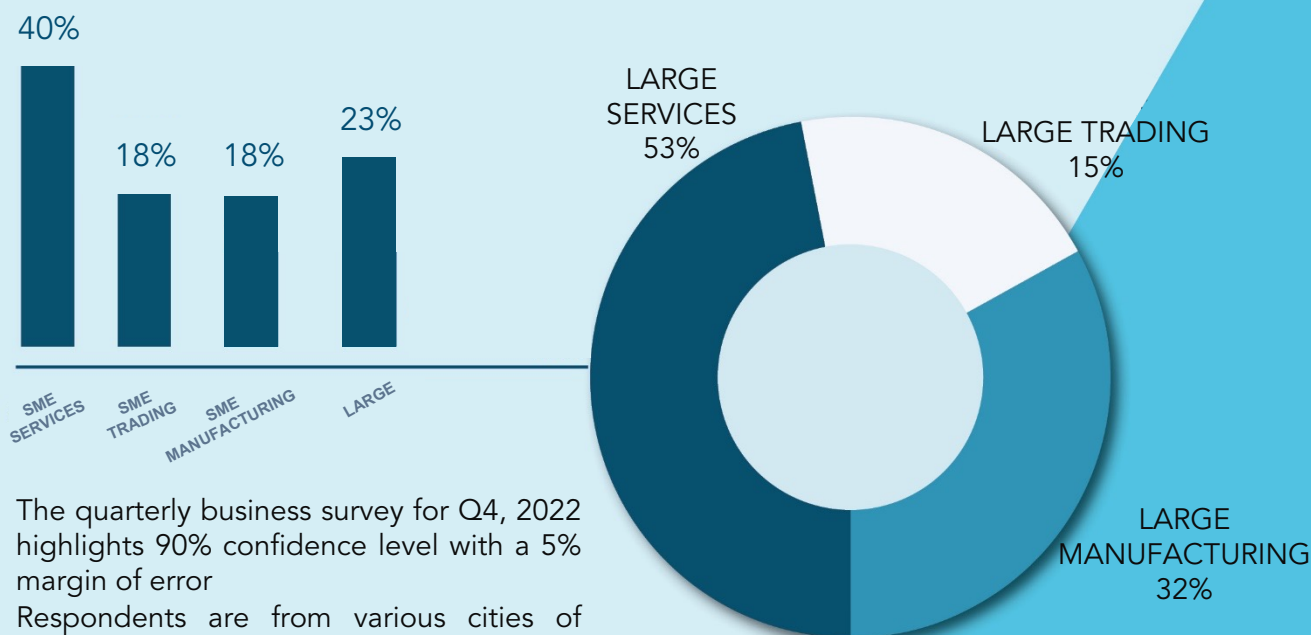
* As a proportion of respondents that are exporters

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

The USA, UK, and UAE are consistently among the top export destinations, with this quarter following similarly. In our survey, the USA ranks the highest for software and digital service imports while the UK and UAE rank high for agricultural and various other imports. Notably, Australia ranked the highest new export destination with respondents reporting an increasing number of orders.

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

12. SAMPLE ALLOCATION AND METHODOLOGY



- The quarterly business survey for Q4, 2022 highlights 90% confidence level with a 5% margin of error
- Respondents are from various cities of Pakistan
- Survey was conducted from 1st December 2022 to 31st December 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:

$$(\% \text{ OF POSITIVE RESPONSES} - \% \text{ OF NEGATIVE RESPONSES}) + 100$$

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:

$$\text{OVERALL INDEX} = 60\% * (\text{LARGE COMPANIES INDEX}) + 40\% * (\text{SME INDEX})$$

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.

To unsubscribe - please write to eag@dnbpk.com with "Unsubscribe - DPBB" in the subject line.

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