Firms See Recovery Optimism

Outlook for Q4 2013
- Key Highlights

• Composite Business Optimism Index Increases by 8.5% (q-o-q) and by 2.3% (y-o-y)
• 5 out of the 6 Optimism Indices register increases (q-o-q) except Employment
• Inventory Level post the lowest by only 2%, followed by Employees with 4%
• Compared to previous quarter (q-o-q), Volume of Sales record the most positive percentage change by 17%

The Q4 2013 Business Optimism Index (BOI) survey suggest that firms are more optimistic for this quarter, based on the improved BOI Composite Index of 20.1% points compared to 11.5% points for Q3.

Indonesia’s economic recovery is also reflected by future optimism of surveyed business community in Q4 BOI. Based on the survey result, it was observed that five out of the six optimism indices—namely Volume of Sales, Net Profits, Selling Prices, New Orders, and Inventory Level have registered an increase as compared to Q3 2013. Volume of Sales recorded positively with 34% points in Q4, up 17% points from previous quarter. Net profits posted a 16% points hike as compared to 16% of Q3. Selling Price slightly increased from 10% points to 15%. New orders booked a 15% increase from its last achievement 18% points. Inventory Levels was up to 2% point from the 1% points of Q3. Meanwhile, Employment plunged to 4% points from 6% points of Q3.

Most of surveyed business sectors expect national economic growth in Q4 2013 will be better after all economic indicators declined in the previous quarter. The rise in subsidized fuel prices enacted on June 22 triggered soaring inflation as well as economic slowdown in the third quarter. According to the Indonesia’s official statistics agency, Badan Pusat Statistik (BPS), July inflation (year-on-year) rose significantly to 8.61% after posted 5.90% in June (yoy). In addition, the agency recorded the highest inflation rate since January 2009, when it was 9.17%, in August with 8.79% (yoy) yet it lowered to 8.40% (yoy) in September. Accordingly, Bank Indonesia (BI) projected the rate of inflation in 2013 in the range of 9.0%-9.8% before subsequently returning to its target corridor of 4.5±1% in 2014. Besides rising fuel prices, the volatile food prices and the weakening of Rupiah exchange rate were the main drivers of inflationary pressures in Q3 2013. Rupiah depreciated significantly since mid-July. On average, Indonesian Rupiah exchange rate in the third quarter 2013 weakened 8.18% (qtq) to Rp 10.652 per US dollar, or in term of point to point rupiah depreciated by 14.29% (qtq) to Rp 11,580 per US dollar. Bank Indonesia projected Indonesia’s Gross Domestic Product (GDP) to expand by 5.6 percent in the third quarter of this year, lower than the first quarter as well as the second quarter of this year by 5.8% and 6% respectively.

In August, the government issued four policy packages to respond macroeconomic instability attributable to slower economic growth. The strategy comprises four programs, namely the improvement of current account, maintaining economic growth and purchasing power, ensuring stable inflation, and accelerating investment. In order to narrow the current account deficit and to deal with Rupiah depreciation, the government will provide tax incentives to export-oriented industries and also reduce oil imports and increase bio-diesel in diesel fuel to lower consumption of imported diesel fuel. Next, the Government will increase sales taxes on luxury goods, including on cars imported as completely built-up (CBU) from an average of 75 percent to between 125 percent and 150 percent. Subsequently, the Government will also boost mineral exports. The government in coordination with the central bank (BI) will also ensure stable prices and inflation to keep public purchasing power strong as well as increasing the effectiveness of an integrated one stop service for investment permits.

The quick response of government policy focused on improving the trade balance has begun to show outcomes. As reported by BPS, Indonesia’s inflation eased 0.35% in September since three months of high monthly inflation rates. Meanwhile, the balance of trade showed a surplus of US$ 132.4 million in August 2013 on the back
of a decline in imports, compared to July which posted a deficit of US$ 2.31 billion. The package policy to maintain positive growth and to encourage people purchasing power was done by improving supply and demand of some strategic commodities contributing to the inflation. For example, the government decided not to use quotas for beef but protection mechanisms of farmer prices. The BPS report published in early October is a positive signal to strengthen the resilience of national economy amid the turmoil. The government is optimistic by the end of 2013 national economic growth can be realized in the range of 5.7%-5.9%.

Economic woes were already close to its peak. In fact, the study of Bank Indonesia (BI) stated the critical turmoil will be passed by September. Executive Director of Communication BI Difi Johansyah explained various economic parameters showed improvement signals starting October. "The current account, exchange rate, and inflation, all projected to improve," he said. Along with the improvement in economic fundamentals such as current account and inflation, then the pressure on Rupiah was expected to gradually subside. Optimism of the government can also be seen in achieving the 2013 investment target totaled Rp 390 trillion. The Investment Coordinating Board, Badan Koordinasi Penanaman Modal (BKPM), recorded until the first semester of 2013 realized investment value Rp 192.8 trillion. Meanwhile, actual investment in the third quarter of 2013 is expected to surpass Rp 100 trillion, up 22.5 % over the same period of last year which reached Rp 81.8 trillion. According to BKPM, about 60 % of total investment comes from foreign, both from ongoing investment projects and new investment.

The cumulative trade balance from January to August 2013 posted a deficit of US$ 5.54 billion. Ministry of Trade reported exports of Indonesia during the period totaled US$ 119.32 billion, down 6.12 percent from last year achievement US$ 127.1 billion. China becomes the main export destination during the period with US$13.25 billion (13.53%), followed by Japan with US$10.59 billion (10.81%), and the United States with US$9.99 billion (10.21%). Trade minister Gita Wiryawan is still optimistic that national exports target of this year totaled US$ 200 billion could be reached. He stated that the main key things to achieve the target is consistency to open new access in non-traditional markets such as Africa, South Asia, Central Asia, Latin America, Central America, Middle East, and Eastern Europe. In addition, it is also important to maintain existing markets (traditional) comprising the United States, Europe, Japan, and China.

Meanwhile, imports in January to August 2013 reached US$ 124.86 billion, down slightly 1.39 percent from the same period of 2012 valued at US$ 126.62 billion. Non oil and gas imports valued at US$ 94.95 billion, down 4.2 percent from the same period of last year. Meanwhile oil and gas imports reached US$ 29.91 billion or up 8.72 percent. Capital goods accounted for 16.80% of total national import during the period while raw materials and consumer goods posted 76.22% and 6.98% respectively.
The resultant Optimism for Volume of Sales stands at 34%, increase 17 percentage points compared to the previous quarter and 3 percentage points compared to the same quarter at previous year.

Around 36% of the respondents expect an increase in sales during Q4 2013. Majority of the respondents (51%) expect there is no change in volume of sales, while 2% of the respondents anticipating a decline. Construction is the most optimistic sector, followed by finance and services sectors.

Net Profit

Net Profits indices increase in line with Volume of Sales parameter. Compared to Q3 2013, the resultant Optimism for Net Profit registered an increase of 16 percentage points to 32% in Q4 2013. While on a y-o-y basis, it registered 6 percentage points increase.

Majority of respondents, around 65%, assume no change of profitability. Nearly 33% of the respondents anticipate an increase in profitability during the fourth quarter 2013, while around 1% respondents expect their net profits to decrease during the quarter. The most confident sectors that see such improvement of their net profit are Construction, Finance, and Services.

Selling Price

Approximately 15% of the respondents plan to increase the selling price of their products in this quarter while majority (84%) are trying to maintain the price. None of respondents expect decrease in the selling price. The resultant optimism index for this parameter stands at 15%, up 5 percentage points compared to the previous quarter and 4 percentage points compared to the same quarter at previous year.

Some sectors that potentially see the improvement of their selling price are Construction, Wholesalers, and Manufacturing.
New Orders

Expectation of New Orders in Q4 2013 generates the resultant Optimism to 33%, up 15 percentage points compared to Q3 2013 and 2 percentage points compared to Q4 2012. Roughly 34% of all respondents expect their orders will increase contrarily only 1% see their orders to decrease. Meanwhile, majority (64%) of respondents project no change of order book.

The most confident sectors to expect such improvement of this parameter are Construction, Finance, and Services.

Inventory Level

In Q4 2013, the resultant Optimism for Inventory Level stands at 2%, as same as Q4 2012 and increase 1 percentage points compared to Q3 2013.

Majority of the respondents (95%) anticipate no change of their inventory while only 3% expect such improvement. 1% of the respondents see decrease in their inventory. Wholesalers, Transportation, and Agriculture are relatively the most optimistic sectors towards this parameter.

Employee

 Majority respondents (94%) anticipate no change in the size of their workforce in Q4 2013. Around 5% of the respondents anticipate the size of their workforce to increase, while about 1% of the respondents anticipate the number of employee to reduce.

The resultant Optimism for Employees stands at 4%, down 2 percentage points compared to Q3 2013 and up 1 percentage points compared to Q4 2012. Transportation, Agriculture, and Mining are the most optimistic sector to this parameter.
Business Optimism Index (BOI) Report

D&B Optimism Index report 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 which it is published.

Methodology

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

All the 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.

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