

December 2017

BUSINESS SENTIMENT

Stronger sentiment as rates fall**THE AUGUST - SEPTEMBER 2017 RESULTS:**

- Business sentiment strengthened during the reporting period of August and September 2017 as the central bank unexpectedly cut benchmark interest rates. As such, the Business Sentiment Index (BSI) rebounded 2.1 percent to 137.1.
- Looking ahead over the next six months, CEOs are more upbeat on Indonesia's economic outlook. Overall, 45.9 percent of CEOs remain upbeat on the economy, or far outnumbering the 9.3 percent of CEOs who are downbeat.
- At the corporate level, CEOs claimed better corporate performance during the reporting months. At the top line, CEOs noted slightly brisker sales growth – this index added 0.4 percent to 105.4.
- Commensurate with BI's policy to cut rates, a greater proportion of the CEOs surveyed (17.6 percent) now believe that interest rates will decline over the next six months than in the previous survey (11.8 percent).
- 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 a healthy 5.1 percent to 146.9.

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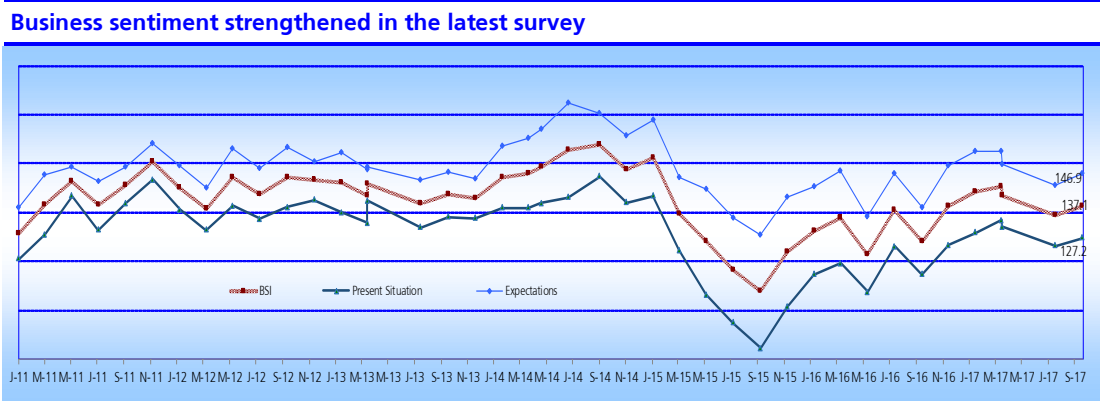
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Source: Danareksa Research Institute

Table 1. Appraisal of Present Situations

	May-17	Jul-17	Sep-17	%Change
Business Sentiment Index	140.2	134.2	137.1	2.1
Present Situation	130.6	124.9	127.2	1.8
Expectations	149.7	143.5	146.9	2.3

Source: Danareksa Research Institute

THE AUGUST - SEPTEMBER 2017 RESULTS:

Business sentiment strengthened during the reporting period of August and September 2017 as the central bank unexpectedly cut benchmark interest rates. As such, the main measure of business sentiment, as measured by the Business Sentiment Index (BSI), rebounded 2.1 percent to 137.1, recovering some of its 4.2 percent loss posted in the previous survey.

The easing of monetary policy in August and September – the benchmark rate was cut 25 bps in each month – has created greater optimism toward the economic outlook, even though the rate cuts may take some time to be transmitted to the economy. Given this positive development, one of the two main components of the BSI – the Expectations Index (EI) – climbed 2.3 percent to 146.9 – a very high level reflecting widespread optimism toward the nation’s future prospects.

Commensurate with BI’s policy to cut rates, a greater proportion of the CEOs surveyed (17.6 percent) now believe that interest rates will decline over the next six months than in the previous survey (11.8 percent). Another 43.4 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.

At the corporate level, CEOs claimed better corporate performance during the reporting months. At the top line, CEOs noted slightly brisker sales growth – this index added 0.4 percent to 105.4. In addition, they also reported higher capex spending – the index rose 3.2 percent to 109.7. Although CEOs did claim higher cost pressures as well (all four cost indices in our survey rose), they also said that their companies were better able to raise product prices - an indication of a less challenging business environment. This also helped to support profits: at the bottom line, CEOs claimed that profits grew at a brisker pace (this index climbed 7.1 percent to 110.4).

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 a healthy 5.1 percent to 146.9 following its 2.3 percent increase in the previous survey. Most notably, CEOs are more confident in the government’s ability to rein in inflationary pressures – this index added another 7.8 percent to 132.6 after increasing 7.4 percent in the previous survey.

CEO ASSESSMENTS OF CURRENT BUSINESS CONDITIONS

Although the latest data shows that the pace of economic growth in the third quarter was a touch disappointing (reaching only 5.06 percent year-on-year), CEOs gave much more positive assessments on the current state of the Indonesian economy in our latest survey – the index measuring sentiment toward economic conditions jumped 11.96 percent to 116.1 after falling 7.8 percent in the previous survey. Positives in the GDP data included the higher investment and, in particular, the surge in exports growth despite tepid private consumption growth. A further breakdown of our survey data shows that 32.6 percent of CEOs now believe the economy is performing well against just 16.5 percent of CEOs who claim it is performing badly, with just over half of the CEOs interviewed believing the economy is performing normally.

Nonetheless, CEOs also gave slightly less positive assessments on business conditions (this index slipped 1.24 percent to 135.1). At the corporate level, however, CEOs gave more positive assessments on the performance of their companies. At the top line, CEOs noted slightly brisker sales growth – this index added 0.4 percent to 105.4. In addition, they also reported higher capex spending – this index rose 3.2 percent to 109.7. And although CEOs did claim higher cost pressures as well (all four cost indices in our survey rose), they also said that their companies were better able to raise product prices - an indication of a less challenging business environment. This also helped to support profits: at the bottom line, CEOs claimed that profits grew at a brisker pace (the index climbed 7.1 percent to 110.4).

Table 2. Appraisal of Present Situations

	May-17	Jul-17	Sep-17	%Change
Economic Conditions	112.5	103.7	116.1	11.9
Business Conditions	142.2	136.8	135.1	(1.2)
Company’s Conditions	137.2	134.4	130.5	(2.9)

Source: Danareksa Research Institute

Table 3. Current Company Financial and Utilization Performance

All Sectors	May-17	Jul-17	Sep-17	%Change
Capital Expenditure	111.8	106.3	109.7	3.2
Sales	110.4	105.0	105.4	0.4
Profits	110.4	103.1	110.4	7.1
Liquidity	95.2	92.6	105.2	13.7
Capacity/Equipment Utilization	98.9	99.6	102.5	2.9
Employment	99.1	97.4	99.8	2.5
Cost of Goods Sold	102.7	103.7	106.8	3.0
Operating cost	149.2	139.4	150.5	7.9
Interest expenses/cost	100.1	99.9	99.9	0.1
Foreign Exchange Loss	104.1	101.8	105.4	3.6
Average Price of Product/Service	120.6	122.5	126.5	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, 45.9 percent of CEOs remain upbeat on the economy, or far outnumbering the 9.3 percent of CEOs who are downbeat. In addition, 44.8 percent of the CEOs interviewed expect the economy to perform normally over the next six months.

Despite the brighter economic outlook, however, CEOs expect less conducive business conditions going forward: in our survey, 56.6 percent of CEOs now expect good business conditions over the next six months, or down from a reading of 60.8 percent in the previous survey.

At the corporate level, sales growth is also expected to slow – the index dropped 2.2 percent to 134.2. In regard to costs, the main takeaway from our survey is the finding that CEOs expect a sharp upturn in operating costs – this index jumped 8.9 percent to 151.4. In addition, CEOs also expect COGS to grow at a brisker pace (this index climbed 4.3 percent to 106.6). Hence, with the double whammy of both slower sales growth and higher costs growth, CEOs foresee slower profits growth: this index dropped 2.8 percent to 138.7.

Table 4. Expectations for the Six Months Ahead

	May-17	Jul-17	Sep-17	%Change
Economic Prospects	136.3	125.6	136.7	8.8
Business Prospects	157.8	154.0	151.1	(1.9)
Company’s Prospects	155.1	151.0	152.9	1.3

Source: Danareksa Research Institute

Table 5. Prospects for Company Financial and Utilization Performance

All Sectors	May-17	Jul-17	Sep-17	%Change
Capital Expenditure	127.4	131.5	128.7	(2.1)
Sales	137.0	137.2	134.2	(2.2)
Profits	141.3	142.7	138.7	(2.8)
Liquidity	113.4	116.6	122.4	4.9
Capacity/Equipment Utilization	103.6	102.6	106.3	3.6
Employment	109.5	108.5	108.8	0.3
Cost of Goods Sold	104.5	102.2	106.6	4.3
Operating cost	148.5	138.9	151.4	8.9
Interest expenses/cost	104.5	96.5	100.5	4.1
Foreign Exchange Loss	104.8	102.2	104.8	2.5
Average Price of Product/Service	128.8	121.9	130.8	7.3

Source: Danareksa Research Institute

Table 6. Expectation Index on Key Economic Indicators

Indicators	May-17	Jul-17	Sep-17	%Change
General Prices Expectation	121.1	114.9	115.8	0.8
Loan Rate Expectation	112.7	118.8	109.7	(7.7)
Exchange Rate Expectation	97.7	100.9	100.2	(0.6)
Stock Price Expectation	107.9	118.4	119.9	1.3

Source: Danareksa Research Institute

EXPECTATIONS ON KEY ECONOMIC INDICATORS

One of the key findings of our survey is undoubtedly the expectation among CEOs that interest rates were more likely to 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 (17.6 percent) now believe that interest rates will decline over the next six months than in the previous survey (11.8 percent). Another 43.4 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 foresee slightly higher inflationary pressures going forward. Even though inflation in the country remains benign – reaching only 3.3 percent in November (a low since December 2016) - inflationary pressures do tend to heighten toward the end of the year due to the holidays and planting season. Meanwhile, CEOs were slightly less upbeat on the outlook for the rupiah: this index slipped 0.6 percent to 100.2. And finally, in regard to stock prices, the index added another 1.3 percent to 119.9 as stock prices remained buoyant on the back of encouraging earnings results.

Table 7. Business Confidence in the Government Index

Indicators	May-17	Jul-17	Sep-17	%Change
Expand the Market Size	149.7	151.2	150.7	(0.4)
Create a Safe Environment	141.5	144.9	148.2	2.3
Stabilize prices	123.6	132.6	142.9	7.8
Provide Public Utilities	167.1	166.7	173.8	4.2
Enforce Law of Contracts	101.1	103.5	119.0	14.9
BCGI	136.6	139.8	146.9	5.1

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 a healthy 5.1 percent to 146.9 following its 2.3 percent increase in the previous survey. Of the five components which make up the BCGI, four of them posted gains.

Most notably, CEOs are more confident in the government's ability to rein in inflationary pressures – this index added another 7.8 percent to 142.9 after increasing 7.4 percent in the previous survey. In view of weak consumer purchasing power and with elections on the horizon, the government is taking a less aggressive stance in raising administered prices. The state-owned electricity company PLN, for example, will refrain from raising electricity tariffs until the end of 2017. This will help keep a lid on inflation.

Also on the economic front, CEOs were more confident in the government's ability to provide better infrastructure (this index rose 4.2 percent to 173.8). This strong reading appears to be a firm endorsement by CEOs of the government's commitment toward improving the nation's creaky infrastructure. And in regard to government efforts aimed at creating a healthier marketplace, CEOs remained upbeat (even though this index did fall slightly by 0.3 percent to 150.7).

The component of the index measuring sentiment toward the government's ability to create a safe and orderly environment also increased. It rose 2.3 percent to 148.2. Finally, the component of the BCGI measuring sentiment toward the government's ability to enforce the law of contracts jumped 15.0 percent to 119.0 after increasing 2.3 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 recently.

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