

October 2018

## BUSINESS SENTIMENT

**Weathering the Storm****THE JUNE - JULY 2018 RESULTS:**

- The Business Sentiment Index (BSI) rose 1.0 percent to 135.3, or higher than its level at the beginning of the year (132.0) and also higher than its level one year ago (134.2). This is encouraging and suggests that the economy is continuing to perform well despite the rupiah's woes.
- Despite this optimism, however, CEO sentiment toward the four economic indicators covered in our survey – the rupiah, inflation, interest rates and stock prices – all worsened as external developments continue to rattle the financial markets.
- In particular, CEOs are now much more downbeat on the prospects for the rupiah (this index slumped 10.0 percent to 70.7).
- CEOs also claimed that corporate performance was broadly weaker. In particular, CEOs noted lower revenues growth - this index dropped 8.4 percent to 105.4, its lowest level since the beginning of the year. Compounding matters, CEOs also said that their companies were finding it more difficult to raise product prices – a likely indication of an increasingly challenging business environment.
- CEOs were more satisfied with the performance of the government. This metric, as measured by the Business Confidence in the Government Index (BCGI), rose by 1.5 percent to 146.0.

**MARTIN JENKINS****Economist**

(62-21) 29555777/ 88 ext 3609

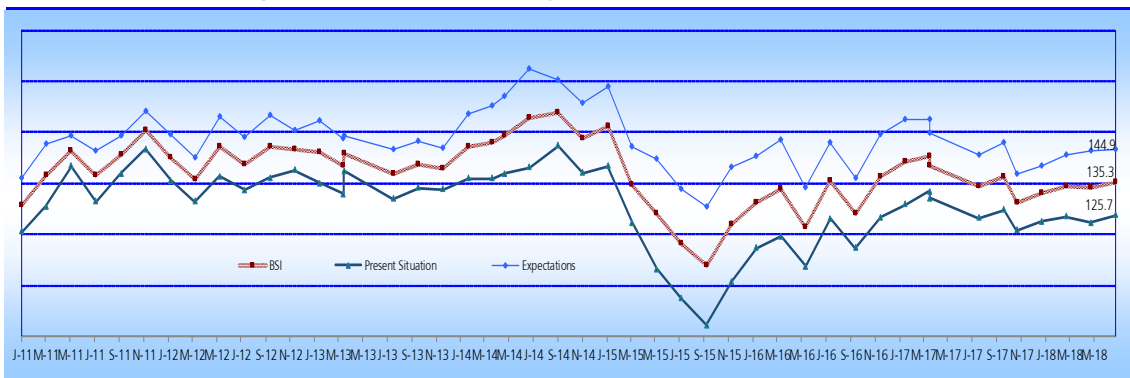
martin@danareksa.com

**DAMHURI NASUTION****Head of Economic Research**

(62-21) 29555777/ 88 ext 3600

damhuri@danareksa.com

**Business sentiment improved in the latest survey**



Source: Danareksa Research Institute

**Table 1. Appraisal of Present Situations**

	Mar-18	May-18	July-18	%Change
Business Sentiment Index	134.3	133.9	135.3	1.0
Present Situation	125.3	123.5	125.7	1.8
Expectations	143.3	144.4	144.9	0.4

Source: Danareksa Research Institute

**THE JUNE - JULY 2018 RESULTS:**

CEOs remain generally upbeat. In our latest survey (June – July 2018), the Business Sentiment Index (BSI) climbed 1.0 percent to 135.3, or higher than its level at the beginning of the year (132.0) and also higher than its level one year ago (134.2). In particular, confidence in the economy remains strong with nearly 84 percent of the CEOs polled saying that the economy was either performing well or normally. By contrast, only a small proportion of CEOs (15.9 percent) claim that the economy is performing badly.

Our survey’s upbeat findings are highly encouraging and suggest that the economy is continuing to perform well despite the rupiah’s woes that have prompted the government to take reactionary policy measures such as raising import tariffs on certain types of goods and delaying the development of US\$25 billion of power projects.

Despite this optimism, however, CEO sentiment toward the four economic indicators covered in our survey – the rupiah, inflation, interest rates and stock prices – all worsened as external developments continue to rattle the financial markets. In particular, CEOs are now much more downbeat on the prospects for the rupiah (this index plummeted 10.0 percent to 70.7). This is in line with the slump in the rupiah, which has lost nearly 9 percent of its value so far this year, even falling to its weakest level in 20 years. At the same time, CEOs also foresee higher inflationary pressures over the next six months. The rupiah’s depreciation and higher import tariffs may encourage some companies to raise selling prices, especially of goods which contain a significant proportion of imported materials. In our survey, the index measuring sentiment toward inflationary pressures climbed 4.3 percent to 112.0.

At the company level, corporate performance was broadly weaker. In particular, CEOs noted lower revenues growth - this index dropped 8.4 percent to 105.4, its lowest level since the beginning of the year. Compounding matters, CEOs also said that their companies were finding it more difficult to raise product prices – a likely indication of an increasingly challenging business environment. This index declined 3.9 percent to 125.4. As a result, CEOs also reported lower profits growth. This index slumped

by 11.8 percent to 97.8 even though cost pressures appeared to be relatively muted (the index measuring sentiment toward operating costs, although standing at a high level, actually eased by 2.1 percent to 156.6).

At the same time, CEOs were also more satisfied with the performance of the government. This metric, as measured by the Business Confidence in the Government Index (BCGI), rose by 1.5 percent to 146.0. The component of the BCGI to increase the most was the one measuring sentiment toward the government’s ability to ensure a safe and secure environment. It rose 9.7 percent to 162.7. This finding is encouraging and augurs well for the smooth running of next year’s presidential elections which are expected to be fiercely contested.

**CEO ASSESSMENTS OF CURRENT BUSINESS CONDITIONS**

CEOs gave more positive assessments on the current state of the economy in our latest survey (this index climbed 6.5 percent to 103.2). This is a highly encouraging finding and suggests that the Indonesian economy is continuing to perform well in the face of seismic shifts in the global economic landscape which have culminated in significant rupiah depreciation relative to the US dollar. Although comparisons have been made to tumultuous periods in the past (the rupiah fell to a 20-year low on 4 September), it is nonetheless reassuring to note that the rupiah’s depreciation in 2018 has taken place in steady and controlled fashion and that the magnitude of the depreciation has been limited (the rupiah is only down by around 9 percent ytd, or far less in comparison to the magnitude of the declines of the Argentinean peso or Turkish lira, for example).

The rupiah’s woes have, however, elicited policy responses from the government, including higher import tariffs on certain types of goods and delaying the development of US\$25 billion of power projects. Nonetheless, CEOs – according to our survey – still believe that business conditions remain conducive (the relevant index was steady at 138.3, down only slightly from its level of 138.8 in the previous survey).

**Table 2. Appraisal of Present Situations**

	Mar-18	May-18	Jul-18	%Change
Economic Conditions	108.5	96.9	103.2	6.5
Business Conditions	133.5	138.8	138.3	(0.4)
Company’s Conditions	133.8	134.8	135.6	0.6

Source: Danareksa Research Institute

**Table 3. Current Company Financial and Utilization Performance**

All Sectors	Mar-18	May-18	Jul-18	%Change
Capital Expenditure	101.5	98.3	95.4	(3.0)
Sales	108.8	115.0	105.4	(8.4)
Profits	110.3	111.0	97.8	(11.8)
Liquidity	104.8	102.6	105.9	3.2
Capacity/Equipment Utilization	101.5	99.3	100.7	1.5
Employment	100.8	98.8	99.0	0.2
Cost of Goods Sold	104.3	103.6	103.4	(0.2)
Operating cost	158.0	160.0	156.6	(2.1)
Interest expenses/cost	99.8	100.2	100.6	0.4
Foreign Exchange Loss	112.0	110.2	112.4	2.0
Average Price of Product/Service	123.3	130.5	125.4	(3.9)

Source: Danareksa Research Institute

At the corporate level, however, CEOs noted slightly weaker performance overall. In particular, CEOs claimed lower revenues growth - this index dropped 8.4 percent to 105.4, its lowest level since the beginning of the year. Compounding matters, CEOs also said that their companies were finding it more difficult to raise product prices – a likely indication of an increasingly challenging business environment. This index declined 3.9 percent to 125.4. As a result, CEOs also reported lower profits growth. This index slumped by 11.8 percent to 97.8 even though cost pressures appeared to be relatively muted (the index measuring sentiment toward operating costs, although standing at a high level, actually eased by 2.1 percent to 156.6).

**CEO APPRAISALS OF NEAR-TERM BUSINESS CONDITIONS**

Looking ahead over the next six months, CEOs are slightly more upbeat on Indonesia’s economic outlook. Overall, 34.6 percent of CEOs are upbeat on the economy – slightly less than the figure of 35.2 percent in the previous survey. Nonetheless, only 9.5 percent of CEOs are downbeat on the economic outlook. Furthermore, just over half of the CEOs interviewed (54.9 percent) expect the economy to perform normally over the next six months.

On the outlook for their companies, the key findings of our survey are that CEOs foresee faster growth of both operating costs and interest costs (the respective indices rose by 7.1 percent and 10.4 percent to 162.9 and 112.0). In part, at least, the increases in these two indices may owe to the impact of rupiah depreciation as a weaker currency translates into higher input costs while companies with US dollar denominated debts are saddled with higher debt servicing costs. On a more encouraging note, CEOs still see room for brisker sales growth (this index rose slightly by 0.7 percent to 140.0) as well as higher selling prices (this index edged up 2.8 percent to 130.2). As a result, profits growth is only expected to moderate slightly - the index slipped just 1.5 percent to 135.4.

**Table 4. Expectations for the Six Months Ahead**

	Mar-18	May-18	Jul-18	% Change
Economic Prospects	127.8	124.8	125.1	0.2
Business Prospects	149.5	153.3	154.6	0.8
Company's Prospects	152.5	155.0	154.9	(0.1)

Source: Danareksa Research Institute

**Table 5. Prospects for Company Financial and Utilization Performance**

All Sectors	Mar-18	May-18	Jul-18	% Change
Capital Expenditure	121.5	117.6	123.9	5.3
Sales	139.5	139.0	140.0	0.7
Profits	145.0	137.4	135.4	(1.5)
Liquidity	120.8	115.7	118.5	2.4
Capacity/Equipment Utilization	103.3	101.4	101.7	0.3
Employment	108.3	105.7	106.3	0.6
Cost of Goods Sold	105.0	104.5	103.7	(0.8)
Operating cost	154.5	152.1	162.9	7.1
Interest expenses/cost	99.5	101.4	112.0	10.4
Foreign Exchange Loss	107.3	103.3	109.0	5.5
Average Price of Product/Service	125.8	126.7	130.2	2.8

Source: Danareksa Research Institute

**Table 6. Expectation Index on Key Economic Indicators**

Indicators	Mar-18	May-18	Jul-18	% Change
General Prices Expectation	122.0	107.4	112.0	4.3
Loan Rate Expectation	110.0	120.0	123.2	2.6
Exchange Rate Expectation	84.5	78.6	70.7	(10.0)
Stock Price Expectation	106.5	109.0	104.1	(4.5)

Source: Danareksa Research Institute

### EXPECTATIONS ON KEY ECONOMIC INDICATORS

CEO sentiment toward the four economic indicators covered in our survey - the rupiah, inflation, interest rates and stock prices - all worsened as external developments continue to rattle the financial markets. In particular, CEOs are now much more downbeat on the prospects for the rupiah (this index slumped 10.0 percent to 70.7). This is in line with the rupiah's slump, which has lost nearly 9 percent of its value so far this year, even falling to its weakest level in 20 years. At the same time, CEOs also foresee higher inflationary pressures over the next six months. The rupiah's depreciation and higher import tariffs may encourage some companies to raise selling prices, especially of goods which contain a significant proportion of imported materials. In our survey, the index measuring sentiment toward inflationary pressures climbed 4.3 percent to 112.0.

Following the three benchmark interest rate hikes in May and June, CEOs continue to believe that interest rates will head higher (the index measuring sentiment toward interest rates rose another 2.6 percent to 123.2 after surging 9.1 percent in the previous survey). At the same time, our survey also reveals that CEOs were less upbeat on the outlook for stock prices. this index fell 4.5 percent to 104.1. Unfavorable developments both globally and domestically have spooked investors, leading to large capital overflows, which have translated into significant declines in stock prices.

**Table 7. Business Confidence in the Government Index**

Indicators	Mar-18	May-18	Jul-18	% Change
Expand the Market Size	142.5	147.4	148.8	1.0
Create a Safe Environment	157.0	148.3	162.7	9.7
Stabilize prices	122.8	122.1	117.3	(4.0)
Provide Public Utilities	166.0	177.4	176.8	(0.3)
Enforce Law of Contracts	113.8	124.3	124.6	0.3
BCGI	140.4	143.9	146.0	1.5

Source: Danareksa Research Institute

**SENTIMENT TOWARD THE GOVERNMENT**

CEOs were more satisfied with the performance of the government. This metric, as measured by the Business Confidence in the Government Index (BCGI), rose by 1.5 percent to 146.0. The component of the BCGI to increase the most was the one measuring sentiment toward the government's ability to ensure a safe and secure environment. It rose 9.7 percent to 162.7. This finding is encouraging and augurs well for the smooth running of next year's presidential elections which are expected to be fiercely contested.

With the government adopting more populist policies ahead of next year's presidential elections – such as capping fuel and electricity prices until the end of 2019 as well as increasing the budget for so-called village funds - domestic consumption should be robust. This is reflected in the further 1.0 percent increase in the index measuring sentiment toward the government's ability to create a healthier marketplace following its 3.4 percent gain in the April-May survey.

Meanwhile, the index measuring sentiment toward the government's ability to rein in inflation declined by 4.0 percent to 117.3. Although inflationary pressures are still well contained, higher input prices as a result of the rupiah's depreciation may encourage some companies to raise selling prices in the future.

As for the component of the BCGI measuring sentiment toward the government's ability to improve the nation's infrastructure, it dipped 0.3 percent to 176.8. The 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 (like the LTR being developed in Jakarta and Palembang).

Finally, the component of the BCGI measuring sentiment toward the government's ability to enforce the law of contracts edged up by 0.3 percent to 124.6. The relatively low level of this index reflects the generally poor perceptions toward law enforcement in the country.

## RESEARCH TEAM

**Damhuri Nasution**

Head of Economic Research  
damhuri@danareksa.com

**Asti Suwarni**

Analyst  
asti@danareksa.com

**Darwin Sitorus**

Economist / Database Officer  
darwin@danareksa.com

**Natalia Daisyana**

Research Assistant  
natalia@danareksa.com

**Rika Pantjawati**

Executive Secretary  
rikap@danareksa.com

**Pramayanti Meitisari**

Analyst  
pramayanti@danareksa.com

**Handri Thiono**

Analyst  
handrit@danareksa.com

**Martin Jenkins**

Editor  
martin@danareksa.com

**Wahyuni K. Handayani**

Analyst  
wahyuni.handayani@danareksa.com

**Danareksa Research Institute**

Danareksa Building  
Jl. Medan Merdeka Selatan 14  
Jakarta, 10110  
INDONESIA  
Tel : (62-21) 29555777 / 888 (hunting)  
Fax : (62 21) 3501709

---

**All rights reserved. No part of this publication may be reproduced, stored in retrieval systems, or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording, or otherwise, without the prior written permission of Danareksa Research Institute.**

---

DISCLAIMER

The information contained in this report has been taken from sources which we deem reliable. However, none of Danareksa Research Institute and/or its affiliated companies and/or their respective employees and/or agents makes any representation or warranty (express or implied) or accepts any responsibility or liability as to, or in relation to, the accuracy or completeness of the information and opinions contained in this report or as to any information contained in this report or any other such information or opinions remaining unchanged after the issue hereof. We have no responsibility to update this report in respect of events and circumstances occurring after the date of this report. We expressly disclaim any responsibility or liability (express or implied) of Danareksa Research Institute and/or its affiliated companies and/or their respective employees and/or agents whatsoever and howsoever arising (including, without limitation for any claims, proceedings, actions, suits, losses, expenses, damages or costs) which may be brought against or suffered by any person as a result of acting in reliance upon the whole or any part of the contents of this report and neither Danareksa Research Institute and/or its affiliated companies and/or their respective employees and/or agents accepts liability for any errors, omissions or mis-statements, negligent or otherwise, in this report and any liability in respect of this report or any inaccuracy herein or omission herefrom which might otherwise arise is hereby expressly disclaimed. Accordingly, none of Danareksa Research Institute and/or its affiliated companies and/or their respective employees and/or agents shall be liable for any direct, indirect or consequential loss or damage suffered by any person as a result of relying on any statement or omission in any information contained in this report. This report is prepared for general circulation. It does not have regard to the specific person who may receive this report.