

DANAREKSA BUSINESS SENTIMENT

March 2019

Slight correction but still upbeat

- ❑ Business sentiment corrected slightly in our latest survey. Overall, the main measure of business sentiment – as captured by the Business Sentiment Index (BSI) – slipped 3.6% from 141.3 to 136.2 in our December 2018 – January 2019 survey.
- ❑ Notably, CEOs highlighted weaker corporate performance toward the end of last year.
- ❑ Another concern among CEOs related to the prospects of the rupiah (this index corrected 10.1 percent to 98.9).
- ❑ Yet despite the overall decline in business sentiment, there were several good reasons for CEOs to cheer. Firstly, they noted an improvement in the overall state of the national economy. And secondly, more CEOs are optimistic that inflationary pressures can be reined in (this index declined 12.1 percent to 107.2).
- ❑ In addition, CEOs were slightly more satisfied in the performance of the government. This metric, as measured by the Business Confidence in the Government Index (BCGI), edged up by 0.4 percent to 150.5.

MARTIN JENKINS

Economist

(62-21) 29555777/ 88 ext 3609

martin@danareksa.com

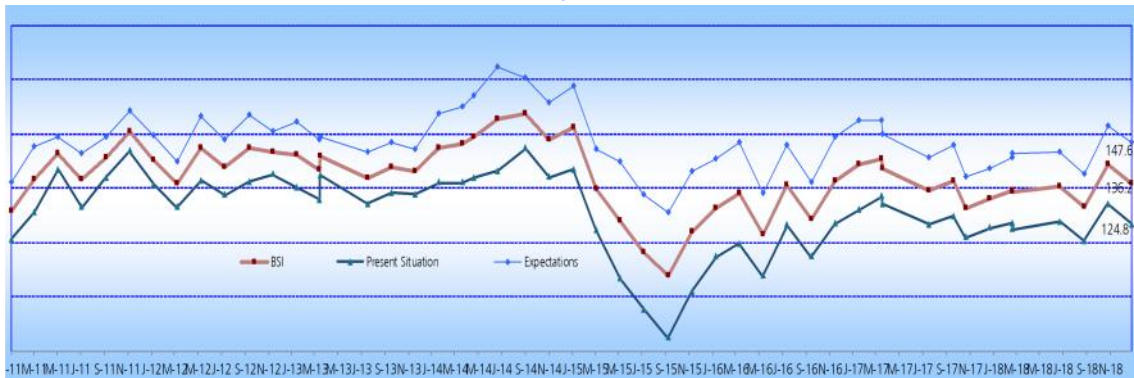
DAMHURI NASUTION

Head of Economic Research

(62-21) 29555777/ 88 ext 3600

damhuri@danareksa.com

Business sentiment weakened in the latest survey



Source: Danareksa Research Institute

Table 1. Appraisal of Present Situations

	Sep-18	Nov-18	Jan-19	%Change
Business Sentiment Index	129.6	141.3	136.2	(3.6)
Present Situation	120.3	130.5	124.8	(4.3)
Expectations	138.9	152.2	147.6	(3.0)

Source: Danareksa Research Institute

THE DECEMBER 2018 - JANUARY 2019 RESULTS:

Business sentiment corrected slightly in our latest survey. Overall, the main measure of business sentiment – as captured by the Business Sentiment Index (BSI) – slipped 3.6% from 141.3 to 136.2 in our December 2018 – January 2019 survey. Furthermore, the two main components which make up the BSI both declined: the Present Situations Index (or PSI) fell 4.3 percent to 124.8 while the Expectations Index (or EI) dropped 3.0 percent to 147.6.

In particular, CEOs highlighted weaker corporate performance toward the end of last year. At the top line, CEOs claimed slower sales growth (this index slipped 20.0 percent to 98.4). Profits growth was also reported to be rather sluggish (this index dropped 14.4 percent to 95.1), as in addition to the slower sales growth, CEOs also said there was less room to raise selling prices, thus resulting in a squeeze in margins. Another concern among CEOs related to the outlook for the rupiah (this index corrected 10.1 percent to 98.9 after posting a large increase of 39.3 percent in the previous survey). This weaker sentiment toward the rupiah may only be ephemeral, however, as pressures on the local currency unit tend to mount at the year-end as some companies need to make foreign debt repayments.

Yet despite the overall decline in business sentiment, there were several good reasons for CEOs to cheer. Firstly, they noted an improvement in the overall state of the national economy. In our survey, 23.4 percent of the CEOs polled said that the economy was now performing well (this figure is up from 20.0 percent in the previous survey). And while a majority of CEOs (57.3 percent) still believe that the economy is performing normally, only 19.1 percent of them now say that it is performing badly – or down from 22.7 percent in the previous survey. These findings suggest that the Indonesian economy is continuing to gain traction as global risks recede on signs that China and the US have made progress in resolving trade issues.

Another encouraging finding in our survey is the improving sentiment toward inflation. In our latest survey, the index measuring sentiment toward the inflationary outlook declined 12.1 percent to 107.2. This finding is inline with the latest inflation data from the Central Bureau of Statistics which shows that Indonesia posted 0.08 percent deflation in February 2019. Thus, with inflation under tight control, CEOs also believe that interest rates will remain subdued (the index measuring sentiment toward interest rates rose 1.8 percent to 109.2). In turn, this raises hopes that bank lending can pick up pace in the future and stimulate economic growth.

At the same time, CEOs were slightly more satisfied in the performance of the government. This metric, as measured by the Business Confidence in the Government Index (BCGI), edged up by 0.4 percent to 150.5. All components of the BCGI remained firm except the one measuring sentiment toward the government’s ability to enforce the law of contracts which fell a further 3.6 percent to 111.2.

CEO ASSESSMENTS OF CURRENT BUSINESS CONDITIONS

CEOs gave more positive assessments on the state of the national economy. In our survey, the index measuring sentiment toward the state of the Indonesian economy climbed 7.2 percent to 104.3. This finding suggests that the Indonesian economy has continued to gain traction, as confirmed by the latest GDP data which shows that the Indonesian economy grew at a brisker pace of 5.17 percent in 2018, up from 5.07 percent in 2017. Despite the perception of improving economic conditions, however, CEOs noted a weaker business climate: this index dipped 7.6 percent to 135.7, down from its level of 146.8 in the previous survey.

At the corporate level, CEOs highlighted weaker corporate performance toward the year-end. Most notably, CEOs claimed slower sales growth (this index slipped 20.0 percent to 98.4). Profits growth was also reported to be rather sluggish (this index dropped 14.4 percent to 95.1), as in addition to the slower sales growth, CEOs also said there was less room to raise selling prices, thus resulting in a squeeze on margins.

Table 2. Appraisal of Present Situations

	Sep-18	Nov-18	Jan-19	%Change
Economic Conditions	91.2	97.3	104.3	7.2
Business Conditions	134.2	146.8	135.7	(7.6)
Company’s Conditions	135.4	147.3	134.4	(8.8)

Source: Danareksa Research Institute

Table 3. Current Company Financial and Utilization Performance

All Sectors	Sep-18	Nov-18	Jan-19	%Change
Capital Expenditure	90.2	115.7	91.9	(20.5)
Sales	94.7	123.0	98.4	(20.0)
Profits	95.0	111.1	95.1	(14.4)
Liquidity	95.2	104.1	108.1	3.9
Capacity/Equipment Utilization	100.2	100.8	101.8	1.0
Employment	104.3	110.5	99.6	(9.9)
Cost of Goods Sold	105.7	103.0	103.6	0.6
Operating cost	163.2	158.6	144.5	(8.9)
Interest expenses/cost	100.3	101.0	100.3	(0.6)
Foreign Exchange Loss	110.3	124.6	107.2	(14.0)
Average Price of Product/Service	130.4	134.6	127.0	(5.7)

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, 39.3 percent of CEOs are upbeat on the economy – more than the figure of 33.8 percent in the previous survey. Moreover, only 7.6 percent of CEOs are downbeat on the economic outlook. Overall, more than half of the CEOs interviewed (52.8 percent) expect the economy to perform normally over the next six months.

Concerning the outlook for their companies, CEOs expect a moderation in sales growth (this index dipped 8.6 percent to 143.6) as well as slower profits growth (this index fell 5.3 percent to 141.6). And at the same time, CEOs were less confident toward capex spending in the future (this index declined 14.4 percent to 123.1) as some companies - such as those in the property sector for example – may take a cautious “wait and see” stance on capex spending given the impending general elections slated for April.

On the costs front, CEOs expect COGS to remain subdued: this index fell a further 1.3 percent to 102.5 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 relatively high (even though the index edged down 3.4 percent, it remains at a high level of 163.1) while both interest costs and forex expenses are also expected to ease slightly (the respective indices dipped 1.3 percent and 2.3 percent to 108.1 and 108.3).

Table 4. Expectations for the Six Months Ahead

	Sep-18	Nov-18	Jan-19	% 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	Sep-18	Nov-18	Jan-19	% Change
Capital Expenditure	117.0	143.8	123.1	(14.4)
Sales	127.0	157.0	143.6	(8.6)
Profits	132.1	149.5	141.6	(5.3)
Liquidity	110.8	117.0	122.2	4.5
Capacity/Equipment Utilization	101.9	101.6	102.5	0.8
Employment	109.3	113.2	106.1	(6.3)
Cost of Goods Sold	105.3	103.8	102.5	(1.3)
Operating cost	168.7	168.9	163.1	(3.4)
Interest expenses/cost	106.7	109.5	108.1	(1.3)
Foreign Exchange Loss	107.9	110.8	108.3	(2.3)
Average Price of Product/Service	128.9	135.1	131.9	(2.4)

Source: Danareksa Research Institute

Table 6. Expectations on Key Economic Indicators

Indicators	Sep-18	Nov-18	Jan-19	%Change
General Prices Expectation	112.9	121.9	107.2	(12.1)
Loan Rate Expectation	112.9	107.3	109.2	1.8
Exchange Rate Expectation	78.9	110.0	98.9	(10.1)
Stock Price Expectation	112.0	113.0	109.9	(2.7)

Source: Danareksa Research Institute

EXPECTATIONS ON KEY ECONOMIC INDICATORS

CEOs were less confident on the rupiah's outlook during the months under survey (this index corrected 10.1 percent to 98.9 after posting a large increase of 39.3 percent in the previous survey). This weaker sentiment toward the rupiah may only be ephemeral, however, as pressures on the local currency unit tend to mount at the year-end as some companies need to make foreign debt repayments.

More encouragingly, however, is the belief among CEOs that inflationary pressures will moderate. In our latest survey, the index measuring sentiment toward the inflationary outlook declined 12.1 percent to 107.2. This finding is inline with the latest inflation data from the Central Bureau of Statistics which shows that Indonesia posted 0.08 percent deflation in February 2019. Thus, with inflation under tight control, CEOs also believe that interest rates will remain subdued (the index measuring sentiment toward interest rates rose 1.8 percent to 109.2 in our latest survey). This raises hopes that bank lending can pick up pace in the future and stimulate economic growth. Finally, CEOs are less upbeat on the outlook for stock prices (this index slipped 2.7 percent to 109.9).

Table 7. Business Confidence in the Government Index

Indicators	Sep-18	Nov-18	Jan-19	%Change
Expand the Market Size	146.8	156.8	157.8	0.7
Create a Safe Environment	157.2	159.2	164.4	3.3
Stabilize prices	126.1	140.8	140.8	0.0
Provide Public Utilities	176.1	177.6	178.4	0.5
Enforce Law of Contracts	118.9	115.4	111.2	(3.7)
BCGI	144.9	149.9	150.5	0.4

Source: Danareksa Research Institute

SENTIMENT TOWARD THE GOVERNMENT

CEOs were slightly more satisfied in the performance of the government. This metric, as measured by the Business Confidence in the Government Index (BCGI), edged up by 0.4 percent to 150.5. All components of the BCGI remained firm except the one measuring sentiment toward the government's ability to enforce the law of contracts which fell a further 3.6 percent to 111.2.

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 create a healthier marketplace – this index rose 0.7 percent to 157.8. At the same time, CEOs remain convinced in the government's ability to rein in inflation as this index was unchanged at a high level of 140.8. The government has sought to keep administered prices under control ahead of the elections, especially fuel prices. In addition, our survey also shows that CEOs have faith in the government's ability to improve the nation's infrastructure (this index rose 0.5 percent to 178.4). 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 commercial operation in March 2019 after a short trial period. Finally, the component of the BCGI measuring sentiment toward the government's ability to maintain a safe and orderly environment rose 3.3 percent to 164.4.

RESEARCH TEAM

Damhuri Nasution

Head of Economic Research
damhuri@danareksa.com

Darwin Sitorus

Research Specialist
darwin@danareksa.com

Handri Thiono

Research Specialist
handrit@danareksa.com

Martin Jenkins

Editor
martin@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

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