

DANAREKSA BUSINESS SENTIMENT

January 2019

Huge upsurge in sentiment

- ❑ The Business Sentiment Index (BSI) rose 9% from 129.6 to 141.3 in our October-November 2018 survey as confidence in the rupiah soared and corporate performance picked up.
- ❑ More CEOs polled said that the economy was performing well (this figure is up from 17.5 percent in the previous survey to 20.0). Another 57.3 percent of CEOs believe that the economy is performing normally.
- ❑ These findings suggest that the Indonesian economy gained traction toward the end of 2018 as global risks receded. In our latest survey, this index jumped 39.3 percent to 110.0 as the local currency unit strengthened from its weakest level of around Rp 15,400/USD to around Rp 14,500/USD at year-end.
- ❑ In line with the better economic assessments, CEOs also claimed a significant improvement in the performance of their companies. In particular, CEOs noted much brisker revenues growth - this index advanced 29.8 percent to 123.0.
- ❑ CEOs were more satisfied in the performance of the government. This metric, as measured by the Business Confidence in the Government Index (BCGI), recovered by 3.5 percent to 149.9.

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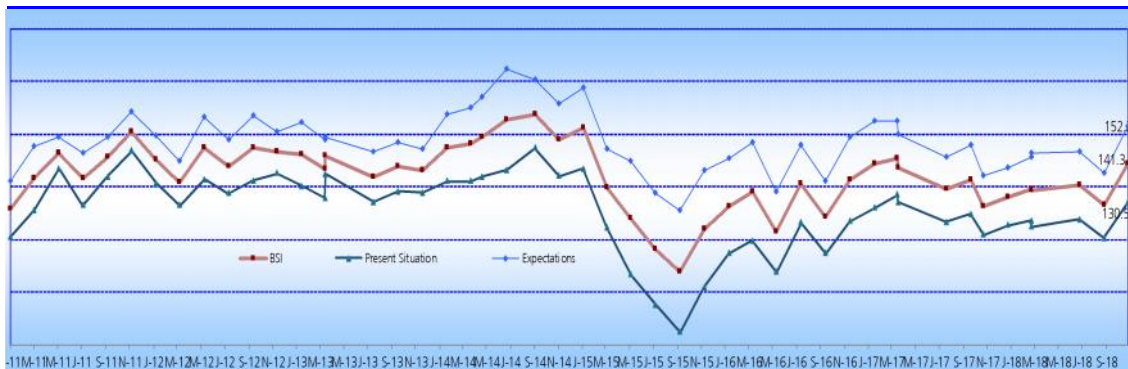
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Business sentiment strengthened in the latest survey



Source: Danareksa Research Institute

Table 1. Appraisal of Present Situations

	July-18	Sep-18	Nov-18	%Change
Business Sentiment Index	135.3	129.6	141.3	9.0
Present Situation	125.7	120.3	130.5	8.5
Expectations	144.9	138.9	152.2	9.5

Source: Danareksa Research Institute

THE OCTOBER - NOVEMBER 2018 RESULTS:

Business sentiment recovered strongly in our latest survey as confidence in the rupiah soared and corporate performance picked up. Overall, the main measure of business sentiment – as captured by the Business Sentiment Index (BSI) – climbed 9% from 129.6 to 141.3 in our October-November 2018 survey. Furthermore, the two main components which make up the BSI both increased: the Present Situations Index (or PSI) rose 8.5 percent to 130.5 while the Expectations Index (or EI) climbed 9.5 percent to 152.2.

At the macro level, CEOs gave less negative assessments on the state of the national economy. Overall, 20.0 percent of the CEOs polled said that the economy was performing well (this figure is up from 17.5 percent in the previous survey). And while a majority of CEOs (57.3 percent) still believe that the economy is performing normally, only 22.7 percent of them now say that it is performing badly – or down from 26.3 percent in the previous survey. These findings suggest that the Indonesian economy gained traction toward the end of 2018 as global risks receded. Of particular note was the surge in confidence toward the rupiah. In our latest survey, this index jumped 39.3 percent to 110.0 as the local currency unit strengthened from its weakest level of around Rp15,400/USD to around Rp14,500/USD at year-end.

In line with the better economic assessments, CEOs also claimed a significant improvement in the performance of their companies. In particular, CEOs noted much brisker revenues growth - this index advanced 29.8 percent to 123.0 or regaining more than its 10.1 percent decline in the previous survey. At the bottom line, CEOs also reported faster profits growth (this index gained an impressive 17.0 percent to 111.1), helped by relatively muted cost pressures and a greater ability to hike selling prices.

At the same time, CEOs were more satisfied in the performance of the government. This metric, as measured by the Business Confidence in the Government Index (BCGI), recovered by 3.5 percent to 149.9. All components of the BCGI managed to post an increase except for the one measuring sentiment toward the government’s ability to enforce the law of contracts which dipped 3.0 percent to 115.4.

CEO ASSESSMENTS OF CURRENT BUSINESS CONDITIONS

CEOs gave less negative assessments on the state of the national economy. Overall, 20.0 percent of the CEOs polled said that the economy was performing well (this figure is up from 17.5 percent in the previous survey). And while a majority of CEOs (57.3 percent) still believe that the economy is performing normally, only 22.7 percent of them now say that it is performing badly – or down from 26.3 percent in the previous survey. These findings suggest that the Indonesian economy gained traction toward the end of 2018 as global risks receded. Of particular note was the surge in confidence toward the rupiah. In our latest survey, this index jumped 39.3 percent to 110.0 as the local currency unit strengthened from its weakest level of around Rp15,400/USD to around Rp14,500/USD at year-end. In line with the perception of improving economic conditions, CEOs also noted an improvement in the business climate: this index rose to 146.8, up from its level of 134.2 in the previous survey.

At the corporate level, CEOs also claimed a significant improvement in the performance of their companies. In particular, CEOs noted much brisker revenues growth - this index advanced 29.8 percent to 123.0 or regaining more than its 10.1 percent decline in the previous survey. At the bottom line, CEOs also reported faster profits growth (this index gained an impressive 17.0 percent to 111.1), helped by relatively muted cost pressures and a greater ability to hike selling prices.

Table 2. Appraisal of Present Situations

	Jul-18	Sep-18	Nov-18	%Change
Economic Conditions	103.2	91.2	97.3	6.7
Business Conditions	138.3	134.2	146.8	9.4
Company's Conditions	135.6	135.4	147.3	8.8

Source: Danareksa Research Institute

Table 3. Current Company Financial and Utilization Performance

All Sectors	Jul-18	Sep-18	Nov-18	%Change
Capital Expenditure	95.4	90.2	115.7	28.3
Sales	105.4	94.7	123.0	29.8
Profits	97.8	95.0	111.1	17.0
Liquidity	105.9	95.2	104.1	9.3
Capacity/Equipment Utilization	100.7	100.2	100.8	0.6
Employment	99.0	104.3	110.5	6.0
Cost of Goods Sold	103.4	105.7	103.0	(2.6)
Operating cost	156.6	163.2	158.6	(2.8)
Interest expenses/cost	100.6	100.3	101.0	0.6
Foreign Exchange Loss	112.4	110.3	124.6	13.0
Average Price of Product/Service	125.4	130.4	134.6	3.2

Source: Danareksa Research Institute

CEO APPRAISALS OF NEAR-TERM BUSINESS CONDITIONS

Looking ahead over the next six months, CEOs are more upbeat on Indonesia’s economic outlook. Overall, 33.8 percent of CEOs are upbeat on the economy – more than the figure of 28.9 percent in the previous survey. Moreover, only 7.3 percent of CEOs are downbeat on the economic outlook - down from 11.7 percent in the previous survey. Overall, more than half of the CEOs interviewed (58.1 percent) expect the economy to perform normally over the next six months.

Concerning the outlook for their companies, the key findings of our survey are that CEOs foresee much stronger sales growth (this index jumped 23.6 percent to 157.0) as well as better profitability (this index added 13.2 percent to 149.5). And at the same time, CEOs also expressed much greater confidence toward capex spending in the future (the index jumped 22.9 percent to 143.8) – a highly encouraging finding given that some companies - such as those in the property sector for example - may have been expected to take a “wait a see” stance on capex spending since politics is likely to take center stage in the first half of this year at least.

On the costs front, CEOs expect COGS to remain subdued: this index dipped 1.4 percent to 103.8 as many companies can expect lower raw material costs thanks to the recovery of the rupiah (especially industries such as pharmaceuticals, construction and packaging etc. which rely heavily on imported raw materials). Nonetheless, operating costs are still expected to remain high (the index edged up 0.2 percent to a high level of 168.9) while both interest costs and forex expenses are also expected to increase slightly (the respective indices rose 2.6 percent and 2.7 percent to 109.5 and 110.8).

Table 4. Expectations for the Six Months Ahead

	Jul-18	Sep-18	Nov-18	%Change
Economic Prospects	125.1	117.2	126.5	7.9
Business Prospects	154.6	147.6	164.6	11.5
Company's Prospects	154.9	151.9	165.4	8.9

Source: Danareksa Research Institute

Table 5. Prospects for Company Financial and Utilization Performance

All Sectors	Jul-18	Sep-18	Nov-18	%Change
Capital Expenditure	123.9	117.0	143.8	22.9
Sales	140.0	127.0	157.0	23.6
Profits	135.4	132.1	149.5	13.2
Liquidity	118.5	110.8	117.0	5.7
Capacity/Equipment Utilization	101.7	101.9	101.6	(0.3)
Employment	106.3	109.3	113.2	3.6
Cost of Goods Sold	103.7	105.3	103.8	(1.4)
Operating cost	162.9	168.7	168.9	0.2
Interest expenses/cost	112.0	106.7	109.5	2.6
Foreign Exchange Loss	109.0	107.9	110.8	2.7
Average Price of Product/Service	130.2	128.9	135.1	4.8

Source: Danareksa Research Institute

Table 6. Expectations on Key Economic Indicators

Indicators	Jul-18	Sep-18	Nov-18	%Change
General Prices Expectation	112.0	112.9	121.9	7.9
Loan Rate Expectation	123.2	112.9	107.3	(5.0)
Exchange Rate Expectation	70.7	78.9	110.0	39.3
Stock Price Expectation	104.1	112.0	113.0	0.9

Source: Danareksa Research Institute

EXPECTATIONS ON KEY ECONOMIC INDICATORS

Given the brighter economic outlook, CEOs had greater confidence in the rupiah during the months under survey: the index measuring sentiment toward the rupiah surged 39.3 percent to 110.0. This encouraging finding is inline with the recent strengthening of the local currency unit which has benefited from positive sentiment and the resumption of fund flows into the country. At the same time, CEOs are also more upbeat on the outlook for stock prices (this index rose 0.9 percent to 113.0).

In regard to the outlook for interest rates, CEOs are less hawkish. This index fell 5.0 percent to 107.3. Following a string of benchmark interest rate hikes last year, pressure on BI to raise rates has eased thanks to the resurgent rupiah and the more dovish outlook for rate hikes in the US. At its most recent meeting in January 2019, BI kept its benchmark 7-Day Reverse Repo Rate unchanged at 6 percent. Finally, CEOs also foresee slightly higher inflationary pressures over the next six months. In our survey, the index measuring sentiment toward inflationary pressures rose 7.9 percent to 121.9. Toward the year-end, inflationary pressures typically mount due to the seasonal festivities of Christmas and New Year.

Table 7. Business Confidence in the Government Index

Indicators	Jul-18	Sep-18	Nov-18	%Change
Expand the Market Size	148.8	146.4	156.8	7.1
Create a Safe Environment	162.7	157.2	159.2	1.3
Stabilize prices	117.3	126.1	140.8	11.7
Provide Public Utilities	176.8	176.1	177.6	0.9
Enforce Law of Contracts	124.6	118.9	115.4	(2.9)
BCGI	146.1	144.9	149.9	3.5

Source: Danareksa Research Institute

SENTIMENT TOWARD THE GOVERNMENT

CEOs were more satisfied in the performance of the government. This metric, as measured by the Business Confidence in the Government Index (BCGI), recovered by 3.5 percent to 149.9. All components of the BCGI managed to post an increase except for the one measuring sentiment toward the government's ability to enforce the law of contracts which dipped 3.0 percent to 115.4.

On the economic front, more CEOs believe the government is doing a good job. Most notably, CEOs are increasingly upbeat on the government's ability to rein in inflation. This index climbed 11.7 percent to 140.8 after increasing 7.5 percent in the previous survey. The government has sought to keep administered prices under control ahead of the elections, especially fuel prices. In addition, CEOs were more sanguine on the government's ability to create a healthier marketplace – this index rose 7.1 percent to 156.8. As for the component of the BCGI measuring sentiment toward the government's ability to improve the nation's infrastructure, it edged up 0.9 percent to 177.6. 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. The capital's MRT is finally set to begin operation in March 2019. Finally, the component of the BCGI measuring sentiment toward the government's ability to maintain a safe and orderly environment rose 1.3 percent to 159.2.

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