Business Optimism Index - Malaysia

Quarter 4 2013

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Business confidence among Malaysian firms remains buoyant for Q4

Outlook for Q4 2013

- Key Highlights

• Business Optimism Index registers at +30.16%, an increase by 8.78% q-o-q
• Volume of sales and Net Profits registered the largest optimism readings at +35.8% and +35.0% respectively
• Inventory levels and selling price register the largest q-o-q increase at 22.5% and 20.0% respectively.

The Q4 2013 Business Optimism Index (BOI) shows that the surveyed companies are generally optimistic about their business situation in the last quarter of 2013. The net BOI stands firmly at +30.16%, which is higher than the +21.38% reported a quarter ago. A net weighted 38.85% of the respondents are upbeat about the improved business environment in Q4. On the other hand, 8.69% of companies (weighted) assessed their outlook negatively.

Malaysia’s economy grew by 4.3% year-on-year in Q2 ended June 30, 2013. However, the authorities are cautious with their long-term assessment, in view of the prolonged weakness in the external environment. In August, Bank Negara Malaysia projected Malaysia’s economic growth would be around 4.5% to 5% in 2013. Citing weak external demand, the central bank trimmed its earlier forecast by 0.5%.

The manufacturing sector reported a bullish growth in output by 5.4% year-on-year in July, thus pushing up the overall industrial output by 7.6%. The major subsectors which showed an increase in July were petroleum, chemical, rubber and plastic products (8.8%), while the non-metallic mineral products, basic metal and fabricated metal products recorded a 4.3% jump. Transport equipment and other manufacturers also reported a 9.2% increase in output.

While the construction sector is expected to be busy with building projects in the near future, some 70% of residential property transacted is in the secondary market. Analysts believe that this market, which has been very active in the last 12 months, will continue to be active for the next six months, in terms of sales and rental. In the primary market, many residential units are now being sold at a high price owing to market demand and inflation.

Seeking to contain the budget gap and shore up the current account, the government announced in September that it could delay some infrastructure projects. At 53.3%, Malaysia’s debt-to-GDP ratio is the highest among 13 emerging Asian markets after Sri Lanka, according to Bloomberg.

The fuel hike on 3 Sept 2013, despite helping to ease the country’s fiscal difficulties will likely trigger a chain reaction and has increased the transportation charges by some 11%. Many economists now expect inflation to increase by 3 to 4% until the end of the year, up from 2% in July. The authorities, however, are confident that the situation is under control and the overall inflation will be about 2 to 2.5% in 2013.

The provisional official data shows that Malaysia recorded a trade surplus of about RM7.11 billion in August, due to the increase in exports to ASEAN, China, the European Union (EU), Australia and Brazil. The expansion in exports was contributed mainly by higher exports of refined petroleum products, electrical and electronic products, manufactures of metal as well as chemicals and chemical products.

Malaysia and China confirmed their strong desire to elevate the two-way economic relationship to a more “comprehensive level” in October by signing a five-year cooperative deal that could boost the bilateral trade to US$160 million by 2017. Malaysia is a major exporter of rubber, palm oil, crude oil and gas, and electronic components to China.
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All sectors surveyed are confident that their sales volume will rise in Q4 (net +36%). The main driving engines are transportation sector (net +50.0%), construction sector (net +47.62%) and agriculture and manufacturing sectors (both net +40.0%). The overall results are comparable to that reported for Q3. Compared with the last quarter, the agriculture sector is most bullish about their sales volume in Q4. None of the agricultural firms anticipate a fall in their sales volume.

A net balance of +35.0% of the companies surveyed are anticipating a rise in net profit in Q4 (49.17% Optimists vs. 13.17% pessimists). This is mainly contributed by the transportation sector (+45.0%). As in the case of sales volume, none of the agricultural firms expect a fall in their net profits. All sectors are upbeat about their profits in Q4.

Being a supporting sector, transportation is likely to see its net profits soar as it benefits from expansion in other sectors, particularly the manufacturers. As the global demand for agricultural products are expected to increase in the short-term, Malaysian agricultural firms are anticipating higher profit margins.

The surveyed companies are certain that the selling price will rise in Q4. The miners are most optimistic (net +50.0%), followed by the finance sector (net +40.0%). However, it is worthy to note that all the agricultural firms surveyed are anticipating a status quo in their selling price. The overall net index is thus +23.0% (26% optimists vs. 3% pessimists).

Owing to the scarcity and supply of natural resources and a constant high demand from various developing economies, including China, miners are anticipating higher selling prices for the fourth quarter. The finance sector, which provides essential services for business expansion are also expecting higher selling prices in view of better business prospects for the rest of the year.
On the whole, the manufacturers are anticipating an expansion in new orders (net +20.0%) given a gradual recovery in the global economy despite the fact that the external environment remains uncertain. While none of the manufacturing firms anticipate a decline in new orders, the majority (net +80.0%) are cautious about the situation in Q4. The result is comparable to that reported in the previous quarter.

While optimism levels have dipped slightly, manufacturers still remain cautiously optimistic about new orders. This is likely to be attributed to the strong growth in industrial output in July. The major sub-sectors which showed an increase were petroleum, chemical, rubber, plastic products and transport equipment.

Only manufacturing companies are surveyed for new orders.

The optimistic outlook by the transportation sector is likely due to brighter prospects in the export of transportation equipment. Weaker demand for agricultural commodities in the long-term, may have been attributed to the vagaries of the global trade cycle.

The outlook for employment is also assessed to be positive by the surveyed companies. Led by the services sector (net +42.86%), the overall index turns out to be +31.0%. Other major job creators are the mining sector (net +33.3%) and the manufacturing, wholesale and transport sectors (all net +30.0%). None of the agricultural firms are anticipating a reverse trend in their hiring situation in Q4.

Hiring prospects is likely to remain positive with the creation of jobs to meet strong domestic demand within the services sectors. As the manufacturing sector is also expected to expand in the coming months, firms are also increasing their staff strength to meet production needs.
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, Construction, Electric, Finance, Manufacturing, Mining, Services, Transportation, and Wholesalers.

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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