D&B Malaysia Business Optimism Index

Outlook for Q3 2013 - Key Highlights

- Cautious business optimism reigns in Q3
- Business leaders least optimistic about selling prices and inventory levels
- Financial Sector takes the biggest tumble in optimism levels for Q3

D&B, Dun & Bradstreet, is pleased to send you the D&B Optimism Index for Malaysia. It is recognized as a product, which measures the pulse of the business community and serves as a reliable benchmark for investors. The D&B Optimism Index is arrived at on the basis of a quarterly survey of business expectations. Over time, this quarterly survey has emerged as a leading indicator of turning points in economic activity in countries for which it is published.

Methodology
For the purpose of conducting the survey, a sample is randomly selected from D&B’s database, consisting of companies belonging to the following sectors included Agriculture, Construction, Utilities, Finance, Manufacturing, Mining, Services, Transportation and Wholesaler.

All respondents in the survey are asked six standard questions regarding their expectations as to whether the following critical parameters pertaining to their respective companies will register an increase, decline or show no change in the ensuing quarter as compared to the same quarter in the prior year: Volume of Sales, Net Profits, Selling Prices, New Orders, Inventory Levels, and Employees. The individual indices are then calculated by subtracting the percentage of respondents expecting decreases from those expecting increases. Unless otherwise stated, increases and decreases in indices represent changes from the previous quarter.

Composite Business Optimism Index
The purpose of the Composite Business Optimism Index is to capture the aggregate behavior of all the six individual indices. Each of the six parameters has a weight assigned to it. For calculating the Composite Business Optimism Index, the positive responses for each of these parameters for the period under review are expressed as a proportion of positive of positive responses in the base period (Q2 2013). The parameter weights are then applied to these ratios and the results aggregated to arrive at the Composite Business Optimism Index. For the purpose of the survey, Q1 is the period between January and March, Q2 is the period between April and June, Q3 is the period between July and September and Q4 is the period between October and December each year.
D&B Optimism For Malaysia for Q3 2013

Global Economy

Acknowledging that the United States economy is underperforming, the Federal Reserve (Fed) pledged in mid-July to keep feeding liquidity into the system and the interest rate low until unemployment falls to a tolerable level. The global markets responded positively as money pumping is now assured for the immediate future. There had been fears that the Fed could scale back monetary easing before the end of the year. The Bank of Japan (BoJ) also announced that its own version of quantitative easing has fueled economic growth and would be expanded over the coming months. Earlier in the month of July, the Bank of England and the European Central Bank (ECB) issued statements that interest rates would remain low despite some early signs of recovery.

The International Monetary Fund (IMF) projected that the global economy will expand 3.1% in 2013, down from its earlier estimate of 3.3%, before growing 3.8% in 2014. The global economy is expected to remain in a three-speed model: emerging markets to grow rapidly, slow but steady recovery in the U.S. and much of Europe continues to struggle.

Owing to "low demand, depressed confidence and weak balance sheets", the IMF expected the eurozone to suffer a 0.6% decline in growth in 2013. The Standard and Poor’s (S&P) downgraded Italy’s rating to BBB, citing the impaired financial system and poor economic prospects as the reasons for cut. However, IMF maintained that the eurozone could stage a turnaround in 2014, while cutting its growth projection to 0.9% from 1.1% in the April forecast. In view of the severe unemployment, political leaders and central banks are now ready to relax austerity. The European Commission will soon be empowered to shut down underperforming banks in the single currency market. This is viewed as a decisive move to break the link between the banking crisis and the sovereign debt, as a large amount of taxpayer money has already been used for saving the struggling banks.

Sluggishness in the advanced economies will slow down the exports of the emerging markets of BRICS, which are also facing slowdowns in domestic demand and consumption.

United States

The U.S. economy is expected to generate positive but modest growth of about 2.0% in 2013, a pace similar to 2012. Rising employment in recent months is widely interpreted as evidence of improved business outlook, at least in the near future. Payrolls increased by 195,000 in June for a second straight month. Driven by strength in housing and the automobile industry, investment is expected to pick up in H2. Investment in equipment and software is expected to grow 4.8% in 2013, according to the Q3 update of the 2013 Equipment Leasing & Finance U.S.

The U.S. and China will start negotiating a bilateral investment treaty which promises to open vast sectors of both economies to massive investments. Currently, many American firms are facing hurdles in investing in China. The treaty would open doors for American financial, consulting and energy firms to make significant progress in the vast but not fully explored market. With concerns about espionage and theft using the internet in recent weeks, protections against cyberspying could turn out to be a deciding factor for the coming negotiations. Chinese-held U.S. federal debt has reached a record $1.3 trillion. In May 2013 China bought $25.2 billion in U.S. Treasury notes and bonds

The U.S. government is concerned with the measures that India has imposed to promote and protect its manufacturing sector. These measures range from subsidies for solar developers who employ domestically manufactured products, to preferential treatment for Indian producers. India has put on hold a policy that requires local firms to purchase domestically manufactured goods.

Asia

China

China registered a 7.5% growth in Q2 2013. As this is the 5th straight quarter with under double-digit growth, critics and doomsayers are now questioning the Beijing government’s wisdom in delaying its stimulus measures. The leaders have repeatedly assured the world that their long-term goal is to rebalance the economy away from over-reliance on exports and investment, and to spur consumer spending. The National Bureau of Statistics also reported a slower growth in factory output at 9.3% in H1.

Observers are quick to reiterate the slowdown’s possible impact on the rest of the world. Countries including Australia, Brazil and others in Southeast Asia have seen huge profits in recent years because of Chinese demand for natural resources.

The IMF scaled back its earlier forecast from 8.1% in April to 7.8% in July. The economy is now expected to grow by 7.7% in 2013, revised downwards from 8.3% earlier. The world’s second-largest economy has become unbalanced with too much investment and too little consumption. The investment, largely financed through China’s shadow banking system, has grown rapidly during the global financial crisis of the past few years. The IMF also reminds the Chinese government to take quick actions to reignite the economic engine.

India

The fastest-growing economy continues to worry about its inflation. The wholesale price index climbed to 4.9% in June, up from 4.7% in May. The consumer price index also hit 9.3% in the same month. Critics are quick to highlight that the warning signs of “stagflation tendencies” have started to surface. The rupee’s plunge to a record low against the U.S. dollar also threatens to stoke inflation. The authorities are now considering selling sovereign bonds abroad for the first time.

Meanwhile, the industrial output declined unexpectedly in May, thus adding pressure for government measures to restore accelerated economic growth. Production at factories, utilities and mines had declined by 1.6%.

But the Indian government is confident that it will achieve the overall budgeted revenue target in the fiscal year to March 2014. The series of foreign direct investment proposals approved by the Union Cabinet in key areas of defence, insurance and telecommunications along with others will also provide the much needed boost to the economy.

Top Indian transnational companies (TNC) continue their aggressive globalization march by showing double-digit growth in international revenue, assets and employment, despite the general dip in aggregate overseas FDI in 2012.

Already matching Japan with three mega cities, the Indian government announced its plan to build more cities as the country embarks on a high-growth path. But with the urban population continues to expand (Delhi’ population grew by 40% in the last decade), the nation is facing more challenges from rapid urbanization. While this has been a talking point for years, the authorities are now ready to take serious steps in urban development. More challenges (e.g., overcrowding, pollution, crimes, unemployment and gentrification) and opportunities (e.g., international tourism, massive construction and real estate investment) are expected to follow with this latest development.

Business Optimism Index
Japan

Although the incumbent government was handed a landslide victory in the parliamentary election the course of public policy remains a matter of uncertainty. Thanks largely to a weaker yen and the aggressive expansionary strategies taken by the government, dubbed Abenomics by political analysts, the Japanese economy continues to show signs of recovery. The ruling party had advocated aggressively during the election campaign that this is Japan’s final chance to regain its economic stature as the country has been eclipsed by China. The aggressive reflacionary measures are expected to help the share market to fare better than all its Asian peers in H2. Tokyo’s Nikkei has reported a resounding 40% rise so far this year.

Observers are eager to know whether the government will deliver bold reforms that include corporate tax reduction and lifetime employment. Consumers are expected to increase their spending while the government is preoccupied with the promotion of its hawkish stance. This includes the nationalization of over 400 undained islands, a move widely recognized as Japan’s effort to preserve its maritime resources. The government had also announced recently that the sales tax would be doubled from the current 5% in two stages, 8% in April 2014 and 10% in October 2015 if the economy is assessed to be strong enough to cope with the impact.

The IMF has revised its growth forecast for Japan in 2013 upward to 2%, in view of the impact of the quantitative easing policy. But the forecast for 2014 is reduced to 1.2%, owing to “the weaker global environment”. In June, bank lending rose by 2.2%. The BOJ reported that the trend will continue in the coming months.

The election ends the situation whereby the Lower and Upper Houses are ruled by different political parties. The ruling coalition of the Liberal Democratic Party (LDP) enjoys a huge victory while the opposition Democratic Party of Japan (DPJ) is “finished” after three years in office.

Australia

Drawing comparison with the sub-prime crisis that plagued the U.S. economy in late 2007, Moody’s reported that Australian banks are at risk in a housing bubble. The banks’ home loans are about 65% of their total lending. This compares unfavourably with the U.S. (35%), the U.K. (20%) and Germany (20%). With unemployment rate climbed to 6%, a housing crash remains a possibility, although home prices are widely expected to fall gradually. Currently, the top 4 banks (Commonwealth, Westpac, NAB and ANZ) control 85% of the total mortgages.

Australia’s economic growth has slowed down in Q1 amid sharp contractions in the mining sector. The marginal 0.6% growth was lower than economists’ general expectations, but the Federal Treasurer maintained that “Australia is doing very well when compared with many other developed economies”. The outlook of the Australian economy continues to be obscured by the leadership issue and the ruling party’s in-fighting. The coming federal election is expected to be closely contested.

Malaysia

Following Bank Negara Malaysia (BNM)’s stricter personal financing policies which curbs lending growth under the Financial Services Act (FSA), non-banking financial institutions are reportedly expecting a lower demand for personal loans.

CIMB Economics has recently revised Malaysia’s growth forecast for 2013 downwards from 5.5% to 5.1%.

Singapore

In Q1 2013 the Singapore economy experienced an unexpected contraction. But a quarter later, the economy reported a strong recovery with a 3.7% year-on-year growth in GDP, according to the advance estimates released by the Singapore Government. This was powered by a turnaround in the manufacturing sector. However, analysts are not optimistic that the bullish outlook will continue in Q3, as spill-over effects from a slowdown in China will remain to be felt. Moreover, the manufacturing rebound is not evenly distributed; the chemical, precision engineering and transport engineering clusters are still contracting.

Construction growth will remain healthy, thanks to the numerous housing and public transport projects. But the rising wages and industrial rentals may dampen the growth. Singapore has become the second priciest country in the world for foreign home buyers. Ranked behind Hong Kong but ahead of Sydney and London, Singapore attempts to cool the local property market with adjusted fees and taxes. The additional stamp duty for foreigners was increased from 10% to 15%, and the tax for high-end residential properties will be raised to 16% in the next couple of years.

Retailers enjoyed a 3.2% rise in sales in May. All retailers, apart from petrol services stations and sellers of furniture and household equipment, registered higher year-on-year sales. Excluding motor vehicles, the retail sales had risen by 3.1% in May.

However, the banks’ creditability was unexpectedly downgraded by Moody’s, which showed concerns about the rising debt level. Singapore’s households are mostly heavily indebted in Asia, relative to their earnings. Since 2009, household debts have risen by 40.4%, while monthly incomes by 26.3%. While UOB and OCBC were assessed to be “stable”, DBS was reported to be “negative”.

The Monetary Authority of Singapore (MAS) is determined to tighten the control on financial institutions, in an attempt to prevent illicit money from entering Singapore. Citing the nation as “well-positioned to play a role in China’s plans to gradually internationalize its currency”, local banks will soon be able to conduct foreign exchange conversions in China via the RMB Clearing Bank with a new regulatory framework, according to MAS. The RMB may become one of Singapore’s reserve currency.

The details about the D&B indicators for Malaysia are discussed in the following sections.

- Increase in Voume of Sales

A significant increase in sales volume with a net optimism index of +49.6%. As with the second quarter, the wholesale sector remains the most optimistic about volume of sales at net optimism level +52.6%, followed by the services sector at net optimism level +45.5%. The mining sector moves into the expansionary region this quarter at net optimism +16.7%. The financial sector is the only sector which is most pessimistic about volume of sales at net optimism -26.6% coming months, despite a cautions stance taken by the authorities.

![Volume of Sales](chart.png)
Up in Net Profits
A marked increase in net profits with net optimism index of +35.8% for Q3. The services, wholesale and transportation sectors are the most optimistic sectors at net optimism +48.5%, +47.4% and +42.9% respectively. With the exception of the agricultural and financial sectors (both at net optimism 0.0%), the remaining sectors are also upbeat about net profits – Mining (net +33.3%), Manufacturing (net +25.0%) and Construction (net +23.8%).

Down in new orders in the manufacturing sector
Optimism levels for New Orders are expected to remain in the expansionary region at +37.5%, a marginal dip from the previous quarter’s +40.0%.

The manufacturing sector is the only sector which furnishes information about their expectations on new orders.

Slight increase in selling price
Selling prices are expected to increase marginally to a net optimism level +2.5%. The manufacturing sector ranks atop with net optimism level +25.0%. The number of optimistic sectors has fallen from 6 in the second quarter to 4 for the third quarter. The remaining optimistic sectors transportation (net +4.8%), construction (net +4.8%) and services (net +3.0%) sectors, the manufacturers reported no growth in selling price (net 0.0%) in the next quarter.

Up in inventory level
Net optimism levels for inventory are expected to increase marginally to +5.0% in the third quarter. Only 3 of 8 sectors are optimistic about inventory levels - Wholesale (+26.3%), Manufacturing (+25.0%) and Services (+6.1%).

The remaining sectors are expecting their inventory levels to decrease or remain unchanged with the majority of surveyed companies, if not all, reporting an unchanged situation in Q3.
Up in Employment

Employment levels remain positive for the third quarter as net optimism levels increase to an overall net of +25.8%. The wholesale sector is expected to experience the largest increase at net optimism +36.8%, followed by the services sector at +33.3%. The construction and transportation sectors are tied in third place with a net optimism level of +23.8%. As with the second quarter, the mining sector is the only sector expecting their hiring to remain unchanged. Despite all uncertainties surrounding the improved prospect ahead, more job openings are expected in Q3, with the manufacturing and services sectors (both net +25.0%) taking the lead in job creation.

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