

February 2018

## BUSINESS SENTIMENT

**The economy remains a concern****THE OCTOBER - NOVEMBER 2017 RESULTS:**

- Business sentiment weakened during the reporting period of October and November 2017 as economic concerns resurfaced. As a result, the main measure of business sentiment, as measured by the Business Sentiment Index (BSI), dipped 5.5 percent to 129.5.
- In particular, CEOs noted much weaker performance of the economy: this index sank a precipitous 13.9 percent to 100.0 from 116.1 in the previous survey.
- Nonetheless, CEOs remain broadly upbeat on Indonesia's prospects going forward – although the Expectations Index did decline by 6.2 percent it remains at a relatively high level of 137.9.
- Encouragingly, CEOs are much more upbeat on the outlook for the rupiah (this index surged 17.5 percent to 117.8). Positive economic data including faster growth and burgeoning forex reserves - which rose to US\$130.2 billion at the end of December, or up from US\$125.97 billion a month earlier - have helped create positive sentiment toward the local currency unit.
- On the political front, CEOs were once again more satisfied with the performance of the government. In our survey, the overall measure of Business Confidence in the Government (BCGI) rose another 4.0 percent to 152.9 after climbing 5.1 percent in the previous survey.

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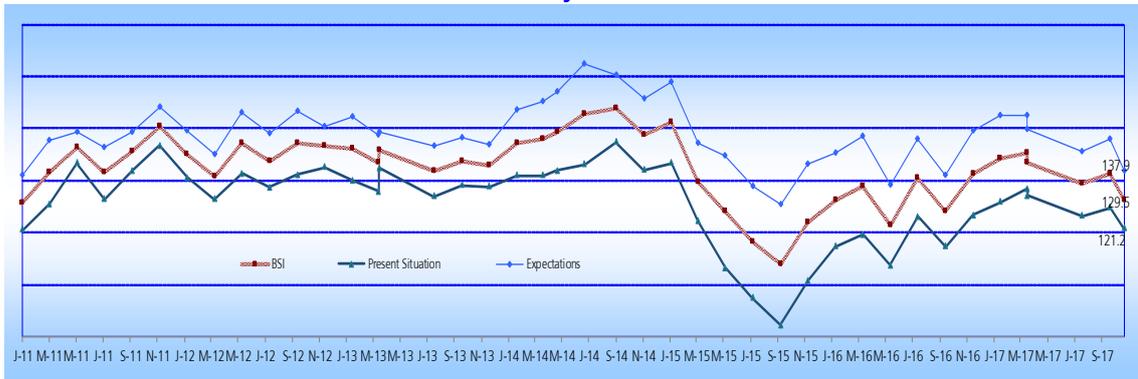
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**Business sentiment weakened in the latest survey**



Source: Danareksa Research Institute

**Table 1. Appraisal of Present Situations**

	Jul-17	Sep-17	Nov-17	%Change
Business Sentiment Index	134.2	137.1	129.5	(5.5)
Present Situation	124.9	127.2	121.2	(4.7)
Expectations	143.5	146.9	137.9	(6.2)

Source: Danareksa Research Institute

**THE OCTOBER - NOVEMBER 2017 RESULTS:**

Business sentiment weakened during the reporting period of October and November 2017 as economic concerns resurfaced. As a result, the main measure of business sentiment, as measured by the Business Sentiment Index (BSI), dipped 5.5 percent to 129.5. In particular, CEOs noted much weaker performance of the economy: this index sank a precipitous 13.9 percent to 100.0 from 116.1 in the previous survey. The downbeat mood was also evident at the corporate level where CEOs indicated weaker corporate performance. Of note, CEOs reported slower sales and profits growth – these indices were down by 1.3 percent to 104.0 and by 9.4 percent to 100.0, respectively. Capex spending also weakened – this index dropped 1.3 percent to 108.3.

Despite these findings, however, CEOs remain broadly upbeat on Indonesia’s prospects going forward – although the Expectations Index did decline by 6.2 percent it remains at a relatively high level of 137.9. As such, we don’t believe that the downturn in business sentiment in our latest report means that the economic recovery will be derailed. Indeed, it should be noted that the overall trend of business sentiment remains upward (since falling to a low of 126.1 back in August-July 2015 – when economic growth was still flagging – the Business Sentiment Index has gained 9.3 percent to reach its current level of 129.5). Overall, the latest developments suggest that the economy is in an upward trajectory supported by the interest rate cuts in August and September last year, the rebound in commodity prices, stronger investment and political stability, as well as high levels of consumer confidence.

On the political front, CEOs were once again more satisfied with the performance of the government. In our survey, the overall measure of Business Confidence in the Government (BCGI) rose another 4.0 percent to 152.9 after climbing 5.1 percent in the previous survey. Most notably, CEOs are more confident in the government’s ability to improve the country’s creaky infrastructure – a key pledge of President Joko Widodo’s administration.

## CEO ASSESSMENTS OF CURRENT BUSINESS CONDITIONS

CEOs noted much weaker performance of the economy in our latest survey: this index sank a precipitous 13.9 percent to 100.0 from 116.1 in the previous survey. This finding is broadly in line with the latest economic data which suggests that the Indonesian economy is still not firing on all cylinders – economic growth only reached 5.06 percent year-on-year in the third quarter of 2017. A further breakdown of our survey data shows that 26.3 percent of CEOs now believe the economy is performing well (in the previous survey, this figure was 32.6 percent). By contrast, 26.3 percent of CEOs claimed the economy was now performing badly – up from 16.5 percent in the previous survey. Nonetheless, nearly half of the CEOs interviewed still believe the economy is performing normally.

Along with their more negative assessments on the state of the current economy, CEOs also gave slightly less positive assessments on business conditions (this index dropped 3.1 percent to 130.9). At the corporate level, CEOs also noted a deterioration in corporate performance. In particular, CEOs reported slower sales growth – this index declined by 1.3 percent to 104.0. Sentiment toward capex spending also weakened – this index dropped 1.3 percent to 108.3. More encouragingly, however, CEOs claimed that cost pressures were easing: the indices measuring sentiment toward COGS and operating costs were down by 1.4 percent and 6.4 percent, respectively. The ability of companies to raise product prices appeared to weaken, however, as this index slipped 2.2 percent to 123.7. As a result, companies found it more difficult to record profits as indicated in the index measuring sentiment toward current profits which sank by 9.4 percent to 100.0.

**Table 2. Appraisal of Present Situations**

	Jul-17	Sep-17	Nov-17	%Change
Economic Conditions	103.7	116.1	100.0	(13.9)
Business Conditions	136.8	135.1	130.9	(3.1)
Company's Conditions	134.4	130.5	132.6	1.6

Source: Danareksa Research Institute

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

All Sectors	Jul-17	Sep-17	Nov-17	%Change
Capital Expenditure	106.3	109.7	108.3	(1.3)
Sales	105.0	105.4	104.0	(1.3)
Profits	103.1	110.4	100.0	(9.4)
Liquidity	92.6	105.2	102.8	(2.3)
Capacity/Equipment Utilization	99.6	102.5	102.1	(0.4)
Employment	97.4	99.8	104.2	4.5
Cost of Goods Sold	103.7	106.8	105.3	(1.4)
Operating cost	139.4	150.5	140.9	(6.4)
Interest expenses/cost	99.9	99.9	100.4	0.5
Foreign Exchange Loss	101.8	105.4	105.3	(0.1)
Average Price of Product/Service	122.5	126.5	123.7	(2.2)

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, 41.9 percent of CEOs remain upbeat on the economy – less than the figure of 45.9 percent in the previous survey. Even so, this is still far more than the proportion of CEOs who have a negative outlook on the economy (14.0 percent of CEOs are downbeat on the economy). Nonetheless, 44.1 percent of the CEOs interviewed expect the economy to perform normally over the next six months.

In line with the less bright economic outlook, CEOs expect less conducive business conditions going forward: in our survey, half of the CEOs surveyed (50.8 percent) now expect good business conditions over the next six months, or down from a reading of 56.6 percent in the previous survey.

At the corporate level, CEOs remain upbeat. At the top line, for instance, sales are expected to grow at a faster pace – this index climbed 2.2 percent to 137.1. Also on a positive note, CEOs expect capex spending to increase (this index jumped 4.2 percent to 134.1). The increase in this index is encouraging and suggests that despite the prospect of heightened political tensions in the pre-election year, CEOs are still keen to undertake investment to seize opportunities in the growing economy. In regard to costs, the main takeaway from our survey is the finding that CEOs expect a sharp upturn in interest costs - this index jumped 11.4 percent to 111.9. By contrast, COGS are expected to remain subdued. This index edged up 0.2 percent to 106.8 – still a relatively low level indicating that COGS remain under tight control. The index measuring sentiment toward operating costs, meanwhile, rose 0.9 percent to 152.8. Against this backdrop, CEOs foresee slower profits growth (this index dropped 4.2 percent to 132.8) despite the faster expected sales growth.

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

	Jul-17	Sep-17	Nov-17	% Change
Economic Prospects	125.6	136.7	128.0	(6.4)
Business Prospects	154.0	151.1	141.5	(6.4)
Company’s Prospects	151.0	152.9	144.1	(5.8)

Source: Danareksa Research Institute

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

All Sectors	Jul-17	Sep-17	Nov-17	% Change
Capital Expenditure	131.5	128.7	134.1	4.2
Sales	137.2	134.2	137.1	2.2
Profits	142.7	138.7	132.8	(4.2)
Liquidity	116.6	122.4	125.0	2.1
Capacity/Equipment Utilization	102.6	106.3	104.0	(2.2)
Employment	108.5	108.8	117.4	7.9
Cost of Goods Sold	102.2	106.6	106.8	0.2
Operating cost	138.9	151.4	152.8	0.9
Interest expenses/cost	96.5	100.5	111.9	11.4
Foreign Exchange Loss	102.2	104.8	106.6	1.7
Average Price of Product/Service	121.9	130.8	134.3	2.7

Source: Danareksa Research Institute

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

Indicators	Jul-17	Sep-17	Nov-17	% Change
General Prices Expectation	114.9	115.8	119.3	3.0
Loan Rate Expectation	118.8	109.7	106.1	(3.3)
Exchange Rate Expectation	100.9	100.2	117.8	17.5
Stock Price Expectation	118.4	119.9	114.2	(4.8)

Source: Danareksa Research Institute

### EXPECTATIONS ON KEY ECONOMIC INDICATORS

One of the key findings of our survey is that CEOs are much more upbeat on the outlook for the rupiah (this index surged 17.5 percent to 117.8). Positive economic data including faster growth and burgeoning forex reserves - which rose to US\$130.2 billion at the end of December, or up from US\$125.97 billion a month earlier - have helped create positive sentiment toward the rupiah.

Meanwhile, our survey also showed that CEOs are more confident that interest rates will decline over the next six months. Commensurate with BI's policy to cut benchmark rates in both August and September (by 25 bps in each month), a greater proportion of the CEOs surveyed (19.9 percent) now believe that interest rates will decline over the next six months than in the previous survey (17.6 percent). Another 53.8 percent of CEOs believe interest rates will remain unchanged. Lower interest rates are expected to support the economy as they should encourage more companies to take on new borrowings to finance expansion.

In regard to inflation, CEOs anticipated slightly higher inflationary pressures in our latest survey. This index climbed 3 percent to 119.3. Even though inflation in the country remains benign inflationary pressures do tend to heighten toward the end of the year due to the holidays. In December inflation reached 3.61 percent -accelerating from 3.30 percent in the previous month. And finally, CEOs were less upbeat on the outlook for stock prices. This index dipped by 4.8 percent to 114.2 even though the stock market remained in bullish mood toward the year-end.

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

Indicators	Jul-17	Sep-17	Nov-17	% Change
Expand the Market Size	151.2	150.7	154.0	2.2
Create a Safe Environment	144.9	148.2	165.5	11.7
Stabilize prices	132.6	142.9	143.4	0.3
Provide Public Utilities	166.7	173.8	179.0	3.0
Enforce Law of Contracts	103.5	119.0	122.3	2.7
BCGI	139.8	146.9	152.8	4.0

Source: Danareksa Research Institute

## SENTIMENT TOWARD THE GOVERNMENT

CEOs were once again more satisfied with the performance of the government. In our survey, the overall measure of Business Confidence in the Government (BCGI) rose another 4.0 percent to 152.9 after climbing 5.1 percent in the previous survey. All five components which make up the BCGI posted gains.

Most notably, CEOs are more confident in the government's ability to improve the country's creaky infrastructure – a key pledge of President Joko Widodo's administration. Also on the economic front, CEOs expressed greater optimism toward government efforts aimed at creating a healthier marketplace (this index rose 2.2 percent to 154.0). In addition, CEOs are also more confident in the government's ability to rein in inflationary pressures – this index added 0.31 percent to 143.4 after jumping 7.8 percent in the previous survey.

The component of the index measuring sentiment toward the government's ability to create a safe and orderly environment also increased. It climbed 11.7 percent to 165.5. Finally, the component of the BCGI measuring sentiment toward the government's ability to enforce the law of contracts rose 2.7 percent to 122.2 after surging 15.0 percent in the previous survey. The relatively low level of this index, however, reflects the generally poor perceptions toward law enforcement in the country, even though the nation's Corruption Eradication Commission (KPK) has made encouraging progress in handling some high profile cases.

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