

May 2018

BUSINESS SENTIMENT

Optimism remains high but risks mount**THE FEBRUARY - MARCH 2018 RESULTS:**

- The Business Sentiment Index (BSI) climbed 1.7 percent to 134.3 in the reporting period of February – March 2018, the second survey on a spin in which the BSI has increased.
- The improving sentiment in our latest survey mainly reflects more positive assessments on the performance of Indonesia's economy and its future outlook. These two indices were up by 2.0 percent and 1.1 percent, respectively.
- Despite this sanguine outlook, however, sentiment toward the four economic indicators covered in our survey – the rupiah, inflation, interest rates and stock prices – all took a dramatic turn for the worse as external developments created turbulence in the financial markets. In particular, CEOs are now much more downbeat on the prospects for the rupiah (this index slumped a precipitous 22.2 percent to 84.5).
- Corporate performance was pretty solid according to the CEOs surveyed. Most encouragingly, profits grew at a faster pace: this index gained 4.6 percent to 110.3 as the COGS remained subdued (this index eased 0.4 percent to 104.3). And at the top line, sales growth was also robust (this index rose 3.5 percent to 108.8).
- CEOs were again less satisfied with the performance of the government. This metric, as measured by the Business Confidence in the Government Index (BCGI), declined by 5.8 percent to 140.4 after slipping 2.5 percent in the previous survey. In particular, CEOs are less confident in the government's ability to either create a healthier marketplace or rein in inflationary pressures.

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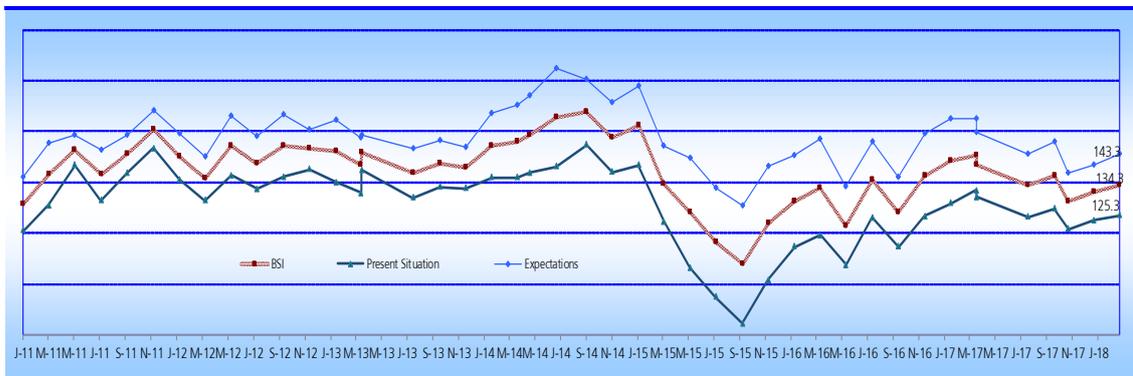
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Business sentiment strengthened in the latest survey



Source: Danareksa Research Institute

Table 1. Appraisal of Present Situations

	Nov-17	Jan-18	Mar-18	%Change
Business Sentiment Index	129.5	132.0	134.3	1.7
Present Situation	121.2	123.9	125.3	1.1
Expectations	137.9	140.2	143.3	2.1

Source: Danareksa Research Institute

THE FEBRUARY - MARCH 2018 RESULTS:

CEOs remain upbeat. Indeed, the main measure of business sentiment, as measured by the Business Sentiment Index (BSI), climbed 1.7 percent to 134.3 in the reporting period of February – March 2018, the second survey on a spin in which the BSI has increased (in the previous survey the BSI edged up 2.0 percent). The improving sentiment in our latest survey mainly reflects more positive assessments on the performance of Indonesia’s economy and its future outlook. These two indices were up by 2.0 percent and 1.1 percent, respectively. As the government is adopting more populist policies ahead of crucial regional and presidential elections – such as capping fuel and electricity prices until the end of 2019 amid buoyant oil prices - domestic consumption should be robust.

Despite this sanguine outlook, however, sentiment toward the four economic indicators covered in our survey – the rupiah, inflation, interest rates and stock prices – all took a dramatic turn for the worse as external developments created turbulence in the financial markets. In particular, CEOs are now much more downbeat on the prospects for the rupiah (this index slumped a precipitous 22.2 percent to 84.5 after posting a 7.8 percent decline in the previous survey). Pressure on the rupiah has increased considerably on fears of a more aggressive trajectory for Fed Rate hikes and the implications of the US’s increasingly antagonistic trade policy stance. While CEOs in Indonesia do not yet seem worried that the weakening of these economic indicators will significantly affect the economy overall, this may change in the future, especially if the rupiah depreciates significantly, creating higher imported inflation and damaging investor confidence. In our latest survey, the index measuring sentiment toward inflationary pressures added 8.8 percent to 122.0.

At the micro level, corporate performance was pretty solid according to our survey. Most encouragingly, profits grew at a faster pace: this index gained 4.6 percent to 110.3 as the COGS remained subdued (this index eased 0.4 percent to 104.3). And at the top line, sales growth was also robust (this index rose 3.5 percent to 108.8). Given the heightened uncertainty, however, the growth in capex spending declined. In our survey this index dropped 8.6 percent to 101.5.

In addition, CEOs were again less satisfied with the performance of the government. This metric, as measured by the Business Confidence in the Government Index (BCGI), declined by 5.8 percent to 140.4 after slipping 2.5 percent in the previous survey. In particular, CEOs are less confident in the government’s ability to either create a healthier marketplace (this index dropped 8.0 percent to 142.5) or rein in inflationary pressures (this index fell 7.0 percent to 122.8). While inflation remains under control, CEOs may be concerned that a persistently weak rupiah will ultimately lead to higher import prices, especially of raw materials and imported capital goods.

CEO ASSESSMENTS OF CURRENT BUSINESS CONDITIONS

CEOs noted stronger performance of the economy in our latest survey: this index advanced 2.0 percent to 108.5 after gaining 6.4 percent in the previous survey. This finding is broadly in line with the latest economic data which shows that the first-quarter 2018 growth came in at 5.06 percent – similar to the growth posted in the first quarter of 2017 of 5.01 percent. A further breakdown of our survey data shows that 27.0 percent of CEOs now believe the economy is performing well (in the previous survey, this figure was 25.3 percent). By contrast, only 18.5 percent of CEOs claimed the economy was now performing badly – down from 18.9 percent in the previous survey. Nonetheless, more than half of the CEOs interviewed still believe the economy is performing normally.

Along with their more positive assessments on the state of the current economy, CEOs also gave slightly more positive assessments on business conditions (this index climbed 0.2 percent to 133.5). At the micro level, corporate performance was pretty solid according to our survey. Most encouragingly, company profits grew at a faster pace: this index gained 4.6 percent to 110.3 as the COGS remained subdued (this index eased 0.4 percent to 104.3). And at the top line, sales growth was also robust (this index rose 3.5 percent to 108.8). Given the heightened uncertainty, however, companies were seemingly more reluctant to undertake capex spending. In our survey this index dropped 8.6 percent to 101.5.

Table 2. Appraisal of Present Situations

	Nov-17	Jan-18	Mar-18	% Change
Economic Conditions	100.0	106.4	108.5	1.9
Business Conditions	130.9	133.3	133.5	0.2
Company’s Conditions	132.6	131.9	133.8	1.4

Source: Danareksa Research Institute

Table 3. Current Company Financial and Utilization Performance

All Sectors	Nov-17	Jan-18	Mar-18	%Change
Capital Expenditure	109.7	108.3	111.0	2.5
Sales	105.4	104.0	105.1	1.0
Profits	110.4	100.0	105.5	5.5
Liquidity	105.2	102.8	104.0	1.2
Capacity/Equipment Utilization	102.5	102.1	100.9	(1.2)
Employment	99.8	104.2	98.0	(6.0)
Cost of Goods Sold	106.8	105.3	104.6	(0.6)
Operating cost	150.5	140.9	155.5	10.4
Interest expenses/cost	99.9	100.4	100.0	(0.4)
Foreign Exchange Loss	105.4	105.3	104.0	(1.3)
Average Price of Product/Service	126.5	123.7	125.3	1.3

Source: Danareksa Research Institute

CEO APPRAISALS OF NEAR-TERM BUSINESS CONDITIONS

Looking ahead over the next six months, CEOs are slightly more positive on Indonesia’s economic outlook. Overall, 38.8 percent of CEOs are upbeat on the economy – slightly more than the figure of 37.2 percent in the previous survey. This is also far more than the proportion of CEOs who have a negative outlook on the economy (11.0 percent of CEOs). Nonetheless, exactly half of the CEOs interviewed expect the economy to perform normally over the next six months.

At the same time, CEOs expect more conducive business conditions going forward: in our survey, just over half of the CEOs surveyed (54.3 percent) expect good business conditions over the next six months, or up from a reading of 52.4 percent in the previous survey.

Also reassuringly, CEOs have greater confidence in the outlook for their companies. At the top line, sales growth is expected to pick up - this index added 3.8 percent to 139.5. Cost pressures were mixed, however, with CEOs expecting slightly higher growth in COGS and forex expenses but lower growth in operating costs and interest costs. Not only does a weak rupiah lead to higher import costs, but firm commodity prices may also burden some companies. With selling prices not expected to change much (this index edged down 0.5 percent to 125.8), CEOs foresee brisker profits growth as well (this index gained strongly by 7.2 percent to 145.0).

Table 4. Expectations for the Six Months Ahead

	Nov-17	Jan-18	Mar-18	% Change
Economic Prospects	128.0	126.4	127.8	1.1
Business Prospects	141.5	146.5	149.5	2.0
Company’s Prospects	144.1	147.8	152.5	3.2

Source: Danareksa Research Institute

Table 5. Prospects for Company Financial and Utilization Performance

All Sectors	Nov-17	Jan-18	Mar-18	% Change
Capital Expenditure	134.1	127.5	121.5	(4.7)
Sales	137.1	134.4	139.5	3.8
Profits	132.8	135.2	145.0	7.2
Liquidity	125.0	115.2	120.8	4.8
Capacity/Equipment Utilization	104.0	102.0	103.3	1.2
Employment	117.4	104.2	108.3	3.9
Cost of Goods Sold	106.8	103.3	105.0	1.6
Operating cost	152.8	159.7	154.5	(3.3)
Interest expenses/cost	111.9	103.5	99.5	(3.9)
Foreign Exchange Loss	106.6	103.1	107.3	4.0
Average Price of Product/Service	134.3	126.4	125.8	(0.5)

Source: Danareksa Research Institute

Table 6. Expectation Index on Key Economic Indicators

Indicators	Nov-17	Jan-18	Mar-18	% Change
General Prices Expectation	119.3	112.1	122.0	8.8
Loan Rate Expectation	106.1	100.0	110.0	10.0
Exchange Rate Expectation	117.8	108.6	84.5	(22.2)
Stock Price Expectation	114.2	119.6	106.5	(11.0)

Source: Danareksa Research Institute

EXPECTATIONS ON KEY ECONOMIC INDICATORS

Sentiment toward four economic indicators covered in our survey – the rupiah, inflation, interest rates and stock prices – all took a dramatic turn for the worse as external developments created turbulence in the financial markets. In particular, CEOs are now much more downbeat on the prospects for the rupiah (this index slumped a precipitous 22.2 percent to 84.5 after posting a 7.8 percent decline in the previous survey). Pressure on the rupiah has increased considerably on fears of a more aggressive trajectory for Fed Rate hikes and the implications of the US’s increasingly antagonistic trade policy stance.

While CEOs in Indonesia do not yet seem worried that the weakening of these economic indicators will significantly affect the economy overall, this may change in the future, especially if the rupiah depreciates significantly, creating higher imported inflation and potentially denting investor confidence. In our latest survey, the index measuring sentiment toward inflationary pressures added 8.8 percent to 122.0. Commensurate with the higher inflation expectations, CEOs also see that interest rates are more likely to be increased (the index measuring sentiment toward interest rates jumped 10.0 percent to 110.0). And finally, our survey also reveals that CEOs are far less upbeat on the outlook for stock prices. This index dropped 11.0 percent to 106.5 as stock prices headed downwards after the IDX Composite Index reached a peak of 6,693 on 19 February.

Table 7. Business Confidence in the Government Index

Indicators	Nov-17	Jan-18	Mar-18	% Change
Expand the Market Size	154.0	154.9	142.5	(7.97)
Create a Safe Environment	165.5	157.3	157.0	(0.2)
Stabilize prices	143.4	131.9	122.8	(6.9)
Provide Public Utilities	179.0	173.6	166.0	(4.4)
Enforce Law of Contracts	122.3	127.3	113.8	(10.6)
BCGI	152.8	148.9	140.4	(5.8)

Source: Danareksa Research Institute

SENTIMENT TOWARD THE GOVERNMENT

According to our survey, CEOs were again less satisfied with the performance of the government. This index, as measured by the Business Confidence in the Government Index (BCGI), declined by 5.8 percent to 140.4 after slipping 2.5 percent in the previous survey. In particular, CEOs are less confident in the government's ability to either create a healthier marketplace (this index dropped 8.0 percent to 142.5) or rein in inflationary pressures (this index fell 7.0 percent to 122.8). While inflation remains under control, CEOs may be concerned that a persistently weak rupiah would lead to higher import prices, especially of raw materials and imported capital goods.

The component of the BCGI measuring sentiment toward the government's ability to improve the nation's infrastructure – a key pledge of President Joko Widodo's administration - fell 4.4 percent to 166.0. Although the level of this index is still relatively high - indicating that optimistic responses far outweighed negative ones – concerns have grown over the large debts taken on by state-owned contractors to fund infrastructure projects.

Meanwhile, the component of the BCGI measuring sentiment toward the government's ability to maintain a safe and orderly environment also declined. It fell by 0.2 percent to 157.0. Finally, the component of the BCGI measuring sentiment toward the government's ability to enforce the law of contracts fell 10.6 percent to 113.8. The relatively low level of this index reflects the generally poor perceptions toward law enforcement in the country.

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