

## Firms Eye Brighter Economy Ahead

### Outlook for Q1 2014

#### - Key Highlights

- Overall Business Optimism Index registers at 20.56%, a slight increase by 0.12% q-o-q and 4.28% y-o-y
- 3 out of the 6 Optimism Indices register increases (q-o-q) except Volume of Sales, Net Profit and New Orders
- Firms are most optimistic about selling price with a net reading of 22%, an increase by 7%
- Inventory Level records the least optimism at 6%

The Q1 2014 Business Optimism Index (BOI) survey conclude that firms have an optimistic outlook in the first quarter of this year, based on the slight improvement of BOI score at 20.56%, compared to 20.44% in Q4 2013. Furthermore, BOI score analysis year-on-year records a 4.28% increase from 16.27% in the same quarter of last year.

Firms believe they can maintain their business performance in this quarter despite lowering in some indices such as Volume of Sales (index down by 7% to 28%), Net Profits (index down by 5% to 27%), and New Orders index down 5% to 30%). Meanwhile, the survey registers increase in Selling Prices (index up 7% to 22%), Inventory Level (index up 3% to 6%), and Employment (index up 6% to 10%).

Entering this year in Q1 2014, most of surveyed firms expect business activity to get better after tough economic condition of last year. The rising subsidized fuel price mainly triggered higher inflation rate. The Indonesia's official statistics agency, Badan Pusat Statistik (BPS), recorded the inflation rate throughout 2013 stood at 8.38%, nearly double of the 4.3 percent at the end of 2012. Besides rising fuel prices, high volatile food prices and the weakening of Rupiah

exchange rate were the main drivers of inflationary pressures. Rupiah depreciated by 20.8% y-o-y to Rp12.170 as of end 2013. In addition, global economy dropped to 2.9% in 2013, from a growth of 3.2% (y-o-y). The sluggish export amid slowing global market is believed to hamper domestic economy. Bank Indonesia (BI) estimated economy of Indonesia to grow 5.7%, lower than the 6.2% of previous year. However, household consumption coupled with robust government spending is consistently expected to be the backbone of economic growth throughout 2014. Bank Indonesia predicted economic growth in 2014 will be in the range of 5.8-6.2%.

Coordinating Minister for Economic Affairs Hatta Rajasa delivered six steps that will be taken by the government to maintain economic growth and stability in 2014. First, related to the state budget the government will preserve the quality of government spending. In 2014, he explained, the government plans to increase capital spending by 6.7 percent or about Rp206 trillion. Most of the fund will be channeled to infrastructure. Second, maintaining the rate of inflation at 4.5% ± 1% to encourage the mass purchasing power. Third, improving investment climate to achieve the target. Indonesia Investment Coordinating Board, Badan Koordinasi Penanaman Modal (BKPM), targeted total investment both domestic and foreign valued at Rp457 trillion, up 15% from 2013's achievement. Fourth, to commit market diversification of non-oil and gas export products. Fifth, to control import products that potentially threaten domestic market. Sixth, strengthening domestic trade by maintaining price stability, goods flow, and business climate.

The cumulative trade balance from January to December 2013 posted a deficit of US\$ 4.06 billion, higher than the previous year's deficit valued at US\$1.67 billion. The Central Statistics Agency (BPS) reported exports in 2013 totaled US\$182.57 billion,



# Business Optimism Index – Indonesia

Quarter 1 2014

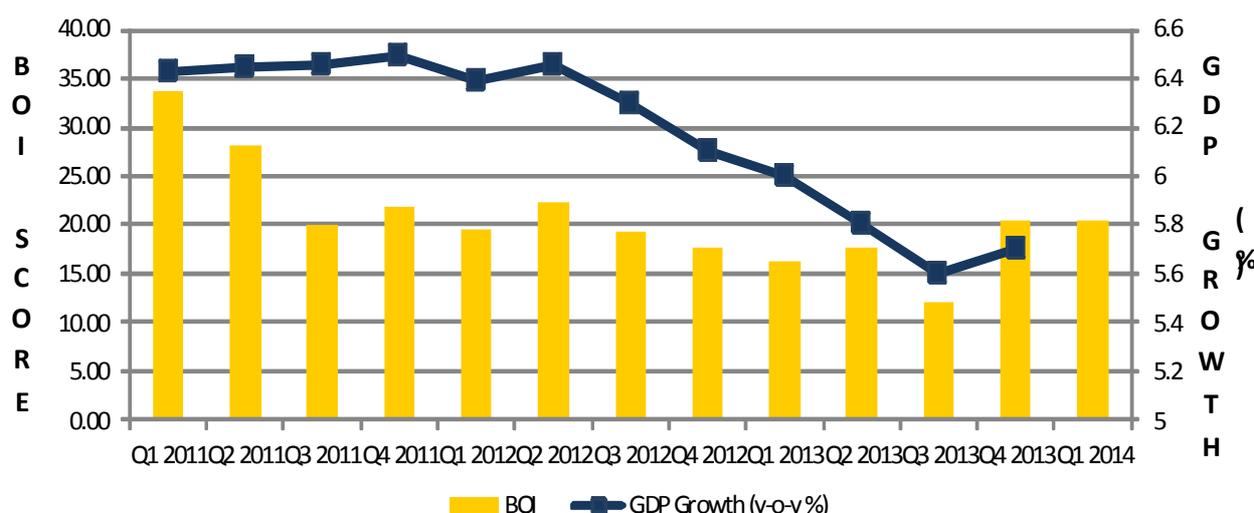
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down 3.92 percent from last year’s achievement at US\$190.04 billion. Manufacturing manages the largest share with 61.91% or worth US\$113.03 billion, followed by Oil and Gas with 17.87% or valued at US\$32.63 billion. In addition, Mining and Agriculture account for 17.08% (US\$31.18 billion) and 3.14% (US\$5.73 billion) respectively. Overall, non-oil and gas export in 2013 reached US\$149.93 billion while oil and gas export booked US\$32.63 billion. China becomes the largest market of Indonesia’s non-oil and gas products with US\$21.28 billion, followed by Japan worth US\$16.09 billion and The United States with US\$15.08 billion. Regionally, Southeast Asia and European Union totally absorbed US\$30.07 billion and US\$16.67 billion respectively.

Meanwhile, imports in 2013 reached US\$186.63 billion, down 2.64 percent (year-on-year). Oil and gas import totaled US\$45.27 billion while import of non oil and gas reached US\$141.36 billion. Since October 2013, the balance of trade recorded a surplus

continuously. Based on data of BPS, in October it posted a surplus of US\$24 million and in November surged to US\$795 million, while the trade surplus in December generated higher with US\$1.52 billion, larger than the government and most economists’ expectation that only US\$800 million. Trade surplus in December 2013 was noted as the largest surplus during last two years.

Finance Minister M. Chatib Basri said the trade surplus in the period of October-December 2013 showed that the government economic policy package as well as monetary tightening by Bank Indonesia began to show positive effects. Following the tightening of monetary stimulus in the United States, Chatib estimated, there will be a potential of capital outflow and this would potentially depress capital account so that the next government’s focus is to make a positive capital account. As anticipated, Ministry of Finance plans to issue an incentive for entrepreneurs to reinvest their profits in the country.



\*GDP growth rate in Q4 2013 is Bank Indonesia’s projection

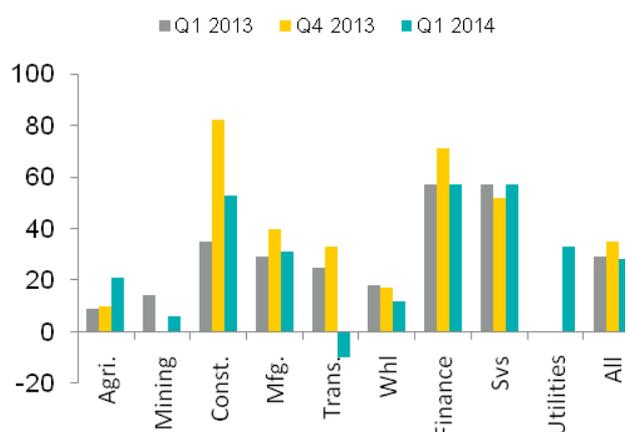
Volume of Sales



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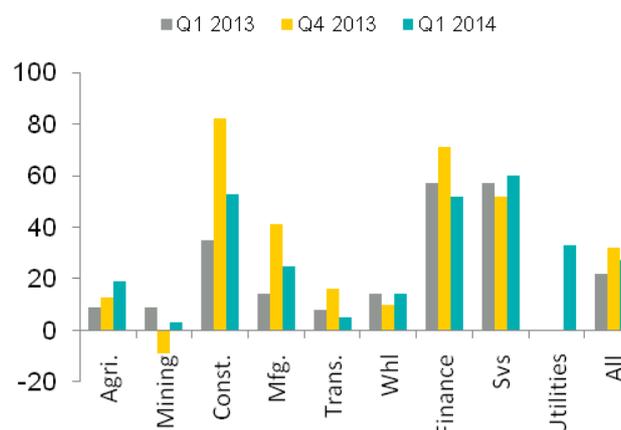
Around 35% of the respondents expect an increase in sales during Q1 2014. Majority of the respondents (57%) expect there is no change in volume of sales, while 7% of the respondents anticipating a decline. Services, Finance, and Construction sectors are the most optimistic sector.

The resultant Optimism for Volume of Sales stands at 28%, down 7 percentage-points q-o-q and 1 percentage-points y-o-y.

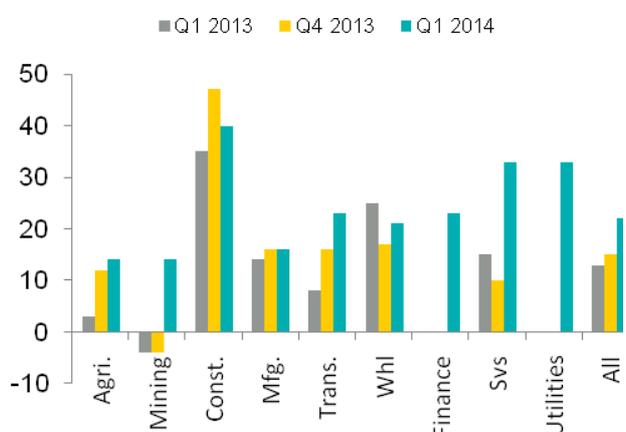
## Net Profit

In Q1 2014, the resultant Optimism for Net Profit stands at 27%, down 5 percentage-points compared to Q4 2013 and up 5 percentage-points compared to Q1 2013. Services, Finance, and Construction are the most optimistic sector to this parameter.

Majority of respondents, around 60%, assume no change of profitability. Nearly 33% of the respondents anticipate an increase in profitability during the first quarter of 2014, while around 6% respondents expect their net profits to decrease during the quarter.



## Selling Price



Approximately 22% of the respondents plan to increase the selling price of their products in this quarter while majority (77%) are trying to maintain the price. None of respondents expect decrease in the selling price. The resultant optimism index for this parameter stands at 22%, up 7 percentage-points compared to the previous quarter and 9 percentage-points compared to the same quarter at previous year.

Among all sectors Construction is the most optimistic sector to this parameter, followed by Services and Utilities.

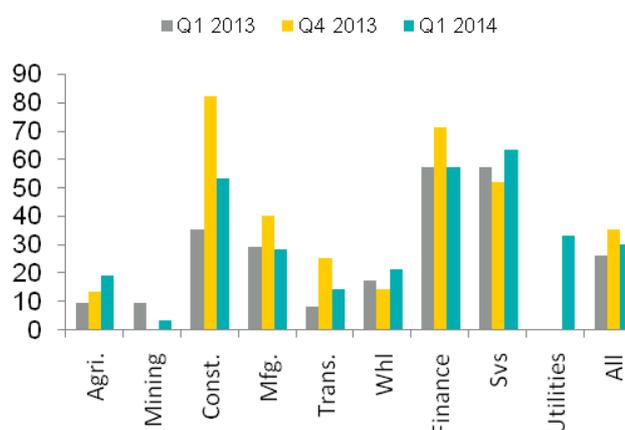
## New Orders



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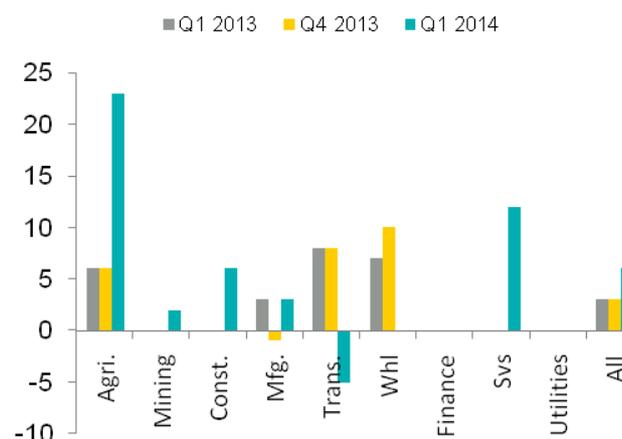
Expectation of New Orders in Q1 2014 generates the resultant Optimism to 30%, down 5 percentage-points compared to Q4 2013 and up 4 percentage-points compared to Q1 2013. Majority of the respondents (59%) project no change of order book. Roughly 35% of all respondents expect their orders will increase, while about 5% of the respondents see their orders to decrease.

Services, Finance, and Construction are the most optimistic sectors towards increasing new orders.

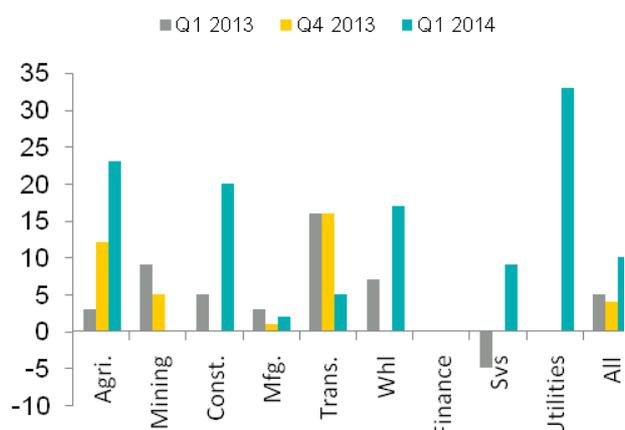
## Inventory Level

Majority of the respondents (90%) anticipate no change of their inventory level in Q1 2014. About 8% of the respondents expect such improvement and 1% of the respondents see decrease in their inventory. Agriculture, Services, and Construction are relatively the most optimistic sectors towards this parameter.

The resultant Optimism for Inventory Level stands at 6%, increase 3 percentage-points compared to previous quarter and same quarter of the previous year.



## Employee



In Q1 2014, the resultant Optimism for Employees stands at 10%, up 6 percentage-points compared to Q4 2013 and 5 percentage-points compared to Q1 2013. Utilities, Agriculture, and Construction are the most optimistic sector to this parameter.

Majority respondents (87%) anticipate no change in the size of their workforce. Around 11% of the respondents anticipate the size of their workforce to increase, while about 1% of the respondents anticipate the number of employee to reduce.



# Business Optimism Index – Indonesia

Quarter 1 2014

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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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