Revision Note

IBA-SBP Consumer Confidence Index

Diffusion Index Calculation

State Bank of Pakistan has been conducting household surveys for consumer confidence, in collaboration with the Institute of Business Administration, since 2012. The survey reports have been regularly published at SBP website since then. The SBP has been releasing the all the relevant data of households responses, i.e., share of positive responses as well as negative responses, it also presenting the results as indices, which were calculated as sum of the differences between the shares of positive and negative responses for index questions.

Now from November 2017, the methodology of index computation has been changed according to the international best practices (see OECD, 2003, and European Commission, 2014).[1]

The results are now being reported in the form of Diffusion Index (DI), while detailed data is continued to be released at the SBP website.

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.

  (i)   PP = Very positive;
  (ii) P = Positive;
  (iii) E = Unchanged/neutral;
  (iv) N = Negative; and
  (v)   NN = Very negative.

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:

                 $NR = (1.00*PP) + (0.50 \times P) + (-0.50 \times N) + (-1.00*NN)$

  Step 2:   Diffusion Index (DI) is computed as follows:

                 $DI = (100 + NR) / 2$

Where DI ranges from 0 to 100; interpretation of which is as follows:

        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 Economic Conditions, Expected Economic Conditions Index are averages of selected questions.

---

[1] OECD (2003); Business Tendency Surveys A Handbook; Statistics Directorate, OECD; https://www.oecd.org/std/leading-indicators/31837055.pdf
European Commission (2014); The joint harmonised eu programme of business and consumer surveys: User Guide; March; http://ec.europa.eu/economy_finance/publications/.