

April-May 2019 Results: Slight Correction on Political Noise

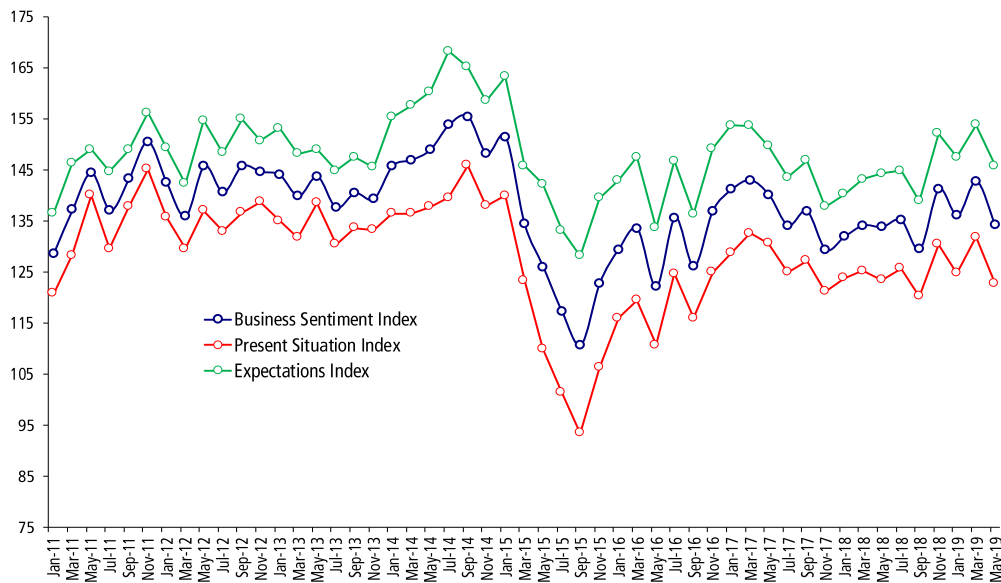
Key Findings

- ✓ Our main measure of business sentiment – as captured by the Business Sentiment Index (BSI) – slipped 6% to 134.3 from 142.9 in our previous survey.
- ✓ Several factors weighed on sentiment during the survey period including the political uncertainty surrounding April's elections and, on the external front, the escalation of trade tensions between the US and China.
- ✓ CEOs reported both weaker sales and profits growth (the respective indices fell by 9.6 percent and 3.1 percent to 94.4 and 101.5). Capex spending was also reported as being rather sluggish (the index was down 6.9 percent to 88.4).
- ✓ Looking ahead, CEOs were less upbeat on the economic outlook. From a positive aspect, however, corporate performance is still expected to remain solid. At the top line, for example, CEOs expect sales to grow briskly (although this index dipped 0.9 percent it remains at a high level of 135.1). This optimism also extended to the bottom line where CEOs believe that profits growth will accelerate slightly (this index climbed 0.4 percent to 140.9).
- ✓ CEOs anticipate heightened inflationary pressures going forward – this index jumped 8.5 percent to 109.9). This is an unsurprising finding, however, since inflation always picks up during the fasting period/Lebaran due to buoyant consumer demand.
- ✓ CEOs were once again more satisfied in the performance of the government. This metric, as measured by the Business Confidence in the Government Index (BCGI), edged up 0.8 percent to 156.9. Three of the five components of the BCGI posted gains. Most notably, CEOs are more sanguine on the government's ability to create a healthier marketplace.

The April-May 2019 Results

- Business sentiment deteriorated slightly in the period under survey on heightened political tensions. Although the country's landmark presidential and parliamentary elections on 17 April proceeded smoothly, the results were nonetheless bitterly contested and violent protests took place in May in several areas of the capital Jakarta, disrupting business activities in the CBD for a short period. On the external front, meanwhile, the escalation of trade tensions between the US and China was also a cause for concern, especially to CEOs of export-orientated companies. Indonesia's trade has been depressed so far this year with imports in the first half of the year down 7.6 percent and exports 8.6 percent lower.
- Against this backdrop, our main measure of business sentiment – as captured by the Business Sentiment Index (BSI) – slipped 6% to 134.3 from 142.9 in our February – March 2019 survey. Furthermore, the two main components which make up the BSI both declined: the Present Situations Index (or PSI) dipped 7.0 percent to 122.7 while the Expectations Index (or EI) fell 5.2 percent to 145.9.
- Although spending related to the elections had been expected to lift the economy, CEOs reported both weaker sales and profits growth (the respective indices fell by 9.6 percent and 3.1 percent to 94.4 and 101.5). Capex spending was also sluggish (the index was down 6.9 percent to 88.4) as CEOs awaited clarity on the election results. In addition, CEOs may have curtailed their investment plans in view of Ramadan and the long Lebaran holidays, although this may only be for a short period. Nonetheless, despite noting rather anemic corporate performance during the reporting period, CEOs continue to believe that their companies will perform well going forward: the indices measuring sentiment toward future sales and profits remained at high levels, only slightly changed from their levels in the previous survey (down 0.9 percent to 135.1 and up 0.4 percent to 140.9).
- On a more positive note, CEOs were once again more satisfied in the performance of the government. This metric, as measured by the Business Confidence in the Government Index (BCGI), edged up 0.8 percent to 156.9. Three of the five components of the BCGI posted gains. Most notably, CEOs are more sanguine on the government's ability to create a healthier marketplace – this index rose a further 2.2 percent to 161.7.

Graph 1. Business Sentiment Weakened in the Latest Survey



Source: Danareksa Research Institute

Table 1. Business Sentiment Index

	Jan-19	Mar-19	May-19	% MoM
Business Sentiment Index	136.2	142.9	134.3	(6.0)
Present Situation Index	124.8	131.9	122.7	(7.0)
Expectations Index	147.6	153.9	145.9	(5.2)

Source: Danareksa Research Institute

CEO Assessments of Current Business Conditions

- CEOs gave less positive assessments on the state of the national economy. In our survey, the index measuring sentiment toward the state of the Indonesian economy fell 8.9 percent to 107.5. Several factors weighed on sentiment during the survey period including the political uncertainty surrounding April’s elections and, on the external front, the escalation of trade tensions between the US and China.
- Although spending related to the elections had been expected to lift the economy, CEOs reported both weaker sales and profits growth (the respective indices fell by 9.6 percent and 3.1 percent to 94.4 and 101.5). Capex spending was also reported as being rather sluggish (the index was down 6.9 percent to 88.4). Besides awaiting clarity on the election results, CEOs may also have decided to rein in their investment plans – at least in the near term – due to Ramadan and the long Lebaran holidays falling during the period of the survey.

Table 2. Appraisal of Present Situations

	Jan-19	Mar-19	May-19	% MoM
Economic Conditions	104.3	118.0	107.5	(8.9)
Business Conditions	135.7	140.4	130.2	(7.2)
Company’s Conditions	134.4	137.3	130.4	(5.1)

Source: Danareksa Research Institute

Table 3. Current Company Financial and Utilization Performance

	Jan-19	Mar-19	May-19	% MoM
Capital Expenditure	91.9	95.0	88.4	(6.9)
Sales	98.4	104.5	94.4	(9.6)
Profits	95.1	104.8	101.5	(3.1)
Liquidity	108.1	108.5	107.9	(0.6)
Capacity/Equipments Utilization	101.8	103.3	101.7	(1.5)
Employment	99.6	103.0	103.6	0.6
Cost of Goods Sold	103.6	107.5	105.6	(1.8)
Operating cost	144.5	153.4	155.2	1.2
Interest expenses/cost	100.3	100.4	100.3	(0.1)
Foreign Exchange Loss	107.2	111.0	106.4	(4.1)
Average Price of Product/Service	127.0	126.1	120.3	(4.5)

Source: Danareksa Research Institute

CEO Appraisals of Near-Term Business Conditions

- Looking ahead over the next six months, CEOs are less upbeat on Indonesia's economic outlook. Overall, less than half of CEOs (43.5 percent) are now sanguine on the economy – or lower than the figure of 51.4 percent in the previous survey. In addition, our survey also reveals that only 10.9 percent of CEOs are downbeat on the economic outlook with 45.6 percent of the CEOs saying that they expected the economy to perform normally over the next six months.
- Despite being more concerned on the prospects for the economy, CEOs still have favorable opinions on the outlook for their companies. At the top line, for example, sales are still expected to grow briskly (although this index dipped 0.9 percent it remains at a high level of 135.1). This optimism extended to the bottom line where CEOs believe that profits growth will even accelerate slightly (this index added 0.4 percent to 140.9). Encouragingly, cost pressures from COGS are not expected to accelerate. Indeed, this index edged down by 0.5 percent to 104.7. With the recovery in the rupiah, many companies can expect lower raw material costs (especially those companies operating in industries such as the pharmaceutical, construction and packaging industries as they rely heavily on imported raw materials). Nonetheless, CEOs also noted that operating cost pressures continued to bite: this index edged up 0.5 percent to 163.2 – still a very high level.

Table 4. Expectations for the Six Months Ahead

	Jan-19	Mar-19	May-19	% MoM
Economic Prospects	131.7	145.1	132.5	(8.7)
Business Prospects	154.4	159.4	151.6	(4.9)
Company's Prospects	156.6	157.1	153.5	(2.3)

Source: Danareksa Research Institute

Table 5. Prospects for Company Financial and Utilization Performance

	Jan-19	Mar-19	May-19	% MoM
Capital Expenditure	123.1	114.0	114.1	0.1
Sales	143.6	136.3	135.1	(0.9)
Profits	141.6	140.4	140.9	0.4
Liquidity	122.2	121.1	129.6	7.0
Capacity/Equipments Utilization	102.5	102.3	103.2	0.9
Employment	106.1	114.5	113.1	(1.3)
Cost of Goods Sold	102.5	105.3	104.7	(0.5)
Operating cost	163.1	162.4	163.2	0.5
Interest expenses/cost	108.1	108.3	107.7	(0.5)
Foreign Exchange Loss	108.3	106.5	109.4	2.7
Average Price of Product/Service	131.9	132.8	133.8	0.8

Source: Danareksa Research Institute

Expectations on Key Economic Indicators

- Our latest survey reveals that CEOs anticipate heightened inflationary pressures going forward – this index jumped 8.5 percent to 109.9). This is an unsurprising finding, however, since inflation always picks up during the fasting period/Lebaran due to buoyant consumer demand. In line with this finding, more CEOs believe that there will be an increasing tendency for interest rates to increase over the next six months (this index surged 11.3 percent to 111.3). Despite this finding, however, it should be appreciated that the survey was conducted before Bank Indonesia took the decision in July to cut its benchmark 7-day reverse repo rate by 25bps to 5.75 percent, a move which appears to signal the end to its tightening cycle that started last year.
- Meanwhile, CEOs are slightly more optimistic on the outlook for the rupiah going forward despite the acrimonious trade dispute between the two largest global economies, the US and China. In our survey, the index measuring sentiment toward the rupiah added another 0.4 percent to 106.2. Finally, CEOs are again less upbeat on the outlook for stock prices (this index dropped 3.3 percent to 103.0).

Table 6. Expectations on Key Economic Indicators

	Jan-19	Mar-19	May-19	% MoM
General Prices Expectation	107.2	101.3	109.9	8.5
Loan Rate Expectation	109.2	100.0	111.3	11.3
Exchange Rate Expectation	98.9	105.8	106.2	0.4
Stock Price	109.9	106.5	103.0	(3.3)

Source: Danareksa Research Institute

Sentiment Toward the Government

- CEOs were once again more satisfied in the performance of the government. This metric, as measured by the Business Confidence in the Government Index (BCGI), edged up 0.8 percent to 156.9. Three of the five components of the BCGI posted gains. Most notably, CEOs are more sanguine on the government's ability to create a healthier marketplace – this index rose a further 2.2 percent to 161.7.
- Also on the economic front, CEOs remain convinced in the government's ability to improve the nation's infrastructure (this index added 0.9 percent to 181.8). The very high level of this index is testament to the government's strong focus on developing much-needed infrastructure such as toll roads and better public transportation facilities especially in the nation's main cities like the capital Jakarta. And with inflationary pressures

seasonally high as a result of the fasting month and subsequent Lebaran holidays, CEOs had slightly less faith in the government's ability to rein in inflation: this index dipped 1.3 percent to 140.7.

- Finally, the component of the BCGI measuring sentiment toward the government's ability to maintain a safe and orderly environment fell 2.1 percent to 165.3 while the component measuring sentiment toward the government's ability to provide legal certainty rose 5.1 percent to 134.9.

Table 7. Business Confidence in the Government Index

	Jan-19	Mar-19	May-19	% MoM
Expand The Market Size	157.9	158.1	161.7	2.2
Create a Safe Environment	164.4	168.9	165.3	(2.1)
Stabilize Prices	140.8	142.6	140.7	(1.3)
Provide Public Utilities	178.4	180.2	181.8	0.9
Enforce Law of Contracts	111.2	128.3	134.9	5.1
BCGI	150.5	155.6	156.9	0.8

Source: Danareksa Research Institute

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