

## February-March 2019 Results: Solid Improvement but Concerns Mount

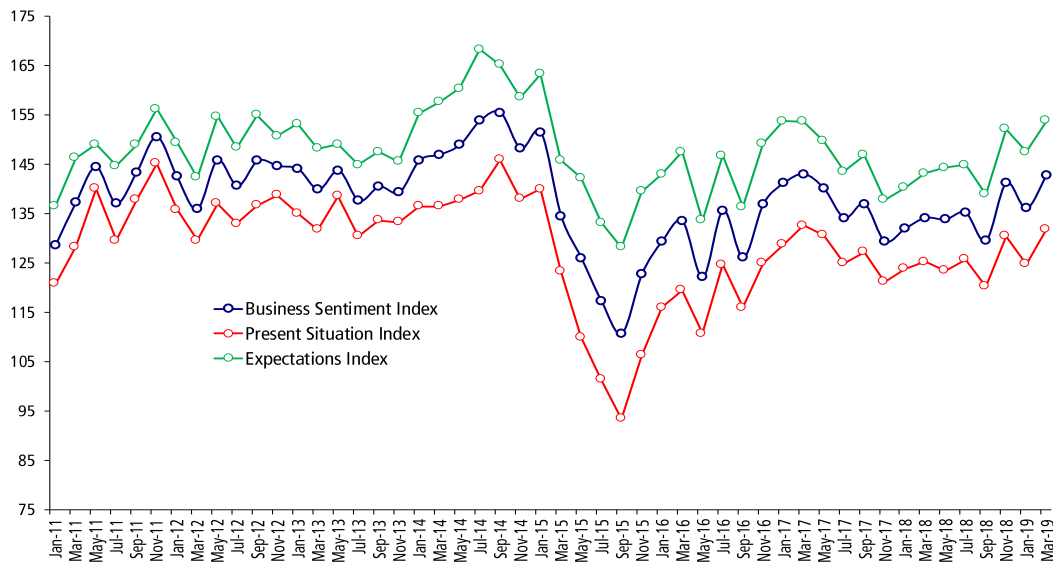
### Key Findings

- ✓ Ahead of the elections in April, CEOs noted an improvement in the country's economic conditions. As such, our main measure of business sentiment – as captured by the Business Sentiment Index (BSI) – climbed 4.9% from 136.2 to 142.9 in our February – March 2019 survey.
- ✓ During the reporting period, spending related to the elections had been expected to lift the economy. As a result, CEOs highlighted better corporate performance noting both faster growth in sales (this index rose 6.2 percent to 104.5) and profits (this index jumped 10.2 percent to 104.8).
- ✓ Although CEOs are more upbeat on Indonesia's economic outlook, they foresee some moderation in sales and profits growth over the next six months.
- ✓ Encouragingly, CEOs expect the country's key economic indicators to remain stable: not only did sentiment toward the rupiah improve but inflation is expected to remain in check with CEOs also seeing room for reductions in interest rates on loans.
- ✓ CEOs were slightly more satisfied in the performance of the government. This metric, as measured by the Business Confidence in the Government Index (BCGI), rose another 3.4 percent to 155.6.

### The February – March 2019 Results

- Ahead of the elections in April, CEOs noted an improvement in the country's economic conditions, citing, at the corporate level, brisker growth in both corporate sales and profits. As such, our main measure of business sentiment – as captured by the Business Sentiment Index (BSI) – climbed 4.9% from 136.2 to 142.9 in our February – March 2019 survey. Furthermore, the two main components which make up the BSI both increased: the Present Situations Index (or PSI) added 5.7 percent to 131.9 while the Expectations Index (or EI) rose less sharply by 4.3 percent to 153.9.
- During the reporting period, spending related to the presidential and parliamentary elections had been expected to lift the economy even though the external outlook remained uncertain as the country's trade performance failed to impress. Against this backdrop, CEOs claimed stronger corporate performance. Most notably, CEOs cited a recovery in current sales growth (this index rose 6.2 percent to 104.5 after slumping 20.0 percent in the previous survey). And at the bottom line, CEOs also noted brisker growth in current profits (this index rose an impressive 10.2 percent to 104.8).
- Looking ahead, however, CEOs were slightly less upbeat on the prospects for their companies even though they expect economic conditions to improve further. Coupled with the uncertainty surrounding the outcome of the elections, the prospects for some companies may also have been dampened by unfavorable developments on the external front, especially in view of the escalating trade wars and unexciting movements in commodity prices. In our survey, CEOs expect both sales growth and profits growth to ease (the respective indices slipped 5.1 percent to 136.3 and by 0.9 percent to 140.4).
- In relation to the mounting political risks during the period, an increasing proportion of CEOs seem to have put off their capex spending plans, awaiting clarity over the results of the elections: the index measuring sentiment toward capex spending plans sank by 7.4 percent to 114.0. On a more positive note, however, CEOs expect the country's key economic indicators to remain stable: not only did sentiment toward the rupiah improve but inflation is expected to remain in check with CEOs also seeing room for reductions in interest rates on loans.
- 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), rose another 3.4 percent to 155.6. All components of the BCGI posted gains. Most notably, CEOs are more upbeat on the government's ability to enforce the law of contracts (this component of the BCGI climbed a further 15.4 percent to 128.3).

Graph 1. Business Sentiment Strengthened in The Latest Survey



Source: Danareksa Research Institute

Table 1. Business Sentiment Index

	Nov-18	Jan-19	Mar-19	% MoM
<b>Business Sentiment Index</b>	141.3	136.2	142.9	4.9
<b>Present Situation Index</b>	130.5	124.8	131.9	5.7
<b>Expectations Index</b>	152.2	147.6	153.9	4.3

Source: Danareksa Research Institute

### 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 a further 13.1 percent to 118.0. This finding suggests that the Indonesian economy continued to gain traction ahead of the much-anticipated presidential and parliamentary elections. During the reporting period, spending related to the elections had been expected to lift the economy even though the external outlook remained uncertain as the country’s trade performance failed to impress (as marked by a huge US\$2.5 billion trade deficit in April 2019). In line with the perception of improving economic conditions, CEOs also noted a better business climate: this index strengthened 3.4 percent to 140.4, up from its level of 135.7 in the previous survey.
- At the corporate level, CEOs highlighted better corporate performance ahead of the elections. Most notably, CEOs claimed faster sales growth (this index climbed 6.2 percent to 104.5 after slumping 20.0 percent in the previous survey). And at the bottom line, CEOs also noted brisker growth in current profits (this index rose an impressive 10.2 percent to 104.8). Less encouragingly, however, CEOs also claimed mounting cost pressures: the index measuring sentiment toward current COGS rose 3.8 percent to 107.5 while the index measuring sentiment toward operating costs added 6.2 percent to 153.4.

Table 2. Appraisal of Present Situations

	Nov-18	Jan-19	Mar-19	% MoM
<b>Economic Conditions</b>	97.3	104.3	118.0	13.2
<b>Business Conditions</b>	146.8	135.7	140.4	3.4
<b>Company's Conditions</b>	147.3	134.4	137.3	2.2

Source: Danareksa Research Institute

Table 3. Current Company's Financial and Utilization Performance

	Nov-18	Jan-19	Mar-19	% MoM
<b>Capital Expenditure</b>	115.7	91.9	95.0	3.3
<b>Sales</b>	123.0	98.4	104.5	6.2
<b>Profits</b>	111.1	95.1	104.8	10.2
<b>Liquidity</b>	104.1	108.1	108.5	0.4
<b>Capacity/Equipments Utilization</b>	100.8	101.8	103.3	1.4
<b>Employment</b>	110.5	99.6	103.0	3.5
<b>Cost of Goods Sold</b>	103.0	103.6	107.5	3.8
<b>Operating cost</b>	158.6	144.5	153.4	6.2
<b>Interest expenses/cost</b>	101.0	100.3	100.4	0.1
<b>Foreign Exchange Loss</b>	124.6	107.2	111.0	3.6
<b>Average Price of Product/Service</b>	134.6	127.0	126.1	(0.7)

Source: Danareksa Research Institute

### CEO Appraisals of Near-Term Business Conditions

- Looking ahead over the next six months, CEOs are slightly more upbeat on Indonesia's economic outlook. Overall, around half of CEOs (51.4 percent) are sanguine on the economy – more than the figure of 39.3 percent in the previous survey. Moreover, only 6.3 percent of CEOs are downbeat on the economic outlook. Overall, 42.4 percent of CEOs interviewed 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 5.1 percent to 136.3) as well as slower profits growth (this index fell 0.9 percent to 140.4). And at the same time, CEOs were again less confident toward capex spending in the future (this index lost 7.4 percent to 114.0) as some companies - such as those in the property sector for example – may have taken a cautious “wait and see” stance on capex spending ahead of the elections.
- On the costs front, CEOs still expect COGS growth to remain under control. Although this index rose 2.7 percent, it remains at a relatively low level of 105.3, or only slightly above the neutral level of 100. With the recovery in the rupiah, many companies can expect lower raw material costs (especially those companies operating in industries such as the pharmaceutical, construction and packaging industries as they rely heavily on imported raw materials).
- At the same time, operating costs are still expected to remain relatively high (even though the index edged down 0.5 percent, it remains at a high level of 162.4) while interest costs are expected to be stable (this index edged up 0.2 percent to 108.3) and forex expenses are expected to ease slightly (this index dropped 1.7 percent to 106.5).

Table 4. Expectations for The Six Months Ahead

	Nov-18	Jan-19	Mar-19	% MoM
<b>Economic Prospects</b>	126.5	131.7	145.1	10.2
<b>Business Prospects</b>	164.6	154.4	159.4	3.2
<b>Company's Prospects</b>	165.4	156.6	157.1	0.3

Source: Danareksa Research Institute

Table 5. Prospect for Company's Financial and Utilization Performance

	Nov-18	Jan-19	Mar-19	% MoM
<b>Capital Expenditure</b>	143.8	123.1	114.0	(7.4)
<b>Sales</b>	157.0	143.6	136.3	(5.1)
<b>Profits</b>	149.5	141.6	140.4	(0.9)
<b>Liquidity</b>	117.0	122.2	121.1	(1.0)
<b>Capacity/Equipments Utilization</b>	101.6	102.5	102.3	(0.2)
<b>Employment</b>	113.2	106.1	114.5	8.0
<b>Cost of Goods Sold</b>	103.8	102.5	105.3	2.7
<b>Operating cost</b>	168.9	163.1	162.4	(0.5)
<b>Interest expenses/cost</b>	109.5	108.1	108.3	0.2
<b>Foreign Exchange Loss</b>	110.8	108.3	106.5	(1.7)
<b>Average Price of Product/Service</b>	135.1	131.9	132.8	0.7

Source: Danareksa Research Institute

### Expectations on Key Economic Indicators

- Encouragingly, our latest survey reveals that CEOs expect the country's key economic indicators to remain stable. On the currency front, CEOs are more optimistic on the prospects for the rupiah going forward despite the trade dispute between the two largest global economies, the US and China. In our survey, the index measuring sentiment toward the rupiah returned to positive territory as it jumped 7 percent to 105.8. Also on a positive note is the belief among CEOs that inflationary pressures will moderate. This is despite the relatively high inflation in April, largely driven by rising food prices. In our latest survey, the index measuring CEO sentiment toward the inflationary outlook eased a further 5.5 percent to 101.3 after its sharp 12.1 percent decline in the previous survey.
- In line with this finding, CEOs also believe that interest rates will remain subdued and possibly even be cut (the index measuring sentiment toward interest rates fell 8.4 percent to 100.0). 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 dropped 3.1 percent to 106.5). Despite the improving performance of many listed companies, market sentiment has been dented by external factors. As a result, the composite stock market index is slightly lower year-to-date.

Table 6. Expectations on Key Economic Indicators

	Nov-18	Jan-19	Mar-19	% MoM
<b>General Prices Expectation</b>	121.9	107.2	101.3	(5.5)
<b>Loan Rate Expectation</b>	107.3	109.2	100.0	(8.4)
<b>Exchange Rate Expectation</b>	110.0	98.9	105.8	7.0
<b>Stock Price</b>	113.0	109.9	106.5	(3.1)

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), rose another 3.4 percent to 155.6. All components of the BCGI posted gains. Most notably, CEOs are more upbeat on the government's ability to enforce the law of contracts (this component of the BCGI climbed a further 15.4 percent to 128.3).
- On the economic front, CEOs remain convinced that 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 edged up 0.2 percent to 158.1. At the same time, CEOs also have faith in the government's ability to rein in inflation: this index rose 1.3 percent to 142.6. Ahead of the elections in April, the government took strong efforts to keep administered prices under control, especially fuel prices. In addition, our survey also reveals that CEOs are confident in the government's ability to improve the nation's infrastructure (this index added 1.0 percent to 180.2). 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. Finally, the component of the BCGI measuring sentiment toward the government's ability to maintain a safe and orderly environment rose 2.7 percent to 168.9.

Table 7. Business Confidence on The Government Index

	Nov-18	Jan-19	Mar-19	% MoM
<b>Expand The Market Size</b>	156.8	157.9	158.1	0.2
<b>Create a Safe Environment</b>	159.2	164.4	168.9	2.7
<b>Stabilize Prices</b>	140.8	140.8	142.6	1.3
<b>Provide Public Utilities</b>	177.6	178.4	180.2	1.0
<b>Enforce Law of Contracts</b>	115.4	111.2	128.3	15.4
<b>BCGI</b>	149.9	150.5	155.6	3.4

Source: Danareksa Research Institute

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