



ITC

Innovation and
Technology Centre

BUSINESS CONFIDENCE SURVEY



2019



BUSINESS CONFIDENCE SURVEY 2019



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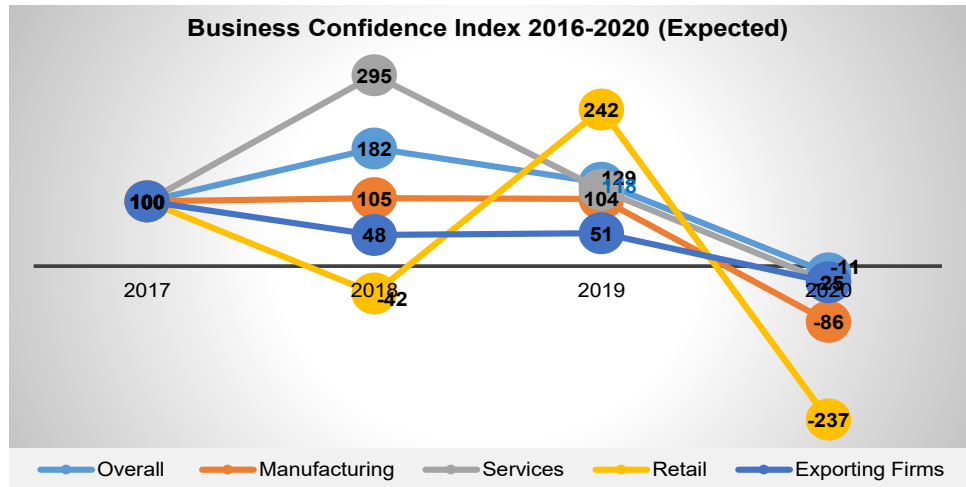
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RESULTS AT A GLANCE (2019)

THE BUSINESS CONFIDENCE INDEX HAS FALLEN IN 2020

Business confidence Index has fallen across sectors as compared to last year. The major drop in index was seen for the retail sector



PAKISTANI BUSINESSES REPORT DETERIORATED FINANCIAL PERFORMANCE



20%
Decline in total sales reported by respondent firms in 2019 as compared to 2018 last year.



12%
Decline in domestic sales reported by respondent firms in 2019 as compared to 2018.



27%
Of respondent firms said that their export sales increased which is similar to 2018 last year.

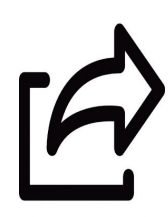
MANUFACTURING SECTOR PERFORMED WORSE THAN OTHER SECTORS IN TERMS OF TOTAL SALES, DOMESTIC SALES AND EXPORT SALES, WHEREAS SERVICES SECTOR HAD HIGHER EXPORT SALES



27%
Decline in total sales reported by manufacturing sector firms in 2019 as compared to 2018.



27%
Decline in domestic sales reported by manufacturing sector firms in 2019 as compared to 2018.



27%
Increase in export sales reported by services sector firms in 2019 as compared to 2018.

FURTHER DECLINE IN OVERALL EMPLOYMENT LEVELS



8%
Decline in employment levels reported by respondent firms in 2019 as compared to 2018



15%
Decline in employment level reported by manufacturing sector firms as compared to 2018.

AROUND 50% OF FIRMS DID NOT INCREASE THEIR LEVEL OF INVESTMENT



27%

Of firms reported an increase in their investment levels in 2019 which is same as 2018.



4%

Decline in investment level was reported by manufacturing sector firms in 2019.

AROUND 70% OF FIRMS REPORTED THAT THEIR BANK BORROWING REMAINED UNCHANGED



6%

Increase in bank borrowing level reported by respondent firms in 2019 as compared to 2018.



12%

Increase in bank borrowing reported by the manufacturing sector in 2019 as compared to 2018.

UNINTERRUPTED ELECTRICITY AND GAS KEY TO BOOST EXPORTS



A majority of firms indicated that un-interrupted electricity and Gas (75%), promoting export of higher value added goods (75%), government subsidies (67%) and upgrading technology of firms (63%) were the most important factors leading to higher exports.

76% OF EXPORTERS SELL THEIR PRODUCTS IN ASIA & EUROPE



The majority of firms reported that their major export markets were Asia/South Asia (46%) and Europe (30%).

A SIGNIFICANT NUMBER OF FIRMS REDUCED THEIR IMPORTS

24%

Decline in imports reported by respondent firms in 2019 as compared to 2018.



33%

Decline in imports reported by the exporting firms in 2019 as compared to 2018.

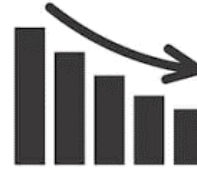
30%

Decline in imports reported by the manufacturing sector firms in 2019 as compared to 2018.



34%

Decline in imports reported by the services sector firms in 2019 as compared to 2018.



8%

Decline in imports reported by retail sector firms in 2019 as compared to 2018.

A SIGNIFICANT NUMBER OF FIRMS REDUCED THEIR IMPORTS



A majority of importing firms indicated that they imported raw materials (36%), machinery (26%), and finished goods (12%).

MOST IMPORTANT FACTORS AFFECTING BUSINESSES

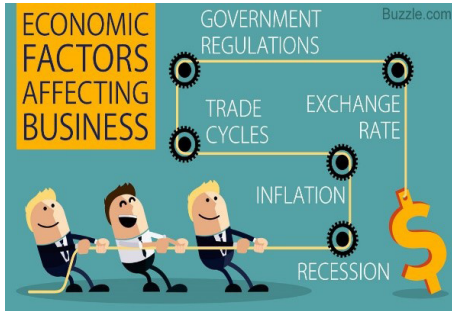


Overall firms indicated Energy (69%), Political Stability (64%), Law & Order (55%) and Access to Finance (49%) as the most important factors affecting their businesses.

ECONOMIC FACTORS every businesses must consider...



Manufacturing sector firms found Energy (75%), Political Stability (59%), Access to Finance (46%) and Law & Order (43%) as the most important factors affecting their business.



Services sector firms found Political Stability (75%), Law & Order (66%), Energy (63%) and Access to Finance (56%) as the most important factors affecting their business.



Retail sector firms found Energy (67%), Law & Order (61%), Political Stability (60%) and Access to Finance (49%) as the most important factors affecting their business.

DECREASED OPTIMISM ABOUT THE PERFORMANCE OF THE PAKISTANI ECONOMY



19%
Of businesses expressed optimism about the performance of the Pakistani which is the lowest in the last 5 years of the business confidence survey.

MANUFACTURING SECTOR MOST POSITIVE ABOUT THE IMPACT OF CPEC ON THEIR BUSINESSES



85%
of respondent firms showed optimism about the impact of CPEC on their businesses.



91%
of the services sector firms said that CPEC would have positive impact on their businesses.

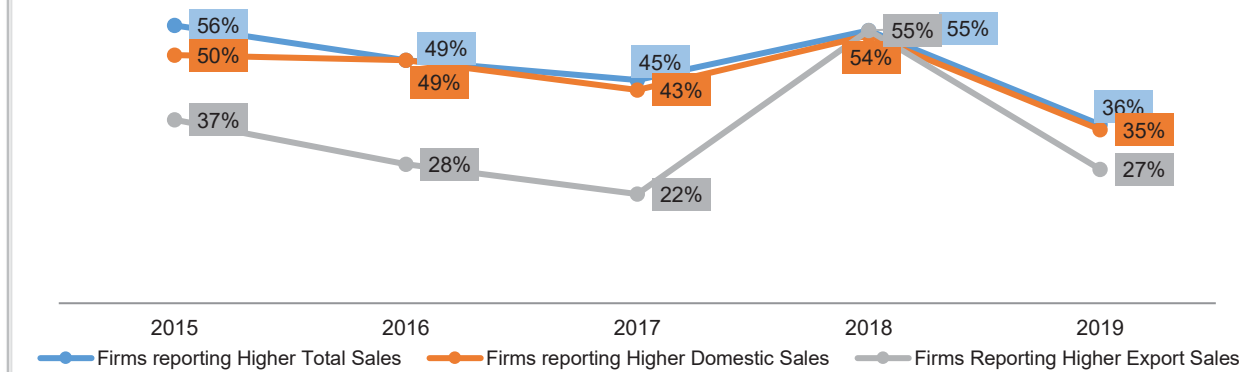
1 TRENDS

1.1 BUSINESS CONFIDENCE SURVEY 2019 TRENDS

Financial Performance:

Overall financial performance of firms has declined in 2019 after picking up in 2018. Whereas, exports seem to be picking up

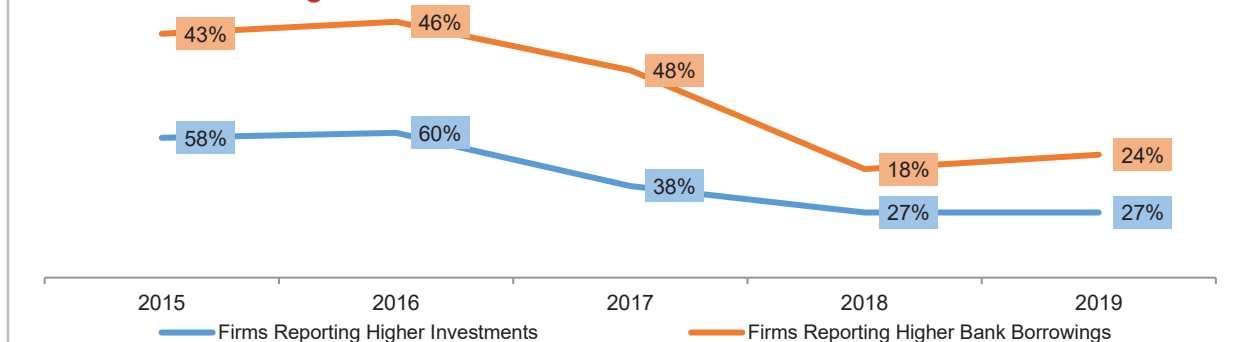
Figure 31: Fewer Pakistani Businesses reported domestic sales growth in 2019



Levels of Investments & Bank Borrowings:

Investment level stayed stagnant at lower level in 2019 as compared to the previous year. Whereas, bank borrowing have slightly increased in 2019 as compared to the previous year.

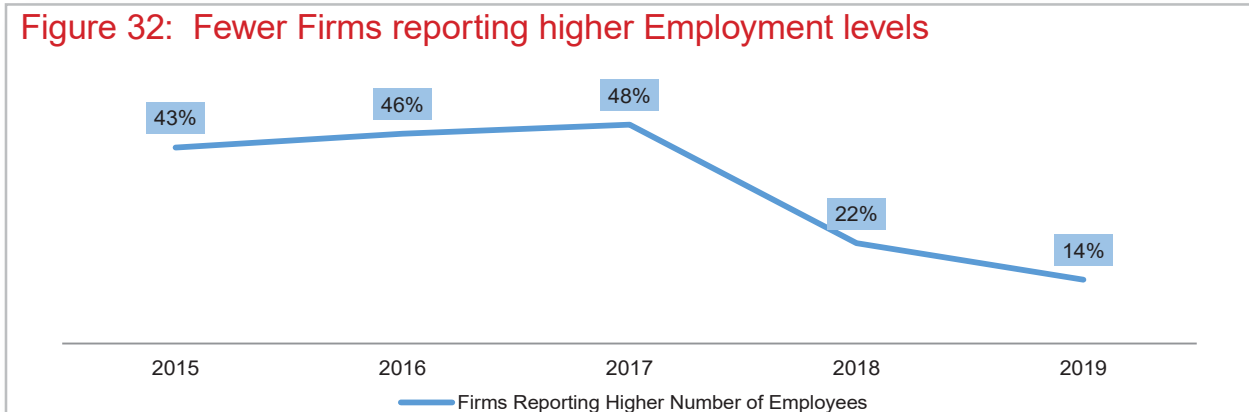
Figure 33: Some percentage of Pakistani businesses reported higher investment and bank borrowing



Employment Levels (Size):

Employments levels are continuously decreasing since 2017, reached their lowest in 2019.

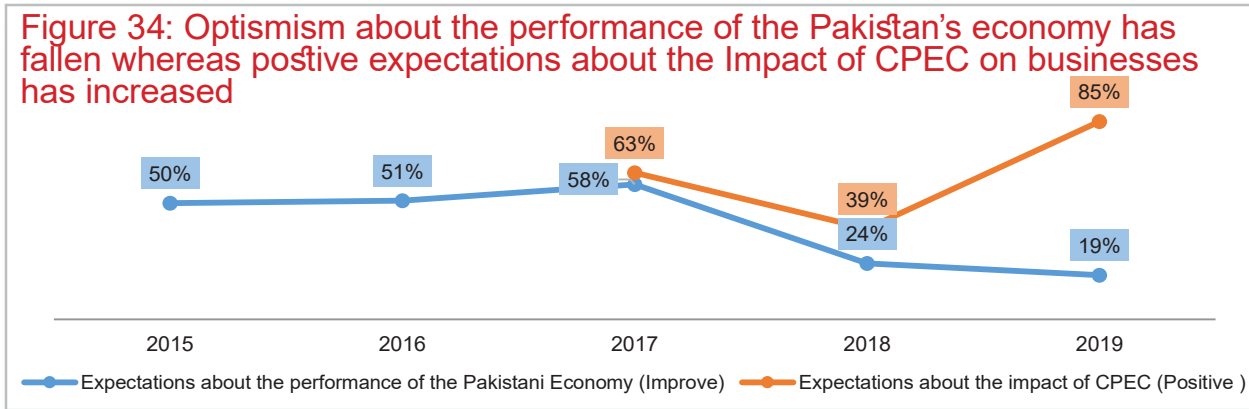
Figure 32: Fewer Firms reporting higher Employment levels



Optimism:

Optimism about the performance of Pakistani economy has reached its all-time lowest point in 2019, while businesses' positive expectations about the impact of CPEC has increased sharply in 2019.

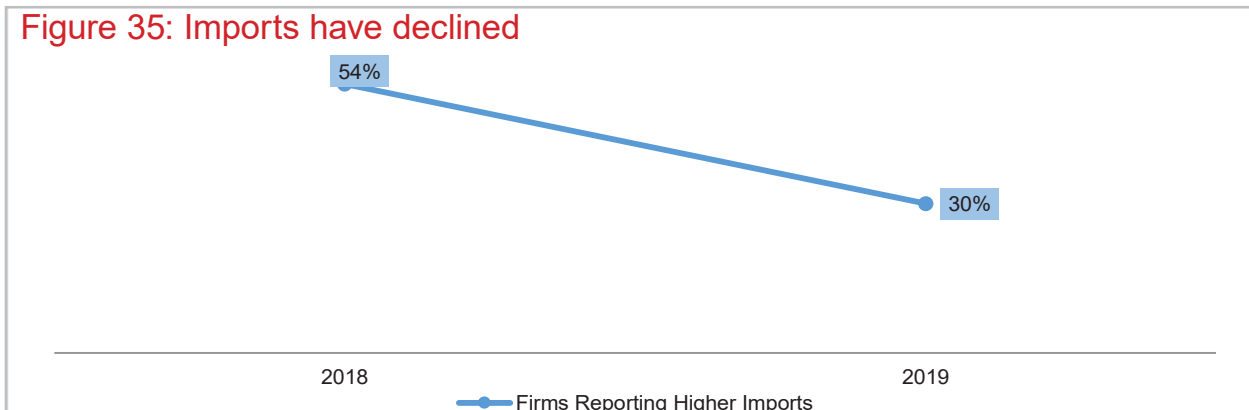
Figure 34: Optimism about the performance of the Pakistan's economy has fallen whereas positive expectations about the Impact of CPEC on businesses has increased



Imports

Imports have declined in 2019 as compared to 2018.

Figure 35: Imports have declined



2 INTRODUCTION

The innovation and Technology Centre (ITC) of the Lahore School of Economics conducted its fifth annual business confidence survey in 2019. The purpose of this survey was to measure the perceptions of the business community regarding the prevailing economic conditions. This year's survey looked at the issues of exports and imports as well as the expected impact of China Pakistan Economic Corridor (CPEC) on their businesses.

The data was collected from 500 firms via telephonic survey between Oct 2018 to Aug 2019. In order to see the differences in economics performances across sectors, the firms that responded were divided into three different sectors: manufacturing (47% of the surveyed firms), services (26% of the surveyed firms) and retail (20% of the surveyed firms). Looking at the size of firms in the survey, majority of the firms were small sized firms (67%), with a significant proportion of medium sized firms (25%) and smaller proportion of large sized firms (8%).

Business confidence and expectations indices were measured using indicators for (i) sales, (ii) investment, (iii) employment level and (iv) expectations about the performance of the Pakistan's economy. Business Confidence Index was created by combining the indicators to obtain a picture of the prevailing economic conditions. The Business Confidence Index has fallen in 2019 as have the sector-specific business confidence Indices. The Business Confidence Index for 2020 is based on firm-level expectations from the 2019 survey.

This year's survey also asked exporting and importing firms a separate set of questions. Out of the total respondents, there were 106 exporting firms and 212 importing firms with 80% of the exporting firms belonging to the manufacturing sector. Similarly, a majority of the firms importing from abroad in the survey were from the manufacturing sector (50%). The results from these responses shed light on the steps that could be taken to boost exports and also to tackle the problem of deteriorating balance of payment in these sectors over the coming years.

A summary of the firm level descriptive statistics of the respondents is as follows:

Summary of Respondents (Survey 2018)

Sectors	Number of firms	Percentage of respondents	Size*		
			Small	Medium	Large
All Firms	500	100%	334(67%)	127(25%)	39(8%)
Services	236	47%	129(67%)	87(25%)	20(8%)
Manufacturing	131	26%	98(75%)	22(17%)	11(8%)
Retail	100	20%	81(81%)	15(15%)	4(4%)
Other	33	6%	26(79%)	4(12%)	3(9%)

Category	Number of firms	Percentage of respondents	Size*			Sectors			
			Small	Medium	Large	Manufacturing	Services	Retail	Other
Exporters	206	21%	46(43%)	46(43%)	14 (13%)				
Importers	212	42%	132 (62%)	61 (29%)	19 (9%)				

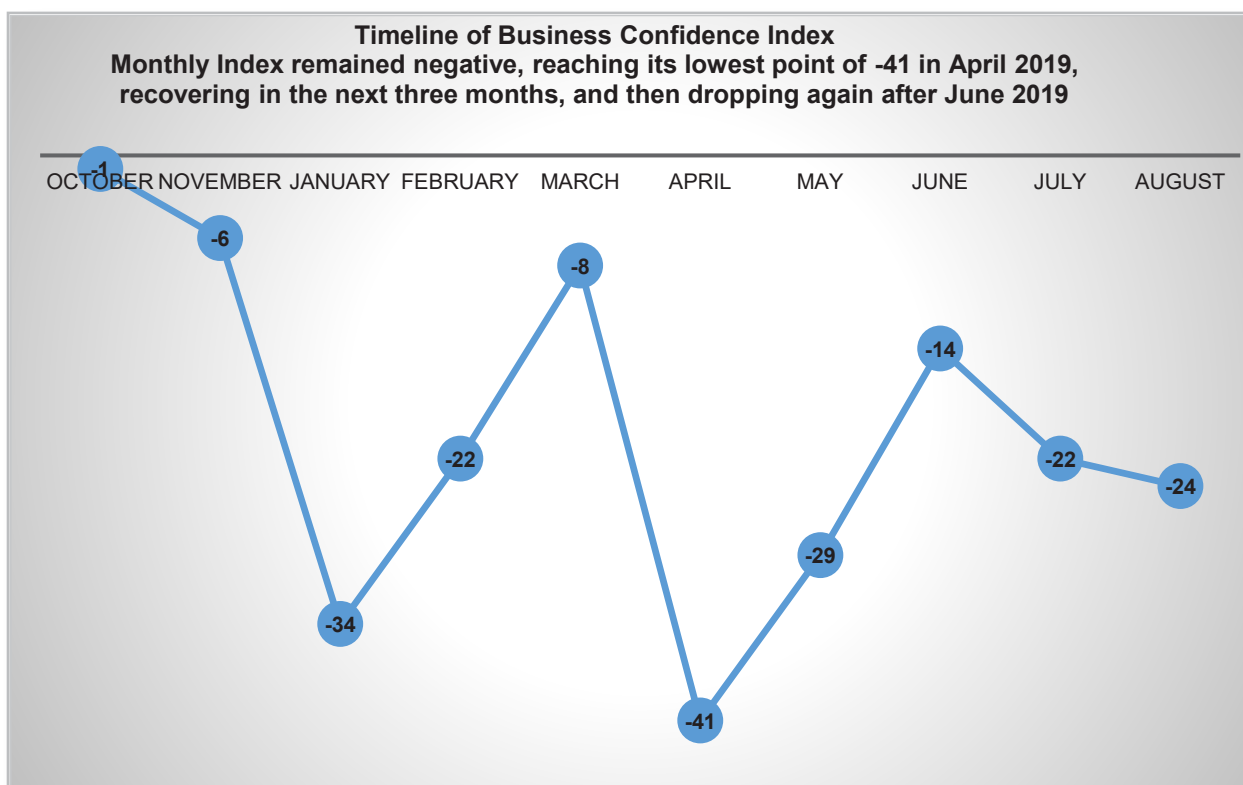
*CRITERIA FOR SIZE: 1-49 (Small), 50-499 (Medium), 500 and above (Large)

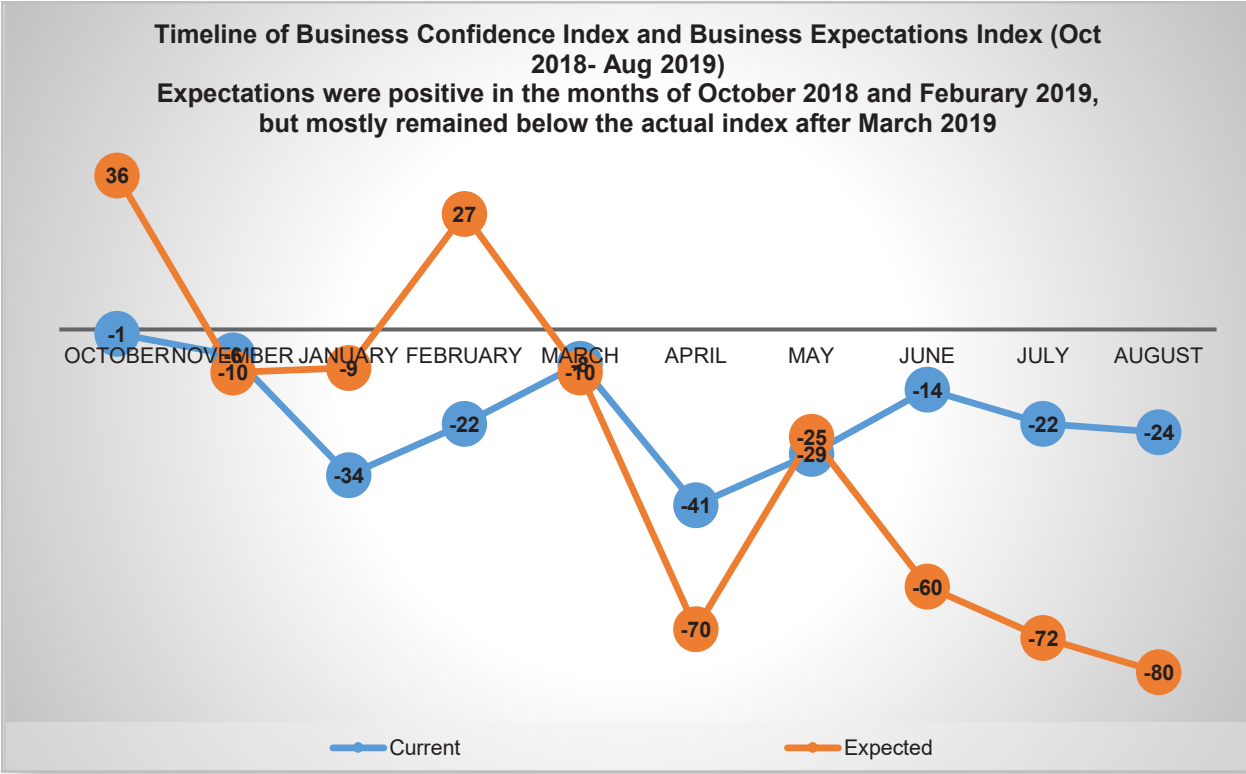
3 TIMELINE OF THE BUSINESS CONFIDENCE INDICES 2019 (CURRENT & EXPECTATIONS)

The business confidence and business expectations indices were constructed based on the feedback received from firms across the Lahore region about various parameters such as revenues, investment, employment levels and the performance of the Pakistan's economy over the period of 11 months from October 2018-August 2019 during which the survey was being conducted by interviewing the surveyed firms.

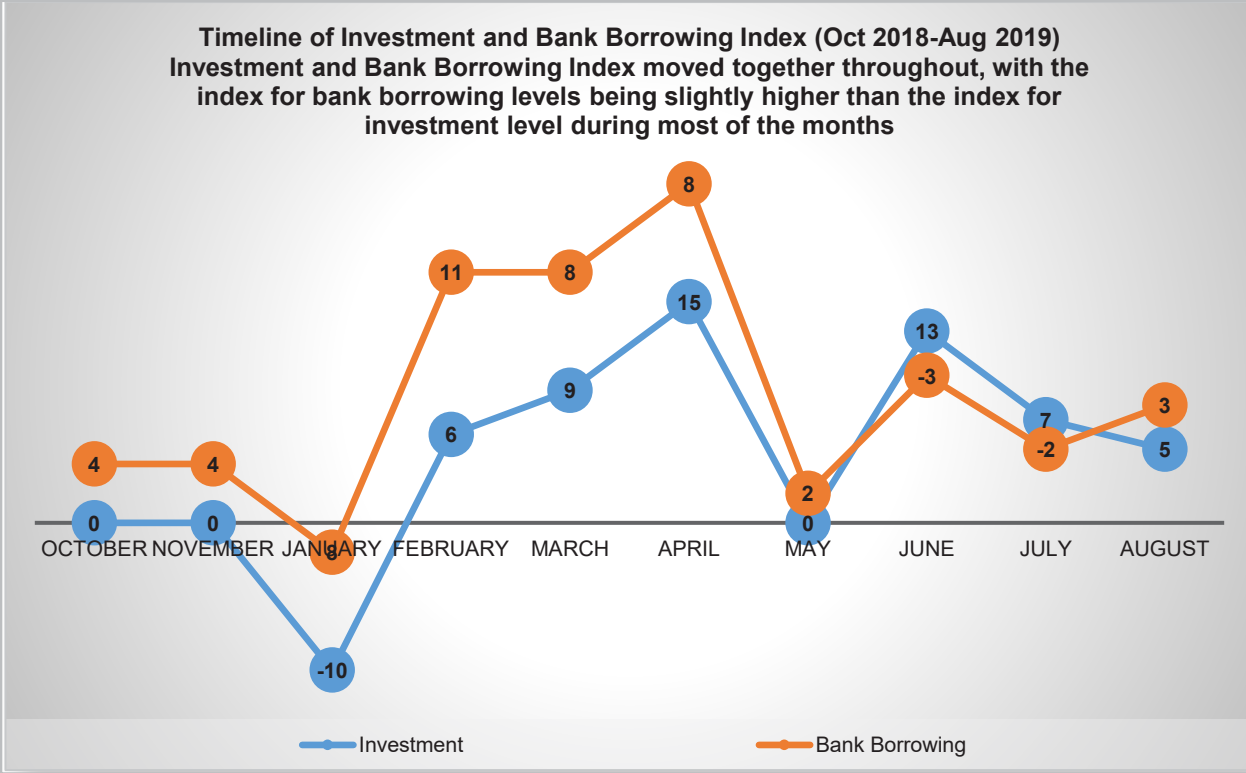
The survey reflects that business confidence index has been decreasing over time. The decrease is mainly coming from the decline in the perceptions about the performance of the Pakistan economy which was positive in October in 2018, reaching the lowest in July 2019 and ending slightly higher by the end of 2019. The second most significant factor behind the decrease was the fall in employment levels, followed by falling investment levels

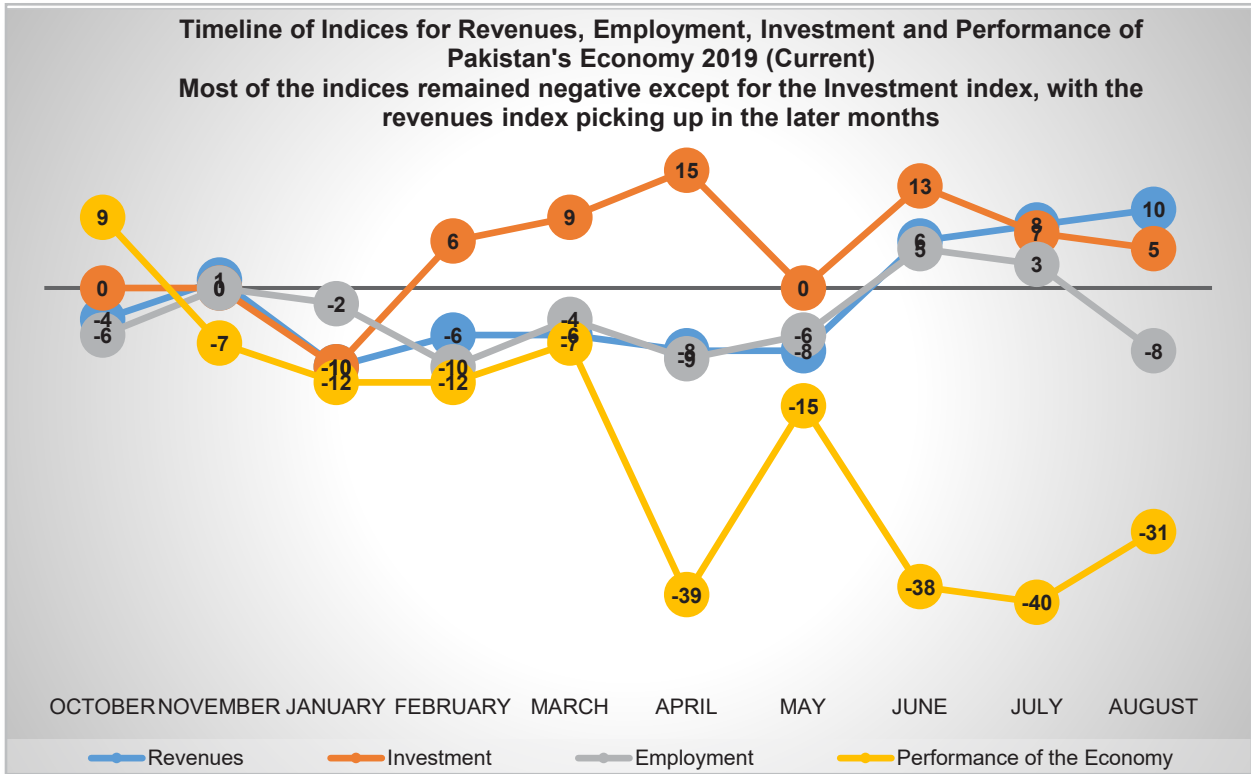
Similar the business confidence index, the business expectations index was created by taking responses about firm-level expectations about key financial and economic indicators. Looking at the business expectations index, we see that it tends to mirror the business confidence index. When we look at the expectations about the different parameters, we see fluctuations over time. Interestingly, we can see positive expectations in the beginning of 2019 which has then been decreasing drastically over the remaining months. This decline in expectations were mainly coming from the negative expectations about the performance of the Pakistan economy followed by falling expectations about employment levels. The expectations figures for revenues have been fluctuating dramatically. However, the expectations for investment have remained positive between the beginning of the year and the end of August 2019.





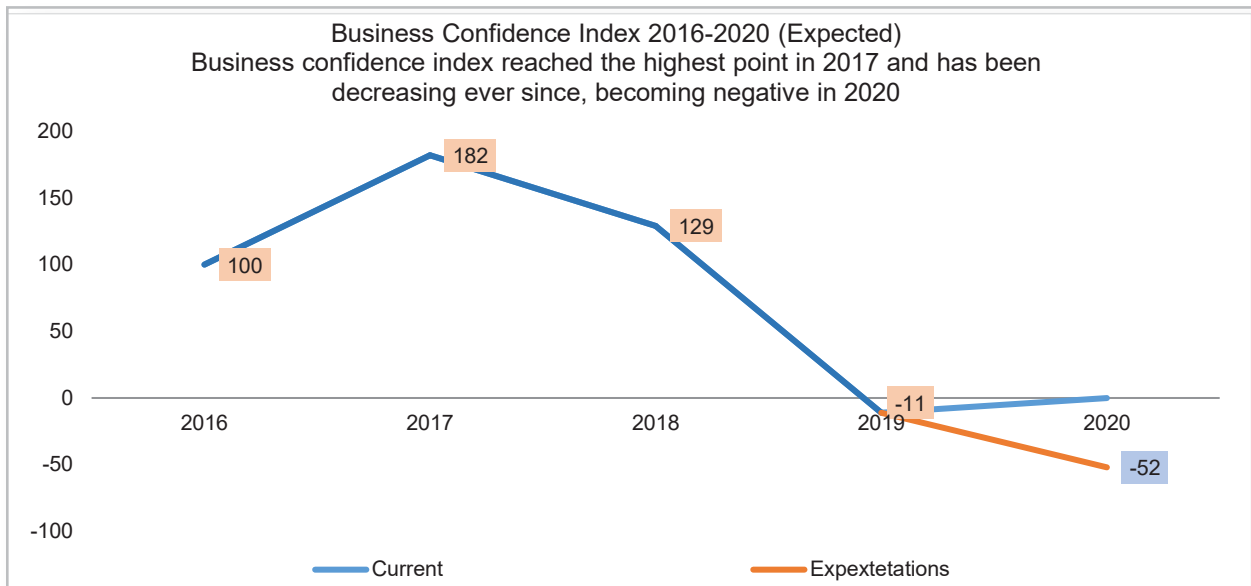
Timeline of indices show that expectations in each month fell below confidence, implying negative expectations.



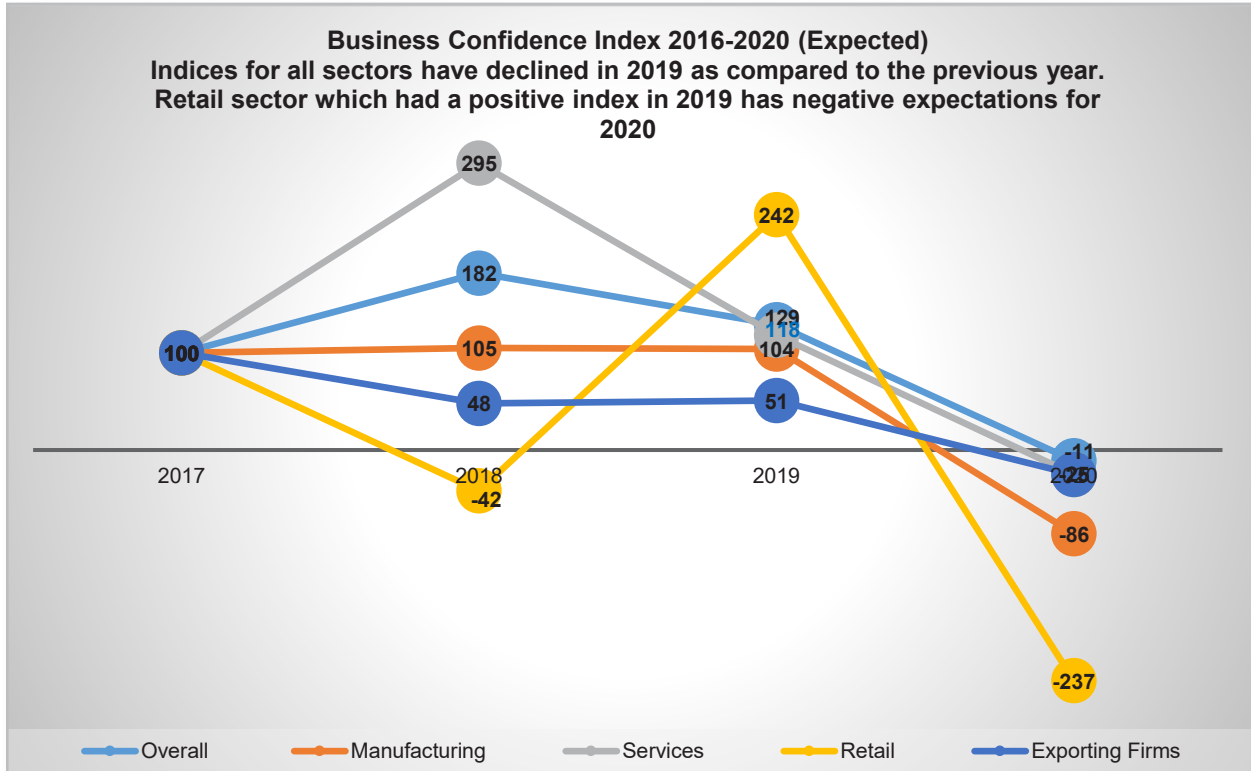


Business Confidence & Business Expectations Indices:

Sector-wise comparisons of business confidence and business expectations indices showed that the decline in business confidence is mainly coming from the retail sector which was most optimistic during the previous year. Similarly, the manufacturing sector and exporting firms have shown much higher pessimism as compared to the previous year. Moreover, the manufacturing, retail and exporting sectors, which had higher expectations in the previous year, are now more pessimistic as reflected in the business expectations index.



Sector wise Indices



4 FINANCIAL PERFORMANCE OF FIRMS

A significant decrease in revenues from total sales, domestic sales and export sales was reported by the respondent firms in 2019 when compared to 2018. Among the three sectors, the manufacturing sector witnessed the greatest decline in total sales (27%) and domestic sales (27%), followed by services sector and retail sector firms. Furthermore, the respondent firms reported a drop a decline in growth in export sales across sectors. The main sectors that witnessed a decline in growth were the manufacturing sector (32%) and the retail sector (35%), while the drop in sales was comparatively smaller for services sector (17%) as compared to the previous year.

4.1 Total Sales

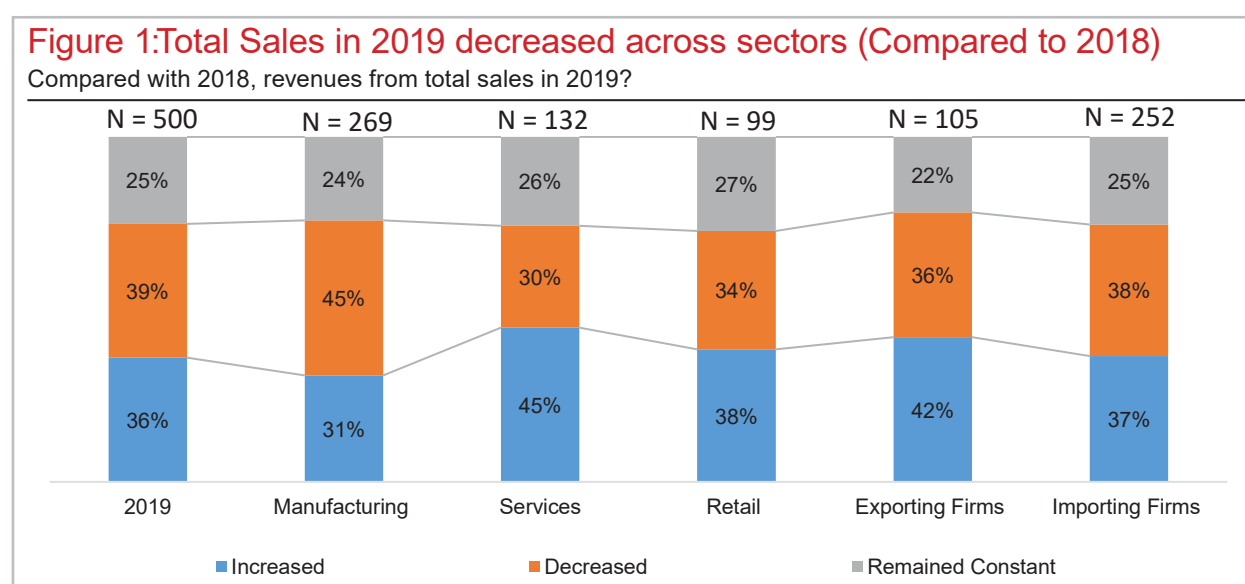
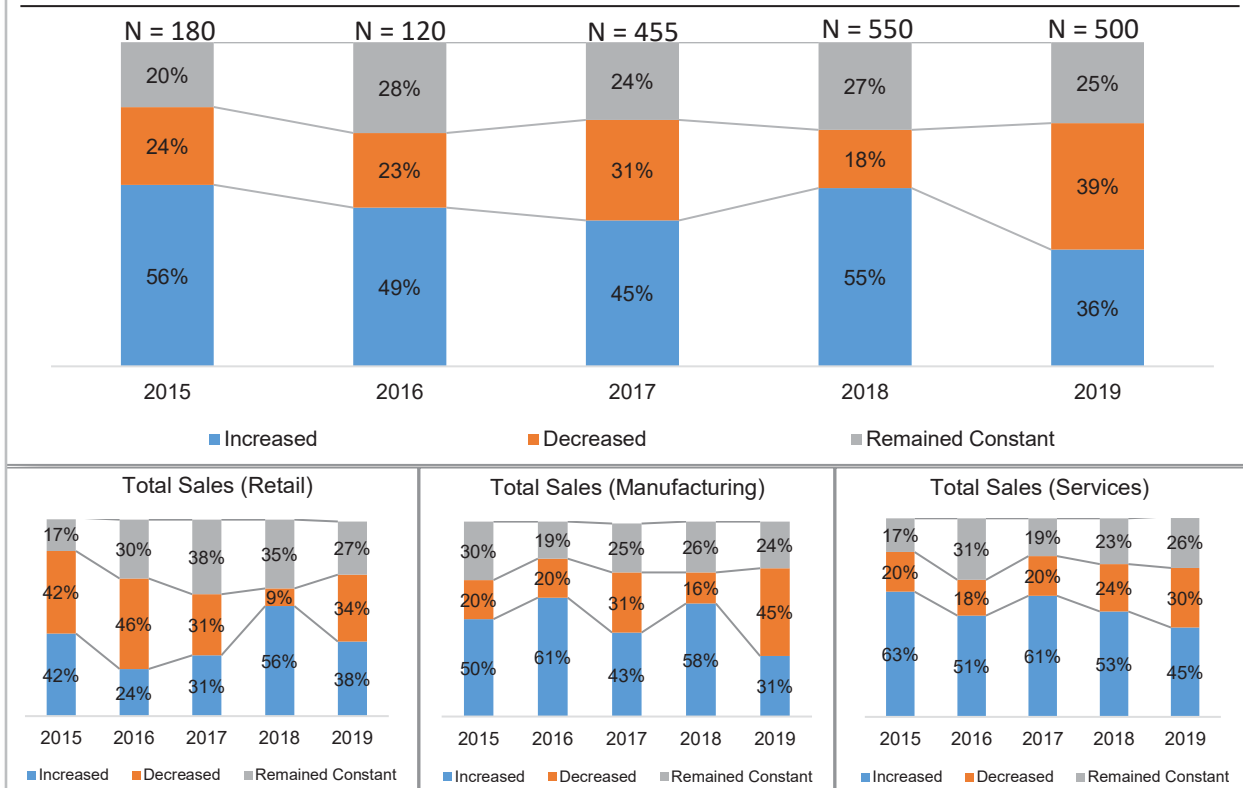


Figure 2: Growth in total sales remains unstable over the past few years and decreased by almost 20% compared to previous year

How revenues from total sales changed year on-year?



4.2 Domestic Sales

Despite the growth in domestic sales in 2018 (see figure 4), a majority of businesses reported a decline growth in domestic sales. This decline in domestic sales in 2019 is mainly coming from the manufacturing sector firms which reported a decline in growth of 27% as compared to last year.

Figure 3: Domestic Sales growth varied across sectors in 2019 (Compared to 2018) Compared with 2018, revenues from domestic sales in 2019?

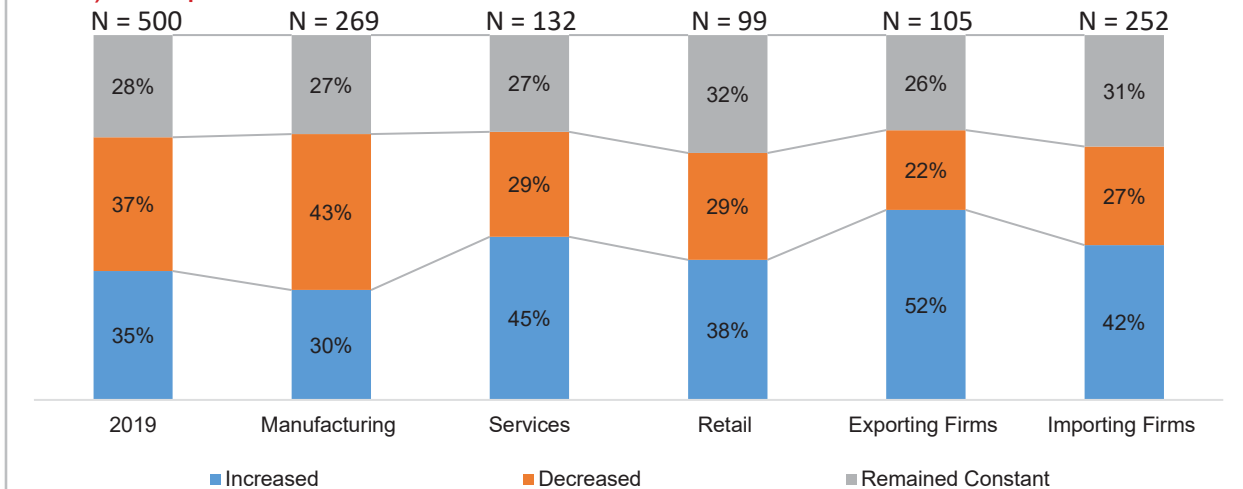
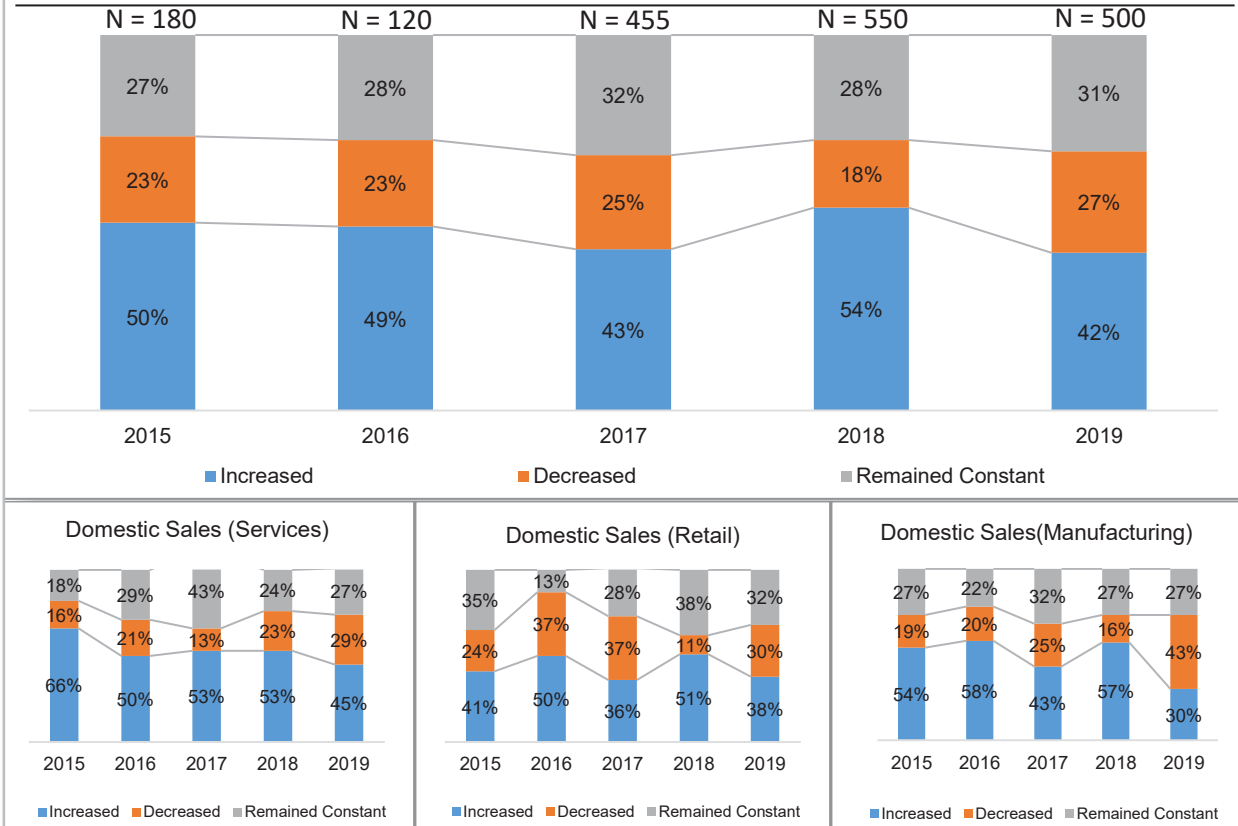


Figure 4: Domestic Sales growth reached an all time low in 2019

How revenues from domestic sales changed year on-year



5 EMPLOYMENT LEVELS

A majority of respondent firms reported a decline in employment growth in 2019 as compared to 2018 (see figure 8). This decline in growth is mainly coming from the manufacturing sector firms which reported a decline in growth of 15% in 2019 as compared to 2018.

Figure 7: Employment levels remained stagnant across sectors

Compared with 2018, the number of employees in your company in 2019?

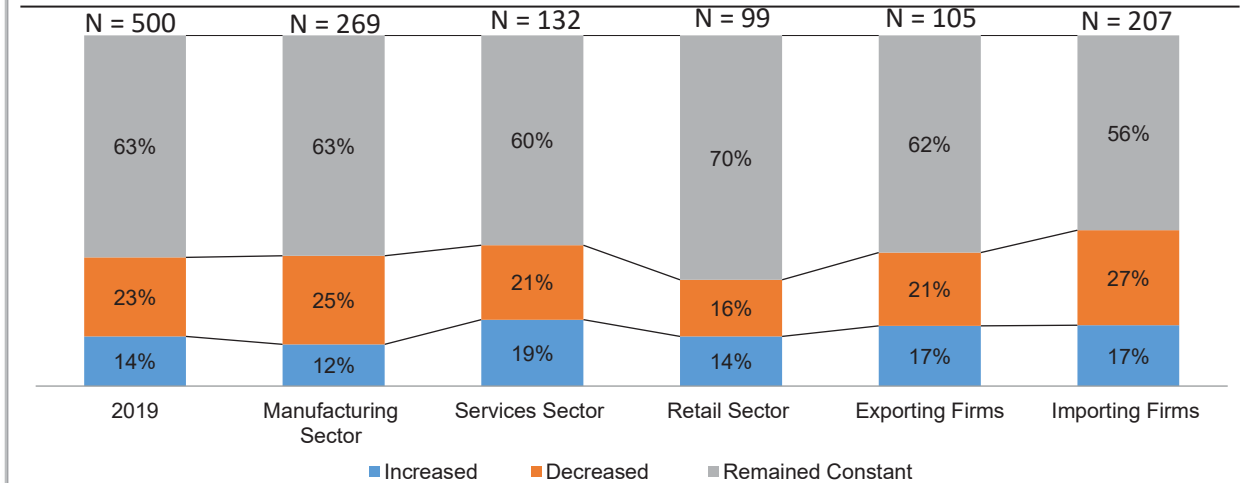
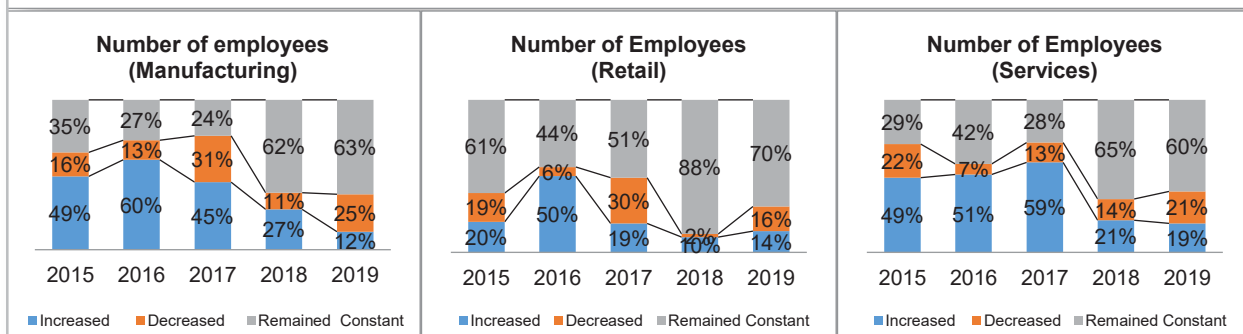
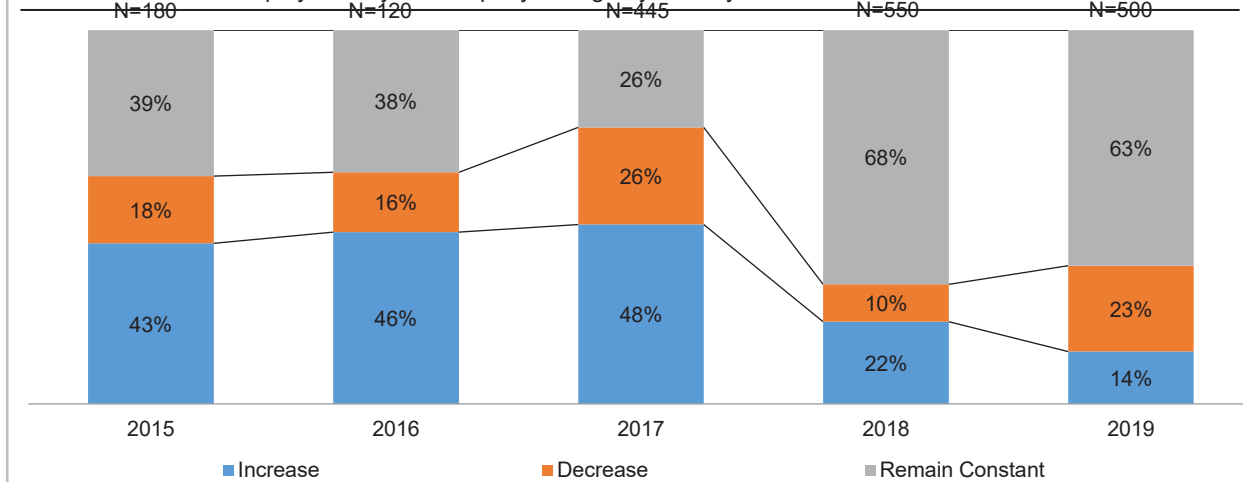


Figure 8: Growth in the number of employees declines in 2019

How the number of employees in your company changed year on year?



6 EXPORT & IMPORTS

6.1 Analysis of Exporting Firms

After 2017, respondent firms reported an increase in exports across sectors but dropped drastically by 28% in 2019. The growth in export sales declined for retail sector firms by 35% as compared to 2018, followed by manufacturing sectors firm and services sectors firms by 32% and 17% respectively. The majority of firms considered uninterrupted supply of electricity and gas and promoting export of higher value-added goods as the most important factors to boost exports. Whereas, a majority of businesses were not in favour of further devaluation of Pakistani Rupee in order to boost exports. Moreover, export markets were largely focused on Asia and Europe.

6.2 Export Sales

Growth in export sales was reported at 27% in 2019 as compared to 55% in 2018. This decline in growth in exports sales was coming from the Manufacturing sector (32% decline in growth of exports) and retail sector (28% decline in growth of exports) as compared to the previous year, while the services sector reported an increase in growth of 17% in exports in 2019.

Figure 5: Export Sales as a whole decreased in 2019 compared to 2018.

Compared to 2018, your export sales in 2019?

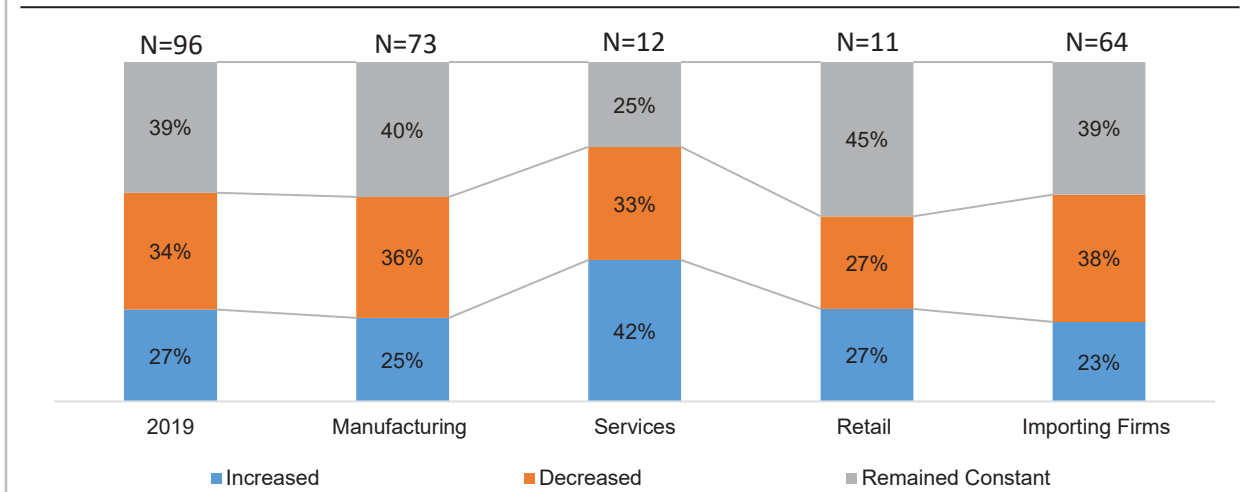
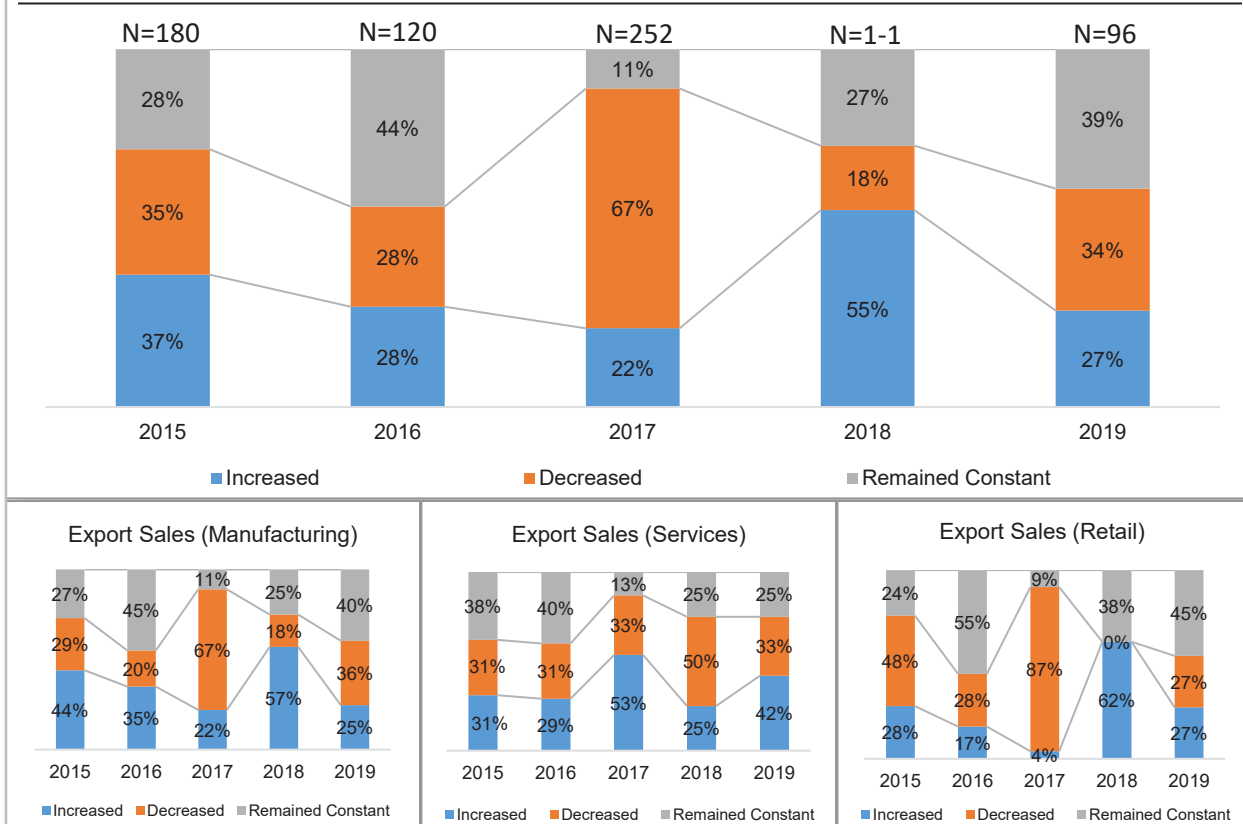


Figure 6: Export Sales increased in 2018 but slowed down again in 2019

How revenues from export sales changed year on year?



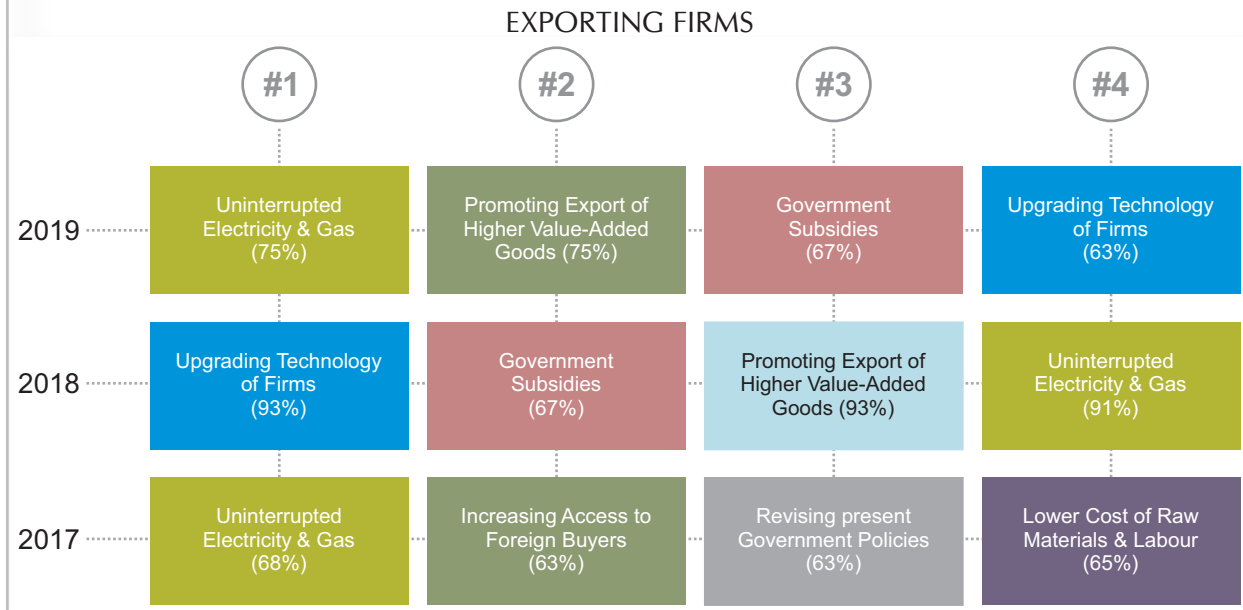
6.3 Top Rated Factors for Boosting Exports

The impact of various factors was analyzed by arranging them in order of importance. The complete analysis for overall firms and sector wise analysis is given as under:

MOST IMPORTANT FACTORS THAT COULD BOOST EXPORTS?

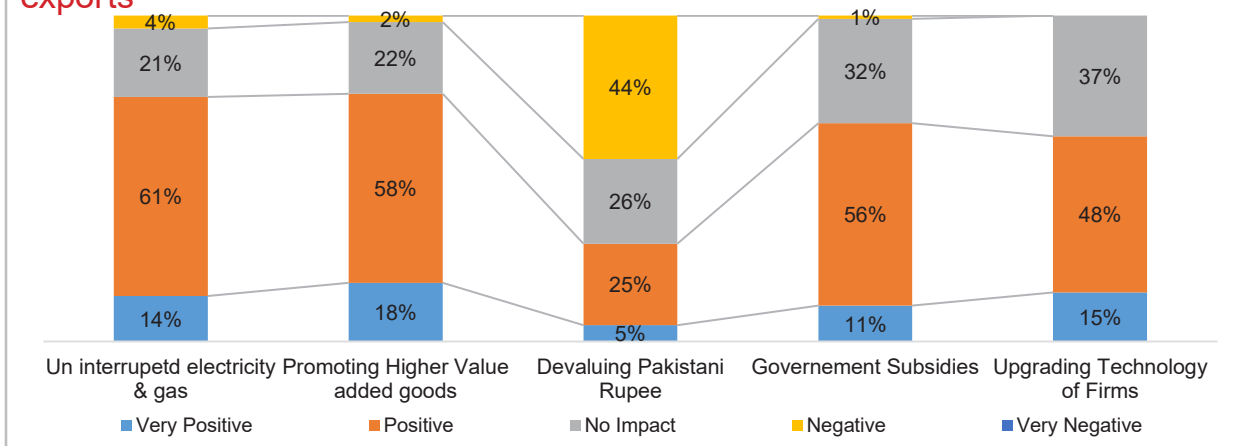
(Top 4 most important factors, with 1 being the most important and 4 being the least important)

Table 1: Un-interrupted Electricity & Gas, Upgrading Technology and Promoting higher value-added goods are the important affecting that could boost exports



6.4 Impact of Various Factors on Potential Exports

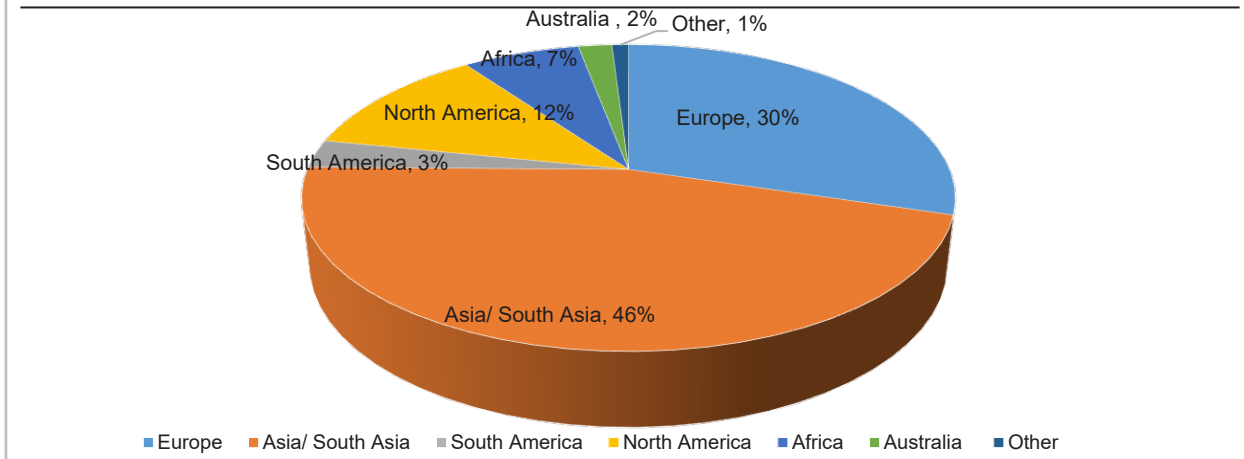
Figure 9: Majority of Exporting firms consider Un-interrupted Electricity & Gas and promoting higher value goods as the most important factors. A majority of exporting firms responded that further devaluation in currency will not increase exports



6.5 Major Export Markets

Figure 10: More than 70% of exporting firms sell their product/services to Asia, South Asia and Europe

If your firm does export, what are your major export markets? (export destination)?

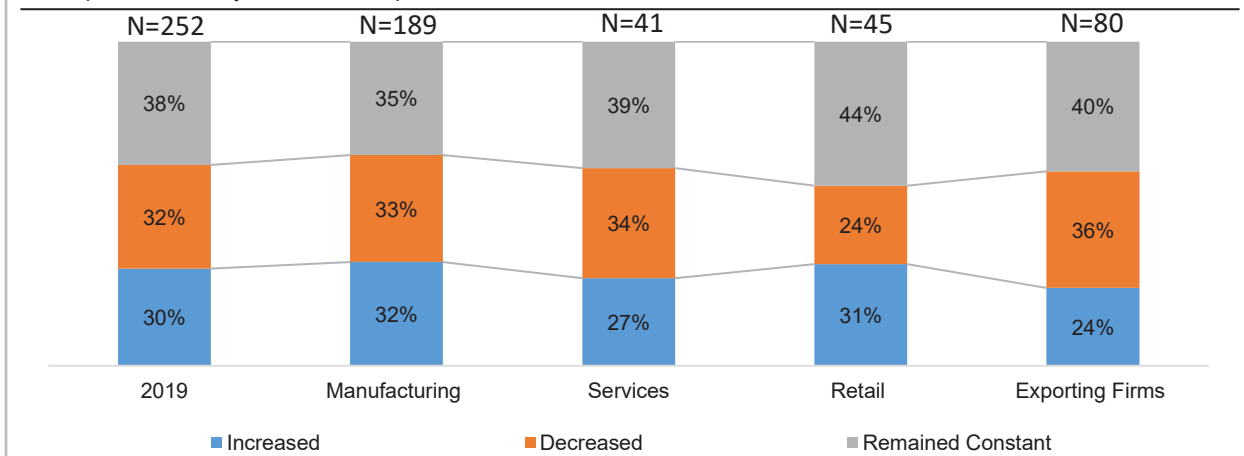


6.6 Analysis of Importing Firms

Firms reported that imports have significantly declined across sectors in 2019 as compared to 2018. A majority of firms imported raw material, machinery and finished goods.

Figure 11: Only 30% of firms said that their imports increased in 2019 (as compared to 54% in 2018)

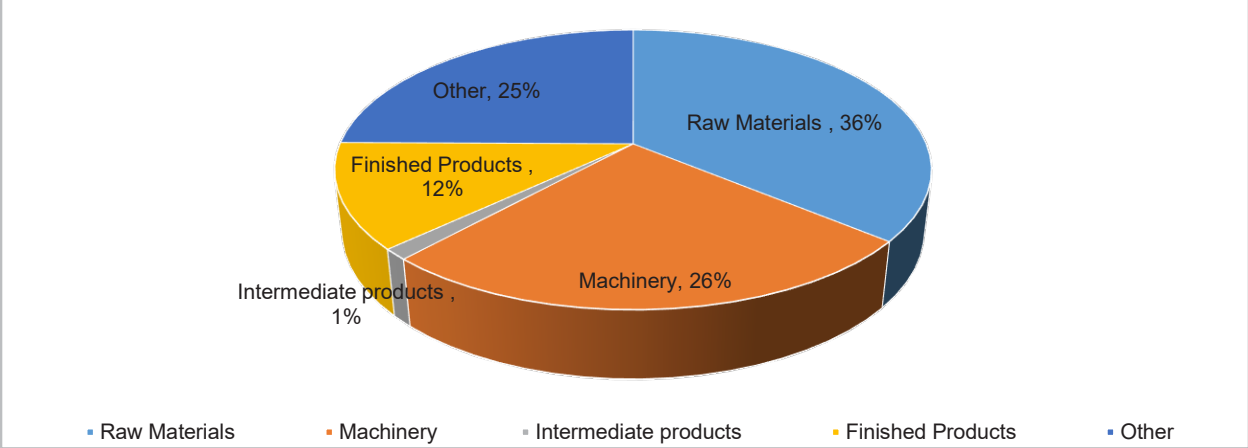
Compared to 2018, your level of imports in 2019?



6.7 Breakdown of Imports

Figure 12: More than 60% of Imports by firms in 2019 are machinery and raw materials

If your firm does import, then what are your major imported products?



7 DRIVERS OF GROWTH

In this section of the survey, the firms across all three sectors were asked about their opinion about other factors affecting their businesses.

7.1 Top-Rated Factors That Affect Growth

The impact of various factors was analyzed by arranging them in order of importance.

These results are illustrated below:

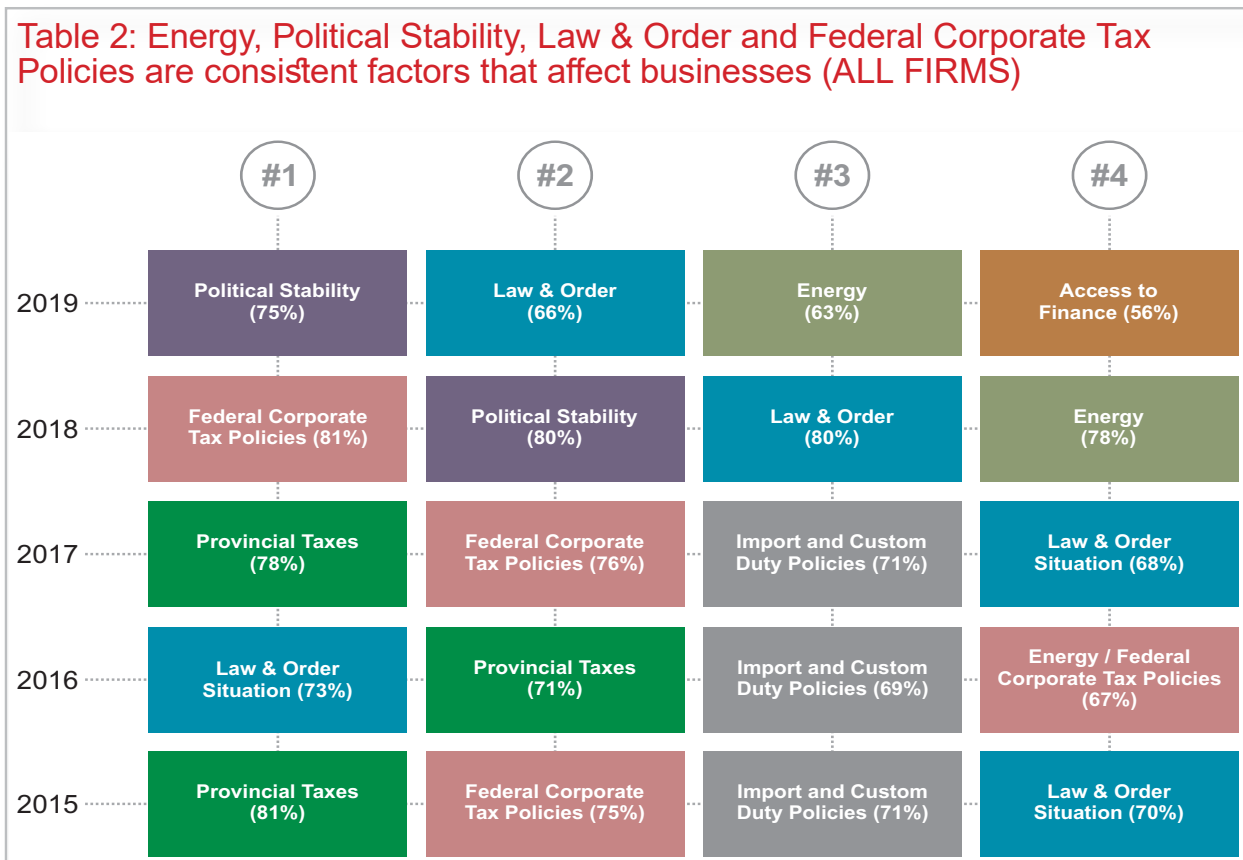


Table 3: Energy, Access to Finance and Law & Order and political stability are the factors that consistently affect manufacturing firms

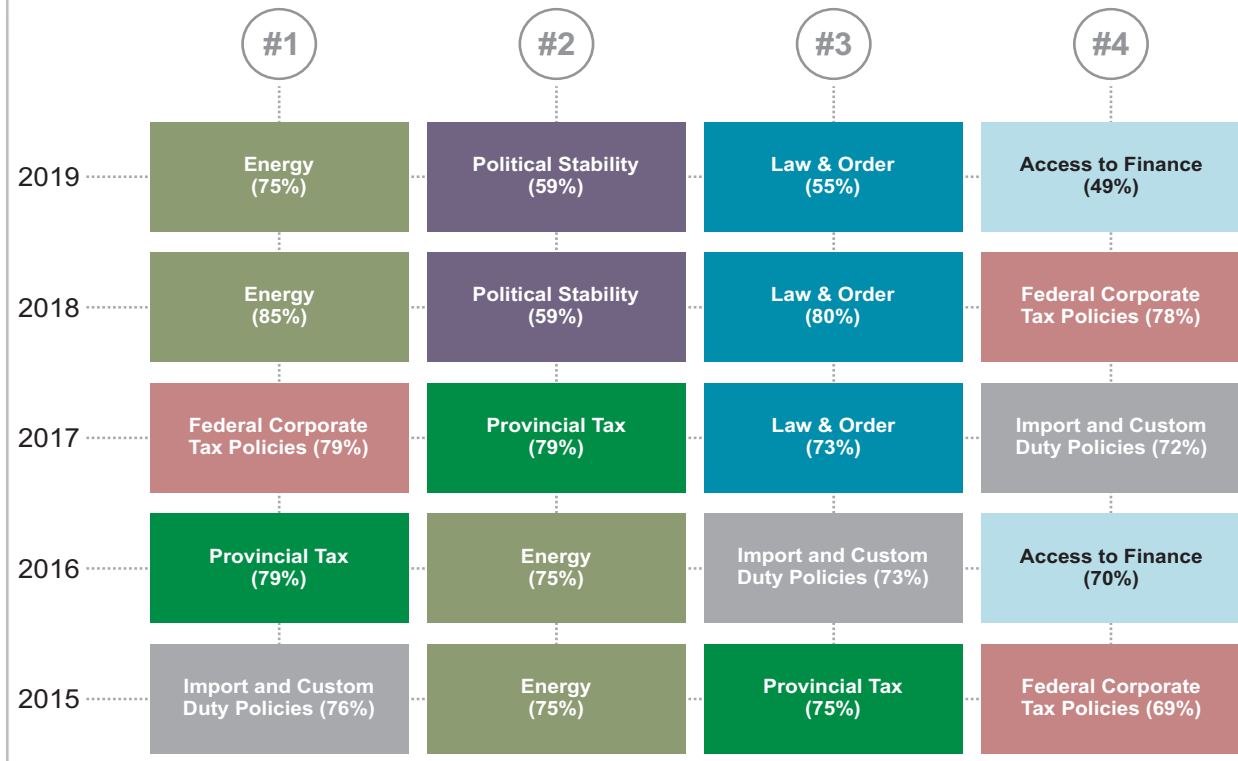


Table 4: Law & Order, Federal Tax Policies, Import and Custom Duty Policies and Political Stability consistently affect services sector firms

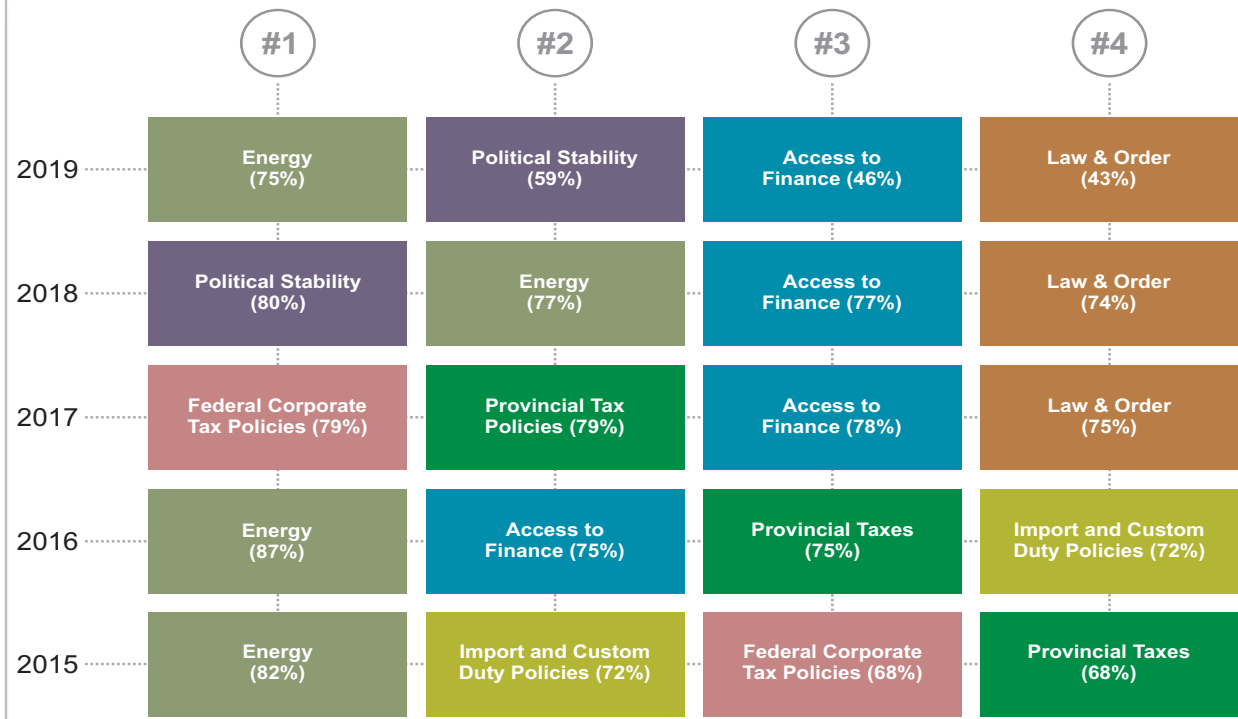
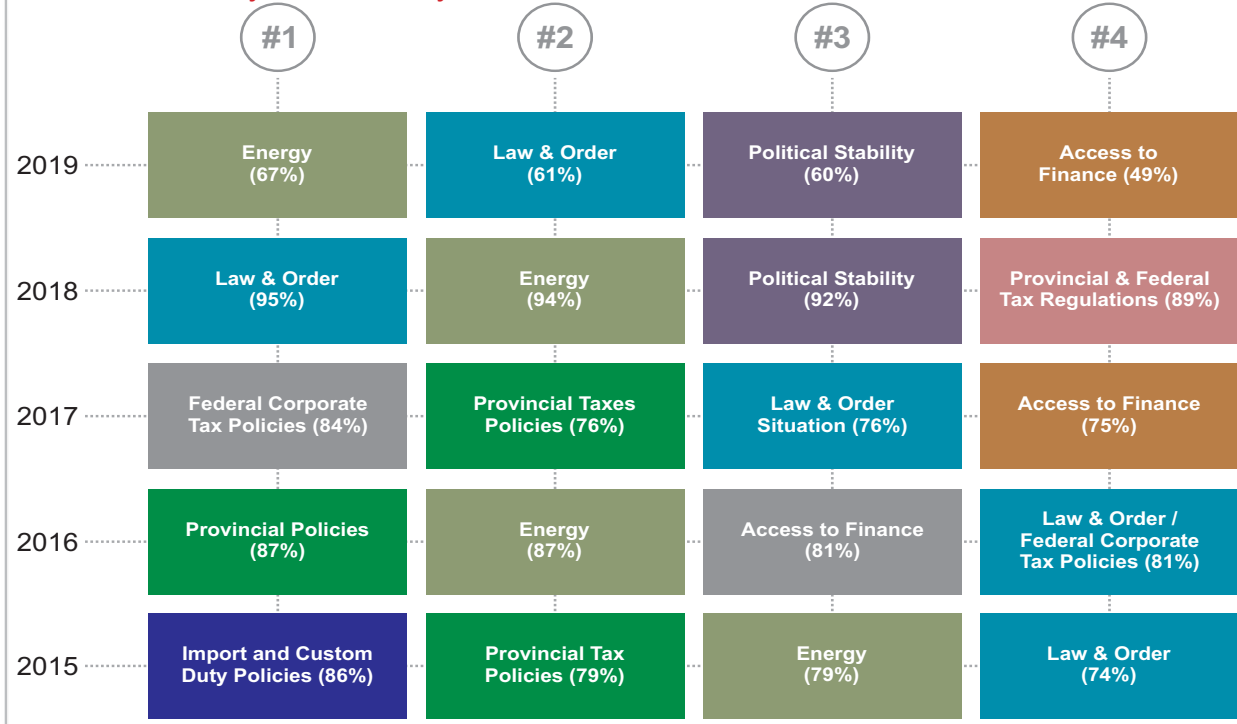


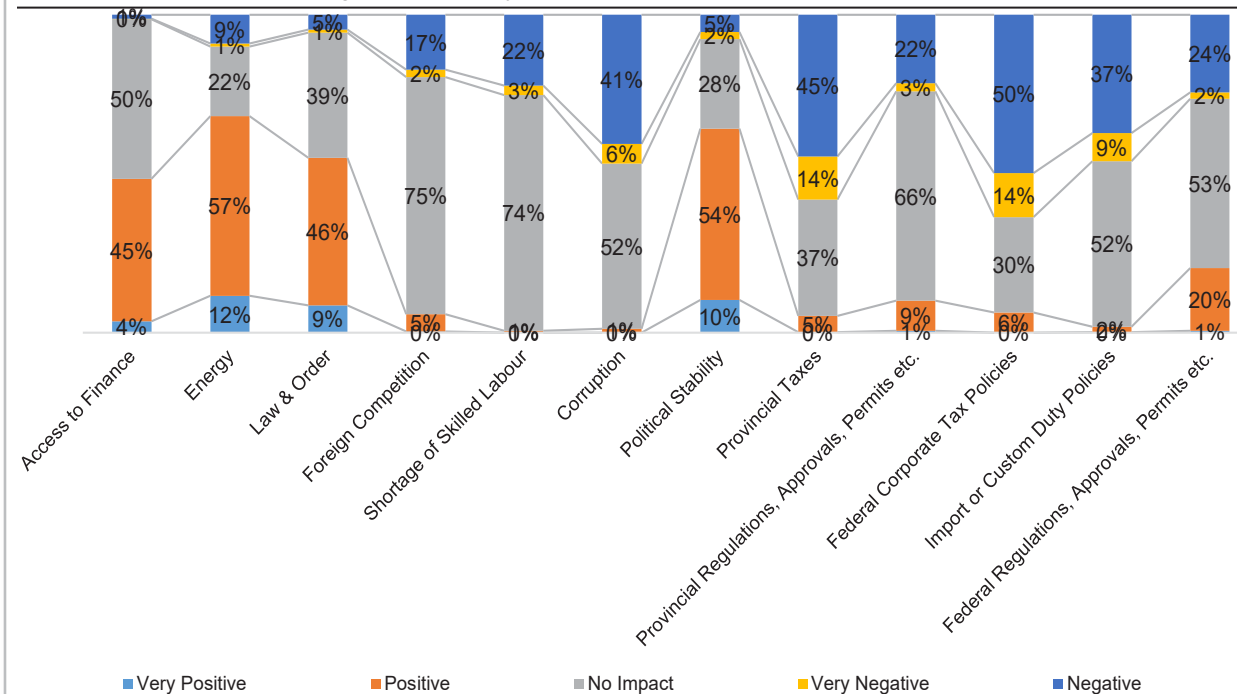
Table 5: Energy, Law & Order, Access to Finance, Provincial Tax Policies and Political Stability consistently affect retail sector firms



7.2 Analysis of factors affecting growth of Pakistani Businesses

Figure 13: Energy, Political Stability, Law & Order and Access to Finance were the most important factors affecting growth of Pakistani Businesses

How does each of the following factors affect your business?



8 INVESTMENT AND BANK BORROWING

8.1 Levels of Investment

Investment levels stagnated in 2019. Looking sector-wise, manufacturing sector firms reported the greatest decline in investment.

Figure 14: Slowdown in investment

Compared to 2018, how did the level of investment change in 2019

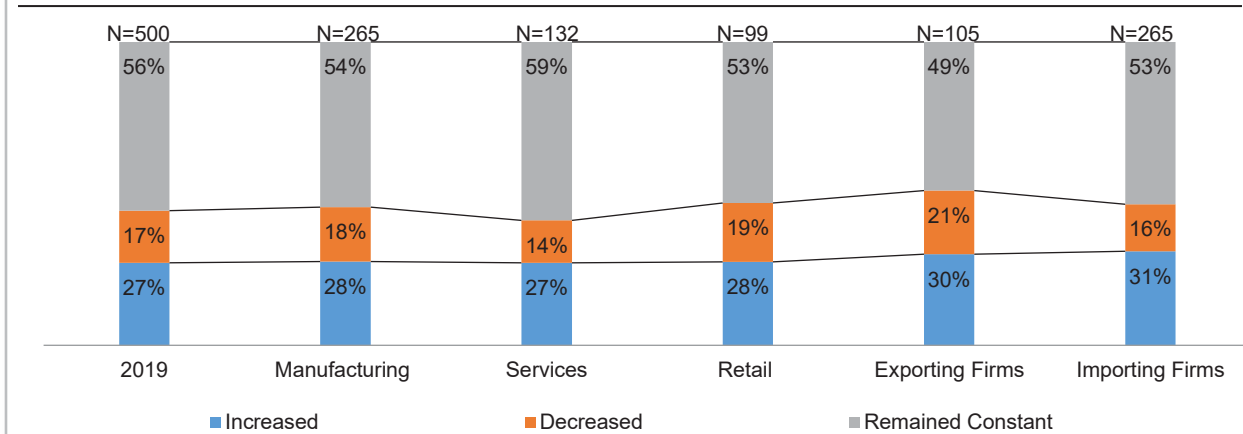
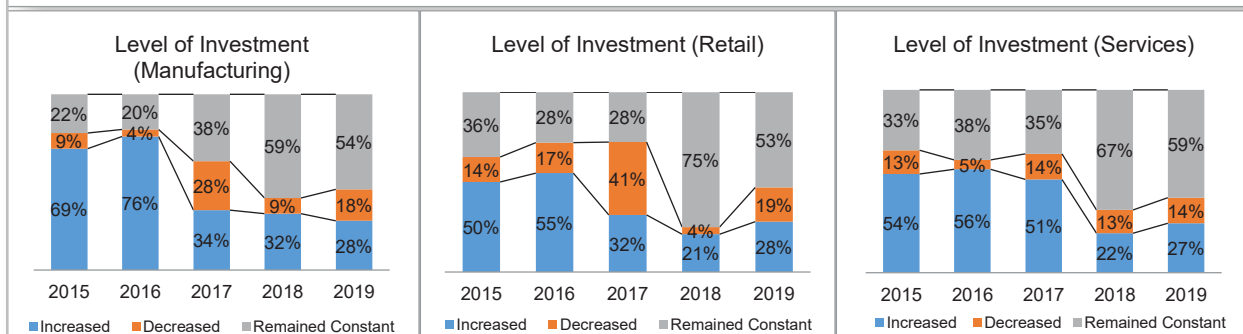
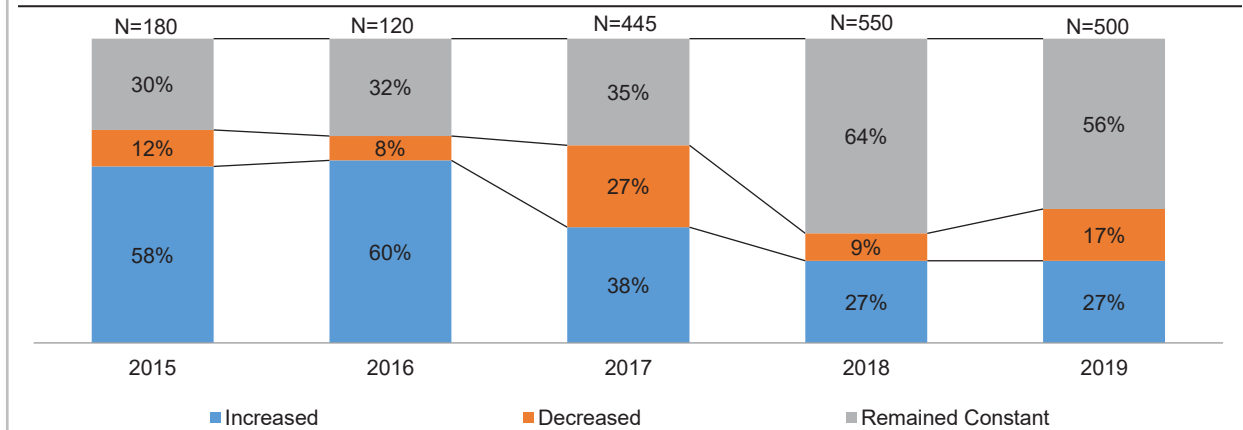


Figure 15: Investment levels mostly remain stagnant in 2019

Compared to the previous year, how did your investment change over time?



8.2 Level of Bank Borrowing

A majority of firms reported a no growth in their bank borrowing in 2019 as compared to 2018. The manufacturing sector experienced higher growth in bank borrowing as compared to the other sectors.

Figure 16: Bank Borrowing remains stagnant

Compared to 2018, how did your bank borrowing change in 2019?

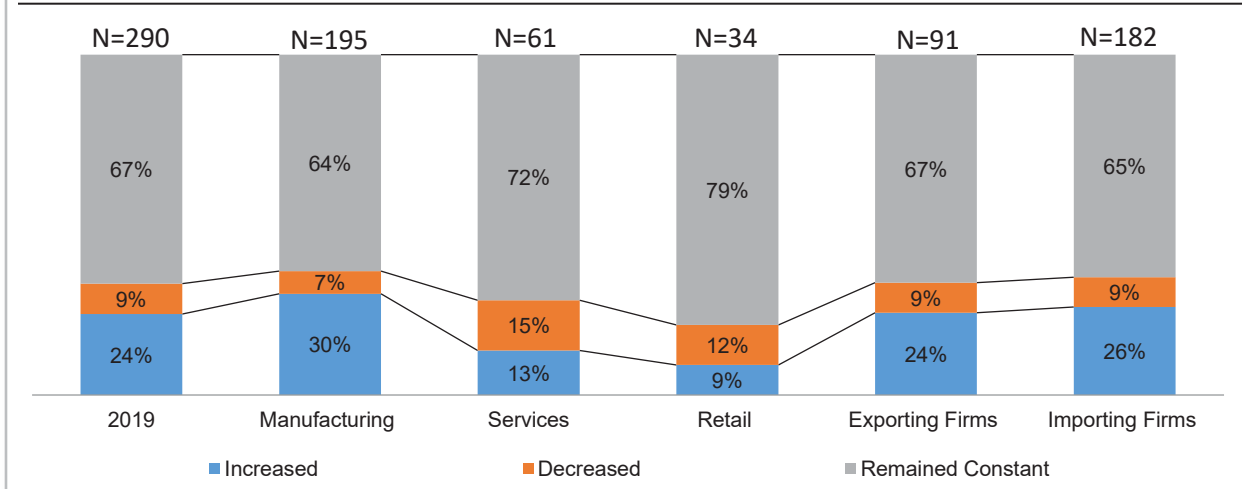
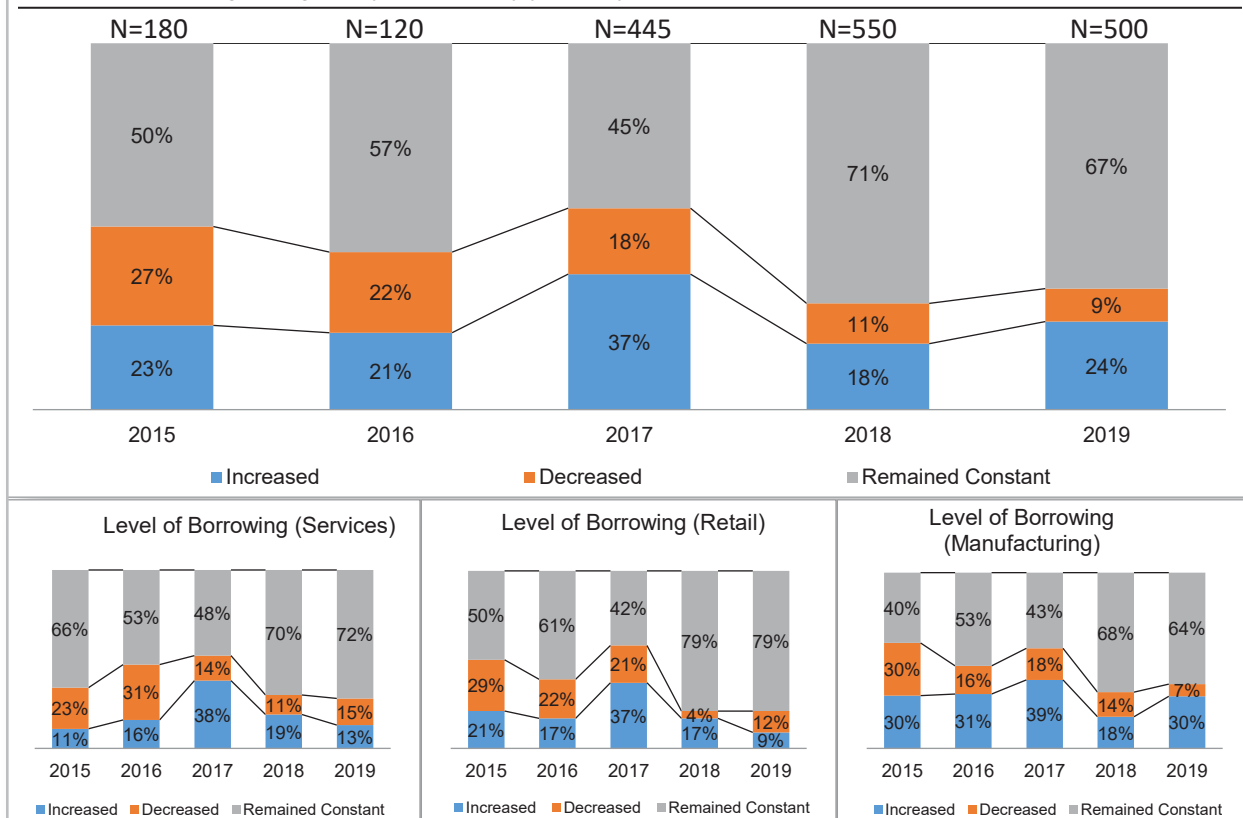


Figure 17: Bank Borrowing remained relatively constant in 2019

How bank borrowing changed in your company year on year?



9 ECONOMIC OPTIMISM

9.1 Analysis of Firm Level Expectations about Pakistan's Economy

The business confidence survey also revealed that pessimism about the performance of the Pakistani has increased over time.

There was a significant decline in the overall optimism about the performance of the Pakistan's economy in 2019 across sectors. The retail sector was least optimistic about the performance of Pakistani economy, followed by the services and manufacturing sector firms.

Figure 18: Retailers are least optimistic about the performance of Pakistan's Economy

Compared with 2018, how do you think the economy of Pakistan will perform in 2019?

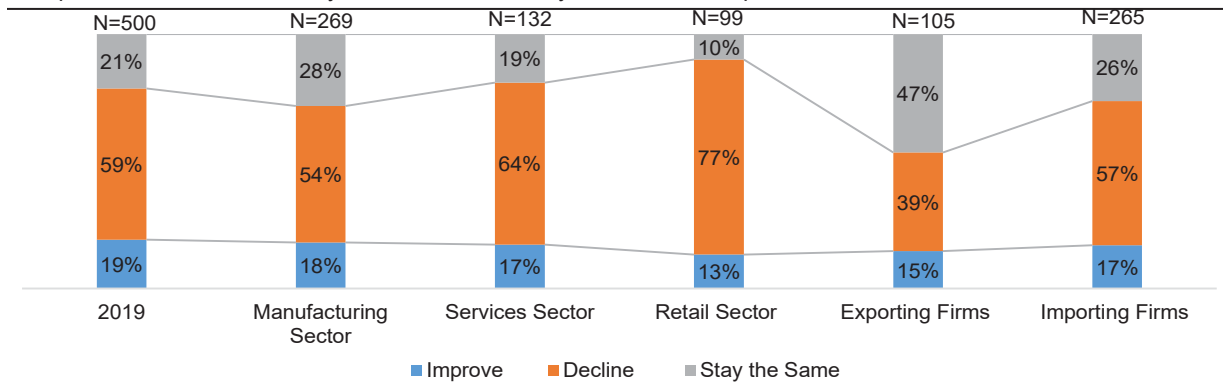


Figure 19: Decline in optimism about Pakistan's economy over time

How do you think Pakistan's economy will perform?

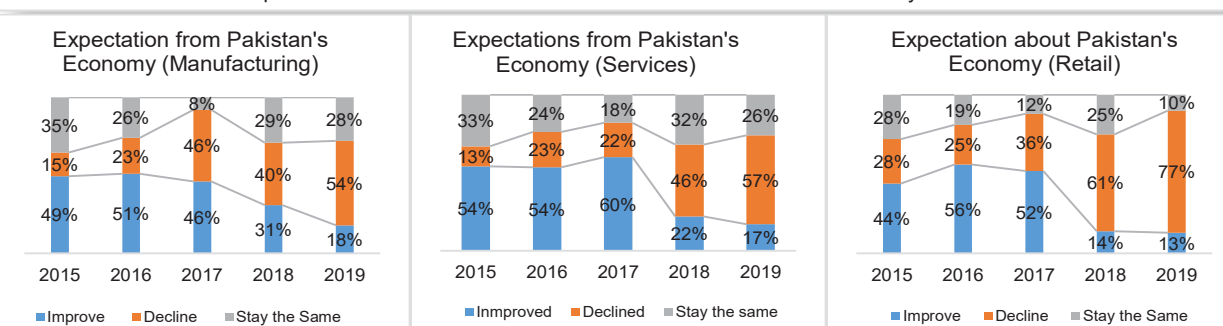
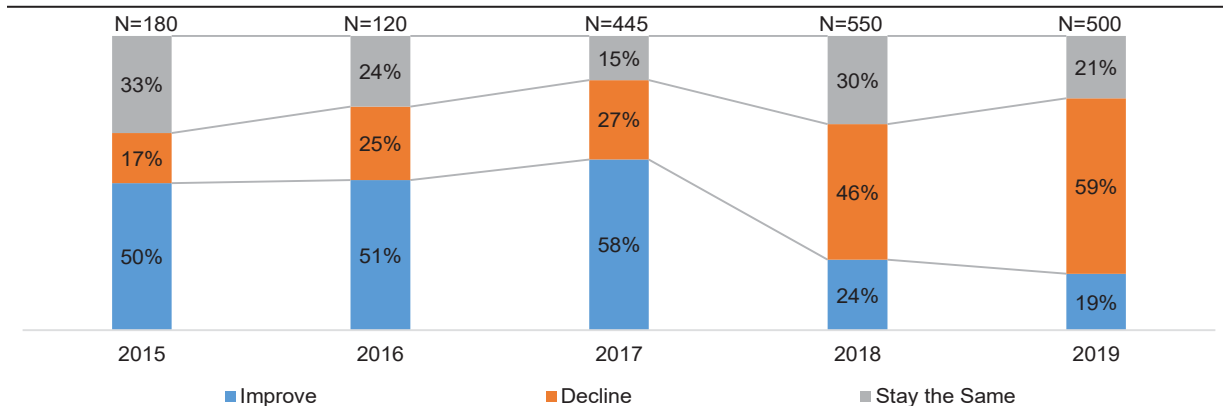


Figure 20: Pessimism about the performance of Pakistan's economy has increased over time

Compared to last year, how do you expected the economy to perform?

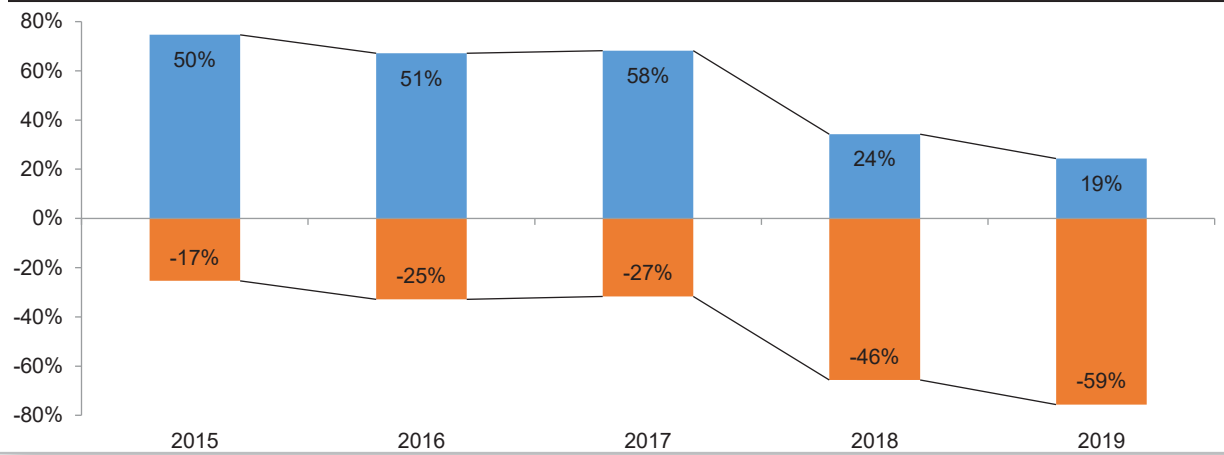
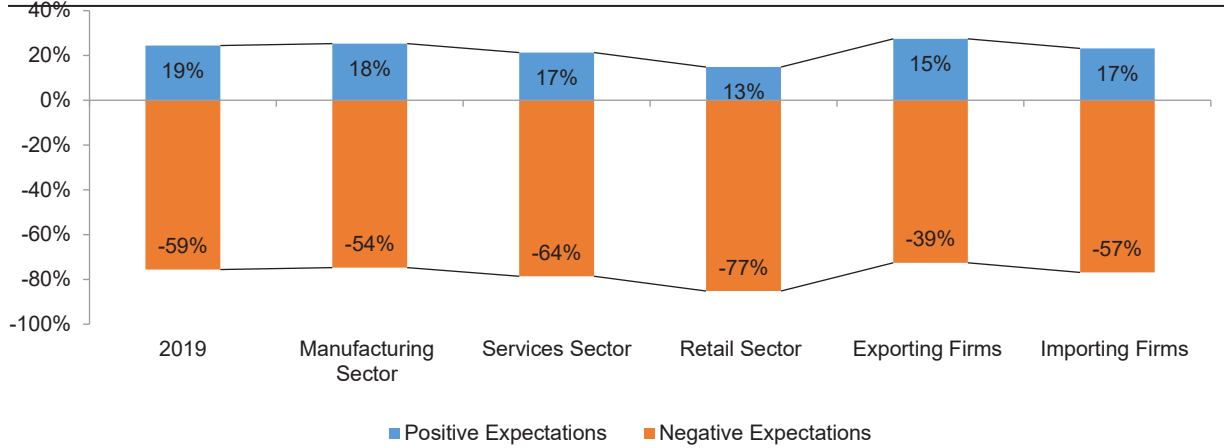


Figure 21: Retail sector is the most pessimistic about the performance of Pakistan's economy

How do you think Pakistan's economy will perform in 2020?



9.2 Analysis of Firm Level Expectations about Impact of CPEC

This year's survey revealed that firms are becoming more optimistic about the impact of CPEC on their businesses as 85% of respondent firms reported positive expectations in this year's survey. Services sector firms were most optimistic about the positive impact of CPEC followed by manufacturing and exporting firms.

Figure 22: Firms are mostly optimistic about the impact of CPEC

What impact do you think CPEC will have on your business?

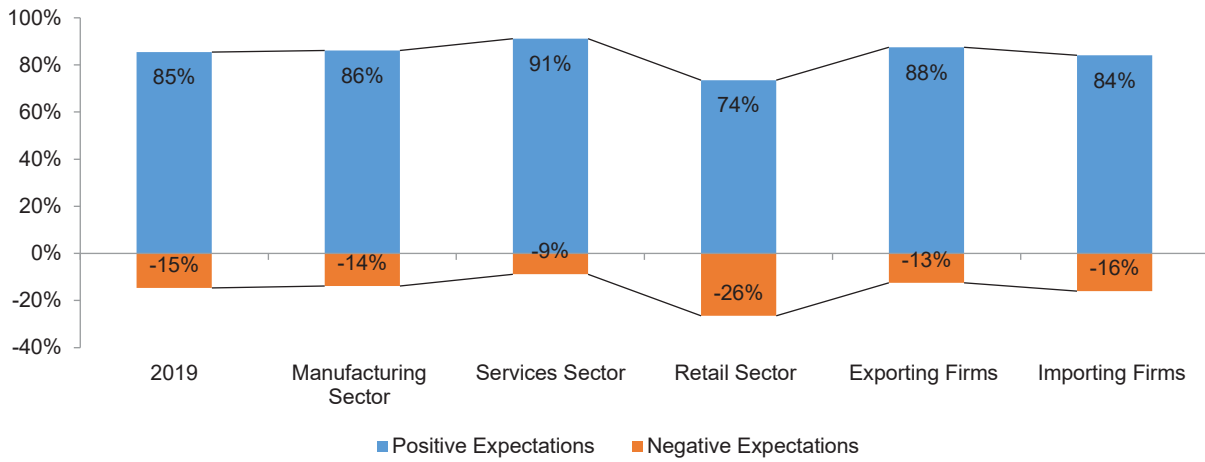
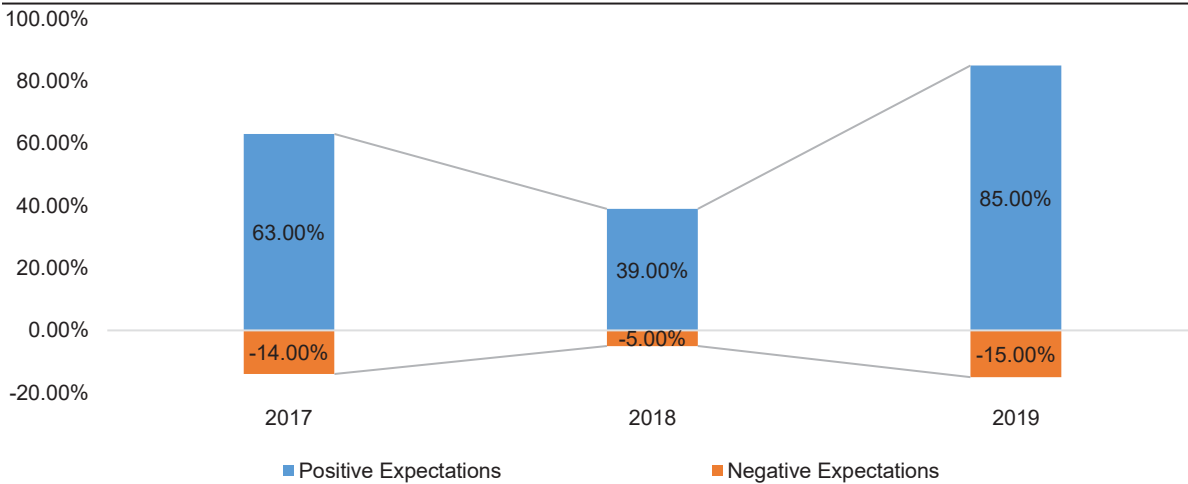


Figure 23: Optimism about CPEC has risen over time

What impact do you think CPEC will have on your business?



10 FORECASTS

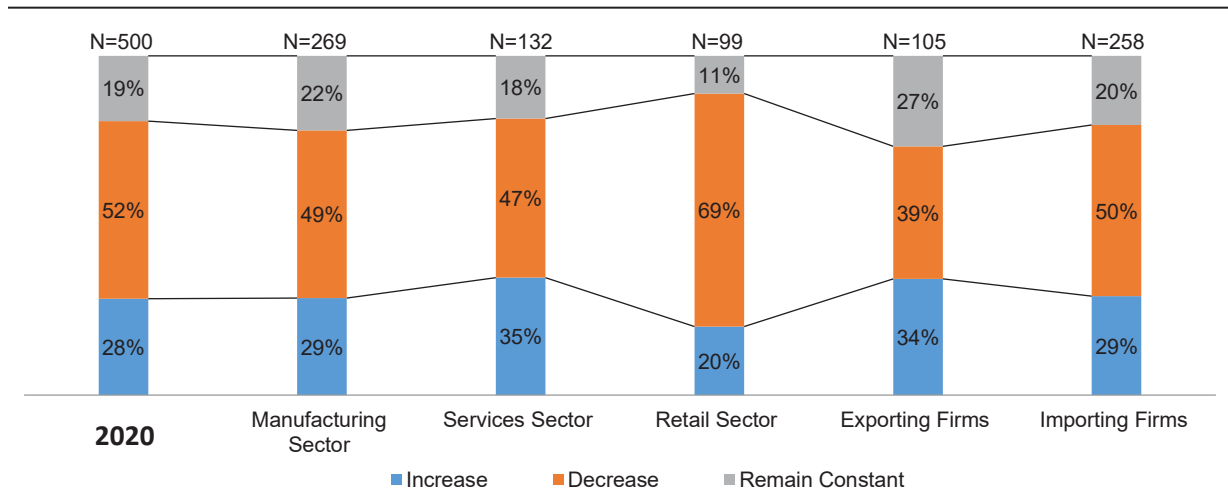
10.1 Financial Growth

A majority of firms are not expecting their total sales to go up in 2020, as firms across sectors are expecting 8% decline in growth in total sales as compared to 2019. Firms across sectors are expecting a drop in their growth in domestic sales, the majority of which is coming from the services and retail sector firms. Moreover, 40% of the firms across sectors are expecting growth in export sales in 2020 as compared to 2019.

Expectations about Total Sales

Figure 24: A majority of retail and manufacturing firms expect lower sales

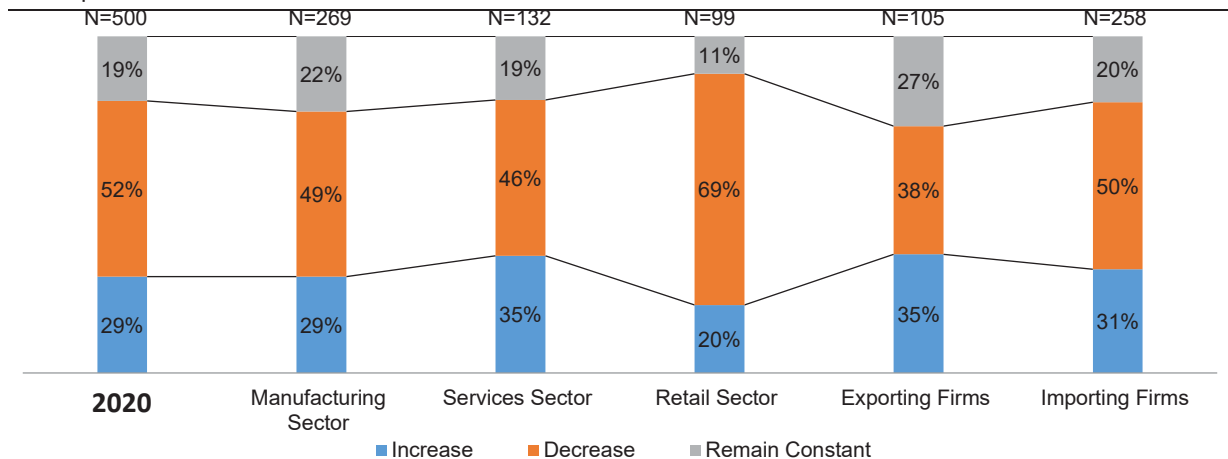
You expect the revenues from total sales will?



Expectations about Domestic Sales

Figure 25: Firms from the manufacturing and retail sectors expect lower domestic sales in 2020

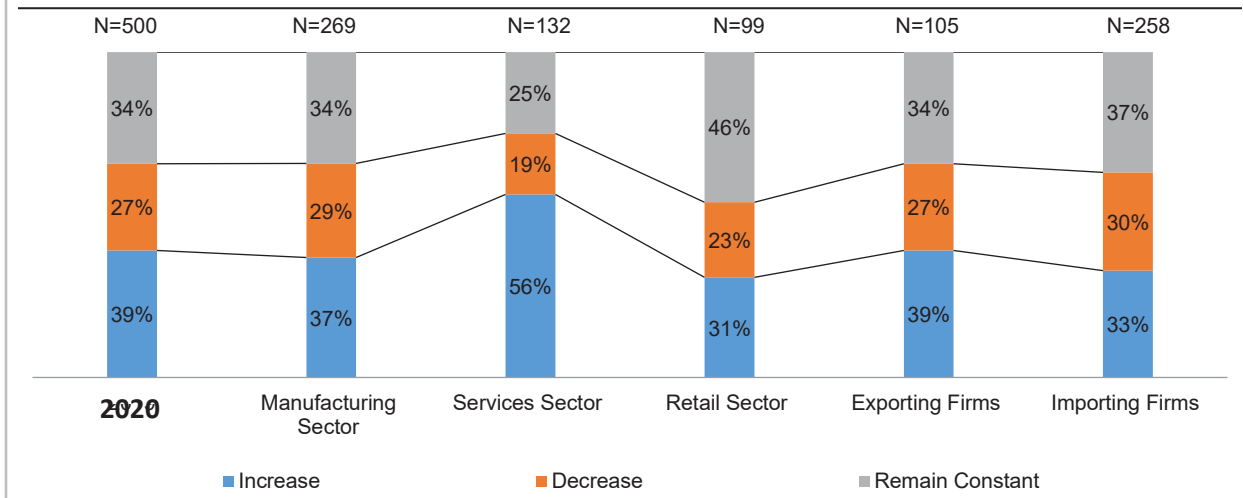
You expect that revenues from domestic sales in 2020 will?



Expectations about Export Sales

Figure 26: Almost 40% of firms expect higher exports

You expect that revenues from export sales in 2020 will?



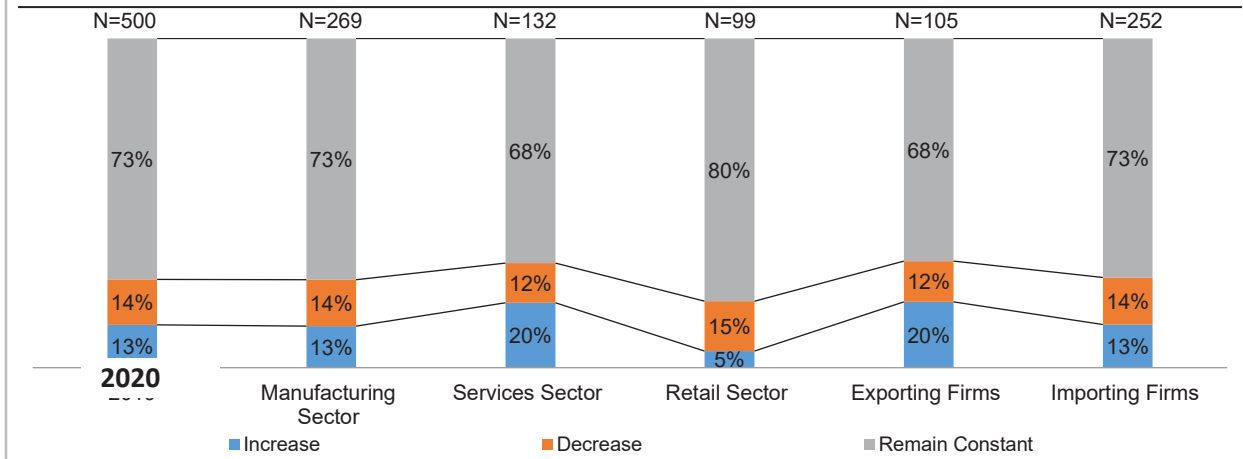
10.2 Levels of Employment

Expectations about Number of Employees

A majority of firms across sectors are not planning to increase their employee base in 2020.

Figure 27: Majority of firms across sectors did not expect to increase their employee base in 2020

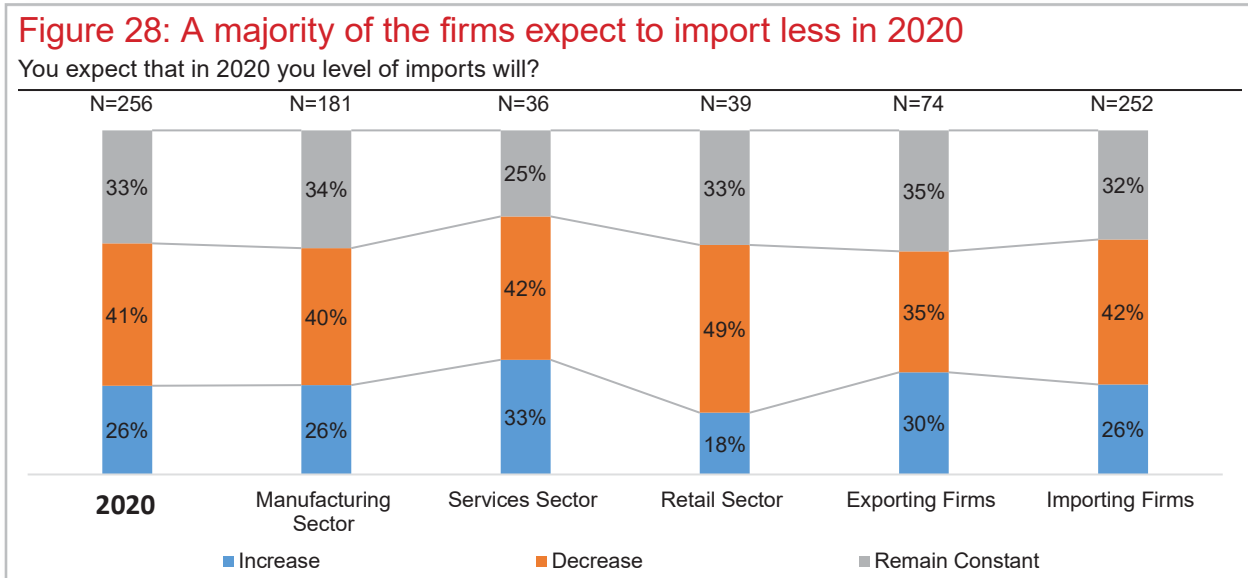
You expect that during 2020, the number of employees in your company will?



10.3 Imports

Expectations about Imports

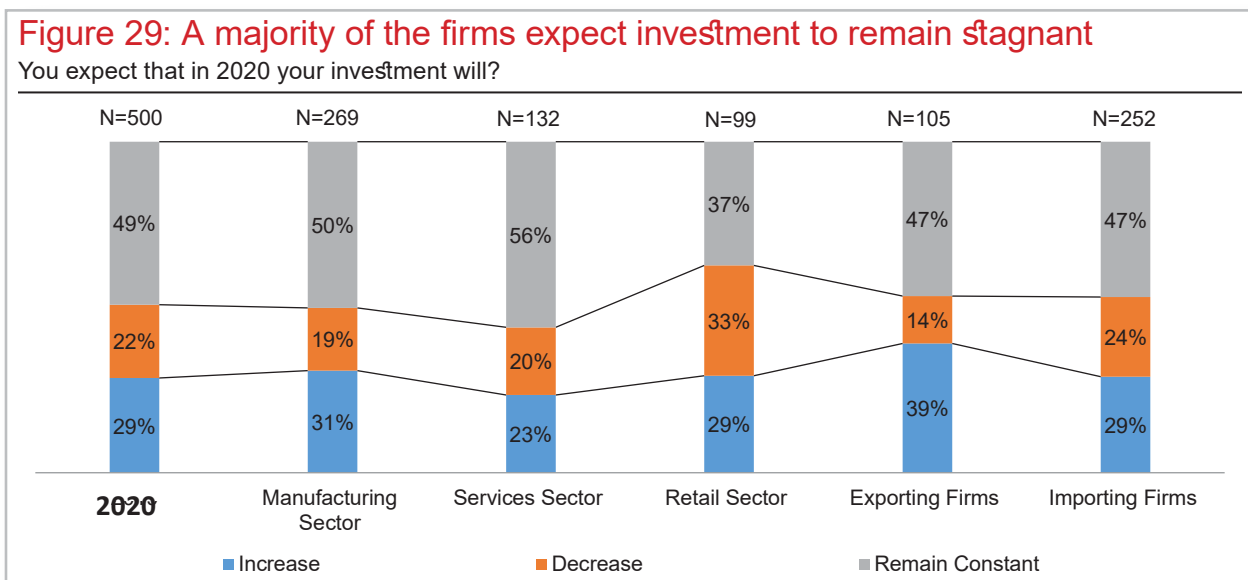
A majority of firms across sectors are expecting further reductions in imports in 2020. The major portion of this reduction is coming from the retail sector, followed by the manufacturing sector and the services sector.



10.4 Investment & Bank Borrowing

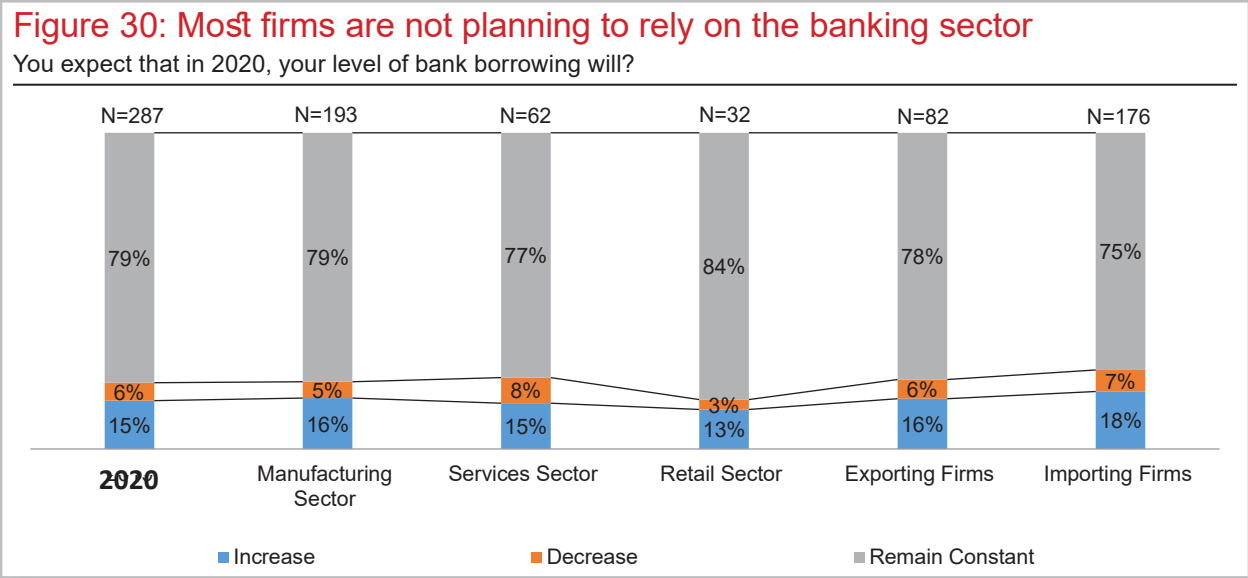
Expectations about Investment

Firms are planning to slightly increase their level of investment in 2020, with the majority of this increase in investment coming from manufacturing sector. Whereas, the services sector is planning to decrease their level of investment in 2020.



Expectations about Bank Borrowing

Overall, firms are expecting further reductions in their level of bank borrowing in 2020 as compared to 2019.



11 CONCLUSIONS

Pakistan's trade deficit has increased as compared to the last fiscal year. The main reason behind this is that exports have declined, while imports have steadily gone up. In order to explain this unprecedented trade deficit, policy makers need to urgently determine what factors have led to the fall in exports and what measures do we need to tackle the deterioration in Pakistan's trade balance. The Lahore School of Economics recently conducted a fifth business confidence survey of firms to determine the industry specific and general macroeconomic trends prevailing in the local markets/industries. The survey was conducted selecting a variety of firms across three important sectors viz. the manufacturing sector, the services sector and the retail sector.

This year's survey has found that majority of firms reported deteriorated financial performance with decline in growth in their total sales, domestic sales and export sales as compared to last year. Of the three sectors, the manufacturing sector stood out as the most affected.

In order to address the balance of payment issues, this year's survey looked at the trends of exports in Pakistan during the last few years and what steps could be taken with the perspective of exporting firms that could boost exports in the country in the coming years. Contrary to last year, the survey found that exports have declined again in 2019 after slightly picking up in 2018 and the majority of this decline in growth of export revenues is coming from the manufacturing and retail sectors. When asked about the factors that could boost exports, a significant proportion of firms reported un-interrupted supply of electricity and gas, promoting exports of higher value-added goods, government subsidies and upgrading technology as the most important factors. The survey results indicated that exporting firms have limited exports destinations (with most exports going to Asia, South Asia and Europe). This strongly implies that the exporting firms need to explore newer markets for their products and services in order to optimize their role and share in the international markets. The survey also found that imports have significantly declined in 2019 as compared to 2018 and most of this decline in imports was coming from the manufacturing sector and the services sector firms. Moreover, the survey found that 12% of all imports are finished products and machinery (26%), adding to the existing trade deficit.

This survey results showed that firms across sectors slowed down in terms of their level of investment and size but picked up slightly in bank borrowing. Further, firms across sectors are not planning to increase their investment, bank borrowing and employment levels in 2018.

The current year's survey also aimed to study the overall optimism in the business community by analyzing firm level expectations about Pakistan's economy and the possible impact of China-Pak Corridor (CPEC) on the business sector in Pakistan. The analysis of the results showed that the overall optimism has fallen in the current year as compared to last year. The retail sector was least optimistic about the performance of Pakistan's economy, followed by the services sector and then the manufacturing sector. The results of the survey also showed that overall optimism about the impact of CPEC on businesses has fallen over time.

Overall analysis of the impact of some other important factors showed that the majority of firms thought that energy, political stability, law & order and corporate tax policies were the most important factors affecting their businesses. The sector wise analysis showed that the manufacturing sector firms indicated political stability, energy, access to finance and law & order as the most important factors affecting their business, the services sector firms indicated corporate tax policies, political stability, law & order and energy as the most important factors affecting their business. Whereas the retail sector firms indicated law & order, energy, political stability and provincial & federal tax regulations as the most important factors for their businesses.

Finally, the firms attributed the drag on economic growth to the inconsistent and cumbersome policies, regulations and taxation of the federal and the provincial governments. They felt that while regulations and taxations were important, they must account for the needs and requirements of the business community. The collaboration between the government and the business community and the joint efforts by them in developing a workable industrial strategy can promote the growth.

BUSINESS CONFIDENCE SURVEY



2019